Oxfordshire County Council Pension Fund
Responsible Investment Policy

About the Fund

The Oxfordshire Pension Fund forms part of the Local Government Pension Scheme and manages £3.3bn on behalf of c.70,000 members as of 31 March 2023. Oxfordshire County Council is the administering authority for the Fund and runs the fund on behalf of participating employers, active scheme members and current and future pensioners.

The primary purpose of the Fund is to achieve and maintain a 100% funding level over the long term, to achieve a return on investments, within an acceptable risk envelope, sufficient to cover future liabilities of the Fund, and to maintain sufficient liquidity to enable the Fund to pay pensions as they fall due.

The Pension Fund is part of the Brunel pool along with nine other LGPS funds and the Fund invests in the range of portfolios offered by Brunel along with the other funds. Brunel Pension Partnership invests the Fund's assets within the portfolios the Fund allocates to and undertakes stewardship activities on the Fund's behalf within these portfolios.

The Administering Authority has a fiduciary duty to act in the best interests of scheme members and investment powers must be used to achieve what is best for the financial position of the Fund. The Pension Fund believes that responsible investment forms an integral part of its fiduciary duty due to the potential material financial implications that flow from it.

This Policy supplements the Pension Fund's Investment Strategy Statement and Climate Change policy and covers the Fund's broader approach to responsible investment.

Vision

As a long-term investor in global markets the Fund's investments impact on the future of the global economy, environment and society. We take this responsibility seriously, so we regularly look at the major environmental and social issues facing the world and work to ensure we are actively considering them in our decision making.

We believe the financial system has a role to play in the transition to a more resilient and sustainable global economy. As a participant in the financial system the Fund seeks to invest in those companies committed to building a better future, engage with issuers and other stakeholders and to advocate for positive change through working in partnership with other like-minded organisations.

The Fund will be transparent in its responsible investment activities, clearly communicating both our approach and our progress.

Investment Beliefs

The following are the investment beliefs held by the Fund that will inform investment decision making:

- Asset allocation is the key investment decision that has the greatest impact on the investment performance of the Fund. The Fund seeks to make investment decisions supported by robust evidence and takes into account the liabilities of the Fund. Markets are competitive and dynamic, with active returns challenging to find.

- Risk and return are positively correlated. There are a variety of investment risks that carry premiums / compensations; illiquidity risk is one such premium. Investment diversification improves the risk to return ratio of the Fund.

- The long-term nature of the Fund's liabilities is a key consideration and typically implies a long-term investment horizon. As a long-term asset owner, we have a duty to interact with companies about their governance structures, policies, and operations.

- The Fund must seek to ensure that the actions of those appointed to work on the Fund's behalf align with the long-term interests and policies of the Fund.

- Investing responsibly and investment performance are not mutually exclusive. We believe that investments will generate improved returns in the long run where there is consideration of ESG factors at a strategic level by investee companies. We believe in investing in well governed companies. In making investments we will seek to minimise negative impacts on society and the environment and, where possible, to make a positive contribution.

- The Fund believes that using active stewardship to encourage the highest standards of corporate governance and promoting corporate responsibility by investee companies helps protects the financial interests of pension fund members over the long term.

- Engagement can be effective in initiating change but must be backed up with a robust escalation policy, up to and including divestment. In determining the approach to engagement the nature of the industry and ability to change should be considered.

- Aligning with like-minded investors and organisations is often more effective than working in isolation.

- Managing fees and costs is important but should be considered in the overall return profile of an investment.

Developing the Policy

This Responsible Investment (RI) Policy has been developed in response to the understanding that, although climate change is the most significant RI risk the fund is exposed to, other RI issues are material to the financial performance of the fund too. The key risks and priorities to the fund were identified through a process of sector risk materiality analysis, World Economic Forum global risk reporting, member survey, Brunel priorities and the intersection of risks with climate change. This then fed into a workshop of the Pension Committee, Pension Board and Officers, where a set of priorities was agreed.

The pension fund is a long-term investor. Someone joining the scheme now may be receiving a pension in 80 years' time. As a long-term investor, the fund needs to consider the long-term risks to its ability to meet its liabilities.

