BIG THINKING
FOR SMALL SCHEMES

Statement of Investment Principles

Hotelplan Limited Pension and Assurance Scheme

April 2024

BARKER TATHAM™
PENSION INVESTMENTS

1. Introduction

This report has been written for the Trustees of the Hotelplan Limited Pension and Assurance Scheme ("the Trustees").

Under the Pensions Act 1995, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This statement sets out the principles governing decisions about the investment of the assets of the Hotelplan Limited Pension and Assurance Scheme ("the Scheme"). Before preparing it, the Trustees obtained and considered written professional advice from Barker Tatham Investment Consultants Limited as their investment consultants. Prior to finalising this document, they also consulted with the sponsoring employer. Barker Tatham Investment Consultants Limited are licensed by the Institute and Faculty of Actuaries to provide investment advice.

The Trustees review this Statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the Actuarial Valuations. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's sponsoring employer, Hotelplan Limited.

Signed for and on behalf of the Trustees of the Hotelplan Limited Pension and Assurance Scheme.

Signed: ………………………………………………… Date: ……………………………………

2. Decision Making

The Trustees distinguishes between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions. Where appropriate this is after receiving written advice from their investment consultant, and consulting, as appropriate, with the employer.

Examples of such decisions include:

- setting investment objectives;
- setting strategic asset allocation;
- setting benchmarks;
- drafting the Statement of Investment Principles; and
- appointing and removing fund managers.

Work is charged for either by an agreed fee or on a time cost basis. In particular, the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustees employ fund managers to make such judgements, and does not interfere with their decisions. Examples of such decisions include:

- selecting individual stocks;
- temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and
- timing of entry or exit from a market.

Each investment manager is remunerated by ad valorem charges based on the value of assets managed on behalf of the Scheme. The Trustees believe that this is the most appropriate fee structure for the Scheme.

The investment consultant and fund managers used by the Trustees are authorised and regulated by the FCA or relevant designated professional bodies.

3. Investment Objectives

The Trustees overall investment policy, based on the investment objectives set in the meeting in April 2015 and confirmed at the meeting in December 2019, is guided by the following objectives:

What constitutes risk?

The Trustees appreciate that the most important aspect of the security of the members' benefits is the continued support of the scheme sponsor. Events that reduce the sponsor's willingness or ability to support the scheme are the biggest potential threats from the members' perspective.

1. The most significant risk from the Trustees perspective is that the funding level (as calculated in the triennial actuarial valuations) deteriorates.
   - This could jeopardise the deficit recovery plan and necessitate additional contributions from the sponsor.
   - The funding level in percentage terms is of more importance than the size of the deficit in monetary terms.

2. The accounting version of the liabilities is less important but will still be taken into consideration when setting the asset allocation.

3. "Buy-out" is not yet a consideration for the trustees.

Appetite for risk

Balance is required here. Taking too little risk can be as damaging for a pension scheme as taking too much risk. The reduction in long-term expected investment returns may push the costs of the scheme to become unsustainably high.

Taking into account the specifics of the scheme, and in particular the strength of the employer's covenant, the Trustees rate their appetite for risk as "6". This is on a scale of "0" (no tolerance for risk whatsoever, regardless of the impact on cost) to "10" (risk is irrelevant; maximising long-term expected returns is the only consideration).

Other considerations

- **Net cashflows**
  There is no need to take into account short-term cashflows. Liquidity/cashflows are not expected to be an issue.

- **Flexibility**
  There is no specific need to take into account flexibility. (There are no known plans for major changes to the Scheme.)

- **Exposure to property markets**
  There is no significant exposure of the sponsor to property, nor are there any contingent assets or charges for the Scheme based on real estate assets. So investing in this asset class would not constitute "doubling up" of exposure.

- **Social, ethical and environmental issues**
  No specific account needs to be taken of these issues over and above normal market practices."

4. Myners' Investment Principles

The Trustees recognise the relevance to pension schemes of the Myners' Investment Principles that were published by the Government in October 2001 and updated in March 2008. The Scheme's adherence to (or otherwise) the Myners' Investment Principles is set out below.

Principle 1: Effective Decision-Making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest."

- The Trustees make investment decisions by consulting with professionals that it believes to be best equipped to give that advice. Long-term strategic investment decisions are made in consultation with the Scheme's investment consultant, whereas tactical decisions are made by the appropriate fund manager.

Principle 2: Clear Objectives

"Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers."

- The Trustees have formally reviewed their investment objectives with the assistance of their investment consultant.

- The investment objectives are explicitly stated in Section 3 of this document.

- The strength of the sponsor's covenant is reviewed on a regular basis.

- All the assets of the Scheme are invested via pooled funds. In each case, the fund manager has an explicit benchmark and outperformance target, as well as clear constraints within which to operate.

- The Scheme's overall investment objective is supported by the Scheme's Asset Liability Model and the Scheme's employer covenant.

Principle 3: Risk and Liabilities

"In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk."

