

## Annual progress update against policy commitments

The Wales Pension Partnership's (WPP) Joint Governance Committee (JGC) has formally approved both the WPP Responsible Investment (RI) Policy and Climate Risk Policy. 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 2023. This review forms an element of the WPP's governance processes and will be formally reflected in the WPP's Stewardship Code report for 2022/23. 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 second annual Stewardship Report, continuing to be a signatory to the 2020 UK Stewardship Code.
- WPP began work on an all-Wales Climate Report over the year, which it hopes will form discussions around climate strategy and transition planning. 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.
- WPP has worked with Russell and the CAs to develop the Sustainable Active Equity Sub Fund, which launched following year-end. The Sub-Fund has a net-zero commitment, part of which will be realised through a strict exclusions policy, and there is also a specific requirement to deliver reporting outcomes aligned with the UN Sustainable Development Goals (SDGs).
- 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. Such discussions have feed into initial conversations around the development of a WPP-specific Escalation Policy in instances of continued failed engagement.
- WPP has progressed work on the appointment of managers and allocators within private markets, with sustainability considerations integrated here, including in facilitating investments in climate solutions. The monitoring of these managers and Sub-Funds will take RI and climate objectives into consideration.

### Gaps to address

The reviews also noted some areas where work had not progressed over the year. These included:

- While WPP began work on the all-Wales Climate Report over the year, work was not complete as at year-end. This work will serve as a precursor to reporting in line with regulatory requirements under the Task Force on Climate-related Financial Disclosures, expected to come into force from 2024 and to include scenario analysis.
- WPP has not explicitly identified any investor-led initiatives for support over the year. Consideration should be given as to whether this remains a reasonable ongoing commitment or whether such support should be driven by WPP's delegates. WPP should explicitly consider initiatives linked to its Stewardship Themes.

## Areas for future focus

In completing this assessment, the JGC noted the following potential areas for activity/improvement over 2023/24:

### 1 **Facilitating discussions around a common climate goal**

While consultation around climate objectives took place over the year, part of which culminated in the since launch of the Sustainable Active Equity Sub-Fund, no common climate objective has been established by the Pool. We believe the work of the all-Wales Climate Report will help in facilitating such discussions, including in net-zero journey planning.

### 2 **Assessing the ongoing implementation of strategy**

The RI Sub-Group has improved the mechanisms by which it exercises scrutiny over both Russell and Robeco. However, there is still scope for improvement in this area, for example by developing a formal annual assessment for service providers, ensuring they are meeting WPP's RI expectations. Developing a framework and assessment process is also advised prior to the launch of the private-markets mandates.

### 3 **Seeking further opportunities for collaboration**

While there are some examples of where there has been good collaboration on engagement, it would be beneficial for WPP to further consider how it can better feed into identifying and assessing collaboration opportunities through its service providers.

### 4 **More scrutiny of the passive mandates**

While dialogue did take place with WPP's passive manager over the year in terms of stewardship – including around human rights concerns in the occupied Palestinian territories – this is an area where further scrutiny may be warranted. This should include discussions on extending WPP's Stewardship Policy to the passive mandates, as far as is practicable.






Wales Pensions Partnership  
July 2023

## Appendix 1: Progress against RI Policy commitments

Ref	Commitment/ Policy Statement	Update/ Comment	RAG
<b>Investment Strategy</b>			
3.3	WPP will consult with Constituent Authorities on at least an annual basis to determine their individual investment requirements and longer- term aspirations.	<p>Over 2022, work was put in place to launch the Sustainable Active Equity Sub-Fund (see below).</p> <p>The WPP began work on an all-Wales climate report (AWCR), which will provide the basis for future discussions on net-zero ambitions and journey planning. This report is expected in Q2 2023.</p> <p><b>WPP should consider the frequency of consultation set out in its policy. While dialogue allows for ongoing feedback, formal consultation could be reduced to being triennial.</b></p>	●
3.4	The WPP will consider opportunities arising from a greater understanding of ESG factors.	<p>The WPP has considered ESG factors and impact investments as an integral part of its Private Markets Sub-Funds. Renewable energy is a key component of the infrastructure offering.</p> <p>The RIWG has worked with Russell in the development of the Sustainable Active Equity Sub-Fund, which is now expected to launch by Q3 2023.</p> <p>WPP has provided training to the JGC and officers around RI and ESG factors, to provide them with greater knowledge and understanding.</p> <p><b>As the WPP is now close to having an initial suite of funds, consideration should be given as to how existing fund offerings could be evolved. One potential evolution may lie in passive offerings.</b></p>	●
<b>Climate change</b>			
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.	<p>The WPP monitors climate risk through quarterly climate &amp; ESG risk deep-dives into WPP's active Sub-Funds. Each fund is considered at least on an annual basis. Russell currently also reports on climate risks within Russell-managed Sub-Funds on a quarterly basis.</p> <p>The WPP started work on higher-level quarterly reporting for all Sub-Funds, which will</p>	●

