



RESPONSIBLE INVESTMENT FRAMEWORK

DECEMBER 2023



West Midlands Pension Fund

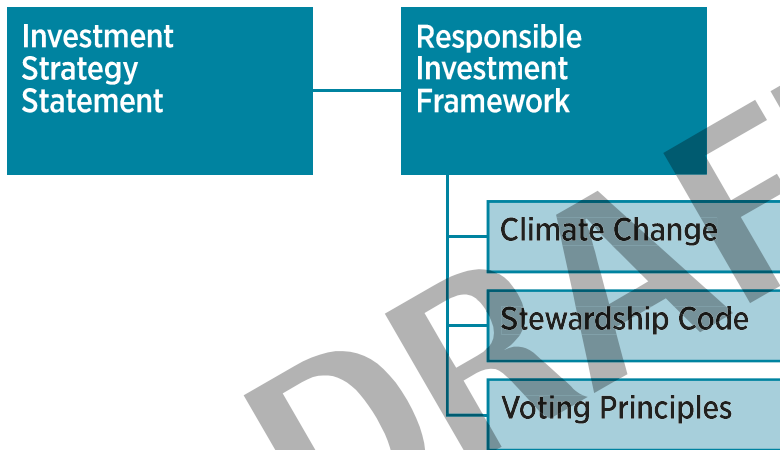
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1 PURPOSE

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.

The Fund believes that the consideration of ESG factors in the investment strategy and implementation process protects and enhances the value of assets over the long-term and therefore align with its fiduciary duty to pay members’ pension benefits when they fall due, both now and in the future.



This document sets out the overarching framework for Responsible Investment and supporting practical application of the Climate Change Strategy and Framework, Annual Stewardship Report (aligning with the Financial Reporting Council’s 2020 UK Stewardship Code) and Voting Principles. This framework has been developed in the context of relevant regulations, statutory guidance, and the advice of the Law Commission. This also includes alignment with the principles set out by the Principles of Responsible Investment (PRI) to which the Fund is a signatory of.

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 Internal Investment Committee and Executive Director of Pensions, supported by the Assistant Directors. This framework applies to all members of the Pensions Committee and 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 December 2022 Responsible Investment Framework. A draft statement was presented to the Pensions Committee on 13 December 2023.

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. RI is distinct from “ethical investment”, which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

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 integrates 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.

Climate Change

Climate change is a systemic and financially material risk that has been highlighted by the industry as the greatest risk to investments¹ particularly spanning into the long-term. The Fund has developed evidenced-based beliefs relating to climate change to assist in monitoring and managing this specific area of risk and opportunity, which is outlined in more detail within the 2021 Climate Change Framework and Strategy.

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. Real-world decarbonisation of the economy is necessary to address these risks with a priority on active engagement and driving outcomes from investee companies.

No individual investor nor the investment industry is influential enough to achieve the rate of change required to avoid catastrophic consequences of climate change highlighting the importance of collaborative and collective progress required by investors, regulators, governments, and companies alike.

The Fund is a strong supporter of the United Nations' Paris Agreement 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 our commitment to achieving 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 inherent within the investment portfolio, in line with recommendations made by the Taskforce for Climate-related Financial Disclosure (TCFD).

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 it 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.

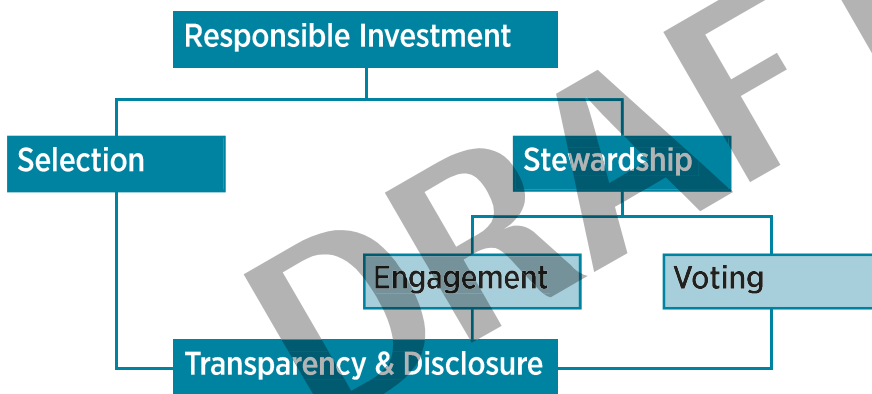
¹ [World Economic Forum: Global Risks Report 2023, Global Risks 2033, Tomorrow's Catastrophes](#)

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.

