

20 October 2020

Report title	Investment Governance	
Originating service	Pension Services	
Accountable employee	Jill Davys	Assistant Director, Investments
	Tel	01902 55 0555
	Email	Jill.davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 55 1715
	Email	Rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Pension Board is recommended to note:

1. The Fund's updated Voting Principles 2020 approved by Pensions Committee in September 2020.
2. The Fund's updated Climate Change Framework and Strategy 2020 approved by Pensions Committee in September 2020.
3. The Fund's Principles for Responsible Investment Assessment Outcome.
4. The update on investment governance matters including those in relation to responsible investment and investment pooling.

1.0 Purpose and background

- 1.1 This report provides an update on investment related matters including the review of the Fund's voting and climate change policies, the assessment outcome of the Fund's 2020 UN Principles for Responsible Investment (PRI) reporting and responsible investment activities, together with the ongoing development of LGPS Central Investment Pool.
- 1.2 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**.
- 1.3 LGPS Central Ltd ("the Company") is a jointly owned investment management company established by West Midlands Pension Fund and seven Partner Funds to deliver investment pooling for the LGPS Central pool in accordance with the criteria laid down by the Secretary of State.
- 1.4 Investments products and services to Partner Funds are being developed, supported and overseen by the governance structures established within the Company and across the wider investment pool. The Shareholder Forum and Joint Committee each meet at least twice annually with the Shareholder Forum considering shareholder related matters such as the Company's strategic business plan, annual budget and annual report and accounts. The Joint Committee is focused very much on client deliverables of investment pooling, together with governance and oversight of pooling arrangements.

2.0 LGPS Central Investment Pool Sub-Fund Development and Asset Transition

- 2.1 As previously reported to the Board, since launch and over the next 2-3 years, a range of internally and externally managed sub-funds are being developed for liquid (e.g. equities and bonds) and alternative more-illiquid asset classes (e.g. private equity, property, infrastructure).
- 2.2 WMPF works closely with LGPS Central Ltd and Partner Funds to agree sub-fund product development, with ultimate investment decisions formed based on whether the new sub-fund meets the strategic requirements of the Fund and taking into account potential cost benefits net of transition costs.
- 2.3 The Fund's Investment Advisory Panel, comprising external advisers, the Director of Pensions and Assistant Directors, Investments, continue to review investment in sub-funds as they are developed taking into account the strategic fit for WMPF. The Pensions Committee are kept updated on product development and are asked to re-confirm delegations to transition assets as appropriate to these emerging sub-funds.

- 2.4 In aggregate as at the end of September, the Fund has transitioned approximately £6.7bn or around 40% of assets under management directly invested in LGPS Central Ltd sub-funds, helping demonstrate compliance with statutory guidance on LGPS Investment Pooling. In addition, the Fund also has a further £6.7bn (around 40%) under advisory and execution arrangements.
- 2.5 Since the Board last met the Fund, the focus has been on the development and launch of products for emerging market debt and multi-asset credit, which the Fund is currently reviewing to consider investments in.
- 2.6 The product development pipeline continues to evolve and be reviewed as strategic priorities and opportunities develop and the Fund works closely with its Partner Funds and LGPS Central Ltd to ensure that suitable products become available to meet the Fund's broader strategic objectives.

3.0 Voting Principles and Climate Change Updates

- 3.1 The Committee regularly reviews and approves the various framework and policy documents put in place to support delivery of Responsible Investment to ensure any necessary changes e.g. regulatory and changes in approach are incorporated. The Committee reviewed and approved the below at its meeting on 30 September:
- Voting Principles
 - Climate Change Framework and Strategy
- 3.2 On this occasion, both documents only included minor amendments and a refresh of commentary rather than any fundamental changes. The updated documents are attached as appendices A and B to this report for noting.

4.0 Principles for Responsible Investment Assessment Outcome

- 4.1 The UN Principles for Responsible Investment (PRI) is the world's leading proponent of responsible investment. It strives to understand the investment implications of environmental, social and governance (ESG) factors, whilst supporting its investor signatories in incorporating these factors into their investment and ownership decisions.
- 4.2 As an asset owner, the Fund has been a signatory of the PRI since 2011. This year the Fund took part in the first mandatory reporting and assessment cycle for all PRI signatories. Assessment ensures that signatories can understand, commit to, and demonstrate their alignment with a global industry-standard of responsible investment, and ultimately achieve higher investment returns whilst making a positive contribution to environmental and societal causes.

