Pension Fund Committee

4 September 2026

Responsible Investment and Governance Report

Report by the Executive Director of Resources

RECOMMENDATION

The Committee is RECOMMENDED to

a) **Sign off the Fund's 2026 Taskforce on Climate-related Financial Disclosure Report.**
b) **Note the contents of the report.**

Executive Summary

1. **TCFD report**

This section outlines the purpose, content and key findings of the Fund's TCFD Report. It includes metrics which track the Fund's progress against the Climate Change Policy, forward looking scenario analysis to quantify potential future financial risks from climate change and key data such as the Fund's Top 10 Emitting companies.

The Committee is recommended to sign off the 2026 TCFD report for publication

2. **Exclusions**

This section identifies the Fund's current exclusions as defined in the Responsible Investment Policy on tar sands, thermal coal, tobacco, controversial weapons and breaches of the UNGC standard. It then refers to the ongoing discussion with Central about RI that will cover these exclusions.

There is also a clarification on the stance taken by the Pension Committee on investing into Chinese companies, showing that there was no formal adoption of an investment exclusion on China at Committee. There is then a discussion on factors that might influence whether such an exclusion should be implemented with a recommendation that this would be in breach of government guidance and prevent effective investments into the energy transition.

3. **LGPS Central implementation of the Fund's Responsible Investment commitments**

This section provides an update on the positive discussions that have been taking place between LGPS Central and a group of newly joined funds around how Central can go beyond its current Core RI offering to deliver a more targeted approach to RI in new portfolios.

To date the discussion has focused on the two key areas of ensuring the Fund can meet its Paris Agreement aligned commitments and that there are opportunities to invest to deliver positive environmental and social outcomes.

This approach is aligned to the government guidance that says that where a consensus on RI standards cannot be found between all administering authorities in a pool then like-minded Funds should group together to find common ground for their RI asks so that the pool can still deliver economies of scale.

4. **Resonance investment**

This section is an update on the recent closing of the first round of the Resonance Housing Pathways Fund, into which the Fund is investing £10m. This investment will be into transitional housing for people that have experienced homelessness.

The Fund has agreed a side letter with Resonance that they will make best efforts to deploy the Fund's investment into Oxfordshire. This investment should therefore deliver long term risk adjusted returns alongside much needed transitional housing and should reduce pressure on local council budgets by providing a cheaper alternative to temporary housing to tackle homelessness.

5. **TCFD Report**

6. Attached as an appendix to this paper is the fund's 2026 Taskforce on Climate-related Financial Disclosure (TCFD) report. This report is the Fund's sixth report under the TCFD framework and covers the 12-month period up to 31/12/2025.

7. This report helps to track the Fund's progress against the commitments made in the Fund's 2020 Climate Change Policy and Implementation Plan, including a target of the Fund's investment portfolios being net zero by 2025, in alignment with the Paris Agreement to limit global temperature increases to 1.5°C above pre-Industrial Revolution levels.

8. This report should be read in conjunction with the final Brunel-produced Oxfordshire Pension Fund Carbon Metrics Report which provides

detailed metrics and information regarding individual Listed Markets portfolios and the Sterling Bond portfolio.

9. The paper on the Climate Metrics used within the Report that went to the June Committee meeting show that the Fund has made some good progress around implementing the commitments in its Climate Change Policy. However, the reality is that when the current Climate Change policy was adopted by the Oxfordshire Pension Fund in 2020 one of the key principles it was based upon was that there would be robust government action, including regulation, to tackle temperature rises caused by the burning of fossil fuels. Unfortunately, the government action required has not materialised to the extent needed.

10. Based on International Panel on Climate Change scenario analysis and current policy assessments the highest probability range for the change in global temperatures by 2100 is in the 2.5°C - 3°C range. To put this into context we are already seeing significant negative impacts such as droughts, increased deaths from heatwaves and highly destructive wildfires across the globe at temperatures which are in the range of 1.2°C – 1.5°C above pre-industrial levels.

11. There is still a feasible pathway to net zero by 2050. However, the window for necessary action is rapidly closing and further delays risk irreversible changes to the climate system and its associated impacts on wider human society and the environment.

12. The increased risk of temperature changes being above 2°C means that the Pension Fund needs to develop its plans for adapting to a hotter world with a less stable climate. We are now working with LGPS Central to understand better how the companies we invest in are preparing to adapt to climate change, for example through engaging with companies exposed to the physical risks of climate change such as extreme heat and water stress. As a universal owner we are likely to be increasing our focus on how we can adapt our investment portfolios to the realities of climate change.

13. Alongside key metrics such as Weighted Average Carbon Intensity (WACI) and exposure to fossil fuel reserves the report looks at the implications of some of the scenario analysis used in the Climate Metrics report to understand what future risks to the Fund from climate change would look like.

