Carlton Clubs Ltd Retirement & Death Benefits Scheme

Statement of Investment Principles

Introduction

This SIP has been agreed by the Trustee of the Carlton Clubs Ltd Retirement & Death Benefits Scheme (the "Scheme"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Scheme.

The Scheme's investment strategy is derived from the Trustee's investment objectives. The objectives have been taken into account at all stages of planning, implementation and monitoring of the investment strategy.

This Statement has been prepared in compliance with the Pensions Act 1995, the Pensions Act 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and any further legislation. Before preparing or subsequently revising this Statement, the Trustee consulted the sponsoring company and took appropriate written advice. The Statement is reviewed at least every three years, and without delay after any significant change in the investment arrangements.

Governance

The Trustee of the Scheme makes all major strategic decisions including, but not limited to, the Scheme's asset allocation and the appointment and termination of investment managers.
When making such decisions, and when appropriate, the Trustee seeks proper written advice. The Trustee's investment advisers, Isio Group Ltd ("Isio"), are qualified by their ability in, and practical experience, of financial matters, and have the appropriate knowledge and experience. The investment advisers' remuneration may be a fixed fee or based on time worked, as negotiated by the Trustee in the interests of obtaining best value for the Scheme.

Investment objective

The Trustee invests the assets of the Scheme with the aim of ensuring that all members' accrued benefits can be paid. The Scheme's funding target is specified in the Statement of Funding Principles, and the Scheme's funding position will be reviewed regularly to assess the position relative to the funding target and whether the investment policy remains appropriate to the Scheme's circumstances.

The Scheme's present investment objective is to achieve a return of around 3.0% per annum above the return on UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Scheme's liabilities).

Investment strategy

Following a review of the Scheme's investment strategy during early 2019, the Trustee translated the Scheme's objectives into a suitable strategic asset allocation benchmark for the Scheme (the "strategic benchmark"). The strategic benchmark is consistent with the Trustee's views on the appropriate balance between seeking an enhanced long term return on investments and an appropriate level of investment risk. Detail on the strategic benchmark is provided in Appendix 1.

The investment strategy takes due account of the maturity profile of the Scheme, together with the level of disclosed surplus or deficit (relative to the Technical Provisions valuation). The Trustee monitors Scheme performance relative to the agreed asset allocation benchmark. It is intended that the investment strategy will be reviewed at least every three years following actuarial valuations, and will normally be monitored annually. In monitoring performance and setting strategy, the Trustee seeks written advice from a suitably qualified entity as required, currently Isio.

The Scheme employs a mix of both active and passive management. Detail on the investment management structure of the Scheme is provided in Appendix 1.

Investment Management Arrangements

The Trustee has invested in funds managed by BlackRock Investment Management ("BlackRock"), BMO Global Asset Management ("BMO"), J.P. Morgan Asset Management ("J.P. Morgan"), Partners Group AG ("Partners Group"), M&G Investment Management Limited ("M&G") and Legal & General Investment Management ("LGIM"). All assets are held on the Mobius Life investment platform.

All decisions about the day-to-day management of the assets have been delegated to the investment managers via a written agreement. The delegation includes decisions about:

- Selection, retention and realisation of investments including taking into account all financially material considerations in making these decisions;
- The exercise of rights (including voting rights) attaching to the investments;
- Undertaking engagement activities with investee companies and other stakeholders, where appropriate.

The Trustee takes investment managers' policies into account when selecting and monitoring managers. The Trustee also takes into account the performance targets the investment managers are evaluated on. The investment managers are expected to exercise powers of investment delegated to them, with a view to following the principles contained within this statement, so far as is reasonably practicable.

As the Scheme's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment managers.

The Trustee considers the different managers and asset classes described above, and the balance between them, to be suitable given the circumstances of the Scheme. This combination results in a diversified mix of assets, geographic spread and number of investments held.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Scheme's investment managers and other stakeholders on a variety of issues. Below is a summary of the areas covered and how the Trustee seeks to engage on these matters with investment managers.

Areas for engagement	**Method for monitoring and engagement**	**Circumstances for additional monitoring and engagement**
Performance, Strategy and Risk	• The Trustee receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are considered at the relevant Trustee meeting.	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by the investment managers have increased to a level above and beyond the Trustee's expectations. • Underperformance vs the performance objective over the period that this objective applies.
Environmental, Social, Corporate Governance factors and the exercising of rights	• See Appendix 3	• See Appendix 3

Through the engagement described above, the Trustee will work with the investment managers to improve their alignment with the above policies. Where sufficient improvement is not observed, the Trustee will review the relevant investment manager's appointment and will consider terminating the arrangement.

Employer-related investments

The Trustee's policy is not to hold any employer-related investments as defined in the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005, except where the Scheme invests in pooled vehicles that may hold employer-related investments, in which case the total exposure to employer-related investments will not exceed 5% of the Scheme's value.

