

Hampshire Pension Fund Responsible Investment Consultation

Key findings – June 2022

Background and response



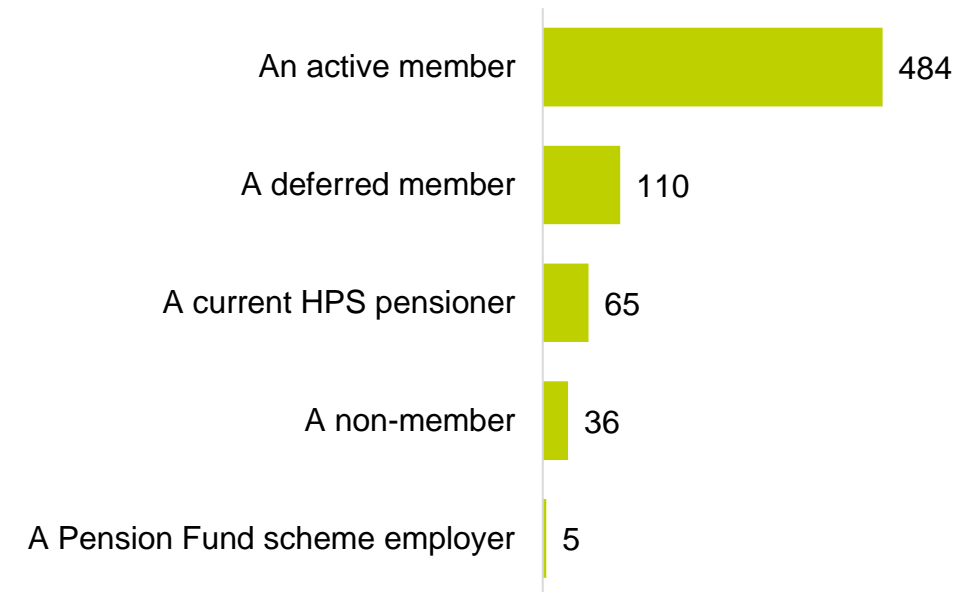
The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS). It is responsible for paying the pension benefits of 183,000 current and future pensioners.

The Pension Fund Panel and Board (PFPB), who are responsible for the management of the Pension Fund, undertook a consultation from **4 April until 31 May 2022**, which sought to establish whether the rationale for key aspects of its Responsible Investment (RI) Policy were clearly understood. This included a new commitment to aim for investments to have net-zero greenhouse gas emissions by 2050 and a commitment to disinvest from thermal coal.

The consultation was highlighted via website updates and banners and disseminated to pensioned, active and deferred fund members using emails and payslips. Pension Fund Scheme employers were asked to bring the consultation to the attention of their employees, in addition to responding themselves.

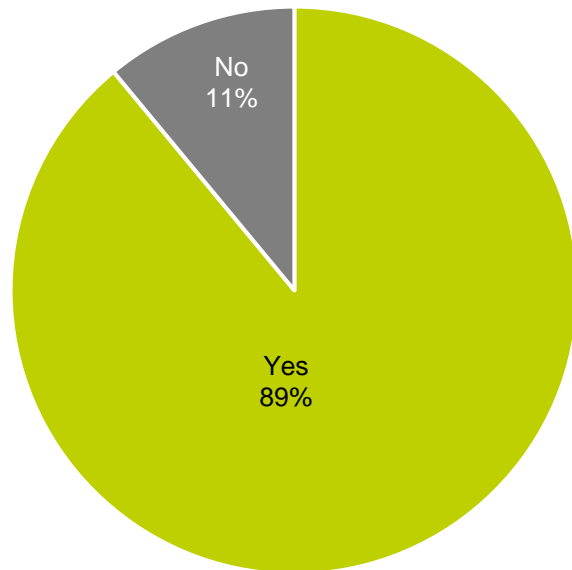
A total of **701 responses** were received.

