

Responsible Investment & Engagement Framework



CHESHIRE
PENSION FUND



Staffordshire
Pension Fund
Local Government Pension Scheme



Derbyshire
Pension
Fund



West
Midlands ITA



Leicestershire County Council
Pension Fund



West Midlands Pension Fund



Nottinghamshire
County Council



SHROPSHIRE COUNTY
PENSION FUND



worcestershire
county council

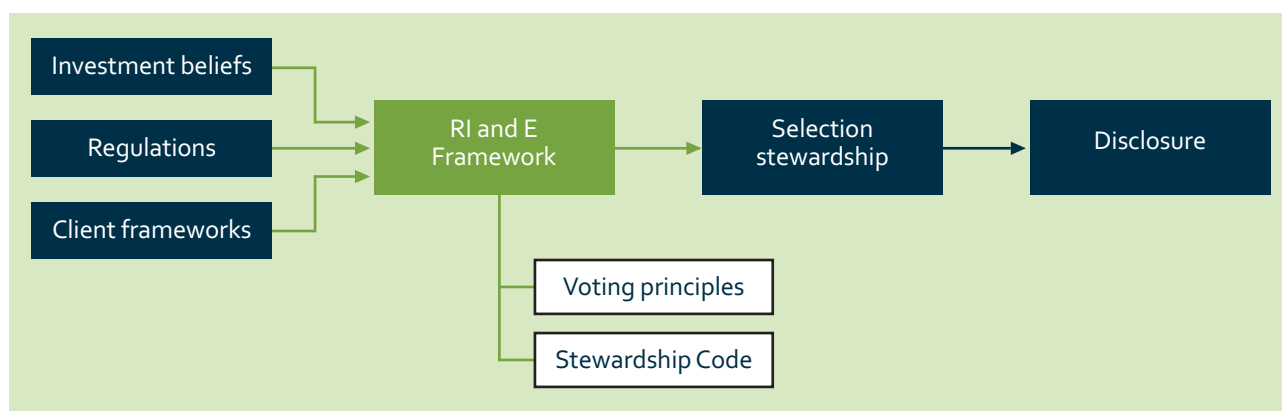


LGPS Central Limited

ABOUT THIS DOCUMENT

This framework describes LGPS Central Limited's ("the Company") approach to responsible investment ("RI"). The approach takes as its starting point the investment beliefs of the Company's nine local authority pension fund clients ("the clients"), and delivers against the clients' RI and stewardship policies. The clients' investment beliefs and RI policies are developed in the context of relevant regulations, statutory guidance and the advice of the Law Commission. Whilst this document sets out the overarching framework for RI, specific disclosures on the Company's approach to voting and to compliance with the UK Stewardship Code are provided in separate documents. This document is owned by the Company's Director of Responsible Investment & Engagement, and is implemented by the Investment Team, with ultimate responsibility resting with the Executive Committee. It is subject to annual review by the Board of the Company.

Figure 1: The framework in context



WHAT WE MEAN BY RESPONSIBLE INVESTMENT AND STEWARDSHIP

The term 'responsible investment' refers to the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes. It has relevance both before and after the investment decision and is a core part of our fiduciary duty. It is distinct from 'ethical investment', which is an approach in which the moral persuasions of an organisation take primacy over its investment considerations.

We define the concept of stewardship in the same way as the Financial Reporting Council (FRC), the organisation that oversees the UK Stewardship Code:

"Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings."

Please refer to the glossary for more definitions of terms.

INVESTMENT BELIEFS & RESPONSIBLE INVESTMENT BELIEFS

Using the Investment Strategy Statements of the Company's clients, we arrive at the following beliefs about responsible investment:

