

Pensions Board

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Report title	Responsible Investment	
Originating service	Pension Services	
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Recommendations for noting:

The Board is asked to note:

1. The Fund's Responsible Investment Framework, Voting Principles and updated Compliance Statement with the UK Stewardship Code for Institutional Investors

1.0 Purpose

- 1.1 To update the Local Pensions Board on the policies in place and work of the Fund in relation to responsible investment and in managing the risk and opportunities available in relation to Climate Change.

2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment framework. There are three main pillars to the framework: **selection** (of assets), **stewardship** (of assets), and **transparency & disclosure**.
- 2.2 The Responsible Investment Framework and other relevant RI policy documents are reviewed annually and subject to approval from the Pensions Committee.

3.0 Responsible Investment

Engagement through Partnerships

- 3.1 The Fund's strategy continues to be to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement programme is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Hermes EOS (via a contract held by LGPS Central Limited, the pool operator company), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.
- 3.2 The Fund's engagement activity is monitored and reported to the Pensions Committee on a quarterly basis. Engagement activity includes a number of direct company engagements, on a range of themes, voting activity and working in partnership with other institutional investors to consider shareholder resolutions. Activity and progress are included in published reports from LGPS Central Limited and the Local Authority Pension Fund Forum (LAPFF).

Responsible Investment Framework

- 3.3 The Responsible Investment Framework has seen a number of updates since last being approved by Pensions Committee on 17 March 2018. This included aligning the Fund's investment beliefs with the Investment Strategy Statement that was approved by Committee on 27 March 2019 and is attached at Appendix A for information for the Board. Key investment beliefs included within the Framework include:

- Effective management of financially material ESG risks, including climate change risks should support the Fund's requirement to protect returns over the long term.
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.
- Responsible investment should be integrated into the investment process.
- The Fund will manage responsible investment factors through engagement rather than exclusion.

In addition, reference to the Fund's Climate Risk Strategy and Framework approved on 27 March 2019 enhanced earlier commentary on the Fund's approach to climate change. The references to LGPS Central Ltd have also been amended to reflect the fact that the company is now operational and that it has already developed a leading approach to Responsible Investment and supporting Partner Funds including WMPF in the implementation of Fund RI policy both through fund management arrangements and under advisory agreements with the Fund.

Themes-based engagement

- 3.4 The Fund's stewardship themes for 2018/19 were climate change, cyber security and diversity. These themes have been selected because they have both financial relevance and resonance with the Fund's stakeholders. The Fund is, primarily through partnerships, engaging with companies, fund managers and other relevant organisations, and using its voting rights to drive change and signal the importance of these issues to institutional investors. Key partnerships include Transition Pathway Initiative, the Climate Action 100+ Initiative, the Institutional Investor Group on Climate Change and the 30% club. The progress of engagement activity is reported to Pensions Committee on a quarterly basis.
- 3.5 Stewardship themes for 2019/20 which will define a focus for the Fund's activity for the year were approved by Pensions Committee at its meeting on 19 June 2019 as part of the broader Responsible Investment Framework. The themes are set out below:
- Climate Change – ongoing consideration of potential risks as the pace of policy and evidence for rapid reaction continues to grow
 - Single-use plastics – how companies are responding to pollution risks and preparing for the policy and customer changes which could significantly impact their business model
 - Technology and disruptive industries risk – considering the potential social, governance and environment costs of new technology, changing consumer behaviour and mis-use, with the potential for global technology stocks (and the wider markets they drive to suffer material set-backs
 - Tax transparency and fair tax payment – increasing transparency, tax practices and the impact of aggressive tax strategies on long-term shareholder value

Voting

- 3.6 The voting principles presented to Pensions Committee for approval had been updated to reflect the inclusion of WMITA PF within the voting principles. The Voting Principles apply to all assets where the West Midlands as asset owner has voting rights and where voting rights are executed by external managers on behalf of the Fund. The principles have been further updated to incorporate the inclusion of LGPS Central Ltd who is now the key external provider of investment management services for WMPF. A copy of the updated voting principles is included at Appendix B for information.
- 3.7 The voting activity across markets and issues is published on the Fund website and reported to Pensions Committee on a quarterly basis.

Statement of Compliance with the UK Stewardship Code

- 3.8 Both WMPF and WMITA PF fully support the UK Stewardship Code as part of best practice in being good stewards of capital and responsible asset owners. The background to the Code and its principles can be found on the Financial Reporting Council (FRC) website: <https://www.frc.org.uk/investors/uk-stewardship-code> .

The main changes to the Fund's Stewardship Code adherence statement reflect the incorporation of LGPS Central Ltd since going live in April 2018, reflecting the fact that a considerable amount of the Fund's assets are now managed directly through LGPS Central Ltd sub-funds. It should be noted that the company has also signed up to the Stewardship Code and fully supports the 7 principles of the Code. Changes in the Fund's officer structure have been incorporated as the Fund no longer has a dedicated RI Officer, instead the implementation of the Code sits with the Head of Investments and is supported by LGPS Central Ltd, with oversight by the Director of Pensions and Assistant Director, Investments and Finance. The FRC have undertaken a consultation exercise to help frame a new Stewardship Code, expected to be published in the summer of 2019. Any changes to the Code itself, will be reviewed and the compliance statement updated as required. The updated statement is included at appendix C for information.

Correspondence

- 3.9 The Fund responds to all correspondence received directly from pension scheme members, campaign groups or via members of Pensions Committee. From time-to-time the Fund will issue statements to confirm its approach and work undertaking in relation to specific issues or concerns raised. As example of this is the statement on Climate Risk management, issued in November 2018.

4.0 Financial implications

- 4.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

5.0 Legal implications

5.1 This report contains no direct legal implications.

6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

7.1 Environmental implications are addressed through the Fund's Responsible Investment Framework.

8.0 Human resources implications

8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 WMPF Climate Risk Strategy and Framework

10.2 Statement on Climate Change – November 2018
<http://www.wmpfonline.com/CHttpHandler.ashx?id=16778&p=0>

10.3 LGPS Central Quarterly Stewardship Report:
<https://www.lgpscentral.co.uk/responsibleinvestment/>

10.4 LAPFF Quarterly Engagement Report:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

11.0 Schedule of Appendices

11.1 Appendix A: WMPF Responsible Investment Framework 2019

11.2 Appendix B: WMPF Voting Principles 2019

11.3 Appendix C: WMPF Compliance with the UK Stewardship Code for Institutional Investors 2019