Number of respondents by type

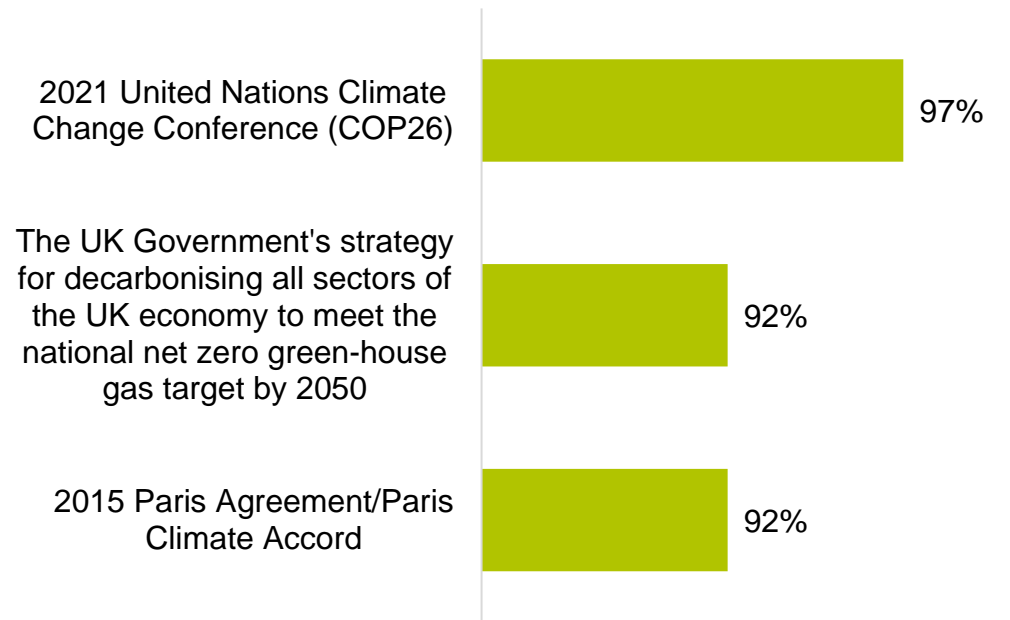


Contextual Understanding: Almost all respondents were aware of the contextual and political landscape within which the Fund was operating.

It is clear that the Fund must make the required investment returns?

