



Statement of Investment Principles

**The Whitbread Group Pension Fund
Defined Benefit Section**

Date reviewed: 13 October 2022
Date adopted: 13 October 2022

Introduction

- 1 This document is the Statement of Investment Principles ('SIP') made by the Trustee of the Whitbread Group Pension Fund (the 'Fund') 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 Trustee will review this SIP at least every three years and without delay after any significant change in investment policy. Before finalising this SIP, the Trustee took written advice from the Fund's Investment Consultant (WTW) and consulted its sponsor, Whitbread Group PLC (the 'Company').
- 3 This Statement covers the Fund's Defined Benefit Section only. This comprises a core portfolio of assets and a contingent asset from the Company. The latter takes the form of an interest in a Pension Funding Partnership (PFP), which is effectively a bond secured on the Company's property holdings. The purpose of the PFP interest is to provide the Fund with an asset producing an annual income over a pre-defined period and, potentially a final principal payment depending on the funding position at the end of the term. This statement also covers any bulk annuity insurance policies ("buy-ins") entered into by the Fund.
- 4 This Statement focuses on the Fund's core portfolio and any buy-in ("bulk annuity", insurance policy") held by the Fund, although investment strategy considerations take account of the Fund's interest in the PFP.

Governance

- 5 The ultimate power and responsibility for deciding investment policy and setting investment strategy, lies solely with the Trustee, and it is the Trustee's responsibility to establish and regularly review the investment objectives and the arrangements in place to achieve these objectives. The Trustee will consult with the Company and ensure that the Fund complies with the provisions of the Pensions Act, including preparing, maintaining and periodically revising this Statement.
- 6 However, whilst the Trustee retains responsibility for the decisions made, the Trustee may delegate tasks under each of these areas of responsibility to appropriate persons, committees or organisations. When deciding which decisions to take itself and which to delegate, the Trustee takes into account whether it has the appropriate training and expert advice to take an informed decision.
- 7 To ensure the effective management of investment issues associated with the Fund, the Trustee has established a Funding and Investment Committee (FISC) to which it delegates investment implementation including manager selection. The FISC has a Terms of Reference, which set out its duties and reporting obligations. The FISC draws on the advice of a number of advisors in considering the Fund's investment arrangements, and the support of Whitbread Pensions, Whitbread PLC's in-house pension's team, in implementing and monitoring its decisions.
- 8 A list of the current advisors retained by the Trustee is provided in Appendix A. The Terms of Reference for the FISC are provided in Appendix B.

Fund objectives

- 9 The portfolio will be managed to a target return of Gilts+0.75% p.a. (inclusive of any buy-in assets).. The Trustee acknowledges that the expected return will change from time to time as assumptions change and, for the avoidance of doubt, the portfolio will not experience unnecessary turnover from quarter to quarter to meet this target return. The target return will be reviewed from time to time and always at the time of a triennial valuation in conjunction with the Company.
- 10 In April 2022, the Fund reached full funding on its Statutory Funding Objective, and the Trustee agreed (in consultation with the Fund's sponsor) to de-risk the portfolio to a target return of Gilts+0.75% pa, noting that implementation of the de-risk may take some time to achieve as a result of the liquidity of some of the Fund's assets.
- 11 The Trustee recognises that the Company has a legitimate interest in these objectives and has consulted the Company accordingly. It also recognises that the objectives above may conflict as the Trustee will need to balance the need for maximising the long-term investment return whilst accepting an appropriate level of risk to ensure the primary objective is achieved.
- 12 The Trustee completed a buy-in for the Fund ('Project Fig') on 23rd June 2022. The remainder of the Fund's assets are invested such that the Fund's total assets are expected to achieve the target return of Gilts+0.75% pa consistent with meeting the Trustee's funding objectives.

Investment strategy

- 13 The Trustee has received advice to determine an appropriate investment strategy for the Fund. The Trustee has a desire to diversify its risk exposures and to manage its investments efficiently. To this end, the Trustee has delegated investment implementation decision making to the FISC. All decisions of the FISC will be recorded in minutes and made available to the full Trustee Board.
- 14 The investment strategy makes use of a range of investments:
 - a a range of instruments that provide a broad match to changes in liability values;
 - b a portfolio of secure income assets; and
 - c a diversified portfolio of return-seeking assets: and
 - d buy-ins covering a proportion of the Fund's liabilities
- 15 The Trustee will monitor the liability profile of the Fund and will regularly review, in conjunction with the Investment Consultant and the Scheme Actuary, the appropriateness of its investment strategy.
- 16 The Fund seeks to hedge the interest and inflation rate sensitivities to a target level of 100% of liabilities, limited to the value of the assets (excluding the buy-in assets).
- 17 The expected return on the Fund's portfolio will be monitored regularly and will be directly related to the Fund's investment objective.
- 18 The Trustee's policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that the realisation of assets will not disrupt the Fund's overall investments, where possible. The Trustee, together with the Fund's administrators, will hold sufficient assets in cash or money market instruments as may be deemed appropriate to meet benefit and other payment obligations.

