

Wales Pension Partnership: Responsible Investment Policy – Annual Review

Overview

The purpose of this paper is to outline the commitments that the WPP has made in its Responsible Investment Policy and how the WPP has progressed towards fulfilling these commitments. The paper also covers the annual review of the WPP's Responsible Investment Policy and discusses the ongoing suitability of the policy.

This paper should be regarded as “Tier 3 –Implementation” & “Tier 4 -Monitoring and Review” in terms of the WPP's governance framework. It is intent to review the WPP's Responsible Investment progress over the past 12 months while also considering future actions that may be required to ensure that the WPP fully implements and adheres to its Responsible Investment commitments.

This paper should not be released or otherwise disclosed to any third party without our prior written consent except as required by law or regulatory obligation. We accept no liability to any other party unless we have specifically accepted such liability in writing.

Background

In September 2019, the Wales Pension Partnership's ('WPP') Joint Governance Committee ('JGC') formally approved the WPP Responsible Investment ('RI') Policy. The overarching policy was developed collaboratively by the WPP and its eight Constituent Authorities and was adopted by them all. At the same time, it allowed individual Constituent Authorities to maintain and develop their own RI policies. The Policy is representative of the broad range of investment beliefs within the Pool. The Policy is ambitious in nature and reflective of WPP's desire to be a leader in RI. During this year the WPP and Constituent Authorities have worked to implement and deliver the various policy commitments.

Progress Against Commitments

Appendix 1 provides a detailed assessment of the progress the WPP has made towards delivering on the commitments in its RI Policy. As you can see the WPP has ensured that all commitments have been progressed and actioned during the year. In particular, the WPP would like to highlight the progress that it has made over the past twelve months in the following areas:

Climate Risk Policy

The WPP RI Policy stated that the WPP would consult further with Constituent Authorities with a view to developing a WPP-specific climate risk policy. The WPP commenced its consultation in January 2020, and engaged with each Constituent Authority to understand local Climate Risk beliefs and objectives. Following this initial consultation, the WPP Officer Working Group ('OWG') formulated a WPP Climate Risk Policy which outlined the WPP's climate related beliefs and the strategy that would be adopted and implemented to manage climate risk. It also outlined how the WPP will monitor and report on Climate Risk. The JGC considered and formally approved the WPP Climate Risk Policy in July 2020.

Voting & Engagement

The WPP believes that effective stewardship alongside consideration and evidential management of Environmental, Social and Governance issues should result in better outcomes for WPP's stakeholders. The WPP had therefore identified the procurement and appointment of a Voting & Engagement Provider as a critical workplan item to progress during 2020. On 12 March 2020 the JGC approved the appointment of Robeco's as the WPP's Voting and Engagement Provider.

Robeco has been tasked with helping WPP formulate its Voting Policy, taking responsibility for implementing this Voting Policy across WPP's active equity portfolio and reporting to WPP and the underlying Funds. Additionally, Robeco is assisting the WPP with its Engagement Principles and is undertaking engagement activity on behalf of the WPP. The appointment of Robeco evidences the WPP's continued delivery of the commitments made in its Responsible Investment Policy and its vow to exercise its voting rights in line with the interest of its stakeholders and engage with investee companies to enhance the long-term value of the Constituent Authorities' investments within WPP.

Training & Consultation

The WPP recognises that training and engagement is critical to achieving good outcomes for its stakeholders and has allocated resources to ensure that it undertakes regular training and engagement on RI related matters. In March 2020, the WPP formulated the WPP's first Annual Training Plan which was based on the training requirements of the Constituent Authorities. As part of its 2020/21 training plan, the WPP has hosted training sessions on RI performance metrics and collaboration opportunities. During the course of the year, the WPP committed to hosting at least one annual climate risk related training session for all its stakeholders and facilitated three dedicated training sessions on Voting and Engagement,

Additionally, the WPP had committed to consulting with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations on RI and Climate Risk. In Q3 2020, the WPP began formulating a mechanism by which it could assess Constituent Authority requirements and aspirations – the 'WPP Annual Ambitions and Requirement Questionnaire' was issued to the JGC, OWG, Constituent Authority Pension Committees and the Chairs of Constituent Authorities Pension Boards in October 2020.

