HAMPSHIRE
PENSION FUND

Responsible Investment Policy

May 2024

Hampshire
County Council

Contents

Responsible investment policy

1. Rationale, definition and beliefs

The Pension Fund's investment principles include:

- a long-term focus to make investment returns to meet pensions liabilities, ie the amount needed to fund retirees (currently calculated by the Fund's actuary as 4.4%pa), and
- a belief in the importance of Responsible Investment (RI), including consideration of social, environmental and corporate governance (ESG) factors, which can both positively and negatively influence investment returns.

Therefore, RI is important to the Pension Fund in fulfilling its role to pay scheme members benefits and for its reputation with scheme members, employers and the wider Hampshire community. This document sets out how the Fund's RI responsibilities are delivered in line with these principles.

The Pension Fund's approach to RI, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing. The PRI sets out the following examples as guidance:

- **Environmental:** climate change, including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation
- **Social:** working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety (including health inequalities), employee relations and diversity
- **Governance:** executive pay, bribery and corruption, political or religious lobbying and donations, board diversity and structure, unjustifiable tax strategy

This policy is based on the following key RI beliefs:

- RI considerations are important, particularly over the longer term to both protect and enhance long-term investment return and maintain alignment to stakeholders' values
- RI considerations apply to all asset classes, but different asset classes may mean the management and implementation is different
- Responsible management of RI Issues is a reputationally important issue
- The Pension Fund expects the consideration of ESG factors to be incorporated into the portfolio construction process of all investments made by our investment managers

2. Prioritisation of RI issues

The Pension Fund believes all of the issues highlighted as ESG factors above are important and need to be appropriately managed, but it views climate risk - and the issues which contribute to it - as a key risk to the Fund and its primary RI priority. As a result, 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 (which we take to be 1.5°C) relative to pre-industrial levels is entirely consistent with securing strong financial returns.

The Pension Fund commits to the aim for its investments to have **net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest.**

To address climate change the Pension Fund believes that priority must be given to transition to a low carbon economy, but an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a Just Transition. The Pension Fund believes that this view is reflective of its scheme members, based on the responses to consultation and communication it has received, and its employers, many of whom have declared a Climate Emergency and are undertaking their own work to combat climate change.

3. Stock/sector exclusions and social impact investments

The Pension Fund's current policy is to engage with companies to promote and encourage them to achieve better RI outcomes, and would want to continue to engage rather than disinvest, where a company/sector is progressing towards better management of RI issues. However, after thorough consideration the Pension Fund Panel and Board (PFPB) have agreed to **actively work towards disinvesting from fossil fuel investments.**

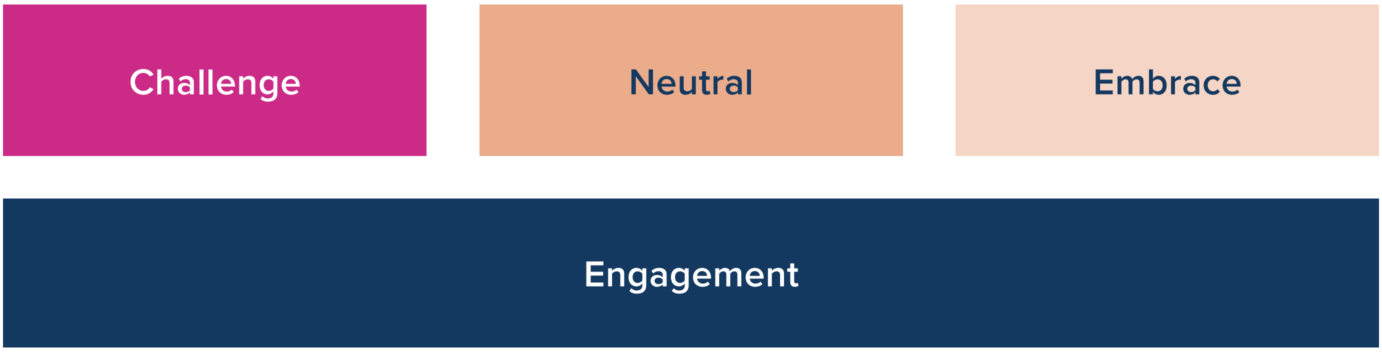
The Pension Fund's focus remains on measuring and reducing the carbon footprint of all the companies in which it invests and working with its investment managers to find ways to reduce the overall carbon footprint in line with its aim to have net-zero emissions by 2050, whilst continuing to achieve the investment returns that are required to pay pensions.

