

# Pensions Board

25 April 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.

## 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 the 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 Responsible Investment

- 2.1 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 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).
- 2.2 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, LAPFF and EOS at Federated Hermes.
- 2.3 At their meeting in March 2023, the Pensions Committee received a copy of the Fund's draft voting principles which have been reviewed and updated ahead of the 2023 voting season. The voting principles have been revised noting the important role voting places in

the overall engagement strategy and in consultation with LGPS Central Ltd. Key updates to the document include, strengthening of expectation on board composition to further enhance diversity and increased expectations around disclosure including climate-related disclosure, gender pay, deforestation-related risks, human rights and modern slavery-related risks, and tax transparency. A draft version of the Fund's updated Voting Principles is available within the background papers to this report. The final version will be presented to the Pensions Committee for approval in June 2023.

### **3.0 LGPS Central Investment Pool Governance**

- 3.1 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.
- 3.2 The Shareholder Forum (Shareholder representatives of each of the Partner Funds) meets ahead of Company meetings (General and AGM) held twice per year. The Shareholder Forum last met on 28 February (ahead of the Company's General Meeting) and approved a refresh of its terms of reference, were introduced to the Company's two new incoming Non-executive Directors and received a briefing from the Practitioners Advisory Forum (PAF) on the items due to be presented for approval at the Company's General meeting held on the same day.
- 3.3 At the General Meeting, Shareholders received the following items:
- Chair's Report on Company progress and Board evaluation
  - Prior year activities and performance review
  - Business Plan for 2023/24 and associated Company budget
- 3.4 Shareholder resolutions were presented at the meeting on the following matters:
- Approval of the Strategic Plan (which includes a proposed budget) and Regulatory Capital Statement for the period 1 April 2023 to 31 March 2024 (requiring unanimous approval)
  - Approval of the individual remuneration packages for the Chair and Non-Executive Directors (requiring majority approval)
  - Approval of the individual remuneration packages for the Executive Directors (requiring majority approval)
- 3.5 The next meeting of the Joint Committee is due to take place in July 2023. 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.

### **4.0 Financial Implications**

- 4.1 There are no direct financial implications arising as a result of this report.

### **5.0 Legal Implications**

5.1 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.

## **6.0 Equalities Implications**

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

## **7.0 All Other Implications**

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

## **8.0 Schedule of Background Papers**

8.1 WMPF Draft Voting Principles: [15. App A Final.pdf \(moderngov.co.uk\)](#)

## **9.0 Schedule of Appendices**

9.1 None.