Statement of Investment Principles (SIP): Onward Pension Plan

This is the Statement of Investment Principles (the “Statement”) made by the Trustee (the “Trustee”) of the Onward Pension Plan (“the Plan”) in accordance with the Pensions Act 1995 (as amended). The Statement, which was approved by the Trustee on 10 November 2023, is subject to periodic review at least every three years and without delay after any significant change in investment policy.

In preparing this Statement, the Trustee has consulted with the employer to the Plan (Onward Homes) and has taken and considered written advice from the Investment Practice of Hymans Robertson LLP.

The Plan is a defined benefit plan which is closed to accrual and to new members, although a small number of members retain a final salary link to their accrued benefits at date of closure.

The Trustee is aware of the Myners Code of Conduct for Investment Decision Making and has reviewed its responsibilities and activities in the context of the Code.

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

Plan objective

The primary objective of the Plan is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The Trustee’s over-riding funding principles for the Plan are to set the employer contribution at a level which is sufficient:

- to recover any shortfall in assets relative to the value placed on accrued liabilities over the longer term; and
- to ensure that there are always sufficient assets of the Plan (at their realisable value) to meet 100% of benefits as they fall due for payment to members.

The value of liabilities is calculated on the basis agreed by the Trustee and the Plan Actuary. The funding position is monitored regularly by the Trustee and formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustee has translated its objectives into a suitable strategic (asset allocation) benchmark for the Plan. The strategic benchmark is consistent with the Trustee’s view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The strategic benchmark is reflected in the choice and mix of funds in which the Plan invests.

The investment strategy takes account of the maturity profile of the Plan (in terms of the relative proportions of liabilities in respect of pensioners and deferred members), together with the level of disclosed surplus or deficit (relative to the funding bases used) and the Trustee's view of the covenant of the principal employer.

The Trustee monitors strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Plan, and will normally be reviewed annually. Written advice is received as required from professional advisers.

The Trustee has delegated all day to day investment decisions to authorised investment managers.

Choosing investments

The Trustee has appointed two investment managers to manage the Plan's investments. All investment managers are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Trustee has appointed each of its investment managers to deliver a specific performance target, which overall will align to deliver the broader Plan investment strategy. The Trustee ensures that all manager engagements have clearly defined benchmarks, objectives and management parameters.

Where appropriate, and where commercial considerations permit, the terms of the mandate and the basis on which the manager is engaged will be defined specifically for the Plan. Where such tailoring is not directly achievable, the Trustee will invest in pooled funds where the objectives of the fund and the policies of the investment manager will be evaluated by the Trustee to ensure that they are appropriate for the needs of the Plan.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustee may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustee periodically reviews the fees paid to all of its managers against industry standards.

The Trustee reviews the nature of Plan investments on a regular basis, with particular reference to suitability and diversification. The Trustee seeks and considers written advice from a suitably qualified person when determining the appropriateness of each manager and mandate for the Plan, particularly in relation to diversification, risk, expected return and liquidity. If, at any time, investment in a security or product not previously known to the Trustee is proposed, appropriate advice is sought and considered to ensure its suitability. The Trustee recognises the long-term nature of its liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. With the support of the investment advisor, the Trustee will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Plan objective.

The duration of each mandate is determined by the Trustee at the inception of each mandate. For open-ended investments, the Trustee generally engages managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustee expects the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustee expects the term of the appointment to be the lifetime of the investment.

The Trustee will review the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

The Trustee monitors its managers' performance against their respective targets on a quarterly basis over a long-term time horizon of 3 years. The Trustee will measure a fund's relative tracking error where appropriate. Managers are expected to provide explanation for any significant deviations away from target.

A summary of the Plan's investment mandates, and the respective benchmarks are included in the appendix.

Kinds of investment to be held

The Plan may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, and commodities either directly or through pooled funds.

The Plan may also make use of contracts of insurance, derivatives, and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient implementation of their strategy, efficient portfolio management or to hedge specific risks. The Trustee considers all of these classes of investment to be suitable in the circumstances of the Plan.

Balance between different kinds of investments

The Plan's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks or return targets. Within each major market each manager will maintain a diversified portfolio of securities.

Risk

The Plan is exposed to a number of risks which pose a threat to the Plan meeting its objectives. The principal risks affecting the Plan are:

Funding risks

- Financial mismatch – The risk that Plan assets fail to grow in line with the developing cost of meeting the liabilities.

- Changing demographics –The risk that longevity improves, and other demographic factors change, increasing the cost of the Plan benefits.

- Systemic risk - 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 Trustee measures and manages financial mismatch in two ways. As indicated above, the Trustee has set a strategic asset allocation benchmark for the Plan. The Trustee assesses risk relative to that benchmark by monitoring the Plan's asset allocation and investment returns relative to the benchmark. The Trustee also assesses risk relative to liabilities by monitoring the delivery of returns relative to liabilities.

The Trustee keeps mortality and other demographic assumptions, which could influence the cost of benefits, under review. These assumptions are considered formally at triennial valuations and the Trustee may enter into insurance contracts (bulk annuities or longevity swaps) to reduce these demographic risks.

The Trustee seeks to mitigate systemic risks through a diversified portfolio, but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Plan cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Plan's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.
- Environmental, Social and Governance (ESG) risks – the extent to which ESG issues are not reflected in asset prices and/or not considered in investment decision making leading to underperformance relative to expectations.
- Climate risk - The extent to which climate change causes a material deterioration in asset values as a consequence of factors including but not limited to policy change, physical impacts, and the expected transition to a low-carbon economy.