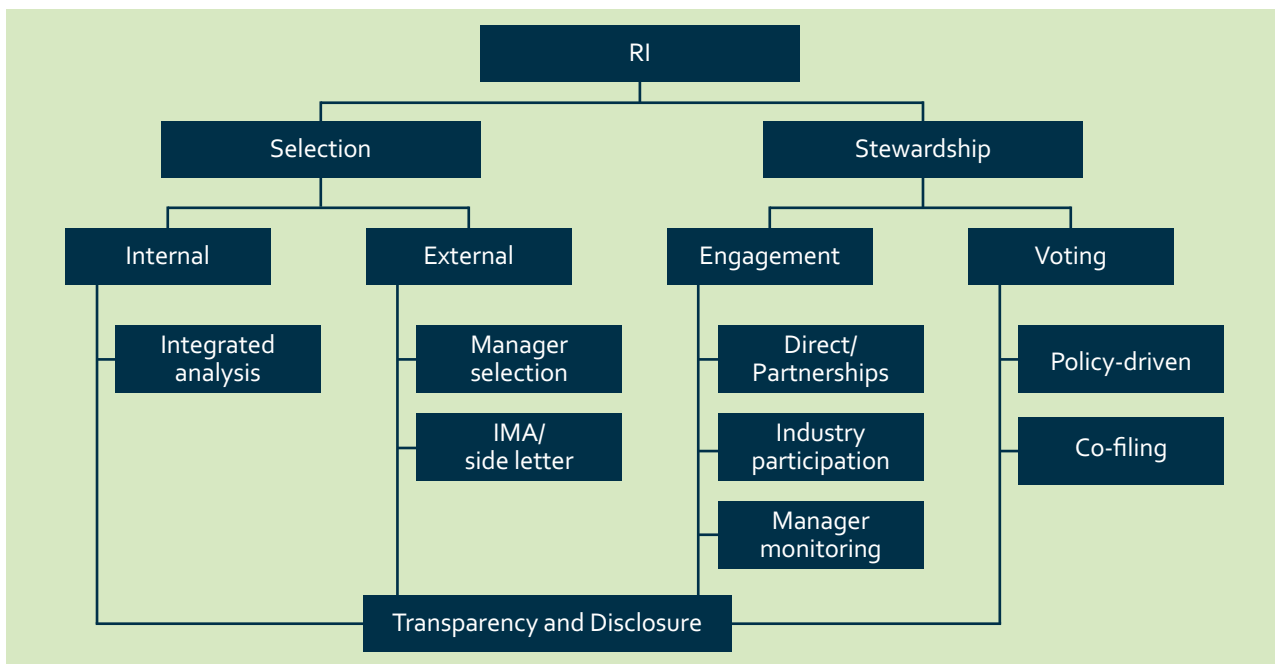
- **Long termism:**
A long-term approach to investment will deliver better returns and the long-term nature of LGPS liabilities allows for a long-term investment horizon
- **Responsible investment:**
Responsible investment is supportive of risk-adjusted returns over the long term, across all asset classes. Responsible investment should be integrated into the investment processes of the Company and its investment managers.
- **Diversification, risk management and stewardship:**
Diversification across investments with low correlation improves the risk return profile. A strategy of engagement, rather than exclusion, is more compatible with fiduciary duty and more supportive of responsible investment, because the opportunity to influence companies through stewardship is waived in a divestment approach. Even well-diversified portfolios face systematic risk. Systematic risk can be mitigated over the long-term through widespread stewardship and industry participation.

- Corporate governance and cognitive diversity:**
 Investee companies and asset managers with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is clear evidence showing that decision-making and performance are improved when company boards and investment teams are composed of cognitively diverse individuals.
- Fees and remuneration:**
 The management fees of investment managers and the remuneration policies of investee companies are of significance for the Company's clients, particularly in a low-return environment. Fees and remuneration should be aligned with the long-term interests of our clients, and value for money is more important than the simple minimisation of costs.
- Risk and opportunity:**
 Risk premia exist for certain investments; taking advantage of these can help to improve investment returns. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Opportunities can be captured so long as they are aligned with the Company's objectives and strategy, and so long as there is a sufficient evidence base upon which to make an investment decision.
- Climate change¹:**
 Financial markets could be materially impacted by climate change and by the response of climate policy-makers. Responsible investors should proactively manage this risk factor through stewardship activities, using partnerships of like-minded investors where feasible.

RESPONSIBLE INVESTMENT & ENGAGEMENT FRAMEWORK

Using our clients' investment beliefs, we have designed a Responsible Investment & Engagement Framework with two aims: (1) primarily, to support the Company's investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry and raise standards across the marketplace. We intend to realise these aims through actions taken both before the investment decision (which we refer to as the *selection* of investments) and after the investment decision (the *stewardship* of investments). Actions will be taken with reference to an evidence base, using the best available objective data sets. We aim to be transparent to all stakeholders and accountable to our clients through regular disclosure of RI activities, using best-practice frameworks where appropriate. These ambitions yield the Company's three RI pillars: Selection, Stewardship and Transparency & Disclosure. We have developed customised RI procedures which are bespoke to the asset class in question, and to whether the assets are managed internally or externally. No single framework document can cover every investment eventuality, and this document's ambition is to serve as a guide. The framework is represented graphically in Figure 2, and explained below.

Figure 2: High-level depiction of the Company's Responsible Investment & Engagement Framework



¹By highlighting climate change, rather than other RI risk factors, we are not asserting that climate risk has, for all assets, greater economic significance than other factors. Our motivation for referring specifically to climate change risk derives from our recognition that it is a risk factor of particular importance to a number of stakeholders, and we have communicated our investment beliefs about climate change for reasons of transparency.

SELECTION

Investments managed internally

RI factors are integrated into investment decision-making where those factors are financially material within the context of the investment mandate. Financial materiality is determined using an evidence base of objective data. RI factors include factors relating to climate change and the effects of climate policy response where relevant. Our approach is to consider RI and other performance drivers at the same time, rather than have a ring-fenced or stand-alone RI function. RI expectations are inserted into mandates and an RI strategy forms part of the investment process documentation. In order to ensure consistency with the investment beliefs of the Company's clients, an exclusionary or divestment approach is not preferred. As is the case throughout the Company, conflicts of interest are managed in accordance with the Company's Conflicts of Interest Policy, and a long-term approach is applied.

