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To: Members of the Pension Fund Committee

Notice of a Meeting of the Pension Fund Committee

Friday, 2 December 2022 at 10.00 am

Council Chamber - County Hall, New Road, Oxford OX1 1ND

Stephen Chandler
Interim Chief Executive

November 2022

Scrutiny Officer: ***Khalid Ahmed***
Tel: 07990 368048; E-Mail: khalid.ahmed@oxfordshire.gov.uk

Membership

Chairman – Councillor Bob Johnston
Deputy Chairman – Councillor Kevin Bulmer

County Councillors

Councillor Imade Edosomwan	Councillor Nick Field-Johnson	Councillor John Howson

Non-voting Members of the Academy sector – Ms Shelley Cook and Mr Alan Staniforth
Non-voting Scheme Member Representative - Mr Steve Moran
Non-voting Member of Oxford Brookes University – Mr Alistair Fitt
Non-voting Member of District Councils – Councillor Jo Robb

Notes:

- ***Date of next meeting: 3 March 2023***

Declarations of Interest

The duty to declare…..

Under the Localism Act 2011 it is a criminal offence to

(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or
(b) provide false or misleading information on registration, or
(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

Whose Interests must be included?

The Act provides that the interests which must be notified are those of a member or co-opted member of the authority, **or**

- those of a spouse or civil partner of the member or co-opted member;
- those of a person with whom the member or co-opted member is living as husband/wife
- those of a person with whom the member or co-opted member is living as if they were civil partners.

(in each case where the member or co-opted member is aware that the other person has the interest).

What if I remember that I have a Disclosable Pecuniary Interest during the Meeting?.

The Code requires that, at a meeting, where a member or co-opted member has a disclosable interest (of which they are aware) in any matter being considered, they disclose that interest to the meeting. The Council will continue to include an appropriate item on agendas for all meetings, to facilitate this.

Although not explicitly required by the legislation or by the code, it is recommended that in the interests of transparency and for the benefit of all in attendance at the meeting (including members of the public) the nature as well as the existence of the interest is disclosed.

A member or co-opted member who has disclosed a pecuniary interest at a meeting must not participate (or participate further) in any discussion of the matter; and must not participate in any vote or further vote taken; and must withdraw from the room.

Members are asked to continue to pay regard to the following provisions in the code that *"You must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself"* or *"You must not place yourself in situations where your honesty and integrity may be questioned…..".*

Please seek advice from the Monitoring Officer prior to the meeting should you have any doubt about your approach.

List of Disclosable Pecuniary Interests:

Employment (includes"*any employment, office, trade, profession or vocation carried on for profit or gain*".), **Sponsorship, Contracts, Land, Licences, Corporate Tenancies, Securities.**

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines. http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/ or contact Glenn Watson on **07776 997946** or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named on the front page, but please give as much notice as possible before the meeting.

AGENDA

1. Apologies for Absence and Temporary Appointments

2. Declarations of Interest - see guidance note

3. Minutes (Pages 1 - 8)

To approve the minutes of the meeting held on 10 October 2022 and to receive information arising from them.

4. Petitions and Public Address

Members of the public who wish to speak at this meeting can attend the meeting in person or 'virtually' through an online connection. To facilitate 'hybrid' meetings we are asking that requests to speak are submitted by no later than 9am four working days before the meeting i.e., 9am on Monday 28 November 2022.

Requests to speak should be sent to khalid.ahmed@oxfordshire.gov.uk If you are speaking 'virtually', you may submit a written statement of your presentation to ensure that if the technology fails, then your views can still be taken into account. A written copy of your statement can be provided no later than 9am 2 working days before the meeting. Written submissions should be no longer than 1 A4 sheet.

5. Minutes of the Local Pension Board (Pages 9 - 14)

10:05

A copy of the unconfirmed Minutes of the Local Pension Board, which met on 21 October 2022 is attached for information only.

6. Report of the Local Pension Board (Pages 15 - 16)

10:10

The report sets out the items the Local Pension Board wishes to draw to the attention of this Committee following their last meeting in October 2022.

7. Review of Annual Business Plan 2022/23 (Pages 17 - 26)

10.20am

This report provides an update on progress against the key priorities set out in the

Annual Business Plan for 2022/23, and the initial results of the National Knowledge Assessment.

The Committee is RECOMMENDED to
a) review progress against each of the key service priorities as set out in the report;
b) agree any further actions to be taken to address those areas not currently on target to deliver the required objectives;
c) note the provisional results from the National Knowledge Assessment and
d) agree to hold a 2023/24 Business Planning session on the morning of Friday 3 February 2023.

8. **Risk Register** (Pages 27 - 34)

10.35am

This report presents the latest position on the Fund's risk register, including any new risks identified since the report to the last meeting.

The Committee is RECOMMENDED to note the latest risk register and accept that the risk register covers all key risks to the achievement of their statutory responsibilities, and that the mitigation plans, where required, are appropriate.

9. **Funding Strategy Statement** (Pages 35 - 72)

10.45am

This report summarises the responses to the recent consultation on the Funding Strategy Statement and seeks the Committee's approval to the final document.

The Committee is RECOMMENDED to
a) review the responses to the consultation exercise,
b) amend the draft documents to specify a standard likelihood of 90% for cessation calculations, and
c) approve the final version of the Funding Strategy Statement to support the 2022 Valuation exercise.

10. **Administration Report** (Pages 73 - 80)

10.55am

This report updates the Committee on the key administration issues including service performance measurement, the debt recovery process and any write offs agreed in the last quarter.

The Committee is RECOMMENDED to

a) determine any actions they would like taken to improve the team performance in meeting standards
b) note the compensatory payment made in line with Scheme of Delegation and determine any future actions if appropriate to minimise the risk of similar issues going forward
c) note the release of deferred benefits on grounds of ill-health in line with Scheme of Delegation.

11. Technology Review (Pages 81 - 84)

11.10am

This report will report the findings of the project to review the current offerings from the 3 system suppliers on the National Procurement Framework and recommend the Committee to either renew the existing contract for a further 5 years or seek to re-tender the contract.

The Committee is RECOMMENDED to
a) agree the extension of the current system contract, as allowed for within the contract and
b) ask officers to bring forward a proposal to the March meeting as part of the 2023/24 Business Plan to identify options to address the current weaknesses in the employer database offering, to maximise the use of the current system functionality and to ensure the Fund is fully prepared to run a full procurement exercise at the end of the agreed extension.

12. Report of the Independent Financial Advisor (Pages 85 - 158)

11.30am

This report covers an overview of the financial markets, the overall performance of the Fund's investments against the Investment Strategy Statement and commentary on any issues related to the specific investment portfolios. The report includes the quarterly investment performance monitoring reports, including the newly designed report from Brunel.

13. Corporate Governance and Socially Responsible Investment

12.00pm

Members will be updated on any items not covered elsewhere on today's agenda in respect of their responsibilities in respect of corporate governance and responsible investment.

14. EXEMPT ITEMS

The Committee is RECOMMENDED that the public be excluded for the duration of the following items on the Agenda (during discussion on

confidential matters) since it is likely that if they were present during those items there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

THE REPORTS RELATING TO THE EXEMPT ITEMS HAVE NOT BEEN MADE PUBLIC AND SHOULD BE REGARDED AS STRICTLY PRIVATE TO MEMBERS AND OFFICERS ENTITLED TO RECEIVE THEM.

PART II

15. Cyber Security (Pages 159 - 274)

12.05pm

The Committee is RECOMMENDED to confirm any further actions to be taken in addition to those identified in the report.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

16. AVC Review (Pages 275 - 278)

12.20pm

This report updates the Committee on the on-going review into the future AVC provision to scheme members.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

17. Climate Stocktake (Pages 279 - 310)

12.30pm

This report includes the draft report from the Brunel Climate Stocktake reviewing the implementation of the current Brunel Climate Change Policy. The final report will become a public document and be published in the New Year alongside the Policy Update.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

18. Technology Review (Pages 311 - 318)

12.45pm

Confidential final report on Review of Pension Administration System Technology.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

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PENSION FUND COMMITTEE

MINUTES of the meeting held on Monday, 10 October 2022 commencing at 10.15 am and finishing at 12.25 pm

Present:

Voting Members:	Councillor Bob Johnston – in the Chair Councillor Kevin Bulmer (Deputy Chair) Councillor Imade Edosomwan Councillor John Howson
Non-Voting Members:	Alastair Fitt (Oxford Brookes University) Sally Cook (Academy Sector Member) (Remotely attended) Alan Staniforth (Academy Sector Member) (Remotely attended) District Councillor Jo Robb (District Councils) (Remotely attended)
By Invitation:	Philip Hebson (Independent Financial Adviser) Tom Hoare (Hymans Robertson) (Remotely attended) Robert McInroy (Hymans Robertson) (Remotely attended)
Local Pension Board Members:	Elizabeth Griffiths Alistair Bastin (Remotely attended) Angela Priestley – Gibbins (Remotely attended) Marcia Slater (Remotely attended) Stephen Davis (Remotely attended)
Officers:	Lorna Baxter (Director of Finance) Sean Collins (Service Manager Pensions Insurance and Money Management) Sally Fox (Pension Services Manager) (Remotely attended) Gregory Ley (Financial Manager- Pension Fund Investment) Mukhtar Master (Governance & Communications Manager) (Remotely attended) Khalid Ahmed (Law and Governance)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports copies of which are attached to the signed Minutes.

31/22 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS
(Agenda No. 1)

Apologies for absence were received from Councillor Nick Field-Johnson and Steve Moran.

32/22 MINUTES
(Agenda No. 3)

The Minutes of the meeting held on 10 June 2022 were approved and signed.

In relation to Minute No. 26/22 – Changes to the Constitution of the Pension Fund Committee, the Committee was informed that Council approved the appropriate changes to the Terms of Reference and Constitution of the Committee. On the recommendation on allowances being paid to both Pension Fund Committee and Local Pension Board Members, this would be looked at in more detail as part of a wider review of allowances paid to all Members.

33/22 MINUTES OF THE LOCAL PENSION BOARD
(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board held on 8 July 2022 were noted.

34/22 REPORT OF THE LOCAL PENSION BOARD
(Agenda No. 6)

The Committee was provided with the report of the Local Pension Board which was introduced by Alastair Bastin.

Reference was made to the Board's request to the Pension Fund Committee that the Committee review the risk scores for both risks 16 and 17 and the recommendation that an over-arching policy document in respect of cyber security be introduced.

RESOLVED - (1). That the Committee agreed the following:-
a) to note the comments of the Board contained in the report as set out below,
b) to note the suggested changes to the risk register which have been incorporated into the risk register report elsewhere on this agenda.

35/22 FUNDING STRATEGY STATEMENT AND THE 2022 VALUATION
(Agenda No. 7)

Robert McInroy and Tom Hoare of Hymans Robertson attended the meeting and presented the report.

Members were provided with a report which set out the high-level results for the whole Fund following the 2022 Valuation, with further work required before the results for the individual scheme employers are available.

The report also set out the revised Funding Strategy Statement which sets the ground rules on which the Valuation is based.

Reference was made to the worsening future economic outlook, particularly in relation to rising inflation, which would impact on the cost of future benefit accrual and was a risk.

RESOLVED – That the position on the 2022 Valuation be noted and approval be given to the draft Funding Strategy Statement and accompanying annexes as the basis of consultation with scheme employers.

36/22 REVIEW OF THE BUSINESS PLAN 2022/23

(Agenda No. 8)

The Committee was provided with an update on progress against the key priorities set out in the Annual Business Plan for 2022/23.

Review and Improve the Scheme's Data

The Committee was informed that three measures of success were amber:

- Data of a standard to support delivery of all service KPIs as reflected in quarterly performance reports – There had been limited work undertaken on developing data for the standard service KPIs to be included in the quarterly performance reports
- No data security breaches reported and Cyber Security Policy is updated (where required) with clear information on roles and responsibilities – There had been two data breaches which were detailed later in the agenda. Members were informed that from analysis undertaken, several gaps in the current approach had been identified, particularly in respect of monitoring compliance with the various policies.

Develop a holistic approach to technology across Pension Administration Services

The Committee was informed that three measures of success were amber. Members were informed that insufficient work has been completed on the project to move the risks against completing this project from Amber.

Progress had been made on the managing of the project and on a time-line which would enable the Committee to make a decision on whether to re-tender the contract or extend the initial arrangements. More work needed to be completed to provide the assurance that the specification could be completed in time to complete the research into what was currently available, and a decision made on the most appropriate way forward.

A full report would be presented to the December Committee.

Enhanced Delivery of Responsible Investment responsibilities

The Service Manager for Pensions, Insurance and Money Management reported that there had been delays in the recruitment for the new Responsible Officer, with the need to go through an appeal process in respect of grade set through the Job Evaluation process.

There were concerns at being able to attract a suitable candidate at the revised grade agreed, but the decision had been made to test the market rather than delay the recruitment process any further.

Reference was made to the work on the engagement policy and improved reporting which was directly tied into the current Climate Change Stocktake exercise being run by Brunel and the Funds in the partnership.

The one area shown as Amber against this objective related to a successful application in respect of the Stewardship Code. This work required the successful appointment of the additional resources, and Members were informed that from other Funds who have already completed the process there was a lot of work involved. It was not possible to confirm the target could be met this financial year.

Deliver improved and consistent service performance to scheme members

The Committee was informed that performance had been improving, however it remained below Service Level Agreement (SLA) targets on a number of measures. With the successful recruiting of additional staffing, performance standards should be increased and brought back into line with the SLA. Reference was made to the new Governance Office who was now in post.

The measure of success around successful management of scheme changes was currently amber as the publication of the long-awaited consultation on the implementation of the Task Force on Climate related Financial Disclosures (TCFD) template had only just been received. The guidance on pooling in general, and the implementation of the McCloud remedy were still outstanding.

The measure of success against the engagement policy with scheme members was also amber which reflected the challenges experienced in this area to date, and the need to appoint to the additional communications officer post to take forward the work to review best practice elsewhere and develop a new Policy for Oxfordshire.

RESOLVED – That the Committee reviewed the progress against each of the key service priorities as set out in the report.

37/22 RISK REGISTER
(Agenda No. 9)

The Committee was presented with a report on the latest position on the Fund's risk register, including any new risks identified since the report to the last meeting.

Reference was made to the request from the Local Pension Board at their meeting on 8 July 2022, that the risks scores for Risks 16 and 17 should be increased until such time the Fund had a comprehensive cyber security policy in place. Therefore, the risk score for both Risk 16 in respect of system failure (potentially through malware) and Risk 17 in respect of data security breaches, have been increased and are now shown as Amber.

There were three Amber risks which related to the skills and knowledge of the key groups involved in the administration of the Pension Fund, namely the Members of this Committee, Members of the Local Pension Board and the Pension Fund Officers.

The Service Manager for Pensions, Insurance and Money Management reported that an email had been sent out to Committee and Board Members to enable the National Knowledge Assessment to be carried out to assess skills and knowledge of Members.

The Chair referred to the impact of staff turnover and the loss of expertise being the main reason for the amber rating of the risk of insufficient skills and knowledge amongst Pension Fund Officers.

RESOLVED – That the latest risk register be noted and the Committee accepts that the risk register covers all key risks to the achievement of their statutory responsibilities, and that the mitigation plans, where required, are appropriate.

38/22 ADMINISTRATION REPORT

(Agenda No. 10)

The report updated the Committee on the key administration issues including service performance measurement, the debt recovery process and any write offs agreed in the last quarter.

Members were updated on staffing within the Team, together with performance. On performance statistics Members were updated that there were 33 admission agreements to be finalised.

The Chair welcomed the listing of complaints and the way they were being dealt with.

In relation to Data Quality, the scores were currently lower than the previous year which was due in part to utilising a new reporting tool which appeared was overstating current data issues. It was expected that these issues would be resolved, and a number of the outstanding data issues would be cleared before the final scores were submitted to the Pension Regulator.

The Committee was informed that there had been little progress in relation to Debt Management as there had been no progress in finding an officer to monitor and chase outstanding payments. Last quarter the total of outstanding invoices reported was incorrect as it excluded amounts due from scheme employers for early release of pension.

Reference was made to pension overpayments following ten deaths in the quarter which could not be recovered. Therefore, the Committee was asked to approve writing off the debt of £37.46.

RESOLVED - (1) That approval be given to the change to wording of the fund's discretionary statement relating to trivial commutation and small pots.

(2) That approval be given to the write off of £37.46 of irrecoverable debt.

39/22 CYBER SECURITY
(Agenda No. 11)

Consideration was given to a report which set out the approach for managing the cyber security risks facing this Committee and how the Committee can monitor the success of this approach.

The Committee was informed that in relation to the Pension Fund, there were cyber security measures in place, however, it was acknowledged that there needed to be better communication with IT and the Fund's suppliers to ensure compliance.

The report contained a number of actions which would take place to ensure the Fund was fully compliant.

Discussion took place on the contents of the report and reference was made to the need of assurance from suppliers. There was discussion on potential breaches and the Committee was assured that such incidents would be reported to the Committee as a matter of urgency.

RESOLVED – That the actions outlined in the report be noted and it was agreed that a further report be submitted to the Committee providing assurances from suppliers of the measures put in place to combat cyber incidents to the Fund.

40/22 ANNUAL REPORT AND ACCOUNTS 2021/22
(Agenda No. 12)

The Committee was asked to note this report presenting the Annual Report and Accounts for the Pension Fund and highlight any issues raised by external audit.

Members were informed that the total for investments in Bonds on page 211 of the agenda pack had been duplicated across both 2021/22 and 2020/21. The correct figure for 2021/22 should be amended to read 80,934.

A Member asked for the reason for the almost £1m additional costs in administration and officers undertook to provide this information.

In relation to liquidity risk, reference was made to Academies which formed a large part of the Pension Fund and the liquidity risk this posed due to shifts in the number of employees. Members were informed that pension deficits associated with academies were underwritten by the Government. The numbers of LGPS members in academy schools did not relate directly to pupil numbers but would vary in line with the decisions of individual Governing Bodies around the mix of teaching and non-teaching staff and the support arrangements for pupils with special education needs. The risk of a significant reduction in LGPS membership as a result of a fall in pupil numbers was not felt to warrant a specific line in the risk register, although consideration could be given to adding a general "Cash Flow" item to the Risk Register.

RESOLVED – That the Committee endorses the Annual Report and Accounts.

41/22 TASKFORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT 2021/22

(Agenda No. 13)

The Committee received a report which set out the performance of the Pension Fund on the Implementation of its Climate Change Policy and the priorities for the forthcoming period.

RESOLVED – (1) That approval be given to the draft Task-Force for Climate-related Financial Disclosures Report 2021/22

(2) That delegated authority be given to the Director for Finance for responsibility for submitting a response to the Government on their recent consultation of future Task-force for Climate-related Financial Disclosures reporting, having first taken the advice of the Climate Change Working Group.

42/22 REPORT OF THE INDEPENDENT INVESTMENT ADVISER

(Agenda No. 14)

The Fund's Independent Investment Adviser submitted a report which provided an overview of the financial markets, the overall performance of the Fund's investments against the Investment Strategy Statement and commentary on any issues related to the specific investment portfolios. The report also included the standard quarterly investment performance monitoring reports.

The Committee was informed that the value of the Fund in the quarter had fallen to £3.05bn, a decrease of £215m compared to the end March value of £3.26bn.

Reference was made to the conflict in Ukraine which was impacting on public markets. With an increasingly inflationary environment, with higher energy and food prices which were driving CPI even higher. Future strategy would have to make provision for the likelihood of a higher level of inflation beyond the short-term outlook.

There were concerns expressed regarding Brunel's lack of transparency concerning the management of their sub-funds, particularly in relation to performance of their managers. Members noted that Brunel held around 80% of Oxfordshire Pension Fund assets and Members requested that Brunel be asked to give the Independent Investment Adviser to the Fund, access to the relevant information. **[Action: Service Manager for Pensions, Insurance, and Money Management]**

The Independent Investment Adviser informed the Committee that in relation to currencies in quarter 3 there would be big differentials. With the strength of the US dollar and the pounds current weakness, there were recession fears, rising living costs, inflation and the threats of public sector strikes. Rising inflation was not good news for the Fund.

In relation to interest rates which were continuing to rise, it was expected that they would continue to rise as the Bank of England try to counter rising inflation.

RESOLVED – (1) That depending on the feedback from Hyman Robertson's knowledge assessment, Brunel be asked to produce a training programme for Fund elected members and others that will provide information about the asset classes that they manage and their processes.

(2) That Brunel be asked to support the forthcoming Strategic Asset Allocation review, to ensure that the Fund's developing requirements can be accommodated.

43/22 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

(Agenda No. 15)

Members were informed that officers had responded to consultation on Climate Action 100+ providing feedback on issues discussed previously by the Committee around asking them to have more focus on companies delivering actual emission reductions, rather than just plans and targets.

Also, suggestions were asked for workstreams and they were asked to look at the Investor State Dispute Settlement process.

The Committee noted the information reported.

.... in the Chair

Date of signing ....

LOCAL PENSION BOARD

MINUTES of the meeting held on Friday, 21 October 2022 commencing at 10.30 am and finishing at 12.30 pm

Present:

Voting Members:	Matthew Trebilcock – in the Chair Alistair Bastin Stephen Davis Elizabeth Griffiths Angela Priestley-Gibbins
Members of Pension Fund Committee in Attendance:	Councillor Bob Johnston Steve Moran
Officers:	Sean Collins (Service Manager Pensions Insurance and Money Management), Sally Fox (Pension Services Manager), Gregory Ley (Financial Manager- Pension Fund Investment), Mukhtar Master (Governance & Communications Manager) and Khalid Ahmed (Law and Governance).

The Board considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

SARAH PRITCHARD

The Board was informed that Sarah Pritchard had resigned from the Board. The Board placed on record their appreciation for the work Sarah had undertaken during her membership of the Board.

33/21 APOLOGIES FOR ABSENCE
(Agenda No. 1)

An apology for absence was submitted by Marcia Slater.

34/21 MINUTES OF THE LAST MEETING
(Agenda No. 3)

The minutes of the meeting held on 8 July 2022 were agreed as a correct record.

35/21 UNCONFIRMED MINUTES OF THE PENSION FUND COMMITTEE - 10 OCTOBER 2022
(Agenda No. 4)

The meeting had before it the draft minutes of the last Pension Fund Committee meeting of 10 October 2022 for consideration. The draft Minutes were noted.

36/21 FUNDING STRATEGY STATEMENT AND 2022 VALUATION
(Agenda No. 5)

The Board considered a report which was considered at the Pension Fund Committee on 10 October 2022. The report set out the high-level results for the whole Fund following the 2022 Valuation, with further work required before the results for the individual scheme employers are available. The report also set out the revised Funding Strategy Statement which sets the ground rules on which the Valuation is based.

The Pension Fund Committee noted the position on the 2022 Valuation and agreed the draft Funding Strategy Statement and accompanying annexes as the basis of consultation with scheme employers.

The Board was informed that the draft version of the Funding Strategy Statement and policies had gone out for consultation and reference was made to the Employer Forum which had taken place where only 20 out of well over 100 employers had been in attendance.

Reference was made to the Board having the core of the document with six satellite policies. In relation to Cessation Risk, there was more flexibility with realistic cessation set.

Discussion took place on the McCloud case, and that every employer would have to pay a premium, although a decision was required on how the costs would be distributed.

The Board was informed that the Actuary reported that the Fund was in a much better position than 3 years ago. Based on a set of single assumption, there was 70% achieving 4.6% return and being 100% funded.

The consultation ended on 18 November and Board Members were asked to submit their comments. The final document would be considered by the Pension Fund Committee in December. Discussions would continue with employers till March.

The report was noted.

37/21 REVIEW OF BUSINESS PLAN 2022/23
(Agenda No. 6)

The Board was provided with an update on progress against the key priorities set out in the Annual Business Plan for 2022/23 which had been reported to the Pension Fund Committee.

Discussion took place on cyber security and the Board was informed that the monitoring arrangements were not robust. A Board Member referred to a recent data breach which had been reported, however, this had been a breach by a third party. The third part had confirmed that the issue had been resolved.

The newly appointed Governance & Communications Manager of the Fund referred to a breach register and that he would ensure that breaches would be reported to the Board.

On holistic approach to technology across the service, there needed to a decision on whether to re-tender the contract or extend the current arrangements. A decision would be sought from the Pension Fund Committee in December with the report also submitted to the January Board meeting.

With regard to Enhanced Delivery of Responsible Investment responsibilities, the Service Manager for Pensions, Insurance and Money Management updated the Board on progress made in the recruitment for the new Responsible Officer. This had taken longer than had hoped although the post was to be advertised shortly.

Discussion took place on Job Evaluation process and the Board was informed that the post was not subject to the County Council Job Evaluations. Reference was made to the Government's requirement on Pension Funds producing a workforce strategy.

It was also noted that there would be a report to the December Pension Fund Committee on Brunel's Change Policy around progress made to date.

On delivering improved and consistent service performance to scheme members, service level agreements had been missed. Performance standards
should be increased and brought back into line with the SLA, subject to successful recruitment.

Draft guidance on TCFD had been received, but we were still awaiting the draft guidance on Pooling and McCloud.

The Board noted the report.

38/21 RISK REGISTER
(Agenda No. 7)

The Board was asked to review the report which presents the latest position on the Fund's risk register, including any new risks identified since the report to the last meeting of the Pension Fund Committee.

The Board noted that the requests made to the Pension Fund Committee to consider the risks scores for Risks 16 and 17 should be increased until such time the Fund had a comprehensive cyber security policy in place were accepted.

It was noted that the Risk score on 16 and 17 should be 8 and not 4.

In relation to Risk 21 - Insufficient Resource and/or Data to comply with consequences of McCloud Judgement, the impact on the resources was not known as the Government guidance was still awaited. Discussion took place on the delivery of it and whether there should be two parts to Risk 21. It was acknowledged that this would take some resource.

The report was noted.

39/21 ADMINISTRATION REPORT

(Agenda No. 8)

The Board was asked to review the report which updated the Pension Fund Committee at its meeting on 10 October 2022 on the key administration issues including service performance measurement, the debt recovery process and any write offs agreed in the last quarter.

The Board was updated on staffing and was informed that one of the successful administrative assistant applicants had pulled out.

In response to a question, the Board was informed that communication took place with deferred Members with a deferred Members newsletter.

In relation to paragraph 17 on the latest figures in respect of the data quality scores, officers said they would update the detail in the report as the percentage figure of the records without a fail of the total records tested was incorrect in the report.

The Board noted the report and that the Pension Fund Committee agreed the change to wording of the fund’s discretionary statement relating to trivial commutation and small pots and also agreed to write off £37.46 of irrecoverable payroll adjustments.

40/21 CYBER SECURITY

(Agenda No. 9)

The Board was asked to review the report which Pension Fund Committee considered which set out the approach for managing the cyber security risks facing the Committee and how the Committee can monitor the success of this approach.

A Board Member expressed concern regarding data, particularly Members’ data which was held by third parties such as suppliers. The report did not have any details on this, particularly around the security of the data and how it was being looked after by third parties. The Pension Services Manager reported that she would obtain information on this and include this assurance in the report to the Pension Fund Committee.

Reference was made to AVC data breach, was there a report of what happened, were the correct processes followed. The Pension Services Manager reported that as soon as she was made aware of the data breach it was reported on-line and the correct procedures were followed.

The Board asked for assurance that the correspondence detail on this breach be circulated to Board Members.

A question was asked on whether there were performance data on how third parties dealt with data security. The Chair asked that an item as part of the Administration Report include cyber security and penetration testing. The Pension Fund Committee would also receive this information at its next meeting.

The Board noted the report and that an update on cyber security would come back to the next Board meeting.

41/21 TASKFORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

(Agenda No. 10)

The Board was asked to review the report which set out the performance of the Pension Fund on the Implementation of its Climate Change Policy and the priorities for the forthcoming period.

The Board noted the report and that the Pension Fund Committee approved the draft Task-Force for Climate-related Financial Disclosures Report 2021/22, and delegated to the Director for Finance responsibility for submitting a response to the Government on their recent consultation of future Task-force for Climate-related Financial Disclosures reporting, having first taken the advice of the Climate Change Working Group.

.... in the Chair

Date of signing ....

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The Division(s): n/a

PENSION FUND COMMITTEE – 2 DECEMBER 2022

REPORT OF THE PENSION BOARD

Report by the Independent Chairman of the Pension Board

RECOMMENDATION

The Committee is RECOMMENDED to note the comments of the Board as set out below,

Introduction

1. This report is part of the process by which the Local Pension Board works with the Committee in fulfilling its duty to support the work of the Committee and ensure that the Committee delivers its responsibilities in line with the regulatory framework. The report covers the key issues discussed by the Board and any matters that the Board wishes to draw to the attention of the Committee.

2. This report reflects the discussions of the Board members at their meeting on 21 October 2022. The virtual meeting was attended by Matthew Trebilcock as the independent Chairman, and four of the voting members of the Board. Cllr Bob Johnston attended in his role as Chair of the Pension Fund Committee to facilitate the improved working relationship between the Committee and Board, and the meeting was observed by Steve Moran. Apologies were received from Marcia Slater, and the Board were informed of the resignation of Sarah Pritchard. The process to appoint a new scheme member representative was being kicked off at the time of writing this report.

Matters Discussed and those the Board wished to bring to the Committee's Attention

3. The Board were introduced to Mukhtar Master, the new Governance and Communications Manager who will be a key point of contact for the Board members going forward. It was explained that Mukhtar's role closely mirrored the responsibilities of the Board, focusing on the governance of the Fund and compliance with scheme Regulations, as well as the communications with all key stakeholders.

4. The Board then considered a number of reports as presented to the last meeting of the Pension Committee. These were the report on the Funding Strategy Statement and 2002 Valuation, the review of the Annual Business Plan, the Risk Register, the Administration report, the report on Cyber Security and the Taskforce on Climate-related Financial Disclosures report.

5. Whilst the Board had a detailed discussion on each of the reports, in each case they were happy with the approach taken to the report by the Pension Fund Committee and determined not to offer any specific feedback.

6. The Board finished their meeting with their normal discussion on what items over and above the standard reports they wished to receive at their next meeting and determined that they wished to receive a report on the current approach to scheme member engagement and any options for seeking to improve the current levels of engagement.

Matthew Trebilcock
Independent Chairman of the Pension Board

Contact Officer: Sean Collins
Tel: 07554 103465

November 2022

Division(s): n/a

PENSION FUND COMMITTEE – 2 DECEMBER 2022

REVIEW OF THE BUSINESS PLAN 2022/23

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to

a) review progress against each of the key service priorities as set out in the report;
b) agree any further actions to be taken to address those areas not currently on target to deliver the required objectives;
c) note the provisional results from the National Knowledge Assessment and
d) agree to hold a 2023/24 Business Planning session on the morning of Friday 3 February 2023.

Introduction

1. This report sets out the latest progress against the key service priorities set in the business plan for the Pension Fund for 2022/23 as agreed by the March meeting of this Committee.

2. The key objectives for the Oxfordshire Pension Fund as set out in the Business Plan for 2022/23 remain consistent with those agreed for previous years. These are summarised as:
   - To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensons Regulator
   - To achieve a 100% funding level
   - To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
   - To maintain as near stable and affordable employer contribution rates as possible.

3. The service priorities for the year do not include the business-as-usual activity which will continue alongside the activities included in the service priorities. Business as usual activities are monitored as part of the Administration Report and the report on Investment Performance.

4. The report also includes the provisional results from the 2022 National Knowledge Assessment run by Hymans Robertson, which sets out the scores for this Committee and the Pension Board against the 8 key pillars of the CIPFA knowledge and skills framework.

Key Service Priorities – Progress to Date

5. There were 4 service priorities included in the 2022/23 Plan each with a number of key measures of success. The latest position on each is set out in the paragraphs below. The assessment criteria agreed by the previous Committee for each measure of success is as follows:

- Green – measures of success met, or on target to be met
- Amber – progress made, but further actions required to ensure measures of success delivered, or degree of progress/future requirements unclear
- Red – insufficient progress or insufficient actions identified to deliver measures of success

6. Review and Improve the Scheme's Data The position against the 5 agreed measures of success are set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Data Quality scores submitted to the Pension Regulator within acceptable bounds and no follow up action. GREEN	Scores now submitted to the Pension Regulator – common data score is 94.8%, which is slightly down on last year. Scheme specific score is 98.2% up on last year.	Continue to review issues with common data, largely missing member addresses.
Valuation completed with data signed off as fit for purpose and scheme employers raising no concerns with outcome. GREEN	Data File Submitted to Actuary. Initial Whole Fund Results Received Draft results issued to scheme employers.	
Data of a standard to support delivery of all service KPI's as reflected in quarterly performance reports. AMBER	Limited development of reports to date.	More extensive use of new Insights Reporting tool to deliver full suite of performance reports and enable data quality to be assessed.
No data security breaches reported. AMBER	One issue of a personal data breach by one of the Fund's third party suppliers.	Breaches Policy to be reviewed
Cyber Security Policy is updated (where required) with clear information on roles	Report on approach to Cyber Security produced.	Action Plan to be delivered.

and responsibilities. AMBER	Gap Analysis undertaken and Action Plan developed	

7. Since the last report, we have issued our data quality scores to the Pension Regulator. On the scheme specific data, we have seen an improvement in score to 98.2%. The score for the common data reduced slightly to 94.8% with the majority of errors relating to missing home addresses for scheme members. Whilst we have reasonably robust processes to ensure that the addresses of active scheme members are kept up to date, there is limited actions the Fund can take where deferred members move house and do not provide us with a new address – only identified when the postal service returns new correspondence. It is hoped that the introduction of the national Pensions Dashboards will increase awareness of pension provision and make it easier for scheme members to keep track of all pension benefits and how to keep their details up to date.

