HOMES & COMMUNITIES AGENCY PENSION SCHEME

STATEMENT OF INVESTMENT PRINCIPLES

1. INTRODUCTION

The Trustees of the Homes & Communities Agency Pension Scheme ("the Scheme") have drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 1995 ("the Act") as amended by the Pensions Act (2004) and subsequent regulations.

2. DECISION MAKING STRUCTURE

As required under the Act, the Trustees have consulted a suitably qualified person in obtaining written advice from Mercer. The Trustees, in preparing this Statement, have also consulted Homes & Communities Agency ("the Sponsoring Organisation").[1]

The Trustees do not expect to revise this Statement frequently because it covers broad principles. However, the Trustees will review the Statement at least once every three years, and without delay if there are relevant, material changes to the Scheme and/or the Sponsor. These include changes in the Scheme's liabilities and finances and in the attitude to risk of the Trustees or the Sponsor.

Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from their Investment Consultant, Mercer, and is driven by their investment objectives as set out in Section 3 below.

The remaining elements of policy are part of the day-to-day management of the assets which is delegated to professional investment management and described in Section 5.

The Investment Sub-Committee ("ISC") is responsible for addressing the investment issues relating to the Scheme which are defined in the Terms of Reference for the Investment Committee. In particular, the ISC is responsible for implementing the Trustees' overall investment policy in such a way as to achieve the Scheme's investment objectives. It has decision-making authority only in those areas specifically delegated to it by the Trustees and will make recommendations to the Trustees for approval in other areas.

The Trustees maintain an Investment Implementation Policy Document (IIPD), which contains the detail of the Scheme's investment arrangements. While complementing the Statement, the IIPD does not form part of the Statement and therefore Sponsor consultation is not required for revisions to the IIPD.

[1] Homes England is the trading name of the Homes & Communities Agency

3. INVESTMENT OBJECTIVES AND RISK MANAGEMENT

3.1 Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed over the Scheme's anticipated lifetime, the Trustees have considered their objectives and adopted the following:

The main objective of the Trustees is to maintain sufficient future security within the Scheme to ensure the assets cover the defined benefits. Within the context of this objective, Homes & Communities Agency wish to minimise cash-flow variation between financial years as far as possible to within an acceptable range, and the Trustees wish to protect members' benefits. The investment policy therefore reflects a balance between the following:

- A requirement to maintain a reasonable level of investment risk to keep the cost of the benefit accrual at an acceptable level
- A requirement by the Sponsor to be willing to make contributions to assist in the recovery of the funding level as required;
- An acceptance by the Trustees that without a Government guarantee to fund the Scheme, a continued exposure to equity markets implies members bear a significant part of any risk. However, as part of the 2020 actuarial valuation the Trustees have obtained a "letter of comfort" from the Department for Levelling Up, Housing and Communities ("DLUHC") (formerly known as the Ministry of Housing, Communities & Local Government (MHCLG)), which has confirmed that it will make sufficient resources available to Homes England to meet its pension liabilities as they fall due (including payments under the current and future Schedule of Contributions and to satisfy Section 75 debt requirements).

3.2 Risk Management Methodology

There are various risks to which any pension scheme is exposed. The Trustees review these risks at least on a triennial basis as part of a formal analysis of the Scheme's assets and liabilities. This analysis enables the Trustees to assess the level of risk within the Scheme's asset portfolio relative to the Scheme's liabilities. It also allows the Trustees to implement the most appropriate strategy which balances the need to meet the investment objectives and risks the Scheme faces. In particular, the Trustees have considered the following risks:

- The risk of deterioration in the Scheme's funding level.
- The risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustees.
- The risk of a change in attitude to the Scheme by the employer.
- Liquidity Risk, both for the benefit payments and to meet collateral calls.
- Environmental, Social and Governance ("ESG") risks which are covered in more detail in Section 6.

- When considering the benchmarks to be used, the Trustees consider the risk associated with the equity market concentration and currency risk.

