

Oxfordshire Pension Fund
Strategic Asset Allocation Review

March 2023

Philip Hebson

MJ Hudson

philip.hebson@mjhudson.com

This document is directed only at the person(s) identified on the front cover of this document on the basis of our investment advisory agreement. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it.

MJ Hudson's Investment Advisory business comprises the following companies: MJ Hudson Investment Advisers Limited (no. 4533331), MJ Hudson Investment Solutions Limited (no. 10796384), MJ Hudson Consulting Limited (no. 13052218) and MJ Hudson Trustee Services Limited (no. 12799619), which are limited companies registered in England & Wales. Registered Office: 1 Frederick's Place, London, EC2R 8AE. MJ Hudson Investment Advisers Limited (FRN 539747) and MJ Hudson Investment Consulting Limited (FRN 541971) are Appointed Representatives of MJ Hudson Advisers Limited (FRN 692447) which is Authorised and Regulated by the Financial Conduct Authority. The information in this email is intended only for the named recipient(s) and may be privileged or confidential. If you are not the intended recipient please delete the email, notify us immediately and do not copy, distribute or take action based on this email. Although emails are routinely screened for viruses, MJ Hudson does not accept responsibility for any damage caused. References to 'MJ Hudson' may mean one or more members of MJ Hudson Group plc and /or any of their affiliated businesses as the context requires. For full details of our legal notices, including when and how we may use your personal data, please visit: <https://www.mjhudson.com/legal-and-regulatory/>.

Oxfordshire Pension Fund

Purpose of Review

The Oxfordshire Pension Fund (the Fund) is valued at £3.05 billion as at the end of December 2022. The Fund's value has risen by £320 million since the last Strategic Asset Allocation Review, at 31st December 2019 it was valued at £2.73 billion.

The purpose of this Strategic Asset Allocation Review is to:

1. to take stock on the performance and composition of the Fund's Asset Allocation;
2. to recommend any changes required to the Fund's Asset Allocation to maintain targeted returns, including cashflow, whilst considering the Fund's appetite for volatility, liquidity risk and the need for diversification of risk;
3. to consider the work that the Fund has undertaken in relation to Environmental, Social and Governance (ESG) issues, with a particular focus on climate change.

It should be emphasised that these recommendations are designed to shape the strategic direction of the Fund's investment strategy, which will involve further work and consideration before definitive recommendations are made to the Pensions Committee at the appropriate time.

Summary of Recommendations

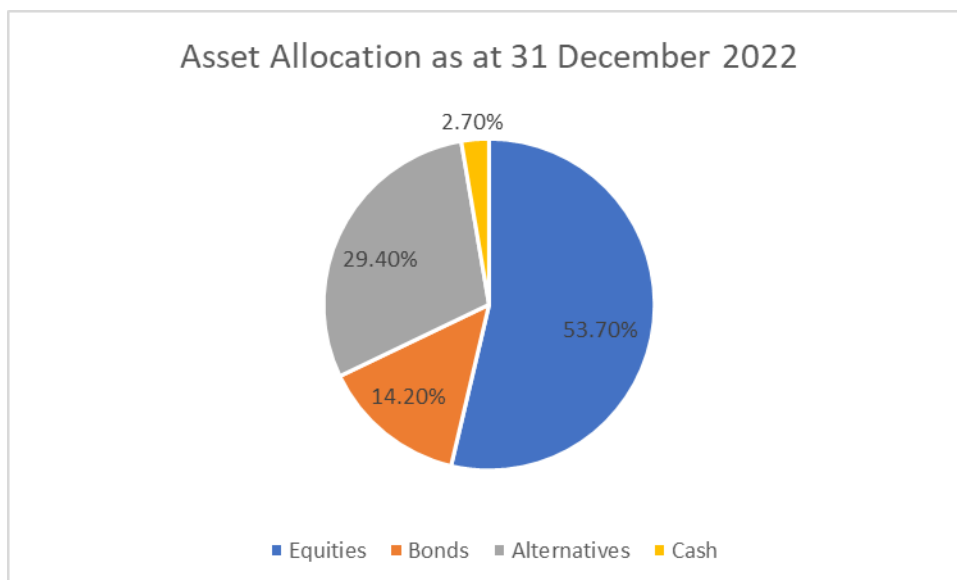
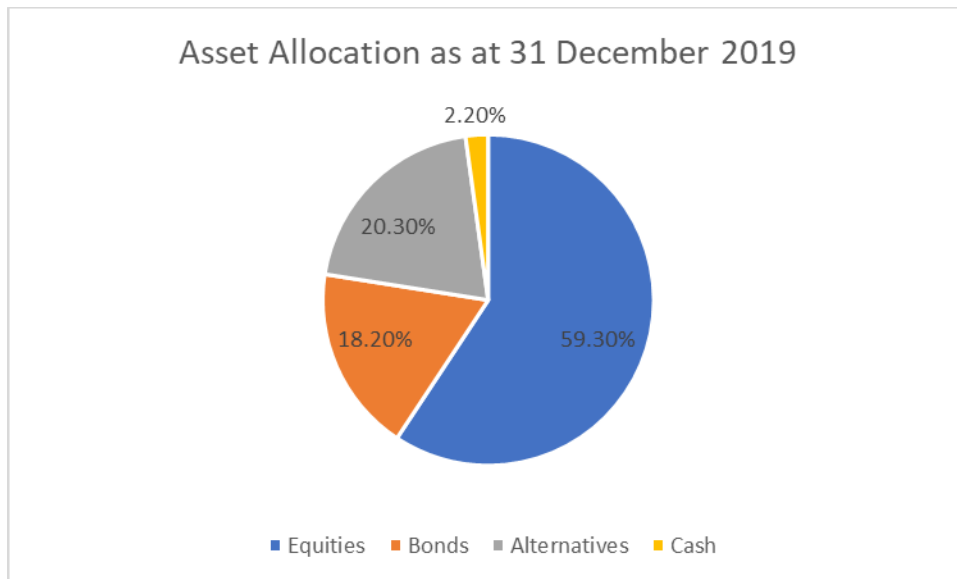
1. **Against a higher inflationary environment to work with Brunel to ensure that the Fund's assets continue to match the liability profile at the cashflow level, including if necessary generating sufficient income to fund increased pension payments.**
2. **To consider if the Fund should put in place a currency hedging strategy, utilising the resources available through Brunel.**
3. **To review the exposure to the UK equity market with the objectives of:**
 - i. **Reducing the overweight position of UK Equities in comparison to the Global UK weighting over time. Consideration will be given to switching to either the Paris Aligned Global passive sub fund or to the active Global Sustainable Investment sub fund.**
 - ii. **For the retained UK exposure to achieve better representation to UK plc in earnings terms and reducing carbon/ climate risk exposure, either on a passive or active basis.**
4. **To review the Emerging Markets mandate so as to remove exposure to China so far as is practically possible.**
5. **In the absence of similar arrangements being offered by Brunel, to retain the listed Private Equity (PE) portfolio and return the management of that to a semi-active basis to ensure that an appropriate balance of investments is maintained.**
6. **To continue to work with Brunel and independently to meet the Fund's evolving ESG and Climate policy requirements.**
7. **To consider the DLUHC "Levelling Up" local investment proposals**
8. **To confirm that the Fund will continue to reinvest on a timely basis capital distributions made by legacy managers and Brunel as investments mature.**