8. Since the last meeting, we have continued to work with the Fund Actuary to release draft valuation results to individual scheme employers. The process is indicating no significant issues with the member data on which the valuation results are based.

9. We have not made any real progress on developing data for the standard service kpi's to be included in the quarterly performance reports, so the risk level against this outcome is still showing as Amber. We are looking to identify the resources needed to complete this work by the end of the financial year.

10. The issues around cyber risk and data security have been covered in more detail at the last Committee and in a further report on today's agenda with reference to the controls a in place in respect of our third-party suppliers. The score has been retained as Amber in light of the breaches already reported this year, and the need to strengthen the monitoring arrangements in respect of the wider cyber risks.

11. Develop a holistic approach to technology across Pension Administration Services. There were 3 specific measures of success set out in the 2022/23 Business Plan in respect of this priority. The progress against these in set out in the table below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Committee Decision on whether to extend current contract and tender for bolt on solutions as appropriate to deliver full specification, or to run full tender exercise for single holistic solution. GREEN	Key Requirements of system identified. Review completed of current offerings on the LGPS National Procurement Framework and decision to extend current contract	Set out a programme of work to maximise use of the current system software.

	considered elsewhere on today's agenda.	
Tender project plans agreed consistent with the end date of the current system contract. GREEN	No longer applicable (subject to agreement of recommended approach elsewhere on today's agenda).	
Clear targets established for increase in on-line completion of services. AMBER		Review of current functionality of existing software, and re-design processes to maximise the potential for on-line submission of paperwork and benefit requests.

12. A full report on the future use of technology is included elsewhere on today's agenda. In summary, that report recommends an extension of the current software contract, a further investigation into the benefits of running a smaller procurement option to deliver a standalone employer database, and a review of our current policies and procedures and use of the existing software to ensure it is being used to the maximum potential. The decision not to run a full procurement exercise at this time means that the overall score for this objective has been switched from amber to green.

13. <u>Enhanced Delivery of Responsible Investment responsibilities.</u> There were 5 measures of success set for this service priority within the Business Plan, and progress against these measures is set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
RI Officer in post GREEN	Job Description and grade agreed. Recruitment process initiated.	Appointment agreed.
Engagement Policy signed off and reflected in overall Engagement Policy agreed by Brunel Pension Partnership. GREEN	Policy signed off at the June committee. Policy shared with colleagues within Brunel, and confirmation that broadly in line with Brunel's preferred approach.	On-going discussions with Brunel and partner funds to develop single Brunel approach.
Improved quarterly reporting in place to	Initial presentation by Brunel of new reporting	Need to work alongside Brunel to draft new

both Committee and on Fund webpages, including wider ESG targets and performance measures, reflected in positive feedback from all stakeholders. GREEN	being developed for the Private Markets.	reports to ensure they meet our requirements. Appointment of new RI and Communication resources to enable development of website reporting.
Successful application in respect of Stewardship Code. RED		Appointment of new Responsible Investment Officer. Full application completed and submitted
Revised Funding Strategy Statement and Investment Strategy Statement including revised Strategic Asset Allocation signed off at March 2023 Committee. GREEN		To be reviewed alongside 2022 Valuation.

14. There have been on-going delays in the recruitment for the new Responsible Officer, with the need to go through an appeal process in respect of grade set through the Job Evaluation process. There remains a concern that we will not be able to attract a suitable candidate at the revised grade agreed, and we are looking to work with colleagues in HR to explore the grades being paid in respect of similar positions elsewhere in the LGPS with a view to agreeing a market supplement to make the pay competitive.

15. The work on the engagement policy and improved reporting is directly tied into the current Climate Change Stocktake exercise being run by Brunel and the Funds in the partnership. What is clear from the discussions is that there is a strong level of consensus around these issues, and the expectation is that these will be prioritised as part of the future work programme for Brunel.

16. In light of the on-going delays in the appointment of the Responsible Investment Officer and the known level of work in completing an application in support of the Stewardship Code, this objective has now been scored red, as it is not feasible to undertake the work this year.

17. <u>Deliver improved and consistent service performance to scheme members.</u> Progress against the 3 measures of success for this service priority are set out below.

Measure of Success	Key Progress Achieved	Outstanding Actions
Services delivered to SLA Standards	Performance figures for the first 7 months	Recruit additional staff.

consistently throughout the year. RED	show a number of areas below SLA targets.	Clear remaining backlog of work.
All services delivered in line with regulatory guidance with scheme changes implemented in accordance with stipulated timescales. AMBER		Final guidance received from Government on TCFD, Pooling and McCloud. Review of current arrangements and data against new requirements. Action Plan developed, additional resources required and plan delivered.
Scheme Member Engagement Policy adopted and positive feedback collected from scheme members. AMBER		New communications Officer appointed. Review of what scheme member engagement has worked well elsewhere. Engagement Policy developed and implemented.

18. The Administration report elsewhere on today's agenda presents the latest performance information and shows that whilst performance has been steadily improving, it does remain below the Service Level Agreement (SLA) targets on a number of measures. As the objective for this year was to deliver consistent service at target or above every month, we have scored this indicator red. Going forward, if we are successful in recruiting the additional staffing as set out within the Administration report elsewhere on today's agenda, performance standards should be increased and brought back into line with the SLA.

19. The measure of success around successful management of scheme changes is currently amber as we are still awaiting the publication of the long-promised consultation papers from the Government. The outstanding publications includes guidance on pooling in general, and the implementation of the McCloud remedy In the absence of the detailed guidance it is not possible to assess the level of work involved and whether we have sufficient staffing to complete it, and whether we have all the data we need from scheme employers, and other LGPS Funds where scheme members have transferred into Oxfordshire during the transition period of 2014 to 2022.

20. Following the appointment of the new Governance and Communicatiions Manager, work on the approach to scheme member engagement has started,

with a view to establish best practice elsewhere and develop a new Policy for Oxfordshire. It is expected that a report will go to the meeting of the local Pension Board in January and on to this Committee in March. At this stage we have left the rating for this objective as Amber, until we are clearer on the gap between our existing approach and what will be recommended as our best practice approach going forward.

Budget 2022/23

21. Part C of the Business Plan sets out the Fund's budget for 2022/23 which totals £17,720,000. The table below shows the latest information of expenditure to date and the estimated end of year position. This suggests an underspend of £241,000 over the course of the financial year.

	Budget	YTD	%	Forecast Outturn	Variance
	2022/23	**2022/23**		**2022/23**	**2022/23**
	£'000	**£'000**		**£'000**	**£'000**
Administrative Expenses					
Employee Costs	1,403	633	45%	1,303	-100
Support Services Including ICT	886	411	46%	886	0
Printing & Stationary	82	20	25%	82	0
Advisory & Consultancy Fees	315	12	4%	315	0
Other	58	6	8%	58	0
Total Administrative Expenses	**2,744**	**1,082**	**39%**	**2,644**	**-100**
Investment Management Expenses					
Management Fees	12,836	6,003	47%	12,750	-86
Custody Fees	40	15	38%	40	0
Brunel Contract Costs	1,160	879	76%	1,160	0
Total Investment Management Expenses	**14,036**	**6,897**	**49%**	**13,950**	**-86**
Oversight & Governance					
Investment Employee Costs	405	137	34%	350	-55
Support Services Including ICT	12	0	0%	12	0
Actuarial Fees	190	146	77%	190	0
External Audit Fees	50	0	0%	50	0
Internal Audit Fees	16	0	0%	16	0

Advisory & Consultancy Fees	135	23	17%	135	0
Committee and Board Costs	63	14	23%	63	0
Subscriptions and Memberships	69	9	12%	69	0
Total Oversight & Governance Expenses	**940**	**329**	**35%**	**885**	**-55**
Total Pension Fund Budget	**17,720**	**8,308**	**47%**	**17,479**	**-241**

22. The main factor contributing to the underspend is the delays in the recruitment of staff across the service. The underspend will grow if there are any further delays in the recruitment process.

23. The other area of underspend is on investment management fees where we are currently estimating a small saving of £86,000. As fees are directly related to the assets under management, there is a high degree of volatility in this fee figure in line with the volatility seen in the financial markets.

Training Programme

24. Part D of the Business Plan sets out the Training Plan for Committee and Pension Board Members. Training sessions associated with the 2022 Valuation have been built into the timetable for this year including the pre-committee training this morning.

25. Members recently completed this year's National Knowledge Assessment undertaken by Hymans Robertson. Hymans are currently processing the analysis of the results which will include a comparison to the scores in the previous exercise and a comparison to the results of the other Committees and Boards who completed the assessment. This will allow us to assess the impact of training delivered to date and allow an assessment of the future training needs of the Committee and Pension Board, both collectively at for individual members.

26. It is hoped to be able to circulate the 2022 report in advance of the committee meeting although a fuller assessment of the training provision will need to await the meeting in March.

Business Plan 2023/24 Process

27. Following one of the recommendations of the Independent Governance Review undertaken by Hymans Robertson, the process for agreeing the 2022/23 Business Plan included a half day session for members of both the Committee and Board where the priorities for the forthcoming year were discussed and agreed.

28. The day worked well and provided members with the opportunity to spend time to review in depth the various issues facing the Fund in the forthcoming year. It is recommended that we follow the same process this year in developing the 2023/24 business plan, and have identified the morning of Friday 3 February to hold the session, facilitated again by Hymans Robertson.

Lorna Baxter
Director of Finance

Contact Officer
Sean Collins
Tel: 07554 103465

November 2022

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Division(s): n/a

PENSION FUND COMMITTEE – 2 DECEMBER 2022

RISK REGISTER

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the latest risk register and accept that the risk register covers all key risks to the achievement of their statutory responsibilities, and that the mitigation plans, where required, are appropriate.**

Introduction

2. Previously, the Committee has agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report also goes to each meeting of the Pension Board for their review. Any comments from the Pension Board are included in their report to this meeting.

3. The risk register sets out the current risk scores in terms of impact and likelihood, and a target level of risk and a mitigation action plan to address those risks that are currently not at their target score. This report sets out any progress on the mitigation actions agreed for those risks not yet at target and identifies any changes to the risks which have arisen since the register was last reviewed.

4. A number of the mitigation plans are directly linked to the key service priorities identified in the Annual Business Plan. This report should therefore be considered in conjunction with the business plan report elsewhere on this agenda.

Comments from the Pension Board

5. At their meeting on 21 October 2022, the Pension Board considered the latest risk register and there were no comments to feedback.

Latest Position on Existing Risks/New Risks

6. Risk 15 is in relation to Fund officers having sufficient skills and knowledge to carry out their roles effectively. Unfortunately, the Fund are struggling to ensure that posts are adequately graded and are consistent with other LGPS funds. The consequence of this is that it is negatively affecting the recruitment and retention of good staff. The Fund are working closely with HR, however are constrained by local authority practices. This problem is an industry-wide issue, which will require a particular focus, due to Central Governments requirement for Funds to produce a Workforce Strategy as part of the 'Good Governance'

Project, sometime during 2023. The risk rating has increased from an Amber 6, to a high risk Red 12.

7. The only other risk where the risk rating has been amended is with regards to Risk 23 – 'Loss of strategic direction'. This has been reduced to target with the recruitment of the Governance & Communications Manager.

8. Five other risks on the current risk register remain at Amber. Two of the Amber risks relate to the skills and knowledge of the Pension Fund Committee and the Local Pension Board. Both the Committee and Board members have completed the National Knowledge Assessment and the results are presented on another paper to this Committee meeting. It is proposed that a training plan is presented to the next Pension Fund Committee meeting in the new year.

9. Actions are set out in the risk register for the other three risks which are still assessed as Amber, namely:

   a. Risk 16 – Key system Failure.
   b. Risk 17 – Breach of Data Security.
   c. Risk 21 - Insufficient Resource and/or Data to comply with consequences of McCloud Judgement

Future Development of the Fund Risk Register

10. Effective risk management is vitally important for any pension fund, particularly at time where there is much political, financial and economic uncertainty. As a consequence, the following is being recommended to enhance the risk management processes and reporting:

    a. Develop a Risk Management Framework for the Fund;
    b. Report on 'Emerging Risks', which can then subsequently drop off the register if deemed unnecessary or be incorporated as an inherent risk to the Fund;
    c. Develop a 'heat-map' which visually and easily show all risks for the fund and their impact rating;

11. It is proposed that the above is developed and presented to the Committee during the course of 2023.

Lorna Baxter
Director of Finance

Contact Officer: Mukhtar Master
Tel: 07732 826419 November 2022

Risk Register

Identification of Risks:

These are the risks that threaten the achievement of the Pension Fund's objectives. Risks have been analysed between:

- Funding, including delivering the funding strategy;
- Investment;
- Governance
- Operational; and
- Regulatory.

Key to Scoring

	Impact	Financial	Reputation	Performance
5	Most severe	Over £100m	Ministerial intervention, Public inquiry, remembered for years	Achievement of Council priority
4	Major	Between £10m and £100m	Adverse national media interest or sustained local media interest	Council priority impaired or service priority not achieved
3	Moderate	Between £1m and £10m	One off local media interest	Impact contained within directorate or service priority impaired.
2	Minor	Between £100k and £500k	A number of complaints but no media interest	Little impact on service priorities but operations disrupted
1	Insignificant	Under £100k	Minor complaints	Operational objectives not met, no impact on service priorities.

Likelihood

4	Very likely	This risk is very likely to occur (over 75% probability)
3	Likely	There is a distinct likelihood that this will happen (40%-75%)
2	Possible	There a possibility that this could happen (10% - 40%)
1	Unlikely	This is not likely to happen but it could (less than 10% probability)

RAG Status/Direction of Travel

	Risk requires urgent attention
	Risks needs to be kept under regular review
	Risk does not require any attention in short term
↑	Overall Risk Rating Score is Increasing (Higher risk)
↔	Risk Rating Score is Stable
↓	Overall Risk Rating Score is Reducing (Improving Position)

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	**Likelihood**	**Score**				**Impact**	**Likelihood**	**Score**		
1	Investment Strategy not aligned with Pension Liability Profile	Financial – Business as Usual	Pension Liabilities and asset attributes not understood and matched.	Long Term - Pension deficit not closed.	Service Manager	Triennial Asset Allocation Review after Valuation.	4	1	4	↔			4	1	4	November 2022	At Target
2	Investment Strategy not aligned with Pension Liability Profile	Financial – Business as Usual	Pension Liabilities and asset attributes not understood and matched.	Short Term –Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	4	1	4	↔			4	1	4	November 2022	At Target
3	Investment Strategy not aligned with Pension Liability Profile	Financial – Business as Usual	Poor understanding of Scheme Member choices.	Long Term - Pension deficit not closed. Short Term –Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	3	1	3	↔			3	1	3	November 2022	At Target
4	Under performance of asset managers or asset classes	Financial – Business as Usual	Loss of key staff and change of investment approach at Brunel or underlying Fund Managers.	Long Term - Pension deficit not closed.	Financial Manager	Quarterly assurance review with Brunel. Diversification of asset allocations.	3	2	6	↔			3	2	6	November 2022	At Target
5	Actual results vary to key financial assumptions in Valuation	Financial – Business as Usual	Market Forces	Long Term - Pension deficit not closed.	Service Manager	Actuarial model is based on 5,000 economic scenarios, rather than specific financial assumptions.	3	2	6	↔			3	2	6	November 2022	At Target
6	Under performance of pension investments due to ESG factors, including climate change.	Financial – Business Plan Objective	Failure to consider long term financial impact of ESG issues	Long Term - Pension deficit not closed.	Financial Manager	ESG Policy within Investment Strategy Statement requiring ESG factors to be considered in all investment decisions. The Fund have a Climate Change Policy and implementation plan.	4	1	4	↔			4	1	4	November 2022	At Target.

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
7	Loss of Funds through fraud or misappropriation.	Financial – Business as Usual	Poor Control Processes within Fund Managers and/or Custodian	Long Term - Pension deficit not closed	Financial Manager	Review of Annual Internal Controls Report from each Fund Manager. Clear separation of duties.	3	1	3	↔			3	1	3	November 2022	At Target
8	Employer Default – LGPS	Financial – Business as Usual	Market Forces, increased contribution rates, budget reductions.	Deficit Falls to be Met by Other Employers	Pension Services Manager	All new employers set up with ceding employing under-writing deficit, or bond put in place.	3	2	6	↔			3	2	6	November 2022	At Target
9	Inaccurate or out of date pension liability data – LGPS and FSPS	Financial & Administrative – Business Plan Objective	Late or Incomplete Returns from Employers	Errors in Pension Liability Profile impacting on Risks 1 and 2 above.	Pension Services Manager	Monitoring of Monthly returns	3	1	3	↔			3	1	3	November 2022	At Target
10	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative – Business Plan Objective	Late or Incomplete Returns from Employers	Late Payment of Pension Benefits.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	3	1	3	↔			3	1	3	November 2022	At Target
11	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative – Business Plan Objective	Late or Incomplete Returns from Employers	Improvement Notice and/or Fines issued by Pension Regulator.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	4	1	4	↔			4	1	4	November 2022	At Target
12	Insufficient resources from Committee to deliver responsibilities- – LGPS and FSPS	Administrative – Business as Usual	Budget Reductions	Breach of Regulation	Service Manager	Annual Budget Review as part of Business Plan.	4	1	4	↔			4	1	4	November 2022	At Target
13	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance – Business Plan Objective	Poor Training Programme	Breach of Regulation. Loss of Professional Investor Status under MIFID II	Service Manager	Training Review	4	2	8	↔	Undertake skills and knowledge gap analysis – completed by all committee members.	February 2023	4	1	4	November 2022	Review in light of second set of National Knowledge Assessment scores at December 2022 Committee.

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
14	Insufficient Skills and Knowledge amongst Board Members	Governance – Business Plan Objective	Turnover of Board membership	Insufficient Scrutiny of work of Pension Fund Committee leading to Breach of Regulations	Service Manager	Training Policy	4	2	8	↔	Undertake skills and knowledge gap analysis – completed by all members of the Board.	February 2023	4	1	4	November 2022	Review in light of scores from second National Knowledge Assessment.
15	Insufficient Skills and Knowledge amongst – LGPS and FSPS Officers.	Administrative – Business as Usual	Poor Training Programme and/or high staff turnover. Pay grades not reflecting market rates and affecting recruitment and retention.	Breach of Regulation. Errors in Payments and ineffective scheme member engagement. Inability to effectively meet RI and Climate related objectives.	Service Manager	Training Plan. Control checklists. Use of staff from 3rd party agencies	3	4	12	↑	Complete recruitment/procurement of additional staff. Urgent piece of work with HR to support payment of Market Supplements and ensuring appropriate pay grades for new posts – pending the Workforce Strategy required next year as part of the 'Good Governance' Project from Central Government.	February 2023	3	1	3	November 2022	Proposed Business Plan for 2022/23 depends on appointment of a number of new posts.
16	Key System Failure – LGPS and FSPS	Administrative – Business as Usual	Technical failure	Inability to process pension payments	Pension Services Manager	Disaster Recovery Programme, and Cyber Security Policy	4	2	8	↔	Complete Actions identified in review of approach to Cyber Security	February 2023	4	1	4	November 2022	Gaps in monitoring of compliance identified in review of approach to cyber security, which suggests risks not fully mitigated
17	Breach of Data Security – LGPS and FSPS	Administrative – Business as Usual	Poor Controls	Breach of Regulation, including GDPR	Pension Services Manager	Security Controls, passwords etc. GDPR Privacy Policy and Cyber Security Policy.	4	2	8	↔	Complete actions identified in review of approach to Cyber Security. Review the Fund Breaches Policy.	February 2023	4	1	4	November 2022	Gaps in monitoring of compliance identified in review of approach to cyber security, which suggests risks not fully mitigated
18	Failure to Meet Government Requirements on Pooling	Governance – Business Plan Objective	Inability to agree proposals with other administering authorities.	Direct Intervention by Secretary of State	Service Manager	Full engagement within Brunel Partnership	5	1	5	↔	Review once Government publish revised pooling guidance.	TBC	5	1	5	November 2022	At Target

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			RAG Status and Direction of Travel	Further Actions Required	Date for completion of Action	Target Risk Rating			Date of Review	Comment
							Impact	Likelihood	Score				Impact	Likelihood	Score		
19	Failure of Pooled Vehicle to meet local objectives	Financial – Business Plan Objective	Sub-Funds agreed not consistent with our liability profile.	Long Term - Pension deficit not closed	Service Manager	Full engagement within Brunel Partnership	4	1	4	↔		On-going	4	1	4	November 2022	At Target
20	Significant change in liability profile or cash flow as a consequence of Structural Changes	Financial – Business as Usual	Significant Transfers Out from the Oxfordshire Fund, leading to loss of current contributions income.	In sufficient cash to pay pensions requiring a change to investment strategy and an increase in employer contributions	Service Manager	Engagement with key projects to ensure impacts fully understood	4	1	4	↔	Need to Review in light of current Government consultation to switch HE and FE employers to Designating Bodies, and potential reclassification and introduction of a Government guarantee.	TBC	4	1	4	November 2022	At Target
21	Insufficient Resource and/or Data to comply with consequences of McCloud Judgement	Administrative – Business Plan Objective	Significant requirement to retrospectively re-calculate member benefits	Breach of Regulation and Errors in Payments	Pension Services Manager	Engagement through SAB/LGA to understand potential implications and regular communications with scheme employers about potential retrospective data requirements.	4	3	12	↔	Signed up with the LGPS Framework. Now in procurement process to get additional resource to support the McCloud Project.	On-Going	2	2	4	November 2022	Awaiting Government response to consultation exercise on new Regulations to assess full impact.
22	Legal Challenge on basis of age discrimination in Firefighters Pension Schemes	Legal & Administrative – Business Plan Objective	Pressure from Fire Brigades Union to act in advance of new Regulations	Court Order to deliver remedy	Pension Services Manager	Seeking to follow consistent approach in line with Scheme Advisory Board guidance.	4	1	4	↔			4	1	4	November 2022	At Target.
23	Loss of strategic direction	Governance – Business Plan Objective	Loss of key person	Short term lack of direction on key strategic issues	Director of Finance	Governance & Communications Manager has started and as a consequence provides resilience to the team.	2	1	2	↔			2	1	2	November 2022	At Target.

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Agenda Item 9

The Division(s): n/a

ITEM

PENSION FUND COMMITTEE – 2 DECEMBER 2022

FUNDING STRATEGY STATEMENT

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to

a) review the responses to the consultation exercise,
b) amend the draft documents to specify a standard likelihood of 90% for cessation calculations, and
c) approve the final version of the Funding Strategy Statement to support the 2022 Valuation exercise.

Introduction

1. At the delayed Committee meeting in October, the Committee considered the draft Funding Strategy Statement which have been produced by Hymans Robertson alongside officers from the Fund. The document sets out the key principles as agreed by the Fund, to set the framework for the 2022 Valuation exercise.

2. It was noted that whilst there had not been significant changes to the principles as set out in the document, there had been a significant change to the way the document was presented, which involved a slimmed down version of the Funding Strategy Statement itself, with some of the more detailed arrangements removed and included in standalone policy documents.

3. Under the Local Government Pension Scheme Regulations 2013, any significant change to the Funding Strategy Statement was to be subject to consultation with the Funds key stakeholders. Due to the delay in the Committee Meeting following the death of the Queen, the Chairman of the Committee had agreed that the consultation exercise could be launched in advance of the Committee consideration of the draft papers to ensure there was sufficient time to complete the consultation and report the results back to this Committee. In the event the Committee made no changes ot the draft documents.

Consultation Results

4. The consultation exercise was launched on 6 October 2022 with a closing date of 18 November 2022. A copy of the consultation letter is included as Annex 1 to this report.

5. The regular forum for scheme employers held on 19 October 2022 was devoted to the consultation, and those scheme employers in attendance received a presentation which covered the purpose of the Funding Strategy Statement, the key changes made in this latest version and the 10 questions set out in the consultation letter and the information relevant to each question.

6. By the close of the consultation period, 8 responses had been submitted. These came from the following scheme employers:

- Oxford City Council
- Single Response on behalf of South Oxfordshire District Council and Vale of White Horse District Council
- A2 Dominion
- Aspirations Academy
- The Pope Francis Catholic Multi Academy Company
- Oxfordshire Local Enterprise Partnership
- The Thera Trust
- Community Integrated Care

7. Two further responses were received on Monday 21 November as this report was being finalised. These came from:

- Abingdon & Witney College
- Yorkshires Cleaning Services

8. The responses were largely supportive in nature of the proposed changes. More detail on the responses to each of the 10 consultation questions is set out below. Three of the responses received indicated support to the proposed documents as a whole and did not provide responses to the specific questions.

Q1. Do respondents agree that the structural changes to the documents have improved the accessibility, readability and useability of the documents?

6 of the 7 responses explicit agreed with the statement as set out in the question. The final respondent only provided a response in respect of question 5

Q2. Is there an appropriate split between the high-level principles and policies set out in the core document which will require formal consultation to change, and the detailed arrangements set out in the satellite policy documents which can be amended at the discretion of the Pension Fund Committee?

4 of the respondents who provided a specific answer to this question indicated their agreement. One respondent supported the change but felt only time would tell if the split was fully appropriate and emphasized the need to keep the core document under review. The final response was broadly supportive but felt that there was still potential to simplify the

core document further by moving part of the detailed risk assessment to an appendix or a standalone document.

Q3. Do you support the use of a risk-based approach utilising a standard time horizon and variable level of certainty as the basis for future contribution calculations? If not, please provide details of proposed alternative approach and reasoning for decision.

5 of the 6 respondents who provided a specific answer to this question, supported the change in approach to using a standard time period, with one of these responses noted it provided greater clarity and allowed for better comparisons to be drawn between the position of the various employers within the Fund. The final response raised the question of whether the recovery period should be varied in line with the size of any deficit to ensure that rates could be held as stable as possible.

Q4. Do you support the additional flexibility included in the Funding Strategy Statement in respect of the funding of FE Colleges?

3 of the respondents supported the additional flexibility whereas 3 others felt the question was not applicable to them as they were not an FE College. The one FE College who did respond to the consultation was supportive of the approach as a whole and welcomed the recognition of the reduction of risk in the event that ONS changed the classification of the FE Sector.

Q5. Do you support the risk-based approach to cessation valuations as an alternative to the current low risk, gilts only basis?

This question generated the greatest comment. All responses were generally supportive. One felt that whilst the approach was potentially fairer, it had the disadvantage of being less transparent, being linked to the complex risk model rather than the old simple model based on gilt yields, and therefore making it difficult for the exiting employer to verify their cessation charge. This response also raised questions on the degree to which the Fund was able to verify the appropriateness of the assumptions used within the model by the Actuary. Finally, this response pointed out that the draft document left the level of risk to be accepted above the level of risk within the on-going was not specified in the draft Statement and felt this should be included in the final document. A second respondent also wished to see a minimum level of risk above the on-going rate to be set out in the final published version, with any decision to vary this downwards to be subject to further consultation to ensure fairness to the remaining scheme employers within the Fund. A third response though felt that there should be a degree of flexibility in the additional level of risk to be applied to allow for the difference circumstances of the exiting employer and the reasons behind their exit.

Q6. Do you support the decision to base the Funding Strategy Statement on a single investment strategy?

All 6 specific responses to this question supported the decision to maintain a single investment strategy.

Q7. Do you support the decision not to make explicit insurance arrangements for ill-health costs with the Funding Strategy Statement and leave it to the individual employers to make their own arrangements if they so wish (noting the indirect mitigations provided by pooler all smaller employers)?

All 6 specific responses to this question supported the current position, with one response making it clear that they felt it was a scheme employer responsibility to make any additional arrangements.

Q8. Do you support the removal of the requirement to explicitly disclose any additional costs associated with the McCloud remedy from the Funding Strategy Statement?

All responses supported the removal of an explicit disclosure on the costs of McCloud, although one respondent did request that the costs would be disclosed under separate arrangements.

Q9. Do you support the approach that the risks associated with climate change can be incorporated into the wider risks associated with the management of the Fund and as such no explicit approach needs to be set out with the Funding Strategy Statement?

All 6 specific responses supported the position not to include explicit allowance for climate change, but one recommended this position is kept under review given the levels of uncertainty in this area.

9. None of the respondents provided any further comments under question 10 which allowed for any comments on the Funding Strategy Statement not explicitly covered under the consultation questions.

10. The key question arising for this Committee is therefore what further clarifications if any should be added to the proposed arrangements for the calculation of future cessation deficits or surpluses.

11. It is accepted that the draft documents will be improved by the inclusion of a specific approach to the calculation of cessation amounts. It is proposed therefore to amend section D5 in Appendix D to the core Statement to specify that the likelihood score for a low-risk cessation calculation will normally be set at 90%. It is accepted that in exceptional cases, the Fund does need to retain discretion to amend this figure, and that this itself should not be subject to specific consultation. The clause in D5 will be amended accordingly.

12. It is also proposed to amend the table in D3 referred to in one of the responses on question 5 where the margin above the risk-free rate was shown as TBC for the low-risk exit basis. This table does not refer explicitly to a cessation calculation but relates to the normal tri-ennial valuation calculation

where the scheme employer is known to be heading towards a future exit. The aim here is to minimise the gap between the on-going and cessation calculations so that the scheme employer does not face a significant cessation deficit on actual cessation. The margin above the risk-free rate is proposed at 0.2% which is equivalent to the 90% likelihood of success figure.

13. In respect of the comments on the structure of the documents, it is noted that the main section on risk assessment within the core Funding Strategy Statement is already only included as an appendix (Appendix C). In light of this, and the fact that there were no other comments on this point, it is not proposed to make any changes to the draft documents in relation to this issue.

14. In respect of the comments about the need for more flexibility over the deficit recovery period to allow for the size of the deficit and the desire to maintain as near stable contribution rates as possible, the following should be noted. Extending the recovery period to allow any deficit to be recovered over a period greater than 20 years could be questioned by the Government Actuary's Department (GAD) as part of their Section 13 report published every 3 years under the requirements of the Public Service Pensions Act 2013. GAD are required to comment amongst other issues on the solvency of each LGPS Fund and its long-term cost efficiency and extending recovery periods raise flags under both these headings.

15. Whilst a recovery period could be shortened to maintain stable contribution rates, it is also possible to increase the likelihood of success to achieve the same result. This has in fact been proposed as part of the draft results for the Town and Parish Council pool within the 2022 Valuation. Whilst the comments of the respondent are noted, it is possible to deliver their desired outcome of a stable contribution rate in circumstances under the currently proposed arrangements.

16. The revised Funding Strategy Statement including the proposed changes to Appendix D to clarify the level of risk associated with the calculation of cessation payments is included as Annex 2 to this report. As no changes have been proposed to the separate standalone policy documents presented to the Committee meeting in October, these have not been re-attached this time.

Lorna Baxter
Director of Finance

Contact Officer: Sean Collins
Tel: 07554 103465

November 2022

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Consultation on the Funding Strategy Statement for the Oxfordshire Pension Fund – October 2022

Introduction

Under the Local Government Pension Scheme Regulations all Funds must publish a Funding Strategy Statement which sets out the Fund's approach to funding all future pension benefits. The approach needs to cover the management of risks associated with ensuring the timely payment of all pension benefits, ensuring the Fund is sustainable in the long term, and that risks are appropriately balanced between the individual scheme employers and between generations.

The Funding Strategy Statement sets out the parameters that must be followed by the Fund Actuary in carrying out the triennial Fund Valuations and setting employer contribution rates and allows existing and prospective scheme employers to understand the key financial issues at the different stages of their LGPS membership from admission through to cessation.

Over recent years, the Funding Strategy Statement has been subject to various amendments to reflect the growing complexity of the scheme and new regulatory requirements issued by Government. As such, the Statement had become unwieldy and difficult to navigate. As part of the approach to the 2022 Valuation, the opportunity has been taken to redraft the Statement with the aim of increasing transparency, and improving the accessibility and useability of the document, particularly for scheme employers. This consultation aims to understand whether the revised set of documents meets this aim, and to identify and key funding issues scheme employers wish to see addressed in the final document.

Key Changes in Documents

Document Structure

The biggest change in the approach to the Funding Strategy Statement is structural with the development of a shorter core Funding Strategy Statement which sets out the key policies and principles as required under the statutory guidance, and a series of satellite documents which cover specific policy areas in more detail. Six satellite documents have been produced covering:

- Approach to employer cessations
- Policy in respect of employer contribution reviews between formal Valuations
- Approach to pre-payments of contributions
- Policy regarding bulk transfers
- Academies
- Pass through agreements

The changes have been made to improve accessibility to the relevant information for scheme employers facing the relevant scenario.

It should be noted that going forward, whilst any changes the key policies and principles set out in the Core Funding Strategy Statement will be subject to statutory stakeholder consultation as part of the process for agreeing the amendments, the Pension Fund Committee will be free to determine changes to the detailed policy documents and the level of consultation with stakeholders required.

Q1. Do respondents agree that the structural changes to the documents have improved the accessibility, readability and useability of the documents?

Q2. Is there an appropriate split between the high level principles and policies set out in the core document which will require formal consultation to change, and the detailed arrangements set out in the satellite policy documents which can be amended at the discretion of the Pension Fund Committee?

Time Horizon to restore 100% Funding

Under the previous Funding Strategy Statement, the Pension fund Committee in consultation with the Fund Actuary were free to choose different time horizons by which scheme employers had to target being 100% funded. These decisions were based on the perceived level of risk associated with the scheme employer, with shorter horizons allocated to those scheme employers deemed to have a weaker financial covenant.

