THAMES BASIN HEATHS

Decision Report

Decision Maker:	Thames Basin Heaths Joint Strategic Partnership Board
Date:	6th December 2023
Title:	Update on behalf of the Investment Working Group
Report From:	Administrative Body

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Purpose of the Report

1. The purpose of this report is to present an update to the Joint Strategic Partnership Board (JSPB) on the investments made and the investment strategy.

Recommendations

2. That the minor amendments to the Investment Strategy as presented by the Investment Working Group (IWG) in Appendix 1 be approved.

3. That the balance maintained within the Maintenance Fund is set at three years expected annual running costs, equivalent to £2.5m based on current projections.

4. That the Responsible Investing policy as presented by the IWG in Appendix 2 be noted.

5. That the annual timescales for terminating the contract with Arlingclose be noted.

6. That the amounts available for investment as set out in Table 3 and the projected cashflow scenarios set out in Appendix 3 be noted.

7. That the JSPB notes the IWG's recommendation to accept the advice of Arlingclose, which will be set out in more detail in the next (public exempt) agenda item, but comprises:
   - Cancelling the previous advice re the £4m on hold Fidelity investment and returning this balance to the cash available for investment.

- Keeping the cash available for investment in the Endowment Fund as a cash balance for the time being.

8. That the JSPB notes the requirements and practical implications and limitations specifically outlined in Appendix 4, surrounding any investment decisions made by the JSPB before any investments can be made by the Administrative Body on behalf of the JSPB.

Executive Summary

1. The Investment Working Group was set up to review and recommend appropriate policies / actions to the JSPB in respect of matters relevant to managing the investments of the JSPB, with final decisions being taken by the JSPB under independent financial advice, as set out in the Strategic Access Management and Monitoring (SAMM) agreement.

2. The IWG consists of a minimum of three JSPB members plus a representative from the independent financial advisors and meets a minimum of twice a year.

3. The IWG have proposed some amendments to the Investment Strategy for the JSPB's approval, as shown in Appendix 1, however no changes are proposed to the Responsible Investing Policy, as shown in Appendix 2.

4. The IWG recommends that the balance maintained in the Maintenance Fund be revised to three years of annual running costs, currently equivalent to £2.5m.

5. The JSPB appointed Arlingclose as independent financial advisors to the board on 1 December 2018 on an annual rolling contract, with a minimum of 3 months written notice required to terminate the contract (i.e. by 1st September each year).

6. At the request of the JSPB, Arlingclose attend the six monthly JSPB meetings to give an overview of the performance of the investments made and to give advice on future potential investments.

7. To date a total of £15.0m has been invested based on advice from Arlingclose and as approved by the JSPB. The performance of those investments is considered separately to this report in the presentation by Arlingclose.

8. There is currently a total of £5.311m held as a cash balance in the Endowment Fund and available to be invested. It is anticipated that this amount will increase to £7.725m by 31st March 2024, based on tariff income projections provided by the Local Planning Authority partners.

9. The IWG has received a detailed presentation of investment performance from Arlingclose and has discussed possible future investments with Arlingclose at the IWG meeting of 1 November. The IWG recommends that the JSPB accepts Arlingclose's advice to cancel the previous advice re the

£4m on hold Fidelity investment and return this balance to the cash available for investment, and to keep the available balance for investment in the Endowment Fund as a cash balance at this time, as will be covered in the next (public exempt) agenda item.

10. As the JSPB is not a separate legal entity, investments are made by the Administrative Body on the JSPB's behalf. However, investment decisions made by the JSPB are solely at its own risk and the Administrative Body accepts no responsibility for the decisions made. Furthermore, there are certain requirements and practical implications and limitations arising from this arrangement that must be given due regard before any investments can be made, these are set out in Appendix 4.

Contextual Information

11. The Investment Working Group (IWG) was set up to review and recommend appropriate policies / actions to the JSPB in respect of matters relevant to managing the investments of the JSPB, with final decisions being taken by the JSPB as set out in the SAMM agreement.

12. The terms of reference for the IWG are included within the Investment Strategy (Appendix 1) and provide for a minimum of three Board members plus a representative of the independent financial advisors. Membership is reviewed bi-annually, with the next review due by November 2024. Following the local elections in the summer, at the JSPB meeting in July Councillor Bermange and Councillor Pittock were welcomed to the group.

13. The Investment Working Group currently consists of three Board Members as follows:
    - Councillor Jonathan Glen, Hampshire County Council
    - Councillor Adam Bermange, Royal Borough of Windsor and Maidenhead
    - Councillor Ian Pittock, Wokingham Borough Council

Independent Financial Advisors

14. At the JSPB meeting on 21 September 2018, the JSPB appointed Arlingclose as independent financial advisors to the board. As the JSPB is not a separate legal entity, this appointment was made through the Administrative Body to the JSPB, Hampshire County Council, on the JSPB's behalf through a modification to the existing Treasury Management Advisory Service contract Hampshire County Council holds with Arlingclose. The contract with Arlingclose commenced on 1 December 2018 on a rolling annual basis.

15. Should the JSPB wish to cancel the contract with Arlingclose, written notice must be served no later than 3 months prior to the contract renewal date (i.e. by 1st September each year).