Investments managed externally

The investment manager's approach to RI is assessed as part of the selection and due diligence process. External managers will not be appointed unless the Company is satisfied with the manager's approach to RI and to climate change risk. RI expectations will typically be inserted into the investment management agreement or side letter as appropriate.

STEWARDSHIP

Engagement with companies

The Company engages directly with investee companies on RI issues with the objective of improving investment outcomes over the long term. The Company also engages through partnerships, in order to maximise the scale and effectiveness of the Company's engagement programme. The prioritisation of engagement themes or companies depends on economic significance, resourcing and likely significance for the majority of stakeholders. Further detail of the Company's approach to engagement is provided in its UK Stewardship Code Compliance Statement. The Company expects UK companies to adhere to the UK Corporate Governance Code on a comply or explain basis, and expects non-UK companies to adhere to international corporate governance principles, whilst recognising local application and development.

Shareholder voting

The Company votes all eligible shares in accordance with its agreed voting policies. This includes the voting shares of portfolios managed externally where those funds are held in segregated accounts. Voting decisions will relate to engagements undertaken during the period in review and a vote might be used as an escalation step in an engagement process, as detailed in the Company's Stewardship Code Compliance Statement. Voting decisions are executed by third-party provider(s); the provider(s) also offer analysis and advice. Where the Company invests in externally managed pooled funds, the suitability of the manager's voting policy is assessed during due diligence, and ongoing disclosure is required. The Company will seek to co-file shareholder resolutions where beneficial to clients' long-term interests. The Company has a procedure to recall lent stock in order to vote on significant issues.

Monitoring external managers

External fund managers are monitored in order to ensure the ongoing application and efficacy of their approaches to RI and stewardship. Managers are expected to report to the Company on RI and engagement activities that support the objectives given in the investment mandate.

Industry participation and collaboration

Joining working groups, responding to consultations, dialogue with regulators and presenting at conferences are important features of the Company's stewardship approach. Industry participation allows the Company to represent the interests of its clients to a broad audience and, through joint action, supports investment outcomes over the long term. The Company will seek participation including active contribution where this serves the long-term interests of the Company's clients.

Climate change and stewardship²

Factors relating to climate change and the effects of climate policy response are managed within the Company's overarching RI & Engagement Framework. Financially material climate change factors are treated in the same way as other relevant RI factors, using selection and stewardship techniques, based on objective evidence sets. The Company engages investee companies on behalf of its clients to improve the disclosure, governance and management of the risks associated with climate change and climate policy response. The Company links its voting decisions to the outcomes of engagement and votes to support climate change shareholder resolutions where the resolutions support the long-term interests of clients. In order to garner broader support, the Company will in selected circumstances pre-declare its voting intention regarding a climate change resolution. The Company will seek to contribute to public policy either directly or through partnerships, and has indicated publicly its support for the Taskforce on Climate-related Financial Disclosures (TCFD). Through participation in industry fora, the Company raises awareness of the financial impacts of climate change and climate policy response using the latest available research to apply an evidence-based approach.

²Please refer to the previous footnote for our reasons for highlighting climate change risk above other RI risks.

TRANSPARENCY AND DISCLOSURE

Regular reporting

The Company aims to report its RI and engagement activities in a manner deemed to be best-practice. This includes quarterly disclosures that demonstrate to its stakeholders how this framework has been applied in practice.

The Company supports the statutory annual reporting requirements of its local authority pension fund clients.

As a signatory to the Principles for Responsible Investment, the Company discloses a Transparency Report on an annual basis.

Climate change disclosure

Regarding climate change disclosure, the Company reports annually using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). This complements the Company's broader support for the TCFD and its work to encourage other participants in the corporate and investment value chains to adopt the TCFD recommendations.

GLOSSARY OF TERMS

Divestment/exclusion/negative screening: the exclusion, usually on moral grounds, of particular types of investments, possibly affecting in a negative way the risk-return profile of a portfolio

Engagement: dialogue with a company concerning particular aspects of its strategy, governance, policies, practices, and so on. Engagement includes escalation activity where concerns are not addressed within a reasonable time frame.

ESG factors: determinants of an investment's likely risk or return that relate to issues associated with the environment, society or corporate governance

Ethical investment: an approach to investment where the moral persuasions of an organisation take primacy over investment considerations

Non-financial factors: determinants of an investment's likely risk or return that cannot be, or cannot straightforwardly be, given a monetary value for insertion into an organisation's financial statements

Responsible Investment/RI: the integration of financially material environmental, social and corporate governance ("ESG") factors into investment processes both before and after the investment decision

Responsible Investment factor/RI factor: an aspect of an investment which relates to environmental, social or corporate governance issues

Social investing/social impact investing: investments that seek to achieve a positive social impact in addition to a financial return

Stewardship: the promotion of the long-term success of companies in such a way that the ultimate providers of capital also prosper, using techniques including engagement and voting.

Voting: the act of casting the votes bestowed upon an investor, usually in virtue of the investor's ownership of ordinary shares in publicly listed companies.

About LGPS Central Limited

LGPS Central Limited is authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No: 10425159. Registered Office: Mander House, Mander Centre, Wolverhampton, WV1 3NB.