Public Document Pack

OXFORDSHIRE COUNTY COUNCIL

To: Members of the Pension Fund Committee

Notice of a Meeting of the Pension Fund Committee

Friday, 5 June 2020 at 10.00 am
Virtual Meeting

Please note that due to guidelines imposed on social distancing by the Government the meeting will be held virtually.

If you wish to view proceedings please click on this Live Stream Link However, that will not allow you to participate in the meeting.

Yvonne Rees
Chief Executive

May 2020

Committee Officer: ***Deborah Miller***
Tel: 07920 084239; E-Mail: deborah.miller@oxfordshire.gov.uk

Membership

Chairman – Councillor Kevin Bulmer
Deputy Chairman - Councillor Nicholas Field-Johnson

County Councillors

Ian Corkin	John Sanders	Alan Thompson
Mark Lygo	Roz Smith	
Charles Mathew	Lawrie Stratford	

District Councillors (Co-optees - Voting)

Alaa Al-Yousuf	Jo Robb

Notes

- ***Date of next meeting: 11 September 2020***

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 - 14)

To approve the minutes of the meeting held on 6 March 2020 and 7 May 2020 (**PF3**) and to receive information arising from them.

4. Petitions and Public Address

This meeting of the Pension Fund Committee will be held virtually in order to conform with current guidelines regarding social distancing. Normally requests to speak at this public meeting are required by 9 am on the day preceding the published date of the meeting. However, during the current situation and to facilitate these new arrangements, we are asking that requests to speak are submitted by no later than 9am four working days before the meeting i.e. 9 am on 29 May 2020. Requests to speak should be sent to Deborah.miller@oxfordshire.gov.uk together with 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 9 am 2 working days before the meeting.

Where a meeting is held virtually and the addressee is unable to participate virtually their written submission will be accepted
.
Written submissions should be no longer than 1 A4 sheet.

5. **Investment Strategy** (Pages 15 - 52)

Report by the Director of Finance (**PF5**)

The report provides the feedback to the Committee on the recent consultation exercise on the Investment Strategy Statement including the Climate Change Policy, and proposes final changes to the draft document.

The Committee is RECOMMENDED to consider the responses to the recent consultation exercise and approve the changes to the draft documents as set out in the report and incorporated in Annex 3.

6. Climate Change Policy Implementation Plan (Pages 53 - 58)

Report by Director of Finance (**PF6**).

The report sets out how the Pension Fund plans to implement its Climate Change Policy (hereinafter referred to as 'the Policy'). The key commitment of the Policy is to transition investment portfolios to net-zero Greenhouse Gas Emissions (GHG) by 2050, consistent with seeking to limit the temperature increase to 1.5ºC above pre-industrial levels. The actions in the implementation plan have been developed to work towards delivery of this commitment. The Policy requires the Fund to establish intermediate targets in pursuit of the commitment.

The Committee is RECOMMENDED to:

(a) adopt the Climate Change Policy Implementation Plan; and
(b) determine the action it wishes to take in respect of the transition of the existing UBS global equity mandate to Brunel considering the information provided under the second bullet point of paragraph 6.

7. Overview and Outlook for Investment Markets (Pages 59 - 66)

Report of the Independent Financial Adviser (**PF7**).

The report sets out an overview of the current and future investment scene and market developments across various regions and sectors. The report itself does not contain exempt information and is available to the public. The Independent Financial Adviser will also report orally and any information reported orally will be exempt information.

The Committee is RECOMMENDED to receive the report.

Pre-Meeting Briefing
There will be a pre-meeting briefing on **Wednesday** at 11.00 am for the Chairman, Deputy Chairman and Opposition Group Spokesman.

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 6 March 2020 commencing at 10.00 am and finishing at 12.30 pm.

Present:

Voting Members:	Councillor Kevin Bulmer – in the Chair Councillor Nicholas Field-Johnson (Deputy Chairman) Councillor Mark Lygo Councillor Charles Mathew Councillor John Sanders Councillor Lawrie Stratford Councillor Alan Thompson Councillor Jeannette Matelot Councillor Richard Webber District Councillor Alaa Al-Yousuf District Councillor Jo Robb
District Council Representatives:	District Councillor Alaa Al-Yousuf District Councillor Jo Robb
By Invitation:	Councillor Bob Johnston, Alistair Bastin and Steve Davies (Local Pension Board) and Mr Peter Davies, Independent Financial Advisor.
Officers:	
Whole of meeting	Director of Finance, Lorna Baxter, S. Collins, Sally Fox and Gregory Ley; Deborah Miller (Law & Governance).

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with two schedules of addenda tabled at 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 and schedule, copies of which are attached to the signed Minutes.

1/20 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies for absence were received from Councillor Ian Corkin (Councillor Jeannette Matelot substituting) and Councillor Roz Smith (Councillor Richard Webber substituting).

2/20 MINUTES
(Agenda No. 3)

The Minutes of the Meeting held on 6 December 2019 were approved and signed as an accurate record, subject to Minute 69/19, 2nd paragraph, last sentence being amended to read 'This recommendation had been endorsed by the Audit & Governance Committee, but would need to be ratified by Council before becoming effective.

3/20 PETITIONS AND PUBLIC ADDRESS
(Agenda No. 4)

The Committee received the following public address:

Mr Pete Wallis addressed the Committee as both an LGPS scheme member and as a member of Fossil Free Oxfordshire (FFO), against the proposal in the draft policy which proposed engagement with non-Paris-compliant companies for the next three years. Although FFO felt that this was fine for most companies, they did not feel this was acceptable for fossil fuel companies as the world needed to be decarbonised and this could only happen if the world stopped producing and using fossil fuels. Fossil fuel companies therefore needed to shrink and ultimately cease to exist. FFO urged the Committee to transfer a much larger asset allocation that the suggested 5% into Brunel's passive low carbon fund, bearing in mind that Oxfordshire had committed to achieving a net-zero emission status by 2030.

He further urged the Committee to urge Brunel to make sure they had active low or zero carbon funds available and to include exclusion criteria into the Climate Change Policy, such as the Pension Fund of the Church of England which used TPI's Carbon Performance to exclude the worst polluters. Lastly, he asked the Committee to note a recent survey of 1132 Unison Members showed that 92% agreed that climate change would have a measurable economic impact within their lifetime and 84% agreed that ethics were more important than returns in investment decisions. He felt that beneficiaries of the scheme should be consulted when considering investment principals and strategy.

Mr Bond speaking as an energy strategist, explained that there was currently an energy transition going on, driven by technology and policy. Solar, wind, batteries, electric vehicles were all on extremely rapid learning curves where costs were falling by 20% per year and their costs had fallen below those of fossil fuels. There were also increasing actions coming from policy makers, including Oxfordshire County Council to prevent the use of fossil fuels and ban cars from city centres, together with an emerging market energy leapfrogging going on, led by China and India, whereby the emerging markets were going straight to renewable energy to meet new demand. The world was shifting from fossil fuels to renewable energy in the same way as two centuries ago it moved from biomass to fossil fuels and a century ago, we moved from horses to cars and twenty years ago from the newspapers to the internet.

The energy transition would lead to a significant reallocation of capital (this had been backed up by the world's largest Fund Manager). Therefore, the fossil fuel sector was deeply at risk and was a huge super-tanker of a sector with massive fixed costs that now faced structurally declining demand and new competition for the first time in its history. It had been argued that this was a pendulum and that things would get better. However, at times of profound change, the efficient market theory breaks down. This could be argued if it was a cycle but is was a profound structural change. Since Mr Bond presented to the Workshop in November, the share price of Shell was down by 28%, the share price of BP was down 18% and the index was down by just 8%. It would be deeply irresponsible to ignore these changes, time was running out. He urged the Committee to act.

4/20 MINUTES OF THE LOCAL PENSION BOARD

(Agenda No. 5)

The unconfirmed Minutes of the Local Pension Board which met on 24 January 2020 were noted.

5/20 REPORT OF THE LOCAL PENSION BOARD

(Agenda No. 6)

The Committee had before it the latest report by the Independent Chairman of the Local Pension Board. Mr Alistair Bastin, Local Pension Board Member, spoke to the report on the board's behalf, which invited the Committee to respond to the key issues contained within it.

Mr Bastin highlighted reported that the Committee welcomed the fact that 50% of funds had now been transitioned to Brunel and welcomed the inclusion of a Board Member on the Climate Change Workshop, together with the opportunity to review the draft Investment Strategy Statement at their next Meeting.

The Chairman reported that the Independent Chairman of the Local Pension Board, Mark Spilsbury was retiring from his role of Head of Pensions at Gloustershire and therefore would be stepping down as Chairman of the Local Pension Board. The Committee paid tribute to Mr Spilsbury for his excellent work on the Board and formally thanked him.

RESOLVED: to note the comments of the Board and agree the appointment of the new Head of Pensions at the Gloucestershire Pension Fund to take on the role as the Independent Chairman of the Oxfordshire Pension Board following the retirement of the current Chairman.

6/20 INVESTMENT STRATEGY STATEMENT INCLUDING THE FUNDAMENTAL ASSET ALLOCATION AND CLIMATE CHANGE POLICY

(Agenda No. 7)

The Committee reviewed its Investment Strategy Statement on an annual basis and carried out a fundamental review of its asset allocation every three years following on from the tri-ennial Fund Valuation. The Committee had before it a report (PF7) which brought together the latest review of the Investment Strategy Statement including a new annex covering the Policy regarding Climate Change, and the formal advice of our Independent Financial Adviser in respect of the fundamental asset allocation.

In introducing the report, Mr Collins explained that, due to the restrictions on the investment cycles in respect of the allocations to the private market allocations within Brunel, the Committee were asked to approve a number of immediate proposals on asset allocations effective from 1 April 2020, as well as approving the draft Investment Strategy Statement and Climate Policy for formal consultation.

The key change to the Investment Strategy Statement was the addition of a separate annex in respect of the Council's Climate Change Policy. This Policy had been informed by the Climate Change Workshop held in November, plus 2 meetings of the Climate Change Working Group established at the December meeting of this Committee. The draft Climate Change Policy should be seen as an initial position statement which would be subject to regular review reflecting the rapidly changing environment in which this initial policy has been established. In particular, the Policy itself recognised a number of shortfalls in the current availability of international accepted metrics used to assess the suitability of investments against the requirements of the Paris Agreement, and therefore included commitments to work with Brunel and others in the investment industry to establish such metrics. This will in turn would allow more specific targets to be set within the Policy in future years. The Pension Fund investment should be Carbon Neutral by 2050 and the Officer teams and their infrastructure by 2030 and therefore the Fund should be looking at more sustainable options to invest in through Brunel. The Chairman added that if the Strategy was adopted today by the Committee, it would then go out to consultation to all stakeholders.

Councillor Mathew expressed concern over the lack of knowledge of what the other members of Brunel were demanding in relation to Climate Change. Mr Collins reported that the Brunel Climate Change Policy had been signed off by 10 members of Brunel. There had been a lot of cross working and communication with Brunel and other funds in the partnership on the development of the Oxfordshire Policy and the direction of travel was consistent, although timescales varied. At the December Meeting in was intended that the Committee would receive a presentation from Brunel looking at responsible investment and climate change.

In relation to page 21 of the report, Councillor John Sanders requested that the Committee receive a report on what engagement had taken place, together with the results.

The Committee expressed the need for reliable metrics.

Jo Robb felt that the Pension Fund pegging itself to the Paris Treaty was not fast enough, especially with the up-coming reallocation of assets and requested that the document be more explicit in the language used to express that the Oxfordshire Fund were more ambitious than the 2050 objectives.

In response Mr Collins reported the Implementation Strategy would be coming to the June Meeting of the Pensions Fund with a view to setting intermediate targets and that the issue would then come to every meeting so that the Committee could look at targets and reset them as necessary. The appropriate funds to invest needed to be in place and it would take time to shift the money. Brunel would be attending the next two meetings of the Committee so members would be able to question them on those issues.

The independent Financial Adviser, Mr Peter Davies outlined his report on the Strategic Asset Allocation, together with further modelling of options and the implications of the current cashflow projections from MJ Hudson. The report of the Independent Financial Adviser was included as Annex 2 to the report, with the Executive Summary of the report from MJ Hudson included as an appendix.

The key objectives of the fundamental review of the asset allocation were to ensure that the Fund had sufficient liquid resources to meet the pension liabilities as they fell due, and that all surplus assets were invested to ensure the appropriate level of return for any given level of risk. The asset allocation agreed should also be fully consistent with the Investment Strategy Statement, including the new Climate Change Policy.

The work undertaken by MJ Hudson which itself was informed by cash flow projections produced by the Fund Actuary found that in the short term, whilst cash flow from dealings with members was expected to go negative (i.e. total payment of pensions would exceed the current level of pension contributions), the levels involved could be met from within current cash balances and did not require a major switch to income releasing assets.