RI Sub-Group

In Q3 2020 the WPP proposed that a dedicated WPP RI Sub-Group was formulated. The RI Sub-Group will take ownership of RI related workstreams and actions that are required to achieve the commitments made in the WPP's RI and Climate Risk Policies – this will include;

- Working with WPP's appointed investment managers, advisers and other service providers to ensure that WPP's responsible investment and climate change policies can be effectively implemented;
- Developing practices for monitoring and reporting on responsible investment issues to fulfil WPP's obligations to its stakeholders;
- Monitoring responsible investment activity, including ESG metrics and voting and engagement records and provide or direct challenge as necessary;
- Considering market and regulatory developments to ensure that evolving best practice can be taken into account by WPP; and
- Engaging with LGPS Funds, LGPS Pools, Asset Owners and other parties as necessary to achieve WPP's goals on collaboration.

The Group will report to and advise the OWG and JGC on any changes to WPP's policies or implementation approach that may be necessary to ensure that WPP's goals can be met. The Group's full 'Terms of Reference' can be found in Appendix 2.

Areas of future focus

Following the review of the RI Policy and the feedback from the Constituent Authorities, the WPP OWG/ RI Sub-Group has identified the following areas of focus;

1. Finalisation and production of RI and CR Reporting
2. Pursue FRC UK Stewardship Code Signatory Status
3. Consult with Constituent Authorities regarding minimum ESG/ RI standards
 - 3.1. Consider and formulate an approach based on consultation feedback – which may include exclusions, ESG/ Sustainable Equity/ Climate Aware focussed mandates or indices
4. Work with Robeco to refine the WPP's voting and engagement activities and reporting requirements
5. Consult with Constituent Authorities on their climate ambitions with a view to investigating the feasibility of formulating a pool wide ambition

Responsible Investment work plan

During the course of the WPP's next business plan (2021/2022) it is recommended that the following Responsible Investment workstreams are progressed.

RI Workplan Item	Work to be completed	Timeframe	Notes
1	Commence WPP RI & Climate Risk Reporting	Q1 2021	A draft report based on 30 Sept figures will be discussed with the RI Sub-Group in January 2021
2	Finalise Voting & Engagement Reporting Requirements	Q2 2021	RI Sub-Group will meet with Robeco to discuss this matter in April/May. The RI Sub-Group will use this opportunity to carry out an initial review of Robeco's implementation of the WPP Voting Policy and Engagement Activities.
3	Consult with Constituent Authorities regarding minimum ESG/ RI standards	Q2 2021	This work will commence in Q1 2020, it is anticipated that it will be a long-term project that will require training and a steady rate of progression, as all CAs are starting from different points. An initial progress update and potential next steps will be addressed in Q2 2020.
4	Publish the WPP Annual Responsible Investment Progress Report	Q3 2021	This will be designed to meet to FRC UK Stewardship Requirements. If approved, WPP should receive confirmation of Stewardship Code signatory status by the end of 2021.

5	Consult with Constituent Authorities on their climate ambitions	Q3 2021	Consultation will commence in earnest in Q3 by which point the CAs will have had the opportunity to consider their position following the publication of the WPP RI & CR Report in Q2. Initial data collection will commence in early 2021.
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RI Policy Review & Conclusions

Since the WPP RI Policy was formally signed off by the JGC, the WPP has been working hard to meet and deliver on the commitments made in the Policy and has made significant progress towards delivering of these commitments.

