Oxfordshire County Council Pension Fund Stewardship Code Statement 2023

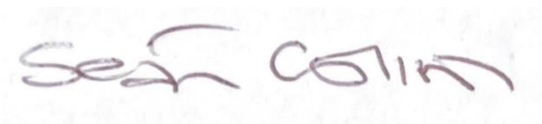
May 2023

Introduction

The Oxfordshire County Council Pension Fund is pleased to present this report detailing how the Fund meets the 12 principles under the FRC's 2020 UK Stewardship Code. As an asset owner and pension fund the Fund has a responsibility to its members and beneficiaries. We believe that stewardship is integral to the achievement of the Fund's objectives in seeking to deliver long-term investment performance and is identified as a key objective in the Fund's business plan.

We support and apply the Code's definition of stewardship: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for beneficiaries leading to sustainable benefits for the economy, the environment and society" and seek to demonstrate how we put this into action through this report.

The Fund has taken significant action over the last year to implement and build on its Climate Change Policy which includes a commitment for the Fund's investments to be net-zero emissions by 2050. Stewardship continues to provide an ever-changing landscape and while a lot of progress has been made the Fund continues to explore ways to further strengthen its approach and expand its stewardship activities both as a Fund and in collaboration with others.



Sean Collins
Head of Pensions

Principle 1: Purpose, Strategy & Culture

The Oxfordshire County Council Pension Fund (the Fund) is one of 89 funds in England and Wales set up under the Local Government Pension Scheme (LGPS); a statutory, funded, multi-employer defined benefit scheme.

The operation of the Oxfordshire County Council Pension Fund is principally governed by the Local Government Pension Scheme Regulations 2013 [as amended]. The scheme covers eligible employees and employees of other bodies eligible to be employers in the Scheme. A list of all those bodies with employees currently participating in the Scheme is shown on pages 13 to 17 of the 2021/22 Annual Report.

The Fund is administered by Oxfordshire County Council (the Council) who are legally responsible for the Fund. The Council delegates its responsibility for administering the Fund to the Oxfordshire Pension Fund Committee (the Committee), which is its formal decision-making body.

The ultimate purpose of the Fund is to meet all pension liabilities as they fall due. The Fund has a Funding Strategy Statement that sets out the requirements around this objective including a need to maintain long-term solvency, develop an investment strategy consistent with the funding strategy, and where appropriate ensure stable employer contribution rates.

The Fund's Investment Strategy Statement has been developed to deliver on the funding strategy statement objectives. It also sets out the Fund's approach to stewardship and recognises that, as a pension fund with liabilities several decades into the future, the Fund must adopt a long-term approach to its investment strategy.

The following statement from the investment strategy sets out the Fund's belief in respect of incorporating environmental, social, and governance considerations into investment decisions:

The Committee recognises that environmental, social and corporate governance (ESG) issues, including climate change, can have materially significant investment implications. The Fund therefore seeks to be a responsible investor and to consider ESG risks as part of the investment process across all investments, thereby improving risk-adjusted returns. Responsible investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

The Fund has identified climate change as the single most important factor that could materially impact its long-term investment performance given its systemic nature and the effects it could have on global financial markets. As such, the Fund has produced a Climate Change Policy that forms part of the Investment Strategy Statement.

From an investment perspective the Fund believes that climate change should be an integral part of the assessment of risks as well as a factor in identifying investment opportunities arising from the transition to a low carbon economy.

Stemming from this belief the Fund is currently involved in discussions to develop a climate solutions portfolio and is seeking to set a Fund level target for investments in climate solutions.

The Council requires its Investment Managers to monitor and assess those environmental, social and governance considerations which may impact on financial performance when selecting and retaining investments, and to engage with companies on these issues where appropriate. The Council believes that the operation of such a policy will ensure the sustainability of a company's earnings and hence its merits as an investment.

The Committee's principal concern is to invest in the best financial interests of the Fund's employing bodies and beneficiaries. Its Investment Managers are given performance objectives accordingly. These relate to the ESG performance of the investments, as well as the financial performance.

The Council has set out the organisational values that underpin the way in which it operates and these are supported by policies, processes and guidance including the key behaviours that align with these values. The five values are:

- Always learning
- Be kind and care
- Equality and integrity in all we do
- Taking responsibility
- Daring to do it differently

Case study:

The Fund's Climate Change Policy has a specific commitment that where there are two investment options that broadly aim to deliver the same investment objective the Pension Fund will prioritise the option that delivers the best fit to its climate change commitment.

In 2020 the Fund considered options for moving an existing global equity mandate into the Brunel pool. The Fund considered the available global equity portfolios and determined to move the full mandate to a sustainable equities portfolio that is focused on identifying companies that are part of the solution to material sustainability challenges. This decision considered that the global equity portfolios aimed to achieve a similar investment outcome but that the sustainable portfolio was better aligned to the Fund's investment beliefs and policies through which these are expressed.

Every three years the Fund's actuary undertakes a full valuation of the fund and determines a funding level. Over the last three valuations the funding level has been determined as follows:

2016 – 91%
2019 – 99%
2022 – 111%

As such, the Fund considers that it’s funding and investment strategies and associated beliefs have been effective in delivering against their objectives.

Principle 2: Governance, Resources & Incentives

As noted under Principle 1, Oxfordshire County Council is the Administering Authority of the Fund and has delegated responsibility for the administration of the Fund to the Pension Fund Committee. The Committee meets on a quarterly basis and considers all investment and administration issues relevant to the Fund.

The Committee consists of five voting members made up of County Councillors, and five non-voting members selected to provide a broad level of representation to the wide range of employers and members in the Fund. Non-voting members consist of one District Council representative, one representative from Oxford Brookes University, two Academy representatives, and one scheme member representative.

Under the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015, the Committee have established a Local Pension Board. The role of the Board is to assist the Pension Committee (in its role as Scheme Manager), to secure compliance with the Regulations and all associated legislation, and to ensure the efficient and effective governance and administration of the scheme.

As well as these formal groups the Fund has established an informal Climate Change Working Group that meets on a quarterly basis. The role of the working group is to review the Fund’s strategy on managing climate related risks and opportunities and to monitor progress against the Fund’s agreed Climate Change Policy and associated Implementation Plan, which sets out the actions the Fund aims to take to deliver the policy objectives. The group consists of Committee and Board members, officers, the Fund’s independent financial adviser and a member of Fossil Free Oxfordshire, a local interest group.

Under the Pensions Act 2004 members of the Local Pension Board are required to have the required level of knowledge and understanding of scheme rules, Fund policies, and pensions law. This legal requirement does not apply to members of the Committee but there is an expectation that they will seek to obtain the same level of skills and knowledge as required under the 2004 Act. The Fund understands the key role of training in meeting these legal duties and contributing to the effective operation of the Board and Committee.

In 2022 Committee and Board members completed Hymans Robertson’s National Knowledge Assessment covering eight key areas:

- Committee Role and Pension Legislation
- Pensions Governance
- Pensions Administration
- Pensions Accounting and Audit Standards
- Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge

• Actuarial Methods, Standards and Practices

Additionally, in 2021/22 nine members of the Committee received a training session from Faith Ward, Chief Responsible Investment Officer at Brunel on active vs passive equity investment and the options to meet the Fund's climate change requirements.

The results of the assessment have been used as the basis to develop a Training Plan for 2023/24 to address those areas where scores were weaker.

A log is kept of training undertaken by Committee and Board members, and this is published annually in the Fund's Annual Report.

The Fund has also established a Training Policy that requires all members of the Committee within their first year of membership to undertake an induction session on the Fund's policies and to have completed either the three-day Fundamentals course run by the Local Government Association or the relevant modules from the Pension Regulators Trustee Toolkit. This training requirement also applies for substitutes to attend the Committee.

The fund has a Head of Pensions and an investment team consisting of four team members. In April 2023 the Fund appointed a Responsible Investment Officer to provide additional resource to achieve its stewardship goals and further the work undertaken in this area.

In 2021 the Fund commissioned Hymans Robertson to undertake an independent governance review for the Fund. The report was presented to the Committee at its March 2021 meeting and made a number of recommendations to improve the governance arrangements at the Fund that the Fund has now implemented.

The Fund is a member of various bodies through which it receives research and analysis including the Local Authority Pension Fund Forum, Climate Action100+, and the Institutional Investors Group on Climate Change.

The Fund pools its assets with nine other administering authorities though the Brunel Pension Partnership (Brunel), which is authorised by the Financial Conduct Authority and has been established specifically to manage the assets of the pool. As a client of Brunel, the Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel and the rights of the Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

Brunel believes in the importance of regular and in-depth shareholder and stakeholder engagement. Brunel's responsible investment strategy and policy, Stewardship Policy and Climate Change Policy were developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group and Client Responsible Investment Subgroup. Whilst the strategy and policies are designed for the long term (5+ years), they are reviewed annually. The Brunel Board approves and is collectively accountable for the broader suite of Brunel's Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Head of Stewardship to ensure high levels of coordination and implementation.