Investment managers

- 19 In accordance with the Financial Services and Markets Act 2000, the Trustee sets general investment policy, but delegates the responsibility for selection of specific investments to investment managers. The investment managers shall provide the skill and expertise necessary to manage the investments of the Fund competently. Investment managers may be appointed to manage segregated portfolios or the Fund's assets will be invested through appropriate pooled funds.
- 20 The Trustee is not involved in the investment managers' day-to-day method of operation and does not directly seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Fund's long-term objectives, and an acceptable level of risk. As part of this process, the Trustee has delegated the detailed monitoring of the Fund's investment managers to its Investment Consultant.
- 21 The Fund uses many different investment managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its 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 Trustee, in conjunction with its Investment Consultant, will also ensure that the investment objectives and guidelines of any given 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 Trustee's policies, where relevant to the mandate.
- 22 Should the Trustee's monitoring reveal that an investment manager's portfolio is not aligned with the Trustee's policies, the Trustee 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 Trustee that the degree of alignment remains unsatisfactory, the investment manager will be terminated and replaced.
- 23 For most of the Fund's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee may invest in strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Fund's allocation to such mandates is determined in the context of the Fund's overall objectives.
- 24 The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee 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.
- 25 Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. It is the Trustee's view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with long-term objectives. Such fee structures are therefore only used in a limited number of cases.
- 26 The Trustee reviews the costs incurred in managing the Fund's assets on an approximately annual basis which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Responsible investing, stewardship and sustainability

- 27 The Trustee recognises that a company's long-term financial success is influenced by a range of factors including appropriate management of environmental, social and corporate governance issues. Consequently, the Trustee seeks to be an active long-term shareholder and via its selection and oversight of its investment managers, encourages the companies in which the Fund invests to adopt sustainable business practices and high standards of corporate governance with the aim of protecting and enhancing long-term shareholder value. Whilst it is the Trustee's preference that all companies should be run in a socially responsible way, it takes the view that its primary responsibility is to act in the best financial interest of the members of the Fund. Therefore, the Trustee's policy is that the extent to which environmental, social and corporate governance considerations issues may have a financial impact on the portfolio will be taken into account by the investment managers in the exercise of their delegated duties.
- 28 When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations, but has identified climate and human and labour rights as two of the biggest ESG risks facing the Scheme, and consequently, these are key areas of focus for the Trustee. The Trustee assesses that ESG risks, and in particular climate change, pose a financial risk to the Scheme and that focussing on these issues is ultimately consistent with the Trustee's fiduciary duties and the financial security of its members.
- 29 The Trustee's policy is to delegate the exercise of rights (including voting rights) attaching to the Fund's investments to its investment managers. In doing this, it is recognised that the ultimate responsibility for how these rights are exercised remains with the Trustee. As part of the implementation of the Trustee's voting and engagement policies, the Investment Consultant assists the Trustee in assessing the appropriateness of investment managers including whether their voting policies are appropriate.
- 30 The Trustee expects its managers to sign up to their local stewardship code, in-keeping with good practice. The Trustee will monitor the activities of all of its managers on a regular basis but appreciates that its applicability may be limited for certain asset classes.
- 31 The Investment Consultant has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of Sustainable Investment is fully embedded in the manager recommendation process and is monitored on an ongoing basis. Whilst considering the limitations for each manager, the Investment Consultant expects managers to have sustainability processes to align with the investment risk and return characteristics of the strategy. The Investment Consultant engages with underlying managers where appropriate regarding their approach to stewardship with respect to relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings. Where a manager does not comply or improve on their current stance on Sustainable Investment, the manager's position in the portfolio is reviewed. Managers are reviewed on the following areas; Engagement, Documented SI policies, Alignment, ESG integration; including their impact on climate change, Transparency, Voting and Stewardship. 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 Investment Consultant takes into account in the assessment. The FISC reviews the performance of managers in this area on an annual basis.
- 32 In addition to monitoring the sustainable investment/ESG metrics of the investment managers (as stated in section 'Investment Managers'), the Trustee also reviewed the sustainability/ESG metrics of the Fund's bulk annuity provider prior to its appointment and will continue to review it on a regular basis going forward.