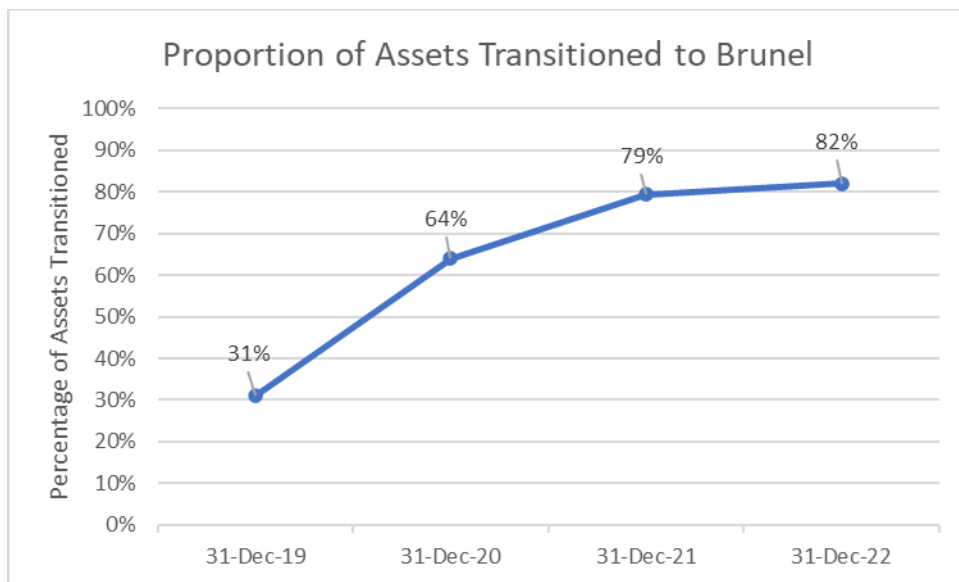
Background

1. The Strategic Asset Allocation review provides the opportunity to consider all 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 both liquidity needs in the short term and the longer-term objectives. This can include looking at the style in which the equity portfolios are managed, such as actively or passively, regionally or on a global basis. Within passive this can include considering style “tilts” that can include low volatility, growth, value, momentum. Alongside that can be the low carbon, climate friendly overlays, as used by Brunel.
2. This is also an appropriate time to consider the Fund’s currency hedging strategy, starting with to do or not to do. There is an expense involved; some consider that as Pension Funds are long term investors then this is not justified over time. However, it could be considered that not hedging against currency movements is an unacceptable risk, particularly if the UK equity element is reduced within the asset allocation.
3. The Triennial Actuarial Valuation currently being undertaken by Hymans has not revealed 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.
4. 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.
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. However the mid cap index, the FTSE 250, does provide a much better representation of business in the UK, with a much lower carbon exposure.
7. The Emerging Markets (EM) portfolio represents just 2.6% of the Fund’s assets. China represents 35% of the MSCI EM index. Add in Taiwan, that’s 50%. The conflict in Ukraine has served to heighten concerns about China’s ambitions. The recent 20th National Congress has if anything exacerbated those concerns. Is this an area that it is necessary for the Fund to invest in, despite the geo-political risks and social issues?

Asset allocations and performance

Over the three years since the last Strategic Asset Review the Fund has continued with the process of transferring the management of its assets from a number of individual managers to the Brunel Pension Partnership. They are now responsible for the management of over 81% of total assets, up from 50% three years ago. This percentage will increase further over time, but is now very much determined by the speed of drawdowns to fund further investments in Infrastructure, Secured Income and Private Debt. In large part this will be funded by the disposal of the Insight Diversified Growth Fund holding and our remaining Bond mandate managed by LGIM.