Brunel has identified seven priority themes which are informed by its investment beliefs, Clients' policies, and priorities together with stakeholder views, regulatory and statutory guidance, aligned with best practice. The seven priority themes, as part of an integrated Responsible Investment process, are illustrated in the diagram below (see section on Principle 5). Brief information on the seven priority themes is covered in the Responsible Investment Policy. Further detailed information is included in Brunel's annual Responsible Investment and Stewardship Outcomes Report.

Brunel has a dedicated Responsible Investment team, including a dedicated Stewardship Manager who oversees voting and engagement. Stewardship at Brunel is applied across three avenues. Firstly, by appointed asset managers, secondly, through a specialist provider in EOS at Federated Hermes (EOS), and lastly via collaborative forums. The appointment of a dedicated engagement and voting provider enables a wider coverage of assets and access to further expertise across different engagement themes. The EOS team is diverse, made up of many nationalities and language capabilities, which facilitates engagement in local language and an understanding of cultural customs. Brunel will seek to undertake direct engagement where they feel that this will add value. Brunel publishes its gender pay gap in its annual report and accounts and staff profiles are located on their website.

Responsibility for managing specific ESG risks, including climate risk are explicitly incorporated into Brunel's investment principles and the role specifications of its Board, executives, and other key personnel. Responsible investment is a component of staff member annual objectives, which informs annual appraisals; no staff receive bonus pay.

Principle 3: Conflict of Interest

The period 2021/22 saw significant changes to the operational governance arrangements of the Fund, following the independent governance review undertaken by Hymans Robertson during 2020/21. In response to recommendations from the governance review a new Conflict of Interest policy for the Fund Committee was agreed. This policy covers all potential conflicts of interest, including in relation to responsible investment and stewardship.

All councillors and co-opted members are required to register any disclosable pecuniary interests. In preparing the year-end statement of accounts, checks are made for any potential related party transactions using the interests declared by Councillors on the Pension Fund Committee.

At the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

A briefing is provided to all new members of the Committee clearly setting out their roles and responsibilities on the Pension Fund Committee, including in relation to the Conflict of Interest policy.

The Governance Compliance Statement which details the degree of compliance with best practice is available on the Council's public website. This includes a section on conflicts of interest.

Case study:

To date no conflicts of interest have arisen in relation to stewardship. However, this is not to say that such a conflict, or conflicts, of interest will not arise in the future. For example, there is potential for the Fund to invest into local impact funds which could include investments into local infrastructure, for example, renewable energy projects or affordable housing projects in the County. In such cases there is a risk that political considerations may lead to the preference of one project over another. Such a potential conflict of interest would be mitigated by the appointment of an independent asset manager responsible for selecting those assets for inclusion in any local impact fund based only upon risk and return factors as defined within the Fund's ISS, rather than local political considerations.

In cases where a Committee member did have a conflict of interest, for example if they sit on the board of a project selected for inclusion in the impact fund, then they would be expected to declare that interest ahead of any Committee meeting where the impact fund was on the agenda, and, if appropriate, recuse themselves from any decisions in relation to investments into the impact fund.

The Fund expects all service providers to have effective policies addressing potential conflicts of interest. This includes consideration of where a conflict of interest could arise in respect of stewardship or responsible investment. Where such a conflict was identified then the Fund would engage with the service provider to identify how the conflict was being managed, and any related risks being mitigated.

Brunel maintain a Conflict of Interest Policy, which is published on their website and includes a specific section on Stewardship conflicts. Examples of how Brunel manage perceived conflicts are included in their 2022 Responsible Investment and Stewardship Outcomes Report.

Principle 4 - Promoting well-functioning markets

The Pension Fund Committee is responsible for the prudent and effective stewardship of the Oxfordshire County Council Pension Fund. As part of this duty the Committee oversees the monitoring and management of risk. This role includes:

- Determining the risk management policy and reconciling this with wider organisational risk policy
- Setting the risk management strategy in line with the risk policy
- Overseeing the risk management process

The risk management process involves: Risk identification; risk analysis; risk control and monitoring. This includes monitoring of the investment environment in order to identify market-wide and systemic risks. The Pension Fund Committee receive quarterly investment performance reports and regular updates from fund managers which provide an opportunity to ensure their strategies are in line with expectations and to discuss any risks the Committee is concerned about. Officers also have regular meetings with the Fund’s Independent Financial Advisor and fund managers, including reports from Brunel specifically addressing systemic risks related to sustainability themes. It is through these meetings and reports that fund manager performance is reviewed and key issues are discussed. The Fund’s officers carry out ongoing reviews of the global market to identify systemic risks, including risks related to sustainability issues.

Diversification is the Fund’s primary tool for managing investment risk. Diversification can improve returns and reduce portfolio volatility by ensuring that investment risk is not concentrated in a particular asset class or investment style and by reducing exposure to losses through the poor performance of an individual asset class.

The Committee recognises that environmental, social and corporate governance (ESG) issues, including climate change, can have materially significant investment implications. The Fund therefore seeks to be a responsible investor and to consider ESG risks as part of the investment process across all investments. The objective of responsible investment is to decrease investor risk and improve risk-adjusted returns. Responsible investment principles are at the foundation of the Fund’s approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

The Fund also recognises that it is a relatively small player when it comes to the overall size of the fund, and that one key approach to amplifying its voice when engaging with investee companies is through collaborating with other investors. The Fund’s participation in the fund pooling of the Brunel Pension Partnership or its membership of the Local Authority Pension Fund Forum (LAPFF) are examples of sector-specific collaboration. Stewardship and responsible investment are key considerations for both groups. The Fund’s membership of broader coalitions of investors such as the Climate Action 100+ group, or the Institutional Investors Group on Climate Change (IIGCC) enables it to have a voice within cross-industry convening of investors and to take part in coordinated engagement with companies on climate change and the associated risks.

The Pension Fund has a fiduciary duty to invest in the best financial interests of its members. The investment goals of the Pension Fund are set out in its Investment Strategy Statement. Climate change has been assessed as presenting a material risk to the Pension Fund’s investment returns over the long-term. It follows that the Fund’s fiduciary duty inherently requires that it is managing climate related risks to its investments, particularly given the Pension Fund’s long-term investment horizon; even if the Fund closed to future accrual today the Fund would still potentially be operating 80 years later.

The Pension Fund currently identifies climate change risk as the single most important factor that could materially impact its long-term investment performance, given its systemic nature and the effects it could have on global financial markets.

The Fund has published both a Climate Change policy, and an accompanying Implementation plan which provide guidance on both its commitment as a fund to transitioning its investment portfolios to net-zero GHG emissions by 2050 and how it will go about achieving this via its investment activity. The Pension Fund also commits to transitioning its investment portfolios consistent with the best available scientific knowledge, including the findings of the Intergovernmental Panel on Climate Change, to pursue efforts to limit any temperature increase to 1.5°C above pre-industrial levels. The Pension Fund will regularly report on progress, including establishing intermediate targets consistent with the annual carbon emissions reduction targets set in the United Nations Environment Programme's Emissions Gap Report.

The Pension Fund will seek to reach this Commitment through its investment activity as well as through advocating for, and engaging on, corporate and industry action, and public policies, for a low-carbon transition of economic sectors in line with science and under consideration of associated social impacts. The Implementation Plan gives specific targets to achieve net zero, for example by committing to a 7.6% annual reduction in GHG emissions across its investment portfolios, provided that the 2020 baseline position of the Fund is broadly similar to that for global emissions.

Case study:

In order to align the Oxfordshire Fund's passive funds to a 2050 Net Zero target Brunel worked closely with leading index provider FTSE Russell to develop two indices that met the EU criteria to be classified as a Climate Transition Benchmark and Paris Aligned Benchmark. These indices were made available for investment in November 2021. The Pension Fund Committee made a decision to move the Fund's full passive holdings of c.£530m to the Paris Aligned Benchmark fund, putting it among the first group of investors to invest in the index. Of the two funds the Paris Aligned Benchmark has stricter climate criteria and effectively excludes fossil fuel companies from the index.

The Policy also commits to seeking to increase investments in climate change mitigation and adaptation.

Case study:

To enable the Pension Fund to set targets for investments in Climate Solutions and have control over the fund allocation to renewable energy infrastructure the Pension Fund is requesting the development of a Climate Solutions Portfolio to enable it to make specific allocations to climate solutions. Initial meetings between Brunel and the client funds have taken place on the development of this portfolio.

Although the Committee views climate change as the single greatest sustainability risk facing the Fund there is recognition that there are other significant risks relating to sustainability themes, such as biodiversity loss or social disruption stemming from breaches of international human right standards, that may also pose major risks. The Fund is committed to assessing the systemic nature of these risks and, where there is a market-wide risk, to develop policies that seek to manage and mitigate these risks.

Principle 5: Review & Assurance

The Fund's policies are kept under regular review and are updated and approved by Committee as required.

Every three years the fund undertakes a fundamental review of its investment strategy, taking into account the latest results of the triennial funding valuation, and which draws on the expertise of the Fund's Independent Financial Adviser.

Case study:

On reviewing the Fund's Investment Strategy Statement in 2019 it was determined that the Fund should expand its policies around climate change given the increasing importance the Committee attached to the topic. The Fund was conscious of a range of views among stakeholders from previous engagement on this topic.

