

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	28 July 2022
Title:	Updates to the Responsible Investment (RI) policy
Report From:	<i>Director of Corporate Operations</i>

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Purpose of this Report

1. The purpose of this paper is to recommend amendments to the Pension Fund's Responsible Investment (RI) policy recommended to the Panel and Board following consultation with Local Government Pension Scheme (LGPS) stakeholders.

Recommendations

2. That the Pension Fund Panel and Board notes the responses to the consultation and approves the proposed updates to the Responsible Investment policy.

Background

3. The Pension Fund's RI policy forms part of its Investment Strategy Statement and is a requirement of the LGPS Investment Regulations 2016.
4. The Pension Fund's RI policy was substantially rewritten in 2019 following Members' review through the RI working group and the advice of Dr Rupert Younger who had chaired Oxford University's Socially Responsible Investment Review.
5. The RI policy includes proposed updates which have been discussed by the RI sub-committee and approved for consultation by the Panel and Board in March 2022. The changes proposed in the policy are based on feedback received from the ACCESS pool's RI consultants, Minerva, and key areas that have been brought out in Members' discussions and representations from scheme

members. The proposed policy is attached in full at Annex 1 with proposed changes highlighted.

6. Updates to the policy are proposed where Minerva have suggested that further clarification would be beneficial. In particular a section on the Fund's RI beliefs that form the basis of the policy have been included. Of these, the most significant areas that the Pension Fund has not previously documented are:
 - the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2°C relative to pre-industrial levels is entirely consistent with securing strong financial returns, and
 - to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a *Just Transition*.
7. The proposed policy includes a statement that the Pension Fund 'commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050'. This aim reflects the advice of Minerva that setting a strategic goal will assist the Pension Fund in focusing its activities and also reflects the views that the Pension Fund has heard from scheme members, including a number of deputations.
8. The updated RI policy contains amendments to explain why the Pension Fund believes not disinvesting and continuing to engage with any fossil fuel companies it holds is important:
 - If the Pension Fund's shares in fossil fuel companies are sold, it will lose its ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.
 - The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – this means that the benefits of a low carbon economy transition are shared widely, ensuring that the areas of society who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.
 - Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example in developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.
9. An exception to this, as explained in the RI policy, is thermal coal which is the greatest challenge for the Fund's RI policy and the proposed aim for net-zero by 2050 due to the very high carbon emissions and lack of possible transition to lower carbon alternatives. The Fund's RI policy therefore includes working with the Fund's investment managers to remove thermal coal from the Fund's

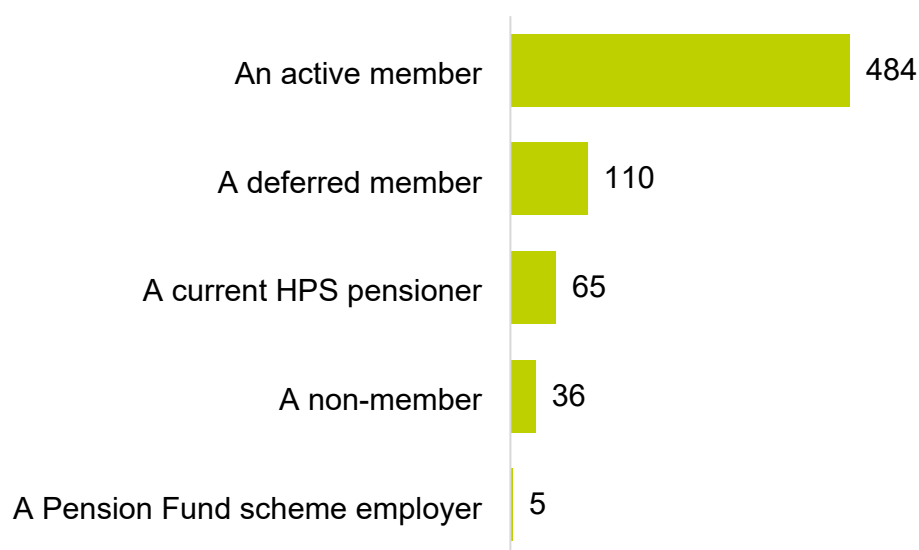
portfolios, which is consistent with the agreements reached at the recent global COP26 summit.

