

Report title	Investment Governance	
Originating service	Pension Services	
Accountable employee	Paul Nevin Email	Assistant Director, Investment Strategy Paul.nevin@wolverhampton.gov.uk
	Shiventa Sivanesan Email	Assistant Director, Investment Management & Stewardship Shiventa.Sivanesan@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Email	Executive Director of Pensions Rachel.brothwood@wolverhampton.gov.uk

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 the implementation of investment strategy.
2. The Fund has retained its signatory status to the UK Stewardship Code, following submission of its third Annual Stewardship Report to the Financial Reporting Council (FRC) in May 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 the Local Government Pension Scheme (LGPS) Central Investment Pool in context of the implementation of the Fund's investment strategy.
- 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.

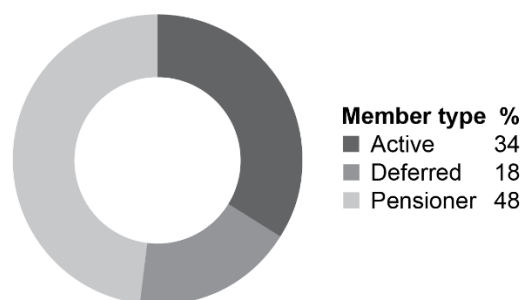
2.0 Investment Strategy and Implementation

- 2.1 The Fund's Investment Advisory Panel (IAP) plays a key role in supporting discussion and decision making of the Fund's officers 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. Officers are working with LGPS Central to implement the first phase, progressing phased reduction in the allocation to Liquid Growth assets over recent months.

3.0 Responsible Investment

- 3.1 The Fund continues to engage with its investee companies and other key stakeholders through the partnerships it has in place. 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. Activity and progress are included in published reports from LGPS Central Ltd, LAPFF and EOS at Federated Hermes.
- 3.3 As previously reported to the Board, the Fund submitted the third iteration of its Annual Stewardship Report (ASR) to the Financial Reporting Council (FRC) on 31st May 2023. The report documents the Fund's stewardship activities over the past year and demonstrates the Fund's ambition to be leaders in the active stewardship of its assets and ultimately deliver improved outcomes and sustainable futures for all. In late August 2023, the Fund was pleased to learn that it successfully achieved signatory status to the [UK Stewardship Code](#) again, for the third consecutive year.
- 3.4 In May 2023 the Fund launched a pilot Responsible Investment (RI) survey to all scheme members with a registered email address. The survey was open for three weeks and was designed to engage members on the topic of RI and gauge members' awareness and understanding of RI.
- 3.5 A response rate of approximately 4% was achieved, with 7,305 individual member responses received. Almost 50% of responses received were from pensioner members, 34% from active members, and 18% from deferred members (Figure 1).

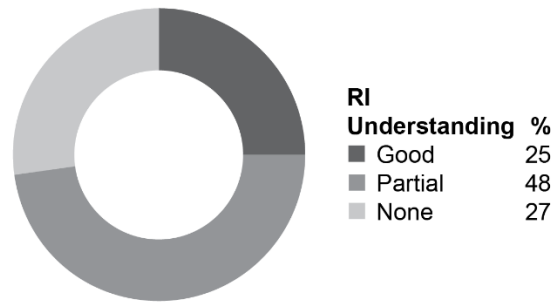
Figure 1: Respondents by member type



- 3.6 When asked to identify a level of RI understanding, high level results show that 25% of members profess to have good RI understanding, 48% have partial, and 27% have no RI

