

Whitbread Group Pension Fund

Statement of Investment Principles – 10 September 2020

Introduction

This Statement of Investment Principles (the “Statement”) describes the investment policy followed by the Whitbread Pension Trustees (the “Trustee”) in investing the assets of the Defined Contribution Section of the Whitbread Group Pension Fund (the “Fund”). The Statement complies with the requirements of the Pensions Act 1995 (the “Act”) and subsequent legislation.

In preparing this Statement, the Trustee has consulted Whitbread Group plc (the “Sponsor”).

In considering the appropriate investments for the Fund, the Trustee has obtained and considered the written advice of Hymans Robertson LLP, whom the Trustee believes to be suitably qualified to provide such advice. The advice received, and arrangements implemented, are, in the Trustee’s opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

The Whitbread Group Pension Fund has a separate Defined Benefit Section (the “DB Section”) and there is a separate Statement of Investment Principles for the DB Section, however the Trustee recognises that some benefits within the DB Section are provided on a money purchase basis, i.e. AVCs and transfers in, and the Trustee’s policy in respect of these assets is covered by this Statement.

Overall investment policy falls into two parts:

- The strategic management of the assets, which is the responsibility of the Trustee acting on advice from its investment consultant and is driven by its investment objectives as set out in Section 1.1 below.
- The day to day management of the assets which is delegated to a professional investment manager as described in Section 1.3 and further details can be found in the Investment Arrangements Document (the “IAD”).

To ensure 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 selected Mercer Limited (“Mercer” or “the investment manager”) to manage the Fund – this includes the role of setting strategic and dynamic asset allocation, underlying fund and manager selection, and benchmark and security selection where relevant. The Trustee remains responsible for setting investment strategy.

1. Investment Objectives, Risk and Investment Strategy

1.1 Investment Objectives

The Trustee’s main objective is to invest the Fund’s assets in the best interests of the members. Within this framework the Trustee has agreed a number of aims to help guide it in its strategic management of the assets and control of the various risks to which the Fund is exposed. The Trustee’s primary aims are as follows:

- i. to maximise the value of members’ retirement benefits;
- ii. to reduce investment risk towards members’ retirement in order to reduce the likelihood of significant falls in outcomes close to retirement;

- iii. to establish a default investment strategy, which is reasonable for any member not wishing to make his/her own decisions; and
- iv. to avoid over-complexity in order to keep costs reasonable and facilitate member understanding and engagement.

The Fund offers a default investment option because the Trustee recognises that most members will not want to choose an investment option and because the Fund is a qualifying scheme for auto-enrolment purposes and a default fund is a requirement of the Pensions Act 2008. The main objective of the default option is to provide good member outcomes at retirement while subject to a level of investment risk appropriate to the majority of members who do not make an active investment choice.

The Trustee has taken a number of aspects of the membership into account when designing and maintaining the default option. These include: age and salary profile; likely sizes of pension account at retirement; and likely benefit choices at and into retirement.

There are two investment glide paths: one designed for members who are expected to take cash at retirement; and the other designed for members who are expected to use Uncrystallised Fund Pension Lump Sums for several years into retirement or Flexible Access Income Drawdown during their retirement. The default option segments members into one of the two glide paths based on the expected size of their pension account at retirement.

The Trustee has decided that the complexity of a large range of investment options from a diverse range of specialist managers will disengage members and offset the benefits of wider choice.

1.2 Risk Measurement and Management

There are various risks to which any pension scheme is exposed, all of which contribute to the key risk that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee has considered risk from a number of perspectives. These are:-

- i. the risk that the investment returns underperform the expectation of the Trustee which is managed through the ongoing monitoring of the investment manager's performance;
- ii. political risk which is managed by the investment manager;
- iii. currency risk which is managed by the investment manager;
- iv. communication risk which is managed by the Trustee ensuring that members receive adequate and suitable communications; and
- v. the risk that members are invested in a glide path that does not match how they take their benefits which is managed through the ongoing monitoring of the alignment between the benefits chosen by members and the glide path in which they were invested.

The safe custody of the Fund's assets is delegated to professional custodians (via the use of pooled vehicles).

1.3 Investment Strategy

The Trustee has made available to members investment options that it believes will achieve the investment objectives set out above.

The day-to-day management of the funds has been delegated to an investment manager via a platform, and investment is via a series of pooled funds. The Trustee believes that the investment strategy options are currently appropriate for meeting the Fund's objectives and controlling the risks for the membership as a whole. Details of underlying assets are provided in the Investment Arrangements Document (IAD).

The pooled funds used in the default option invest in a range of assets including UK and overseas equities, UK and overseas bonds and property REITs.

As members approach retirement, their investments automatically switch from a mix of assets which are expected to give long-term growth relative to inflation into a mix of assets whose values should fluctuate less in the short-term relative to the benefits members are expected to take at retirement.

The Trustee will continue to monitor the appropriateness of the investment strategies.

Periodically, and specifically in the event of a material change in the Fund's circumstances, the Trustee will review whether, and to what extent, the investment arrangements should be altered.

In its assessment of the Fund's investment manager, the Trustee will ask their investment adviser to consider the investment manager's remuneration strategies and appropriateness of each underlying fund's investment guidelines, and at the overall Fund level, to ensure that there is no inducement or scope to take an undue level of risk and that the Fund's investment manager will act in line with the interests of the Fund's members.

