



WYPF
investments

Investment Strategy Statement

July 2024



1 Introduction

- 1.1 This Investment Strategy Statement (ISS) has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 that requires LGPS funds, including West Yorkshire Pension Fund (WYPF), to prepare a document describing its investment policies.
- 1.2 WYPF is one of 86 LGPS funds in England and Wales that together comprise the largest public pension fund in the UK and one of the largest funded defined benefit programs in the world, with assets of c£350bn and more than six million members.
- 1.3 As at 31 March 2023 WYPF had 319,484 members, 394 active employers and assets of £17.95 billion. Our largest employers are the five West Yorkshire Councils – Bradford, Calderdale, Kirklees, Leeds and Wakefield.
- 1.4 The ISS should be considered in conjunction with the [Funding Strategy statement](#) and our [Responsible Investment Policy Document](#)
- 1.5 The Investment Strategy Statement is expected to be reviewed annually and updated at least every three years following completion of the actuarial valuation.

2 Governance and management

- 2.1 City of Bradford Metropolitan District Council (CBMDC) became the administering authority of WYPF in 1986.
- 2.2 CBMDC has delegated all its functions as administering authority of the Pension Fund to the Governance and Audit Committee (GAC). The Managing Director of WYPF, who reports to the Chief Executive of CBMDC, has day-to-day control of the management of all aspects of the Fund's activities. The GAC utilises the Investment Advisory Panel (IAP) as the vehicle for overseeing the Fund's investment functions.
- 2.3 The IAP has responsibility for establishing and implementing a suitable investment strategy as well as overseeing and monitoring the management of WYPF's investment portfolio and investment activity. The IAP includes elected members from each of the five West Yorkshire metropolitan authorities, plus three independent advisers, trades union representatives, active and retired member representatives, the Managing Director of WYPF, and (on a rotating basis) the Director of Finance from one of the five West Yorkshire authorities. The IAP is supported by the in-house investment team, led by the Chief Investment Officer.
- 2.4 The IAP takes a long-term view in setting investment objectives. Investment objectives are set for the Fund itself, which have due regard to this statement as well as the Funding Strategy Statement.

3 Aims and beliefs

- 3.1 The aims of the Fund are to:
 - Enable employer contribution rates to be kept as stable as possible and at reasonable cost, whilst maintaining the solvency of the Fund.
 - Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
 - Maximise the returns from investments within reasonable risk parameters.
- 3.2 The Fund's principles, culture and beliefs reflect WYPF's unique set of circumstances:
 - WYPF is a large local government pension fund based in the North of England. As an LGPS fund it is subject to a variety of legislation, regulation and guidance.
 - WYPF is a Defined Benefit scheme funded by contributions from local authorities and other designated employers and members. The Fund is open to new members.
 - WYPF recognises a fiduciary duty to the members of the Fund and its scheme employers and admitted bodies.
 - Distinct from many LGPS funds, WYPF manages a proportion of its assets internally using an in-house team of investment specialists within the framework of the Northern LGPS pooling arrangements. This approach has produced strong investment returns while keeping costs low and has also permitted the investment team to develop profound long-term working relationships with investee companies.
- 3.3 Our unique characteristics, in conjunction with the influences of our administering authority, IAP and WYPF's

investment team, have led WYPF to develop a strong culture reflecting the following shared investment beliefs:

- WYPF is inherently long-term in its attitude to risk and return to reflect the duration of the liabilities of the Fund.
- The Fund invests in a diverse range of instruments including UK and international equity; sovereign and corporate bonds; private equity and credit; infrastructure; real estate; and alternatives.
- WYPF believes in actively managing the fund and chooses to do this via an in-house investment team, with a majority of the assets of the Fund directly invested in securities. In those instances when the Fund doesn't believe it can secure internal resources to manage specialised investments directly, it will seek external expertise, either through the Northern LGPS Pool, or third-party managers.
- The Fund recognises the importance of being a responsible asset owner and believes assets' specific Environmental, Social and Governance (ESG) characteristics will determine their long-term sustainability. WYPF is a signatory of the UK Stewardship Code.

