



Partneriaeth Pensiwn

**Cymru**  
**Wales**

Pension Partnership

# Annual Stewardship Report

## 2022



# Foreword

I am delighted to present the Wales Pension Partnership’s (WPP) second Annual Stewardship Report, covering the year to 31 March 2022. This report summarises our stewardship activity over the year, sets out the actions that we have taken in conjunction with our partners and some of the outcomes that have been achieved, and serves to demonstrate our compliance with the FRC UK Stewardship Code.

We were delighted to have been named as a Stewardship Code signatory earlier this year but recognise that our first report was just a starting point, a position from which we can continue to learn and improve. Our focus for the year has been one of consolidation, reviewing our responsible investment (RI) policies and building on the processes that we have put in place to ensure our pooling arrangement can better meet the needs of our beneficiaries.

The year was certainly not without its challenges. The UK continued to feel the effects of the COVID-19 pandemic, rising inflation, and the start of the Russia-Ukraine conflict. Despite the lasting effects of the pandemic, the WPP has continued to deliver on our shared investment beliefs, particularly through our focus on RI and climate risk.

We have placed more focus on the oversight and challenge of our providers, ensuring that we have the right information on each of our Sub-Funds. Drawing on this information, we have undertaken deep dives into our Sub-Funds and remain happy with the approach that is being taken by our investment managers.

Our low-carbon overlay was introduced on the Global Opportunities Sub-Fund at the start of the year, excluding companies that rely on coal to generate revenues and reducing the carbon footprint of the Sub-Fund by 25%. We have been exploring how this may be extended to other Sub-Funds – something we expect to progress over the coming year.

Wanting to expand the offerings we have at the Pool level to best serve the collective needs of our Constituent Authorities (CAs), we launched the Emerging Market Equity Sub-Fund over the year. We are also pleased to have progressed work in building out our private markets offerings, having made appointments on private debt and infrastructure allocators. Work continues on finding providers for our private equity and property Sub-Funds.

Investing to deliver more sustainable outcomes has also been a consideration in the development of our Sustainable Active Equity Sub-Fund. We have enjoyed positive dialogue with all our stakeholders to understand their requirements. We look forward to being able to launch this Sub-Fund over the next year and will provide further detail on this in our next annual update.

Robeco continued their role as stewardship provider, voting on behalf of all of WPP’s active equity assets while also carrying out engagement activity across all the Pool’s active Sub-Funds. Over the year, we voted on over 10,500 different resolutions and Robeco had 280 individual engagements on our behalf. Our own focus on climate change is strongly reflected in a number of Robeco’s engagement themes, including the new ‘Acceleration to Paris’ theme, which targets the worst emitters. Through this work, we believe we can continue to support real-world change.

The unique structure of the WPP emphasises collaboration not just across the eight underlying Local Government Pension Scheme (LGPS) funds, but also across our providers and other stakeholders. We are delighted with the progress the WPP has continued to make over the last year and hope that the next 12 months will be just as successful.



**Chris Weaver**

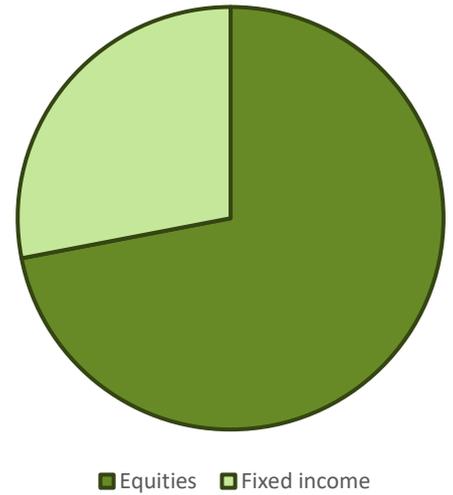
*Chair, WPP Joint Governance Committee*

October 2022

# Overview

-  Active investments **£11bn**
-  Total number of votes cast **10,927**
-  Total number of engagements **280**
-  LAPF Investments **Pool of the Year**

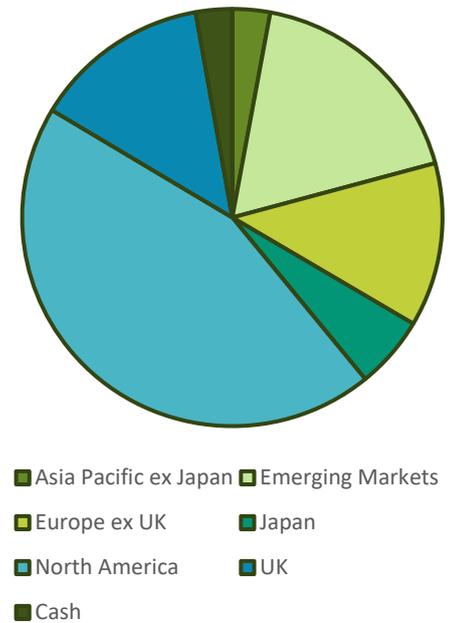
Sub-funds:  
asset allocation by asset class



## Voting priorities

 Management of climate risk	 Climate risk disclosures
 Improving shareholder governance	 Board diversity
 Retention & development of human capital	 Executive remuneration: long-term outcomes

Sub-funds:  
asset allocation by geography



# Who we are

## Our pool

Established in 2017, the WPP is a collaboration between the eight CAs that cover the whole of Wales. The WPP itself is one of eight asset pools across England and Wales that are collectively responsible for the management and stewardship of assets for LGPS funds. The eight CAs that make up the WPP are as follows:



The CAs have a long, successful history of collaboration, dating back before the Government’s pooling initiative and the formation of the WPP. WPP is proud of our unique identity as a Pool – the CAs represent and span the entirety of Wales, providing a geographical alignment of interests. Being democratically accountable means the WPP provides the best of strong public sector governance and transparency.

## Our members

Membership of the eight LGPS funds that make up the collective Pool is voluntary. Organisations that participate within the LGPS funds include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members.
- Admitted bodies, which participate under the terms of an admission agreement between the Pension Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector

In total, the WPP serves almost 404,000 members across the eight LGPS funds.

## Our model

WPP’s operating model is based on our shared investment beliefs, and is designed to be flexible and deliver value for money, and to bring best-of-breed expertise to support the ongoing management of the Pool.

WPP has appointed an external Operator, Link Fund Solutions (Link), partnering with our appointed Investment Management Solutions Provider, Russell Investments (Russell). The WPP’s operating model recognises the need for external expertise in order to achieve objectives. In order to strengthen our collective stewardship efforts, the WPP has engaged Robeco as Voting and Engagement (V&E) Provider, bringing a leading voice to implement the WPP’s stewardship ambitions. The WPP also continues to rely on Hymans Robertson as Oversight Adviser.

As the breadth of assets under management (AUM) has grown and our focus has shifted to introducing private market solutions, so we have also engaged bfinance to support us in identifying appropriate long-term partners.

## Our purpose, values and culture

We are fortunate to enjoy a high level of collaboration between all our stakeholders and feel the continued contributions of the CAs towards achieving our common goals is one of our key strengths. Against this backdrop, the WPP, through consultation with all eight CAs, has formulated the following primary objectives:

- To provide pooling arrangements that allow individual funds to implement their own investment strategies, where practical.
- To achieve material cost savings for participating Pension Funds while improving or maintaining investment

performance after fees.

- To put in place robust governance arrangements to oversee the Pool’s activities.
- To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments.
- To deliver an investment framework that achieves the best outcomes for our key stakeholders: the CAs. The CAs will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers.

## Our investment beliefs

### Investment beliefs

- ✓ The WPP’s role is to facilitate and provide an investment pooling platform through which the interests of the CAs can be implemented.
- ✓ Good governance should lead to superior outcomes for WPP’s stakeholders.
- ✓ Internal collaboration between the Host Authority and the CAs is critical to achieving the WPP’s objectives. External collaboration may also be beneficial in delivering cost savings and better outcomes for stakeholders.
- ✓ RI and effective climate-risk mitigation strategies, alongside consideration and evidential management of broader environmental, social & governance (ESG) issues, should result in better outcomes for the WPP’s stakeholders.
- ✓ Effective internal and external communication is vital to achieving the WPP’s objectives.
- ✓ External suppliers can be a cost-effective means of enhancing the WPP’s resources, capabilities and expertise.
- ✓ Fee and cost transparency will aid decision-making and improve stakeholder outcomes.
- ✓ Continuous learning, innovation and development will help the WPP and the CAs evolve.
- ✓ A flexible approach to the WPP’s pooling structure and implementation methods will enable the Pool to adapt in the future and continue to meet the needs of stakeholders.

### RI beliefs

- ✓ The RI behaviours we want to see demonstrated by all our stakeholders must be led by WPP.
- ✓ Integration of ESG factors, including climate change, into investment processes is a prerequisite for any strategy, given the potential for financial loss.
- ✓ 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.
- ✓ Our impact on corporate behaviours will be greatest when we speak with one voice.
- ✓ Effective oversight of RI practices requires clear disclosure and measurement of comprehensive data.

We believe our strength lies in our shared investment beliefs and our ability to collaborate towards delivering collective objectives for the benefit of all WPP stakeholders. These are reflected not only in the WPP’s chosen operating model, including the need for external expertise, but also in the importance we attach to the work of the WPP’s RI Sub-Group (RISG), which meets twice a quarter to engage specifically on the collective RI objectives and outcomes of the Pool. The full set of shared beliefs can be found in the Pool’s [Governance Manual](#).

The WPP defines RI within the Policy as ‘investment practices that integrate the consideration ESG factors into investment management processes and ownership practices, recognising that these factors can have a material impact on financial performance’. WPP’s long-term ambition is to demonstrate leadership on RI in managing assets for and on behalf of the CAs, with a set of RI beliefs that underpin decision-making and governance processes.

These beliefs are reviewed annually, with the last review taking place in Q4 2021. One key feature of our investment beliefs is the use of external expertise to deliver investment outcomes. This is particularly the case when it comes to our stewardship commitment through the appointment of Robeco as WPP's V&E Provider. Robeco's appointment has resulted in a particular focus on stewardship, which also facilitated the development of a single voting policy for WPP. Implementation of this policy from 1 January 2021 has given the WPP an ability to speak with one voice and, as this policy evolves with ongoing input from the CAs, the WPP expects to see a growing focus on issues that are important to our stakeholders.

WPP regards the progress in addressing stewardship over the last 12 months as positive. With all eight CAs represented on the RISG, we have ensured that all of our direct stakeholders can provide input on decisions. This approach, coupled with our other forums, means that each CA is able to raise issues of local importance, with issues then being prioritised for action. For example, the RISG has given effect to the need for effective oversight and, in working with our Service Providers, has worked to develop a more detailed monitoring process, which ultimately allows for greater transparency and challenge. This will allow the WPP to meet another core belief, the need for effective internal and external communication.

## **Our beliefs in practice**

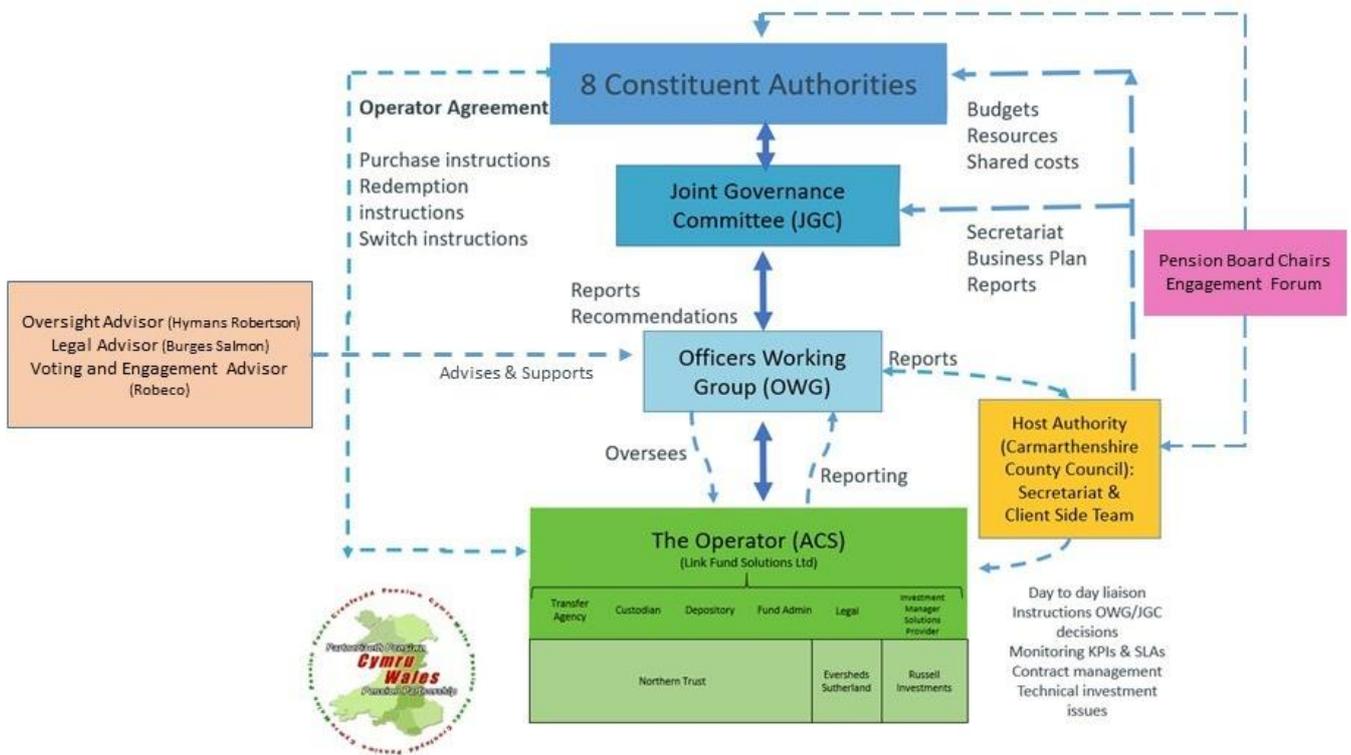
All stakeholders within WPP were saddened by the Russian invasion of Ukraine and the impact on the Ukrainian people. The WPP debated the actions that could realistically be taken with regard to the small level of investments held within the region and collectively determined that divestment was the most appropriate option at that time. We were and remain of the view that engagement was not a viable option for the WPP. Our statement on this position can be found [here](#).

The WPP also has an ongoing dialogue with various parties on the topic of climate change and fossil fuels, including Friends of the Earth. The WPP's position remains one of progressing engagement in respect of the companies that we do invest in, with climate change remaining a key focus of our engagement activity. We do, however, respect the views of others and the need for transition, and believe that, by engaging all stakeholders, we can build our understanding and actions. This has manifested in the approach taken to the development of our Sustainable Equity Sub-Fund, which will incorporate a specific Paris-alignment goal.

# Governance

Our RI beliefs form the core of the WPP’s governance framework, and are used to guide all of the WPP’s activities and decision-making, including the framing of objectives and policies. The WPP’s governance framework also aims to ensure that key decisions are given priority and resources are focused on those areas most likely to contribute to the future success of the WPP. Through this structure, the WPP acknowledges our role in providing leadership for all CAs – particularly the need for collaboration. However, given the model employed, the WPP also acknowledges that we must work alongside – and rely heavily upon – our appointed providers. This is particularly the case for meeting our stewardship objectives, where the use and expertise of external partners are key.

The CAs are the most important stakeholders of the WPP. They not only represent the founding members of the WPP, but are also the pool’s primary beneficiaries. The CAs formed the WPP’s Joint Governance Committee (JGC) to oversee and report on the WPP. A number of decision-making matters are reserved to the CAs, while the remainder are considered matters for the JGC.



Dedicated sub-committees have been formed to ensure that effective decision-making can take place. The WPP is responsible for ensuring that our business is conducted in accordance with regulation and guidance. It must also ensure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively to ensure value for money. WPP also strives for continuous improvement and to conform with industry best practice.

The WPP’s Inter Authority Agreement (IAA) details how WPP deals with all aspects of governance, defining the standards, roles and responsibilities of the CAs, our Members, Committees and Officers. The IAA includes a Scheme of Delegation, which outlines the decision-making process and takes into account relevant legislation. The WPP’s IAA can be found in our [Governance Manual](#).

## Internal resources

Carmarthenshire County Council acts as the Host Authority for the WPP, providing administrative and secretarial support to the JGC, and liaising day to day with the Operator on behalf of all of the LGPS funds in Wales. Two staff members – the Treasury and Pension Investments Manager, and Senior Financial Services Officer – are responsible for fulfilling this role.

### Joint Governance Committee

The JGC meets at least four times a year. The JGC is comprised of one elected member from each of the eight CAs. The elected member must be a member of that CA and that CA's Pensions Committee. The Chair and Vice-chair are rotated on an annual basis. A co-opted (non-voting) pension board scheme member is also represented on the JGC. The JGC is responsible for overseeing the pooling of the investments of the eight LGPS funds in Wales.