16. The charge for the contract was £10,000 plus VAT in the first year payable annually in advance, increasing by RPI inflation annually, using the prevailing RPI figure at the contract anniversary. The amount payable for the 2023/24 financial year is expected to be circa £12,900 based on current RPI data. Arlingclose have negotiated reductions in the fees charged by the investment funds, which are currently saving the JSPB circa £5,000 per annum.

17. The JSPB has requested that Arlingclose attend the six monthly JSPB meetings to give an overview of the performance of the investments made and to give advice on future potential investments.

Investment Strategy Statement

9. The Investment Strategy of the JSPB is shown in Appendix 1. Minor amendments to the Strategy are proposed (highlighted in red font in the document for ease of reading) and are recommended to the JSPB for approval.

10. The Investment Strategy is based on the following broad principles:
    - Annual expenditure needing to be funded is expected to be in the region of £700,000, rising with inflation.
    - A balance equivalent to three years of expected running costs should be kept within the Maintenance fund, equating to c£2.5m based on current expenditure projections.
    - Keeping risk as low as possible whilst ensuring it is sufficient to meet the expected expenditure – a “sensible risk”.
    - A target return of 2-3% above inflation was considered to be appropriate over the longer term, although it is recognised that given the current high rate of inflation returns are unlikely to reach these levels at the moment.
    - The interest paid on cash balances held by the Administrative Body is unlikely to be sufficient to meet the target return, although again, given the current high rate of inflation this is the expected position over the long term, with interest paid on cash balances an attractive option at this time.

11. Previously, the balance to be maintained in the Maintenance Fund had been set at £1.5m on the basis that this was equivalent to three years of annual running costs. Given that annual running costs will continue to rise with inflation, the IWG recommends that this basis is amended slightly to be set at three years of annual running costs rather than a fixed amount, which will then automatically increase each year as annual costs increase.

12. The Investment Strategy also includes a Responsible Investment Policy, which is included as Appendix 2 to this report.

13. At the November 2023 JSPB meeting it was requested that the IWG review the Responsible Investment Policy. Due to changes in the membership of the IWG, this review was delayed, but has now been completed and no changes are proposed to the document.

Update on investments made

14. To date, a total of £15.0m has been invested in funds recommended by Arlingclose as shown in Table 1 below:

Table 1a – Investments made by date agreed and date invested			
Date agreed by JSPB	**Fund**	**£m**	**Date investment made**
06/12/2018	Aegon (was Kames) Diversified Monthly Income Fund	2.0	20/12/2018
06/12/2018	CCLA Property Fund	2.0	28/12/2018
06/12/2018	Schroder Income Maximiser Fund	1.0	21/12/2018
06/12/2018	Schroder Income Maximiser Fund	1.0	19/02/2019
19/11/2020	Aegon (was Kames) Diversified Monthly Income Fund	1.0	27/01/2021
19/11/2020	Ninety One (previously Investec) Diversified Income	3.2	27/01/2021
18/11/2021	Aegon Diversified Monthly Income Fund	0.5	08/08/2022
18/11/2021	M&G Global Dividend Fund	1.0	08/08/2022
16/11/2022	Aegon (was Kames) Diversified Monthly Income Fund	1.5	08/02/2023
16/11/2022	Ninety One (previously Investec) Diversified Income	1.8	08/02/2023
	Total Investments	**15.0**	

Table 1b – Investments made by Fund	**£m**
Aegon (was Kames) Diversified Monthly Income Fund	5.0
CCLA Property Fund	2.0
Schroder Income Maximiser Fund	2.0
Ninety One (previously Investec) Diversified Income	5.0
M&G Global Dividend Fund	1.0
Total Investments	**15.0**

15. At the 5th July 2023 meeting, following advice from Arlingclose, the JSPB agreed to put on hold the pending investment of £4.0m in the Fidelity Global Enhanced Income Fund, which had been approved by the Board on 16th November 2022 (originally agreed as between £500,000 and £4.0m subject to the balance available within the Endowment Fund as at 31st March 2023).

Table 2 – Investments pending			
Date agreed by JSPB	**Fund**	**£m**	**Date investment made**
16/11/2022	Fidelity Global Enhanced Income Fund	4.0	On hold
	Total Pending Investments	**4.0**	

16. The IWG recommends that the JSPB accepts Arlingclose's advice to cancel this pending investment and to release the £4m back to the available cash balance for investment in the Endowment Fund.

17. The current performance of those investments is considered separately on the agenda, in the presentation by Arlingclose.

Medium - Term Cash Flow Forecast

18. The current projected tariff income and Fund balances for the financial years to 31st March 2026 are shown in Table 3 below.

Table 3	2022/23 Actuals £'000	2023/24 Projected £'000	2024/25 Projected £'000	2025/26 Projected £'000
Total tariff income	3,069	2,181	2,121	2,227
Interest*	189	408	208	252
Dividend income**	562	541	541	541
End of year balances held as cash funds by the Administrative Body				
Maintenance Fund	1,500	1,500	1,500	1,500
Endowment Fund	5,311	7,725	9,830	12,044

*Assumes interest rate of 5.03% (average base rate this year, assuming no further changes) for 2023/24 and 2% in 2024/25 and 2025/26

**Assumes dividend income at 4%.

19. The IWG met on 1 November where a detailed presentation of investment performance from Arlingclose was received and possible future investments utilising the projected balances shown in Table 3 were discussed.