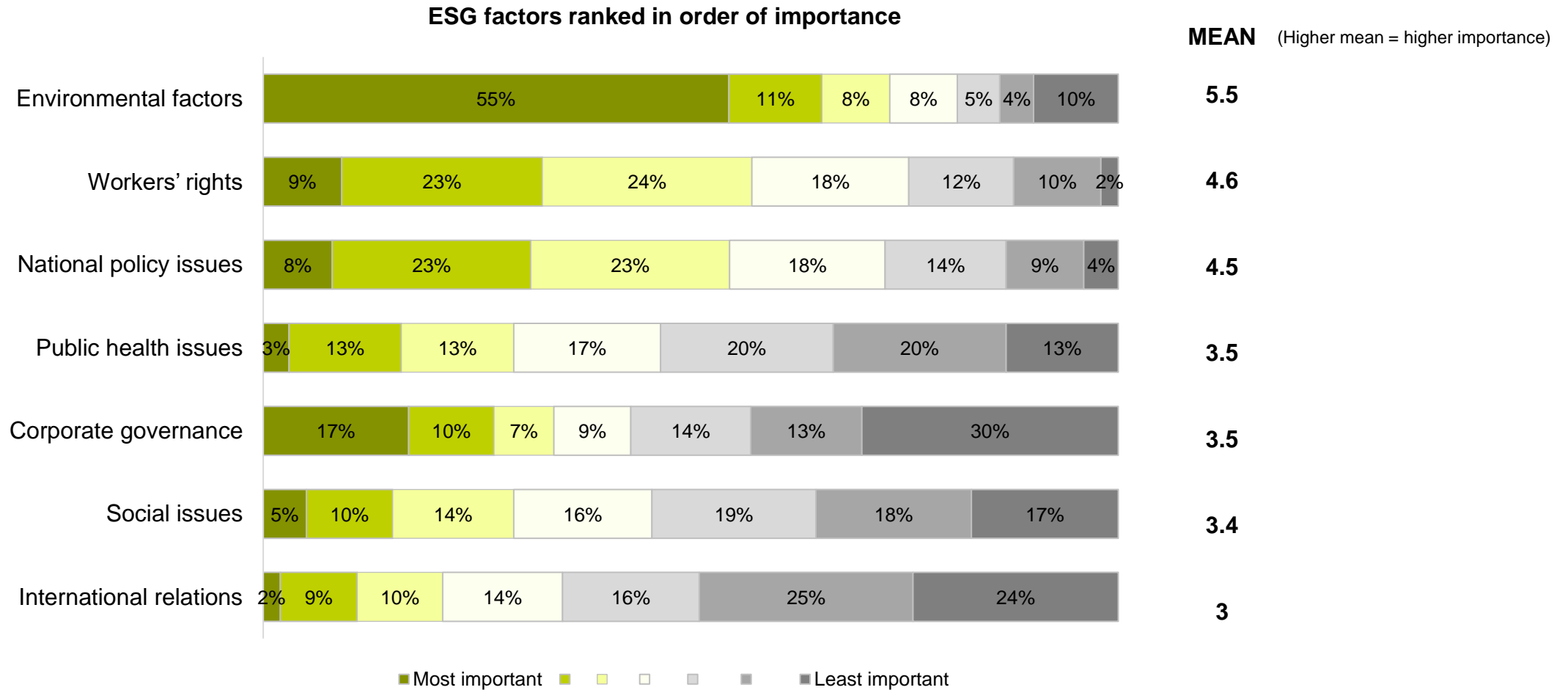


Awareness of. . .

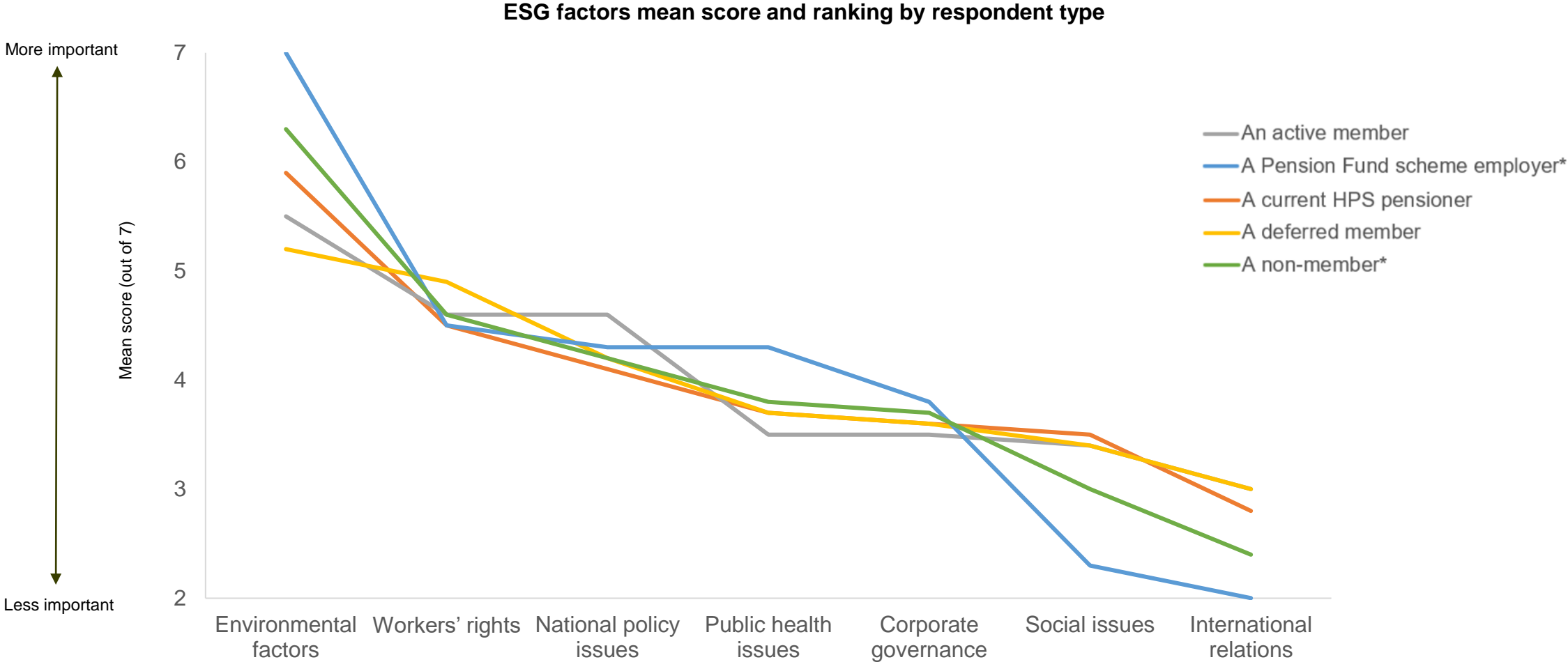


Q: Is it clear from the information provided that the Fund must make the required investment returns (currently 4.4% per annum) in order to pay pensions, both now and in the future? Respondent Base: 688
Q: Are you aware of the following? Respondent base 672

Importance of ESG Factors: Environmental factors were ranked as the most important factor for the Fund to have regard to when investing in companies, followed by workers rights and national policy issues.