MJ Hudson identified that our current asset allocation fells someway short of the efficient frontier, and indeed short of the current Strategic Asset Allocation. This reflected the underweights in the private markets whilst we waited for Brunel to identify suitable investment opportunities, and those Funds to call down the committed cash. Moving towards the strategic asset allocation would both improve the potential investment returns as well as reducing risk/volatility through the greater diversification of the portfolios. MJ Hudson therefore produced a number of options which brought the asset allocation closer to the efficient frontier, either by increasing investment returns for the same level of risk/volatility or reducing risk/volatility whilst achieving the same levels of investment return.

The report and recommendations of the Independent Financial Adviser then built on the conclusions from MJ Hudson to produce a more detailed proposal for changes to the asset allocation. In bringing forward his proposals, the Independent Financial Adviser also look to ensure that any changes were consistent with the revised Investment Strategy Statement and Climate Change Policy. Included in the proposals from MJ Hudson and endorsed by the Independent Financial Adviser was a proposal to implement a new investment in the Private Debt Portfolio offered by Brunel. The Independent Financial Adviser was recommending an immediate commitment of £80m or around 3% of the Fund. This could be topped up in April 2021 to the 5% recommended in the MJ Hudson report following further detailed review of the proposal. The MJ Hudson report also recommended a 5% allocation to multi asset credit. At the present time, this portfolio was not available through Brunel, but should be developed during 2020/21. This enabled further consideration of the proposal to be made before any final decision is made.

The MJ Hudson report also proposed further increases in the allocations to Infrastructure and Private Equity. The report from the Independent Financial Adviser indicated reservations on this proposal due to the increase in illiquidity that would result. In particular, further work needed to be undertaken to assess the ability of the Fund to meet its existing commitments to the private markets and pay pension liabilities as they fall due in the event of another financial crisis of the level experienced in 2008. As the existing asset allocation already required significant allocations to the private market and infrastructure portfolios, any delay in agreeing an increase in these allocations was not seen to be critical and could be implemented in April 2021 if necessary.

In respect of ensuring consistency with the draft Climate Change Policy, the report from the Independent Financial Adviser is recommending an immediate switch of 5% of the Fund from the UK passive portfolio to the global low carbon passive portfolio. The proposal reflected the high weighting to the fossil fuel and mining sectors within the current UK passive index, and the lower levels of carbon intensity within the low carbon fund. At this stage it was not recommended to make further allocations to the low carbon or sustainable equities portfolio, until further work could be completed on developing the metrics to assess the suitability of the products against the principles established in the draft Climate Change Policy. Once this work was completed, further transitions could be proposed, or further requests could be made to Brunel for the development of additional portfolios which more closely reflect the need to align all investments with the requirements of the Paris Agreement. It should also be noted that the allocation to infrastructure to bring the actual investment in line with the current asset allocation will include a significant investment in renewable infrastructure.

Councillor Mark Lygo questioned why only 5% of the Fund from the UK passive portfolio to the global low carbon passive portfolio was being moved and not the available 7%? Mr Davies explained that he felt that 5% was a significant amount and that there could potentially be other funds the Committee wished to commit to.
District Councillor Jo Robb questioned whether 2% could be earmarked for future low or zero carbon portfolios which also addressed scope 3 emissions.

Councillor Mark Lygo moved and Councillor Kevin Bulmer seconded an immediate switch of 5% of the Fund from the UK passive portfolio to the global low carbon passive portfolio in line with the recommendation, with the remainder earmarked as requested by Cllr Robb.

The motion was put to the vote and was carried nem con.

RESOLVED: to

(a) approve the draft Investment Strategy Statement including the Climate Change Policy as the basis for formal consultation and

(b) approve the interim changes to the Strategic Asset Allocation as recommended by the Independent Financial Advisor and summarised in paragraphs 39 – 45 of his report, subject to the remaining 2 ¾% being earmarked for low/zero carbon funds which also covered scope 3 emissions.

7/20 2019 VALUATION AND FUNDING STRATEGY STATEMENT

(Agenda No. 8)

Under the current regulatory framework, the Pension Fund was required to arrange for a Valuation of the Pension Fund every three years. The latest Valuation was based on the position as at 31 March 2019, with a requirement for the Fund Actuary to produce their report and certify the employer contribution rates for 2020/21 onwards by 31 March 2020. This report updated the Committee on the work to date on the 2019 Valuation and recommended the Committee approved the revised Funding Strategy Statement.

In introducing the report, Mr Collins reported that following consultation, on the whole employers were happy. The Further Education Colleges were concerned due to a proposed increase in their total contribution rates of up to 8% and a proposal to shorten the deficit recovery period to 15 years compared to a standard 20 years, reflecting the weaker financial covenant of the FE sector as a whole.

RESOLVED: to note the latest position on the 2019 Valuation and approve the Funding Strategy Statement.

8/20 ANNUAL BUSINESS PLAN

(Agenda No. 9)

The Committee had before it a report which set out the business plan for the Pension Fund for 2020/21. The Plan set out the key objectives of the Fund, detailed the key service activities for the year, and included the proposed budget and cash management strategy for the service. The report also reviewed the progress against the key service priorities included in the 2019/20 Plan as context for setting the key priorities going into the next financial year.

Mr collins reported that the key objectives for the Oxfordshire Pension Fund were set out on the first page of the Business Plan for 2020/21 (contained in annex 1), and remained consistent with those agreed for previous years. These were 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.

Part A of the plan set out the broad service activity undertaken by the Fund. As with the key objectives, those were unchanged from previous years. The service priorities for the forthcoming financial year were then set out in more detail in Part B. These priorities did not include the business as usual activity which would continue alongside the activities included in Part B.

Mr Collins sought the Committee's view regarding all members of the Committee and Board undertaking the LGPS National Knowledge Assessment Survey. The Committee agreed that it was useful tool for training.

The Committee felt that the National Knowledge Assessment had been a very useful training tool in the past and indicated that it would wish to see all members of the Committee and the Local Pensions Board undertake the training.

RESOLVED: to:

(a) approve the Business Plan and Budget for 2020/21 as set out at Annex 1;
(b) approve the Pension Fund Cash Management Strategy for 2020/21.
(c) delegate authority to the Director of Finance to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy;
(d) delegate authority to the Director of Finance to open separate pension fund bank, deposit and investment accounts as appropriate;
(e) delegate authority to the Director of Finance to borrow money for the pension fund in accordance with the regulations;
(f) agree that all members of the Pension Fund Committee and Local Pension Board complete the National Knowledge Assessment Survey.

9/20 RISK REGISTER

(Agenda No. 10)

The Committee had before it a report which updated the Committee on the Fund's Risk Register, updating the position on risks reported to the last meeting, together with any new risks identified in the intervening period. Mr Collins reported that one new risk had been added to the register as risk number 20. The risk covered the potential implications of the current Employment Tribunals which were looking to identify appropriate remedies following the court decisions in the age discrimination cases brought by McCloud and Sargeant. It was likely that the required remedies would involve bringing a wider group of scheme members within the current protection arrangements, initially only offered to those with 10 years of retirement. This would produce a massive backlog of work and the LGPS Fund were looking for staff to carry out the work. Mr Collins reported that he had been instructed to put money into the Administration Budget to allow for a fast response to the situation.

Councillor Charles Mathew requested that further clarification be added to the Risk Register at 20 on the significant legal requirement to recalculate retrospective member benefits, presently the basis of which was not yet clear.

RESOLVED: to note the changes to the risk register and offer any further comments, subject to further clarification being added to Reference 20 of the Risk Register on the significant legal requirement to recalculate retrospective member benefits, presently the basis of which was not yet clear.

10/20 ADMINISTRATION REPORT

(Agenda No. 11)

The Committee had before it a report which updated members on scheme administration and date issues.

In relation to paragraphs 2 – 3 of the report, Mrs Fox reported that there had been two resignations, with potentially another. Recruitment to replace the staff had already started and in view of the end of year work, one team member had been seconded from benefits to the employer team until August 2020.

In relation to paragraphs 9-17 of the report, Mrs Fox drew to the Committee's attention two Death Grant cases for decision. On the first case, unfortunately due to an administrative error, permission was sought from the Committee to agree that the fund should pay £12,671.65 tax, which had resulted from a death grant being paid late and therefore incurring 45% tax charge.

The second case requiring a decision from the Committee was that of a member who had died in service on 21 September 2019, who had not registered any next of kin details on file including an 'expression of wish' form.

However, the employer subsequently provided the name and contact details for a daughter who duly completed a pension declaration form stating that she was the only person with an interest in the death grant payable from the fund. However, during several telephone calls it found that there was also a son, living in Australia. Initially, the son informed Pension Services that he did not have any interest in receiving part of any death grant payment but later conversations revealed that this decision was based on incorrect information supplied by his sister and so he then made declaration as an interested party. He also included a granddaughter (daughter of deceased sister) on this declaration.

The member's will leaves her estate to be split between the five grandchildren when they attain the age of 25. The death grant does not form part of the estate and was payable at Pension Fund discretion. This was a significant amount in excess of £100,000, and there were various options in how payment could be made:

- 50/50 split between sister and brother
- A percentage paid to sister and brother with the remainder being split between grandchildren
- Payment split equally between grandchildren only

It should be noted that the fund had been advised that the initial claimant has paid £700 in respect of funeral costs out of her own funds. The Committee was asked to consider how the Death Grant should be paid.

The Committee requested that in respect of the first case, measures be put in place to ensure that the oversight did not happen again and that the importance of taking written notes be reiterated to the staff. Mrs Fox reported that they were reviewing all other cases to check death tasks and that staff has been reminded of the importance of accurate recording.

For the second case, Councillor Mathews felt that the death grant should be a 3 way split to include the granddaughter in her own right. District Councillor Jo Robb felt that the middle option of a percentage paid to the sister and brother with the remainder being split between the grandchildren was the fairest option.

Councillor Mark Lygo moved and Councillor John Sanders seconded the first option of a 50/50 split between sister and brother.

The motion was put to the vote and was carried by 7 votes to 3 (Councillor Charles Mathew requested that his dissent be recorded).

RESOLVED: to:

(a) note the report;
(b) agree the Fund meets the tax cost associated with the late payment of death grant arising from administrative error as set out in paragraph ~~11-12~~ *10-11*;
(c) (by 7 votes to 3, Councillor Charles Mathew requesting that his dissent be recorded) agree a 50/50 split between sister and brother payment of the death grant for the case set out in paragraphs ~~13-18~~ *12-17*;
(d) confirm changes to administration strategy as set out in paragraph ~~31~~ 31-33.

11/20 EXEMPT ITEMS
(Agenda No. 12)

The Committee RESOLVED that the public be excluded for the duration of items PF13, PF14 and PF15 in the Agenda since it was 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 outweighed the public interest in disclosing the information.

12/20 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS
(Agenda No. 13)

The Committee had before it a report of the Independent Advisor setting out an overview of the current and future investment scene and market developments across various regions and sectors. The report itself did not contain exempt information and was available to the public. The Independent Financial Adviser also reported orally and any information reported orally would be exempt information.

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 was considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

RESOLVED: to receive the report, tables and graphs, to receive the oral report, to consider any further action arising on them and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

13/20 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION

(Agenda No. 14)

The Independent Financial Advisor reviewed the investment activity during the past quarter, presented a summary of the Fund's position as at 31 December 2019, and highlighted any key performance issues, with reference to the attached tables and graphs.

14/20 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER

(Agenda No. 15)

The Independent Financial Adviser gave a final word regarding Legal & General and reported that he had no further information to add to his report.

15/20 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT

(Agenda No. 16)

Nothing to note at this meeting.

.... in the Chair

Date of signing ....

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PENSION FUND COMMITTEE

MINUTES of the meeting held Virtually on Thursday, 7 May 2020 commencing at 10.00 am and finishing at 10.30 am.

Present:

Voting Members:	Councillor Kevin Bulmer – in the Chair Councillor Nicholas Field-Johnson (Deputy Chairman) Councillor Ian Corkin Councillor Mark Lygo Councillor Charles Mathew Councillor John Sanders Councillor Roz Smith Councillor Lawrie Stratford Councillor Alan Thompson District Councillor Jo Robb
Other Members in Attendance:	Councillor Bob Johnston and Mr Alistair Bastin, Local Pension Board.
District Council Representatives:	District Councillor Jo Robb

Officers:

Whole of meeting	Lorna Baxter, Director for Finance and Sean Collins; Deborah Miller (Law & 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.

99/20 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

An apology for absence was received from Mr Alaa Al-Yousuf.