In order to achieve a consensus approach a full day climate change workshop was arranged with an independent facilitator. A series of short presentations were given by a variety of sources including academics, fund managers, climate consultants, students, and other pension funds. Committee and Board members, officers and members of Fossil Free Oxfordshire, a local interest group, all attended and had the opportunity to discuss the topics presented.

Following the meeting a set of agreed principles were drafted by the independent facilitator which were used as the basis for developing the Fund's Climate Change Policy, which was approved in June 2020.

The Fund publishes its policies along with details of stewardship related activities including holdings data and voting records on its website. As a public body the Fund has a legal duty to ensure that its website complies with accessibility requirements including the need to ensure content is written clearly and in plain English.

Each year the Committee agrees a business plan setting out the service priorities for the year ahead. In order to set the priorities a business planning session is held in advance of producing the business plan, where Committee and Board members discuss and agree priorities with support from officers and Hymans Robertson. For 2023/24 one of the four priority areas identified is the enhanced delivery of responsible investment responsibilities. The report sets out the actions the Fund will take to achieve this goal and set measures of success. An update on the measures of success is reported to Committee at its quarterly meetings where progress against each measure is rated as red, amber or green along with commentary on progress and actions to complete.

In line with the Fund's Climate Change Policy Implementation Plan the Fund has produced a report using the Taskforce on Climate-related Financial Disclosure framework, which is included in the Fund's annual report. Using the TCFD framework helps ensure that the Fund can report on its progress against its climate commitments in a fair, balanced and understandable way.

Brunel's responsible investment strategy and policy, Stewardship Policy and Climate Change Policy were developed in conjunction with key stakeholders, including the Brunel Oversight Board, Brunel Client Group and Client Responsible Investment Sub-group on which the Fund sits. Whilst the strategy and policies are designed for the long term (5+ years), they are reviewed annually. The Brunel Board approves and is collectively accountable for the broader suite of Brunel's policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by the Chief Responsible Investment Officer, who is supported by a dedicated Head of Stewardship to ensure high levels of coordination and implementation.

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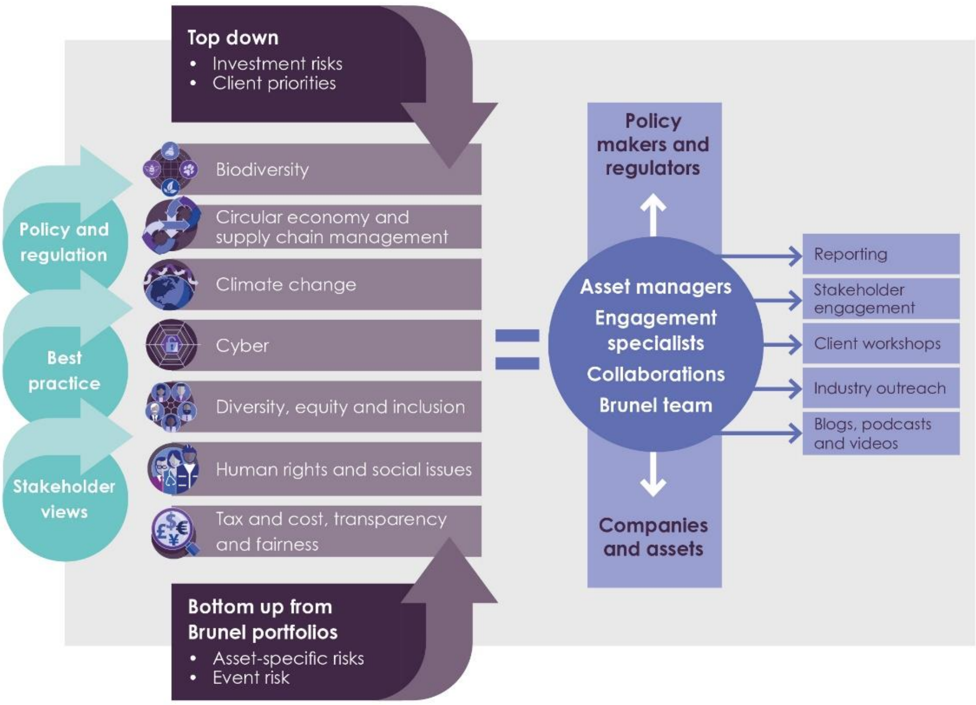


Reporting outputs provided by Brunel are reviewed by the RI Sub-group to ensure that stewardship reporting is understandable, fair, and balanced. Brunel publishes its stewardship activities, including engagement and voting records on its website.

Through Brunel the Fund receives an annual carbon metrics report. The Fund reports the results from the report in its annual TCFD report and uses the emissions data to assess performance against the annual reduction target set out in its Climate Change Policy.

Principle 6 - Client and beneficiary needs

The operation of the Oxfordshire County Council Pension Fund is principally governed by the Local Government Pension Scheme Regulations 2013 [as amended] (effective from April 2014). The scheme covers eligible employees and employees of other bodies eligible to be employers in the Scheme. A list of all those bodies with employees currently participating in the Scheme is shown on pages 13 - 17 of the Fund's 2021/22 annual report.

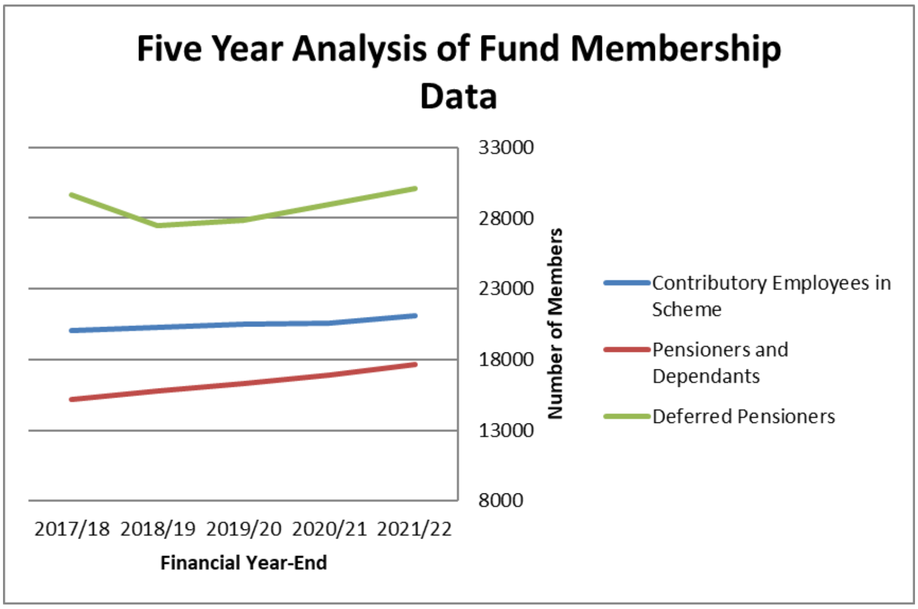
Benefits
The benefits payable under the Scheme are laid down by the 2013 Regulations. Pension payments are guaranteed and any shortfall is met through the Pension Fund linked to employer contribution rates set by the fund valuation. The Scheme is a 'defined benefit' scheme and provides a pension based on 1/49th of pensionable pay each year of membership with annual revaluation, adjusted in line with CPI.

The Oxfordshire County Council Pension Fund is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits being paid is invested. The contribution from employees is prescribed by statute at rates between 5.5% and 12.5% of pay.

Employers' contribution rates are set following the actuarial valuation, which takes place every three years. The contribution rate reflects the fund deficit or surplus and is the rate at which employers need to contribute to achieve a 100% funding level projected over 22 years.

The Fund again saw a further significant change in the employer base, with 22 new scheme employers and 24 leaving the Fund, resulting in a total of 179 active employers as at 31 March 2022. The majority of these changes were in the school's sector reflecting movement between academy trusts and outsourcing contracts for school meals and cleaning. The Fund had a total of 68,863 members as at 31 March 2022, an increase of 3.7% since the previous year.