Direct investments

Direct investments, as distinguished by the Pensions Act 1995, are products purchased without delegation to a fund manager through a written contract. When selecting and reviewing any direct investments, the Trustee will obtain appropriate written advice from their investment advisers.

Date:........23 September 2020............

Appendix 1

Strategic asset allocation split by fund manager:

Fund Manager	%	Fund	Manager Benchmark/Target
LGIM	11.25	Diversified Fund	LIBOR + 3.5% (net of fees)*
	3.75	Global Equity	FTSE World
	3.75	Global Equity (GBP Hedged)	FTSE World (GBP Hedged)
BlackRock	11.25	Dynamic Diversified Growth Fund	LIBOR +3% p.a. (net)*
JP Morgan	11.25	Unconstrained Bond Fund	LIBOR + 2.6% p.a. (net)*
M&G	11.25	Total Return Credit Investment Fund	LIBOR + 2.5% p.a. (net)*
Partners Group	15.0	Generations Fund	LIBOR + 4% p.a. (net)*
BMO	32.5	A range of Liability Driven Investment ("LDI") funds	The allocation is managed on a passive basis, whereby the objective is to match, rather than exceed the performance of the nominated liability-based benchmark.
Total	**100.0**		

Totals may not sum due to rounding.

*This is not an explicit Fund target, but it has been deemed an appropriate benchmark for the Scheme to measure performance, given the Fund's investment objective and strategy.

Asset split by asset class:

Asset Class	Strategic Benchmark (%)	Expected Return[1] (%)
Equity	7.5	Gilts + 4.0%
Diversified Alternatives	15.0	Gilts + 6.0%
Diversified Growth	22.5	Gilts + 3.5%
Diversified Credit	22.5	Gilts + 2.6%
LDI	32.5	Gilts
Total	**100.0**	**Gilts + 3.0%**

Totals may not sum due to rounding.

1 Expected return assumptions are based on Isio's central (best estimate) assumptions as at 30 June 2020.

Appendix 2 – Risks, Financially Material Considerations and Non-Financial matters

A non-exhaustive list of risks and financially material considerations that the Trustee has considered and sought to manage is shown below. The Trustee considers these factors will be financially material for the Scheme over the length of time during which the benefits are provided by the Scheme for members.

The Trustee adopts an integrated risk management approach. The three key risks associated within this framework and how they are managed are stated below:

Risks	Definition	Policy
Investment	• The risk that the Scheme's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Scheme's funding basis and the sponsoring company's covenant strength. • Investing in a diversified portfolio of assets.
Funding	• The extent to which there are insufficient Scheme assets available to cover ongoing and future liability cash flows.	• Funding risk is considered as part of the investment strategy review and the actuarial valuation. • The Trustee will agree an appropriate basis in conjunction with the investment strategy to ensure an appropriate journey plan is agreed to manage funding risk over time.
Covenant	• The risk that the sponsoring company becomes unable to continue providing the required financial support to the Scheme.	• When developing the Scheme's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Scheme is exposed to is at an appropriate level for the covenant to support.

The Scheme is exposed to a number of underlying risks relating to the Scheme's investment strategy, these are summarised below:

Risk	Definition	Policy
Interest rates and inflation	• The risk of mismatch between the value of the Scheme assets and present value of liabilities from changes in interest rates and inflation expectations.	• To hedge 60% of the impact of interest rates and inflation on the value of the Scheme's liabilities (measured on a gilts basis).
Liquidity	• Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment.	• To maintain a sufficient allocation to liquid assets so that there is a prudent buffer to pay members benefits as they fall due (including transfer values), and to provide collateral to the LDI manager.
Market	• Experiencing losses due to factors that affect the overall performance of the financial markets.	• To remain appropriately diversified and hedge away any unrewarded risks, where practicable.
Credit	• Default on payments	• To diversify this risk by investing in a

	due as part of a financial security contract.	range of credit markets across different geographies and sectors.
Environmental, Social and Governance	• See Appendix 3	• See Appendix 3
Currency	• The potential for adverse currency movements to have an impact on the Scheme's investments.	• The Scheme's diversified growth and credit mandates hedge all currency risk back to Sterling. • The Scheme also hedges 50% of currency exposure on its equity mandate.
Non-financial	• Any factor that is not expected to have a financial impact on the Scheme's investments.	• The Trustee has not considered non-financially material matters in the selection, retention and realisation of investments.

Appendix 3 - Financially Material Considerations

The Trustee has considered financially material factors such as environmental, social and governance ('ESG') issues as part of the investment process to determine a strategic asset allocation over the length of time during which the benefits are provided by the Scheme for members. It believes that financially material considerations (including climate change) are implicitly factored into the expected risk and return profile of the asset classes they are investing in.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest through pooled funds. The Trustee acknowledges that it cannot directly influence the environmental, social and governance policies and practices of the companies in which the pooled funds invest. However, the Trustee does expect its fund managers and investment consultant to take account of financially material considerations when carrying out their respective roles.