Importance of ESG Factors: Although all respondent groups ranked the ESG factors in the same order, relatively speaking, employers and non-members gave notably more weight to environmental factors, whilst active members highlighted national policy issues and deferred members flagged workers' rights.



Please rank the following seven Environmental, Social and Governance (ESG) factors in order of importance for the Fund to have regard to when investing in companies from most to least important.
 Respondent Base: 483, 4*, 65, 110, 35* (*NB: low base)

Importance of ESG Factors: Some respondents also highlighted that multiple factors should be given equal importance.



Very difficult to rank the above, as several merit 'first place'.

I understand why you ask to rank these as 1-7, but my honest belief is that responsible investment means taking all of these factors seriously.

They are all important. All effort should be made to consider all these factors when investing. Asking members to choose between them is not a valid reason to invest in dubious companies.

There isn't an order to these - they are all minimum standards

Just to say that 5,6,7 I felt needed to be ranked the same - at the very bottom of the list.

You can do all of these at the same time, they are not mutually exclusive.



Other ESG Factors: A small number of respondents proposed other ESG factors that should be taken into consideration, such as those that should / should not be included in investments.

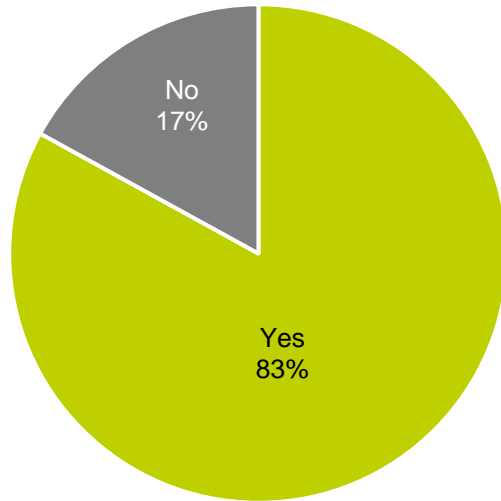
Don't invest in		Do invest in		Also consider	
Fossil fuels	17	Fair trade/sustainability/human rights	7	Animal rights / welfare	12
Arms and armaments	16	Green Focus / Power	7	Maximum investment returns	9
Things that are harmful to the environment	11	UK companies, those who pay fair UK tax	5	Climate change / in the interest of the planet	7
Companies that endanger animals	11	Decent / ethical companies	4	Inclusion and diversity	5
Things that are harmful to workforce/population (i.e. slavery, extortion, ethnocide, human rights)	9	Local and community initiatives	3	Broadening definition of public health/ social issues	5
Russian companies	4	Companies who look after their workforce	2	Separate biodiversity and climate change	3
Companies that contribute to political parties	3	B Companies	2	Situation in Ukraine	2
Pharmaceutical companies	2	Defensive weapons	1	Make amendments as suggested by Unison	2
Countries governed by dictatorship	2	Companies that align with HCC values	1	Short term v long term focus	1
Companies who undermine the public sector's existence	1	Meets minimum risk on the risk register	1	Positively screen companies to invest in	1
Israel	1	Fossil fuel companies that invest heavily in renewables as well	1	Gender equality	1
Companies which have links to the UK's foreign policy partners	1			National resilience	1
				Solvency of fund	1
				National energy security whilst pursuing net zero (2050)	1
				Too many ESGs already	1
				All investments should be secular in nature	1

Are there any other ESG factors that you think should be taken into consideration?
 Verbatim question: topics and number of comments shown
 Respondent Base: 64, 24, 54

