

**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 the implementation of investment strategy.
2. Publication of the Fund's 2023 Taskforce for Climate-related Financial Disclosure (TCFD) Report [Appendix A].

## 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 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 As of 30 September 2023, the West Midlands Pension Fund's market value was £19.5 billion. The Fund has been progressing the implementation of the new strategic asset allocation as set out in the Investment Strategy Statement following the fundamental review which was concluded in March 2023. A three-step phased implementation plan from July 2023 to March 2025 has been agreed by the Fund's Internal Investment Committee (IIC) following advice from the Fund's Investment Consultant and the Investment Advisory Panel. Initial steps have been undertaken during the quarter to reduce the allocation to growth assets and subsequently increase the allocation to stabilising assets with interim benchmark weights being adjusted to reflect the implementation plan which will continue to be reviewed throughout the implementation period.
- 2.2 The Fund continues to work closely with its investment pool company, LGPS Central Ltd to review the ongoing suitability of investment products and consider opportunities to transition assets to the pool where relevant.

### 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.

#### *Climate-related Financial Disclosures*

- 3.3 Climate-related financial risks continue to be of utmost importance in protecting the value of the Fund's investments in the long term. Since 2020, the Fund has published on an annual basis a standalone TCFD (Task Force on Climate-Related Financial Disclosures) report detailing disclosures relating to each of the four TCFD pillars:
- Governance
  - Strategy
  - Risk Management
  - Metrics & Targets.

The Fund has undertaken its annual climate-related financial analysis for 2023, reporting progress against its ambitions and targets. As outlined in the 2023 report, to date, the Fund has achieved a 30% reduction in carbon intensity in its listed equity portfolio between December 2019 and March 2023. The Fund continues to work with its service providers to increase emissions data availability and extend carbon analysis to a broader range of asset classes where possible, aligning with latest industry best practice and standards.

- 3.4 The TCFD was established with the goal of developing a set of voluntary, climate-related financial risk disclosures to help organisations better understand and control the risks and opportunities associated with climate change. The Fund has clearly defined its aspirations in relation to Climate Change within the Climate Change Framework and Strategy, which was last reviewed in 2021. Progress against targets within the framework are reviewed annually, with the next full review of the framework due in 2026/27.

The Fund's most recent TCFD report, which can be found at appendix A, was approved for publication by the Pensions Committee at their meeting in December 2023.

#### *Responsible Investment Framework*

- 3.5 The Fund's Responsible Investment (RI) Framework sets out the Fund's approach to integrating responsible investment across its investment strategy and defines the beliefs, principles and processes that underpin the work carried out by the Fund. As part of the

annual review of the Responsible Investment Framework, the Fund is looking to enhance its policies and processes for monitoring asset managers' integration of responsible investment factors.

- 3.6 Following a review of the Fund's existing engagement themes, and through discussion with LGPS Central and the Fund's sustainable equity managers, the Fund is proposing a refresh of its engagement themes which are expected to run from 2024-2027. Further training on the proposed engagement themes will be provided to Governing Body members in March 2024 ahead of the final version of the RI Framework which will be shared with the Pensions Committee for approval.

#### *Member Communication Strategy*

- 3.7 The Fund is looking to integrate RI communications through its existing communication channels. This quarter, Fund officers presented at the Active Member Engagement Forum and created RI-focused leaflets to be distributed at the Member Roadshow events. The Fund also submitted a case study on its RI Member Survey to the Occupational Pensions Stewardship Council (OPSC) to share learnings and insights to the wider investment community. Upon further analysis the RI member survey achieved a response rate of 6.0% based on the members who received the survey, which is an increase in the response rate reported in the previous quarter's report.

#### **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, with the February meetings set to review the Company's business and budget plans for 2024/25, in line with the annual cycle and collaborative pool process.
- 4.3 The Joint Committee for LGPS Central last met on 21 July 2023 and will next meet on 2 February 2024. 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 membership includes the Chair of Pensions Committee and Trade Union Representative Malcolm Cantello (Unison), Pensions Committee Member.
- 4.4 In August 2023, the Department for Levelling Up Housing and Communities (DLUHC) launched a [consultation](#) on next steps for investment for Local Government Pension Schemes (LGPS). The Fund provided its response by the 2 October 2023 deadline reflecting broad support for the direction of travel on pooling and investment in illiquid assets and those supporting the levelling-up agenda. However, the Fund did raise some practical points on implementation and the importance of fiduciary duty to our stakeholders. DLUHC provided their [response](#) to the consultation late in November 2023, broadly sticking with their original proposals with some modifications reflecting our and other respondents comments. A briefing on the proposals and initial views of the Fund was provided to Pension Committee at the December meeting. The Fund will be cognisant of the proposals in its consideration of investment strategy and the implementation thereof, and in its role as

Shareholder and Partner of LGPS Central, in order to look after the interests of the Fund's members and employers.

## **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 LGPS Central Joint Committee agendas, papers and questions: [Meetings and Agendas | Members \(cheshirepensionfund.org\)](https://www.cheshirepensionfund.org/Meetings-and-Agendas-Members)
- 9.2 Local Government Pension Scheme (England and Wales): Next Steps on Investments Consultation Outcome: [Local Government Pension Scheme \(England and Wales\): Next steps on investments - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments)
- 9.3 Local Government Pension Scheme (England and Wales): Next Steps on Investments – Government Response: [Local Government Pension Scheme \(England and Wales\): Next steps on investments - government response - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments-government-response)

## **10.0 Schedule of Appendices**

- 10.1 Appendix A- Taskforce for Climate-related Financial Disclosure Report.