



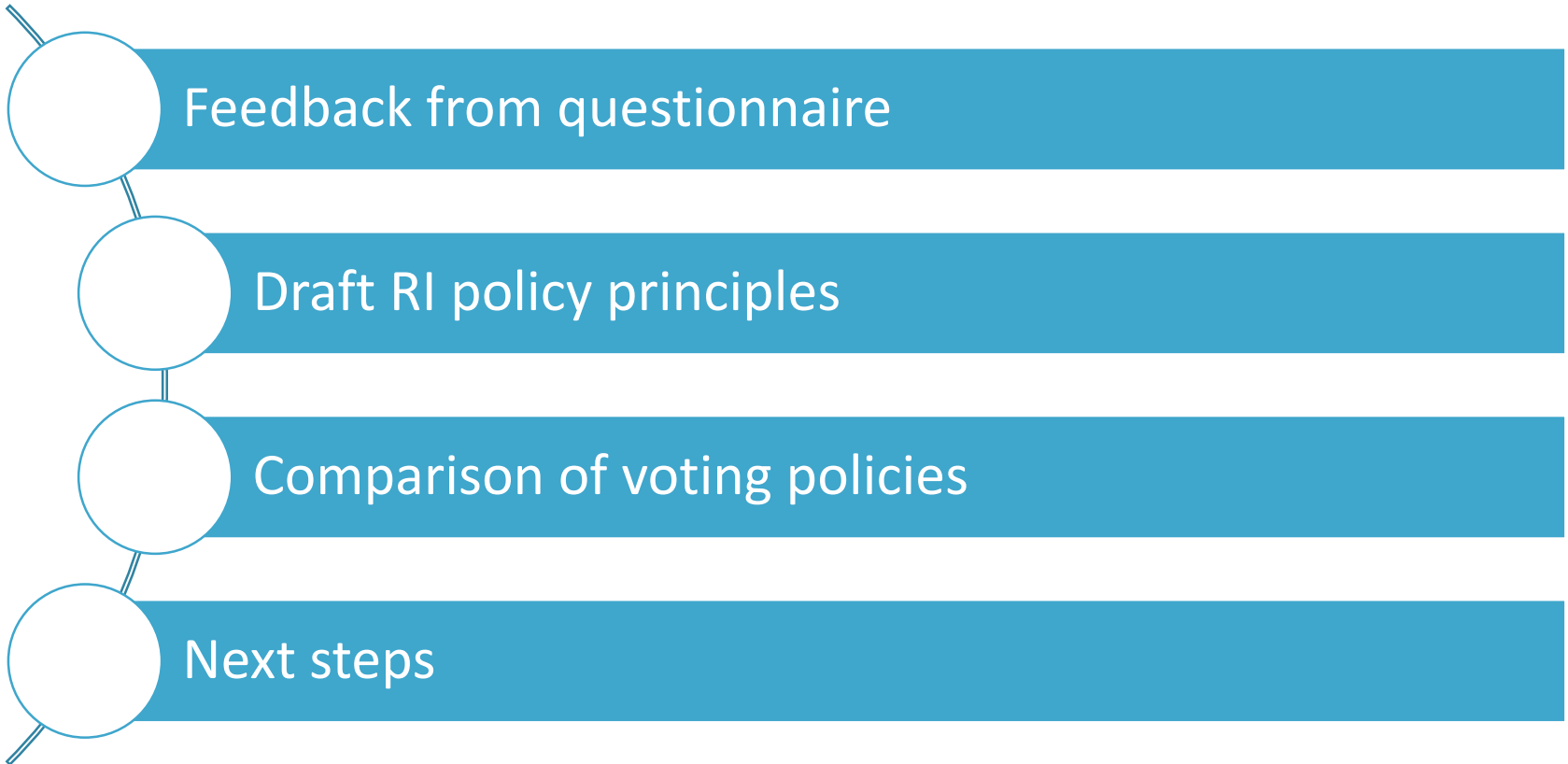
# Development of Responsible Investment policy

Wales Pension Partnership

William Marshall, Partner

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# Agenda



# Questionnaire feedback



# Questionnaire: Overview

- Questionnaire was issued to members of the OWG and JGC.
- Purpose of the questionnaire was to try and gain an understanding of views and positioning on RI issues.
- 15 responses were received, split broadly evenly between JGC and OWG members.
- Full responses are included as Appendix 1.
- The following slides summarise the responses received and areas of consensus/disagreement.
- We have translated these findings into an initial draft policy and suggested actions for the Pool.