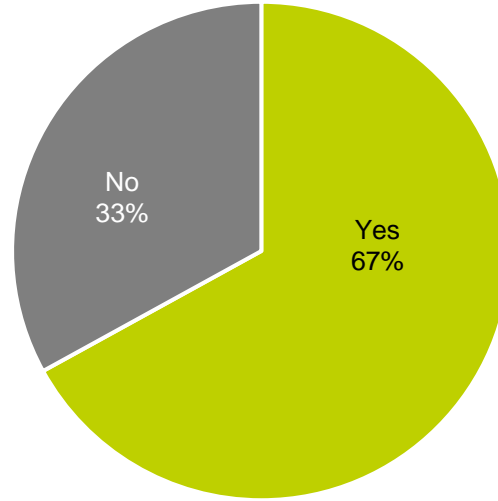
Understanding of rationale: Most respondents were clear as to the Fund's rationale for targeting net-zero emissions and disinvesting from Thermal Coal. However, one in three didn't understand why the Fund would not disinvest in fossil fuel companies at the current time.

From the information provided, do you understand the Fund's rationale to:

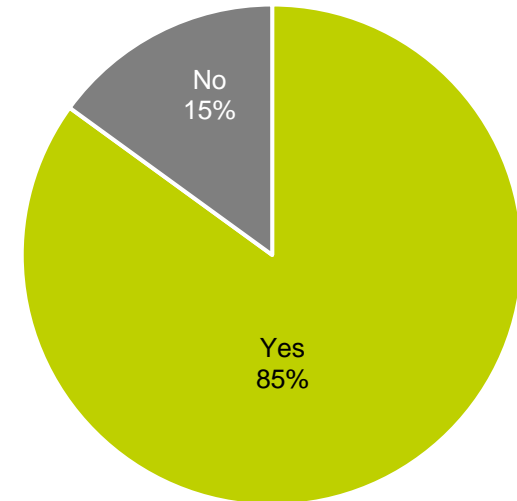
Aim for its investments to have net-zero greenhouse gas emissions by 2050



Not disinvest in fossil fuel companies at this time

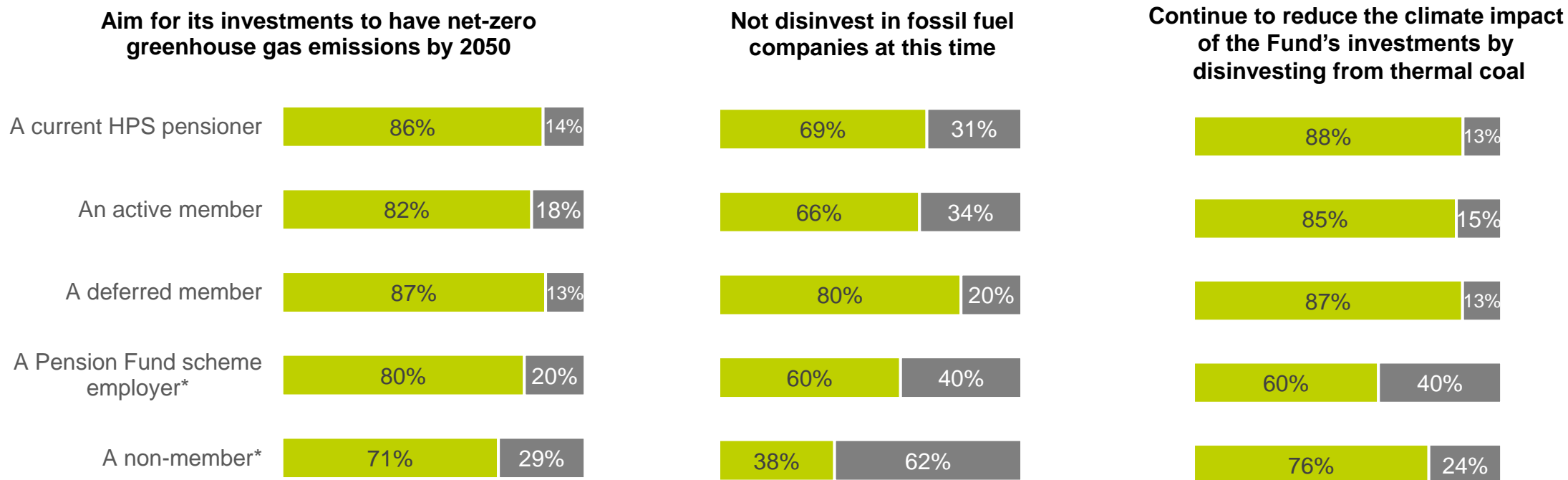


Continue to reduce the climate impact of the Fund's investments by disinvesting from Thermal Coal




Understanding of rationale: As a general trend, non-members and Pension Fund employers were less understanding of the Fund's rationale than current, active and deferred members. Understanding of the rationale for continued fossil fuel investment was lower amongst all respondent groups.