### Officers Working Group

The Officers Working Group (OWG) was established with the purpose of providing support and advice to the JGC. The OWG meets at least four times a year. In a similar fashion to the JGC, the OWG has a strong track record in terms of engagement and attendance. There is at least one representative from each CA in attendance at OWG meetings, and it is common to see both the Section 151 Officer and Practitioner for all eight CAs in attendance.

The WPP's providers and external advisers also attend OWG meetings, and provide support or advice when required. At present, the WPP's Operator, Investment Management Solutions Provider and Oversight Adviser attend all OWG meetings. Other parties, such as cost transparency advisers, the Local Authority Pension Fund Forum (LAPFF) and Audit Wales representatives, are also invited to attend OWG meetings when required.

Members of the OWG additionally meet on a fortnightly basis. These virtual meetings are used to deal with any matters that arise between formal OWG meetings and to progress activities as necessary. This arrangement continues to foster collaboration between the CAs and WPP's suppliers, and has allowed for stewardship issues to be discussed on an ad-hoc basis.

### Our dedicated Sub-Groups

The WPP has also established dedicated Sub-Groups to progress or develop certain elements of the WPP's workplan. All the Sub-Groups are made up from a sub section of the OWG and are responsible for formally reporting back to the entire OWG. These Sub-Groups are:

- The RISG, which is responsible for formulating and delivering the WPP's RI Workplan as well as liaising with the WPP's V&E Provider.
- The Risk Sub-Group, which is responsible for monitoring, maintaining and implementing the WPP's Risk Register and Policy.
- The Private Market Sub-Group, which is responsible for formulating and developing the WPP's Private Market Sub-Fund(s).
- The Procurement Sub-Group, which is responsible for procurement exercises.

WPP believes that both the level of time devoted to all WPP business by Officers and Advisers, coupled with the increasingly granular focus on different activities, allows us to devote adequate time and resource to each of our activities.

### Responsible Investment Sub-Group

The work of the RISG is a critical means of ensuring that WPP devotes sufficient time and attention to the oversight and accountability for stewardship activity. The RISG comprises Officer representation from each CA, supported by external advisers to provide expert input as required.

The RISG operates under its own Terms of Reference, undertaking the following:

- Formulating an Annual WPP RI Workplan that allows the WPP to progress our RI objectives.
- Working with WPP's appointed investment managers, V&E Provider, advisers and other Service Providers to ensure that WPP's RI and Climate Risk Policies are effectively implemented.
- Developing practices for monitoring and reporting on RI issues.

- Monitoring RI activity, including ESG metrics and V&E records, and challenging where necessary.
- Considering market and regulatory developments to ensure that evolving best practice can be taken into account by WPP.
- Acting as a conduit for engagement with external stakeholders, including other LGPS funds and pools.

The frequency of RISG meetings was increased during the year so as to separate the consideration of policy, and strategy development and scrutiny. This change was supported by CAs and created more focused discussions, which has allowed issues to be scrutinised in greater depth.

## **External resources**

As outlined in our investment beliefs, the WPP believes that external suppliers can be an auspicious and cost-effective means of enhancing the WPP's resources, capabilities and expertise. The WPP has undertaken thorough market testing and associated procurement or appointment exercises to contract the following suppliers in the belief that, at present, these suppliers will be able to assist the WPP in delivering the best and most cost-effective outcomes for our stakeholders.

Of the various relationships in place to support the day-to-day governance activities, WPP draws heavily on four external providers to support stewardship activity in particular.

### **Robeco: Voting and Engagement Provider**

WPP's stewardship activity is primarily undertaken by Robeco, WPP's appointed V&E Provider. Robeco assists the WPP in maintaining a Voting Policy. Further, Robeco has taken responsibility for implementing the Voting Policy across WPP's active equity portfolio as well as reporting to WPP and the underlying Pension Funds. Robeco also provides the engagement function across the active Sub-Funds, as well as the passive holdings.

Robeco's Active Ownership team is responsible for all V&E activities undertaken by Robeco, on behalf of WPP. The team currently consists of 18 qualified V&E professionals based in Rotterdam, London, Singapore and Hong Kong, covering a range of ESG issues. The team is multinational and multilingual – a key benefit across diverse markets. This diversity provides an understanding of the financial, legal and cultural environment in which the companies Robeco engages with operate, which is particularly relevant, given the regional distribution of WPP's assets as illustrated on page 17.

In order to ensure adequate knowledge on RI across the organisation, in 2021, Robeco launched the Sustainable Investment Academy to meet any training needs of staff. Stewardship is incentivised within Robeco through employees having at least one sustainability-related KPI included in their annual performance review, something that has also been in place since 2021.

### **Link Fund Solutions: Operator**

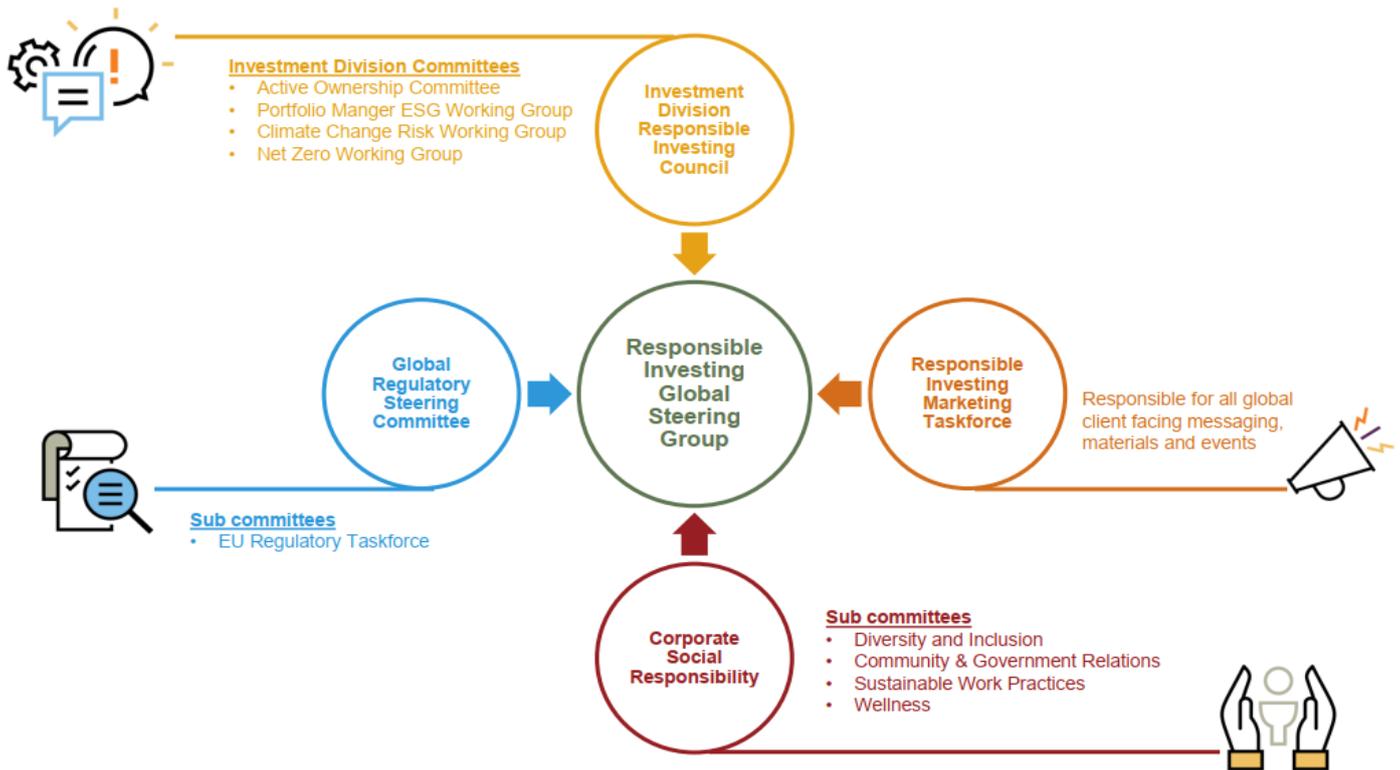
Link has been appointed as the external Operator and, with the support of Russell, works to facilitate the delivery of effective investment management solutions and strong net-of-fee performance for all listed market Sub-Funds.

Link supports the WPP's stewardship activities by providing manager oversight reporting, including performance and manager ranking changes, as well as customisations of manager guidelines requirements, in particular with regard to RI and ESG criteria. Link also supports engagement with the underlying Custodian, Northern Trust.

### **Russell: Investment Management Solutions Provider**

In collaboration with Link, Russell provides investment management solution services to the WPP. Alongside Link Fund Solutions, Russell works in consultation with WPP's eight CAs to establish investment vehicles. Russell's remit includes advising Link Asset Services (a subsidiary of Link Fund Solutions) and WPP on portfolio construction, which includes manager selection.

Link Fund Solutions continues to work with Russell, where applicable, to further reduce WPP's costs through multi-manager structures, currency managements solutions, portfolio overlays, transition management and other execution services. Although Russell is not explicitly appointed as engagement provider, it still exercises stewardship duties on behalf of the WPP.



Russell has an integrated approach with ESG experts embedded throughout the organisation. Its Global RI Steering Group is responsible for guiding investment deliverables and charged with ensuring Russell delivers the best possible RI solutions and outcomes for its clients, including WPP. The Global RI Steering Group has two executive-level sponsors, notably the Global CIO and Head of Europe, the Middle East and Africa (EMEA). Russell also has a number of RI-related working groups tasked, with the specific delivery of research (including climate change) and strategy development.

These resources are available to WPP as needed and are utilised by Russell in the ongoing management of the Sub-Funds on behalf of the WPP. For example:

- During the development of the Sustainable Equity Fund, both the WPP and Hymans Robertson had a number of meetings with Russell at which various management parameters were drawn. The underlying research for this process was undertaken by Russell, and then subject to challenge and discussion. Russell was then able to take on board the various views expressed and refine the proposals and associated analytics.
- Russell has attended various meetings with the WPP, including a scrutiny meeting with the RISG to discuss several of the fixed-income Sub-Funds. Appropriate specialists attended this meeting to provide expert input on aspects of the management of the Sub-Funds and address questions that were raised. This built understanding within the RISG of the approach taken.

To incentivise effective stewardship, all Russell associates with specific responsibilities for ESG, stewardship and climate change have annual performance goals aligned with the success of the integration of these issues. These goals include evolving Russell's RI and stewardship practices to be in line with global standards by collaborating with leading industry bodies to advance industry frameworks, driving engagement practices, and research and development. All of these items are aimed at delivering robust stewardship practices to deliver on WPP's objectives. Success in meeting these specific stewardship and ESG-related performance goals is linked to remuneration.

### **Hymans Robertson: Oversight Adviser**

Hymans Robertson has been appointed the Oversight Adviser for the WPP. Hymans Robertson's role spans oversight and advice on governance arrangements, operator services, strategic investment aspects and project management support. Hymans Robertson attends all OWG and JGC meetings, in addition to providing specialist input to the RISG.

Hymans Robertson's team supporting the WPP on RI matters comprises three people, including the Head of Responsible Investment, while a broader team provides support across a range of additional areas. This offers the WPP a broad level of expert support in the development and execution of the WPP's RI strategy, with the WPP able to draw on the depth of

Hymans Robertson’s resourcing as necessary. This was needed during the year as, following discussion with WPP, Hymans Robertson directly recruited additional resource to provide dedicated support to WPP. This resource was introduced shortly following the reporting year-end.

Hymans Robertson’s employees are set individual objectives as part of an ongoing career development scheme. This links directly to remuneration, including an element of performance-related pay for consultants. Those who work directly with WPP and those who have a more direct responsibility for RI issues, such as the RI support team, have objectives that are linked to the delivery of services to WPP and are thus more directly incentivised to ensure the exercise of stewardship.

### **bfinance: Procurement Adviser**

WPP will seek additional expertise as necessary to achieve our goals. One such goal has been the development of private markets Sub-Funds, whereby the desired skillsets were not immediately available within existing Service Providers. To help identify appropriate providers for each of the Sub-Funds, WPP appointed bfinance, which has worked in conjunction with both Hymans Robertson and WPP to run procurement exercises within these markets. The consideration of sustainability issues has been integrated into both the selection of bfinance as Procurement Adviser and the subsequent procurement exercises, allowing WPP to draw on the expertise of both bfinance and Hymans Robertson.

Russell has been appointed to develop WPP pooled private debt investment programme, GCM Grosvenor will implement closed-ended infrastructure investments, and open-ended infrastructure will be invested through CBRE Global Infrastructure Fund, IFM Global Infrastructure Fund and Octopus Renewables Infrastructure SCSp.

Bfinance are also supporting WPP in the procurement of private equity and real estate providers.

### **Building knowledge and skills**

The largely outsourced nature of WPP’s governance structure means that the development of knowledge and skills can be outsourced, with WPP able to draw on this evolving expertise as necessary. The use of a range of external providers also allows WPP to pull on this expert knowledge in providing training.

In consultation with the CAs, WPP prepares and delivers an annual training programme to our stakeholders, the details of which are published on WPP website [here](#). This training is provided both by WPP’s current Service Providers and other parties, who offer the necessary expertise. During the year, training was provided on a breadth of issues, including:

- Private market assets: implementation and governance
- RI indices: solutions and reporting
- Performance reporting and benchmarks
- Cost transparency and good governance

This approach to training ensures that decision-makers and other stakeholders are informed of the issues facing WPP while offering the opportunity to engage with and question providers. This supports the exercise of stewardship across WPP’s assets.

### **Assessing and evolving the governance structure**

While WPP continues to believe that our current approach serves the needs of our stakeholders, consideration is regularly given to areas where the approach may be improved. Areas where changes have been made so as to improve the outcomes for stakeholders over the year included:

- The addition of bfinance to support the procurement of new providers
- Changing the frequency of RISG meetings to ensure that sufficient time was being given to decision-making and that subjects were appropriately separated
- The addition of dedicated additional support to support the delivery of stewardship oversight

# Conflicts of interest

WPP's CAs have always had to identify, manage and monitor conflicts of interest. The process of LGPS pooling has resulted in WPP also having to deal with the existence of conflicts of interests. This simply reflects the fact that WPP personnel and providers will have a variety of other roles and responsibilities, for example as members of the CA Schemes or as an adviser to more than one of WPP's CAs.

WPP's approach to managing conflicts of interest is detailed in the [Conflicts of Interest and Procedure Policy](#). This Policy was designed to demonstrate our commitment to identifying, managing and monitoring conflicts of interest. The key principles of WPP's approach to managing conflicts are:

- **Identification:** parties should be forward-looking in their approach to managing any conflicts of interest that arise
- **Recognition:** parties must acknowledge any conflict of interest they may have
- **Disclosure:** parties should be open with each other on any conflicts of interest they may have
- **Management:** parties should work to adopt practical solution to conflicts wherever possible

WPP has adopted a definition of conflicts of interest, which includes potential, perceived and actual conflicts. WPP understands that it may not be possible to identify, manage and monitor all potential and perceived conflicts of interest; however, it will endeavour to do so where possible. This Policy is designed to provide guidance to WPP personnel and providers, with its aim to ensure that WPP personnel and providers do not act improperly. This policy has been developed by WPP in consultation with the CAs.

WPP has a fiduciary and legal duty to act in the best interest of WPP's stakeholders and beneficiaries. This does not preclude WPP personnel and providers from having other roles or responsibilities that may result in a conflict of interest.

## External providers

As part of its Conflicts of Interest and Procedure Policy, WPP recognises that the use of external providers may be a source of conflict and has thus ensured that Service Providers have their own conflicts policies in place.

## Russell Investments

WPP engaged with Russell to discuss potential conflicts of that as stewards of capital. As an investment manager, Russell confirmed they may have structural conflicts of interest that are known and have to be managed, such as being paid based on AUM levels.

As it relates specifically to WPP, Russell has always ensured any potential conflicts of interest are managed effectively. As part of this, Russell has a cost-plus fee structure in place, which allows underlying cost savings through time to be passed back to WPP. Russell also notes that they do not run any monies in-house for WPP, removing a potential source of conflict.

Russell manages conflicts of interest in accordance with regulatory requirements and subject to the [Conflicts of Interest Policy](#).

EMEA Compliance maintains a conflicts of interest map for each of the operating firms in EMEA. If a new conflict is identified, it is the responsibility of the business to report it to EMEA Compliance, who will work with the business to register the conflict in the relevant map. On a quarterly basis (and ad-hoc as required), a Conflicts of Interest Working Group considers and discusses all potential and actual conflicts of interest arising in relation to business activities. The working group also discusses ways to manage those conflicts of interest. If management of a conflict of interest is not possible, the working group will determine the disclosure required as a result.

