

<b>Report title</b>	Investment Governance	
<b>Originating service</b>	Pension Services	
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**Recommendations for noting:**

The Pensions Board is asked to note:

1. The update on investment governance matters including those in relation to responsible investment and investment pooling.
2. Publication of the Fund's Annual Stewardship Report.

## 1.0 Purpose and background

- 1.1 This report provides an update on investment related matters, including the publication of the Fund's Annual Stewardship Report and 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 2020-21 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 launched in April 2021. In addition, the Fund has been working with a number of Partner Funds and LGPSC to develop a Private Debt offering.
- 2.3 The Fund's Investment Advisory Panel (IAP), comprising external advisers, the Director of Pensions and Assistant Director, Investment Strategy, continue to review investment in sub-funds as they are developed taking into account the strategic fit for the Fund. The Pensions Committee receive an annual report from (IAP) and are kept updated on product development and are asked to re-confirm delegations to transition assets as appropriate to these emerging sub-funds. This report was received at the June 2021 meeting.

### 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 The IIGCC Net Zero Investment Framework was launched on 10 March. This aims to provide a comprehensive set of recommended actions, metrics and methodologies to enable both asset owners and asset managers to maximise the contribution they can make to decarbonisation of the global economy in tackling climate change. It provides an important tool to support alignment with net zero and is one output from the Paris Aligned Investor Initiative (PAII) that the West Midlands Pension Fund, along with LGPS Central, has contributed to since 2019. The Fund continues to support PAII and development of framework implementation through two working groups.
- 3.4 In March 2021, Climate Action 100+ released its Net Zero Company Benchmark which assesses the world's largest corporate greenhouse gas emitters on their progress in the transition to a net zero future. The benchmark framework, developed in collaboration with signatory investors and leading climate research, will be a valuable resource for investors attempting to assess and engage with corporations on their progress and alignment with key commitments. This, together with the IIGCC framework will inform a review of the Fund's Climate Change Framework and Strategy over 2021/2022.
- 3.5 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.
- 3.6 In April 2021 the Fund submitted its first Annual Stewardship Report (ASR) to the Financial Reporting Council (link to within the background papers below). The ASR provides an overview of the Fund's approach to stewardship and the efforts taken to ensure that the Fund practices stewardship at the highest level both in our own operations and throughout our investment chain. It covers each of the 12 principles of the UK Stewardship Code 2020 grouped into four categories: Purpose and Governance, Investment Approach, Engagement and Exercising Voting Rights and Responsibilities. The Fund is proud of the outcomes and

effective actions that it was able to demonstrate within its first ASR and expect our approach to continue to evolve as we continue to engage in collaboration with key partners to drive our common ambition to build sustainable futures for all.

#### **4.0 LGPS Central Investment Pool Governance**

- 4.1 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 in February were held via Microsoft Teams with representatives of all Central Pool Authorities and the Company present. The Company’s Annual General Meeting is due to take place in September.
- 4.2 The Joint Committee for LGPS Central, met virtually on Friday 18 June 2021. The agenda, reports, minutes and questions are available on Cheshire Pension Fund’s website; a link is provided within the background papers below. This was attended by the Chair of Pensions Committee and Trade Unison Representative Malcolm Cantello (Unison), Pensions Committee Member.
- 4.3 The pool will hold its third Responsible Investment Summit in the Autumn, with invites open to all Pensions Committee and Local Pension Board members across the Central pool.

#### **5.0 Financial implications**

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

#### **6.0 Legal implications**

- 6.1 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.
- 6.2 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.

#### **7.0 Equalities implications**

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

#### **8.0 All other implications**

- 8.1 There are no direct other implications arising as a result of this report.

#### **9.0 Schedule of background papers**

- 9.1 The Fund's 2021 Annual Stewardship Report  
<https://www.wmpfonline.com/CHttpHandler.ashx?id=17878&p=0>
  - 9.2 LGPSC Joint Committee Friday 18 June Papers  
<https://www.cheshirepensionfund.org/members/about-us/how-we-manage-the-fund/governance-structure/pfc/>
- 10.0 Schedule of appendices**
- 10.1 None.