100/20 ADMINISTRATION REPORT

(Agenda No. 4)

At its meeting in March, the Committee had received a report, asking it to determine how payment of a death grant should be split.

When administrators came to make the payment, it was found that incorrect information had been provided to officers and given to members in the report, therefore, the Committee had before it an updated report seeking member's view on whether they would wish to review their decision in light of the new information set out in the report.

Mr Collins in introducing the report explained that the original report was incorrect because it stated that the deceased daughter's child was living with her aunt when in fact this has never been the case. She lives with her father.
On investigation it was understood that this misunderstanding came from a telephone conversation, but because notes of the calls were not properly taken it was impossible to establish whether this was due to wrong information being given or lack of understanding on part of the administrator. Administrators had subsequently been reminded of the importance of best practice of taking notes of telephone calls and adding these to case records.

The Chairman Councillor Bulmer indicated that it was his understanding from communications with members of the Committee that had they been in possession of the above facts at the time of making the decision, then a different decision would have been made and the Committee would have agreed to a 3 way split to include the deceased member's granddaughter. He therefore moved and Councillor Sanders seconded to agree to share the payment of the death grant between the brother and sister to sharing the death grant between brother, sister and granddaughter, of the deceased member. The Committee debated the merits of other splits, but it was generally felt that this was the fairest way forward.

RESOLVED: (on a motion by Councillor Kevin Bulmer, seconded by Councillor John Sanders and carried nem con) to amend their decision to share the payment of the death grant between the brother and sister to sharing the death grant between brother, sister and granddaughter, of the deceased member.

.... in the Chair

Date of signing ....

Division(s): N/A

PENSION FUND COMMITTEE – 5 JUNE 2020

INVESTMENT STRATEGY

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to consider the responses to the recent consultation exercise and approve the changes to the draft documents as set out in the report and incorporated in Annex 3.

Introduction

1. At their March meeting, this Committee reviewed its Investment Strategy Statement and completed the fundamental review of its asset allocation following on from the tri-ennial Fund Valuation. For the first time, the Investment Strategy Statement included a Climate Change Policy as an annex to the document.

2. As required under the relevant Regulations and guidance, the Committee agreed to consult all key stakeholders on the draft Statement approved at the March meeting. This process was undertaken over a 6 week period from the beginning of April to the middle of May. This report sets out the key issues raised in the consultation responses and recommends the Committee to approve the final Investment Strategy Statement including the changes to the draft Statement set out in this report.

3. In the view of the Officers and as set out in the report, and number of the consultation responses highlighted key issues in the implementation of the Climate Change Policy rather than any specific changes to the Policy itself. This report therefore needs to be considered alongside the Climate Change Policy Implementation Plan included on today's agenda.

Consultation Exercise and Responses

4. The consultation pack contained a covering letter, a consultation document setting out the key issues for consideration and specific areas we would welcome comment and the draft Investment Strategy Statement and Climate Change Policy as approved at the March meeting. A copy of the consultation document is attached as annex 1 for information.

5. The consultation pack was emailed to all those who were invited/attended the Climate Change Workshop in November 2019. References to the consultation were included in the newsletter sent out to all Scheme Employers and in the Scheme Members newsletter. The consultation pack was also emailed to all

scheme employers and published on the Pension Fund's webpages. The consultation pack was also emailed to the officers with lead responsibility for climate change within the County, City and District Councils. The OCC lead officer subsequently arranged for a link to the consultation pack to be included in an all Manager email sent out within the County Council and on the home page of the County Council's intranet site.

6. By the close of the consultation period, we had received a total of 27 responses. A full list of respondents is included at Annex 2. As the consultation documents did not make it clear that responses would be published, we have not included the full responses within this report, but summarised the key issues raised. The full responses are available on request from Sean Collins by emailing him at sean.collins@oxfordshire.gov.uk.

7. The responses almost in their entirety focussed on the Climate Change Policy included as an annex to the Investment Strategy Statement itself. This is not unduly surprising as this was the major change to the current version of the Investment Strategy Statement and was the focus of the consultation document itself and the 4 areas where we were specifically seeking comment.

8. The majority of the responses welcomed the opportunity to comment on the Investment Strategy Statement, felt that the consultation document and the Statement itself was clearly presented, and supported the general direction of the Statement. There were a couple of responses which stated that they did not find the consultation documents helpful and found them difficult to follow. One would have welcomed more specific consultation questions.

9. Six of the responses followed a very similar format, based on a template made available from Fossil Free Oxfordshire. One further response was largely based on the full response from Fossil Free Oxfordshire.

10. The specific issues raised within the consultation responses in relation to the 4 areas highlighted in the consultation document were as follows:

<u>Alignment of the Climate Change Policy with the Paris Agreement</u>

- There was almost universal support for the inclusion of the Climate Change Policy and for it to be based on alignment with the Paris Agreement. No other universally accepted alternative was seen to be available/suitable.
- There a number of requests for clarification on what alignment meant. Concern was expressed that alignment to specific government pledges under the agreement was not enough to drive the required limits on temperature rises.
- There was also concern that a net zero target in 2050 was too distant a target, and we should be more ambitious (including one proposal we should aim that our investment portfolios are responsible for negative carbon emissions to repair previous damage to the environment) or bring in intermediate targets. Specific reference was made to the

Intergovernmental Panel on Climate Change's target of a 45% reduction in carbon emissions by 2030 (from a benchmark of 2010).

- One response raised the specific concern on a focus of net zero by 2050 as opposed to a focus on limiting temperature rises. It was argued that if the majority of activity to deliver net zero by 2050 was delayed to the end of the period, temperature rises could exceed 1.5°C or indeed 2°C in the interim.
- There was one response which felt it was unacceptable for the Pension Fund to be used for political purposes and argued that the Investment Strategy should be focussed on maximising financial return and that it was irresponsible to ignore the need for and the usefulness of fossil fuels.

<u>The decision not to include a blanket divestment statement, but to focus on engagement and selective divestment</u>

- The majority of respondents felt that the Policy should contain a blanket divestment policy in respect of the fossil fuel companies. Arguments to support this position included
    - the financial risks associated with stranded assets and/or the increasing number of legal cases seeking compensation from environmental damage already caused,
    - the moral and ethical arguments against investing in an industry driving the damage cause by climate change
    - the need to send a clear message to the fossil fuel companies and Governments that changes were required now,
    - investment in fossil fuel companies reduced the amount of investments in new sustainable energy sources
    - engagement takes time and we are facing a climate emergency
- There were a number of responses which accepted the Committee's position on not including a blanket divestment statement in the Policy at the current time, and/or the difficulties of implementing a blanket policy immediately given the need to develop suitable portfolios through Brunel. These responses though did make a number of further points including:
    - To be effective, engagement must be accompanied by clear criteria for the engagement, with clear targets set against agreed metrics with clear timescales and clear sanctions in the event of non-achievement. One response highlighted the current section on engagement within the Policy was based on belief statements rather than scientific evidence.
    - Any assessment of engagement with the fossil fuel companies must take into account the limited progress made over the past 30 years of engagement
    - Any fossil fuel company still exploring for new reserves of fossil fuels was arguably not aligned with the Paris Agreement – attention was drawn to the most recent analysis from the Transitions Pathway Initiative which stated that none of the oil and gas majors were currently aligned with a net zero or 1.5°C scenario.

    - Divestment should follow as soon as possible following clear evidence that a company is not aligned to the Paris Agreement or has no credible plan to become so aligned.
- There was general support for engagement with non-fossil fuel companies to ensure they have credible plans to be aligned with the Paris agreement.
- The one respondent who was against the inclusion of the climate change policy also made the point that any divestment policy needed to take full account of the consequences of such divestment including on the impact on employment and the communities current benefiting from the fossil fuel companies active in their area.

<u>Is the focus on climate risks appropriate given all the other risks facing the Pension Fund and the other UN Sustainable Development Goals (SDGs)?</u>

- The vast majority of responses supported the focus on the climate change risks arguing that the significant potential financial consequences of not addressing the risks. Recent statements from the Government (including regulatory guidance on ESG disclosures) and other key figures in the financial sector (including the ex-Governor of the Bank of England) were quoted to support the case
- A number of the responses did make the point that whilst they agreed on the priority being given to the climate change risks, they would like to ensure other key ESG issues were not ignored, and that company performance against such issues and the SDGs was regularly measured and reported against.
- One response felt that equal attention should be paid to other issues including humanitarian, ecological and ethical matters.
- One response suggested a number of changes to the Statement to bring ethical considerations onto the same level as financial considerations.
- As noted above, one response did not believe that the Pension Fund should be driven by what they regarded as any political agenda and should manage our funds in a financially responsible and productive way for the scheme members.

<u>What metrics should be used to assess compliance with the Policy?</u>

- There were limited comments on what metrics should be used to ensure compliance with the policy, which is unsurprising given the lack of metrics developed to date by industry experts
- Metrics quoted included:
    - % of Fund invested in Fossil Fuel Companies
    - % of Fund invested in Climate Change Solutions
    - Carbon intensity of portfolios measured against total revenues
    - Carbon Emissions – ideally Scope 1, 2 and 3 where scope 3 emissions can be reliably measured
    - Percentage of companies signed up to the Taskforce on Climate-related Financial Disclosures Template
    - Scores against the Transition Pathway Initiative (TPI) Carbon Performance scores (concern was expressed that the TPI

Management Quality scores were too subjective and therefore were not currently a reliable metric).

- A few of the responses highlighted the difficulties of benchmarking performance against any of the existing Climate Change Scenarios developed by the International Energy Agency and others. These scenarios are only as good as the assumptions used to build them. Many of the current scenarios are based on significant levels of carbon capture and storage which are currently not supported by the available technology nor the planned future investment.
- The absence of reliable metrics should not be an excuse not to take any action now. Decisions should be made on the best information possible today and reviewed as better data becomes available in the future.
- Given that the Pension Fund is not a direct investor in the underlying companies, some responses highlighted the need to develop metrics to ensure the Committee could hold Brunel and their appointed Fund Managers to account. In addition to the above metrics which can be used to analyse individual Fund Manager mandate construction, the following metrics were identified to be used in monitoring Fund Manager performance:
    - Membership of various climate change associations such as New Zero Asset Owner Alliance, Climate Action 100+ etc
    - Voting records on Climate Change Resolutions
    - Engagement Records

11. Respondents to the Consultation document were not restricted to simply comment on the four key areas identified and a number made additional comments to those included above. The key other issues raised are as follows:

- There is a responsibility on the Pension Fund that alongside ensuring there are sufficient resources to pay pension liabilities in the future that there is a world fit to live in for those receiving future pensions
- Members should be provided some choice over the individual assets their pension funds are invested in
- All investment decisions are a matter of balancing competing risks and the Committee should be wary of unintended consequences of their investment decisions e.g. given the nature of the current renewables industry any increase in weighting to this sector (or reduction in the traditional energy sector) is likely to involve a switch of funds between the quoted and private markets, and between large cap and medium/small cap companies. Committees need data to assess the relative risk of the different investment choices
- The current world-wide arrangements in respect to the Covid19 pandemic show just how much disruption and change everyone is prepared to accept in the face of a potential disaster – there is therefore real scope for fundamental change in light of the Climate Emergency
- The implementation of any Policy needs to reflect the differences between the various asset classes, and different metrics and targets may have to be developed for each asset class. However, the principles from the Policy need to be applied across all asset classes.

- The breadth of the issues associated with climate change risks, the lack of universal accepted metrics, the dangers of unintended risks etc. all mean that any passive investment based on the major indices is unlikely to be consistent with the Paris Agreement. More specific climate related indices such as the FTSE TPI Climate Transition Index launched recently by an allocation from the Church of England should be reviewed, alongside passive funds targeting zero carbon or which exclude key sectors which contribute to the climate crisis including the fossil free companies, large food producers and those responsible for significant deforestation.
- The Climate Change Workshop held in November with the breadth of contributors and attendees alongside the development of the Climate Change Policy should be seen as placing the Oxfordshire Pension Fund amongst the leading players in tackling the challenges of Climate Change. However, given the emergency nature of the risks, now is not the time to sit back and celebrate what has been achieved, but to focus on the significant changes still required.

12. Finally, a number of the respondents raised minor issues on wording or of a technical nature. Most of these have been incorporated into the latest version of the document contained as Annex 3 to this report.

Changes to the Draft Investment Strategy Statement

13. Having reviewed all the consultation responses, it is the view of Officers that there is considerable support for the Investment Strategy Statement and in particular the Climate Change Policy as currently drafted. The majority of comments do not oppose the principles set out in the Policy but focus on how the Policy will be implemented and monitored to ensure it delivers against its key objectives.