- 4.3 In line with the Fund’s Responsible Investment Framework, the Investment Team strive to monitor and measure the environmental, social and governance impact of its portfolio and engage with asset managers and collaborate with other investors to ensure that its responsible investment targets are met, whilst meeting the Fund’s fiduciary obligations.
- 4.4 The Fund was therefore delighted to learn that it has achieved an A+ or A for every module of the report (Figure 1). The Fund was one of the first 70 UK asset owners to report for assessment and, along with the Fund’s pool company, LGPS Central Ltd (who also achieved A+), the Fund was one of only 8 of the UK’s Local Government Pension Scheme Fund’s to submit. The report results, in conjunction with the Fund being within the first tranche for submission, demonstrates the Fund’s commitment to responsible investment.
- 4.5 The assessment outcome paves the way for a busy 2020-21 as the Fund continues to assess activity relative to the enhanced UK Stewardship Code and continues engagement in line with themes for 2020-2023.

Summary Scorecard



Figure 1: West Midlands Pension Fund Principle for Responsible Investment Assessment Report Outcome 2020

5.0 Responsible Investment

- 5.1 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.

- 5.2 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).
- 5.3 As previously noted, following a review of the Fund's Responsible Investment Framework new engagement themes to cover the period 2020-23 were approved by Pensions Committee at its meeting on 17 June. The new engagement themes for the next 3 years have been agreed as: Climate Change; Sustainable Food Systems; Human Rights and Responsible Financial Management. The Pensions Committee continues to review engagement activity and developments on a quarterly basis and respond to enquiries from members, stakeholders and campaign groups, as these are received and through statements and material published on the Fund website. Particular focuses for correspondents over the last quarter and in the last few weeks has been Human Rights in the Occupied Palestinian Territories and climate change.
- 5.4 The Fund has been a signatory of the UK Stewardship Code ('the Code') since its inception in 2012. The Fund defines the concept of stewardship in the same way as the FRC: *"Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."*
- 5.5 The FRC has now published an updated Code which came into effect from 1 January 2020. The Code represents a new best practice standard for both asset owners and asset managers alike. The new guidelines require that Funds who want to remain or become signatories of the Code must publish a Stewardship Report, demonstrating compliance with the 12 principles of the Code by 31 March 2021. The Code will also be used in conjunction with forthcoming guidance to be issued by the Scheme Advisory Board, as a basis for reviewing and strengthening the Fund's approach to responsible investment activity. The Fund will be working in conjunction with LGSPC Ltd to update the Fund's current statement on compliance with the Code ahead of March 2021.

6.0 LGPS Central Investment Pool Governance

- 6.1 As previously reported to the Board, the governance arrangements for the LGPS Central pool include a Shareholder Forum (as the group of “owner” representatives) and the Joint Committee (focused on investment matters and client-side). The Joint Committee has invited a trade union representative to join the Committee and is waiting for a nomination from the TUC. A representative from the West Midlands’ Pension Committee continues to attend on an informal basis. The Practitioners Advisory Forum, PAF (officer group) support both groups and act as a liaison with the Company.
- 6.2 The Shareholder Forum and Company AGM took place on 8 September 2020 and incorporated discussion and approval a number of routine items.
- 6.3 The Joint Committee last met in February, with the scheduled meeting in June cancelled due to Covid-19, although members of the Joint Committee have been provided with an update on progress on pooling including responses to Covid-19, performance of the company, an updated risk register, client key performance indicators and responsible investment. An Investment audit is currently underway but faced delays due to Covid-19, the results of this audit will be presented to the Joint Committee in due course.
- 6.4 LGPS Central Limited’s own governance arrangements include an Investment Committee, Executive Committee and oversight from the Non-Executives through the company board and sub committees (Remuneration and Audit and Compliance). Shareholders received information on the work of the Board sub committees at the AGM.

7.0 Financial implications

- 7.1 There are no direct financial implications arising as a result of this report.

8.0 Legal implications

- 8.1 The requirement to pool fund investments is a requirement of law, failure to work collaboratively and meet the Government’s criteria and timetable for delivery may result in Government intervention.
- 8.2 MHCLG issued updated draft statutory guidance relating to investment pooling for informal consultation in January 2019. This was to update and replace the original statutory guidance issued in 2015. Both the Fund and LGPS Central Ltd have provided responses to the consultation and are expecting MHCLG to issue a further formal consultation during 2020/21.

9.0 Equalities implications

- 9.1 There are no direct equalities implications.

10.0 Environmental implications

10.1 There are no direct environmental implications.

11.0 Human resources implications

11.1 There are no direct human resources implications.

12.0 Corporate landlord implications

12.1 There are no direct corporate landlord implications.

13.0 Schedule of background papers

13.1 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

<http://www.legislation.gov.uk/uksi/2016/946/contents/made>

14.0 Schedule of Appendices

14.1 Appendix A – WMPF Voting Policy

14.2 Appendix B – WMPF Climate Change Framework and Strategy