20. Arlingclose will present their advice to the JSPB in the following (public exempt) agenda item. However, in summary the advice from Arlingclose is to maintain the available balance as cash for the time being and the IWG

recommends that the JSPB accepts this advice and instructs the Administrative Body accordingly.

21. As the JSPB is not a separate legal entity, investments are made by the Administrative Body on the JSPB's behalf. The JSPB is reminded that due to this arrangement:

    - The Administrative Body has made it clear that any investment decisions made by the JSPB are solely at its own risk, and the Administrative Body accepts no responsibility for the decisions made.
    - The Administrative Body has set out a number of requirements that must be met before any investments will be made on the JSPB's behalf, including that the JSPB's instructions are both clearly documented and in accordance with the independent financial advice. It is the JSPB's responsibility to ensure these requirements are fully complied with.
    - There are also practical implications and limitations arising from the arrangement that must be taken into consideration, including potential delays in making investments.

22. These are set out in more detail in Appendix 4.

Long - Term Cash Flow Forecast

23. Potential financial modelling scenarios to 2090/91 (being 80 years after the commencement of the SAMM agreement) using the current income projections and various average inflation rates and various average rates of return on investments are shown in Appendix 3.

24. The scenarios modelled in Appendix 3 show a range of the funds being fully depleted by 2056/57, to 2088/89, as shown in table 4 below. However, this modelling contains a number of assumptions with a very high level of uncertainty and is therefore for indicative purposes only.

Table 4		**Rate of investment return**		
Year in which money runs out		**2%**	**3%**	**4%**
Rate of inflation	**2%**	2061/62	2070/71	2088/89
	3%	2056/57	2061/62	2069/70

25. As has been highlighted to the JSPB previously, there are significant difficulties in making accurate long-term projections, and variations in tariff

income, project costs, inflation and investment returns could have a significant impact on the long-term financial viability of the partnership.

26. Although inflation is currently running at much higher levels, the modelling continues to use scenarios at 2% and 3% inflation being a long term expected average.

27. Tariff income forecasts have been consolidated by the Administrative Body using projections from the respective planning authority partners. It is important that partners ensure their forecasts are as accurate as possible and that the Administrative Body is informed of changes in a timely manner, so that figures can be updated to assist the JSPB in making sound investment decisions.

Conclusions

28. The above report sets out the investment update from the Investment Working Group.

Appendix 1 – The JSPB Investment Strategy Statement

Thames Basin Heath Joint Strategic Partnership Board
Investment Strategy Statement
(Updated 6th December 2023)

In 2009 the Thames Basin Heath Joint Strategic Partnership Board (JSPB) was formed as part of the Thames Basin Heaths SPA – Strategic Access Management and Monitoring Project Memorandum of agreement.

1. Introduction.

1.1. The South East Plan (2009) contained proposals for over 55,000 new residential dwellings around the SPA and includes a specific policy identifying a series of mitigation measures which new developments must provide in order to avoid having an adverse effect on the SPA.

1.2. The mitigation to be provided by all new residential dwelling includes the provision of a Strategic Access Management and Monitoring Project. Each Local Authority is required to collect a fixed tariff from developers for each new dwelling and to transfer these as a contribution towards a joint fund for the Project. The contributions will be collected and administered by the Administrative Body.

1.3. It was agreed that the first Administrative Body would be Hampshire County Council.

1.4. The JSPB was established to provide the vehicle for joint working between local authorities and other organisations responsible for protection of the Thames Basin Heaths SPA. The Contribution Fund provides for:

1.4.1. The provision of a Project Coordinator including any recruitment costs, redundancy costs and other related employment costs.

1.4.2. Wardening of the SPA sites

1.4.3. Survey and monitoring of visitor numbers and patterns, planning applications and the three-bird species on the SPA

1.4.4. Interpretation and education services including the provision of an Education and Communications Officer including any recruitment costs, redundancy costs and other related employment costs associated with this role.

1.4.5. Treasury functions and other management fees

1.4.6. A long-term fund to enable the Project to be funded in perpetuity

This document defines the governance arrangements for the long-term fund.

2. Investment Working group

2.1. The Investment Working Group (IWG) will be a Working Group of the JSPB.

2.2. The Investment Group will consist of a minimum of three members who are nominated by the JSPB together with the current Independent Financial Advisor (IFA), Arlingclose.

2.3. So long as Hampshire County Council is the Administrative Body, w~~W~~here a member of the IWG is a Councillor from Hampshire County Council, the member will be fully involved in decision making at IWG meetings, but will not be involved in deciding which investments to make at the JSPB meetings.

2.4. Arlingclose will attend the IWG and JSPB meetings in an advisory capacity only and will not have voting rights.

2.5. Any involvement of officers of the Administrative Body will not be in a decision making or advisory capacity and will be purely to support financial administration, as set out in the SAMM Agreement. The Administrative Body cannot provide financial advice.

