Churchill Staff Benefits Plan

Statement of Investment Principles ('SIP')

September 2020

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This document is the Statement of Investment Principles for the Churchill Staff Benefits Plan ('the Plan'). The requirement for the Trustees of the Plan to have such a Statement in place was introduced by the Pensions Act 1995. The Statement comprises the following sections and appendices:

Section 1: Introduction

Definitions

1.1 Throughout this document:

- “Plan” refers to the Churchill Staff Benefits Plan
- “Trustees” refers to the Churchill Staff Benefits Plan Trustees
- “Company” refers to Hyatt Regency London – The Churchill

Pensions Acts

1.2 Under the Pensions Act 1995 (as amended by the Pensions Act 2004), the Trustees are required to prepare a statement of the principles governing investment decisions. This document contains that statement and describes the investment principles pursued by the Trustees.

Background

1.3 Before preparing this document, the Trustees have consulted the Company and will also consult the Company before revising this document, in particular, if it relates to changes in investment policy. However, the ultimate power and responsibility for deciding investment policy lies solely with the Trustees.

1.4 Before preparing this document, the Trustees have sought advice from the Plan's investment consultants, Towers Watson Limited, a Willis Towers Watson company, and the Scheme Actuary. The Trustees will review this document, in consultation with the investment consultant and the Scheme Actuary, at least once a year, or sooner following an unscheduled actuarial valuation, or without delay following a significant change in investment policy.

1.5 Before preparing this document the Trustees have had regard to the requirements of the Pensions Act concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in their investment policy. The Trustees will refer to this document where necessary to ensure that they exercise their powers of investment so as to give effect to the principles set out in it as far as is reasonable.

1.6 The assets are held in pooled funds. Under Section 36 of the Pensions Act, such investments are termed direct investments and are classed as retained investments. It is therefore the Trustees’ policy to obtain appropriate advice regarding the suitability of such investments on a regular basis.

1.7 This document has been drafted in the light of the principles set out by the Investment Governance Group (formerly the Myners’ principles).

Plan details

1.8 The Plan operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.

1.9 The majority of members in the Plan are contracted-out of the State Second Pension under the Pensions Schemes Act 1993.

1.10 Since 6 April 2006, the Plan has been treated by HM Revenue and Customs (HMRC) as a registered pension scheme, in accordance with Schedule 36 of the Finance Act 2004.

Financial Services and Markets Act 2000

1.11 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to an appointed investment manager or managers. The investment manager shall provide the skill and expertise necessary to manage the investments of the Plan competently.

Section 2: Division of responsibilities

2.1 The Trustees have ultimate responsibility for decision-making on investment matters. In order to ensure that investment decisions are taken only by persons or organisations with the skills, information and resources necessary to take them effectively, the Trustees delegate some of these responsibilities.

2.2 Decisions affecting the Plan's investment strategy should be taken with appropriate advice from the Scheme Actuary and investment consultant and the Trustees' other advisers as appropriate.

2.3 The Trustees are satisfied that they have sufficient expertise and appropriate training to evaluate critically the advice they receive. The Trustees are also satisfied that they have an appropriate set of skills individually and collectively, and the right structures and processes, to carry out their role effectively.

2.4 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Plan. The Trustees of the Plan draw on the skills and expertise of external advisers including the investment managers, custodians, investment consultant and Scheme Actuary.

2.5 The Trustees are aware that they have the flexibility to open the contracts for actuarial services and investment advice to separate competition.

2.6 The Trustees do not consult with members when determining the investment strategy.

Trustees

2.7 The Trustees' responsibilities include:

- Reviewing annually the content of this Statement, in conjunction with the investment consultants and the Scheme Actuary, and modifying it if deemed appropriate.

- Reviewing the investment policy following the results of each actuarial review and/or asset liability modelling exercise.

- Appointing (and where necessary dismissing) investment managers and, where appropriate, the custodian.