# Pool positioning

- Broad agreement that
  - The Pool should demonstrate best practices on RI [25] and provide leadership in helping funds address climate risks [15]
  - The Pool needs to exceed minimum regulatory requirements [16]
  - Collaboration will be positively received by Funds, but this need not be with other LGPS funds or Pools, i.e. the Pool should seek the most appropriate partner [20, 24]
- Strong agreement that:
  - Engagement is preferred to divestment [19]
- No clear agreement on:
  - Enforcing an exclusionary policy across Pool fund offerings [10, 14]

*Note that the numbers in [] represent the relevant questions in the questionnaire. See Appendix 1 for more detail*

# Obligations & understanding

- Strong agreement that:
  - The pool has a requirement to ensure that RI issues are addressed, rather than relying on the managers to do this [17, 23, 29]
  - The Pool should ensure that managers directly integrate ESG considerations into processes [23]
- Broad agreement that RI issues are understood at a Fund level but lesser agreement that this is the same at a Pool level
  - Clarity on the role of the Pool is therefore necessary [1, 2]
- No agreement that:
  - The managers are better placed to consider ESG factors in investment decisions [21]
- Broad expectation that the Pool & Funds should be able to turn to its service providers for support on RI matters [22]

# Managers and Mandate offerings

- Consensus that:
  - Link and Russell have an obligation to the Pool [27]
- No clear agreement on:
  - Prioritising exposure to specialist ESG managers [9]
  - Providing exposure to impact strategies [11]
- Strong agreement that companies with sustainable business practices will outperform [18]
  - Consideration for mandate offerings or monitoring?

# Voting policy

- Broad agreement that:
  - Voting policy should be for the Pool to determine [12]
- No consensus that:
  - Managers should be permitted to adopt different positions in voting on the same resolution [8]



# Disclosure/Monitoring

- Strong agreement that:
  - Reporting on ESG factors and financial performance is needed [3]
  - Managers must be required to disclose ESG information on funds [4]
  - Managers credentials should be reassessed annually [7, 26]
  - Funds should articulate their monitoring requirements to the Pool and the Pool should ensure they are met [28]
  - The Pool should disclose its own RI activities [5]



Draft principles to be  
incorporated into RI policy

# Recap: Issues to include in your policy



Area	Issues to cover
Policy/Governance	Beliefs Education Divestment Fund engagement Approach to review of policy Delegations
Strategy/Structure	Climate risk Approach to different asset classes
Implementation	Approach to manager selection Fees/costs and transparency
Stewardship	Voting policies and approach to voting Engagement with companies Collaboration Litigation
Monitoring	Information/reporting requirements of third parties Approach to reviewing adherence to policy Disclosure/transparency

# Recap: Goals in the development of RI policy for WPP



For the development of a RI policy, the following criteria are suggested:

- **Clear** – Policy should be unambiguous, particularly under external scrutiny.
- **Proportionate** – Policy should reflect where the Funds and WPP are at in their RI journey. There is no need to try to become a Leader overnight.
- **Consistent** – Policy should reflect the decisions that have already be taken both within WPP and, as far as possible, the Funds.
- **Implementable** – Policy should be able to be put into practice using the structure and resources of the Pool.
- **Reflective of best practice** – Policy should consider current regulatory and best practice requirements but be subject to review and change in future.