A breakdown of the fund membership over the past five years is shown below:

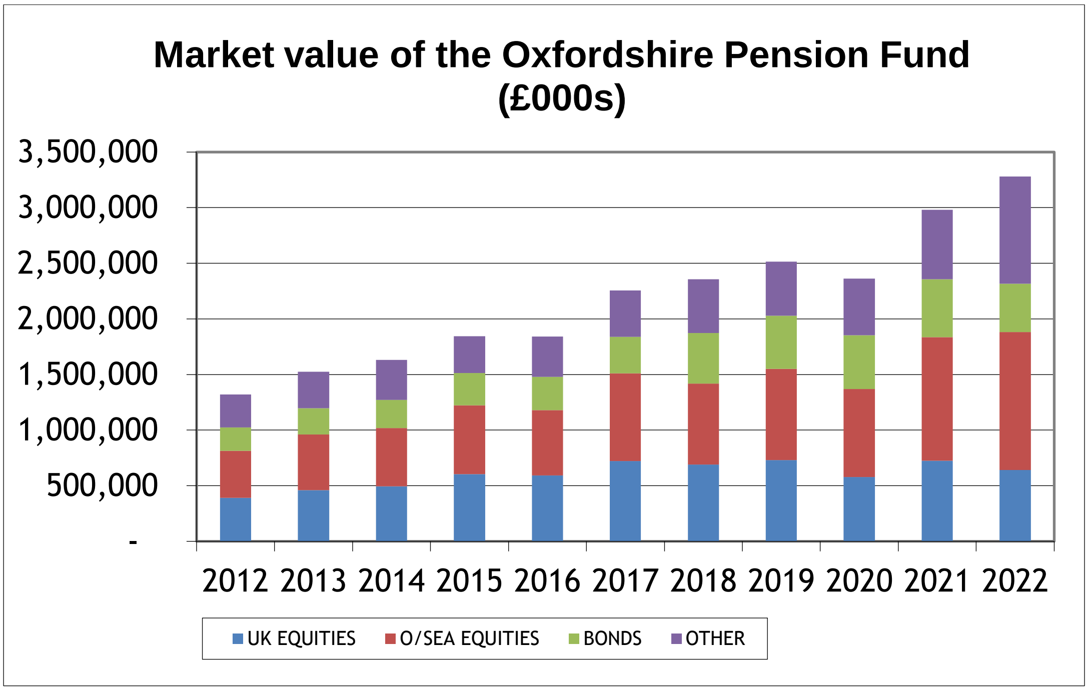


In terms of cash-flow, whilst the trend is downwards, the Fund remains cash positive, collecting £0.5m more on average each month in employer/employee contributions than it pays out by way of benefits, and direct administration and investment costs. This allows the Fund to maintain an investment strategy which maximises the long-term returns to the Fund, without the restriction of maintaining high levels of cash or liquid assets to meet pension payments, although this will need to be reviewed as part of the next strategic asset allocation due at the end of 2022/23.

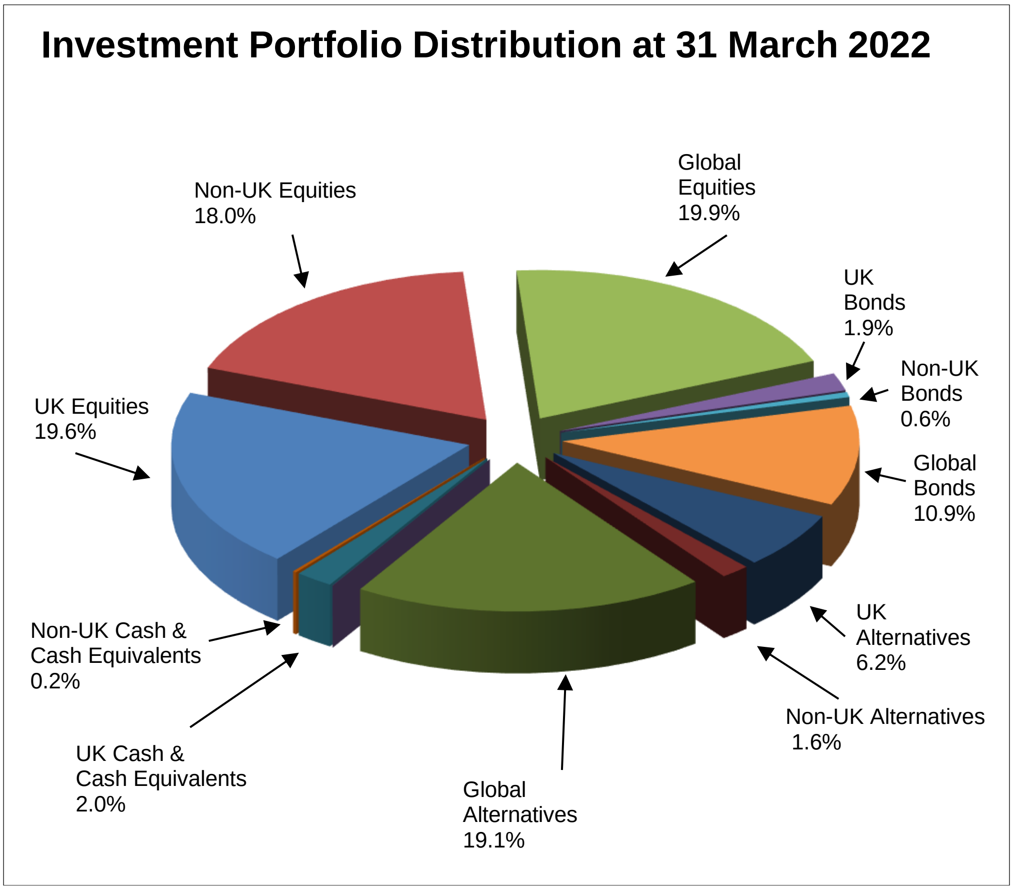
Investment Performance

The Fund increased in value by around £0.3billon over the course of the year, as the financial markets continued their post pandemic recovery. The total value of the investment assets was £3.3billion as at 31 March 2022.

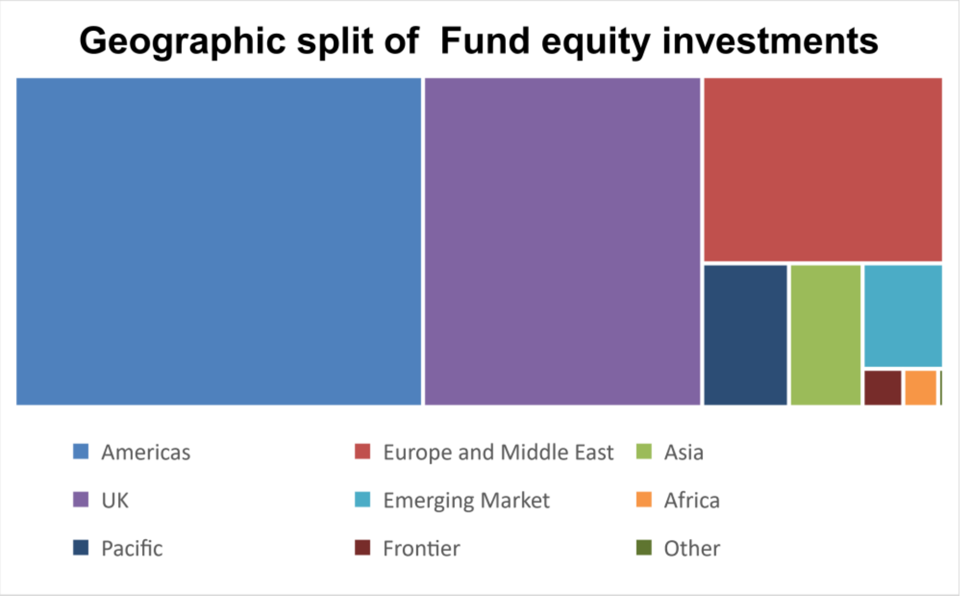
Market value of the Oxfordshire pension fund 2012 – 2022



The distribution of the Pension Fund amongst the principal categories of assets as at 31 March 2022 is shown in the chart below. Changes in the asset weightings, from one year to another, are due to investment activity and market movements.



Below is a chart showing the geographical distribution of equity investments of the fund as at March 2022.



Investment horizon
The Pension Fund is a long-term investor, with a long-term investment horizon. Even if the Fund closed to future accrual today the Fund could still need to be operating 80 years later, so it needs to be looking that far ahead to ensure it has sufficient funds to meet its liabilities at that point in the future.

The Fund recognises the importance of promoting the highest standards of corporate governance and corporate responsibility amongst investee companies in order to protect the long-term investment interests of beneficiaries. As part of its fiduciary duty, it is seeking to forge better futures by investing for a world worth living in.

Communication with stakeholders
The Pension Fund recognises the need to communicate effectively with its stakeholders and engage them in relation to the investment decisions made by and on behalf of the Fund.

There is a Communication policy which covers both members/beneficiaries and employers.

The Fund maintains a dedicated area of the website to provide resources and information about investments activity which includes information on:

- The Brunel Pension Partnership
- Strategy and policy documents, including the Climate Change policy and accompanying Implementation Plan
- Up to date investment holdings and voting activity downloadable reports
- Responsible investment statement

The Fund uses secure email, or My Oxfordshire Pension to communicate with members wherever possible, with paper letters only being sent on specific request or where no email address is available.

The main communication channels for the Scheme are via the website, email alerts or the appropriate newsletter. There is a quarterly newsletter sent out to members, and a monthly newsletter to employers.

As part of the Hymans Robertson governance review carried out in 2021 there was a recommendation to appoint a Governance Manager to reduce key person risk. When the role was created, it was decided to make this a Governance and Communications Manager post to enhance both governance and communications resourcing for the Fund.

Key policies such as the Investment Strategy Statement, Funding Strategy Statement, Communication policy and Governance Compliance statement are made freely available to stakeholders, both online and as appendices in the Annual Report. The Annual Report also contains information on stewardship and responsible investment, for example, a copy of the most recent TCFD report is included.

