

Annual progress update against policy commitments

The Wales Pension Partnership's ('WPP') Joint Governance Committee ('JGC') has formally approved both a responsible investment ('RI') policy and a climate-risk policy for the WPP. These policies are representative of the broad range of investment beliefs within the Pool, are ambitious in nature and reflective of WPP's desire to be a leader in RI. During this year, the WPP and Constituent Authorities (CAs) have worked to implement and deliver the various policy commitments.

The WPP has undertaken its annual review of progress against the commitments in the RI and climate-risk policies for the year to 31 March 2022. This review forms an element of the WPP's governance processes and will be formally reflected in the WPP's Stewardship Code report for 2021/22. This review was undertaken by Hymans Robertson on behalf of the WPP, and has been discussed by the WPP's RI Sub-Group and Officers Working Group, before being formally reported to and discussed by the JGC.

Appendix 1 provides an assessment of the progress the WPP has made towards delivering on the commitments in its RI Policy. Appendix 2 covers a similar assessment for commitments under the climate-risk policy. The JGC noted that, in the vast majority of areas, progress has continued to be made against the policy commitments.

Highlights of the year

- The WPP published its first annual Stewardship Report and has been accepted as a signatory to the 2020 UK Stewardship Code.
- The WPP has adopted Robeco's house voting policy, although WPP intends to put in place its own voting policy (which will reference the Robeco policy), subject to agreement by the JGC.
- To continue to progress the WPP's stewardship activities, Robeco's quarterly voting and engagement reports are reviewed and matters of interest discussed by the RI Sub-Group. Any issues are raised with Robeco as necessary.
- WPP has discussed voting principles with BlackRock and potential mechanisms for extending the voting policy to passive mandates.
- WPP has worked with Russell and the CAs to develop the Sustainable Equity Fund. While this has created some dialogue with CAs on climate strategy, CAs have not yet reached a position where a common climate objective can be adopted by WPP.
- The RI Sub-Group has been active in monitoring the environmental, social & governance (ESG) and climate characteristics of its sub-funds and discussing any issues raised with Russell.
- After consultation with the CAs, WPP has agreed to provide a comprehensive report covering all sub-funds for the purposes of the Task Force on Climate-related Financial Disclosures (TCFD), in line with each CA's requirements. WPP also intends to report in line with the TCFD requirements.

Gaps to address

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 has been undertaken on developing a process to provide input to Robeco on key voting and engagement themes. This area of work is intended to be progressed further over H2 2022.
- It is intended that WPP report in line with the TCFD requirements for the 2021/22 financial year and will be supporting CAs that wish to do the same. Consideration will be given to scenario analysis and how it may be usefully employed by WPP as part of this reporting process.

- The WPP did not complete a formal annual review of each of its investment manager's approaches to climate-risk integration (but did conduct significant work on Russell's approach through ongoing scrutiny).

Areas for future focus

In completing this assessment, the JGC noted the following potential areas for activity/improvement over 2022/23:

1 Improving the process of consultation with the CAs

While the JGC noted that this has been successful in developing training needs, in progressing the Sustainable Equity Fund and through the broader committee structure, there remain areas where this process could be improved, particularly in developing an understanding of climate goals.

2 Assessing the ongoing implementation of strategy

The RI Sub-Group has sought to improve the mechanisms by which it exercises scrutiny over Russell, making better use of the information available to it. However, there is still scope for improvement in this area. WPP will work further with its 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.

3 Seeking further opportunities for collaboration

While there are some examples of where there has been good collaboration on engagement and the working of the WPP itself is a positive demonstration of collaborative efforts, consideration can be given to more granular collaborative efforts. Improved collaboration around reporting within the WPP could also be beneficial, particularly around TCFD reporting needs. Work on this has already begun.

