

# Investment Strategy Statement

## Introduction

The Pension Fund Committee has drawn up this Investment Strategy Statement (ISS) to comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement. The Authority has consulted its Actuary and Independent Financial Adviser in preparing this statement.

The ISS is subject to periodic review at least every three years and more frequently if there are any developments that impact significantly on the suitability of the ISS currently in place. Investment performance is monitored by the Committee on a quarterly basis and may be used to check whether actual results are in-line with those expected under the ISS.

The Committee will invest any Fund money not immediately required to make payments from the Fund in accordance with the ISS. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

## Governance Overview

Oxfordshire County Council is the designated statutory body responsible for administering the Oxfordshire Pension Fund. The Pension Fund Committee acts on the delegated authority of the Administering Authority and is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

The Director of Finance has delegated powers for investing the Oxfordshire Pension Fund in accordance with the policies determined by the Pension Fund Committee. The Committee is comprised of nine County Councillors plus two District Council representatives. A beneficiaries' representative attends Committee meetings as a non-voting member.

The Committee meets quarterly and is advised by the Director of Finance and the Fund's Independent Financial Adviser. The Committee members are not trustees, although they have similar responsibilities.

## Investment Objectives

The Fund's primary objective is to ensure that over the life of the Fund it has sufficient funds to meet all pension liabilities as they fall due. In seeking to achieve this aim, the investment objectives of the Fund are:

1. to achieve and maintain a 100% funding level;
2. to ensure there are sufficient liquid resources available to meet the Fund's current liabilities and investment commitments;

3. for the overall Fund to outperform the benchmark, set out in the next section, by 1.0% per annum over a rolling three-year period (N.B. The Secured Income, Diversified Growth Fund and Infrastructure portfolios do not have a benchmark as such, but target cash returns plus a given percentage. They do not therefore contribute to the outperformance target).

### **Asset Allocation**

The decision on asset allocation determines the allocation of the Fund's assets between different asset classes. The Committee believes that this is the single most important factor in the determination of the Fund's investment outcomes. In setting the asset allocation the Fund has considered advice from its Independent Financial Adviser and a report from advisers MJ Hudson on investment scenarios against the efficient frontier and the investment implications of the latest cash flow forecasts produced by the Fund Actuary.

Every three years, following the actuarial valuation, there is a fundamental review of how the assets are managed. This review considers the most appropriate asset allocation for the Fund in order to achieve its investment objectives and considers advice from the Fund's Independent Financial Adviser. A balance is sought between risk, return and liquidity. The most recent review was undertaken in February 2020.

Diversification is the Fund's primary tool for managing investment risk. Diversification can improve returns and reduce portfolio volatility by ensuring that investment risk is not concentrated in a particular asset class or investment style and by reducing exposure to losses through poor performance of an individual asset class. In considering asset class correlations it is acknowledged that these vary over time and as such, are not indicators of how assets will behave relative to each other in the future. Taking this into account, the Committee believes that spreading investments over a wide range of asset classes is the most appropriate way to benefit from diversification having considered the factors that may cause values for various asset classes to move in the future.

The Committee has developed the following guidelines to assist in ensuring appropriate diversification is maintained:

1. Exposure to a single security will be limited to 10% of the total portfolio.
2. No single investment shall exceed 35% of the Fund's total portfolio.
3. Not more than 10% of the Fund may be held as a deposit in any single bank, institution or person.

In considering the asset classes used to build the Fund's overall portfolio, consideration has been given to the suitability of those investments given the Fund's investment objectives and advice has been taken from the Fund's Independent Financial Adviser. The fund broadly defines assets as either return-seeking or liability-matching assets and seeks to develop an appropriate balance between these categories. Each asset class should be understood by the Committee, be consistent with the Fund's risk/return objectives, and provide the most effective solution for delivering a target outcome.

The Fund's last reviewed their fundamental asset allocation at their meeting on 6 March 2020 and agreed a target allocation and range for each asset class as set out in the table below.