3 APPROACH

Either directly or through Fund management arrangements, the Fund aims to put its RI beliefs into practice both before the investment decision - through the selection and appointment of managers, and after - through the monitoring of managers and Fund performance, review of portfolio company holdings and ongoing implementation of the Fund’s Strategic Asset Allocation and decision marking processes.



The Fund aims 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 Pension Committee meetings, regular updates to the Fund’s website and annually through the Fund’s Annual Report and Accounts, Annual Stewardship Report 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 our pool company, LGPS Central Ltd ("LGPS Central").

The Fund collects the following information from each manager during the selection process, 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.
- RI reporting format, incorporating both quantitative and qualitative risk assessment.
- Whether they are a signatory of the Principles for Responsible Investment (PRI) and FRC UK (or other) Stewardship Code.
- Fee transparency and evidence of disclosure, noting commitment to sign-up to the 'LGPS Code of Transparency'² as a condition of appointment.

Appointment

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.

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.

² [LGPS Scheme Advisory Board - Code of Transparency \(lgpsboard.org\)](https://www.lgpsboard.org/)

Monitoring

Each fund manager is expected to report³ at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Additionally, the Fund will routinely meet with its fund managers to monitor their performance and level of RI integration.

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.

Transparency and Disclosure

The Fund aims to keep its beneficiary members, Governing Bodies, and regulators aware of its RI activities through:

- disclosing RI policy documents publicly, e.g. Responsible Investment Framework, Climate Change Framework and Strategy and Voting Principles;
- providing a public summary of the Fund's RI activities, including engagement and voting activity⁴, in the Annual report and Accounts and the Annual Stewardship Report;
- providing a public summary of the Fund's RI activities in quarterly reports to the Fund's Pensions Committee;
- publishing aggregate voting and company engagement statistics on a quarterly basis; and
- disclosing the Fund's approach to managing climate change risk publicly in the Climate-Related Financial Risk report, using the recommendations made by the Taskforce on Climate-related Financial Disclosures framework (TCFD).

Additionally, the Fund has engaged directly with members via regular communications such as member newsletters and RI-specific leaflets as well as participating in face-to-face member events including Active and Pensioner Member Engagement Forums.

³ Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

⁴ In line with Regulation 57 of the 2013 Regulations.

LGPS Central Limited

Since April 2018, Fund assets have transitioned into the LGPS investment pool, and pooled vehicles created by LGPS Central. 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, as detailed in the LGPS Central Responsible Investment and Engagement Framework, which the Fund reviews on an annual basis.

As part of an advisory agreement, LGPS Central provide the Fund with ongoing monitoring of the Fund's assets held outside the pool which incorporates views on the level of RI integration undertaken by fund managers.

4 STEWARDSHIP

Engagement

Engagement, either directly or collaboratively, plays a key part in the Fund's approach to risk management of financially material investment factors. The Fund holds the view that engagement positively influences company behaviour and enhances shareholder value, influence that would be lost through a divestment only approach. In scenarios in which engagement fails, an appropriate escalation methodology, such as voting, may be adopted.

Investee Companies

The Fund's approach includes bottom-up engagement – which targets improvements on specific issues at individual companies, predominantly through fund managers – and top-down engagement – which identifies themes of long-term economic significance and of relevance for stakeholders (see Section 5 - Engagement Themes for 2024 - 2027). The Fund will, either directly, collaboratively or through specialist service providers or fund management arrangements:

- hold constructive dialogue with investee companies;
- encourage the disclosure of RI issues by companies;
- 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.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared to 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.

The engagement providers and partnerships the Fund leverages to drive positive outcomes are outlined in Section 6 – Memberships and Partnerships.

Policy Advocacy

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 shareholder litigation. Shareholder 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

The Fund uses its shareholder rights to influence and signal to companies to address material ESG issues and escalate engagements where necessary by voting against company proposals, board members and directors of the company. The Fund's Voting Principles outline the Fund's approach and key considerations when exercising its voting rights. The Voting Principles is reviewed on an annual basis and has been developed in conjunction with LGPS Central and through dialogue with the Fund's equity managers.

The Fund's voting rights are executed by LGPS Central, and their appointed engagement provider, EOS at Federated Hermes. Voting recommendations, aligned with the Fund's Voting Principles, are input to the Institutional Shareholder Services (ISS) platform and are cast if there is no further intervention, except in the case of share-blocking votes. The Fund takes a pragmatic approach to ensure efficiency towards the voting process, alignment to the Fund's beliefs and to maximise the Fund's voting rights.