Wales Pensions Partnership
August 2022

Appendix 1: Progress against RI Policy commitments

Ref	Commitment/ policy statement	Update/ comment	RAG Status
Investment strategy			
3.3	WPP will consult with CAs on at least an annual basis to determine their individual investment requirements and longer-term aspirations.	In 2021, the 'ambitions and requirement questionnaire' was issued to the JGC, OWG, CA Pension Committees and the Chairs of CA's Pension Boards.	●
3.4	The WPP will consider opportunities arising from a greater understanding of ESG factors.	<p>The WPP is considering ESG factors and impact investments as part of its Private Markets discussions.</p> <p>The RI Sub-Group is currently working with Russell in the development of a sustainable active equity sub-fund, which is expected to launch later in 2022.</p>	●
Climate change			
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.	CAs have been consulted on potential climate metrics for reporting purposes. WPP will provide a comprehensive report covering all sub-funds for TCFD purposes. WPP also intends to report in line with the TCFD requirements.	●
4.4	WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the TCFD.	This engagement activity will be carried out via Robeco and Russell. WPP has highlighted this requirement to Robeco through its voting principles and will continue to engage with Robeco on the subject. Consideration will be given to how this affects new managers/sub-funds.	●
Implementation of strategy			
6.1, 6.3	<p>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.</p> <p>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</p>	<p>Link/ Russell, as part of their manager selection process, already evaluates how managers integrate climate-related and other ESG risks into their decision-making.</p> <p>The RI Sub-Group is responsible for monitoring Russell and underlying investment managers on the extent to which they have integrated climate risk and ESG consideration into the portfolios they run for WPP.</p>	●

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	approach taken to the management of ESG factors can be properly evidenced.	The RI Sub-Group has developed a process for receiving climate-risk and ESG reports from their advisors, which aids the monitoring of its investment managers.	
6.2	WPP expects that, in all relevant circumstances, its investment managers will be signatories to the Principles for Responsible Investment and the Financial Reporting Council ('FRC') UK Stewardship Code.	WPP will request a report from Russell/Link on the extent to which this is in place	●
Stewardship			
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.	WPP has discussed voting principles with BlackRock and potential mechanisms for extending the voting policy to passive mandates. No changes were made during the year.	●
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.	Quarterly voting reports are received from Robeco. A review of the voting reports is undertaken and matters of interest discussed by the RI Sub-Group. Any issues are raised with Robeco as necessary.	●
7.6	WPP will review the voting policy in conjunction with its voting & engagement provider, advisers and investment managers on an annual basis.	The WPP has adopted Robeco's house policy. The WPP intends to put in place its own policy, subject to agreement by the JGC.	●
7.12	WPP will receive reporting on any engagement undertaken by its investment managers on an annual basis.	WPP receives reporting on engagement activity on a quarterly basis. These reports are reviewed on a quarterly basis and matters of interest are raised with Robeco as necessary. WPP separately raises any issues of concern with other managers as necessary.	●
Collaboration			
8.1	WPP will continually identify and assess potential collaboration opportunities, including investor-led RI initiatives.	The WPP needs to consider if its current mechanism for identifying and assessing opportunities is effective and how it can record its collaboration activities. The WPP should liaise with Robeco and the Local Authority Pension Fund Forum on opportunities here.	●

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		<p>The WPP has been accepted as a signatory to the 2020 UK Stewardship Code and published its first annual stewardship report.</p> <p>The WPP is also using its training sessions as a means of learning more about the collaboration opportunities that are available to the WPP.</p>	
8.3	In conjunction with its voting & engagement provider, WPP will seek to identify investor-led RI initiatives and collaborations that can be actively supported.	WPP co-signed a letter to Amazon at the instigation of Robeco.	●
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 CAs.	No action taken on this.	●
8.5	WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.	WPP is represented on the cross-pool RI group and updates are regularly provided to the RI Sub-Group on ongoing activity.	●
Monitoring, reporting and measurement			
9.1	WPP will develop appropriate monitoring metrics for its portfolios.	<p>The RI Sub-Group have established a process for receiving sub-fund 'deep-dive' ESG and climate-risk reports, which are provided by Hymans. These allow the WPP to see how each sub-fund and underlying manager perform from climate and ESG perspectives.</p> <p>It is intended that the reporting regime be reviewed in the 2022/23 year.</p>	●
9.3	WPP requires that the RI 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.	<p>Link/ Russell, as part of their manager selection process, already evaluates how managers integrate RI considerations into their decision making.</p> <p>WPP receives regular updates from its investment managers on performance and RI issues. WPP will request an update from Russell and Link on key aspects of the sub-funds as at 31 March 2022.</p>	●
9.4, 10.2	On an annual basis, the WPP will prepare and publish a stewardship report, detailing	WPP completed a stewardship report for the year to 31 March 2021, which was submitted	●