3.4 WYPF also has the following shared governance beliefs to support the investment strategy. These include:

- WYPF is aware that good governance means an organisation is committed to communicating with its stakeholders and other interested parties in a clear and transparent manner.
- WYPF aims to be at the forefront of best practice for LGPS funds: this means striving to ensure compliance with the appropriate legislation and statutory guidance, as well as acting in the spirit of wider relevant guidelines and best practice guidance for pensions and investments.
- WYPF is managed, and its services delivered, by people who have the appropriate knowledge and expertise. This needs to be overseen by robust governance arrangements to facilitate informed decision making, supported by appropriate advice, policies and strategies.
- WYPF clearly articulates its objectives and how it intends to achieve those objectives through business planning, and continually measures and monitors success.
- All staff, and committee members charged with financial administration, decision-making or investment oversight of WYPF should be fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

4 Variety and suitability of investments to be held

4.1 WYPF will invest in a wide variety of asset classes, consistent with the diversified nature of the strategic asset allocation (SAA) benchmark that is set to meet the required actuarial returns. The required actuarial returns are set out in the actuarial valuation report, and are typically around 2% above Consumer Price Inflation for ongoing employers.

4.2 The SAA itself needs to be suitable, which means balancing traditional, alternative and private markets in a way that does not put undue pressure on long-term funding.

4.3 The current SAA, agreed by the IAP in October 2023, associated performance benchmarks and control ranges, are outlined on the next page.

	SAA Benchmark (%)	Benchmark Index*	Control Ranges (%)
UK	18	FTSE All Share**	
North America	18	FTSE World NA	
Europe ex UK		} FTSE Dev Eur ex UK FTSE AW Japan FTSE Dev Asia ex Japan	
Japan	18		
Asia Pacific (ex Japan)			
Emerging Markets	6	FTSE AW EM	
Public Equity	60		+/-5
General Private Equity	5	FTSE World	+/-3
Infrastructure Private Equity	5	Global World (FTSE World)/UK(CPI+3%)	+/-3
Equity	70		+/-5
UK Sovereign (nominal)	5	FTSE Actuaries UK Gov All Stocks	
UK Sovereign (index-linked)	5	FTSE All Stocks IL	
Global Sovereign	2.5	JPM Global Government bonds ex UK	
Sovereign Bonds	12.5		+/-5
Public Credit	5.5	} iBoxx non-gilt	
Private Credit			
Credit	5.5		+/-3
Fixed Income	18		+/-5
Equity +			
Debt +			
Absolute Return			
Alternatives	5	SONIA +2%	+5/-1
Property	5	AREF-MSCI UK Qtly Property	+/-2.5
Cash	2	SONIA	+3
Total Portfolio	100		

* Specific performance indices may change from time to time for operational reasons (e.g. consolidation of index vendors) and/or governance reasons (e.g. a decision is made to change a performance index to reflect risk appetite or investment beliefs).

** UK Equity benchmark to be formally reviewed in October 2024

- 4.4 When determining the SAA, the IAP received advice from the WYPF Managing Director and Chief investment Officer, who obtained Asset-Liability Modelling analysis on various asset allocations from WYPF's investment consultant.
- 4.5 The investment office shall actively manage the assets and seek compliance with the control ranges set out. Allocations may however deviate from policy ranges for shorter and longer periods due to market volatility and illiquidity in assets or to accommodate contributions, distributions or other cash needs. If an asset class allocation is outside the policy range, the investment office will seek to get back to within the control range in a reasonable time frame, considering transaction costs and liquidity.

5 Risk

- 5.1 Risks can broadly be classed as those facing us as an organisation (operational) and those facing us as an investor (investment). Operational risks should be reduced, mitigated or controlled as far as possible. WYPF recognises that to achieve long-term returns and keep contributions stable it is necessary to accept and manage investment risk.
- 5.2 WYPF has an Investment Risk Management Policy to assess and mitigate operational risks which may otherwise impact on achieving the Fund's objectives. Core to this policy is the development and maintenance of comprehensive risk registers, setting out of responsibilities for the management and escalation of risks, and responsibility for regular review and updating of this Policy and Strategy. The risk management process is a continuous cycle of identifying, analysing, controlling, and monitoring to ensure the report is up to-date and relevant.
- 5.3 The key long term Investment Risk is that the SAA benchmark, which guides the investment activities of the investment office, does not meet the actuarial return requirements set by the triennial valuation.
- 5.4 The key short term Investment Risks are that the key component of the SAA benchmark – equity related investments – suffer significant losses and call into question the solvency of the Fund and/or that investment income is reduced to the extent that the shortfall between benefit payments and contributions received is not met and the Fund becomes a forced seller of assets at an inopportune time.
- 5.5 Diversification across an array of asset classes and geographies, as can be seen in the SAA benchmarks, reduces these risks; however, equity risk remains the critical risk factor.
- 5.6 There are a number of related investment risks including, but not limited to, cash management and counterparty risk, currency risk and active management risk (both at individual mandate level and at Fund level relative to the SAA benchmark). These are mitigated as far as possible through processes, policies, systems and judgement.
- 5.7 The Fund recognises the risks and opportunities associated with climate change and, along with its pooling partners, has made a 2050 Net Zero commitment. The Fund's approach to climate change is more fully described in its [TCFD report](#).

