

Southern Housing Group Pension Plan

Statement of Investment Principles ("SIP")

Purpose of this Statement

This SIP has been prepared by the Trustee of the Southern Housing Group Pension Plan (the "Plan"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Plan.

The Plan's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

Details on the Plan's investment arrangements are set out in the Investment Implementation Document ("IID").

This Statement covers both the 1964 and 2017 Sections of the Plan.

Governance

The Trustee of the Plan makes all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee believes that their investment advisers, Isio, are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Plan.

Investment objectives

The Trustee invests the assets of the Plan with the aim of ensuring that all members' current and future benefits can be paid. The Plan's funding position will be reviewed on an ongoing basis to assess the position relative to the funding target and whether the investment arrangements remain appropriate to the Plan's circumstances. The Plan's funding target is specified in the Statement of Funding Principles.

The Plan's present investment objective is to achieve a return of around 1.2% per annum above the return on UK Government bonds for the 1964 Section, and around 1.4% per annum above the return on UK Government Bonds for the 2017 Section.

Investment strategy

The Trustee takes a holistic approach to considering and managing risks when formulating the Plan's investment strategy.

The Plan's investment strategy was derived following careful consideration of the factors set out in Appendix B. The considerations include the nature and duration of the Plan's liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of employer contributions required to fund the Plan, and also

the strength of the sponsoring company's covenant. The Trustee considered the merits of a range of asset classes.

The Trustee recognises that the investment strategy is subject to risks, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. This risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities.

The assets of the Plan consist predominantly of investments which are traded on regulated markets.

Investment Management Arrangements

The Plan's investments are made through a platform provider. With advice, the Trustee has selected underlying funds from the platform to implement the agreed strategy. The platform provider will be responsible for:

- Investing in the chosen underlying funds in the proportions agreed by the Trustee, adjusted as necessary from time to time.
- Providing the Trustee with quarterly performance reports and asset valuations.
- Asset rebalancing and meeting cash flow requirements, when required.

The Trustee has selected eleven funds available on the platform in which to invest the underlying assets of the Plan as listed in the IID. The investment managers and platform provider are 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 investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention, and realisation of investments including taking into account all financially material considerations in making these decisions.
- The exercise of rights (including voting rights) attaching to the investments.
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Plan's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Plan's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	Method for monitoring and engagement	Circumstances for additional monitoring and engagement
Performance, Strategy and Risk	<ul style="list-style-type: none">• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered by the Trustee.	<ul style="list-style-type: none">• There are significant changes made to the investment strategy.• The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations.• Underperformance versus the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	<ul style="list-style-type: none">• The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental, and corporate governance issues.• The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.• The Trustee will engage, via their investment adviser, with investment managers and/or other relevant persons about relevant matters at least annually.	<ul style="list-style-type: none">• The manager has not acted in accordance with their policies and frameworks.

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement

is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The policy of the Trustee is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Scheme (Investment) Regulations 2005 except where the Plan invests in collective investment schemes that may hold employer-related investments. In this case, the total exposure to employer-related investments will not exceed 5% of the Plan's total asset value. The Trustee will monitor this on an ongoing basis to ensure compliance.

Direct investments

Direct investments, as defined by the Pensions Act 1995, are products purchased without delegation to an investment manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from its investment adviser.

Compliance

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Name and position:

Signed:

Date:

Appendix A – Investment Beliefs

Environmental, Social and Governance (ESG) Beliefs

In selecting investments the Trustee believes that ESG matters can be financially material. In particular the Trustee believes that:

- Given global commitments to transition to a low carbon economy, as well as the risk that actions taken to limit global warming are too little too late (and result in future temperatures increasing beyond 2 degrees above pre-industrial levels), both transition and physical risks may have a detrimental impact on future returns and are risks that need to be managed.
- Environmental risks extend beyond carbon management and that companies having a negative impact in other areas (e.g. biodiversity loss, water pollution, etc) may also underperform as a result of reputational risk, consumer behaviour and government action.
- There is sufficient evidence of a link between strong governance practices and a company's ability to create sustainable value, that governance factors should be taken into consideration in investing and engagement activities.
- The link between a company's behaviours in relation to social factors and its financial performance may be more difficult to evidence, but even so failures of social responsibilities can lead to financial detriment, e.g. through lower productivity of a dissatisfied workforce, labour strikes, reputational issues and penalties from negative impact on local communities or failings within the supply chain to meet standards on such matters as modern slavery.

As a consequence, pension schemes should invest in strategies where the Investment Manager takes such matters into consideration, either through their engagement strategy or, in the case of active fund management, additionally through their stock selection.

