

## **Wales Pension Partnership Responsible Investment Policy**

### **1 Introduction and oversight**

- 1.1 The Wales Pension Partnership (“WPP”) is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds (“Constituent Authorities”).
- 1.2 The investment arrangements of WPP are overseen by a Joint Governance Committee (“JGC”) and supported by an Officer Working Group (“OWG”) and implemented through pooled funds managed by its “Investment Managers”.
- 1.3 This document sets out WPP’s policy on responsible investment for all assets invested within the WPP. This policy has been developed by WPP in consultation with the Constituent Authorities.
- 1.4 WPP’s objective in preparing and implementing this policy is to be able to:
  - 1.4.1 demonstrate to its stakeholders that the WPP is a Responsible Investor; and
  - 1.4.2 enable the Constituent Authorities to substantially deliver their own Responsible Investment and Social Impact policies through the WPP.
- 1.5 WPP recognises that responsible investment considerations pose financially material risks to the assets of Constituent Authorities held within WPP. Such considerations are relevant in relation to both the way the assets of Constituent Authorities are invested and in the exercise of stewardship responsibilities.
- 1.6 This policy will be reviewed by WPP on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC and OWG. In order to inform the policy review, WPP will consult with or otherwise obtain the views and requirements of all Constituent Authorities.
- 1.7 In developing and implementing this policy, WPP will have regard to the Well-being of Future Generations (Wales) Act 2015, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any relevant guidance provided by the Scheme Advisory Board (“SAB”), the Ministry of Housing Communities and Local Government (“MHCLG”) and the Welsh Government.

### **2 Ambition and beliefs**

- 2.1 WPP’s long-term ambition is to demonstrate leadership on RI practices in managing assets for and on behalf of the Constituent Authorities. WPP, in conjunction with the OWG & JGC, will update its annual business plan to ensure that sufficient time and resources are provided to implement the requirements of this policy.
- 2.2 WPP recognises that the development of beliefs represents best practice for asset owners. In consultation with the Constituent Authorities, the WPP has developed and agreed the following responsible investment beliefs which serve to underpin its decision-making and governance processes.
  - 2.2.1 The RI behaviours we want to see demonstrated by all our stakeholders must be led by WPP;

- 2.2.2 Integration of ESG factors, including climate change, into investment processes is a prerequisite for any strategy given the potential for financial loss;
  - 2.2.3 WPP is most effective as an investor engaging for change from within, particularly in collaboration with other like-minded investors, as opposed to a campaigner lobbying for change from outside.
  - 2.2.4 Our impact on corporate behaviours will be greatest when we speak with one voice;
  - 2.2.5 Effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.
- 2.3 WPP will test adherence of the investment arrangements it implements to these beliefs on an annual basis. WPP will also periodically test the continuing appropriateness of its beliefs

### **3 Investment strategy**

- 3.1 The Constituent Authorities are individually responsible for setting investment strategy (and the underlying structure of those strategies, e.g. geographical exposure) for their own funds which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes including but not limited to equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.
- 3.2 WPP openly encourages the Constituent Authorities to develop their own RI policy as part of their investment strategy. WPP has developed and may periodically amend this RI policy to ensure that it complements those of the Constituent Authorities.
- 3.3 WPP will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations. WPP will use this information to prioritise the development and launch of future investment solutions/funds within the WPP.
- 3.4 In conjunction with its advisers the WPP will also consider opportunities arising from a greater understanding of ESG factors. These opportunities could include impact and/or sustainability themed strategies, as well as social beneficial investments. WPP may propose such opportunities directly for consideration by Constituent Authorities including strategies which either meet the responsible investment requirements of Constituent Authorities or have the potential to deliver benefit within the regions covered by the Constituent Authorities.

### **4 Climate change**

- 4.1 Climate change presents a systemic risk that has the potential to affect economies, financial returns and demographics. The risks arising from climate change may arise from environmental, social, governance or other factors and are generally characterised as follows:
  - 4.1.1 Physical risks, such as damage to property from flooding or lower precipitation giving rise to crop failure;
  - 4.1.2 Transition risks, being the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy; and

- 4.1.3 Liability risks, being the potential costs arising from parties who have suffered loss or damage due to climate change seeking compensation from those they hold responsible.
- 4.2 Climate change is increasingly being recognised by regulatory bodies and legislators as an issue that must be explicitly addressed by asset owners and investment managers. The uncertainty arising from climate change has implications for Constituent Authorities through the investments made within WPP.
- 4.3 WPP will engage with its providers to ensure that a common mechanism for monitoring climate related risks can be developed in respect of all WPP assets. Through this, WPP aims to provide support to Constituent Authorities in developing and implementing their own climate risk management policies.
- 4.4 WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosures.
- 4.5 In developing its ongoing approach to responsible investment, WPP will consult further with Constituent Authorities with a view to developing a WPP-specific climate risk policy.