The Trustee manages asset risks as follows. The Trustee provides a practical constraint on Scheme investments deviating greatly from the intended approach by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within their expected parameters.

By investing across a range of assets, including quoted equities, bonds (and possibly in the future bulk annuity policies), the Trustee recognises the need to access funds in the short term to pay benefits. The risk of manager underperformance is mitigated by the inclusion of passive investment mandates within the investment portfolio.

In appointing the Plan's investment managers, the Trustee has considered the risk of underperformance by any single investment manager.

The Trustee does not expect managers to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short-, medium- and long-term basis.

The Trustee's approach to the consideration of ESG risks and climate risk is set out in further detail below.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers.
- Custody risk - The risk of loss of Plan assets or when held in custody or when being traded.

- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Trustee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and review of the operations it conducts for the Plan, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). When carrying out significant transitions, the Trustee seeks professional advice.

Expected return on investments

The investment strategy aims to achieve a return on Plan assets, which taken in conjunction with contributions, is sufficient over time to match growth in the Plan's pension liabilities.

Realisation of investments

The majority of the Plan's investments may be realised quickly if required.

Portfolio turnover

The Trustee has expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustee's knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee expects managers to report on at least an annual basis on the underlying assets held within the portfolio and details of any transactions over the period. The Trustee will challenge its managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

The Trustee will request turnover costs incurred by the asset manager over the Plan reporting year.

Consideration of financially material factors in investment arrangements

The Trustee recognises that the consideration of financially material factors over the appropriate time horizon of the investments, including ESG factors, is relevant at different stages of the investment process. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others.

The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention, and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will require that their investment managers take such considerations into account within their decision making.

Strategic considerations

The strategic benchmark has been determined using appropriate long-term 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.

Given the inherent uncertainty, the Trustee has not made explicit allowance for the risks of climate change in setting their strategic benchmark. The Trustee periodically discusses climate change with their investment adviser/investment managers to consider the potential implications for the Plan's investments.

Structural considerations

Given the discretion afforded to the active Investment Managers, the Trustee expects that their Investment Managers will take account of all financially material factors including the potential impact of ESG factors in the implementation of their mandate.

Selecting investment managers

Within active mandates, the Trustee has delegated responsibility for the consideration of stock specific issues to their individual Investment Managers. The Trustee has discussed the extent to which ESG issues, where relevant to the investment mandate, are integrated into the investment processes of their Investment Managers and are satisfied that the Investment Managers are following an approach which takes account of all financially material factors.

In selecting new investment managers for the Plan, where relevant to the investment mandate, the Trustee explicitly considers 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.

The Trustee meets with the Plan's investment managers regularly, and the managers are expected to address manager performance and company engagement. Managers will be challenged on their approach where this is not aligned to the Trustee's policies.

The Trustee expects its investment consultants to provide input and analysis to assist the Trustee in assessing their managers' performance. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the manager as part of its engagement process and request that the manager takes appropriate action. This may include concerns over performance, risk management, stewardship practices, investment process and operational issues and, where such concerns are raised, the Trustee will require the manager to demonstrate levels of improvement. Failure to achieve the desired improvements will result in the mandate being reduced or terminated.

Consideration of non-financially material factors in investment arrangements

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

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustee has adopted a policy of delegating voting decisions on stocks (where relevant) 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.

Where relevant, the Trustee has reviewed the voting policies of their Investment Managers and determined that these policies are appropriate. On a periodic basis, the Trustee will request their Investment Managers provide details of any change in their house policy.

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

The Trustee does not engage directly but believes it is appropriate for its investment managers to engage with key stakeholders which may including corporate management, regulators, and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance, and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The

Trustee will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

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 Trustee expects 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 Trustee separately considers any conflicts of interest arising in the management of the Plan and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place. Managers are required to disclose any potential or actual conflict of interest to the Trustee.

Monitoring

Investment Managers will report on voting activity (where relevant) to the Trustee on a periodic basis. The Trustee will monitor Investment Managers' voting activity and may periodically review managers voting patterns. The Trustee may also monitor Investment Managers' voting on particular companies or issues affecting more than one company.

The Trustee will aim to meet with all their Investment Managers on a periodic basis. The Trustee will provide its managers with an agenda for discussion, including issues relating to individual holdings and, where appropriate, ESG issues. Managers are challenged both directly by the Trustee and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Signed For and on Behalf of the Trustee of the Onward Pension Plan.

January 2024

Appendix – Strategic Asset Allocation

The Scheme's Strategic Asset Allocation is as follows:

Strategic Asset Allocation

Asset	Strategic Allocation
Equity exposure (with downside protection)	(50%)
Total Growth	**(50%)**
Multi-Asset Credit	30%
Total Income	**30%**
Collateral (supporting equity and hedging)	70%
Total Protection	**70%**
Total	**100%**
Return p.a. (Gilts +)	**2.35%**

Collateral is held within a segregated mandate with Schroders Investment Management. This supports equity and hedging exposures for the Plan.

Multi-asset credit exposure is achieved via an income mandate with M&G Investment Management Ltd - the Total Return Credit Investment Fund.

As part of their strategic decisions, the Trustee have set a target level of hedging for interest rate and inflation risks which they expect to keep broadly in line with the Plan's technical provisions funding level.