		incorporate standard climate metrics. The AWCR is also expected to promote greater dialogue on climate issues.	
4.4	WPP will encourage, through its delegates, all investee companies to disclose in line with the requirements of the TCFD.	<p>Engagement activity is carried out via Robeco and Russell. WPP has highlighted this requirement to Robeco through its stewardship themes.</p> <p>Robeco incorporate expectations around TCFD disclosures within a number of their climate-related engagement themes. Further, expectations on reporting are embedded into voting policy.</p> <p><b>WPP could seek to understand when voting policy has been exercised to drive climate disclosures.</b></p>	●
<b>Human rights</b>			
5.3	WPP will endeavour to identify and engage organisations on human rights issues both through WPP's membership of LAPFF and via the engagement activity undertaken by WPP's V&E Provider.	This engagement activity will be carried out via Robeco, LAPFF and WPP's Investment Managers. Over 2022, WPP specifically engaged on concerns around the Occupied Palestinian Territories.	●
5.4	The WPP will report on how engagement activity undertaken by its delegates has addressed human rights issues on an annual basis.	<p>Reporting on human rights engagements is carried out on a quarterly basis, via Robeco reporting.</p> <p>WPP will also incorporate reporting on human rights engagement through its ongoing quarterly reporting to CAs</p>	●
<b>Implementation of strategy</b>			
7.1, 7.3	<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 approach taken to the management of ESG factors can be properly evidenced.</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 RIWG is responsible for monitoring Russell and underlying Investment Managers on the extent to which they have integrated climate risk &amp; ESG consideration into the portfolios that they run for WPP.</p> <p>The RIWG receives climate risk and ESG reports from their advisors, which monitors the activity of its Investment Managers.</p>	●

7.2	WPP expects that, in all relevant circumstances, its Investment Managers will be signatories to the Principles for Responsible Investment (“PRI”) and the Financial Reporting Council (“FRC”) UK Stewardship Code.	WPP receives an annual update from Russell on compliance of its underlying managers with market standards alongside Russell’s own assessment of these managers. Details from this assessment are included in the Stewardship Code report.	●
<b>Stewardship, voting &amp; shareholder engagement</b>			
8.4	WPP will engage with its passive Investment Manager and V&E Provider to consider how WPP’s Voting Policy can be extended to assets managed by its passive Investment Manager.	WPP has discussed its Stewardship Themes with BlackRock. Discussions have been had on specific themes (e.g. human rights) over the year but WPP’s Voting Policy has not yet been extended to cover passive mandates.	●
8.5	WPP will receive a report on all voting activity, including details of any votes which have not been cast and explanations where votes have not been cast in accordance with the agreed principles on a quarterly basis. WPP will discuss any issues of concern with its V&E Provider, Investment Managers or other delegates as necessary.	Quarterly voting reports are received from Robeco. A review of the voting reports is undertaken and matters of interest discussed by the RIWG.  The WPP has regular dialogue with Robeco on voting matters and Robeco regularly present to WPP Committees.  WPP also actively engages with Robeco prior to any significant votes and considers how these are taken in line with LAPFF recommendations.	●
8.6	WPP will review the voting policy in conjunction with its V&E Provider, advisers, and Investment Managers on an annual basis.	The WPP has implemented its own voting policy and published this during the year. <b>The WPP may in due course want to consider updating its RI policy to directly reference the voting policy.</b>  Voting follows Robeco’s house policy and is applied across all WPP’s Active Equity Sub-Funds. WPP has reviewed the Robeco House voting policy during the year and determined that this remains aligned with the WPPs objectives.	●
8.12	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.  WPP has worked to ensure engagement activity can be separated by sub-fund. These reports are reviewed on a quarterly basis and matters of interest are raised with Robeco as necessary.  WPP raises any issues of concern with other managers as necessary, including passive funds.	●




