



RESPONSIBLE INVESTMENT FRAMEWORK

MARCH 2024



West Midlands Pension Fund

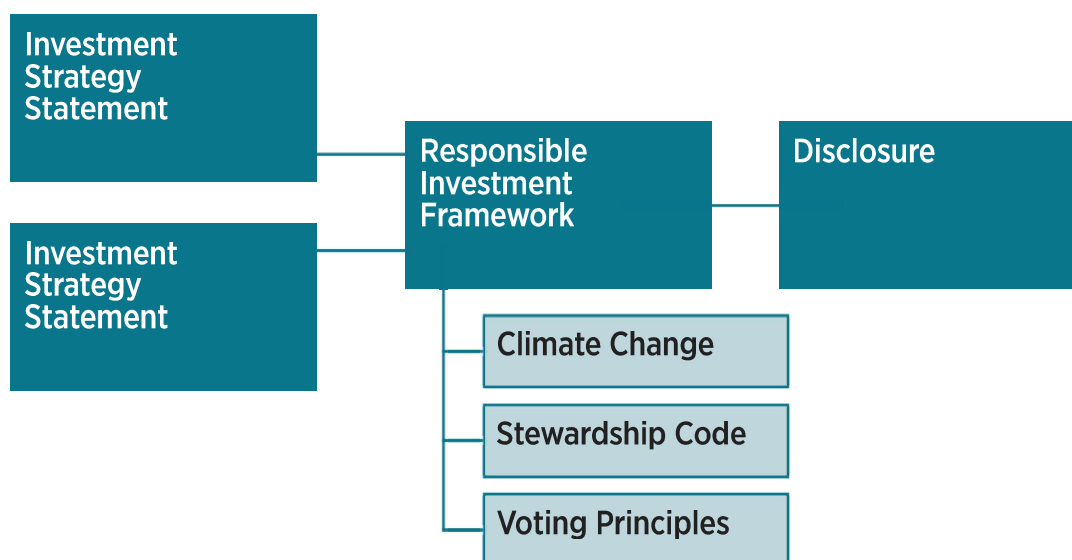
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1 PURPOSE

Our Responsible Investment (RI) Framework outlines our approach and commitment to RI. We consider environmental, social and governance (ESG) factors throughout our investment strategy and implementation processes. We believe that this protects and enhances the value of assets over the long-term and enables us to fulfil our fiduciary duty to pay members' pension benefits when they fall due.

We have developed our RI Framework in the context of relevant regulations, statutory guidance, and the advice of the Law Commission. It can be used to inform and used alongside our Investment Strategy Statement. It also supports the practical application of our RI reports and disclosure shown in the figure below.



Our Pensions Committee have ultimate responsibility for our investments and the development and review of all investment policies. Our Executive Director of Pensions, Assistant Director - Investment Management and Stewardship, and Assistant Director - Investment Strategy are responsible for the oversight and implementation of these policies.

We review our RI framework annually or when we need to make exceptional changes. This version is effective from March 2024 and replaces all prior versions.

2 BELIEFS AND GUIDING PRINCIPLES

The term “responsible investment” refers to the integration of financially material ESG factors into investment processes¹. 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 investment considerations.

¹ As defined by the [Principles of Responsible Investment](#)

Our Investment Beliefs

Our Statement of Investment Beliefs, set out in our Investment Strategy Statement, cover:

- **Financial market beliefs** – We adopt a long-term approach to investing as our liabilities stretch far into the future, but in doing so, we seek 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** – We believe having effective governance structures and policies will enable rigorous and tested decision making and will add value to over the longer-term. Transparency and cost effectiveness provide key tenets of being a well-governed Fund.
- **Investment strategy** – Our investment strategy encompasses our approach to risk management, risk tolerance, liquidity and levels of return required to meet our strategic objectives. We set our strategic asset allocation to deliver the long-term returns required to meet our 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 asset owners we believe that investing responsibly is key to ensuring the long-term value of the assets in which we invest are 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. We integrate responsible investment into the way we select and stewards all assets.
- **Climate change** – We adopt an evidence-based approach to climate change and believe there is overwhelming evidence to support that climate changes poses both risks and opportunities to our investments. We will consider the impact of climate change in both our asset allocation and investment process when making decisions.