From the information provided, do you understand the Fund's rationale to:



*NB: low base
Respondent Base: 65, 484, 110, 5*, 35*

Understanding of rationale: However, as some respondents pointed out – just because they understood the Fund’s rationale, didn’t mean that they necessarily agreed with it.



I understand your rationale for continued investment in fossil fuel but i disagree with your rationale


there is a difference between understanding and agreeing to principles. it might be beneficial to gain information on if we agree with them.

the questions asked are based on whether we understand the rationale. I would find it more consultative to ask if we agree with the rationale.

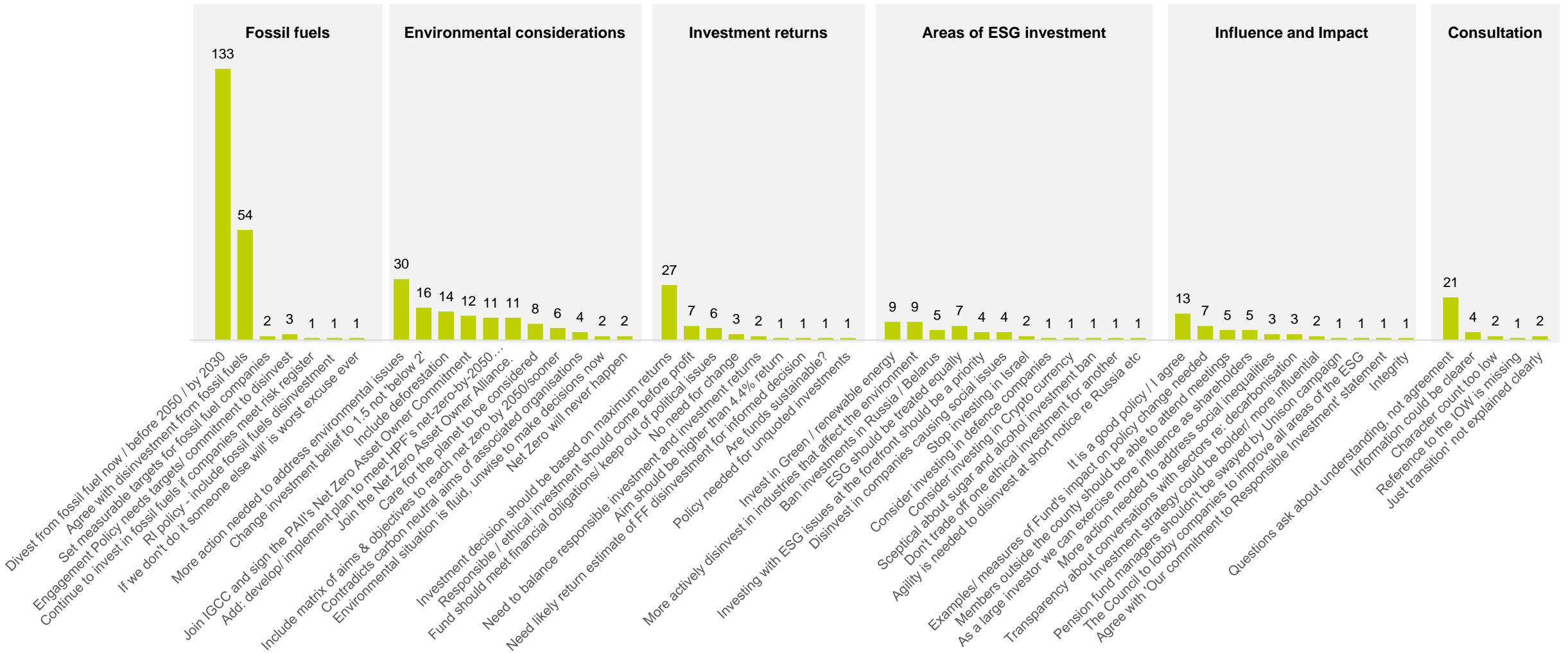
*I understand the rationale -
I do not agree with it.*

Questions asking if the respondent ‘understands’ the rationale for the Investment Policy are not helpful. A respondent will often understand but might not agree with the policy.

the word "understand" is ambiguous in the previous question. it carries the implication of "agree with". I understand what you've said about the fund's approach to fossil fuels, but i would like to be asked if i agree with it (i don't), but selected "yes" to understanding it, i worry that it's seen as implicit agreement with the policy.