No conflicts of interest vis-à-vis WPP were identified over this reporting year.

## **Robeco**

Robeco's V&E Policy outlines its approach to identifying and managing conflicts of interest. The approach is based on Robeco's 'Conflict of Interest Procedure'. Examples of conflicts of interest that could arise related to Robeco's stewardship activities are:

- A company that is selected for engagement or is related to its parent company or related subsidiaries
- Robeco has voting rights in a company that is related to our parent company or related subsidiaries
- Clients have differences in engagement preferences

In case a business relationship might threaten the objectivity or the nature of stewardship activities, Robeco's compliance department is consulted. If, after consultation with Robeco's compliance department, V&E activities are to be pursued, different stakeholders including the Robeco Executive Committee and WPP are informed.

During the reporting year, in the normal course of the Active Ownership team's stewardship activities, some potential conflicts of interest were identified and managed according to the stewardship policy. For example, in order to avoid the potential conflict of interest involved in electing directors on the board of ORIX Corporation, Robeco's parent company, we refrained from voting at its AGM on behalf of WPP's shares.

## **Hymans Robertson**

Hymans Robertson has a mandatory policy for the management of conflicts across all of its group companies, which its staff are required to follow. Conflicts may arise where Hymans Robertson are retained to provide investment advice to one of the CAs within Wales, while also providing advice to WPP.

A number of such advisory relationships already exist and have been disclosed to all parties. The conflict is managed on an ongoing basis by ensuring the teams advising WPP are not responsible for the ongoing advice to individual CAs. Where any new instruction may be given, Hymans Robertson has advised both WPP and the relevant party of the potential for conflict.

During the year, Hymans Robertson remained appointed as investment adviser to two of the eight CAs. The teams responsible for advising each of the CAs remained different from the team working with WPP.

# Policies, monitoring & review

## Our policy framework

WPP has a number of policies in place that govern the manner in which we implement Sub-Funds and exercise stewardship over our assets. This is illustrated below.



Within this structure, two aspects matter to WPP’s assets:

- The overarching principles dictate the manner in which WPP expect the Sub-Funds to be operated, and otherwise guide the activity of WPP and our Service Providers.
- The investment policies inform the manner in which stewardship is exercised by WPP.

WPP has three policies in place that govern our approach to stewardship: RI Policy; Climate Risk Policy; and Voting Policy.

## Reviewing and updating our policies

WPP reviews our policies on an annual basis, although recognises that different levels of review are appropriate. During the year, WPP undertook light-touch reviews of the RI and Climate Risk policies, noting that both policies had been updated relatively recently and remained current. More in-depth reviews of these policies have been scheduled for the 2022/23 year.

A detailed review of WPP’s approach to voting was undertaken, prompted by an update to Robeco’s House Voting Policy, which had previously been adopted by WPP. Particular changes made to this Policy included:

- Strengthening of the Policy on board diversity, with an expectation that the least represented gender should comprise at least 30% of the board. This was in line with WPP’s voting priority on Board Diversity.
- The introduction of a framework to judge the merits of a remuneration policy and report, including relevant ESG metrics. This was viewed as being partially in line with the WPP voting priority on Executive Remuneration and partly tied into the priority on Human Capital Management.
- Shareholder proposals, particularly noting that it would support resolutions that aim to increase transparency and/or mitigate material ESG risks. While not a priority, WPP viewed this change as being consistent with expectations.
- Environmental management and climate change, noting that it would support management-proposed ‘Say on Climate’ proposals where net-zero targets/ambitions are set in line with the Paris Agreement, that limit potential overshoot and don’t rely on negative emissions technologies, and where progress is reported in line with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. This change was viewed as being wholly in line with two of WPP’s voting priorities and therefore in line with expectations.

WPP determined that continued use of the Robeco House Voting policy was therefore in line with expectations. Further, WPP reviewed the process for future updates to this policy, recognising the role of Robeco in providing advice and input on prevailing best practice. As a consequence, WPP introduced our own Voting Policy to simplify governance around future changes. WPP's [Voting Policy](#) now clarifies that:

- The Robeco House Voting Policy will be employed for all voting activity.
- That responsibility for reviewing future changes to the Robeco House Voting Policy rests with the RISG, with any material concern being communicated to the OWG and JGC for consideration if appropriate.
- Robeco are required to consider LAPFF alerts on a comply-or-explain basis.
- Voting priorities will be considered as part of the scrutiny process.

The policy does not yet extend to passively managed funds, where the passive provider is currently responsible for this activity. WPP has had initial discussions with BlackRock on extending the Voting Policy to passive funds. While it has been noted that this is possible, further consideration of the commercial and contractual complexity of implementation remain to be explored further.

### **Reviewing our policy on securities lending**

WPP has agreed, after consultation with each of the CAs, that securities lending will be permitted within WPP's actively managed pooled funds. This is noted within our RI Policy. However, WPP will not lend 100% of the holding in any single stock, instead a 5% buffer of the nominal quantity of each individual equity holding is maintained by being made unavailable for loan. This ensures WPP always has at least one position available to vote. In addition, no more than 25% of total AUM at any one time are considered lendable. Further, WPP is aware that stock-lending may inhibit the full application of our Voting Policy, as votes may not be cast on stock on loan. It should be noted, to at least partially mitigate this, that WPP retains the right to recall stock, if required, as part of our stock-lending arrangements.

WPP has begun a process of reviewing this policy, recognising the interaction between the exercise of stewardship and revenue generation. An initial analysis of stock-lending activity has been undertaken, and discussed with the RISG and OWG. Instances of stocks out on loan during AGMs were highlighted, although no instances were identified whereby WPP was the swing vote. Further analysis is being undertaken, with the expectation that this policy will be formally reviewed during 2022/23.

### **Monitoring compliance with our policies**

One of the tools employed by WPP is a process of monitoring compliance with our key policies. Working with the Oversight Adviser, WPP reviewed our compliance with our commitments in both the RI and Climate Risk Policies during the year. WPP published the outcome of this review, with a summary of the assessments included as Appendix 2. While highlighting areas where progress had been made and actions taken, the detail of which is contained within this report, the reviews also noted some areas where work had not progressed over the year. These included:

- Work has not yet progressed on giving consideration to the UN Sustainable Development Goals (SDGs), although some work was undertaken on developing a process to provide input to Robeco on key V&E themes. This area of work has progressed further over H2, 2022.
- It is intended that WPP will report in line with the TCFD requirements for the 2021/22 financial year and will be supporting CAs that wish to do the same. While an initial TCFD report has not yet been produced, discussion is progressing on producing an all-Wales climate report. Consideration will be given to scenario analysis and how it may be usefully employed by WPP as part of this reporting process.
- WPP did not complete a formal annual review of each of the investment managers' approaches to climate risk integration, although did conduct significant work on Russell's approach through ongoing scrutiny.

WPP recognises that we can continue to improve our own processes and the way in which we serve all stakeholders. WPP believes that this process of ongoing review and transparency will improve ongoing stewardship. Further, three potential areas for activity/improvement over 2022/23 have been identified:

- Improving the process of consultation with the CAs: WPP will continue to build our internal engagement, particularly in developing an understanding of climate goals.

- Assessing the ongoing implementation of strategy: WPP will work further with our providers to both develop a form of annual assessment reporting to meet the various commitments in the policies and ongoing dialogue around the scrutiny meetings to ensure these best meet WPP’s requirements.
- Seeking further opportunities for collaboration: WPP will consider more granular collaborative efforts, particularly around reporting.

### **Learning from the Stewardship Code reporting process**

Following submission of the 2021 stewardship code report, WPP undertook a review of learnings from the reporting process and highlighted a series of actions that we could undertake to improve. Actions that have been progressed a consequence of this review include:

- Undertaking a deep dive into a small number of underlying Sub-Fund managers. One deep dive was held during the reporting year.
- Improving the process for gathering information on manager assessments. A reporting framework has been developed and agreed with Robeco and Russell to support the process of review.
- Improving the granularity of the voting information provided by Robeco. Initial work has allowed data to be separated by Sub-Fund, with further work on information ongoing.
- Reviewing how LAPFF alerts were factored into voting processes. As described elsewhere in this report, a clear comply-or-explain process is now in place.
- Improving the communication of information being cascaded from WPP to CAs. Work on the format of consolidated reporting has been ongoing.
- Establishing a link between engagement priorities and collaborative action. Work has been undertaken to consolidate the process of gathering input from CAs on engagement themes using a clearer stewardship framework, which will inform this action in future.
- Considering extending the Voting Policy to passive assets. While initial dialogue has been held with BlackRock, this action has yet to be progressed further, given contractual restrictions.

The process of review and identifying tangible actions to take forward further demonstrates WPP’s commitment to learning and improving our stewardship processes. As WPP’s AUM continue to increase and the range of Sub-Funds expands, so this consistency of approach across all providers will be essential.

### **Assuring our processes**

As Oversight Adviser, Hymans Robertson undertakes periodic reviews of the work being undertaken by Russell, Link and Robeco, thus providing assurance to WPP. Over the course of the year, reviews of two of the equity Sub-Funds were undertaken. While WPP was assured that implementation of these Sub-Funds was appropriate and in line with expectations, a number of recommendations were made around reporting, particularly in respect of the Enhanced Portfolio Implementation (low-carbon overlay) service, given the relatively short track record at the point of review.

# Our investments

WPP's role is to facilitate and provide an investment pooling platform through which the interests of the CAs can be implemented. All of the CAs are part of the LGPS, an open defined benefit pension arrangement with a long-term investment horizon. While the underlying benefit provision within the LGPS is common to all, the development of strategy remains the responsibility of each CA, taking into account their own policies, financial position and underlying membership.

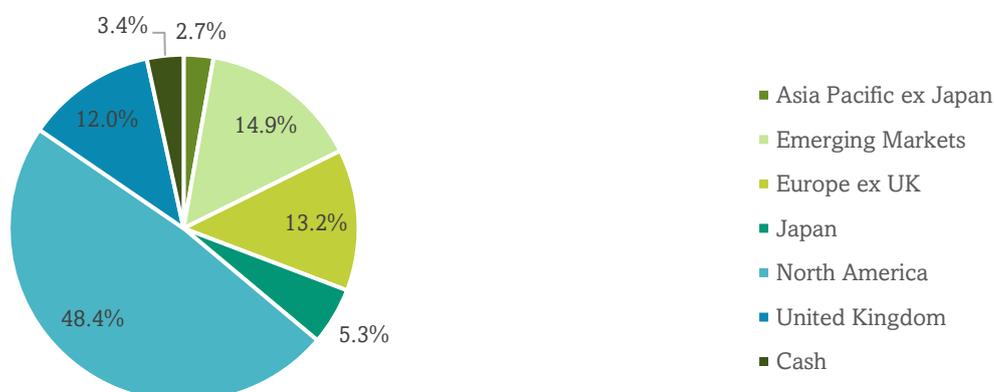
WPP is therefore tasked with the provision and management of investment vehicles through which the CAs can implement their chosen strategy.

## WPP managed assets

There are currently nine active pooled Sub-Funds, with the Emerging Market Equity Sub-Fund launching over the reporting period, bringing the proportion of pooled assets to over 70% (which includes our passive investments). The range of Sub-Funds offered by WPP provides the CAs with the opportunities to meet their individual investment requirements. Each Pension Fund invests in at least two active Sub-Funds, with one Pension Fund investing in as many as seven. Ongoing Sub-Fund development is key part of WPP's workplan. It is crucial that ongoing discussions take place with the CAs to ensure that their investment needs are met.

Pooled active	Participating CAs	Underlying managers	Total £m (2021)
Equity: Emerging Markets	4	6	465 ( <i>n/a</i> )
Equity: Global Growth	5	3	3,303 ( <i>3,061</i> )
Equity: Global Opportunities	6	7	3,388 ( <i>2,624</i> )
Equity: UK Opportunities	2	6	730 ( <i>674</i> )
Fixed Income: Absolute Return Bonds	3	4	510 ( <i>458</i> )
Fixed Income: Global Credit	4	4	758 ( <i>791</i> )
Fixed Income: Global Government	2	2	507 ( <i>527</i> )
Fixed Income: Multi-Asset Credit	5	5	723 ( <i>714</i> )
Fixed Income: UK Credit	1	1	574 ( <i>551</i> )
<b>Pooled passive</b>	<b>8</b>	<b>1</b>	<b>5,598 (<i>5,233</i>)</b>
<b>Total</b>		<b>37</b>	<b>16,556 (<i>14,633</i>)</b>

## Regional distribution of actively managed assets



## Expanding the range of Sub-Funds

WPP has worked with Russell and Hymans Robertson over the year to develop a Sustainable Equity Sub-Fund. The parameters and objectives of this Sub-Fund were agreed during the reporting year, with formal approval for the launch of the Sub-Fund agreed by the JGC following the year-end. It is expected that this Sub-Fund will be launched and funded by CAs during the 2022/23 year.

In July 2021, the JGC appointed bfinance as WPP's Allocator Adviser to assist WPP with the identification of allocators for the private market asset classes. In March 2022, the Private Debt and Infrastructure Allocators were appointed, with the procurement exercise for the Private Equity Allocator also underway. The appointment is due to be made in Autumn 2022. The Private Debt and Infrastructure Sub-Funds will be launched later in 2022/23, with a Private Equity Sub-Fund due to be launched in 2023/24. Discussions have also started in relation to the potential for a Property Sub-Fund.

The development and launch of these additional Sub-Funds is expected to meet the remaining needs of the CAs, and facilitate the pooling of the majority of remaining assets. However, given the costs of change and illiquidity of the underlying assets, the period of transition into these newer Sub-Funds is expected to be slower.

## Evolving existing Sub-Funds

During 2020/21, recognising the desire from CAs to reduce the carbon footprint of WPP's equity strategy, WPP worked with Russell to develop a low-carbon overlay for the Global Opportunities Sub-Fund, which was put in place during the reporting year. WPP continued discussion with Russell in 2021/22 on the existing Sub-Fund range, with a view to adding the low-carbon overlay to the UK Opportunities Sub-Fund, although this has not yet been implemented.

Also in 2020/21, again in considering how to address climate risk and respond to climate transition issues, WPP worked with one of the underlying managers of the Global Growth Sub-Fund to evolve the strategy. Following consultation with the five CAs invested in the Sub-Fund, the decision was taken to move the strategy to a Paris-aligned product. Acknowledging that the revised solution would better meet the needs of the WPP, the change was approved in March 2021, but was subsequently implemented at the end of November 2021.

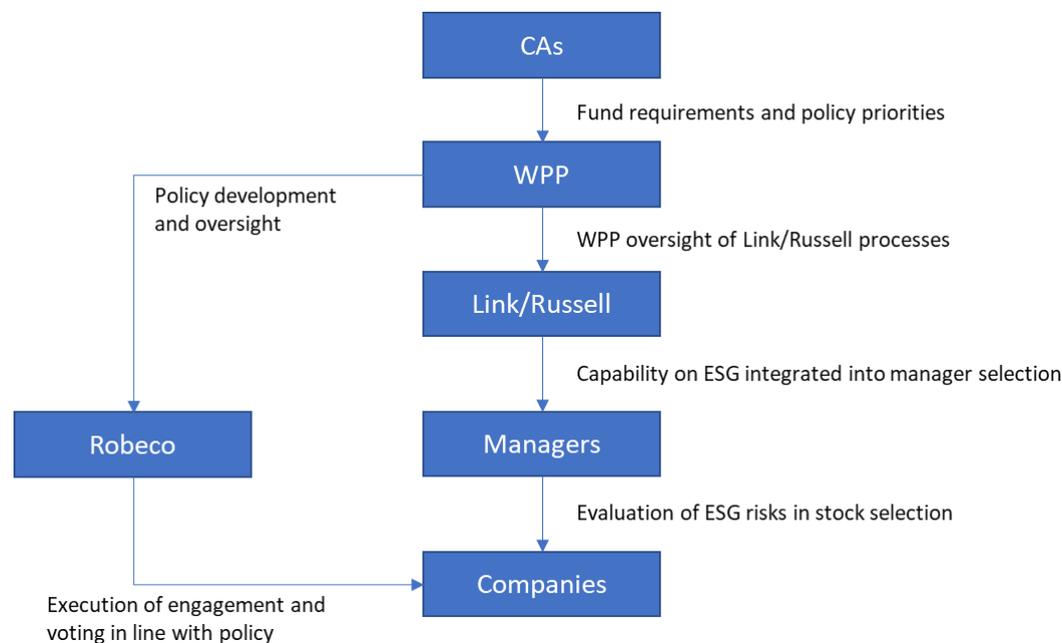
### Case study: change of underlying manager

Prior to the official launch of the Emerging Markets Equity Sub-Fund, Russell made the decision to change one of the underlying managers to better align with WPP's strategic beliefs and preferred positioning. Part of this rationale centred around ESG considerations.