The WPP OWG/ Responsible Investment Sub-Group has completed the annual review of the WPP RI Policy. The Group has identified required amendments to the policy - the changes reflect the WPP's RI related progress over the past year which have included;

- Appointments of Robeco's as the WPP's Voting and Engagement Provider
- The formulation of the WPP Voting Policy and Climate Risk Policy
- Commencement of unified WPP engagement activities
- The establishment of the WPP RI Sub-Group

The OWG/ Sub-Group is confident that the RI policy is fit for purpose and continues to be reflective of the WPP's RI beliefs and strategy. Clean and tracked changes versions of the revised WPP RI Policy can be found in the JGC meeting pack.

The OWG/ RI Sub-Group has identified a number of areas of future focus that the WPP will consider and progress prior to the 2021 Annual Review of the WPP RI Policy. These areas of focus have been incorporated into the WPP RI Work Plan for 2021/2022 and are based on the responses to the WPP Annual Constituent Authority Requirements and Ambitions questionnaire.

We look forward to discussing this with you,

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Appendix 1: Progress Against Commitments



Investment strategy

#	Commitment/ Policy Statement	Action	Timeframe	Owner	Update/ Comment	Complete
1	WPP will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer-term aspirations.	Development of a mechanism for assessing CA requirements and aspirations.	-	-	The WPP developed an annual ambitions and requirement questionnaire which was issued to the JGC, OWG, Constituent Authority Pension Committees and the Chairs of Constituent Authorities Pension Boards.	
2	The WPP will consider opportunities arising from a greater understanding of ESG factors.	The WPP needs to regularly review the suitability of opportunities such as impact and/or sustainability themed strategies, as well as socially beneficial investments.	Q1 2021	Link/ Russell	<p>The WPP is considering ESG factors and impact investments as part of its Private Markets discussions.</p> <p>The WPP will ask LINK/ Russell to produce an annual 'Opportunities Paper' for the WPP, it will reflect ESG developments/ offerings over the past year.</p> <p>The WPP RI Sub- Group will use this paper, alongside the feedback received from the ambitions and requirements questionnaire, to consider opportunities within existing sub-funds, these considerations will include additional mandates, EPI and the continued suitability of sub-fund benchmarks.</p>	





Climate change

#	Commitment/ Policy Statement	Action	Timeframe	Owner	Update/ Comment	Complete
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.	The WPP needs to develop a means of monitoring Climate Risk.	Q2 2021	RI Sub-Group	The OWG/ RI Sub-Group has identified a shortlist of climate risks metrics that should be monitored. A means and format for presenting these metrics has already been formulated and the WPP is aiming to publicly report these metrics with its WPP Annual Responsible Investment Progress Report.	
4	WPP will encourage, through its suppliers, all investee companies to disclose in line with the requirements of the Taskforce for Climate Related Financial Disclosures.	The WPP needs to engage with investee companies and encourage them to disclose in line with TCFD requirements.	Q4 2020	Robeco	This engagement activity should be carried out via Robeco and Russell. The WPP is currently working with Robeco to formulate its engagement principles but should also engage with Russell on this subject.	
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.	The WPP needs to work with CA to formulate a Climate Risk Policy.	-	-	The Policy has been formulated and was formally approved by the JGC in July.	



Implementation of strategy

#	Commitment/ Policy Statement	Action	Timeframe	Owner	Update/ Comment	Complete
6	The WPP 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.	Develop and codify a set of acceptable standards and monitor Managers against these.	Ongoing	Link & Russell	<p>Link/ Russell, as part of their manager selection process already evaluates how managers integrate climate-related and other ESG risks into their decision making.</p> <p>Reporting on Manager's adherence to these standards should then be built into the WPP's existing performance reports by Link/ Russell.</p> <p>The recently established WPP RI Sub-Group will be responsible for monitoring Russell and underlying investment managers on the extent to which they have integrated Climate risk & ESG consideration into the portfolios that they run for WPP.</p>	
7	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.	Review whether WPP Managers are signatories. Managers that are not signatories should explain their position.	Q1 2021	Russell & Link	<p>Link/ Russell should provide an annual report on the prevailing manager line up and report back to the OWG on which managers are/ are not signatories and, where relevant, their assessment ratings.</p> <p>Clear explanations should be provided for any manager which does not meet the requirements.</p>	