Other matters

33 The Fund is a Registered Pension Scheme for the purposes of the Finance Act 2004.

34 The Trustee recognises a number of risks involved in the investment of the Fund's assets:

- Solvency risk and mismatching risk:
 - are measured through ongoing triennial actuarial valuations and investment strategy reviews to assess the expected development of the liabilities relative to the current investment policy and alternative investment policies.
 - are managed through ongoing reviews of the Fund via quarterly reporting which focuses on the impact of the Fund's asset allocations on expected future funding levels. The Trustee considers the results using advanced modelling techniques and, with the assistance of expert advisors, is able to measure and quantify these results in terms of their definitions of risk. The Trustee reviews the investment strategy in detail following an actuarial valuation or any significant change in the Fund's circumstances. As part of this review, the Trustee may assess the probabilities of achieving its funding objectives using different investment strategies.
- Interest rate and inflation risk
 - is measured by comparing the likely movement in the Fund's liabilities and assets due to movements in inflation and interest rates.
 - is managed by holding a portfolio of matching assets (buy-ins, physical bonds and/or derivatives) that enable the Fund's assets to better-match movements in the value of the liabilities due to inflation and interest rate changes.
- Investment manager risk:
 - is measured by the expected deviation of the return relative to the benchmark set.
 - is measured by the rating placed on the investment manager and strategy by the Fund's Investment Consultant. This rating incorporates a number of factors including an evaluation of expected future returns, the incorporation of ESG factors as appropriate, and an assessment of the manager's capabilities from an operational perspective
 - is managed by limiting exposure to any one investment manager, consideration of the appropriate amount of the Fund to allocate to each active portfolio and by monitoring the actual deviation of returns relative to the benchmark and factors supporting the managers' investment process.
 - is also managed by the investment managers through the guidelines and restrictions set out in the investment manager agreements and pooled fund policy documents.
- Liquidity risk:
 - is measured by the level of cashflow required by the Fund over a specified period.
 - is managed by the in-house pensions team who monitor 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 non-Sterling denominated assets.

- is managed by reducing the translation risk of investing overseas by hedging a proportion of the currency exposure for those non-Sterling currencies that can be hedged efficiently within relevant funds or via the Fund's currency overlay manager.
- Custodian risk:
 - is assessed by the Custodian's ability to settle trades on time and provide secure safekeeping of the assets under custody.
 - is managed by Thomas Murray who monitor the Custodian's activities. Restrictions are also applied to who can authorise transfer of cash and the account to which transfers can be made.
- Political and regulatory risk:
 - is measured by the level of concentration in 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. Diversification is sought by asset class, geography, currency exposure and manager skill.
- Sponsor risk:
 - is measured by the Company's ability and willingness to support the continuation of the Fund and to make good any current or future deficit.
 - is managed by assessing the interaction between the Fund and the Company's business and regular communication between the Trustee and the Company. The Trustee may also engage its specialist covenant advisor, Penfida, as and when the Trustee deems appropriate.
 - is also managed through the use of the Deed of Covenant and the charge over a portfolio of Whitbread hotels.
- Insurer risk:
 - is measured by the ability of an insurer to fulfil its obligation to pay benefits which is demonstrated by credit ratings provided by ratings agencies to the insurers
 - is managed by conducting due diligence on bulk annuity providers prior to appointment. The Trustee may also engage specialist advisors as necessary.
 - Is mitigated by the existence of the Financial Services Compensation Scheme (FSCS) which will cover some level of benefits in the instance the insurer becomes insolvent

Signed:

Name: Keith Jones

Date: 13 October 2022

Authorised for and on behalf of the Trustee of the Fund

Appendix A: Current advisors and providers

<i>Scheme Actuary:</i>	WTW
<i>Investment Consultant:</i>	WTW
<i>Performance measurer:</i>	Northern Trust
<i>Legal advisors:</i>	Sacker & Partners LLP / Reed Smith
<i>Custodian:</i>	Northern Trust
<i>Covenant advisor</i>	Penfida

Appendix B: Funding and Investment Committee Terms of Reference

Membership and meeting frequency

- The Committee shall consist of at least three members
- At least two of the members will be Directors of Whitbread Pension Trustees
- The Committee will meet formally at least quarterly
- All other Directors of Whitbread Pension Trustees will be welcome to attend Committee meetings if they wish
- The Committee may invite other parties, including Advisers, to attend meetings as appropriate
- The Committee may invite a representative of Whitbread Group PLC, as the Principal Employer, to attend meetings or part meetings
- The Committee will appoint a Chairman
- Membership of the Committee will be reviewed at least annually by the Board of Whitbread Pension Trustees

Powers

- The Committee will make recommendations to the Board of Whitbread Pension Trustees with regard to the Fund's valuations, funding and investment strategy and SIP
- The Committee is responsible for the selection, appointment and monitoring of Investment Managers, Custodian and Investment Advisers
- The Committee will make recommendations to the Board of Whitbread Pension Trustees on any valuation, funding or investment related matters, not specifically covered by these Terms of Reference
- The Committee may make changes to the Fund's investments in line with the current SIP.
- The Committee will make decisions by circulation if appropriate
- The Committee will carry out tasks as appropriate under the four pillars of the Task Force on Climate-Related Financial Disclosures ('TCFD') requirements in order to assist the Trustee in meeting its obligations.

Reporting

- The minutes of Committee meetings will be circulated to all Trustees
- A member of the Committee will report on its activities and summarise all decisions at Trustee meetings
- Quarterly Investment Reports will be circulated to the Trustee.