

CITY OF
WOLVERHAMPTON
COUNCIL

Pensions Board

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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. The annual review of WMPF's Investment Strategy Statement (ISS), with only minor changes (Appendix A).
2. The Funds Responsible Investment Framework March 2021 (Appendix B).
3. 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 approval by the Pensions Committee on 24 March 2021 of the Fund's Investment Strategy Statement and the Responsible Investment Framework, an update on 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 Investment 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 Investment Pooling Update – LGPS Central Ltd

- 2.1 The Fund continues to work closely with its investment pool company LGPS Central Ltd (LGPSC) and Partner Funds to look for opportunities to transition assets where it can see value add from doing so, including the opportunity to make cost savings. In Q4 2020 assets were transitioned to the LGPSC Emerging Market Debt fund (at its launch).
- 2.2 Work has taken place alongside input from the Fund and other Partner Funds to establish a Multi-Asset Credit (MAC) sub-fund for which managers have been selected. The fund is expected to launch early in the second quarter of this year. In addition, the Fund has been working with a number of Partner Funds and LGPSC to develop a Private Debt offering.

3.0 Investment Strategy Statement (ISS) annual review

- 3.1 In defining the implementation of the Fund's investment strategy, the ISS sets out the Strategic Investment Allocation Benchmark (SIAB) including the permitted ranges for each asset type.

- 3.2 A full in-depth review of the Fund's ISS is completed every 3 years in conjunction with the triennial funding and valuation process. In addition, interim annual reviews are also completed to complement this cycle.
- 3.3 The Fund completed a full review of its investment strategy over 2019/20 resulting in significant changes to the Funds SIAB being approved in March 2020. Implementation of these strategy changes are underway.
- 3.4 The interim review referenced here confirms these strategy changes remain appropriate for the Fund to meet its longer-term objectives. The Fund's Investment Consultant, Redington, who advised the Fund during the 2019/20 review have provided the following confirmation statement:
- "In our view, the broad strategy changes remain appropriate from the detailed review that we conducted in 2020. We will continue to undertake analysis within each asset class category as we move through implementing the agreed changes, which will inform the specific implementation routes that are most appropriate for the Fund within each asset class".*
- 3.5 Whilst the longer-term strategy remains the focus and is unchanged, Fund Officers are alive to the significant changes to the investment and economic landscape that occurred in 2020 and the potential impact of these on the outlook for Fund investment. These will be considered as we move through strategy implementation.
- 3.6 The only proposed change to an investment allocation/strategy is within the Liability Driven Investments being implemented for WMTL. Here it is proposed to reduce the stated target hedge ratio for interest rate movements to 60% (from 70%) to better reflect the hedging that is possible within the risk management controls (leverage levels) in place for this strategy.
- 3.7 Additionally, some minor, largely presentational changes are proposed to the ISS document. These changes are intended to improve clarity of message rather than altering the stated beliefs, Fund objectives or overarching investment strategy. These small changes include:
- improving the description of delegated responsibilities to Fund Officers
 - expanding the description of the operational risks that the Fund faces and how these are managed
 - rewording and condensing of some investment beliefs
 - changing references to specific Fund Officer job titles, where these are no longer relevant
 - formatting changes to the SIAB targets and ranges table in appendix B (the stated targets and ranges will not change).
- 3.8 The updated ISS 2021, incorporating the revisions and clarifications above was approved by the Pensions Committee on 24 March 2021 and is set out in Appendix A for the Board to note.

4.0 Responsible Investment Framework 2020-2023

- 4.1 The Fund's Responsible Investment Framework sets out the approach the Fund takes to integrate environmental, social and governance (ESG) considerations into its investment strategy and implementation. Supplementing and aligned with the investment beliefs set in the ISS, the Framework outlines three pillars of Fund action on selection; active stewardship through engagement and voting; and transparency and disclosure.
- 4.2 The Framework was last reviewed and updated in June 2020, to incorporate four updated engagement themes over the three years to 2023. Review in 2021 has focused on routine review and refresh of the policy document as part of an annual programme, to capture any associated changes and/or developments and keep the framework document up to date.
- 4.3 Key changes to the updated Framework enclosed in Appendix B include:
- specific reference to the Fund's support for increasing regulation and guidance for UK pension schemes to assess, manage and publish action on Climate Change;
 - reference to the action the Fund is taking to disclose its climate risk assessment;
 - reference to standards adopted by LGPS Central to ensure RI-integration with the products the Company creates; and
 - specific reference to the Fund's work to promote diversity and inclusion.
- 4.4 The changes all aim to clarify and provide greater commentary on the Fund's developing approach and the Board are invited to note the 2021 Framework with these additions.
- 4.5 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.
- 4.6 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).
- 4.7 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 during the first quarter of 2021/22. 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.

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 Shareholder Forum meets ahead of Company meetings (General and AGM) held twice per year. Meetings on 10 February were held via Microsoft Teams with representatives of all Central Pool Authorities and the Company present.

5.2 At the General Meeting Shareholders received an update on the following items:

- The Board's independent external evaluation exercise, three years into the development of the Company
- Company operations and resilience in response to COVID-19
- Prior year activities and performance review
- Approval of the 2021 budget and business plan

5.3 The Company held its annual Stakeholder Day on 19 March 2021, with good attendance and feedback on the day. Attendees to the online event were presented with an update on investment markets, debate on topical responsible investment matters and engaged in a panel discussion with the Board.

5.4 The next meeting of the Joint Committee has been confirmed for 18 June 2021. Company representatives are provisionally lined up to provide an update to the West Midlands Pensions Committee at its meeting towards the end of June.

6.0 Financial implications

6.1 There are no direct financial implications.

7.0 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. 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.

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/ukxi/2016/946/contents/made>

14.0 Schedule of appendices

14.1 Appendix A – WMPF Investment Strategy Statement

14.2 Appendix B – WMPF Responsible Investment Framework March 2021