There are a number of initiatives around engaging members in relation to the fund and stewardship, for example, a Council Workers climate group meeting was addressed by the Head of Pensions, and there are member representatives on the Pension Committee. There has also been collaboration with stakeholders, for example Fossil Free Oxfordshire were consulted on the development of the climate change policy. Committee meetings are open to the public and allow members to voice their opinions and concerns directly to Committee-members and Officers. The agenda, minutes and papers for each Committee meeting are made available on the Pension Fund Committee page of the Oxfordshire County Council website.

On an ongoing basis, Officers respond to written and verbal questions and queries submitted directly by members or, on their behalf through unions, as well as Freedom of Information requests in relation to stewardship and responsible investment.

Although there are currently a number of different channels and approaches to communicating and engaging with stakeholders on the Fund's responsible investment and stewardship activity, there is scope for improvements in this area, with engagement levels relatively low given the size of the member base. This is not just an issue around stewardship, broader member engagement on pensions has proven to be consistently challenging. Going forwards the Fund's officers will be exploring different approaches to broaden and deepen member/beneficiary engagement, including around stewardship.

One area that the fund is looking to expand is to include more stewardship/responsible investment relevant content in the regular newsletters, as well as potentially producing more 'brochure' type content that is more accessible than a 30+ page report.

The creation of the Pension Fund Investment area of the website, with the facility for users to download holdings and engagement reports, has provided a good resource for those stakeholders interested in a more detailed understanding of what investments have been made on behalf of the Fund, and how the Fund exercises its voting rights. However, website traffic has been comparatively low, with only around 4% of those users accessing the Pension Fund website entering the Investment page. This is potentially an area where greater engagement can be developed, and the Oxfordshire Fund's staff will be exploring how best to go about this.

Principle 7 - Stewardship, investment and ESG integration

The Fund's Investment Strategy Statement makes clear that the systematic integration of stewardship into the investment process across all asset classes is fundamental to the Fund's ability to deliver improved risk adjusted returns and long-term sustainable pensions to its members and beneficiaries:

"*The Committee recognizes that environmental, social and corporate governance (ESG) issues, including climate change, can have materially significant investment implications. The Fund therefore seeks to be a responsible investor and to consider ESG risks as part of the investment process across all investments. The objective of responsible investment is to decrease investor risk and improve risk-adjusted returns. Responsible investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries." (ISS p.9)*

The Fund invests across a wide range of asset classes. These investments are managed by Brunel Pension Partnership, who in turn engage a range of asset managers. The only exceptions are relatively small holdings in private equity and a fixed income portfolio managed by Legal and General Investment Management.

The Fund has worked with Brunel Pension Partnership and other partner funds to define and develop the company's approach to responsible investment and stewardship, and to ensure that approach is aligned to the beliefs and policies of the partner funds, including Oxfordshire.

Fund managers produce reports outlining their engagement and ESG related activity. All the Fund's investment managers are signatories to the United Nations Principles for Responsible Investment Initiative. Fund managers and officers monitor ESG related developments and ad-hoc reports are produced for the Committee on topical ESG issues relevant to the Fund.

In 2019/20 the Pension Fund adopted a Climate Change Policy recognising this issue as the single most important factor that could materially impact its long-term investment performance, given its systemic nature and the effects it could have on global financial markets.

In order to help track and report on progress against the delivery of the Climate Change policy the Fund produces a report each year based on the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations. This TCFD report is included in the Annual Report.

Brunel Pension Partnership:
Responsibility for managing specific ESG risks, including climate risk, as they affect Brunel and its Clients, are explicitly incorporated into the role specifications of Brunel's' Board, executives, and other key personnel. Brunel expects appointed managers to weigh up and clearly demonstrate how Environmental, Social and Governance (ESG) risks and opportunities are embedded into their investment process and how it is as part of their wider evaluation of investment risk and return objectives, as opposed to treating them as a stand-alone concern.

Brunel has built its responsible investment approach on three pillars: to integrate sustainability criteria into its operations and investment activities; to collaborate with others across the industry and support effective policymaking; and to be transparent in its activities.

Responsible Investment Overview of ESG in action at Brunel

	To Integrate	To Collaborate	To be Transparent
Own Operations	• Board commitment • In all we do • Staff objectives	• Contributing to local and global community initiatives • Diversity and inclusion ambassadors	• Best practice own reporting including climate change, diversity and tax
Portfolio implementation	• All asset classes globally • Fully integrate into managers selection • Low carbon and sustainability portfolio options	• Innovating investment solutions • Cross pool collaboration • ESG risk metrics and tools	• Impact reporting • Positive case studies • Carbon and sustainability metrics
Responsible Stewardship	• Single voice • Active engagement	• Annual engagement plan • See Partnerships and Affiliations	• Proxy voting Policy and records • Pre-declaration on selective votes

The Fund has requirements to integrate stewardship considerations into the tendering process for providers of investment services.

Brunel, through its Asset Manager Accord, sets the expectation for tenders to supply asset management services to the Partnership. These expectations have been developed in cooperation with the pooled funds, including Oxfordshire, and will cover the majority of asset manager service providers.

The Fund also includes stewardship and responsible investment factors into the tendering processes for other investment service providers. For example, a recent tender that went out for the recruitment of a new Independent Financial Advisor to the Fund included the provision that the IFA will also be expected to attend meetings of the Climate Change Working Group, which is developing recommendations for the Committee on implementing the fund’s Climate Change Policy. Additionally, the tender scoring under the Quality criteria (which made up 90% of the total selection criteria) included a section on ESG Skills and Knowledge, which had a 20% weighting of the total.

Brunel's manager selection process is central to the effective implementation of its Responsible Investment, Stewardship and Climate policies. Managers must be able to clearly demonstrate how ESG is embedded into their investment process. Brunel also examines a manager’s organisational culture and approach to teams, challenge, risks, and approach to stewardship. The asset class, geography and risk objectives will have a bearing on which Responsible Investment and ESG risks will be most relevant to focus on when making an appointment, thus the manager selection criteria are determined for each search.

Through the pooled structure the Fund has delegated primary responsibility to Brunel Pension Partnership for setting expectations for asset managers and following up to see that these expectations are met.

Brunel’s Asset Management Accord was designed to help clarify understanding and shape expectations in the implementation of the investment accord awarded. The accord captures not only Brunel’s expectations of managers, but also the spirit of what they can expect from Brunel. It supports long-term sustainable finance and specifically calls on managers to work collaboratively with Brunel across five main areas. These are; long termism; communication; responsible investment and stewardship; collaboration; and thought leadership and innovation.

Brunel expects companies and fund managers to effectively identify and manage the financially material physical, adaptation and mitigation risks and opportunities arising from climate change as it relates to entire business models. Brunel has an expectation that companies should:

- put in place specific policies and actions, both in their own operations and across its supply chain, to mitigate the risks of transition to a low carbon economy and to contribute to limiting climate change to below 1.5°C above pre-industrial levels.

- disclose climate related risks and actions to mitigate these identified risks in line with latest best practice guidelines, such as those of the Financial Stability Board’s Taskforce on Climate-related Financial Disclosures (TCFD).

- include an assessment and scenario analysis of possible future climate change risks in addition to those that have already emerged. As part of its manager selection and ongoing monitoring Brunel use data from the Transition Pathway Initiative (TPI) and carbon foot printing. Both these tools greatly inform portfolio construction and design.

In line with its own Climate Change policy, the Oxfordshire Pension Fund commits to transitioning its investment portfolios to net-zero GHG emissions by 2050. The Fund also commits to transitioning its investment portfolios consistent with the best available scientific knowledge, including the findings of the Intergovernmental Panel on Climate Change, to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels. To achieve this goal in a sustainable and measurable way over time the Fund will target a 7.6% annual reduction in GHG emissions across its investment portfolios, provided that the 2020 baseline position of the Fund is broadly similar to that for global emissions.

Case study:
The Fund receives an annual report providing climate metrics from Brunel across the Fund's investment portfolios, so officers can monitor and assess progress against the Fund's climate change policy. This report includes an analysis of absolute emissions, weighted average carbon intensity (WACI), fossil fuel related revenues, reserves exposure and the disclosure rates among companies within the Fund's listed equity portfolio.

According to the 2021/22 carbon metrics report the Fund's Weighted Average Carbon Intensity as at 31 December 2019, 31 December 2020 and 31 December 2021 were 248, 204 and 206 million tonnes of CO_2 equivalent per million pounds revenue respectively, representing a reduction over the two-year period of 16.9% and an annualized rate of reduction of 8.9%, which is ahead of the 7.6% annual target.

The main driver behind the increase in the WACI figure in 2021 was an increase from the Fund's investment in the Brunel Sustainable Equities Portfolio which had a 61.8% increase in carbon intensity compared to 2020. In 2021 Brunel added managers to the sustainable equity portfolio that are actively targeting investments in companies who are at the forefront of the energy and industrial transition to Net Zero. These are leaders in challenging and difficult-to-abate sectors and so inevitably have a higher carbon intensity today than companies in most other sectors, whose own transition journey is dependent on such companies. These investments are essential to the transition, but our existing tools and ways of measuring risk do not always do them justice.