# Draft RI Policy: Ambition/objectives

- WPP has an ambition to demonstrate leadership on RI practices in managing assets for and on behalf of its member Funds
  - Should clearly define what this ambition looks like and the timeframe over which it is targeted
  - This has a potential impact on resourcing requirements for the Pool and commitments need to be balanced against resources.
- Pool to develop a RI business plan to tie into policy implementation
  - Assessment of progress against the business plan overseen by the JGC and OWG
- Annual reassessment of Fund needs and requirements with regard to RI to inform policy evolution
  - Policy to be guided by member Funds and the pace at which they want to be advanced
- Key themes to be evident in the policy are integration, stewardship and disclosure

# Draft RI Policy: Beliefs

The following beliefs are inferred from the responses to the questionnaires:

- The RI behaviours we want to see demonstrated by all our stakeholders must be led by the Pool.
- Integration of ESG factors into investment processes is a prerequisite for any strategy given the potential for financial loss.
- We are most effective as an investor, engaging for change from within, than a campaigner, lobbying for change from outside.
- Our impact on corporate behaviours will be greatest when we speak with one voice.
- Effective oversight of RI practices requires clear disclosure of comprehensive data.

# Draft RI Policy: Strategy

- Pool will aim to launch products that meet Fund requirements
  - Requirements for impact/sustainability themed strategies to be considered and prioritised on demand
    - Early goal to identify and agree common ground among funds to demonstrate leadership?
  - To what extent should sustainability be emphasised in future strategy launches?
- Pool will support Funds in developing their approach to the management of climate related risks
  - Pool to facilitate the measurement of carbon risk exposures to allow Funds to set benchmarks
  - Consult further on the need to develop a Pool specific climate risk policy

# Draft RI Policy: Integration

- Requirement on Russell/Link to demonstrate best in class managers appointed to the Pool
  - Needs to be beyond just reference to PRI ratings
  - Integration of ESG factors into processes to be demonstrated and evidenced
  - Assessment framework to be agreed
- Ongoing engagement with Russell/Link on process to be followed to provide transparency to Funds



# Draft RI Policy: Stewardship

- Pool to work towards the adoption of a single voting policy to be applied across all equity holdings
  - Agreement on voting standards to be employed
  - Use PLSA policy as a basis, or an alternative
  - Can evolve to consider more specific issues in due course
- Pool to explore the use of a sole agent for implementation of voting policy:
  - Need for further discussion on who this could be and how this could be facilitated
  - Practical considerations on implementation to be explored
  - Combine with reporting requirements on voting to ensure that information is made available as needed
- Pool to provide quarterly reporting to Funds on the execution of voting policy
- Engagement to be delegated to individual managers in the first instance, but work towards a common approach if possible
  - Support for LAPFF can provide some commonality/continuity
  - Could be considered in conjunction with voting agent
  - How will successes be measured and reported?