## **5 Exclusions**

- 5.1 WPP has not adopted a policy of exclusionary practices within its underlying active manager portfolios. However, the WPP recognises that the Constituent Authorities may individually adopt an exclusionary policy.
- 5.2 WPP recognises that active investment management is by its very nature exclusionary and therefore expects that all the investment managers employed within WPP will properly consider climate-related and other ESG risks in decision making within their respective portfolios.
- 5.3 Constituent Authorities have the ability to invest in passive or other rules-based strategies through WPP's passive Investment Manager which may follow an exclusionary approach.

## **6 Implementation of strategy**

- 6.1 WPP expects that the Investment Managers employed to manage WPP assets will take account of ESG-risks as part of their investment analysis and decision-making process. WPP further expects its Investment Managers to be able to demonstrate and evidence high standards with regards to their integration of responsible investment considerations. Where necessary, WPP or its delegates will engage with investment managers who fail to meet WPP's expectations to agree a plan to address any shortcomings.
- 6.2 WPP expects that, in all relevant circumstances, its Investment Managers will be signatories to the Principles for Responsible Investment ("PRI") and the Financial Reporting Council ("FRC") UK Stewardship Code.
- 6.3 WPP will engage with its Investment Managers on an ongoing basis to ensure that ESG factors are transparently reflected in decision making processes and that the approach taken to the management of ESG factors can be properly evidenced. WPP expects that such processes extend beyond reliance purely on third party ratings/data.

- 6.4 Within rules-based or index tracking mandates managed, WPP recognises the influence of benchmarks on the selection of assets. Where appropriate, WPP will work with its Investment Managers and Constituent Authorities to ensure that the potential implications and impact of ESG factors on different approaches are properly understood.

## **7 Stewardship**

- 7.1 WPP believes that failing to exercise voting or other rights attached to assets could be contrary to the interest of the beneficiaries of the Constituent Authorities. WPP also believes that successful engagement with investee companies can protect and enhance the long-term value of the Constituent Authorities' investments within WPP.

### **Voting**

- 7.2 WPP has agreed a set of voting principles with its Operator which is responsible for the implementation of these principles. The Operator has instructed the underlying active investment managers within pooled funds to apply these voting principles on a comply or explain basis in respect of their portfolio(s).
- 7.3 WPP recognises that its passive Investment Manager may adopt a single voting policy across their pooled funds and WPP will review the appropriateness of such a policy on a periodic basis. WPP will engage with its passive Investment Manager to consider how WPP's voting principles can be extended to assets managed by its passive Investment Manager.
- 7.4 WPP will receive a report on all voting activity, including details of any votes which have not been cast and explanations where votes have not been cast in accordance with the agreed principles on a quarterly basis. WPP will discuss any issues of concern with its Investment Managers or other delegates as necessary.
- 7.5 WPP will review the voting principles in conjunction with its advisers and Investment Managers on an annual basis. WPP intends to appoint a single proxy voting adviser to ensure that voting on all shares held within WPP is undertaken on a consistent basis.
- 7.6 All the Constituent Authorities are members of the Local Authority Pension Fund Forum ("LAPFF"). As members, the Constituent Authorities receive LAPFF Alerts when there is a campaign to vote in a certain way. WPP and its Constituent Authorities will give consideration to all such LAPFF Alerts and, where possible, instruct its Investment Managers to vote in line with the LAPFF Alert unless there is sufficient reason not to.

### **Stock lending**

- 7.7 WPP has agreed that stock lending will be permitted within WPP's actively managed pooled funds, subject to consultation with Constituent Authorities in respect of each underlying sub-fund at the point of set up. However, WPP will not lend 100% of the holding in any single stock so WPP can express its views and make a policy stance on any topic it deems worthy though its right to vote.
- 7.8 WPP recognises that stock lending may inhibit the full application of its voting policy as votes may not be cast on stock on loan. WPP will continue to monitor the impact of this policy stance over time and revise its policy if required.

## **Shareholder engagement**

- 7.9 WPP considers that, in many cases, its Investment Managers are best placed to engage with investee company management due to:
- the practical constraints of the investment structure;
  - the resources available to these managers which are funded by the fees paid through WPP; and
  - the existence of relationships between investment managers and the underlying investee companies.
- 7.10 The Investment Managers are ultimately accountable to WPP for all engagement activity; they should be able to demonstrate, when challenged, the reason for any engagement activity and the objectives of the engagement. Further to this Investment Managers should be able to justify the approach taken to achieve their objectives and explain the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.
- 7.11 WPP adopts an evidence-based approach to assessing engagement activity by managers. WPP will receive a report on engagement activity undertaken by investment managers on a quarterly basis. WPP will discuss any issues of concern with the Investment Managers.
- 7.12 WPP is exploring the appointment of a single engagement provider and a proxy voting agent.

