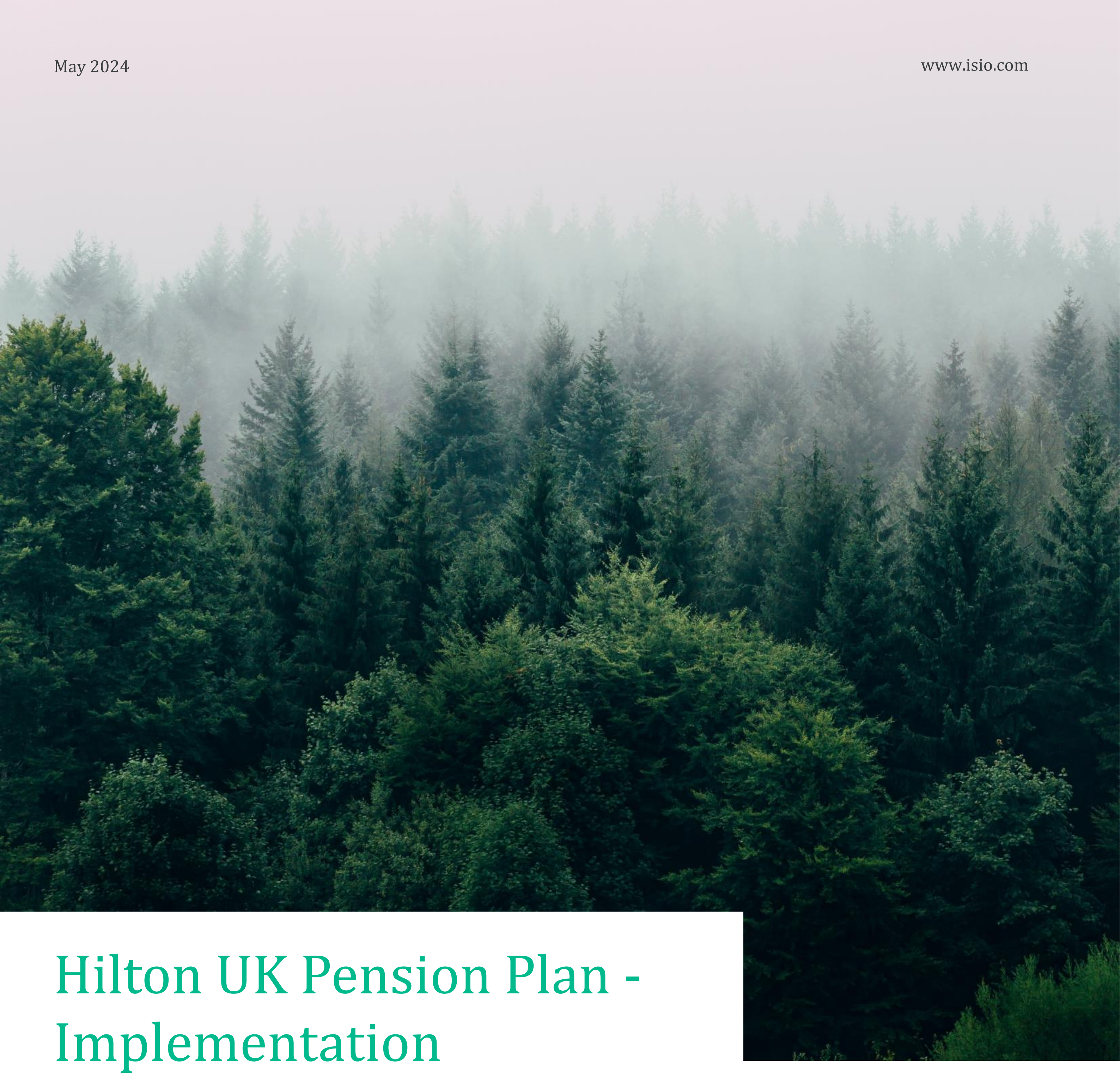

# Hilton UK Pension Plan - Implementation Statement

May 2024

# Background and Implementation Statement

## Background

The regulatory landscape continues to evolve as ESG becomes increasingly important to regulators and society. The Department for Work and Pensions ('DWP') has increased the focus around ESG policies and stewardship activities by issuing further regulatory guidance relating to voting and engagement policies and activities. These regulatory changes recognise the importance of managing ESG factors as part of a Trustee's fiduciary duty.

