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

The Pensions Board is asked to note:

1. Publication of the Fund's first stand-alone report prepared in line with recommendations from the Taskforce on Climate Related Financial Disclosure (TCFD).
2. 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 publication of the Fund's standalone Taskforce for Climate-related Financial Disclosures (TCFD) 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**. The Fund's Responsible Investment Framework incorporates four targeted engagement themes including Climate Change, for which the Fund has developed a policy framework and risk management strategy.
- 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 The Fund 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 the Fund. The Pensions Committee are kept up to date 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 November, the Fund has transitioned approximately £6.5bn 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, an emerging market debt sub-fund has launched, and the Fund has made an initial allocation to this sub-fund transferring a mix of existing investments in this asset class and additional cash. Review and consideration of investment into a developing multi-asset credit sub-fund is ongoing.
- 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 Responsible Investment

- 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).
- 3.3 As previously noted, following a review of the Fund's Responsible Investment Framework new engagement themes to cover the period 2020-2023 were approved by Pensions Committee at its meeting on 17 June 2020. The new engagement themes for the next three 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 has been Human Rights in the Occupied Palestinian Territories and climate change.

3.4 The Fund has been a signatory of the UK Stewardship Code ('the Code') since its inception in 2012. As previously reported, the Code has been updated and 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 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. 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.

4.0 Taskforce for Climate-related Financial Disclosure (TCFD)

- 4.1 The Committee regularly reviews and approves the various framework and policy documents put in place to support delivery of Responsible Investment, along with the reporting of activities in relation to responsible investment and climate change to ensure any necessary changes e.g. regulatory and changes in approach are incorporated.
- 4.2 An initial assessment of the Fund's investment portfolio-wide exposure to climate-related risks was undertaken in 2017. This aligned with the publication of the TCFD recommendations on climate disclosure and the Fund was one of the first pension schemes to report against those recommendations, continuing to do so annually. Disclosing and setting out in a transparent way the actions we are taking and reporting against the TCFD recommendations enable the Fund to lead and demonstrate its commitment in climate change, particularly in what is a fast-evolving space. The Fund therefore, in the interests of transparency and fuller disclosure have published a separate standalone TCFD report this year and going forwards.
- 4.3 TCFD recommendations have four key elements for disclosure, namely governance, strategy, risk management and metrics and targets. The Fund supports the TCFD recommendations as the leading framework to describe and communicate the steps the Fund is taking to manage climate-related risks and incorporate climate risk management into investment processes.
- 4.4 The standalone report for 2020 is contained at Appendix A and was approved for publication by Pensions Committee at its meeting on 9 December 2020. The Fund was also asked to provide material for a case study on TCFD reporting by PwC and Accounting 4 Sustainability as an example of best practice, which can be found in the [Link](#) to the study.
- 4.5 Earlier in the summer, the Department for Work and Pensions published a consultation on climate change disclosure which sought views on whether reporting against TCFD recommendations on climate change should become mandatory for Pensions Funds over a period of time reflecting the scale of a scheme's assets. Whilst this consultation was aimed at private sector schemes and would not apply to the LGPS, the Fund given its support for TCFD since the outset submitted a response to the consultation to broadly support the recommendation for greater transparency and disclosure. Subsequently the government has confirmed that the UK will become the first country in the world to make TCFD-aligned

disclosures fully mandatory across the economy by 2025. In terms of Pension Funds this will start in 2021 for the largest occupational pension schemes, i.e. those over £5bn. Consultation on changes to LGPS Regulations and guidance are expected early 2021.

5.0 LGPS Central Investment Pool Governance

- 5.1 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.
- 5.2 The Joint Committee meeting took place on 20 November 2020 with the meeting reviewing performance of the company, an updated risk register, client key performance indicators as well as a high-level overview of the expected cost savings to be delivered from investment pooling. It was also noted that despite the Covid-19 pandemic both the Company and Partner Funds had adapted well to the changed circumstances. The Joint Committee received a number of public questions which were also covered in the meeting. A link to the Joint Committee papers can be found [Here](#)
- 5.3 The next Shareholder Forum and Company meeting are due to take place on 10 February 2021, where the 2021-2022 Strategic Business Plan and budget will be presented for approval.
- 5.4 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 Company’s AGM.

6.0 Financial implications

- 6.1 There are no direct financial implications arising from this report.

7.0 Legal implications

- 7.1 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.
- 7.2 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. An updated and broader formal consultation on changes to LGPS investment regulations is now expected to be issued early in 2021 and the Fund will respond to any consultation as required.

8.0 Equalities implications

8.1 There are no direct equalities implications arising from this report.

9.0 Environmental implications

9.1 There are no direct environmental implications arising from this report.

10.0 Human resources implications

10.1 There are no direct human resources implications arising from this report.

11.0 Corporate landlord implications

11.1 There are no direct corporate landlord implications arising from this report.

12.0 Schedule of background papers

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

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

13.0 Schedule of appendices

13.1 Appendix A: WMPF Taskforce on Climate-related Financial Disclosures (TCFD) report.