



RESPONSIBLE INVESTMENT FRAMEWORK

DECEMBER 2022



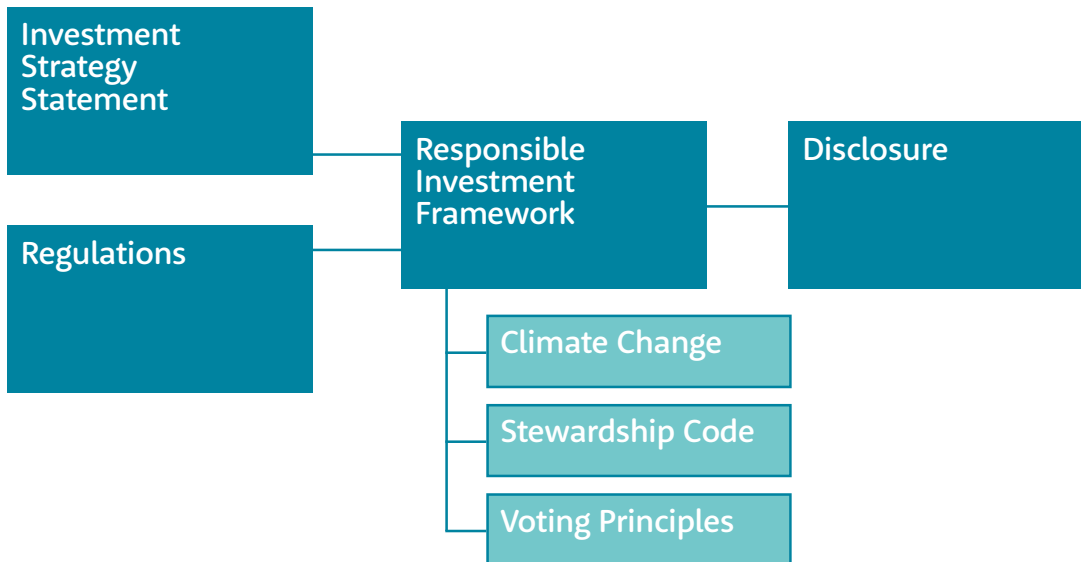
West Midlands Pension Fund

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1 PURPOSE

This framework defines West Midlands Pension Fund’s (“the Fund”) commitment to responsible investment (RI). Its purpose is to detail the approach that the Fund aims to follow in integrating environmental, social and governance (ESG) considerations into its investment strategy and implementation. It informs and is supplementary to the Fund’s *Investment Strategy Statement*, aligning with the Fund’s investment beliefs and fiduciary duty.



This framework has been developed in the context of relevant regulations, statutory guidance, and the advice of the Law Commission. Under the framework, the Fund applies a three-pillar approach to implementation: Selection, Stewardship and Reporting & Disclosure. This document sets out the overarching framework for Responsible Investment and supporting practical application of the *Climate Change Strategy and Framework*, *Statement of Alignment with the UK Stewardship Code* and *Voting Principles*.

The Pensions Committee is, at all times, responsible for the Fund’s investments, including responsible investment beliefs and guiding principles which inform the development and review of RI policy. Responsibility for oversight and implementation of the Fund’s RI framework sits with the Executive Director of Pensions, supported by the Assistant Directors. This framework applies to all members of the Pensions Committee and the Fund officers.

The Pensions Committee reviews the framework annually, or at times the Fund sees fit to revise its RI policies and procedures. This statement updates and replaces the March 2021 *Responsible Investment Framework*. A draft statement was presented to the Pensions Committee on 14 December 2022 for approval.

2 BELIEFS AND GUIDING PRINCIPLES

The term “responsible investment” refers to the integration of financially material environmental, social, and corporate governance (“ESG”) factors into investment processes. It has relevance both before and after the investment decision and is a core part of fiduciary duty. It is distinct from “ethical investment”, which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

Please refer to the glossary for more definitions of terms.