## Implementation Report

This implementation report covers the year to 31 December 2023 and is to provide evidence that Hilton UK Pension Plan continues to follow and act on the principles outlined in the SIP.

The SIP can be found online at the web address [HUKPP Statement of Investment Principles 2023 | Hilton (hiltonukpensions.co.uk)](hiltonukpensions.co.uk) Any changes to the SIP are detailed on the following page.

The Implementation Report details:

- actions the Plan has taken to manage financially material risks and implement the key policies in its SIP.
- the current policy and approach with regards to ESG and the actions taken with managers on managing ESG risks.
- the extent to which the Plan has followed policies on engagement covering engagement actions with its fund managers and in turn the engagement activity of the fund managers with the companies in the investment mandate. Voting behaviour is not covered as the Plan has no relevant investments, i.e. no equity mandates.

Summary of key actions undertaken over the Plan's reporting year:

- In Q1 2023, the Trustee agreed to an interim investment strategy, following changes to the portfolio caused by increasing gilt yields over 2022. As part of these strategic discussions, the Plan fully disinvested from JP Morgan. The disinvestment proceeds supported payment of a capital call notice received from the Alcentra EDL III Fund (the final capital call from Alcentra).
- In Q2 2023, the Trustee agreed to reduce the target LDI hedge ratio to 74% on an interest rates and inflation basis (based on Technical Provisions). This allowed sufficient assets to be retained in order to both collateralise the LDI and have sufficient assets available for administration purposes. Throughout April, the Plan completed investments of £24m into the Insight High Grade ABS Fund, which was split across three equal tranches. This followed regulatory guidance surrounding collateral management policies, which led to the Trustee implementing its own Collateral Management Policy (as documented in the SIP), and provided the Plan with a stronger position to meet upcoming LDI capital calls.
- In July 2023, Insight issued a capital call notice for c.£2.3m to rebalance the leverage in one of the Plan's LDI funds. As a result of the actions undertaken in Q2 2023, the Plan was prepared and funded the capital call using proceeds

from the Insight Liquidity Fund ("ILF"). In September, PATRIZIA, issued a drawdown notice for c.£2.5m, which was also funded from the ILF.

- In Q4 2023, the Trustee reviewed the Plan's ABS allocation, which forms part of the LDI collateral assets. The Trustee agreed to introduce an additional ABS fund and target a split of 75:25 across the Insight High-Grade ABS Fund and Insight Global ABS Fund, respectively. The Plan's excess liquidity (above that of an LDI capital call) will be invested into the ABS funds accordingly. In December, Insight confirmed an investment of £6m into the Global ABS Fund. The strategic benchmark, outlined within the SIP, has been updated to reflect the new ABS allocation.
- Discussions surrounding journey planning and investment will continue through 2024.

Implementation Statement

This report demonstrates that the Plan has adhered to its investment principles and its policies for managing financially material consideration including ESG factors and climate change.

Signed

Position

Date

# Changes to the SIP

Over the 12-month period to 31 December 2023, updates were made to the SIP, listed below:

- In Q1 2023, the SIP was updated to reflect that a new strategic benchmark will be put in place following the increase in gilt yields over 2022, as well as updates to reflect new stewardship regulations that came into force in October 2022. The changes incorporated new voting and engagement policies, as well as expansions or modifications to existing policies. See the table below for more exact details:

| Policies added to the SIP | |
|---|---|
| Date updated:<br><br>February 2023 | |
| Voting Policy - How the Trustee expect investment managers to vote on their behalf | • The Trustee has acknowledged responsibility for the voting policies that are implemented by the Plan's investment managers on their behalf. |
| Engagement Policy - How the Trustee will engage with investment managers, direct assets and others about 'relevant matters' | • The Trustee has acknowledged responsibility for the engagement policies that are implemented by the Plan's investment managers on their behalf.<br>• The Trustee, via their investment advisers, will engage with managers about 'relevant matters' at least annually. |

- In Q4 2023, the SIP was updated to reflect the new strategic benchmark, reflecting a 35%, allocation to "LDI + Cash" and a 10% ABS allocation (reflecting a 75:25 split across the Insight High Grade ABS Fund and Insight Global ABS Fund, respectively). The Insight Synthetic Equity allocation was removed from the strategic benchmark.

