

# IHG UK Defined Contribution Pension Plan (the “Plan”)

## Statement of Investment Principles (SIP)

### 1. Introduction

#### 1.1 Statutory Information

This Statement of Investment Principles (the “Statement”) is produced to meet the requirements of the Pensions Acts 1995 & 2004 and the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements. This includes the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2018 which came into force on 1st October 2019.

This Statement reflects the outcome of the Trustee’s review of the Plan’s investments in light of the ‘Freedom & Choice’ changes introduced from April 2015 under the Pensions Act 2015; and the most recent review of the administration and investment platform provider in 2021.

The Plan is a defined contribution (DC) pension arrangement. It is a qualifying scheme for auto enrolment purposes.

#### 1.2 Governance

The Trustee has full regard to its investment and other powers under the Trust Deed and Rules and the best interests of the Plan’s members, and will assess the suitability of different types of investments to meet their needs.

##### Responsibilities:

The key responsibilities in connection with the governance of the Plan are:

The Employer is responsible for paying the contributions to the Plan and for providing support to the Trustee to help govern the Plan.

The Trustee is responsible for the selection, monitoring and replacement of the investment platform provider, investment managers and the administrator, taking advice from the Plan’s investment consultants where necessary. The Trustee maintains an Investment Implementation Policy Document (IIPD) which contains details of the Plan’s investment arrangements.

The Trustee does not give advice to individual members on their fund selections. Members are encouraged to take independent financial advice when making their individual investment choices.

The day-to-day management of members’ investments is delegated to Scottish Equitable plc (“AEGON”), the Plan’s current provider for both administration and investment management services. AEGON operates in accordance with a Service Level Agreement which the Trustee monitors on a regular basis.

AEGON is responsible for investing contributions with the selected fund managers while ensuring that the funds are priced correctly, maintaining sufficient liquidity and meeting regulatory requirements. It is also responsible for the creation and ongoing running of blended funds, at the request of the Trustee. The fund managers are responsible for the day-to-day investment management of the funds' assets. Please refer to the IIPD for the current list of funds available to members. The IIPD is available to members on request from the Plan administrators.

Custodians are appointed by the investment manager(s) and are responsible for the safekeeping of the assets of the funds and processing the settlement of transactions.

The role of Hymans Robertson LLP (the investment consultant) is to give advice to the Trustee on the development of a clear set of aims, objectives and investment strategy for the Plan including the default option, lifestyle strategies and self-select fund range. It provides general advice in respect of the Plan's investment activities. It advises on the construction of an overall investment management structure and fund offering that meets the objectives of the Trustee's investment strategy. It also provides views on the investment manager(s) used by the Plan and assists the Trustee in the selection and appointment of appropriate investment managers when necessary.

In preparing this Statement, the Trustee has taken into account current guidance from the Pensions Regulator.

#### Conflicts of interest

The Trustee maintains a register of its interests and those of its advisers. This register is reviewed at each Trustee meeting to ensure that any potential conflicts between stakeholders are identified in a timely manner and dealt with appropriately.

In the event of a conflict of interests, the Trustee will need to ensure that contributions for the default option are invested in the sole interests of members and beneficiaries.

When appointing platform providers and choosing investment managers' funds on the provider's platform, the Trustees will seek to establish that the platform provider and each investment manager has an appropriate conflicts of interest policy in place.

### **1.3 Advice**

The Trustee obtains and considers proper advice from a suitably qualified person from Hymans Robertson LLP on the suitability of the investments, the need for diversification and the principles contained in this Statement. Hymans Robertson LLP operates under an agreement to provide a service which ensures the Trustee is fully briefed to take decisions itself and to monitor those it delegates. Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority.

### **1.4 Employer consultation**

The Employer has been consulted on the contents of this Statement and will be consulted should the Trustee wish to make any amendments to this Statement.

## 2 Investment Principles

### 2.1 Investment objective

To provide a range of investment options suitable to meet Plan members' needs, by providing options that give members a reasonable expectation of:

- influencing the value of their assets at retirement, allowing for individual members' risk tolerances;
- where required, maintaining the purchasing power of their savings in real (i.e. post-inflation) terms; and
- providing protection for accumulated assets in the years approaching retirement against a sudden (downward) volatility in the capital value and, where required, against fluctuations in the cost of annuities;

whilst taking into account the impact that increased complexity may have on administration requirements and the overall cost of the arrangements.

Three lifestyle options are offered to members of the Plan, with each intended to target the provision of one of the three retirement benefit choices: Annuity, Cash and Drawdown. Alternatively, a range of self-select funds is available for Plan members to invest in.