14. Caution should be used when looking at the scenario analysis outcomes as this is an area that is very much still in development and it is unlikely that these scenario predictions will actually come to pass, given the large number of variables at play. However, it is useful to get an indicative idea of the financial impact of climate change on the Fund's portfolios.

15. The Physical Risk scenario looks at each company's assets such as warehouses and factories and assesses how exposed they are to climate risks such as flooding, extreme heat or water stress. These three risks are the most material for the companies in the Fund's portfolios. Across the main equity and bond portfolios the impact by 2050 is around a 4% decline in value if we are in a high heat scenario.

16. The Earnings at Risk scenario looks at the likely costs to businesses if regulations to combat climate change such as carbon pricing are implemented by governments. Across the main equity and bond portfolios the impact by 2050 is around a 5-6% decline in value if we are in a high heat scenario.

17. The report also includes a list of the Top Ten Emitting companies the Fund invests in, which account for around 40% of the portfolio's total Scope 1 and Scope 2 emissions. It is interesting to note that alongside sectors that you would expect to see in the Top 10 such as Oil & Gas, Mining and Utilities, the highest emitting company is an Environmental Services company that specialises in recycling. This demonstrates that an analysis which views high emissions as being only negative misses some of the nuances of how the economy will need to transition.

18. The data in the report shows that the Fund has significantly reduced the carbon intensity of the companies it invests into, as well as its exposure to fossil fuel reserves/revenues since the Climate Change Policy was adopted in 2020. However, in the broader 'real' economy carbon emissions have not declined, they have increased.

19. Going forwards the approach of the Fund will be to broaden its focus out from just seeking portfolio decarbonisation but also to be an active driver of the change required, by investing into the opportunities presented by the necessary energy transition. This can already be seen in the metrics which track the Fund's investment into companies with significant green revenues, which now make up nearly 20% of the revenues generated by companies in both the Global Sustainable Equity and Global Passive Paris Aligned Benchmark portfolios.

20. It is likely that future editions of the Fund's TCFD report will place more of an emphasis on forward-looking assessments of progress such as the extent to which the companies we invest into have robust and deliverable transition plans, rather than backward-looking metrics tracking point in time carbon intensity.

21. The Committee are invited to approve the Fund's 2026 TCFD report for publication.

Exclusions review

22. At the last Committee meeting there was an action for officers to assess the progress of the implementation of the various investment exclusions in place as the result of the Fund's policies.

23. The Fund's Responsible Investment Policy currently includes threshold-based exclusions on:

- tar sands/oil sands
- thermal coal
- tobacco production
- controversial weapons where a breach of the United Nations Global Compact has taken place

24. There is an ongoing piece of work, which is covered in more detail in a separate section of this report, on the development of a portfolio offering from Central that meets the Fund's RI commitments, including on the exclusions in the Fund's RI policy.

25. At the last Committee meeting there was also a discussion on the Fund's stance on investing in Chinese companies, with reference to potential decisions made at previous Pension Committee meetings to exclude investment into Chinese companies. However, there was a lack of clarity on what decisions had been made. It is important to clarify this, as an exclusion on China would have significant implications for future portfolio construction. Officers were asked to report back to September Committee on what decisions, if any, had been made.

26. A review of the Pension Committee minutes as far back as June 2017 was carried out. The only minuted action in relation to China was the following from the minutes of the Committee meeting on 3rd March 2020:

    Given concerns about the social and governance risks associated with investments in China, consideration should be given to asking Brunel to develop an emerging market portfolio excluding China.

    RESOLVED - That approval be given to the following recommendations:

    (4) To explore further with Brunel the option of creating a separate China sleeve from the emerging market mandate and deciding on relative weighting.

27. In 2024 a rebalancing of the Fund's portfolios took place, which included completely moving out of the Emerging Market portfolio, this made any request about a non-China Emerging Market sleeve

redundant, so China ceased to be a significant issue. The Fund continued to have some exposure through investments into the Global Passive PAB portfolio.

28. Now that we are having conversations about developing new portfolios with LGPS Central it is important to understand what the Committee's position on China is, as a full exclusion would have a material impact upon portfolio design and construction.

29. One of the key developing themes in the discussions with Central about meeting our Paris Agreement commitments is the deployment of the Fund's capital into opportunities presented by the transition of the economy from one powered by fossil fuels to one that is powered by renewables, with expanding electrification of the economy.

30. Chinese manufacturing drives global supply chains for transition economy products, producing 80% of the world's solar panels and 60% of wind turbines. Chinese exports of electric vehicles and lithium batteries grew 77.5% and 50.4% year-on-year. It would be very challenging to invest into the energy transition without investing into Chinese companies.