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

1.4 Portfolio Turnover

The Trustee has delegated the monitoring of portfolio turnover to the investment manager.

For the Fund's passively managed components, the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager.

The Trustee will monitor, with assistance from its investment adviser, the turnover generated by the use of dynamic asset allocation within the Fund and its impact on long-term absolute performance and whether it has positively contributed to long-term absolute performance.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the investment manager to report on at least an annual basis the details of any transactions and turnover costs incurred over the Fund'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 the Fund and underlying components have 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 (with the assistance of its investment adviser).

1.5 Portfolio Duration

The Trustee recognises the long-term nature of defined contribution pension investments and expects the investment manager to choose funds which deliver sustainable returns over members' investment horizons. The Trustee will assess the investment manager's performance relative to long term objectives and benchmarks.

1.6 Realisation of Assets

The Trustee expects that the investment platform provider and the investment manager will normally be able to sell the funds within a reasonable timescale. There may, however, be occasions where the investment platform or investment manager need to impose restrictions on the timing of sales and purchases of funds (most notably for funds investing in property) in some market conditions to protect the interests of all investors in that fund.

1.7 Financially material considerations

The Trustee recognises that the consideration of financially material considerations, including environmental, social and corporate governance (ESG) factors and climate risk, are relevant to the development, selection and monitoring of the Fund's investment arrangements.

The assets of the Defined Contribution Section of the Fund are managed in pooled fund arrangements selected by the investment manager. Given this structure, the Trustee cannot adopt an approach to managing financially material considerations which is specific to the Fund.

The investment manager has a clearly articulated Sustainable Investment Policy covering its approach to ESG factors; sustainability themes; climate change; stewardship (voting and engagement) and screening or exclusions. The Trustee has reviewed this policy and expects the investment manager to follow it when selecting and monitoring underlying pooled funds.

1.8 Non-financial factors

Given the objectives of the Fund, the Trustee has not considered any non-financially material factors in the development and implementation of its investment strategy.

The Trustee has not imposed any restrictions or exclusions to the investment arrangements based on non-financially material factors.

1.9 Voting and engagement

The Trustee believes that engagement with the companies in which the Fund invests, including the proactive use of shareholder voting rights, can improve the longer-term returns on the Fund's investments.

The Trustee have adopted a policy of delegating voting decisions and engagement with companies, via the investment manager, to the underlying pooled fund managers who are expected to exercise voting rights and engage with the key stakeholders on individual investments.

They are expected to do so in accordance with their own corporate governance policies, and taking account of current best practice, including the UK Corporate Governance Code and the UK Stewardship Code.

The Trustee will request, where appropriate and practicable, that the investment manager notifies the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee will seek to review engagement activity undertaken by the fund managers as part of its broader monitoring activity.

1.10 **Monitoring the Investment Manager**

The Trustee will meet with the investment manager at least annually to review its actions together with the reasons for and background to the investment performance. The Trustee sets the agenda for these meetings which will include ESG factors, voting and engagement where appropriate.

The Trustee will also receive regular written reports from the investment manager regarding performance and adherence to its Sustainable Investment Policy. The Trustee expect this to include information on the voting activity of underlying pooled fund managers as well as the direct activity of the investment manager.

2. **Additional Voluntary Contributions**

Additional voluntary contributions can be made – details of which can be found in the IAD.

3. **Investment Manager Fees**

The investment manager's fees are calculated dependent on the underlying pooled funds – details of which can be found in the IAD. Fees will be reviewed by the Trustee as part of the overall value for money assessment.

4. **Regulatory Changes**

The Fund is a qualifying scheme for auto-enrolment purposes and it must comply with the relevant regulations.

In summary, the Trustee acknowledges that it has to:

- i. regularly monitor the charges for the default to ensure that the charges on default investments do not exceed the cap;
- ii. make certain that core financial transactions are quickly and correctly processed;
- iii. make arrangements to monitor all the funds' charges and transaction costs;
- iv. determine the criteria for, and make an assessment of, whether the investment options available deliver value for money for members;
- v. articulate and formally assess the performance of its default investment strategy; and
- vi. prepare an annual statement about its governance activities.

5. **Professional Investment Advice**

The Trustee has appointed Hymans Robertson LLP ("Hymans") to provide advice on all aspects of investment facing the Fund, ranging from strategic advice to the selection of investment managers. Hymans is typically remunerated on a fixed fee basis. For work which is not covered within the core fixed fee, and for which it is not practical to quote for

on a fixed fee basis, Hymans may be remunerated on a time cost basis, i.e. reflecting the time spent on a particular issue.

6. Compliance with this Statement

The Trustee will monitor compliance with this Statement annually.

7. Review of this Statement

The Trustee will review this Statement in response to any material changes to any aspect of the Fund, which it judges to have a bearing on the stated investment objectives and arrangements.

This review will occur no less frequently than every three years and will include a review that the choice of funds remains appropriate. Any such review will again be based on written expert advice and the Sponsor will be consulted.

10 September 2020

Signed:

Name: Keith Jones – Chair of the Trustee

Authorised for and on behalf of the Trustee of the Fund