



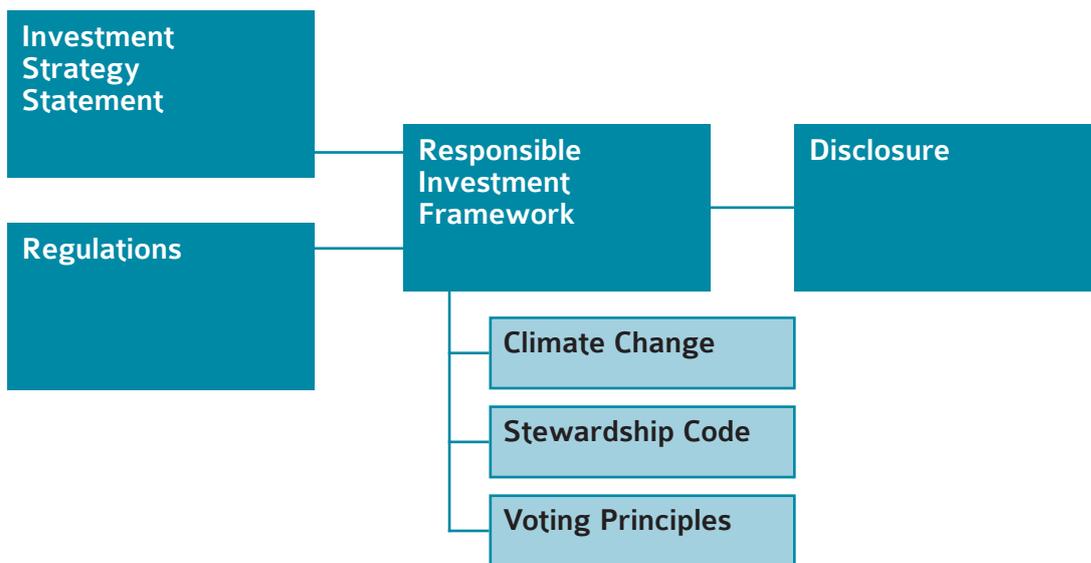
RESPONSIBLE INVESTMENT FRAMEWORK MARCH 2021



West Midlands Pension Fund

1 PURPOSE

This framework defines the commitment of West Midlands Pension Fund (“the Fund”) 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 and fiduciary duty.



This framework has been developed in the context of relevant regulations, statutory guidance and the advice of the Law Commission. Under the framework, the Fund applies a three-pillar approach to implementation: Selection, Stewardship and Reporting & Disclosure. This document sets out the overarching framework for Responsible Investment; supporting practical application is the *Climate Change Strategy and Framework*, *Statement of Alignment with the UK Stewardship Code* and *Voting Principles*.

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 Director of Pensions, supported by the Assistant Directors. This framework applies to all members of the Pensions Committee and the Fund officers.

The Pensions Committee review the framework at a minimum annually, or at such time as the Fund sees fit to revise its RI policies and procedures. This statement updates and replaces the June 2020 *Responsible Investment Framework*. This statement was approved by Pensions Committee on 24 March 2021.

Definitions of Responsible Investment

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

Please refer to the glossary for more definitions of terms.

2 BELIEFS AND GUIDING PRINCIPLES

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 so doing seeks to also 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 is integrating 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.

Engagement and Collaboration

The Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. 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 that will help it to deliver sustainable long-term growth.

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.

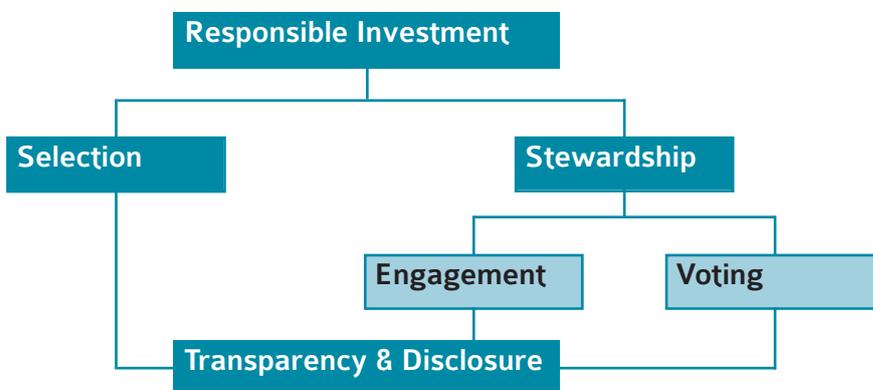
Climate Change

Financial markets could be materially impacted by climate change and by the response of climate policy-makers. The Fund has developed evidenced-based beliefs relating to climate change to assist in monitoring and managing this specific area of risk and opportunity and this is outlined in more detail within the Climate Change Strategy and Framework. 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. The Fund is a strong supporter of the Paris Agreement on climate change and believes that policy makers, consumers, companies and investors have a role to play in increasing awareness and enabling transition through strong governance. 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 and inherent within the investment portfolio, in line with recommendations made by the Taskforce for Climate-related Financial Disclosure (TCFD).