14. One of the key concerns expressed in the consultation responses though was about how the key objectives are currently worded in the Commitment section and the focus on the commitment to transitioning the investment portfolios to net zero emissions by 2050. It is accepted that this objective is on its own too far into the future, and can be met whilst temperature rises exceed 1.5°C or even 2°C.

15. The latest version of the Climate Change Policy contained within the proposed Investment Strategy Statement at Annex 3 of this report has therefore been amended (version at Annex 3 shows all tracked changes from the draft presented to the March Committee) to link in the commitment to the investment portfolios held by the Fund are consistent with a maximum temperature increase of 1.5°C. This reflects the intention of those who intended the Workshop in November 2019.

16. Officers have reviewed the proposal included in a number of responses to add an interim target to the Policy of a 45 % reduction in emissions by 2030, in line with the special report on Global Warming of 1.5°C published by the Intergovernmental Panel on Climate Change in 2018. This report identified the

need for emissions to reduce by 45% from their 2010 levels by 2030 if we were to be on target to hit net zero emissions by 2050 and to have no or limited overshoot of the 1.5°C target.

17. The main difficulty of including the 45% target in the Policy is the fact that it is benchmarked against 2010 levels and therefore difficult to measure retrospectively. Like the 2050 target, it also suffers from being a single point is time, with significant risk that there is insufficient movement in the intervening years

18. The difficulty of measuring against the 45% reduction target though should not mean we move away from the commitment in the current Policy to establish intermediate targets. The draft Policy included the commitment to establish intermediate targets every five years in line with the Paris Agreement Article 4.9. This though links to the pledges of individual governments, which as noted above was an area of concern in that they currently are not consistent with temperature rises of less than 2°C.

19. An alternative approach is therefore to benchmark the annual reductions in the total emissions from the investment portfolio from the current position against the targets set in the annual United Nations Environment Programme's Emissions Gap Report. This report sets out the current requirements on emission reductions consistent with 1.5°C and 2°C scenarios. The latest version of the Policy has been amended to reflect this alternative approach.

20. Another section of the Policy where changes have been made in light of the consultation responses is the section covering Engagement. The main concerns expressed through the consultation responses were about the section being too vague and based too much on beliefs. The section has been amended to make it clear that the Implementation Plan as well as setting clear targets and timescales for engagement will include the appropriate sanctions where deadlines are missed. The wording on divestment has also been amended to reflect the need for reasonable evidence that a company is aligned to the Paris Agreement rather than a simple belief.

21. An additional paragraph has been added to the risk section of the Statement to reflect the need for a robust risk management framework to ensure that investment decisions are not resulting in unintended consequences, and that climate changes risks are properly assessed against other key risks including liquidity.

22. An additional paragraph has also been added to the section on ESG Policy to reflect the requirement to develop a better suite of metrics reflecting all key ESG issues and the remaining Sustainable Development Goals to ensure that climate risks are not unduly prioritised, and that the wider ESG policy is being reflected through the investment choices made by Brunel and the underlying Fund Managers.

23. The final section changed following the consultation responses is the section on Monitoring and Reporting where some of the proposed metrics have been

added to the list to be used by the Pension Fund when assessing the compliance of the investments with the Climate Change Policy.

Responses to be Reflected in the Implementation Plan

24. Many of the points raised in the consultation responses whilst not requiring a change to the principles set out in the Policy did indicate areas that need to be appropriately covered in the Implementation Plan. These are mainly in respect of ensuring there are robust arrangements in place to monitor compliance with the Policy and to allow further actions to be taken (including revisions to the Policy) where it is clear more needs to be done to deliver against the key objectives.

25. Given the investment arrangements are channelled through Brunel alongside the other founder funds in the Brunel Pension Partnership, much of the Implementation plan will require collaborative working.

26. The key areas that need to be covered in the implementation plan based on the consultation responses are as follows:

- The development of an internationally accepted 1.5°C scenario with clear arrangements in place to regularly review the reasonableness of the assumptions on which the scenario is based, particularly in respect of future carbon capture and storage
- Setting benchmark scores for the metrics identified in the Policy and setting future targets and timescales for their achievement
- Developing a framework to enable the regular monitoring of the Fund Managers employed by Brunel in respect of their ability to comply with the objectives of the Climate Change Policy, and how Brunel manage issues of non-compliance.
- The development of clear metrics, targets, timescales and sanctions for the Engagement programme.
- Work with Brunel to ensure portfolios across all asset classes include appropriate references to the need to be Paris Agreement aligned within portfolio specifications
- Work with Brunel to identify early wins where the current metrics and availability of suitable products in the market allow the switch of assets to Paris aligned portfolios, with a particular focus on passive equities.

27. The Committee are invited to bear the above issues in mind when reviewing the draft Implementation Plan.

Consultation Issues not to be taken forward

28. There were a number of points raised within the consultation responses which in the view of the Officers could/should not be taken forward. These are as follows.

29. The consultation response which opposed the inclusion of the Climate Change Policy as following a political agenda rather than the Committee fulfilling their fiduciary duties was seen to failed to understand the widely recognised financial risks associated with climate change. As the Policy already makes clear, the fiduciary duty of the Committee is paramount, and the inclusion of the Climate Change Policy is because climate risk is seen as the greatest long-term financial risk to the Pension Fund.

30. Similarly, the comments seeking to raise ethical considerations to the same level of financial considerations is seen to conflict with the fiduciary duty of the Committee. All recent advice and guidance has made it clear that the Committee must always act in the best long-term financial interests of the Members. Non-financial factors including any ethical issues can be taken into account when making investment decisions, but only if there is no significant financial detriment and if the Committee have good reason to think that the decision would be supported by scheme members. The current wording of the Investment Strategy Statement reflects the latest guidance.

31. Although there was strong support amongst those who responded to the consultation on a blanket divestment from fossil fuel companies, there was no new evidence/argument to re-visit the decision previously made by this Committee. The Policy therefore re-iterates the view that a combination of engagement and selective divestment is seen as the most appropriate route to deliver a low carbon future. The Policy has also been amended to reflect the fact that this approach is dependent on having appropriate goals and timescales for the engagement and sanctions when these are not met. In line with the position set out within Brunel's own Climate Change Policy, this position will be kept under regular review and the decision re-visited again in 2022 as part of the Brunel stocktake.

32. Whilst not a key determinant of the decision not to support a blanket divestment approach, it should be noted that at the current time Brunel does not offer sufficient fossil free portfolios to implement a blanket divestment approach whilst maintaining an appropriately diversified set of investments. As set out in the Implementation Plan, we will continue to work with Brunel to ensure all portfolios going forward are aligned with the Paris Agreement and to stimulate the market to develop a much broader range of fossil free products.

33. Finally, it is not possible nor appropriate to take forward the issue of individual member choice. As a defined benefit scheme, the financial risks within the LGPS lie with the scheme employers and not the scheme members. Scheme employers would therefore bear the costs of decisions taken by individual members rather than the individuals themselves. There would also be considerable additional administrative costs in running a scheme where scheme members even had limited choice on the way their pension was invested. Asset allocation decisions therefore need to remain the responsibility

of this Committee, in line with their fiduciary duties, taking into account any clear views expressed by scheme members as a whole.

Other Issue

34. One issue not covered by the consultation exercise, that has been taken into account in preparing the latest version of the Investment Strategy Statement was the recent decision of the Supreme Court in the case of the Palestine Solidarity Campaign v HM Government. The Court ruled by a 3-2 majority that the existing guidance from the Secretary of State in respect of the preparation of Investment Strategy Statements was unlawful to the extent it prohibited pension funds operating sanctions, boycotts or divestment campaigns against foreign nations and UK defence industries, other than in accordance with UK Government foreign and defence policies.

35. Since the ruling, the Palestine Solidarity Campaign have written to chairs of Pension Fund Committees asking them to ensure that their Funds are not complicit in the Israeli violations of Palestinian human rights and international law and that scheme members concerns about any investments in companies guilty of any such violations are acted upon.

36. In light of the Supreme Court Decision, the line reflecting the unlawful guidance has been removed from the Investment Strategy Statement. However, officers believe that the deletion has no impact on the intent of the current Statement. The position remains that all environmental, social and governance factors which would include the issues raised by the Palestine Solidarity Campaign are taken into account when assessing all investment decisions.

LORNA BAXTER
Director of Finance

Contact Officer: Sean Collins
Tel: 07554 103465

May 2020

Oxfordshire Local Government Pension Fund
Consultation Document on the Investment Strategy Statement

Introduction

1. Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Oxfordshire Local Government Pension Fund (the Fund) must review its Investment Strategy Statement at least once every three years. The Fund chooses to do that in line with the tri-ennial Valuation and a fundamental review of the Strategic Asset Allocation.

2. The Regulations also require that the Fund consults all interested parties on the content of the revised Statement. This document sets out the basis for that statutory consultation and invites comments to be submitted back to the Fund before the Statement is finalised in June.

3. This document sets out the key changes to the Investment Strategy Statement proposed at this time and sets out the key issues discussed by the Pension Fund Committee at its meeting on 6 March 2020 when it agreed the draft as the basis for consultation.

4. Any comments arising from this consultation should be submitted to Sean Collins, the Service Manager responsible for the Pension Fund. Responses can be either submitted by email to sean.collins@oxfordshire.gov.uk or by post to Oxfordshire County Council, County Hall, New Road. Oxford OX1 1ND. Responses must be received by Friday 15 May 2020 to enable these to be included in the report to the meeting of the Pension Fund Committee on Friday 5 June 2020. Please ensure you provide your name and in what capacity you are responding e.g. scheme member, scheme employer, Oxfordshire tax-payer etc.

Main Revisions to the Investment Strategy Statement

5. There are two main areas of change to the latest draft of the Investment Strategy Statement. These are changes to reflect the transition of assets to the Brunel Company as part of the Government's pooling arrangements, and the introduction of a new Annex to set out the Fund's Climate Change Policy. The Statement has also been revised to reflect the decisions made at the March 2020 Committee meeting in respect of the strategic asset allocation.

6. In respect of the developing arrangements with Brunel, the Statement has been revised to make it clear that all future investments should be through Brunel wherever possible, with requests made to Brunel under the agreed policies to set up new portfolios where the existing ones do not meet the requirements of the Fund.

7. The Statement also covers the switch for the Committee from the responsibility for the direct review of Fund Managers to the responsibility for obtaining assurance that Brunel is undertaking the appropriate review of the appointed Fund Managers. The Statement makes it clear that the focus of this review should be on net investment performance rather than simply cost, and that all Fund Managers are investing in line with the Policies agreed by Brunel with the support of the 10 founding Funds.

8. Similarly, the Statement has been updated to reflect the role of Brunel in managing the engagement with the underlying companies and in exercising the voting rights in respect of our investments. Again, the role of the Committee has switched to monitoring the performance of Brunel rather than direct involvement in engagement and exercise of voting rights.

9. In terms of the asset allocations, the strategic asset allocation has been updated to reflect the decisions made at the March 2020 Committee to switch 5% of the investments in UK equities to global equities and the decision to reduce the overall allocation to equities by introducing a 3% allocation to private debt. These decisions were made to provide greater diversification and in response of the concentration in the UK markets to oil and gas companies. The allocation was also updated to reflect the split previously agreed between allocations to developed and emerging markets.

10. The introduction of a Climate Change Policy reflects the Committee's belief that climate change risk presents the single most important factor in determining the long-term investment performance of its assets. As such, the decision is seen as entirely consistent with the over-arching fiduciary duty of the Fund to the scheme members.

11. The Policy has been developed following an initial workshop arranged with the support of Fossil Free Oxfordshire and attended by the members of the Pension Fund Committee, the Local Pension Board and several climate change experts. The outcomes of the Workshop were further considered by a Working Group consisting of the Chairman, Vice Chairman and Opposition Spokesperson on the Committee, the Independent Financial Adviser to the Pension Fund and representatives of scheme members and Fossil Free Oxfordshire.

12. The Policy takes the Paris Agreement on Climate Change as its guiding principle and aims to ensure that over time all investments are consistent with the aims of the Paris Agreement. As a high-level target, the Policy makes a commitment to have transitioned to net zero greenhouse gas emissions by 2050, in line with a maximum temperature increase of 1.5°C.

13. The Policy aims initially to reach this target without the need for blanket divestment decisions, but to follow a policy of engagement and select divestment where companies are clearly not on a path to be aligned with the

Paris Agreement. The Policy supports the Just Transition, seeking to manage the societal and economic impacts of the transition to a low carbon economy.

14. The Policy identifies the need to manage the exposure of investment assets to risks associated with climate change, including flooding. It also seeks to increase the investments in climate change mitigation e.g. renewable infrastructure.