Following analysis of the demographic composition of the Plan's membership, and having taken advice from Hymans Robertson LLP, the Trustee selected the Drawdown lifestyle option as the default investment option. The Trustee intends the default investment option to be suitable for the majority of Plan members and will therefore continue to monitor member funds, behaviours and choices at retirement to ensure that it remains appropriate.

#### Primary default option

The default option is intended to be suitable for those Plan members who do not wish to make an active choice on their investments. As the Plan is used for auto enrolment purposes, the Plan is required to have a default investment strategy. The overall aim of the Plan's primary default option is to provide an opportunity for Plan members to generate capital growth whilst managing members' investment risk over their careers and reflect likely benefit choices at retirement. Full details of the strategy can be found in the accompanying Investment Implementation Policy Document but the broad principles behind the strategy and the reasons for the default's construction are set out below.

The Trustee believes that when members are many years before retirement, they should seek to maximise the returns on their investments and to achieve this at a low cost. On this basis, until Plan members are 15 years before their selected retirement date, their assets are invested in passively managed equities. The Trustee also believes that, when members are closer to retirement (and when investment returns become more important than contributions) members' assets should gradually be moved into assets with a lower level of absolute volatility. Between 15 and 10 years before a member's selected retirement age, their investments are gradually switched into a diversified assets fund.

The expected returns on these assets (both the initial passively managed equities and then the diversified assets fund) is detailed in section 2.4.2 below.

The Trustee considers the risks relating to the default investment option, in particular:

- whether it remains suitable for the requirements of the Plan's membership who invest in it;
- whether it will meet the reasonable expectations of those members; and
- whether the fund managers will meet their objectives and the operational risks with the fund managers and other third parties involved in the default investment option.

As set out in further detail in section 2.3 below, the Trustee considers these risks as part of its formal strategy review, both in respect of the Plan's investments as a whole and more specifically in relation to the Plan's default option. The Trustee also regularly monitors the performance of the default option and the fund managers in relation to the default option and ensures the suitability and qualifications of any third parties who advise in relation to the default option.

AEGON must switch member fund holdings in the default option in accordance with member instructions. Generally, investments will be realised quickly.

Having consulted with the Plan's membership, and also considered projected fund sizes going forward, the Trustee believes that most members will opt to access Flexi Access Drawdown (FAD) after the point of retirement. Whilst FAD is not offered within the Plan, the Trustee believes that, at the point of retirement, the investment strategy of the default option should be broadly consistent with a post-retirement drawdown portfolio. Additionally, the Trustee believes that most members will continue to access their maximum allowable tax free cash lump sum at the point of retirement. Therefore the default option retains 75% in the Diversified Assets Fund at the point retirement along with 25% in the Cash fund.

The Trustee's approach to financially material considerations, non-financial matters and stewardship can be found in Section 4 of this statement. The approach taken applies to all funds within the fund range including the default option.

The Trustee will continue to monitor what members of the Plan do at the point of retirement (as well as monitoring trends more widely within the industry) to ensure that this strategy remains appropriate for members. The suitability of the default strategy was last formally reviewed in 2021 and will be formally reviewed every three years (or on any significant changes to the demographic profile of members who are invested in the default option or the overall membership of the Plan or significant changes to legislation or regulation) and will be informally reviewed on an annual basis.

#### Temporary default option

In the event that members are unable to invest their contributions in a particular fund, contributions will be directed into an alternative fund agreed by the Trustee (unless the member selects otherwise). For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets. Under current regulations, this creates a temporary default arrangement.

The objective of a temporary default arrangement is to provide:

- A very high level of liquidity, such that funds can be diverted back into the original fund once it is available.
- Protection on the capital value of contributions and low volatility so that members can divert contributions back into their chosen fund at the value that they would have gone in originally.
- A fee level (total expense ratio) that is lower than the current charge cap.

In 2020 certain property funds were suspended from trading, due to the difficulty in valuing underlying assets (the **Suspended Funds**). Under these circumstances, the Trustee believes that contributions that were meant to be invested in the Suspended Funds should be directed into the AEGON BlackRock Cash Fund, as this fund carries the lowest volatility amongst the Plan's self-select funds, has a low likelihood of having trading suspended and is the most liquid (meaning funds can be invested and disinvested promptly). Therefore the AEGON BlackRock Cash Fund is a temporary default arrangement, and its objectives are in line with those set out above. Once a suspension is lifted, members will be notified and will have the option to move any previously redirected contributions into the suspended fund (or another fund of their choice), if the member does not make a decision then these contributions will be moved to the Plan's primary default option.