The Trustee accepts that the Scheme's assets are subject to the investment manager's own policy on socially responsible investment. The Trustee will assess that this corresponds with its responsibilities to the beneficiaries of the Scheme with the help of its investment consultant.

An assessment of the ESG and responsible investment policies forms part of the manager selection process when appointing new managers and these policies are also reviewed regularly for existing managers with the help of the investment consultant. The Trustee will only invest with investment managers that are signatories for the United Nations Principles of Responsible Investment ('UN PRI') or other similarly recognised standard.

The Trustee will monitor financially material considerations though the following means:

- Obtain training where necessary on ESG considerations in order to understand fully how ESG factors including climate change could impact the Scheme and its investments;
- Use ESG ratings information provided by its investment consultant, to assess how the Scheme's investment managers take account of ESG issues; and
- Request that all of the Scheme's investment managers provide information about their ESG policies, and details of how they integrate ESG into their investment processes, via its investment consultant.

If the Trustee determines that financially material considerations have not been factored into the investment managers' process, it will take this into account on whether to select or retain an investment.

Stewardship

The Trustee's policy on the exercise of rights attaching to investments, including voting rights, is that these rights should be exercised by the investment manager on the Trustee's behalf, having regard to the best financial interests of the beneficiaries.

The investment manager should engage with companies to take account of ESG factors in the exercise of such rights as the Trustee believes this will be beneficial to the financial interests of members over the long term. The Trustee will review the investment managers' voting policies, with the help of its investment consultant, and decide if they are appropriate.

The Trustee also expects the fund managers to engage with investee companies on the capital structure and management of conflicts of interest.

If the policies or level of engagement are not appropriate, the Trustee will engage with the investment manager, with the help of its investment consultant, to influence the investment managers' policy. If this fails, the Trustee will review the investments made with the investment manager.

The Trustee has taken into consideration the Financial Reporting Council's UK Stewardship Code and expect investment managers to adhere to this where appropriate for the investments they manage.

Environmental, Social and Governance (ESG) and Climate Change Risks

There is a risk that ESG issues and climate change are not considered as part of the investment process and so may expose the portfolio to unexpected risks. This can lead to losses that may not have been factored into any expectations of future investment returns. The Trustee has considered ESG issues including climate change as part of the investment process.

Appendix 4 - Investment manager arrangements

Incentives to align investment managers investment strategy and decisions with the trustees' policies

The Scheme invests in pooled funds and so the Trustee acknowledges the fund's investment strategy and decisions cannot be tailored to the Trustee's policies. However, the Trustee sets its investment strategy and then selects managers that best suits its strategy taking into account the fees being charged, which acts as the fund managers incentive.

The Trustee uses the fund objective/benchmark as a guide on whether its investment strategy is being followed and monitors this regularly.

Incentives for the investment manager to make decisions based on assessments about medium to long-term financial and nonfinancial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term

The Trustee selects managers based on a variety of factors including investment philosophy, and process, which it believes should include assessing the long term financial and non-financial performance of the underlying company.

The Trustee also considers the managers voting and ESG policies and how it engages with the company as it believes that these can factors can improve the medium to long-term performance of the investee companies.

The Trustee will monitor the fund managers' engagement and voting activity on an annual basis as they believe this can improve long term performance. The Trustee expects their managers to make every effort to engage with investee companies but acknowledges that their influence may be more limited in some asset classes, such as bonds, as they do not have voting rights.

The Trustee acknowledges that in the short term, these policies may not improve the returns it achieves, but do expect those companies with better financial and non-financial performance over the long term will lead to better returns for the Scheme.

The Trustee believes the annual fee paid to the fund managers incentivise them to do this.

If the Trustees feel that the fund managers are not assessing financial and non-financial performance or adequately engaging with the companies they are investing in, it will use these factors in deciding whether to retain or terminate a manager.

How the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies

The Trustee reviews the performance of each fund [quarterly/semi-annually, annually] on a net of fees basis compared to its objective.

The Trustee assesses the performance periods of the funds over at least a 3-5 year period when looking to select or terminate a manager, unless there are reasons other than performance that need to be considered.

The fund managers' remuneration is considered as part of the manager selection process and is also monitored regularly with the help of its investment consultant to ensure it is in line with the Trustee's policies.

How the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range

The Trustee does not monitor turnover costs directly. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.

The duration of the arrangement with the asset manager

The Trustee plans to hold each of its investments for the long term but will keep this under review. Changes in investment strategy or change in the view of the fund manager can lead to the duration of the arrangement being shorter than expected.