- In reviewing the investment strategy, the Trustees commissioned an Asset Liability Model (ALM) from their investment consultant. This explicitly took account of the form and structure of the liabilities, as well as longevity risk.

- This ALM was used to find a strategy which best met the Trustees investment objectives. Those investment objectives were influenced by the strength of the sponsor covenant and the risk of sponsor default.

Principle 4: Performance Assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

- The Trustees currently receive:
  - quarterly performance reports from the fund managers;
  - bi-annual monitoring reports from the investment consultant; and
  - annual audited accounts.

- The investment monitoring reports include an assessment of how successful the trustees' investment strategy has been in improving the funding position of the Scheme.

Principle 5: Responsible Ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities."

- We have requested the managers to state their adherence to the ISC Statement of Principles and the Stewardship Code.

- The Trustees policy on responsible ownership is described in Section 6 of this Statement of Investment Principles.

- The Trustees will report on the Scheme's policy on responsible ownership in the annual report to members and the annual summary funding statement.

Principle 6: Transparency and Reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate."

- Members are provided with annual summary funding statements, and also information on this is provided in the Scheme's annual report to members.

- A copy of this Statement of Investment Principles is available to members on request.

- Other documents such as actuarial valuation reports, the Statement of Funding Principles, the schedule of contributions and the annual report and accounts are also available to members on request.

- A representative from the employer regularly attends Trustee meetings and this helps communication with the employer over investment matters.

5. Implementation

The Trustees set their strategy based on the objectives set out in Section 3 and written advice from the investment consultants. The Trustees last reviewed their strategy in September 2022, and this was implemented in April 2023.

The Trustees have decided to protect the funding level of the Scheme (on an ongoing basis) from overall changes to long-term interest rates or inflation expectations. The target level of hedging for both risks is 100% (up to the value of the assets). The Trustees had decided to decrease the Scheme's allocation to growth assets to around 70% to accommodate this. Subject to fully hedging the interest rate and inflation risks, the Trustees have decided to invest the remainder of assets in a range of growth funds, including introducing a global equity fund to achieve further diversification amongst the growth assets.

As investment markets (particularly interest rates and inflation expectations) move, the split between the assets below may vary significantly. There is no automatic rebalancing as this could lead to the interest rate or inflation exposures of the Scheme being over- or under-hedged. Instead, the hedges are monitored on a bi-annual basis by the investment consultants or more regularly in unusual circumstances. Remedial action is recommended when appropriate.

The table below gives the target asset allocation at time the transfer was implemented:

Manager	Fund	Target Asset Allocation at April 2023
LGIM	Global Equity Fixed Weights 50:50 Currency Hedged Index Fund	20.0%
LGIM	World Emerging Markets Equity Index Fund	10.0%
LGIM	Managed Property Fund	15.0%
LGIM	Dynamic Diversified Fund	24.5%
Growth Assets Subtotal		**69.5%**
LGIM	Matching Core Fixed Long Fund	21.2%
LGIM	Matching Core Real Long Fund	9.3%
Hedging Assets Subtotal		**30.5%**
Total		**100.0%**

LGIM – Global Equity Fixed Weights 50:50 Currency Hedged Index Fund

- This fund aims to provide diversified exposure to UK and overseas equity markets while minimising foreign currency exposure.
- This Legal & General Investment Management Fund invests in global equities.
- The asset distribution is split approximately 50% in the ordinary shares of companies registered in the UK, and 50% in the ordinary shares of companies registered in countries outside the UK.
- The asset distribution between the four geographic regions outside the UK is approximately 17.5% North America, 17.5% Europe (ex UK), 8.75% Japan and 6.25% Asia Pacific (ex-Japan). The Asia Pacific (ex-Japan) exposure includes the advanced emerging markets.

- Currency hedging is achieved through investments in the underlying regional hedged funds which use spot and forward FX contracts, futures and cash instruments.
- The objective of the fund is to match the return of the index for each region within tracking error tolerances.
- These tolerances vary from ±0.25% p.a. for UK equities to ±0.75% for the Asia Pacific region equities.

LGIM – World Emerging Markets Equity Index Fund

- This fund invests in emerging markets equities (markets in developing economies which are generally more sensitive to economic and political conditions than developed markets).
- The fund's objective is to track the FTSE Emerging Index within +/- 1.5% in two years out of three.

LGIM – Managed Property Fund

- This fund invests in UK freehold and leasehold property recognising that superior stock selection is a key driver of outperformance. This fund may invest in indirect vehicles and property derivatives.
- The fund aims to exceed the MSCI/AREF UK Quarterly All Balanced Property Fund Index (UK PFI) over three to five year periods.

LGIM – Dynamic Diversified Fund

- This fund targets the Bank of England Base Rate +4.5% per annum, over a full market cycle (5-7 years).
- The fund aims to provide long-term investment growth through dynamic exposure to a diversified range of asset classes.