31. The government guidance is also clear that administering authorities should not be implementing country-specific exclusions. The statutory guidance explicitly states: *"The responsible investment approach should not set exclusions for investments in individual countries, investment styles or companies."*

32. There are obvious human rights risks around investing into China, particularly around issues of worker rights and supply chain forced labour. If the Fund was to invest more widely into Chinese companies, there would need to be a robust process of human rights due diligence and assurance implemented by Central for these investments.

33. Given both the government guidance on specific country exclusions and the integral role that China is playing in the energy transition the recommendation from officers is that the Committee should not implement an exclusion on investing into Chinese companies at this time. However, given the very material risks, particularly around human rights, the Fund should ask that LGPS Central apply enhanced RI due diligence, monitoring and reporting on investments into Chinese companies.

Implementing Oxfordshire's responsible investment beliefs and commitments through LGPS Central

34. The June 2026 Committee Meeting included an action for an update on how Oxfordshire's responsible investment beliefs and commitments will be implemented through LGPS Central.

35. LGPS Central have a “Core” Responsible Investment approach which has been in place prior to Oxfordshire joining. When officers of the Fund analysed this approach, it was felt it provided a good baseline but lacked the ambition to fully deliver the Fund’s RI commitments and beliefs.

36. Oxfordshire formed an unofficial working group with two other new funds that have similar ambitions to its own to develop a set of enhanced, or more targeted RI asks. The combined AUM of the three funds is around £18bn.

37. Officers have had very positive initial discussions with LGPS Central and are actively engaging with the Advisory, Responsible Investment and Investment teams to develop a Responsible Investment Targeted Approach (RITA). This included an in-person workshop held at Central’s offices in Wolverhampton.

38. The Government Guidance is supportive of this approach, stating:

“Where the responsible investment strategies of all partner funds cannot be aligned, pools and administering authorities should work together to form a limited number of groups of partner funds which each have an aligned approach.

The pool should develop an appropriate responsible investment option for each group of partner funds.”

39. The two main asks from the group of Funds is for greater assurance that they will be able to meet their net zero Paris Agreement aligned commitments and for there to be enhanced opportunities to invest for positive environmental and social change.

40. The discussions to date have focused on the energy transition as both a risk and an opportunity. From a risk management perspective high emitting companies will need to demonstrate that they are on a viable transition pathway. The riskiest companies, such as Oil & Gas companies, will need to demonstrate that they are actively contributing to the energy transition. For the opportunity side there should be options within the RITA portfolios to allocate capital to those companies delivering climate-related solutions.

41. To date the key areas of discussion have been around:

- Manager oversight – e.g. inclusion narratives
- Mandate construction – e.g. Underweights, overweights, tilts and inclusion hurdles
- Engagement - e.g. direct engagement by funds, including Oxfordshire
- Impact investing – e.g. specific allocations within portfolios

- Exclusions – e.g. specific business activities such as tar sands/oil sands and tobacco have been discussed. These are aligned with the Fund's commitments on exclusions in the RI Policy
- Net Zero approach – e.g. inclusion of Scope 3 in methodology; development of Scope 4 methodology; opportunities for investment into climate solutions

42. These initial discussions have focused on four key asset classes:

(a) Listed Active Equity
(b) Listed Passive Equity
(c) Credit
(d) Private Markets

43. For the next steps officers will continue to build on the positive discussions with Central to date. LGPS Central have noted internal approvals are pending, after which a wider workshop and further communications will be arranged.

44. **Resonance Housing Pathways Fund Investment**

45. Officers are pleased to report that the Resonance Housing Pathways Fund achieved first close on 29th July with £118m of investment from nine investors, including £10m from the Oxfordshire Fund.

46. Resonance is one of the UK's leading social impact property fund managers. The Resonance Housing Pathways Fund (RHPF) is its first open-ended residential property fund. This launch aims to tackle the UK's growing homelessness crisis by creating more safe, settled and low-cost affordable homes for people in housing need, whilst providing investors with risk-adjusted financial returns, including long term income.

47. Resonance works with specialist housing partners, who lease properties on long-term agreements and let them to individuals and families facing homelessness. These organisations help residents move away from crisis and towards greater stability and independence.

48. As part of the Fund's investment agreement, the Fund has signed a side letter with Resonance for them to deploy as much as possible of the £10m investment into the county of Oxfordshire. This should provide positive benefits to local council budgets as the cost of housing people affected by homelessness in temporary accommodation is significantly higher than the housing provided by Resonance.

49. This investment should deliver a triple win of providing long term stable investment returns to the Fund's beneficiaries, helping to move people out of homelessness into being homed and all the benefits that come

with that, and reducing the strain on local budgets of providing short term temporary housing.