Stock lending			
8.8, 8.9	<p>WPP will not lend 100% of the holding in any single stock, so WPP can express its views and make a policy stance on any topic it deems worth through its right to vote.</p> <p>WPP will continue to monitor the impact of this policy stance over time and revise its policy if required.</p>	<p>WPP has had a number of discussions on the impact of this policy over 2022.</p> <p>Further consideration of the evolution of this policy is expected over the course of 2023, including how this policy will be applied to the Sustainable Active Equity Sub Fund.</p>	
Collaboration			
9.1	<p>In conjunction with its V&amp;E Provider, WPP will continually assess potential collaboration opportunities, and will inform and seek input from the CAs on any such opportunity that it deems to be relevant.</p>	<p>Work on collaboration opportunities is generally undertaken through Robeco, Russell and LAPFF.</p> <p><b>It would be beneficial for WPP to consider how it can better feed into identifying and assessing opportunities.</b></p>	
9.3	<p>In conjunction with its V&amp;E Provider, WPP will seek to identify investor-led RI initiatives and collaborations that can be actively supported.</p>	<p>WPP has not explicitly identified any investor-led initiatives for support over the year.</p> <p><b>Consideration should be given as to whether this remains a reasonable ongoing commitment or whether such support should be driven by WPP's delegates. WPP should explicitly consider initiatives linked to its Stewardship Themes.</b></p>	
9.4	<p>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.</p>	<p>Russell participates in a number of industry collaborations that meet the interests of WPP. These include the Net Zero Asset Managers Initiative, Institutional Investors Group on Climate Change and Climate Action 100+, as well as a collaborative-engagement partnership with Sustainalytics.</p> <p>In developing the Sustainable Active Equity Sub-Fund, the WPP ensured that the underlying managers all have net zero commitments in place, aligning with the objectives of the Sub-Fund.</p> <p><b>Given the development of private market Sub-Funds and the broadening number of underlying managers, WPP's focus should primarily be on its direct relationships. Amending this policy commitment may be sensible.</b></p>	
9.5	<p>WPP will continue to collaborate with the cross-pool RI collaboration project at any suitable opportunity.</p>	<p>WPP is represented on the cross-pool RI group and updates are regularly provided to the RIWG on ongoing activity.</p>	

Monitoring, Reporting and Measurement			
10.1	In consultation with CAs, Advisers and Investment Managers, WPP has developed appropriate monitoring metrics for existing portfolios and will continue to agree appropriate metrics in respect of all new portfolios. WPP will require Investment Managers to include such metrics in their quarterly reporting to CAs.	<p>The RI Sub-Group has established a process for receiving Sub-Fund 'deep dive' ESG and climate risk reports, provided by its adviser. These allow the WPP to see how each Sub-Fund and underlying manager perform from climate and ESG perspectives.</p> <p>Additional monitoring has been deemed appropriate for the launch of the Sustainable Active Equity Sub-Fund. WPP receives quarterly reporting from Russell on a quarterly basis, which includes climate and ESG risk metrics, for all Russell-managed Sub-Funds.</p> <p>A quarterly reporting regime is currently in development per Sub-Fund, which will incorporate climate and ESG metrics. This is being rolled out in Q2 2023.</p>	●
10.3	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 evaluate 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 has taken steps to formalise this information flow over the course of the year through an increase in resource available for support.</p> <p><b>WPP needs to consider how this regime will be extended to the new Sub-Funds.</b></p>	●
10.4	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, following the principles of the 202 FRC UK Stewardship Code.	<p>WPP completed a stewardship report for the year to 31 March 2022, which was submitted to the FRC in October 2022 and published in February 2023.</p> <p>WPP has retained its UK Stewardship Code 2020 signatory status.</p>	●

Other			
11.1	WPP will ensure there is at least one formal training session directly focused on RI.	<p>During 2022/23, WPP received the following RI training:</p> <ul style="list-style-type: none"> <li>• RI Stewardship</li> <li>• Sustainable Active Equity</li> <li>• What RI means for the WPP</li> <li>• Stock lending</li> </ul> <p>WPP has produced a 23/24 training plan that includes the following RI subjects:</p> <ul style="list-style-type: none"> <li>• Levelling up/development opportunities</li> <li>• TCFD reporting</li> <li>• Voting &amp; Engagement</li> <li>• RI within the WPP Sub-Funds</li> <li>• Progress of other LGPS pools &amp; collaboration opportunities</li> </ul>	●
11.2	WPP will also explore the possibility of incorporating the United Nations' SDGs into its RI beliefs and its monitoring and measurement mechanisms.	<p>As part of evaluating and developing its Stewardship Themes, WPP has developed a framework to explicitly map the consideration of new and existing themes to the UN SDGs.</p> <p>In the development of the Sustainable Active Equity Sub-Fund, a specific requirement has been put in place to deliver reporting outcomes aligned with the UN SDGs.</p>	●
11.4	WPP will review the adherence of all parties to this policy on an annual basis. WPP will publish the results of their assessment in a public report.	<p>The WPP's 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 within 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
<b>Objectives</b>			
13	The WPP's role is to consult with each CA 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.	<p>WPP consulted with each CA over 2022 to understand their climate objectives. In order to further this work, and in preparation for upcoming TCFD reporting, work has progressed on the AWCR. This work will then feed into individual requirements for each CA.</p> <p>Development of the Sustainable Active Equity Sub-Fund took place over 2022, with launch due by Q3 23.</p>	
14	Following its consultation with each CA, the WPP will endeavour to develop and facilitate investment solutions that enable each and every CA to achieve their climate objectives and commitments.	<p>WPP has worked with Russell and the CAs to develop the Sustainable Active Equity Sub-Fund.</p> <p>WPP has also progressed the appointment of managers/allocators within infrastructure, private debt and private equity to meet the needs of CAs.</p>	
15	Where possible, 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.		
16	If unified and collaborative investment solutions that simultaneously meet the objectives and requirement of all CAs cannot be developed, the WPP will work with any CA to develop tailored investment solutions that will enable them to achieve their own local objectives and requirements.		
18, 19	The WPP's Climate Goal will be regularly reviewed, following consultation with the CAs, and will always be driven by the collective requirements of the CAs. If the WPP's consultation exercise with the CAs fails to identify a common climate-related objective that all CAs are willing to unanimously support, then no WPP Climate	WPP has not yet agreed a collective climate goal. Completion of and consultation around the AWCR is expected to facilitate discussion in this regard.	