## 2.2 **Policy for maintaining funding**

The nature of a defined contribution plan is such that the assets exactly match the liabilities, which means that the Plan maintains 100% funding at all times.

The Trustee's policy is to provide suitable information to Plan members so that they can make appropriate investment decisions to ensure adequate provision for their own retirement. A range of funds is available on the AEGON platform for the Plan's members to invest in.

Contributions from the sponsoring employer and the members are paid into a member's account which is then invested in the funds which have been selected. Where no selection has been made, the monies are invested in the default Drawdown lifestyle option.

## 2.3 **Risk measurement and management**

The Trustee considers the following main sources of risk:

- Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices. This is controlled by the selection of funds offered to members and by regularly monitoring investment performance.
- Risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and regularly thereafter [through provider reviews].
- Risk of the default option being unsuitable for the requirements of some members. This risk is minimised by offering three lifestyle strategies which switch members' holdings as retirement approaches and are identical until 5 years prior to retirement. Members opting for the lifestyle strategy are made aware that it may not be the most appropriate investment strategy for their personal circumstances and attitude to risk; and member funds, behaviours and retirement choices are monitored by the Trustee.
- Risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.
- Risk that the extent to which Environmental, Social and Governance ("ESG") issues (including climate change risk) are not reflected in asset prices and / or not considered in investment

decision making leads to underperformance relative to expectations. The Trustee will seek to minimise this risk by adopting a set of ESG beliefs which will be reviewed regularly and used to support with investment decision making. The Plan's investment adviser will keep the Trustee informed of developments in this space.

Other risks involved in the investment of assets include the following:

- *Inflation risk* – the risk that the purchasing power of Plan members' retirement pots is not maintained is addressed by the range of asset classes available and the expected returns on those (see 2.4.2 below).
- *Currency risk* – the risk of the effect of currency movements on the capital value of the assets held in non-sterling denomination is addressed by investing in global or regional funds, or funds classified by asset classes rather than solely by jurisdiction.
- *Liquidity risk* – the risk of holding assets that cannot be easily sold should the need arise. This risk is addressed through the use of pooled funds and/or insurance policies with frequent dealing dates and, where appropriate, by limiting exposure to funds and/or policies that may be more difficult to realise at times (such as property funds) whilst recognizing that illiquid investments can still be a beneficial element of a balanced portfolio over the long term.
- *Diversification risk* – the risk of lack of diversification of investment is addressed through investing in a range of pooled funds and/or insurance policies with appropriate asset allocation range.
- *Country/political risk* – the risk of an adverse influence on investment values from political intervention is reduced by offering investment options for members to achieve diversification across several countries.
- *Benefit conversion risk* – investment conditions just prior to retirement may increase the cost of turning members' fund values into retirement benefits. For members taking cash at retirement, funds investing in cash deposits and other short-term interest-bearing investments provide a high degree of (but not complete) capital security. Funds investing in a mix of different assets are expected to be broadly suitable for members planning income drawdown during retirement. For members buying an annuity at retirement, the value of funds investing in longer-dated bonds may be expected to broadly follow changes in annuity rates caused by long-term interest rates.
- *Volatility/Market risk* – falls in fund values prior to retirement lead to a reduction in retirement benefits. However, funds investing in bonds or a mix of assets or investment techniques intended to manage short-term risks may be expected to be subject to lower levels of short-term fluctuations in values - although there may be occasions when this does not hold good.

#### Ability to invest/disinvest promptly

The Trustee recognises that it is important that members' contributions can be invested promptly in selected investment funds, and that these can be sold promptly. The Trustee manages this risk by selecting pooled investment funds which can be dealt on a daily basis. AEGON is responsible for monitoring the ability for members to invest and disinvest promptly and is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability for members to do so.

For example, this situation could occur in the event of significant economic uncertainty impacting on the ability for fund managers to value the underlying assets. In these circumstances, contributions will be directed into another fund agreed by the Trustee (unless the member selects otherwise) and will be redirected into the original fund(s) once restrictions are lifted.

The Trustee will have regard for these risks when determining investment strategy and will keep them under regular review. These risks are further addressed by the investment managers' investment decisions, made in line with the Trustee's investment strategy, and by appropriate investing to ensure that risks are addressed in the ways detailed above.