2.6. Membership of the IWG will be reviewed bi-annually.

2.7. The Investment Group will meet at least six monthly and, on an ad-hoc basis as required. With a plan of meetings at the beginning of each financial year, taking into account commitments of partners. At least 10 days' notice of any ad-hoc meeting will be given for each meeting. The Working Group may meet "electronically" if required. In such a circumstance it will be made clear by what date members are required to respond.

2.8. The JSPB will delegate authority to the IWG, in consultation with the Chairman, to take immediate action to sell an investment should it become apparent that the investment is likely to fail.

2.9. The Investment Group will report all recommendations to the JSPB, these will be made by the councillor members having considered the advice of the IFA.

2.10. It is proposed that representatives of the IFA should attend the relevant JSPB meetings.

2.11. The role of the Group is to review and recommend appropriate policies/actions to the JSPB in respect of the following:

- 2.11.1. The Strategic Asset Allocation of the Fund.
- 2.11.2. The investment performance of the Fund.
- 2.11.3. New investment products/mandates and their suitability for investment by the Fund.
- 2.11.4. To recommend the appointment or termination of investment mandates.
- 2.11.5. Such other matters as may be relevant to managing the investments of the Fund.

2.12. The final decisions on any proposed investment will be made by the JSPB.

3. Investment Objectives

3.1. Investment objectives were agreed at the JSPB meeting of the 21st September 2018, and amended 6th December 2023.

3.2. The equivalent of three years annual running costs should be kept in cash in the Maintenance Fund, to be reviewed annually. (Initially set at £1 million in September 2018, and subsequently updated to £1.5 million at the JSPB meeting of the 19th November 2020). ~~Approximately £1 million should be kept in cash in the Maintenance Account, to fund projected expenditure for a period of two years. This sum will be reviewed annually~~.

3.3. The primary aim would be to generate income, rather than capital growth.

3.4. The investment should have the lowest risk possible.

3.5. A target rate of return on investment should be calculated using the current balance held within the Endowment Account, plus a reasonable assumption of the future income (as provided by the Partners) to give a target percentage rate of return required to meet projected costs in perpetuity.

3.6. The IFA would be asked to advise on a recommended mix of investment types anticipated to meet that target rate of return at the lowest risk, and specific funds that would meet these requirements.

3.7. The JSPB should acknowledge that the target rate of return will vary, depending on actual income and expenditure, and that the target percentage rate of return may not be achieved. In either of those circumstances it would be necessary to review and revise the investment strategy, and/or to review and revise both the planned expenditure and the SAMM charges accordingly.

4. **Investment strategy statement.**

4.1. This is the latest ~~first~~ such statement, first published by the JSPB 21st September 2018 and amended 6th December 2023 and it will be reviewed regularly by the IWG and at no more than 2 -year intervals. Recommendations will be made to the JSPB who will consider any proposed changes.

A requirement to invest fund money in a wide range of instruments.

4.1.1. The JSPB policy is that the fund should have a highly diversified investment portfolio spread across different asset classes and different asset managers using differing approaches as appropriate. This ensures that the fund money is invested in a wide range of instruments.

4.1.2. JSPB has established an Investment Working Group which meets bi-annually to review the fund's performance, asset allocation and ability to meet its target return. In addition, the Investment Working Group reviews potential new investment ideas and products and opines whether such ideas are consistent with the investment strategy of the fund and a suitable investment.

4.1.3. The Investment Working Group receives advice from suitably qualified Independent Financial Adviser, Arlingclose.

4.1.4. To achieve sufficient diversification the fund divides assets across 4 broad buckets: equities, bonds, real assets and absolute return strategies. The size of each bucket will vary depending on investment conditions.

4.1.5. Any investment strategy will have associated risks, including primarily that of not meeting the returns required to ensure the long-term ability of the fund to pay for the work of Natural England who are currently the project delivery team. To mitigate these risks the Investment Working Group regularly reviews both the performance and the expected returns from the portfolio to measure whether it has met and is likely to continue to meet its return objective,

5. The JSPB's assessment of the suitability of particular investments and types of investments.

5.1. In assessing the suitability of investments JSPB takes into account a number of factors including prospective return, risks, concentration or diversification of risk as well as geographic and currency exposures.

5.2. Performance benchmarks are set for the fund as a whole (target return UK CPI+2-3%) as well as for individual allocations.

5.3. In ensuring the suitability of investments the JSPB pays regard to both the potential returns and risk (including possible interactions with other investments in the portfolio). JSPB will also consider the reputational risk of being connected with or investing in any investment proposal. JSPB expects its managers to consider Environmental, Social and Governance issues when making an investment.

5.4. The IFA will advise the IWG on returns and the volatility of those returns from investments on a quarterly basis.

6. The JSPB's approach to risk, including the ways in which risks are to be measured and managed

6.1. The JSPB will seek the lowest risk consistent with meeting the investment objectives.

6.2. Looking specifically at investment risk JSPB is of the view that diversification of the fund investment portfolio will help to minimise investment risk (volatility of returns). The fund targets a long-term return of UK CPI+2-3%; this would be sufficient for it to meet its long-term liabilities. In setting the investment strategy, the JSPB decided that this return should be achieved with a low degree of volatility –the fund targets volatility below 10% per annum over the medium term.

