

# Pensions Board

24 January 2023

<b>Report title</b>	Investment Governance	
<b>Originating service</b>	Pension Services	
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## Recommendations for action:

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 2022 Taskforce for Climate-related Financial Disclosure (TCFD) Report.
3. The Fund's 2022 Responsible Investment Framework.

## 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 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 focus on implementing the longer-term strategic asset allocation as set out in the Fund's Investment Strategy Statement (ISS). As part of this the Fund continues to consider opportunities to transition assets to its investment pool company, LGPS Central Ltd, 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 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 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.
- 2.3 Triennial review of the ISS is currently underway, to update this core strategy document for evolving Fund policy and to record review of the Fund's Strategy Investment Allocation Benchmark following refresh of asset and liability modelling conducted in conjunction with the triennial Actuarial Valuation.

### 3.0 Responsible Investment

- 3.1 The Fund has reviewed and updated its Responsible Investment Framework that outlines the Fund's guiding principles and approach to responsible investment. A copy of the updated document which was approved by the Pensions Committee on 14 December 2022 is provided within the background pages to this report. The Responsible Investment Framework is a critical element of the investment process, ensuring that the Fund continues to build a sustainable future for all by considering environmental, social and governance factors (ESG) within its approach. Changes made to the Framework in 2022 reflect the evolution of the Fund's Responsible Investment approach since prior review and approval in March 2021, including:
- Reference to the Fund's updated Climate Change Framework and Strategy 2021, including Net Zero commitment
  - The Fund's signatory status to the 2020 UK Stewardship Code (in 2021 and 2022); and
  - Review and re-statement of the Fund's commitment and core engagement theme of Human Rights
- 3.2 The Fund continues 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).
- 3.3 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, LAPFF and EOS at Federated Hermes.
- 3.4 At the December 2022 meeting, Pensions Committee approved the publication of the Fund's annual standalone Task Force on Climate-related Financial Disclosures (TCFD) Report (link to the report is included in the background papers of this report). The report is based on the recommendations set by the TCFD and provides an overview of the governance, strategy, risk management tools and metrics employed by the Fund to develop its approach to monitoring and assessing climate-related risks and opportunities.
- 3.5 As previously reported to the Board on 21 September 2022, the Department for Levelling Up, Housing and Communities (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. A copy of the Fund's response has been shared with members of the Board.
- 3.6 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. The Fund will review and continue to develop its current annual report as new regulations and guidance for the LGPS are finalised.

#### **4.0 LGPS Central Investment Pool Governance**

- 4.1 The Fund continues to work closely with its investment pool company LGPS Central Ltd 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.
- 4.2 The Shareholder Forum meets ahead of Company meetings (General and AGM) held twice per year. Over the most recent quarter, Shareholder representatives have met to review and discuss the Company's business and budget plans for 2023/24, in line with the annual cycle and collaborative pool process.
- 4.3 The Joint Committee for LGPS Central last met on 1 November 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 Union 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 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 [Responsible Investment Framework 2022](https://www.wmpfonline.com/RI) - <https://www.wmpfonline.com/RI>
- 9.2 [TFCD 2022](https://www.wmpfonline.com/article/14043/Climate-Change) - <https://www.wmpfonline.com/article/14043/Climate-Change>
- 9.3 LGPS Central pool Joint Committee 11 November Papers - [Meetings and Agendas | Members \(cheshirepensionfund.org\)](https://www.wmpfonline.com/RI)

## **10.0 Schedule of Appendices**

10.1 None.