Investment Beliefs

The Fund’s *Statement of Investment Beliefs*, set out in the Fund’s *Investment Strategy Statement*, cover:

- **Financial market beliefs** – The Fund adopts a long-term approach to investing as its liabilities stretch far into the future, but in doing so, seeks to take a proactive approach to the management of assets taking into account the risk/return profile of different investment opportunities over a range of time periods
- **Governance beliefs** – The Fund believes having effective governance structures and policies will enable rigorous and tested decision making and will add value to the Fund over the longer-term. Transparency and cost effectiveness provide key tenets of being a well-governed Fund.
- **Investment strategy** – The Fund’s investment strategy will encompass its approach to risk management, risk tolerance, liquidity and levels of return required to meet its strategic objectives. The Fund will set its strategic asset allocation to deliver the long-term returns required to meet its funding needs, taking into account, diversification, the requirement to remain agile, risk and cost of implementation, recognising that risk should be viewed both qualitatively and quantitatively.
- **Responsible investment** – As long-term owners of capital (assets), the Fund believes that investing responsibly is key to ensuring the long-term value of the assets in which it invests is protected and where possible, enhanced. Investing responsibly and engaging as long-term owners reduces risk over time and has been proven to positively impact investment returns. The Fund is integrating responsible investment into the way it selects and stewards all assets.
- **Climate change** – The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate changes poses both risks and opportunities to the Fund’s investments. The Fund will consider the impact of climate change in both its asset allocation and investment process when making decisions.

Engagement and Collaboration

The Fund prefers to adopt a policy of risk monitoring and engagement to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. In scenarios in which engagement fails, an appropriate escalation methodology may be adopted. The Fund extends this principle of “engagement for positive change” to the due diligence, appointment, and monitoring of fund managers.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that they will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. The Fund recognises the need to operate at a market-wide level to promote improvements and develop effective RI processes that will help it to deliver sustainable long-term growth.

Remuneration and Cost Management

Executive remuneration and investment management costs matter, particularly in low-return environments. Fee arrangements with fund managers and the remuneration policies of investee companies should be aligned with the Fund’s long-term interests. The Fund recognises that it is part of its fiduciary duty to ensure that there is appropriate alignment and notes that the now industry-wide cost transparency initiatives the Fund has led on have been pivotal in aiding greater understanding of cost to enable improved alignment and cost management.

Climate Change

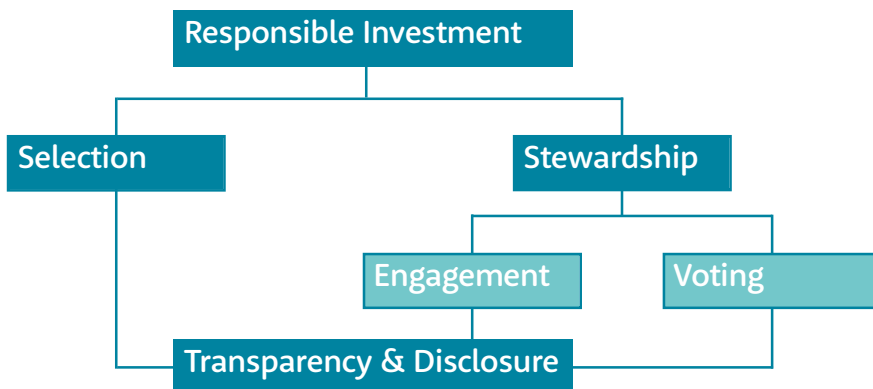
Financial markets could be materially impacted by climate change and by the response of climate policymakers. The Fund has developed evidenced-based beliefs relating to climate change to assist in monitoring and managing this specific area of risk and opportunity and this is outlined in more detail within the *Climate Change Framework and Strategy*, most recently updated over 2021. As a responsible investor, the Fund will seek to proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible.

The Fund is a strong supporter of the Paris Agreement on climate change and believes that policy makers, consumers, companies, and investors have a role to play in increasing awareness and enabling a just transition through strong governance. As part of commitments to net zero by 2050 or sooner, the Fund aims to continue to develop best practice strategies and solutions to support this change alongside other industry actors. Noting that climate-aware decisions will be better with accurate, relevant, complete, and comparable data, the Fund is engaging to increase disclosure and aid development of policy instruments.