6.3. As a patient long-term investor, the fund is prepared to ride-out short-term volatility in investment markets and may, if suitable opportunities arise, adapt its investment strategy accordingly.

7. The JSPBs policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

7.1. The JSPB accepts that there are differing views on how social, environmental and corporate governance considerations should be taken into account and believes that no “one size fits all” policy can possibly be implemented across a diverse portfolio. Nevertheless, JSPB seeks to protect its reputation as an institutional investor and ensures that its investment managers take into account these issues when selecting investments for purchase, retention or sale. JSPB will not place social, environmental or corporate governance restrictions on its managers but relies on them to adhere to best practices in the jurisdictions in which they are based, operate and invest. For clarification a separate Responsible Investing policy has been drafted and forms part of this Investment Strategy Statement.

Appendix 2 – Responsible Investment Policy

Thames Basin Heaths Joint Strategic Partnership Board
Responsible Investment Policy

1. Introduction

This policy defines the commitment of the Thames Basin Heaths Joint Strategic Partnership Board (TBHJSPB) to Responsible Investment (RI). Its purpose is to detail the approach that TBHJSPB aims to follow in integrating Environmental, Social and Governance (ESG) issues into its investments.
The policy will be reflected in the Investment Strategy Statement.

2. Responsible Investment Values and Principles

The TBHJSPB values and principles reflect the need to deliver long term investment returns in order to secure long term funding for the Boards Access management and Monitoring programme. The values and principles recognise the importance of assessing sources of risk and opportunity over an extended time horizon and emphasise the importance of diligent stewardship as part of engaged asset ownership.

Responsible Investment Values:

Consultative	The RI priorities are a reflection of the views of the members of the Thames Basin Heaths Joint Strategic Partnership Board, and of evolving best practice within the management of Local Government investments.
Being Proactive	A proactive approach to evaluating ESG risks and opportunities is more likely to result in long term benefits for the TBHJSPB and is aligned with fulfilling our fiduciary duty.
Engagement	The TBHJSPB considers engagement to be a route for exerting a positive influence over investee companies and encouraging responsible corporate behaviour. We will be supportive of targeted dialogue by investment managers in situations where positive changes can be brought about to align governance, environmental and social standards with our investment needs.
Collaborative	The TBHJSPB recognises that working collaboratively can achieve greater influence than acting unilaterally. The TBHJSPB seeks to align itself with likeminded investors through collective vehicles in which it is invested.
Flexible	The TBHJSPB considers that its RI policy and approach should be reviewed regularly in order to continue recognising and reflecting best practice where appropriate and addressing emerging priorities.

Responsible Investment Principles
The RI principles translate our values and commitments into responsible investment practices which can help to deliver a sustainable and sufficient return on our investments. Our RI principles inform the stewardship arrangements we have agreed with advisors Arlingclose as our provider of investment management advice.

A summary of the key Responsible Investment principles:

- Effectively manage financially material ESG risks to support the requirement to protect returns over the long term;
- Apply a robust approach to effective stewardship;
- Seek long term returns from well governed assets;
- Responsible investment is core to our skills, knowledge and advice;
- Seek to innovate, demonstrate and promote RI leadership and ESG best practice;
- Achieve improvements in ESG through effective partnerships that have robust oversight by the investment managers.
- Share ideas and best practice to achieve wider and more valuable RI and ESG outcomes.

The implementation of the RI policy is through the advice of Arlingclose who are responsible for provision of investment advice to TBHJSPB.

3. Priorities

Identifying core priorities for RI is an important part of focussing the attention of Arlingclose on the issues of greatest importance to the TBHJSPB. The issues we have identified as being of primary concern to us as asset owners are:

- Climate change – choosing investments where the managers recognise and manage the risks and opportunities investments face from climate change;

- Corporate Governance – promoting the case for well managed companies which implement fair and just employment practices;

The above mentioned are our main priorities. However, there are a number of other RI issues which are of interest to the TBHJSPB and which will be kept under review, including:

- Where possible, reducing investments in products such as fossil fuels, controversial weapons that have an indiscriminate and disproportional impact on civilian populations, tobacco and alcohol.

Climate Change

The TBHJSPB recognises the imperative to address climate change as a systemic and long-term investment concern, as it poses material risks across all asset classes with the potential for loss of shareholder value including via stranded assets.

The TBHJSPB will endeavour to carry out the following:

- Where Investment managers in which the TBHSPB are invested as recommended by Arlingclose have existing investments in fossil fuel companies, we expect the Investment Manager to ensure that those companies are able to demonstrate planning for the global transition to a low-carbon economy and to meet future emissions reduction targets under the Paris Agreement or other appropriate initiatives. Where they are not, and opportunities for engagement by the Investment Manager and reform of the company or project are not possible or do not exist, then the TBHJSPB will make all reasonable efforts to divest provided that this will result in no material financial detriment, either through increased costs or increased investment risk.