6 Pooling

- 6.1 In 2015 the Government invited LGPS administering authorities to formulate plans to consolidate investments in collective 'Pools' that would have an envisaged minimum size of £25bn. The aims of Pooling were to enhance the buying power of individual LGPS funds to facilitate reductions in costs, improve governance by limiting the decision making of LGPS pension committees to strategic matters and to grant better access to other asset classes, particularly infrastructure.
- 6.2 WYPF along with Merseyside Pension Fund and Greater Manchester Pension Fund formed the [Northern LGPS Pool](#) ('the Pool'), which oversees the c.£58bn in assets of the three funds as of March 2023.
- 6.3 The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government provided confirmation in January 2017 that it was content to proceed with the formation of the Pool as set out in the July 2016 proposal. CBMDC entered into an Inter-Authority Agreement on behalf of WYPF with the other Northern LGPS Pool partners, which formally established the Pool.
- 6.4 All assets other than day-to-day cash used for scheme administration purposes will be invested under the Pool governance arrangements.
- 6.5 Following the formation of the Pool, the Pool's immediate focus was on private market assets, where the majority of investment costs were incurred and there was clear overlap of strategies. On an asset class basis, more than 10% of WYPF is allocated to private equity. On a Northern LGPS basis, approximately 7.5% of WYPF is currently invested in two pooled private equity vehicles, [GLIL](#) which invests directly, primarily in UK infrastructure, and [NPEP](#) which invests into global Private Equity as both a Limited Partner and as a co-investor. As of March 2023 these two vehicles had delivered over £160m of cost savings for the Pool, of which around £50m is in respect of WYPF.
- 6.6 Subject to value for money requirements being fulfilled, new investments in private market assets will typically be on a shared ownership basis, via either collective investment vehicles or limited partnerships and the Pool is seeking to create similar vehicles to NPEP and GLIL in other alternative asset classes.
- 6.7 For the immediate future WYPF's public market assets will continue to be owned directly by the administering authority. A common custodian for the Pool has been appointed which enables consistent reporting and will simplify future consolidation of mandates. This approach will be reviewed periodically going forwards to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or relevant legislation including UK or international taxation policies.
- 6.8 The Pool currently provides the following services to the participating authorities on an in-house basis:
- Implementing the strategic asset allocations of the participating authorities via the oversight and appointment of asset managers
 - Selection of private equity, infrastructure, property and other private-market funds
 - Direct UK infrastructure investment via a collective investment vehicle
- 6.9 Northern LGPS procures external services on behalf of the fund including:

- external fund management for certain mandates
- Custodian Services
- Performance Analytics
- other professional advice including responsible investment advisory services

6.10 The Northern LGPS Pool Joint Committee meets on a quarterly basis to provide oversight of the Pool and acts as a forum for the participating authorities to express the views of their pension committees.

6.11 A report on the progress of asset transfers and the cost savings achieved by the Pool is made to the Department for Levelling Up, Housing and Communities ('DLUHC') on an annual basis.

7 Environmental, Social and Governance policy

7.1 The Fund has adopted five principles that seek to define our approach to Environmental, Social and Governance factors in our investment process. How these principles are implemented is described in a [Responsible Investment Policy Document](#) which we publish on our website. The report seeks to both explain our approach to our members and establish expectations for investee companies and service providers.

