

London & Quadrant Housing Trust Staff Benefits Plan - Final Salary Section

Statement of Investment Principles – October 2023

Introduction

The Trustees of the London & Quadrant Housing Trust Staff Benefits Plan (“the Plan”) have drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pensions Funds (Investment) Regulations 2005.

The Statement is intended to affirm the investment principles that govern decisions about the Plan’s investments. In preparing this Statement the Trustees have consulted the Sponsoring Employer (‘The London & Quadrant Housing Trust’) on the Trustees’ investment principles.

Governance

The Trustees of the Plan make all major strategic decisions including, but not limited to, the Plan’s asset allocation and the appointment and termination of investment managers. The Process for making investment decisions is as follows:

- Identify appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives
- Implement and investment strategy and investment manager structure in line with the level of risk and objectives agreed

When making such decisions, and when appropriate, the Trustees take proper written advice. The Trustees’ investment consultants, Hymans Robertson, are qualified by their ability in and practical experience of financial matters and have the appropriate knowledge and experience.

Investment Objectives

The Trustees are required to invest the Plan’s assets in the best interest of the members. Their main objectives with regard to investment policy are:

- The achieve, over the long term, a return on the Plan’s assets which is consistent with the assumptions made by the Plan Actuary in determining the funding of the Plan.
- To ensure that sufficient liquid assets are available to meet benefit payments as they fall due
- To consider the interests of the Employer in relation to the amount and volatility of the Employer’s required contributions.

The Trustees understand, following discussions with the Employer, that the employer is willing to accept a degree of volatility in the Employer’s contribution requirements with the intention of reducing the overall long-term cost of providing the Plan’s benefits. The Trustees believe that the covenant of the Employer supports this approach.

Risk Management and Measurement

The Trustees are aware of and pay close attention to a range of risks inherent investing the assets of the Plan. The Trustees believe that the investment strategy provides for adequate diversification both within and across different asset classes. The Trustees further believe that the current investment strategy is appropriate given the Plan’s liability role. The Trustees’ policy on risk management is as follows:

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- The primary investment risk faced by the Plan arises as a result of a financial mismatch between the Plan's assets and its liabilities. This is therefore the Trustees' principal focus in setting investment strategy, taking into account the nature and duration of the Plan's liabilities.
- The Trustees recognise that longevity improvements, and changes in other demographic factors, can alter the cost of the Plan benefits, in turn, potentially affecting the funding risk of the Plan. The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review.
- The Trustees recognise that a higher risk profile may result in increased return over the long term. They acknowledge, at the same time, that it may also increase the risk of a shortfall in returns required to cover the Plan's liabilities and greater short-term volatility in the Plan's overall funding position. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered the implications of adopting different levels of risk.
- The Trustees are aware of the dangers of inadequately diversified investments and are mindful of the mismatch of assets versus liabilities and therefore they aim to ensure a diversified investment across a wide range of asset classes.
- The Trustees note the systemic risk the Plan is exposed to and the possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Plan's liabilities. Climate change is a particular systemic risk that has the potential to cause economic, financial and demographic impacts.
- The documents governing manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Plan.
- The Trustees recognise that active fund management increases the risk that the assets fail to achieve their expected returns. However, they also believe this higher risk of failure can be outweighed by the higher returns achievable from successful active management. The Plan's assets are therefore managed through a combination of active and passive management, the relative proportions of which may be adjusted from time to time.
- The Trustees recognise the extent to which Environmental, Social and Governance (ESG) issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- The Trustees recognise the extent to which climate change could cause a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts and the expected transition to a low-carbon economy.
- The safe custody of the Plan's assets is delegated to professional custodians via the use of pooled vehicles.
- The Trustees do not expect managers to take excess short-term risk relative to their objectives and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long term basis.
- Investment strategy will be reviewed every three years or sooner if the Trustees deem it necessary.
- At this point the Trustees will decide what risks to analyse based upon the performance of the investment managers.

In the event of a material change in the Plan's circumstances, the Trustees will review their risk policy to ensure it remains appropriate.

Investment Strategy

Given the investment objectives the Trustees have agreed to the strategic asset allocation detailed in the Appendix. The Trustees believe that the investment risk arising from the investment strategy is consistent with the overall level of risk being targeted.

The Real and Nominal LDI funds employ leverage (i.e. the level of protection provided against changes in longer-term interest rates/inflation expectations is greater than the amount invested) which can fluctuate above and below target level. These funds have an upper and lower hedging limit in place, and if either are breached then this triggers an LDI leverage rebalancing event, resulting in money being (respectively) requested or released from the LDI fund (Further details on the investment funds can be found in Appendix). The Trustees have established a default cash, management policy for these events (see below).