In instances where the Fund has core engagements or significant holdings, a "Voting Watch List" of approximately 50 companies is established to enable scrutiny ahead of a company's Annual General Meeting (AGM). This is shared with EOS, who provides detailed analysis to substantiate their voting recommendations and provide an opportunity for discussion before the vote where necessary. The Fund's pool provider attends the AGMs of core Climate Action 100+ engagements and for any company with which they have filed a shareholder resolution, where feasible. This priority list of companies provides a layer of assurance to ensure the Voting Principles are executed accurately.

The Fund has an active securities lending programme, therefore trading restrictions are placed on certain securities during the voting season to maximise voting impact and emphasise shareholder concerns during engagement. A targeted approach is adopted to balance the cost implications against the voting benefits to high-risk companies identified through the Fund's Climate Risk Reporting and/or Climate Action 100+ engagements. These restrictions are lifted after the AGM season.

5 ENGAGEMENT THEMES FOR 2024-2027

The Fund is currently in the process of reviewing its engagement themes for 2024-2027. The proposed themes below reflect latest thinking and are subject to further review prior to being finalised in Q1 2024.

Climate Change and the Net Zero Transition

Climate Change is integrated into the Fund's investment beliefs as part of the overwhelming evidence of the risks and opportunities that it presents to the Fund's investments. It is the Fund's view that the scale of the impact of climate change is such that a proactive and precautionary approach is needed to manage climate risks and opportunities through integration within the Fund's investment strategy and the commitment to achieve net zero by 2050. The Fund's approach, including identification, assessment and management of climate-related risks is detailed in a standalone policy and climate-related financial disclosures report. 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.

Resource Efficiency and the Circular Economy

Resource efficiency is increasingly important given the continued increase in demand for materials and resources. Natural ecosystems are intrinsically linked to all aspects of our economy from the supply of raw materials for consumer goods, providing and sustaining global food systems, to acting as carbon sinks to prevent disastrous effects of climate change. There is a strong need to integrate nature, address nature-related risk and transition towards a circular economy to help mitigate against the increasing loss of biodiversity, the increasing impacts of climate-related disasters and the fragility of the world's global food system. The Fund will look to partner and engage through its engagement providers and collaborations to actively promote resource efficiency and push towards a circular economy.

Social Equality

Human beings are pivotal in our companies, our societies, and therefore our global economies. Ensuring that people's needs are met, not only is a financial necessity and linked to higher financial returns but demonstrates a company's strength and ability to invest into their workforce, consider the social impacts of their products on consumers and create positive impact to the communities they serve. The Fund aims to look to consider various social factors during the investment process, not limited to Equality Diversity and Inclusion (EDI), human rights, working conditions, product safety, supply chain transparency and more. The Fund will continue to address these issues through the research, analysis and engagements conducted by all engagement partners including the Local Authority Pensions Fund Forum and LGPS Central pool.

Forward-Thinking Governance

Strong governance forms the foundation of a business, in the way that the company sets targets and ambitions, the identification and management of business-related risks and the efficiency and productivity of its operations. Change, driven through engagement with companies, is more effectively driven in companies with the effective governance structures and personnel in place to enact those changes. The Fund continues to identify and engage on a wide range of governance issues including but not limited to the composition of a company's Board, shareholder risks, remuneration practices, data security risks and responsible tax behaviour.

6 MEMBERSHIPS AND PARTNERSHIPS

Memberships are reviewed on a regular basis.

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 87 local authority pension funds and seven investment pools from across the country with combined assets of around £350 billion. The Fund is an active participant in LAPFF's engagement programs. 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>

Organisation/Initiative Name	About the Organisation/Initiative Name
Principles for Responsible Investment (PRI)	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 continues to annually assess the quality of our RI activities against PRI's requirements and assessments.
UK Stewardship Code 2020	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 Annual Stewardship Report.
Paris Aligned Asset Owners Initiative (PAII)	The Fund is a signatory to the PAII which is a collaborative investor-led global group made up of 56 asset owners with over \$3.3tn in assets. The PAII helps support investors to align their portfolios and activities to the goals of the Paris Agreement.
Asset Owner Diversity Charter (AODC)	The Fund is a founding member of the AODC which looks to formalise a set of actions for asset owners to commit to in order to improve diversity across the investment industry.

7 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.

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, including Fund assets. The Committee includes representatives 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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Responsible Investment Report Appendix B

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