- Consulting with the Company when considering any amendment to this Statement.

- Monitoring compliance of the investment arrangements with this Statement on an ongoing basis.

2.8 In line with the Myners Principles, the Trustees have reviewed the appointment of an investment committee. The Trustees have decided to retain all investment governance within the full Trustee group at the present time, although the suitability of this arrangement will be reviewed from time to time. However, the Trustees recognise the need for expertise and appropriate, expert advice and they will seek further training, and issue-specific advice, as required.

Investment Managers

2.9 With the exception of the Property Fund, the Plan's assets are passively managed (noting that some active management is required to achieve the leverage in the LDI funds). The investment manager's responsibilities include:

- For passive funds, tracking the relevant benchmark returns within an appropriate tracking error.

- For active funds, discretionary management, including selecting securities within each asset class.

- Providing the Trustees with quarterly statements of the assets together with a quarterly report on actions and future intentions, and any changes to the processes applied to the portfolio.

- Informing the Trustees of any changes in the internal objectives and guidelines of any pooled funds used by the Plan as soon as practicable.

- The independent safekeeping of the assets and appropriate administration (including income collection and corporate actions) within any pooled funds used by the Plan.

- Provision to the Trustees on an annual basis, or whenever changes occur, of their policies and procedures relating to voting rights on securities, soft commission, professional standards, conflicts of interest and internal controls.

Professional Advisers

2.10 The Trustees believe that the current arrangement (using a single advisory firm for both actuarial and investment advice) has certain advantages for the Plan. The Trustees will continue with the current arrangement until this ceases to be appropriate.

Investment Consultant

2.11 The investment consultant's responsibilities include:

- Participating with the Trustees in annual reviews of this statement.

- Advising the Trustees, as requested:

  - of how any changes in benefits, membership and funding position may affect the manner in which the assets should be invested.

  - of how any changes at the investment manager(s) could affect the interests of the Plan.

  - on how any changes in the investment environment could either present opportunities or problems for the Plan.

- Undertaking project work as requested, including:

  - reviews of asset allocation policy.

  - reviews of investment management fees.

  - performance reviews of the existing investment manager.

  - research reviews of the existing and/or potential investment managers.

- Advising on the selection of new managers and/or custodians.

2.12 Fees are generally calculated by reference to the time spent on a particular assignment and the relevant charge-out rates applying to the associates who provide the services in question.

Scheme Actuary

2.13 The Scheme Actuary's responsibilities include:

- Performing the triennial (or more frequently, as required) valuations of the Plan and advising on the appropriate contribution levels for the future.
- Liaising with the investment consultant on the suitability of the Plan's investment strategy given the financial characteristics of the Plan.

Section 3: Objectives and long term policy

Objectives

3.1 The Trustees have the following investment objectives:

- The acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with new contributions from members and the Company, the cost of current and future benefits which the Plan provides.

- To limit the risk of the assets failing to meet the liabilities over the long term.

- To minimise the long term costs of the Plan by maximising the return on the assets whilst having regard to the objective shown directly above.

Policy

3.2 The Trustees' policy is to seek to achieve the objectives through investing in a suitable mixture of real and monetary assets. They recognise that the returns on real assets, while expected to be greater over the long term than those on monetary assets, are likely to be more volatile. A mixture across asset classes is targeted to provide the level of returns required by the Plan to meet its liabilities at an acceptable level of risk for the Trustees and an acceptable level of cost to the Company.

3.3 Having taken appropriate actuarial advice, the Trustees are of the opinion that the asset allocation detailed in 4.1 is appropriate in the current circumstances, but will be reviewed at least annually.

Expected return on investments

3.4 In setting the Plan's asset allocation policy, the Trustees' aim is that the returns on investments enable the Plan to fund the benefit provisions to members. For this purpose the Trustees have had regard to the actuarial valuation approach which is used to determine Company contributions, including in particular an expected higher return on equity investments than on bonds, and to the historical rates of return earned on the various classes of assets available for investment.

