

**THE IMPERIAL LONDON HOTELS LIMITED 1978 PENSION & LIFE
ASSURANCE SCHEME**

STATEMENT OF INVESTMENT PRINCIPLES

(for the defined contribution underpin default fund)

Prepared by Berkeley Burke
September 2020

1. INTRODUCTION

This is the Statement of Investment Principles ("SoIP") adopted by **the Trustees of the Imperial London Hotels Limited 1978 Pension & Life Assurance Scheme** ("the Scheme") in relation to the default fund for the defined contribution underpin. The SoIP sets out the basis of the investment strategy and objectives for the default fund. It replaces the previous edition of this version of the SoIP dated 18th September 2019. The revisions to the previous edition were agreed by the Trustees of the Scheme ("the Trustees"). It complements the Statement of Investment Principles which covers the salary related benefits.

The Trustees are required under Section 35 of the Pensions Act 1995 (the Act) to formulate and disclose a SoIP. The Act requires the Trustees to prepare, maintain and from time to time revise a written SoIP governing decisions about the Scheme's investments. This edition of the SoIP has also been prepared in accordance with:

- Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004;
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010;
- the Occupational Pension Schemes (Investment) (Amendment) Regulations 2018; and
- the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019.

This statement may require amendment as general investment conditions alter and the liabilities of the Scheme change over time. It is therefore the Trustees' intention to review this statement on a regular basis.

In the preparation of this SoIP, the Trustees have obtained appropriate professional advice from their investment consultants, Berkeley Burke Employee Benefit Consultants Limited ("the Investment Consultants"), and have consulted the Principal Employer, Imperial London Hotels Limited ("the Employer"), about the content of this Statement. However, the ultimate power and responsibility for deciding investment policy lies with the Trustees.

The SoIP must be made available to members but it does not have to be circulated automatically. The Trustees' annual report will explain how members may obtain a copy of the latest SoIP.

The Scheme is Registered and provides final salary benefits. However, in respect of post-1st September 2013 service, the Scheme also provides a money purchase underpin. This SoIP relates only to the default fund for the money purchase underpin. The Scheme's investments are held in trust by the Trustees. The Scheme operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries. The Trustees' powers of investment are set out in Clauses 16 and 17 of the Definitive Deed dated 30th December 1999 as detailed in Appendix One. This Statement is consistent with those powers.

The Trustees monitor investments on a **quarterly basis**. Advice is received as required from professional advisers.

The Trustees are responsible in respect of investment matters for:

- a) Reviewing annually, triennially and following any significant change in investment policy, the content of this SoIP and modifying it if deemed appropriate.
- b) Reviewing the investment policy following the results of each actuarial valuation, and/or any asset/liability modelling exercise.
- c) Based on advice received from the Investment Consultants and the Scheme Actuary, the Trustees must take into account the liabilities of the Scheme, review the asset allocation, the suitability of investments and the need for diversification.
- d) appointing (and, when necessary, dismissing) investment managers.
- e) appointing (and, when necessary, dismissing) independent advisers.

- f) appointing (and, when necessary, dismissing) actuaries.
- g) Assessing the quality of the performance and processes of the Investment Managers by reviewing the performance statistics against agreed benchmarks and by regular, **annual or half-yearly meetings** with the Investment Managers.

1.1. **Delegation of Investment Management**

The objectives outlined below are subject to formal review by the Trustees following the completion of each actuarial valuation and each review of the relative value of the assets and liabilities.

The Trustees rely on professional investment managers for the day-to-day management of the Scheme's Assets. Five Investment Managers are currently appointed by the Trustees, one of which has been selected to provide the default fund: BNY Mellon Fund Managers Limited ("the Investment Manager"). Its details are set out in Appendix Two. The details of its appointment are covered in proposal forms and any subsequent amendments thereof. It is suitably authorised under the Financial Services and Markets Act 2000. The custody and safekeeping of the assets is provided by the custodian of the relevant fund.

The Trustees consider the Newton Global Balanced Exempt Fund to be an appropriate investment for the Scheme as a whole and to be the default fund for the defined contribution underpin. In deciding to select the Investment Manager, the Trustees sought advice from their professional advisers. The Trustees will review their decisions from time to time with their Investment Consultants.

The Investment Manager has been provided with a copy of this statement and the Trustees will monitor the extent to which the Investment Manager give effect to the policies set out herein.