Stewardship

#	Commitment/ Policy Statement	Action	Timeframe	Owner	Update/ Comment	Complete
8	WPP has agreed to explore the possibility of employing a single engagement provider in conjunction with the prospective consideration of a proxy voting agent.	Consider requirement for a Voting and Engagement Provider and procure one if required.	Completed	OWG	Robeco was appointed in March 2020.	
9	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.	Develop the WPP's Voting Policy and liaise with Robeco and BlackRock on its implementation.	Completed	Robeco	Robeco has worked in collaboration with the WPP to formulate the WPP Voting Policy. Robeco has already expressed their willingness to implement the WPP's engagement policy in relation to the WPP's passive holdings.	
10	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.	A quarterly voting report needs to be developed for the Pool and CA.	Q2 2021	Robeco	Quarterly voting reports are part of Robeco's remit. These should be available in the quarter following the formal approval of the WPP's Voting Policy.	
11	WPP will review the voting principles in conjunction with its advisers and Investment Managers on an annual basis.	The WPP will have to carry out an annual review of its Voting Policy.	Ongoing	RI Sub-Group	The WPP Voting Policy will be finalised in Q4 2020, with the first annual review to take place in Q4 2021. The initial review of the Voting Policy will be carried out by the RI Sub-Group in collaboration with Robeco.	




Collaboration

#	Commitment/ Policy Statement	Action	Timeframe	Owner	Update/ Comment	Complete
12	WPP will continually identify and assess potential collaboration opportunities, including investor led responsible investment initiatives.	Continue to identify and assess collaboration opportunities.	Ongoing	OWG	<p>The WPP needs to consider if its current mechanism for identifying and assessing opportunities is effective and how it can record its collaboration activities. The WPP should liaise with Robeco & LAPFF on opportunities here.</p> <p>The WPP should consider becoming a signatory to the updated FRC UK Stewardship Code. The WPP would need to complete a report by March 2021 on how they have applied (or explain why not) the Code's 12 Principles. Should WPP become a signatory of the UNPRI, its RI process will need to be in-keeping with the aspirations of the UNPRI. Fees will be in the region of £3k p.a.</p> <p>The WPP RI Sub-Group is in the process of formulating the WPP Responsible Investment Progress Report this is being drafted in a way that is aligned to the requirements of both the UK Stewardship Code and UNPRI. The WPP is also using its training sessions as a means of learning more about the collocation opportunities that are available to the WPP, as evidenced by the November 2020 Training Session.</p>	
13	WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.	Continued communications and engagement with the cross pool RI collaboration project.	Ongoing	RI Sub-Group	Two members of the WPP's RI Sub – Group are members of the cross-pool RI collaboration group. These two members have been asked to act as WPP representation on the group. These two Members also report back to the WPP RI Sub-Group with any potential collaboration opportunities that have been discussed at the cross-pool RI group. WPP RI Sub-Groups are deliberately scheduled a few after the RI Cross Pool collaboration meetings so feedback from these meetings can be swiftly filtered through to the WPP RI Sub-Group.	