The Pension Committee recognises that environmental, social and corporate governance (ESG) issues, including climate change, can have materially significant investment implications. The Fund therefore seeks to be a responsible investor and to consider ESG risks as part of the investment process across all investments, thereby improving risk-adjusted returns.

What is Responsible Investment

Responsible investment is the integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance. Responsible Investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

The Fund's approach to RI and integration into investment processes

The Fund has identified climate change as the single most important factor that could materially impact its long-term investment performance given its systemic nature and the effects it could have on global financial markets. As such, the Fund has produced a Climate Change Policy that forms part of the Investment Strategy Statement. The commitments in that document have fed into this policy document.

The development of the fund's approach to RI is an ongoing process. Over time, as the fund develops its responsible investment analysis, capabilities and processes this policy will be reviewed and updated by the Pension Committee to expand its scope.

Through the integration of RI into the investment process the fund aims to reduce long term risks, some of which are systemic in nature. It is the view of the fund that this approach helps contribute to well-functioning capital markets. The fund has a significant asset allocation to a Paris Aligned Benchmark passive fund and to an active Global Sustainable Equities portfolio. The combined value of these investments (as at

December 2023) represents over 60% of the fund's investments into publicly listed equity.

Stewardship and reporting
The systematic integration of stewardship into the investment process across all asset classes is fundamental to the fund's ability to deliver improved risk adjusted returns and long-term sustainable pensions to its members and beneficiaries. The fund is a signatory to the UK Stewardship Code. Each year the fund will publish a Stewardship Code application statement that will identify how it meets the Principles of the Code and provides case studies to support the application. The fund also produces an annual report on how it is addressing the risks and opportunities related to climate change, which aligns with the Taskforce on Climate related Disclosures (TCFD) framework.

Governance
Oxfordshire County Council is the Administering Authority of the fund and has delegated responsibility for the administration of the fund to the Pension Committee. The Committee meets on a quarterly basis and considers all investment and administration issues relevant to the fund, including RI factors.

The Committee consists of voting members made up of County Councillors, and non-voting members selected to provide a broad level of representation to the wide range of employers and members in the fund.

The Committee have established a Local Pension Board. The role of the Board is to assist the Pension Committee to secure compliance with the Regulations and all associated legislation, and to ensure the efficient and effective governance and administration of the scheme.

Brunel Pool
The fund pools its assets with nine other administering authorities though the Brunel Pension Partnership (Brunel), which is authorised by the Financial Conduct Authority and has been established specifically to manage the assets of the pool.

Brunel has a dedicated Responsible Investment team, including a dedicated Stewardship Manager who oversees voting and engagement. This policy will enable the fund to clearly identify priority RI areas to Brunel and, in turn, help inform the ongoing development of their RI approach.

Brunel has built its responsible investment approach on three pillars: to integrate sustainability criteria into its operations and investment activities; to collaborate with others across the industry and support effective policymaking; and to be transparent in its activities.

Brunel's manager selection process is central to the effective implementation of its Responsible Investment, Stewardship and Climate policies. Managers must be able to clearly demonstrate how ESG is embedded into their investment process.

RI policy review

The fund's policies are kept under regular review and are updated and approved by Committee as required. Once signed off this policy will be reviewed at no more than a three year interval.

It is intended that an RI strategy document will be developed to sit alongside this RI policy. This document will set targets, identify benchmarks and enable progress against the Policy to be measured. This will help support the review and assurance process for the Policy, as well as allowing the fund to hold asset managers and other service providers to account around the delivery against the fund's RI requirements.

Engagement

Voting and engagement form an important part of the fund's management of ESG risks. Engagement on behalf of the pension fund primarily takes place through Brunel, their appointed fund managers, and their engagement provider, in accordance with the approach set out in Brunel's Engagement policy, to which the fund provides input. Voting is undertaken on behalf of the fund by Brunel utilizing the expertise of their voting and engagement provider and appointed managers.

Initially the focus for engagement will be on listed equities and corporate bonds which make up a large proportion of the fund's investments and have more established processes and data to enable the Policy to be applied. Ultimately engagement should extend to all asset classes though.

