Statement of Investment Principles – University of Oxford Staff Pension Scheme (Defined Benefit)

Introduction

This Statement of Investment Principles (SIP) has been prepared by the Trustee of the University of Oxford Staff Pension Scheme (the Scheme) to comply with the requirements of the Pensions Acts 1995, as amended, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK.

This SIP applies to the Defined Benefit Section only. There is a separate SIP for the Defined Contribution Section.

The Scheme Trustee has consulted with the University, on behalf of the employers with active members in the Scheme, on the content of this document.

Effective Date

This SIP is effective from 1 October 2020.

1. Strategy

Investment Objectives

The Trustee's objectives for the Defined Benefit Scheme are that:

- The Scheme's assets are invested in such a way that sufficient money is available to meet the liability to provide benefits to the members of the Scheme as they fall due.
- The Scheme's assets are invested to generate sufficient investment return to meet the Recovery Plan set out in the 2019 Actuarial Valuation.
- The Scheme's funding position – its assets relative to its liabilities, remains at an adequate level. The long term nature of the investment strategy, and the strength of the employers' covenant, means that the Trustee is prepared to accept a degree of short term volatility in the funding position.
- The Scheme has the necessary liquidity to pay benefits as they become due. (This is not a constraint at the present time, as the contributions are more than sufficient to meet expected benefit payments in the next few years.)

Allocation of Assets

Asset allocation is considered regularly by the Trustee and reviewed in detail following each actuarial valuation. The latest Investment Strategy Review is in the process of being carried out at the time of writing following the March 2019 Actuarial Valuation.

The latest Actuarial Valuation determined that a return of Gilts + 2.5% per annum was required in order to eliminate the deficit over the period of the Recovery Plan (the Recovery Plan is expected to run until 31 January 2028). The asset allocation below has been chosen with the aim of achieving this return or better, at an acceptable level of risk. During the period of the Recovery Plan the contributions are expected to exceed benefit payments, meaning that the Scheme is a long term investor with the freedom to invest in illiquid assets and benefit from the illiquidity premium expected to be received from such assets.

The Trustee divides the assets of the Schemes into six broad asset classes – Equity, Property, Other Illiquids, Credit, Illiquid Credit and Matching. These are described in more detail below, with some examples of specific types of asset included in each class. These examples are not exhaustive.

- **Equity –** This includes public equity. Public equity can be either actively or passively managed.
- **Property –** This would include all types of property investments, including: direct property; long-lease property; property debt; and residential property either publicly or privately rented.
- **Other Illiquids –** This covers illiquid assets that do not fall into one of the other asset classes, and would include investments in infrastructure and infrastructure debt.
- **Credit –** This includes corporate bond holdings but also more diversified credit investments such as Multi-Asset Credit.
- **Illiquid Credit –** This includes a range of private lending strategies.
- **Matching –** Matching assets are assets providing duration with the aim of offering protection against movements in long term interest rates or expected inflation; the value of the matching assets is expected to respond to movements in interest rates or inflation in a similar way to the value of the Scheme's liabilities.

Strategic Allocation

The strategic ranges for each of the asset classes are set out below:

Asset Class	Strategic Range
Equity	30.0% - 50.0%
Property	5.0% - 15.0%
Other Illiquids	0.0% - 10.0%
Credit	15.0% - 25.0%
Illiquid Credit	5.0% - 15.0%
Matching	10.0% - 15.0%

The Trustee will maintain discretion to allocate funds to individual investment managers within each of the asset classes set out. Any investment undertaken will have considered:

- Whether the asset class proposed is appropriate given market expectations for that asset class;
- Whether the investment manager has the skill and ability to run a mandate which is expected to achieve the return targets;
- Whether the specific asset class and manager are appropriate for the overall risk, return and diversification of the total portfolio.

At the time of writing the Trustee is in discussions with its Actuary and Investment Adviser regarding the March 2019 Actuarial Valuation and investment strategy. As part of the process the Trustee is reviewing its investment strategy and strategic allocations. The asset allocation as at 30 June 2020 is included in the appendix of this SIP.

2. Risks

Risks

The table below sets out the key risks to the Scheme. Some risks can be quantified easier than others, but the Trustee has sought to make provision for the risks that are of greater significance.

