

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

### 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 Contribution (DC) Section only. There is a separate SIP for the Defined Benefit 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.

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### Effective Date

This SIP is effective from 1 October 2020

## 1. Strategy

### Investment Objective

The Trustee's objective for the DC Section is the following:

The Trustee is responsible for investing DC assets in line with members' preferences. Its key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. The Trustee has taken into account members' circumstances; in particular the possible range of members' attitudes to risk and term to retirement.

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### Investment Strategy

In order to meet the Scheme's Investment Objective, the Trustee provides members access to a number of individual funds via the provider's platform. Further details on each of the funds available to members are provided in the Appendix.

The Trustee's policy is to provide suitable information for members so that they can make appropriate investment decisions. The range of funds was chosen by the Trustee after taking expert advice from the Trustee's investment advisers.

In choosing the DC Section's investment options, it is the Trustee's policy to consider:

- A full range of asset classes.
- The suitability of the possible styles of investment management and extent of manager diversification.
- The suitability of each asset class for a DC Scheme.
- The need for appropriate diversification of asset classes.
- The current and expected future membership of the DC Section of the Scheme.
- The fund charges, in order to assess value for money.

The Trustee does not explicitly take into account the views of members and beneficiaries in relation to ethical considerations or social and environmental impact, or present and future quality of life matters (defined

as "non-financial factors<sup>1</sup>"), although it does offer an Environmental, Social & Governance (ESG) fund through the DC Section.

### **Default Investment Arrangement**

The Trustee is required to designate a default investment arrangement, into which members who are automatically enrolled (which occurs by enrolment into the DC Section) have monies invested. The Trustee has designated the L&G Pathway Fund 3 as the default investment arrangement for the DC Section.

The Trustee, with its investment adviser, has assessed the suitability of the default investment arrangement in the light of the regulations governing the ways in which members can access their benefits at retirement. This assessment took into account the expected membership profile of the Scheme and expected fund values at retirement. The default investment arrangement was selected and implemented in 2017.

The Trustee's policies in relation to the default investment arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out elsewhere in this document.

The default investment arrangement has been chosen by the Trustee so as to:

- provide long-term investment returns in excess of inflation,
- focus on mitigating downside risk for members as they approach retirement;
- reduce volatility as appropriate; and

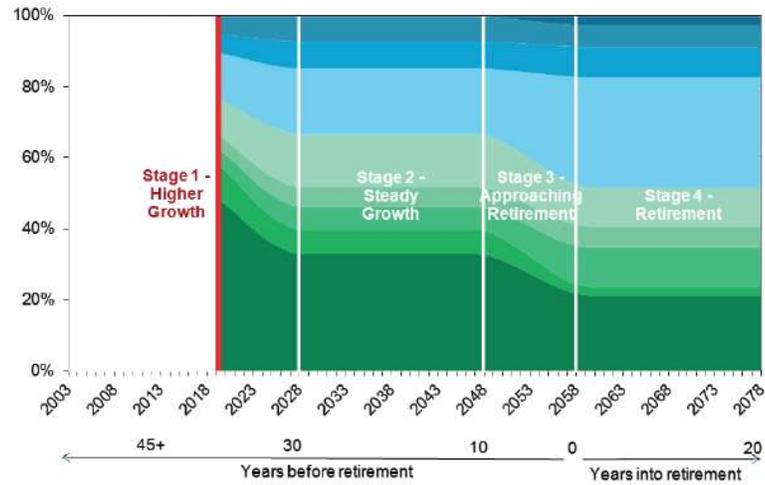
adopt an asset allocation at retirement that is broadly suitable no matter how members access their DC funds. The aim of the Pathway Fund 3 is to provide opportunity for growth in the early years of investment by investing predominantly in equities. As retirement approaches, assets are switched to historically less volatile and lower risk investments with the aim of protecting the value of the accumulated fund.

The chart overleaf shows the structure of the Pathway 3 2055- 2060 vintage. The asset allocation shown is dynamic and due to evolve over time. Other target date fund vintages may have a different asset allocation to the one shown below.

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<sup>1</sup> The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

**FUND ALLOCATION BY ASSET CLASS (%)**



- Cash
- Fixed Interest Government Bonds
- Inflation-Linked Bonds
- Investment Grade Corporate Bonds
- High Yields Bonds & Emerging Market Debt
- Infrastructure & Commodities
- Direct Property & REITs
- UK Equities
- Overseas Equities (inc. Private Equity and Emerging Market Equities)

Source: Legal & General

**2. Risks**

The Trustee recognises that the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considered this risk when setting the investment options and strategy for the Scheme. The Trustee's policy in respect of risk measurement methods and risk management processes is set out below.