The Fund undertakes and discloses its assessment of financial risk associated with climate change and inherent within the investment portfolio, in line with recommendations made by the Taskforce for Climate-related Financial Disclosure (TCFD).

No individual investor nor the investment industry is influential enough to achieve the rate of change required to avoid catastrophic consequences highlighting the importance of collaborative and collective progress required. The Fund supports increasing regulation and guidance for UK pension funds taking effect in 2023 to assess, manage and publish actions on climate change.

3 IMPLEMENTATION



Either directly or through Fund management arrangements, the Fund aims to put its responsible investment beliefs into practice through actions taken both before the investment decision (which we refer to as ‘the selection of investments’) and after the investment decision (‘the stewardship of investments’).

The Fund is aiming for full integration of responsible investment principles throughout investment strategy, process, and monitoring, with evidence of increasing use of environment, social and governance (ESG) risk factors in decision making throughout the investment value chain.

The Fund aims to be transparent to its stakeholders through regular, high-quality disclosure. Disclosures are made quarterly through Pensions Committee meetings, regular updates to the Fund’s website and annually through the Fund’s *Annual Report and Accounts* and the *Climate-related Disclosure Report*. Together these ambitions yield the Fund’s three RI pillars: Selection, Stewardship and Transparency and Disclosure.

Selection

The Fund aims to be aware of and monitor financially material RI issues in the context of investment and manager selection, whether this is through directly appointed external managers, or funds managed by LGPS Central Ltd. The Fund extends this principle of ‘engagement for positive change’ to the due diligence, appointment, and monitoring of fund managers across all asset classes.

Fund Manager Due Diligence

The Fund collects the following information from each manager before they are appointed, where applicable to the asset class:

- Copy of their RI or stewardship policies (or equivalent) which articulates how RI factors, whether stemming from research, stewardship activities or other sources, are integrated into their investment process.
- Case studies or examples of where RI issues have influenced an investment decision.
- Information on the process for integrating any third-party RI data into their company financial models, investment strategies and portfolio construction.
- Fee transparency and evidence of disclosure, noting commitment to sign-up to the LGPS Code of Transparency as a condition of appointment.

- RI reporting format, incorporating both quantitative and qualitative risk assessment.
- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and 2020 UK (or other) Stewardship Code.

Fund Manager Appointments

The Fund assesses the RI capability of a Fund manager as a factor within each of the people, process, and performance categories. In its decision to appoint a Fund manager, the Fund takes a balanced consideration of all relevant factors including RI. However, the Fund will pay particular attention to adherence to relevant soft regulatory codes depending on the market in which it invests.

In practice, this means the Fund is willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over a short and defined time period.

In alignment with the guiding principle on “Engagement and Collaboration”, the Fund believes that there is added value in working managers to develop their approach.

Fund Manager Monitoring

Each Fund manager is expected to report¹ at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of RI issues into its investment and stewardship activities.
- How investment and stewardship functions are combined to protect and/or enhance value.
- Any outcomes arising from the manager’s engagement with companies and their effectiveness.
- Financial metrics used to assess the risks within the portfolio and how these change over time and/or relative to comparable benchmarks.

LGPS Central Limited

Since April 2018, Fund assets have transitioned into the LGPS investment pool, and pooled vehicles created by LGPS Central Limited. The pool company has developed a leading approach to RI, requiring all products to meet and retain a standard for RI-integration and thereby supporting Partner Funds in the execution of their individual RI policies. RI integration features in the investment process for all major asset classes; a suite of RI policies are in place together with an appointed engagement provider to support regular engagement, monitoring and reporting.

¹Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

Stewardship

Engagement Through Partnerships

The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships. 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 as detailed in [Memberships and Affiliations](#).

Company Engagement

The Fund's approach includes bottom-up engagement – which targets improvements on specific issues at individual companies – and top-down engagement – which identifies themes of long-term economic significance and of relevance for stakeholders. The Fund will, either directly, collaboratively or through specialist service providers or Fund management arrangements:

- hold constructive dialogue with investee companies;
- encourage the disclosure by companies of RI issues;
- participate in the development of public policy on RI issues; and
- disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of the Fund's beneficiaries first.