- To adhere to regulatory guidance, the SIP was updated to include wording on the Plan's collateral management policy, specifically the framework held with Insight to meet LDI capital calls automatically.

# Managing risks and policy actions DB

| Risk / Policy | Definition | Policy | Actions and details on changes to policy |
|---|---|---|---|
| Interest rates and inflation | The risk of mismatch between the value of the Plan assets and present value of liabilities from changes in interest rates and inflation expectations. | To hedge 74% of these risks on a Technical Provisions basis. | In Q2 2023, the Trustee agreed to reduce the target LDI hedge ratio to 74% on an interest rates and inflation basis (based on Technical Provisions). This allowed sufficient assets to be retained in order to both collateralise the LDI and have sufficient assets available for administration purposes. |
| Liquidity | Difficulties in raising sufficient cash when required without adversely impacting the fair market value of the investment. | The Trustee has a cash management policy which is revisited as cash is required. The Trustee maintains 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. | The Trustee and Isio monitor the liquidity of the portfolio on a quarterly basis through the Investment Performance Report. This includes valuations for the liquid mandates and measuring the proximity of the LDI mandate to capital calls.<br><br>The Plan has increased its liquidity allocation following increased market volatility in 2022/23 and the potential for more frequent capital calls from the LDI mandate. Administration requirements are also considered. |
| 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.<br><br>To maintain an appropriate allocation to contractual and illiquid assets in line with the Plan's investment objective and liquidity requirements. | The Trustee maintained a diversified portfolio over the year to 31 December 2023.<br><br>As a result of greater liquidity requirements, the Trustee agreed to fully disinvest from JP Morgan Unconstrained Bond Fund and increased its allocation to ABS by investing in the Insight High Grade ABS fund and Insight Global ABS fund. |

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| Credit | Default on payments due as part of a financial security contract. | To diversify this risk by investing in a range of credit markets across different geographies and sectors. | Over 2023, The Plan received one drawdown notice from Alcentra EDL III Fund and one from PATRIZIA Infrastructure Debt, which has maintained the Plan's credit allocation, notwithstanding holding sufficient assets in liquid funds with Insight (e.g. ABS). |
| Environmental, Social and Governance | Exposure to Environmental, Social and Governance factors, including but not limited to climate change, which can impact the performance of the Plan's investments. | To appoint managers who satisfy the following criteria, unless there is a good reason why the manager does not satisfy each criteria:<br><br>1. Responsible Investment ('RI') Policy / Framework<br>2. Implemented via Investment Process<br>3. A track record of using engagement and any voting rights to manage ESG factors<br>4. ESG specific reporting<br>5. UN PRI Signatory<br><br>The Trustee monitors the managers on an ongoing basis. | More details of the ESG policy and how it was implemented are presented on page 7 and 8 of this report. |
| Currency | The potential for adverse currency movements to have an impact on the Plan's investments. | Hedge all currency risk by entering into a GBP hedged share class where possible. | Currency risk was hedged over the reporting period as the Plan invests in GBP hedged share classes. |
| Non-financial | Any factor that is not expected to have an impact on the Plan's investments. | Non-financial matters are not taken into account in the selection, retention or realisation of investments. | |

# Current ESG policy and approach

## ESG as a financially material risk

The SIP describes the Plan's policy with regard to ESG as a financially material risk. This page details how the Plan's ESG policy is implemented, while the following page outlines Isio's assessment criteria as well as the ESG beliefs used in evaluating the Plan's managers' ESG policies and procedures. The next page details Isio's view of the managers, our actions for engagement and an evaluation of the stewardship activity.