- Where our fiduciary duty allows, we will not consider new active investments in fossil fuel companies directly engaged in the extraction of coal, oil and natural gas as sources of energy which are ignoring the risks of climate change. The TBHJSPB expects Arlingclose to take steps to ensure that the level of exposure to climate change investment risks are evaluated and monitored by Investment Managers. This will be through Arlingclose promoting the use of appropriate investigative and analytical tools by Investment Managers to increase information and regular reporting on performance.

Corporate Governance

The TBHJSPB will, principally through Arlingclose, promote high standards of employment practices. This will be done through asking Investment Managers to actively seek companies who demonstrate such practices and engaging effectively to encourage these standards within existing investee companies.

5. Definitions

Responsible Investment	The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.
ESG	Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence, and audit functions.

Governance	The process and principles by which a company or organisation undertakes its business.

Appendix 3 – Projected cash flows

In the following scenarios, inflation has been set at 2% or 3% per annum, interest on cash balances at 5.03% in 2023/24 and 2% per annum thereafter (reflecting the current, unusually high interest rate), and capital growth on the investments as 0% with varying rates of dividend returns per annum on the investments. For 2023/24 it is assumed dividend returns of 6%, and then the stated percentages thereafter.

It is assumed that for as long as possible a £1.5m cash balance will be kept in the Maintenance Fund and £1m in the Endowment Fund, with any balance over those amounts being invested.

Projected tariff income has been included as per LPA partner predictions. Expenditure has been included using the 2023/24 forecast, with inflation added for future years.

<table>
<tr><th colspan="2" rowspan="2">Year in which money runs out</th><th colspan="3">Rate of investment return</th></tr>
<tr><th>2%</th><th>3%</th><th>4%</th></tr>
<tr><td rowspan="2">Rate of inflation</td><td>2%</td><td>2061/62</td><td>2070/71</td><td>2088/89</td></tr>
<tr><td>3%</td><td>2056/57</td><td>2061/62</td><td>2069/70</td></tr>
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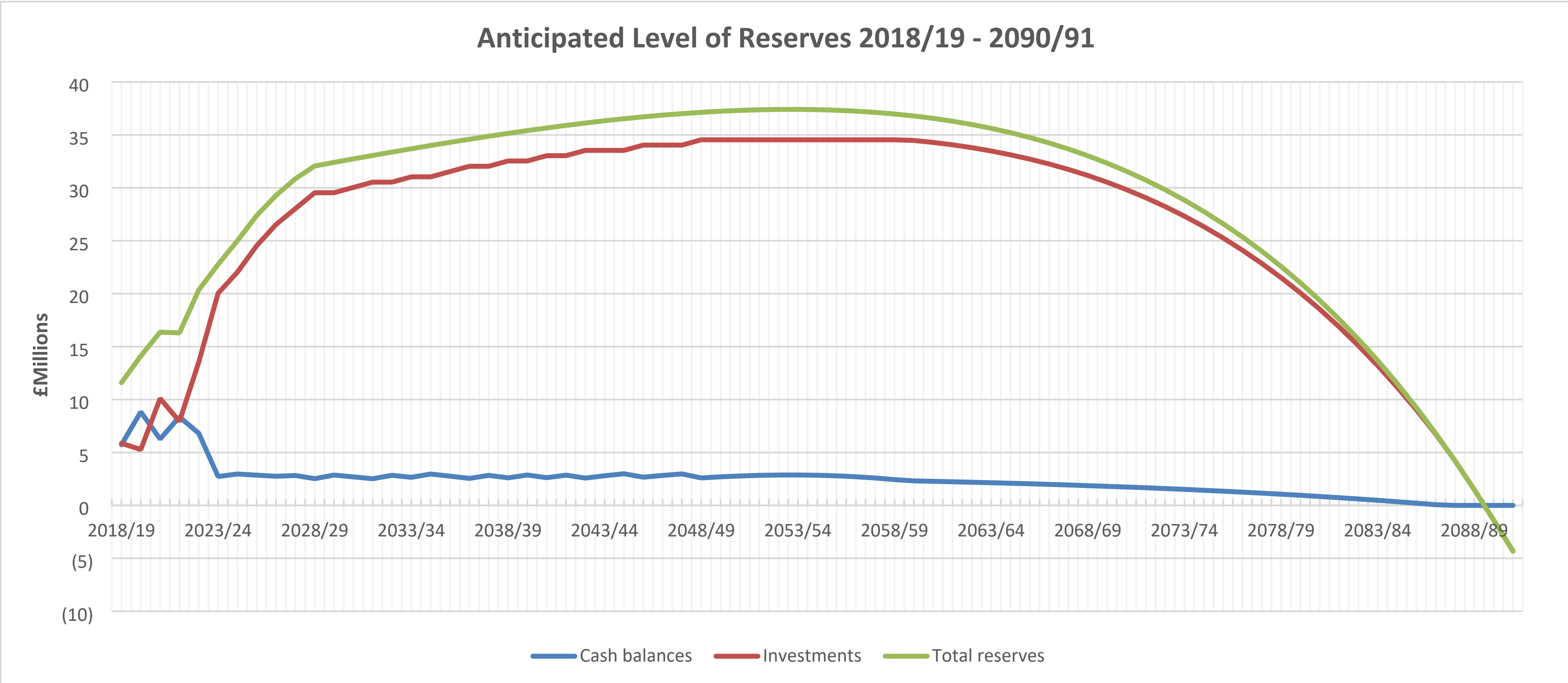
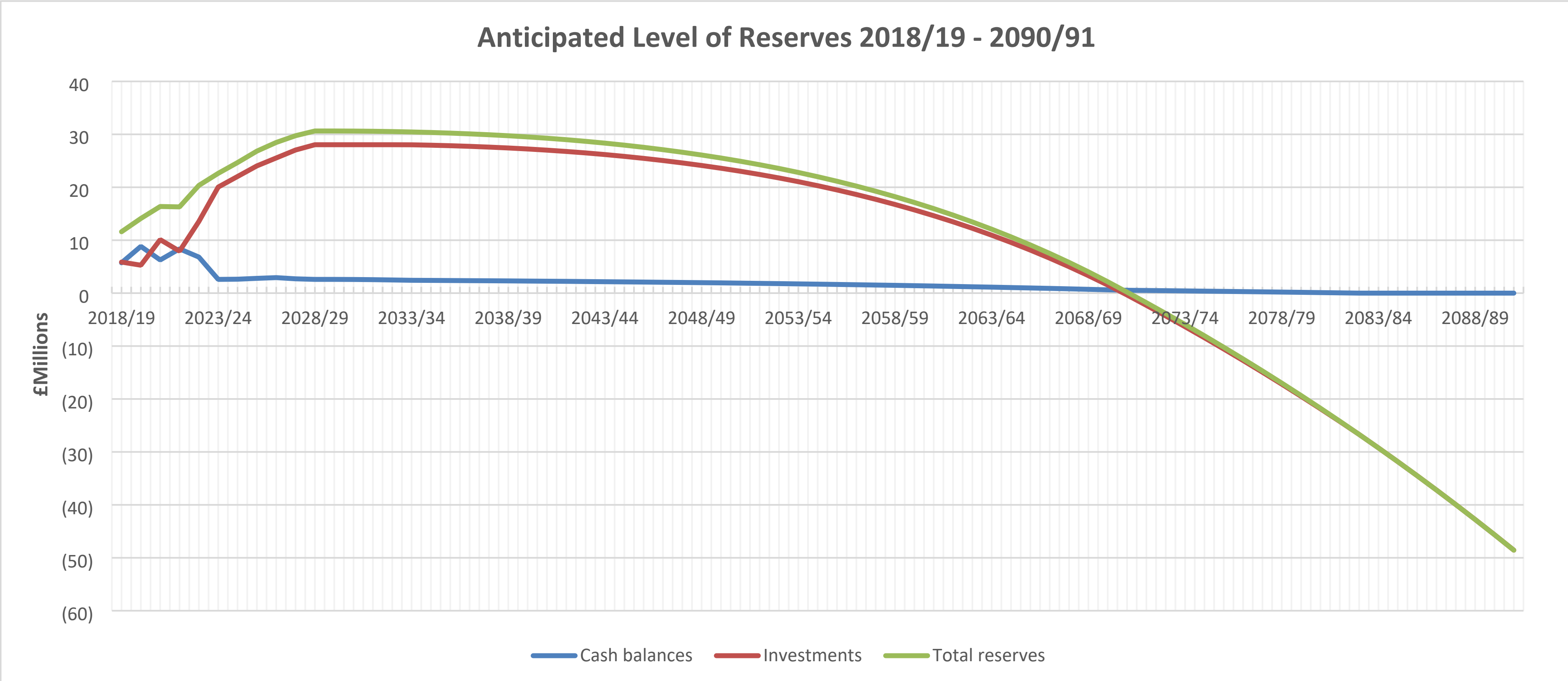
Appendix 3a – Projected cash flow using 4% dividend return, 2% inflation