Under the latest core Statement, the time horizon for all scheme employers will be set at 20 years, and the differences in perceived risk will be managed through setting different levels of certainty that the scheme employer will be fully funded at the end of the 20-year period under the various economic scenarios built into the Valuation model. The weaker the financial covenant, the higher the level of certainty required, i.e. the employer will be fully funded over a greater number of the potential economic scenarios. The reasoning behind this change is to seek to have a clearer risk based approach consistently set throughout the Statement (also see approach to cessations below).

Q3. Do you support the use of a risk based approach utilising a standard time horizon and variable level of certainty as the basis for future contribution calculations? If not, please provide details of proposed alternative approach and reasoning for decision.

FE Sector

As part of the 2019 Valuation, a more prudent approach was followed for the FE Colleges based on concerns about their relative financial covenant (no tax raising powers, no guarantor in place to meet any deficit on cessation, lack of preferred creditor status on bankruptcy etc).

The Government are currently consulting on changes to the way FE colleges are classified, and the potential to introduce an undertaking for the Government to act as guarantor of last resort in respect of pension fund deficits. Such a change if approved would significantly impact the financial covenant of the FE colleges. The Funding Strategy Statement has therefore been drafted to include sufficient flexibility of approach depending on the outcome of the Government review.

Q4. Do you support the additional flexibility included in the Funding Strategy Statement in respect of the funding of FE Colleges?

<u>Employer Cessations</u>

The current approach to employer cessations has either been based on a low risk calculation using current gilt yield assumptions to discount future pension liabilities, or standard risk calculation using the current investment strategy to set the discount rate.

The former basis is likely to over-estimate the cessation payment required as the Fund does not adopt a practice of amending its asset allocation to set aside the appropriate level of government gilts for meet the employers future liabilities and so the Fund continues to earn what are normally the higher investment returns associated with their current investment strategy.

However the second basis increases the risk that whilst over the long term, the investments will deliver an average return in line with the standards assumed, returns may fall short within the period over which the scheme employers liabilities fall due.

The Funding Strategy Statement has therefore been amended to allow the cessation valuation to be carried out consistent with the on-going valuations and current investment allocations, but to permit the Pension Fund Committee in conjunction with the Fund Actuary to assign an appropriate level of certainty to the calculation that the amount received will be sufficient to meet all future liabilities. This approach will therefore be consistent with the tri-ennial valuations of the Fund, and reduce the significant discrepancies between the on-going funding levels and the cessation position.

Q5. Do you support the risk based approach to cessation valuations as an alternative to the current low risk, gilts only basis?

Areas not specifically covered in the Funding Strategy Statement

<u>Alternative Investment Strategies</u>

Previous consultations have included the option to introduce multiple investment strategies with scheme employers free to select the default investment strategy (consistent with the current strategic asset allocation) or to opt for an alternative strategy. As a minimum, it was expected that there would exist a lower risk strategy which led to less volatility in investment performance and therefore greater stability in future employer contribution rates (although likely to be at a level higher than current rates). For long term scheme employers with a strong financial covenant, the option of a higher risk, higher return investment strategy which would allow for lower employer contributions, was also discussed.

When previously raised, there was no interest in developing alternative investment strategies. In discussions with the Fund Actuary, it was determined that the increase in employer contribution rates required to support a lower risk investment strategy are unlikely to be affordable in the current economic circumstances and the Fund did not wish to increase the levels of risks associated with investment strategy targeting significantly higher returns. No changes have therefore been made to the current Funding Strategy Statement to allow for multiple investment strategies.

Q6. Do you support the decision to base the Funding Strategy Statement on a single investment strategy?

Cost of Ill-Health Retirements

The Fund Actuary has noted in discussions with the Fund Officers that some other Fund's operate an insurance arrangement to support scheme employers against the risk of the potential high one-off costs associated with an ill-health retirement.

In Oxfordshire, we have operated pooling arrangements for the small scheduled and admitted bodies, and more recently for the smaller academy schools, with the pool acting as an insurance fund and spreading the costs of any ill-health retirement across the employers with the pool. We have therefore seen no significant advantage of running a separate insurance arrangement. This position has been clarified in the latest draft of the Funding Strategy Statement. Any employer outside the pools can make their own insurance arrangements outside the Fund if they wish.

Q7. Do you support the decision not to make explicit insurance arrangements for ill-health costs with the Funding Strategy Statement and leave it to the individual employers to make their own arrangements if they so wish (noting the indirect mitigations provided by pooler all smaller employers)?

McCloud

The additional prudence added into the 2019 Valuation results associated with the uncertainty about the impact of costs of the McCloud remedy has been removed from the draft 2022 results as the Fund Actuary has been able to provide a more accurate assessment of costs based on Government Guidance.

Q8. Do you support the removal of the requirement to explicitly disclose any additional costs associated with the McCloud remedy from the Funding Strategy Statement?

Climate Change

The Fund Actuary has carried out a number of scenario tests to look at the impact of climate change on both investment returns and scheme member longevity etc and determined that no explicit actions need to be taken within the Statement to address the risks of climate change.

Q9. Do you support the approach that the risks associated with climate change can be incorporated into the wider risks associated with the management of the Fund and as such no explicit approach needs to be set out with the Funding Strategy Statement?

Summary of Consultation Questions and Consultation Timetable and Process

The consultation period will run for 6 weeks and closes on Friday 18 November 2022. All responses received will be consolidated and reported to the Pension Fund Committee at their scheduled meeting on Friday 2 December 2022 where they will be asked to formally approve the Funding Strategy Statement which will support the 2022 Valuation.

Responses to should be sent direct to Sean Collins, the Service Manager with responsibility for the Pension Fund at sean.collins@oxfordshire.gov.uk or can be sent by post to him at:
Oxfordshire Pension Fund,
4640 Kingsgate
Cascade Way
Oxford Business Park South
Oxford OX4 2SU

Responses should address the specific questions addressed above and summarised below. Respondents are also invited to make any additional comments on the content of the Funding Strategy Statement and associated policies, or on areas currently excluded from the documents which they believe should be covered.

Summary of Consultation Questions

Q1. Do respondents agree that the structural changes to the documents have improved the accessibility, readability and useability of the documents?

Q2. Is there an appropriate split between the high level principles and policies set out in the core document which will require formal consultation to change, and the detailed arrangements set out in the satellite policy documents which can be amended at the discretion of the Pension Fund Committee?

Q3. Do you support the use of a risk based approach utilising a standard time horizon and variable level of certainty as the basis for future contribution calculations? If not, please provide details of proposed alternative approach and reasoning for decision.

Q4. Do you support the additional flexibility included in the Funding Strategy Statement in respect of the funding of FE Colleges?

Q5. Do you support the risk based approach to cessation valuations as an alternative to the current low risk, gilts only basis?

Q6. Do you support the decision to base the Funding Strategy Statement on a single investment strategy?

Q7. Do you support the decision not to make explicit insurance arrangements for ill-health costs with the Funding Strategy Statement and leave it to the individual employers to make their own arrangements if they so wish (noting the indirect mitigations provided by pooler all smaller employers)?

Q8. Do you support the removal of the requirement to explicitly disclose any additional costs associated with the McCloud remedy from the Funding Strategy Statement?

Q9. Do you support the approach that the risks associated with climate change can be incorporated into the wider risks associated with the management of the Fund and as such no explicit approach needs to be set out with the Funding Strategy Statement?

Q10. Do you have any further comments on the content of the draft Funding Strategy Statement and associated policies or on any areas you think should be added to the documents?

Responses should be sent to be received by Friday 18 November 2022 to
sean.collins@oxfordshire.gov.uk or

Oxfordshire Pension Fund,
4640 Kingsgate
Cascade Way
Oxford Business Park South
Oxford OX4 2SU

Oxfordshire Pension Fund

Funding Strategy Statement

December 2022

Contents

1 Welcome to Oxfordshire Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for Oxfordshire Pension Fund.

The Oxfordshire pension fund is administered by Oxfordshire County Council, known as the administering authority. Oxfordshire County Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 2 December 2022.

There's a regulatory requirement for Oxfordshire County Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact sean.collins@oxfordshire.gov.uk

1.1 What is the Oxfordshire pension fund?

The Oxfordshire pension fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a fair and transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.
- ensure fairness and minimise cross-subsidies between different generations of taxpayers. .

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at link.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the Oxfordshire pension fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer total contributions are calculated and set by the Fund actuary and are expressed into two elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – any adjustment to the primary contribution rate (such as additional contributions to repair any deficits)

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios (as detailed in Appendix D). The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Certain fund employers (such as academies and admission bodies with pass-through arrangements) participate within funding pools, as described in Sections 2.5 and 2.6. Where this applies the contribution rate will be calculated for the pool as a whole using the parameters in Table 2. This results in each employer in their respective pool paying the same contribution rate (in % of pay terms).

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
Sub-type	Local authorities and university	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target**	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
Minimum likelihood of success	70%	70-75%	70%	75%	70%	55% (dependent on outstanding contract term)
Maximum time horizon	20 years	20 years	20 years	20 years	Average future	Same as the letting employer

Type of employer	Scheduled bodies			CABs and designating employers		TABs*
Sub-type	Local authorities and university	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
					working lifetime	
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll	% of payroll	% of payroll	Monetary amount or % of payroll	Monetary amount	Monetary amount or % of payroll
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority				Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority (in most cases this is set equal to the letting authority's total contribution rate). The fund's policy on pass-through arrangements is available here.*

**See Appendix D for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy.

Table 1: current stabilisation approach

Type of employer	'Standard' council	'Closed' Council	University
Maximum contribution increase per year	+1% of pay	+2% of pay	+1% of pay
Maximum contribution decrease per year	-1% of pay	-2% of pay	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's contribution review policy is available here. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The administering authority operates funding pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. Employers which are closed to new entrants aren't usually allowed to enter a pool.

Employers in a pool share all pension funding risks (including individual membership experience). This means that full cross-subsidy exists between employers within the pool. If pooled employers choose to leave the pool then their future funding position and contribution rates could be higher or lower than their contribution rate as a member of the pool.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified.

If a pooled employer ceases (or plans to cease) participation in the Fund its funding will be immediately removed from the pool.

2.6 What are the current contribution pools?

- **Smaller CABs** (small admitted bodies) – sharing experience and smoothing the effects of costly but rare events like ill-health retirement or deaths in service.
- **Designating employers** - Town & Parish councils are pooled together.
- **Academies** – academies with up to 50 members must join the pool but have an option to opt out on a permanent basis. Larger academies can request to join the pool on a permanent basis. The fund's Academies policy (including the pooling arrangements) is available here.
- **TABs** (pass-through) – employers participating under a pass-through agreement are pooled with the letting authority.

2.7 Administering authority discretion

The administering authority may exercise its discretion in managing employer risks and adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. However, in general, this is most appropriate for large, secure employers with stable active memberships.

Further details are set out in the fund's prepayment policy available here.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the administering authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer is responsible for paying the funding strain, which may be a large sum. In general, this will be picked up as part of future employer contributions.

Where an employer participates within a pool (as detailed in 2.6), ill health strain risk is spread across all employers within the pool.

The administering authority does not offer any further arrangements to mitigate this risk (other than pooling for certain employers). Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs increasing future employer contributions.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

The fund uses Hymans Robertson's HEAT system to track employer assets monthly. Each employer's assets from the previous month end are added to monthly cashflows paid in/out and investment returns to give a new month-end asset value.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 5).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on contribution rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Newly established academies do not transfer active members from a locally maintained school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%. The council's estimated funding level will be based on market conditions on the day before conversion.

The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. The new academy's contribution rate (where not joining an existing MAT or the academies pool) is based on the current funding strategy (set out in section 2) and the transferring membership.

Academies joining an existing MAT within the fund will be pooled with this MAT and will fully share all risks and costs. Academies within a MAT pay the same total contribution rate. If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT (unless it is not possible to identify all deferred and pensioner members of the transferring academy).

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's Academies Policy is available here.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

There is flexibility for outsourcing when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement. However, in general, the funding arrangements are set up as one of the following two options:

(i) Pass-through admissions

The Fund's preference is that all new admission bodies will be set up via a pass-through arrangement. The Fund's pass-through policy is available here.

(ii) Other admissions

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs. New contractors will then be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is available here.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor

On cessation, the employer may be permitted to enter into a deferred debt arrangement (DDA) and become a deferred employer in the Fund (as detailed in Section 7.4). If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered as part of the cessation valuation. For example:

- the cessation may be calculated using the ongoing participation basis; or
- it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

However, where the guarantor is a 'guarantor of last resort' only, this will have no effect on the cessation valuation.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations. Fees and expenses are at the employer's expense and may be deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

The cessation policy is available here.

7.3 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a DDA, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

Further details are set out in the cessation policy available here.

7.4 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid, in which case the other fund employers will be required to contribute to the remaining benefits. The fund actuary will apportion the liabilities on a pro-rata basis at the formal valuation.

b) the last ex-employee or dependant dies before the employer's asset share is fully run down, in which case the fund actuary will apportion the remaining assets to the other fund employers on a pro-rata basis at the formal valuation.

7.5 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is set out within section 3.3 of the Fund's cessation policy, available here.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department (GAD) to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and invitation to attend an open employers' forum. The administering authority should circulate the CIPFA guidance, and consult on actual funding policy and methodologies, before preparing and issuing a draft. The draft should include an estimate of the impact of any variations from the previous funding strategy.

A3 How is the FSS published?

The FSS is emailed to participating employers and employee and pensioner representatives. Summaries are issued to members and a full copy is included in the fund's annual report and accounts. Copies are freely available on request and is published on the website at www.oxfordshire.gov.uk/pensions

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at www.oxfordshire.gov.uk/pensions

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

A summary of the key fund-specific risks and controls is set out below. For more details, please see the Fund's risk register.

C2 Financial risks

Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long-term.	Anticipate long-term returns on a prudent basis to reduce risk of under-performing. Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc. Analyse progress at three-year valuations for all employers. Roll forward whole fund liabilities between valuations.
Inappropriate long-term investment strategy.	Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance. Operate various strategies to meet the needs of a diverse employer group.
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	Focus valuation on real returns on assets, net of price and pay increases. Use inter-valuation monitoring to give early warning. Invest in assets with real returns. Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Increased employer's contribution rate affects service delivery and admission/scheduled bodies.	Agree an explicit stabilisation mechanism, with other measures to limit sudden increases in contributions.
Orphaned employers create added fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers.

C3 Demographic risks

Risk	Control
Pensioners live longer, increasing fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the fund matures, the proportion of actively contributing employees declines relative to retired employees.	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Pool small employers to facilitate the sharing of ill health risk. Monitor employer ill-health retirement experience.
Reductions in payroll cause insufficient deficit recovery payments.	Buy-out employers in the stabilisation mechanism to permit contribution increases. Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Control
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.

Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.	Consider all Government consultation papers and comment where appropriate. Take advice from the fund actuary and amend strategy.

C5 Governance risks

Risk	Control
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The administering authority develops a close relationship with employing bodies and communicates required standards. The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	The administering authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the fund.	The administering authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases.
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation.

Risk	Control
An employer ceases to exist, so an exit credit is payable.	The administering authority regularly monitors admission bodies coming up to cessation. The administering authority invests in liquid assets so that exit credits can be paid.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. In particular, through analysing the resilience of the strategy via in-depth asset liability modelling to stress test the funding and investment strategies against possible future climate scenarios. The current strategies were proven to be resilient to climate transition risks within an appropriate level of prudence. The fund will continue to monitor the resilience of the funding strategy to climate risks at future valuations or when there has been a significant change in the risk posed to the fund (eg global climate policy changes).

Further details on how the fund manages climate risks is set out in the fund's climate policy here.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns									
		Cash	**Index Linked Gilts (medium)**	**Fixed Interest Gilts (Medium)**	**UK Equity**	**Overseas Equity**	**Property**	**A rated corporate bonds (medium)**	**RPI inflation expectation**	**17 year real govt yield (RPI)**	**17 year govt bond**
10 Years	16^{th} %ile	0.8%	-1.9%	-0.3%	-0.4%	-0.7%	-0.6%	-0.1%	2.4%	-1.7%	1.1%
	50^{th} %ile	1.8%	0.2%	1.1%	5.7%	5.6%	4.4%	1.6%	4.1%	-0.5%	2.5%
	84^{th} %ile	2.9%	2.4%	2.4%	11.6%	11.7%	9.5%	3.2%	5.7%	0.7%	4.3%
20 Years	16^{th} %ile	1.0%	-1.5%	0.7%	1.7%	1.5%	1.4%	1.1%	1.6%	-0.7%	1.3%
	50^{th} %ile	2.4%	0.1%	1.5%	6.2%	6.1%	5.0%	2.1%	3.1%	1.0%	3.2%
	84^{th} %ile	4.0%	1.9%	2.2%	10.6%	10.8%	8.9%	3.2%	4.7%	2.7%	5.7%
40 Years	16^{th} %ile	1.2%	-0.3%	1.5%	3.2%	3.1%	2.6%	2.0%	1.1%	-0.6%	1.1%
	50^{th} %ile	2.9%	1.2%	2.3%	6.7%	6.5%	5.5%	3.1%	2.4%	1.3%	3.3%
	84^{th} %ile	4.9%	3.1%	3.5%	10.2%	10.2%	8.8%	4.4%	3.9%	3.2%	6.1%
Volatility (5 yr)		2%	7%	6%	18%	19%	15%	7%	3%		

D3 What financial assumptions were used?

Future investment returns and discount rate (for setting contribution rates)

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate at the end of the funding time horizon.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate (at end of funding time horizon)
Ongoing basis	All employers except employer approaching exit	2.4%
Low-risk exit basis*	Employer approaching cessation	0.2%

*low-risk exit basis is based on the Fund's investment strategy having a 90% likelihood of achieving these returns

Discount rate (ongoing basis for funding level calculations)

For the purpose of calculating the ongoing funding level, the discount rate is based on a prudent estimate of future returns, specifically that there is a 70% likelihood of these returns being achieved over the 20 years following the calculation date.

At the 2022 valuation, the ongoing basis discount rate of 4.6% applies. This is based on a there being a 70% likelihood that the fund's assets will achieve future investment returns of 4.6% over the 20 years following the 2022 valuation date.

If an employer is funded on the low risk exit basis, a higher discount rate may apply – see section D5 below.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's Economic Scenario Service (ESS) model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	485	1301	0.00	0.00	0.00	0.00
25	117	0.17	320	859	0.00	0.00	0.00	0.00
30	131	0.20	227	610	0.00	0.00	0.00	0.00
35	144	0.24	178	476	0.10	0.07	0.02	0.01
40	150	0.41	143	383	0.16	0.12	0.03	0.02
45	157	0.68	134	360	0.35	0.27	0.07	0.05
50	162	1.09	111	296	0.90	0.68	0.23	0.17
55	162	1.70	87	233	3.54	2.65	0.51	0.38
60	162	3.06	78	208	6.23	4.67	0.44	0.33

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	423	654	0.00	0.00	0.00	0.00
25	117	0.10	285	440	0.10	0.07	0.02	0.01
30	131	0.14	239	369	0.13	0.10	0.03	0.02
35	144	0.24	206	318	0.26	0.19	0.05	0.04
40	150	0.38	171	265	0.39	0.29	0.08	0.06
45	157	0.62	160	247	0.52	0.39	0.10	0.08
50	162	0.90	135	208	0.97	0.73	0.24	0.18
55	162	1.19	101	155	3.59	2.69	0.52	0.39
60	162	1.52	81	125	5.71	4.28	0.54	0.40

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Where there is a guarantor, the ongoing basis will apply.

Where there is no guarantor, the low-risk exit basis will apply. The financial assumptions underlying the low-risk exit basis are explained below:

- The discount rate used for calculating the exit position will be lower than the ongoing funding basis, specifically additional prudence will be applied to the assumption. This will be applied via a higher likelihood that the fund's assets will achieve the required future investment returns over the 20 years following the date of the calculation.
- The-low risk exit basis discount rate is based on there being a 90% likelihood that the Fund's assets will achieve these future investment returns. The Fund has discretion to adjust this likelihood in exceptional circumstances for employers exiting the Fund on a case-by-case basis.
- On 31 March 2022, the low-risk exit basis discount rate is 2.3% p.a. However, this figure will change over time and the low-risk exit basis discount rate used for calculating the exit position will be reviewed at the date of the employer's exit from the Fund.
- The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022

PENSION FUND COMMITTEE – 02 DECEMBER 2022

ADMINISTRATION REPORT

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to

a) determine any actions they would like taken to improve the team performance in meeting standards
b) note the compensatory payment made in line with Scheme of Delegation and determine any future actions if appropriate to minimise the risk of similar issues going forward
c) note the release of deferred benefits on grounds of ill-health in line with Scheme of Delegation

Executive Summary

1. This report updates the Committee on the key administration issues including the iConnect project, service performance measurement and any write offs agreed in the last quarter.

Administration

<u>Staffing</u>

2. As approved by this Committee last quarter, the appointment of 6 FTE to undertake project work and to deliver work set out in the business plan is underway as a procurement exercise via the National LGPS framework.

3. One, newly appointed administration assistant started working in November. The second candidate has withdrawn and so recruitment has re-started for this post. Two newly appointed administrators have joined the team in November.

4. It should also be noted that there are some individual issues of under performance in the team which are being actively managed.

Performance Statistics

5. The table below sets out current progress of vetting incoming data from scheme employers. The incoming returns for any given month are due in by the 19th of the following month and then due to be cleared by the 19th of the month after this. As of 7 November, the returns to August should be complete (received and vetted) by 19 October and the returns for September should be received by 19 October. This means that currently 27.91% of incoming returns have not been vetted within SLA.

	Not Rec'd	Rec'd not vetted	Queries sent	Replies rec'd	Not Cleared	Cleared	Still in Admission	Total
April	1	9	9	1	20	139	3	162
May	3	17	4	0	24	135	5	164
June	3	35	5	2	45	113	5	163
July	4	45	8	1	58	99	5	162
August	5	66	7	3	81	79	6	166
Sept	18	88	7	3	116	46	5	167

6. There has been an increase to 1.264 open tasks of which 56.80% are currently outside of SLA. This increase to workload from last quarter is due to the number of changes generated between school terms.

7. There are 34 admission agreements to be finalised. Of these 25 are either waiting for the return of the contact information or the employer's discretionary policy. Seven are waiting to be signed and two are waiting for admission agreement to be sealed. Of these only one admission agreement between Activate Learning Trust and KGB Cleaning, which was delayed, has resulted in no contributions being received.

8. Since March 2022 this committee expected that the standard SLA, for benefit administration, would be used for performance measurement, although it was acknowledged that additional resources may well be required to meet normal SLA. The current statistics below are showing the progress towards meeting SLA.

	SLA Overall %	Statutory Overall %	Total Cases Completed
September	86.97	68.81	1682
October	82.87	69.49	2064
November	84.79	79.75	1789
December	85.01	82.03	1316
January	85.54	90.75	1363
February	87.01	78.83	1490
March	88.67	94.69	1892
April	82.67	93.50	1274
May	81.53	95.80	1795
June	85.86	96.24	1559
July	93.07	97.94	1508

August	89.66	98.72	1374
September	90.78	95.28	1313
October	85.60	96.19	1531

The fluctuation in completion rates, during the last quarter, is due to several factors: the team is still carrying vacancies; on going training; annual leave and sickness.

Complaints

9. For the year 2022/2023 the team has received 15 informal complaints to date. Several of the complaints are on the same subject, detailed below, whereas the remainder are more specific individual queries.

- Having to give 3 months' notice of intention to take pension (regulatory requirement)
- Delay in payment as final pay information is not received until after member has left.
- Not being regularly updated of progress with case
- Trivial commutation of pensions
- Additional contributions

10. To address these issues the following actions have been taken:

- Telling members about requirement to give 3 months' notice of intention to take benefits – making sure this is regularly and clearly communicated.
- Introduction of a form to enable scheme employers to confirm final pay information ahead of the i-connect submission for people who are retiring.
- Working with team members to improve customer service by updating members more regularly
- Change to process for trivial commutation.

11. In addition, there are the formal complaints received by the fund. Depending on the nature of the complaint, and who made the original decision, the stage 1 complaints will either be dealt with by the scheme employer or the fund. However, all stage 2 complaints are dealt with by the Head of Pensions.

12. To date eight formal complaints have been received during the current year. Three complaints related to release of benefits on grounds of ill-health, which the scheme employer reviewed at stage 1. Of these two have been referred to stage 2 and in both cases the Adjudicator has referred the case back to the scheme employer to review their processes.

The remaining applications covered:

- Retrospective decision to link pension records
- Interpretation of regulation 10 and years used for pension calculation
- Request to retrospectively apply for scheme pays

- Requirement for 3 months' notice to bring benefits into payment
- Poor level of service, provision of incorrect information and delays in replying leading to loss of tax relief.

13. In the last case listed here the member had, over a period of several years, submitted myriad queries to the team, which has resulted in lengthy correspondence. Some responses were incorrect and during 2020/2021 tax year these queries were either not answered or not answered in a reasonable time frame which resulted in the member losing the opportunity to make additional pension contributions and so also losing the tax relief associated with this. In reviewing the complaint at stage 1 of the Adjudication of Disputes Procedure the Pension Services Manager, in line with the Scheme of Delegation, awarded a compensatory payment of £1,400 for loss of tax relief and the distress caused by this matter.

<u>Fire Service</u>

14. The performance figures in respect of the Fire-Fighters Pension Schemes are set out in the table below. The variation in September is mainly due to files not being checked within 10 working days. As at the end of October there are 29 open cases.

	SLA Overall %	Total Cases Completed
October	88.89	42
November	98.15	45
December	100.00	52
January	98.61	29
February	100.00	39
March	99.31	56
April	97.78	47
May	77.46	65
June	91.67	46
July	91.11	37
August	100.00	21
September	84.68	35
October	94.02	52

<u>Data Quality</u>

15. The tables below detail the latest outcome of the data quality testing.

Common Data

Scheme	Total records tested	Records without a fail	Pass Rate	TPR Pass Rate
LGPS	93997	86316	91.80%	94.80%
Fire	1624	1566	96.40%	96.90%

These figures show a small reduction of 0.80% for LGPS and 0.10% for Fire against the figures reported last year.

Scheme Specific Data

Scheme	Total records tested	Records without a fail	Pass Rate	TPR Pass Rate
LGPS	135681	80330	97.40%	98.61%
Fire	2503	2080	96.56%	96.56%

These figures show a small increase of 0.81% for LGPS and 0.76% for Fire against the figures reported last year.

Returns were submitted to The Pension Regulator ahead of the 18 November deadline.

Contribution monitoring

16. This process sits within the Investment team who monitor incoming payments by scheme employers to ensure that the correct contributions are received by 19th month following payroll. No issues have been reported this quarter.

Projects

17. The work that has, so far been identified as project work is detailed below.

- Work has started on reviewing the death process which will include the review of the historic death cases where there is outstanding information which is needed to enable files to be finalised. Target date for completion – 31 May 2023

- AVC – review of data held by Fund vs data held by Prudential. Updated information has been requested from Prudential to enable this review to start.

- A2P – a revised project plan has been set out which will initially review the work already done on transfer out; interfund out and refunds. Existing workflow processes will then be amended so that the new process can be implemented by end of November 2022.

- This leaves three subjects - retirements, deaths and recalculations – to be reviewed and new workflow processes implemented. Work has started on death process which will be implemented by May 2023. Other dates have yet to be finalised.

- I-connect project for OCC onboarding – the main concern is the amount of manual intervention, by the IBC, to produce the monthly uploads, which is causing errors on the file submission. However, we are parallel running, and providing queries sent to IBC are resolved there is no issue with going live in April. Therefore, it was agreed that for the 2022/2023 IBC would continue to provide the information via the MARS spreadsheet whilst the outstanding issues with i-connect are resolved.

- Review of pension software is subject of a separate report on this agenda.

- Review of fund cyber security is subject of a separate report on this agenda.

Debt Management

18. Discussions with the OCC debt management team have moved on and it is anticipated that resource will be available from April 2023 for the team to pick up the debt recovery process.

19. As of 01 October, the total value of outstanding invoices amounted to £117,082.08, of which £95,168.63 is overdue. Over half of the outstanding invoices relate to employer costs for early retirement / redundancy. The next highest figure is relating to overpayments of pension mainly identified through the national fraud initiative with the remain value split between fines to scheme employers for late or incorrect submission of date and reimbursement of actuarial fees.

20. In the last quarter one overpayment of £10,000 has been repaid. However, this remains the highest area of concern as to whether monies will be recovered by the Fund.

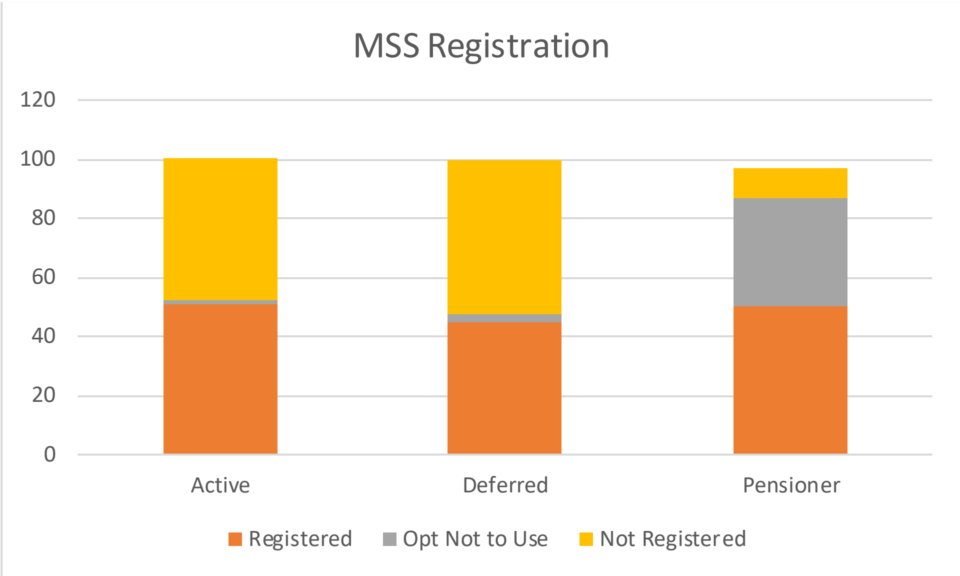
21. In the last quarter £23.93 has been written off. There four deaths where monies could not be recovered and one case where the amount to be repaid was incorrectly stated by £4.60.

Data breaches

22. There was one data breach during the last quarter where national insurance numbers for four scheme members was sent to the wrong scheme employer. The scheme employer confirmed that this information had been deleted.

Member Self - Service

23. The table below shows the latest information on members signing up to use member self-service.



<u>Release of Ill-Health Pension</u>

24. In line with the Scheme of Delegation the Director of Finance has reviewed a case of ill-health for a deferred member whose ex-employer is no longer an active scheme employer.

25. The member became a deferred beneficiary in 2016. Following the review and independent medical assessment, it was confirmed that benefits should be brought into payment from January 2020.

Contact Officer: Sally Fox - Pension Services Manager - Tel: 01865 323854
Email: sally.fox@oxfordshire.gov.uk November 2022

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The Division(s): n/a

ITEM

PENSION FUND COMMITTEE – 2 DECEMBER 2022

PENSON ADMINISTRATION SYSTEM REVIEW

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to

a) **agree the extension of the current system contract, as allowed for within the contract and**
b) **ask officers to bring forward a proposal to the March meeting as part of the 2023/24 Business Plan to identify options to address the current weaknesses in the employer database offering, to maximise the use of the current system functionality and to ensure the Fund is fully prepared to run a full procurement exercise at the end of the agreed extension.**

Introduction

1. As part of the 2022/23 Business Plan, this Committee agreed as a key objective for the current year was to explore the options around improving the system technology currently available to the Fund. In particular, the Committee were keen to see a holistic offering where all component parts were fully integrated and offered a seamless service to scheme members, scheme employers and the Fund's officers.

2. The work was timed to co-incide with the extension clauses within the current contract which allowed for a 5 year extension to the current contract, which would otherwise end in the summer of 2024. Given the timescales associated with a full procurement exercise, the decision to extend or undertake a full procurement need to be taken at today's Committee meeting.

3. As part of the budget agreed within the 2022/23 Business Plan, resources were added to provide external support to the support the system review work. Hymans Robertson were appointed to provide this external resource.

EXEMPT INFORMATION

4. The report from Hymans Robertson on the outcomes of their review is included as Annex 1 to this report. This includes information of a commercial nature relating to the 3 suppliers of LGPS System software currently on the LGPS National Procurement Framework.

5. The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

> 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the Scheme Provider involved and would prejudice the Administering Authority in negotiating new commercial arrangements and therefore their ability to properly discharge their statutory duties and their fiduciary duty to scheme members.

Review Process and Key Findings

6. The review process and key findings are detailed in Annex 1 in the report from Hymans Robertson. In short, the process involved a short questionnaire to the officers of the Fund, workshops with key Officers from the Pension Teams, and the Council's IT, Procurement and Information Teams, and a review of the offerings from the 3 system software providers on the current LGPS National Procurement Framework, which included follow up meetings with representatives of the 3 suppliers.

7. The key areas where improvements were requested were in respect of:

   - an employer solution which stored and provided ready access to key employer information, including discretionary policies, and improved management of the workflow between the Fund and individual scheme employers
   - greater automation and self-service facilities for both scheme members and scheme employers, to include automatic validation of key information input by the members and employers
   - strong technical arrangements including a single sign-on functionality.

8. It was accepted that any alternative solution would have to deliver significant improvements against those possible through the existing software contract due to the amount of work required to undertake a full procurement exercise, and the timing of such an exercise, which would run alongside the resource intensive tasks of implementing the new Pensions Dashboard and delivering the McCloud remedy.