Further comments: Broadly fell into one of six groups, with the main suggestions relating to disinvestment in fossil fuels and further consideration of the environmental factors that could be influenced by the investment policy.



Fossil fuels: Although comments often reflected agreement that the Fund should disinvest from fossil fuels, there was a desire amongst some respondents to see an earlier transition and a clearer pathway.

Ultimately, there's no point in having a pension pot in 2051 if the world is toast by 2049. a more reasonable goal would be something like to disinvest as soon as possible but no later than 2050.

I understand the funds aims for continuing to invest in fossil fuels; however, there could be greater clarity over how it intends to do this in a responsible way

The Hampshire Pension Fund currently invests £136m in fossil fuels, this needs to be reduced to zero by 2030 at the latest

The pension fund should set more ambitious targets for investments being net zero sooner than 2050 as there is a time lag between making an investment and achievement of a decarbonisation response.

Renewable energy is becoming a prominent part of the national grid. divestment before 2030 is needed if the pension fund wants to ensure that it is making sustainable investments as whilst the country currently relies on fossil fuels, this will not be the case in the future.

Divestment from fossil fuels should happen sooner than 2050, by 2030 at the latest based on latest ipcc report this is the just transition

Fossil fuel companies have had time to change and won't do so until required to by legislation or driven by investors.

The pension sector has a strong role to play in sending the message that the use of fossil fuels are no longer a valid way forward. please reconsider this position.

The 2050 timescale is greenwashing.

Environmental considerations: Respondents emphasised the need for urgent action on the environment, underpinned by scientific evidence. It was felt that the Fund could better support this and their own returns by investing in 'green' industries.

There are no pensioners on a dead planet

I would like to see another clause included to ensure that we only invest in companies that have set carbon reduction targets or are actively developing sustainable energy technologies, preferably both

You need a more pro-active approach to finding investments that are biodiversity and climate positive.

Net zero by 2050 is considered by scientists to be too late to tackle the climate crisis. significant reductions in carbon emissions needs to be at a swift pace. do not invest in companies which cause climate change through deforestation for example.

If not us, who, and if not now, when? the clear scientific evidence shows that we need to stick to the agreements limiting the temperature increase to 1.5 degrees c not 2 degrees

Climate scientists warn that we are already perilously close to tipping points that could lead to cascading and irreversible climate impacts. cheaper, renewable solutions provide green jobs, energy security and greater price stability.

change the new investment belief to 1.5 not "below 2" degrees. add "developing and implementing a plan to meet the hpf's net-zero-by-2050 commitment" to the ri priorities. either join the institutional investor group on climate change and sign the paris aligned investment initiative's net zero asset owner commitment, or join the net zero asset owner alliance instead. add deforestation

There are a lot of 'green' companies out there that need investment and with that investment they can grow and increase their returns

I cannot see a mechanism for how fund managers successfully influence strategic objectives (low-carbon, transition)

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Investment returns: There was some concern over how responsible investment may impact returns, with reassurance required that the policy would not be detrimental to fund growth.

Outcomes for your customers should be your overriding concern. invest our money where it will grow fast and be safe.

I am not really worried about any of this if I'm honest, all i worry about is a good rate of return

They should only invest in what is best for the employer paying into the pension fund to ensure the employee gets a good return by the time they retire

Given the cost of living crisis, there should be a very clear focus on maximising investment returns, to enable increased payments to current and future pensioners

It's all well and good investing 'responsibly', but not at the cost of my retirement

Please do not let ESG criteria take precedence over the wider investment strategy. it is just a small consideration when investing which has been over stated by too many fund managers and commentators.

More decisive action is needed, which in my considered view can be just as, if not more, effective in terms of responsible investment.

There should be a balance and obviously it is commendable to invest in more sustainable companies but not totally at the detriment to an optimum investment return.