The Trustees have put in place the following measures to manage the risk associated with the Scheme's investments:

- The estimated funding level is monitored no less frequently than on a quarterly basis by the Trustees;
- The investment policy takes into account the potential for changes to the Sponsor's contribution rate;
- To provide some protection from inflation and interest rates, a liability hedging mandate is in place;
- Within the 'return seeking' portfolio is one equity mandate, two multi-asset credit funds, a secured finance fund and corporate bond fund, to provide additional diversification and reduce the volatility as compared to an all equity portfolio.
- The Trustees have also implemented a High Lease to Value (HLV) property fund to diversify the 'return seeking' portfolio further.
- The equity allocation has been set to take account of a wide range of assets suitable for a pension scheme and to remove a proportion of the currency risk associated with investing in non-sterling markets. The exposure is implemented on a global basis and the funds invested in take a more proactive approach to managing Environmental, Social and Governance (ESG) risks;
- The assets are divided between various active and passive managers. This reduces the risk associated with one manager having responsibility for all the Scheme's assets;
- With the exception of the passively managed portfolios, the managers have some discretion to move away from their benchmark positions to seek to enhance the return relative to their benchmarks, but constraints have been set to limit the extent of discretion given to each manager.

The Trustees acknowledge that it is not possible to monitor all the risks the Scheme is exposed to at all times. However, they seek to accept those risks they expect to be rewarded for over time, in the form of excess returns, in a diversified manner.

The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments[2] are held by the Scheme. The managers are prevented from investing in asset classes out with their mandate without the Trustees' prior consent.

Arrangements are in place to monitor the Scheme's investments to help the Trustees check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the ISC meet regularly with the Scheme's active managers and receive regular reports from all the investment managers and the Investment Consultant.

The safe custody of the Scheme's assets is delegated to professional custodians (via the use of pooled vehicles).

[2] Suitable Investments are investments which are deemed appropriate for the risk and return objectives of the underlying manager appointments.

Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered; in particular, whether the current risk profile remains appropriate.

3.3 **Investment Strategy**

A review of the Scheme's investment strategy was carried out in 2018. The Trustees agreed to change the overall Scheme strategy to 75% Growth Assets and 25% matching/Liability Driven Investment ("LDI") strategy. Following improvement in the Scheme's funding level, in October 2022 the Trustees agreed to de-risk the strategy further and target a 70% growth/30% matching strategy. The Trustees will review the continued appropriateness of the investment strategy on a regular basis and in response to any significant changes to the Scheme, or financial circumstances of the Sponsor or the Scheme.

The Trustees have determined, based on expert advice from Mercer, a benchmark mix of asset types and ranges within which the Investment Managers may operate with discretion; these guidelines are set out in Section 5.

The Trustees believe that the resulting asset mix is currently appropriate for meeting the objectives set out in 3.1 and controlling the risks identified in 3.2.

3.4 **Expected Return**

The Trustees expect to generate a return, over the long term, of circa 2.4% per annum (net of expenses) above Government bonds (based on analysis as at October 2022). It is recognised that over the short term performance may deviate significantly from the long term target.

4. INVESTMENT BELIEFS

4.1 The Trustees have set out their Investment Beliefs in the Statement of Investment Beliefs document which sets out the Scheme's investment principles that:

4.2

- Reflect the views and beliefs of the Trustees of the Homes & Communities Agency Pension Scheme ("the Trustees") taking into account the views of the Scheme's sponsor, Homes England[3] ("the Agency").
- Govern the manner in which the assets of Homes & Communities Agency Pension Scheme (the "Scheme") are invested.
- Form the basis for the development of investment policies.
- Provide a documented framework to assess at a later date the rationale for the current investment approach.

[3] Homes England is the trading name of the Homes & Communities Agency

5. DAY-TO-DAY MANAGEMENT OF THE ASSETS

5.1 Main Assets

Following de-risking considerations in October 2022, the revised target benchmark is detailed below:

Total Scheme Target Benchmark

Asset Class	Benchmark %	Monitoring benchmark
Total Equities	20.0	Composite
Multi-Asset Credit	15.0	SONIA*/SOFR**
Corporate Bonds	20.0	Merrill Lynch Sterling All Non Gilt Index
HLV Property	7.5	LPI
Secured Finance	7.5	SONIA*
Liability Driven Investment ("LDI")	30.0	Liability Cashflows
Cash	0.0	
Total Scheme	**100.0**	**Composite**

*Sterling Overnight Index Average
**Secured Overnight Financing Rate

The Trustees invest the main assets of the Scheme with a number of investment managers. The investment managers have responsibility for the day-to-day discretionary management of the assets, subject to the guidelines set out below and in the Investment Implementation Policy Document. All assets are invested in pooled funds.