In Russell's view, the new manager was better at customising ESG considerations to client needs and was therefore ahead of peers in this regard. As part of this customisation, the mandate required a portfolio with no carbon risk (versus benchmark) at all times. In addition, the new manager was deemed to have a positive research agenda on ESG and Russell expects the manager to continue on a positive trajectory to incorporate more forward-looking sustainability risk measures.

# Our RI approach

WPP believes that the integration of ESG factors, including the consideration of risks and opportunities, into investment processes is a prerequisite for any strategy, given the potential for financial loss. As WPP’s pooled assets are managed externally, WPP sets expectations on how assets should be managed with Russell to ensure RI views, ESG integration and approach to risk management align.



## Russell Investments

Russell integrates ESG factors into its investment process via investment manager evaluations and providing proprietary investment solutions. Russell’s ESG philosophy is based on four beliefs:

- ESG factors impact security prices
- A deep understanding of how ESG factors impact security prices is value-adding to a skilful investment process
- Embedding ESG considerations into a firm’s culture and process improves the likelihood of prolonged and successful investing
- Active ownership is an effective tool for improving investment outcomes

Russell uses quantitative and qualitative inputs to assess a manager’s ESG awareness and integration. These inputs are then used to assign a rank, which contributes to the manager’s overall rank. The scoring methodology includes four scores:

- **ESG Commitment:** ESG resources are robust and aligned with the investment process. Individuals responsible for ESG have relevant experience and are skilled. There is a variety of high-quality data sources and tools available to investment decision-makers.
- **ESG Consideration:** strong awareness of the risk and return impact of ESG is evident. Breadth and depth of perspective are superior to peers. Insights are derived from primary research and are differentiated.
- **ESG Implementation:** ESG insights are effectively and consistently translated into portfolio positioning. The manager clearly demonstrates how portfolio positioning reflects the management of relevant ESG risk and return drivers.
- **Active Ownership:** the transparency, quality and duration of engagement with investee companies on ESG issues is consistently superior to peers. Success measures are clearly stated and appropriate. Active Ownership outcomes or Impact Assessments are readily available and recorded. Where applicable, effort is made to make informed use of proxies.

While this integration is generally consistent across asset classes and regions, there are examples of when this may differ:

- **Data availability and quality:** may vary across asset classes and regions. For example, illiquid asset classes are not able to use data as extensively as in public equities, listed corporate debt and sovereign debt. As a result, processes may rely less on data in these situations.
- **Opportunities for active ownership:** may depend on asset class and investment vehicle. For example, the fixed-term and contractual nature of bond investments afford bondholders a finite number of engagement opportunities to make an explicit impact with individual issuers. These opportunities are often very brief before an investment decision must be made and they are not open to all parties, but rather at the discretion of the issuer’s willingness to engage in most instances. The management of any rights associated with bond or debt securities is delegated to the underlying fixed-income managers.

WPP’s fixed-income portfolio consists of publicly traded fixed-income instruments, where the terms setting out any rights of bondholders are typically generic. When assessing a fixed-income manager, Russell expects the manager to have a dedicated fixed-income engagement analyst and to seek to influence corporates at the time of bond issuance. While bondholder rights become important if ever an issuer defaults on its debt, in practice, WPP’s managers are much more likely to sell securities well in advance of default rather than go through the legal process involved with holding bonds which have defaulted.



- > The manager demonstrates **strong awareness** of the potential risk and return impacts of ESG issues on individual holdings and the portfolio structure
  - > The manager can **clearly demonstrate** how portfolio positioning reflects the management of relevant ESG risks
  - > The manager can **clearly demonstrate** how relevant ESG exposures can add value
- 
- > The manager **does not demonstrate awareness** of potential risks and return impacts of ESG issues on portfolio holdings
  - > **Meaningful discrepancies** between target ESG guidelines and portfolio holdings
  - > Manager’s perspective and analytical inputs on **ESG issues lack rigour**

The ESG scores given to each of the underlying Sub-Fund managers are summarised below, compared with the distribution of scores in 2021. This chart also reflects the introduction of the Emerging Market Equity Sub-Fund and the addition of a new manager to the UK Opportunities Fund during the year.



Source: Russell

To note, there has been no change in ESG scores for individual managers vis-à-vis the previous reporting year. WPP has noted that there were no changes in the rating of the two managers rated as 2 over the course of the year. Discussions with Russell on this point as to their continued inclusion highlighted the following:

- **Manager in the UK Opportunities Fund:** Russell finds the manager to be below average relative to UK equity peers in the incorporation of ESG into the investment process, with the manager not including sustainability or ESG factors into screens or portfolio-construction practices explicitly. However, Russell has indicated that the systematic and inherently backward-looking nature of the manager’s overall investment process makes ESG slightly less relevant for this strategy than for those of some UK equity peers – specifically those whose processes require more subjective judgment and longer investment horizons. Regardless, Russell has confirmed that this is an area that it continues to monitor as part of the ongoing research on this manager.
- **Manager in the Global Opportunities Fund:** the manager has not sought to meaningfully integrate ESG into the investment process. However, Russell has advised that the manager largely runs a quantitative process with a high number of holdings (paired with a sizeable turnover), with ESG risk-and-return drivers typically lacking materiality in such processes.

### Russell monitors risk within portfolios for WPP

For all asset classes, ESG considerations are explicitly included in Russell’s assessment of external managers. In addition, for equities, non-government bonds, property and infrastructure, Russell also calculates portfolio-level exposures designed to address risks associated with the energy transition, including carbon emissions, exposure to fossil fuel reserves and exposure to renewable energy, as well as exposure to a wider set of sustainability issues as captured by ESG scores. Two ESG scores are considered:

- Russell’s internally developed Material ESG Score, which focuses on the handful of issues for each company identified as being financially material to its business by the Sustainability Accounting Standards Board.
- Sustainalytics Risk Rating, which measure a company’s exposure to industry-specific material ESG risks and how well a company is managing those risks.

Russell’s portfolio managers seek to identify and assess financially-material sustainability risks on an ongoing basis within portfolios. Potential risks are identified using these and other available risk metrics, and in communication with external investment managers. If a potential sustainability risk is identified, Russell will review the drivers or sub-components of any metrics behind the highlighted risk, which may lead to more in-depth discussion with the external investment manager supporting the holding. Russell may also work with the Russell Active Ownership Team to consider engagement options. This process ensures that WPP’s assets continue to be managed in line with Russell’s in-house policies.

#### Case study: ESG risk review

As part of Russell’s regular risk review, holdings are screened, high-risk ESG names are identified and Russell invites commentary from the underlying manager on these names. One of these names over the reporting period was UACJ, identified as ‘severe risk’ according to Sustainalytics, a holding within the Global Opportunities Sub-Fund.

Russell approached Japanese asset manager NAM about the portfolio holding. UACJ’s main business is the manufacture of aluminium alloy sheets for beverage containers. In NAM’s view, one of the risks for UACJ is the tightening of regulations on CO<sub>2</sub> emissions. While NAM feels UACJ understands the significance of this risk qualitatively, and is considering actions to solve this issue, the company’s risk analysis and mitigation strategies are inadequate. NAM has therefore been encouraging the company, through engagement, to disclose its quantitative risk analysis and the amount of investment to mitigate the risk.

Russell noted that there has been some improvement in the governance structure. For example, by increasing the number of independent directors. However, there is still room for improvement in capital efficiency. NAM will encourage the company to improve the effectiveness of its governance through engagement.

## Oversight and scrutiny is undertaken by the RISG

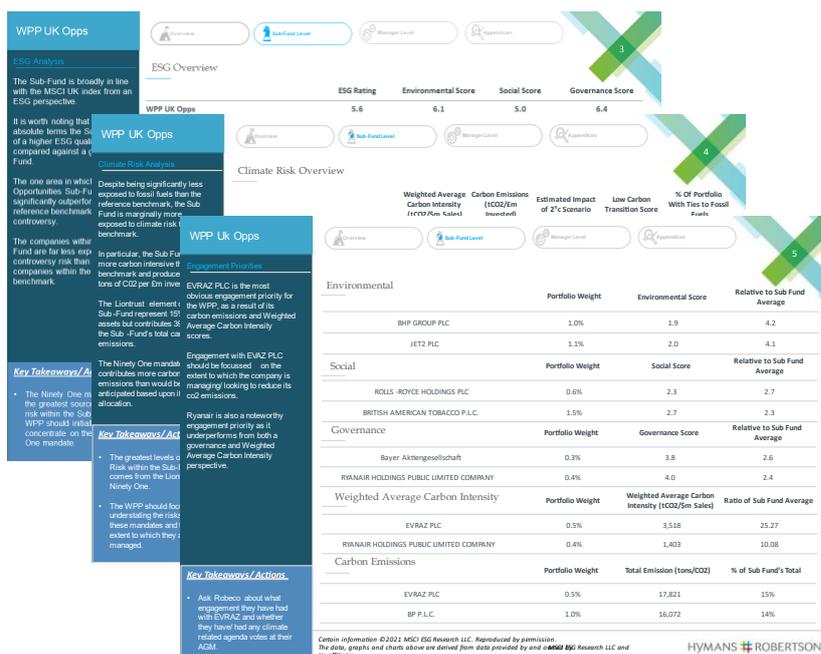
In operating an outsourced model, the WPP is responsible for the direct scrutiny of key Service Providers, with Russell then responsible for the direct oversight of the underlying managers employed within the Sub-Funds. Financially material sustainability risks are monitored by Russell on an ongoing basis, as with any other risks. Russell also conducts quarterly check-ins with the portfolio managers with reference to ESG risks. WPP exercises oversight of Russell’s processes on stewardship and ESG integration.

One of the ongoing roles of the Oversight Adviser is in assessing the management of the Sub-Funds and testing the processes that are being employed. In undertaking this exercise, Hymans Robertson undertakes an independent assessment of each portfolio, highlighting aggregate and individual areas of risk to the RISG. Each Sub-Fund is reviewed on an annual basis, with at least one report provided on at least one Sub-Fund each quarter to ensure WPP’s investment expectations are met.

The monitoring covers: climate-related risks, including trends in carbon emissions; ESG-related risks, including exposure to controversies; and highlights individual companies within portfolios that may be appropriate for further discussion.

As part of the scrutiny of underlying Sub-Fund managers, any issues of concern are raised with Russell for further discussion and explanation. Where appropriate, Russell will also meet with the WPP to discuss issues of concern.

Russell attended the RISG in November 2021 to provide an overview of the difference between ESG integration in fixed income versus equity. Russell discussed concerns around data availability and means for engagement, and considered specific examples of what two of the higher-rating underlying Sub-Fund managers, Barings and BlueBay, are doing in terms of engagement.



## Service Providers and stewardship

To ensure WPP’s Service Providers’ monitoring and engagement activities continue to be in line with that of WPP, WPP tracks engagements with Russell and Robeco in a Stewardship Log. This log considers any views or concerns that have been raised by members or other stakeholders and presented at any of the regular meetings (most notably the RISG). Conversations over the reporting period included:

- Robeco: concerns over human right breaches in the Occupied Palestinian Territories (OPTs) led to a follow-up conversation with Robeco via email in which they detailed the engagement with Booking Holdings. WPP noted that this engagement is continuing.
- Robeco: concerns over the remuneration package for Apple CEO Tim Cook led to a follow-up dialogue with Robeco via email in which they confirmed their position and advised they had voted against the remuneration package at Apple’s AGM.
- Russell & Robeco: concerns over the Russian invasion of Ukraine led to a virtual meeting with Russell, where they detailed WPP’s exposure here and discussed what the plan was going forward. Follow-up email conversations with both Russell and Robeco helped establish exposure to stocks in these markets and facilitated discussion on how the WPP wished to proceed on these holdings. As noted in this report, WPP made a decision to divest holdings where this was possible.
- Robeco joined the RISG in May 2021 to discuss their exclusion list and the ongoing engagement with Brazilian metals & mining name Vale (around tailings dam failures).

- Robeco: joined the RISG in October 2021 to allow for scrutiny of recent engagements carried out on WPP's behalf; discussed voting, priority voting areas, the development of engagement themes and ongoing engagement with Royal Dutch Shell. The latter point was specifically regarding the ruling by a Dutch court that Shell must cut its emissions by 45% by 2030 (i.e. faster progress than Shell had committed to). Robeco advised a key focus of the ongoing engagement was around the research & development being spent on new oil fields, with an expectation that Shell would recalibrate its Energy Transition Strategy in line with the International Energy Agency's 1.5°C scenario. Robeco specifically highlighted the need for Shell to set absolute short- and medium-term reduction targets in absolute terms.
- Robeco: email exchange to discuss engagement with Shell around its participation in the controversial Cambo oil field development in the North Sea (where it had a 30% stake). Shell has since pulled out of the project.

## **Integrating stewardship into WPP appointments**

As noted earlier in this report, the WPP has appointed bfinance as procurement adviser and, with the support of bfinance, subsequently appointed a number of individual allocators. WPP ensured that the consideration of stewardship issues was a consideration in each exercise.

- In appointing a procurement adviser, potential providers were asked to articulate how they would ensure that the WPP's RI investment beliefs were reflected in their approach. This allowed the WPP to consider providers who demonstrated a clear alignment of approach.
- RI assessment also played a vital role in the selection of private market allocators, again to ensure alignment with WPP's approach. Potential allocators were scored around: their commitment to and compliance with industry standards; their approach to RI integration and engagement with practitioners; their resourcing of RI; and the presence of diversity & inclusion, human rights and carbon policies. Preference was given to those allocators with higher ESG scoring.

# Addressing systemic risks

WPP's investment approach includes the effective management of risk, which we believe is also integral to good governance. WPP recognises that effective risk management – including RI and climate-risk mitigation strategies, alongside the consideration and management of broader ESG issues – are essential for delivering successful outcomes to our stakeholders.

As such, as per the Risk Policy, WPP recognises that, if left unmanaged, risks can impact on the ability of WPP (and the CAs) to act in the best interest of our stakeholders (and beneficiaries), with WPP's success, to an extent, dependent on our ability to effectively balance risk and return. WPP thus recognises that a robust risk strategy must be in place in order to deliver on our primary objectives, with a dedicated Risk Sub-Group established to maintain and evaluate the WPP's [Risk Register](#) on a quarterly basis. The Risk Register is used to document, manage and monitor risk by:

- Outlining the WPP's key risks and factors that may limit our ability to meet objectives
- Quantifying the severity and probability of the risk facing the WPP
- Summarising the WPP's risk management strategies
- Monitoring the ongoing significance of these risks, the effectiveness of existing risk mitigation strategies and the requirement for further risk mitigation strategies

The Risk Sub-Group in particular has a vital role in proactively identifying existing risks and those that may materialise in the future, and in assessing the effectiveness of existing – or the requirements for additional – risk mitigation measures. The Risk Sub-Group puts forward recommendations, to the OWG, on what actions should be taken to further mitigate or manage risks, though is not responsible for enacting the recommended actions.

## Climate change has been identified as a systemic risk

The WPP, in conjunction with other stakeholders, considers climate change as a systemic risk to the WPP and the performance of the Pool's investments. The WPP recognises climate risk within the Risk Register and has put in place a Climate Risk Policy, setting out the WPP's approach to addressing climate-related risks. The WPP's evaluation of our effectiveness against our policy commitments over the last 12 months is set out in Appendix 2.

It is WPP's policy that our own climate goal should reflect the underlying ambitions of the CAs. Not all CAs have formally set goals on net zero, so an overriding WPP objective has not yet been framed. However, discussions around this point continue to be addressed at the RISG and the WPP will continue to work on this topic over the course of 2022/23, supporting the various CAs.

As part of the ongoing monitoring regime, the WPP monitors a range of different climate-related metrics, including emissions metrics. The table below indicates the change in Weighted Average Carbon Intensity (WACI) over the course of 2021/22, noting that there has been a significant reduction in WACI for the Global Opportunities Sub-Fund, reflecting the implementation of the low carbon overlay.

Sub-Fund	Weighted Average Carbon Intensity (tCO <sub>2</sub> /\$m sales)	
	31.03.2022	31.03.2021
Global Opportunities	117.4	187.1
Global Growth	80.6	80.8
UK Opportunities	104.3	139.2
Emerging Markets	238.3	n/a

The WPP recognises that this represents one measure of climate-related risk and has engaged with all CAs in order to develop a framework through which both the WPP and CAs can measure climate-related risks once LGPS funds become formally subject to TCFD requirements. The WPP intends to publish our own TCFD report in due course.

