West Oxfordshire District Council Pooled Funds Summary

Background

Ten years ago, the Council decided to invest £12m over several pooled funds. Some of the original funds have been sold and re-invested in new ones. In recent times, with ethical investment considerations becoming part of Council policy, it has become important to look at where the Council funds are invested and assess using ESG (environment, social, and governance) practices in order to reduce their environmental footprint or to accomplish other objectives that can benefit society, this relates to socially responsible investing.

Externally managed Funds

Table 1 below shows the financial summary of each fund to date and their % holding in either Tobacco or Energy or both.

Table 1 West Oxfordshire Pooled Funds Financial Summary

Fund Manager	% of top 10 Holdings Tobacco/Energy	Original Investment	Value 31st March 2023	Value 31st March 2024	Dividends Received 2023/24	2023/24 Gain/(Loss)	Gain/(Loss) v Original Investment
	%	£	£	£	£	£	£
UBS (B/E)	10.41	2,000,000	1,466,810	1,466,417	93,100	(393)	(533,583)
Schroders (E)	14.60	1,000,000	886,450	890,477	62,724	4,027	(109,523)
Threadneedle UK (E)	7.10	1,000,000	1,053,841	1,093,543	38,314	39,702	93,543
CCLA Div (B/E)	-	3,000,000	2,771,963	2,908,273	97,021	136,310	(91,727)
M&G Strategic (B)	-	2,000,000	1,752,651	1,827,489	85,245	74,838	(172,511)
Royal London (L)	0.89	1,982,791	1,784,670	1,842,579	76,924	57,909	(140,212)
Aegon (L)	4.69	3,000,000	2,659,023	2,786,106	186,087	127,084	(213,894)
Total –current funds	**37.69**	**13,982,791**	**12,375,408**	**12,814,884**	**639,415**	**439,476**	**(1,167,907)**

A brief report produced in March 2024 showed an analysis of the top 10 holding of each fund and summarised that overall funds invested highly in financial services, technology and healthcare. Upon more detailed analysis, table 1 above shows the percentage invested in tobacco or petroleum products or both for each of the West Oxfordshire funds.

In consultation with West Oxfordshire Treasury Advisor's, Arlingclose, all fund managers were contacted and asked to provide more detail on their investment policies, below is a summary of each of their responses.

1. **UBS Multi Asset Income Fund, 10.41% in Energy**. For all funds UBS has a standard exclusion of investments in thermal coal. For this fund, no fund-specific policy exclusions on fossil fuels or tobacco.

2. **Schroders Income Maximiser Fund, 5.5% Tobacco & 9.1% Energy**. Schroders' policy is to exclude companies which generate more than 20% of their revenues from thermal coal

mining. Schroders' Climate Engagement and Escalation framework prioritises engagement with the highest emitting companies they own and those where Schroders' ownership is the highest. No other fund-specific policy exclusions on fossil fuels or tobacco.

3. **Threadneedle UK Equity Income fund, 7.10% Tobacco.** No fund-specific policy exclusions on fossil fuels or tobacco

4. **CCLA Better World Cautious Fund, 0% in either Petrol or Tobacco.** Policy includes:

- a restriction upon investing in fossil fuel producers (defined as a company that derives more than 5% of revenue from the extraction of coal or tar sands and/or a company that derives more than 10% of revenue from the extraction and/or refining of oil and gas)
- avoiding investing in companies producing tobacco products and/or deriving more than 5% of turnover from tobacco.

5. **M&G Strategic Corporate Bond Fund, 0% in either Petrol or Tobacco.** No fund-specific policy exclusions on fossil fuels or tobacco. M&G takes a forward-looking and engagement-focused approach to coal phase-out, as they believe this is more likely to drive positive real-world change. In line with M&G's Thermal Coal Investment Policy, investee companies in the OECD and EU must cease coal-related activities by 2030, with a 2040 deadline for the developing world. Where companies cannot or will not adopt a credible plan, M&G will classify for divestment.

6. **Royal London Investment Grade Short-Dated Credit Fund, 0.89% in Energy.** The Fund will not invest in the bonds or other securities of companies or other organisations that generate more than 10% of their turnover from either one or a combination of the following:

   1) Armaments – The manufacture of armaments, nuclear weapons or associated strategic products

   2) Tobacco – The growing, processing or selling of tobacco products

   3) Fossil Fuels - the exploration, extraction and refining of oil, gas or coal

7. **Aegon (Kames) Diversified Monthly Income Fund, 1.44% in Energy and 3.25% in tobacco:** No fund-specific policy exclusions on fossil fuels or tobacco. Aegon funds may only invest in those issued by entities on Aegon's Watch List following an enhanced due diligence and subject to ongoing suitability review and challenge by the relevant Control Committees. This Watch List includes companies:
   - that derive 5% or more of their revenues from tobacco production.
   - that derive 30% or more of their revenue from the exploration, mining or refining of thermal coal. The proportion of revenue threshold will decline to 10% in 2027 and 5% in 2029.
   - that produce more than 20 million tonnes of thermal coal annually and are actively expanding exploration, mining or refining operation.
   - that own coal-fired electricity generation capacity greater than 10 gigawatts and are actively expanding coal-fired electricity production capacity.
   - deriving 30% or more of their total oil equivalent production from oil sands
   - that are pipeline operators and which are significantly involved in oil sands transportation.

Financial Implications

Since investing in these pooled funds, the Council has earned Dividends of £3.302m at an annualised return of 3.42%. Due to the continuing financial instability in the markets, that started in 2021/22, there is a current capital loss on all the pooled funds of £1,167,907.

If West Oxfordshire Council were to consider selling any of their pooled funds, then the capital loss would have to be accounted for and the annual income, currently 3.42%, would need to be found elsewhere within the limits of the Strategy.

In terms of alternative investments then for longer-term, more than one year, with little ESG considerations, Supranational Bonds could take the place of the funds. Current yields are as follows:

Issuer	Maturity	Basis	Yield
European Inv Bk	Jun 2024	Fixed	5.21%
Nordic Inv Bk	Jul 2026	Fixed	4.69%
IBRD World Bank	Jul 2028	Fixed	4.31%
IBRD World Bank	Dec 2029	Fixed	4.23%
Nordic Inv Bk	Jun 2032	Fixed	4.34%
European Inv Bk	Jun 2037	Fixed	4.43%
European Inv Bk	Apr 2039	Fixed	4.58%
European Inv Bk	Mar 2044	Fixed	4.69%
European Inv Bk	Oct 2054	Fixed	4.69%

Yields as at 07.05.2024

If, for example you invested the current value of your fund portfolio into the European Investment Bank Bond of Jun 2037 at a yield of 4.43% this would generate an additional 1% income on the £13.660m = £136k a year additional return and over 9.7 years you would recover the current capital loss.

However, whilst Supranational Bonds do provide capital appreciation, they are long term investments so the Council would not be as liquid as they are now. Arlingclose, our treasury advisors, think we will recover the capital losses (circa £830k @ the end of June) much quicker than 9.7 years in the above example. We may not want to tie up cash in longer term investments if we do not have to – our current pooled funds can be liquid within 2-4 days.

It is a delicate balancing act between ethical funds, liquidity, financial stability and minimising losses.