The fund's engagement policy outlines its expectations for engagement. It should be transparent, the reasoning for decisions should be predictable, recorded and accessible as far as practicable. The engagement approach should take opportunities to signal positive change to the wider market and society.

Decisions on when and how to engage with investee companies should not be postponed or avoided in the absence of perfect data. Reasonable estimates should be used when actual data is unavailable. The absence of data should be considered as a potential criterion fail where there is a reasonable expectation for a company to make the data available. It is primarily the responsibility of companies to generate verifiable data that can be used to guide investment decisions that integrate stewardship and responsible investment principles.

Escalation

The fund recognises that, although there is value to be gained from engagement with companies in terms of building relationships to help drive improved performance, engagement cannot be an end in itself. For engagement to be effective it requires there to be milestones and objectives set that should be delivered in a time limited manner. It is important for there to be a clear escalation path if progress is not being made quickly enough or is not going far enough.

Engagement should follow the existing escalation process whereby, if insufficient progress is being made, additional actions will be initiated, including collaborative engagement with like-minded institutional investors, speaking at the company's AGM, voting against the chair and other board members, filing or co-filing a shareholder resolution, and raising concerns in the public domain.

The fund retains the right to disinvest from or exclude certain companies or sectors if approaches to addressing their concerns prove unsuccessful and it is determined that an investment is no longer aligned with the interests of the fund or poses a material risk. Normally this would be a last resort once all other engagement avenues have been explored but the company has not demonstrated it is taking sufficient steps to manage the risk. There are also some occasions where it may be necessary to implement an exclusion policy where involvement in specific activities calls for one.

Collaboration
As an investor the Oxfordshire fund understands that it needs to work collaboratively with other investors to amplify its voice and help drive a transition to a sustainable financial system where the fund's beneficiaries and members can enjoy their pensions. The fund is a member of several investor groups. These include the Institutional Investor Group on Climate Change (IIGCC), Climate Action (CA) 100+, Pensions for Purpose and the Local Authority Pension Fund Forum (LAPFF). As a signatory to these alliances, it is supportive of the actions taken by these organisations to engage with companies on the key issues of relevance to the fund's members and beneficiaries.

Responsible Investment Priorities:

The Fund has identified the following four priorities for its responsible investment activities:

1. Climate Change
2. Nature and Biodiversity
3. Human Rights, Including Supply Chain Labour Standards and Slavery
4. Governance

Further details on each of the priorities are set out below.

Climate Change

- GHG emissions reduction in the real economy
- Just Transition
- Transparency and disclosure
- Financed emissions
- Green revenues (impact investing)

Climate change remains the single most important RI priority. It has been identified as the biggest long term systemic risk to the value of the fund. As such, it has the potential to impact the long-term value of all asset classes into which the fund invests.

The World Economic Forum (WEF) produces an annual global risks report, failure to mitigate climate change and failure of climate change adaptation are identified in the 2023 report as the two greatest long-term global risks. When looking at material risks for the sectors the fund has greatest exposure to, climate change is a key risk. In our recent survey of fund Members climate change was identified as their highest environmental priority.

The fund's investment returns, and the beneficiaries of the fund, are reliant on a healthy, functioning global economy, and the fund's interests are best served by the delivery of the 2015 Paris Agreement goal of holding global temperature rises to 2°C or lower, and to pursue efforts to limit any temperature increase to 1.5°C above pre-industrial levels.

As part of its Paris-alignment the fund is committed to transitioning its investment portfolios to net-zero GHG emissions by 2050. The fund is also committed to transitioning its investment portfolios consistent with the best available scientific knowledge, including the findings of the Intergovernmental Panel on Climate Change.

From an investment perspective the fund believes that climate change should be an integral part of the assessment of risks as well as a factor in identifying investment opportunities arising from the transition to a low carbon economy.

The fund will seek to reach its Paris commitments through its investment activity as well as through advocating for, and engaging on, corporate and industry action, as well as public policies, for a low-carbon transition of economic sectors in line with science and under consideration of associated social impacts. This commitment is made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met.