9. During the workshop, it became clear that we are currently not fully utilising the functionality of the existing system, and in particular some of the self-service options that would allow members to upload documents or initiate and track service requests. Undertaking work to improve our current use of the system would have immediate benefits to scheme members and improve the efficiency and effectiveness of the team, but also ensure we were better prepared for any future procurement exercise where we would not be faced

with the need to update our policies and procedures at the same time as running a system transition. It was also noted that the current backlog of work as covered in the Administration report elsewhere on the agenda would add to the complexity of procurement exercise, where gaps in data or inaccurate data would need to be addressed as part of the transition.

10. In terms of the gaps in the provision of employer solutions, it was noted that a number of Funds have gone down the route of implementing a standalone employer database. In the absence of a full procurement, it was accepted that this option should be further explored, both in respect of the short-term service benefits it could bring, as well as the medium term benefit of ensuring the Fund was in a better place to manage a system transition on the future.

Lorna Baxter
Director of Finance

Contact Officer: Sean Collins
Tel: 07554 103465

November 2022

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MJ HUDSON

REPORT PREPARED FOR

Oxfordshire Pension Fund Committee

2 December 2022

Philip Hebson

MJ Hudson

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Summary

The value of the Fund in the quarter fell slightly to £3.01bn, a decrease of £35m compared to the end March value of £3.05bn. The Fund produced a return of -1.2% over the quarter, which was -0.5% behind the benchmark. While disappointing, it would be fair to say that the Fund is not suffering unduly from the challenges that we have seen in markets over 2022, which has certainly been helped by the diversified spread of assets. Put simply the alternatives portfolio have provided support while public markets have suffered a fair amount of stress, including volatility. Over a 12-month period the Fund recorded a negative relative return against the benchmark of -4.0% (-6.4% v.-2.4%). The scale of the recent underperformance has also had an impact on the longer term performance periods, now behind the benchmark over the three and five year periods and in line over the ten year period, details of which can be found in Brunel's report.

The highlights

1. I'm going to leave it to the politicians amongst you to make sense of the events of the last few months, if you can! Certainly the brief foray into Trussonomics gave the markets quite a fright, particularly the Gilt market. The rush by corporate pension funds to provide additional collateral for their LDI positions was unpleasant to watch, but at least it had minimal impact on the LGPS in general and our own Fund in particular.
2. The upheaval in September was particularly irritating because over July and August markets had been trending steadily upwards, a welcome respite from the difficult times seen in H1. The tide of fortunes for Ukraine seemed to be turning for the better and although the impact of inflation on the cost of living was really starting to manifest itself, markets generally seemed to be trying to look through the economic gloom to potentially better times ahead. Ultimately these minor irritants should not be a significant concern for long term investors like the Fund.
3. As I wrote last time this included seeing an environment better suited to the growth style slants seen within the Brunel active mandates. Although that hope was to some degree postponed, two of the active equity mandates (Global Sustainable and UK Active) did experience small positive performance in the quarter. I remain cautiously optimistic that as the political situation settles down then we will see brave investors emerging from their bunkers. Strangely enough that may well include renewed interest in Emerging Markets, a thoroughly bombed out area!
4. Our Private Markets valuations have in general terms held up well during 2022, certainly when compared to Public Markets. As flagged previously, valuations are starting to trend downwards though, reflecting growing economic concerns and comparisons to public markets. The listed private equity portfolio had another difficult quarter, but longer-term performance is still well in excess of public

markets. Some of the discounts to NAV being seen are reminiscent of the period during the Global Financial Crisis, but the underlying health of the portfolios is substantially better than it was then. As confidence returns I would expect to see those discounts start to narrow again.

5. I am pleased to report to members that I now have access to the information about our underlying managers' performance, however I have not had time to analyse this information in sufficient detail to make comments on this occasion. Watch this space!

The lower points

1. You'll no doubt be pleased to read that I don't need to highlight so much with a negative slant this time around. Out of active equities, Emerging Markets continues to be the main drag (-1.2% against benchmark), which is very much to do with China falling by 15.7% in local currency terms. September alone saw a fall of 10.9%.
2. Bonds clearly had a pretty horrific quarter in valuation terms, but fared relatively well against benchmarks. In a high inflation environment, it is difficult to see a speedy recovery in those valuations, beyond some stabilisation seen following the unwinding of the measures contained in the Kwarteng "mini budget".
3. You have probably realised by now that I am not a fan of the multi manager approach to asset management, with reversion to mean performance (at best) being the likely outcome. I am also not keen on multi component funds either, such as Multi Asset Credit and Diversified Growth Funds. In my experience they tend to be disappointing over time and with the creation of Pools they should have sufficient scale to provide the different elements as stand alone products. Rant over, but note the poor performance.
4. I have raised the issue of the slow rate of drawdowns in some of the Private Market commitments with Richard Fanshawe. While he acknowledges that more suitable investment opportunities may become available given the deteriorating economic background, particularly in the secondaries market, they are determined to remain highly selective in their process. He does anticipate a higher rate of call down from the managers in Private Equity Cycle 2 going forwards, despite limited progress in the last quarter.

Points for consideration

1. The revised format of the Brunel report is to be welcomed, particularly the section dealing with Private Markets. It would be good to see the Fund value included over the short, medium and long term periods. The emphasis on assets transitioned to Brunel is not particularly useful, in my opinion.
2. The Triennial Actuarial Valuation currently being undertaken by Hymans does not appear to be throwing up anything that is unexpected or that would require major changes in the Fund's asset allocation. Currently the main items that need to be considered are ensuring that the mix of assets are appropriate to deal with a) inflation likely to be running at a higher level than we have been accustomed to in

recent years and b) a higher cash flow requirement to accommodate the increase in pension payments resulting from higher inflation.

3. The Fund has experienced a lot of changes in the way that the investment assets are managed over the last three years, mainly as a result of the pooling of those assets with Brunel. This has carried a heavy price in the short term, so a period of consolidation would now be prudent. Therefore, any changes should be kept to the minimum, such as to accommodate the above.
4. The Strategic Asset Allocation review does however provide the opportunity to consider some aspects of investment strategy within the main asset groups, to ensure that we continue to have the right mix of investments to diversify risk and to meet the longer term objectives.
5. We also need to be cognisant of the constantly rising expectations and requirements relating to ESG and climate change considerations. Considerable progress has already been made in this respect by the Fund and by Brunel, but this is an evolving process and consideration needs to be given to the pace of next steps and what they should be.
6. In this context, is a specific allocation to UK equities in addition to global equities still relevant or desirable? The FTSE All Share index is not really a good representation of UK plc, but it is a sterling based market, so is directly matched to the home currency of the Fund. It also carries a heavy comparative weighting to fossil fuels and commodities.
7. The recent conflict in Ukraine has thrown the Putin administration in Russia into sharp focus and as a result has heightened concerns about China's ambitions. The recent 20th National Congress has if anything exacerbated those concerns. My thought piece in this report focuses on China and the pros and cons of investing there. Your thoughts on this and possibly investment in other countries would be welcomed.

Overview and Outlook thoughts

Global overview

Q3 was challenging for most investors, with only temporary optimism that Central Banks would soon end their rate hikes. Markets continued to grapple with the challenges of high inflation, slowing economic growth, a strong US dollar, and accelerated interest rate hikes. Equity markets rose for the first half of the quarter, until monetary policy became more hawkish, and led to repricing in light of persistent high inflation. Long-term bond yields fell until late July as markets viewed recession risk as taking precedence over inflation, however policymakers tightened monetary policy further with additional rate hikes. Global equities fell again, declining by -6.1% over the course of the quarter. Emerging markets detracted the most within equity markets (-11.5%), facing the headwinds of slowing growth from China and a strong US dollar. US equities fell -4.9%; followed by European and UK equities (-3.7% and -3.5% respectively). Growth stocks fell less (-5.2%) than value stocks (-7.8%). Corporate and government bond indices also fell sharply (with UK Gilts and UK investment grade credit falling by -12.8% and -11.4% respectively), while emerging market bonds in hard currency terms fell by -4.6%. Real assets such as commodities and real estate generally also fell, and the US dollar strengthened against most currencies, benefiting from broad risk aversion and increasing interest rate differentials in its favour.

GDP growth: Despite the ongoing recovery from the pandemic, the impact of the war in Ukraine and high inflation are both expected to slow growth in the UK and Europe in particular. As the war continues, commodity prices remain high and volatile, and supply chains disrupted. The US is forecasting a GDP growth rate of 0.3% for Q3, following declines in both Q1 and Q2. China's growth has been disrupted by ongoing COVID-19 lockdowns and a real estate slump - its GDP growth is expected to slow sharply to 2.8% in 2022.

GDP Growth Rate and Monthly CPI

%	GDP		CPI		
	Q2 2022	Q3 2022	Jul	Aug	Sep
UK	0.2	-0.2	10.1	9.9	10.1
US	-0.6	0.6	8.5	8.3	8.2
Eurozone	0.8	-0.2	8.9	9.1	9.9
Japan	0.9	-0.3	2.6	3.0	3.0

Source: Bloomberg; Trading Economics. •Forecasts based on leading indicators.
GDP Notes: UK Real GDP (Ticker: UKGRABIQ Index); US Real GDP (Ticker: EHGDUS Index); Eurozone Real GDP (Ticker: EUGNEMUQ Index); Japan Real GDP (Ticker: EHGDJP Index)

Outlook thoughts

It is worth highlighting the following themes, impacting investment markets:
Inflation – the end is not yet in sight. While YoY CPI inflation appears more or less to have plateaued near double digit levels (in the US, August CPI increased to 8.3% YoY, Eurozone inflation rose to 10.0% and the BoE expects UK inflation to be in double digits for the next few months) there are clear indications of inflation becoming more entrenched. Euro core

inflation rose to a new high at 4.8%, highlighting the stickiness as it shifts from goods to service prices, while average earnings are starting to rise faster (average hourly earnings rose to 5.2% in the US in August, 5.5% in the UK in July). 10-year inflation break-evens are well above Central Bank targets (e.g. c. 4% in UK), suggesting inflation is likely to remain "higher for longer".

Inflation vs Recession – the monetary policy conflict. To combat this, monetary policy continued to tighten in most major developed countries, with the Fed, the BoE and the ECB all raising rates several times in Q3. In addition, the Fed is expected to increase the pace of reducing its balance sheet ("Quantitative Tightening", QT), while the BoE was planning to start QT at the end October before the mini-budget caused a rethink. Markets now expect rates to peak in the 4.5-4.75% range in the US, and around 5.5% in the UK. But 10-year real rates are still only barely positive, suggesting further rises may be needed to quell inflation, and Central Banks remain very focussed on the latter. As a result the likelihood of a "hard recession" is increasing, particularly in the UK and Europe.

Liquidity risk rising – While higher rates increase the attractiveness of cash, the tighter monetary policy (particularly QT) increases the risk of liquidity stresses appearing in financial markets. The spiral in UK Gilt yields, which caused UK pension funds with LDI exposure to sell other assets in order to meet margin calls is symptomatic of this. Investors may want to take this opportunity to examine the liquidity profiles of their portfolios, and ensure they are comfortable.

Valuations – looking more attractive if earnings are sustained: With global equities over 25% off their peak and credit markets 15-20% down, valuations are looking more in line with long-term averages. US equities are trading on 15x forward P/E, while most other regions are nearer 10x, and global investment grade indices yield c.4-5%. Corporate profits have so far remained broadly resilient, and expectations for 2023 earnings are still strong despite the strong US dollar which historically has a negative impact on S&P 500 earnings. US profit margins have declined to 10.9% for Q2, down from 11.9% for Q1, but still above the long-term trend and recessionary levels. Similarly, credit spreads have widened only slightly beyond their long-term average, signalling investors' views that economic recession may well occur, but widespread defaults are less likely. This potentially indicates that earnings forecasts and default expectations may still be too sanguine.

Equities

Global equities fell sharply in Q3, continuing the year-to-date trend. In addition to the ongoing war in Ukraine, the impact from slowing economic growth, rising interest rates, and high inflation have all significantly hit markets. Given the selloff in equity markets, the VIX increased by 10.1%, from 28.7 to 31.6.

In the **US**, the S&P 500 fell by -4.9% and the NASDAQ fell by -3.9% in response to interest rate hikes. Communication services and REITs were the hardest hit in the quarter, down -12.7% and -11.0% respectively. Energy and consumer discretionary were the only positive sectors in the quarter, although consumer discretionary had fallen significantly in Q2.

UK equities continued to be impacted by the war in Ukraine and subsequent volatility in energy prices. The BoE raised the base rate to 2.25% in September. New fiscal policies from the new Government resulted in markets falling sharply and Gilt yields rising dramatically at the end of the quarter. However. On a relative basis the UK somewhat outperformed global equities, declining by -2.8% (FTSE 100) and -3.5% (FTSE All-Share).

The **Euro Stoxx 50** fell by -3.7% in Q3 as the ECB ended its long period of negative rates. Concerns over the higher cost of living and the possibility of recession saw the European Commission's consumer confidence reading fall to -28.8 in September, a level lower than during the peak fear of the pandemic.

Japanese equities fell by -0.9% in Q3. While inflation has been trending higher and above the target range, it remains well anchored relative to peers, at only 3.0% for August. The BoJ has steadfastly kept monetary policy stable, but was forced to intervene in currency markets as the yen has fallen particularly sharply against the US dollar, reaching 144.

Emerging market equities fell more (-11.5%) than global equities, with US dollar strength the main headwind as well as marked weakness in Chinese economic data.

Global Equity Markets Performance

Source: Bloomberg. All in local currency.
FTSE All-Share Index (Ticker: ASX Index) S&P 500 Index (Ticker: SPX Index) STOXX Europe 600 (Ticker: SXXP Index)
Nikkei 225 Index (Ticker: NKY Index) MSCI World Index (Ticker: MXWO Index) MSCI Emerging Markets (Ticker: MXEF Index)

Fixed Income

Bond yields rose in Q3 amid elevated inflation and rising interest rates. Yield's initially fell in July/August due to rising recession concerns; but ended the quarter higher on Central Banks' comments and rate hikes. In corporate bonds, high-yield credit outperformed as spreads were largely unchanged and have less duration sensitivity. Emerging market bonds fell -4.3% in local currency, and -4.6% in hard currency.

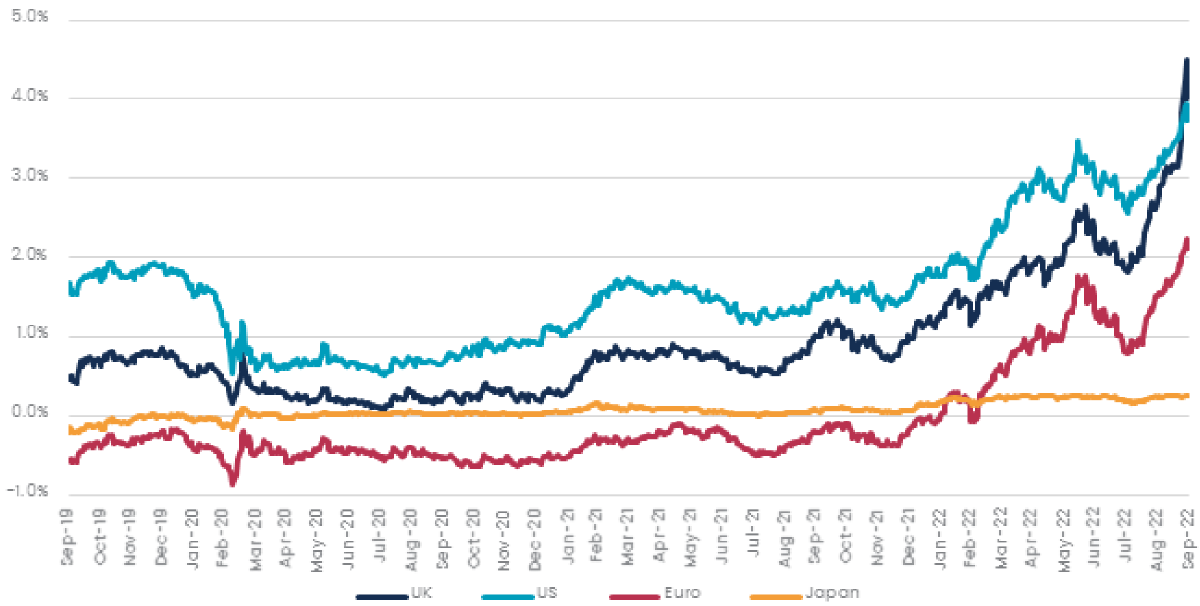
The US 10-year Treasury yield rose from 2.98% to 3.83% and the 2-year from 2.93% to 4.22%. Treasuries provided a total Q3 return of -4.3%. The unemployment rate rose slightly to 3.7% in August, indicating a still strong labour market, and supporting the Fed's case for further policy tightening. The Michigan Consumer Sentiment index rose to 58.6 in September but remains well below pre-pandemic levels.

The UK 10-year Gilt yield increased from 2.23% to 4.09% and 2-year rose from 1.88% to 4.30%. Much of the increase occurred in August/September due to the proposed tax cuts and borrowing by the new government, which caused sterling to slump and yields to spike, and for the BoE to announce emergency gilt buying. The yield spike is understood to have also resulted in forced selling to meet margin calls from some pension funds with LDI strategies.

European government bonds had a total return of -5.1% in Q3. The selloff in European government bonds took place as the ECB raised rates by 125bps in Q3 with further rises expected to try and reduce inflation, following the same path as the BoE and Fed. The German 10-year bund yield increased from 1.37% to 1.87% with Italy's up from 3.19% to 4.17%, although hitting as high as 4.75% in September.

US high-yield bonds outperformed the global bonds market, returning -0.6%, and European high-yield bonds returned -0.9%. Investment-grade bonds returned -11.4% in the UK, -4.7% in Europe and -5.1% in the US.

Government Bond Yields



Source Bloomberg. US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index).

Currencies

In Q3, sterling weakened sharply against the US dollar (-8.3%) and the euro (-2.0%). The principal driver came late in September as the new Chancellor proposed cutting taxes and increasing government borrowing. Existing fears of a UK recession and inflation uncertainty had already placed relatively low confidence in the UK economy and currency. Overall, the US dollar (Dollar index +7.1%) had a strong Q3 and strong YTD (+17.2%). Notably the US dollar also strengthened against the Japanese yen by 6.7% despite the intervention by the BoJ, reflecting the attractive mix of a high interest rate and "safe haven" status that the dollar currently offers.

Commodities

Energy prices fluctuated in Q3 2022, with the continuation of the war in Ukraine, and tension regarding the Nord Stream pipeline. Natural gas prices rose, while crude oil prices fell as recession fears (and expectations of falling oil demand) weighed on sentiment. Precious metals fell, negatively impacted by the rise in rates.

US gas prices rose 24.7% over Q3, influenced by concerns over global supply. The increase in exports from the US to Europe, due to Europe seeking to replace Russian gas, has led US prices to rise. Prices in Europe climbed over Q3 (Dutch TTF Gas Futures +33%) due to the aforementioned Nord Stream issues. Prices spiked round 330 €/MWh in August when Russia announced a 3-day shutdown of Nord Stream 1, but subsequently retreated to end the quarter at 188.

Brent crude oil fell -23.4% in Q3. Prices have been volatile as fears of a fall in demand from a global recession and structural trends toward renewable energy have clashed with supply side disruptions. Oil prices fell through the quarter except a small jump prior to the OPEC+ meeting in early September where the group agreed a marginal but symbolic cut in production. Brent closed the quarter at $88 per barrel.

Gold and Copper fell -8.0% and -8.1% respectively in Q3, with gold falling on rising interest rates, and copper falling on concerns of slowing economic growth, Chinese economic growth in particular. Gold and Copper closed Q3 at 1,662 USD/toz and 341 USD/lb, respectively

Property

Global listed property had a weak quarter, with the FTSE EPRA Nareit Global Index falling -3.8% in Q3.

Property prices in the UK have begun to decline recently, with the Green Street Commercial Property Price Index down by -4.9% this quarter. The all-property index is now down -5.9% since the start of the year.

The Nationwide House Price Index in the UK fell slightly to 9.5% YoY in Q3, down from 10.7% in Q2. Expectations indicate a slowdown, with mortgage approvals falling back towards pre-pandemic levels and rising mortgage rates. However, the housing market has retained some momentum given rising inflation and further stamp duty cuts.

Key Indicators at a Glance

Market Indicators

	Index (Local Currency)	Q3 2022	Quarter-on-Quarter	YTD
Equities		**Index Value**	**Total Return**	
UK Large-Cap Equities	FTSE 100	6,894	-2.8%	-3.8%
UK All-Cap Equities	FTSE All-Share	3,763	-3.5%	-8.0%
US Equities	S&P 500	3,586	-4.9%	-23.9%
European Equities	EURO STOXX 50 Price EUR	3,318	-3.7%	-20.4%
Japanese Equities	Nikkei 225	25,937	-0.9%	-9.8%
EM Equities	MSCI Emerging Markets (USD)	876	-11.5%	-27.0%
Global Equities	MSCI World (USD)	2,379	-6.07%	-25.12%
Government Bonds				
UK Gilts	FTSE Actuaries UK Gilts TR All Socks	2,968	-12.8%	-25.1%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	3,764	-18.8%	-38.9%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	4,256	-9.3%	-29.3%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	5,231	-11.1%	-39.2%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	213	-5.1%	-16.7%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	2,173	-4.3%	-13.1%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	115	-4.3%	-16.7%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	743	-4.6%	-23.9%
Bond Indices				
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	310	-11.4%	-23.3%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	209	-4.7%	-16.6%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	372	-0.9%	-15.1%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	2,864	-5.1%	-18.7%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2,099	-0.6%	-14.7%
Commodities				
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	88	-23.4%	13.1%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	6.77	24.7%	81.4%
Gold	Generic 1st Gold, USD/toz	1,662	-8.0%	-9.1%
Copper	Generic 1st Copper, USD/lb	341	-8.1%	-23.5%
Currencies				
GBP/EUR	GBPEUR Exchange Rate	1.14	-2.0%	-4.2%
GBP/USD	GBPUSD Exchange Rate	1.12	-8.3%	-17.5%
EUR/USD	EURUSD Exchange Rate	0.98	-6.5%	-13.8%
USD/JPY	USDJPY Exchange Rate	144.74	6.7%	25.8%
Dollar Index	Dollar Index Spot	112.12	7.1%	17.2%
Alternatives				
Infrastructure	S&P Global Infrastructure Index	2,411	-9.6%	-10.1%
Private Equity	S&P Listed Private Equity Index	144	-10.2%	-35.8%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	17,496	1.7%	-4.0%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,599	-3.8%	-13.7%
Volatility			**Change in Volatility**	
VIX	Chicago Board Options Exchange SPX Volatility Index	32	10.1%	83.6%

* All return figures quoted are total return, calculated with gross dividends/income reinvested.
Source: Bloomberg

Market thoughts

China; broken?

Through my connections with Nomura Asset Management I asked their Head of Investments for Asia Pacific ex Japan, Vipul Mehta, to put his thoughts about the investment proposition for China into writing. He has provided a very well balanced essay on the China conundrum which I share with you below. It doesn't provide an answer, but does provide a lot of food for thought.

The China Saga

China has been in the middle of a long-lasting saga, which unfortunately does not seem to end as new events give rise to new controversies and the muddle gets messier. There is little doubt that there must be a long-lasting impact from everything that the country has gone through, on the population at large, socially and economically. It has also been nothing short of an enormous struggle for investors who would inevitably have had large stakes in China, just given its enormous presence in the world and the huge influence on all aspects of global economics. This discussion will be largely limited to the impact on equity markets and equity investors, though there is an obvious reference to everything that has an influence on the same. The all-important National Party Congress, which just concluded in the last few days of October 2022, an update of which is added at the end of this paper, further seems to set the direction in which the economy and the markets could be heading.

Dismal equity market performance over the long term

Graphs and numbers can be very deceptive, especially in the world of equity markets and very likely they hide more than they reveal. The MSCI China Index is one such example wherein the index could be cut, diced and interpreted in several ways. One also needs to be mindful that the composition of the index itself would have undergone significant changes over the last few decades.

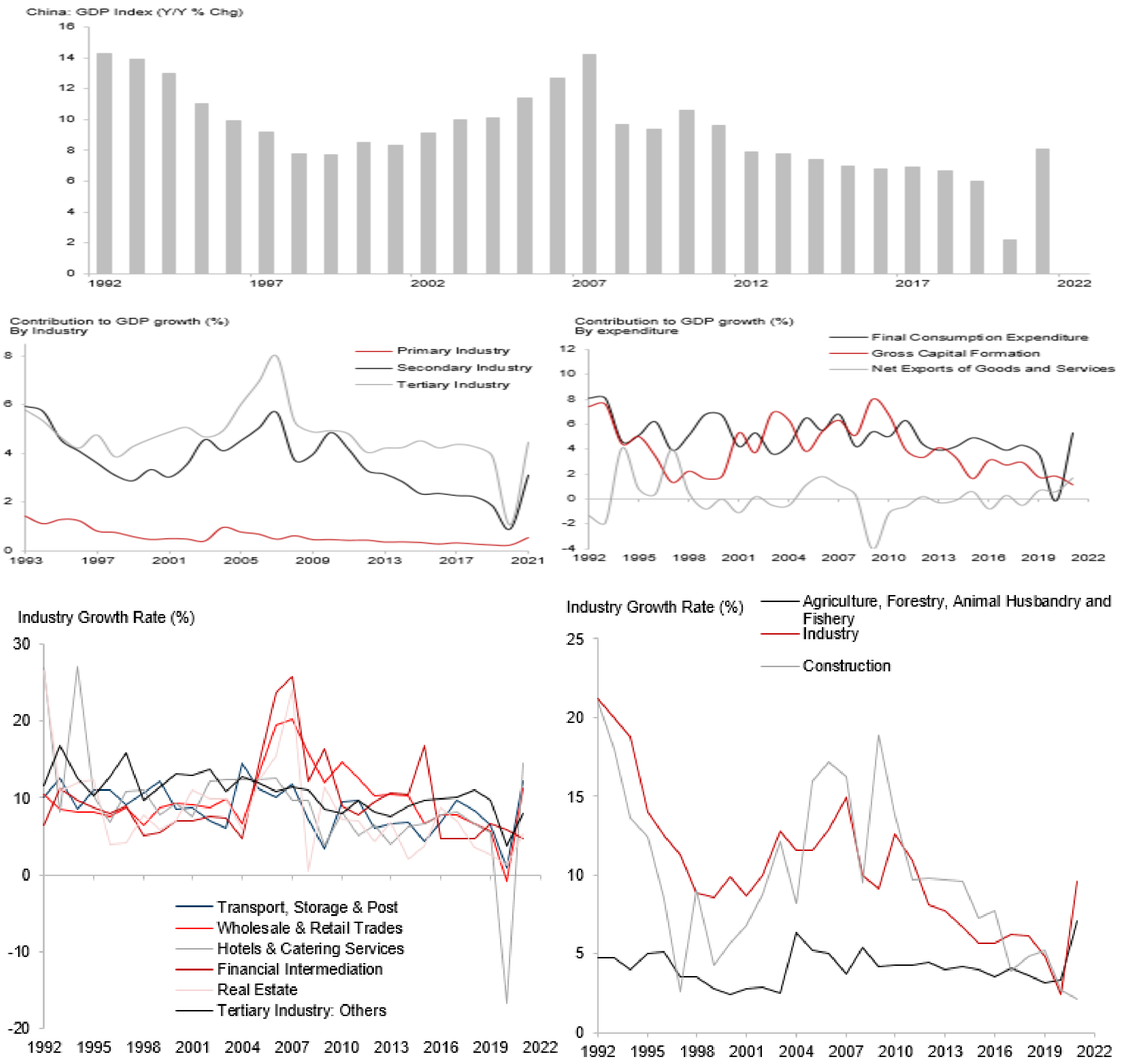
Looking at a point to point three decade performance would leave most investors aghast given the fact that in USD terms, the index has lost a third of its value. The data turns on its head though as a two-decade period from the lows of 2002 would have generated almost a four hundred percent return, whilst the last ten years have been exasperating with no returns generated at all. This also hides many periods when the markets generated super normal returns, the most notable being the period between 2004-2007, but in more recent times the big moves in 2017 and then the Covid move, both of which enabled investors to generate more than 50% returns in a short period of time at the index level and much more if one were to correctly pick individual stocks.

Performance of MSCI China in USD terms over three decades and broken down by each decade

Sources: Bloomberg, Factset, NAMS, Oct 2022

The growth years

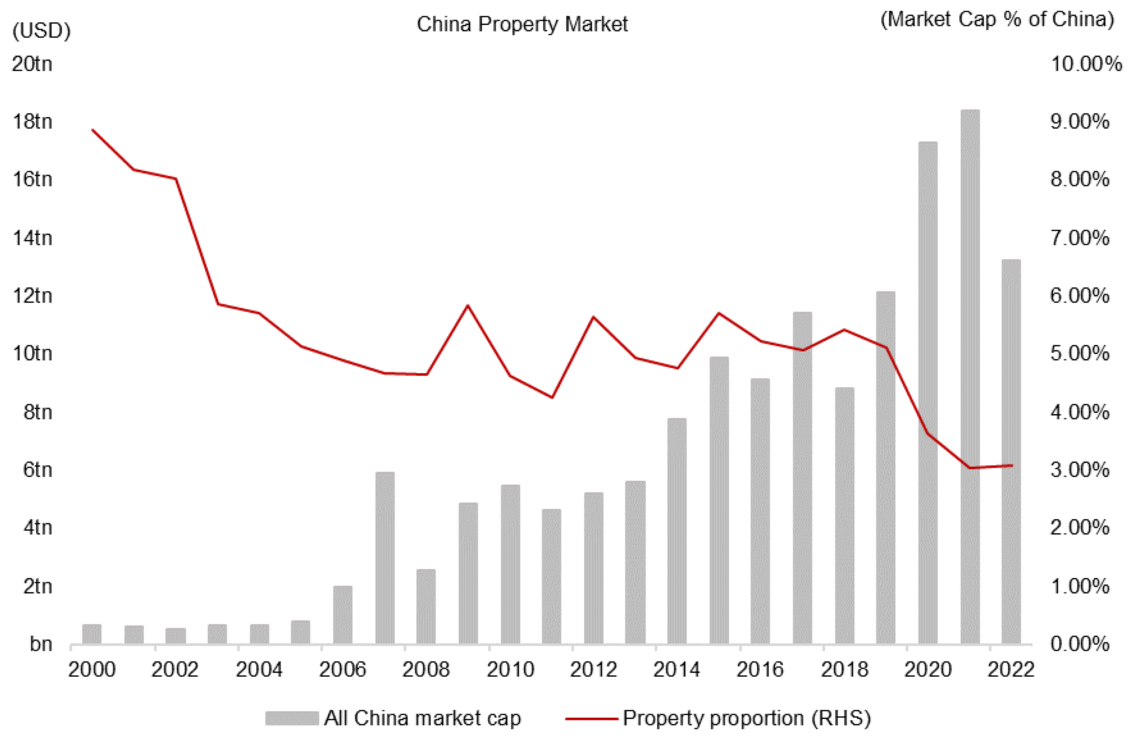
The economic boom in China started with entry to the WTO in 2001, post-which the country embarked on a massive infrastructure and asset building boom, also becoming the factory to the world and in the process stamping its status as the growth engine to the globe and exporting significant deflation too. Incidentally, a massive after-effect of this can be felt in the current supply led inflation turmoil. This economic boom and prosperity planted the roots of what has created two deep and connected malaises; the uninhibited growth in the property sector and the uncontrolled leverage, direct and indirect at every level of the economy, the most impactful being the corporate leverage reflected in the poor banking system metrics. It was all too good while it lasted. Yet another trend, which emerged from the restrictive policies of China, was the emergence of the new economy, the internet/e-commerce sector. On the one hand, the American architects of Google, Facebook and Amazon were restricted from having a free market participation in China and on the other hand, the Chinese built its own ecosystem in these areas and further improved on them. This resulted in one of the biggest stock market wealth creation phenomenon as these Chinese new economy giants matched the American behemoths dollar for dollar in terms of market capitalisation and at its peak the new economy in China went from nothing in 2010 to an aggregate market capitalization of USD 3 trillion in a short period of time. And this now represents more than a third of the Chinese markets with reference to the MSCI Indices.



Sources: Haver, Goldman Sachs, Oct 2022

The start of the problems

The events above had laid the foundation for various problems that China was to face over the next few years. On the macro front, the economic boom and prosperity had created a massive leverage, while on the micro front it was also responsible for creating corporate billionaires, which was against the basic thread of the Chinese ruling system. The economic boom had also created a huge bubble in the real estate market where large amounts of wealth generated was parked and resulted in the creation of ghost towns – something that needed to be seen to be believed. Obviously, it also resulted in massive leverage being taken by the developers under the assumption that the wheel would keep rolling on forever.



Sources: Factset, Goldman Sachs, Oct 2022

In the middle of the last decade, there was one large clamp down on corruption, but it was limited in its scope. Meanwhile, the repercussions of being the factory to the world, the advent of Donald Trump as the POTUS and the threat of intellectual property being at risk to China laid the seeds of the Sino-US trade war. It was turbulent waters as far as the equity markets was concerned thereafter. The trade war had widespread implications in areas of technology, investments and ADR listings, amongst many others.