Performance against benchmarks and targets is very important in ensuring that the Fund continues to increase the value of the assets so as to continue to keep pace with the increase in the liabilities, or rather the ability of the Fund to be able to pay pensions now and into the future. Although we do take an interest in shorter term performance, really to try to spot signs that investments might not meet expectations over the expected periods, in terms of scrutiny at the strategic level it is more important to focus on longer term performance.

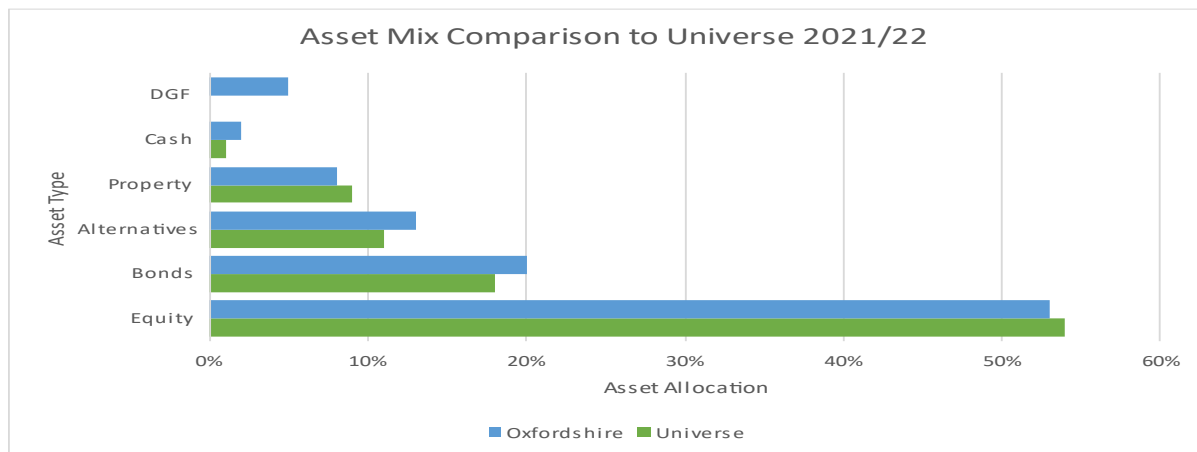
However, as was flagged in the last SAA review, the new investment management arrangements are still pretty much in their infancy, so although what information is available should be noted in general terms a ten-year period is considered to be the norm for proper assessment to begin. This is to accommodate the stresses and opportunities placed on investment performance by unforeseen circumstances, such as Covid-19 and more recently the implications of the invasion of Ukraine. It should also be noted that the transition to portfolios that better match the Fund's aspirations around ESG and climate change issues has involved some disruption as well, particularly in the shorter term.

You will observe from the table below that we deliberately focus on three main asset groups; Equities, Bonds and Alternative Investments at the Strategic level. It is not being proposed in this review that the allocations to these groups be altered, but over time the sub allocations within them may well change, including some that might be as a result of the refinements being discussed within this report.

The current asset allocation, actual and targeted is below:

Investment	COMBINED PORTFOLIO 31.12.2022		Target %
	Value £' 000	% of Total Value	
EQUITIES			
UK Equities*	507,611	16.6%	15.0%
Emerging Market Equities			
Global Equities			
Overseas Equities			
Total Overseas Equities	1,133,457	37.1%	36.0%
-			
BONDS			
UK Gilts	12,143	0.4%	
Corporate Bonds	119,197	3.9%	
Overseas Bonds	11,826	0.4%	
Index-Linked	160,946	5.3%	
Multi Asset - Credit	130,910	4.3%	
Total Bonds	435,022	14.2%	16.0%
ALTERNATIVE INVESTMENTS			
Property	206,112	6.7%	8.0%
Private Equity	351,740	11.5%	10.0%
Multi Asset - DGF	115,390	3.8%	0.0%
Infrastructure	87,113	2.9%	5.0%
Secured Income	96,567	3.2%	5.0%
Private Debt	39,917	1.3%	5.0%
Total Alternative Investments	896,839	29.4%	33.0%
CASH	81,884	2.7%	0.0%
TOTAL ASSETS	3,054,813	100.0%	100.0%

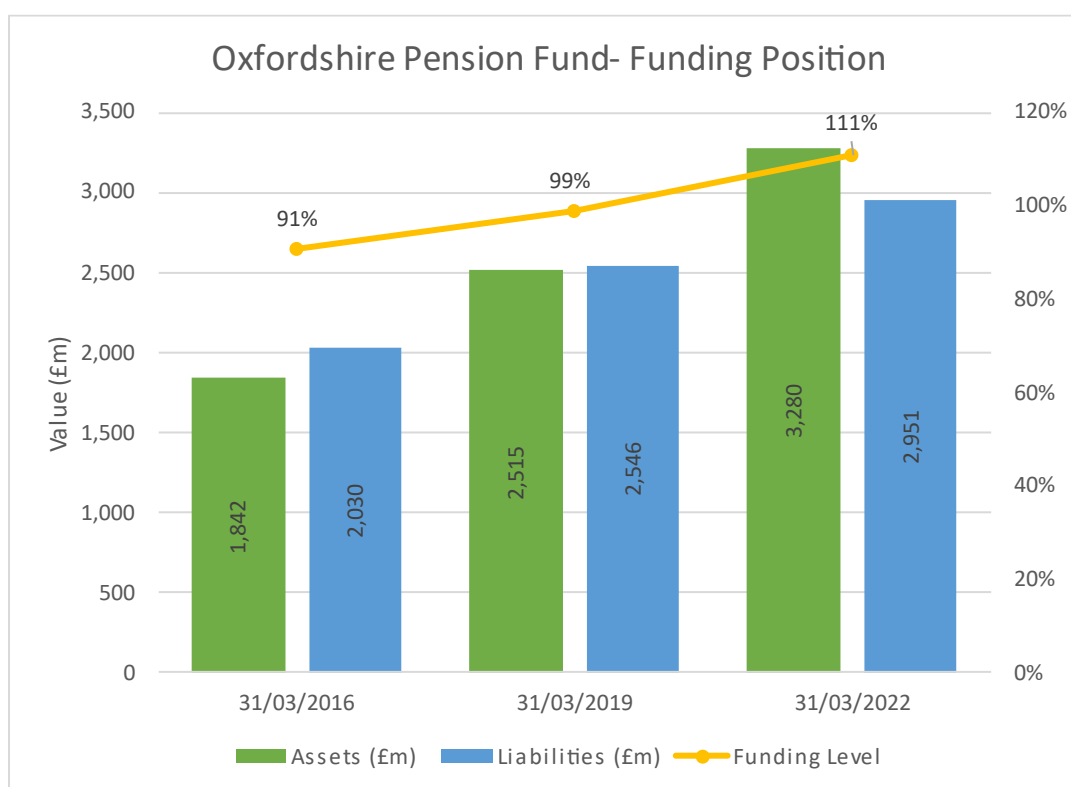
To give some sort of perspective, this chart gives a comparison between Oxfordshire’s asset allocation and the wider PIRC universe of LGPS Funds. As you will see, there isn’t a huge divergence from the universe.