15. The Policy also states the Fund's support for wider advocacy of Governments etc to bring in policy change consistent with the aims of the Paris Agreement including the mandating of the Task-Force on Climate-Related Financial Disclosures Template and the removal of fossil fuel subsidies.

16. The Policy recognises the shortfall on current industry-wide metrics to assess the compliance of the investments with the policy objectives. The Policy therefore includes support for the development of a basket of such metrics to enable targets to be set and progress to be measured. The Policy includes a commitment to have a fundamental review of the Policy in 2022 to ensure that it is sufficiently ambitious to meet the objectives of the Paris Agreement (or any subsequent internationally agreed revisions.

Key Issues Discussed by the Committee

17. The Committee noted that the purpose of the Climate Change Policy was to set a strategic direction of travel, and as such did not include detailed statements around the allocation to specific portfolios. It was agreed that the implementation of the Policy would be included in a separate Implementation Plan to be initially presented to the June 2020 meeting of the Committee.

18. The implementation plan would include clear timescales around the development of suitable metrics against which to assess performance against the Policy. This would include criteria and timescales to be used in assessing the success of the engagement with the underlying investment companies, and metrics to determine the extent to which investment portfolios were aligned with the Paris Agreement.

19. In the short term, the Committee agreed a switch of 5% of the Fund from the UK passive portfolio to the Low Carbon Portfolio. Although this was seen as a positive first step to reduce the carbon intensity of the Fund and to send a clear message about the direction of travel, it was recognised that the Low Carbon Portfolio itself had a number of flaws, particularly to the extent that it did not measure scope 3 emissions. As such, the portfolio included several companies which whilst they themselves had low scope 1 and 2 emissions, were part of a supply chain for the oil and gas industries and responsible for significant levels of scope 3 emissions.

20. As such the Committee agreed that further switches to assets should await the development of new portfolios through Brunel that better reflected the objectives of the Climate Change Policy, so avoiding the need to incur double transition costs. It was noted that further switches from existing portfolios to new portfolios better aligned to the Paris Agreement could take place at any time within the agreed asset allocation and was not dependent on either a further asset allocation review or indeed the 2022 review of the Climate Change Policy itself.

21. Finally, the Committee noted that whilst climate change risks are the greatest risk to long term investment performance, they were not the only risk, and care needed to be taken to ensure that future portfolios were developed with full consideration of these wider risks and indeed of the remaining United Nations Sustainable Development Goals. A properly diversified portfolio appropriately balancing the various risks was in the best long-term interests of the scheme members and therefore consistent with the Committee's fiduciary duty.

22. The Committee therefore decided not to increase the current allocation to the infrastructure portfolio managed by Brunel, despite the fact that this portfolio is heavily weighted to investments in renewable infrastructure. This was based on advice about the need to ensure that the overall liquidity in the Fund was not further reduced to ensure there was always sufficient cash to pay the pension benefits as they fall due and to meet the already significant commitments agreed to the private markets.

Consultation Reponses

23. The Committee would welcome any general comments on the content of the Investment Strategy Statement including the introduction of the separate annex to cover their Climate Change Policy. Specific issues that respondents may wish to consider include:

- The use of the Paris Agreement to act as the guiding principle for the Climate Change Policy. Are there alternative strategic drivers better suited?
- The decision not to include any blanket divestment statements within the Policy but to focus on a practice of engagement and selective divestment across all asset classes and sectors where sufficient evidence of compliance with the Paris Agreement is not forthcoming.
- Whether the focus on climate change risks relative to the other risks facing the pension fund is appropriate, and whether there should be greater emphasis on any of the other UN Sustainable Development Goals or risks.
- Potential metrics to be included in any future iterations of the Investment Strategy Statement and Climate Change Policy against which compliance can be assessed

Annex 2 – Respondents to the Consultation – 27 In Total

Those invited/attended the November Climate Change Workshop - 7

Fossil Free Oxfordshire
Lauren Juliff on behalf of Storebrand
Peter Davies – Independent Financial Adviser to the Fund
Revd Hugh Lee
City Councillor Tom Hayes
Joel Moreland
Cllr Andy Foulsham

Scheme Members – 13

Jane Ivimey
James Bolton
Kate Robinson
Ginnie Herbert
Pete Wallis
Alison Williams
Anne Wagner
Melissa Russon
Peter Gillott
Kate Everleigh
Paul Harris
Lydia Stone
Barbara Williams

Oxfordshire Council Tax Payers - 5

Mary Gill
Ian Haslam
David Penn
Jennifer Hirst
Jill Oakes

Undisclosed – 1

Linda Newberry

Lead Officer for Climate Change - 1

Sarah Gilbert

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Investment Strategy Statement

Introduction

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

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

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

Governance Overview

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

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

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

Investment Objectives

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

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

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

Asset Allocation

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

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

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

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

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

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

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

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

Investment Implementation

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

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

When making asset allocation decisions for some asset classes there is a choice available between active and passive management. The Fund believes that active management can provide benefits above passive management in some situations. Active management gives the potential for outperformance relative to the passive benchmark through the selection of holdings expected to outperform the general market and through the use of cash to protect against downside risk. In considering the most appropriate type of mandate the Fund will consider the potential for outperformance, fees and risk. For some investment classes there are not passive investment solutions currently available but the Fund will work with Brunel to monitor the market to identify any new products that are developed in the passive arena.

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

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

Asset Class	**Investment Manager**	**Benchmark**	**Annual Target**
UK Equities	Brunel Brunel	FTSE All-Share FTSE All Share	+2.0~~1.25~~% Passive
Developed World Equities	Brunel Brunel	FTSE Developed MSCI World	Passive +2 – 3%
Global Equities	~~Brunel~~ UBS	~~MSCI World~~ MSCI All Countries World Index	~~+ 2.0 – 3.0%~~ + 3.0%
Emerging Market Equities	Brunel	MSCI Emerging Market	+2.0 – 3.0%
Low Carbon	Brunel	MSCI World	Passive
Bonds & Index Linked - UK Gilts - Index Linked - Corporate bonds - Overseas bonds	Legal & General	FTSE A All Gilts Stocks FTSE A Over 5 year IBoxx Sterling Non-Gilts JPMorgan Global Govt (ex UK) traded bond	+ 0.6%
Property	UBS Global Asset Management	IPD UK All Balanced Funds Index	+1.0%

Private Equity - Quoted Inv. Trusts - Limited Partnerships	Director of Finance Adams Street Partners Group Brunel	FTSE Smaller Companies (Including Investment Trusts) MSCI ACWI	+ 1.0% +3.0%
Diversified Growth Fund	Insight	3 month Libid~~or~~	+ 4.0~~3.0 – 5.0~~%
Infrastructure	Brunel	CPI	+4.0%
Secured Income	Brunel	CPI	+2.0%
Cash	Internal	3 month Libor	-

Target performance is based on rolling 3-year periods

Rebalancing

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

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

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

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

Restrictions on Investments

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

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

Risk

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

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

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

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

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

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

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

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

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

of the return on the overseas equities; the currency exposure on overseas bonds is hedged back to sterling.

Custody

The risk of losing economic rights to the Fund's assets is managed by the use of a global custodian for custody of the assets. Custodian services are provided by State Street. In accordance with normal practice, the Scheme's share certificates are registered in the name of the custodian's own nominee company with designation for the Scheme. Officers receive and review internal control reports produced by the custodian. The custodian regularly reconciles their records with the investment manager records, providing a regular report to officers which they in turn review.

Stock Lending

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

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

Pooling

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

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

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

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

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

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

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

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

ESG Policy

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

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

The Committee's principal concern is to invest in the best financial interests of the Fund's employing bodies and beneficiaries. Its Investment Managers are given performance objectives accordingly. The Council requires its Investment Managers to monitor and assess the environmental, social and governance considerations, which may impact on financial performance when selecting and retaining investments, and to engage with companies on these issues where appropriate. The Council believes that the operation of such a policy will ensure the sustainability of a company's earnings and hence its merits as an investment.

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

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

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

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

~~The Fund will not use pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.~~

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

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

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

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

Policy on Exercise of Rights

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

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

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

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

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

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

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

June~~March~~ 2020

Oxfordshire Pension Fund Climate Change Policy

Foreword

The Pension Fund has a fiduciary duty to invest in the best financial interests of its members. The investment goals of the Pension Fund are set out in its Investment Strategy Statement. Climate change presents a material risk to the Pension Fund's investment returns over the long-term. It follows that the Fund's fiduciary duty inherently requires that it is managing climate related risks to its investments, particularly given the Pension Fund's long-term investment horizon; even if the fund closed to future accrual today the fund would still be operating 80 years later. The Pension Fund currently views climate change risk 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 and has thus determined to produce this policy document on its approach to climate change.

Background

Climate change refers to long-term changes to climate patterns, such as changes to temperatures or precipitation. A significant element of climate change is global warming; the long-term rise in the average temperature of the Earth's climate system. Global warming has been demonstrated to have increased significantly over recent decades. The Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report concluded, *"It is extremely likely that more than half of the observed increase in global average surface temperature from 1951 to 2010 was caused by the anthropogenic increase in greenhouse gas (GHG) concentrations and other anthropogenic forcings together"* [(1)].

The impacts of climate change are wide ranging and include more extreme temperatures, more natural disasters (flooding, fires etc), permanent loss of land due to rising sea levels, disruption to infrastructure networks (e.g. electricity, water supply), loss of ecosystems, and a severe impact on food supplies. There are also secondary impacts, such as on migration patterns. All of these have the potential to impact on both individual investments and financial markets more generally. A business as usual approach could have a material negative impact on global investment markets [(2)] [(3)].

In 2015 the United Nations Climate Change Conference (COP21) was held in Paris. The agreement [(4)] that was reached brought most of the world's nations together to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries. The central aim of the Paris Agreement is to keep a global temperature rise this century to below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

The Paris Agreement has been ratified by 186 states, including the European Union, China and India. Although the United States served notice in November 2019 that it will withdraw as soon as it can legally do so (November 2020), the agreement has international momentum. Rules for implementation were agreed at a meeting in

Poland in 2018, including a requirement for countries to be transparent about their emissions and progress towards emissions reduction targets. There continues to be growing focus on climate change globally and further discussions will take place at future United Nations Climate Change Conferences~~in November 2020 COP26 will be hosted in Glasgow~~.

In order to meet the Paris Agreement goals countries will have to take significant policy action. What these policies are and how they operate will be key drivers in how climate change mitigation impacts on investments. The United Nations Principles for Responsible Investment has produced a document forecasting some of the likely policy responses [(5)].

It is acknowledged that irrespective of the action taken to reduce global warming some climate related impacts, such as rising sea levels [(6)], are already expected to occur due the greenhouse gas emissions to date [(7)]. Even if global temperature rises are limited to 1.5°C, climate related risks for natural and human systems are greater than they are at present. As such, climate change presents investors with both investment risks associated with these impacts and investment opportunities in terms of mitigation (reducing GHG emissions) and adaptation (adapting to the climate change taking place).

Beliefs

The Paris Agreement was reached based on the best available science and is clear that in order to prevent significant negative impacts, including to the global economy, from climate change the Agreement's goal of keeping global temperature rises to well below two degrees Celsius must be achieved. The investment returns and the beneficiaries of the Pension Fund are reliant on a healthy, functioning global economy, and~~as such~~ the Pensions Fund's ~~financial~~ interests are best served by the delivery of Paris goal and the Pension Fund should therefore actively contribute to their~~its~~ achievement.

From an investment perspective the Pension 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.

Commitment

The Pension Fund commits to transitioning its investment portfolios to net-zero GHG emissions by 2050. The Pension Fund also commits to transitioning its investment portfolios consistent with ~~Taking into account~~ the best available scientific knowledge, including the findings of the Intergovernmental Panel on Climate Change, ~~this is consistent with the Paris Agreement goal~~ to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. The Pension Fund will regularly report on progress, including establishing intermediate targets ~~every five years in line with Paris Agreement Article 4.9.~~consistent with the annual carbon emissions reduction targets set in the United Nations Environment Programme's Emissions Gap Report

The Pension Fund will seek to reach this Commitment 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 over all asset classes. The Pension Fund is cognisant that some asset classes are more 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 Pension Fund also commits to achieving net-zero GHG emissions on its own operations by 2030

Delivery

The Pension Fund Committee has responsibility for the direction of policy and the committee will have access to expert advice and have members with appropriate skills and knowledge. Responsibility for the implementation of this policy lies with the Service Manager - Pensions.

The Fund views two strands to its approach to climate change; aiming to be part of the solution in seeking to deliver its commitment and risk mitigation where actions may not directly contribute to a reduction in global warming but protect the fund from climate change related risks.