Socialistic dynamics in China was another aspect of the economy, which was to have far-reaching consequences. The government had announced a ban on approval of new games way back in 2018, which at the time was thought to have limited consequences. Little did we know that the implications, especially when combined with the creation of super rich corporate tycoons was a part of the larger social plan, which later morphed into what was called the "Common Prosperity Program". Bigger trouble came through in the huge wealth creating new economy sector when the ANT group's IPO was halted, which in turn brought parent Alibaba and its founder Jack Ma to its knees and even this was ignored by the markets to an extent as a specific case. What preceded the Alibaba events was one of the huge bull runs in the new economy sector because of Covid, the loose monetary policy in the US and the rise of Nasdaq-listed technology stocks, but more on that later.

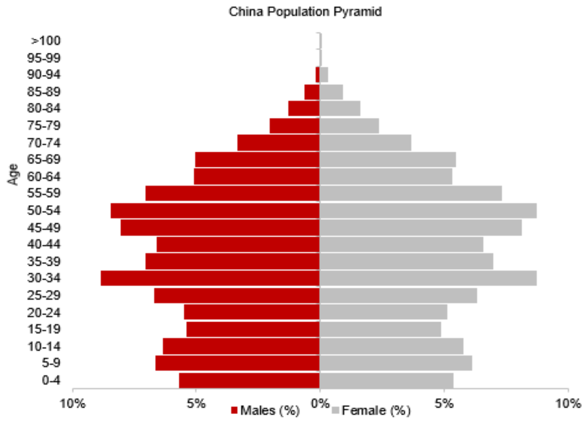
The next event was an absolute hammer blow for the new economy in China and most so the equity markets when private school tutoring were declared non-profit organisations. Imagine a listed industry which had delivered phenomenal returns over the years, which was a market darling in popular parlance being told on an overnight basis that they could not make profits. It was mayhem as these specific stocks lost 90% of their value in a very short period and it was just the beginning of a trend. Meanwhile, cybersecurity issues and overseas listing guidelines for US listed ADRs, themselves a large size, was creating further controversy and imposing pressure on the Chinese. And to cap everything off, the overarching but less understood Common Prosperity Program was to have far-reaching consequences. From the new economy perspective, it meant transfer of wealth from enriched equity holders to the workers, a floor on wages and insurance benefits – in sum total – a cap on the profitability of companies. Even in the beleaguered property sector which was already drowned in debt, it meant that property was meant for residing and not for investments and gains, which in turn implied that clearing of inventory was a mirage.

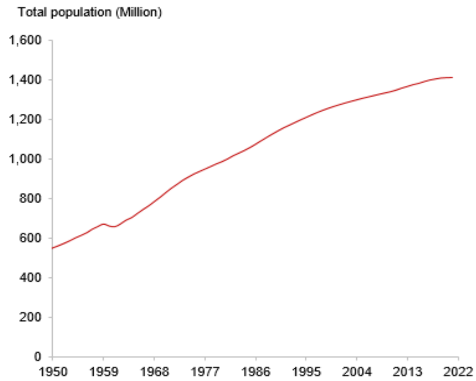
It is said that the pandemic, eventually named as Covid-19 started off in China and as we all know spread around the world with disastrous consequences, until then, probably an event not experienced by anyone in their living memory. China set the tone with citywide and province-wide lock downs and in the first phase was the least impacted from Covid in terms of fatalities. While most of the rest of the world moved on, especially with vaccines coming on stream, it seemed like China refused to accept the international vaccines, whilst it is believed that their own vaccine was not as effective. As a result, while most of the world has almost normalised out of Covid, China is unable to get out of its zero Covid policy and the start-stop phenomenon of the economy continues almost two years after the onset of the pandemic and still with little visibility. This has had widespread implications, not least of which is a sharp slowdown in growth rates in spite of a monetary policy which is going in the opposite direction to the rest of the world. It is after all a fine balancing act between stimulus and leverage. The longer term and humane consequences of the lock downs notwithstanding, the slowdown would continue to be accentuated with every day of delay in a complete reopening of the economy.

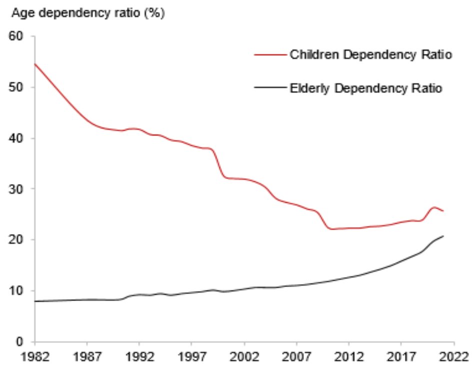
The only bright spot came in the initial phase post the pandemic and the lock downs when it seemed like the country was the first to have controlled the virus and the equity market performance was amongst the best in the world in 2020. After that, it was all downhill. In conclusion, as we see it at the end of three quarters of calendar 2022, everything that could have gone wrong with the country has gone wrong and most so with the equity markets. Not in recent history has one seen one of the largest equity markets in the world lose more than 25% for two consecutive years, with a number of sectors and stocks decimated. Corporate earnings growth is sparse given the anemic economic growth and it almost feels like there is no place to hide with respect to equity markets.

Debt and demographics

To get the negatives out of the way, some of the issues are of a longer term if not of a permanent nature. Demographics will possibly be the biggest negative factor as the absolute population of China starts declining from the current year and more importantly, the working population is on the fall while age dependency increases. The consequences of this demographic profile has been witnessed with negative consequences in many parts of the world historically and China is not expected to be any different.

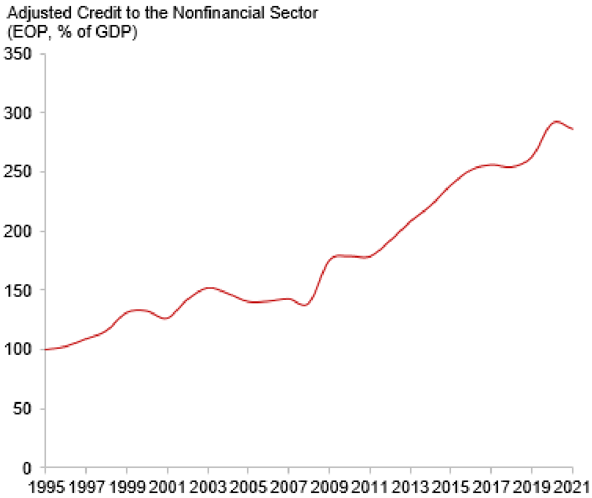


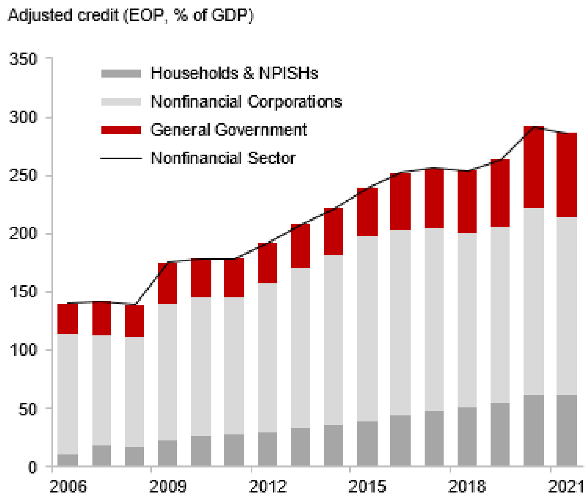




Sources: CEIC, NBS, Goldman Sach, Oct 2022

The Common Prosperity program as it is shaping up could have serious and far-reaching consequences, least of which, they are very socialistic in nature and therefore not in favor of minority shareholders whatsoever. What seems to be obvious is that the woes of the property sector are not going away soon which means a drag on the fiscal revenues, hurting international bond markets for Chinese debt and a vicious cycle of domestic leverage. Further, the new economy might never come back in the form and prosperity which we witnessed at its formation and growth stage and this could impact employment within the country. Finally, the geo-political issues, the trade war and intellectual property matters are all factors which could increase the risk premium for the markets.



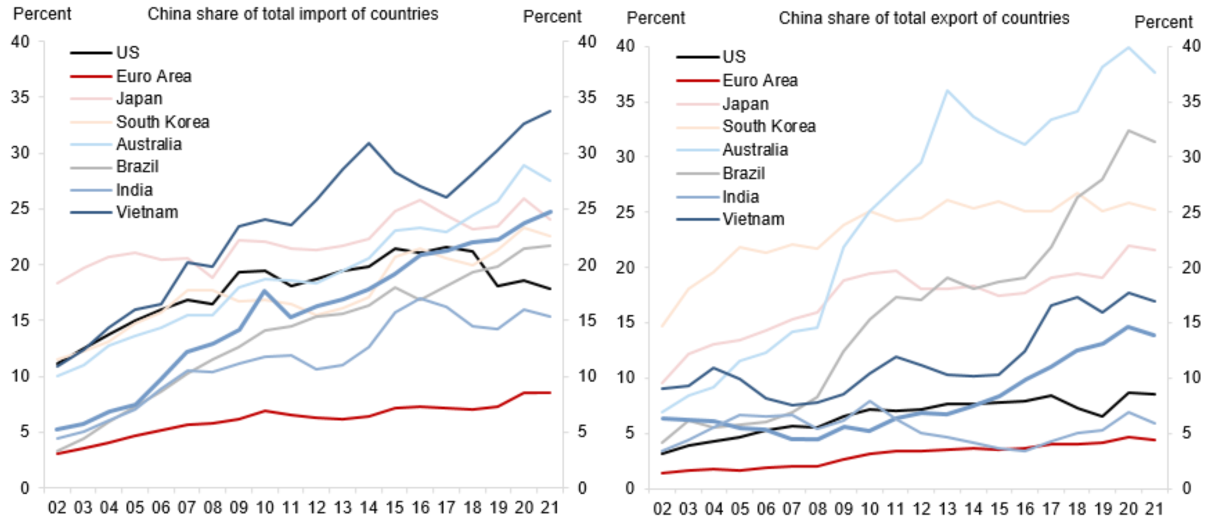


Sources: CEIC, NBS, Goldman Sachs, Oct 2022

For investors and even otherwise, it cannot be all doom and gloom though, as everything above has suggested, for two reasons; first, China has the resources and the firepower to fight off various issues on different fronts and second there has been many a surprise historically, and that too a sizeable one. Therefore, it is worth getting into what can be a positive investment case on China. The easiest argument to present would be to say that it is darkest before dawn or that we are absolutely at the rock bottom as far as the country is concerned, from which there is only one way to go.

Getting more granular on the positive arguments: China is one of the largest economic superpowers in the world still yielding a large influence on most other economies, especially with respect to trading relations. It might not be a big surprise to conclude that China is the largest trading partner to most other countries in the world and prices of goods and services and therefore economic policies are greatly influenced. No matter, how slow the growth rates, it is one of the few large countries with a sustained positive growth rate and therefore its ranking in the world pecking order is only going to increase. China's fiscal prowess cannot be doubted and there is a lot of room for monetary adjustments to get the economy back on its feet.

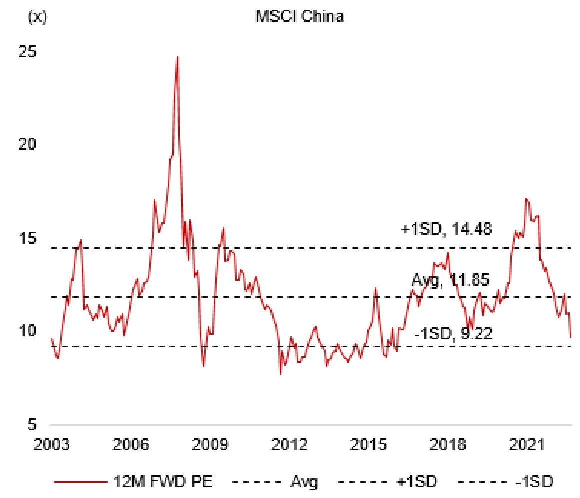
China as a trading partner



Sources: CEIC, NBS, Goldman Sach, Oct 2022

Looking at the short to medium term, there is a positive set-up for the equity markets. The huge underperformance of the markets for such a long period and to such an extent is in itself a positive from a mean reversion perspective. From the pandemic perspective, we have seen the rest of the world open up and move on to a more normalised state of affairs. Economies recovered sharply on normalization and it should be a matter of time before China gets going, out of the zero Covid policy to a more dynamic and flexible environment and therefore the start of the economic recovery. Maybe the Party Congress and the re-election of President Xi with the seven members of the cabinet is a catalyst for some distinct visibility in the Covid policy and following that the economic policy. Notwithstanding some of the longer-term problems mentioned above, the economy and the corporate sector would be looking behind at a very favorable base effect and therefore more positive growth rates even as the rest of the world is slowing down for all the obvious reasons. The internet and the new economy related sectors have witnessed severe regulatory and restrictive action and we have seen some signs of these restrictions abating as well. Meanwhile, companies have lost more than half of their market caps in most cases, even as they are looked upon as huge employment generating entities. On the other hand, most traditional components of economic activity, consumption, investments and trade have seen a significant slowdown in the last few quarters and as a result corporate earnings growth rates have been decimated. This has been accompanied by obvious apathy from foreign investors who have been significantly disillusioned by various aspects of the Chinese financial markets, not least the opacity, unpredictability and volatility. Moreover, all of the above has resulted in valuations of the Chinese equity markets being at their lowest levels for a long time in history. The spring effect in the form of a rebound is therefore a very high probability event. Then there is a large and undiscovered domestic market to be discovered which is reasonably well supported by a large pool of domestic investors with deep pockets as well.

Valuations



Sources: Factset, Oct 2022

At the end of the day, China is still one of the largest markets in the world, a large component of most global indices yielding a significant influence on all aspects of global financial markets. There is a huge array of large investible companies, which offer tremendous moneymaking opportunities as we have witnessed several times in history. In conclusion, therefore, it would be foolhardy to write China off as an investment case.

Environmental, social and governance considerations

There is also a very important element of Environment, Social and Governance (ESG) which needs to be addressed and we have chosen to write about some of the aspects of ESG in a separate section below.

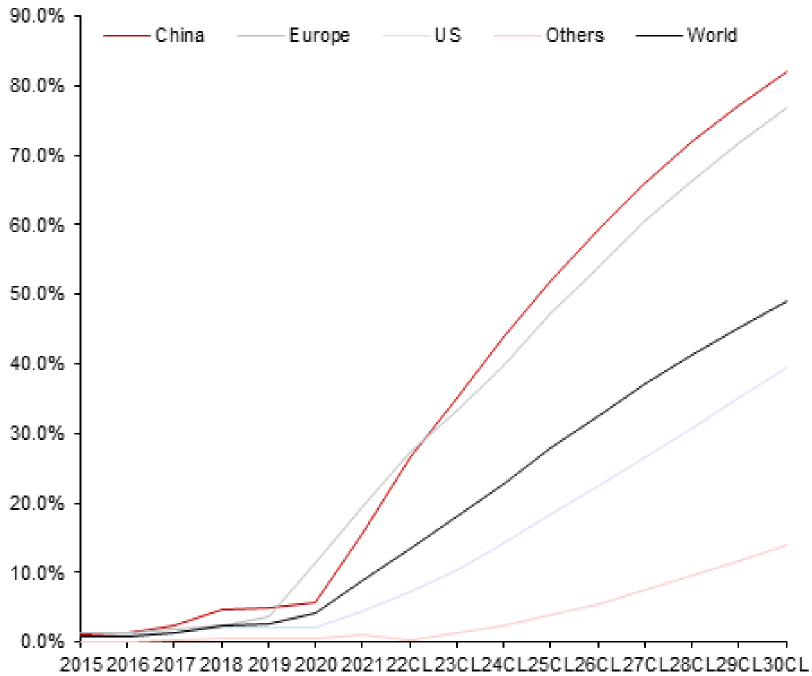
China's communist party agenda of driving an economic transformation, from prioritising growth at any cost to pursuing its Common Prosperity agenda, as well as tackling climate change, at a high level suggest an alignment on sustainability issues. China's "Carbon Neutral 2060" pledge (peaking of carbon emissions before 2030 and becoming carbon neutral by 2060) is a reflection of its commitment to tackle climate change issues. However, the target still falls below what is expected for well-below 2 degrees or 1.5 degrees and while the EU, US, Japan and Korea aim for net zero by 2050 , China's carbon neutrality goals come after, in 2060.

Carbon Peaking by 2030

Peaking by 2030 implies higher absolute emissions for the next few years, which is in contrast to an approximate 50% reduction required by 2030 under the "net-zero by 2050" ambition.

We believe the Central Party's agenda of ensuring energy security (besides economic and social security) as a long-term priority is also dictating China's stance towards a gradual (instead of aggressive) phasing down of coal (fossil fuel) share in the overall energy mix. In the same vein, it is important to highlight the superior progress, supported by central policy directions, guidelines and incentives, across the value chain of electric vehicles and renewable infrastructure achieved by China. We think decarbonisation is a secular theme in China and the Party remains committed to achieving the carbon emission related goals.

Electric vehicle volume penetration by region

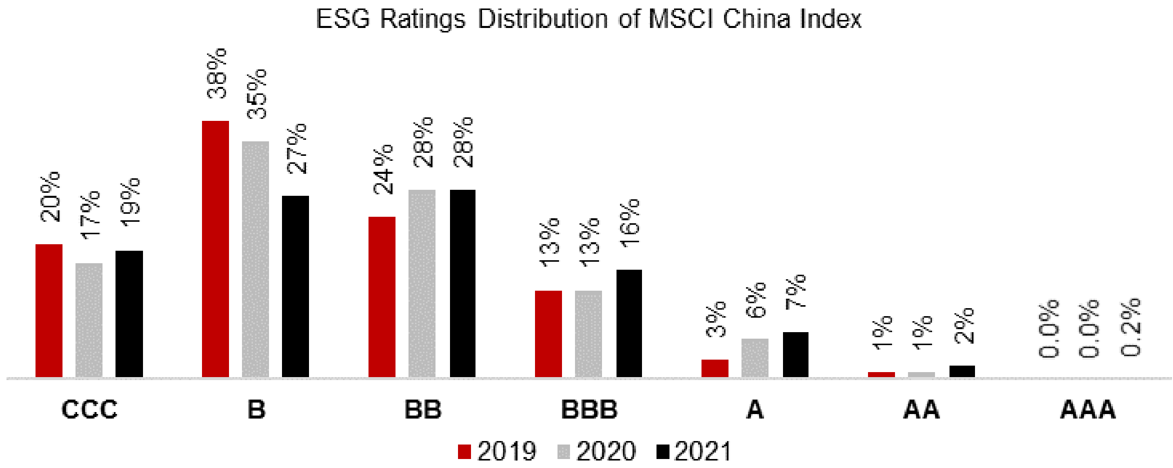


Source: IEA, CLSA

Pursuing Common Prosperity has been a strategic initiative that has gathered momentum in the recent past. The focus of these initiatives has been to achieve an equal distribution of income, wealth and opportunities to alleviate poverty, which is in line with the UN SDG 2030 agenda. We have seen tighter regulations in the financial and technology sectors resulting in significant erosion in market cap for some of the big tech companies. While it is difficult to predict additional policy measures across sectors, we are of the opinion that regulations for the technology sector have peaked based on the government's declaration of a sustained development of the platform economy as well as taking into account the current high levels of unemployment (approximately 20% unemployment in the 19-24 age group .

The challenge, however, crops up when the discussion shifts towards human rights issues, including forced labour. We have seen countries imposing measures against China over human rights controversies, for example - US Uyghur Forced Labor Prevention Act (effective June 22) prohibits imports of goods made in part or wholly in Xinjiang unless the US Custom and Border Protection Agency can certify that products are not made with forced labour. Increasing human rights scrutiny globally could result in stringent policies compelling the decoupling of supply chains and relocation of production away from China. In addition, recent geopolitical tensions (Russia-Ukraine invasion) also bring forth concerns about China's authoritarian style of governance.

On governance, companies in general are ranked lower due to their stated owned enterprise (SOE) nature and higher shares of controlling shareholders, implying likely lower board independence and diversity. However, we have noticed an upward shift in the MSCI ESG ratings for MSCI China Index constituents (share of ESG laggards – CCC and B- rated companies have declined from 59% in 2019 to 46% as of the end of 2021). We expect more companies to be upgraded over time as we see more detailed corporate social responsibility reports published annually and improved responsiveness of companies to addressing ESG issues.



Source: MSCI ESG Research, as of Dec 31 of each year. Companies without ESG Ratings

We view that China is actively pursuing measures to address core sustainability issues such as climate change, while taking other ESG objectives such as Social and Governance at a more measured pace. The central government is driving these ESG objectives changes through the SOE companies and we absolutely take into consideration whether these objectives are fair to non-controlling shareholders before making an investment decision. We are hopeful that China will improve its ESG standards and we will continue to select companies that have ESG initiatives that will benefit minority shareholders.

Latest developments - 20th Party Congress, October 2022

Over the last weekend, the all-important 20th Party Congress was concluded and the 20th Politburo Standing Committee (PSC) was announced. President Xi was elected as the General Secretary of the CCP and the Chairman of the Central Military Commission. The number of members were unchanged at seven with four newly appointed members:

Source: Government websites, Xinhua News Agency

Li Qiang – now the Premier or the No 2 in the PSC, recently the Shanghai Party Secretary and well known in international market circles for the Shanghai lockdowns. Cai Qi, Ding Xuexiang and Li Xi are the other three members who are promoted and take the place of Premier Li Keqiang, NPC Chairman Li Zhanshu, CPPCC Chairman Wang Yang and Hu Chunhua.

The key messages from the line-up include:

The newly formed PSC worked with President Xi Jinping closely in the past. Markets are interpreting that these are President Xi's protégés and the President has consolidated his power further and will heavily influence how China will be run going forward. The new leadership also indicates more concentration in top decision-making procedures and paves the way for policies to be executed with minimum challenge. In addition, there were no signs of a viable successor to President Xi, though younger loyalists were promoted.

In line with expectations, specific policies will only be discussed next year and nothing will be announced this year. Government related positions will be announced at the National People's Congress scheduled in March 2023. However, "common prosperity" was reiterated during the Congress, which in turn can be construed as redistribution of wealth from the wealthy to the low/middle income groups and to the rural economy which in turn could hurt certain private sectors, more specifically the new economy related areas. Taking a look back in history, in September last year, Vice Premier Liu vowed that the government would keep supporting the private sector and in October President Xi emphasized the healthy development of China's digital economy. Even recently in the first half of 2022, China's PSC calls for a normalisation of regulation. With the recent changes in the PSC, one will need to reassess how much support will be given to the platform economy given that "common prosperity" appears to be the key focus and this was exacerbated by removing pro-market proponents such as Li Ke Qiang and Liu He. Another statement, which caught attention was "regulation of wealth accumulation".

The Chinese markets took a massive beating on the first trading day after the NPC with the brunt of it being borne by the new economy sector. KWEB, the new economy ETF listed in the USA was down as much as 14% and prominent leaders such as Tencents, Alibaba, Meituan and JD.COM in the local trading preceding that, all registered double digit losses.

China's "Dynamic Zero Covid" policy was also addressed during the meeting and it will remain the case until further notice. Li Qiang who currently serves as the Party Secretary of Shanghai was appointed as the No.2 member in the PSC. He was in charge of overseeing the lockdowns in Shanghai and the market is worried that his appointment will lead to China not reopening in 2nd quarter next year, which was the prominent expectation. China's zero Covid policy might continue to have a significant impact on various aspects of the country – economic as well as social - and every delay is only worsening the impact on the potential recovery.

Another point of concern is China's property sector. The property sector continues to drag on the overall economy and the latest property investment print which was released this week showed a 12% decline in September over the same period last year, bringing the year to date number to -8% cumulative in the first three quarters of the year. New starts were also down almost 50% in September. Sales continue to remain very weak given the poor sentiment and it is hard to see this changing anytime soon. New marriages also point towards weak demand and without a meaningful stimulus from the government, this sector will continue to remain sluggish. Stimulus of a mega proportion would be needed to revive this sector and that in turn would impact the debt situation of China.

Post the party congress, it is not unthinkable to compare the Chinese market to Russia as an extreme case and assign a similar risk premium and valuation. If this is the case, China will continue to de-rate until President Xi can deliver concrete policies which are shareholder friendly.

Security is another thematic, which is a priority and it encompasses various forms – technology, energy, trade, and dependence on capital, defense and any other aspect, which China might be short on.

Finally, the chances of conflict over Taiwan are probably higher than the very low probability assigned to it before the event. Engagement with the West might suffer, technology and trade wars might remain escalated and the ADR saga could take a turn for the worse.

From a market perspective, we do not however think it is all negative. Chinese markets have been decimated over the last couple of calendar years and a lot of negativity might have been captured. Admittedly, there will continue to be a lot of opacity in policies, unpredictability in the direction of the economy and uncertainty and volatility in the markets. It will be easier said than done to be in the right sectors and then in the right stocks will also be challenging. From an allocation perspective therefore, risk premium on China has definitely increased and therefore, on a relative basis, we currently prefer to take a negative stance on the markets, reflecting an underweight position.

That said, we continue to look for companies, which can grow, regardless of policy direction and monitor any clues for a shift in policy towards certain sectors. For now, the internet sector will probably remain under pressure and it will be a funding source for other stocks. We have gradually shifted weight further to reopening plays which are SOEs which we deem to have lesser risks vis-à-vis other sectors. China currently faces many challenges and without clarity on policy direction, a weak property market and "common prosperity", confidence will continue to remain weak.

Recommendations

1. That members and relevant officers hold an informal session to consider future strategic asset allocation, including ESG and climate change considerations.
2. A meeting is then arranged with Brunel to discuss the forthcoming Strategic Asset Allocation review and this Fund’s aspirations, along with any actions required to address a higher inflation environment.
3. To progress a Brunel led training programme for Fund elected members and others that will provide information about the asset classes that they manage and their processes.

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Private Markets Report

Oxfordshire Pension Fund

Third Quarter 2022

Philip Hebson
MJ Hudson

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Private Markets 3rd Quarter 2022

The table below shows the development of the Oxfordshire Pension Fund's Private Equity portfolio during Q3 2022. It divides the portfolio between the listed and the unlisted investments, and while it is meaningful to calculate a rate of return for the listed part, the infrequent revaluation and the subjective nature of the unlisted holdings valuations make a similar figure misleading. The table shows separately the Private Equity investments made by Brunel.

(£m)	30.06.22	Purchases	Sales	30.09.22	Appr'n	%
Listed	**135.48**	0.741	Nil	**131.54**	-3.94	**-2.9**
Unlisted	**125.83**	7.185	13.430	**119.5**		
In-house	**261.31**			**251.04**		
Brunel	**87.50**	0.932	0.011	**99.1**		
TOTAL	**348.81**			**350.14**		
Overall Fund	**3049**			**3015**		
Private Equity %	**11.5%**			**11.6%**		
Indices						
FTSE 100	**7169.3**			**6893.8**		**-3.8**
FTSE 250	**18666.8**			**17168.3**		**-8.0**
Small Cap	**6234.4**			**5877.6**		**-5.7**
All-Share	**3940.9**			**3763.5**		**-4.5**

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Listed portfolio

1. With the exception of HG Capital (which rose by 7.9%) all the main listed holdings registered falls in value in a range between -0.3% and -11.8% in the quarter, reflecting the uncertainties prevalent in listed equity markets and some adjustments to valuations reflecting a more uncertain outlook. Despite the falls seen in the listed portfolio, the existing private investments combined with the new investment by Brunel, has seen the Private Equity weighting in the overall fund rise to 11.6%**,** compared with its benchmark of 10%. This increase in percentage (from 11.5%) also reflects the falls in value of other asset classes in comparison to private equity.

   Dividend reinvestments were made with 3i Group, CT Private Equity and Abrdn PE Opportunities Trust during the quarter, which all reflected that their shares were trading at significant discounts to the Net Asset Value. The total value of the dividends reinvested was approximately £741,000.

2. Leading movers during the quarter:

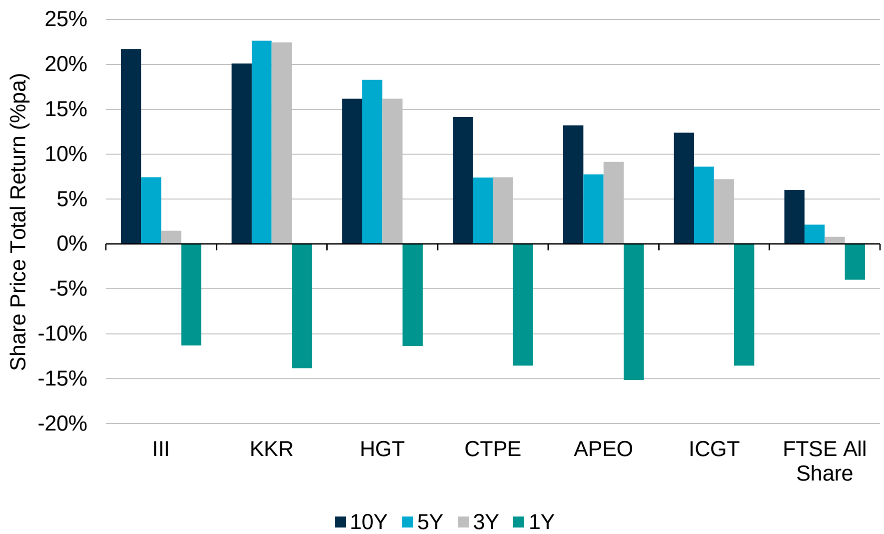
	£m	% *
HGT	1.4	7.9
CT Private Equity	-1.7	-11.8
abrdn Private Equity	-2.9	-9.9
KKR (£ rebase)	0.1	-8.0
ICG Enterprise	-0.7	-7.0
3i	0.1	-0.3

* = share price movements, source Google Finance
Values may include dividend reinvestments, so are not directly linked to the share price movement.

3. In this table I have given the longer-term performance of the main holdings, with the FTSE All Share for comparison. (Data to 30 September 2022)

	III	KKR	HGT	CTPE	APEO	ICGT	FTSE All Share
10Y	21.7%	20.1%	16.2%	14.1%	13.2%	12.4%	6.0%
5Y	7.4%	22.7%	18.3%	7.4%	7.8%	8.6%	2.2%
3Y	1.5%	22.5%	16.2%	7.4%	9.1%	7.2%	0.8%
1Y	-11.3%	-13.8%	-11.4%	-13.5%	-15.1%	-13.6%	-4.0%

The long term performance of these Trusts is shown even more clearly in this chart



4. Virtually all of the listed portfolio is now concentrated in 6 holdings:

	Value (£m)	%
Hg Capital	64.9	49.6
abrdn PE	19.6	15.0
CT PE	16.6	12.7
3i Group	12.8	9.8
KKR	8.5	6.5
ICG Enterprise	8.4	6.4
Total	**£130.8**	**100%**

5. The remainder of the portfolio, with end September valuations in £ '000, comprises:

Schroder Private Equity	333	Partial redemption in Q4 2021
OxTech 2 (3) VCT	154	Merger of Fund 3 into 2
OxTech 2 (4) VCT	255	Merger of Fund 4 into 2
Base 4	Nil	Written down to zero, March 2020
Candover	Nil	Final liquidation.

Unlisted portfolio

6. The totals of drawdowns and distributions by managers during the quarter, together with their end-quarter values, were as follows:

		(£m)	
Value		**Drawn**	**Distributed**
76.54	**Adams Street**	**0.82**	**2.113**
11.52	**Partners Group**	**Nil**	**0.340**
22.82	**Epiris**	**6.22**	**10.97**
6.74	**Longwall**	**0.1**	**Nil**
1.88	**Ox Tech ECF**	**Nil**	**Nil**
21.93	**Partners Infra**	**Nil**	**Nil**

7. Assuming exchange rates of **$1.19 = £1** and **€1.14 = £1**, I calculate that the aggregate commitments outstanding to each firm at end September were:

Adams Street	**£9.09m**
Partners Group	**£ 9.1m***
Epiris	**£ 7.66m (includes recallable distributions)**
Longwall	**£ 2.76m**
Ox Tech ECF	**£ 0.03m (+ £0.42m recallable distribution)**
TOTAL (excl. Partners)	**£19.54m**

***No drawdowns in the past 4 years, and none expected in the future.**

Real Estate Partnerships

8. Outstanding Real Estate commitments are shown in the following table. The first four columns are in the currency of the fund.

	Committed	**Drawn**	**Undrawn**	**Distributed**	**Value (£m)**
PGRes09 (€m)	**15.0**	**14.30**	**0.70**	**18.20**	**3.24**
PGRes13 ($m)	**25.0**	**17.99**	**7.01**	**16.30**	**7.98**
BPA3 (£m)	**10.0**	**10.94**	**1.23**	**9.27**	**8.45**
BPA4 (£m)	**10.0**	**9.86**	**2.47**	**4.50**	**9.15**

[There are recallable distributions of £2.17m and £2.33m for BPA 3 and 4 respectively]
The aggregate value of the undrawn Real Estate commitments is **£10.21m**.

Infrastructure

9. As the first step in meeting the Pension Fund's 3% allocation to Infrastructure, a commitment of **€25m (£22m)** was made in Q2 2017 to **Partners Group Infrastructure 2015 Fund;** of this **€21.24m** had been drawn down by the end of September. The undrawn commitment equates to **£3.29m.**

Brunel

10. Future commitments to unlisted **Private Equity** will be made by Brunel Partnership on behalf of the Oxfordshire Fund. The sum of **£40m** was committed in July 2018 by Oxfordshire to Brunel to cover such investments over the following two years, with a further commitment of **£60m** made in April 2019. Brunel will draw on these commitments as and when required to meet drawdowns to new investments. In July 2018 Oxfordshire also committed to Brunel **£50m** in respect of **Infrastructure** and **£60m** for **Secured Income**, for investment during the next two years.