Cash flow Management

Any cash flows (including for LDI leverage rebalancing) will be directed towards and taken from the collateral waterfall:

- Tier One: Physical Equities
- Tier Two: Asset Backed Securities
- Tier Three: Investment Grade Bonds

As the Plan generally needs to disinvest to pay benefits, ignoring financial market movements, this cash flow policy is expected to result in the allocation to equities reducing gradually over time. This is in line with the long term de-risking trajectory of the Plan.

The Trustees may decide to change part of this cash flow policy from time-to-time, subject to receiving the necessary advice from their investment consultant.

The Trustees will regularly monitor the Plan's actual asset allocation and decide if any changes are required, such as redirecting cash flows, switching between asset classes, or taking no action. The Trustees will take into account advice from their investment consultant prior to making any decision.

Expected Return

The Trustees expect to generate a return over the long term of circa 1.6% per annum over gilts, net of expenses, based on modelling assumptions as at May 2023. This return is a "best estimate" of future returns that has been arrived at given the Plan's longer-term asset allocation and in light of advice from the investment consultant.

The Trustees recognise that over the short-term performance, may deviate significantly from this long-term expectation. This "best estimate" will also generally be higher than the estimate used for the actuarial valuation of the Plan's liabilities. For this purpose, a more prudent estimate of returns will generally be used, as agreed by the Trustees on the basis of advice from the Scheme Actuary.

Platform Provider

The Trustees have appointed Mobius Life Assurance Limited ('Platform Provider') to manage all of the assets of the Plan. The provider is regulated under the Financial Services and Markets Act 2000. All decisions about the day-to-day management of the assets have been delegated to the Platform Provider via a written agreement, including the realisation of investments.

Investment Mandates

The Trustees have selected the following managers (the 'Investment Manager'): Bank of New York Mellon ('BNY Mellon'), Ruffer LLP ('Ruffer'), Legal and General Investment Management ('LGIM'), Insight Investment Management Limited ('Insight'), Barings LLC ('Barings'), and Columbia Threadneedle ('CT'), to manage the assets of the Plan via as single policy with the Platform Provider. The investment Manager are themselves regulated under the Financial Services and Markets Act 2000.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set as a percentage of assets under management. The Trustees periodically review the fees paid to all of the Plan's managers, and if deemed necessary, will seek evidence that the fees are competitive.

The Trustees review the nature of Plan investments on a regular basis, with particular reference to suitability and diversification. If, at any time, investment in a security or product not previously known to the Trustees are proposed, appropriate advice is sought and considered to ensure its suitability.

The Trustees recognise the long-term nature of the Plan's liability profile and appoint its managers to invest in such a way that generates long-term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision-making process, to ensure the managers make investment decisions over an appropriate time horizon aligned with the Plan objectives.

The duration of each mandate is considered by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the minimum period over which performance of the mandate can be appropriately evaluated and the costs of change amortised. The Trustees review the performance of each of its managers and mandates on a quarterly basis against the benchmark and objectives of the mandate. Managers may be asked to provide explanation for any significant deviations away from benchmark or target. Material deviation from performance is likely to result in the mandate being formally reviewed.

Portfolio Turnover

Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expect managers to report on at least an annual basis on the level and cost of turnover within the portfolio over the period. The Trustees will challenge the Plan's managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive. This will typically be assessed relative to the previous years' levels.

When selecting actively managed funds, the Trustees will consider, with the help of their investment advisor, the expected level of turnover given the fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Corporate Governance

The Trustees support best practice in terms of shareholder activism. In the case of pooled funds, they accept that the day-to-day exercise of voting rights is necessarily carried out by investment managers. The Trustees do however expect their investment manager to adopt a voting policy in accordance with best industry practice.

The Trustees are supportive of the UK Stewardship Code which seeks to improve the quality of engagement between institutional investors and investee companies. Where appropriate, the Trustees expect investment managers to comply with the code and to produce a statement of their commitment to the code.

Socially Responsible Investment

Consideration of financially material factors in investment arrangements

The Trustees believe their main duty is to protect the financial interests of the Plan's members. The Trustees recognise that financially material factors which may include ESG factors such as climate change, should be considered when choosing, holding or realising investments. The Trustees take account of financially material factors over the period for which the Trustees expect investments to be required to fund future benefits. As part of this, the Trustees acknowledge that ESG factors may be relevant at different stages of the investment process.

The strategic benchmark has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors.

The Trustees have not made an explicit allowance for the risks of climate change in setting their strategic benchmark.