This second part becomes increasingly important if it becomes clear that efforts may be unsuccessful in achieving the goals of the Paris Agreement – based on current commitments temperatures are forecast to increase by ~3°C [(8)]. If this is the case the Pension Fund will need to focus on the physical and economic impacts associated with climate change and how these manifest in investment risk so that it can position itself to minimise its exposure to these risks.

A Paris aligned world requires significant changes to industry; this has significant societal implications in terms of employment, access to energy and the affordability of energy. The Pension Fund supports the Just Transition [(9)], 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 activity.

Asset Allocation

When determining the Fund’s asset allocation, the Fund will consider climate change in terms of mitigating climate risks, and opportunities through investments seeking to deliver solutions to the low carbon transition. 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. For example, if making an allocation to passive equities the Fund may select a low-carbon index as opposed to a regular market-cap index as a means of reducing exposure to climate risk.

The Fund will seek to increase investments in climate change mitigation and adaptation and will report on the level of relevant investments.

The Pension Fund considers that currently there are limited opportunities to invest in companies focused on climate change solutions in the public markets with more opportunities existing in the private markets across private equity, private debt, infrastructure and real assets. This has asset allocation implications due to the illiquidity and complexity of some of these asset classes.

Investment Options

The Pension Fund makes investments through the portfolios made available by the Brunel Pension Partnership. Where the fund determines that it has climate related policies not deliverable by existing Brunel portfolios it will seek to make these available through the agreed process for the creation and amendment of portfolios. This may require the Fund to seek support from other Brunel client funds.

The operating model chosen for Brunel utilises external fund managers and so the Pension Fund is reliant on the investment products available in the market. With Brunel, the Pension Fund will work with the asset management industry to ensure that appropriate products are made available that deliver against its climate commitment while meeting its investment goals.

Investment Monitoring

The Pension Fund will hold Brunel to account for the delivery of the Fund’s investment objectives including its approach to climate change as set out in this policy. In turn, Brunel will hold to account the fund managers it has appointed, and the Fund will assess whether this is working effectively.

The Pension Fund expects investee companies to be transparent in their climate related disclosures and at a minimum expects the adoption of globally accepted disclosure standards such as the Task Force on Climate-related Financial Disclosures. The Pension Fund will itself work towards reporting in-line with the TCFD recommendations.

Fund managers are typically benchmarked against a market index. The fund manager will typically set risk limits against the index, such as tracking error. Therefore, there is a risk that the choice of benchmark could lead to managers being unwilling to take significant sector positions. The Pension Fund will therefore work with Brunel to ensure the benchmarks used for portfolios do not encourage positions inconsistent with the Fund’s climate commitment, whether this is non-index based benchmarking or the use of indices that reflect a Paris aligned world.

Engagement

The Pension Fund believes that engagement is a key tool in pursuing the achievement of its climate change commitment. Engagement has led to some progress on climate change matters, but overall the Pension Fund believes the magnitude and pace of change needs to increase. The Pension Fund does not view engagement and divestment as mutually exclusive but rather as two complementary tools that can be used in the escalation of climate concerns with companies. The Pension Fund further believes that divestment on its own is primarily a way of reducing the climate risk of its investments rather than in actively supporting the transition to a low carbon economy. The Fund believes that engagement to delivery real change, and selective divestment with clear public explanation is a more effective approach.

Engagement on behalf of the Pension Fund will primarily take place through Brunel, their appointed fund managers, and their engagement provider, in accordance with the approach set out in Brunel's Climate Change Policy [(10)]. The Pension Fund expects engagement to take place with clear metrics, targets and timescales with appropriate sanctions if these are not met. TheFund ~~and~~ will monitor and report on the engagement activities undertaken by Brunel on the Fund's behalf. The Fund will also monitor the effectiveness of the engagement approach adopted by Brunel. Engagement will also be undertaken on behalf of the Fund by investor groups of which it is a member, such as the Local Authority Pension Fund Forum.

The Pension Fund believes there is still time for companies not currently aligned with the Paris Agreement to respond to the requirements of the low carbon transition and so believes the most appropriate approach is to continue engaging with these companies. To be clear, any such investments will only be held where they still present a sound investment case over the medium term and there is ~~the belief~~ reasonable evidence of an action plan to ensure that climate risk can be managed to appropriate levels. The Fund will pursue divestment where this is not the case rather than retain investments~~,~~ simply ~~not~~ for the ~~primary~~ purpose of maintaining the ability to engage. Although fundamental business change may be difficult the Pension Fund believes it can be achieved.

For passive investments although there is still the ability to engage with investee companies the ultimate sanction of divesting is not an option, as such the Pension Fund will need to be mindful of climate risks in passive portfolios. If insufficient progress is made by companies in an index as a whole the Pension Fund will need to consider the appropriateness of these investments and consider alternative options such as exclusion-based or tilted indices.

Voting

As a shareholder in listed companies the Pension Fund has voting rights. The Pension Fund will utilise its voting rights to the fullest extent practicable. Ultimately voting is undertaken on behalf of the Fund by Brunel utilising the expertise of their voting and engagement provider and appointed managers.

Voting will be used to support climate concerns and to promote good practice by supporting appropriate climate related shareholder proposals, supporting increased disclosure of climate risks and scenario planning, and voting against boards where insufficient progress is seen to be made on climate risk. Voting activity will take account of the ongoing engagement with a company so that if progress is seen to be being made through engagement voting action may be postponed allowing time for any changes to be implemented.

We support the Brunel approach to voting escalation whereby they will escalate voting activity from voting against the reappointment of the Chair to other board members where they have not met their climate disclosure expectations. These expectations will increase over time with the aspiration of all their material holdings being on TPI Level 4 by 2022 and having made meaningful progress to alignment with a 2 degree or below pathway. In some sectors, e.g. oil and gas, they will aim to stimulate more rapid change.

Policy Advocacy

The Pension Fund will seek to influence policy development in the climate change arena, particularly where investment focused, through engagement with policymakers and regulators. The Fund may seek to do this through Brunel, on its own, in collaboration with other like-minded investors, or through a combination of these depending on how it thinks maximum impact will be achieved. In particular, the Pension Fund will look for the development of a meaningful carbon price, mandatory climate risk disclosures by listed companies, and the removal of fossil fuel subsidies.

The Fund sees policy development as being an important driver in providing the impetus needed for industry to deliver the changes required to achieve the Paris goals. By participating in policy development, the Pension Fund will also be in a strong position in terms of understanding the developing regulatory landscape and how this could affect the Fund's investments.

Collaboration

We believe collaboration with other investors helps influence and improve market best practice standards as well as strengthening the voice of asset owners and their pension beneficiaries. Consequently, through our own activities and by our membership of groups such as the Local Authority Pension Fund Forum, we aim to support the goals of the Paris Agreement.

The Pension Fund will also work closely with Brunel and the other Brunel clients in the development of Brunel's approach to climate change. This will include ensuring that the investment offering from Brunel incorporates comprehensive climate change assessment into all portfolios. To this end the Pension Fund has been engaged in the production of and fully supports the Brunel Climate Change Policy.

The Pension Fund will also seek to collaborate with the wider investment community in order to promote its climate change goals. This may include signing investor statements, co-filing AGM resolutions, policy consultation responses and developing reporting standards. The Pension Fund will also seek to join groups, climate change specific or otherwise, whose aims on climate change correspond with those of the Fund.

Monitoring and Reporting

To enable effective assessment of the climate change risk faced by investee companies and how this is being managed investors need accurate and comparable information. To this end the Pension Fund supports efforts to increase transparency of climate risk management and related metrics in the investment industry and work to develop globally accepted disclosure standards such as the Task Force on Climate-related Financial Disclosures.

In order to track progress in meeting its climate change commitment the Pension Fund will utilise relevant metrics. The Pension Fund will work to understand the best available metrics, being aware of any inherent limitations, and to develop new metrics where deemed beneficial. As set out in their Climate Change Policy Brunel are seeking to assess whether their listed equity portfolios are at least 2ºC aligned by 2022.

As a minimum the Pension Fund will utilise the following metrics where applicable to given investments:

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

The Committee supports the Transition Pathway Initiative [11]. The TPI assess both management quality, through review of public disclosures, and carbon performance, including the benchmarking of companies' emissions pathways against the international targets and national pledges made as part of the 2015 United Nations Paris Agreement.

The Pension Fund will also develop metrics to monitor the performance of Fund Managers including their voting records on climate change resolutions.

The Pension Fund will explore opportunities to undertake scenario analysis on its investment portfolio which provides estimations of the relative performance of asset classes and sectors under different climate change scenarios.

Review

The Pension Fund wishes to adopt a flexible approach, enabling it to respond to changes in the science, policy action, or investment markets. As with all forecasting, as more detailed analysis is undertaken there are likely to be changes to the current understanding. Accordingly, the policy should be subject to regular review. The Pension Fund will also seek to undertake training to ensure that it remains abreast of the latest developments in climate change and related policy action.

The Pension Fund will produce an annual report on the operation of this~~e~~ Climate Change Policy including any actions undertaken, such as engagement results, any divestments based on climate risk grounds and the level of investment in climate change mitigation and adaptation. The Policy will be formally reviewed in 2022 to tie-in with Brunel's stocktake on the outcomes achieved through the operation of their Climate Change Policy.

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(4) https://unfccc.int/sites/default/files/english_paris_agreement.pdf
(5) https://www.unpri.org/inevitable-policy-response/the-inevitable-policy-response-policy-forecasts/4849.article
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Division(s): N/A

PENSION FUND COMMITTEE – 5 JUNE 2020

CLIMATE CHANGE POLICY IMPLEMENTATION PLAN

Report by Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to:

(a) adopt the Climate Change Policy Implementation Plan; and
(b) determine the action it wishes to take in respect of the transition of the existing UBS global equity mandate to Brunel considering the information provided under the second bullet point of paragraph 6.

INTRODUCTION

1. This document sets out how the Pension Fund plans to implement its Climate Change Policy (hereinafter referred to as 'the Policy'). The key commitment of the Policy is to transition investment portfolios to net-zero Greenhouse Gas Emissions (GHG) by 2050, consistent with seeking to limit the temperature increase to 1.5ºC above pre-industrial levels. The actions in the implementation plan have been developed to work towards delivery of this commitment. The Policy requires the Fund to establish intermediate targets in pursuit of the commitment.

2. In the 2019 UN Environment Programme annual Emissions Gap Report it was stated that global greenhouse gas emissions needed to fall by 7.6% per year between 2020 and 2030 to be on track to achieve the 1.5ºC temperature goal of the Paris Agreement with no or limited overshoot. The Pension Fund's commitment was set based on the Intergovernmental Panel on Climate Change (IPCC) 2018 Special Report which set out the 2050 net-zero emissions position using model pathways with no or limited overshoot. The model used in the Emissions Gap Report is consistent with the IPCC low or no overshoot models. **As such, the Pension Fund will target a 7.6% annual reduction in GHG emissions across its investment portfolios, provided that the 2020 baseline position of the Fund is broadly similar to that for global emissions.** The Pension Fund believes this is the key metric that will ultimately assess whether all the investment decisions and other actions it takes under the Implementation Plan are successful in delivering on the Policy commitment.

3. In the short-term the Fund will work to establish an appropriate baseline position and measurement technique for the emissions of its investments so it can report against this target. The target will be formally reviewed in 2025 but the Fund will keep abreast of the latest climate science to consider whether changes are required at an earlier date.

4. The Pension Fund will prioritise the following actions in the implementation of the Policy which are aligned with the delivery section subheadings in the Policy and take into account the feedback received in the Policy consultation:

Asset Allocation/Investment Options

5. As set out in the Policy the Pension Fund will seek to limit carbon risk by prioritising investments that best align with the Policy where those investments target broadly similar investment goals. The Pension Fund has already moved 5% of the Fund from standard passive equity funds to a low-carbon passive fund. This decision was made on the basis that while there are issues with standard low-carbon passive funds in terms of the effectiveness of their climate risk mitigation, it was a sensible first step while better alternatives are investigated.

6. Actions:

- Work with Brunel to establish whether alternative passive, or similar, equity funds are available that better deliver on the Policy than current options available to the Fund. If a suitable alternative is identified, seek to make this an option offered by Brunel and determine the appropriate re-allocation from existing passive investments.

- Brunel are due to make available a Sustainable Global Equities portfolio shortly. The Pension Fund had initially planned to transition the c.£250m global equity mandate currently manged by UBS to the Brunel Global Core Equities portfolio. While all of Brunel's portfolios operate under their Climate Policy, the Sustainable Global Equity portfolio focuses on identifying companies that are part of the solution to material sustainability challenges.

The IFA has provided a report on his recommendation in respect of considering an allocation to the Sustainable Global Equities portfolio which is included at Annex 1. The report recommends a 50/50 split between the Global Core and Global Sustainable portfolios and sets out the reasons for this. Officers consider that this approach is reasonable but would highlight to the Committee that the option to commit 100% of the UBS portfolio to the Sustainable Global Equities portfolio would also be consistent with the Policy position that 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.