The Trustee monitors the age profile of the Plan's membership to arrive at an appropriate investment horizon for different groups of members when considering all investment and financially material risks. The Plan is open to new entrants from age 16 (18 for the Executive section) and as a result, investment risks need to be considered over a long time horizon.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustee has also established a set of ESG beliefs for the Plan, which were formed with the assistance of the Trustee's investment consultant and in consultation with IHG.

## **2.4 Policy for choosing investments**

Individual investment choices are made in accordance with the wishes of members from a range of options. The lifestyle strategies are based on a general principle that investment needs change as a member approaches retirement and that at retirement the member will take one of three benefit choices, including the maximum available tax free cash under each option.

### **2.4.1 Suitability for the Plan's investments**

The range of funds made available to Plan members was chosen by the Trustee after taking advice from the Trustee's investment consultant. In choosing the Plan's investment options, it is the Trustee's policy to consider:

- a full range of asset classes
- the suitability of different styles of investment management
- the need for manager diversification
- the suitability of each asset class to meet the needs of the Plan's members
- the suitability of managers' ESG policies
- the need for appropriate diversification of asset classes
- the need for a default option for members who do not make an active choice
- the costs and charges associated with investment funds.

The Trustee expects that the fund managers will have the members' financial interests as their first priority when choosing and monitoring investments.

## 2.4.2 Expected return

The expected returns on the principal asset classes and fund types within the Plan are:

Equities - should achieve a strong positive return relative to inflation over the longer-term, but tends to be the most volatile asset class over the shorter-term;

Property – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities, but with a lower level of shorter-term volatility than equities;

Corporate Bonds – should achieve a return moderately below inflation over the longer-term which is lower than that for equities and property, but with a lower level of shorter-term volatility than equities or property;

Fixed Interest Government Bonds (Gilts) – should deliver a return moderately below inflation over the longer-term which is lower than that of equities, property and corporate bonds, but with a lower level of shorter-term volatility than equities, property and corporate bonds;

Index-linked Government Bonds (Index-Linked Gilts) – should deliver a return moderately below inflation over the longer-term, but with a lower level of shorter-term volatility than equities, property and corporate bonds;

Cash – should deliver a return slightly below inflation, while normally providing a minimal level of volatility and high degree of capital security;

Long-dated Government Bonds (Gilts) and long-dated Corporate Bonds – values should move broadly in line with the financial factors influencing annuity rates;

Diversified Growth/multi-asset Funds – invest in a varying mix of asset classes with an objective of delivering a target level of positive returns relative to inflation over the longer-term, with a target level of shorter-term volatility lower than equities.

Responsible Investment (i.e. funds selecting assets to mitigate ESG and/or climate change risks) – the strategy of these funds is expected to give a better risk adjusted net return over the long-term than the broader market for the type of assets involved (e.g. equities).

## 2.4.3 Fund options

The Trustee, in consultation with the investment consultant, decided: it was not generally appropriate to offer actively managed equity funds, as there was no strong historical evidence that the additional costs involved were outweighed by improved returns; and the geographic range of passively managed index-tracking equity funds, which are designed to produce a return as close as possible to the relevant market benchmark, should be sufficiently broad. Fixed-interest and index-linked gilt funds, a UK corporate bond fund and a specialist 'pre-retirement' fund are available for investment diversification and to protect against changes in the cost of purchasing annuities at retirement. A Cash fund is available to provide protection against short-term changes in capital values. A property fund and diversified asset option are available for investment diversification and a specialist investment option is available for members who require a Sharia-law compliant investment.

The additional funds are offered to give members a choice of investment options because:

- While the default arrangement is intended to meet the needs of a majority of the Plan's members, it may not meet the needs of a wider cross-section of members;



- Attitudes to investment risks and the need for investment returns will vary from member to member and will also vary for each member over time and, in particular, as they approach retirement;
- Members have differing investment needs and these needs change during their working lives; and
- Some members will want to be more closely involved in choosing where their contributions are invested.

The Trustee believes that understanding the Plan's membership is important to maintaining an appropriate range of investment options and have taken into account a number of aspects including:

- The members' age and salary profile;
- The likely sizes of members' pension funds at retirement;
- Members' retirement dates and likely range of benefit choices at retirement;
- The levels of investment risk and return members may be willing to take;
- The degree to which members are likely to take an interest in where their contributions are invested; and
- The number of members who are likely to want responsible, ethical or faith-based investment

A list of the fund options in place at the time of approving this Statement are provided in the IIPD.

## 2.5 **Monitoring**

The Trustee's policy is to review the range of funds offered and the suitability of the lifestyle options regularly.