Funding level

While I acknowledge that there is probably too much attention given to Funding levels it is hard to not like having a healthy one, regardless of the debate around how it is calculated and the relevance around being actually able to pay pensions. Most LGPS Funds have enjoyed a strong recovery in their Funding levels over the last six years and longer, in most part due to still having a relatively high asset weighting to equities, particularly public and to some degree private equity.

The chart below shows the progression over the last three triennial valuation points, so while the liabilities have increased the asset values have more than matched that.



As at the end of March the Funding level was stated as being at 111%, it will have fluctuated rather a lot since then (due to changing interest rates) but currently I would expect it to be

around that level. Ideally on a relatively conservative basis (which Hymans tend to be), a Funding level in the range of 90 – 110% is a good place to be as it means there is no need to take excess risk to try to catch up. It is worth including Hymans input on this from their interim report, as it fits in with consideration of the strategic asset allocation. I would like to emphasis what is underlined in the final paragraph.

Initial whole fund results

A key output of the valuation is a measurement of past service liabilities at the valuation date to determine the funding level. To calculate a current funding level, the actuary compares the market value of assets against a value of the benefits accrued to date. The value of assets is easily obtained via market valuations. Placing a single value on the liabilities requires a single set of assumptions about the future, so it is important to acknowledge the results are very sensitive to the choice of assumptions.

Using this approach, a high-level snapshot of the funding position on 31 March 2022 is below:

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	945	790
Deferred Pensioners	745	631
Pensioners	1,260	1,125
Total Liabilities	2,951	2,546
Assets	3,280	2,515
Surplus/(Deficit)	329	(31)
Funding Level	111%	99%

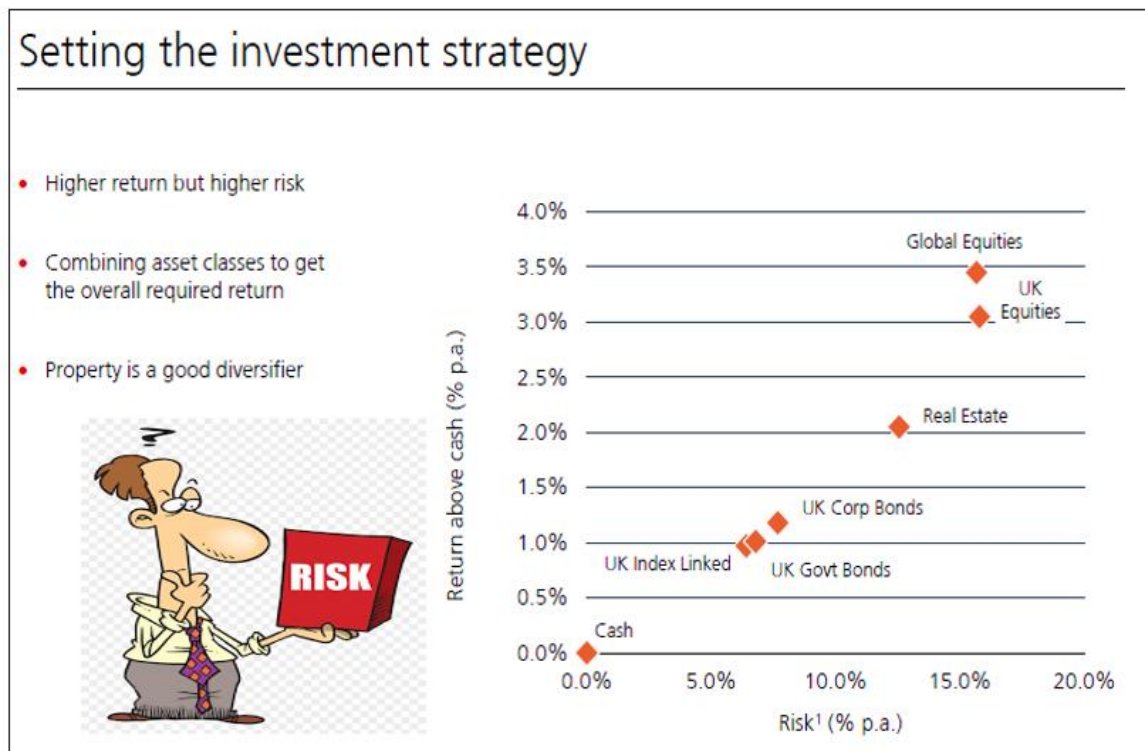
As at 31 March 2022, the past service funding position has improved from a funding level of 99% at the last valuation to 111%. This is based on assumed future investment returns of 4.6% pa.