Engagement and Engagement Priorities

The Trustee recognises the importance of being a responsible owner of capital. It believes it is important that there is engagement on ESG matters with investments held on behalf of schemes where it is Trustee. The Trustee would usually expect its appointed fund managers to carry out this engagement on its behalf and will seek to appoint fund managers whose approach to engagement is consistent with its beliefs.

Engagement should be prioritised where there is likely a material financial risk or opportunity. As at the last review of this beliefs policy, the Trustee recognised the following as engagement priorities:

- Carbon emissions and related climate issues.
- Corporate activity to the detriment of biodiversity.
- Labour standards and in particular Diversity, Equity and Inclusion (DEI) and modern slavery are considered a governance priority.
- Suitable executive remuneration structures, aligning board interests with those of stakeholders.

Fund managers should be able to evidence that, as far as is relevant, they have engaged with their investments on these matters. This engagement should extend beyond equity holdings

and include companies in corporate bond mandates as well as other assets e.g. engagement with tenants of commercial property.

Voting and Significant Votes

Within equity mandates, the Trustee believes that fund managers should seek to vote on 100% of resolutions. However, the Trustee recognises that some votes will be more significant than others, based on their likely financial materiality.

The Trustee views the votes on the following as matters that would be a significant vote:

- Any matter when they relate to one of a scheme's 10 largest holdings.
- Shareholder resolutions on climate related policies and activities that would result in significant biodiversity loss.
- Company proposals that would be at odds with the expectations of the UK Corporate Governance Code (to the extent that compliance would be reasonable in the market in question). This would include, but is not limited to, matters of excessive or inappropriate executive remuneration; issues relating to board make up (including DEI, lack of term limits and lack of chair independence) and ineffective audits.

Engagement versus Capital Allocation

In most ESG matters, The Trustee favours increased engagement over divestment, while accepting there are circumstances where an exclusionary approach may be appropriate, for example:

- Where despite repeated attempts at engagement, a company shows no indication that it will seek to improve its practices.
- Catastrophic failings within a company e.g. material or repeated breaches of the voluntary UN Global Compact initiative.
- Where political risks cause a related investment risk and/or there are sanctions applied.
- In the context of a passively managed fund, subject to suitable diversification, it may be appropriate to adjust a constituent's index weight by ESG factors, such as its carbon emissions, in order to manage thematic risks (and seek to deliver better risk adjusted returns).

Identifying Climate and other ESG related investment opportunities

ESG is not solely about managing investment risks. Attractive investment opportunities may also exist e.g. investing in infrastructure that supports the transition to a greener economy is a potential growth opportunity.

Appendix B – Risks, Financially Material Considerations (including ESG and climate change) and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	The risk that the Plan's position deteriorates due to the assets underperforming.	<ul style="list-style-type: none">• Selecting an investment objective that is achievable and is consistent with the Plan's funding basis and the sponsoring company's covenant strength.• Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Plan assets available to cover ongoing and future liability cash flows.	<ul style="list-style-type: none">• Funding risk is considered as part of the investment strategy review and the actuarial valuation.• The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	The risk that the sponsoring company becomes unable to continue providing the required financial support to the Plan.	<ul style="list-style-type: none">• When developing the Plan's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

The Plan is exposed to a number of underlying risks relating to the Plan's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations.	To hedge the majority of the Plan's interest rate and inflation risks in the Technical Provisions liabilities, whilst considering the liquidity profile of the Plan's assets.

Liquidity	Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the Liability Driven Investment mandates.
Market	Experiencing losses due to factors that affect the overall performance of the financial markets.	To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	Default on payments due as part of a financial security contract.	To diversify this risk by investing in a range of credit markets across different geographies and sectors. To appoint investment managers who actively manage this risk by seeking to invest only in debt securities where the yield available sufficiently compensates the Plan for the risk of default.
Environmental, Social and Governance	Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments.	To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria: 1. Responsible Investment ('RI') Policy / Framework in place 2. ESG implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. Signatory to a recognised ESG industry body The Trustee monitors the managers on an ongoing basis.
Currency	The potential for adverse currency movements to have an impact on the Plan's investments.	Hedge all currency risk on all assets that deliver a return through contractual income.
Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix C

The Trustee has the following policies in relation to the investment management arrangements for the Plan:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	As the Plan is invested in pooled funds, there is no scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	The Trustee reviews the performance of all of the Plan's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Plan's arrangements with the investment managers.	The duration of the arrangements is considered in the context of the type of fund the Plan invests in. <ul style="list-style-type: none">○ For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.○ For funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the Trustee's objectives and the Plan's liquidity requirements.

Voting Policy - How the Trustee expects investment managers to vote on their behalf.	The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on their behalf.
Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters'.	<p>The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on their behalf.</p> <p>The Trustee, via it's investment adviser, will engage with managers about 'relevant matters' at least annually.</p>