Other actions that the WPP has taken to evolve the approach to climate risk over the year include:

- Progressing the development of the Sustainable Equity Sub-Fund. The parameters of this Sub-Fund will include expectations around a net-zero target, ambitions around carbon risk reduction and the exclusion of stocks in certain sectors. Finalisation of this Sub-Fund will allow CAs to invest in potential climate solutions.
- Continuing to support stewardship activity aimed at decarbonisation. As noted in this report, the WPP was supportive of the changes to our underlying Voting Policy and also actively challenges Robeco on V&E activity around climate-related risks as detailed in this report.
- Progressing consideration of the current low-carbon overlay on other Sub-Funds, although steps to complete this were not completed during the year.

The WPP also progressed the appointment of Private Markets Allocators, with the expectation that providers will facilitate investment in climate solutions. Most notably, one of the providers appointed – Octopus – is expected to facilitate investment in renewable energy infrastructure.

Finally, the WPP expects Service Providers to take action to address climate risk. WPP's two primary Service Providers, Robeco and Russell, are both now signatories to the Net Zero Asset Managers Initiative and members of Climate Action 100+. These commitments are welcomed by the WPP as supporting our broader ambition. The WPP's Oversight Adviser, Hymans Robertson, is also a signatory to the Net Zero Investment Consultants Initiative.

#### **Case study: Engagement through Climate Action 100+ informed dialogue and voting action**

Shell is a company that has been much discussed by the WPP with Robeco, particularly in relation to the company's decarbonisation objectives and climate plans. The WPP has also raised questions on the court ruling against Shell and its investment plans. As one of the engagement leads with Shell, Robeco has been well placed to respond to the WPP's questions. In particular, Robeco noted that importance of the collaboration through CA100+ as a means of ensuring that companies are engaged in a similar manner, thus avoiding the singling out of individual companies.

At the Shell AGM, LAPFF recommended voting against this management resolution on concerns around Shell's commitment to net zero, in particular around the use of 'intensity' measures rather than absolute emissions reductions. Robeco chose to support Resolution 20, feeling it represented an industry first in putting forward its own climate transition plan for a shareholder vote. In particular, Robeco noted that the 'Say on Climate' plan is currently one of the most elaborate and advanced plans in the oil & gas sector. While supporting the resolution, it was recognised that the plan will require updates and further improvements in the coming years. At the AGM, Robeco expressed a desire for Shell to increase pace and to already make significant steps in the near future.

A shareholder proposal was also filed for Shell to set climate-related targets in the long, medium and short term. In Robeco's assessment, Shell had already set one of the most advanced targets in their sector and the company should instead focus on implementation in its next steps and thus abstained from voting on this resolution.

The WPP believes that our approach to addressing climate-related risk is progressive and that we will continue to benefit from input from other stakeholders. One particular area of focus for the WPP is to ensure that we engage all internal stakeholders on their climate ambitions over the course of 2022/23 to allow us to frame our own broader goals.

#### **WPP responded to the Ukraine crisis**

As noted in this report, the Russian invasion of Ukraine created illiquidity in markets, particularly in respect of Russian stocks. This created a broader risk for all investors, with divestment only practical when liquidity was available. The WPP took the view that it could not directly address this issue through engagement. WPP has asked our providers to divest from Russian assets where practicable and where liquidity permits.

# Communication and reporting

The WPP believes in being open and transparent, as well as regularly engaging with key stakeholders. As such, the WPP will ensure the meetings of the JGC are accessible to the public via a live webcast stream. Meeting papers will also be made publicly available. Local Pension Board engagement days will also be held regularly as a means of fostering stakeholder engagement.

WPP has developed our communication strategy recognising all stakeholders, which is reflected in the [Communication Policy](#). Through this policy, WPP has identified a range of external stakeholders, in addition to the CAs and underlying Pension Fund members on whose behalf it manages money, with whom it wishes to communicate. These external stakeholders include Government, Unions, the media and NGOs. To ensure continued engagement and collaboration among the CAs and Service Providers, and to ensure adequate reporting to and input from wider stakeholders, WPP carries out the following:

Engagement mechanisms	Frequency
Strategic Relationship Review meeting	Bi-Annual
JGC Engagement	Quarterly
Manager Performance Meetings/ Calls	Quarterly
Training Events	Quarterly
OWG Engagement	Quarterly
Bi-Weekly Meetings	Every 2 Weeks
Pension Fund Committees	Annual
Manager Engagement Days	Annual
Member Communications	Annual
Pension Board Engagement	Every 6 Months
Engagement via the website & LinkedIn	Continuous
CA Annual Requirements & Ambitions Questionnaire	Annual

This approach, which provides a frequent two-way communication with all key stakeholders, allows the WPP to ensure that all have the opportunity to provide input on issues, and develop the WPP's ongoing agenda and business plan.

## WPP reporting to CAs

Over the year, WPP worked to build internal reporting to ensure that a broad range of stewardship information is available to the RISG to allow the scrutiny of activity. This includes access to full voting records (including where votes were made against management), granular examples of votes cast per Sub-Fund (and reflective of priorities), and summary voting and engagement. This helps ensure that reporting is fair, balanced and accessible. While this has made information on stewardship activity available to all CAs through their membership of the RISG, WPP recognises that the final step in this process is to then cascade information on these activities to the underlying CAs to meet their own needs. This remains an area of priority for 2022/23.

WPP has begun engaging with stakeholders to determine the information that they require to meet the needs of their own Committees and reporting requirements, and to allow a broader range of challenge back to WPP. This has included consultation on TCFD reporting.

## Reporting by Service Providers

In order to communicate effectively with our clients, beneficiaries and external stakeholders, WPP relies heavily on the reporting provided by Service Providers.

### Robeco

Robeco provides quarterly and annual V&E reports, including full voting details by Sub-Fund (launched at the start of 2021) and granular engagement examples. Additionally, Active Ownership Profiles are updated on a near live basis, whenever there has been an engagement activity with a company. These reports are made available to WPP via Robeco's Client Portal.

### Russell Investments

Quantitative data is used to analyse portfolios through an ESG lens. Russell's proprietary system (ExploreR) provides holding-based ESG reports, which includes ESG risk from Sustainalytics and carbon footprint from MSCI (both of which are communicated to WPP via quarterly reporting and quarterly review decks).

The information from both Robeco and Russell is presented at the RIWG and OWG, with each of the CAs then responsible for cascading this back to their own membership. In order to improve efficiencies here, the intent over 2022/23 is to provide better reporting at the Pool level, that can be made bespoke to each of the CAs, including Sub-Fund-specific engagement reporting (currently engagement reports are provided that incorporate engagements across all pooled assets, both active and passive).

## WPP reporting to other stakeholders

The WPP recognises that our activities are of interest to third parties and therefore endeavours to report on our activities externally, normally via our website. In particular, communications over the course of 2021/22 have included:

- Stewardship code reporting
- Annual report on WPP's activities
- News updates on fund launches and initiatives

Detailed voting records are not yet published on WPP's website, although WPP is working with Robeco to consider this further.

# Working together

## LGPS

WPP recognises that collaboration with other like-minded investors and representative bodies can maximise the influence of WPP’s assets on investee companies. One area of direct collaboration undertaken by WPP is through the Cross-Pool RI collaboration project at any suitable opportunity. The group includes LGPS pools from England, Scotland and Wales, and includes both funds and pool operators. The forum allows for discussion between the LGPS investors, who operate in the same regulatory environment and with similar expectations from CAs and beneficiaries on RI and ESG topics.

WPP, together with all CAs, are members of LAPFF, which undertakes engagement with companies on behalf of all its members. LAPFF is a forum for LGPS funds and is the UK’s largest collaborative shareholder engagement forum, engaging across a broad range of ESG themes with investee companies. WPP is a pool member of LAPFF and feeds into the annual engagement work plan. WPP draws directly on LAPFF’s voting alerts, which are fed into the voting policy. Further, information gained from LAPFF engagement provides a basis for ongoing dialogue and challenge of Robeco’s own activities, thereby ensuring that discussions are constructive.

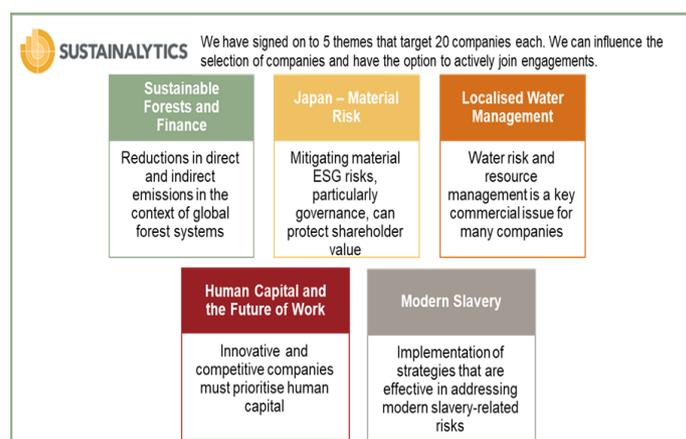
## External partners

As WPP’s view on maximising impact through mutual priorities and collaboration is in line with Robeco’s, WPP relies heavily on the V&E Provider to undertake any relevant industry collaborations on our behalf and to report back on any progress. Robeco actively collaborates with the following:

- UN PRI
- Net Zero Asset Managers Initiative
- Climate Action 100+
- Taskforce on Nature-related Financial Disclosures
- Platform Biodiversity Accounting Financials
- Finance for Biodiversity Pledge
- Cambridge Institute for Sustainable Leadership
- World Wide Fund for Nature Netherlands
- Investor Mining and Tailings Safety Initiative
- Investor statement on the UN Treaty on Plastics
- Investor Alliance for Human Rights
- Nature Action 100

In 2021, Robeco joined the Advisory Committee of the PRI’s new Human Rights Stewardship initiative, that aims to maximise investor contributions towards business respect for human rights and investor efforts to address social challenges through collaborative engagement. In 2021, Robeco joined the UN Treaty for Plastics to commit to the development of a global treaty on plastic pollution. In March 2022, the UN approved a mandate for the International Negotiating Committee to develop a legally binding treaty on plastic pollution. Specific examples of the collaborative engagements Robeco has carried out on WPP’s investee companies can be found in our ‘How we engaged’ section.

WPP also benefits from collaborative partnerships Russell participates in. This includes the partnership with Sustainalytics, where Russell has signed on to five themes targeting 20 companies:



# How we voted

Given our operating model, WPP relies heavily on Service Providers to ensure that our RI views and approach to stewardship are being carried out effectively on our behalf. As WPP's V&E Provider, Robeco's approach to RI with that of WPP, believing that active ownership contributes to both investment results and society.

## Voting policy

In order to ensure that votes are cast in a consistent manner, WPP has implemented a single [Voting Policy](#) that applies to all Sub-Funds, which Robeco implements on WPP's behalf. The policy adopts Robeco's standard policy, with company-specific circumstances and best practice also considered when casting a vote, and is reviewed on at least an annual basis.

Robeco's voting policy is based on the principles of the International Corporate Governance Network (ICGN), with Robeco monitoring the consistency of its general voting policy with the ICGN principles. After annual review, changes will not be automatically applied to WPP's own voting policy. Instead, to ensure that any changes continue to meet WPP's expectations and requirements, the changes – and rationale behind them – are reviewed by the RISG, with a recommendation then put forward to the JGC on whether or not to adopt the updated policy.

While Robeco's standard policy continued to apply over the reporting period, discussions around a more bespoke arrangement were undertaken. These included the experience of other Pools, for example in referring particular issues back to in-house teams, though under WPP's current governance structure, it was noted that such an arrangement would provide a potential implementation barrier. These discussions are ongoing, with WPP preferring to allow the current arrangement a bedding-in period before making any significant changes.

While Robeco's standard policy is applied, WPP has also worked with Robeco to put in place a weekly notification of forthcoming votes, allowing WPP to override voting recommendations if desired, though no such vote has yet been overridden. WPP hopes to do more on this point, developing a tool internally that will help better collate pre-voting data from Robeco and cross-reference this with LAPFF voting alerts, so that WPP can take a more proactive approach. WPP also hopes that this will enhance the quarterly scrutiny of votes carried out on our behalf by the Oversight Adviser.

## LAPFF voting recommendations

All of the CAs are members of the LAPFF. LAPFF sends out voting alerts to each CA, with recommendations on how they vote at any upcoming meetings. These voting alerts are taken into account when Robeco casts votes. For the large majority, Robeco votes in line with LAPFF's recommendations. In any instances where Robeco's views are not in line with LAPFF's, the WPP will follow the recommendations of Robeco as our delegated Service Provider but ask for reasons why Robeco has not voted in line with LAPFF. An example of this is given below:

### Case study: LAPFF

Over the reporting period, at Glencore's AGM, Robeco cast a vote out of line with the LAPFF voting alert that recommended voting against Glencore's Annual Account and Reports. The LAPFF alert argued that climate change had not been a consideration when appointing an external auditor.

WPP engaged with Robeco on reasons behind this. Robeco advised that, specifically in terms of the content of the Annual Account and Reports, Robeco felt that Glencore had shown willingness with the report on the company's revised ethics and compliance programme. Indeed, Robeco felt that the appropriate forum for addressing climate concerns was not on the resolution on the Annual Account and Reports. Rather, Robeco expressed concerns around climate in the Say on Climate resolution.

## Our voting priorities

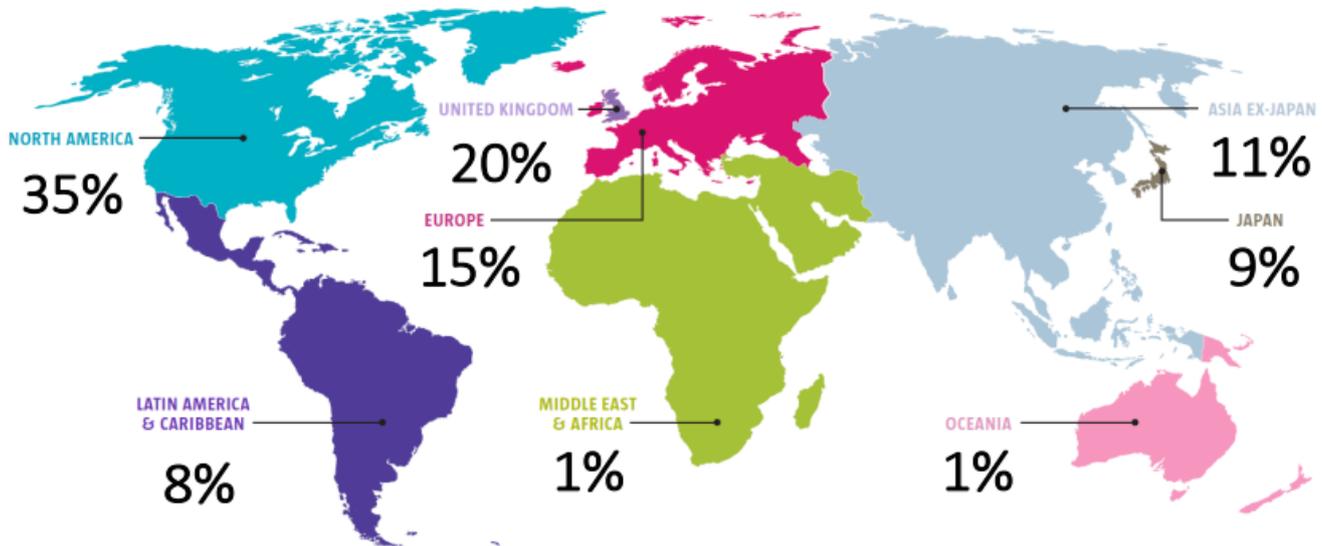
WPP has determined our own voting priorities, following consultation with Robeco. The role of the voting priorities is to provide areas of focus for informing Robeco of WPP’s voting expectations and for scrutinising the voting activity that is carried out on WPP’s behalf, to ensure that such areas reflect those topics that are most relevant/of greatest concern to WPP and that the exercise of voting achieves the desired outcome. WPP’s voting priorities have not changed from the previous reporting period, as they continue to reflect the priorities of the CAs. An outline of WPP’s voting priorities, the rationale behind their inclusion and how they tie into Robeco’s house policy are provided below.

Voting Priority	Rationale
<b>Management of climate change</b>	Climate change can have extensive and wide-ranging impacts on a company’s performance and shareholder value. Climate change, and the effective management of it, is an issue that should be addressed and considered by companies in every industry to protect shareholder value.
<b>Climate risk disclosures</b>	Climate risk represents a potential financial risk to investors, lenders and other stakeholders. They therefore have a right to know: the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning; how the organisation identifies, assesses and manages climate-related risks; the metrics and targets used to assess and manage relevant climate-related risks and opportunities.
<b>Improving shareholder governance</b>	Supermajority vote requirements can prevent shareholders from implementing important governance measures that are in their best interests. The WPP believes that Voting Rights are critical in protecting and enhancing the long-term value of our investments, therefore will vote against voting governance arrangements that are undemocratic and limit our ability to bring about change that is in the best interest of our stakeholders
<b>Board diversity</b>	It is beneficial for a board to have a diverse range of perspectives and skills. High levels of board diversity and sufficient levels of board refresh should foster constructive debate and challenge, new idea generation and effective management, which in turn should result in shareholder value.
<b>Retention and development of human capital</b>	By encouraging companies to disclose their policies, performance and improvement targets related to material human-capital risks, shareholders will gain more insight as to how the company approached the issue of human capital in relation to both the current leadership team and the pipeline for future talent. Effective management and development of human capital will be beneficial to investee companies’ overall capital and market value.
<b>Executive remuneration: focusing on long-term outcomes</b>	Directors will make decisions that are in the long-term interest of the company if their own remuneration is linked to this performance metric. Remuneration packages that are tied to shareholder and employee experience should encourage directors to consider shareholder requirements and protect a main source of human capital, its employees.