11. A total of **£220m** in additional commitments to Brunel were made in April 2020 as part of **Cycle 2**:
    - **Private Equity** - **£70m**
    - **Infrastructure** - **£40m -**50% committed to a Stepstone Generalist Fund, and 50% to a Stepstone Renewables Fund
    - **Private Debt - £70m**
    - **Secured Income** - **£40m**

In addition, **£50m** was committed to Brunel in November 2020 to fund a number of **Real Estate** investments. The progress of the drawdown of commitments in the two cycles is shown in the following tables.

Private Equity (£m)	Oxon commit	Brunel commit	Drawn	Undrawn
Cycle 1	100.0	106.0	55.8	44.2
Cycle 2	70.0	75.0	17.6	52.4
Total (Sept 2022)	**170.0**	**181.0**	**73.4**	**96.6**

Infrastructure (£m)	Oxon commit	Brunel commit	Drawn	Undrawn
Cycle 1	50.0	49.9	35.9	14.1
Cycle 2	40.0	40.0	16.3	23.7
Total (Sept 2022)	**90.0**	**89.9**	**52.2**	**37.8**

Private Debt (£m)	Oxon commit	Brunel commit	Drawn	Undrawn
Cycle 2	70.0	70.0	25.2	44.8
Total (Sept 2022)	**70.0**	**70.0**	**25.2**	**44.8**

Secured Income (£m)	Oxon commit	Brunel commit	Drawn	Undrawn
Cycle 1	60.0	60.0	60.0	0.0
Cycle 2	40.0	40.0	40.0	0.0
Total (Sept 2022)	**100.0**	**100.0**	**100.0**	**0.0**

12. The table below summarises the total of **£177.1m** in undrawn commitments which the Oxfordshire Fund had at end September 2022 in respect of Private Equity, Real Estate and Infrastructure, both from its own commitments and those made via Brunel in Cycles 1 and 2. The funding of Oxfordshire's undrawn commitments to the three asset classes, totalling **£33.0m**, is expected to be covered by distributions from unlisted PE holdings and dividends from the listed PE portfolio. (The undrawn commitment of **£44.8m** to Private Debt has not been included in the table, as this will be funded from the Pension Fund's Equity allocation).

(£m) (£= \$1.19, €1.14)	Oxfordshire (undrawn)	Brunel (committed, undrawn)	Brunel (uncommitted)	Total
Private Equity	19.5	96.6	0	**126.2**
Real Estate	10.2	9.6	0	**21.3**
Infrastructure	3.3	37.8	0.1	**41.2**
TOTAL	**33.0**	**144.0**	**0.1**	**177.1**

Commitments outstanding – September 2022

13. <u>**Cycle 3 commitment**</u>
In March 2022 the Pensions Committee agreed to adjusted asset allocations as detailed below, which forms the basis of the Cycle 3 commitments for the Fund with Brunel. The current actual (as at 30 September 2022), target and agreed new target weightings are:

	<u>**Actual**</u>	<u>**Target**</u>	<u>**New agreed**</u>
Property	8.0%	8.0%	8.0%
Private Equity	11.6%	9.0%	10.0%
Multi Asset (DGF)	5.0%	5.0%	0%
Infrastructure	2.6%	3.0%	5.0%
Secured Income	3.5%	5.0%	5.0%
Private Debt	0.9%	3.0%	5.0%
Total Alternative Investments	**31.6%**	**33.0%**	**33.0%**

The main focus will therefore be to increase the allocations to Infrastructure and Private Debt, funded primarily from the Multi Asset (DGF) portfolio, while also increasing the actual allocation to Real Estate over time.

14. During Q3 2022 I attended the 3i and HG Capital investor webcasts, following their respective results.

Oxfordshire Pension Fund Performance Report

Quarter ending 30 September 2022

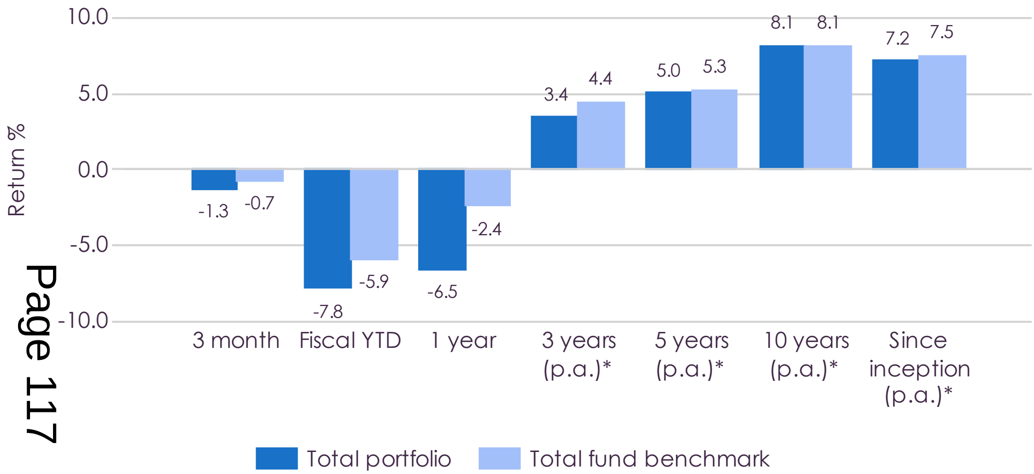
Oxfordshire Pension Fund
www.oxfordshire.gov.uk/pensions

BRUNEL
Pension Partnership

Contents

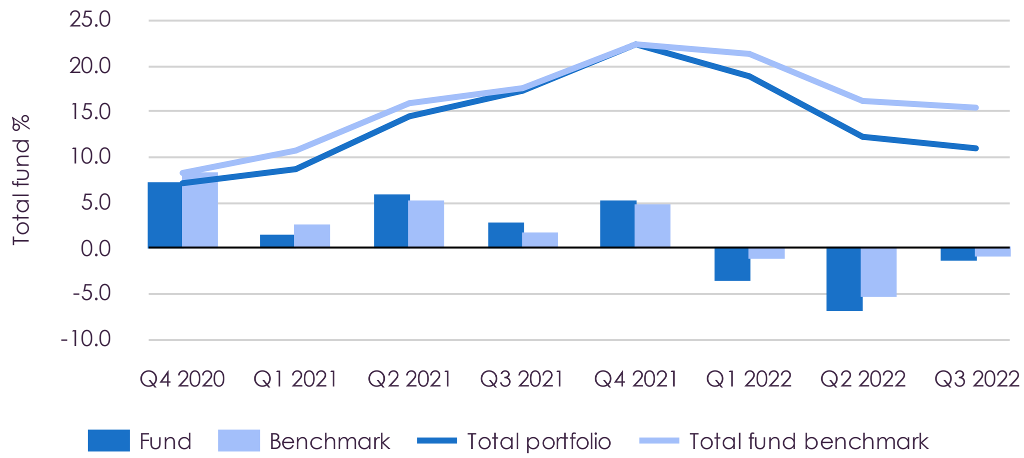
Pension Fund performance

Performance (annualised)



Source: State Street Global Services
*per annum

Quarterly performance



Source: State Street Global Services

Key events

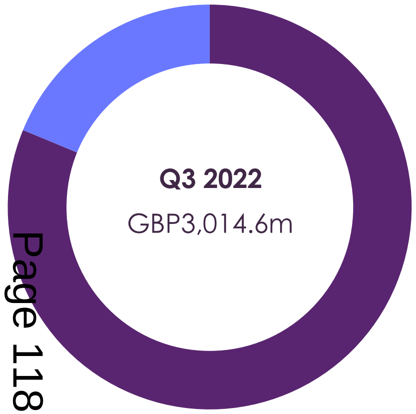
The third quarter saw continued volatility, with equity markets enjoying a strong initial rebound before giving up those gains by quarter-end. Bond markets were generally weak as both higher interest rates and expectations of further rate rises weighed heavily on sentiment.

The total portfolio was down 1.3%, whilst the benchmark was down 0.7%. Across the first three quarters of 2022, It lagged the benchmark (-7.8% vs -5.9%).

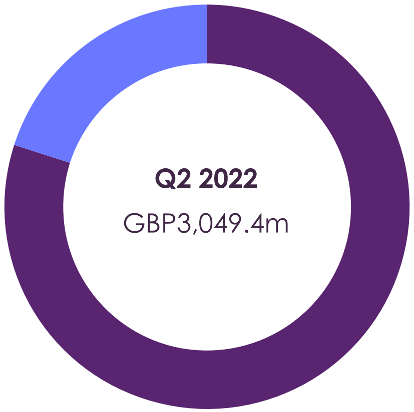
The relative performance of Brunel's equity portfolios stabilised during the quarter, but the Multi-Asset Credit portfolio struggled in absolute terms as a result of the weak bond market.

Asset summary

Assets transitioned to Brunel



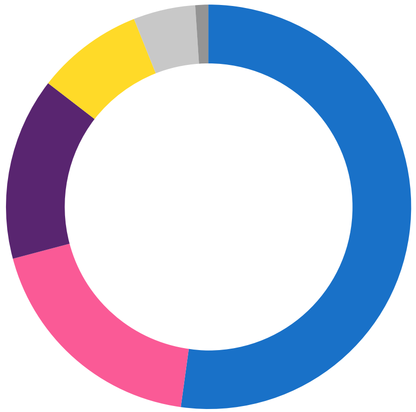
Transitioned	81.22%
Legacy assets	18.78%



Transitioned	79.96%
Legacy assets	20.04%

Source: State Street Global Services

Asset allocation breakdown



Key:

Equities	52.20%
Private Markets	18.68%
Fixed Income	14.59%
Property	8.54%
Other	4.95%
Cash	1.04%

Source: State Street Global Services
Data includes legacy assets

Overview of assets

Detailed asset allocation

Equities	52.20%
Emerging Markets Equities	2.58%
Global High Alpha Equities	10.15%
Global Sustainable Equities	9.58%
PAB Passive Global Equities	15.14%
UK Active Equities	14.72%
Legacy Assets	0.03%

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Fixed income	14.59%
Multi-Asset Credit	4.19%
Passive Index Linked Gilts over 5 years	4.81%
Sterling Corporate Bonds	2.90%
Legacy Assets	2.69%

Private markets (incl. property)	27.22%
Infrastructure (General) Cycle 2	0.34%
Infrastructure (Renewables) Cycle 2	0.20%
Infrastructure Cycle 1	1.30%
International Property	1.88%
Private Debt Cycle 2	0.91%
Private Equity Cycle 1	2.58%
Private Equity Cycle 2	0.71%
Secured Income Cycle 1	2.15%
Secured Income Cycle 2	1.39%
UK Property	5.70%
Legacy Assets	10.07%

Other	4.95%
Legacy Assets	4.95%

Cash not included

Performance attribution

Pension fund performance attribution - to quarter end

	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%)	Contribution to return
Emerging Markets Equities	77,649	2.6%	3.00%	-0.4%	-4.8%	-0.1%
Global High Alpha Equities	305,884	10.1%	9.00%	1.1%	1.8%	0.2%
Global Sustainable Equities	288,753	9.6%	9.00%	0.6%	1.9%	0.2%
Infrastructure Cycle 1	39,075	1.3%	3.00%	-1.7%	7.4%	0.1%
International Property	56,674	1.9%	2.00%	-0.1%	7.5%	0.1%
Multi-Asset Credit	126,217	4.2%	5.00%	-0.8%	-0.9%	-
Private Debt Cycle 2	27,291	0.9%	3.00%	-2.1%	10.5%	0.1%
Private Equity Cycle 1	77,670	2.6%	-	2.6%	6.4%	0.1%
Private Equity Cycle 2	21,355	0.7%	-	0.7%	-4.2%	-
Secured Income Cycle 1	64,859	2.2%	5.00%	-2.8%	-3.9%	-0.1%
Secured Income Cycle 2	41,853	1.4%	-	1.4%	-2.9%	-
Sterling Corporate Bonds	87,471	2.9%	4.00%	-1.1%	-11.1%	-0.3%
UK Active Equities	443,784	14.7%	15.00%	-0.3%	-3.2%	-0.5%
UK Property	171,940	5.7%	6.00%	-0.3%	-2.3%	-0.1%
PAB Passive Global Equities	456,552	15.1%	15.00%	0.1%	1.8%	0.2%
Passive Index Linked Gilts over 5 years	144,963	4.8%	7.00%	-2.2%	-10.6%	-0.5%

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Performance attribution

Pension fund performance attribution - to quarter end

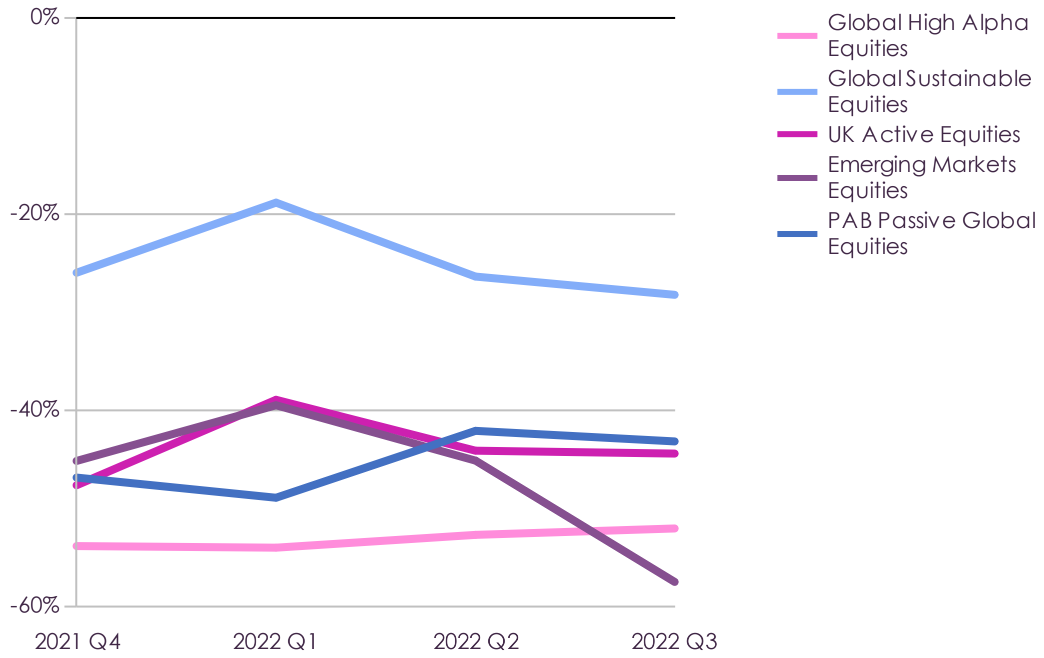
	End market value £'000	Actual % allocation at end of quarter	Strategic asset allocation (%)	Difference (%)	Fund return (%)	Contribution to return
Infrastructure (Renewables) Cycle 2	6,128	0.2%	-	0.2%	6.7%	-
Infrastructure (General) Cycle 2	10,168	0.3%	-	0.3%	-0.1%	-
Brunel PM Cash	791	-	-	-	13.6%	-
Infrastructure	21,927	0.7%	-	0.7%	-1.4%	-
Insight Diversified Growth	149,222	5.0%	5.00%	-	-2.0%	-0.1%
LGIM Fixed Income	81,079	2.7%	-	2.7%	-9.0%	-0.2%
Pooled Property	28,822	1.0%	-	1.0%	5.5%	-
Private Equity	251,895	8.4%	9.00%	-0.6%	-1.6%	-0.1%
UBS Property	58	-	-	-	-	-
Wellington Global Equity	1,032	-	-	-	4.6%	-
Cash	31,397	1.0%	-	1.0%	1.8%	-

Climate metrics and stewardship

Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3
Global High Alpha Equities	**93**	**86**	**0.9**	**0.9**	**3.1**	**3.1**
MSCI World*	197	180	2.7	2.6	7.0	7.1
Global Sustainable Equities	**165**	**148**	**2.5**	**2.5**	**3.3**	**3.0**
MSCI ACWI*	225	207	2.7	2.6	7.0	7.2
UK Active Equities	**95**	**92**	**3.0**	**3.3**	**14.8**	**16.5**
FTSE All Share ex Inv Tr*	170	165	4.1	4.2	19.6	21.7
Emerging Markets Equities	**237**	**176**	**0.8**	**0.8**	**5.1**	**5.2**
MSCI Emerging Markets*	432	416	3.2	3.2	7.2	7.7
PAB Passive Global Equities	**114**	**103**	**1.0**	**1.0**	**1.6**	**1.6**
FTSE Dev World TR UKPD*	198	180	2.6	2.5	6.9	7.0

*Benchmark. [1] Extractive revenue exposure as share (%) of total revenue. [2] Value of holdings (VOH) - companies who derive revenues from extractives. Source: Trucost

Weighted Average Carbon Intensity relative to benchmark



Stewardship reporting links

Engagement records
www.brunelpensionpartnership.org/stewardship/engagement-records/
Holdings records
www.brunelpensionpartnership.org/stewardship/holdings-records/
Voting records
www.brunelpensionpartnership.org/stewardship/voting-records/

Risk and return summary

Brunel portfolio performance - 3 year

	Annualised return	Risk (Standard Deviation)	Benchmark return	Benchmark Standard Deviation
UK Active Equities	-0.8%	17.2%	0.6%	16.3%
Private Equity Cycle 1	18.2%	14.4%	7.7%	14.6%
Infrastructure Cycle 1	9.9%	6.3%	4.5%	1.8%
Secured Income Cycle 1	4.0%	3.4%	4.5%	1.8%

Since portfolio inception

Risk and return summary

Legacy manager performance - 3 year

	Annualised return	Risk (Standard Deviation)	Benchmark return	Benchmark Standard Deviation
Brunel PM Cash	61.0%	74.4%	0.0%	0.0%
Cash	2.3%	2.0%	0.4%	0.1%
Infrastructure	12.2%	13.6%	7.5%	1.8%
Insight Diversified Growth	-0.7%	8.1%	4.5%	0.2%
LGIM Fixed Income	-7.0%	10.1%	-7.8%	9.6%
Pooled Property	11.3%	13.2%	7.6%	7.3%
Private Equity	16.3%	12.5%	11.4%	20.2%
UBS Property	-0.7%	1.5%	7.6%	7.3%
Wellington Global Equity	5.3%	9.3%	7.7%	14.6%
Oxfordshire County Council	3.4%	10.9%	4.4%	10.1%

Portfolio overview

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Global High Alpha Equities	MSCI World	+2.0-3.0%	305.9	1.8%	-0.3%	-10.6%	-8.2%	-	-	10.5%	1.5%	15 Nov 2019
Global Sustainable Equities	MSCI ACWI	+2.0%	288.8	1.9%	0.4%	-11.9%	-8.2%	-	-	4.1%	-4.6%	30 Sep 2020
UK Active Equities	FTSE All Share ex Inv Tr	+2.0%	443.8	-3.2%	0.4%	-8.1%	-5.1%	-0.8%	-1.4%	1.8%	-1.4%	21 Nov 2018
Emerging Markets Equities	MSCI Emerging Markets	+2.0-3.0%	77.6	-4.8%	-1.2%	-18.1%	-5.3%	-	-	-1.0%	-2.2%	13 Nov 2019
Multi-Asset Credit	SONIA +4%	0 to +1.0%	126.2	-0.9%	-2.3%	-11.5%	-16.2%	-	-	-8.2%	-12.8%	01 Jun 2021
Sterling Corporate Bonds	iBoxx Sterling Non Gilt x	+1.0%	87.5	-11.1%	-0.1%	-22.5%	-0.6%	-	-	-19.0%	-0.3%	02 Jul 2021
Passive Index Linked Gilts over 5 years	FTSE-A UK ILG >5Y	Match	145.0	-10.6%	-	-29.4%	-0.1%	-	-	-22.9%	-0.1%	09 Jun 2021
PAB Passive Global Equities	FTSE Dev World PAB	Match	456.6	1.8%	-	-	-	-	-	-7.6%	-0.1%	29 Oct 2021
Private Equity Cycle 1	MSCI ACWI	+ 3 %	77.7	6.4%	4.9%	38.0%	41.7%	18.2%	10.5%	26.5%	16.3%	26 Mar 2019
Private Equity Cycle 2	MSCI ACWI	+ 3 %	21.4	-4.2%	-5.7%	24.6%	28.3%	-	-	54.6%	49.7%	05 Jan 2021
Private Debt Cycle 2	SONIA	+ 4 %	27.3	10.5%	9.1%	14.3%	9.5%	-	-	15.3%	10.6%	17 Sep 2021
Infrastructure Cycle 1	CPI	+ 4 %	39.1	7.4%	5.8%	17.6%	7.4%	9.9%	5.4%	7.1%	3.1%	02 Jan 2019
Infrastructure (General) Cycle 2	CPI	+ 4 %	10.2	-0.1%	-1.8%	-1.5%	-11.7%	-	-	-6.0%	-12.7%	19 Oct 2020
Infrastructure (Renewables) Cycle 2	CPI	+ 4 %	6.1	6.7%	5.1%	14.6%	4.5%	-	-	6.8%	0.2%	12 Oct 2020

*Since initial investment

Portfolio overview

Portfolio	Benchmark	Outperformance target	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Secured Income Cycle 1	CPI	+ 2 %	64.9	-3.9%	-5.5%	4.0%	-6.1%	4.0%	-0.5%	4.2%	0.3%	15 Jan 2019
Secured Income Cycle 2	CPI	+ 2 %	41.9	-2.9%	-4.5%	8.1%	-2.0%	-	-	9.9%	1.6%	01 Mar 2021
UK Property	MSCI/AREF UK	+ 0.5 %	171.9	-2.3%	2.1%	14.7%	3.9%	-	-	11.4%	1.6%	01 Jul 2020
International Property	GREFI	+ 0.5 %	56.7	7.5%	-4.5%	26.1%	-10.4%	-	-	9.5%	-3.2%	01 Jul 2020

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*Since initial investment

Portfolio overview

Legacy assets

Portfolio	AUM (GBPm)	Perf. 3 month	Excess 3 month	Perf. 1 year	Excess 1 year	Perf. 3 year	Excess 3 year	Perf. SII*	Excess SII*	Initial investment
Wellington Global Equity	1.0	4.6%	3.2%	9.8%	13.5%	5.3%	-2.4%	9.9%	-1.6%	01 Oct 2012
UBS Property	0.1	-	4.0%	-	-13.3%	-0.7%	-8.4%	4.3%	-1.3%	01 Apr 2005
LGIM Fixed Income	81.1	-9.0%	0.1%	-22.3%	-0.5%	-7.0%	0.7%	4.5%	0.3%	01 Oct 2003
Cash	31.4	1.8%	1.4%	6.3%	5.5%	2.3%	1.8%	1.9%	0.4%	01 Apr 2005
Infrastructure	21.9	-1.4%	-4.1%	17.7%	3.1%	12.2%	4.6%	9.9%	3.5%	01 Oct 2017
Private Equity	251.9	-1.6%	-3.1%	1.7%	5.4%	16.3%	4.9%	12.3%	5.8%	01 Apr 2005
Pooled Property	28.8	5.5%	9.5%	24.2%	10.9%	11.3%	3.6%	9.8%	1.9%	01 Jan 2010
Insight Diversified Growth	149.2	-2.0%	-3.6%	-7.9%	-13.1%	-0.7%	-5.2%	1.9%	-2.3%	01 Jan 2015
Brunel PM Cash	0.8	13.6%	13.6%	297.1%	297.1%	61.0%	61.0%	42.9%	42.9%	14 Dec 2018

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*Since initial investment

Chief Investment Officer commentary

At the root of recent market shifts has been investor views on the inflation outlook, associated interest rate rises, and the size of any potential recession. For months, markets have been forecasting a 2023 recession – now even central bankers have joined them, courtesy of deteriorating economic indicators.

When economic visibility is low and volatility is high – last quarter, for example – markets can be violently whipsawed. Global markets rose 10% from their end-June lows, only to promptly sink 16%, finishing the quarter down (in local currency terms). The cause of both moves was that investors began to believe that the Federal Reserve Bank (Fed) would in fact "pivot" – meaning pivot away from the tightening course it began in March, and instead embark on monetary loosening. The market interpreted the Fed's July commentary – fairly, in my view – to mean it had turned interest rate-setting off autopilot to become more data-dependent. This caused bonds yields to fall (meaning bond prices rose) and equities to rally, as investors hoped the Fed wouldn't continue to hike rates into a recession without pause. (Recent data shows the US is in a technical recession.) Despite this, the Fed's preferred measure of inflation, Core PCE, ticked up; and so it raised rates by 0.75% for the third time in a row. Furthermore, the narrative that accompanied the meeting showed the Fed's view that controlling inflation is mission-critical for the long-term health of the economy – as a result, risk assets and "defensive" assets like government bonds fell in unison.

Indeed, the positive correlation between equities and bonds is at all-time highs, challenging the assumptions on which many portfolios are constructed. Moreover, duration and interest rate risk aren't limited to just government bond portfolios; instead, interest rates are the bedrock for all asset class risk premia. In property, for example, potential buyers are now unable to use leverage; and the re-pricing of other assets, such as Gilts, has made property expensive by comparison. Property yields are yet to adjust but the cheque is likely "in the post".

Market-moving news flow deteriorated across the piste, adding to investor fears. China saw an increasing incidence of Covid, which prompted further lockdowns, as a broad property slump left China the weakest major market over the quarter. The conflict in Ukraine added to fears, despite Ukrainian gains, as Putin called up Russia's reservists, and spoke openly about the use of tactical nuclear weapons. President Biden warned that the risk of nuclear "Armageddon" is at its highest since the Cuban missile crisis.

Closer to home, investors greeted the Conservative government's mini-Budget by selling sterling and government bonds precipitously. Sterling, down 18% this year, hit an all-time low of $1.03, offsetting the lion's share of the equity market weakness for unhedged investors. UK gilts had already been declining (see Figure 1), but the decline's acceleration in September was frightening. Fearing systemic risk to pension funds, which held leveraged gilt positions via their Liability Driven Investment (LDI) programmes, the Bank of England stepped in with a £65bn bond-buying programme, stabilising the market, but with credibility damaged.

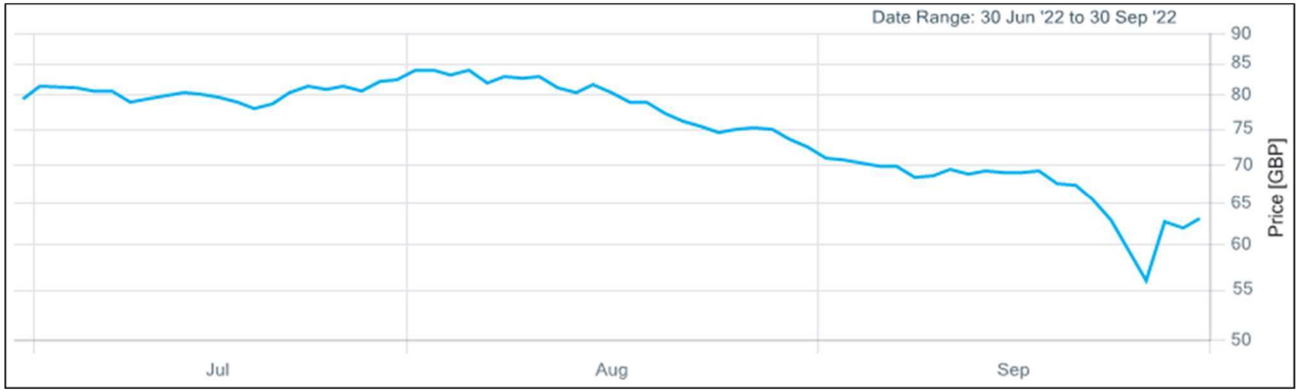


Figure1 - Price history: UK gilts 30 Jun 2022 to 30 Sept 2022 - Source: Bloomberg

Chief Investment Officer commentary

The credit market arguably continued to fall, as both duration and widening credit spreads hurt performance. High Yield credit spreads (the additional compensation offered for default risk) started the quarter at 6.5% and tightened to 5.4% before macro trends finally pushed them to 6.7%. Following the forced selling, the market is now pricing in close to a 10% default rate -- and default rates peaked at only 9.95% in 2009 after the Global Financial Crisis. At this price, patient investors are being offered good levels of compensation. Driven by energy and metals, the leading commodities index also posted a negative return – only sterling investors profited (see Figure 2).

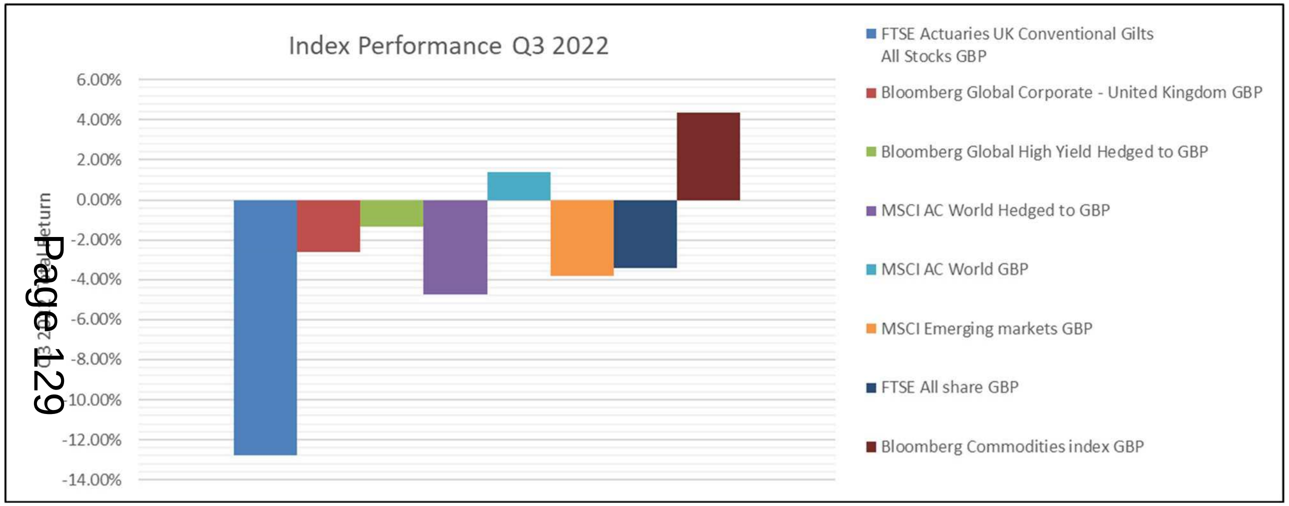


Figure 2 - Net index performance total return during Q3 2022 - Source: Bloomberg

Within equities, the tug-of-war between Growth and Value stocks was a more even affair than of late, as the rotation from Growth stalled, in keeping with the higher interest rate environment. Inflation now makes company characteristics likely to dominate more than broad factor exposures.

Disruption wasn't limited to listed investments, as in the private markets arena there were reliable reports of forced selling of positions at heavily discounted prices. This had begun in March but, in the UK, the large collateral calls associated with LDI exaggerated the trend in Q3. Discounts of 20-30% in private equity portfolios have been mooted. It serves as a reminder that it pays to invest cautiously over time, as the greater vintages are often the most lucrative.

News may yet worsen, but the market is forward-looking. I do not believe we have seen the bottoms in equity markets, but markets always overshoot, and we have already experienced a significant correction in all asset classes, bar the US dollar. Downdrafts can be painful, but they also enable long-term investors to take advantage of forced sales.

Global High Alpha Equities

Investment strategy & key drivers

High conviction, unconstrained global equity portfolio

Liquidity

Managed

Benchmark

MSCI World

Outperformance target

+2.0-3.0%

Total fund value

GBP3,644m

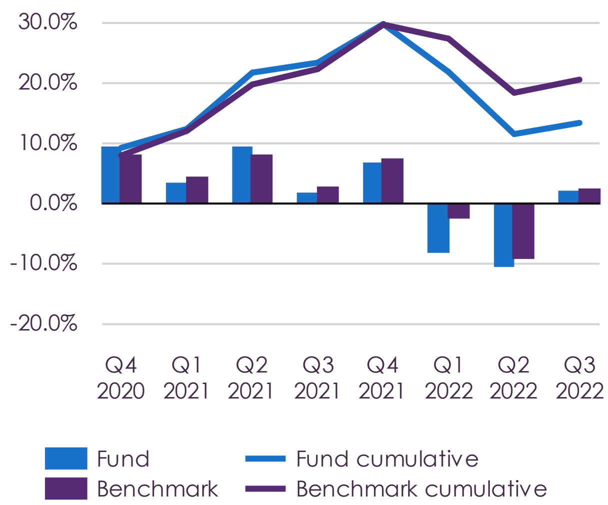
Risk profile

High

Oxfordshire's Holding:

GBP306m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	1.8	-10.5	11.4
Benchmark	2.2	-2.5	9.8
Excess	-0.3	-8.1	1.5

*per annum

Performance commentary

Global developed equities (as proxied by the MSCI World index) returned 2.2% over the quarter in GBP terms, outperforming emerging markets equities, where China was particularly weak. Sentiment weakened and the market gave up gains made earlier in the quarter when, in September, the Fed reaffirmed that its priority was to fight against inflation, rather than to support growth.

The portfolio returned 1.8% during the period, underperforming the benchmark by 0.4%.

Sector attribution analysis showed sector allocation was positive due to the overweight to Consumer Discretionary (the best performing sector), more than offsetting the negative impact of an underweight to Energy (the second-best performing sector). Stock selection was negative overall, with weakest selection in Consumer Discretionary, as some overweight China names (Alibaba, Meituan and Nio) posted negative returns. So, too, did Nike, which reported weaker earnings expectations due to a rise in inventories and the negative impact of a stronger dollar. This was despite strong stock selection within the Materials sector: Steel Dynamics and Reliance Steel (both overweight in the portfolio) each had strong results on the back of elevated steel prices.

