

**Wales Pension Partnership**  
**Draft 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 Link Fund Solutions (Link), Russell Investments (Russell) and BlackRock Advisers (UK) Limited (BlackRock) (collectively the “Investment Managers”).
- 1.3 The objectives of the JGC in the provision of investment arrangements to Constituent Authorities within WPP are to:
- 1.3.1 Provide access to a range of asset types necessary to enable Constituent Authorities to execute their locally decided investment strategies;
  - 1.3.2 Enable Constituent Authorities to achieve the benefits of pooling investments while preserving the best aspects of what is currently done locally and the desired level of local decision making and control;
  - 1.3.3 Help Constituent Authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.
- 1.4 The JGC 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.
- 1.5 This document sets out the JGC’s policy on responsible investment for all assets invested within WPP. This policy has been developed by the JGC and OWG in consultation with the Constituent Authorities.
- 1.6 This policy will be reviewed by the OWG on an annual basis and, if necessary, changes to the policy will be proposed to and agreed by the JGC. In order to inform the policy review, the OWG will consult with or otherwise obtain the views and requirements of all Constituent Authorities.
- 1.7 In developing and implementing this policy, the JGC 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 guidance provided by the Ministry of Housing Communities and Local Government as appropriate.

**2 Definitions**

- 2.1 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.

- 2.2 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.
- 2.3 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.

### **3 Ambition and beliefs**

- 3.1 The JGC's long-term ambition is to demonstrate leadership on RI practices in managing assets for and on behalf of the Constituent Authorities. The JGC, in conjunction with the OWG, will develop an annual business plan to implement the requirements of this policy.
- 3.2 The JGC recognises that the development of beliefs represents best practice for asset owners. In consultation with the Constituent Authorities, the JGC has developed and agreed the following responsible investment beliefs which serve to underpin its decision-making and governance processes.
- 3.2.1 The RI behaviours we want to see demonstrated by all our stakeholders must be led by the Pool;
- 3.2.2 Integration of ESG factors into investment processes is a prerequisite for any strategy given the potential for financial loss;
- 3.2.3 We are most effective as an investor engaging for change from within, as opposed to a campaigner lobbying for change from outside;
- 3.2.4 Our impact on corporate behaviours will be greatest when we speak with one voice;
- 3.2.5 Effective oversight of RI practices requires clear disclosure of comprehensive data.
- 3.3 The JGC recognises that these beliefs represent a starting point for the guidance of its approach to responsible investment. Although the JGC does not expect to regularly change these investment beliefs, it will test the ongoing appropriateness of its beliefs on a periodic basis in light of changing best practice and developing knowledge.

### **4 Investment strategy**

- 4.1 The Constituent Authorities are individually responsible for setting investment strategy for their own funds which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes such as equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.
- 4.2 The JGC and OWG will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations, including strategies which meet the responsible investment requirements of Constituent Authorities. The JGC and OWG will use this information to prioritise the development and launch of future investment solutions/funds within WPP.

4.3 In conjunction with its advisers and the OWG, the JGC will also consider opportunities arising from a greater understanding of ESG factors, such as impact and/or sustainability themed strategies and may propose these opportunities directly for consideration by Constituent Authorities.

## **5 Climate change**

5.1 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:

5.1.1 Physical risks, such as damage to property from flooding or lower precipitation giving rise to crop failure;

5.1.2 Transition risks, being the financial risks arising from changes in policy and technology to adjust to a lower-carbon economy; and

5.1.3 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.

5.2 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.

5.3 As set out in 9.1 below, the JGC and OWG 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, the JGC aims to provide support to Constituent Authorities in developing their own climate risk management policies.

5.4 The JGC has not adopted a policy of encouraging exclusionary practices within its underlying active manager portfolios. However, the JGC 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 risks in decision making within their respective portfolios.

5.5 Constituent Authorities have the ability to invest in passive vehicles managed by BlackRock which may follow an exclusionary approach.

5.6 The JGC will encourage, through its delegates, all investee companies to disclosure in line with the requirements of the Taskforce for Climate Related Financial Disclosures.

5.7 In developing its ongoing approach to responsible investment, the JGC will consult further with Constituent Authorities with a view to developing a WPP-specific climate risk policy.