# Draft RI Policy: Monitoring

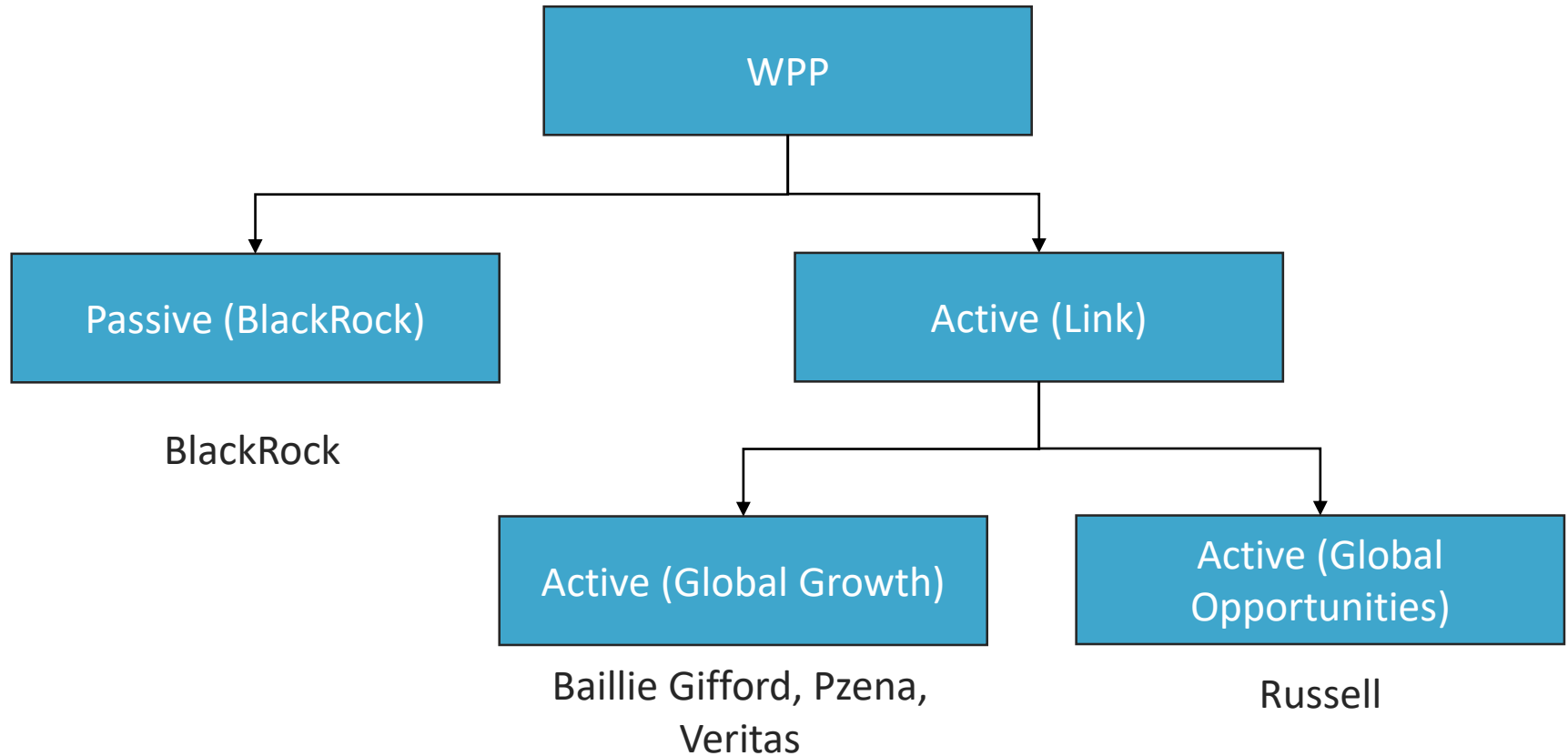
- Managers will be required to report on the ESG characteristics of their portfolios on a quarterly basis:
  - Characteristics to be determined with input from Funds
  - Consistency in metrics across managers to be ensured
  - Ability to measure impact to be included?
- Managers RI credentials should be (re)assessed on an annual basis.
  - Requirement for an annual “sustainability report” from Link/Russell – content to be agreed
  - Need to include more qualitative factors are defined and reported
  - Ensure that reporting is evidence based
- Ongoing scrutiny by Pool
  - Demonstration of ongoing commitment to RI practices and challenge to be considered
  - How will issues be flagged? Agree approach with Russell/Link

# Draft RI Policy: Other issues

- Pool to annually assess compliance with RI policy:
  - Public disclosure of policy and compliance report
  - Annual review of policy to ensure that desire for leadership is advanced
- Pool support for external bodies:
  - LAPFF – appropriate given LGPS focus and membership amongst Funds
  - UK Stewardship Code – consider following consultation
  - PRI – consider in due course but weigh against reporting obligations
- Education:
  - Pool commitment to support ongoing RI education amongst Funds.
  - Facilitate an annual RI training day for Funds?
  - Ability to leverage shared knowledge and gain consistency in understanding
- Requirements for disclosure of costs in line with SAB Code of Transparency

# Voting policy

# Recap: Structure of voting policy application



# Comparison of selected policies (1)

Provider	Remuneration Policy
PLSA	Vote against remuneration policy if policy fails to meet PLSA principles Vote against Chair of remuneration committee/Chair of board if engagement fails to improve policy
BlackRock	Has a detailed voting guidelines and beliefs and generally support the PLSA principles
Russell	Vote against proposals to approve remuneration policies or programs if the new schemes allow for retesting of performance criteria over extended time period if the original performance criteria were not met during the initial time period.
Link	Vote against: <ul style="list-style-type: none"><li>• where the remuneration structure does not permit participation across the workforce.</li><li>• where there is a no capital commitment on the part of executive participants.</li><li>• where rewards are not based on performance targets, or where performance targets do not reflect performance relative to the company's competitors, rather than general market factors.</li><li>• where the period over which performance is assessed is less than 5 years.</li></ul>

**Conclusion:** Some consensus on approach, but different criteria are set out in policies and guidance which could be subject to differing interpretation.