Three out of five managers outperformed the index over the quarter, with Fiera performing in line and Harris underperforming. Baillie Gifford was the best performer, as it benefitted from an overweight to Consumer Discretionary and from some of its names recovering some of the losses suffered over previous quarters (Trade Desk and Netflix in particular). Harris underperformed, largely as a result of negative stock selection, with an overweight to Credit Suisse one of the main detractors (as the bank is going through more re-structuring after a series of governance challenges).

Style characteristics were less of a driver of underlying manager returns this quarter compared to previous quarters. In an environment where inflation and slowing economic growth impact companies differently, there is potential for individual company characteristics to once again come to the fore in determining future returns.

From inception to quarter-end, the portfolio outperformed the benchmark by 1.5% per annum. There were no client trades during the quarter.

Global High Alpha Equities

Top 5 holdings

	Weight %	Market value (GBP)*
MICROSOFT CORP	5.17	188,254,310
AMAZON.COM INC	3.68	134,077,142
ALPHABET INC-CL A	3.05	111,207,936
MASTERCARD INC - A	2.22	80,817,118
UNITEDHEALTH GROUP INC	2.03	74,129,332

*Total Brunel portfolio

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Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q2 2022	Q3 2022
ABBOTT LABORATORIES	-	39.08
BECTON DICKINSON AND CO	40.16	38.99
META PLATFORMS INC	42.21	41.86
PROGRESSIVE CORP/THE	40.24	40.16
AMAZON.COM INC	50.46	50.72

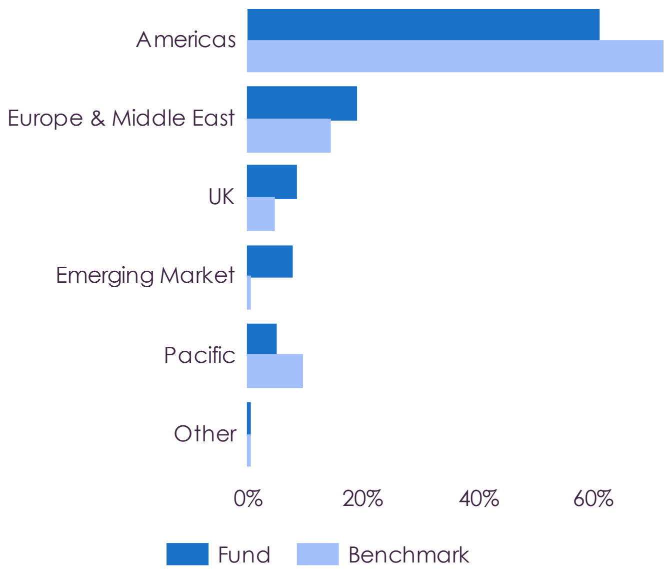
*Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

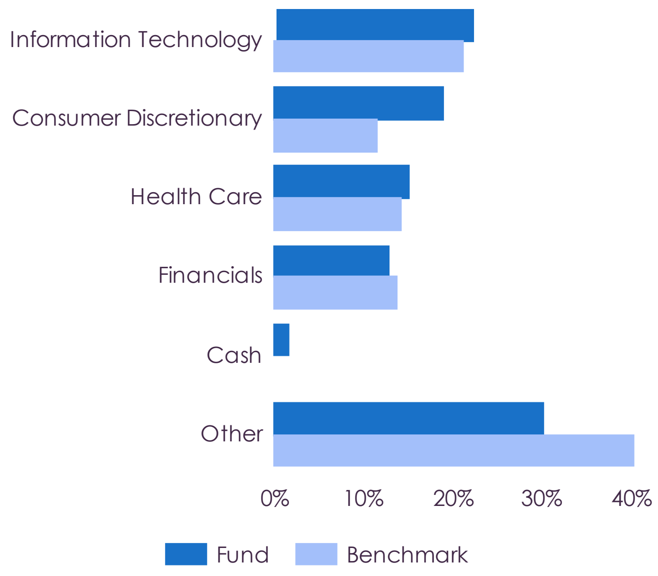
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3
Global High Alpha	93	86	0.87	0.92	3.09	3.15
MSCI World*	197	180	2.68	2.61	7.02	7.12

*Benchmark. [1] Extractive revenue exposure as share (%) of total revenue. [2] Value of holdings (VOH) - companies who derive revenues from extractives. Source: Trucost

Regional exposure



Sector exposure



Global Sustainable Equities

Investment strategy & key drivers

Global equity exposure concentrating on ESG factors

Liquidity

Managed

Benchmark

MSCI ACWI

Outperformance target

+2.0%

Total fund value

GBP3,109m

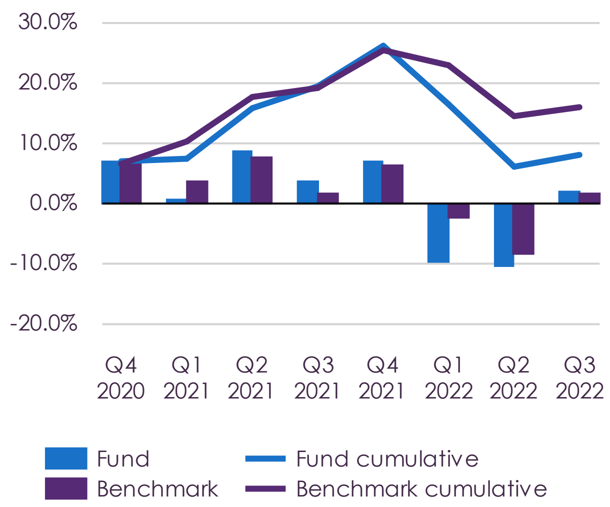
Risk profile

High

Oxfordshire's Holding:

GBP289m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	1.9	-11.9	3.1
Benchmark	1.5	-3.7	7.9
Excess	0.4	-8.2	-4.7

*per annum

Performance commentary

As per the CIO commentary, when economic visibility is low and volatility is high, markets can be violently whipsawed.

Global equities (as proxied by the MSCI All Countries World Index) returned 1.5% over the reporting period. The Sustainable Equity fund returned 1.9%, outperforming the benchmark by 0.4% (MSCI All Countries World Index).

During the first half of Q3 the portfolio returned 14.5%, outperforming the MSCI ACWI by 3.2%. This outperformance can be attributed to being overweight in the more growth-orientated parts of the market. For instance, if we take dividend yield as a proxy for Value/Growth, the top Growth quintile returned 18.4% for this initial period, whilst the bottom quintile returned 5.6%. The portfolio has a 11% overweight in this top quintile, which was positive for performance. Stock selection in Health Care and Information Technology also significantly contributed to outperformance.

During the second half of Q3, however, market optimism turned to pessimism and the portfolio returned -10.9%, underperforming the MSCI ACWI by 2%. Over this period, we saw a reversal of fortunes in terms of the Growth/Value dynamic that played out in the first half of the reporting period. The top Growth quartile fell 13.2%, whilst the top Value quintile showed a relatively muted decline of 6%. In this case, the overweight positioning to the top growth quintile had a negative impact on relative performance.

Four of the five managers outperformed the index during the reporting period. Ownership outperformed the MSCI ACWI by 3%. Its concentrated portfolio has the largest Growth exposure, so it benefitted significantly through that initial rally at the start of Q3. Mirova, on the other hand, underperformed the MSCI ACWI. A broad sustainable manager, its stock selection in Financials and its holdings in non-traditional banks such as Silicon Valley bank contributed to underperformance.

We can see from the performance profile above that interest rates and inflationary sentiment are having a significant impact on short-term portfolio performance. The portfolio has a time horizon of 5-7 years and, whilst it is sometimes difficult to ignore the short term, we are comfortable that our managers have continued to demonstrate a philosophy that aligns itself to striking longer-term targets.

Global Sustainable Equities

Top 5 holdings

	Weight %	Market value (GBP)*
MASTERCARD INC - A	2.47	76,652,124
MICROSOFT CORP	2.37	73,538,964
DANAHER CORP	1.91	59,266,988
UNITEDHEALTH GROUP INC	1.88	58,547,603
ADYEN NV	1.80	56,008,817

*Total Brunel portfolio

Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q2 2022	Q3 2022
IDEX CORP	-	37.93
DANAHER CORP	52.71	52.62
TRADEWEB MARKETS INC	-	49.94
UNITEDHEALTH GROUP INC	51.55	52.44
MARKETAXESS HOLDINGS INC	47.20	50.65

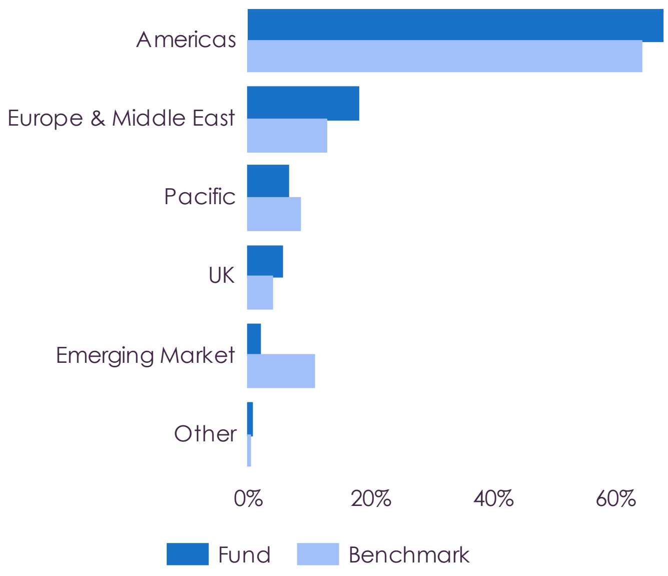
*Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

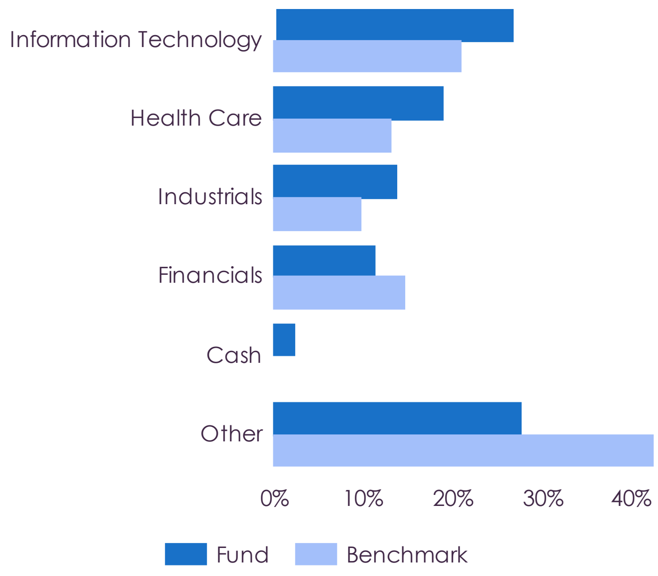
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3
Global Sustainable	165	148	2.45	2.53	3.28	2.96
MSCI ACWI*	225	207	2.69	2.62	7.04	7.18

*Benchmark. [1] Extractive revenue exposure as share (%) of total revenue. [2] Value of holdings (VOH) - companies who derive revenues from extractives. Source: Trucost

Regional exposure



Sector exposure



UK Active Equities

Investment strategy & key drivers

Active stock and sector exposure to UK equity markets

Liquidity

Managed

Benchmark

FTSE All Share ex Inv Tr

Outperformance target

+2.0%

Total fund value

GBP1,262m

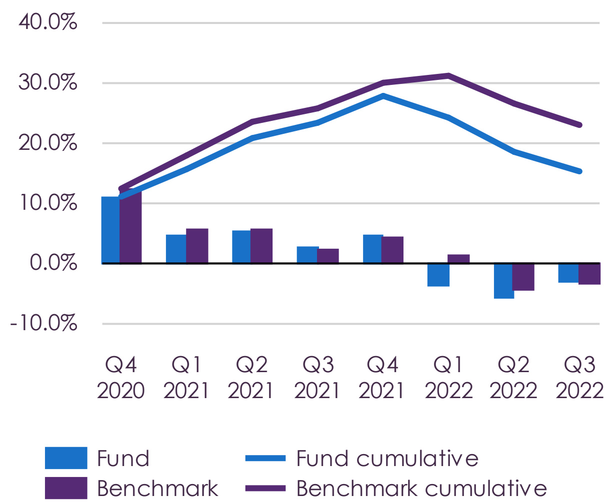
Risk profile

High

Oxfordshire's Holding:

GBP444m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	-3.2	-8.1	1.7
Benchmark	-3.6	-3.0	3.0
Excess	0.3	-5.1	-1.4

*per annum

Performance commentary

The FTSE All-Share Index excluding Investment Trusts returned -3.6% over the quarter. UK equities underperformed developed global equities, which, measured by the MSCI World Index, returned 2.2%. This was mainly due to performance within sectors. The UK Healthcare, Financials, Consumer Discretionary, Real Estate, Communication Services, Industrials and Utilities Sectors all underperformed their developed markets counterparts. The UK Information Technology sector outperformed the developed market Information Technology sector, however this is only a small allocation within the UK benchmark and therefore the contribution insufficient to offset the other sector performances. The Energy and Materials sectors in the UK outperformed the same sectors in the developed markets index, as well as being larger index constituents, offsetting some of the underperformance from other sectors.

Over the quarter, the portfolio returned -3.2%, outperforming the index by 0.4%. Attribution analysis shows both stock selection and allocation effects made positive contributions to relative returns.

The Real Estate and Health Care sectors were the weakest-performing in Q3. The portfolio's underweight allocation to these sectors contributed to the positive relative return from sector allocation. The portfolio is underweight in the strongly performing Energy sector, which partially detracted from relative performance.

Invesco outperformed over the quarter by 0.8%. From a factor perspective, performance was driven in particular by positive returns from Momentum and Value, while Quality was moderately negative. Implied active sector and industry weights had a negative impact on portfolio performance, mainly driven by negative contributions from underweights in Health Care and Communication Services industries.

Baillie Gifford marginally outperformed the benchmark by 0.1% performance. There was positive stock selection, especially in the Communication Services, Health Care and Information Technology Sectors. This was almost entirely detracted by allocation effects, mainly a significant underweight to the strongly performing energy sector.

UK Active Equities

Top 5 holdings

	Weight %	Market value (GBP)*
ASTRAZENECA PLC	5.73	72,282,041
UNILEVER PLC	4.60	57,984,668
SHELL PLC	4.58	57,767,332
DIAGEO PLC	4.19	52,863,820
BP PLC	3.41	43,077,693

*Total Brunel portfolio

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Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q2 2022	Q3 2022
HALEON PLC	-	28.53
INCHCAPE PLC	-	47.84
EXPERIAN PLC	43.28	44.32
RECKITT BENCKISER GROUP PLC	47.54	46.30
HIKMA PHARMACEUTICALS PLC	41.26	40.21

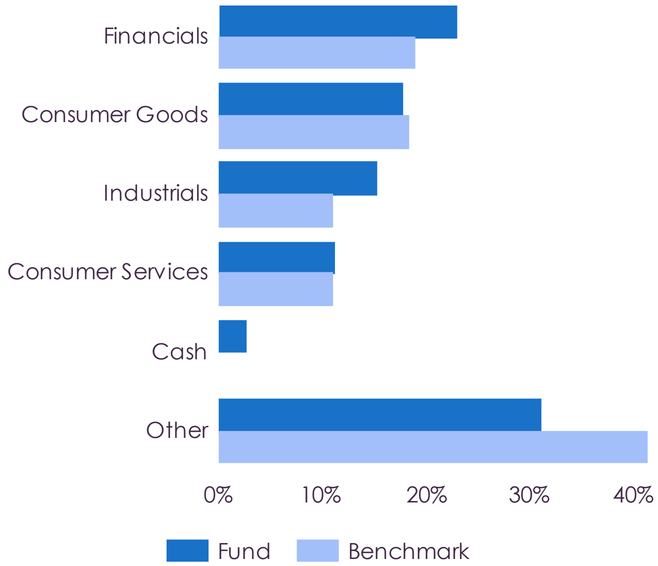
*Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3
UK Active Equities	95	92	3.02	3.35	14.82	16.45
FTSE All Share ex Inv	170	165	4.08	4.18	19.58	21.67

*Benchmark. [1] Extractive revenue exposure as share (%) of total revenue. [2] Value of holdings (VOH) - companies who derive revenues from extractives. Source: Trucost

Sector exposure



Emerging Markets Equities

Investment strategy & key drivers

Equity exposure to emerging markets

Liquidity

Managed

Benchmark

MSCI Emerging Markets

Outperformance target

+2.0-3.0%

Total fund value

GBP1,020m

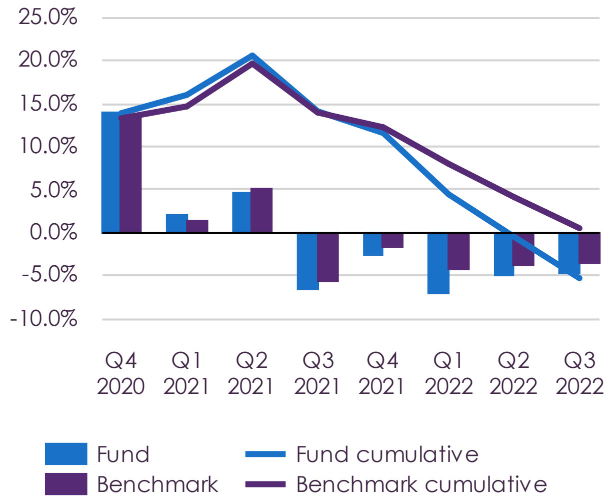
Risk profile

High

Oxfordshire's Holding:

GBP78m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	-4.8	-18.1	-2.0
Benchmark	-3.6	-12.8	0.5
Excess	-1.1	-5.3	-2.6

*per annum

Performance commentary

Emerging Markets (EM) were not immune from the global growth slowdown that plagued risk assets throughout Q3 2022. Growth exporters in EM such as China, Taiwan and South Korea suffered more compared to peers. Ultimately, this resulted in a poor quarter for EM, which fell by 3.6% in GBP terms, based on the MSCI Emerging Markets Index.

The portfolio lagged the benchmark – MSCI Emerging Markets – by 1.1% on a net-of-fees basis. The driver for underperformance was a combination of country allocation and exposure to names impacted by the slowdown in economic activity. Since-inception performance is now -2.0% net of fees, lagging the benchmark by 2.6% on an annualised basis.

Performance by managers was fairly consistent. Genesis, Wellington and Ninety-One lagged the benchmark by 79bps, 146bps and 85bps respectively.

Exporters suffered during the last quarter as a global contraction in economic activity started to bite. This was compounded further in China as a result of the zero-Covid policy continuing to dampen consumer activity. Indices for export-driven economies such as China, Korea and Taiwan fell by 15.6%, 9.0% and 6.5%, respectively; this was behind the broader benchmark return of -3.6%. On the positive side, oil-driven economies tended to do better; examples of this include Saudi Arabia, Qatar and the UAE, which returned +8.7%, +12.1% and +6.1% respectively. The portfolio is typically underweight oil-producing regions, which proved detrimental to relative performance.

Looking forward, managers acknowledged some signs of improvement for EM, although near-terms risks like growth shocks and a strong US dollar have not disappeared. Firstly, regional central banks normalised monetary policy much faster than in developed markets; hence, they are further through necessary policy adjustments. Secondly, EM will play a huge part in the green transition. For example, commodities linked to the transition - like copper, lithium and cobalt - are abundant in Africa and Latin America. Finally, the prospect of Covid moving to the rear-view mirror should improve sentiment in China and broader EM.

Emerging Markets Equities

Top 5 holdings

	Weight %	Market value (GBP)*
TAIWAN SEMICONDUCTOR	6.83	69,636,351
TENCENT HOLDINGS LTD	3.53	35,969,808
SAMSUNG ELECTRONICS CO LTD	2.69	27,469,702
AIA GROUP LTD	2.37	24,218,707
MEITUAN-CLASS B	1.90	19,393,430

*Total Brunel portfolio

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Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q2 2022	Q3 2022
NAVER CORP	46.10	43.62
GRUPO MEXICO SAB DE CV	-	42.70
MEITUAN	-	54.58
NASPERS LTD	-	52.17
CSPC PHARMACEUTICAL GROUP	-	41.22

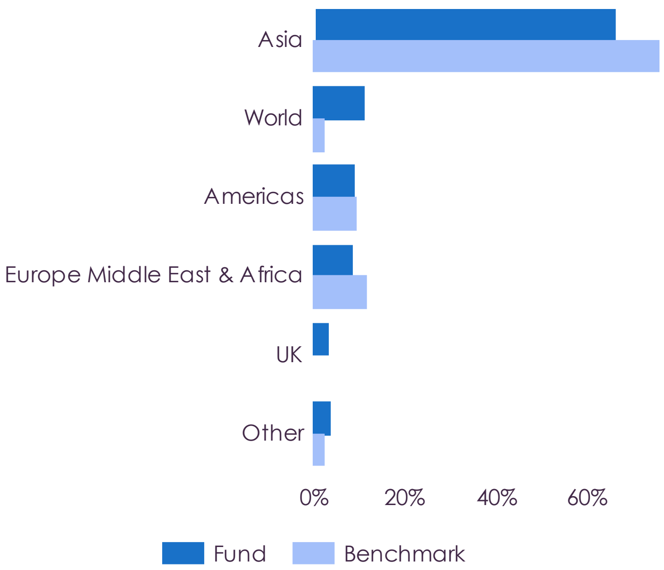
*Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

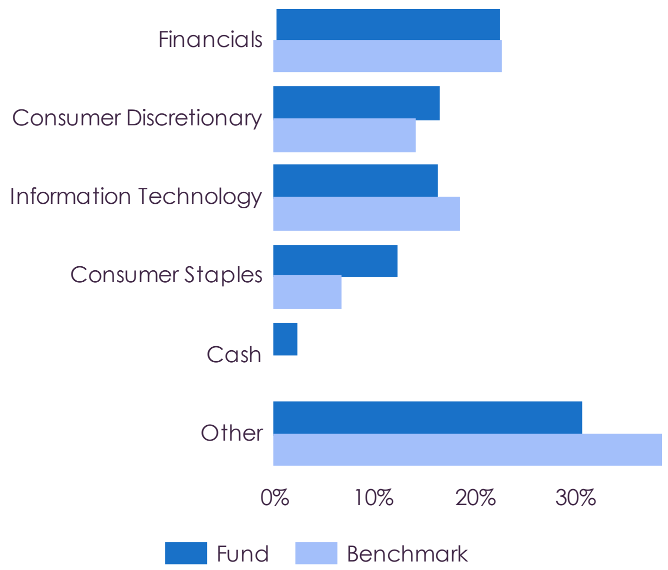
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3
Emerging Markets	237	176	0.83	0.85	5.11	5.19
MSCI Emerging	432	416	3.20	3.15	7.23	7.65

*Benchmark. [1] Extractive revenue exposure as share (%) of total revenue. [2] Value of holdings (VOH) - companies who derive revenues from extractives. Source: Trucost

Regional exposure



Sector exposure



Multi-Asset Credit

Investment strategy & key drivers

Exposure to higher yield bonds with moderate credit risk

Liquidity

Managed

Benchmark

SONIA +4%

Outperformance target

0 to +1.0%

Total fund value

GBP2,333m

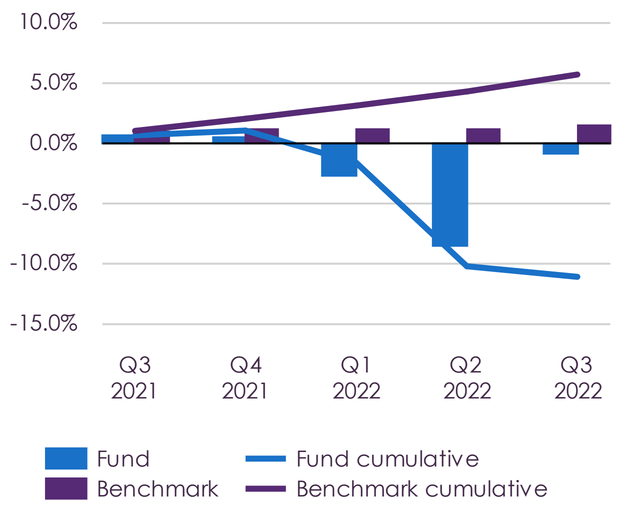
Risk profile

Moderate

Oxfordshire's Holding:

GBP126m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	-0.9	-11.5	-8.9
Benchmark	1.4	4.8	4.7
Excess	-2.3	-16.2	-13.6

*per annum

Performance commentary

Yields rose significantly around the world, with almost all points of the curve impacted. In the United States – where the Multi-Asset Credit portfolio is most exposed – 10-year and 2-year yields ended the period at 3.8% and 4.2%, respectively. This represented an increase of 80 basis points (bps) and 130 bps respectively.

As mentioned in the CIO commentary, credit spreads were volatile but ultimately ended the quarter at a similar level to June 2022. As a result, credit spreads acted as a minor tailwind.

Ultimately this resulted in mixed performance within sub-investment grade credit. Floating rate markets held up better given the lower duration, whereas fixed rate securities suffered. The Bloomberg Global High Yield index fell by approximately 200bps in GBP hedged terms; however, the Morningstar LSTA US Leveraged Loan index – a proxy for loans – appreciated by roughly 100bps in GBP hedged terms.

The portfolio returned -0.9% over Q3 in GBP terms, which is behind the SONIA +4% benchmark of +1.4%. This was marginally behind the secondary benchmark, which comprises loans and high yield bonds; it returned -0.5% more.

At manager level, Neuberger Berman and CQS both returned -0.8% over the quarter. Oaktree was further behind, returning -1.2%, primarily due to China exposure in its emerging market debt allocation. CQS benefited from a larger exposure to floating rate assets (~65%) than that of the other managers. But the exposure was offset by poor performance in bank capital, which fell over 5% over the quarter.

Portfolio performance since inception ended the quarter at -8.9%, behind the SONIA +4% benchmark return of +4.7%. The portfolio remained ahead of the composite benchmark from inception to quarter-end, outperforming by 0.3%.

Despite the obvious recession and inflationary risks, the outlook for credit is still positive from a pricing perspective. Corporate credit spreads are above 500 bps for loan markets and above 400 bps for High Yield Bonds. Based on these spreads, price-implied default rates are now over 10%, which is in excess of the most bearish default estimates from managers. The portfolio remains well-positioned to capitalise on attractive pricing; the current yield-to-worst is now 10%, with a modest duration of 2 years..

Sterling Corporate Bonds

Investment strategy & key drivers

Managed credit selection to generate excess sterling yield returns

Liquidity

Managed

Benchmark

iBoxx Sterling Non Gilt x

Outperformance target

+1.0%

Total fund value

GBP1,721m

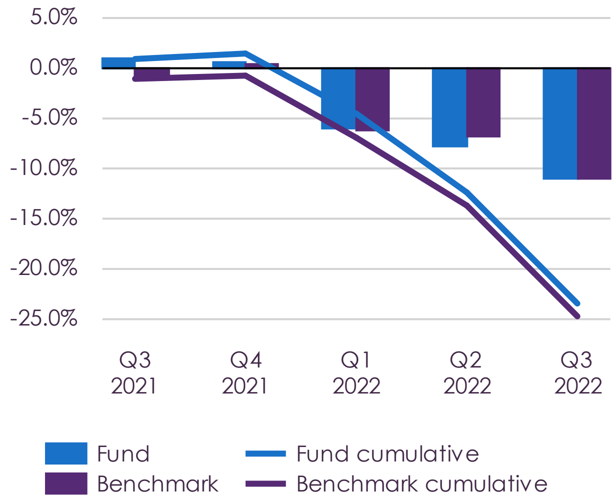
Risk profile

Moderate

Oxfordshire's Holding:

GBP87m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	-11.1	-22.5	-19.0
Benchmark	-11.0	-21.9	-18.7
Excess	-0.1	-0.6	-0.3

*per annum

Performance commentary

Over the quarter, rising interest rates continued to drive government bond yields higher. In addition, following the mini-budget announcement in late September, gilt yields rose sharply. Over the period, the benchmark 10-year gilt yield rose by 186 basis points (bps) to 4.09%, and the average sterling investment grade credit spread widened by 25bps to 1.99%.

It was against this context that the benchmark returned -11.01%. The main driver of negative absolute returns was the weakness in UK government bond markets. Over the period, the Sterling Corporate Bonds portfolio returned -11.06% (net of fees), performing broadly in line with the benchmark.

Portfolio duration was neutral to slightly higher than the benchmark throughout the quarter, ending the period 0.14 years long. This reflected RLAM's view that the market's interest rate expectations had risen too high.

The portfolio's significant underweight exposure to supranational bonds generated a negative contribution to performance, but much of this was in relation to the relatively long duration of the portfolio assets relative to those of the benchmark.

Similarly, the overweight exposure to Structured bonds made a positive contribution to duration due to the relatively short duration of the assets. Overall, the impact of duration (as the aggregate of impacts at sector level, despite the portfolio's modest overall long duration exposure) was positive, contributing 76bps to relative performance.

Sector allocation detracted 29bps from relative performance, mainly reflecting the overweight position in the structured sector.

Security selection also detracted 47bps from relative performance. This was primarily driven by poor relative performance of bonds in the social housing, structured, consumer services and banks sectors, as well as in Utilities. This outweighed positive security selection in the Insurance and Real Estate sectors.

Although further volatility is likely, RLAM believes that the widening in credit spreads this year has taken valuations to attractive levels. However, weak GDP growth and recession is likely to impact the corporate sector and it is prudent to expect some increase in default rates.

Passive Index Linked Gilts over 5 years

Investment strategy & key drivers

Passive exposure to index linked gilts with over 5 year duration

Liquidity

High

Benchmark

FTSE-A UK ILG >5Y

Outperformance target

Match

Total fund value

GBP781m

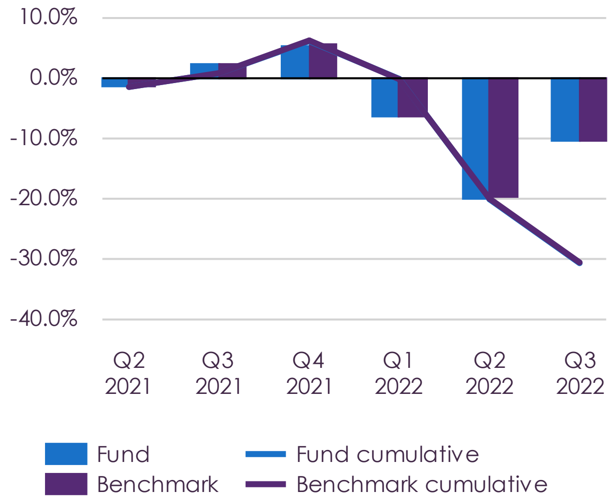
Risk profile

Low

Oxfordshire's Holding:

GBP145m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	-10.6	-29.4	-22.9
Benchmark	-10.6	-29.3	-22.8
Excess	-	-0.1	-0.1

*per annum

Performance commentary

Over the quarter, central banks responded to the continued strength of inflation by further tightening monetary policy. The Bank of England increased rates by 1.00% over the quarter to 2.25%, taking its tally to six increases so far in 2022 and seven in this cycle.

Following former chancellor Kwasi Kwarteng's 'mini-budget', released in late September, UK gilt markets entered a state of turmoil as markets reacted to a contradictory policy mix of fiscal expansion and monetary tightening. The mini-budget introduced a series of unfunded spending commitments, spooking market participants, as the measures were far beyond what was expected, and were deemed to be badly targeted.

During the last week of the quarter, the Bank of England was forced to intervene as the rapid move higher in government borrowing costs across the curve triggered sizable collateral calls for Liability-Driven Investment (LDI) strategies. This, in turn, caused the selling of gilts and corporate bonds in order to raise funds, thereby suppressing the prices of gilts further. The Bank of England intervened on 28 September to prevent this forced selling from becoming so disorderly that it caused broad financial instability.

The UK gilt market was the worst-performing major government bond market over the quarter, delivering a return of -12.85% (on an all-maturities basis) as the benchmark 10-year gilt yield rose by 186 basis points from 2.23% to 4.09%.

Longer-dated government bonds were the worst performers in the period. UK gilts with 5 years or less to maturity provided returns of just -4.93%, whereas those with 15 years or more to maturity returned -18.77%.

PAB Passive Global Equities

Investment strategy & key drivers

Passive global equity exposure aligned to Paris Agreement climate goals

Liquidity

High

Benchmark

FTSE Dev World PAB

Outperformance target

Match

Total fund value

GBP1,742m

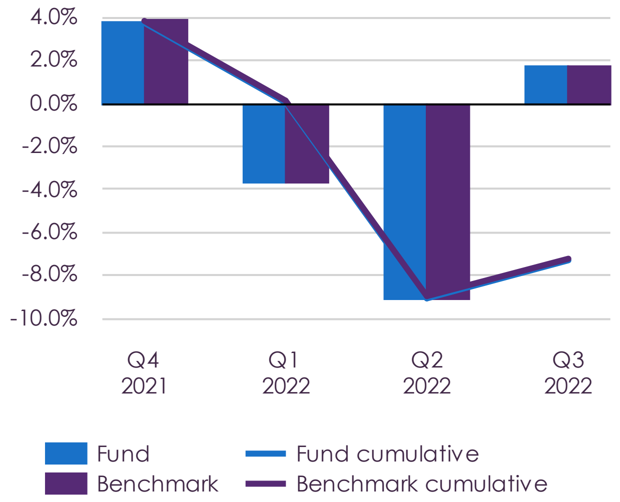
Risk profile

High

Oxfordshire's Holding:

GBP457m

Rolling performance



Performance to quarter end

Performance	3 month %	1 year %	Since inception % p.a.*
Fund	1.8	-	-7.6
Benchmark	1.7	-	-7.5
Excess	-	-	-0.1

*per annum

Performance commentary

Following two quarters of negative performance in Q1 and Q2 2022, the FTSE Developed Paris Aligned (PAB) index performed positively over Q3, rising +1.7% over the three-month period. The PAB Passive Global Equities portfolio closely replicated benchmark performance over the period.

