

# 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 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 2019

## 1. Strategy

### Investment Objective

The Trustee's objective for the Defined Contribution Scheme is the following:

The Trustee is responsible for investing Scheme 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 Scheme'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 the need for manager diversification.
- The suitability of each asset class for a Defined Contribution Scheme.
- The need for appropriate diversification of asset classes.
- The current and expected future membership of this 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") though it does offer an Ethical, Social & Governance 'ESG' fund through the DC Section.

The Trustee expects the long-term return on the traditional bond and cash asset classes to be lower than returns from predominantly equity and other asset class options.

#### Responsible Investment

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 environmental, social and governance factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly.

The DC funds 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.

#### Stewardship – Voting and Engagement

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.

#### Default Investment Strategy

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

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

- maximise expected long term investment returns,
- focus on minimising downside for members;
- reduce volatility wherever appropriate; and
- secure cash lump sums as members near retirement.

The default arrangement is considered appropriate for members who are expected to draw benefits over the next few years, bearing in mind the average fund values and membership profile of the Scheme.

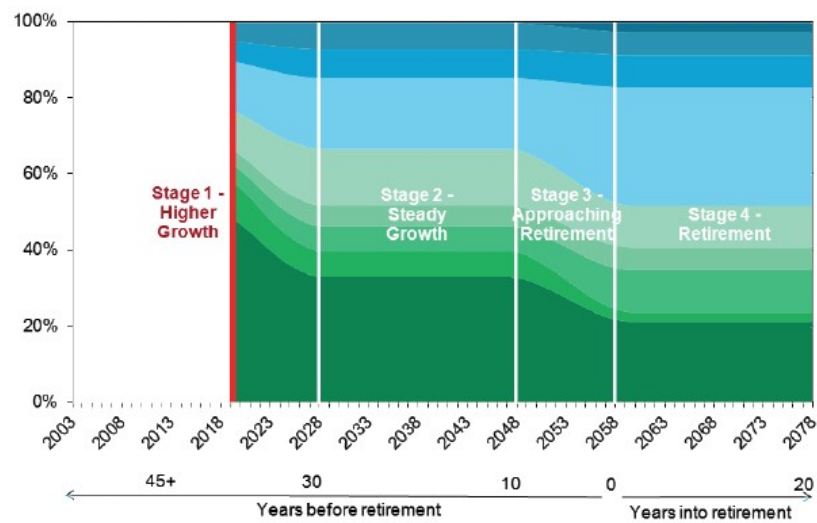
The Trustee, with their adviser, has assessed the suitability of the default investment arrangement in the light of the new regulations governing the ways in which members can access their benefits at retirement. This assessment took into account the expected membership profile of the Scheme and expected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

The Trustee's policies in relation to the Default 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 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.

**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. 2. Risks

### Risks

The Trustee recognises the key risk 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.

<b>Risks</b>
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 their advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
Risk of the default fund 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 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 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

#### Governance

The Trustee of the Scheme is responsible for the investment of the Scheme assets. The Trustee takes some decisions themselves and delegates others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have 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>▪ Set structures and processes for carrying out their role.</li> <li>▪ Appoint Investment Sub-Committee (ISC).</li> <li>▪ Delegate selection and 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 Trustees.</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 quarterly performance reporting to the Investment Sub-Committee.</li> <li>▪ Provides required training.</li> </ul>
<p><b>Bundled DC Provider</b></p> <ul style="list-style-type: none"> <li>▪ Operate within the terms of this statement and their written contracts.</li> <li>▪ Ensure that individual fund managers provide unit prices and other reporting material on a regular basis.</li> <li>▪ Provide Scheme information to Advisers and the Trustee.</li> </ul>

## 4. Implementation

### Implementation

Aon Hewitt has been selected 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 Trustees and 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 Trustees 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 Provider. When choosing investments, the Trustee and the fund managers (to the extent delegated) is 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 Defined Contribution pension schemes. In addition, fund managers pay commissions to third parties on 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, eg 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 their 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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### 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 Hewitt 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 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.

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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 Hewitt 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	Performance target	Benchmark	Fee	Investment Characteristics
L&G Pathway Fund 3			0.49% pa	This fund will de-risk over time, reflecting the fact that shorter time horizons lead to reduced incentives to hold 'long-term risky assets' such as equities. The investment strategy will reflect the increasing likelihood of buying an annuity-type product with age and the fund will de-risk a higher proportion of the portfolio towards an annuity-aware strategy later in life.
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. In order to accurately track these indices the fund will invest in a representative sample of holdings.
L&G Stewart Investors Asia Pacific Leaders Fund	Active	Asia Pacific excluding Japan Equities	1.22% 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 (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	0.85% 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.

Investment fund	Performance target	Benchmark	Fee	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 (including re-invested income) to within +/- 0.25% per annum for two years in three.
L&G Retirement Income Multi-Asset Fund			0.60% 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.