Climate Change and Biodiversity Loss

Climate change is a systemic and financially material risk that has been highlighted by the industry as the greatest risk to investments² particularly spanning into the long-term. Climate change has a significant impact on biodiversity loss, impacting natural ecosystems which are intrinsically linked to all aspects of our economy. We have 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, we seek to proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible. Additionally, we look to benefit from potential opportunities through considering investments in climate solutions. Real-world decarbonisation of the economy is necessary to address these risks with a priority on active engagement and driving outcomes from investee companies.

² [World Economic Forum: Global Risks Report 2023, Global Risks 2033, Tomorrow's Catastrophes](#)

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.

We are a strong supporter of the United Nations' Paris Agreement and believe that policy makers, consumers, companies, and investors have a role to play in increasing awareness and enabling a just transition through strong governance and action.

As part of our commitment to achieving net zero by 2050 or sooner we aim 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, we are engaging to increase disclosure and aid development of policy instruments.

We undertake and disclose our 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

We 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. We extend this principle of "engagement for positive change" to the due diligence, appointment, and monitoring of fund managers.

We believe our effectiveness is improved by acting collectively with other like-minded investors because it increases the likelihood that we will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. We recognise the need to operate at a market-wide level to promote improvements and develop effective RI processes that will help us to deliver sustainable long-term growth.

Exclusions

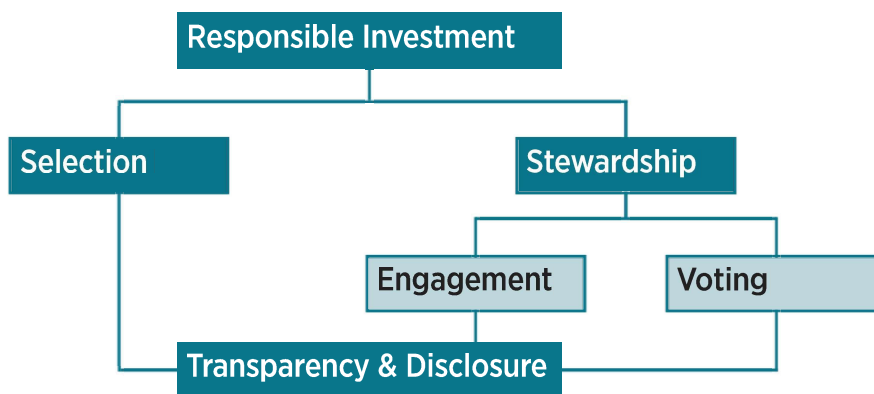
Given our approach of engaging to positively drive change, we do not apply blanket exclusions at the portfolio level. Applying such exclusions may result in more concentrated exposures and/or lead to missing out on attractive opportunities. We look to take a pragmatic approach of working with our investment providers to understand their investment approach to ensure alignment with our beliefs. There may be certain circumstances where exclusions may be applied at the underlying portfolio/manager level and these are considered on a case-by-case basis.

Remuneration and Cost Management

Executive remuneration and investment management costs matter, particularly in helping in the alignment of long-term goals. Fee arrangements with fund managers and the remuneration policies of investee companies should be aligned with our long-term interests. We recognise that it is part of our fiduciary duty to ensure that there is appropriate alignment across industry-wide cost transparency initiatives and that these are pivotal in aiding greater understanding of cost to enable improved alignment and cost management.

3 STEWARDSHIP

We look to integrate responsible investment principles throughout our investment strategy. This is both before the investment decision – through the selection and appointment of managers, and after the investment decision through ongoing stewardship via engagement, voting and monitoring of managers and fund performance. We look for evidence of increasing use of ESG risk factors in decision making throughout the investment value chain.



We aim to be transparent to our stakeholders through regular, high-quality disclosure. Disclosures are made quarterly at Pension Committee meetings, regular updates to our website and annually through our Annual Report and Accounts, Annual Stewardship Report, and Climate-Related Financial Disclosure Report.

Selection

We aim 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”).

We collect the following information from each manager during the selection process, where applicable to the asset class:

- A 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’³ as a condition of appointment.

Appointment

We assess the RI capability fund managers across five categories: policy, people, process, performance and transparency and collaboration. This looks at both the integration of RI and ESG in the investment process as well as assessing the manager's corporate values, practices and beliefs.

We are willing to hire a fund manager at an early stage of developing their 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", we believe that there is added value in working managers to develop their approach.

Monitoring

Each fund manager is expected to report⁴ to us at agreed intervals on how their RI activities are contributing to improved long-term risk-adjusted returns including the provision of climate-related metrics as stated in certain investment mandates. Additionally, we will routinely meet with our fund managers to monitor their performance and level of RI integration, in most cases on a quarterly basis.

