

**Wales Pension Partnership  
Draft Responsible Investment Policy  
Clwyd Pension Fund Questions/Comments**

The Wales Pension Partnership (WPP) drafted a Responsible Investment Policy, and the Clwyd Pension Fund in reviewing raised a number of questions and comments. These are summarised below with the responses from WPP. These responses give officers and advisers a good degree of comfort over the proposed direction of travel for WPP, and look forward to working with WPP to develop this policy.

**Questions/Comments** with the appropriate paragraph reference and **WPP responses in Red:**

**Paragraph 2 – Ambition and beliefs**

*2.3 - The phrase “....represents a starting point for the guidance of its approach.....” is quite strange and I’m not quite sure what it is actually meaning. It also refers to testing the appropriateness of the beliefs, but will it also regularly test whether the beliefs have been followed in how the pool is operating? If not, what is the point in having them.*

We would propose that the wording is changed to – ‘WPP will test adherence of the investment arrangements it implements to these beliefs on an annual basis. WPP will also periodically test the continuing appropriateness of its beliefs. ‘ – We would expect that the WPP Oversight Advisor will assess whether the beliefs have been adhered too, we would expect this to be pick in other WPP documents (such as the Work plan or Oversight Advisors contract).

**Paragraph 3 – Investment Strategy**

*3.1 – Is there a reason for only referring to four asset classes by name. I appreciate it says “not limited to” but wondered why there was no mention of Private Markets, or Multi-Asset for example. Not sure why it needed to mention any of the asset classes by name? It appears to reflect only a high level split- this will be a public document so it is important it is accurate/doesn’t provide false implications.*

We suggest leaving in the four asset class names; it helps define what is meant by asset classes. In regards to the second point, we would suggest the following wording – “3.1 The Constituent Authorities are individually responsible for setting investment strategy (and the underlying structure of those strategies, e.g. geographical exposure) for their own funds which reflect their membership profile and funding position. The investment strategy is the high-level split between asset classes including but not limited to equities, debt, property and infrastructure. The role of WPP is to provide a means for each Constituent Authority to implement its agreed strategy.

*3.3 - "...including strategies which either meet...." – Does this mean individual strategies? The sentence doesn't work if it does that. Perhaps it should be something like "including ensuring this WPP strategy either meets the .....". Also the words “either” and also “or” in that sentence - seems like it could imply it won't meet individual AA RI strategies.*

Agreed – 3.3. refers to the consultation with CA’s and the use of information to determine priorities. 3.4 then covers the potential for opportunistic investment. We suggest removing the phrase “including strategies which either meet the responsible investment requirements of Constituent Authorities or have the potential to deliver benefit within the regions covered by the Constituent Authorities” from 3.3. but to include the second part of this in 3.4.

#### **4 – Climate Change**

*4 - The paragraphs on Climate Change are a useful addition, and imagine that these may be expanded and developed over time*

The content of points 4.1.1 & 4.1.2 is intended to provide an overview of climate risks, not to be all encompassing. They follow the risks listed by Mark Carney and consequently the way in which climate risks are typically described. The intent is to develop a separate climate change policy as noted in 4.5 which will be more detailed. This will be an evolving document

#### **6 - Implementation of strategy**

*6.1 - How will this be implemented? What if a manager doesn't do this? Do they get replaced?*

We prefer engagement with managers as a means of dealing with this issue, rather than removing a manager – this is consistent with the belief stated at 2.2.3. To reflect the expected engagement, we suggest amended wording as follows: 'WPP expects that the Investment Managers employed to manage WPP assets will take account of ESG-risks as part of their investment analysis and decision-making process. WPP further expects its Investment Managers to be or aspire to be 'best-in-class' with regards to their integration of responsible investment considerations. Where necessary, WPP or its delegates will engage with investment managers who fail to meet WPP's expectations to agree a plan to address any shortcomings.'

#### **7 - Stewardship**

*7.2 - Is it necessary to give Investment Managers the ability to comply or explain? Is it not reasonable as the owner of the underlying investments to expect them to vote how we want them to?*

Yes. This reflects the current approach whereby voting principles are cascaded to managers who are then responsible for implementation at a fund level and may have good reason for not following the principle. Voting is one issue which we expect to move forward over the next 12 months, as noted at 7.5.

*7.2 - Does this give CPF any flexibility to decide how something should be voted on or are you giving that right away to WPP through this policy? Separate point – how will Constituent Authorities feed into individual votes where they feel strongly about them (i.e. where you want WPP to vote but you all want to feed in your thoughts about how to vote)?*

No, CPF will have input into how WPP votes on a particular issue, it will not have the flexibility to deviate from WPP's view. It important to stress that communication, compromise and collaboration will be key to ensuring that all Constituent Authorities come to an acceptable agreement.

*7.5 – I note the wording "WPP has agreed an ambition to appoint a single proxy voting adviser..." is there a reason that it is an ambition not a plan? Ambition suggests that it may well not happen? We would prefer this to be more strongly worded, such as "WPP will be appointing...." Has this not been agreed by all?*

Agreed. We would suggest the following wording changes 'WPP intends to appoint a single proxy voting adviser to ensure that voting on all shares held within WPP is undertaken on a consistent basis.'

*7.9 - Would this restrict CPF doing engagement if it wanted to? It is becoming more common these days for funds to take control by going along to AGMs*

No, this does not restrict engagement. The policy wording suggests that managers are best placed to engage, but that does not in any way preclude CPF from engaging.

**7.12** – I note the wording is even more uncertain than Para 7.5?

Agreed. We would suggest the following wording changes ‘WPP is exploring the appointment of a single engagement provider and a proxy voting agent.’

#### **9 – Monitoring, Reporting and Measurement**

**9.1** – Last sentence says “WPP expects that such metrics...” Again it seems a bit vague. Could the wording to commit WPP to providing this reporting? Is consideration of ESG matters at the time of appointment sufficiently covered previously or does it need to come into this section too? Perhaps something more explicit that as each portfolio is developed, the minimum ESG requirements are agreed by the Constituent Authorities? If there is nothing at the starting point, then it’s going to be more difficult to get managers up to an appropriate level.

We would suggest the following wording changes – ‘WPP aims to be aware of, and monitor, financially material ESG-related risks and issues within WPP assets. In consultation with Constituent Authorities, Advisers and the Investment Managers, WPP will develop appropriate monitoring metrics for existing portfolios and agree appropriate metrics in respect of all new portfolios. Such metrics are expected to include climate-related risk exposures. WPP will require managers to include such metrics in their quarterly reporting to Constituent Authorities.’