This highlights the drawbacks of only looking at a single metric and links into the Fund's target to develop additional metrics, including forward looking ones. In 2021 Brunel piloted the use of green revenues data with the support of FTSE Russell which showed that the Brunel Global Sustainable Portfolio had 10.9% exposure to green revenues compared to 8.5% in its benchmark, the FTSE All World, as of 31 December 2021.

Where climate targets are not being met then the Fund's first action would be to request further information from Brunel on the reason or reasons for not achieving the targets. Where there are mitigating circumstances, the Fund would assess these on a case-by-case basis. For example, if there is an increase in Scope 1 emissions for a manufacturer of air source heat pumps to meet rising demand then the Fund's officers would take into account the long-term sustainability benefits of enabling the transition of heating systems to electrification and away from fossil fuels.

The Fund recognizes that the integration of stewardship into the investment process may need to take different forms, dependent on factors such as asset class or geography.

Case study
The 2022 Carbon Metrics report for the Fund shows that, of all the equity portfolios that are invested into by the Fund, the Brunel Emerging Markets portfolio has the highest WACI at 383 tCO_2e per million GBP. However, this figure is over 30% below the WACI of its benchmark portfolio, the widest positive gap compared to the benchmark amongst any of the equity portfolios the Fund invests into. This indicates that, by investing into emerging market companies that are significantly less carbon intensive when generating revenues than their peers, capital is being allocated to companies in these markets that are on a positive transition pathway, even if current emission levels are high in comparison to developed markets companies.

Principle 8: Monitoring Managers & Service Providers

The Pension Fund Committee is responsible for all aspects of managing the pension fund, and receives reports on both investment and scheme administration issues. The terms of reference include the wide power to consider all relevant investment and administration issues. Monitoring of Brunel as the primary asset manager falls under the remit of the Committee.

The Pension Fund Committee receive quarterly investment performance reports and receive regular updates from Fund Managers which provide an opportunity to ensure their strategies are in line with expectations and to discuss any risks the Committee is concerned about. Officers also have regular meetings with the Independent Financial Adviser and Fund Managers through which performance is reviewed and key issues are discussed, including around stewardship and responsible investment.

The Competition and Markets Authority, CMA, published an “Investment Consultants Market Investigation” report that concluded, among other matters, that certain features of the investment consultancy market may have an adverse effect on competition and the CMA would implement some of the remedies by an Order. The order came into force as the “Investment Consultancy and Fiduciary Management Market Investigation Order 2019” and ensures that Investment Consultants must be set objectives.

This requirement applies to the Fund’s Independent Financial Adviser and the Fund also takes a report reviewing the performance of the IFA to Committee annually.

The Fund receives internal control reports from its fund managers and Custodian on an annual basis and these are reviewed by officers to identify any potential causes for concern and ensure issues have been suitably explained or rectified.

When appointing managers across all asset classes, Brunel evaluates across 6 P's, philosophy, policies, people, processes, participation, and partnership. These key issues form part of ongoing manager monitoring where a risk assessment is carried out on a quarterly basis and a rating given. This includes managers’ stewardship.

This is reviewed by the Brunel Investment Risk Committee. Further detail is included in Brunel's Responsible Investment policy.

In line with any procurement of third-party services, there is a monitoring process in place to ensure delivery of service meets expectations. In the event that expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

In evaluating the Manager and considering whether to place the Manager on Watch or even to terminate the mandate, Brunel will principally consider whether the expectation of long term outperformance is still intact. Demonstration of original idea generation, examples of detailed research on key issues and topics, thoughtful portfolio construction, application of good price discipline and evidence of successful trading with good cost control will all be viewed positively.

In contrast the following factors are likely to cause concern:

- Persistent failure to adhere to Brunel’s investment principles and the spirit of the Accord.
- A change in investment style, or investments that do not fit into the expected style.
- Lack of understanding of reasons for any underperformance, and/or a reluctance to learn lessons from mistakes. Conversely, complacency after good performance should be avoided.
- Failure to follow the investment restrictions or manage risk appropriately, including taking too little risk.
- Organisational instability or the loss of key personnel.

Case study
With the adoption of the Fund’s climate change policy and associated implementation plan it became clear that there needed to be regular reporting from Brunel as Asset Manager on the key metrics relating to climate change for the portfolios the fund invests into. Along with the other pooled funds Oxfordshire provided feedback to Brunel on the development of a set of climate metrics that could form the basis of an annual report. This report has now been developed and allows the Fund to both benchmark and measure progress against the commitments laid out in the climate change policy.

The report consists of a set of metrics including: weighted average carbon intensity (WACI); estimated future emissions from reserves; reserves exposure; and disclosure rates. These metrics are provided at both a portfolio level and an aggregated level. There is also a comparison of the carbon metrics measured against the benchmark for each portfolio.

To date these metrics cover the following portfolios:

- Brunel Global High Alpha Equities
- Brunel Emerging Markets Equities
- Brunel UK Active Equities
- Brunel PAB Passive Global Equities

- Brunel Global Sustainable Equities
- Brunel Sterling Corporate Bonds

The report also provides data on green revenues at a portfolio level.

This report allows the Fund to hold Brunel to account that it is meeting the commitments that it has defined in the climate change policy. Where this is not the case then the Fund's officers can use the portfolio level reporting to identify where the areas of highest risk are and act accordingly, including potentially changing the allocation levels to specific portfolios.

Principle 9 – Engagement

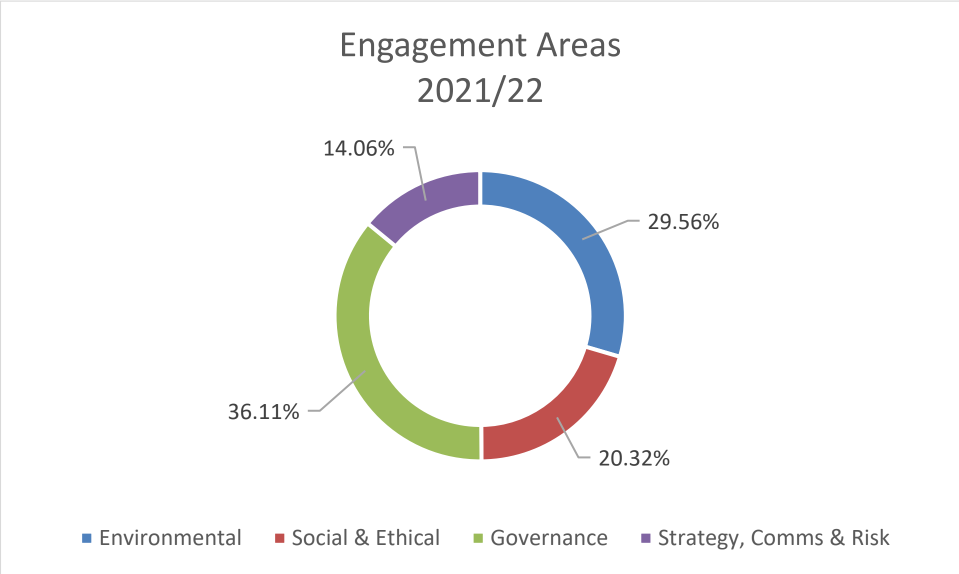
Voting and engagement form an important part of the Fund's management of ESG risks, with particular reference to climate-related risks. Engagement on behalf of the Pension Fund primarily takes place through Brunel, their appointed fund managers, and their engagement provider, in accordance with the approach set out in Brunel's Climate Change Policy, to which the Fund provides input. Voting is undertaken on behalf of the Fund by Brunel utilizing the expertise of their voting and engagement provider and appointed managers.

Brunel have contracted the specialist engagement and proxy voting firm EOS at Federated Hermes. Brunel selected EOS as its appointed engagement and voting services provider following a competitive tender and a comprehensive due diligence process.

Coverage includes segregated active equity portfolios and corporate fixed income. In line with any procurement of third-party services, there is a monitoring process in place to ensure delivery of service meets expectations, and in this instance that there is continued alignment of engagement and voting priorities and practices. Brunel is in regular contact with Hermes throughout the year. In the event that expectations are not met, Brunel would proceed to retender in line with its standard policies and practices.

During the financial year 2021/22 EOS Hermes on behalf of Brunel engaged with 1192 companies around 3615 objectives.

Below is a split of these engagements by area:



Expectations
The key expectations that the Pension Fund has of its engagement providers are laid out in the Fund's Engagement Policy. The primary expectation is that investee companies are engaged with to drive outcomes that are consistent with the Fund's climate change policy objective of aligning investments with the Paris Agreement goal to limit global temperature increases to 1.5°C.

Initially the focus for engagement will be on listed equities and corporate bonds which make up a large proportion of the Fund's investments and have more established processes and data to enable the Policy to be applied.

Given that there is less flexibility around stock selection in passive funds, the Fund has adopted an approach of moving its investments into a Paris Aligned Benchmark Index to deliver alignment with the Paris Agreement for this investment approach.

The Fund recognises that engagement approaches for other asset classes, such as property, infrastructure or private equity, will need to be developed in future iterations of the Policy due to the different nature of the investments and data sets available.