The future investment return the Fund would need to generate to be 100% funded is now 4.0% pa (compared to 4.4% pa at 2019). The likelihood of the Fund’s investment strategy achieving this required return of 4.0% pa is now 77% (there was a 66% of the Fund achieving the required 4.4% pa at 2019). Put another way, the Fund is putting less reliance on future investment return to pay for benefits already accrued by members than at 2019.

The main factor driving the funding position improvement is stronger than expected investment returns since the 2019 valuation. These have more than offset the increase in liabilities due to the short- to medium-term inflation expectations. Despite the Covid-19 pandemic, the funding impact of mortality experience has not been significantly different from expectations.

However, it is important to understand reported funding level does not directly drive employers’ contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer’s funding profile and covenant.

Asset allocation; getting the mix of assets right



This graphic is just to serve as a reminder about the importance of getting the mix of assets right to ensure that we continue to maintain a balanced portfolio. As stated above by Hymans we can now afford to take slightly less risk than might have been the case historically. We should however remember that the LGPS, of which Oxfordshire Pension Fund is part, is still an open Defined Benefit Scheme, which means that our liabilities currently have no finite end and that the profile of the Fund membership is continuing to change. I would therefore not be proposing any significant change to the Fund's risk appetite, despite the improved Funding level.

Cashflow, how much income is required to pay pensions? (Recommendation 1)

As you will be aware, our pensioners are due to receive a 10.1% increase as from 1st April 2023, based on the Consumer Prices Index (CPI) level for September last year.

This has prompted a review of cashflow expectations, not only to meet this increase, but to consider what actions, if any, are necessary to ensure that funds are readily available in an environment that is likely to see higher inflation in the medium term. Based on the analysis undertaken by Hymans, details below, careful cashflow management will ensure that the Fund is able to comfortably meet the challenge of higher pension payments for the immediate future.

Looking forwards, a discussion has been held with Brunel to explore some options should we need to boost distributable income from the Fund's investments at some point in the medium term to help meet the increased payment requirements. Currently the Fund's

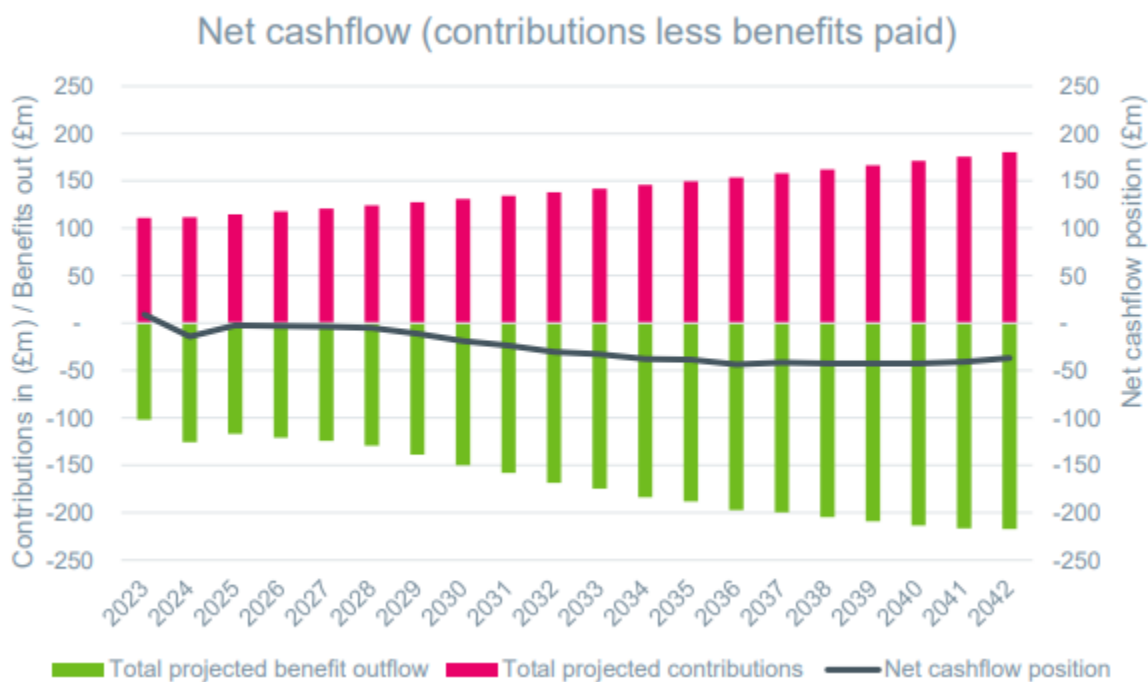
investments in Property and Secure Income are in accumulation units, such that income received is reinvested into more units. This could be switched to a distribution basis, although there is a risk that at some points in time we might have excessive cash balances if not managed actively. This could be resolved by continuing to use accumulation units, but selling what is required as and when additional cash is required, or a combination of both. It is likely that by the time the next full Strategic Asset Allocation review is undertaken, a more detailed analysis will need to take place to identify the sort of assets that can offer a harvestable income flow while maintaining the value of the asset.