Risk	Defined Benefit Section Mitigation
Funding The risk that the Scheme's funding falls below an appropriate level and the Scheme has insufficient assets to cover accrued liabilities.	Managed by careful structuring of the funding and investment arrangements, along with regular monitoring.
Mismatching A difference in the sensitivity of asset and liability values to financial and demographic factors.	This is considered when setting the investment strategy and managed through regular reviews of the investment strategy.
Interest Rate The risk that the market value of a financial instrument will fluctuate or that the future cash flows from that instrument will change because of changes in market interest rates. These fluctuations will affect the valuations of both assets and liabilities (the Scheme Actuary values the Defined Benefit Section liabilities with reference to UK Government bond yields).	This is managed by formal review of the sensitivity between the assets and liabilities after each triennial valuation, or if there are any significant changes to the profile of the liabilities, or major changes in investment markets.
Inflation The risk that the market value of an investment will fluctuate or that the future cash flows from that instrument will change because of changes in realised or expected inflation. The Scheme's liabilities are often directly linked to inflation and the risk is that the assets do not also have this sensitivity.	
Inflation index risk The risk that the measure of inflation used for pension increases diverges from the measures of inflation that are included in the assets.	This is managed by appropriate assumptions within the actuarial valuation of the liabilities, and by including a buffer in the targeted returns.
Longevity Related to the increasing life expectancy of pensioners and those entitled to benefits. This can result in higher than expected payout.	This is currently managed by including a buffer in the targeted returns.

Risk	Defined Benefit Section Mitigation
Credit The risk that the Scheme incurs a loss of either capital or future return, due to the default of a company in which the Scheme has invested.	This is managed by ensuring that appropriate guidelines are in place. The Investment Committee receives regular reports from the managers setting out the extent of credit risk within their portfolios and, in particular, whether any agreed guidelines have been breached.
Counterparty risk The risk that the Scheme suffers a financial loss due to the failure of another party to meet their obligation.	The Scheme only allows managers to use derivatives for the purposes of efficient portfolio management or risk reduction (e.g. the hedging of currency exposure). Where derivatives are used, the managers are required to demonstrate that this risk is being managed, for example through the use of collateral and regular review of creditworthiness. Managers will have a policy in place to operate within guidelines and are required to report regularly to the Investment Committee.
Currency The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	The Scheme's liabilities are Sterling denominated. A substantial proportion of the assets are also Sterling denominated. Before investing in overseas assets the Investment Committee/Trustee considers the potential impact of currency movements on the risk and return of such an investment, and also considers whether it is appropriate to hedge some or all of the currency exposure.
Asset specific risk The risk that the fair value or future cash flows of a financial asset will fluctuate for reasons specific to that particular investment.	These risks are managed by ensuring that the portfolio is well diversified both across asset classes and within each individual asset class. In addition the Trustee takes advice from its investment adviser as to the continuing suitability of the asset classes and managers in which it invests.
Investment managers This risk arises from a failure to meet target returns.	This is managed by the Investment Committee which closely monitors the performance of the managers and receives formal quarterly reports from the investment adviser giving views on each manager's continuing appropriateness.
Concentration risk This risk relates to an inadequate spread of investments and sources of return.	This is managed by spreading the Scheme's investments over a range of asset classes and is considered as part of each investment strategy review.
Correlation risk The risk that in adverse circumstances correlations increase and the value of all financial assets falls together.	The Trustee is alert to this issue and monitors changing patterns. Also, the favourable liquidity position of the Scheme means that the Trustee will not be a forced seller of assets in such an eventuality.
Sponsor This risk relates to the possibility of the failure of the Scheme's sponsors.	This is the risk that the Scheme's sponsors are no longer in a position to support the Scheme. The strength of the employers' covenant is taken into consideration by the Trustee when setting the investment strategy.

Risk	Defined Benefit Section Mitigation
Pension Conversion There are risks relating to the point of retirement for members and the approach they take to retirement, in other words whether they take cash, transfer to an income drawdown provider or purchase an annuity.	These risks are borne by the Scheme not the members. Liquidity in the Scheme is considered to address this and other features of the pension scheme.
Cash flows This risk relates to a shortfall of liquid assets relative to the Scheme's immediate liabilities.	This is managed by regular monitoring of liquidity levels and expected outgo.
Operational This risk relates to fraud, poor advice or negligence.	Operational risk is reduced as far as possible by due diligence on the appointment and review of managers and advisers, and by contracts of engagement. Additional controls are provided by the regular reviews of the Scheme and its operations carried out by the external auditors.
Political and Regulatory risk This is the risk of an adverse influence on investment values arising from political intervention.	It is managed through regular reviews of the investment strategy, and fund managers. Relevant government consultations will be discussed with the investment adviser in advance of any anticipated changes.
ESG The risk of the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations. The risk of the extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.	This is considered by the Investment Committee, which closely monitors the performance of managers and requires them to address ESG aspects at presentations. The Investment Committee also receives formal quarterly reports from the investment adviser which provides ESG ratings for some of the mandates.