## **6 Implementation of strategy**

6.1 The JGC expects that Link, Russell and all the underlying investment managers employed to manage WPP assets will take account of ESG-risks as part of their investment analysis and decision-making process. The JGC further expects that Link and Russell can demonstrate that the managers appointed are best-in-class with regard to their integration of responsible investment considerations.

6.2 The JGC and OWG will engage with Link and Russell on an ongoing basis to ensure that such considerations are transparently reflected in decision making processes and that the approach taken can be properly evidenced. The JGC expects that such processes extend beyond reliance purely on third party ratings/data.

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

## **7 Stewardship**

7.1 The JGC and OWG believe that failing to exercise voting or other rights attached to assets could be contrary to the interest of the beneficiaries of the Constituent Authorities. The JGC and OWG 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 The JGC and OWG have agreed a set of voting principles with Link which is responsible for the implementation of these principles. Link has instructed the underlying investment managers within pooled funds to apply these voting principles on a comply or explain basis in respect of their portfolio(s).

7.3 The JGC and OWG recognise that BlackRock adopts a single voting policy across its pooled funds and have determined that this policy is appropriate at this time. The JGC and OWG will engage with BlackRock to explore the possibility of extending WPP's voting principles to assets managed by BlackRock.

7.4 The OWG 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. The OWG will discuss any issues of concern with Link and BlackRock.

7.5 The JGC and OWG will review the voting principles in conjunction with their advisers and Link on an annual basis. The JGC and OWG have also agreed an ambition to appoint a single proxy voting adviser to ensure that voting on all shares held within the WPP is undertaken on a consistent basis.

### **Stock lending**

7.6 The JGC has agreed with Link that stock lending will be permitted within WPP pooled funds, subject to consultation with Constituent Authorities in respect of each underlying sub-fund at the point of set up. Stock lending takes place within funds managed by BlackRock.

7.7 The JGC recognises that stock lending may inhibit the application of its voting policy as votes may not be cast on stock on loan. The JGC will monitor the impact of this over time.

## **Shareholder engagement**

- 7.8 The JGC considers that, in many cases, the 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.
- 7.9 The Investment Managers are ultimately accountable to the JGC for all engagement activity and should be able to demonstrate, when challenged, the reason for any engagement activity, the objectives of the engagement activity, the approach taken to achieve the objectives, the timeframe over which the engagement is expected to take place and the consequences should engagement be unsuccessful.
- 7.10 The JGC adopts an evidence-based approach to assessing engagement activity by managers and the OWG will receive a report on engagement activity undertaken by investment managers on a quarterly basis. The OWG will discuss any issues of concern with the Investment Managers.
- 7.11 The JGC and OWG have agreed to explore the possibility of employing a single engagement provider in conjunction with the prospective appointment of a proxy voting agent.

## **8 Collaboration**

- 8.1 All Constituent Authorities and WPP are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.
- 8.2 The ambition is for WPP to work collaboratively with other like-minded investors and representative bodies in order to maximise the influence of WPP's assets on investee companies. The JGC and OWG will seek to identify investor led responsible investment initiatives and collaborations that can be actively supported.
- 8.3 The JGC will also 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.

## **9 Monitoring/Reporting**

- 9.1 The JGC and OWG 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, the JGC and OWG will develop appropriate monitoring metrics for WPP portfolios. Such metrics are expected to include climate-related risk exposures. The JGC expects that such metrics will be reported within quarterly reporting to Constituent Authorities.

9.2 The JGC and OWG require that the responsible investment credentials of all investment managers appointed by Link and Russell are subject to annual review. In conjunction with Link and Russell, the JGC and OWG will develop an appropriate reporting framework for underlying investment managers.

9.3 On an annual basis, the JGC will prepare and publish a stewardship report detailing the actions undertaken in fulfilment of this policy and the results achieved.

## **10 Other**

10.1 The JGC 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, the JGC will ensure there is at least one formal training session is directly focused on Responsible Investment.

10.2 The JGC expects that all investment managers employed on behalf of WPP will disclose costs in accordance with the SAB Code of Transparency.

10.3 The JGC and OWG will review the adherence of all parties to this policy on an annual basis. The JGC will publish the results of their assessment as part of their annual stewardship and governance report.

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