

Hotelplan Ltd Pension & Assurance Scheme

You can view our Implementation statement from October 2023 [here](#).

Statement of Investment Principles – September 2020

1. **Introduction**

The Trustees of the Hotelplan Ltd Pension & Assurance 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") and subsequent legislation. The Statement is intended to affirm the investment principles that govern the decisions about the Scheme's investments. A separate document detailing the specifics of the Scheme's investment arrangements is available upon request.

The Scheme's assets are held by the Trustees, whose powers of investment are set out in the Trust Deed and Rules. The power of investment is vested in the Trustees.

In preparing this Statement the Trustees have consulted the Sponsoring Employer to ascertain whether there are any material issues of which the Trustees should be aware in agreeing the Scheme's investment arrangements.

2. **Process for Choosing Investments**

The process for selecting investments is as follows:

- Identify the appropriate investment objectives
- Agree the level of risk consistent with meeting the objectives set
- Construct a portfolio of investments which are expected to maximise the potential returns, net of costs, whilst operating within the agreed levels of risk

When considering the appropriate investments for the scheme, the Trustees have obtained and considered the advice provided by Barker Tatham as well as any appropriate advice obtained from the Scheme Actuary and the Fund Managers, whom the Trustees believe to be suitably qualified to offer that advice.

The Trustees have determined to undertake an in depth review of the Statement of Investment Principles at least every three years, in conjunction with the relevant Scheme advisers.

3. **Investment Objectives**

The Trustees' main priority is to invest the Scheme's assets in the best interest of the members and beneficiaries. Within this framework the Trustees have agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which the Scheme is exposed. The Trustees' primary objectives are as follows:

- To ensure that it can meet its obligations to the scheme beneficiaries.
- To maintain and if necessary restore the funding position of the scheme on an ongoing basis to at least 100%.

4. **Risk Management and Measurement**

There are various investment risks to which any pension scheme is exposed. The Trustees' policy on risk management is as follows:

- The primary risk upon which the Trustees focus is that arising through a mismatch between the Scheme's assets and its liabilities.
- The Trustees recognise that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's accruing liabilities as well as producing more short-term volatility in the Scheme's funding position.
- The Trustees recognise the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Trustees aim to ensure the asset allocation policy in place results in an adequately diversified portfolio. Due to the size of the scheme's assets and recognising the need to diversify, investment exposure is obtained via pooled vehicles.
- The documents governing the manager appointments include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the scheme. The managers are prevented from investing in pooled funds outside 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.

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.

Diversification of Risk

The Trustees seek to spread risks across a range of different sources. The Trustees aim to take on those risks for which the Trustees expect to be rewarded over time, in the form of excess returns. The Trustees believe that diversification limits the impact of any single risk.

Among the asset classes that the Trustees have considered for the Scheme's investments are:

- UK Government bonds – although UK Government bonds are the lowest risk asset relative to the Scheme's liabilities, they are not risk free. *Interest rate risk* exists if the cash flow profile of the UK Government bonds held differs from that of the projected liabilities. *Inflation risk* exists if the assets and projected liabilities have different linkages to inflation.
- Other Bonds – in addition to interest rate and inflation risk, investing in certain bonds may introduce *credit risk* and *currency risk*. Credit risk reflects the possibility that the payments due under the bond might not be made by the borrower. Currency risk will arise through investment in non-sterling bonds, given the Scheme's liabilities are denominated in Sterling, because changes in exchange rates will impact the relative value of the assets and liabilities.
- Equities – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments contracted under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities is captured in the form of the *equity mismatch risk*. The equity mismatch risk may be broken down into the credit risk of the underlying company, and the volatility risk associated with the stability of the price of the equity as well as currency risk for equities denominated in currencies other than Sterling among other risks.
- Property – the return generated by an investment in property can be broken down into income and capital. The income component is subject to interest rate risk and inflation risk relative to the liabilities. There is also uncertainty as to the long-term level of the income. The capital value of the property is determined by the buyer and seller of the property and is not certain. Property is a relatively heterogeneous asset category, with sub-categories potentially exhibiting very different behavioural characteristics and attaching risk exposures.