It should be noted that this exercise is separate from the asset management that is required to meet drawdown requirements from our Alternatives investments with Brunel.

What follows is the summary of conclusions from Hyman's Cashflow Projections report:

- *In the absence of investment income, the Fund is likely to be cashflow negative by 2025 allowing for an expected pension increase of 10.1% in April 2023 and inflation thereafter that is in line with the valuation assumption. Furthermore, even when the current investment income yield (net of fees) of around 0.1% pa is factored in, the Fund would still be cashflow negative by 2025.*
- *The cashflow position of the Fund is sensitive to future levels of inflation. If higher inflation continues to persist into 2023 and 2024, the Fund will become more cashflow negative in the next couple of years. This is exhibited in our recession scenario. This highlights the importance of reviewing the cashflow position on a regular basis in a high inflation environment.*
- *In the longer-term, the most significant risk to the fund (in respect of its cashflow position) is a stagflation scenario, were inflation remains elevated for a longer period of time. Under this scenario, the Fund is cashflow negative in the next couple of years, with the gap increasing to a material level over the longer-term.*
- *An immediate 10% reduction to active membership would likely result in the Fund becoming cashflow negative immediately. The Fund should continue to monitor its membership numbers to manage this particular risk.*

Within their report Hymans has modelled scenarios that include looking at a recessionary environment, a stagflation environment and also included the likely implications should there be a 10% fall in active members paying into the Fund. These are effectively "what if" scenarios. However, for the purposes of this report I will focus on their baseline scenario. This looks forwards over 20 years, during which time the assumptions used will almost certainly change, but what it does show is that it is very unlikely that dramatic changes will need to be made to the Fund's Strategic Asset Allocation in the foreseeable future to accommodate the continued payment of pensions.



The baseline scenario illustrated above represents the median CPI assumption within the Hymans Robertson economic scenario service (ESS) model as at 31 March 2022 (this is the assumption used for the 2022 valuation). This is a combination of short-term market expectations and longer-term expectation that the rate will tend to the Bank of England’s 2% pa target. The payroll assumption remains constant at 2.7% pa.

Asset allocation considerations

Rather than go through a tedious piece on the pros and cons of each asset class, I intend to focus on some of the issues that have arisen in the run up to this review, which can be considered to be part of the ongoing process of refining the Fund’s investment strategy.

Commodities

A question was raised about the possibility of investing in commodities in the aftermath of the invasion of Ukraine. There was a piece in the June Pension Committee report that looked at this subject, some of which I have loosely reproduced below, as it is still pertinent. Commodities is a very diverse asset class, ranging from high value materials (gold) right the way through to basics (potatoes). The Fund already has some exposure to commodities. About 8% of the investment in Insight’s Diversified Growth Fund is in commodities. There will be some exposure within Brunel’s equity portfolios, but that is likely to have reduced somewhat with the recent switch to the Passive Developed Equities Paris Aligned Fund, as that will have a low exposure to certain types of commodity. Which leads us to quite an important question, where do you draw the line as to which commodities you would be prepared to invest in, or put another way, which do you exclude? Given the Fund’s stance on environmental issues, it would be fair to assume that carbon related commodities would be excluded. But what about the broader issue of mining? That tends to be disruptive and

generally environmentally unfriendly. Include lithium as well, needed for batteries in electric vehicles and power generation transition. Not exactly as friendly as it appears at first sight. Agricultural commodities bring their own challenges beyond simple supply and demand, as supply is often subject to the vagaries of the weather and other factors.

The essay included a useful article on the subject by Vontobel. To give a balanced perspective, their conclusion was, *“From a strictly rational perspective aimed at mitigating inflationary and geopolitical risks in a portfolio, it seems reasonable to hold a position in commodities, an asset class that has rallied by 26.5% so far this year.”* (written in May)

My conclusion was this: “Investing in commodities tends to be high on the risk spectrum. Big gains can clearly be made, but generally the successful investor needs to be nimble and ahead of the crowd. Historically I have gained exposure to commodities via equities, rather than via commodity funds, which tend to charge high fees and in general terms have erratic performance over the longer term.” I would add to this by saying that although pension funds have invested in commodities historically, the longer term track record wasn’t good, so many have divested.

Brunel do not currently have a suitable sub fund that directly invests in commodities, so if OPF wish to pursue this, either they would have to consider providing this option, or the Fund would need to look elsewhere.

Given the long term nature of the investment strategy of this Fund, my opinion is that it would not be appropriate to invest in “hard” commodities, while acknowledging that exposure to commodities is available via equity markets.

Currency exposure risk (Recommendation 2)

What goes down must come up?

Many Funds have spent a lot of money paying for insurance policies (hedging) over the years in anticipation of the day when the tide finally turns and sterling reverses a long term trend of depreciation against the US dollar and the euro.

Over time the Fund has benefitted considerably from unhedged positions in dollar denominated investments.

Conventional “wisdom” suggests that hedging bond positions is appropriate, as returns could be seriously impacted by negative exchange rate movements. With equities it is more likely that returns could be impaired, but not so dramatically as a percentage of total return.

The counter argument is that over time currency fluctuations tend to balance out, so for long term investors the costs involved in having a constant hedging strategy cancel out any benefit, or indeed are a net cost, thus diminishing returns. The spread of assets across currencies has provided some diversification of currency risk.

My own view is that occasionally some movements are such that a currency becomes fundamentally over or under valued and that if the appropriate means to put in place some protection in a timely and cost-effective way would be advantageous, such as sterling being worth over \$2 to £1 in 2007. Historically the problem has been that this mechanism isn’t readily available and the opportunity passes.

