

<b>Report title</b>	<b>Investment Governance</b>	
<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. The Fund has retained its signatory status to the UK Stewardship Code, following submission of its second Annual Stewardship Report to the Financial Reporting Council (FRC) in April 2022.

## 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. 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 Executive 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 As previously reported to the Board 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. In September 2022, the Fund received the outcome of the FRC's 2022 review, confirming continuation of the Fund's signatory status and noting the improvements made to reporting following feedback in 2021. LGPS Central Limited has also retained their signatory status.

### **4.0 LGPS Climate Change and Risk Consultation**

- 4.1 On 1 September DLUHC launched their consultation on Governance and Reporting of Climate Risks, the proposals within the consultation apply to all LGPS Funds in England and Wales, with the new regulations expected to come into force by April 2023, with reporting for 2023/24 due in December 2024.
- 4.2 The key proposals, as set out in the consultation, include the establishment of a governance approach for the oversight, identification and management of climate risks and opportunities, assessing the impact of climate risk and opportunities on funding and investment strategies, annual reporting on four prescribed climate metrics and publication of an annual climate risk report. For information, a link to the consultation has been provided in the background papers to this report and the Fund's response will be reported to a future meeting of the Board.

### **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).

- 5.2 The Shareholder Forum meets ahead of Company meetings (General and AGM) held twice per year. The last meeting was held on 27 September 2022 with representatives of all Central Pool Authorities and the Company present.
- 5.3 At the Annual General Meeting in September Shareholders received a governance update from the board and its sub-committees and voted on a number of routine items including:
- Adoption of the Company Report and Accounts for the year ended 31 March 2022
  - Approval of external Auditor appointment and remuneration
  - Re-election of the Company Directors and Chair
- 5.4 Following approval of the Board's succession plan earlier this year, recruitment and Non-Executive Director appointments are expected to be made over the Autumn, ensuring the Board retains full complement as current members come to the end of their term.
- 5.5 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. The next meeting is scheduled for 11 November 2022.
- 5.6 The Company's Annual Report for the Year to 31 March 2022 has been audited and published (with link available within the background papers to this report). The Annual Report summarises progress over 2021/22, noting an increase of £5.8bn in the value of pooled assets, increase in commitment to investment funds launched in private markets and further development of responsible investment policy, to include commitment to target net zero. The report also includes a summary of the work of the Board's three sub-committees and overview of the Company's risk management and governance frameworks.
- 6.0 2022 Progress Report to DLUHC and Forward Planning for 2023/24**
- 6.1 Reporting to the Department by all LGPS investment pools through standard templates has been ongoing since the original pooling business cases were submitted in 2017. For the third year running, a template has been completed and returned to DLUHC outlining progress within the LGPS Central pool. DLUHC is expected to collect and review responses across the eight pools prior to finalising further consultation on guidance for pooling within the LGPS.
- 7.0 Financial Implications**
- 7.1 There are no direct financial implications arising as a result of this report.

## **8.0 Legal Implications**

8.1 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.

## **9.0 Equalities Implications**

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

## **10.0 All Other Implications**

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

## **11.0 Schedule of Background Papers**

11.1 LGPS Central pool Joint Committee Friday 23 June Papers - [Meetings and Agendas | Members \(cheshirepensionfund.org\)](#)

11.2 LGPS Central Limited 2022/23 Business Plan and Budget – January 2022 (available on request)

11.3 LGPS Central Limited Annual Report 2021/22 – September 2022  
[2022-07\\_Annual-Report\\_v15-FINAL-1.pdf \(lgpscentral.co.uk\)](#)

## **12.0 Schedule of Appendices**

12.1 None.