The Fund will continue to consider further disinvestment or exclusion of a particular stock, industry or country or investment in specific 'social' investments where the management of ESG issues, including making a positive contribution to a lower carbon economy, in cases where they are not considered to be well managed, with no scope for improvement. The Pension Fund will act if it believes that the decision would be supported by a significant majority of scheme members and employers; the Fund may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

4. Framework and approach

Consideration of ESG in investment decisions

The Pension Fund delegates its investment decisions to its current and future appointed investment managers, who are a combination of specialist external active investment managers and passive investment managers. The PFPB engages in responsible stewardship with its investment managers and will review and monitor investments based on the following model:



- **Challenge** – where the underlying investment/company delivers less than a net neutral contribution to a sustainable society with a high barrier to transformation, the Fund will challenge its investment manager (where appropriate) on their decision to hold the investment.

- **Neutral** – underlying investments/companies that have potential to transform their operations and/or business model to fit in a sustainable future.

- **Embrace** – where underlying investments/companies are delivering a positive contribution with an undebatable fit in a sustainable future, the Fund will be in dialogue with its investment managers to understand what it can learn from these investments and its investment managers' decisions to invest.

- **Engagement** – in all situations the Fund expects its investment managers to engage with companies that they have invested in, as described in more detail below.

The Fund recognises that there are different expectations for its investment managers in the context of this Policy as follows:

Passive investment managers

These managers are employed to mirror the stocks in various indices, and the PFPB accept that in making investments for the Pension Fund through an index, passive managers are unable to actively take ESG factors into account.

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB expects its passive investment managers to engage with companies within the index on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments (see separate section below on Exercising Voting rights).

Quantitative investment managers

These investment managers employ automated techniques to select stocks as opposed to individual judgement (used by 'traditional' active investment managers), but unlike passive investments are not constrained by any index. The Pension Fund would only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund's investment strategy and following a thorough assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors.

Similar to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

Active investment managers

The PFPB delegates responsibility for making individual investment decisions (non-passive) to its active investment managers. All of the Pension Fund's active equity managers are invested in via the ACCESS pool, and over time, the Fund would expect that active managers for all asset classes are invested in via ACCESS. Investment managers in the ACCESS pool will be subject to ACCESS's RI guidelines, which accord with Hampshire's policy requiring its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment.

To ensure that ESG factors are considered in investment decisions, the PFPB uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

For each investment has the investment manager assessed and concluded that the overall expected long-term financial return is mitigated from the risk of:

- detrimental social impacts or increasing health inequalities from the company's products/services, such as armaments or tobacco;
- negatively contributing to climate change or other environmental issues, such as pollution and the use of plastic;
- the impacts of climate change;
- poor corporate governance, systems of control and a lack of transparency;
- a senior management pay structure that is biased towards managers making short-term decisions that aren't in the company's and investors long-term interests;
- the detrimental treatment of the company's workforce or workers in the company's supply chain on issues such as health and safety, gender equality and pay;
- dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk;
- any outcome damaging to human rights;
- reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.

If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

Closed-ended limited partnerships

The Pension Fund invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers integrate ESG considerations into their selection of these investments, which it believes will improve the long-term risk adjusted returns. Whilst the Pension Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once the Fund has committed its investment it cannot control the underlying investments that are made.

Direct property

The Pension Fund has made a strategic allocation to invest in UK commercial property, and therefore recognises that as a landlord it has an opportunity to affect the quality of the buildings that it owns. As part of the investment management contract that the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact of each of the properties it owns as part of the investment case for owning each property.

Responsible investment sub-committee

The Pension Fund Panel and Board (PFPB) take their responsibilities for Responsible Investing and the consideration of ESG issues very seriously, and have established a Responsible Investment sub-committee, which meets at least twice a year, to review ESG issues and support implementation of the Responsible Investment Policy.

The Terms of Reference of the sub-committee are as follows:

To make recommendations to the PFPB on ESG issues having completed the following activities.

a. To review regularly the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected.

b. To provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it.

c. To engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy.

d. To receive any relevant training on ESG issues.

e. To review investment managers' company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate.

f. To engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate.

g. To report annually on the Pension Fund's Responsible Investment activities to demonstrate progress to the Pension Fund's stakeholders.

Conflicts of interest

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

The Pension Fund expects the investment managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pension Fund Panel and Board members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the County Council's website at **www.hants.gov.uk**. Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund's investments. Details of the declared interests of County Council members are maintained and monitored on a Register of Member Interests. These are published on the County Council's website under each member's name and updated on a regular basis.