Industry Engagement

To address the global challenges and initiate change, collaboration is required from all stakeholders, such as public policy makers, regulators, trade bodies, indexes, and other players in the financial markets. These global challenges present risks and obstacles that affect the way we invest and uphold our duty to pension members and fall within the Fund's fiduciary responsibilities. Therefore, with other like-minded investors, the Fund may engage with these bodies in policy advocacy, developing regulations or signing investor letters and statements.

The Fund considers these initiatives on a case-by-case basis.

Shareholder Litigation

The Fund may be eligible to participate in certain individual and class action securities litigation. Securities litigation may be used as an escalation technique within an engagement process. There are a number of litigation options available when a company has violated securities laws that result in losses to the Fund.

For US-based claims, the options would be to:

- remain in the class action and file proof of claim through our claims administrator;
- participate as a lead plaintiff in a class action; or
- opt out and file a private action.

For non-US based claims, the options would be to join an existing group action or file a group action as a lead plaintiff.

The Fund takes a case-by-case approach in determining whether or not to join a class action but considers factors such as:

- advantages and disadvantages of the Fund becoming actively involved;
- relative size of the Fund's potential losses compared to other organisations;
- likelihood of success; and
- whether the Fund is fully indemnified against costs, expenses, counterclaims, and any other losses.

Voting

Voting is a valuable tool that allows the Fund to exercise its rights as a shareholder to drive and influence the direction of the company. Hence, the Fund has developed a separate voting policy which can be found at www.wmpfonline.com.

Transparency and Disclosure

The Fund aims to keep its beneficiaries aware of its RI activities through:

- disclosing RI policy publicly, e.g. voting policies, *Climate Change Framework and Strategy*;
- providing a summary of the Fund's RI activities, including voting activity², in the *Annual Report and Accounts*;
- providing a summary of the Fund's RI activities in the quarterly reports to the Fund's Pensions Committee;
- publishing aggregate voting and company engagement statistics on a quarterly basis;
- disclosing the outcomes of its voting decisions on a vote-by-vote basis; and
- disclosing the Fund's approach to managing climate change risk using the recommendations made by the Taskforce on Climate-related Financial Disclosures framework (TCFD).

4 ENGAGEMENT THEMES FOR 2020-23

The Fund has selected four engagement themes for the financial year: climate change; sustainable food systems; human rights; and responsible financial management. As part of continuous review, these engagement themes may be revised in 2023 to reflect on relevance and priority.

Climate Change

The Fund adopts an evidence-based approach to climate change and believes there is overwhelming evidence to support that climate change poses both risks and opportunities to the Fund's investments. It is the Fund's view that the scale of these impacts is such that a proactive and precautionary approach is needed to address them through the integration of net zero practices into the Fund's investment strategy. The Fund has a proactive programme of climate change stewardship, primarily by leveraging its strategic partnerships and through its support to the Transition Pathway Initiative, the Climate Action 100+ Initiative, and the Institutional Investor Group on Climate Change.

²In line with Regulation 57 of the 2013 Regulations.

Sustainable Food Systems

A sustainable food system is one that delivers food and nutrition security for all in such a way that the economic, social, and environmental bases for future generations are not compromised. There has been a shift among consumers who are increasingly aware of, and concerned by, the climate impacts of the food they eat and how sustainably it is produced. The Fund aims to participate in organisations aiming to tackle these issues, particularly the damage that single-use plastics has on the environment. The Fund is keen to engage alongside partners in highlighting the risks that single-use plastics pose to longer term financial returns.

Human Rights

Human rights include civil, political, economic, and social and cultural rights, such as the right to life, the right to freedom of association or the right to health. People play a pivotal role within companies and the global economy, therefore ensuring their basic human rights are met, is not only a financial factor, but the responsibility of the companies to show respect for human rights and their people. The Fund is actively aiming to address issues associated with human rights through the research, analysis and engagements conducted by all engagement partners including the Local Authority Pensions Fund Forum and LGPS Central pool.

The Fund believes that a diverse and inclusive workplace can provide benefits to a company. It signals to a company's strength to innovate, overcome challenges and retain talent that results in higher financial returns. As a representative of an asset owner diversity working group, the Fund aims to pursue greater gender and ethnicity diversity within the investment industry. Fund stewardship work incorporates a drive for wider-ranging action on equality and inclusion to drive change and increase representation and involvement by all.