The Trustee monitor and engage with the Plan's investment managers and other stakeholders on a variety of issues. The below table outlines the areas which the Plan's investment managers are assessed on when evaluating their ESG policies and engagements.

Implementing the Current ESG Policy

| Areas for engagement | Method for monitoring and engagement | Circumstances for additional monitoring and engagement |
|---|---|---|
| Environmental, Social, Corporate Governance factors and the exercising of rights. | The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues.<br><br>The Trustee receives information from their investment advisers on the investment managers' approaches to engagement.<br><br>The Trustee will engage, via their investment adviser, with investment managers and / or other relevant persons about relevant matters at least annually. | The manager has not acted in accordance with their policies and frameworks.<br><br>The manager's policies are not in line with the Trustee's policies in this area. |

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.

Areas of assessment and ESG beliefs

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|---|---|
| Risk Management | 1. Integrating ESG factors, including climate change risk, represents an opportunity to increase the effectiveness of the overall risk management of the Plan<br>2. ESG factors can be financially material and managing these risks forms part of the fiduciary duty of the Trustee |
| Approach / Framework | 3. The Trustee should understand how asset managers make ESG decisions and will seek to understand how ESG is integrated by each asset manager.<br>4. ESG factors are relevant to investment decisions in all asset classes.<br>5. Managers investing in companies' debt, as well as equity, have a responsibility to engage with management on ESG factors. |
| Reporting & Monitoring | 6. Ongoing monitoring and reporting of how asset managers manage ESG factors is important.<br>7. ESG factors are dynamic and continually evolving; therefore the Trustee will receive further training as required to develop their knowledge, in order to supplement the ESG training already received on such matters.<br>8. The role of the Plan's asset managers is prevalent in integrating ESG factors; the Trustee will, alongside the investment advisor, monitor ESG in relation to the asset managers' investment decisions. |
| Voting & Engagement | 9. The Trustee will seek to understand each asset managers' approach to voting and engagement when reviewing the asset managers' approach.<br>10. Engaging is more effective in seeking to initiate change than disinvesting. |
| Collaboration | 11. Asset managers should sign up and comply with common codes and practices such as the UNPRI & Stewardship code. If they do not sign up, they should have a valid reason why.<br>12. Asset managers should engage with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights. |

# ESG summary and actions with the investment managers

| Manager and fund | ESG Summary | Actions identified |
|---|---|---|
| Insight – LDI | Insight demonstrates a strong commitment to ESG principles, integrating them throughout their investment process.<br><br>Insight holds a prominent position as an industry frontrunner in stewardship, formally recognising climate implications, societal factors, and environmental considerations as foundational components of stewardship priorities. | • Insight should consider including ESG objectives or focus areas for their LDI funds.<br>• Insight should consider publishing the ESG score for the counterparties within the pooled funds or segregated mandates.<br>• Insight should continue to explore the inclusion of an engagement summary in regular client reporting. |
| Insight – ABS<br><br>(covering High Grade ABS and Global ABS) | Insight has a strong firm-wide approach to stewardship as they have dedicated stewardship analysts who are responsible for setting key engagement priorities. They are also a key industry collaborator and member of several initiatives.<br><br>However, at the fund level they remain limited by the quantity and quality of data in the ABS market. | • Assess the effectiveness of green, sustainable-linked, or use-of-proceeds bonds for potential inclusion in the portfolios.<br>• Insight could consider updating ESG scorecard annually to keep up with best practice.<br>• Insight should look to develop an approach to estimate carbon footprint and include it in ESG reports. |
| Alcentra – European Direct Lending (“EDL”) | Alcentra have a Responsible Investment Team who review the output of the quantitative ESG Scorecard and help to integrate ESG into the EDL Funds. ESG metrics are incorporated into Alcentra’s quarterly reports and dedicated ESG reports are available on an annual basis. | • Alcentra could consider creating a formal training programme on ESG issues and risks.<br>• Alcentra could set engagement and stewardship objectives.<br>• Alcentra could implement a climate policy at the firm level. |
| M&G – Secured Property Income Fund (“SPIF”) | M&G have an established Responsible Property Investment framework, which governs ESG integration into the Fund. Extensive ESG analysis of underlying assets is carried out as part of their standard due diligence process.<br><br>M&G are also focusing on developing a net zero carbon pathway model to monitor assets’ climate emissions within the Fund.<br><br>There is, however, limited engagement at an underlying asset level and a lack of an engagement | • M&G could introduce sector related exclusions for controversial behaviour.<br>• M&G could consider reviewing the ESG scorecard annually.<br>• M&G could consider engagements at a fund level and improve social initiatives with tenants. |