<b>Asset Class</b>	<b>Target Allocation (%)</b>	<b>Range (%)</b>
UK Equities	21	19 - 23
Developed World (excl UK) Equities	26	24 – 28
Emerging Market Equities	4	3 - 5
<b>Total Equities</b>	<b>51</b>	<b>46 - 56</b>
UK Gilts	3	
Corporate Bonds	6	
Index-Linked Bonds	5	
Overseas Bonds	2	
<b>Total Bonds</b>	<b>16</b>	<b>14 - 18</b>
Property	8	6 - 10
Private Equity	9	7 – 11
Private Debt	3	2 - 4
Multi-Asset	5	4 - 6
Infrastructure	3	2 – 4
Secured Income	5	4 – 6
Cash	0	0 - 5
<b>Total Other Assets</b>	<b>33</b>	<b>26 - 40</b>

### **Investment Implementation**

It is the Fund's Policy to implement its asset allocation through the portfolios offered by Brunel (Brunel Pension Partnership Limited – the pool company established by the Fund alongside 9 other LGPS Funds to manage their pooled investments). Where Brunel do not offer a current portfolio, a request will be made under the agreed Brunel policy for the creation of new portfolios. New investments will only be made outside the pool where Brunel are unable to offer a requested portfolio, normally as a result of the current FCA permissions, or as an interim measure whilst waiting for a Brunel Portfolio to be established, or commitments to the private markets to be called.

When overseeing the selection processes of the Brunel Pension Partnership, the Pension Fund will look at the most cost-effective way of delivering the required investment outperformance rather than have a narrow focus on cost. Ultimately, it is the investment performance net of costs achieved by the Fund Managers which determines the success of the Fund in meeting its objectives.

When making asset allocation decisions for some asset classes there is a choice available between active and passive management. The Fund believes that active management can provide benefits above passive management in some situations. Active management gives the potential for outperformance relative to the passive benchmark through the selection of holdings expected to outperform the general

market and through the use of cash to protect against downside risk. In considering the most appropriate type of mandate the Fund will consider the potential for outperformance, fees and risk. For some investment classes there are not passive investment solutions currently available but the Fund will work with Brunel to monitor the market to identify any new products that are developed in the passive arena.

Where directly appointed, the individual managers' performance, current activity and transactions are monitored quarterly by the Pension Fund Committee. Where the portfolios are now managed by the Brunel Company, it is their responsibility to monitor individual Fund Manager performance, with the Pension Fund Committee responsible for monitoring the performance of the Brunel Company, and getting assurance that they are monitoring the underlying Fund Managers appropriately.

The assets are currently managed as set out in the following table.

<b>Asset Class</b>	<b>Investment Manager</b>	<b>Benchmark</b>	<b>Annual Target</b>
UK Equities	Brunel	FTSE All-Share	+2.0%
	Brunel	FTSE All Share	Passive
Developed World Equities	Brunel	FTSE Developed	Passive
	Brunel	MSCI World	+2 – 3%
Global Equities	UBS	MSCI All Countries World Index	+ 3.0%
Emerging Market Equities	Brunel	MSCI Emerging Market	+2.0 – 3.0%
Low Carbon	Brunel	MSCI World	Passive
Bonds & Index Linked - UK Gilts - Index Linked - Corporate bonds - Overseas bonds	Legal & General	FTSE A All Gilts Stocks FTSE A Over 5 year IBoxx Sterling Non-Gilts JPMorgan Global Govt (ex UK) traded bond	+ 0.6%
Property	UBS Global Asset Management	IPD UK All Balanced Funds Index	+1.0%
Private Equity - Quoted Inv. Trusts	Director of Finance	FTSE Smaller Companies (Including Investment Trusts)	+ 1.0%

- Limited Partnerships	Adams Street Partners Group		
	Brunel	MSCI ACWI	+3.0%
Diversified Fund	Growth Insight	3 month Libid	+ 4.0%
Infrastructure	Brunel	CPI	+4.0%
Secured Income	Brunel	CPI	+2.0%
Cash	Internal	3 month Libor	-

Target performance is based on rolling 3-year periods

## Rebalancing

The primary goal of the rebalancing strategy is to minimize risk relative to a target asset allocation, rather than to maximize returns. Asset allocation is the major determinant of the portfolio's risk-and-return characteristics. Over time, asset classes produce different returns, so the portfolio's asset allocation changes. Therefore, to recapture the portfolio's original risk-and-return characteristics, the portfolio needs to be rebalanced.