## **8 Collaboration**

- 8.1 WPP believes that collaboration has an important role in helping the WPP achieve its RI objectives. WPP will continually assess potential collaboration opportunities and will inform and seek input from the Constituent Authorities on any such opportunity that it deems to be relevant.
- 8.2 WPP together with all Constituent Authorities are members of LAPFF and engagement takes place with companies on behalf of members of the Forum.
- 8.3 WPP has an ambition to work collaboratively with other like-minded investors and representative bodies in order to maximise the influence of WPP's assets on investee companies. WPP will seek to identify investor led responsible investment initiatives and collaborations that can be actively supported.
- 8.4 WPP will encourage underlying investment managers to participate in or support collaborative engagements where it is deemed to be in the best overall financial interests of Constituent Authorities.
- 8.5 WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.

## **9 Monitoring, Reporting and Measurement**

- 9.1 WPP aims to be aware of, and monitor, financially material ESG-related risks and issues within WPP assets. In consultation with Constituent Authorities, Advisers and the Investment Managers, WPP will develop appropriate monitoring metrics for existing portfolios and agree appropriate metrics in respect of all new portfolios. Such metrics are expected to include

climate-related risk exposures. WPP will require managers to include such metrics in their quarterly reporting to Constituent Authorities.

- 9.2 WPP requires that the responsible investment credentials of all appointed Investment Managers are subject to annual review. In conjunction with the relevant parties, the WPP will develop an appropriate reporting framework for its Investment Managers.
- 9.3 On an annual basis, the WPP will prepare and publish a stewardship report detailing the actions undertaken in fulfilment of this policy and the results achieved.

## **10 Other**

- 10.1 WPP recognises the need for ongoing education for Constituent Authorities on a broad range of investment matters, including responsible investment. As part of its annual business planning, WPP will ensure there is at least one formal training session is directly focused on Responsible Investment.
- 10.2 WPP is investigating, and will seek guidance from the Constituent Authorities, on whether it should become a signatory to the PRI and the updated FRC UK Stewardship Code. WPP will also explore the possibility of incorporating the United Nations' Sustainable Development Goals into its RI beliefs and its monitoring and measurement mechanisms.
- 10.3 WPP expects that all investment managers employed on behalf of WPP will disclose costs in accordance with the SAB Code of Transparency.
- 10.4 WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of their assessment as part of their annual stewardship and governance report.

## **11 Further Information**

- 11.1 If you require any further details on the RI Policy please contact [walespensionpartnership@carmarthenshire.gov.uk](mailto:walespensionpartnership@carmarthenshire.gov.uk) and refer to the WPP website.

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## **Glossary**

Engagement refers to the process of interaction between an investor (or its delegate) and the management of an investee company with the objective of creating change in how the underlying company is managed or governed.

ESG is used to collectively describe a series of different risk factors arising from Environmental (e.g. resource scarcity, waste management, pollution, energy efficiency), Social (e.g. health & safety, workforce diversity, working conditions, data protection) and Governance (e.g. board structure, business ethics, shareholder rights, executive compensation) issues.

Impact is a term generally used to describe the social or environmental outcome arising from a particular investment or investment decision, being distinct from the associated financial outcome.

Investment Managers refers to those investment managers appointed directly or indirectly by WPP for the purposes of managing assets on behalf of WPP.

Operator means Link Fund Solutions as the appointed operator of the Authorised Contractual Scheme through which sub-funds are implemented for WPP.

Principles for Responsible Investment is a global network of asset owners, asset managers and service providers which has the objective of advancing responsible investment practices.

Proxy Voting Agent means an entity which is instructed to advise on and/or cast votes on resolutions on behalf of an asset owner.

Responsible investment refers to investment practices that integrate the consideration of ESG factors into investment management processes and ownership practices, recognising that these factors can have a material impact on financial performance.

Stewardship describes the activities of investors in exercising the rights and responsibilities that come with asset ownership. These practices can include voting on shares and engaging with company management but also includes the oversight of those to whom such responsibilities are delegated.

UK Stewardship Code is a set of principles and provisions produced by the Financial Reporting Council which sets out best practice in stewardship activities by Asset Owners and Asset Managers.

UN Sustainable Development Goals are a set of 17 global goals for 2030 set by the UN General Assembly in 2015.