

Report title

Investment Governance

Originating service

Pension Services

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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 Responsible Investment Framework 2024 [Appendix A].

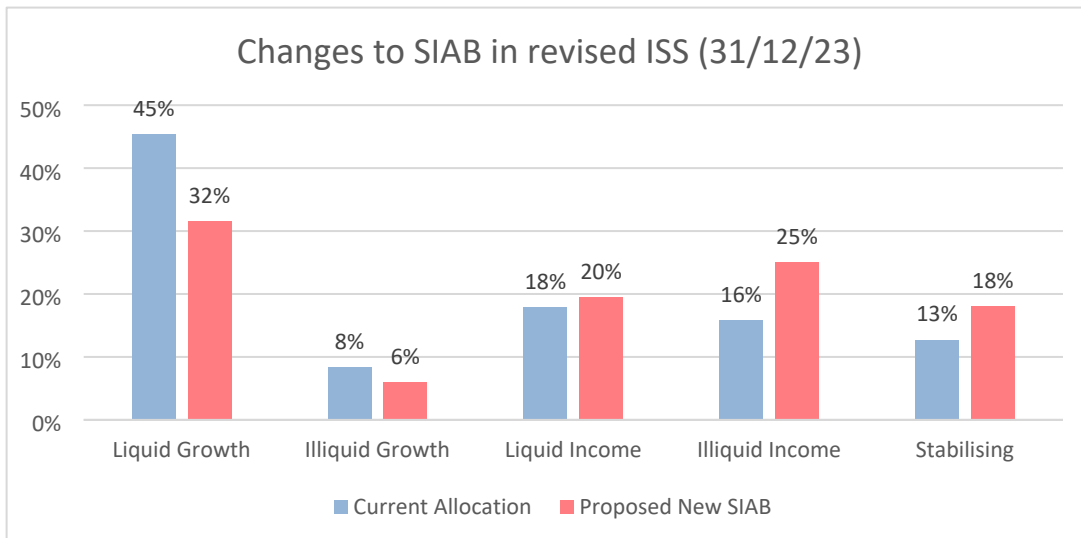
1.0 Purpose and Background

- 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 The Fund's Investment Advisory Panel (IAP), comprising external advisers, the Executive Director of Pensions, Assistant Director of Investment Strategy and Assistant Director of Investment Management and Stewardship, continue to review strategic asset allocation, implementation and adherence to the Fund's 2023 Investment Strategy Statement (ISS), Responsible Investment Framework and Climate Framework and Strategy including development and allocation to sub-funds as these are developed by the pool and delivery against policy ambition, taking into account the strategic fit for the Fund. The Pensions Committee is due to receive the next annual report from the IAP at the June 2024 meeting.
- 2.2 Performance of the investment portfolio to 31st December 2023 is shown in the report in the Quarterly Investment Report to Committee, which has been provided as a background paper.
- 2.3 A full review of the strategic asset allocation for the WMPF Main Fund and the two Admitted Body Separate Funds (ABSFs), was undertaken in conjunction with the respective 31st March 2022 triennial actuarial valuations. The Fund's Investment Strategy is represented by the Strategic Investment Allocation Benchmark (SIAB), which sets out how the assets are allocated between different types and classes of investments. Following the strategy review the SIAB has been updated and is included as part of the updated Investment

Strategy Statement (ISS) which was approved by Committee in March 2023. The revised allocation is shown below.



2.4 The changes to the Fund’s portfolio to implement the revised SIAB were significant. Officers worked with advisers and put in place a 3-step process spanning the period to the next triennial valuation in March 2025. A summary of the three steps is as follows:

| Step | Timing | Key Themes |
|------|----------------------------|--|
| 1 | July to December 2023 | <ul style="list-style-type: none"> 9 to 10% reduction in Liquid Growth assets with proceeds to Liquid Income and Stabilising Assets. Use of existing underlying asset building blocks as far as possible |
| 2 | January to September 2024 | <ul style="list-style-type: none"> Further reduction in Liquid Growth together with implementation improvements for this building block. New commitments to Illiquid Income |
| 3 | October 2024 to March 2025 | <ul style="list-style-type: none"> Final refinements and implementation |

2.5 The implementation of the new SIAB is going to plan and it is expected that by end April 2024 the strategic asset allocation will be broadly in line with targets.