Principle #1	WYPF recognises that Environmental, Social and Governance (ESG) factors can profoundly impact an individual company's long-term sustainability.
Principle #2	WYPF does not believe that there is a trade-off between the investment performance of a financial asset and investing in a company that is behaving in a responsible and sustainable manner.
Principle #3	WYPF chooses to be an informed and active manager.
Principle #4	WYPF recognises its stewardship responsibilities through engagement and voting.
Principle #5	Positive Engagement for Change: as owners of companies, we have the power to change the behaviour of managements who we consider our agents.

7.2 We will review our ESG principles over time considering our progress as an asset owner, industry developments and the evolution of best practice.

7.3 A core element of our ESG process is stewardship: that is, WYPF commits to be appropriately informed about the investments it makes, engaged with the managements of the companies in which it is invested in and commits to use our voting rights appropriately and consistently. WYPF is a signatory to the [UK Stewardship Code](#) and provides an [annual submission](#) to the Financial Reporting Council to detail how we comply with this regulation.

7.4 The Total Fund's benchmark allocation to listed equities in the UK, US and Europe is very significant. This asset allocation informs our choices on which companies that we choose to engage and on which subjects. Such prioritisation to reflect materiality is consistent with our fiduciary duties.

7.5 Those investments with the most material ESG exposure for the fund are added to a 'watch-list' that will be the focus of further scrutiny. For 2023 the list included all outstanding equity positions of £75mn or more, or any company in the Climate Action 100+ list where we had an investment of £25mn or more.

7.6 Typically, fund managers will meet with the companies with which we have significant holdings at least annually in addition to their regular assessment of company results and broker research. This oversight includes a review of ESG factors. Should ESG considerations become concerning our ESG fund managers may choose to launch a more detailed engagement. Typically, we choose to engage for three general reasons:

- A failure of ESG standards or egregious corporate wrong-doing
- Concern regarding an individual company's ESG profile
- A thematic basis where we are keen to understand how an individual theme may influence a market segment more broadly.

7.7 Typically, a more detailed engagement will entail a one-on-one meeting or conference call between a company's investor relations department or a dedicated member of their ESG team and WYPF's ESG manager and relevant fund manager. WYPF documents the meeting, considers whether the company's responses were satisfactory, whether or not to escalate the issue and what form escalation should take.

7.8 The nature of our escalation depends on the specific set of circumstances but could include a variety of options:

- If management prove unresponsive we may decide to approach the board chair or Non-Executive Directors (NEDs).
- We may choose to vote against or abstain from supporting management proposals or vote against the re-election of specific directors. We believe in holding individual directors to account on areas for which they have lead responsibility.
- Ordinarily, engagements are conducted privately but on occasion it may make sense to release a press statement to publicly air an issue we believe to be in the public interest.
- We can join collaborative actions with other shareholders, including as part of the Local Authority Pension Fund Forum (see 7.10 below).
- We can submit or support shareholder resolutions at company meetings.
- We may want to consider and it necessary undertake legal action including participation in Class Actions.

7.9 We can consider divesting our shares. We view this very much as a last resort as we consider our power to influence companies is derived from our economic interest: if we sell our shares we lose this ability and pass responsibility.

7.10 WYPF is a member of the Local Authority Pension Fund Forum (LAPFF), a special interest group of the Local Government Association, which comprises over 85 local authority pensions funds with combined assets of over £350 billion. LAPFF exists to promote the investment interests of local authority pension funds, and in

particular to maximise their influence as shareholders to promote corporate responsibility and high standards of corporate governance amongst the companies in which they invest. LAPFF regularly engages directly with large companies, both in the UK and overseas in this regard and has been effective in improving companies' understanding of the requirements of investors.