5. Exercise of rights attaching to investments

Each of the Pension Fund's investment managers is asked to work in a consistent and transparent manner with companies they are invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards. This includes requiring investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible.

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and consumers. The Fund's investment managers should cast their votes with this in mind.

In particular, the Fund's investment managers should cast their votes to ensure that:

- executive directors are subject to re-election at least annually;
- executive directors' salaries are set by a remuneration committee consisting of a majority of independent non-executive directors, who should make independent reports to shareholders;
- arrangements for external audit are under the control of an audit committee consisting of a majority of independent non-executive directors, with clear terms of reference – these should include a duty to ensure that investment managers closely control the level of non-audit work given to auditors, and should not significantly exceed their audit-related fee unless there are, in any investment manager's opinion, special circumstances to justify it;
- in the investment managers' opinion, no embarrassment is caused to the Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code.

The Pension Fund's equities are available for Stock Lending, via the programme agreed as part of the ACCESS pool. The programme includes the provision for investment managers to recall stocks from the lending programme, should this be necessary voting at company meetings.

6. Monitoring, reporting and next steps

Reporting

Scheme members were consulted on the original version of this RI policy in 2019. Any comments on ESG issues are reported to the RI sub-committee as a standing item at each meeting.

The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and voting recording, highlighting any instances that they voted against company management or did not follow these guidelines.

The reports of the investment managers on their consideration of ESG factors, their company engagement and collective engagement and shareholder voting will be viewed by the Pension Fund's officers, the Responsible Investment Sub-Committee and Pension Fund Panel and Board.

The following table shows how the Pension Fund sets its policy and reviews its progress including complying with the various standards it has adopted.

	Frequency	Where to find it
Strategies and policies		
Investment Strategy Statement	Reviewed annually	**Policies | Hampshire County Council (hants.gov.uk)**
Responsible Investment Policy	Reviewed annually	**Policies | Hampshire County Council (hants.gov.uk)**
External Reports		
Annual Report and Annual RI Update	Annual	**Annual reports and accounts | Hampshire County Council (hants.gov.uk)**
TCFD Report	Annual	**Responsible Investment | Hampshire County Council (hants.gov.uk)**
UK Stewardship Code Report	Annual	**Responsible Investment | Hampshire County Council (hants.gov.uk)**
PRI report	Annual	**Results published in 2023**
GRESB report	Annual	**Reported to panel and board**
Internal reports		
Stewardship report to the RI sub-committee	Bi-annual	**Committee details – Hampshire Pension Fund Responsible Investment Sub-Committee | About the Council | Hampshire County Council (hants.gov.uk)**
Investment manager voting reports	Quarterly	**Responsible Investment | Hampshire County Council (hants.gov.uk)**

RI standards

The Pension Fund supports and/or is a member of the following initiatives that aim promote RI for investors and positive changes in management of ESG factors:

- **UK Stewardship Code 2020** – The Pension Fund has been accepted as a signatory of the 2020 Code (one of only six initial LGPS signatories), which sets high stewardship standards for those investing money on behalf of UK savers and pensioners. The Fund has produced a Stewardship Code statement that sets out on a 'apply or explain' basis how it meets the 12 principles of the Code **UKStewardshipcodecompliancestatement.pdf (hants.gov.uk)**

- **Principles of Responsible Investment (PRI)** – The Fund is a signatory to the PRI, which was founded by the United Nations and is the world's leading proponent of responsible investment. In becoming a signatory the Pension Fund has committed to the PRI's six principles for RI. More information can be found here: **About the PRI | PRI Wel`b Page | PRI (unpri.org)**

- **Pensions for Purpose** - The Fund is a member of Pensions for Purpose. Pensions for Purpose engages with pension funds and other institutional investors towards embracing impact investing. As a member the Fund has access to Pensions for Purpose services and member forums, where we will benefit from resources to guide the approach to impact investing. More information can be found here: **(https://www.pensionsforpurpose.com)**

- **Taskforce on Climate-Related Financial Disclosure (TCFD)** – the Pension Fund supports TCFD which aims to develop recommendations for more effective climate-related disclosures that could promote more informed investment decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. The Pension Fund reports in line with recommendations of TCFD **TCFD-report.pdf (hants.gov.uk)**

