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Report title	Investment Governance and Climate Change	
Originating service	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. The Fund's Climate Change Framework and Strategy for 2021-2026, noting progress made against targets set in 2019 and the increased scope and stretch in ambition outlined for development over the next five years.
3. The Fund's involvement in the establishment of the first Asset Owner Diversity Charter.

1.0 Purpose and background

- 1.1 This report provides an update on investment related matters, including the review of the Fund's Climate Change Framework and Strategy for 2021-2026 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 Responsible Investment

- 2.1 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 Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes ('EOS' - via a contract held by LGPS Central Ltd, the Fund's investment pool operator), the Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+ (CA 100+), and the Principles for Responsible Investment (PRI).
- 2.2 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).

2.3 This is a critical year for both corporate and policy makers in accelerating action towards the goals of the Paris Agreement - to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. The focus is now on the UK and the contribution that pension funds and other institutional investors could make to help decarbonise the economy in a way that protects beneficiaries and secures just transition to net zero.

3.0 Developments of the Fund's Climate Change Framework and Strategy

3.1 Significant steps have been taken over the last two years to evolve the Fund's asset allocation and make tangible steps towards decarbonising the investment portfolio. Supported by enhanced data and risk metrics there has been measurable decarbonisation within the Fund's equity, fixed income and property portfolios, with targets set for allocation to sustainable investment being achieved.

3.2 There has been an increased focus on corporate engagement and disclosure which is increasing information points and understanding of the scale of action required. Climate scenarios and sector-specific transition pathways continue to develop alongside benchmarks for strategic corporate action. As has been widely reported, there is more to do and at pace, with growing pressure for policy makers to take a more definitive and coordinated action to step-up the pace of change and enable transition through tangible action on commitments made.

3.3 The Fund's Climate Change Framework and Strategy ("the Framework") has been developed and updated in context of the evolving environment and pending development of regulation and guidance for the Local Government Pension Scheme. Taking a lead from the IIGCC Paris Aligned Investment Initiative and Net Zero Investment Framework, published in March 2021 and noting regulation and guidance published by the DWP and the Pensions Regulator, the Fund has outlined a series of practical and tangible actions it will take over the next five years in order to continue to develop its decarbonisation journey and realise opportunities emerging through the transition, including through investment in climate solutions.

3.4 Officers have developed the Framework over a period of time, informed by the Fund's most up-to-date Climate Risk Review (2021) undertaken by LGPS Central Ltd, dialogue with the Fund's investment and asset managers, independent advisers and appointed investment consultant. The Framework for 2021-2026 was approved by the Pensions Committee on 29 September 2021. Subsequently, the Fund has joined a group of 40 leading institutional investors in making the internationally recognised Paris Aligned Asset Owner commitment.

3.5 Asset Owner Diversity Charter

- 3.5.1 The Fund has been involved in the development of the first Asset Owner Diversity Charter¹, which aims to tackle diversity bias within the asset management industry. Working alongside five other institutional investors, the Charter working group established a set of actions that asset owners can commit to: include diversity & inclusion in manager selection; monitor selected managers for Diversity & Inclusion on an ongoing basis; and lead and collaborate in this area to encourage broader industry change.
- 3.5.2 As of the launch date (2nd August 2021), the Charter has already been backed by 17 signatories representing £1.08 trillion in assets under management/consultancy. LGPS Central Ltd have declared their commitment to joining this initiative and we will now seek to engage all WMPF investment managers on this initiative and monitor progress over time.

4.0 LGPS Central Investment Pool and Pool Governance

- 4.1 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 the quarter to 30th June, investments were made into the Multi-Asset Credit (MAC) sub fund at its launch and commitments were made to the recently launched Private Debt investment fund.
- 4.2 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.
- 4.3 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 September were held via Microsoft Teams with representatives of all Central Pool Authorities and the Company present. The Company's Annual General Meeting took place Tuesday 28th September 2021 with all resolutions duly passed.
- 4.4 The Joint Committee for LGPS Central, met virtually on Friday 18th 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.
- 4.5 The pool will hold its third Responsible Investment Summit Wednesday 13th October 2021, with invites extended to all Pensions Committee and Local Pension Board members across the Central pool.

¹ [Asset Owner Diversity Charter | Diversity Project](#)

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 other direct implications arising as a result of this report.

9.0 Schedule of background papers

9.1 Paris Aligned Investment Initiative – partner to UNFCCC's Race to Zero Campaign.
[Paris Aligned Investment Initiative – Investing for a net zero future](#)

9.2 LGPS Central Limited Annual Report 2020/21 – August 2021
[LGPS-Central-Limited-Annual-Report-2020-21-.pdf \(lgpscentral.co.uk\)](#)

10.0 Schedule of appendices

10.1 Appendix A: Climate Change Framework and Strategy 2021-2026