2. **THE PRINCIPAL EMPLOYER**

In determining the default investment fund the Trustees have consulted the Employer. The Employer will also be consulted if the SoIP is revised. The consultations with the Employer are not negotiations and the Trustees' decision is final. The Employer does, however, fund the Scheme and therefore the Trustees consider it prudent for the Employer to be kept informed.

All investment decisions for the Scheme are under the Trustees' control with no constraint from the Employer.

There is no formal employer-related investment made by the Trustees and none is intended.

3. **INVESTMENT OBJECTIVES**

It is the policy that external investment managers are employed to administer the Scheme's assets. The appointed managers may vary from time to time depending upon various underlying factors.

3.1 **The investment objectives for the default fund are:**

- a) to produce a return in excess of salary inflation; and
- b) returns should lead to a top quartile ranking in the CAPS Balanced Funds sector survey over the longer term.

It is accepted that at different times within the economic cycle, acceptable levels of risk may change according to market conditions. However, in view of the defined benefit promise (which in the great majority of cases is likely to be considerably greater than the benefits which can be provided by members' money purchase accounts), the Trustees feel able to adopt a relatively high-risk approach for the money purchase default fund.

ESG issues may, along with other issues, be financially material to the Scheme's investment portfolio. The Trustees consider the long-term financial interests of the Scheme to be paramount and, where appropriate and practical, expect the Investment Managers to:

- consider financially material ESG issues in investment decision making; and
- practice good stewardship.

Non-financially material considerations

Non-financial matters, including the ethical views of members, are not ordinarily taken into account in the selection, retention and realisation of investments and the Trustees do not therefore consult members on such issues. In reaching this decision, the Trustees have considered both the challenges of engaging a properly representative sample of members and the probability that there would be no consensus amongst members who might respond.

Stewardship and Voting Rights

The Trustees have elected to invest the Scheme's assets via pooled funds. The direct control of the process of engaging with the companies which issue the debt and equities which are held within these funds and for the exercise of rights (including voting rights) is delegated to the managers of the funds. The Trustees acknowledge that they cannot directly control the investments held within pooled funds but they encourage the Investment Managers to engage with the companies in which they invest and to vote when it is practical to do so. The Trustees expect that the Investment Managers will use their influence as substantial investors to exercise their rights and duties as a shareholder and where appropriate to promote good corporate governance and accountability and to assess how the companies take into account ESG factors in running their businesses.

Incentivising fund managers to align with the Trustees' policies

Before appointing a fund manager, the Trustees consider its approach to the management of ESG and climate-related risks with their investment consultant to assess how that approach compares with their policies. If any aspects of the fund manager's approach varies markedly from their policies, they will consider appointing another manager for the mandate. The Trustees monitor the approaches of the fund managers on an annual basis. If a fund manager's approach varies from the Trustees' policies, its appointment will be reviewed and it may ultimately result in the termination of its mandate.

The fees paid to the Investment Managers which are based on the size of the assets they manage, and the possibility of their mandate being terminated, ensure that they are incentivised to align their approaches with the Trustees' policies. The better the performance of the Investment Managers, the greater their remuneration.

Before selecting a fund manager, the Trustees obtain confirmation from the Investment Consultants that the fee is in line with the market and the level of fees is then periodically reviewed.

Incentivising decisions based on assessments of medium to long-term financial and non-financial considerations

The Trustees appreciate that the wider impacts of ESG factors and climate change are likely to be most apparent over the long-term but note that changes in the value of investments as a result of these factors can materialise over a much shorter period of time. The Trustees consider that the use of rolling 3 and 5 year timeframes is consistent with incentivising fund managers to make decisions which are based on an appropriate period.

Monitoring portfolio turnover and costs

The Trustees recognise that portfolio turnover, i.e. the frequency with which assets are bought and sold, and the associated transaction costs are a necessary part of investment

management. They accept too that turnover costs can have a detrimental impact on performance which is why net performance figures are considered as part of the quarterly monitoring process. When new fund managers are under consideration, the Trustees will assess past and anticipated portfolio turnover levels. If underperformance is subsequently identified, deviations from anticipated turnover levels may be investigated if it is felt that they may have been a significant contributor to that underperformance.

The Trustees expect the Investment Managers to divulge portfolio turnover on an annual basis.

Duration of fund manager agreements

The durations of the Trustees' agreements with the Investment Managers are not pre-determined but the Trustees anticipate that all appointments will be long-term unless fund managers underperform or the Scheme's investment strategy is changed.