Risks
Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices.
Risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustee and its investment advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
Risk of the default investment arrangement being unsuitable for the requirements of some members.
The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for

<b>Risks</b>
professional services received.
<p>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.</p> <p>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.</p> <p>This is considered by the Investment Sub-Committee, which monitors the performance of funds held in the DC Section.</p>

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner. The Trustee's policy is to review the range of funds offered annually.

These risks were considered when setting the initial strategy and will be considered as part of each normal strategy review. In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks/objectives on a regular basis, usually quarterly, along with monitoring any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee.

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### 3. Governance

The Trustee of the Scheme is responsible for the investment of the Scheme assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to make an informed decision. The Trustee has established the following decision-making structure:

<p><b>Trustee</b></p> <ul style="list-style-type: none"> <li>▪ Sets structures and processes for carrying out its role.</li> <li>▪ Selects the investment adviser, bundled DC provider and overall investment strategy.</li> <li>▪ Appoint Investment Sub-Committee (ISC).</li> <li>▪ Delegate monitoring of overall investment strategy to ISC.</li> <li>▪ Consider and approve recommendations from the ISC.</li> </ul>
<p><b>Investment Sub-Committee (ISC)</b></p> <ul style="list-style-type: none"> <li>▪ Makes recommendations to the Trustee on: <ul style="list-style-type: none"> <li>– Selection of investment adviser.</li> <li>– Selection of overall investment strategy.</li> <li>– Selection of funds and fund managers.</li> <li>– Structure for implementing investment strategy.</li> <li>– Monitors investment advisers and bundled DC provider.</li> <li>– Monitors funds on a quarterly basis.</li> <li>– Makes ongoing decisions relevant to the operational principles of the Scheme's investment strategy.</li> <li>– Implements changes to the investment fund range approved by the Trustee.</li> </ul> </li> </ul>
<p><b>Investment Adviser</b></p> <ul style="list-style-type: none"> <li>▪ Advises on all aspects of the investment of the Scheme assets, including implementation.</li> <li>▪ Advises on this statement.</li> <li>▪ Provides required training.</li> </ul>
<p><b>Bundled DC Provider</b></p> <ul style="list-style-type: none"> <li>▪ Operates within the terms of this statement and its written contracts.</li> <li>▪ Provides unit prices and other reporting material on a regular basis.</li> <li>▪ Provides quarterly performance reporting to the Investment Sub-Committee.</li> <li>▪ Provides Scheme information to advisers and the Trustee.</li> </ul>

## 4. Implementation

### Implementation

Aon Solutions UK Limited has been appointed as investment adviser to the Trustee and Investment Sub-Committee. They operate under an agreement to provide a full service designed to ensure that the Trustee and the Investment Sub-Committee are fully briefed both to take decisions themselves and to monitor those they delegate. They are paid on a basis that is agreed with the Trustee and which is currently a combination of a fixed fee for core services and time and materials basis for other services.

The fund manager structure and investment objectives for each fund manager ("mandates") are as set out in the Appendix.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to the relevant fund manager through an insurance policy with the Bundled DC Provider. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The managers' duties also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and corporate governance in relation to the Scheme's assets.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practical.

All fund managers are remunerated on a fee basis related to the amount of assets under management. This structure has been chosen as the most cost-effective available to DC pension schemes. In addition, fund managers pay commissions to third parties on some of the many trades they undertake in the management of the assets and also incur other ad hoc costs.

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## 5. General

### Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy, or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. When deciding whether or not to make any new direct investments, the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The Trustee's investment adviser has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

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### Arrangements with asset managers

The Trustee monitors the DC investments to consider the extent to which the default investment arrangement and decisions of the asset managers are aligned with the Trustee's policies as set out in this SIP. 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 adviser.

The Trustee receives regular reports and verbal updates from the investment adviser on various items including the investment strategy, performance and longer-term positioning of the portfolio. The Trustee focuses on the longer-term performance when considering the ongoing suitability of the investment strategy in relation to the DC Section

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 adhered to throughout the year.

The Trustee shares the policies, as set out in its separate ESG policy, with the 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, 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 of the asset managers' performance and investment strategy is, in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium and long-term financial and non-financial performance.

Where asset managers are considered to be making 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 all for 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.

Investment managers are remunerated as a set percentage of the assets under management. This is in keeping with market practice. Annual investment management charges (including other annual charges levied by the investment manager) are met by the members by deduction from the unit price. The Trustee monitors and reviews the level of charges, as part of the work to prepare the Chair's Statement each year.

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**Environmental, Social and Governance considerations**

In setting the range of funds available to members, the Trustee's primary concern is to seek the best return that is consistent with an appropriate level of risk. This includes the risk that ESG 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 its investment adviser when setting the DC Section's investment strategy.

The DC assets are held in pooled arrangements, managed by investment managers who are in a position to exert significant influence on the companies in which they invest on members' behalf. The Trustee

therefore expects the investment managers to integrate social, environmental and governance considerations (including, but not limited to, climate change) and opportunities within their investment process as applied to the funds available to members.