# Comparison of selected policies (2)

Provider	Board diversity
PLSA	Vote against R&A if diversity statement not disclosed/unsatisfactory Vote against chair/Chair of nomination committee if diversity not being properly considered by Board or insufficient progress made
BlackRock	Supports board diversity; Will vote against nomination of chair/directors if they believe the company has not adequately accounted for diversity at board level
Russell	Supports Board Diversity
Link	<ul style="list-style-type: none"><li>• A vote against the Report and Accounts should be considered if a diversity statement is not included or is unsatisfactory.</li><li>• If there is no clear evidence that diversity is being considered by the board then a vote against the Chair or Chair of the Nominations Committee should be considered.</li></ul>

**Conclusion:** Reasonable consensus on approach – PLSA and Link policies are aligned. Definition of “unsatisfactory” is open to interpretation. Differences in whether votes are cast against Report/Accounts or Chair.

# Comparison of selected policies (3)

Provider	Sustainability
PLSA	<p>Vote against R&amp;A or the re-election of the Chair where key stakeholder relationships are being neglected:</p> <p>Vote against the re-election of the Chair or other key directors if after attempts by shareholders to engage on Climate change, the company fails to provide a detailed risk assessment and response to the effect of climate change on their business, and incorporate appropriate expertise on the board</p>
BlackRock	<p>Generally supportive: Will vote against re-election of directors deemed responsible for realised harm to shareholders' interests in relation to social and environmental issues.</p> <p>Or will vote in favour of a shareholder proposal, where there seems to be either a significant potential threat or realised harm to shareholders' interests caused by poor management of S&amp;E matters.</p>
Russell	<p>Vote against proposals where environmental and social issues are at risk of negatively impacting shareholder value</p>
Link	<p>Vote against Annual report, where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.</p>

**Conclusion:** No clear consensus on approach. Votes may be cast against the Accounts, directors or in favour of shareholder proposals. Disclosure and potential negative impact on value are themes which arise



# Considerations

- Adopting an industry standard may offer a sensible first step and not be subject to any manager specific policies. Also provides alignment with other investors.
- Could require a Comply or Explain approach in first instance to identify differences that may arise whilst working towards implementation of a standard policy.
- Recognise also that policies are updated periodically. Following a single standard ensures consistency over time.
- Pool could consider issue specific variations to policy in time
- Could LAPFF voting guidance also be reflected in the approach adopted?

# Next steps

# Next steps

- Discussion on issues raised for draft RI policy. Any red flags?
- Write up draft RI policy for consideration by OWG on 11 April
  - Circulate draft policy to Funds for consultation following agreement by OWG
  - Final RI policy to be presented and agreed by JGC at June meeting
- Arrange meetings with Link, Russell and BlackRock to explore requirements around voting and monitoring
- Draft business plan to determine actions over next 12 months to implement draft RI policy
- Consider proposals to support collaboration with LAPFF and sign the FRC UK Stewardship Code (following consultation)
- Consider potential budget/training/resource implications of business plan