With the advent of Pooling, this is now more readily available at that level which Funds can utilise. Given the strength of the dollar recently, the question quite understandably has arisen about how long that could last, and some weakening is likely, or even desirable. It is on this basis that the proposal is being made that the Fund should investigate the cost and options of selective hedging through Brunel. This could form part of the analysis of the possible divestment from UK Equities, in whole or part, which would almost certainly increase our US dollar exposure.

The chart below records sterling versus the US dollar and the euro over the last 20 years and shows how sterling has depreciated over that time. The tide will turn, but when?



The UK Equities conundrum (UK Active) (Recommendation 3)

As someone who spent the first 30 years of his working life intimately involved with UK Equities, this is a bit of a tricky subject within the modern globally based world that UK investments have become just a small part of. Many Funds do retain an allocation to UK Equities, alongside their Global Equity allocations. There are various reasons for that, including the entirely understandable loyalty to the home market linked to the notional lack of a currency translation effect at market level. But read on.

As has been stated before the FTSE All Share index is not a true reflection of UK plc as a result of overseas earnings representing 82% of the FTSE 100 earnings. There is an additional twist here, because although the UK market is clearly sterling based, the earnings of the companies included in the index have substantial overseas earnings, which are translated back to sterling for accounting purposes. With sterling being generally weak versus other currencies, particularly the US dollar, earnings have seen a boost on translation. If this trend reverses, then sterling adjusted earnings may suffer, depending on what currency hedges any individual company has in place.

Another factor to bear in mind is that due to the sector breakdown having a heavy bias towards Non-renewable Energy (Oil & Gas) and to Industrial Metals and Mining the FTSE All Share index is not environmentally friendly in comparison to the Global indices.

The Fund currently has a weighting of 14.7% in total portfolio terms, out of the total of 52% held in Equities. As a representation of the exposure to the Global index this would be 28%, and adding in a notional exposure held within the global funds this would be closer to 29.4%. The actual weighting to the UK within the Global index is c.4%, so we are approximately 25% overweight on that basis.

So, what to do?

1. The “easy” option is to transition UK Active into a considered mix of the Global sub funds, which provide a selection of Passive Developed Paris Aligned Equities, Global Sustainable Equities (active) and Global High Alpha Equity. This last named may well form part of the next leg of ensuring that Fund investments comply with Paris Alignment, so should be considered in that context.
2. It would be quite understandable if regardless of the UK weighting in the context of the Global picture that there is a desire to maintain a discrete presence in the home market, while addressing to some degree the issues of being representative of UK business and without the negative environmental slant. To some extent we are probably somewhat constrained by what Brunel can realistically offer in this respect, but a dialogue with them about possible options would be helpful. Two possible options that could be considered are here, but there are probably others as well.
 - i) A Paris Aligned variant of the FTSE All Share index. There would then need to be consideration about this being a passive or active mandate, along with a study of how the indices differ.
 - ii) The FTSE 250 index (mid market capitalisation) has a much lower exposure to overseas earnings, at 57%. There is also a much lower exposure to the main “polluting” sectors, as the main companies involved are predominantly large cap stocks.
3. Or a combination of the two, with the UK weighting being reduced over time.

The Emerging Markets Conundrum (Recommendation 4)

China represents a sizeable proportion of the global Emerging Markets index (35%), so this has had a detrimental impact on sentiment towards emerging markets in general. Some managers are now considering creating portfolios that treat China as a separate sleeve, that reflects the inherent dominance of China in the existing indices, but also provides investors with a means of limiting their exposure to China in particular. If this is looked at from the angle of a potential conflict risk with Taiwan, then some would consider that investment in Taiwan is also an unacceptable risk, which in itself represents 15% of the MSCI EM index.

To provide some context, our EM exposure is just 2.6% (estimate) of Fund assets. It is 5.4% of the total Equity portfolio. The weighting of Emerging Markets in the MSCI index is 10.9% (as at end December 2022), so compared to that we are substantially underweight.

There are two headline options here:

1. Consider that the allocation is sub scale in terms of impact to the total Fund and divest. Realistically the switch would be either to Global Equities, bearing in mind that there currently isn't a proposal to reduce the total Equity allocation.

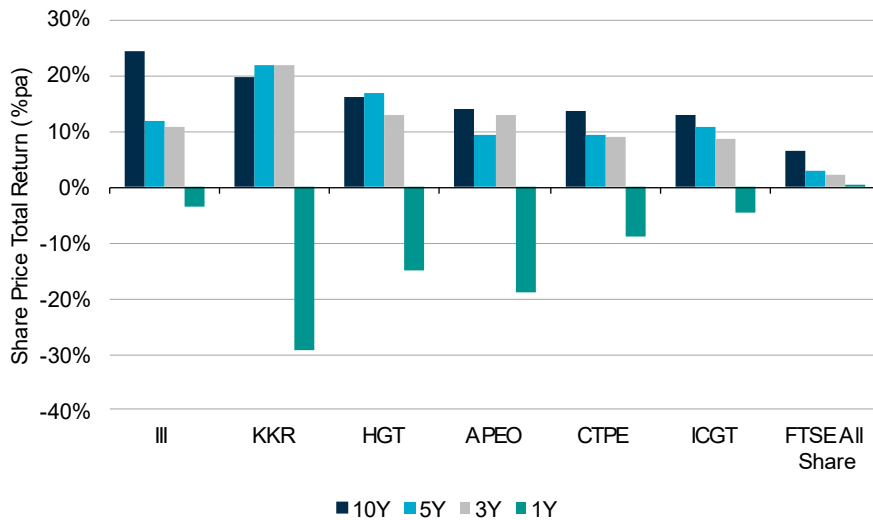
2. Bring the allocation up to c.11% to reflect the global weighting and to make the allocation meaningful in Fund terms (5% plus).
This could be achieved either by:
 - i) A straightforward increase in allocation to the Brunel EM sub fund, funded from either Global Equities and/or UK equities,
 - ii) Or by exploring with Brunel the possibility of creating a separate “China” sleeve alongside the restructured main EM portfolio, by which Funds could then choose their weighting to China to match their appetite to invest there.
3. Or keep the allocation the same while introducing one or other approaches outlined in Option 2.