The Fund's engagement policy outlines its expectations for engagement. It should be transparent, the reasoning for decisions should be predictable, recorded and accessible as far as practicable. The engagement approach should take opportunities to signal positive change to the wider market and society.

Decisions on when and how to engage with investee companies should not be postponed or avoided in the absence of perfect data. Reasonable estimates should be used when actual data is unavailable. The absence of data, in itself, should be considered as a potential criterion fail where there is a reasonable expectation for a company to make the data available. It is primarily the responsibility of companies to generate verifiable data that can be used to guide investment decisions that integrate stewardship and responsible investment principles.

Engagement should follow the existing escalation process whereby, if insufficient progress is being made, additional actions will be initiated, including collaborative engagement with like-minded institutional investors, speaking at the company's AGM, voting against the chair and other board members, filing or co-filing a shareholder resolution, and raising concerns in the public domain.

Engagement will also aim to accelerate improvements in data quality and coverage by engaging with companies to disclose the required information for assessing alignment.

These expectations have been communicated to Brunel, and via them to EOS Hermes. The majority of engagement on behalf of the Fund relates to Paris 1.5°C alignment, as climate change has been identified as the biggest potential ESG risk to the Fund. EOS Hermes carries out a wide range of engagement on Paris alignment. As a fund, Oxfordshire has identified engagement with the Climate Action 100+ companies as a key target, given that these companies have some of the highest impacts on GHG emissions.

Case study: Methane
Reducing methane emissions this decade is probably the single most important action the world can take to reduce the rate of global heating. Methane warms the planet about 80 times more effectively than CO2 over a 20-year period, although after about a decade it starts to dissipate. Making swift reductions in methane would curb rising temperatures more quickly than carbon dioxide cuts in the short term.

Under the EOS Engagement Plan, EOS Hermes is seeking a 60-75% reduction in oil and gas operational methane emissions by 2030, from a 2015 baseline. Specifically, Hermes asks for methane reduction commitments and implementation plans to be aligned with the UNEP managed Oil & Gas Methane Partnership (OGMP) 2.0 to achieve a critical near-term outcome that progresses longer-term decarbonisation objectives.

Hermes engaged with ConocoPhillips, including in-person at the company's Houston headquarters in early 2022, and were pleased when it joined OGMP 2.0 later in the year.

Engagement with the biggest emitters to get them to reduce their GHG emissions is obviously fundamental to meeting the 1.5°C target. However, there are other related issues around the transition to a low carbon economy, such as those in the just transition case study below, that are also important to engage with companies on.

Case study – Just transition:
Transitioning to a low carbon economy will have a profound impact on workers, their families and certain communities, especially in the energy and transportation sectors. Without consideration of a just transition, investors risk marginalising communities and demographics already disproportionately impacted by climate

change, such as women and people of colour. At the same time, opportunities to lay the social groundwork for a resilient net-zero economy may be missed.

Through its engagements EOS Hermes has identified some companies articulating a just transition. For example, Hermes engaged with the US utility American Electric Power (AEP), asking for the disclosure of a clear just transition plan as it retires some assets, an assessment of the impact on the workforce, and a timeline to complete the transition. Hermes reported that they were impressed by the company’s detailed just transition section within its 2021 Climate Impact Analysis report.

The company has formed a special transition taskforce and partnered with a local NGO, the Just Transition Fund, to facilitate a dialogue for the retirement of the coal fired Pirkey Power Plant. It has helped 75% of the workers in the plant to move to other positions, either within or outside the company, or to retire when the plant is closed.

Hermes has stated that it will continue to engage with the company on its just transition plans for retiring additional coal plants and on its assessment of potential unintended social consequences in the supply chain.

Brunel's engagement priorities are formulated with clients and communicated to EOS. There are multiple and distinct touchpoints throughout the year that Brunel and its clients utilise to provide feedback on the engagement plan. To measure progress and the achievement of engagement objectives, a four-stage milestone system is used by EOS. When an objective is set at the start of an engagement, recognisable milestones that need to be achieved are also identified. Progress against these objectives is assessed regularly and evaluated against the original engagement proposal.

All engagement activity on behalf of the Fund by EOS Hermes is published quarterly on the Brunel website. Brunel publishes an annual Responsible Investment and Stewardship Outcomes report, which is made publicly available on their website.

Principle 10 – Collaboration

As an investor the Oxfordshire Fund understand that it needs to work collaboratively with other investors to amplify its voice and help drive a transition to a sustainable financial system where the Fund’s beneficiaries and members can enjoy their pensions. The Fund is one of ten local authority pension funds that have pooled their resources to create the Brunel Pension Partnership. Under the terms of that pooling arrangement Brunel is the nominated asset manager, with responsibility for company engagement, including collaborative engagements. In fact, collaboration is one of Brunel’s 12 core Investment Principles. There is an expectation of Brunel to leverage the power of collaborative engagement to help drive investee companies towards being more sustainable.

Brunel is a signatory to a number of different collaborative investor groups, including the Institutional Investor Group on Climate Change (IIGCC), The Climate Action

100+ group, Investor Policy Dialogue on Deforestation (IPDD) Initiative, Asset Owner Diversity Working Group and ShareAction.

Through membership of these collaborative groups Brunel is able to add its voice to those of other investors when engaging with companies, whether that be via the filing of joint investor resolutions or less formal engagements such as issuing requests for information from companies in high-risk geographies and sectors.

Although the main thrust of engagements on behalf of Oxfordshire focus on the delivery of its climate change policy, Brunel also engages on a wider range of themes on behalf of the Fund, for example on exposure to human rights issues.

Case study- Human slavery
Brunel has been part of a group of 39 investors, representing $3 trillion, that has written to 54 companies in The Gulf, focusing on high-risk sectors such as hospitality, construction and oil & gas. The programme, led by CCLA, seeks to engage companies across several key areas related to the recruitment and ongoing use of migrant labour, in order to minimise the risk of modern human slavery.

Of the 54 companies that were written to as part of the programme, 10 companies reported no current operations in the Gulf Nations and 16 failed to respond. Most companies fell short of best practice in a number of key areas – for example, only 33% of companies forbade recruitment fees and passport retention within their policies. Where companies had not disclosed issues, the engagement team shared effective practice utilised by their peers as well as documents outlining best practice. Where there were specific concerns, the engagement pushed for further information.

The Oxfordshire Fund is also a member in its own right of several investor groups. These include the IIGCC, CA100+ and the Local Government Pension Fund Forum (LGPFF). As a signatory to these alliances, it is supportive of the actions taken by these organisations to engage with companies on the key issues of relevance to the Fund's members and beneficiaries.

Case study – CA100+
During 2021 CA100+ continued to push their focus companies to adopt harder and faster actions to deliver against a Net Zero target. The initiative secured numerous commitments around setting net zero targets, improving climate lobbying disclosure and developing decarbonisation strategies.

For example:

- **Engie** committed to net zero emissions by 2045, following the negotiated withdrawal of a shareholder resolution
- **Ford** and **General Motors** set medium-term SBTi verified targets which include Scopes 1, 2, and 3. Both Ford's and General Motors' Scope 1 and 2 emissions targets are aligned with 1.5°C
- **Nissan Motors** has set goals to achieve carbon neutrality across the company's operations and the life cycle of its products by 2050, investing USD 17.6 billion over the next five years to speed up electrification of its products. The company also aims to have 100% of all new vehicle offerings in

key markets to be electrified by the early 2030s, which will comprise a 50% electrification mix by 2030.

- **Rio Tinto** has more than tripled its medium-term 2030 target, setting a new target to reduce absolute Scope 1 and 2 emissions by 50% by 2030.
- **Rolls-Royce** mapped out detailed decarbonisation plans, with clearer short- and medium-term targets. It committed to making all its civil aero-engines compatible with 100% Sustainable Aviation Fuel (SAF) by 2023 and embedded this target into its executive remuneration policy
- **Xcel Energy** expanded its greenhouse gas reduction target to deliver net-zero greenhouse gas emissions from its natural gas business by 2050. It makes Xcel Energy one of the first North American Climate Action 100+ electric power focus companies to set a comprehensive Scope 3 GHG target.

Principle 11 – Escalation

The Oxfordshire Pension Fund recognises that, although there is value to be gained from engagement with companies in terms of building relationships to help drive improved performance, engagement cannot be an end in itself. For engagement to be effective it requires there to be milestones and objectives set that should be delivered in a time limited manner.

This is where it is important for there to be a clear escalation path if progress is not being made quickly enough or is not going far enough. As mentioned elsewhere, as the Fund's pooled asset manager, Oxfordshire expects Brunel to carry out the majority of any engagements on its behalf, drawing on the support of their engagement and proxy voting advisory, EOS Hermes, where appropriate.

Within the Fund's climate change policy, expectations have been outlined that the companies in the investment portfolio will have developed realistic transition plans to move to alignment with a net zero by 2050 position and that progress over time against these plans can be seen.

The primary source of information on the progress of the highest risk companies is their performance against the CA100+ Net Zero benchmark, with the expectation being that it will be possible to see alignment by 2028 for the highest risk companies.