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 our 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.

Where issues have been identified through the monitoring process this will result in increased monitoring, with the manager being notified of the areas of concern. Suitable action plans will be developed to provide an opportunity for the issue to be resolved, however, if insufficient progress is made then further action will be considered which may result in withholding or withdrawing capital from the manager.

Transparency and Disclosure

We update our beneficiary members, governing bodies, and regulators on our RI activities through:

- disclosing RI policy documents publicly, e.g. Annual Responsible Investment Framework, Climate Change Framework and Strategy and Voting Principles
- providing a public summary of our RI activities, including our engagement and voting activity⁵, in our Annual report and Accounts and our Annual Stewardship Report

³ [LGPS Scheme Advisory Board - Code of Transparency \(lgpsboard.org\)](https://www.lgpsboard.org/)

⁴ Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

⁵ In line with Regulation 57 of the 2013 Regulations.

- providing a public summary of our RI activities in quarterly reports to our Pensions Committee
- publishing aggregate voting and company engagement statistics on a quarterly basis; and
- disclosing our approach to managing climate change risk and progress against our net zero targets publicly in the Climate-related Financial Risk report, using the recommendations made by the Taskforce on Climate-related Financial Disclosures Framework (TCFD).

Additionally, we engage directly with our members via regular communications such as member newsletters and RI-specific leaflets as well as participating in face-to-face member events including Member Engagement Forums.

LGPS Central Limited

Since April 2018, Fund assets have been transitioning into the LGPS investment pool, and pooled vehicles created by LGPS Central Limited. 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 Framework⁶, which we review on an annual basis. As part of an advisory agreement, LGPS Central provide us with ongoing monitoring of our assets held outside the pool which incorporates views on the level of RI integration undertaken by fund managers.

4 ENGAGEMENT

Investee Companies

Our 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).

We will, either directly, collaboratively or through specialist service providers or fund management arrangements:

- hold constructive dialogue with investee companies;
- encourage transparency and disclosure on a range of ESG issues, for instance on climate action plans, undertaking water assessments or disclosing country-by-country tax practices to name a few, and including actions and progress on these risks and opportunities
- participate in the development of public policy on RI issues.

⁶ [LGPS Central Responsible Investment and Engagement Framework 2023](#)

Engaging in Partnership

We engage with our investee companies in partnership with:

- engagement providers, LGPS Central's stewardship provider or through the Local Authority Pension Fund Forum, or
- focused initiative on a specific challenge or theme, including the Rathbones Modern Slavery Engagement, Climate Action 100+ and Nature Action 100+.

We recognise that systemic risks that pertain to a sector or industry, or even the entire financial system, requires global collaboration to send strong signal to companies and industries for change, and therefore, protect the value of our investments.

More details on our membership and initiatives on page 12.

Shareholder Litigation

We 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 financial losses.

For US-based claims, our options would be:

- remain in the class action and file proof of claim through the claims administrator
- participate as a lead plaintiff in a class action
- opt out and file a private action.

For non-US based claims, our options would be to join an existing group action or file a group action as a lead plaintiff.

We take a case-by-case approach in determining whether or not to join a class action but considers factors such as:

- advantages and disadvantages of becoming actively involved
- relative size of our potential losses compared to other organisations
- likelihood of success; and
- whether we are fully indemnified against costs, expenses, counterclaims, and any other losses.

Voting

We use our shareholder voting 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. Equally, voting can set the tone of future company engagement and dialogue with an investee company. Our Voting Principles outline our approach and the key considerations when we take when exercising our voting rights. Our Voting Principles are reviewed on an annual basis and have been developed in conjunction with LGPS Central and through dialogue with our equity managers.

Our voting rights are executed by LGPS Central, and their appointed engagement provider, EOS at Federated Hermes. Our voting recommendations are input into the Institutional Shareholder Services (ISS) platform and are cast if there is no further intervention, except in the case of share-blocking votes. We take a pragmatic approach to ensure efficiency towards the voting process, alignment to our beliefs and to maximise our voting rights.

In instances where LGPS Central have 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. This priority list of companies provides a layer of assurance to ensure our Voting Principles are executed accurately.

We have an active security 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 our climate risk reporting and/or Climate Action 100+ engagements. These restrictions are lifted after the AGM season.