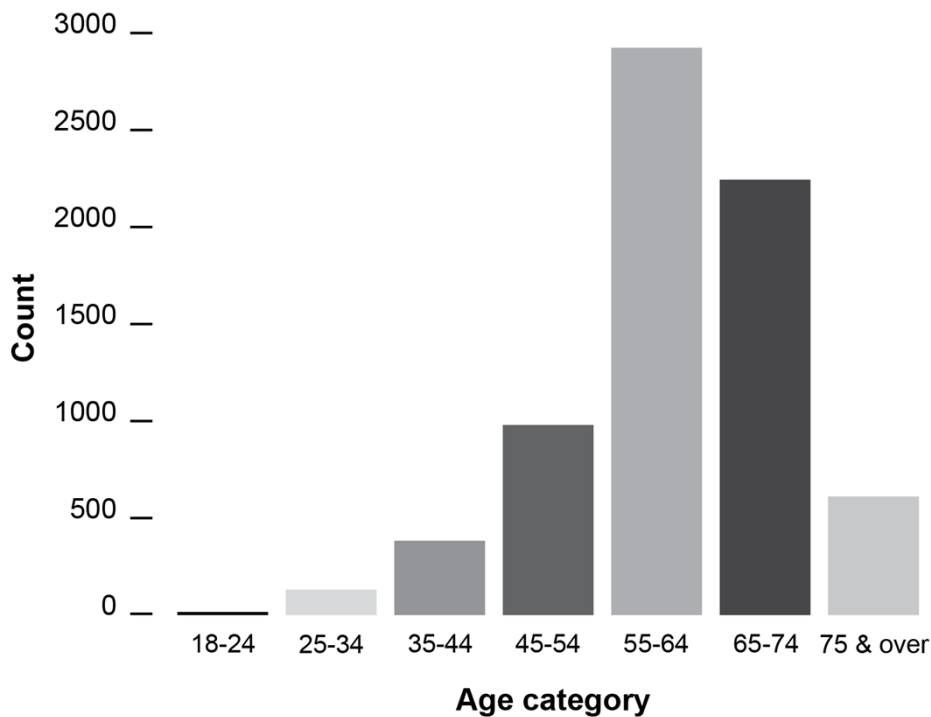
understanding (Figure 2). Analysis indicates that the greater exposure members have to the Fund's RI content, accessed through the Fund's website, RI articles in member newsletters, Pensions Committee reports and formal RI policies, the greater the members' RI understanding.

Figure 2: Level of RI understanding



3.7 On examination of the survey respondents by age (Figure 3), results show that the highest number of responses received were from members aged between '55 and 64'. The lowest number of responses received were from members aged '18 and 24'.

Figure 3: Respondents by age category



3.8 Fund Officers are currently undertaking further analysis of the survey results with a view to informing and developing an effective Responsible Investment Engagement Strategy. Key

areas of priority are likely to be around review of existing and potential future content available to members, strategies to increase member engagement and raising awareness and understanding of Responsible Investment and the Fund's approach.

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 The Shareholder Forum meets ahead of Company meetings (General and AGM) held twice per year. The latest meeting was held on 26 September 2023 with representatives of all Central Pool Authorities and the Company. Between meetings, the Company may engage with the Central Pool Authorities via Shareholder Representatives to gain approval to reserved matters, pertinent to the ongoing operation of the Company, as recommended by the Board. Each year the Shareholder Forum nominates a Chair and Vice Chair of the group with Councillor Eric Kerry from Nottinghamshire taking on this role from the WMPF Executive Director of Pensions at the meeting on 26 September.
- 4.3 At the Company Annual General Meeting Shareholders received a governance update from the Board and its sub committees and discussed and approved a number of routine items including:
- Adoption of the Company Report and Accounts for the year ended 31 March 2023;
 - Approval of external Auditor appointment and remuneration; and
 - Annual re-election of the Company Directors and Chair.
- 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, Trade Union Representative. The next meeting of the Joint Committee is due to take place in February 2024.
- 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.
- 4.6 The Company's Annual Report for the Year to 31 March 2023 has been audited and published (with the link available within the background papers to this report). The Annual Report summarises progress over 2022/23, noting an increase of £1bn in the value of pooled assets, launch of the direct property fund and further development of its Responsible Investment Policy. 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.
- 4.7 At the end of September, the pool submitted its annual progress report to the Department of Levelling Up, Housing and Communities (DLUHC), confirming:
- Total forecast cumulative net savings to 2034 of £116.7m on investment products that were live or close to launch at the time of submitting the return.
 - The pool as a whole had transitioned 33% of assets as of 31 March 2023 (50% for West Midlands), an increase of 4% from the prior year.

- The latest projection of assets transferred to pool investment vehicles by 31 March 2026 is 52% (69% for West Midlands).

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](#)
- 9.2 LGPS Central Annual Report – Year Ending 31 March 2023: [LGPS Central Report & Accounts 2022/2023 – LGPS Central](#)

10.0 Schedule of Appendices

- 10.1 None.