- **Institutional Investors Group on Climate Change (IIGCC)** – The Fund is a member of the IIGCC. The Fund has made a public net zero commitment. As part of its membership the Fund benefits from educational materials, webinars, and the net zero framework, which will help the Fund achieve the target of net zero by 2050. More information can be found here: **www.iigcc.org**

- **Transition Pathway Initiative (TPI)** – The Fund publicly supports TPI, which is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. The TPI tool assesses progress against companies and sectors to measure the level of management quality and carbon performance, to aid in risk assessment. More information can be found here: **www.transitionpathwayinitiative.org**

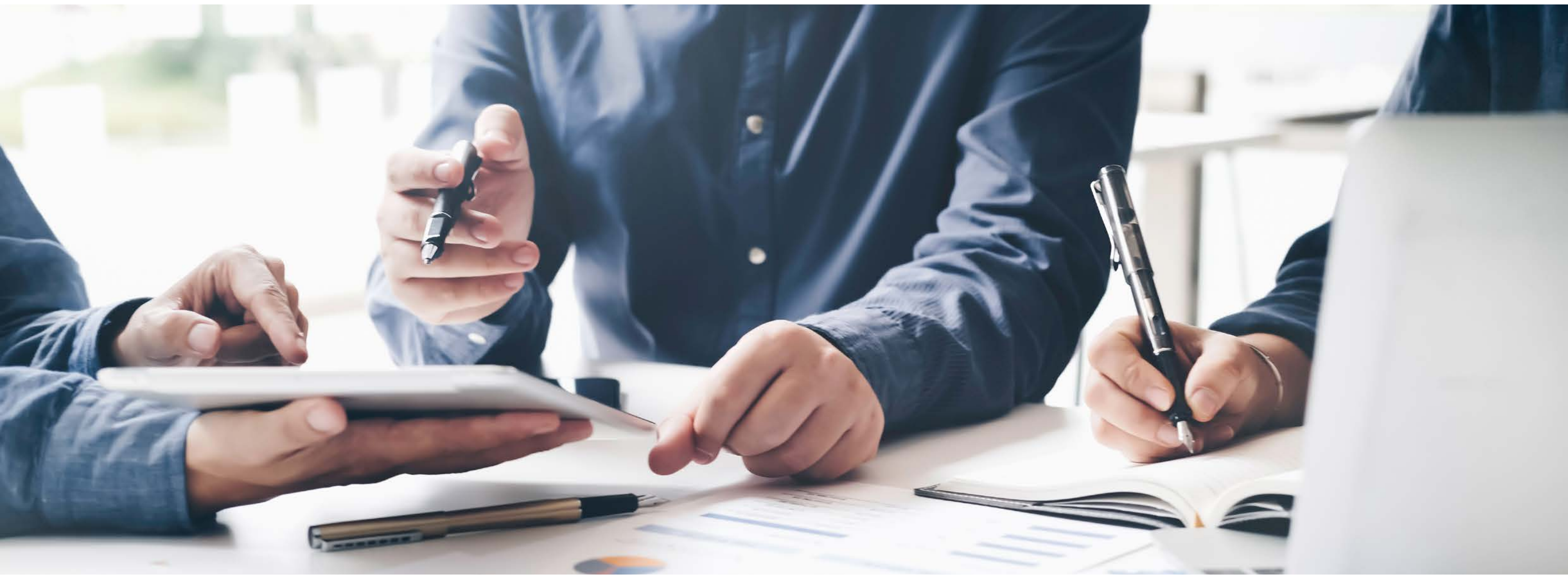
- **Just Transition** – A "just transition" means not transitioning to a low carbon economy at any cost but doing so whilst also ensuring that this is done in a socially responsible way. The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science have put together a comprehensive guide as to what this means for investors, and what action can be taken. The Fund has signed a statement of support and uses the guide to help embed this goal within the Fund's policies and help hold our investment managers to account. More information is available at the following link:
  Investing in a just transition – global project – Grantham Research Institute on Climate Change and the environment (lse.ac.uk)

The Pension Fund will consider signing up to other investor standards and initiatives where the Pension Fund Panel and Board believes it will enhance Hampshire's RI policy.

RI priorities for the coming year

The following topics have been identified as specific priorities for the coming year:

- Repeat of external assessment of the ESG risks and issues across the Pension Fund's portfolio.
- Improvement of the Pension Fund's RI webpage.
- Implementation of TCFD regulations for Local Government Pension Schemes, including continuation of expanding the availability of carbon data for the Pension Fund's investments.



Hampshire Pension Fund

The Castle,
Winchester,
Hampshire
SO23 8UB.