Within active mandates, the Trustees have delegated responsibility for the consideration of stock specific issues to their individual investment managers. In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal freedom to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the benchmark. The Trustees have elected to invest via pooled fund arrangements and therefore have no direct influence over the policies the manager have in place to govern to pooled funds.

In selecting new investment managers for the Plan, where relevant to the investment mandate, the Trustees will give consideration to potential managers' approach to responsible investment and the extent to which managers integrate ESG issues in the investment process as a factor in their decision making. Minimum manager standard for responsible investment are expected (e.g. being signatory to the Principles for Responsible Investment) unless there is good justification for the manager adopting a different approach. Trustees receive advice from their investment consultants when making manager selections, which includes a view on the managers' approach to ESG.

Consideration of non-financial factors

Given the objectives of the Plan, the Trustees' current policy is not to consider any non-financially material factors in the development and implementation of their investment strategy. For this purpose, "non-financial matters" means the views of the members and other beneficiaries, including (but not limited to) their ethical views, their views in relation to social and environmental impact and their present, and future quality of life.

The Trustees have not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of rights (including voting rights), engagement with investment managers and the monitoring of compliance by investment managers with agreed policies (which are the managers' house policies in the case of pooled funds).

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

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Where appropriate, the Trustees will engage with and may seek further information from their investment managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly with debt or equity issuers but believe it is appropriate for their investment managers to engage in stewardship activity with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. As the Trustees invests via an investment platform, there is no direct relationship between the Trustees and the investment managers. The Trustees accept that investment managers will not notify the Trustees about any particular stewardship activities.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees understand that conflicts of interest may arise in the management of the Plan and its investments. When appointing new a platform provider or choosing investment managers' funds, the Trustees will seek to establish that the provider/manager has an appropriate conflicts of interest policy in place. When notified, the Trustees will consider the impact of any conflicts of interest arising in the management of the funds used by the Plan.

Monitoring

The Trustees will review manager voting activity on an annual basis in conjunction with their investment advisor. Where the Trustees deems it appropriate, any issues of concern will be raised with their manager for further explanation.

The Trustees endeavour to meet with all their investment managers periodically but will prioritise these meetings based on need. The Trustees provide their managers with an agenda for discussion, including, where appropriate, management of ESG risks and engagement activity.

Additional Voluntary Contributions ("AVCs")

The AVC arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and that the investment profile remains consistent with the objectives of the Trustees and needs of the members.

Compliance with Myners Principles

The Trustees believe that they comply with the spirit of the Myners' Principles. There may be some instances of deviation from the published 'Best Practice Guidance' on the principles where the Trustees believe this to be justified.

Employer Related Investments

The Trustees' policy is not to hold any employer -related investments as defined in the Pensions Act 1995, the Pensions Act 2004 and the Occupational Pensions Funds (Investment) Regulations 2005.

Fee Structures

The Platform Provider and the Investment Managers are paid a management charge on the basis of the assets under management. No additional performance fees are payable.

The Investment consultant is paid on a project basis, which may be a fixed fee or based on time cost, as agreed between the Trustees and the investment consultant from time to time.

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Review of this Statement

The Trustees will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believe to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension scheme investments.

Joanne Fairbairn

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Trustee



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Date 13-Dec-2023 | 13:00 GMT

For and on behalf of the Trustees of the London & Quadrant Housing Trustee Staff Benefits Plan

Appendix – Investment Mandates

The Trustees have appointed LGIM, Ruffer, Barings, BNY Mellon, Insight and CT to manage the assets of the Plan via a single policy with the Mobius Life investment platform. The Investment Managers and Platform Provider are regulated under the Financial Services and Markets Act 2000. Their mandates are set out below:

Asset class	Fund Name	Management Style	Benchmark Allocation (%)	Rebalancing Ranges +/- %
Growth			24.5	5%
Physical Equities	LGIM Future World Global Equity Fund	Passive	12.0	-
	LGIM World Emerging Markets Equity Index Fund		2.5	-
DGFs	Ruffer Absolute Return Fund	Active	10.0	-
Income			34.0	5%
Multi Asset Credit	Barings Global High Yield Credit Strategies Fund	Active	6.0	-
Investment Grade Bonds	BNY Mellon Global Dynamic Bond Fund	Active	13.0	-
Asset Backed Securities	Insight High Grade ABS Fund	Active	15.0	-
Protection		-	41.5	-
LDI	CT Real Dynamic LDI Fund	Mechanistic	25.0	-

	CT Nominal Dynamic LDI Fund	Mechanistic	16.5	-
Total	100.0		100.0	