The Fund has set ranges for the different assets included in the asset allocation, these are not hard limits but there would need to be a clear rationale for maintaining an allocation outside the ranges for any significant length of time. The fund takes a pragmatic approach to rebalancing and is cognisant that rebalancing latitude is important and can significantly affect the performance of the portfolio. Blind adherence to narrow ranges increases transaction costs without a documented increase in performance, while a rebalancing range that is too wide may cause undesired changes in the asset allocation fundamentally altering its risk/return characteristics.

Rebalancing meetings take place on a quarterly basis where the most recent asset allocation is reviewed against the target allocations and the ranges in place. A number of factors are taken into account in the decision on whether to rebalance which includes, but is not limited to; current and forecast market dynamics, and known future investment activity at the Fund level.

Where a decision is made to undertake rebalancing the Fund aims to use cash to rebalance as far as possible, as this will minimise transaction costs and keep the cash holding closer to target avoiding the need for future transactions with associated costs. The rebalancing action will not necessarily take place immediately after a decision has been made as consideration is given to market opportunities and transaction costs.

## **Restrictions on Investments**

The 2016 Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These restrictions set limits for types of investment vehicles but not for asset classes. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes into account the various risks involved and rebalancing is undertaken as described above to ensure asset allocations are kept at appropriate levels. When making investment decisions the suitability of the proposed investment structure is considered to ensure that it is the most efficient in meeting the Fund's objectives. Therefore, it is not felt necessary to set any additional restrictions on investments.

In accordance with the regulations the Fund is not permitted to invest more than 5% of the total value of all investments of fund money in entities which are connected with the Administering Authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(d).

## **Risk**

The overall risk for the Fund is that its assets will be insufficient to meet its liabilities. The Funding Strategy Statement, which is drawn up following the triennial actuarial valuation of the Fund, sets out how any deficit in assets compared with liabilities is to be addressed.

Underlying the overall risk, the Fund is exposed to demographic risks, regulatory risks, governance risks and financial risks (including investment risk). The measures taken by the Fund to control these risks are included in the Funding Strategy Statement and are reviewed periodically by the Committee via the Fund's risk register. Further details on the risk management process and risks faced by the Pension Fund are also included in the Annual Report and Accounts document produced by the Fund. The primary investment risk is that the Fund fails to deliver the returns anticipated in the actuarial valuation over the long term. The Committee anticipates expected market returns on a prudent basis to reduce the risk of underperforming expectations.

It is important to note that the Fund is exposed to external, market driven, fluctuations in asset prices which affect the liabilities (liabilities are estimated with reference to government bond yields) as well as the valuation of the Fund's assets. Holding a proportion of the assets in government bonds helps to mitigate the effect of falling bond yields on the liabilities to a certain extent. Further measures taken to control/mitigate investment risks are set out in more detail below:

### Concentration

The Committee manages the risk of exposure to a single asset class by holding different categories of investments (e.g. equities, bonds, property, alternatives and cash) and by holding a diversified portfolio spread by geography, currency, investment style and market sectors. Each asset class is managed within an agreed permitted range to ensure that the Fund does not deviate too far away from the Benchmark, which has been designed to meet the required level of return with an appropriate level

of exposure to risk, taking into consideration the level of correlation between the asset classes.

### Volatility

The Benchmark contains a high proportion of equities with a commensurate high degree of volatility. The strong covenant of the major employing bodies and the current forecast cashflow position enables the Committee to take a long term perspective and to access the forecast inflation plus returns from equities.

### Performance

Active investment managers are expected to outperform the individual asset class benchmarks detailed in the overall Strategic Asset Allocation Benchmark. The Committee takes a long term approach to the evaluation of investment performance but will take steps to address persistent underperformance. Investment managers are required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. The Fund Managers report on portfolio risk each quarter and are required to provide internal control reports to the Fund for review on an annual basis. A proportion of assets are invested passively to reduce the risks from manager underperformance.

