

## 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.

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### Effective Date

This SIP is effective from 1 October 2019.

## 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 2016 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.)
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**Allocation of Assets**

Asset allocation is considered regularly by the Trustee and reviewed in detail following each actuarial valuation. The latest Investment Strategy Review was carried out in June 2017 following the March 2016 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 30 June 2027). 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 five broad asset classes – Equity, Property, Other Illiquids, 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 both public equity and private equity investments. Public equity can be either actively or passively managed. Private equity investments would be in funds deemed suitable by the Investment Committee as such investments become available.
  - **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 and illiquid credit investments such as Multi-Asset Credit.
  - **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.
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**Strategic Allocation**

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

<b>Asset Class</b>	<b>Strategic Range</b>
Equity	40.0% - 60.0% (including a private equity allocation of 0.0% - 10.0%)
Property	8.0% - 15.0%
Other Illiquids	0.0% - 10.0%
Credit	15.0% - 25.0%
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 will be reviewing its investment strategy and strategic allocations. The asset allocation as at 30 June 2019 is included in the appendix of this SIP.

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## 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
<p><b>Funding</b></p> <p>The risk that the Scheme's funding falls below an appropriate level and the Scheme has insufficient assets to cover accrued liabilities.</p>	<p>Managed by careful structuring of the funding and investment arrangements, along with regular monitoring.</p>
<p><b>Mismatching</b></p> <p>A difference in the sensitivity of asset and liability values to financial and demographic factors.</p>	<p>This is considered when setting the investment strategy and managed through regular reviews of the investment strategy.</p>
<p><b>Interest Rate</b></p> <p>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.</p> <p>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).</p>	<p>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.</p>
<p><b>Inflation</b></p> <p>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.</p> <p>The Scheme's liabilities are often directly linked to inflation and the risk is that the assets do not also have this sensitivity.</p>	
<p><b>Inflation index risk</b></p> <p>The risk that the measure of inflation used for pension increases diverges from the measures of inflation that are included in the assets.</p>	<p>This is managed by appropriate assumptions within the actuarial valuation of the liabilities, and by including a buffer in the targeted returns.</p>
<p><b>Longevity</b></p> <p>Related to the increasing life expectancy of pensioners and those entitled to benefits. This can result in higher than expected payout.</p>	<p>This is currently managed by including a buffer in the targeted returns.</p>

Risk	Defined Benefit Section Mitigation
<p><b>Credit</b></p> <p>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.</p>	<p>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.</p>
<p><b>Counterparty risk</b></p> <p>The risk that the Scheme suffers a financial loss due to the failure of another party to meet their obligation.</p>	<p>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).</p> <p>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.</p> <p>Managers will have a policy in place to operate within guidelines and are required to report regularly to the Investment Committee.</p>
<p><b>Currency</b></p> <p>The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.</p>	<p>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.</p>
<p><b>Asset specific risk</b></p> <p>The risk that the fair value or future cash flows of a financial asset will fluctuate for reasons specific to that particular investment.</p>	<p>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.</p>
<p><b>Investment managers</b></p> <p>This risk arises from a failure to meet target returns.</p>	<p>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.</p>
<p><b>Concentration risk</b></p> <p>This risk relates to an inadequate spread of investments and sources of return.</p>	<p>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.</p>
<p><b>Correlation risk</b></p> <p>The risk that in adverse circumstances correlations increase and the value of all financial assets falls together.</p>	<p>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.</p>
<p><b>Sponsor</b></p> <p>This risk relates to the possibility of the failure of the Scheme's sponsors.</p>	<p>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.</p>

Risk	Defined Benefit Section Mitigation
<p><b>Pension Conversion</b></p> <p>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.</p>	<p>These risks are borne by the Scheme not the members.</p> <p>Liquidity in the Scheme is considered to address this and other features of the pension scheme.</p>
<p><b>Cash flows</b></p> <p>This risk relates to a shortfall of liquid assets relative to the Scheme's immediate liabilities.</p>	<p>This is managed by regular monitoring of liquidity levels and expected outgo.</p>
<p><b>Operational</b></p> <p>This risk relates to fraud, poor advice or negligence.</p>	<p>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.</p>
<p><b>Political and Regulatory risk</b></p> <p>This is the risk of an adverse influence on investment values arising from political intervention.</p>	<p>It is managed through regular reviews of the investment strategy, and fund managers.</p> <p>Relevant government consultations will be discussed with the investment adviser in advance of any anticipated changes.</p>
<p><b>ESG</b></p> <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 closely monitors the performance of managers and requires them to address ESG aspects at presentations,</p> <p>The Investment Committee also receives formal quarterly reports from the investment adviser which provides ESG ratings for some of the mandates.</p>

### 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.

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## 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.

### 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.

#### **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"<sup>1</sup>). The Trustee has taken into consideration social, ethical 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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#### **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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<sup>1</sup> The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

**Review of SIP**

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

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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 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.

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## Appendix – Scheme asset allocation as at 30 June 2019

	30 June 2017			Strategic		
	Market Value (£m)	Weight (%)	Target (%)	Relative (%)	Low (%)	High (%)
<b>Equity</b>	<b>421.5</b>	<b>55.3</b>	<b>50.0</b>	<b>+5.3</b>	<b>40.0</b>	<b>60.0</b>
State Street – World Developed Equities	109.7	14.4				
State Street – Fundamental Equities	91.7	12.0				
Acadian - Global Equities	55.6	7.3				
Generation - Global Equities	61.5	8.1				
Generation – Asia Equities	24.3	3.2				
Baillie Gifford – LTGG	51.4	6.8				
Sands – Emerging Market Equities	27.3	3.6				
<b>Diversified Growth Funds</b>	<b>27.6</b>	<b>3.6</b>	<b>0.0</b>	<b>+3.6</b>	<b>0.0</b>	<b>0.0</b>
BlackRock - DGF	27.6	3.6				
<b>Property</b>	<b>61.7</b>	<b>8.1</b>	<b>10.0</b>	<b>-1.9</b>	<b>8.0</b>	<b>15.0</b>
Threadneedle - Property	61.4	8.1				
Schroders - Property	0.3	0.0				
<b>Other Illiquids</b>	<b>25.2</b>	<b>3.3</b>	<b>7.5</b>	<b>-4.2</b>	<b>0.0</b>	<b>10.0</b>
Macquarie - Infrastructure	6.5	0.9				
DIF – Infrastructure	18.7	2.5				
<b>Credit</b>	<b>117.4</b>	<b>15.4</b>	<b>20.0</b>	<b>-4.6</b>	<b>15.0</b>	<b>25.0</b>
BlackRock - Corporate bonds	39.0	5.1				
M&G - Inflation Opportunities	78.4	10.3				
<b>Matching</b>	<b>93.6</b>	<b>12.3</b>	<b>12.5</b>	<b>-0.2</b>	<b>10.0</b>	<b>15.0</b>
State Street - Index-linked Gilts	93.6	12.3				
<b>Cash</b>	<b>14.8</b>	<b>1.9</b>	<b>0.0</b>	<b>+1.9</b>	<b>0.0</b>	<b>0.0</b>
State Street - Cash	14.8	1.9				
<b>Total</b>	<b>761.8</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>	<b>100.0</b>