The Trustee believes that the exercise of rights (including voting rights) attaching to investments should be exercised by each investment manager, to whom the day-to-day responsibilities have been delegated, in the interests of investors. The Trustee believes that this will ultimately be in the best interests of the members.

#### Stewardship – Voting and Engagement

As part of its delegated responsibilities, the Trustee expects the DC Section'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 members and their 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 its policies to those of the asset managers and ensure its asset managers of 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 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 issuers of debt and 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 DC Section'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'). The Trustee does make an ethical fund available to members through the self-select fund range and has taken in to consideration social, ethical and environmental factors in determining its investments.

The DC Section assets are 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 DC Section assets;
- Where appropriate, engage with investee companies with the aim to protect and enhance the value of assets.

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#### Costs and Transparency

The Trustee is aware of the importance of monitoring the costs and charges borne by members and the impact these costs can have on member outcomes.

The Trustee regularly monitors and reviews the costs and charges borne by members, as part of the work to prepare the Chair's Statement each year.

The investment managers are remunerated as a set percentage of the assets under management. This is in keeping with market practice. Annual investment management charges (including annual management charges levied by the provider) are met by the members by deduction from the unit price.

The level of costs is reviewed against competitive market levels with input from the investment adviser, as part of the value assessment carried out in respect of the Chair's Statement each year.

#### Transaction costs

The Trustee monitors transaction costs (defined as the costs incurred as a result of the buying and selling of investments) through the Financial Conduct Authority compliant reporting received from managers. These costs are confirmed in the Chair's Statement each year.

The Trustee accepts that 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 are no overall targets for transaction costs and this is review on a case by case basis depending on market circumstances and manager strategy.

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#### Realisation of Investments

The Scheme's assets are invested in daily priced pooled investment funds, and the vast majority of the underlying assets are invested in quoted markets. The platform provider can be required to realise

investments as soon as it becomes appropriate to do so.

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**Investment Adviser**

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

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**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 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.

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**Review of SIP**

In drawing up this document, the Scheme Trustee has sought advice from the Scheme's Investment Adviser, Aon Solutions UK Limited.

The Trustee will review this SIP at least every three years and without any delay after any significant change in investment policy or the demographic profile of relevant members.

The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

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## Appendix – Fund Options

Investment fund	Investment style	Benchmark	Fee <sup>2</sup>	Investment Characteristics
L&G Pathway Fund 3		Composite	0.45% pa	This Fund provides exposure to a range of different asset classes and the mix of assets within the fund changes over time to reflect the needs of members as they approach their target retirement date.
L&G Global Equity (70:30) Index Fund	Passive	Global Equities	0.40% pa	To capture the returns of the UK and overseas stock markets as represented by the FTSE All-Share Index for the UK and the FTSE All-World ex UK Index for overseas stock markets. The Fund will be split approximately 70% to the FTSE All-Share Index and 30% to the FTSE All-World ex UK Index.
L&G Stewart Investors Asia Pacific Leaders Fund	Active	Asia Pacific excluding Japan Equities	1.13% pa	To grow the investment; the Fund invests in shares of companies based in or having significant operations in the Asia Pacific region including Australia and New Zealand excluding Japan. The Fund invests in shares of large and mid-sized companies in the region. These companies generally have a total stock market value of at least USD 1 billion. Consideration is given to investment in companies that are positioned to benefit from, and contribute to, the sustainable development of the countries in which they operate. Derivatives may be used for efficient portfolio management.
L&G Ethical Global Equity Index Fund	Passive	Global Equities	0.60% pa	To track the sterling total returns of the FTSE4Good Global Equity Index before charges (including re-invested income, less withholding tax) to within +/- 0.5% per annum for two years in three.
HSBC Amanah Global Equity Index Fund	Passive	Global Equities	0.65% pa	The Fund aims to create long term appreciation of capital through investment in a diversified portfolio of securities as defined by a relevant world index, which meets Islamic investment principles as interpreted and laid down by the Shariah Committee and provided to the Board of Directors.

<sup>2</sup> Fees as at September 2020

Investment fund	Investment style	Benchmark	Fee <sup>2</sup>	Investment Characteristics
L&G All Stocks Index Linked Gilts Index Fund	Passive	UK Index-linked Gilts	0.38% pa	To track the sterling total returns of the FTSE Index-Linked (All Stocks) Index before charges (including re-invested income) to within +/- 0.25% per annum for two years in three.
L&G Retirement Income Multi-Asset Fund		Composite	0.61% pa	To provide long-term investment growth up to and during retirement, and to facilitate the drawdown of retirement income. The Fund invests globally in a range of different asset classes. The Fund invests in both index tracking and actively managed funds.