To ensure their continued relevance and application, the RISG (in conjunction with Hymans Robertson) continues to review and scrutinise all quarterly voting data provided by Robeco to ensure WPP’s expectations are being met. One change during the year has been to encourage reporting on a Sub-Fund basis, which Robeco has been able to facilitate, thereby allowing more granular reporting to CAs in line with their own investments.

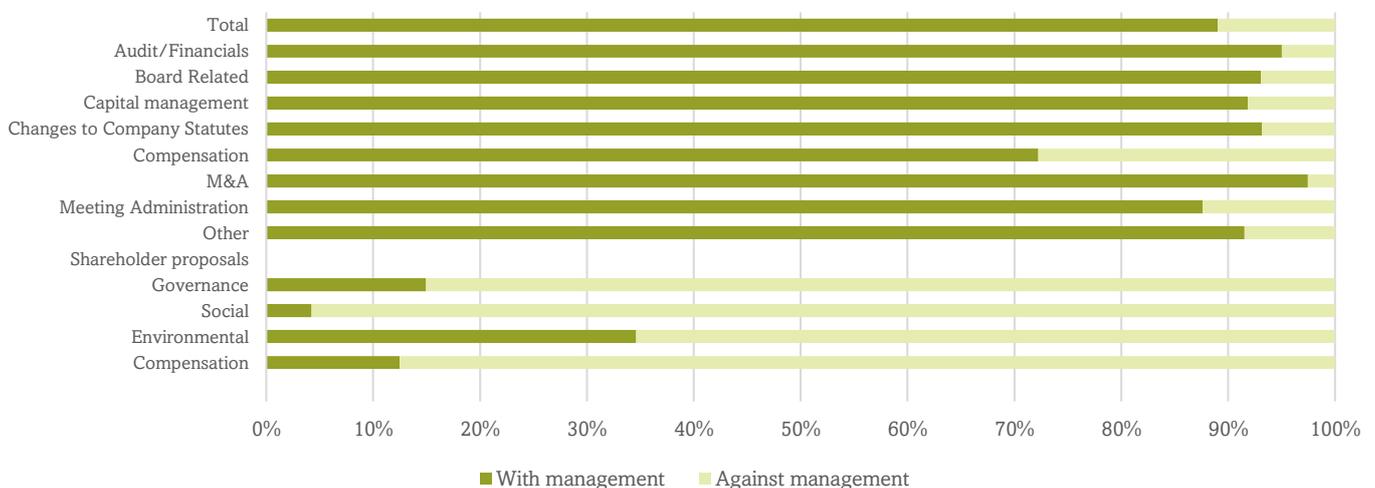
## Our voting outcomes

The map below illustrates the regions in which votes were cast over the year to 31 March 2022, determined by the underlying regional distribution of assets within the WPPs equity Sub-Funds. Data for the Emerging Market Equity Sub-Fund is not included in this analysis, given Robeco only took on responsibility for voting on this Sub-Fund from 10 March 2022.



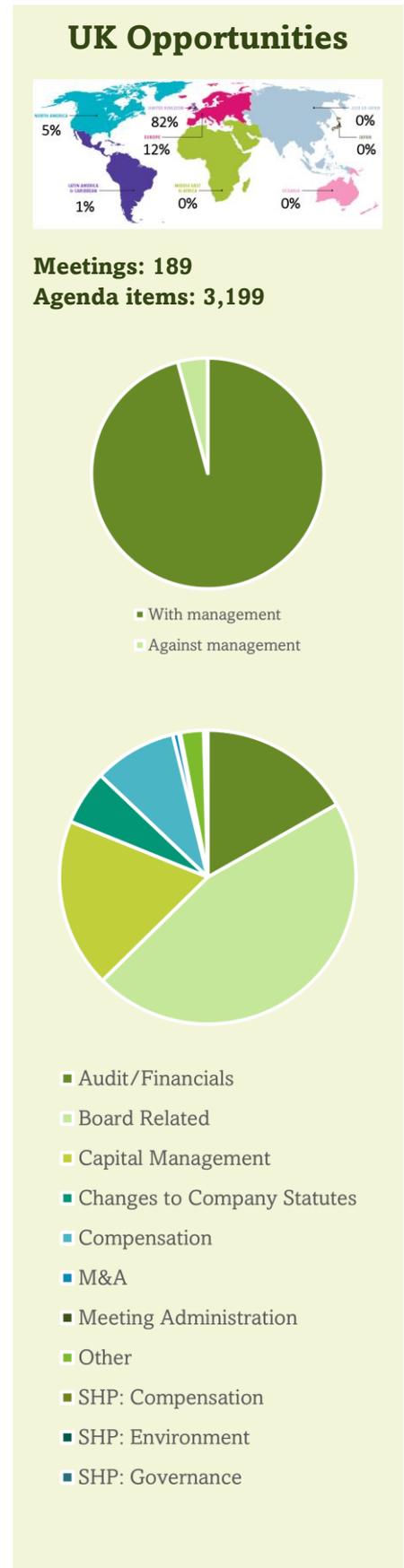
	2021/22
Number of meetings	788
Number of votes cast	10,927
For	9,871
Withhold	46
Abstain	69
Against	923
Other	18
With Management	9,453
Against management	1,474
Meetings with at least one vote against management	61%

### Voting per proposal category



Source: Robeco

### Voting outcomes by Sub-Fund



## Ensuring that voting is in line with policy

WPP reviews the voting activity undertaken by Robeco on a quarterly basis and notes that, across a range of resolutions, votes have been cast in line with the WPP's intentions. Examples of this are given below:

**Company:** Alibaba Group: Chinese multinational technology company, particularly focused on e-commerce

**Date:** 17 September 2021

**Vote?** One for and two against votes for the management resolutions on board elections

**Rationale?** Robeco supported the election of the President of the Group and the one nominated by the Alibaba Partnership, a formal partnership agreement that was initiated by the founders of the Group in 2010. The Alibaba Partnership has the exclusive right to nominate and appoint up to a simple majority of members to the Company's board of directors. Currently 5 out of the 11 directors in the board are appointed by the Partnership, showcasing the existing limitations on minority shareholder rights.

Robeco decided to oppose the election the executive vice chair of the Alibaba Group, who serves as a member of the Remuneration Committee and as a chair of the Governance and Nomination Committee. They believe that key committees such as the nomination and remuneration committee should have a high degree of independence. Additionally, Robeco opposed the election of a director that serves as a CEO and president of a large communications company, while serving on a total of three public company boards. Understanding the scarcity of time, we believe that to fulfil the responsibilities of all those positions is not easily manageable and the director in question might end up failing his fiduciary duties towards the shareholders. Finally, Robeco noted a concern by the lack of an independent chair or an independent lead, especially with the high number of affiliated/insider directors within the board, believing an independent chair would lead to better oversight of management's decisions and would serve minority shareholder' interests.

**Outcome?** The three management resolutions passed (at least 73% for)

**Company:** BHP Group Limited: Australian multinational working in the extractives industry (metals & mining, oil & gas)

**Date:** 11 November 2021

**Vote?** Against the management resolution to approve the Climate Transition Action Plan

**Rationale?** BHP put forward its Climate Transition Plan, advising that it would play an important role in the net-zero transition, including in terms of emissions reductions (Scopes 1, 2 &3) and in capital alignment. However, in line with LAPFF voting recommendations, Robeco felt the Action Plan had several shortcomings, including an over-reliance on certain technologies, such as carbon capture and storage.

**Outcome?** The management resolution passed: 84.9% for

**Company:** Exxon Mobil: US multinational in the oil & gas sector

**Date:** 26 May 2021

**Vote?** Robeco supported all shareholder proposals (besides one 'Trojan Horse proposal', which aimed to limit progress on climate -related issues) and dissident board 13 nominees, in addition to voting against the re-election of chairman of the board and lead independent director due to insufficiently addressing shareholder concerns on climate.

**Why?** ESG-focused activist investor Engine No. 1 filed resolutions at Exxon's AGM aimed at replacing four directors with their own candidates as part of a campaign to enhance climate oversight on the board. The core argument of Engine No. 1 was that ExxonMobil's board, which is saturated with CEOs at some of America's largest companies, did not actually include anyone with dedicated energy industry experience. It nominated four candidates from the energy world in both the US and Europe, with the nominations largely successful, resulting in three new members joining the board, ultimately chosen for their expertise in sustainability and the energy transition.

Another resolution that gained shareholder approval relates to the disclosure on Exxon's lobbying activities and related spending, which asked the company to account for whether and how its lobbying aligns with the Paris Agreement. In the end, Engine No. 1 won a very expensive proxy fight with only a tiny 0.002% of the stock, by leveraging shareholder discontent to support a business case for meaningful change. Although this was certainly helped by Exxon Mobil's poor

performance, with losses last year of US\$22 billion (its worst performance in forty years), it was also due to the quality of the nominees, which gained backing from some of the largest institutional investors in the US.

**Outcome?** Three of the dissident nominees were elected (at least 72% for); the shareholder resolution on climate lobbying passed (63.8% for)

**Company:** Pilgrim's Pride: Multinational food company based in Brazil

**Date:** 28 April 2021

**Vote?** For the shareholder resolution asking for a report on linking executive compensation to ESG metrics

**Rationale?** The shareholder resolution asked for the Board to examine and report on how it plans to integrate ESG metrics into the performance measures of named executive officers under its incentive compensation plans. In particular, the resolution was looking to address historic ESG shortcomings related to employee safety from Pilgrim's Pride, including: a criticised response to the COVID-19 pandemic; a record of injury and death among its workforce in its poultry-processing plants; and repeated health & safety violations.

**Outcome?** The shareholder resolution failed: 5.1% for

**Company:** Tesla: US multinational automotive and clean energy company

**Date:** 7 October 2021

**Vote?** For the management resolution asking for the elimination of supermajority requirements

**Rationale?** At Tesla's 2021 AGM several proposals were up for vote to improve corporate governance at the company. Specifically, management put forth a proposal eliminate applicable supermajority voting requirements. Robeco was pleased to see a strong focus on improving corporate governance from both management as well as shareholders. Robeco supported management's proposal to eliminate supermajority voting requirements, because supermajority vote requirements can impede shareholders' ability to approve ballot items that are in their interests. Currently, the affirmative vote of the holders of at least two-thirds of the Company's outstanding common stock is required to amend the certificate and bylaws. The impediment posed by the supermajority requirement was made clear through the voting results of the proposal.

**Outcome?** Although the proposal received 60% approval rate of all votes cast at the meeting, it did not meet the requirement of affirmative votes of at least 66.6% of the total outstanding shares. As such, the proposal was not approved by the meeting.

**Company:** Apple: US multinational technology company specialising in consumer electronics and software

**Date:** 4 March 2022

**Vote?** Against the management resolution asking for approval of its remuneration report ('Say on Pay'). For the shareholder resolutions: asking for a report on the effectiveness of supply-chain policies on forced labour; regarding concealment clauses; regarding a report on median gender and racial pay equity

**Rationale?** In terms of the executive compensation report, Robeco was concerned that the long-term incentive plan is overly reliant on only one relative metric (TSR). This would allow for Performance Stock Units to be capped at target, even when TSR is negative. Robeco were also concerned by the high quantum of total compensation for all named executive officers and the CEO.

Robeco supported the shareholder proposal asking the company to report on forced labour in its supply chain, believing that the proposal's call for transparency regarding the effectiveness of the company's commitment to human rights would benefit shareholders. Additionally, Robeco supported the shareholder resolution asking Apple to report on median pay gaps across race and gender, including associated policy, reputational, competitive and operational risks, and risks related to recruiting and retaining diverse talent. Robeco also supported the shareholder proposal regarding the concealment clauses. The resolution was asking the company to prepare a public report assessing the potential risks associated with its use of concealment clauses in employment agreements, in the context of harassment, discrimination and other unlawful acts. The resolution received 50% support from the shareholders. Robeco consider that this report could help shareholders ensure that these issues are being thoroughly addressed and considered by the board and management.

**Outcome?** The management resolution passed (64.4% for); the shareholder resolutions on the reports on forced labour and the gender/racial pay gap failed (both around 33% for); the shareholder resolution on concealment clauses passed (50% for)

# How we engaged

As a pool as a whole, WPP is very much an advocate of engagement, recognising the broader benefits of active ownership in shaping behaviour. This is one of the reasons that WPP chose Robeco as V&E Provider in 2020, given an alignment in views, namely that constructive dialogue is an effective tool of asset owners, rather than exclusion. Robeco engages on behalf of WPP in three ways:

- **Value engagement:** a proactive approach focusing on long-term, financially material ESG opportunities and risks that can affect companies' valuation and ability to create value.
- **Enhanced engagement:** focuses on companies that severely and structurally breach minimum behavioural norms in areas such as human rights, labour, environment and anti-corruption. The primary objective is to address reported shortfalls against internationally accepted codes of conduct for corporate governance, social responsibility, the environment and transparency.
- **SDG engagement:** looks to drive a clear and measurable improvement in a company's SDG contribution over three to five years. By ensuring a company's persistent relevance is reflected by its ability to address key societal needs, this strategy creates value for both investors and society at large.

WPP's input to this process is primarily in contributing to the identification of themes for proactive, value engagement.

## Providing input to engagement themes

Every November, Robeco selects three to five new engagement themes, which consider financially material topics that address ESG issues. Each theme focuses on 10–15 companies, where Robeco feels an impact is needed and can be financially material. This includes ongoing engagement with company representatives during this period to discuss sustainability impact, risks and opportunities.

WPP actively participates in Robeco's Annual Client Panel, providing input and discussion to this process. Themes raised with Robeco for consideration were collated from CAs and shared with Robeco ahead of this discussion and included:

- **Financing carbon emissions:** focusing on ensuring that those who lend money to fund or insure fossil fuel projects have clearer policies in place to stop this over a short timeframe.
- **Diversity in senior management:** recognising that there has been a focus on building diversity at board level, it remains important to ensure that this takes place across all levels of an organisation. In particular, the WPP highlighted the financial services industry and the Asset Owners Diversity Charter.
- **Supply chains and product lifecycle impacts of electric vehicle power units:** WPP noted that there are environmental trade-offs in the shift to a lower-carbon economy, and wanted to ensure that mechanisms are put in place as early as possible to encourage reuse and recycling, particularly within the automotive industry.

WPP recognises that it is one of many voices in the process of setting engagement themes, but was pleased to see that several of our areas of focus were reflected in the four engagement themes chosen to start in 2022. These are as follows:

- **Net-zero emissions:** an expansion of the one launched in 2020, focusing on high carbon-emitting companies that have made some progress but are still lagging in their transition to net zero. In scope are companies that score amber on Robeco's [traffic light system](#) for top-200 emitters, compared to companies that are at red and at risk of failing in the transition, and are then selected for enhanced climate engagement in the 'Acceleration to Paris' theme that was launched in 2021.
- **Natural resource management:** focus on companies for whom the management of both water use and water waste is a material issue. Investors need to account for the amount of fresh water that is needed to make certain products – often drawn from places where water is already scarce – while the discharge of toxic waste remains problematic. This engagement theme will focus on companies that face environmental issues such as seabed and land mining, emissions of PFA chemicals, water scarcity, agrochemical waste and plastic waste.

b

- **Diversity and inclusion:** human development is also vital to a more sustainable and prosperous world, particularly in reaping the rewards that greater inclusion can bring. This theme builds on prior work in promoting great diversity in the workplace, trying to achieve equal rights – particularly for female participation in more senior roles, including at board level – and making sure that every voice is heard.
- **Nature Action 100:** a new collaboration to protect the natural environment and the millions of species of animals, plants and sea life that live within it – many of which are threatened by human development. It builds on prior biodiversity work and is modelled on the existing ClimateAction 100+ partnership with other investors. Robeco is one of the lead investors driving development of the new collaborative engagement.

## The engagement process

Regardless of the type of engagement, a five-stage SMART process is followed in establishing specific (and measurable) engagement objectives.