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.

4.0 Responsible Investment Framework

- 4.1 The Fund's Responsible Investment Framework defines the beliefs and principles that underpin the Fund's policies, processes and responsible investment activities that it undertakes. Following an annual review of the framework changes have been made to reflect the enhancements the Fund has made to its approach of integrating responsible investment across the Fund's investment strategy. Included within the framework are the Fund's updated engagement themes for 2024-2027. The engagement themes have been selected following research and analysis from peers and industry, considering investment risk to the portfolio, and are sufficiently aligned to the themes from the Fund's core external managers including LGPS Central. The engagement themes have been recommended and discussed with the Fund's Governing Bodies at their meetings in December 2023 and January 2024, further training was also provided in March 2024 on these themes. Appendix A contains the Responsible Investment Framework, approved by the Pensions Committee at their meeting on 20 March 2024.

5.0 Voting Principles

- 5.1 The Fund's Voting Principles outlines the UK voting guidelines that have been developed with external managers and LGPS Central. They have been updated in tandem with LGPS Central's Voting Principles. International voting guidelines are set in line with EOS' recommendations. This review focuses on reinforcing existing policy with key updates and strengthening expectations around sustainable business practices, including companies' engagements with Nature Action 100+; company's management of climate-related risks against the Paris Accord; increased diversity at senior management and the responsiveness of company boards to engagement. A draft version of the Voting Principles can be found in Appendix B. This is expected to be finalised in May 2024 ahead of the voting season.

6.0 Annual Stewardship Report

- 6.1 The draft 2024 Annual Stewardship Report discloses the Fund's responsible investment and stewardship activities during the 2023 calendar year. The 2024 report has been developed taking into account feedback provided by the Financial Reporting Council (FRC) on the Fund's 2023 report and internal gap analysis to FRC's requirements. Enhancements made include a particular emphasis on the identification and management of risks, as well as articulating the Fund's initiatives in engaging with stakeholders. The section detailing customer engagement demonstrates the Fund's efforts to facilitate knowledge sharing and assess the level of interest and awareness with regards to responsible investment. The Stewardship report will be submitted to the FRC for review in May 2024. A copy of the Stewardship will be circulated to Board Members prior to the meeting.

7.0 LGPS Central Investment Pool Governance

- 7.1 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).
- 7.2 The Joint Committee met on 2 February 2024. A link to the papers including the pool risk register, internal audit workplan and Company presentation is included in the background papers for this report, together with the draft minutes of the meeting. Areas of discussion included the outcomes of the LGPS investment consultation, presentation of the pool risk register, investment performance and enhancements to the pool’s responsible investment and stewardship work.
- 7.3 The Executive Director of Pensions is appointed as the Shareholder representative for the West Midlands Pension Fund, attending Company meetings and voting on resolutions on behalf of the Authority. Company resolutions focus on the business of the regulated operating Company, with reporting back to Governing Bodies and through regular consultation and briefings with the Committee Chair. More generally, Senior WMPF Officers have specific roles and touch points with the Company (Board, Executive and Investment Directors) in both Shareholder and Client capacity, recognising that the Company is the entity through which WMPF and Partner Funds will meet their strategic investment objectives and statutory duty of pooling.
- 7.4 Alongside routine matters, Shareholder and Company discussions over the last 2-3 months have considered the future direction of the pool, linked to the Partnership’s ambition and response to the outcome of the Government’s LGPS investment consultation, published in November 2023.

8.0 Financial Implications

- 8.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund’s objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

9.0 Legal Implications

- 9.1 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.

10.0 Equalities Implications

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

11.0 All Other Implications

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

12.0 Schedule of Background Papers

12.1 LGPS Central Joint Committee Papers:

[Meetings and Agendas | Members \(cheshirepensionfund.org\)](#)

12.2 [Quarterly Investment Report to 31 December 2023 from Pensions Committee Meeting 20 March 2024](#)

13.0 Schedule of Appendices

13.1 Appendix A – Responsible Investment Framework

13.2 Appendix B – Draft Voting Principles