

Statement of Investment Principles – Mount Charlotte Thistle Hotels Retirement Benefits Scheme (January 2020)

Introduction

- 1 This document is the Statement of Investment Principles (the 'SIP') made by the Trustees of the Mount Charlotte Thistle Hotels Retirement Benefits Scheme (the "Trustees") relating to the Mount Charlotte Thistle Hotels Retirement Benefits Scheme (the 'Scheme') in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it).
- 2 The Trustees will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustees took advice from a suitably qualified firm and consulted GLH Hotels Limited (the 'Company'). The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.

Investment objectives

- 3 The Trustees have the following investment objectives:
 - The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet the cost of current and future benefits which the Scheme provides, and to ensure the security, quality and profitability of the portfolio as a whole.
 - To limit the risk of the assets failing to meet the liabilities, both over the long-term and on a shorter-term basis.
 - To minimise the long term costs of the Scheme by maximising the return on the assets whilst having regard to the objective shown under the points above.

Investment strategy

- 4 The Trustees have received advice to determine an appropriate investment strategy for the Scheme. The Trustees have a desire to diversify risk exposures and to manage its investments effectively.
- 5 The investment strategy makes use of two key types of investments:
 - a range of instruments that provide a broad match to changes in liability values; and
 - a diversified portfolio of return-seeking assets.
- 6 The Trustees appointed a fiduciary manager to manage Scheme assets on a discretionary basis and to provide advisory services to the Trustees (the "Fiduciary Manager"). The balance within and between these investments will be determined from time-to-time at the discretion of

the Fiduciary Manager, with the objective of maximising the probability of achieving the Scheme's investment objective set by the Trustees. The Fiduciary Manager's discretion is subject to guidelines set by the Trustees.

- 7 The Trustees are aware that they have the flexibility to open the contracts for actuarial services and investment advice to separate competition.
- 8 The Scheme will hold assets in cash and other money market instruments from time to time as may be deemed appropriate.
- 9 The Trustees will monitor the liability profile of the Scheme and will regularly review, in conjunction with the Fiduciary Manager and the Scheme actuary, the appropriateness of its investment strategy.
- 10 The Scheme Actuary's responsibilities include: performing the triennial (or more frequently, as required) valuations of the Scheme and advising on the appropriate contribution levels for the future and liaising with the Fiduciary Manager on the suitability of the Scheme's investment strategy given the financial characteristics of the Scheme.
- 11 The expected return of an investment will be monitored regularly and will be directly related to the Scheme's investment objective.
- 12 The Trustees' policy is that there will be sufficient investments in liquid or readily realisable assets to meet cash flow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Scheme's overall investments, where possible.

Investment managers

- 13 The Trustees have delegated investment manager selection, de-selection and monitoring to the Fiduciary Manager.
- 14 In accordance with the Financial Services and Markets Act 2000, the selection of specific investments will be delegated to investment managers. The investment managers will provide the skill and expertise necessary to manage the investments of the Scheme competently.
- 15 The Trustees and Fiduciary Manager are not involved in the investment managers' day-to-day method of operation and do not directly seek to influence attainment of their performance targets. The Fiduciary Manager will maintain processes to ensure that performance and risk are assessed on a regular basis against measurable objectives for each investment manager, consistent with the achievement of the Scheme's long term objectives.
- 16 The Trustees have delegated responsibility for the selection, retention and realisation of investments to the Fiduciary Manager and in turn to the Scheme's investment managers. However, the Trustees and Fiduciary Manager recognise that an investment's long-term financial success is influenced by a range of factors including Environmental, Social and Governance (ESG) issues.
- 17 Consequently the Trustees (through the selection of the Fiduciary Manager and its associated approach to environmental, social and governance issues, as set out in 18 and 19 below) seeks to be an active long-term investor. The Trustees' focus is explicitly on financially material considerations. The Trustees' policy at this time is not to take into account non-financially material or ethical considerations.

- 18 The Fiduciary Manager has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. Whilst noting there may be limitations for each investment manager and asset strategy, the Fiduciary Manager expects investment managers to have ESG processes that align with the investment risk and return characteristics of the strategy. Where an investment manager's processes are deemed insufficient by the Fiduciary Manager and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.
- 19 The Fiduciary Manager considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Fiduciary Manager takes into account in the assessment.
- 20 The Fiduciary Manager encourages and expects the Scheme's investment managers to sign up to local or other applicable Stewardship Codes, in-keeping with good practice, subject to the extent of materiality for certain asset classes. The Fiduciary Manager itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives.
- 21 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Fiduciary Manager has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement.

Other matters

- 22 The Scheme is a Registered Pension Scheme for the purposes of the Finance Act 2004.
- 23 Some members have obtained further benefits by paying Additional Voluntary Contributions (AVCs) to the Scheme although future AVC contributions are no longer permitted. The liabilities in respect of these AVC's are equal to the value of the investments bought by the contributions. From time to time the Trustees review the choices of investments available to members to ensure they remain appropriate to the members' needs. The providers are currently Phoenix Life, Axa and Nationwide.
- 24 The Trustees' policy is that there should be no direct self-investment by the Scheme in the parent company or any associated or subsidiary companies. However, the Trustees recognise that a minimal amount of self-investment may result from the choice of funds held by the investment managers.
- 25 The Trustees recognise a number of risks involved in the investment of the Scheme's assets, and, where applicable, monitors these risks in conjunction with the Fiduciary Manager.

Solvency risk and mismatch risk:

- are measured through a qualitative and quantitative assessment of the expected development of the funding level.

- are managed through the development of a portfolio consistent with delivering the Scheme's investment objective.

Investment Manager risk:

- is measured by the expected deviation of the return relative to the benchmark set.
- is managed by considering when to employ active versus passive management given prospective net of fees returns, consideration of the appropriate amount of the Scheme to allocate to any active portfolios and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.

Liquidity risk:

- is measured by the level of cash flow required by the Scheme over a specified period.
- is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and through holding assets of appropriate liquidity.

Currency risk:

- is measured by the level of exposure to non-Sterling denominated assets.
- is managed by the implementation of a currency hedging programme (carried out within some of the pooled investment vehicles) which reduces the impact of exchange rate movements on the Scheme's asset value.

Custodial risk:

- is addressed through investment in pooled vehicles, with the investment managers being responsible for selection of suitable custodians. In addition the Scheme's global custodian, is responsible for sweeping un-invested cash balances into pooled cash funds, which will be managed by an investment manager who, in line with other investment managers of pooled vehicles for the Scheme is responsible for selecting the custodian for the cash funds.

Interest rate and inflation risk:

- are measured by comparing the likely movement in the Scheme's liabilities and assets due to movements in inflation and interest rates are managed by holding a portfolio of matching assets (physical bonds and/or derivatives via pooled funds) that enable the Scheme's assets to broadly match movements in the value of the liabilities due to inflation and interest rates. The construction, ongoing management and consideration of risks (such as derivatives risk) of this portfolio is undertaken by the Fiduciary Manager.

Political risk:

- is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention.
- is managed by regular reviews of the actual investments relative to policy and through the level of country diversification within the policy.

Sponsor risk:

- is measured by receiving regular financial updates from the Company and periodic independent covenant assessments.

- is managed through an agreed contribution and funding schedule.

Signed on behalf of the Trustees of the Mount Charlotte Thistle Hotels Retirement Benefits Scheme:

Name:

Joy (S. - / 0005)

Position:

CHAIR

Date of signing:

22/1/20