

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	4 March 2022
Title:	UK Stewardship Code and Taskforce on Climate Related Financial Disclosure (TCFD)
Report From:	<i>Director of Corporate Operations</i>

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Purpose of this Report

1. The purpose of this report is to introduce draft updates to the Pension Fund's UK Stewardship Code report and TCFD report for 2022.

Recommendations

2. That the updated UK Stewardship Code report and Taskforce on Climate Related Financial Disclosure report for 2022 are approved for publication.

Executive Summary

3. The UK Stewardship Code was revised in 2020, with investors and asset managers invited to report how they meet the new 12 principles of the Code in 2021. Hampshire was very pleased to have been one of only six LGPS funds accepted as a signatory to the new Code. Asset managers can also apply to be signatories of the Code, and four of the Fund's 11 investment managers (abrdn, Baillie Gifford, Twenty-four Asset Management and UBS) are also signatories.
4. The Financial Stability Board (established in 2009 following the G20 summit) created the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information. The Pension Fund first agreed to support the recommendations of TCFD in 2021, and updating the Fund's TCFD report continues that commitment. In 2021 the Department for Work and Pensions (DWP) issued updated regulations phasing in the requirement for private sector pensions to report according to the TCFD recommendations. It is expected that the Department for Levelling

Up, Housing and Communities (DLUHC) will issue similar regulations for the LGPS. By maintaining its own TCFD report Hampshire should be well positioned when the updated regulations are published.

5. In combination, Hampshire's UK Stewardship Code and TCFD reports provide the fullest account of the Pension Fund's responsible investment activities, measured against these important external standards.

UK Stewardship Code report

6. The revised 2020 version of the Code included 12 principles which investors must demonstrate that they meet. The principles are divided into four categories;
 - purpose and governance,
 - investment approach,
 - engagement, and
 - exercising rights and responsibilities.
7. In notifying investors that they had been accepted as signatories of the Code, the Financial Reporting Council (FRC – who produced the Code) gave feedback to signatories where their reporting against the Code could be improved. Hampshire's draft report addresses this feedback by including:
 - An overview of the skills and experience held internally (and externally) by the Pension Fund and how diversity is encouraged (Principle 2).
 - A fuller explanation of how market-wide and systemic risks are identified and an assessment of the effectiveness in the context of the wider market. Also now included is the alignment of investments based on the risks identified and an assessment of effectiveness in managing market wide and systemic risks (Principle 4).
 - Updated engagement examples (Principles 9 to 11) that were praised in Hampshire's original submission, with additional clarity on where these relate to investments in the ACCESS pool and coverage of a range of asset classes.

TCFD report

8. Hampshire's TCFD report will be brought up to date with the Fund's current responsible investment activities, including:
 - The Pension Fund's first use of climate change scenario analysis (the Principles for Responsible Investment – PRI's *Inevitable Policy Response*) with its investment managers.

- The progress in making changes to the Fund's investment portfolios to reduce the carbon footprint of investments; of the Fund's eight portfolios where carbon data can be reported, six either already have very low emissions or the Pension Fund Panel and Board have agreed a limit to cap emissions.
- The Fund's latest carbon footprint data once this is finalised.

Climate Change Impact Assessments

9. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
10. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that ESG factors, including the impact of climate change, can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf](#) (hants.gov.uk).
11. This paper demonstrates how the Pension Fund is measuring and reducing its carbon footprint – documented in its TCFD report, and its ongoing actions in engaging with the companies invests in to promote the transition to a low carbon economy - covered in its UK Stewardship Code report.

REQUIRED CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because of the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

EQUALITIES IMPACT ASSESSMENTS:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.