Robeco determines engagement objectives at the start of the engagement process. This forms a key part of the engagement theme research stage, and ensures that engagement begins with a thorough understanding of the materiality of the ESG issue in question, the company’s current performance on and exposure to the issue, and its baseline performance on the engagement objectives set. Each time contact is made with a company, Robeco discusses the engagement objectives and assesses the progress a company is making towards them. This process assures WPP that a robust approach to stewardship – and, importantly, one that can be monitored and reviewed – is taken on the Pool’s behalf.

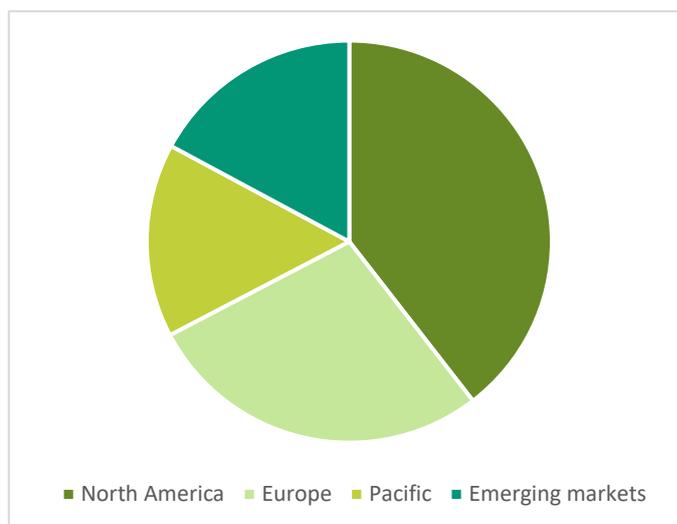


Engagements usually start by explaining the objectives to a company’s Investor Relations department via e-mail, letter or phone call, followed by conference calls or meetings with technical experts. Examples of such experts are the Head of Risk Management, Head of Sustainability, Head of Supply Chain Management and a wide variety of other operational specialists. Company roadshows are used when available. In most cases, Robeco reaches out to companies as opposed to the other way around. Senior executive and non-executive management (Board Secretary, Chairman, CFO, COO, or CEO) are also often involved in our discussions. Finally, if Investor Relations are non-responsive to an engagement invitation, Robeco approaches senior management directly.

## Engagement during 2021

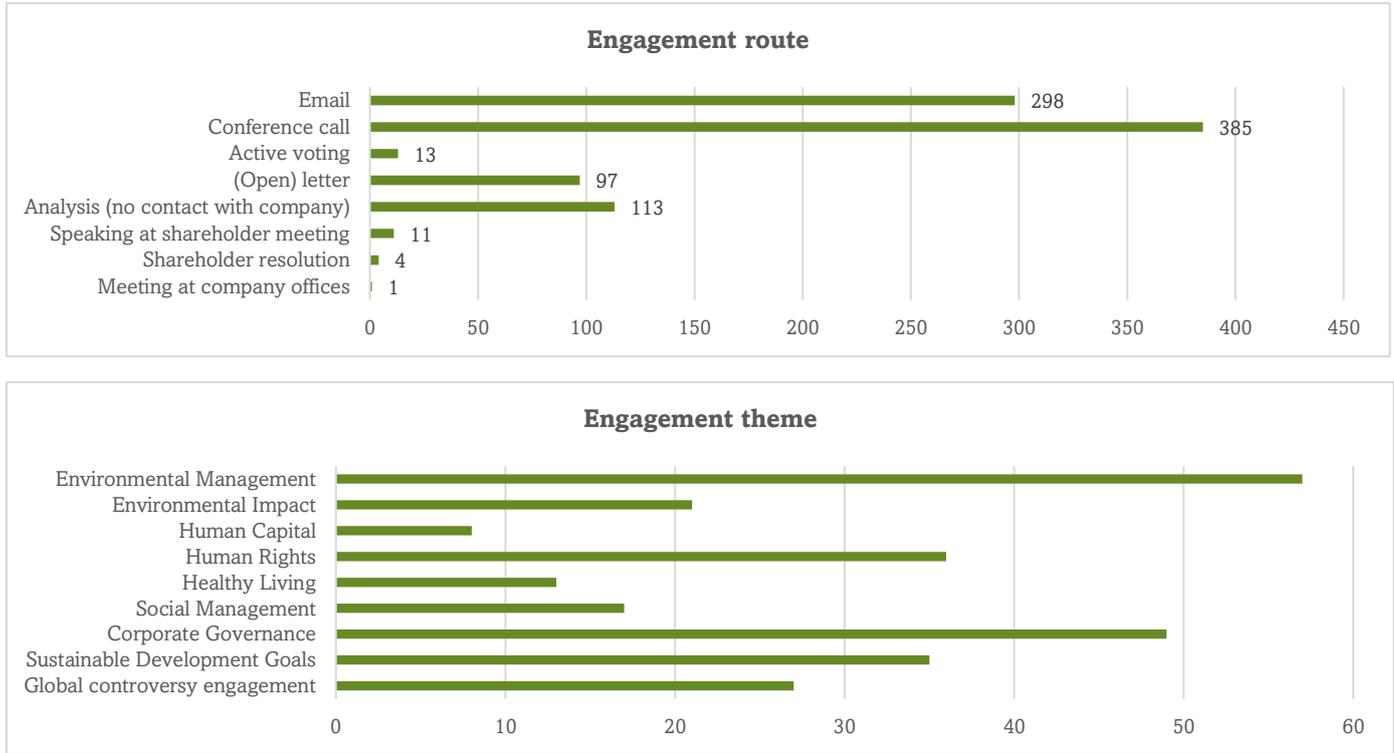
Engagement activity is reported on in respect of the 2021 calendar year\*, during which Robeco engaged on behalf of WPP on a number of issues. While 23% of engagement activities were in respect of assets where WPP had both credit and equity holdings, the remainder was in respect of equity holdings only. Robeco does not differentiate between the nature of holdings in their engagement activity given they represent multiple clients.

Given the global nature of WPP’s investments, engagement activity took place across multiple regions, with the split of activity as illustrated to the right.



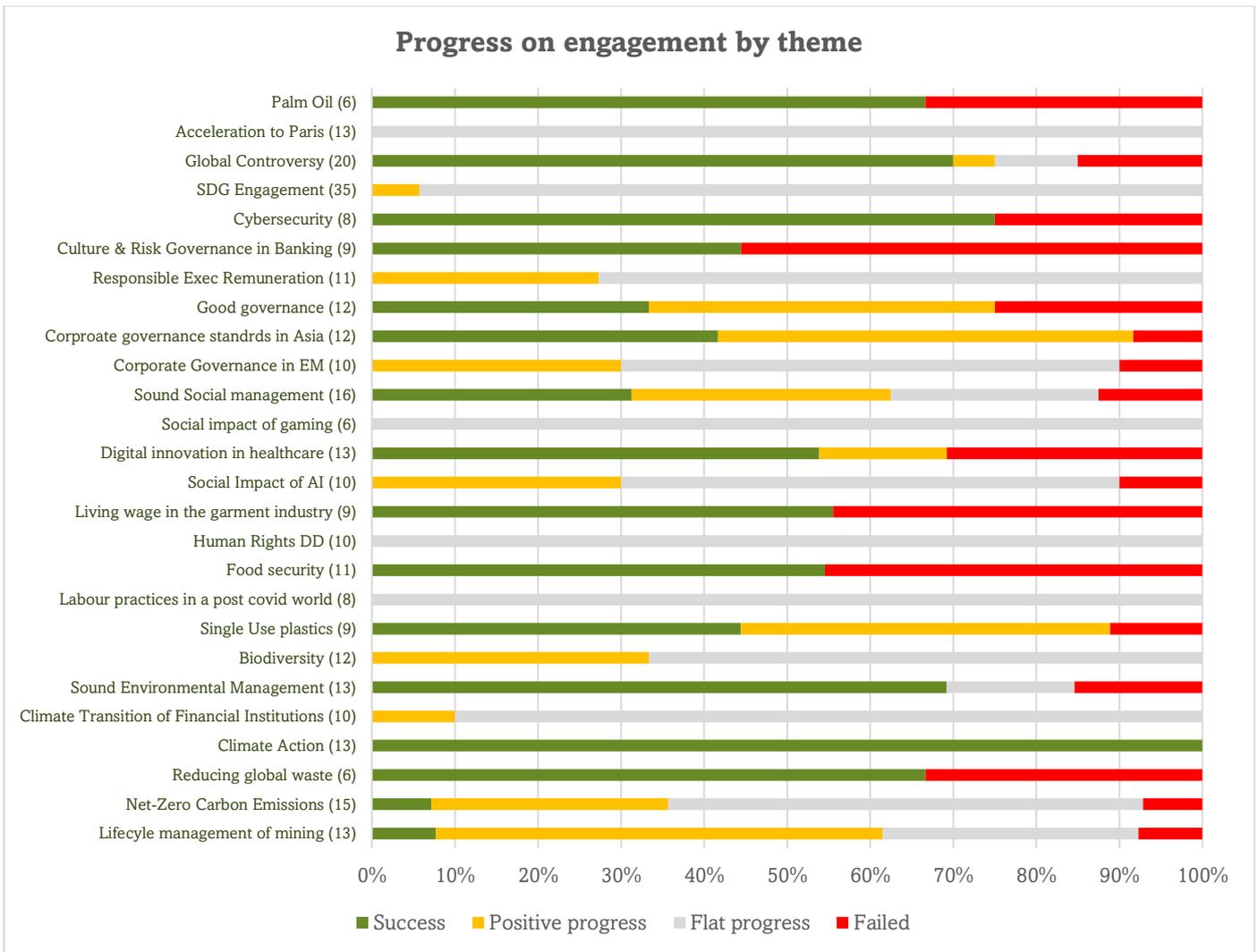
\* To note, 280 engagements were carried out on behalf of WPP during the reporting period (as per the number highlighted on pages 2 & 3 of this report), but the granularity discussed in this section reflects engagements carried out over the 2021 calendar year

On behalf of the WPP, Robeco employed a number of different routes for engagement, including conference calls, letter writing, emails and active voting. In total, 2021 saw 263 total engagements across a broad range of themes as illustrated below.



Source: Robeco

As noted above, these broad themes comprise a range of additional sub-themes, against which various progress has been made. In the table below, we detail each theme, the number of companies within WPP’s portfolios that have been actively engaged and provide some indication of progress against each theme. The chart also indicates the number of companies engaged under each theme (figure shown in brackets), noting that some companies are being engaged on multiple themes.



Source: Robeco

The WPP is provided with significant information, both on each theme and the detail of the activity being undertaken over the course of each year. We summarise four themes below that are of particular interest to the WPP given our voting priorities and other discussions over the year.

**Lifecycle management of mining**

In aiming to meet the objectives of the Paris Agreement, the world must radically ramp up production of green technologies such as solar panels, wind turbines, batteries and electric vehicles. However, this means increased mining activities, which often have negative impacts on the environment and local communities. Indeed, high-profile cases around tailings dam failures highlight not only the severe environmental and human rights consequences of these governance failures, but also the reputational and economic cost for mining companies themselves. The objective of the engagement is to encourage WPP’s investee mining companies to assess, manage and minimise their environmental footprints. In the first years of engagement, two of the most material sustainability issues for the mining industry were discussed: water management and tailings safety risks.

As part of this engagement, Robeco participated in the CDP’s Non-Disclosure campaign, asking five mining companies to disclose their water practices and performance in the CDP’s annual Water Security Assessment. As a result, three of them responded for the first time, significantly enhancing their disclosures. However, we recognise that more work needs to be done on setting targets.

In terms of tailings safety, the industry has responded positively to the call for enhanced disclosures. The Investor Mining and Tailings initiative has played an important role in bringing this topic to the attention of top management across all mining companies. All companies involved in Robeco’s engagement activity, with the exception of one (92%), now disclose information about all their tailings storage facilities under operation.

**Case study: Anglo American**

Anglo American demonstrated that there are active initiatives in place at the company to ensure appropriate mine closures and post-closure efforts. The company established a mine closure toolbox in 2019 that is used to outline how these efforts are conducted. The company adequately identifies environmental risks and integrates mine closures into its business plans, and provides some closure-related objectives and targets. Furthermore, financial provisions are illustrated in how they are provided (i.e., in bonds, equity and cash) and how the company's responsibilities for safeguarding provisions are contingent towards government regulations.

Robeco report positive progress on three objectives, being asset retirement planning, financial surety for mine closures, and liquidity and accessibility of financial surety.

*Positive progress has been made in 8 of the 13 companies being engaged, with one engagement having been successfully concluded. One engagement was unsuccessfully concluded as – in spite of repeated attempts to engage the company, including escalation to the CEO and supporting a joint investor statement – the company was unwilling to participate in the engagement.*

**Human rights due diligence for conflict-affected and high-risk areas**

The WPP has discussed human rights issues in detail and has had direct dialogue with Robeco on its approach to this issue. This engagement theme was launched in 2021, focusing on companies active in conflict-affected or high-risk area, aiming to minimise the adverse impact of their business activities on people. Robeco identified a number of regions of interest here, including Myanmar, the OPT and China. Poor and inadequate management of human rights risks could have an impact on people and expose businesses as well as investors to legal, operational and reputational risks. This can have a direct negative impact on their license to operate.

*Robeco reported on the engagements with each company within the theme but no positive progress against objectives had been made by end 2021.*

**Net-zero carbon emissions**

Reaching net-zero carbon emissions by 2050 is vital to halt climate change and avoid irreversible consequences. Following an increased societal focus on mitigating climate change, the impact of the transition is materialising. Consumer preferences are changing, regulation is tightening, technologies are advancing and stakeholders call on companies to take climate change action. Climate change poses systemic risk to the global economy and financial system, with companies playing a key role in mitigating these risks. At the same time, companies can reap the opportunities that arise from the transition and mitigation. As investors, it is important to understand how key emitters are integrating climate change-related risks and opportunities in their commercial planning, as well as to inform the companies of our expectations for them.

*This theme was substantively progressed during the year, with a number of examples highlighted below. Positive progress has been made on five companies engaged, with one engagement successfully closed. One engagement was unsuccessfully concluded as the company had indicated it remained committed to the use of high emissions sources of energy and the expansion of thermal coal facilities. This company will be included in the new Acceleration to Paris engagement, with more forceful objectives.*

**Case study: Enel**

Throughout 2021, Robeco's engaged with Enel. The particular focus was on setting long-term targets for its scope 3 emissions from natural gas sales to customers, which represent 23% of total emissions, and a decarbonisation strategy for Enel's natural gas generation activities. At its Capital Markets Day on 24 November, Enel committed to fully decarbonising by 2040, bringing forward its previous net-zero target by a decade. In order to meet this target, Enel committed to generate and sell energy exclusively from renewable sources. The company aims to reach 154 GW of capacity in renewables by 2030, which if achieved would make it the largest renewables operator in the world based on peers' current targets. The target to reduce scope 3 emissions from Enel's natural gas retail business was an explicit request that Robeco made earlier this year as the investor leading the engagement under the CA100+ initiative. Enel's announcement is therefore a huge step forward and places the company in a genuine leadership position as it transitions to a low-carbon business model.

**Case study: ExxonMobil**

Exxon set reduction targets for 2025 of a 15-20% reduction in GHG intensity from 2016 levels. They look set to achieve these four years early. Therefore, on 1 December 2021 Exxon set new targets for 2030 of, from the 2016 levels, a 20-30% reduction in corporate-wide GHG intensity, a 40-50% reduction in upstream emissions, a 70-80% reduction in methane intensity and a 60-70% reduction in flaring intensity. Absolute emissions are also targeted to reduce by 20%. They also plan to be net zero on their unconventional oil and gas production in the Permian Basin, which is 40% of their US oil and gas production. To achieve this, there will be \$15b available for lower-emission investments, and to accelerate the growth of their Low Carbon Solutions business. Robeco, as part of CA100+, are assessing whether these targets go far enough using the net zero benchmark.

**Case study: Shell**

In November 2021, Shell announced plans to restructure their organisation. They will move their headquarters to London, unify their share classes into a single tradeable stock and move their tax residency to the UK. The rationale is that the company will have to go through a set of portfolio acquisitions and disposals to accelerate their strategy in relation to the energy transitions. The corporate simplification will make this a smoother process. Robeco led a conversation between Dutch Institutional Investors and the CEO and Chairman of Shell. As part of the challenge of the reasons for choosing the UK over the Netherlands, Shell stated that the court ruling on Scope 3 emissions was not a motivator for the move. It is also unclear how this change in structure would impact these legal proceedings on climate change issued by The Hague. The proposal was approved by almost all shareholders, and Robeco believe that this will make the company more agile for its restructuring and energy transition. Robeco will continue to monitor the implementation of the new structure. At the 10 December 2021 EGM, Robeco fed back that they didn't feel their energy transition plan was fast enough, and Shell stated they believe the simplification of its structure would help with this. Robeco continue to engage with Shell, focused on achieving alignment to the requirements of the CA100+ Net Zero company benchmark by 2023. These developments do not change anything in Robeco's engagement plans.