Companies that have not reached an alignment stage within the required timeframe will be added to an engagement list, with the endpoint being the potential for exclusion. This is very much a last resort and not seen as a desirable outcome. Prior to companies on the list being confirmed for exclusion there will be a qualitative analysis undertaken, including Brunel, client funds, and fund managers as appropriate. The purpose of this analysis is to ensure decisions are made in the best interests of client funds and to take into account the fact that any set of criteria cannot fully capture all elements relevant to an investment decision both in isolation and in terms of portfolio level impacts. The rationale for any decisions taken should be made publicly available as far as possible taking into account any confidentiality constraints.

Where companies are not meeting all the required criteria but are within the timeframe for exclusion, engagement will be utilised targeting those criteria not yet met, with the expectation that consistent progress towards the criteria will be demonstrated. Engagement will follow the existing escalation process where, if insufficient progress is being made, additional actions will be taken including collaborative engagement with like-minded institutional investors, speaking at the company's AGM, voting against the chair and other board members, filing or co-filing a shareholder resolution, and raising concerns in the public domain.

Brunel's investments cover thousands of companies; a pragmatic approach to escalation needs to be taken. Brunel operates a clear process of engagement escalation. Through the Brunel Investment Risk Committee (BIRC) and the Brunel Investment Committee Brunel may identify escalation to its investment managers. Brunel seeks updates on the company's its asset managers are engaging with, what they are engaging on, how they assess the risk, and what level of escalation they are undertaking. In parallel Brunel may look at the engagements EOS Hermes are undertaking, their engagement targets and escalation. Brunel may use collaborative engagement and reach out to other investors to elevate areas of concern to companies. Voting is an intrinsic part of the escalation process. Further details are outlined in Brunel's Stewardship Policy with the diagram below demonstrating the process.

Case study – Bank lending to fossil fuel companies
In 2020, Brunel co-filed a shareholder resolution in a shareholder collaboration organised by ShareAction at Europe's second-largest financier of fossil fuels, HSBC Bank. The resolution was subsequently withdrawn as it was replaced by a management-backed resolution committing the bank to phasing out its financing of the coal industry by 2030 in the OECD and by 2040 worldwide. HSBC also committed to publishing emission reduction targets for its oil and gas and power and utilities portfolios and to publishing a coal policy by the end of 2021.

In withdrawing the shareholder resolution, the group's expectations were communicated to HSBC in a letter to the CEO and Chair. It was made clear that further action would be taken the following year if Brunel were dissatisfied with the bank's progress. The bank's coal policy failed to meet expectations and contained significant loopholes, resulting in Brunel co-filing another shareholder resolution for 2022.

In February 2022, HSBC announced new climate commitments, acknowledging the findings of the IEA's Net Zero by 2050 report, which had proposed that, to achieve net zero emissions by 2050, there would need to be no new fossil fuel expansion.

HSBC also committed to review and update its coal policy by the end of 2022 and confirmed it would be updating the scope of its fossil fuel targets to cover capital markets – a significant inclusion. Brunel welcomed the commitments in a letter to the board, but plans to monitor the execution of these commitments closely.

The Fund's main route of engagement escalation, outside of Brunel, is through the Local Authority Pension Fund Forum (LAPFF). A range of factors inform how LAPFF undertakes an engagement, including the company, the sector, and the nature of the issue to be addressed. The primary means by which LAPFF chooses its engagements is driven by aggregate member holdings. If LAPFF's approach to engagement is met with resistance or deemed not to be progressing quickly enough, escalation routes may include voting recommendations to members such as voting against the re-election of board member(s), filing shareholder resolutions at company Annual General Meetings (AGMs), or taking a more public stance such as targeted media campaigns including press releases.

Case study – Escalation with BP
LAPFF has concluded that BP is amongst the most credible of the oil and gas companies in terms of articulating the outcomes of the Paris agreement. Most notable is BP's reference to a finite carbon budget irrespective of the 2050 date, as opposed to merely being net zero by 2050.

Nevertheless, the LAPFF alert in 2022 recommended voting against the BP Climate Change Plan and in favour of the resolution from 'Follow This' a Dutch led shareholder group. Both votes were triggered due to insufficient evidence of a plan for progress by 2030, despite ongoing engagement around this target.

LAPFF subsequently met with the Chief Executive of BP and engagement will continue.

Principle 12 - Exercising rights and responsibilities

Exercising voting rights is one of the fundamental tools that the Fund can use to influence the companies into which it invests. This acts as a safeguard of the long-term value of its investments. As such the Fund places a high value upon the exercising of these rights and seeks to vote 100% of its holdings.

Under the pooled nature of its holdings the Fund delegates responsibility for voting and the exercise of its rights and responsibilities as an investor to Brunel Pension Partner and their chosen proxy voting advisor.

Brunel aims to vote 100% of all available votes. To provide guidance to its managers, Brunel has a single voting policy for all assets managed by Brunel in segregated accounts. Hermes EOS has been appointed to support Brunel as its engagement and voting service provider.

The implementation of Brunel's voting guidelines is supported by EOS at Federated Hermes. The voting principles guide Hermes' voting recommendation alongside country and region-specific guidelines. Voting decisions are also informed by investment considerations, consultation with portfolio managers, clients, other institutional investors, and engagement with companies. The voting process, including the approach across asset classes, is explained in further detail in Brunel's Stewardship Policy.

Both the voting guidelines and Stewardship policy at Brunel are subject to regular review. The Oxfordshire Fund, alongside the other pooled funds are active participants in this process, ensuring that these policies, and how they feed into voting intentions, are representative of the needs and interests of the Fund's members and beneficiaries.

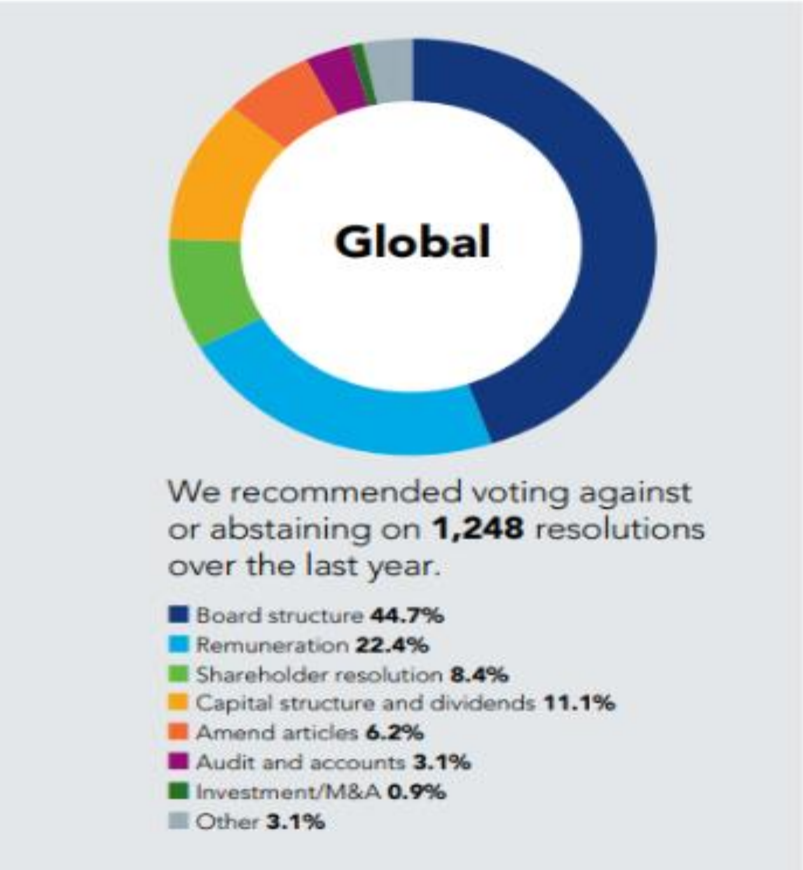
A significant proportion of the Oxfordshire Fund's equity investments are held in a passive portfolio. In this case any voting is carried out on its behalf by the asset manager for this fund, Legal and General Investment Management.

In the case of both Brunel/EOS Hermes and Legal and General Investment Management quarterly voting reports are shared with the Fund's Officers and reviewed to ensure that voting is in alignment with the Fund's expectations.

In 2021, EOS Hermes on behalf of the Fund made voting recommendations on 8,900 resolutions at 709 meetings. At 373 of those meetings, Hermes recommended opposing one or more resolutions, while at 4 meetings, they recommended abstaining. Hermes recommended voting with management by exception at 35 meetings and supported management on all resolutions at 297 meetings.

Brunel also make their consolidated voting records available to view on their website.

The breakdown of the issues on which it was recommended to vote against management on resolutions or abstain is shown in the graph below:



The Fund manages a small portfolio of listed private equity investments. Oxfordshire exercises its full voting rights for these investments, taking advice from its IFA on voting.

Case study – exercising voting rights
An activist investor had tabled a series of votes at one of the private equity funds that the Fund invests into, with the intention of taking control of the company. An analysis by the Oxfordshire Fund's IFA identified that the activist investor operated on a relatively short investment horizon, which would be unlikely to align with the Fund's longer-term investment approach. On that basis the Fund voted against the activist investor's proposals.