

Report title

Investment Governance

Originating service

Pension Services

Accountable employee

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Report to be/has been considered by

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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 annual review of WMPF's Investment Strategy Statement (ISS), (Appendix A)

1.0 Purpose and Background

- 1.1 This report provides an update on investment related matters, an update on responsible investment activities, together with the ongoing development of Local Government Pension Scheme (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. Work is currently ongoing to review the infrastructure fund recently developed by LGPS Central to determine a strategic fit alongside the Fund's existing infrastructure assets.
- 2.2 The Fund's Investment Advisory Panel (IAP), comprising external advisers, the Director of Pensions, Assistant Director, Investment Strategy and Assistant Director, Investment Management and Stewardship, continue to review strategic asset allocation, implementation and adherence to of the Fund's Investment Strategy Statement (ISS), including development and allocation to sub-funds as these are developed by the pool, taking into account the strategic fit for the Fund. The Pensions Committee receive an annual report from the IAP.

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 As previously reported, the Fund completed a full review of its investment strategy over 2019/20 resulting in significant changes to the Fund's SIAB being approved in March 2020. As the Fund is significantly increasing its allocation to private markets it will take time until the Fund's positioning closely matches the policy targets stated in the ISS. The next in-depth review will be undertaken over 2022/23, in conjunction with the triennial actuarial valuation.
- 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 has provided Fund Officers with a confirmation statement confirming their ongoing support for the strategic changes being implemented over 2022.
- 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 have occurred since 2020 and more recently the geopolitical risks prevalent with the Russian invasion of Ukraine. Given this backdrop and the Fund's overarching goals, including with regards to sustainability objectives, Pensions Committee has agreed to the proposal that the increase in allocation to emerging markets equities, which was agreed within the Liquid Growth portion of the SIAB, is put on hold for the time being pending a full review of the Fund's existing and potential holdings in this area.
- 3.6 The updated ISS 2022, was approved by the Pensions Committee on 29 March and is included as appendix A for the Board to note.

4.0 Responsible Investment

- 4.1 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 Economic, Social and Governance (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).
- 4.2 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, the Local Authority Pension Fund Forum (LAPFF) and EOS at Federated Hermes.

4.3 As per previous years, the Fund was pleased to have the opportunity to be able to feed comments into the development of the LAPFF 2022–2023 Workplan. Commensurate with the Fund’s engagement themes for 2019-2023 and the Fund’s newly established climate targets for 2021 – 2026, the Fund asked LAPFF to continue the strong work that it is doing in their climate workstream, which comprises net zero, Paris-aligned accounts, strategic resilience, just transition and electric vehicles. The Fund also asked LAPFF to continue to press for companies operating in the Occupied Palestine Territories to produce credible human rights impact assessments and will seek clarity as to how best approach engagement with these companies.

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. The Shareholder Forum and Company meetings on 22 February 2022 were held via Microsoft Teams with representatives of all Central Pool Authorities and the Company present.

5.2 The Shareholder Forum reviewed and approved a refresh of its terms of reference and received a briefing from the Practitioners Advisory Forum (PAF) on the items presented in Shareholder Resolutions for approval at the Company General Meeting held later the same day.

5.3 At the General Meeting Shareholders received the following items:

- Chair’s Report on Company progress and Board evaluation
- Company operations and resilience, noting the move to the i9 offices in Wolverhampton and the Company response to COVID-19
- Prior year activities and performance review
- Business Plan for 2022/23 and associated Company budget

5.4 Shareholder resolutions were presented and approved unanimously in respect of:

- Review and appointment of the External Auditor
- The Board Development Plan including succession of Non-Executive Directors
- The Strategic Plan and Regulatory Capital Statement for the periods 1 April 2022 to 31 March 2023

5.5 The next meeting of the Joint Committee has been confirmed for 23 June 2022. Board members will continue to receive invites to pool-wide events including stakeholder days and the Responsible Investment summit, as these are arranged during the year.

6.0 Financial Implications

6.1 There are no direct financial implications arising as a result of 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.

8.0 Equalities Implications

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

9.0 All Other Implications

9.1 There are no other implications arising as a result of this report.

10.0 Schedule of Background Papers

10.1 There are no background papers associated with this report.

11.0 Schedule of appendices

11.1 Appendix A – Investment Strategy Statement 2022.