The risks outlined in section 2.3 are considered as part of each normal strategy review. In addition, the Trustee receives quarterly reports showing:

- Performance of individual funds versus their respective targets reported by each manager. These are shown net of fees.
- Any significant issues with the fund managers that may impact their ability to meet the performance targets set by the Trustee. Where issues arise during the quarter with the managers of the funds offered to members, the Plan's investment consultant will bring these to the attention of the Trustee and appropriate action will be taken if considered necessary.
- The Trustee regularly monitors the charges on the default option to ensure that it does not exceed the DWP's charge cap. Charges on both the default option and the self-select funds are monitored on a regular basis to ensure they represent value for money for members.
- The Trustee monitors transaction charges on all of the funds offered to members to ensure that these represent value for members.
- The Trustee aims to meet with all major fund managers on a periodic basis. The Trustee will provide the fund managers with an agenda for discussion, including issues relating to individual holdings voting record and, where appropriate, ESG issues. Managers are challenged both

directly by the Trustee and by the Plan's investment advisers on the impact of any significant issues including shareholder voting record, conflicts of interests and, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

- The results of the monitoring of charges will be reported on in the Chair's Statement, which forms part of the Plan's report and accounts.

## 2.6 **Appropriateness for members**

Younger members have a greater need for good long term returns and can be less concerned with shorter term price fluctuations. With this need in mind the Plan offers passively managed UK and overseas equity funds.

Those members with larger accumulated funds or in the years approaching retirement will be more conscious of capital security and, if applicable, annuity prices. Bond funds provide some protection against movement in fixed income annuity prices and offer more capital security (but lower expected returns) than equities. Cash provides the greatest capital security protection.

The Drawdown lifestyle option operates as a default if the member does not wish to make their own selection of funds. This lifestyle option is designed to be appropriate for a typical member with a targeted retirement date. However it may be less suitable for members who opt to take their funds entirely as cash at retirement or members who opt to purchase annuities - alternative lifestyle options are available for such members.

The Trustee will continue to monitor what members of the Plan do at the point of retirement (as well as monitoring trends more widely within the industry) to ensure that this strategy remains appropriate for members.

## 2.7 **Realisation of investments**

AEGON must switch member fund holdings in accordance with member instructions. Generally, investments may be realised quickly if required and AEGON is expected to notify the Trustee if a situation develops whereby there is any restriction on the ability to do so. The Trustee recognises that there may be a delay on dis-investment from some funds (for example those which include investments in property), as addressed in more detail above.

## 2.8 **Portfolio turnover**

The Trustee does not expect fund managers to take excessive short-term risk and will monitor the fund manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index the fund seeks to track and, therefore, is outside the control of the investment manager. This is not the case where the total fund's assets under management are relatively small, where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks.

When selecting actively managed funds, the Trustee will consider, with the help of the Plan's investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's style and processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask AEGON or underlying fund managers to report on at least an annual basis on the underlying assets held within the fund with details of any transactions and turnover costs incurred over the Plan's reporting year. The Trustee will seek to compare portfolio turnover and the resultant costs against peer groups or portfolio turnover and costs for an appropriate index.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge AEGON and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

## 2.9 **Portfolio duration**

The Trustee recognises the long-term nature of defined contribution pension investments and chooses funds which are expected to deliver sustainable returns over the Plan members' investment horizon. The Trustee, with the assistance of its investment adviser, will carry out necessary due diligence on the underlying investment decision making process, to ensure the fund manager makes investment decisions over an appropriate time horizon aligned with the objectives for the related investment option.

The Trustee expects that each fund will be used for at least three years, this being the period over which performance of the fund can be appropriately evaluated and the costs of change amortised, although all funds are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy.

## 2.10 **Manager incentives**

The basis of remuneration of the fund managers by AEGON may be subject to commercial confidentiality. However, the Trustee will seek transparency of all costs and charges borne by members. The Trustee expects that it will be in the interests of both AEGON and the fund managers on the provider's platform to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the Trustee will ask the Plan's investment advisor to consider the fund managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Plan's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will take action should AEGON be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustee will periodically review the Plan's choice of provider to ensure their charges and services remain competitive. The Trustee believe that these steps are the most effective way of incentivising the provider to align their investment strategy with the Trustee's objectives and deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years in which the appropriateness of the investment options and the suitability of the Plan's investment management arrangements are also considered. If an investment manager is deemed suitable, they are expected to remain in place until at least the date of the next three-year review.