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| | policy given the underlying assets are buildings. | |
| IFM – Global Infrastructure Fund ("GIF") | IFM comprehensively integrate the firm's Responsible Investment Charter throughout the Fund's investment process and have a clear process for ESG integration through the investment process. They have specifically included climate concerns throughout their assessment approach, with quantifiable metrics and targets at Fund level. GIF should complete its emission reduction plans at the asset level at the earliest opportunity to assess alignment with its net zero targets. Reporting is TCFD and SFDR aligned (two bodies which focus on ESG disclosures) but there is potential for more detail in fund-level ESG metrics scoring and reporting, especially for social scoring. | • IFM should develop an ESG scorecard approach to quantify ESG risks.<br>• IFM could improve climate scenario testing at the Fund level.<br>• IFM could continue to improve reporting on ESG metrics, particularly social metrics. |
| PATRIZIA – Junior Infrastructure Debt | PATRIZIA have increased the size of their Sustainability team and can demonstrate that ESG is a key aspect of the due diligence process for prospective deals. ESG risks are incorporated in scorecards and risk analysis at fund-level. | • PATRIZIA should include ESG, climate and social factors as explicit stewardship priorities which can be measured against set KPIs.<br>• PATRIZIA should create fund-specific ESG objectives.<br>• Whilst engagement activity is sufficient, PATRIZIA should ensure this is managed by the central Sustainability team.<br>• Introduction of quarterly reporting which includes metrics and outcomes on all engagement activity. |

# Engagement

As the Plan invests via fund managers, the managers provided details on their engagement actions including a summary of the engagements by category for the 12-month period to 31 December 2023. Notable engagement activity along with engagement statistics are provided in the table below.

| Fund name | Engagement summary | Commentary |
|---|---|---|
| Insight – LDI | Total Engagements: 70-80<br><br>At this time, the Fund is not able to provide engagement activity at a topic level, where each engagement has an E, S or G score (i.e. there is overlap) | Insight Investment is committed to accountability and transparency in its stewardship program, prioritising its clients' interests and collaborating with stakeholders. Insight believe effective stewardship requires engagement with stakeholders to improve sustainability and reduce ESG risks.<br><br>Examples of significant engagements include:<br><br>Barclays Plc – Insight engaged with Barclays, a UK-based bank that operates globally. This engagement was identified as part of Insight's counterparty engagement programme due to Barclay's growing operations in the United States and the current political environment relating to ESG. The engagement led to discussions on the bank's sustainable finance framework and the feedback Insight had previously provided (as Insight had viewed the bank's environmental programme as lagging its peers).<br><br>Following Insight's engagement, Barclays has enhanced some of its internal policies and introduced a "Client Transition Framework" to illustrate how it measures corporate clients' transitions towards low-carbon business models. |
| Insight – High Grade ABS | Total Engagements: 70-80<br><br>At this time, the Fund is not able to provide engagement activity at a topic level. | Insight engages with the Fund's portfolio companies with respect to Environmental, Social and Governance factors.<br><br>Examples of significant engagements include: |