3.5 The relative risks and returns of different classes of investment are reviewed at intervals by the Trustees, based in part on asset liability modelling following each actuarial valuation.

AVCs

3.6 The Plan provides a facility for members to pay AVCs into the Plan to enhance their benefits at retirement. The amount held in AVCs is currently very low.

Socially responsible investments

3.7 As the Trustees' policy is to invest the Plan's assets in pooled funds, the Trustees cannot directly influence how social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments.

3.8 The Trustees' policy is therefore that the extent to which social, environmental and ethical considerations are taken into account in these decisions is left to the discretion of the investment manager.

Rights attaching to investments

3.9 The Trustees' policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers.

Realisation of assets

3.10 The majority of stocks held by the Plan’s investment manager are quoted on major stock markets and may be realised quickly if required.

Section 4: Asset allocation guidelines

Asset allocation

4.1 The Plan's assets are invested by BlackRock in their in-house pooled funds and are split into two separate sections: a return seeking asset portfolio and a matching asset portfolio.

Total Asset Portfolio

	Approximate asset allocation (%)	Control ranges (%)
Return-seeking assets	**50.0**	**40 – 60**
Equity Portfolio	40.0	
Property Portfolio	10.0	
Matching assets	**50.0**	**40 – 60**
Corporate Bond Portfolio	22.5	
LDI Portfolio	27.5	
Total	**100.0**	

4.2 The actual asset allocation would normally be expected to lie within the ranges set out in 5.2 above. Should it move outside of these ranges, the Trustees will consider what action is necessary to rebalance the portfolio, if any.

4.3 The return seeking asset portfolio is further split into an equity portfolio and a property portfolio and the matching asset portfolio is further split into a corporate bond portfolio and a Liability Driven Investment (LDI) portfolio

Equity Portfolio

	Asset Allocation %
UK equities	30.0
Overseas equities	70.0
North America equities	*20.0*
Europe ex UK equities	*20.0*
Japan equities	*10.0*
Pacific basin ex Japan equities	*10.0*
Emerging markets equities	*10.0*
Total	**100.0**

4.4 The Equity Portfolio will be rebalanced each quarter to the weights shown in the table above. No rebalancing will take place between the Equity Portfolio and the Property Portfolio.

The Property Portfolio

4.5 The Property Portfolio is invested entirely in the BlackRock UK Property Fund. BlackRock shall not allocate between the Equity Portfolio and the Property Portfolio.

Corporate Bond Portfolio

4.6 The Corporate Bond Portfolio is invested entirely in the Aquila Life Over 15 Year Corporate Bond Fund. BlackRock shall not allocate between the Corporate Bond Portfolio and the LDI Portfolio.

LDI portfolio

4.7 The LDI portfolio has been designed to broadly hedge 70% of the impact of changes in interest rates and inflation on the Plan's liabilities on a Technical Provisions basis. The hedge design will be reviewed periodically, expected to be in conjunction with the Plan's triennial valuation, or sooner in the event of a significant change in the membership profile.

4.8 The Plan's liability matching asset allocation as implemented on 8 November 2017 is as follows:

LDI portfolio	Allocation (as % of LDI assets)
BlackRock Leveraged Fixed Gilt 2052 Flex Fund	21.5%
BlackRock Leveraged Fixed Gilt 2060 Flex Fund	24.1%
BlackRock Leveraged Fixed Gilt 2068 Flex Fund	16.5%
BlackRock Leveraged Index Linked Gilt 2027 Flex Fund	4.3%
BlackRock Leveraged Index Linked Gilt 2032 Flex Fund	5.3%
BlackRock Leveraged Index Linked Gilt 2040 Flex Fund	6.9%
BlackRock Leveraged Index Linked Gilt 2050 Flex Fund	5.9%
BlackRock Leveraged Index Linked Gilt 2062 Flex Fund	2.2%
BlackRock Leveraged Index Linked Gilt 2068 Flex Fund	0.4%
BlackRock Leveraged Real Swap 2020-2024 Flex Fund	3.4%
Sterling Liquidity Fund (cash)	9.5%
Total	**100%**