The table below compares the risk and return characteristics of the two portfolios as set out in the portfolio specifications provided by Brunel:

	Global Core Equities	**Sustainable Global Equities**
Benchmark	MSCI All Country World Index TR	MSCI All Country World Index TR
Performance Target	1-2% above the benchmark, net of fees, over 3-5 years	2% above the benchmark, net of fees, over 3-5 years

Absolute Risk/Volatility	High	High
Relative Risk/Volatility	Moderate	High
Investment Styles	The portfolio is not expected to exhibit strong style biases overall. On average, modest positive biases to established styles can be expected, particularly quality and low volatility, but this may vary from time to time.	The portfolio is likely to have quality, small cap and growth biases but these should be managed (particularly growth). It may also be prone to an anti-value bias which again will be managed if possible.

7. The Policy also commits to seeking to increase investments in climate change mitigation and adaptation.

8. Actions:

- Consider the renewable infrastructure weighting when making future allocations to the Brunel Infrastructure portfolio. The latest Brunel infrastructure portfolio cycle targets an allocation to renewable infrastructure of 40-60% with an option for clients to increase this weighting by specifying an allocation to a renewables sub-portfolio.

- Investigate an appropriate metric for measuring the proportion of assets invested in climate mitigation and adaptation.

Investment Monitoring

9. Actions:

- Investigate the requirements for the Pension Fund to report under the Task Force on Climate-related Financial Disclosures with a view to including in the Pension Fund's 2020/21 Annual Report.

Engagement

10. Actions:

- The Pension Fund will work with Brunel to set appropriate targets and measures of success in relation to engagement activity undertaken on the Fund's behalf.

- The effectiveness of the engagement approach operated by Brunel will be formally reviewed as part of the 2022 stocktake of their Climate Change Policy and the Pension Fund will contribute to this review. The review will consider whether the engagement strategy is achieving the necessary pace of change to deliver on Brunel's Climate Change Policy and will assess whether changes to fund managers are needed and/or the introduction of selective divestment requirements. It is not intended that no action will take place prior to the 2022 stocktake where companies are deemed to be failing to take sufficient action in relation to climate change. To this end, the Fund will work with Brunel to ensure robust mechanisms are in place with Fund Managers to ensure action is taken where appropriate.

Collaboration

11. Actions:

- Consider the merits of joining investor groups whose aims align with those of the Pension Fund as set out in the Policy. In particular, consider joining Climate Action 100+, Institutional Investors Group on Climate Change, Net-Zero Asset Owner Alliance, and the Transition Pathway Initiative.

Monitoring and Reporting

12. Actions:

- Work with Brunel to identify, or develop if not available, appropriate metrics, across all investment portfolios, to monitor the successful implementation of the Policy. Consideration of metrics will include those set out in the Policy. For Brunel portfolios the Fund is currently provided with weighted average carbon intensity and extractive exposure metrics for equity portfolios compared to their benchmarks. The Pension Fund will report on the metrics it selects and will consider settings targets and timescales where these can be linked back to the Policy commitment and interim targets set out in this Implementation Plan.

- Investigate options for portfolio scenario analysis based on different climate change scenarios so that this can be incorporated in the next fundamental asset allocation review in 2023. The Fund is conscious that there are a number of criticisms of current widely used scenarios particularly around the assumptions for future carbon capture and storage capacity. Any use of scenarios will need to consider the appropriateness of the assumptions used in order to understand any inherent limitations.

- At present there are no widely used scenarios consistent with limiting warming to 1.5ºC and the Fund will seek to support development and adoption of a credible 1.5ºC aligned scenario so that investments can be assessed against them.

13. As well as addressing the Pension Fund's investments the Policy also sets a target for the Pension Fund to be carbon neutral on its own operations by 2030. The Pension Fund will seek to establish the carbon emissions resulting from its operations so that it can identify where emissions arise and make plans to reduce them. This will cover areas including buildings used by the Pension Fund, printing, energy usage, and business travel. Where carbon emissions are

not able to be eliminated the Pension Fund will investigate the merits of using an offsetting fund.

14. The Fund feels it has benefitted from adopting a collaborative approach in developing its Climate Change Policy and is committed to continuing to work with stakeholders, including Fossil Free Oxfordshire, in implementing the Policy.

15. An annual review of the actions taken by the Fund under the Policy/Implementation Plan will be presented to the Pension Fund Committee at their June 2021 meeting, with interim updates at the intervening meetings.

LORNA BAXTER
Director of Finance

Background papers: Nil

Contact Officer: Gregory Ley

May 2020

Annex 1 – Views from the Independent Financial Adviser to the Fund

At the end of March the Fund's Equity portfolio was allocated as shown in the table below. (The table includes the transfer of £120m into the Passive Low Carbon Equities Fund which took place after the end of March). The overall equity weighting of 54.2% is close to the current policy weight of 54% - to be reduced to 51% when the 3% allocation to Private Debt is made.

Code	Fund Name	Total %	UK %	O/S %
EPU	Passive UK Equities	5.2	5.2	0
EUK	Active UK Equities	14.8	14.8	0
	UBS Global Equities	10.4	0.8	9.6
EPD	Passive Developed Equities	6.0	0.4	5.6
EDH	High Alpha Developed Equities	10.0	0.6	9.4
EPL	Passive Low Carbon Equities	5.0	0.3	4.7
EEM	Emerging Market Equities	2.8	0	2.8
	Total	**54.2**	**22.1**	**32.1**
	Strategic Allocation	**54.0**	**21.0**	**33.0**
ESG	Sustainable Global Equities	0		
EGC	Core Global Equities	0		
	(1% =£24m)			

Brunel has awarded the mandate to manage the Sustainable Global Equities Fund (ESG) to four managers in equal shares. A total of £1.5bn has been committed to this Fund by other Brunel members. ESG will have a small/mid cap bias relative to its benchmark index, the MSCI ACWI, and will have a negative value tilt – in contrast to the existing UBS portfolio.

Three of the four managers have a nil weighting to Energy, while the fourth has and underweight to Energy by virtue of its positions in transitional energy companies. The portfolio's overall carbon intensity will be significantly below that of the MSCI ACWI.

The ESG fund's characteristics fit in well with the Oxfordshire Fund's policy on Climate Change and Sustainable Investment. Because of its small/mid cap bias, the ESG fund is likely to display greater volatility relative to its benchmark than the Core Global Equities fund (EGC) for which the manager search will take place later this year.

I recommend re-allocating the existing UBS Global Equities portfolio equally between ESG and - when it becomes available – EGC. At current values this implies an allocation of some £130m to each of ESG and EGC.

Peter Davies
Independent Financial Adviser
May 13th, 2020

This document is directed only at the Oxfordshire Pension Fund 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.

PENSION FUND COMMITTEE – 5 JUNE 2020

OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

Report by the Independent Financial Adviser

Economy

1. As the severity of the coronavirus epidemic became apparent during February, one country after another closed large parts of its economy, restricted cross-border travel and confined residents to their homes. Latest reports estimate that the US economy contracted by 1.2% quarter-on-quarter, while the Eurozone is estimated to have contracted by some 5% and the UK by 2%. In China, where the outbreak started, Q1 GDP fell by 7.5% q/q. Estimates for the full year 2020 shown in the table below are inevitably based on assumptions about when restrictions will be lifted, and the response of companies and consumers to the new environment. On May 7th, the Bank of England published a scenario in which the UK economy would experience a 14% fall in 2020, followed by a 15% rise in 2021.
[Source of estimates: Economist Intelligence Unit, May 9th, 2020]

Consensus real growth (%)						Consumer prices latest (%)
	2016	2017	2018	2019	2020E	
UK	+2.0	+1.6	+1.4	+1.4	-4.7	+1.5 (CPI)
USA	+1.6	+2.3	+2.9	+2.3	-3.5	+1.5
Eurozone	+1.6	+2.3	+1.9	+1.2	-6.0	+0.4
Japan	+0.9	+1.7	+0.7	+0.7	-5.2	+0.4
China	+6.7	+6.8	+6.6	+6.1	+1.0	+4.3

2. The Federal Reserve cut the US interest rate by 0.5% on March 3rd, and then by a further 1% on March 15th, to reach the 0 – 0.25% range. Meanwhile the Bank of England cut the UK interest rate from 0.75% to 0.1% in two steps in mid-March. Alongside these rate cuts, both central banks announced the resumption of Quantitative Easing and measures to permit banks to increase their lending. The European Central Bank kept its interest rate unchanged but increased its programme of QE and offered cheap finance to banks.

3. As the potential impact of the pandemic on economic activity became clear, governments hastily introduced massive fiscal injections to support companies, furloughed workers, the self-employed and small businesses. The UK Budget delivered by the new Chancellor Rishi Sunak on March 11th was overtaken within days by emergency packages to lessen the impact of coronavirus. Current estimates show a fiscal deficit in the UK reaching 10% of GDP this year – compared with an earlier target of 2%.

4. Amid the increasing concern over coronavirus, the oil market was thrown into turmoil on March 9th when Russia and Saudi Arabia failed to agree on production cuts, and the Saudis announced a sharp reduction in the oil price and an increase in daily production. The official oil price fell sharply, to levels not seen for 10 years, and at one point in April the price of WTI crude for May delivery went negative because of the lack of storage space for oil.

Markets

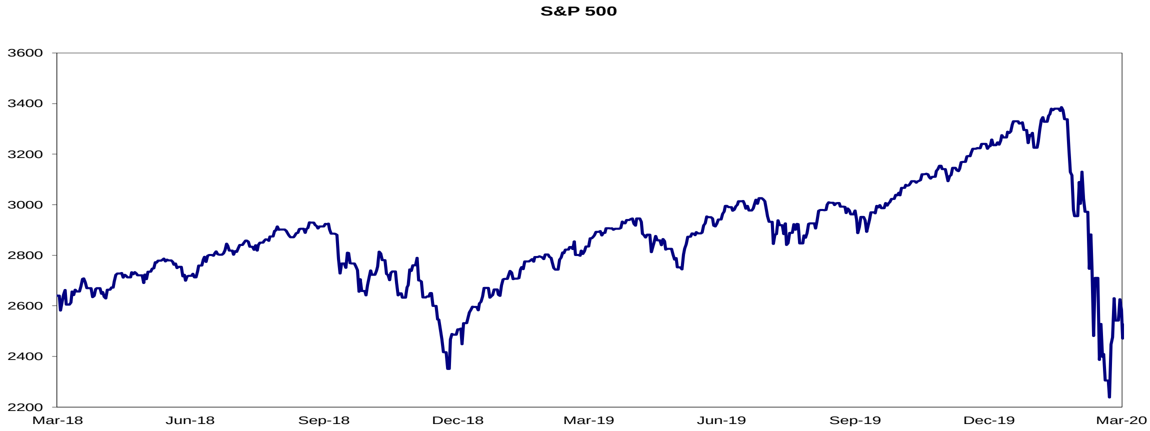
Equities

5. After trading sideways for the first six weeks of the year, equity markets lurched downwards, losing more than 30% in the next six weeks. Daily index moves of more than 5% – in either direction – became commonplace, but the period from March 23rd until the end of the month saw rallies of 15% in the major equity markets, with a further 9% rise in the All-World Index during April. Once again the UK market lagged behind all overseas regions.

	Capital return (in £, %) to 31.3.20			
Weight %	Region	**3 months**	**12 months**	**36 months**
100.0	**FTSE All-World Index**	**-16.5**	**-8.6**	**-0.8**
58.0	FTSE All-World North America	-14.9	-4.7	+9.0
8.1	FTSE All-World Japan	-12.1	-4.6	-2.7
12.9	FTSE All-World Asia Pac ex Japan	-16.2	-13.9	-10.5
14.2	FTSE All-World Europe (ex-UK)	-18.5	-11.0	-10.2
4.6	FTSE All-World UK	-25.1	-22.0	-22.9
10.6	FTSE All-World Emerging Markets	-19.4	-15.7	-11.8

[Source: FTSE All-World Review, March 2020]

6. US Equities have given up all the gains made since the start of 2019.



Non-Confidential

7. The oil price shock was responsible for the heavy fall in the Oil & Gas sector, while the cyclical sectors performed poorly on the slowdown in global economic activity.

