

Pensions Board

25 January 2022

Report title	Investment Governance	
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. Publication of the Fund's 2021 Taskforce for Climate-related Financial Disclosure (TCFD) Report (Appendix A).

1.0 Purpose and background

- 1.1 This report provides an update on investment related matters, including the publication of the TCFD 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.
- 2.2 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. 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.
- 2.3 Reporting to DLUHC by all LGPS investment pools through standard templates has been ongoing since the original pooling business cases were submitted in 2017. The 2021 pool report was submitted at the end of September 2021, and noted across the pool as a whole, the projection for assets transferred to the pool by 31 March 2024 is 47% (53% for West Midlands), which represents a significant step-up in assets transferred by Partner Funds from the 25% as at 31 March 2021 (43% for West Midlands).

3.0 Responsible Investment

- 3.1 The Fund's strategy is 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+), the Transition Pathway Initiative (TPI), and the Principles for Responsible Investment (PRI).
- 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 Following the launch of the Fund's 2021 Climate Change Framework and Strategy in September 2021, in October the Fund made a public net zero commitment and became one of 50 asset owners to join the Paris Aligned Asset Owner's Group. The group, which currently has combined assets of under management of USD 2.8 trillion, commits to achieving net zero portfolio emissions by 2050 or sooner, engaging with companies and policy makers with this target in mind, and increasing investment in climate solutions.
- 3.4 The Institutional Investor Group on Climate Change (IIGCC), of which the Fund is a member, has published a guide on Investor Expectations of Companies on Physical Climate Risks and Opportunities. LAPFF has co-signed letters to 50 companies in sectors highly exposed to physical climate risk asking them to adopt the expectations set out in the guide. These expectations are to establish a climate governance framework, to undertake physical climate risk and opportunity assessment, to develop and implement a strategy for building climate resilience, and to identify and report against metrics to demonstrate progress over time.
- 3.5 In December 2021 the Pensions Committee approved the publication of the Fund's second standalone Climate-related Financial Disclosures (TCFD) report (appendix A to this paper). The report is based on the recommendations set by the Task Force on Climate-related Financial Disclosure and provides an overview of the governance, strategy, risk management tools and metrics employed by the Fund to develop its response to climate change. As a supporter of the TCFD recommendations, since they were first published in 2017, the Fund published its climate-related financial disclosure against the TCFD recommendations in its Annual Report & Accounts between 2017 and 2019. For the first time in 2020 the Fund published a separate stand-alone TCFD report to further enhance transparency and disclosure around its approach to climate risk management.

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.
- 4.2 The Joint Committee for LGPS Central, met virtually on Friday 14 January 2022, where the Committee considered pool governance items (including risk register and outline product development). 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 held its third Responsible Investment Summit in the Autumn, with all members of the Local Pension Board and the Pensions Committee invited to attend and information circulated to all.
- 4.4 DLUHC (formally MHCLG) issued updated draft statutory guidance relating to investment pooling for informal consultation in January 2019. Further guidance is yet to be published by DLUHC for consultation, this continues to be delayed due to the priority being given to bringing forward other regulations including those to govern management and reporting of Climate Risk within the LGPS, the McCloud remedy and reform of exit payments.

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.

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 implications arising as a result of this report.

9.0 Schedule of background papers

- 9.2 LGPSC Joint Committee Friday 14 January 2022 - [Final-Version-14-January-2022.pdf](https://www.cheshirepensionfund.org/~/media/2022/01/14/14-Jan-2022-Final-Version-14-January-2022.pdf)
[\(cheshirepensionfund.org\)](https://www.cheshirepensionfund.org/)

10.0 Schedule of appendices

10.1 Appendix A – Climate Related Disclosure 2021