No individual investor nor the investment industry is influential enough to achieve the rate of change required to avoid catastrophic consequences. The Fund supports increasing regulation and guidance for UK pension funds taking effect over 2021 to assess, manage and publish actions on Climate Change.

3 IMPLEMENTATION



Either directly or through Fund management arrangements, the Fund aims to put its responsible investment beliefs into practice through actions taken both before the investment decision (which we refer to as the selection of investments) and after the investment decision (the stewardship of investments).

The Fund is aiming 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 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 LGPS Central Ltd. The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of fund managers across all asset classes.

Fund Manager Due Diligence

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

Fund Manager Appointments

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. However, the Fund will pay particular attention to adherence to relevant soft regulatory codes¹ depending on the market in which it invests.

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.

¹For example the UK Stewardship Code

LGPS Central Limited

Since April 2018, Fund assets have transitioned 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.

Engagement Through Partnerships

The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement programme is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), EOS at Federated Hermes (via a contract held by LGPS Central Ltd), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.

Company Engagement

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

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

Fund Manager Monitoring

Each fund manager is expected to report² at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. 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.

²Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

Industry Engagement

In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to further support the Fund's fiduciary responsibilities.

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 securities litigation. Securities 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 has adopted a separate voting policy which can be found at <https://www.wmpfonline.com>

Transparency and Disclosure

The Fund aims to keep its beneficiaries aware of its RI activities through:

- making its RI policy documents public, eg, voting policies, *Climate Change Framework and Strategy*;
- providing a summary of the Fund's RI activities, including voting activity³, in the annual report;
- providing a summary of the Fund's RI activities in the quarterly reports to the Fund's Pensions Committee;
- publishing aggregate voting and company engagement statistics on a quarterly basis;
- disclosing the outcomes of its voting decisions on a vote-by-vote basis; and
- disclosing the Fund's approach to managing climate change risk using the recommendations made by the Taskforce on Climate-related Financial Disclosures framework (TCFD).

4 ENGAGEMENT THEMES FOR 2020-23

The Fund has selected four engagement themes for the period to 2023: climate change; sustainable food systems; human rights; and responsible financial management.

- **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. It is the Fund's view that the scale of these impacts is such that a proactive and precautionary approach is needed in order to address them. 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.
- **Sustainable food systems** – A sustainable food system is one that delivers food and nutrition security for all in such a way that the economic, social and environmental bases for future generations are not compromised. There has been a shift among consumers who are increasingly aware of, and concerned by, the climate impacts of the food they eat and how sustainably it is produced. Not only is climate change having an impact on the planet, but so are the actions of modern society. The Fund is very conscious of the damage that single use plastics has on the environment and is keen to engage alongside partners in highlighting the risks that single use plastics pose to longer term financial returns.
- **Human rights** - Human rights include civil, political, economic, and social and cultural rights, such as the right to life, the right to freedom of association or the right to health. The ability and commitment to remedy human rights issues reflects the strength of a company's culture and risk management. Many companies are reliant upon global supply chains to access labour in low cost regions. Although no publicly traded companies intentionally support human trafficking, they can become unintentionally complicit in it by inadequately overseeing their supply chains. To combat this, companies must remain vigilant with regard to their suppliers' hiring policies and practices to avoid and discourage these conditions in the workplace.

This theme includes a focus on valuing and supporting greater diversity. As a representative of an asset owner diversity working group, and a member of the 30% club, the Fund has pressed for greater gender and ethnicity diversity on company boards. Fund stewardship work

³In line with Regulation 57 of the 2013 Regulations.

incorporates a drive for wider-ranging action on equality and inclusion to drive change and increase representation and involvement by all.

- **Responsible financial management** – The Fund supports the practice of responsible financial management. The avoidance of tax by some large multinationals has attracted a great deal of criticism, and small businesses shouldering a heavier tax burden have struggled to compete. Instead, more companies are now taking a long-term view that investment in the community and the society in which they operate by paying taxes will ultimately lead to greater prosperity for the business too. As governments, companies and global economies look to “build back better” over 2021, increased focused on financing and reporting arrangements is expected to increase both to demonstrate action on climate change and to respond to demands to reconsider social value.

5 MEMBERSHIPS AND AFFILIATIONS

Local Authority Pension Fund Forum

The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund’s Director of Pensions is currently LAPFF’s Honorary Treasurer. LAPFF is the UK’s leading collaborative shareholder engagement group encompassing 82 local authority pension funds and seven investment pools from across the country with combined assets of around £300 billion. The Fund is an active participant in LAPFF’s engagement programs. Membership of LAPFF provides the Fund with:

- 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.

Other Initiatives

The Fund is a member of Institutional Investors Group on Climate Change (IIGCC), Climate Action 100+, UK RI Roundtable, Transition Pathway Initiative (TPI) and the 30% Club Investor Group. Memberships are reviewed on a regular basis.

6 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.

Ethical Investment

An approach seeking a moral or ethical return, potentially ahead of financial return.

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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