The Trustees can chose to employ either active or passive management. The Trustees have selected investment managers whom the Trustees believe have the skill and judgement to add value net of fees. Active management gives rise to *active risk*, examples of which are:

- Active management within an asset category, defined as holding a combination of securities that differs from the asset class benchmark.
- Active management across asset categories, which arises when the combination of asset categories held differs from that of the benchmark.

- Manager selection risk, which arises due to the potential for selecting an active manager that underperforms its benchmark net of management fees.

Across all of the Scheme's investments, the Trustees are aware of the potential for regulatory and political risks. *Regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by *political risk* in those environments subject to unstable regimes.

The Trustees recognise that there is *liquidity risk* in holding assets that are not readily marketable and realisable. Given the Trustees' long-term investment horizon, the Trustees believe that a degree of liquidity risk is acceptable because the Trustees expect to be rewarded for assuming it. This is by way of the Scheme's underlying investments in the pooled funds.

The Trustees are also aware of *concentration risk* which arises for example when a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuer. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

The Trustees acknowledge that it is not possible to monitor all the risks listed above at all times. However, the Trustees seek to take on those risks they expect to be rewarded for over time, in the form of excess returns, in a diversified manner. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objective, risk tolerance and return target detailed above.

5. Portfolio Construction

The Trustees have adopted the following control framework in structuring the Scheme's investments:

- All other things being equal there is a preference to invest via pooled funds, however segregated investments will be considered as circumstances require.
- At the total Scheme level (and within individual manager appointments) investments should be broadly diversified to ensure there is not a concentration of investment with any one issuer. The restriction does not apply to investment in UK Government debt.
- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particularly liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liability or to facilitate efficient portfolio management. In any event the Trustees will ensure that the assets of the Scheme are predominantly invested in regulated markets.
- No investment in securities issued by the Scheme's Sponsoring employer or affiliated companies (other than any such securities held within a pooled fund in which the Trustees invest).

- No investment by an appointed investment manager in the securities issued by the relevant manager's company or any affiliated companies (other than any such securities held within a pooled fund in which the Trustee invests).
- Borrowing is not permitted except as to cover short term liquidity requirements.

6. **Investment Strategy**

The Trustees' investment strategy is detailed in Section 2 of the Summary of Investment Arrangements. The investment strategy is reviewed regularly by the Trustees to ensure it remains appropriate for meeting the objectives set out in Section 3 and for controlling the risks identified in Section 4.

7. **Day-to-Day Management of the Assets**

The Trustees delegate the day to day management of the assets to an investment manager. The Trustees have taken steps to satisfy themselves that the manager has the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently.

The Trustees have determined, based on expert advice, a benchmark mix of asset types and ranges within which the appointed investment manager may operate.

The Trustees regularly review the continuing suitability of the Scheme's investments, including the appointed manager and the balance between active and passive management, which may be adjusted from time to time.

Details of the appointed managers can be found in a separate document produced by the Trustees entitled "Summary of Investment Arrangement", which is available to members upon request.

8. **Expected Return**

The Trustees expect to generate a return over the long term, above that which would have been achieved had no investment risk been taken within the portfolio i.e. invested solely in a portfolio of long dated Government debt. It is recognised that over the short term performance may deviate significantly from the long term target.

9. **Additional Assets**

Under the terms of the trust deed the Trustees are responsible for the investment of AVC's paid by members. The Trustees review the investment performance of the chosen providers on a periodic basis and takes advice as to the providers' continued suitability.

1. **Realisation of Investments**

The investment manager has 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 prospectus.

1. **Environmental, Social and Governance ("ESG") risks**

Since the Trustee invests in pooled investment vehicles, it is accepted that the extent to which ESG factors will be used in the selection of suitable underlying investments will be determined by the investment managers' own policies on such matters.

The Trustees do however consider the way in which ESG factors are taken into account as part of portfolio management. The Trustees take ESG-related risks seriously and, in the event that such risks are not adequately mitigated, then appropriate changes will be made to the fund range.

The Trustees view that the stewardship responsibilities attached to the ownership of shares is important but recognise that investment in pooled funds limits their ability to be fully involved. The Trustees expect their investment manager to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). The Manager is expected to be a signatory to the FRC UK Stewardship Code.

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. To be compliant with these regulations by 1 October 2020, the Trustees have set further ESG policies.

The Trustees' policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**

The Scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance-related components of the fees.

