

Pensions Board

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Report title

Investment Governance

Originating service

Pension Services

Accountable employee

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Report to be/has been considered by

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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. The publication of the Fund's Annual Stewardship Report 2023 outlining the Fund's stewardship activities during 2022 aligned with the 2020 Stewardship code: [Annual Stewardship Report 2023](#)

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 Strategies.
- 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's Investment Advisory Panel (IAP) plays a key role in supporting discussion and decision making of the Fund's officer's in undertaking their delegation from the Pensions Committee to implement the Fund's investment strategy. The IAP includes two external advisers, alongside the Executive Director of Pensions, Assistant Director of Investment Strategy and Assistant Director of Investment Management and Stewardship. The Panel provides challenge to the Internal Investment committee (IIC) on asset allocation and investment strategy as well as bringing a market view on investment implementation. The Pensions Committee received an annual report from the IAP, including a review from the external members, at their meeting on 21 June.
- 2.2 The Pensions Committee approved a revised Investment Strategy Statement (ISS) at their March meeting. The IIC, with advice from their Investment Consultant and with input from the IAP, have developed a three-step plan to implement the revised ISS in the period up to March 2025.

3.0 Responsible Investment

- 3.1 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).
- 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, LAPFF and EOS at Federated Hermes.
- 3.3 The Fund submitted the third iteration of its Annual Stewardship Report (ASR) to the Financial Reporting Council (FRC) on 31st May 2023. The report outlines the Fund's alignment to the UK Stewardship Code 2020, which sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. The ASR outlines the Fund's continued focus on stewardship activities both as a responsible asset owner and employer. The report comprises the Fund's key stewardship achievements and responsible investment, engagement, and voting activity for the 2022 calendar year.
- 3.4 During the year the Fund enhanced its reporting in relation to climate-related risks which includes new climate scenario modelling. Key focus areas for the Fund over the next few years will be developing its internal reporting, oversight, and data framework across its investment portfolio to enable more meaningful analysis and reporting across all the Fund's assets and improving the quality of decision-making as well as meeting the expected increase in climate related disclosure requirements. The Fund will continue to work with its investment partners, including LGPS Central Limited, to enhance the quality and coverage of data across our portfolio so that we can monitor progress of our climate strategy and net zero ambitions. The Fund believes that having a flexible approach is of great importance in the current environment and we expect our approach to evolve as the landscape and industry develops. The Fund expects to receive confirmation of retention of its 2020 Stewardship Code signatory status along with feedback on the report from the FRC in September 2023

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).
- 4.2 At the Shareholder forum and Company meeting in February 2023, Shareholders welcomed two incoming Non-Executive Directors (appointed to replace those reaching end of term) and received an update on the implementation of the Board's succession plan. In line with

the plan, approved by Shareholders in February 2022, recruitment of an additional Non-Executive Director concluded in June 2023 and subject to Shareholder approval, the new hire will join the Board at the end of this month, bringing additional customer and commercial experience to the Board.

- 4.3 Following the departure of the CEO in June, the Company continues to progress and deliver the business plan approved by Shareholders in February 2023. Partner Funds have received assurances on the day-to-day operation of the Company, with the Deputy Chief Executive stepping into the Chief Executive Officer role interim, subject to FCA approval. The Executive Director of Pensions is currently Chair of the Shareholder Forum and will continue to monitor developments and consult Partner Funds and the Chair of Pensions Committee, as recruitment progresses and the Board continues to support the Company's ongoing development and Executive Committee.
- 4.4 The Chair of the Pensions Committee is appointed West Midlands' representative to the Pool's Joint Committee, with invite and attendance at the Committee extended to Malcolm Cantello. The next meeting of the Joint Committee is due to take place in July 2023 following Local Government Elections.
- 4.5 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.

5.0 Financial Implications

- 5.1 The cost for setting up and running the jointly owned company is shared equally between the Partner Funds. There are significant transition costs involved in unwinding and transferring as investment mandates into new collective investment vehicles. Transition costs are shared between the Partner Funds on a fair and equitable basis and are incurred when assets are transitioned.
- 5.2 West Midlands Pension Fund's share of all costs (including the regulatory capital provided to LGPS Central Ltd) are met from the Fund, and there is therefore no direct impact on the administering authority's revenue or capital budgets and no impact on member benefits.
- 5.3 All cost sharing principles together with financial modelling of the operational costs and fee models are monitored by Partner Funds.

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 WMPF Annual Stewardship Report 2023: [Annual Stewardship Report 2023](#)

10.0 Schedule of Appendices

10.1 None.