

Oxfordshire Pension Fund

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 (Pooling, Management and Investment of Funds) Regulations 2026 (2026 Regulations) and the accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement. The Fund has utilised the provision under regulation 12 (3) to prepare its ISS under regulation 7(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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 will be used to check whether actual results are in-line with those expected under 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 and carrying out regular reviews and monitoring of investments.

The Deputy Chief Executive (Section 151 Officer) 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 seven County Councillors (voting members) plus a scheme member representative (non-voting member).

The Committee meets quarterly and is advised by the Deputy Chief Executive (Section 151 Officer) and the Fund's Independent Investment 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 goals 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.

In pursuit of these goals the Fund has determined the following high-level investment objectives:

- Returns Objective – To achieve a long-term return equal to the discount rate used in the Fund's latest triennial valuation.
- Risk Objective – To achieve the returns objective in an efficient manner through appropriate diversification and operation of risk management controls, considering the impact of different economic scenarios.
- Cashflow Objective – To deliver investment income to the Fund consistent with the requirements under its cashflow forecasting.

Strategic 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 strategic asset allocation the Fund has considered advice from its Independent Investment Adviser, modelling undertaken on behalf of the Fund to optimise risk and return based on the actuarial valuation and long-term capital market assumptions, and has considered the latest cash flow forecasts provided 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 Investment Adviser. A balance is sought between risk, return and liquidity.

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.

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 Investment Adviser. 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 Table below shows the Fund's strategic asset allocation targets and associated ranges.

Asset Class	Target Allocation (%)	Range (%)
Listed Equity	46	43 - 49
Private Equity	10	8 - 12
Private Credit	3	2 - 4
Property	19	17 - 21
Infrastructure	5	3 - 7
Credit	9	7 - 11
UK Government Bonds	8	6 - 10
Cash	0	0 - 5

Local Investment

The Fund believes local investment offers an opportunity to deliver appropriate financial returns while achieving economic, environmental and social benefits to the geography within which the majority of scheme members live and work.

The Fund has set a target for local investment of 5% (+/- 1%). The expectation is that this target will take time to achieve as the governance and structures are put in place by the Fund, its Pool, and local partners to enable local investment opportunities to be identified, assessed, and ultimately invested in.

The Fund anticipates local investment opportunities to primarily sit across private equity, private credit, property, and infrastructure.

Further details on the Fund's approach to local investment are set out in its Local Investment Policy.

Restrictions on Investments

In accordance with the 2026 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(b).

Rebalancing

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

The Fund has set ranges for the different assets included in the asset allocation, these are not hard limits but there would need to be a clear rationale for maintaining an allocation outside the ranges for any significant length of time. The Fund takes a pragmatic approach to rebalancing and is cognisant that rebalancing latitude is important and can significantly affect the performance of the portfolio. Blind

adherence to narrow ranges increases transaction costs without a documented increase in performance. While a rebalancing range that is too wide may cause undesired changes in the asset allocation fundamentally altering its risk/return characteristics.

Under the pooling arrangements responsibility for rebalancing decisions will sit with LGPS Central. However, there will initially be a transitional period where the Fund continues to undertake rebalancing while Central develops its capacity and offering in this area. The Fund will monitor rebalancing activity undertaken by LGPS Central to ensure it meets the Fund's expectations. It is expected that rebalancing action will not necessarily take place immediately after a decision has been made, as consideration is given to market opportunities and transaction costs.

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 expects its Asset Pool to develop diversified portfolios 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 Fund's strategic asset allocation 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

The Fund monitors the performance of its Asset Pool on a regular basis including through reporting to Committee. The Committee takes a long-term approach to the evaluation of investment performance but will take steps to address persistent underperformance. The Fund's asset pool is expected to implement appropriate risk management measures with any investment managers it appoints, which operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits.

Illiquidity

Close attention is paid to the Fund's projected cashflows; the Fund is currently cashflow positive, in that annually there is an excess of cash paid into the Fund from contributions and after pension benefits are paid out. The Fund expects to be cashflow positive over the short-term. However, cashflow forecasts project that the Fund will become cashflow negative in the near future. The level of annual income required to meet the forecast cashflow deficit over the next 20 years is considered to be achievable through the income generated by the Fund's investments.

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 if required.

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. In general, the Fund does not view currency risk as significant given the long-term horizon for the Fund's investments, negating the impact of any more short-term volatility in currency markets. However, the Fund will consider the use of currency hedging where this is determined to be beneficial in terms of risk/return for a particular investment.

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. 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 investment manager records.

Pooling

While the Fund sets the strategic asset allocation, responsibility for its implementation sits with the Fund's Asset Pool. The Fund is currently in the process of moving from Brunel Pension Partnership to LGPS Central.

The Fund will ensure that robust governance arrangements are put in place to review and monitor investments, including the content and frequency of reporting to Committee.

The arrangements for asset pooling for the LGPS Central pool have been formulated to meet the requirements of the Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026 and associated guidance which come into force on 1st April 2026.

Responsible Investment

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 improve 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.

The Committee's principal concern is to invest in the best financial interests of the Fund's employing bodies and beneficiaries. The Fund requires its Asset Pool 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 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. In addition, the Fund periodically runs member surveys to gather views that are considered in developing policies.

Every portfolio under the LGPS Central 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.

Further details on the Fund's approach to responsible investment are included in its Responsible Investment Policy. Given the systemic nature of climate change risk to the Fund's investments the Pension Fund has also produced a separate Climate Change Policy.

Stewardship and Exercise of Voting 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.

The routes for exercising ownership influence vary across asset types and a range of activities are undertaken on the Fund's behalf by LGPS Central, fund managers, and stewardship providers, 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 fund identifies opportunities to undertake stewardship activity in its own capacity it will seek to do so.

LGPS Central are responsible for the exercise of voting rights in respect of the Council's holdings in the pool portfolios. The Fund expects LGPS Central 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 successfully applied to become signatory to the UK Stewardship Code in 2022/23 and has maintained its signatory status annually since.

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