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	<p>the actions undertaken in fulfilment of this policy and the results achieved.</p> <p>WPP will prepare and publish an annual stewardship report in line with the principles of the 2020 FRC UK Stewardship Code.</p>	<p>to the FRC in October 2021 and published in March 2022.</p> <p>WPP was accepted as a signatory to the 2020 FRC UK Stewardship Code.</p>	
Other			
10.1	WPP will ensure there is at least one formal training session directly focused on RI.	<p>During 2021/22 the RI Sub-Group had sessions that included training sessions on developing climate goals, monitoring and metrics, and stewardship.</p> <p>WPP has produced a 22/23 training plan that includes the following RI subjects:</p> <ul style="list-style-type: none"> • What RI means for the WPP • Stewardship Code and TCFD reporting • Progress of other Local Government Pension Scheme pools • Collaboration opportunities 	
10.3	WPP will also explore the possibility of incorporating the UN SDGs into its RI beliefs, and its monitoring and measurement mechanisms.	No significant action was taken to progress this ambition during the year, although WPP still intends to introduce private markets and impact mandates.	
10.5	WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of its assessment as part of its annual stewardship and governance report.	<p>The recently published WPP annual stewardship report acts as the WPP's RI stewardship and governance report. WPP has received feedback on learnings from the report and also from the FRC, which are to be considered. This review also meets the requirements of this commitment.</p> <p>A full deep-dive of the policy and commitments therein will take place every three years, with the next review in 2023.</p>	

Appendix 2: Progress against climate policy commitments

Ref	Commitment/ policy statement	Update/ comment	RAG Status
Objectives			
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.	No detailed consultation has been undertaken during the last 12 months, although there has been dialogue around the introduction of a Sustainable Equity Fund. Process for periodic consultation on climate risk to be prioritised over 2022/23.	●
14	The WPP will endeavour to develop and facilitate investment solutions that enable each and every CA to achieve their climate objectives and commitments.	WPP has worked with Russell and the CAs to develop the Sustainable Equity Fund.	●
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.	Consultation has not taken place, so assessment is not possible.	●
Strategy			
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.	Climate-risk monitoring reports were produced for fixed-income sub-funds as at 30 September 2021. Reports are not provided for all sub-funds on a quarterly basis for scrutiny purposes. WPP intends to work with both Hymans and Russell on the evolution of its monitoring processes.	●
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.	Collective scenario analysis is not currently undertaken but could be facilitated. Aim to consider in more detail as CAs become subject to TCFD requirements.	●

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25	<p>The WPP has committed to hosting at least one annual climate-risk-related training session for its stakeholders.</p> <p>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.</p>	<p>A training session on the climate-risk monitoring reports was held during the year.</p> <p>As set out under 10.3 of the RI policy review, a training-needs assessment has been undertaken for the 2022/23 year.</p>	●
Implementation			
28	The WPP, on at least an annual basis, will review each of its investment manager's approach to climate-risk integration.	WPP has sought to understand Russell's approach to the management of climate risk during the year through the scrutiny process. However, a formal assessment has not taken place and will be considered.	●
29	The WPP will encourage its voting & 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.	WPP has adopted six key voting priorities. Climate-risk disclosure is among these.	●
Monitoring and reporting			
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.	<p>The climate-risk monitoring reports include a wide range of climate metrics and discusses the metrics used.</p> <p>WPP intends to work with both Hymans and Russell on the evolution of its monitoring processes.</p>	●
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.	WPP intends to work with both Hymans and Russell on the evolution of its monitoring processes.	●
Transparency			

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35	The WPP will encourage, through its voting & engagement Provider and Investment Managers, all investee companies to disclose in line with the requirements of the TCFD.	WPP has adopted six key voting priorities. Climate risk disclosure is among these.	●
34, 36	<p>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 TCFD.</p> <p>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.</p>	<p>WPP submitted a report in line with the FRC UK Stewardship Code Requirements in 2021, which addressed climate risk considerations to some degree.</p> <p>It is proposed that WPP report in line with the TCFD requirements in 2022 and going forward</p>	●