This commitment covers all investments made by the pension fund across all asset classes. The pension fund is cognisant that some asset classes are less progressed in the level of disclosure and transparency around climate risks and so may take longer to reach a point where assessment can be undertaken appropriately.

The fund also commits to achieving net-zero GHG emissions on its own operations by 2030.

Emissions reduction

As a minimum the pension fund will utilise the following metrics, where applicable to its investment portfolios, with a view to reducing both the intensity of carbon emissions and overall GHG footprint of its investments:

- Carbon Intensity (WACI)
- Extractive Exposure
- Transition Pathway Initiative Scores
- % of Total Investments in Fossil Fuel Companies
- % of Total Investments in Climate Change Solutions

Just Transition

The fund supports the Just Transition, seeking to manage the social and economic impacts of the transition to a low carbon economy on communities, and will reflect this in its policy advocacy and stewardship activity. This approach intersects with human rights, particularly through the commitment to ensure that vulnerable communities are not disproportionally impacted by the transition to a low carbon economy.

Disclosure
In line with its commitment to investing into well-governed companies, the pension fund expects investee companies to be transparent in their climate-related disclosures. At a minimum the fund expects high impact investee companies to adopt globally accepted disclosure standards such as the Task Force on Climate-related Financial Disclosures (TCFD). The pension fund will itself work towards reporting in-line with the TCFD recommendations and has voluntarily produced an annual TCFD report since 2021.

Financed emissions
Financed emissions are the downstream carbon emissions that commercial lending by banks and other finance institutions enables. As a fund we have a significant exposure to companies in the Finance sector (over £130m in public equities as at September 2023). Therefore, financed emissions are an important consideration for understanding our exposure to climate change. The IEA has established in its latest report that there can be no new developments of oil and gas fields if we are to achieve Net Zero by 2050. As such the provision of finance to fossil fuel companies for these projects is an area of key concern to the fund.

Green revenues
In order to meet the challenge of climate change there will be a major transition of the economy away from fossil fuels towards alternative forms of energy. This transition will be a challenge but it also represents a significant opportunity. Investment into renewable energy is a key route for the fund to grasp this opportunity but there are other possibilities extending beyond this sector, such as investing into the infrastructure needed to deliver a transport system based upon electricity, rather than internal combustion. These assets deliver what are known as ‘green revenues’ and the fund is committed to growing its portfolio exposure to the companies and assets delivering green revenues as part of the energy transition.

In support of this approach, where there are two investment options that broadly aim to deliver the same investment objective the pension fund will prioritise the option that delivers the best fit to its climate change commitment.

Nature and Biodiversity

- Nature and biodiversity risk assessment
- Deforestation
- Natural Capital (impact investing)

Nature and biodiversity and the related area of natural capital are a significant emergent risk and opportunity to the fund.

Biodiversity loss and associated ecosystem collapse has been identified in the WEF 2023 Global Risk Report as being a top five global risk by 2033. It has also been assessed by the WEF as the fastest emerging risk. In the recent fund member survey biodiversity and nature was identified as the second highest environmental priority. In fact, if we add the scores for deforestation and biodiversity and nature together, as there is an argument that these are the same issue, then it scored higher even than climate change as an environmental priority for the fund to address.

Nature and biodiversity risk assessment

Biodiversity and nature is a complex and, in ESG terms, relatively new area. As such the current data landscape is patchy, however. the sharp focus on this issue by investors over the last few years means that there is increasing data being made available. The end of 2023 saw the launch of the Taskforce for Nature Related Financial Disclosure (TNFD), a disclosure framework designed along the same lines as the TCFD to help companies to act on evolving nature-related dependencies, impacts, risks and opportunities. This framework will help deliver enhanced data in this area. Brunel are an early adopter of the TNFD and their engagement will help the fund to identify where the key risks and opportunities in relation to nature and biodiversity are.

The TNFD framework will help the fund to understand its own exposure to the broader range of nature and biodiversity related risks and opportunities. The fund will also carry out engagement on climate change physical risk with companies in the food and drink sector who are at heightened risk from negative impacts in this area.

Deforestation

Although robust data on nature and biodiversity can be challenging to source there is good data available in relation to deforestation and related human rights issues. This issue is a good entry point for nature and biodiversity as it is relatively easy to assess portfolio risk and there are overlaps with both climate change and human rights issues.