4.9 The Trustees have agreed to the use of certain leveraged funds within the LDI holding managed by BlackRock. Within the other portfolios, leverage is used on a controlled basis for risk management purposes. Some short-term borrowing for settlement is allowed, but is strictly limited and for the purpose of trade settlement only (which is standard practice in investment management).

4.10 It is the intention of the Trustees to review the asset allocation of the Plan every three years following each actuarial valuation. In addition, the Trustees will monitor the position on an annual basis.

4.11 Asset categories not included here may only be used following a revision of these restrictions which specifically permits their inclusion.

Diversification

4.12 The Plan’s strategic asset allocation (see 4.1 above) is designed to ensure that the Plan's investments are adequately diversified by asset class. Since the Plan is invested in pooled funds, the Trustees cannot influence directly the concentration of investments at a stock selection level.

Suitability

4.13 The Trustees have taken advice from the Scheme Actuary and the investment consultant to ensure that the asset allocation specified above is suitable for the Plan given its liability profile.

Liquidity

4.14 The Trustees, together with the Plan's administrators, will ensure that they hold sufficient cash to meet the likely benefit outflows from time to time. The Trustees' policy is that there should be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in the majority of foreseeable circumstances so that realisation of assets will not disrupt the Plan's overall investment policy.

Section 5: Investment manager arrangements

5.1 The Trustees considered the use of both passive and active investment management when reviewing the Plan's strategy. The resultant use of active and passive management was determined following consideration of the relative levels of risk involved, set against the efficiency, liquidity and level of transaction costs likely to prevail within each market, allowing for investment manager fees.

Investment manager structure

5.2 A single investment manager BlackRock is employed in the following role:

- To make use of in-house pooled funds to ensure adequate diversification in each asset class.
- To passively manage an Equity Portfolio, a Corporate Bond Portfolio and a Liability Driven Investment Portfolio (noting that some active management is required to achieve the leverage in the LDI funds) within the guidelines set out by the Trustees.
- To actively manage a Property Portfolio within the guidelines set out by the Trustees.

5.3 The Trustees' policy is to obtain ongoing and regular advice on whether the funds invested in are satisfactory as required by the Pensions Act.

5.4 The Trustees have selected the Prudential Assurance Company Limited as the provider for members' AVC investments. Prudential's appointment will also be kept under regular review.

5.5 The Trustees have considered the guidelines and restrictions of each of the mandates in which the Plan invests and are comfortable with them.

Manager monitoring

5.6 Whilst the Trustees are not involved in the investment manager's day to day method of operation and so cannot directly influence attainment of the performance target, they will assess performance and review appointments. Measurable objectives, consistent with the Plan's longer term objectives and an acceptable level of risk, have been developed as follows:

- For the Equity Portfolio and Corporate Bond Portfolio, to perform in line with the relevant benchmark indices as set out in Appendix B.
- For the Property Portfolio, to outperform the IPD All Balanced Funds Weighted Average Index.
- For the Liability Driven Investment Portfolio, to perform satisfactorily subject to review from time to time by the Plan's investment adviser.

5.7 These investment objectives will be treated as a target only and will not be considered as an assurance or guarantee of the performance or risk of the Plan or any part of it.

5.8 It is not expected that the manager will achieve the principal objectives in every period. Nonetheless, the managers should demonstrate that the skill exercised in managing the portfolios is consistent with the target given the levels of risks adopted.

5.9 The Plan uses different managers and mandates to implement its investment policies. The Trustees ensure that, in aggregate, their portfolio is consistent with the policies set out in this Statement, in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustees will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustees' policies, where relevant to the mandate.