**Acceleration to Paris**

This theme is part of Robeco's Global Controversy engagement, recognising the urgency of the climate crisis and focusing on those companies that have yet to set GHG or net-zero reduction targets. In addition to looking at key indicators around climate risk management, Robeco included an additional layer that identifies companies that continue to expand thermal coal power infrastructure, allowing Robeco to categorise companies based on their performance and target the worst-performing companies. Each of the companies in the programme will receive a letter outlining our expectations in managing climate-related risks. Robeco will work with other stakeholders in progressing this engagement, including overlap with CA100+.

*This theme was launched during the reporting period as part of the broader climate engagement programme. Of the companies that were able to be fully assessed, the 13 that ranked lowest were selected for enhanced engagement. As this theme is newly launched, no positive progress against objectives had been made by end 2021.*

**Additional engagements are undertaken by Russell**

While Robeco formally carries out WPP's stewardship function, WPP also benefits from the stewardship activity Russell undertakes with the portfolio holdings in WPP Sub-Funds. Russell has six engagement focus areas, which align with WPP's views, including as defined by WPP's voting priorities. These focus areas are:

Area	Focus
<b>Environment</b>	<b>Natural Capital:</b> encouraging responsible environmental management and the sustainable usage of resources
	<b>Climate change resilience:</b> promoting increased transparency on climate related disclosures and practices
<b>Social</b>	<b>Human capital:</b> Action on how companies attract, develop and retain employees while providing appropriate working conditions

Area	Focus
	<b>Diversity &amp; Inclusion:</b> Increasing awareness of the impact of diversity on firm’s investment performance and culture
<b>Governance</b>	<b>Board composition &amp; accountability:</b> Action of board of directors which is a focal point of corporate governance
	<b>Executive compensation:</b> Alignment of executive compensation with corporate purpose

Russell follows a similar process to Robeco in the identification, initiation, implementation and evaluation of their engagement activity. Two examples of activity undertaken by Russell on companies held by the WPP are outlined below.

### Climate change

Russell has been appointed as co-lead investor for the engagement with a UK-based energy services and solutions company through Climate Action 100+. Russell has had regular dialogue with the company as it considered proposing a ‘Say on Climate’ vote and while developing its Climate Transition Plan. Russell encouraged the company to put forward such a resolution and suggested the climate transition plan be structured with the CA100+ Net Zero Benchmark in mind. The alignment of the climate transition plan to 1.5°C is challenging to assess due to the different activities of the business and the varying decarbonisation trajectories of these activities under decarbonisation scenarios. These activities include: upstream oil and gas production; downstream gas sales to customers; and electricity generation. The CA100+ co-leads have found the company to be constructive and open to engagement on climate change.

### Human capital management

Russell engaged with an insurance company that provides long-term savings, general insurance and asset-management products across the UK through Russell’s partnership with Sustainalytics. Russell discussed the company’s diversity & inclusion efforts in recruitment, retention and corporate culture. The priority for the company is to achieve its gender and ethnic targets in leadership positions. However, the main challenge is for the insurer to implement leadership development programmes for women and minority groups to grow. Even though the company has several initiatives in place, they do not target a large population. The company briefly mentioned the focus on people with disabilities, but it did not provide detailed information. The dialogue is ongoing.

## Engagement with other parties

The WPP is also a recipient of engagement from other stakeholders and seeks constructive engagement wherever possible. Over the course of the year, the WPP has engaged with Friends of the Earth Cymru to discuss WPP’s stance on divestment, also responding to Friends of the Earth enquiry around University of Augsburg research on the power of divestment, outlining the value of engagement over divestment. The WPP also responded to a letter from Amnesty International regarding exposure to companies accused by the UN of potentially supporting human rights breaches in the OPTs.

The WPP welcomes this form of engagement and takes views expressed during such dialogue into account when framing policy. For example, the dialogue around human rights has been raised as an ongoing issue by WPP following the year-end and will feature more prominently in future stewardship activity.

# How we escalate concerns

WPP can escalate issues of concern directly with Service Providers to address, but also relies on Service Providers to escalate issues where progress is not being made during the engagement process. The ongoing scrutiny by the RISG offers a forum for discussion and escalation, although escalation may similarly arise as a consequence of discussion in other fora.

## Getting feedback on an area of concern

On 20 January 2021, an article was published in Pensions Expert on the subject of factory farming. The article was in response to a publication of a report by the World Animal Protection, which reported that UK LGPS funds have an estimated £238m invested in industrial livestock companies. The article went on to list the top 10 UK LGPS funds with the largest investments in industrial meat and dairy companies, which included a specific reference to the WPP Global Opportunities Fund. Further analysis suggested that four of the companies named were held within the Fund.

On behalf of the WPP, Hymans Robertson raised this issue with the WPP's various Service Providers together with BlackRock, the WPP's passive manager to note the concern and understand what if any engagement had been undertaken. Information on engagement activity was received from all parties, with Russell also raising the issue with the underlying managers in the Global Opportunities Fund.

Through this process, the WPP noted that:

- Robeco had previously engaged with two of the four companies noted (Tyson and CP Group), having successfully closed their engagement activity.
- Russell noted that the underlying managers had held direct engagement with the four companies. One manager, Numeric, had previously co-signed a letter to two of the companies (Tyson and JBS Foods Group) coordinated by FAIRR in relation to labour risks in global protein value chains.
- BlackRock highlighted engagement with seven of the 15 companies named in the report and their previous support for a shareholder proposal on human rights due diligence within Tyson.

While the WPP gained reassurance from our Service Providers that action had been taken in engaging with the companies identified, albeit not directly on the issue flagged, it was noted that the WPP does not have an engagement or voting priority related to animal welfare. It was further noted that there were a broader range of issues across farming and livestock management practices, including emissions, deforestation, human rights violations and pollution, which all relate to the current priorities set by the WPP.

While no immediate further action was taken, the WPP will be raising this issue as a potential engagement theme with Robeco for 2023.

## Escalation by Robeco

In both value and enhanced engagements, a lack of responsiveness by the company can be addressed by seeking collective engagement, attending a shareholder meeting in person or sharing written concerns with the board. This can also lead to adverse proxy voting instructions on related agenda items at a shareholder meeting. An additional escalation measure is added to the enhanced engagement programme, given that this type of engagement is geared towards upholding minimal norms for expected behaviour in relation to the UNGC and OECD Guidelines.

In enhanced engagements, Robeco believe that first step is to eliminate the breach and then implement proper management systems to prevent such a breach from happening again in the future. The following five objectives are therefore set:

1. Elimination of the breach
2. Development and implementation of policy in the relevant area
3. Establish a constructive dialogue with stakeholders
4. Implementation of effective risk management systems
5. Transparency on the breach and remediation efforts

When an engagement leads to a successful closure of the first and third objectives (i.e., elimination of the breach and establishing a constructive dialogue with stakeholders) and at least one additional objective, Robeco's Controversial Behavior committee is again asked to approve a proposal to close the engagement case successfully, based on an overview of the dialogue and an assessment of the five objectives. It is also important to note that an engagement case closed unsuccessfully is reviewed by the Committee at least annually, in order to ensure a timely reassessment of the breach. A maximum of three years is given of engagement with a company in the Global Controversy programme. Robeco now applies a stricter escalation process compared to before, whereby the case may be closed unsuccessfully before the full three years. This is expected to create more accountability for companies to remediate the impact caused and to improve the management of the issue, thus minimising the risk of a future occurrence of a similar breach.

The escalation timeline for enhanced engagements is outlined below:



If enhanced engagement does not lead to the desired change, Robeco will inform WPP, who can then decide to instruct Russell on whether or not to exclude a company from WPP's Sub-Funds. Robeco considers exclusions from the investment universe to be an action of the last resort, applicable only after engagement has been undertaken.

The WPP notes that there were several examples of escalation having been undertaken by Robeco in its engagement activity. These examples are set out on pages 42 and 43 of this report, noting that Robeco had sought to escalate dialogue to senior members of the organisation. In the examples given, it is intended that the engagement be rolled over.

### Case study: Norilsk Nickel

**Engagement period:** June 2020–July 2021

**Issue:** In May 2020, a fuel tank owned by Norilsk Nickel's subsidiary, NTEC, leaked and spilled about 21,000 tonnes (approximately 150,000 barrels) of diesel fuel, which travelled 12km to the Ambarnaya river. In the course of Q2 2020 and Q1 2021, the company reported two additional environmental and health & safety incidents.

**Action taken:** The company was previously engaged by Robeco for three years based on another breach of UNGC environmental principle related to excessive sulphur emissions. In 2018, the company provided sufficient evidence that the violation had been lifted. In view of this engagement history, Robeco chose in June 2020 a one-year engagement period, with strict objectives and expecting significant progress.

**Outcome:** The combination of the diesel spill with the additional two incidents, triggered concern with regards to a general lack of oversight and lapses in risk management in the wider Norilsk Nickel Group. Moreover, there were concerns about the risks in relation to the melting permafrost issue in Russia. In Robeco's view, the environmental breaches at the company were systemic in nature and in breach of UNGC principles. At this point, a continuation of engagement with the company was deemed no longer useful, and the engagement was closed unsuccessfully. The company was added to Robeco's exclusion list.

## Escalation by Russell

Russell works with its sub-adviser partners and maintains open lines of communication to discuss any concerns about a given issuer. Russell will also conduct joint engagements with underlying managers to increase the likelihood of positive outcomes. When a company repeatedly fails to respond and/or does not advance along a path toward implementation, Russell's Active Ownership Committee will determine whether to move that effort into escalation.

### Case study: human rights concerns within the supply chain of a food producer

**Issue:** A shareholder resolution was put forward in 2020 at the AGM of a US poultry producer, asking for a report on human rights. Given the industry, shareholders felt it could be exposed to several human rights related risks in its own operations as well as those maintained by its contract growers. As has been seen with other companies, allegations of human rights abuses can inflict, at a minimum, reputational damage on targeted companies and may dramatically affect shareholder value.

**Action taken:** Russell's Committee ultimately voted to reject the proposal in 2020 on the basis that engagement would be a more effective tool to communicate concerns. In August 2020, Russell met with the company to discuss their response to the shareholder proposal. The company pointed out that they had in fact had a decline in worker injury in the period 2017–2019 due to their efforts, and are ahead of peers in their sustainability efforts, having adopted the SASB disclosure framework in 2019. However, while Russell had an overall positive view on management's efforts within the company's own plants, the company was not able to outline a plan for screening contract growers. As a result, Russell escalated the company for further monitoring.

**Outcome:** After finding no progress made on risk mitigation in the supply chain in 2021, Russell's Committee voted to support a repeat of the shareholder proposal requesting a human rights due diligence report.

# What next?

We are fortunate for the level of collaboration that exists within the WPP and would like to thank the CAs for their continued contributions, particularly the ongoing work of our RISG. The last year has been one of consolidation and refinement, building on the solid foundations we laid in terms of stewardship, climate risk and RI more generally. We now see the 2022/23 year as one in which we can continue to build on our RI commitments. In particular:

- Climate risk will remain a focus for the WPP. We will continue to encourage Robeco to focus their stewardship efforts here, challenging them to do more, ensuring that progress is made on engagements around climate risk and net zero ambitions. Preparation for our first TCFD report is already underway and we will begin discussions with the Welsh Senedd on climate. We will also continue to engage with each of the CAs on their individual climate ambitions, including work on our all-Wales climate report.
- We will continue to improve reporting for our stakeholders, including Sub-Fund-specific reporting that allows us to better track our climate-risk exposures and V&E outcomes.
- There will be an ongoing focus on V&E, including tools that will allow us to better monitor pre-voting data and post-voting reporting, and a V&E framework that will allow us to better feed into the engagement theme selection process of our V&E provider.
- We have been working with our Service Providers to develop both a Sustainable Active Equity strategy and a range of Private Markets funds. The consideration of stewardship and climate risk are at the centre of this work.
- We have appointed an internal resource dedicated to supporting WPP in the delivery of our RI objectives.

Work has already begun on all of these ambitions in addition to the various other goals laid out in this report and we remain hopeful that we can continue the good progress that has been made. Other areas where we would particularly like to see improvement include improving our proactivity, particularly around our dialogue with Robeco, and improving the information we are able to provide to our stakeholders, demonstrating the positive outcomes that we believe we are creating.

# Contact us

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# Appendix 1: Principles

Principle	Page references
1: Purpose, strategy and culture	4-6
2: Governance, resources and incentives	7-11
3: Conflicts of interest	12-13
4: Promoting well-functioning markets	18, 24-25
5: Review and assurance	14-16
6: Client and beneficiary needs	11, 17-18, 20-21, 26
7: Stewardship, investment and ESG integration	19-21
8: Monitoring managers and service providers	22-23
9: Engagement	9, 35-41
10: Collaboration	25, 28, 38-41
11: Escalation	42-44
12: Exercising rights and responsibilities	14-15, 20, 29-34

## Appendix 2: policy review summary

In the tables below: ● indicates that the commitment was met; ● indicates some progress made against the commitment; ● indicates that no progress was made.

### Responsible Investment Policy

Ref	Commitment/ Policy Statement	Status
3.3	WPP will consult with CAs on at least an annual basis to determine their individual investment requirements and longer-term aspirations.	●
3.4	The WPP will consider opportunities arising from a greater understanding of ESG factors.	●
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.	●
4.4	WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the TCFD.	●
6.1, 6.3	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. 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.	●
6.2	WPP expects that, in all relevant circumstances, its investment managers will be signatories to the Principles for Responsible Investment and the FRC UK Stewardship Code.	●
7.4	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.	●
7.5	WPP will receive a report on all voting activity, including details of any votes that 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.	●
7.6	WPP will review the Voting Policy in conjunction with its V&E Provider, advisers, and investment managers on an annual basis.	●
7.12	WPP will receive reporting on any engagement undertaken by its investment managers on an annual basis.	●
8.1	WPP will continually identify and assess potential collaboration opportunities, including investor led responsible investment initiatives.	●
8.3	In conjunction with its V&E Provider, WPP will seek to identify investor-led RI 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 the CAs.	●
8.5	WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.	●
9.1	WPP will develop appropriate monitoring metrics for its portfolios.	●
9.3	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.	●
9.4, 10.2	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. WPP will prepare and publish an annual stewardship report in line with the principles of the 2020 FRC UK Stewardship Code.	●
10.1	WPP will ensure there is at least one formal training session directly focused on RI.	●
10.3	WPP will also explore the possibility of incorporating the UN SDGs into its RI beliefs and its	●

Ref	Commitment/ Policy Statement	Status
	monitoring and measurement mechanisms.	
10.5	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.	●

## Climate Risk Policy

Ref	Commitment/ Policy Statement	Status
13	WPP will consult with CAs in relation to their climate objectives, on at least an annual basis, and to fully understand what implementation solutions they require to meet their objectives and commitments.	●
14	The WPP will endeavour to develop and facilitate investment solutions that enable each and every CA to achieve their climate objectives and commitments.	●
15	The WPP, and its CAs, will seek to collaborate and work together to develop investment solutions that meet the climate objectives and commitments of all the CAs.	●
18	On an annual basis, the WPP will assess whether its consultation exercise with the CAs has identified a common climate-related objective that all CAs are willing to support.	●
23	The WPP receives quarterly Climate Risk Monitoring Reports for its Equity Sub-Funds and is planning on extending this form of reporting to its Fixed Income Sub-Funds.	●
24	The WPP will endeavour to continually facilitate climate scenario analysis across assets held within the WPP to ensure that the CAs are aware of the potential climate risks within the WPP Sub-Funds.	●
25	The WPP has committed to hosting at least one annual climate risk-related training session for its stakeholders. The WPP carries out an annual training needs identification exercise, in conjunction with the CAs, this is the mechanism by which the WPP gauges the climate risk training requirements of its stakeholders.	●
28	The WPP, on at least an annual basis, will review each of its investment managers' approach to Climate Risk integration.	●
29	The WPP will encourage its Voting and Engagement Provider to engage with investee companies on climate-related issues, including an increase in the disclosure on climate-related risks by companies to investors.	●
31	The WPP will monitor changes in market practice to ensure that the WPP is fully aware of changing best practice and the feasibility of monitoring climate-related risk within its non-equity sub-funds on at least an annual basis.	●
32	The WPP will require its investment managers to provide monitoring on climate-related risk exposure in their quarterly reports to WPP and the CAs.	●
35	The WPP will encourage, through its Voting and Engagement Provider and investment managers, all investee companies to disclose in line with the requirements of the TCFD.	●
34, 36	The WPP has an ambition to report on progress on actions undertaken to address climate risk in line with the framework set out by the Taskforce for Climate-related Financial Disclosures. On an annual basis, the WPP will prepare and publish a report detailing the actions undertaken in fulfilment of this policy and the results achieved.	●