The Trustee monitors the investment managers against a series of metrics on a quarterly basis over a long-term time horizon including:

- Performance of their funds' respective benchmarks [or performance targets];
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers); and
- The management of risks.

AEGON (and underlying fund managers) are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed. The Trustee believes that these steps are the most effective way of incentivising the provider to make decisions based on assessments of long-term performance.

### 3 **Additional Voluntary Contributions**

The same range of funds and options is available for members who make Additional Voluntary Contributions (AVCs). Members can choose to invest their AVCs in a different way to their core contributions.

### 4 **ESG, stewardship and ethical policy**

The Trustee will continue to develop its investment approach to ESG matters taking account of the views and corporate policies of IHG and will remain updated on IHG's responsible business targets and policies.

The Trustee believes that ESG considerations have a bearing on the risk and return profile of investment strategies and ultimately can lead to better risk-adjusted returns for DC members over the longer term.

Investments are predominantly held in pooled funds where the operation of the fund is governed by a prospectus or similar document. The Trustee therefore has no powers to control the operation of each fund in regard to ESG or stewardship. The Trustee nevertheless seeks to manage financially material considerations to protect investments and generate long-term returns by:

- Choosing fund managers who have clearly articulated policies for managing financially material considerations including ESG and climate change;
- Considering the extent to which ESG issues including climate risk, where relevant, are integrated into the fund managers' investment processes and benchmark indices as appropriate, and being satisfied that the fund managers follow an approach which takes account of financially material factors;
- For actively managed funds (as and when applicable), expecting the fund managers to take financially material considerations, such as ESG factors, into account when selecting which companies and markets to invest in;
- For passively managed funds, the Trustee recognises that the funds' objectives are to deliver returns in line with its benchmark (which may or may not take into account ESG factors), which the Trustee believes will deliver appropriate risk-adjusted returns. The Trustee will review the index benchmarks employed by the funds used in the Plan on a periodic basis;

- For all funds, expecting fund managers to engage with companies in which the fund invests to encourage business strategies which should improve or protect the value of those investments;

Fund managers are only expected to take non-financial considerations into account when these do not conflict with or detract from a fund's investment return and risk objectives.

The Plan offers members the default arrangement and a choice of alternative lifestyle options and self-select funds. The Trustee's stewardship activities are to be focused on the default arrangement which is used by the largest number of members.

## **5 Activism and the exercise of the rights attaching to investments**

The Trustee's policy is to delegate responsibility for the exercise of the rights (including voting rights) attaching to investments to the investment manager. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

The Trustee does not engage directly with companies in respect of its investments. However, the Trustee believes it is appropriate for the fund managers to actively engage with key stakeholders which may include corporate management, regulators, governance bodies and other interested persons about relevant matters in relation to investments. Relevant matters may include how to improve corporate behaviours, how to improve performance, considerations on capital structure and management of actual or potential conflicts of interest, and how to mitigate financial risks. The Trustee will request, where appropriate and practicable, that AEGON or investment managers notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further direct engagement with the investment manager (or underlying company where applicable). The Trustee has delegated the review of this engagement activity undertaken by the fund managers to its investment advisers.

The Trustee expects AEGON to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform and to challenge investment managers if deemed necessary. The Trustee also expects AEGON to be able to evidence their own governance practices on request.

The Trustee has delegated the following matters to the Plan's investment consultant:

- monitoring adherence of fund managers to stated voting and engagement policies; and
- engaging with managers where concerns are identified and to report on these issues.

The Trustee will request/receive reports from the Plan's investment consultant on the fund managers' voting activity on a periodic basis.

The Trustee reviews the fund managers' voting activity at least annually in conjunction with the Plan's investment consultant and use this information as a basis for discussion with AEGON and fund managers. Where the Trustee deems it appropriate, any issues of concern will be raised with the manager for further explanation.

## **6 Fee structure for advisers and managers**

Details of the fee arrangements in place with the Plan's investment advisers and for each of the available investment funds are provided in the IIPD.

**7 Compliance with this Statement**

The Trustee will monitor compliance with this Statement annually.

**8 Review of this Statement**

The Trustee will review this Statement at least every three years and immediately following any significant changes in investment policy, any significant change to the nature of the membership of the Plan or any relevant changes in legislation or regulation. Any such review will be based on written, expert investment advice. The Trustee will consult the Employer over any changes to this Statement.

Approved by Independent Trustees Limited, acting as Trustee for the IHG UK Defined Contribution Pension Plan

Date: .....10 December 2021.....