	Goal will be formulated until there is unanimous support for a given Climate Goal.		
<b>Strategy</b>			
21	Recognising its current investment arrangements and offerings, the WPP's immediate focus will be on climate-related risk exposure within its equity and fixed-income holdings. The WPP will, however, consider climate-related risks in other asset classes when circumstances allow or require them to do so. The WPP will endeavour to provide climate risk solutions across all of its Sub-Funds, including private market assets.	Climate risk exposure is monitored and considered across all of WPP's Sub-Funds, with Russell tracking climate risk across the Sub-Funds it manages for WPP.  In progressing the appointment of its Private Markets Allocators, sustainability considerations were also integrated, including an expectation for providers to facilitate investment in climate solutions, including renewable-energy infrastructure.	●
22	The WPP receives quarterly Climate Risk Monitoring Reports for its Equity and Fixed-Income Sub-Funds. The WPP will continue to explore and investigate market developments which enhance its ability to assess climate risk exposure within its Sub-Funds.	ESG and Climate Risk Monitoring Reports are now provided by WPP's adviser for all WPP Sub-Funds on at least an annual basis. We expect some evolution here in terms of the monitoring of Government Bond allocations, where current data and reporting prevent more in-depth analysis. The first Government Bond Climate Risk Monitoring Report was completed over 2022.  Reporting for all Sub-Funds on a quarterly basis for scrutiny purposes is currently progressing. Russell tracks the carbon-risk exposure of each Sub-Fund within the quarterly reports it provides WPP.	●
23	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.	The WPP has not undertaken scenario analysis for its Sub-Funds, although expects to explore this further as TCFD reporting requirements for LGPS funds are finalised.	●

24	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 Constituent Authorities, this is the mechanism by which the WPP gauges the climate risk training requirements of its stakeholders.	A training session on RI was held during the year. This included training on how WPP addresses climate change, as well as training on climate metrics and climate scenario analysis  A training needs assessment was undertaken for the 2022/23 year, with training on TCFD reporting due to take place in Q2 23.	●
<b>Implementation</b>			
27	The WPP will work with its Investment Managers to ensure that they account for an integrate climate-related risks within their investment processes. The WPP will, on at least an annual basis, will review each of its Investment Managers' approach to Climate Risk integration.	WPP has engaged with Russell during the year to understand its approach to the management of climate risk, including the metrics and tools it uses to do so. While climate risk forms part of Russell's assessment of underlying Investment Managers, a formal assessment of each underlying Investment Manager has not taken place for WPP.	●
29	The WPP will encourage its V&E 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's stewardship theme 'Focusing on Net Zero' is integrated across a number of Robeco's engagement themes implemented over the year.	●
<b>Monitoring/Reporting</b>			
30	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.	The ESG and Climate Risk Monitoring Reports include a wide range of climate metrics, across both the equity and fixed-income Sub-Funds. Additional metrics are being considered in the AWCR.	●
31	The WPP will require its Investment Managers to provide monitoring on climate-related risk exposure in their quarterly reports to WPP and the Constituent Authorities.	Russell provides reporting on climate risk within its quarterly reports to WPP. The ESG and Climate Risk reports provided by WPP's adviser also monitors climate risk across the Sub-Funds.	●
33	The WPP will report in line with the TCFD requirements, including a report on the actions taken in fulfilment of this policy, and	Currently, WPP is not required to report in line with the TCFD, though this is expected to commence in 2024. Completion of the	●

	will support the CAs in their own TCFD reporting.	AWCR will cover much of the ground expected to be required under TCFD.	
<b>Transparency</b>			
34	The WPP will encourage, through its V&E Provider and Investment Managers, all investee companies to disclose in line with the requirements of the TCFD.	Climate risk disclosure forms part of WPP's stewardship theme 'Focusing on Net Zero'. Russell, through its Active Ownership programme, also advocates for such disclosures in its engagements with underlying investee companies, individually and collaboratively.	●