5.10 Should the Trustees' monitoring process reveal that a manager's portfolio is not aligned with the Trustees' policies, the Trustees will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustees that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

5.11 For most of the Plan's investments, the Trustees expect the investment manager(s) to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods.

Fee structures

5.12 The Trustees have agreed fees with the manager based on the value of assets in their portfolios for a given scope of services which includes consideration of long-term factors and engagement. These fees are consistent with the manager's stated fee scale. Details of the fee structures are included in the Investment Management Agreements.

5.13 The Trustees review the costs incurred in managing the Plan's assets regularly, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustees will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

5.14 Advisers' fees are paid on an hourly basis.

Manager monitoring

5.15 The appointment of the investment managers will be reviewed by the Trustees from time to time, based on the results of their monitoring of performance and investment process, the Trustees' confidence that the manager can continue to fulfil their mandate in the future and of the managers' compliance with the requirement in the Pensions Act concerning diversification and suitability, where relevant. The managers have been provided with a copy of this Statement and the Trustees will monitor the extent to which the managers give effect to the policies set out in it.

5.16 The Trustees appoint their investment managers with an expectation of a long-term partnership. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustees would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

5.17 It is expected that a review meeting will be held with the investment manager around once each year, as appropriate.

Section 6: Risk management

6.1 The Trustees recognise a number of risks involved in the investment of the assets of the Plan:

- Solvency risk and mismatching risk
  - are measured through a qualitative and quantitative assessment of the expected development of the assets relative to the liabilities under current and alternative investment policies
  - are managed through assessing the progress of the actual growth of the assets relative to the selected investment policy.
- Manager risk
  - is measured by the expected deviation of the prospective risk and return, as set out in the manager's objectives, relative to the investment policy
  - is managed by the ongoing monitoring of the performance of the investment manager as well as a number of qualitative factors supporting the manager's investment process.
- Liquidity risk
  - is measured by the level of cashflow required by the Plan over a specified period
  - is managed by the Plan's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Currency risk
  - is measured by the level of overseas investment and the translation effect of currencies leading to the risk of an adverse influence on investment values
  - is managed by reducing the translation risk of investing overseas by hedging 50% of the overseas investments' currency translation risk for those overseas currencies that can be hedged efficiently. Emerging market equity investments are not currency hedged as a significant portion of the expected return is derived from emerging market currency strengthening.
- Custodial risk
  - is addressed through investment in pooled vehicles, with the investment managers responsible for selection of suitable custodians. In addition, restrictions are applied as to who can authorise transfers of cash and the accounts to which transfers can be made.
- 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 regular assessment of the levels of diversification within the existing policy.

- Sponsor risk

  - is measured by the level of ability and willingness of the sponsor to support the continuation of the Plan and to make good any current or future deficit

  - is managed by assessing the interaction between the Plan and the sponsor's business, as measured by the number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to the financial strength of the sponsor.

6.2 These measures do not render the investment policy free of risk. Rather, the measures endeavour to balance the need for risk control and the need for assets which are likely to achieve the required performance target.

6.3 The Trustees continue to monitor these risks.

6.4 The Trustees also recognise that conflicts of interest can arise wherever agents (such as advisers, investment managers and the Trustees themselves) are acting on behalf of the ultimate beneficiaries. The Trustees seek to identify where conflicts or potential conflicts exist, put in place processes for managing these conflicts, and ensure they are taken into account when making investment decisions.

Appendix A: Current advisers

Scheme Actuary	Guy Gregory, Towers Watson Limited, a Willis Towers Watson company
Investment consultant	Towers Watson Limited
Investment manager	BlackRock Investment Management (UK) Ltd
AVC provider	Prudential Assurance Company Limited
Administrator	First Actuarial LLP
Solicitors	Sackers & Partners LLP
Scheme auditors	BDO LLP