Monitoring, Reporting and Measurement

#	Commitment/ Policy Statement	Action	Timeframe	Owner	Update/ Comment	Complete
14	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 its portfolios.	A common mechanism for monitoring ESG-related risks and issues (including climate related risks) needs to be developed.	Q2 2021	RI Sub-Group	The OWG/ RI Sub-Group has identified a shortlist of ESG metrics that should be monitored. A means and format for presenting these metrics has already been formulated and the WPP is aiming to publicly report these metrics with its WPP Annual Responsible Investment Progress Report, which is due in Q2 2021 (as at the 31 March).	
15	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.	The RI credentials of Managers need to be reviewed annually.	Ongoing	Link & Russell	<p>Link/ Russell, as part of their manager selection process already evaluates how managers integrate Responsible Investment considerations into their decision making.</p> <p>The recently established WPP RI Sub-Group will be responsible for monitoring Russell and underlying investment managers on the extent to which they have integrated RI into the portfolios that they run for WPP.</p>	
16	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.	An annual report needs to be developed.	Q2 2021	RI Sub-Group	<p>The WPP RI- Sub Group is working with Robeco to refine the content and format of the WPP Stewardship Reports.</p> <p>Consideration is being given to ensure that the stewardship reports are fully aligned with the requirements of the UK Stewardship Code. The WPP Annual Progress Report will also cover the WPP's Stewardship activities over the past twelve months.</p>	

Other

#	Commitment/ Policy Statement	Action	Timeframe	Owner	Update/ Comment	Complete
17	WPP will ensure there is at least one formal training session directly focused on Responsible Investment.	At least one RI related training session needs to be held each year.	Ongoing	OWG	The HA has produced a 20/21 training plan that includes the following RI items: Performance metrics Progress of other LGPS Pools Collaboration Opportunities Climate Risk	
18	WPP will also explore the possibility of incorporating the United Nations' Sustainable Development Goals into its RI beliefs and its monitoring and measurement mechanisms.	CA appetite for this form of reporting needs to be gauged.	2021/22 Training Plan	OWG	The WPP will incorporate a training session on the UN SDGs into its 2021/22 Training Plan. The WPP is considering alignment with the SDGs as part of the development of its Private Markets Sub-Fund, this may include a dedicated Impact bucket.	
19	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.	An annual report needs to be developed.	Q2 2021	RI Sub-Group	The WPP Responsible Investment Progress Report will act as the WPP's RI stewardship and governance report. It will cover the progress that the WPP has made in meeting the commitments made in its RI Policy, while also cover RI reporting, voting and stewardship activities.	

Appendix 2: RI Sub-Group Terms of Reference

Wales Pension Partnership Responsible Investment Sub-Group (“the Group”) Terms of Reference

1. The role of the Group is to support the development and implementation of the responsible investment and climate change policies of the Wales Pension Partnership (WPP). To that end, the Group will:
 - 1.1 Formulate an Annual WPP Responsible Investment Workplan that will allow the WPP to progress its RI objectives;
 - 1.2 Work with WPP’s appointed investment managers, Voting and Engagement provider, advisers and other service providers to ensure that WPPs responsible investment and climate change policies can be effectively implemented;
 - 1.3 Develop practices for monitoring and reporting on responsible investment issues to fulfil WPP’s obligations to its stakeholders;
 - 1.4 Monitor responsible investment activity, including ESG metrics and voting and engagement records and provide or direct challenge as necessary;
 - 1.5 Consider market and regulatory developments to ensure that evolving best practice can be taken into account by WPP; and
 - 1.6 Engage with LGPS Funds, LGPS Pools, the Cross Pool Responsible Investment Group, Asset Owners and other parties as necessary to achieve WPP’s goals on collaboration.
 - 1.7 Represent the WPP on RI matters, which will include acting as a spokesperson in external forums.
2. The Group will comprise representatives from at least three Constituent Authorities plus representatives from both the Host Authority and the Oversight Adviser.
3. The Group will liaise and assist the Host Authority on the administration, progression and implementation of all relevant RI matters.
4. The Group will appoint a Chair from its membership, this role will be reviewed biennially.
5. The Group will have at least four meetings each year but will meet as often as deemed necessary in order to progress its objectives.
6. The Group may invite representatives from other parties to attend meetings in order to support the achievement of its objectives.
7. The Group will report to and advise the Officers Working Group (OWG) and Joint Governance Committee (JGC) on any changes to WPP’s policies or implementation approach that may be necessary to ensure that WPP’s goals can be met.
8. The Group will undertake an annual review of its role and terms of reference and will put forward any amendments or alternations for OWG approval.

October 2020