10. COMPLIANCE WITH AND REVIEW OF THIS STATEMENT

10.1 The Trustees will:

- a) Review this Statement in response to any material change to any aspect of the investment arrangements detailed above in conjunction with their investment consultant. This review will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such review will again be based on written, expert investment advice and will be in consultation with the Employer.
- b) Review the investment performance of the Investment Manager on a quarterly basis using an independent performance measurement benchmark.
- c) Keep under review the suitability of the Investment Manager and custodian.
- d) Keep under review and monitor the relative fees levied by the Investment Manager.
- e) Note compliance with this Statement at a Trustees' meeting, no less frequently than annually.
- f) Make a copy of this Statement available for inspection by Scheme members on request.

10.2 The Investment Manager will prepare a report or letter, no less frequently than annually, which will be presented to the Trustees. This correspondence will include:

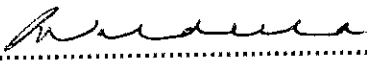
- a) A review of recent performance and of the Investment Manager's proposed stance for the future, including a summary of how the Investment Manager has managed short-term asset allocation relative to the Scheme's long-term investment objective.
- b) Explanations of any new investment categories that the Investment Manager wishes to invest in, together with its proposals.
- c) Any changes at either the Investment Manager or custodian which might affect the suitability of the Investment Manager to manage the Scheme's assets.

11 COMPLIANCE WITH THE MYNERS REPORT RECOMMENDATIONS

In the Statement of Investment Principles, the extent to which the Scheme complies with the ten investment principles set out in the Myners report on Institutional Investment, is laid out in Appendix Three of this Statement and which reflects the position as at November 2015.

Copies of this SoIP and the investment powers contained in the Scheme's Trust Deed will be supplied to the Scheme Auditor, Scheme Actuary and the Investment Manager, so that they are aware of any constraints it imposes on them.

Signed for and on behalf of the Trustees of the Imperial London Hotels Limited
1978 Pension & Life Assurance Scheme:


.....
Trustee Name

21 SEPTEMBER 2020
.....
Date

APPENDIX ONE

CLAUSES 16 AND 17 OF THE DEFINITIVE DEED

16 INVESTMENT OF THE FUND

- 16.1 The Trustees may make such investments in respect of the Fund as they may from time to time determine.
- 16.2 Any investments made by the Trustees may from time to time be realised and the proceeds reinvested in such manner as the Trustees may determine.
- 16.3 Investments may be made within or outside of the United Kingdom whether or not:
- 16.3.1 involving liability;
 - 16.3.2 producing income;
 - 16.3.3 authorised by law for the investment of trust monies;
- to the intent that the Trustees will have the same full and unrestricted powers of investment as if they were absolutely and beneficially entitled to the Fund.
- 16.4 Without prejudice to clauses 16.1 and 16.3 the Trustees may invest the Fund in or upon the security of any:
- 16.4.1 annuity contract or assurance policy (whether with profits or not) issued by a United Kingdom office or branch of an Insurance Company;
 - 16.4.2 scheme of deposit administration;
 - 16.4.3 unit trust, managed fund or mutual fund;
 - 16.4.4 deposit with a local authority, bank, building society, finance company or other financial institution;
 - 16.4.5 bonds, stocks, shares, debentures and debenture stocks whether by purchase, subscription, underwriting, sub-underwriting or otherwise (including for the avoidance of doubt such investments relating to open ended investment companies);
 - 16.4.6 gilts, government securities and other interest bearing investments whether at a fixed or variable rate;
 - 16.4.7 traded options (as defined in Section 144(8)(b) of the Taxation of Chargeable Gains Act 1992);
 - 16.4.8 transactions and financial futures on the London International Financial Futures Exchange;
 - 16.4.9 gold bullion or any other commodity;
 - 16.4.10 interest in land or property (either in their own right or jointly with any other party);
 - 16.4.11 contract, guarantee, option or other agreement in connection with any of the above.
- 16.5 The Trustees may borrow or raise money upon such terms as they see fit for the purpose of acquiring any investment or meeting any liability of the Scheme (including the provision of benefits for Beneficiaries).