# Appendix 1

## Questionnaire responses

# Questionnaire scores (1)

	Disagree	Neutral	Agree
1. The Committee has a good understanding about the nature of and importance of responsible investment issues as they affect their own Fund.	0	5	10
2. The Committee has a good understanding about the nature of and importance of responsible investment issues as they affect the Pool.	2	5	8
3. Greater reporting on ESG factors as well as financial performance will better allow the Committee to fulfil its responsibilities	0	0	15
4. The Pool should require a minimum level of disclosure from its investment managers on ESG risks	1	0	14
5. The Pool should publicly disclose its responsible investment activity to all stakeholders.	0	3	12
6. An investment strategy that directly or indirectly integrates the consideration of ESG factors may underperform other common (index tracking) strategies in the short-term and a sufficiently long investment horizon should therefore be adopted when judging the success of such strategies.	1	2	12
7. Investment managers can demonstrate their commitment to responsible investment by being signatories to the Principles for Responsible Investment and UK Stewardship Code.	0	2	13
8. It is acceptable for the Pools investment managers to adopt different positions when voting on the same company resolution.	3	8	4
9. The Pool should prioritise providing exposure to specialist ESG managers and mandates.	3	8	4
10. It is appropriate for the Pool to restrict exposure to assets which are considered to have a detrimental impact on long-term environmental or social sustainability.	4	4	7
11. The Pool should provide exposure to investment strategies which deliver a positive social or environmental outcome, even if it means achieving a lower return.	4	7	4
12. The Pool, rather than the managers, should be responsible for framing and implementing a suitable voting policy in relation to shares owned on behalf of the Funds.	0	4	11
13. Climate change is the most significant long term financial risk to Fund outcomes.	2	8	5
14. It would be appropriate for the Pool to enforce an agreed exclusionary policy across all its underlying strategies.	5	4	6
15. The Pool should provide leadership in helping Funds address the potential risks associated with climate change	2	3	10

# Questionnaire scores (2)

	Disagree	Neutral	Agree
16. When it comes to responsible investment, the Pool only needs to ensure that it and its member funds meet minimum regulatory requirements.	9	5	1
17. The obligation to address responsible investment issues within the Pool lies primarily with Link and Russell	7	6	2
18. Over the longer term, companies that demonstrate more sustainable business practices are expected to outperform companies which ignore sustainability issues	0	2	13
19. Company engagement on specific ESG risks (such as climate change and executive pay), rather than divestment, is a more effective way of creating change and supporting shareholder value	0	3	12
20. Collaboration with others (for example the IIGCC or Climate Action 100+) on ESG-related issues will have a positive impact for the Pool and its members	0	4	11
21. Investment managers are better placed to consider ESG factors in investment decisions than the Pool or its member Funds.	2	8	5
22. The Pool and its service providers should be able to provide expertise and guidance to Funds on responsible investment matters.	2	3	10
23. There is a clear obligation on the Pool to ensure that all investment managers integrate the consideration of financially material ESG issues into their investment processes.	0	1	14
24. Collaboration with other LGPS pools, including collaboration through LAPFF, on responsible investment issues should be considered before other forms of collaboration	1	7	7
25. The Pool should exemplify best practice on all responsible investment matters.	1	0	14
26. Investment managers responsible investment credentials should be (re)assessed at least every year.	0	4	11
27. Link and Russell have a clear obligation to keep the Pool and its member Funds updated on responsible investment issues.	0	0	15
28. Funds should clearly articulate what their reporting needs are in respect to responsible investment issues and the Pool should take all steps needed to meet these requirements.	0	2	13
29. Ultimate responsibility for ensuring that Pool's responsible investment policies are adhered to lies with the Committee.	0	1	14



# Appendix 2

## Current Fund positions



# Summary of the Funds' positions

Fund	Bespoke RI Policy	LAPFF member	PRI signatory	UK SC signatory (3)	Investment Beliefs (4)	Voting	Explicit policy on Climate risk
Fund 1	✓	✓	✗	✗	✓	Delegated to managers	✓
Fund 2	✗	✓	✗	✗	Note 4	Delegated to managers	✗
Fund 3	Note 1	✓	✗	✗	✓	Delegated to managers	✗
Fund 4	✗	✓	✗	✗	✓	Delegated to managers	✗
Fund 5	✓	✓	✗	✓	✓	Delegated to managers	✗
Fund 6	Note 2	✓	✗	✗	Note 4	Delegated to managers	✓
Fund 7	✗	✓	✗	✗	Note 4	Delegated to managers	✗
Fund 8	Note 1	✓	✗	✓	✓	Delegated to managers	✗

1. Policy currently being drafted. 2. Fund has a RI statement on Climate Change in place. 3. All funds support the principles of the codes and expect their managers to be signatories. 4. Some Funds may have documented investment beliefs but these have not been made publically available.



# Thank you

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