Responsible Financial Management

The Fund supports the practice of responsible financial management. The avoidance of tax by some large multinationals has attracted a great deal of criticism, and small businesses shouldering a heavier tax burden have struggled to compete. Instead, more companies are now taking a long-term view that investment in the community and the society in which they operate by paying taxes will ultimately lead to greater prosperity for the business too. As governments, companies and global economies look to "build back better" over 2021, increased focus on financing and reporting arrangements is expected to increase both to demonstrate action on climate change and to respond to demands to reconsider social value. The Fund aims to monitor and address these issues through the work of their engagement partnerships and collaborations.

5 MEMBERSHIPS AND AFFILIATIONS

Organisation/Initiative Name	About the Organisation/Initiative Name
Local Authority Pension Fund Forum (LAPFF)	<p>The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund's Executive Director of Pensions is currently LAPFF's Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 82 local authority pension funds and seven investment pools from across the country with combined assets of around £300 billion. The Fund is an active participant in LAPFF's engagement programs.</p> <p>Membership of LAPFF provides the Fund with:</p> <ul style="list-style-type: none"> • independent research and advice on the RI risks of companies to inform further stakeholder engagement; • advice on the governance practices of companies; and • a forum to engage with companies to improve governance practices.
Institutional Investors Group on Climate Change (IIGCC)	<p>The Fund is a member of the Institutional Investors Group on Climate Change (IIGCC), which is an influential asset owner and asset manager membership body and the largest one focusing specifically on climate change. IIGCC helps define the investment practices, policies and corporate behaviours required to address climate change.</p>
Climate Action 100+	<p>The Fund is a member of Climate Action 100+ - an engagement collaboration of more than 700 investors with a combined \$68 trillion assets under management. CA100+ engages 166 companies on climate risk that are responsible for 80% of global industrial greenhouse gas emissions.</p>
Transition Pathway Initiative (TPI)	<p>The TPI is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. Rapidly becoming the go-to corporate climate action benchmark. The Fund, via LGPS Central, supports the TPI Global Climate Transition Centre, an independent source of research and data into the progress being made to transition to a low-carbon economy, created for the global investor community and supported by collective \$50trn AUM.</p>
Principles for Responsible Investment (PRI)	<p>PRI is the largest RI-related organisation globally, and helps with research, policy influence and collaborative engagement. The Fund has been as a signatory of the PRI since 2010 and continue to annually assess the quality of our RI activities against PRI's requirements and assessments.</p>
UK Stewardship Code 2020	<p>The Fund is a signatory to the UK Stewardship Code 2020 which sets high stewardship standards for pension funds including the annual assessment of our <i>Annual Stewardship Report</i>.</p>

6 APPENDIX: GLOSSARY OF TERMS

ESG Factors

Environmental, social, and corporate governance factors which could impact company performance and therefore investment returns. Examples include (but are not limited to) climate change, workforce issues, remuneration, independence of the board and auditors, board composition and diversity.

Ethical Investment

An approach seeking a moral or ethical return, potentially ahead of financial return.

Fund

West Midlands Pension Fund which incorporates the former employers of the West Midlands Integrated Transport Authority Pension Fund following a merger of the Funds.

Governance

The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Pensions Board

The role of the Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules. The Fund's policies, including the Investment Strategy Statement and the RI Framework, are reviewed annually by the Pensions Board.

Pensions Committee

Body established by City of Wolverhampton Council (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund's assets, which has representation from the seven West Midlands metropolitan district councils and local trade unions.

Socially Responsible/Social Impact Investments

Investments that deliver social impact as well as a financial return are often described as "social investments".

The Fund considers opportunities in social investments alongside other opportunities and will assess their relative merits on fundamental grounds and with reference to suitability of fit for the Fund.

Responsible Investment

The integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes both before and after the investment decision.

Stewardship

We define the concept of stewardship the same as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code:

"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The UK Stewardship Code (2020) sets high standard for asset owners and asset managers, and for service providers that support them".

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