The listed Private Equity portfolio (Recommendation 5)

This portfolio of holdings in 6 listed private equity companies has been retained under “in house” management, as Brunel do not currently have an appropriate sub fund for this type of investment, nor do they have any immediate plans to offer this. The returns from this portfolio have been excellent over the medium and long term, substantially outperforming the FTSE All Share index.

Over the short term, basically last year, the sector has seen some significant falls in share price value, reflecting the uncertainties prevalent in listed equity markets and some adjustments to valuations reflecting a more uncertain outlook.

Share price total return

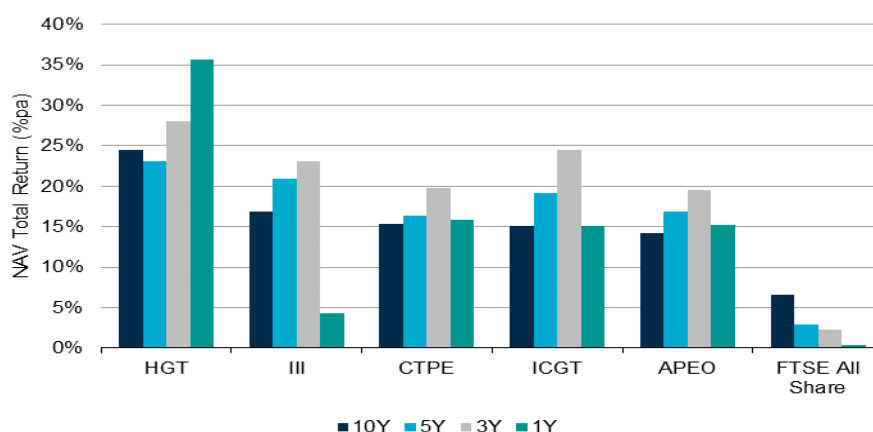


Share prices, total return, annualised

	<u>3i</u>	<u>KKR</u>	<u>HGT</u>	<u>APEO</u>	<u>CTPE</u>	<u>ICGT</u>	<u>FTSE All Share</u>
10Y	24.6%	20.0%	16.4%	14.1%	13.7%	13.1%	6.5%
5Y	12.1%	21.9%	17.1%	9.5%	9.4%	10.9%	2.9%
3Y	10.9%	22.1%	13.0%	13.1%	9.1%	8.9%	2.3%
1Y	-3.4%	-29.1%	-15.1%	-19.0%	-8.9%	-4.4%	0.3%

Net Asset Values (NAV) have actually held up well, so with the falls in share prices the discounts to NAV have widened considerably, in some cases as wide as 50% on the really bad days.

NAV total return



The value of this portfolio at 31 December 2022 was £157.74m, representing 5.2% of the total assets of the Fund.

The values of each holding are:

3i	15,687,970.00
Abrdn PEO	22,031,243.00
CTPE	18,325,963.00
HG Capital	67,690,000.00
ICG Enterprise	10,076,691.00
KKR	8,248,678.03
TOTAL	157,740,950.00

The portfolio has been managed on a “care and maintenance” basis for some time now. As appropriate, particularly during 2022, dividends have been reinvested where this option has been offered by the company when the discount to NAV has warranted this.

However, as can be seen from the table above, a wide range between the highest and lowest value holdings has opened up over time. At one stage the HG Capital holding represented half of the total value of the portfolio.

A recommendation is therefore being made that the management of this portfolio is moved to a semi active basis, so as to facilitate:

1. Rebalancing the size of holdings in the portfolio
2. To ensure that we seek to hold the best companies in the sector, so enabling occasional additions and/or deletions from this portfolio.

The evolution of Oxfordshire Pension Fund’s Climate Policy in partnership with Brunel (Recommendation 6)

The Fund agreed its first Climate Change Policy in June 2020 with the aim of all the portfolios it invests in being net-zero by 2050, consistent with the Paris Agreement goal to

limit the global temperature increase to 1.5°C above pre-industrial levels. The Fund also produced an Implementation Plan setting out the steps it would take to achieve the Policy aims and has been working on the actions in the plan. Good progress has been made in a number of areas including the meeting of the annual carbon emission reduction target of 7.6%, asset allocation changes aligned with the Policy including investing in a newly developed Paris-Aligned Benchmark passive equity fund, and the production of the Fund's TCFD report.

Priority climate actions for the year ahead include:

1. An assessment of the Fund's current investment in climate solutions and the setting of a target for increasing the level of investment. This may then require the Fund to request a new climate solutions portfolio from Brunel and the Fund will need to consider any asset allocation implications.
2. Continuing to work with Brunel to produce climate metrics for all portfolios.

In February 2023 Brunel released the latest version of their Climate Change Policy which was developed in consultation with the ten client funds through a climate stocktake process. The Fund will continue to work closely with Brunel to ensure it enables the Fund to deliver against its climate priorities.

It is recommended that the Fund continues to work on implementing the actions it has set out to deliver against its Climate Change Policy with the priorities set out above.