The Trustees accept that it is not possible to specify investment restrictions where assets are managed via pooled funds. Nevertheless, notwithstanding how the assets are managed the Trustees will take appropriate legal and investment advice regarding the initial and ongoing suitability of the investment management agreements and relevant investment vehicles.

The Investment Managers have full discretion to buy and sell investments on behalf of the Scheme, subject to agreed constraints and applicable legislation. They have been selected for their expertise in different specialisations and each manages investments for the Scheme to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured. The Investment Implementation Policy Document ("IIPD") gives details of each Investment Manager's mandate as set out in their respective investment management agreements.

The individual investment managers have separate performance benchmarks and investment restrictions details of these benchmarks can be found in the IIPD.

The Trustees will monitor the allocation between each of the managers and take into account the rebalancing policy as set out in the IIPD.

The Trustees are satisfied that the spread of assets by type and the investment managers' policies on investing in individual securities within each type provides adequate diversification of investments.

5.2 Fee Structure

Details of the Scheme's investment managers' fee scales are detailed in the IIPD.

5.3 Realisation of Investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustees monitor the allocation between the appointed managers and between asset classes and rebalance the portfolio as set out in the IIPD based on advice from the Investment Consultant. All new contributions available for investment into the Scheme and cashflows out of the Scheme required for benefit outgo, are to be directed in line with the re-balancing policy as set out in the IIPD.

The investment managers are responsible for generating any cash required for benefit outgo and other expenditure on the instruction of the Trustees.

6. ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

The Trustees believe that good stewardship, environmental, social and corporate governance ("ESG") issues may have an impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustees also recognise that long-term sustainability issues, including climate change, present risks and opportunities that increasingly may require explicit consideration. The Trustees have taken into account the expected time horizon of the Scheme when considering how to integrate these issues into the investment decision making process.

The Trustees recognise that by investing in pooled funds, their investment managers have full discretion when evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the Scheme's investments. This includes undertaking engagement activities, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustees consider how ESG, climate change and stewardship is integrated within investment processes in appointing new investment managers and evaluating existing investment managers. The Trustees take into account the Investment Consultant's ESG ratings that are assigned to the respective investment managers' funds. In doing so, the Trustees consider the ESG ratings relative to the ratings distribution of the investment universe in which each fund sits, in order to help determine whether any action should be taken.

Where incumbent managers of the Scheme launch similar strategies, with a greater ESG integration focus, to the main strategy that the Scheme already invests in, the Trustees believe it is appropriate to assess the ‘ESG tilted’ strategy, including on risk/return and cost grounds, and decide whether to move to the alternative strategy.

Within LDI portfolios, ESG-tilted investments should be considered at the LDI Managers discretion, giving careful consideration to yield in comparison to an equivalent non-ESG-tilted investment of similar nature, credit-quality and maturity.

The Trustees have not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future. The Trustees believe it is important to review, at least on an annual basis, what actions the managers have taken in relation to ESG considerations on behalf of the Scheme, including on voting and engagement activity where appropriate.

Member Views

Member views are not explicitly taken into account in the selection, retention and realisation of investments but members are updated at least annually on any changes to the Scheme’s investment arrangements and the Trustees also make available a copy of the Statement of Investment Principles. The Trustees consider the Sponsoring Organisation’s view on ESG when setting investment beliefs.

7. INVESTMENT MANAGER MONITORING AND ENGAGEMENT

7.1 Incentivising the investment manager to align its investment strategy and decisions with the Trustees’ policies:

To implement the policies in sections 3-5 above, the Trustees appoint investment managers based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class for which the Trustees have appointed them.

For active mandates, the Trustees look to their Investment Consultant for their forward looking assessment of a manager’s ability to outperform over a full market cycle. This view will be based on the Investment Consultant’s assessment of the manager’s idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Scheme invests in. Mercer’s manager research ratings assist with due diligence and questioning managers during presentations to the Trustees. These ratings are used in decisions around selection, retention and realisation of manager appointments.