APPENDIX THREE

COMPLIANCE WITH MYNERS REPORT PRINCIPLES

Principle	Recommendation	Comments
Principle 1: Effective decision-making	Trustees are asked to consider critically their collective capacity to take decisions and what skills, information and resources they need to support them in their tasks.	Full Compliance. Decisions are taken by the Trustees on the strategic investment strategy based on advice from the Investment Adviser and Actuary. Each Trustee has received formal training on their responsibilities.
Principle 2: Clear Objectives	The scheme should demonstrate it has set investment objectives related to its liabilities and future expected contributions and its maturity profile.	Full Compliance. Based on an assessment of the Scheme against its liabilities and market conditions.
Principle 3: Focus on Asset Allocation	Myners encourages schemes "to consider all asset classes". All asset classes permitted within the regulations are considered and should be compatible with liabilities and the need for diversification.	Full Compliance. All classes have been considered in line with the SoIP.
Principle 4: Expert Advice	The scheme should consider whether separate tenders for actuarial and investment consultant services should be obtained.	Full Compliance. Separate Tenders are in place.
Principle 5: Explicit Mandates	<p>The principle requires schemes to set explicit written mandates for investment managers against which they should be judged.</p> <p>The principle also requests schemes to understand the cost of transactions. Schemes should not allow "soft" commissions.</p>	<p>Full Compliance. An agreed objective, benchmark, risk profile and asset classes have been agreed with the Investment Managers.</p> <p>Full Compliance. No soft commission is received or paid by the Investment Managers.</p>
Principle 6: Activism	The Government is considering legislation to impose an express statutory duty to use shareholder activism in line with the US Department of Labor Interpretative Bulletin.	Compliance with this objective has been delegated to the Investment Managers.
Principle 7: Appropriate Benchmarks	<p>Explicitly consider, in consultation with their investment manager(s), whether the benchmarks they have selected are appropriate.</p> <p>Consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned.</p> <p>Where they believe active management has the potential to achieve higher return, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.</p>	<p>Full Compliance. A benchmark has been set in agreement with the Investment Managers.</p> <p>Full compliance. The Trustees have agreed on active management to achieve the scheme benchmark return.</p>

Principle 8: Performance Measurement	<p>Trustees should arrange for measurement of the performance of the Scheme and make formal assessment of their own procedures and decisions as Trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.</p>	<p>Full compliance. The Trustees meet on a regular basis (at Trustees' meetings) with the Investment Managers to review the performance of the Scheme and to discuss future objectives in the light of the liabilities of the Scheme. Based upon this the asset allocation and benchmarks may be modified as appropriate.</p>
Principle 9: Transparency	<p>The statement of investment principles looks at decision-making, the investment objective, asset allocation including projected investment returns on each asset class and how the strategy has been arrived at. This should also include the fee structure for advisers and managers.</p>	<p>Full Compliance. The Trustees have signed fee agreements with the Investment Managers. In each case, an agreement has been reached on whether or not to settle fees via an encashment of units from the funds.</p>
Principle 10: Regular Reporting	<p>Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of the scheme, including an explanation of why the Scheme has chosen to depart from any of these Principles.</p>	<p>Full Compliance.</p> <p>The Annual Trustees Report and Accounts contain information about the SoIP.</p> <p>These are available to all scheme members and pensioners on request.</p>

APPENDIX FOUR

EXTRACT – OCCUPATIONAL PENSION SCHEME (INVESTMENT) REGULATIONS 2005

Section 4: Investment by trustees¹

(1) The trustees of a trust scheme must exercise their powers of investment, and any fund manager to whom any discretion has been delegated under section 34 of the 1995 Act (power of investment and delegation) must exercise the discretion, in accordance with the following provisions of this regulation.

(2) The assets must be invested—
(a) in the best interests of members and beneficiaries; and
(b) in the case of a potential conflict of interest, in the sole interest of members and beneficiaries.

(3) The powers of investment, or the discretion, must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

(4) Assets held to cover the scheme's technical provisions must also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the scheme.

(5) The assets of the scheme must consist predominantly of investments admitted to trading on regulated markets.

(6) Investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

(7) The assets of the scheme must be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and so as to avoid accumulations of risk in the portfolio as a whole. Investments in assets issued by the same issuer or by issuers belonging to the same group must not expose the scheme to excessive risk concentration.

(8) Investment in derivative instruments may be made only in so far as they—
(a) contribute to a reduction of risks; or
(b) facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk),

and any such investment must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

(9) For the purposes of paragraph (5)—
(a) an investment in a collective investment scheme shall be treated as an investment on a regulated market to the extent that the investments held by that scheme are themselves so invested; and
(b) a qualifying insurance policy shall be treated as an investment on a regulated market.

(10) To the extent that the assets of a scheme consist of qualifying insurance policies, those policies shall be treated as satisfying the requirement for proper diversification when considering the diversification of assets as a whole in accordance with paragraph (7).

¹ Extract – full regulations can be found at <http://www.opsi.gov.uk/si/si2005/20053378.htm>