Policy Advocacy

To address the global challenges and initiate change, collaboration is required from all stakeholders, such as public policy makers, regulators, trade bodies 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 our fiduciary responsibilities. Therefore, with other like-minded investors, we may engage with these bodies in policy advocacy, developing regulations or signing investor letters and statements. We consider these initiatives on a case-by-case basis.

5 ENGAGEMENT THEMES FOR 2024-2027

We use engagement themes to highlight and prioritise material investment risks within our portfolio and the wider investment industry. These risks are so prevalent in scale and importance they often require global collaborative action.

For 2024 – 2027 we have revised our engagement themes based on the materiality of our investments, industry direction and action, and broad alignment with LGPS Central, our stewardship providers and asset managers.

Climate Change and the Net Zero Transition

Integrated into our investment beliefs, there is overwhelming evidence of the risks and opportunities that climate change presents to our investments. We believe 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 our investment strategy and our commitment to achieve net zero by 2050. Our approach, including identification, assessment and management of climate-related risks is detailed in a standalone policy and climate-related financial disclosures report.

We have a proactive programme of climate change stewardship, primarily leveraging our strategic partnerships and through our support of the Transition Pathway Initiative, Climate Action 100+ , 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 and address nature-related risk and transition towards a circular economy to mitigate the increasing loss of biodiversity, increasing impacts of climate-related disasters and fragility of the world's global food system. We will look to partner and engage through our 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. We aim 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. We will continue to address these issues through the research, analysis and engagements conducted by all engagement partners including LAPFF and LGPS Central.

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 their 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. We continue 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, responsible tax behaviour and cyber and technology risk including areas such as misinformation and the use of AI.

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>We are a founding member of the LAPFF and our 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. We are an active participant in LAPFF's engagement programs. Membership of LAPFF provides us 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>We are a member of the 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>We are a member of CA100+ - an engagement collaboration of more than 700 investors with a combined \$68 trillion assets under management. CA100+ engages 170 companies on climate risk that are considered high emitters and contribute the most to 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.</p> <p>Through LGPS Central we support 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 \$60trn 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. We have been a signatory of the PRI since 2010 and have continued to be assessed annually on the quality of our RI activities against PRI's requirements and assessments. In our 2023 assessment, we achieved 4 to 5 stars and exceeded the median scores across all relevant categories.
UK Stewardship Code 2020	We have been a signatory to the UK Stewardship Code since 2021, achieving signatory status at the earliest opportunity. The Code sets high stewardship standards for pension funds including the annual assessment of our Annual Stewardship Report.
Paris Aligned Asset Owners Initiative (PAII)	We are a signatory to the PAAO which is a collaborative investor-led global group made up of 56 asset owners with over \$3.3tn in assets. The PAAO supports investors align portfolios to the goals of the Paris Agreement and has set out its reporting requirements on a comply-or-explain basis to facilitate disclosure and transparency on our net zero transition journey.
Asset Owner Diversity Charter (AODC)	We are 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. The AODC has set out a standardised framework for asset owners to assess their managers in terms of diversity and inclusion.

7 APPENDIX: GLOSSARY OF TERMS

Biodiversity

Is a measure of variation at the genetic, species and ecosystem level. High biodiversity supports a healthy ecosystem that both the human and economic systems are dependent on.

Circular Economy

The model of production and consumption whereby there is a continuous reuse and regeneration of material or products, including the production of goods in a sustainable and/or environmentally friendly way.

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.

Governance

The process and principles by which a company or organisation undertakes their business. This includes how we undertake both our operational and investment responsibilities on behalf of our members⁷.

Net Zero

Refers to equilibrium of greenhouse gas emissions being released and extracted out of the atmosphere to zero.

Paris Agreement or Paris Accord

The Paris Agreement is a legally binding treaty on climate change with a goal on holding “the increase of global average temperatures well below 2°C above pre-industrial levels” and “to limit the temperature increase to 1.5°C above pre-industrial levels.”

Responsible Investment

The integration of financially material environmental, social, and corporate governance (“ESG”) factors into investment processes both before and after the investment decision.

Socially Responsible/Social Impact Investments

Investments that deliver measurable, social benefits as well as a financial return are often described as “social investments”.

We consider opportunities in social investments alongside other opportunities and will assess their relative merits on fundamental grounds and with reference to suitability of fit.

⁷ Detail of the Fund’s governance arrangements, including for investments, and definition of its governing bodies are detailed in the [Investment Strategy Statement 2023](#)

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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