Where Brunel are responsible for the management of a portfolio, it is their responsibility to monitor the performance of the underlying investment managers and take any action necessary to address any performance issues. The Committee will receive reports from Brunel on the performance of their portfolios and can challenge them at Committee meetings. Brunel will also provide assurance reports to the Client Group and Oversight Board detailing the results of their monitoring processes, including setting out actions they are taking to address performance.

### Illiquidity

Close attention is paid to the Fund's projected cash flows; the Fund is currently cash flow positive, in that annually there is an excess of cash paid into the Fund from contributions and investment income after pension benefits are paid out. The Fund expects to be cash flow positive for the short to medium term. Despite the significant proportion of illiquid investments in the Fund, a large proportion of the assets are held in liquid assets and can be realised quickly, in normal circumstances, in order for the Fund to pay its immediate liabilities.

### Currency

The Fund's liabilities are denominated in sterling which means that investing in overseas assets exposes the Fund to a degree of currency risk. The Committee regards the currency exposure associated with investing in overseas equities as part of the return on the overseas equities; the currency exposure on overseas bonds is hedged back to sterling.

### Custody

The risk of losing economic rights to the Fund's assets is managed by the use of a global custodian for custody of the assets. Custodian services are provided by State Street. In accordance with normal practice, the Scheme's share certificates are registered in the name of the custodian's own nominee company with designation for



the Scheme. Officers receive and review internal control reports produced by the custodian. The custodian regularly reconciles their records with the investment manager records, providing a regular report to officers which they in turn review.

### Stock Lending

The Council allows the Custodian to lend stock and share the proceeds with the Council. This is done to generate income for the Fund and to minimise the cost of custody. To minimise risk of loss the counterparty is required to provide suitable collateral to the Custodian. The levels of collateral and the list of eligible counterparties have been agreed by the Fund. The Committee will ensure that robust controls are in place to protect the security of the Fund's assets before entering into any stock lending arrangements.

The Pension Fund Committee will develop a risk management framework to ensure that all investment risks are regularly monitored to ensure investment decisions are not resulting in unintended consequences, and that the climate change risks are fully assessed against the remaining investment risks and in particular liquidity.

### **Pooling**

The Oxfordshire Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd).

The Oxfordshire Pension Fund, through the Pension Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd was established in 2017 and became operational in 2018 after receiving authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It is owned jointly by the 10 Administering Authorities. It is responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular, it will research and select the Fund Managers needed to meet the requirements of the detailed Strategic Asset Allocations. The Oxfordshire Pension Fund is a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement has been agreed which sets out the duties and responsibilities of BPP Ltd, and the rights of the Oxfordshire Pension Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board has been established, which comprises of representatives from each of the Administering Authorities. It was set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.



The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance.

Oxfordshire County Council approved the full business case for the Brunel Pension Partnership. Currently investment assets are being transitioned across from the Oxfordshire Pension Fund's existing investment managers to the portfolios managed by BPP Ltd with the final transition due by August 2021 in accordance with a timetable agreed by all parties. Until transitions take place, the Oxfordshire Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of the Oxfordshire Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

## **ESG Policy**

The Committee recognises that environmental, social and corporate governance (ESG) issues, including climate change, can have materially significant investment implications. The Fund therefore seeks to be a responsible investor and to consider ESG risks as part of the investment process across all investments, thereby improving risk-adjusted returns. Responsible investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

Given the systemic nature of climate change risk to the Fund's investments the Pension Fund has produced a separate Climate Change Policy covering its approach on this topic. The Policy was developed following a Climate Change Workshop held by the Fund in November 2019 with participants including a range of stakeholders and expert speakers. Following the Workshop, a smaller working group was formed to develop a draft Climate Change Policy based on the outcomes of the Workshop. This Policy is contained as Annex 1 to the Statement and is an integral part of the Investment Strategy Statement.

The Committee's principal concern is to invest in the best financial interests of the Fund's employing bodies and beneficiaries. Its Investment Managers are given performance objectives accordingly. The Council requires its Investment Managers to monitor and assess the environmental, social and governance considerations, which

may impact on financial performance when selecting and retaining investments, and to engage with companies on these issues where appropriate. The Council believes that the operation of such a policy will ensure the sustainability of a company's earnings and hence its merits as an investment.