LGIM – Matching Core Funds

- These funds aim to protect the Plan from movements in either long-term interest rates and/or expected inflation. This is referred to as 'hedging'. The amount of protection is determined largely by the percentage of liabilities hedged at any time.
- If long-term interest rates fall, or inflation expectations rise, then the value of the Plan's liabilities will increase. These funds are designed to mitigate the impact on the Plan's funding level by rising in value, the amount of such a rise being influenced by the percentage of liabilities hedged at the time.
- However, the reverse is also true. If the liabilities fall in value, these funds are designed to mitigate the impact on the Plan's funding level by falling in value, the amount of such a fall being influenced by the percentage of liabilities hedged at the time. These funds can be very volatile.
- These funds use a combination of UK government bonds (gilts) and derivatives depending on which the fund manager considers the most cost effective way of hedging these two risks.

Meeting cash calls for the Pooled LDI funds

If the LDI funds (the "Matching Core Funds") require additional cash in order to maintain the level of hedges, monies will be taken from the LGIM Dynamic Diversified Fund. LGIM have standing instructions to make these transactions automatically.

Any cash released from the LDI funds will be automatically invested into the LGIM Dynamic Diversified Fund.

6. Prescribed Matters

Introduction

This section covers those matters prescribed in Sections 35 and 36 of The Pensions Act 1995, The Pensions Act 2004 and the 2005 Investment Regulations 2005/3378 (as amended from time to time).

Choosing Investments

The assets of the Scheme are invested in pooled vehicles. Selection of the individual underlying assets has been wholly delegated to the fund managers listed in the Appendix.

Kinds of Investments

The Trustees may invest in the following asset classes (via the fund managers) on behalf of the Scheme:

- UK equities
- Overseas equities
- Corporate bonds
- Gilts (conventional and index-linked)
- Cash
- Overseas bonds
- Property
- Derivatives

The presence of an asset class on the list does not imply that the Scheme is currently invested in such assets.

Balance between Investments

The Trustee recognises the advantages of diversification between UK and overseas investment in equities from the perspective of:

- Reducing the risk that results from investment in any one particular market; and
- Enhancing return.

Risk

The Trustees pay close regard to the risks that may arise through a mismatch between the Scheme's assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. They believe that the investment policies to be followed by their investment managers do have adequate regard to the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004, trustees must now state their policy on the ways in which risks are to be measured and managed. These are set out below.

- **Solvency / funding risk:**
  - is managed through setting an investment strategy (primarily asset allocation) with an appropriate level of risk.
  - is measured using an Asset Liability Model from the investment consultant.
  - is monitored in quarterly reports from the investment consultant.

- **Manager risk:**
  - is managed through selecting funds with a suitable target level of risk, and that the investment consultant have deemed the managers' risk controls as acceptable.
  - is measured and monitored from quarterly reports from the fund managers and the investment consultant.

- **Liquidity risk:**
  - is managed by ensuring that the majority of the pooled funds used by the Scheme are liquid.

- **Political risk:**
  - is managed by investing globally.

- **Sponsor risk:**
  - is managed via the actuarial valuation process.
  - is measured and monitored by regular assessment of the Sponsor's covenant by the Trustees.

Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustee base their expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

Developed equities	+3.0%
Emerging market equities	+4.0%
Property	+2.75%
Diversified Growth Funds	+2.5%
LDI Funds	-

Realisation of Investments

The Scheme's assets are invested in the investment managers' pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustees conclude that the majority of the Scheme's investments can be realised at short notice if necessary.

Environmental, Social and Corporate Governance Policies

In endeavouring to invest in best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustees also acknowledge that where pooled index fund vehicles are employed which track composite market indices it is not always possible to take ESG considerations into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees views 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 managers to report in detail on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories 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.**
  Active fund managers are retained subject to, amongst other criteria, achieving adequate medium- to long- term performance. In order to do so, they will need to make assessments about the medium to long term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  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 Trustee's policies.**
  The Trustees receive quarterly reports from the fund managers and bi-annual 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 Trustees seeks advice from its investment consultant on whether to retain or replace the manager.

- **How the Trustee monitors portfolio turnover costs incurred by the manager/s (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.

Appendix: Third Party Arrangements

Advisors

The following advisors assist the Trustee:

Scheme Administrator
XPS Administration Limited
1 Colmore Row
Birmingham
B3 2BJ

Scheme Actuary
Victoria Smith
XPS Pensions Limited
Tempus Court
Guildford
GU1 4SS

Bankers
Barclays Bank plc
1 Churchill Place
London
E14 5HP

Investment Consultants
Barker Tatham Investment Consultants Ltd
12-16 Addiscombe Road
Croydon
CR0 0XT

Auditor
Assure UK
107 Cheapside
London
EC2V 6DN

Fund Managers

The Trustees have appointed the following fund manager:

Legal & General Assurance (Pensions Management) Ltd
One Coleman Street
London
EC2R 5AA