10. The updated policy includes the following further RI standards that the Pension Fund sign up to, to further the approach to RI; Just Transition, Transition Pathway Initiative (TPI) and Institutional Investors Group on Climate Change (IIGCC). The IIGCC is the leading European membership body enabling the investment community to drive significant and real progress by 2030 towards a net zero and resilient future. There are 360 members representing €50 trillion of assets under management (including six of Hampshire's investment managers and two other ACCESS authorities). There are three clear areas of focus: policy, investor practices and corporate engagement reflecting the key investor levers for change. Scheme member communication and consultation.

Consultation

11. The Pension Fund has undertaken its most extensive open consultation exercise to date and received by far its highest level of response.
12. Every effort to give every scheme member and employer the opportunity to respond was made through the following actions:
 - The RI Update was printed with the remaining paper payslips sent to pensioners in April 2022, which highlighted the consultation.
 - All pensioners who receive an electronic payslip via the member portal received an email reminding them their payslip was available, which also included notification of the consultation.
 - The consultation was available via the Pension Fund's website and was highlighted via a webpage banner for any scheme members logging onto the member portal.
 - All active and deferred scheme members (that Pension Services held email addresses for) were sent an email with a link to the consultation.
 - All of the Pension Fund's employers were sent an email highlighting the consultation and asking them to respond and share the consultation with their staff.
 - The Director of Corporate Operations wrote to all the local authority Chief Financial Officers encouraging their organisations to respond.
13. The consultation ran from 4 April to 31 May 2022 and 701 responses were received. This is a huge improvement from the Fund's last consultation on its RI policy in 2019, when less than 30 responses were received. The consultation was produced in conjunction with the County Council's Insight and Engagement team, who have produced a full report on the consultation responses, which is included in Annex 2. The chart below shows the breakdown of responses across the Fund's membership groups and shows a majority of respondents came from the Fund's active members.