If the investment objective for a particular manager’s fund changes, the ISC will review the manager’s appointment to ensure it remains appropriate and consistent with the Trustees’ wider investment objectives. Some investment managers are appointed to actively manage assets and the managers are incentivised through performance targets (an appointment is monitored quarterly but will be reviewed following periods of sustained underperformance or significant outperformance). The ISC will review the appropriateness of using actively managed funds (on an asset class basis) on a regular basis on behalf of the Trustees.

As the Trustees invest in some pooled investment vehicles, they accept that they have no ability to specify the risk profile and return targets of the manager, but appropriate mandates can be selected to align with the overall investment strategy.

7.2 Incentivising the investment manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer, and to engage with issuers in order to improve their performance in the medium to long-term:

The ISC, on behalf of the Trustees will also consider the Investment Consultant’s assessment of how each investment manager embeds ESG into its investment process and how the manager’s responsible investment philosophy aligns with the Trustees’ responsible investment policy. This includes the investment manager’s policy on voting and engagement. The Trustees will take this assessment into account in decisions around selection, retention and realisation of manager appointments.

The Trustees delegate the investment management reviews to the ISC who meet with the investment managers approximately annually and can challenge decisions made including voting history (in respect of equities) and engagement activity to try to ensure the best performance over the medium to long term.

Investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then the manager may be replaced.

7.3 Aligning the evaluation of the investment manager's performance and the remuneration for investment management services with the Trustee policies:

The Trustees receive investment manager performance reports from the Investment Consultant on a quarterly basis, which present performance information over 3 months, 1 year and 3 years periods. The Trustees review absolute performance, relative performance against a suitable index used as a benchmark, where relevant, and against the manager’s stated target performance (over the relevant time period) on a net of fees basis. The Trustees’ focus is primarily on long term performance but short term performance is also reviewed.

If a manager is not meeting performance objectives, or their investment objectives for the mandate have changed, the Trustees may ask the manager to review their fees or decide to terminate the appointment.

7.4 Monitoring portfolio turnover costs incurred by the investment manager:

The Trustees will monitor portfolio turnover costs as part of an annual governance review in the future. The Trustees receive MiFID II (Markets in Financial Instruments Directive II) reporting from their investment manager.

The ISC will ask investment managers to include portfolio turnover and turnover costs in their presentations to the ISC going forwards. The ISC will engage with a manager if portfolio turnover is higher than expected. This is assessed by comparing portfolio turnover relative to the manager’s specified portfolio turnover range in the investment guidelines or prospectus, and by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same manager fund.

7.5 The duration of the arrangement with the investment manager:

The Trustees are long term investors and are not looking to change investment arrangements on a frequent basis. There is therefore no set duration for manager appointments. The Trustees will retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or investment manager;
- The manager performance or processes are reviewed and the Trustees decides to terminate for a more suitable appointment.

8. COMPLIANCE WITH THIS STATEMENT

The Trustees will monitor compliance with this Statement annually and obtain written confirmation from the investment managers that they have given effect to the investment principles in this Statement, so far as reasonably practicable, and that in exercising any discretion, the investment managers have done so in accordance with Section 5 of the Occupational Pension Schemes (Investment) Regulations 2005.

9. REVIEW OF THIS STATEMENT

The Trustees will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustees and the Sponsoring Organisation which they judge to have a bearing on the stated Investment Policy.

This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and the Sponsoring Organisation will be consulted.

Signed: .... **Date:** 30 December 2022

For and behalf of the Trustees of the Homes & Communities Agency Pension Scheme

1st Amendment: July 2000
2nd Amendment: February 2001
3rd Amendment: December 2001
4th Amendment: August 2002
5th Amendment: January 2004
6th Amendment: June 2004
7th Amendment: March 2005
8th Amendment: March 2006
9th Amendment: January 2007
10th Amendment: April 2008
11th Amendment: October 2010
12th Amendment: May 2013
13th Amendment June 2015
14th Amendment: June 2017
15th Amendment: February 2019
16th Amendment: September 2019
17th Amendment: July 2020
18th Amendment: February 2021
19th Amendment: November 2021
20th Amendment: October 2022
21st Amendment: December 2022