

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. The Fund's second Annual Stewardship Report submitted to the Financial Reporting Council (FRC) in April 2022 which sets out stewardship activities undertaken by the Fund and its investment partners over 2021. The report is available on the Fund's website: [West Midlands Pension Fund - Stewardship \(wmpfonline.com\)](https://www.wmpfonline.com)
3. The Fund's Voting Principles which have been finalised and published on the Fund's website: - [West Midlands Pension Fund - Voting Globally \(wmpfonline.com\)](https://www.wmpfonline.com)

1.0 Purpose and Background

- 1.1 This report provides an update on investment related matters and an update on responsible investment activities, together with the ongoing development of the 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. The pool plays a role in enabling and supporting the implementation of Partner Fund investment strategy.
- 1.4 Investment products and services to Partner Funds are 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 on the client deliverables of investment pooling, together with governance and oversight of pooling arrangements.

2.0 Investment Strategy and Implementation

- 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. Over the most recent quarter, work has been 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 of Investment Strategy and Assistant Director of Investment Management and Stewardship, continue to review strategic asset allocation, implementation and adherence to the Fund's Investment Strategy Statement (ISS), Responsible Investment Framework and Climate Framework and Strategy including development and allocation to sub-funds as these are developed by the pool and delivery against policy ambition, taking into account the strategic fit for the Fund. The Pensions Committee received an annual report from the IAP at their meeting on 29 June.

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 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).
- 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, the Local Authority Pension Fund Forum (LAPFF) and EOS at Federated Hermes.
- 3.3 In April the Fund submitted its Annual Stewardship Report to the Financial Reporting Council (FRC) for review. The report highlights stewardship activity undertaken by the Fund and its investment providers over 2021, which has developed following feedback from the FRC on the Fund's 2020 report. LGPS Central have also submitted their Annual Stewardship Report to the FRC for review. The FRC will confirm the outcome of their review and continuation of the Fund's signatory status in October 2022. The report has been published on the Fund's website with a link provided above.
- 3.4 The Fund's Voting Principles are currently executed by EOS via a contract held by LGPS Central Ltd, the Fund's asset pool company. The Fund has recently reviewed and updated its voting principles in consultation with appointed investment managers, including LGPS Central Ltd. The updated version was finalised in April 2022 ahead of the voting season and has strengthened expectations on board composition to enhance diversity (Section 3.1); enhancement of Auditor Independence and Remuneration practices (Sections 3.2 and 3.4); and inclusion of Section 3.5 'Sustainable Business Practices' which sets out enhanced expectations of company climate-related disclosures and transition plans and encourages commitment to biodiversity protection as part of a broader climate transition effort. Several company votes were conducted following Q1 2022, the voting principles have been published on the Fund's website with a link provided above.

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 Annual General Meeting (AGM)) held twice per year. The Shareholder Forum and Company AGM will be held in September 2022.
- 4.2 The Joint Committee for LGPS Central last met on Thursday 23 June 2022. The agenda, reports, minutes and questions are available via the Joint Committee hosting authority

website; a link is provided within the background papers below. The Committee was attended by the Chair of Pensions Committee and Trade Unison Representative Malcolm Cantello (Unison), Pensions Committee Member.

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

9.1 LGPS Central pool Joint Committee Thursday 23 June Papers - [Meetings and Agendas | Members \(cheshirepensionfund.org\)](http://cheshirepensionfund.org)

10.0 Schedule of Appendices

10.1 None.