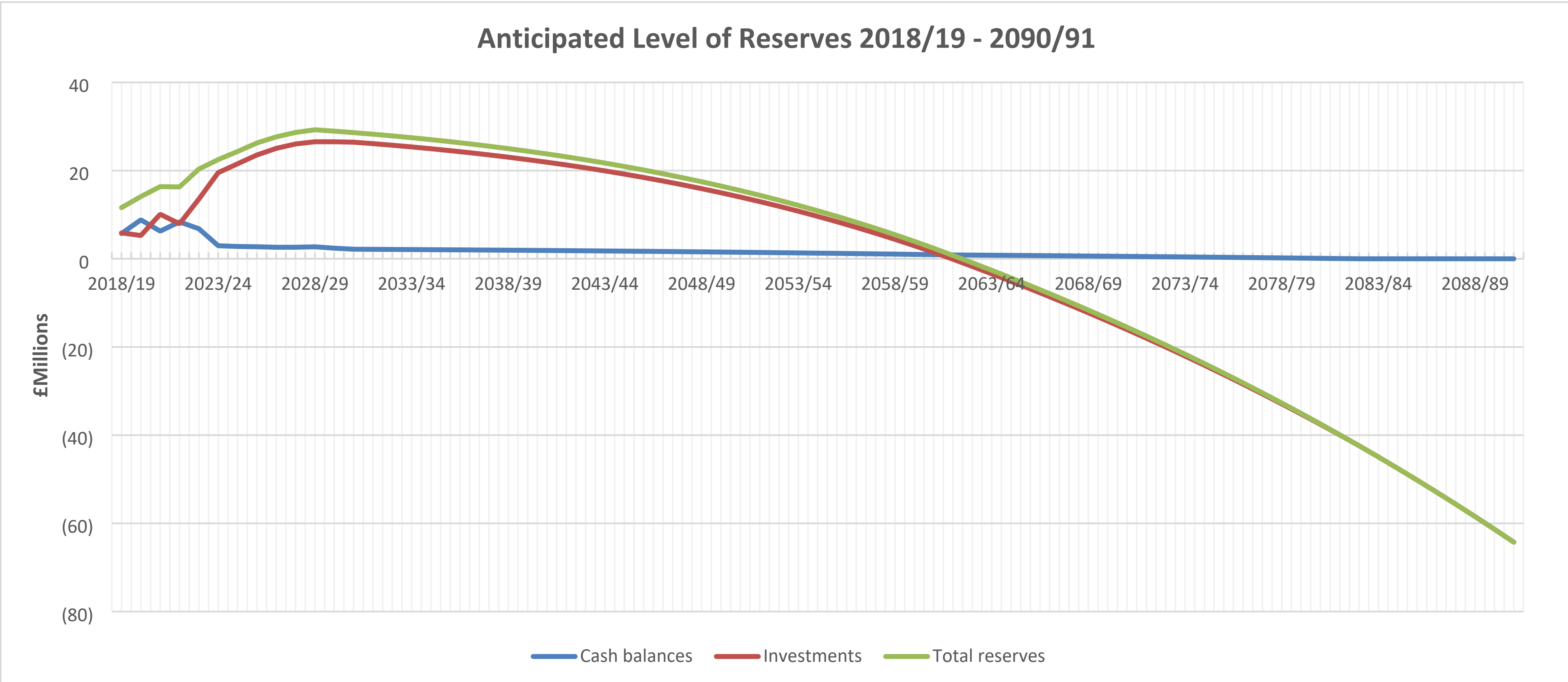
On the basis of 4% dividend returns and 2% inflation, money runs out in 2088/89. If inflation were 3%, the money runs out in **2069/70**.