3. Implementation

Choosing investments

The investment strategy review modelled the Scheme's assets and liabilities based on projecting potential economic scenarios. The Investment Committee considered the suitability of a range of asset classes, the need for diversification, the risk and rewards of different asset allocations, and the sponsoring employers' views (including the strength of the sponsoring employers' covenant).

In general individual investment managers have discretion in the timing of the purchase and sale of investments and in considerations relating to the liquidity of those investments. Additional realisations may be required in the future to ensure that the Scheme's benefit payments and other expenditure can be met.

The Trustee, and investment managers (to the extent delegated), will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005, when selecting investments on behalf of the Scheme. The Trustee expects the investment managers to give effect to the principles in this statement as far as is reasonably practical.

The Trustee has agreed a series of investment restrictions for each manager where there is a separate Investment Management Agreement (IMA) in place. The Trustee will monitor the continuing tenure of the Investment Managers, including the competitiveness of their fee structures, from time to time, based on advice from the Investment Committee and the external investment adviser.

A cash position deemed appropriate by the Trustee will be maintained by the Scheme in order to fund any cash requirements.

4. General

Division of responsibilities

The Scheme Trustee has ultimate responsibility for decision making on investment matters. In order to ensure that such decisions are taken effectively, the Scheme Trustee uses other bodies either through direct delegation or in an advisory capacity. These groups include:

- Investment Committee
- Investment Managers
- Custodian
- Investment Adviser
- Scheme Actuary

Each group has a range of responsibilities which have been agreed by the Scheme Trustee.

Additional Voluntary Contributions (AVCs)

The Scheme provides a facility for members to pay AVCs to enhance their benefits at retirement. The Trustee has chosen Prudential as the Scheme's money purchase AVC provider and the options include an ethical investment fund.

Direct Investments

Assets directly held by the Trustee, including policies of assurance such as AVCs, will be regularly reviewed to ensure that they continue to be appropriate. Written advice will be obtained from the Investment Adviser when reviewing, buying or selling direct investments.

The Trustee will use the criteria set out in the Occupational Pension Schemes (Investment) Regulations 2005 when selecting direct investments.

The arrangements with asset managers

The Trustee regularly monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with Trustee's policies. This includes monitoring the extent to which asset managers:

- Make decisions based on assessments about medium- to long-term financial performance and non-financial performance of an issuer of debt or equity; and
- Engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by its investment consultant.

The Trustee receives regular reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assesses the asset managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by its asset managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in its separate ESG policy, with the Scheme's asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Trustee's policies. Where possible, the Trustee will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective investment vehicle, then the Trustee will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustee meetings).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with Trustee's policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment for all asset managers will be reviewed periodically, and at least every three years.

The Trustee does not regularly monitor asset managers against non-financial criteria of the investments made on its behalf.

Environmental, social and governance considerations

In setting the Scheme's investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. These include:

- The risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

Stewardship – Voting and Engagement

As part of its delegated responsibilities, the Trustee expects the Scheme's investment managers to**:**

- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent asset manager is found to be falling short of the standards the Trustee has set out in its policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the asset manager.

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as ultimately this creates long-term financial value for the Scheme and its beneficiaries.

The Trustee reviews the stewardship activities of its asset managers on a regular basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's asset managers and ensure its asset managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with its asset managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

The Trustee expects transparency from its asset managers on their voting and engagement activity. Where voting is concerned, the Trustee expects asset managers to, where relevant, provide a summary of their voting actions on an annual basis. The transparency offered for engagement activity should include the objectives of the engagement action, the ultimate outcome and the processes for escalating unsuccessful engagements.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, it would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

In setting and implementing the Scheme's investment strategy the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as "non-financial factors"[1]).The Trustee has taken into consideration social, ethical

[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

and environmental factors in determining its investments. The Trustee actively seeks managers who take these issues into account, in a way that does not prejudice the best financial interests of beneficiaries.