I hope the returns and the responsible investment policy will co-relate each other when the time comes for me to draw my pension fund.

Influence and Impact: Respondents also requested further evidence of the Fund's impact on the activities of the companies it invests in.

The fund should be more transparent about the conversations it is having with sectors to encourage decarbonisation.

As it is deemed necessary to continue to invest in fossil fuels to hold influence. can the fund measure the positive impact it has had on changing the policies and procedures of companies causing the climate emergency?

Thank you for moving, albeit slowly, in the right direction

We have power to make companies change their approaches in line with national and local policies. use it wisely

Your rationale is that as an investor you will have a say to reduce carbon emissions in relevant companies. but are you doing this? can you give examples of when you have pressured these companies to reduced their carbon footprint? if not, disinvest. that will send a message too.

If you are going to keep fossil fuel investments i want to see evidence of genuine financial engagement with the fossil fuel companies. how are you using your influence to encourage development of green technologies and reduce carbon output

I understand the rationale and believe that Hampshire pension fund will continue to do what they feel necessary to obtain the best returns on investment..

I believe that this all sounds sensible, and hope that influence can be bought to bear to help reduce these risks.

Pension Fund Employers: Comments relating to the investment policy submitted by the four responding pension fund employers are displayed below.

Winchester City Council



Most of the ESG factors seem equally important and should all be given equal ratings

The IPCC report makes it clear that rapid divestment from fossil fuels is required - within the next 3 years - and I would like to see the fund survey their members as to what their own targets are (for example WCC's is to the carbon neutral by 2024) and adjust the 2050 date to be much sooner.

Basingstoke and Deane Borough Council



The 2050 target and returns are key drivers. However, HPF should set some interim, or more-stretching targets, so that it may present itself as a leader, to try and change the agenda so that the 2050 target can either be changed or achieved early. the approach is too passive. could show a preference (where a choice exists) for 'green' or ESG investment and new technology.

Test Valley Borough Council



All seven factors are important and need to be balanced alongside other considerations including the return on investment. For environmental factors, while climate change is a key topic, there are other matters we should be considering, such as nature & biodiversity, some of which are outlined in the Principles for Responsible Investments examples of ESG considerations.

An appropriate balance needs to be struck in the approach to investment accounting for esg factors & the imperative to maintain stable contribution rates for both employer & employee contributions, by achieving returns on investment commensurate with those in the main aims of the investment strategy. please implement as soon as practical.

Eastleigh Borough Council



In May 2019 the Council agreed a response to the Hampshire Pension Fund consultation at that time; please see the attached committee report and appendices. Please note the position that the investments where a significant proportion of business activities relate to fossil fuel extraction, including Fracking (Unconventional Gas/oil extraction) should be excluded from the scheme. This remains the position of the Council, with the following additional comments.

1. EBC favours a policy of divestment over engagement (laid out in our previous response).
2. Whilst a net zero target of 2050 is welcome in the policy these targets need to be aligned to the Paris agreement with companies stating short-, medium- and long-term carbon targets with clear trajectories and action plans externally verified.
3. Investments should be in Companies which monitor emissions across the whole value chain covering scope 1, 2 and 3 emissions, not just selecting certain areas to report on.
4. Fossil fuel companies should not be relying on carbon offsetting or carbon capture and storage to meet their climate objectives. Carbon capture and storage is not developed at a scale and therefore presents a risk. They should be seeking to change their business model.
5. If the pension fund follows a path of engagement then there needs to be a system of monitoring and a policy position taken to divest if companies are not performing to an agreed and independently verified trajectory of reducing or eliminating greenhouse gases, emissions, or environmental damage through their business activities. advocating disinvestment or at least engagement that has tight control to ensure companies actively pursue and achieve any stated climate ambitions.

Gosport Borough Council



Gosport Borough Council supports the aim for investments to have net-zero greenhouse gas emissions by 2050. The Council also acknowledges the benefits of a faster transition, while appreciating the complexities involved. However, the Council would like to see this aim defined more clearly in the Responsible Investment Policy.

Understanding of the role that fossil fuel companies will play in the transition to a net-zero economy, and of the potential for assets in which these companies are investing to become stranded, is still evolving. Given this, the Council also hopes that the Pension Fund Panel and Board will continue to engage with key stakeholders on these issues on an ongoing basis.

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