Appendix 3b – Projected cash flow using 3% dividend return, 2% inflation



On the basis of 3% dividend returns and 2% inflation, the money runs out in 2070/71. If inflation were 3%, the money runs out in **2061/62**.

Appendix 3c – Projected cash flow using 2% dividend return, 2% inflation



On the basis of 2% dividend return and 2% inflation, the money runs out in 2061/62. If inflation were at 3% the money would run out in 2056/57.

Appendix 4 – Investment Decisions

29. Investment decisions are to be made by the JSPB and all risks associated with these investments rest solely with the JSPB. The Administrative Body cannot provide financial advice and therefore accepts no responsibility for the decisions made.

30. The JSPB is not a separate legal entity, and therefore any investments made by the JSPB are made by Hampshire County Council as the administrative body, however all risks associated with these investments rest with the JSPB and not Hampshire County Council. All income from these investments is attributable to the JSPB, as are any gains or losses in the value of the investments.

31. It is important to note that this arrangement for making the investments does have some practical implications and limitations that the JSPB has previously been made aware of, but are set out again below.

32. Under accounting standard IFRS 9 introduced in 2019, changes in the fair value of investments during any given financial year must be presented as a revenue gain or loss in that financial year. There is currently a statutory override in place for local authorities that means these gains or losses must then be reversed and charged to reserves. For as long as the statutory override is in place, there is therefore a net nil impact of these gains or losses on the revenue budget unless an investment is sold. The statutory override as currently agreed expires at the end of March 2025 and the JSPB needs to acknowledge that if it is not extended or replaced with a similar alternative, any fair value gains or losses will be an in-year revenue charge to the JSPB.

33. Despite this, any gains or losses will only ever be realised should the JSPB sell any of its investments, which it will only do after taking advice from Arlingclose, and which it does not plan to do at present as a long-term investor.

34. Furthermore, the investments will be subject to Hampshire County Council's Treasury Management Statement limits (the HCC TMSS), which limits both the total amount and types of investment that can be made.

35. The HCC TMSS is approved in February each year for the year ahead and any planned investments made on behalf of the JSPB will need to be included within this. It is therefore recommended that the JSPB determines the expected investment amount for the year ahead at the autumn JSPB meeting each year.

36. Assuming any proposed investments are within the HCC TMSS limits, before any investments will be made by Hampshire County Council on behalf of the JSPB, there are a number of requirements that must be met:

    - Any instructions from the JSPB must clearly document the amount to be invested or sold, the investment to be bought or sold, and the date on which the investment to be made (subject to the practical considerations as set out above)
    - The investment instructions must have fully taken account of, and be in accordance with, written financial advice provided to the JSPB, as required by the SAMM agreement.

37. If these requirements are not met, Hampshire County Council will not make the investments on behalf of the JSPB.

38. The JSPB should also be aware that potential investments would be subject to any relevant minimum/maximum limits and timing restrictions of particular funds.