Deforestation is estimated as being responsible for 11% of annual global GHG emissions, so it is a highly material issue for addressing climate change, as well as biodiversity loss. There is an emergent regulatory landscape from the EU, UK and the US SEC in the form of regulations that look to prevent the importation into these jurisdictions of products produced from deforestation. As such it is a significant risk in the supply chains of the largest agricultural companies, as well as food manufacturers and retailers. It is also a risk for the finance sector through their provision of capital to companies involved in deforestation through land conversion for soft commodities such as cattle, soy and palm oil. As such, a commitment by the fund to address deforestation risks in its portfolios is a target that is both measurable and achievable. This issue also intersects with the theme of human rights through a focus on the rights of indigenous peoples where deforestation and land conversion is taking place.

Natural capital

There are significant opportunities around natural capital as an asset class. High quality nature restoration projects not only benefit biodiversity but also can help to mitigate the effects of climate change. As such the fund will work with Brunel to identify potential investment opportunities in this area.

Human Rights, Including Supply Chain Labour Standards and Slavery

- Human rights norms compliance
- Just Transition
- Diversity and inclusion
- Free, prior, informed consent

The protection of human rights is a key issue for members of the fund. This issue was identified in the member survey as the highest priority in relation to Responsible Investment. Erosion of social cohesion and societal polarisation, risks often associated with breaches of human rights norms, is identified by the WEF as a top 10 global risk by 2033.

However, human rights, which also includes supply chain labour standards, slavery and related issues such as health, is an enormous area to cover. Given the breadth of this issue the fund will need to rely upon Brunel to provide much of the heavy lifting to ensure that the companies in its portfolios are managing their human rights related risks appropriately.

Human rights norms compliance
One of the key ways that Brunel does this is to carry out screening against the United Nations Global Compact (UNGC). There are ten Principles of the United Nations Global Compact, of which six are related to human rights. These six Principles are derived from the Universal Declaration of Human Rights and the International Labour Organization's Declaration on fundamental Principles and Rights at Work.

The Principles are:

Human Rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Screening companies against the UNGC Principles is part of the Brunel investment assurance process, which involves identifying companies that are non-compliant with one or more of the Principles. Where a company is identified as non-compliant there is then a process of engagement and escalation.

Just transition
Mitigating the impact of climate change also entails mitigating the impact that the required energy transition will have on communities, ensuring that there is a just transition that respects human rights. This relates to ensuring that communities that

have traditionally been economically disadvantaged are not left behind when there is a transition away from the fossil fuel economy, or that there is equal access to clean energy in the form of renewables, particularly in developing economies.

Diversity and inclusion (DEI)
Diversity and inclusion is an issue where the themes of governance and human rights intersect. Ensuring equity of opportunity and inclusion of all groups is fundamental to securing a just transition. More broadly strong DEI policies serve the purpose of underpinning key human rights related to promoting equality and protecting diverse groups that have historically experienced discrimination.

Free, prior, informed consent
Similarly, with a multi-faceted issue such as deforestation it is important that the human rights of local communities, particularly the right to free, prior, informed consent, are protected. This is especially the case for indigenous peoples, who can act as guardians and protectors of forests and are often in the firing line where deforestation is taking place.

Governance

- Transparency and disclosure
- Diversity and inclusion (DEI)

Transparency and disclosure
Well governed companies will manage risks, including those related to RI, better than less well-governed companies. Transparency and disclosure are key indicators of a well-run company. For example, part of the fund's climate change strategy is to ask for high impact companies to provide TCFD reporting as this provides evidence as to how well their climate change risk is being managed.

Diversity and Inclusion (DEI)
DEI is another indicator that a company is well-governed. Strong policies in this area can lead to improved innovation, greater employee engagement and retention of talent, and the opening up of new markets for the company's goods or services.

More diversity within an organisation's board of directors enhances organisational decision-making processes and creativity and innovation. It also attracts a more diversified pool of talent.

DEI assessments can be highly data-driven, allowing easy comparisons between companies, and the setting of benchmarks.