8 Wider impact and beliefs

- 8.1 WYPF recognises the wider impact that companies and projects can have relative to a singular focus on producing profits for shareholders. Indeed, the 2006 Companies Act requires that directors consider the external impact of the company's activities not only on suppliers and customers but on communities and the environment more generally. Reporting on such activity is done ostensibly in section 172 of annual reports but the very broad nature of assessing the external impact of operations has led many companies to report against the UN's Strategic Development Goals (SDGs).
- 8.2 In 2015 193 United Nations (UN) member states adopted the 17 SDGs which address global economic, environmental and social challenges. The goals were designed to form a blueprint for good growth, nationally and internationally, and are underpinned by 169 specific targets. While the SDGs were designed as goals for governments, they have subsequently proved popular with corporates keen to demonstrate their public merit. Indeed, many of the world's large corporations have chosen to do so. According to a KPMG survey which has tracked business adoption of the 17 UN SDGs since its launch in 2015, 71% of the N100 – the largest listed global companies – report against the SDGs.
- 8.3 The report indicated only 10% of companies report against all the SDG, with three SDGs: 8. Decent Work and Economic Growth; 12. Responsible Consumption and Production; and 13. Climate Action, being the most popular.
- 8.4 The IAP has identified three SDG themes as being of particular focus for the Fund: *Investment in climate solutions; Sustainable Cities and Communities; and Economic growth driving decent work.*
- 8.5 WYPF sees levelling-up, or improving on regional disparities, as common to these three themes. As part of the updated SAA benchmark, WYPF has made a larger 5% allocation to Alternatives, with a focus on looking for opportunities that invest in these themes.
- 8.6 For our existing portfolio, we are seeking to integrate SDGs into our reporting and also incorporate SDGs into our asset allocation process. However, there are challenges to overcome, for example:
 - There is no single accepted methodology in applying SDGs to company activities.
 - Companies report positive impacts but shy away from reporting negative outcomes.
 - Data collection on a portfolio-wide basis remains nascent.
- 8.7 WYPF is also supportive of wider shareholder initiatives aimed at promoting diversity and broader representation on company boards and in executive positions.

9 Exercise of rights attached to investments

- 9.1 Under the 2006 Companies Act, individual companies' articles of Association and Shareholders' agreements shareholders are afforded a number of legal rights. Most importantly these include: the rights to attend, speak at and vote at company meetings; and pre-emption.
- 9.2 Our approach to responsible investing is defined by the combination of: our ESG choices, our engagement activities, and our voting decisions. Wherever practical the fund votes on resolutions put to the annual and extraordinary general meetings of all companies in which it has a shareholding. As owners of capital we take our voting responsibilities seriously and exercise them in a way consistent with our voting guidelines.
- 9.3 As a rule, we try to be supportive of managements but will appropriately scrutinise proposals. It is important to recognise that our voting aligns with our engagement and we elaborate on this above in Section 7.
- 9.4 Should we decide to abstain, in the instance of minor infractions, or vote against board proposals, we will seek to communicate this information with management prior to the vote.
- 9.5 Paramount in the voting decision will be a determination of the best long-term outcome for the investee company including its responsibilities to the wider stakeholder group (employees, communities, society etc.), rather than solely our narrow interests as shareholders.
- 9.6 We will judge individual resolutions on their specific merits recognising that specific circumstances vary between companies. Therefore, we will not dogmatically apply voting guidelines and WYPF will not use its vote to make wider political assertions.
- 9.7 WYPF uses PIRC as its proxy voting advisor. PIRC was selected largely because its voting policies were closely aligned to the beliefs of the IAP. PIRC is also the Responsible Investment Advisor to the Northern LGPS Pool and to LAPFF.
- 9.8 Our voting guidelines are posted on the Fund's website, as are details of the Fund's [voting activities](#). We seek to revise our voting policy whenever appropriate in line with industry developments and the evolution of best practice.
- 9.9 Given the majority of assets are internally managed and our commitment to be a responsible investor it is incumbent on investment staff to be familiar with upcoming resolutions for companies within the portfolio. The ultimate voting decision will reflect the views of: individual portfolio managers, the Responsible Investment Officer, CIO and CEO of the fund.
- 9.10 Historically, we have closely followed PIRC's guidance. If we choose to vote contrary to PIRC's recommendations (the recommendations made to LAPFF and to WYPF are not always the same, reflecting nuances in investment beliefs), the rationale for the variance will be noted along with the voting instruction.
- 9.11 In 2022 the Fund voted on 19,429 resolutions at 1,445 separate Annual or Extraordinary general meetings world-wide. While we commit to voting all our shares, we failed to do so on 60 occasions most commonly for emerging market stocks where we did not receive the ballot in a timely manner.
- 9.12 The Fund will usually take up its pre-emptive entitlement to rights issues when offered at a discount to the current market price.

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West Yorkshire Pension Fund