The Investment Managers report at quarterly intervals on the selection, retention and realisation of investments on the Council's behalf and on any engagement activities undertaken. These Reports/Review Meetings provide an opportunity for the Council to influence the Investment Manager's choice of investments and to review/challenge their stewardship activities but the Council is careful to preserve the Investment Manager's autonomy in pursuit of their portfolio specifications.

Just because concerns have been registered about a company's performance on ESG issues, does not mean our fund managers will be instructed not to invest in that company. It is then through active ownership we aim to drive change. Where engagement is not seen to be resulting in sufficient progress, and so the risk associated with a holding is increasing or not reducing sufficiently, the Fund will consider divesting.

As a passive investor, the Fund accepts that it will hold companies of varying ESG quality due to the requirement to hold all securities in the target index. The committee believes that passive investing offers a number of benefits that need to be weighed against this and requires passive managers to demonstrate effective engagement, as is the case for active managers. It is important to note that ownership of a security in a company does not signify that the Oxfordshire Pension Fund approves of all of the company's practices or its products.

The Committee is open to investing in Social Investments; investments where social impact is delivered alongside financial return. The Committee further believes that the goal of social impact is inherently compatible with generating sustainable financial returns by meeting societal needs. The Fund has made investments in this area and will continue to review whether further opportunities are available that offer an appropriate risk/return profile. Stakeholders' views are taken into account through the representation of different parties on the Pension Fund Committee, which includes a beneficiaries' representative, and the Local Pension Board, which consists of equal numbers of employer and member representatives.

One of the principal benefits, outlined in the Brunel Pension Partnership business case, achieved through the enhanced scale and resources as a result of pooling is the improved implementation of responsible investment and stewardship. Once established and fully operational the Brunel Company will deliver best practice standards in responsible investment and stewardship as outlined in the BPP Investment Principles.

Every portfolio under the Brunel Pension Partnership explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in

order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives.

The Pension Fund will work with Brunel to develop a suite of reporting metrics to cover key ESG areas as defined by the Committee, but including climate change and the other UN Sustainable Development Goals to ensure that the priority given to climate change does not result in unintended consequences in respect of other key areas.

In January 2020 Brunel released its Climate Change Policy setting out how it will deal with climate related risks and opportunities in its investment approach.

### **Policy on Exercise of Rights**

As an investor with a very long-term investment horizon and expected life, the success of the Oxfordshire Pension Fund is linked to long term global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund. Since the Fund is a long-term investor, short-term gains at the expense of long-term gains are not in the best interest of the Fund. Sustainable returns over long periods are in the economic interest of the Fund.

The Fund recognises that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies protects the financial interests of pension fund members over the long term. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration.

The Fund's commitment to actively exercising the ownership rights attached to its investments reflects the Fund's conviction that responsible asset owners should maintain oversight of the way in which the enterprises they invest in are managed and how their activities impact upon stakeholders, wider society and the environment.

The routes for exercising ownership influence vary across asset types and a range of activities are undertaken on the Fund's behalf by Fund Managers and Brunel, including engagement with senior management of companies, voting of shares, direct representation on company boards, presence on investor & advisory committees and participation in partnerships and collaborations with other investors. Where the Pension Fund invests in pooled vehicles it will seek to gain representation on investor committees if considered appropriate.

Brunel are responsible for the exercise of voting rights in respect of the Council's holdings in the pool portfolios. The Fund expects Brunel to exercise its voting rights in all markets and its investment managers are required to vote at all company meetings where practicable. Market conventions in some countries may mean voting shares is not in the best interests of the Fund, for example where share-blocking is in operation.

The Fund will look to sign up to the new Stewardship Code during the course of 2020/21.

Similarly, Brunel has developed a Stewardship Policy consistent with the requirements of the UK Stewardship Code and publishes an annual report covering their voting practices and their engagement work. Brunel has entered partnerships with a number of other like-minded investors to strengthen their voice in all stewardship activities.

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