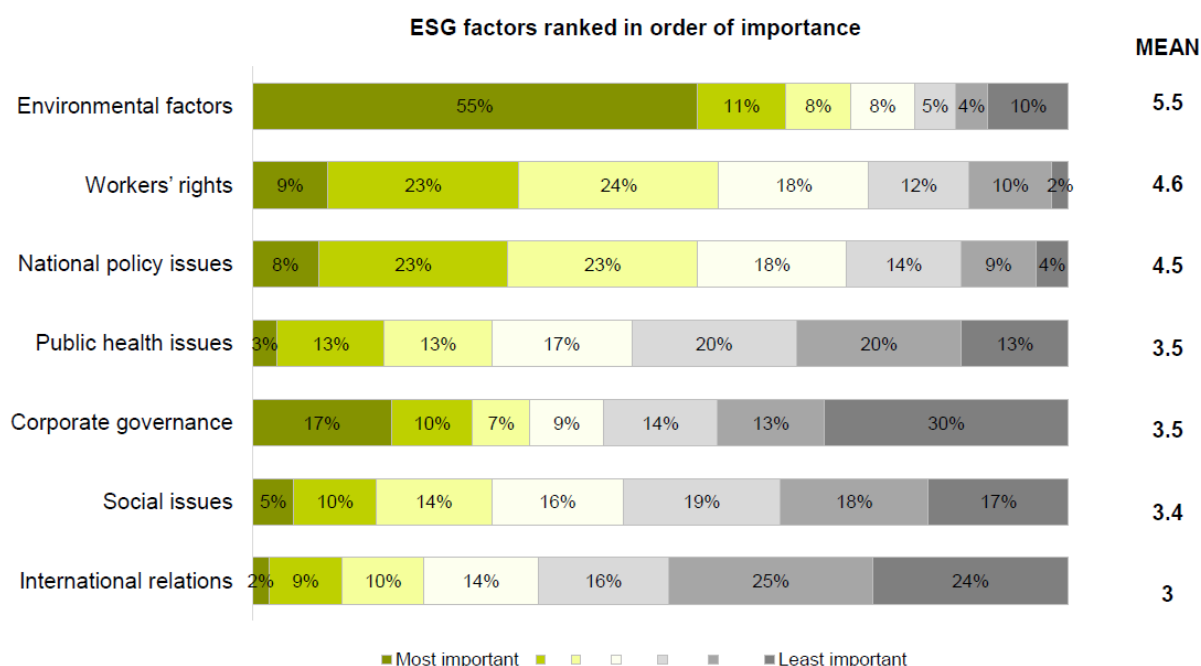
Number of respondents by type



14. The consultation asked a number of questions to test whether the Fund's proposed policy on its climate change aim and approach to fossil fuel companies was clear and understood by respondents:
 - At least 92% of respondents were aware of the 2021 United Nations Climate Change Conference (COP26), the UK Government's strategy for decarbonising (net-zero by 2050) and the 2015 Paris Agreement.
 - 83% understood the rationale to aim for investments to have net-zero greenhouse gas emissions by 2050.
 - 67% understood the rationale for not disinvesting from fossil fuel companies at this time.
 - 85% understood the rationale for continuing to reduce the climate impact of the Fund's investments by disinvesting from Thermal Coal.

15. The responses showed that the Pension Fund's focus on Climate Change as its highest priority within the Environmental, Social and Governance (ESG) issues to be managed, is supported by being a clear priority for the majority of Pension Fund members.

ESG factors ranked in order of importance



16. The consultation included the opportunity for respondents to share their individual views on RI. The following table highlights some of the key comments that were made alongside the Pension Fund's proposed response.

Comment	No. received	Response
Disinvest from fossil fuels now / sooner than 2050 / or by 2030	132 (19%)	The Pension Fund has attempted to clearly articulate why it believes that disinvesting from fossil fuel companies is not appropriate now. The Fund is commissioning advice on how it can plan to meet the aim of net zero by 2050 and what will be possible in the interim. The Fund's aim will be clarified that it wants its investments to be net zero by 2050 at the latest.
Change the Fund's investment belief to limiting temperature rises to 1.5 deg C, not below 2 deg C	16 (2%)	In confirming its support for the Paris Agreement, the Pension Fund believes that there is no distinction between its intention between limiting temperature rises to not 'below 2 deg C' or 1.5 deg C. However for clarity, it is proposed that the Fund's RI policy be amended to state that the Fund intends its adoption of the Paris Agreement is the aim to limiting temperature rises no more than 1.5 deg C. What will be the Fund's priority is checking that the companies in its investment portfolios also support the Paris Agreement, and if they do not, what are the Fund's

		investment managers doing to support those companies in changing their policies.
Join the Net Zero Asset Owner Alliance (NZAOA)	23 (3%)	The Fund's amended policy includes a support for a number of additional initiatives, in particular the IIGCC. The Pension Fund's RI policy aligns to the NZAOA - transitioning its investment portfolios to net-zero Greenhouse Gas (GHG) emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels. Joining the NZAOA requires the commitment to establish intermediate targets every 5 years. The Pension Fund will consider intermediate goals as part of the external advice it has commissioned on how to achieve its 2050 aim. Joining the NZAOA would cost the Pension Fund EUR10,000 per annum (pa.) and the Pension Fund will consider if there is value in additional costs of joining further initiatives.
Ban investments in Russia/ Belarus	5 (1%)	As of February 2022 the Pension Fund had approximately £9m (<0.1%) invested in Russian companies. The Pension Fund is monitoring the situation with its investments managers, discussing the practicalities of exiting these current positions and does not expect its investment managers to make any new investments in Russian or Belarussian companies.

Climate Change Impact Assessments

17. 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.
18. 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 environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns.

19. 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. The key document for the Pension Fund in this respect is the Responsible Investment (RI) policy which is the subject of this paper.

REQUIRED CORPORATE AND 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: For 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.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENT:

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