The Trustee's assets are mainly invested in pooled funds. The Trustee cannot directly influence the managers' policies on social, environmental and ethical factors in these circumstances. However, the Trustee uses its influence as asset owners and expects its managers to:

- exercise the voting rights in relation to the Scheme's assets and;
- where appropriate, engage with investee companies with the aim to protect and enhance the value of assets

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Costs and transparency

Understanding costs:

The Trustee is aware of the importance of monitoring its asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by its asset managers that can increase the overall cost incurred within the investment portfolio.

The Trustee intends to collect annual cost transparency reports covering all of its investments in line with the appropriate Cost Transparency Initiative ("CTI") template for each asset class. This allows the Trustee to understand exactly what costs are incurred across the investment portfolio.

Evaluation of performance and remuneration:

The Trustee assesses the performance of its investment managers quarterly and the remuneration of its investment managers at least annually. Investment Managers are paid fees for their services based on the value of the Plan's assets under management. This is in line with normal market practice and the level of these fees is reviewed against competitive market levels with input from the investment consultant.

Portfolio turnover costs:

The Trustee monitors portfolio turnover costs (defined as the costs incurred as a result of the buying and selling of investments) with input from the investment consultant and through the MIFID II compliant cost reporting received from managers.

The Trustee accepts that some transaction costs need to be incurred to drive investment returns. The level of these costs varies across asset classes and by manager style within an asset class. For this reason there is no overall target for portfolio turnover and this is reviewed on a case by case basis depending on market circumstances and manager strategy.

Investment Adviser

Aon Solutions UK Limited has been appointed as Investment Adviser. It has the knowledge and experience required under the Pensions Act 1995.

Review of SIP

In drawing up this document, the Scheme Trustee has sought advice from the Scheme's Investment Adviser, Aon Solutions UK Limited, and the Scheme Actuary. The advice takes into consideration the suitability of investments for the Scheme.

This SIP will be reviewed typically annually or immediately following a change of investment policy. Written advice on any changes will be taken from the Investment Adviser and the University, on behalf of the employers with active members, in the Scheme, will also be consulted. The investment managers are required to invest in accordance with the principles outlined in this SIP.

Policy on Rights Attaching to Investments

The Trustee believes that it should encourage the companies it invests with to adopt good practice regarding corporate governance and corporate responsibility.

The Scheme Trustee is in agreement with the principles of effective stewardship included in the Financial Reporting Council UK Stewardship Code, and has requested the Investment Managers to comply with these principles.

The Trustee receives reports from its investment managers displaying the level of voting activity and engagement, highlighting occasions where they have not voted in agreement with their policy.

Appendix – Scheme asset allocation as at 30 June 2020

	30 June 2020		Strategic			
	Market Value (£m)	Weight (%)	Low (%)	High (%)	Target (%)	Relative (%)
Equity	**402.7**	**49.1**	**30.0**	**50.0**	**40.0**	**+9.1**
State Street – World Developed Equities	58.0	7.1				
State Street – Fundamental Equities	85.3	10.4				
Acadian – Global Equities	54.6	6.7				
Generation – Global Equities	64.2	7.8				
Generation – Asia Equities	24.9	3.0				
Baillie Gifford - Long Term Global Growth	82.7	10.1				
Sands - Emerging Market Equities	32.9	4.0				
Property	**58.7**	**7.1**	**5.0**	**15.0**	**10.0**	**-2.9**
Threadneedle – Property	58.6	7.1				
Other Illiquids	**38.3**	**4.7**	**0.0**	**10.0**	**7.5**	**-2.8**
Macquarie – Infrastructure	2.8	0.3				
DIF – Infrastructure	35.5	4.3				
Illiquid Credit	**75.2**	**9.2**	**5.0**	**15.0**	**10.0**	**-0.8**
M&G - Illiquid Credit Opportunities VII	75.2	9.2				
Credit	**124.2**	**15.1**	**15.0**	**25.0**	**20.0**	**-4.9**
BlackRock – Corporate bonds	41.8	5.1				
M&G – Inflation Opportunities	82.3	10.0				
Matching	**104.9**	**12.8**	**10.0**	**15.0**	**12.5**	**+0.3**
State Street – Index-linked Gilts	104.9	12.8				
Cash	**16.9**	**2.1**	**0.0**	**5.0**	**0.0**	**+2.1**
State Street – Cash	16.9	2.1				
Total	**820.9**	**100.0**			**100.0**	**0.0**