The only incentivisation that the Trustees can exert is through the decision to retain or to liquidate their holdings in each fund.

The investment strategies of the pooled funds are aligned to the Trustees' investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk budgets
- Constraints
- Approaches (this includes ESG where appropriate)

The Trustees maximise the probability of its investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**

The Trustees receive quarterly reports from the fund managers and quarterly analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. However, given these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustee.

In selecting pooled funds, the Trustees and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

Fund managers need to give the Trustees notice if they plan to change the level of the fees. If this occurs, the Trustee seeks advice from its investment consultant on whether to retain or replace the manager.

- **How the trustees monitor portfolio turnover costs incurred by the manager (and how they define and monitor targeted portfolio turnover or turnover range).**

Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustees and its investment consultant analyse are net of transactions costs, so this is taken into account indirectly.

The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager.**

In order to maintain an incentive for the fund manager to performance well, the Trustees do not enter any fixed term arrangements with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme, and the Trustees have confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

In addition, the Trustees' policies are that non-financial matters should not be taken into account in the selection, retention and realisation of investments.

2. **Corporate Governance**

The Trustees wish to encourage best practice in terms of activism. The investment manager is therefore encouraged to discharge their responsibilities in respect of investee companies in accordance with the Statement drawn up by the Institutional Shareholders' Committee.

The Trustees accept that by using pooled investment vehicles for its investments the day-to-day application of voting rights will be carried out by the investment managers. The Trustees have however reviewed the voting policies of each pooled fund and are comfortable with the arrangements in place.

3. **Compliance with this Statement**

The Trustees monitor compliance with this Statement annually and obtain written confirmation from the investment manager 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 manager has done so in accordance with Section 4 of The Occupational Pension Schemes (Investment) Regulations 2005.

4. **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 changes to this Statement will only be made after having obtained and considered the written advice of someone who the Trustees reasonably believes 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.

Hotelplan Ltd Pension & Assurance Scheme

Summary of Investment Arrangements – September 2020

1. Introduction

The Statement of Investment Principles (SIP) of the Hotelplan Ltd Pension & Assurance Scheme (the “Scheme”) sets out the guiding principles upon which the Scheme’s investments are based. The purpose of this Summary is to provide details of the specific investments in place alongside other information relevant to the management of the investments.

The Investment policy can be considered in two parts; (1) the strategic management, the setting of which is one of the fundamental responsibilities of the Trustees and (2) the day-to-day management of the assets, which has been delegated to professional investment managers.

1. Strategic Management

Based upon the Scheme Investment Advisers (Barker Tatham) comments within their April 2015 Report, the Scheme’s assets should be split between Equities and Gilts as follows:

Asset Class	Central Benchmark
Liability Driven Investments	26%
Diversified Growth Funds	50%
Property	14%
Emerging Markets	10%

If we then split this further between the major asset classes, an appropriate asset allocation benchmark would be:

Liability Driven Investments	26%
Diversified Growth Funds	50%
Property	14%
Emerging Markets	10%

The current benchmark allocation of the Scheme's assets between the major asset classes with Legal & General is detailed below:

	Benchmark (%)	Permitted Range (%)
Liability Driven Investments	26%	20% - 35%
Diversified Growth Funds	50%	40% - 60%
Property	14%	10% - 20%
Emerging Markets	10%	5% - 15%

1. Day-to-Day Management of the Assets

The Scheme assets are split between those relating to the main Scheme and those relating to Additional Voluntary Contributions ("AVC's")

3.1 Investment Structure

All assets are invested in pooled funds with Legal & General who outsource management of their pooled funds to other investment management companies. The Scheme invests in the following funds:

Legal & General

Liability Driven Investments
Diversified Growth Funds

Property

Emerging Markets

Tracking Error Target

- There is no stated tracking error target

1. Additional Voluntary Contributions ("AVCs")

Members additional voluntary contributions are invested with Clerical Medical.

1. Rebalancing Policy

There is currently no rebalancing policy applied by Legal & General. From time-to-time the Trustees will review the Scheme's asset allocation and may undertake rebalancing to the central benchmark if they believe this is required.

6. Actuary

The Actuary performs a valuation of the Scheme at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the assets cover the accrued liabilities and agree the employer's contribution rate.