This outcome masked the volatile performance profile of the portfolio over the period. The portfolio returned 13%+ to the middle of August, driven by the performance of Information Technology, before retreating to finish +1.8% for Q3 as a whole.

Consumer Discretionary and Industrials were the best-performing sectors over Q3, with the retail industry performing particularly well, most notably Amazon. The worst-performing sector was Communication Services, led by the Telecoms industry. The Real Estate and Materials sectors also performed negatively over the period..

PAB Passive Global Equities

Top 5 holdings

	Weight %	Market value (GBP)*
APPLE INC	6.62	115,269,606
MICROSOFT CORP	5.62	97,986,101
AMAZON.COM INC	4.62	80,568,535
ALPHABET INC-CL A	2.53	44,052,833
HONEYWELL INTERNATIONAL INC	2.38	41,501,691

*Total Brunel portfolio

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Companies with lowest ESG ratings

	Adjusted ESG score*	
	Q2 2022	Q3 2022
PFIZER INC	46.63	46.83
JPMORGAN CHASE & CO	-	47.84
ABBOTT LABORATORIES	-	39.08
TESLA INC	50.98	51.34
ABBVIE INC	34.56	33.10

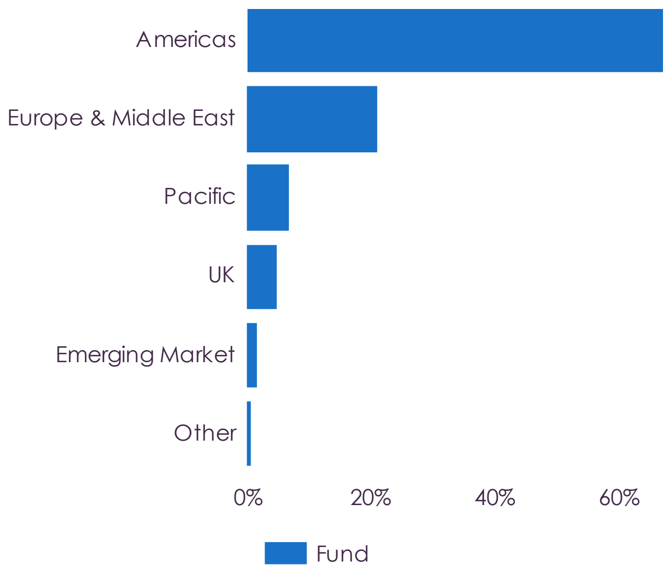
*Scores can range from a high score of 100 to a low of 0. The table is ordered by negative overall ESG impact on the portfolio, with the most impactful at the top.

Carbon metrics

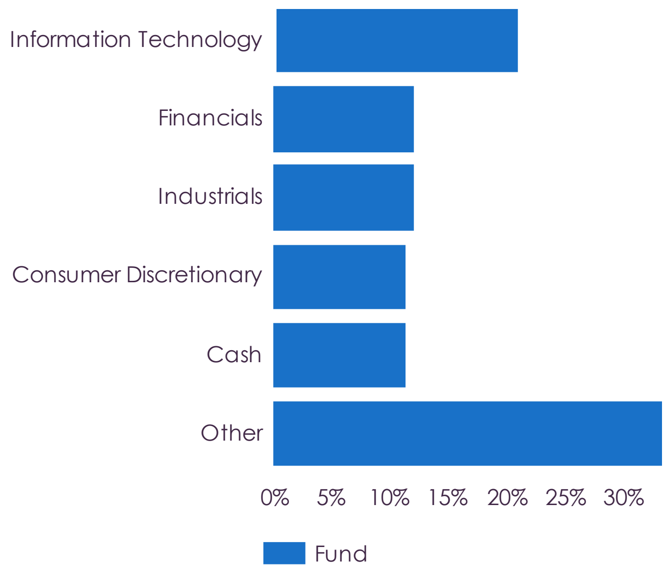
Portfolio	WACI		Extractives revenues[1]		Extractives reserves[2]	
	2022 Q2	2022 Q3	2022 Q2	2022 Q3	2022 Q2	2022 Q3
PAB Passive Global	114	103	1.00	0.99	1.61	1.57
FTSE Dev World TR	198	180	2.60	2.52	6.90	7.00

*Benchmark. [1] Extractive revenue exposure as share (%) of total revenue. [2] Value of holdings (VOH) - companies who derive revenues from extractives. Source: Trucost

Regional exposure



Sector exposure



Private Equity Cycle 1

Investment objective

Global portfolio of private equity investments

Benchmark

MSCI ACWI

Outperformance target

+ 3 %

Commitment to portfolio

£100.00m

The fund is denominated in GBP

Commitment to Investment

£106.00m

Amount Called

£55.88m

% called to date

52.71

Number of underlying funds

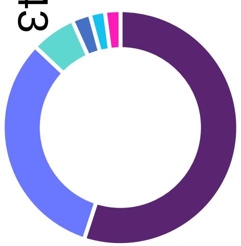
7

Oxfordshire's Holding:

GBP77.67m

Country

Invested in underlying investments

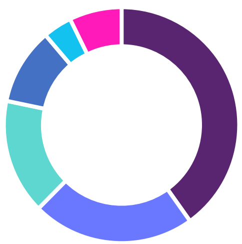


North America	55.0%
Western Europe	32.1%
Asia Pacific	6.2%
Global	2.5%
Middle East/North	2.1%
Other	2.1%

Source: Colmore
Country data is lagged by one quarter

Sector

GICs level 1



Financials	40.1%
Information	22.4%
Health Care	15.8%
Consumer	10.5%
Consumer Staples	4.0%
Other	7.2%

Source: Colmore
Sector data is lagged by one quarter

Performance commentary

As of September 2022, the drawdown of Cycle 1 had increased slightly from the previous quarter, and approximately 52% of the committed capital had been drawn. Cycle 1 was still in the investment phase. The portfolio performed well in terms of multiples and net IRR, which continued to hold amid the uncertainty in the market.

Some of the earlier funds in Cycle 1 had started to develop and had shown encouraging signs of strong performance, albeit noting the now-stale valuation marks and material public market movements since those dates. The main value drivers for Cycle 1 were these earlier funds, namely CD Global Secondaries V, NB PE Impact Fund and NB Strategic Co-Investment Fund IV.

The Cycle 1 PE portfolio came out of the Covid pandemic relatively well. However, it now faces a more challenging market environment that could be worse than during Covid. Nonetheless, the Cycle 1 PE portfolio is diversified by strategy, sector and geography. The GPs in Cycle 1 have been through market cycles and have the experience to manage their portfolio in difficult markets.

The GPs in Cycle 1 are actively investing, and some are funding their investments through short-term fund credit facilities. Most are expected to make capital calls throughout 2022. Overall, all the private equity funds in Cycle 1 are now successfully closed and in full deployment mode.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
77.7	7.0%	39.7%	30.5%	392,656	-	392,656	4,604,690	6.4%	38.0%	26.0%

*Money weighted return

Private Equity Cycle 2

Investment objective

Global portfolio of private equity investments

Benchmark

MSCI ACWI

Outperformance target

+ 3 %

Commitment to portfolio

£70.00m

The fund is denominated in GBP

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Commitment to Investment

£74.98m

Amount Called

£17.59m

% called to date

23.46

Number of underlying funds

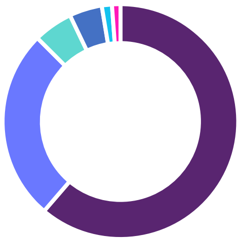
14

Oxfordshire's Holding:

GBP21.36m

Country

Invested in underlying investments

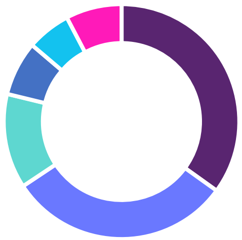


North America	58.1%
Western Europe	25.0%
Global	5.1%
Asia Pacific	4.3%
South America	1.3%
Other	6.2%

Source: Colmore
Country data is lagged by one quarter

Sector

GICs level 1



Information	35.0%
Financials	30.7%
Industrials	13.0%
Health Care	7.5%
Materials	6.0%
Other	7.8%

Source: Colmore
Sector data is lagged by one quarter

Performance commentary

As of September 2022, Cycle 2 had committed to 14 funds. This left Cycle 2 fully committed on schedule. The total capital drawn down for Cycle 2 increased slightly from the previous quarter and stood at 23%. It is worth noting that the total capital deployed was higher, due to funds using credit facilities to fund investments.

Cycle 2 made great progress in terms of fund commitments and the quality of the GPs that accepted Brunel clients into their funds. Whilst still early, Cycle 2 made a strong start and still managed sustain its returns amid the uncertainty in the market. The portfolio ended Q2 well above cost at this early stage, with no J-curve since inception. This was largely due to the two secondaries funds (LGT and Montana) that we committed to at the start of the private equity programme. Both have early successes to show and have performed well.

Going forward, we expect more funds to start calling capital as they pay down the credit facilities that they used to fund the investments, which were made 6-12 months ago.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
21.4	-1.9%	27.7%	32.7%	539,378	10,880	528,499	-946,179	-4.2%	24.6%	54.2%

*Money weighted return

Private Debt Cycle 2

Investment objective

Global portfolio of senior direct loans, predominantly to PE-sponsored companies

Benchmark

SONIA

Outperformance target

+ 4 %

Commitment to portfolio

£70.00m

The fund is denominated in GBP

Commitment to Investment

£70.00m

Amount Called

£25.15m

% called to date

35.93

Number of underlying funds

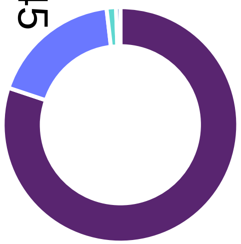
1

Oxfordshire's Holding:

GBP27.29m

Country

Invested in underlying investments

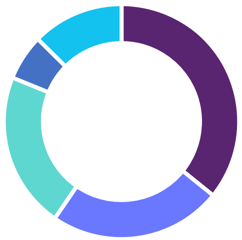


North America	80.0%
Europe	18.0%
Asia Pacific	1.3%
Other	0.7%

Source: Aksia and underlying managers
Country data is lagged by two quarters

Sector

GICs level 1



Information	35.8%
Health Care	23.8%
Industrials	21.5%
Consumer	6.3%
Other	12.6%

Source: Aksia and underlying managers
Sector data is lagged by two quarters

Performance commentary

As of September 2022, Cycle 2 was fully committed to seven funds. The portfolio is still in ramp-up, with deployment increasing to over 30%. The next capital call (due in October) is expected to take deployment to c.46%. We remain pleased with the pace of deployment to date.

Given the sustained economic headwinds, managers retained majority allocations to defensive sectors associated with a low degree of cyclicality, strong cashflow generation and an ability to pass through rising costs to customers. As such, healthcare, professional services, education and software-as-a-service firms remained favoured by managers. New investments in the portfolio include Globeducate (a Spanish school operator), Astrix (a provider of outsourced consulting and staffing services), RGI (a European insurance software firm) and British Engineering Services (a provider of mechanical inspection services).

The portfolio currently has a tilt towards to the US (owing to faster deployment by US-focused managers) but is expected to normalise to a broadly even split between the US and Europe over the medium term.

Portfolio performance was positive. However, as noted in prior reports, the portfolio remains in ramp-up so performance measures are not yet meaningful.

Please note that data reflects the value of solely unrealised positions within the portfolio (and excludes the value of any realised (and thus exited) positions).

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
27.3	8.8%	19.8%	20.2%	-	-	-	1,928,460	10.5%	14.3%	14.7%

*Money weighted return

Infrastructure Cycle 1

Investment objective

Portfolio of predominantly European sustainable infrastructure assets

Benchmark

CPI

Outperformance target

+ 4 %

Commitment to portfolio

£50.00m

The fund is denominated in GBP

Commitment to Investment

£49.94m

Amount Called

£35.85m

% called to date

71.78

Number of underlying funds

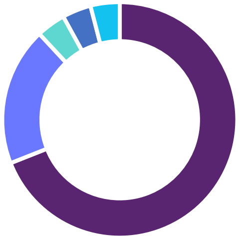
5

Oxfordshire's Holding:

GBP39.07m

Country

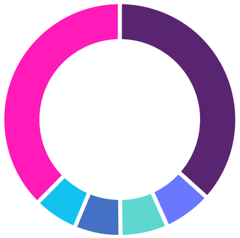
Commitment in underlying investments



Europe Inc UK	69.0%
North America	19.0%
Reserved	4.0%
ROW	4.0%
Uncommitted	4.0%

Source: Stepstone
Country data is lagged by one quarter

Sector



Wind & Solar	36.6%
Rail	6.7%
Diversified Renewables	6.6%
Roads	6.4%
Distrubuted Energy	6.1%
Other	37.6%

Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

Wider macroeconomic troubles intensified throughout Q3. The headwinds faced by the renewables sector highlight the importance of working with resilient and experienced managers. Despite deployment slowing from recent highs due to concerns over the increasing cost of capital, the energy crisis presents opportunities across the value chain. Political green aspirations have strengthened worldwide, and infrastructure funds can play a vital role in enabling ambitious targets to be reached.

As at the end of Q3 2022, Cycle 1 Infrastructure was c.93% committed and c.71% deployed. Only one further tactical deal remained to be sourced to complete Cycle 1.

During Q3, NTR successfully reached 100% deployment and then turned to focus on management of its portfolio. NTR also completed the successful combined financing of two projects – Murley Wind Farm and Ockendon Solar Farm. The latter is backed by a power purchase agreement with BT Group, who will use 100% of the power generated by Ockendon over 10 years. In August, Capital Dynamics VIII acquired three follow-on projects of the Crossbow Italian solar pipeline, for a total installed capacity of 106.5 MW in Italy's Lazio region.

Brunel is pleased with the deployment of Cycle 1 and the overall development of the portfolio. Over the next couple of years, we expect the focus to shift from deployment to performance and monitoring of the portfolio.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
39.1	7.3%	18.3%	10.9%	910,102	116,324	793,778	2,590,990	7.4%	17.6%	7.1%

*Money weighted return

Infrastructure (General) Cycle 2

Investment objective

Global portfolio of infrastructure with a focus on non-RE sectors and sustainable assets

Benchmark

CPI

Outperformance target

+ 4 %

Commitment to portfolio

£20.00m

The fund is denominated in GBP

Commitment to Investment

£20.00m

Amount Called

£10.18m

% called to date

50.91

Number of underlying funds

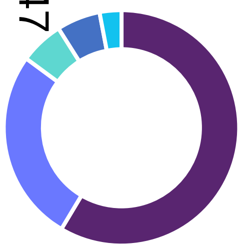
1

Oxfordshire's Holding:

GBP10.17m

Country

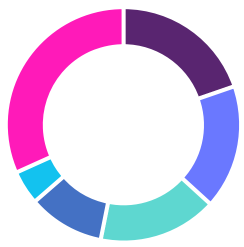
Commitment in underlying investments



Europe Inc UK	58.5%
North America	26.5%
Reserved	6.0%
Uncommitted	6.0%
ROW	3.0%

Source: Stepstone.
Country data is lagged by one quarter

Sector



Diversified Power	19.7%
Diversified Transport	17.1%
Energy Efficiency	16.4%
Fiber	10.5%
Towers	4.7%
Other	31.6%

Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

Wider macroeconomic troubles intensified throughout Q3. The headwinds faced by the renewables sector highlight the importance of working with resilient and experienced managers. Despite deployment slowing from recent highs due to concerns over the increasing cost of capital, the energy crisis presents opportunities right along the value chain. Political green aspirations have strengthened worldwide, and infrastructure funds can play a vital role in enabling ambitious targets to be reached.

As at the end of Q3 2022, Cycle 2G was c.89% committed and c.54% deployed. Six primary funds had been committed, too. One more tactical deal is expected to be sourced to complete a portfolio of seven Tactical investments. Upon completion, the Cycle 2G portfolio will be fully committed.

Key events in the quarter included a 13.3% drawdown from Vauban CIF III. At quarter,-end, CIF III had successfully committed c.€2.5bn of equity, which represents c.95% of the €2.65bn fund size investing in 12 assets and benefiting from strong diversification in terms of geographies (the US and seven countries across Europe).

In their Q2 report, Meridiam expressed concerns over increases in base rates and counterparty risk premium. Despite this, Meridiam projects have been performing well operationally and are currently valued at cost.

Project Twelve, a secondary position in Infracapital Greenfield Partners I, is expected to see an uplift in its valuation as Bioenergy Infrastructure Group ("BIG") stabilised

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
10.2	-0.1%	3.1%	1.8%	-	-	-	-8,872	-	-	-

*Money weighted return

Infrastructure (General) Cycle 2

and began turning towards growth. BIG is a UK Energy from Waste aggregation platform.

Brunel is very pleased with the development of the Cycle 2G portfolio. The portfolio is diversified and invested in quality opportunities that we believe will provide strong performance both in terms of returns and sustainability - the latter both societal and environmental.

Infrastructure (Renewables) Cycle 2

Investment objective

Global portfolio of renewable energy and associated infrastructure assets

Benchmark

CPI

Outperformance target

+ 4 %

Commitment to portfolio

£20.00m

The fund is denominated in GBP

Commitment to Investment

£20.00m

Amount Called

£6.14m

% called to date

30.68

Number of underlying funds

1

Oxfordshire's Holding:

GBP6.13m

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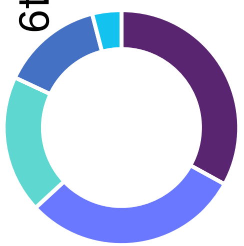
Country

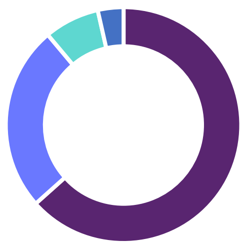
Commitment in underlying investments



Uncommitted	33.0%
Europe Inc UK	30.0%
North America	19.0%
ROW	14.0%
Reserved	4.0%

Source: Stepstone
Country data is lagged by one quarter

Sector



Solar & Wind	63.4%
Diversified Renewables	25.5%
Energy Storage	7.6%
Other	3.5%

Source: Stepstone
Sector data is lagged by one quarter

Performance commentary

The portfolio experienced strong deployment of capital over the quarter (c.£80mn), driven mainly by the closing of three tactical deals which were approved in Q2. These were: Project Link, a co-investment with Meridiam into an electricity interconnector; Project Gutenberg, a co-investment in a global offshore wind platform; and Project Mandel, a solar platform investment alongside Macquarie.

As at the end of Q3, Cycle 2 Renewables is c.67% committed. The portfolio had committed to six Primary Funds by quarter-end; the most recent commitment was to NextPower Solar ESG Fund, which held its first close in Q3. One remaining primary allocation and approximately two more tacticals are required to bring the Cycle 2 Renewables to full commitment.

Mirova Energy Transition Fund 5 (MET 5) completed its final close, raising €1.6bn, (€600m above the target). Mirova has currently deployed €600m in France, Poland, and Belgium.

Brookfield Renewable Sidecar IV was c.72% committed at quarter-end. It is likely the remaining capital will be used to fund growth in its current portfolio of eight geographically diverse assets, rather than channelled to new investments.

The portfolio benefited from decarbonisation and energy tailwinds. The competitiveness of wind and solar has been enhanced by higher commodity prices on thermal generation. Despite early signs of positive performance, pressure on costs globally increases the difficulty of sourcing attractive opportunities. However, we remain confident the strong pipeline will ensure deployment of this mandate in line with scope and specification.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
6.1	7.3%	17.0%	10.5%	-	-	-	393,202	-	-	-

*Money weighted return

Secured Income Cycle 1

Investment objective

Portfolio of long-dated income streams, a majority of which are UK inflation-linked

Benchmark

CPI

Outperformance target

+ 2 %

Commitment to portfolio

£60.00m

The fund is denominated in GBP

Commitment to Investment

£60.00m

Amount Called

£59.97m

% called to date

99.95

Number of underlying funds

3

Oxfordshire's Holding:

GBP64.86m

Performance commentary

The M&G Secured Income Property Fund's total returns over the quarter were negative. Recent performance was driven by underlying movements in the gilt markets, resulting in a softening of capital values. Whilst there are economic headwinds, the fund is well positioned for the current environment, with a high-quality tenant base, inflation-linked leases, and no debt or development exposure.

In September, SPIF completed the disposal of a Tesco supermarket in Llanelli ahead of book value. This sale disposed of an over-rented store with a short lease term. The fund is undertaking further targeted asset sales to manage its liquidity position, simultaneously improving the fund's key metrics.

The abrdn Long Lease Property Fund also incurred negative performance over the quarter, particularly driven by income strips (where Marstons are tenants), car parks, industrial sites, and offices. There was positive performance from the care home assets and from ground rents. A further decline is anticipated in Q4, with low levels of investment activity dampening values.

The disposal of the Worthing office asset has now completed ahead of valuation, sold owing to its shortening lease length and ESG concerns.

Abrdn have experienced an uptick in redemptions, which are being managed carefully through selective disposals. Most are partial redemptions where DB clients are de-risking.

Discussions continue with a serviced provider and a local company on the vacant Ingenuity House at Birmingham's NEC, to fill the tenant void created by Interserve's departure.

In Q3, two changes were made to the GRI Limited Partnership Agreement, with the final closing date for the fund extended by 12 months to September 2023 and a limit introduced on the total amount of commitments of £1,750 million.

GRI held another close in early October, with £70m committed by a UK pension scheme. This increases dry powder in the fund to nearly £160m, of which £90m will be committed to the Solar II fund.

Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
64.9	-3.9%	4.1%	5.7%	-	-	-	-2,620,300	-3.9%	4.0%	4.2%

*Money weighted return

Secured Income Cycle 2

Investment objective

Portfolio of long-dated income streams, a majority of which are UK inflation-linked

Benchmark

CPI

Outperformance target

+ 2 %

Commitment to portfolio

£40.00m

The fund is denominated in GBP

Commitment to Investment

£40.00m

Amount Called

£40.00m

% called to date

99.99

Number of underlying funds

3

Oxfordshire's Holding:

GBP41.85m

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Performance commentary

The M&G Secured Income Property Fund's total returns over the quarter were negative. Recent performance was driven by underlying movements in the gilt markets, resulting in a softening of capital values. Whilst there are economic headwinds, the fund is well positioned for the current environment, with a high-quality tenant base, inflation-linked leases, and no debt or development exposure.

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The disposal of the Worthing office asset has now completed ahead of valuation, sold owing to its shortening lease length and ESG concerns.

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Portfolio summary

Market value (GBP millions)	3 Month MWR*	1 Year MWR*	Since Inception MWR*	Inflows	Outflows	Net cash flow latest quarter	Value added latest quarter	Contribution to return: 3 months	Contribution to return: 1 year	Contribution to return: since inception
41.9	-2.8%	7.5%	8.7%	-	-	-	-1,154,030	-2.9%	8.1%	9.9%

*Money weighted return

UK Property

Investment strategy & key drivers

Portfolio of active UK property funds seeking capital & income returns

Liquidity

Illiquid

Benchmark

MSCI/AREF UK

Outperformance target

+0.5 %

Commitment to portfolio

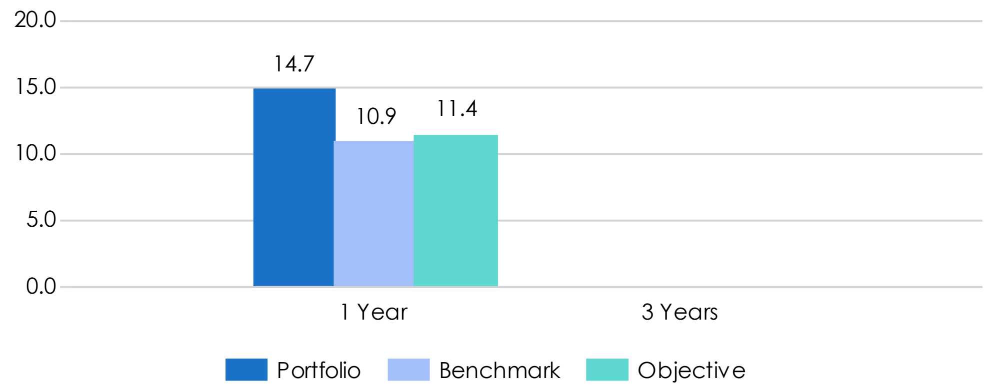
£159.5m

Amount Called

£140.9m

Number of portfolios

19



Performance commentary

Most UK property funds operate a quarterly valuation cycle, which gives investors a lagged snapshot of real estate pricing. End-September NAVs do not reflect the most recent interest rate uplifts or the impact of higher gilt yields on asset values and expectations. These will be more evident in the Q4 2022 valuation numbers.

Transactions in direct property took place in Q3, though investment volumes slowed across all sectors, particularly the office sector. Late Q4 is likely to offer opportunities for cash investors, as forced sellers emerge.

Having raised some liquidity for clients in the first half of this year, Brunel made commitments to the UBS Life Sciences Property Trust in August and over 40% of those client commitments have already been deployed to secure a development site adjacent to a pharmaceutical company's existing operations, north of London. UBS expects to deploy the majority of the remaining commitments before the end of 2022. The UK Life Sciences industry needs bespoke real estate to grow and UBS has been an early mover in offering to develop bespoke laboratory space in this sector, where demand is strong and rental terms can be set to benefit both corporates and investors.

Property holdings summary

Holding	Cost (GBP millions)	Market value (GBP millions)	Perf. 3 month	Perf. FYTD	Perf. 1 year	Perf. 3 year	Perf. 5 year	Inception Date
Brunel UK Property	99.0	171.9	-2.3%	2.0%	14.7%	-	-	Jul 2020

International Property

Investment strategy & key drivers

Portfolio of active International property funds seeking capital & income returns

Liquidity

Illiquid

Benchmark

GREFI

Outperformance target

+ 0.5 %

Commitment to portfolio

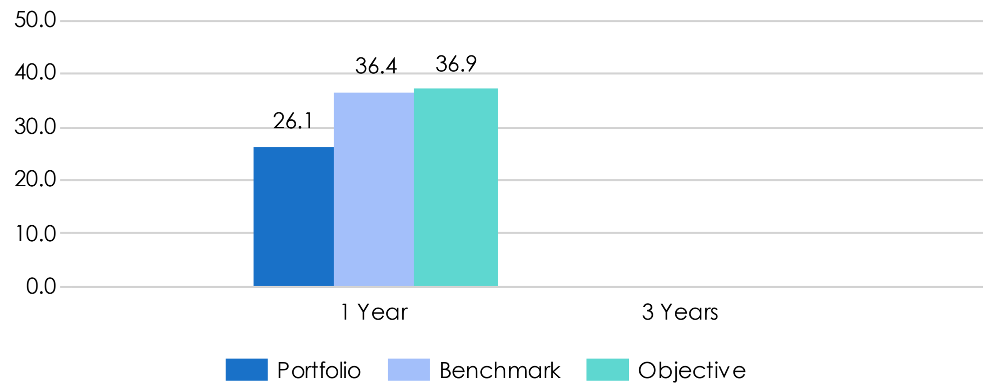
£59.6m

Amount Called

£42.5m

Number of portfolios

10



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Performance commentary

With interest rates continuing to rise with the tightening of monetary policy, recession risk is elevated in Europe as well as North America, with global growth forecasts slowing and a property market downturn likely. The recent increases in bond yields point to further upward real estate yield adjustments across various sectors in the coming quarters.

Real estate repricing began in some regions over Q2 and continued in Q3, reversing the strong start in Q1. The primary trigger was the lending market, where the increase in swap rates pushed the all-in debt costs above the property income yield for most core income-producing asset classes, effectively knocking a significant proportion of potential buyers out of the market.

Despite some significant challenges on the capital market side, logistics occupier markets continued to demonstrate positive demand characteristics and rental growth. Retail markets were largely stable, but trading is still likely to ultimately suffer, as consumers retrench.

Brunel finalised due diligence on the Prologis European Logistics Fund, which focuses on core stabilised operating logistics assets across all major European logistics gateways, and on the Charter Hall Prime Industrial fund, an AUD $12bn open-ended fund comprising high-quality industrial and logistics assets. Against a backdrop of rising interest rates and moderating growth, resilient income streams from industrial assets, with long-term inflation protection, should offer investors a relatively defensive strategy.

Property holdings summary

Holding	Cost (GBP millions)	Market value (GBP millions)	Perf. 3 month	Perf. FYTD	Perf. 1 year	Perf. 3 year	Perf. 5 year	Inception Date
Brunel International Property	22.1	56.7	7.5%	17.3%	26.1%	-	-	Jul 2020

Glossary

Term	Comment
ACS	Authorised Contractual Scheme - a collective investment arrangement that holds and manages assets on behalf of a number of investors.
Absolute Risk	Overall assessment of the volatility that an investment will have.
Active Risk/Weight	A measure of the percentage of a holding that differs from the benchmark index; can relate to an equity, a sector or a country/region.
Amount Called	In private investments, this reflects the actual investment amount that has been drawn down.
Amount Committed	In private investments, this is the amount that a client has committed to an investment - it will be drawn dawn (called) during the investment period.
Annualised Return	Returns are quoted on an annualised basis, net of fees.
Asset Allocation	Performance driven by selecting specific country or sector positions.
Basis Points (BP)	A basis point is 0.01% - so 100bps is 1.0%. Often used for fund performance and management fees.
CTB	Climate Transition Benchmark - targets 30% lower carbon exposure from 2020 and then a 7% annual reduction.
DLUHC	Department for Levelling Up, Housing & Communities; the government body with oversight of pooling.
DPI	Distributed to Paid In; ratio of money distributed to Limited Partners by the Fund, relative to contributions. Used for private markets investments.
Duration	A measure of bond price sensitivity to changes in interest rates. A high duration suggests a bond's price will fall by relatively more if interest rates increase than a bond with a low duration.

Term	Comment
ESG	ESG is an umbrella term to capture the various environmental, social and governance risks investors factor into their assessment of a company's sustainability profile. Brunel views assessing ESG factors as a central part of our fiduciary duty.
ESG Score	MSCI score based on its assessment of the ESG credentials of an underlying investment. If the portfolio score is below the index, the portfolio is assessed by MSCI to be investing in companies with a better ESG score.
Extractive exposures VOH	Value of Holdings of invested companies which derive revenues from extractive industries.
General Partner (GP)	In Private Equity, the GP is usually the firm that manages the fund.
Gross Performance	Performance before deduction of fees
Growth	Growth stocks typically exhibit faster long term growth prospects and are often valued at higher price multiples.
IRR	Internal Rate of Return - a return that takes account of actual money invested.
Legacy Assets	Client assets not managed via the Brunel Pension Partnership.
Limited Partner (LP)	In Private Equity, an LP is usually a third party investor in the fund.
Low Volatility	Volatility of returns is widely used a risk measure. Low Volatility is a strategy that attempts to minimise the return volatility.
MWR	Money weighted return - similar to an IRR - it reflects the actual investment return taking into account cashflows.
Momentum	An investment strategy that aims to capitalize on the continuance of existing trends in the market.
Net Performance	Performance after deduction of all fees.

Glossary

Term	Comment
PAB	Paris Aligned Benchmark - targets a 50% lower carbon exposure from 2020 and then a 7% annual reduction.
Quality	Quality stocks typically have a high Return on Equity, a very consistent profit outcome and exhibit higher and stable margins.
Relative Risk	Relative volatility when compared with a benchmark.
SONIA	Sterling Overnight Index Average - Overnight interbank interest rate - replacement for LIBOR.
Sector/Stock Selection	Performance driven by the selection of individual investments within a country or sector.
Since Inception	Period since the fund was formed.
Since Initial Investment	Period since the client made its first investment in the fund.
Standard Deviation	Standard deviation is a measure of volatility for an investment using historical data. Volatility is used as a measure of investment risk. A higher number may indicate a more volatile (or riskier) investment but should be taken in context with other measures of risk.
TVPI	Total Value to Paid In; ratio of the current value of remaining investments within a fund, plus the total value of all distributions to date, relative to the total amount of capital paid in.
Time Weighted Return	A return measure that takes no account of actual amounts invested.
Total Return (TR)	Total Return - including price change and accumulated dividends.
Total extractive exposure	Revenue derived from extractive operations as a % of total corporate revenue.

Term	Comment
Tracking Error	A measure of relative volatility around a benchmark. A fund which differs greatly from the benchmark is likely to have a high tracking error.
Transitioned Assets	Client assets that have been transferred to the Brunel Pension Partnership.
Value	Value stocks typically have a low valuation when measured on a Price to Book or Price to earnings ratio.
WACI	Weighted Average Carbon Intensity; measures the carbon intensity of businesses rather than total carbon emissions. It is expressed as tonnes of CO2 equivalent per million GBP of investment exposure.
Yield to Worst	Lowest possible yield on a bond portfolio assuming no defaults.

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Environment Agency Pension Fund
SOMERSET County Council
AVON PENSION FUND
Cornwall Pension Fund
Devon County Council
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Oxfordshire Pension Fund
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BRUNEL
Pension Partnership

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Agenda Item 17

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