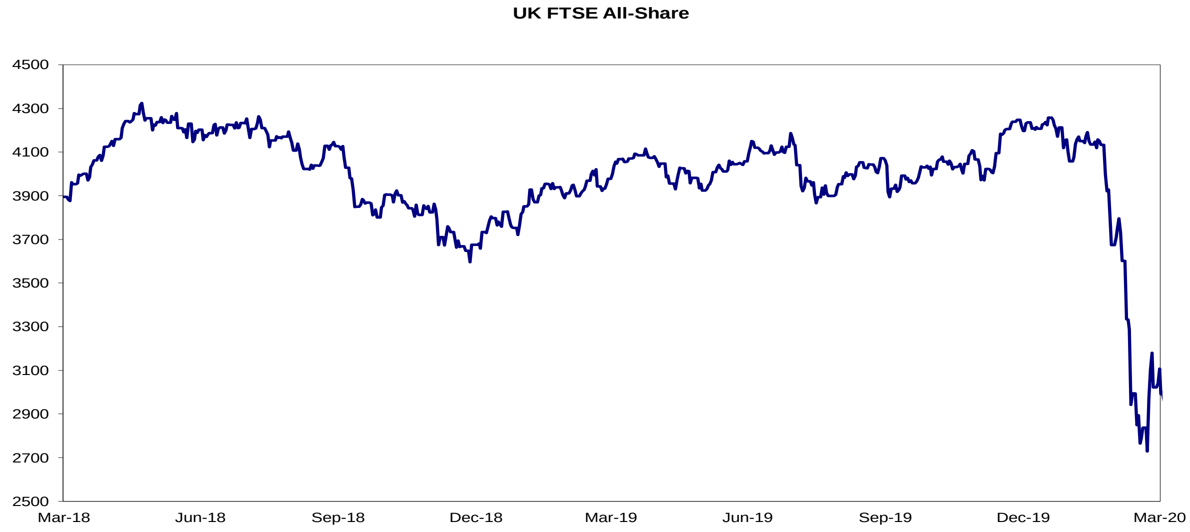
	Capital return (in £, %) to 31.3.20		
Weight %	**Industry Group**	**3 months**	**12 months**
19.2	Technology	- 6.3	+11.6
12.7	Health Care	-6.0	+4.0
3.5	Utilities	-10.1	-4.1
11.9	Consumer Services	-13.1	-5.0
11.3	Consumer Goods	-13.9	-7.6
2.9	Telecommunications	-11.8	-7.6
100.0	**FTSE All-World**	**-16.5**	**-8.6**
11.9	Industrials	-20.2	-12.4
19.1	Financials	-25.2	-18.4
3.7	Basic Materials	-23.3	-21.1
3.8	Oil & Gas	-40.2	-43.1

[Source: FTSE All-World Review, March 2020]

8. The FTSE 100 index was badly affected by its heavy weightings in Oil & Gas and Financials, while the mid- and small-cap sections were hit by the closure of retail and leisure businesses and the weakness of the domestic manufacturing sector. Over the 1- and 3-year periods the three sections of the market have performed remarkably similarly.

(Capital only %, to 31.3.20)	**3 months**	**12 months**	**36 months**
FTSE 100	**-24.8**	**-22.1**	**-21.9**
FTSE 250	**-31.0**	**-21.0**	**-20.4**
FTSE Small Cap	**-28.4**	**-21.5**	**-21.5**
FTSE All-Share	**-26.0**	**-22.1**	**-22.1**

[Source: Financial Times]



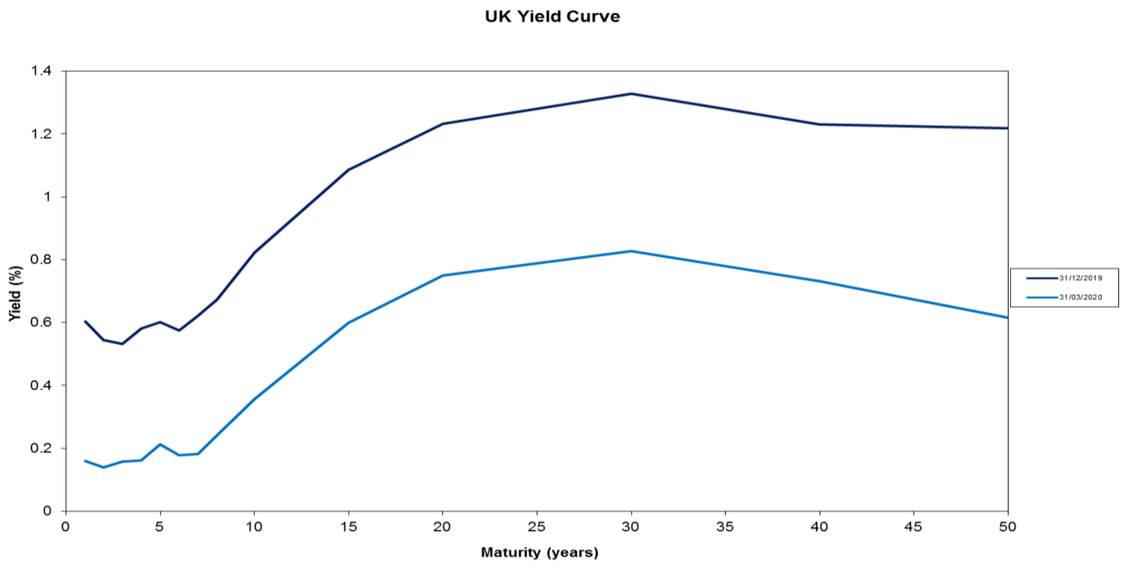
Bonds

9. While government bond yields fell significantly in response to the economic slowdown and the cuts in base rates, corporate bonds weakened on fears that falls in corporate profits would lead to downgrades to previously investment-grade bonds. Corporate bond markets were shored up by central bank purchases as part of their QE programmes.

10-year government bond yields (%)					
	Dec 2017	**Dec 2018**	**Sept 2019**	**Dec 2019**	**Mar 2020**
US	2.43	2.68	1.68	1.92	0.69
UK	1.23	1.14	0.41	0.73	0.35
Germany	0.43	0.24	-0.58	-0.19	-0.48
Japan	0.05	-0.01	-0.23	-0.02	0.01

[Source: Financial Times]

10. UK gilt yields fell sharply at all durations



Currencies

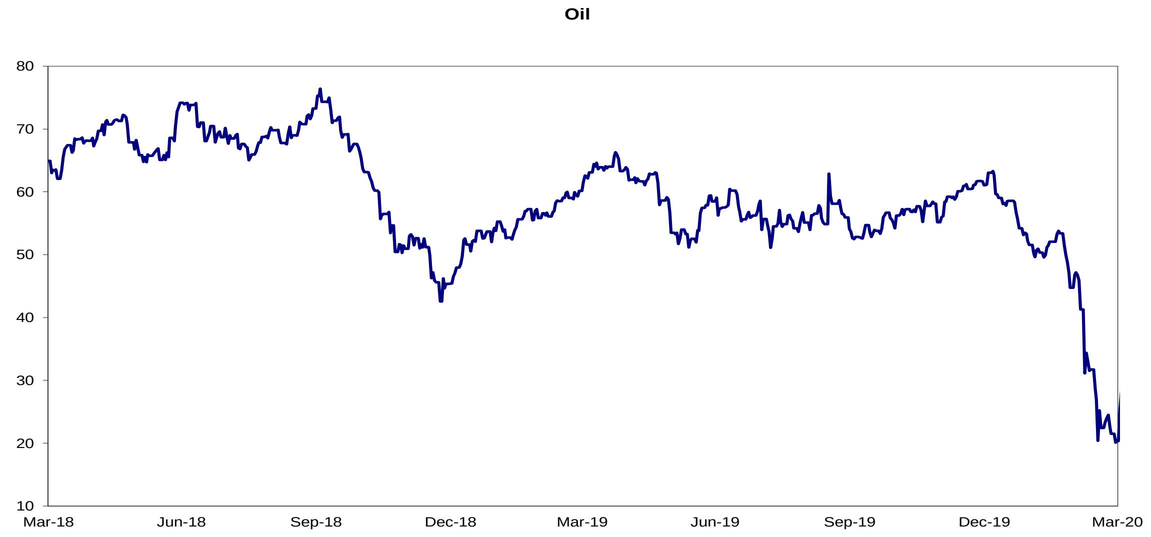
11. The pound lost ground after its rally at the end of 2019, while the dollar and yen were the strongest of the major currencies.

				£ move (%)	
	31.3.19	**31.12.19**	**31.3.20**	**3m**	**12m**
$ per £	1.303	1.325	1.240	-6.4	-4.8
€ per £	1.161	1.180	1.130	-4.2	-2.7
Y per £	144.2	144.0	133.9	-7.0	-7.1

Commodities

12. The oil price dived from the combined effects of the price war between Saudi Arabia and Russia and the sharp reduction in economic activity worldwide. Meanwhile, gold continued its recent appreciation, possibly being seen as a safe haven in uncertain times.

($)	**31.3.19**	**31.12.19**	**31.3.20**	**3m (%)**	**12m**
Gold	**1295.1**	**1514.7**	**1618.3**	**+ 6.8**	**+25.0**
Brent crude	**67.6**	**66.0**	**26.4**	**- 60.0**	**- 61.0**



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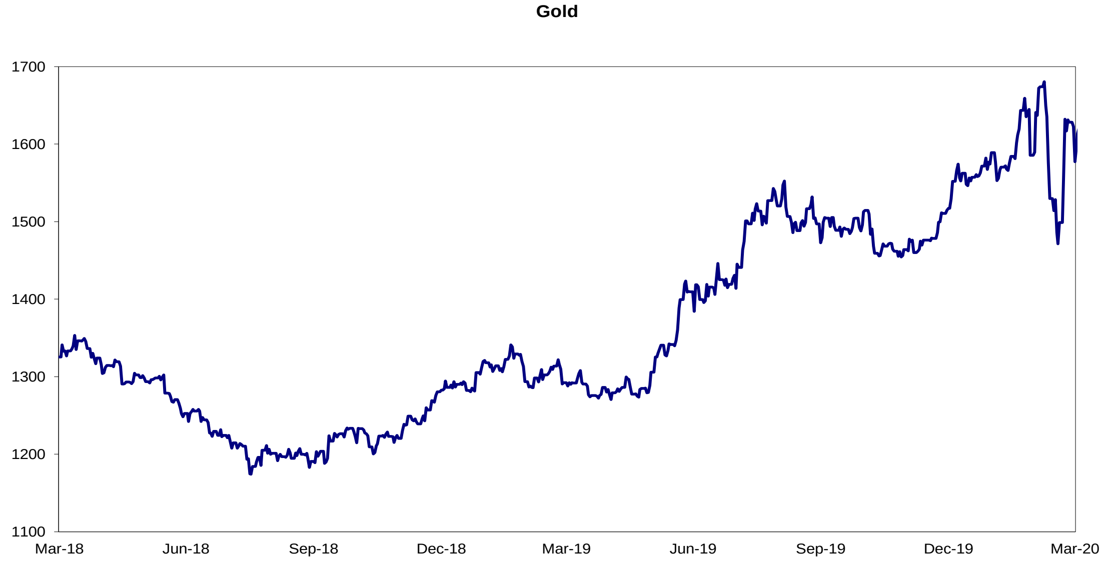

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Property

13. The lack of transaction activity in the property market, combined with the uncertainties over rent payments, has meant that property valuations have in effect been temporarily suspended. Institutional property managers have generally frozen transactions in their funds because of the difficulty in establishing fair prices for investors buying or selling units.

Outlook

14. The coronavirus pandemic has caused lockdowns all over the world, with normal economic activity severely curtailed. For some sectors – airlines, hotels, leisure and non-essential retail – the shutdown has been almost total, and it will be many months before activity in these sectors returns to anything like normal levels. For some companies the interruption to business will lead to them to become insolvent, and there will inevitably be significant increases in the level of unemployment even after the pandemic has subsided.

15. Government spending in order to alleviate the effects of the pandemic is creating ballooning fiscal deficits which will be funded initially by massive bond issuance and in time by higher taxation. Quantitative Easing by central banks will absorb part of the new government debt, but institutional investors will also need to increase their holdings. Corporate debt, which saw a sharp narrowing of spreads in 2019, has been badly impacted by the pressure on corporate profits, although QE has propped up the market and some companies have been able to ease their situation by issuing new equity to institutions.

16. Without knowing the duration or the depth of the coronavirus emergency, it is impossible to make realistic estimates of profits (or losses) for many companies this year, so that any valuation measure must be largely guesswork. Looking beyond 2020, investors will need to distinguish between those companies which have been permanently damaged by the crisis and those able to resume trading at close to pre-crisis levels. Interest rates will remain very low for the foreseeable future, but even this may not be sufficient to save some heavily-indebted companies.

Peter Davies
Senior Adviser – MJ Hudson Investment Advisers

May 13th, 2020
[Graphs supplied by Legal & General Investment Management]