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| | | Pepper – Insight recently engaged with Pepper, a significant issuer in the Australian market. The engagement was related to new product ranges and Energy Performance Certificate (“EPC”) data analysis, which has now been improved. Subsequent engagements related to factoring ESG considerations into the company’s loan origination and writing process. Pepper have considered this and are working towards incorporating ESG metrics into their annual reports. |
| Insight – Global ABS | Total Engagements: 70-80<br><br>At this time, the Fund is not able to provide engagement activity at a topic level. | Insight engages with the Fund’s portfolio companies with respect to Environmental, Social and Governance factors.<br><br>Examples of significant engagements include:<br><br>Mercedes Benz – Insight engaged with Mercedes Benz on improving their understanding of ESG and how they can improve their reporting disclosures. Following this, Mercedes Benz will begin to collaborate with Insight to complete their questionnaire, for Insight to obtain a quantitative ESG score that offers more rigor than the industry AFME[1] standard template. |
| Alcentra – European Direct Lending (“EDL”) | Total Engagements: 91<br><br>Environmental: 32<br><br>Social: 22<br><br>Governance: 6<br><br>Other: 31 | Alcentra, as a signatory to the UK Stewardship Code, follows stewardship standards for asset owners and asset managers. While specific Fund-level stewardship priorities are not in place, Alcentra’s stewardship activities intend to deliver strong, long-term investment returns for clients. Alcentra's ESG engagement efforts are aimed at improving disclosures, understanding risks, and encouraging sustainable practices among issuers in its portfolio companies. It is important to note that the ability to make retrospective ESG improvements can be limited for EDL, given the Funds have invested a large portion of capital.<br><br>Examples of significant engagements include:<br><br>“Company A” – This company did not have strong ESG infrastructure, so Alcentra organised a meeting to discuss the ESG strategy with the group. Since then, the company has set up an ESG committee and further discussions are taking place to implement an ESG margin ratchet (whereby ESG ratings can improved |

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| | | borrowing terms) and participate in local volunteering initiatives. |
| M&G – Secured Property Income Fund ("SPIF") | The M&G Secured Property Income Fund exclusively allocates its investments towards real estate assets, thereby solely functioning as a landlord of the properties it owns, as opposed to a shareholder or bondholder of the tenants within. As such, the Fund does not possess a formal engagement policy, unlike a shareholder, to exert influence over the corporate strategy of its tenants. | Due to the nature of most leases within SPIF, M&G's overall influence on ESG matters as the landlord is limited. Consequently, M&G does not have any direct control over the tenants' ESG-related business strategies. However, M&G maintains regular communication with the tenants concerning the properties they occupy.<br><br>Examples of significant engagements include:<br><br>WPP Southbank office – M&G engineered the build phase of the WPP Southbank office to minimise embedded carbon. M&G have agreed to finance the additional costs to achieve a BREEAM New Construction 'Outstanding' rating.<br><br>David Lloyd – M&G have been supporting David Lloyd to minimise energy usage in their building. The manager has supported David Lloyd in rolling out solar PV across its entire portfolio in order to meet its ambitious 2030 Net Zero carbon target. |
| IFM – Global Infrastructure Fund ("GIF") | IFM does not disclose information about the number of engagements related to the Fund. However, IFM is actively engaged, where appropriate, with its underlying portfolio assets, working closely with management to establish specific Environmental, Social, and Governance (ESG) action plans. IFM also puts in place governance structures that have responsible investment controls to ensure responsible investment practices are followed. | IFM's Infrastructure Team actively engages with assets held in GIF, focusing on various ESG matters including inclusion, diversity, employee terms, safety, and climate change.<br><br>Examples of significant engagements include:<br><br>Anglian Water Group – IFM have engaged with Anglian Water Group, focusing on the safety regarding electrical hazards and the over-arching risk management strategy of the firm. Notably, Anglian Water Group is the first company in the water industry to secure certification for the ISO 45003 standard, which covers psychological health & safety at work, recognising their significant contribution to the wellbeing and health of their employees. IFM aims to continue this close collaboration, both at a board level and in direct contact with management, to further enhance the company's commitment to health and safety. |

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| | | Manchester Airports Group ("MAG") – IFM engaged with MAG, to decarbonise their operations with respect to Scope 2 emissions. This has been facilitated through backing their planning application to construct a solar farm adjacent to Stansted, which is expected to be operational by the end of 2024. |
| PATRIZIA – Junior Infrastructure Debt | Total Engagements: 12 (reflecting the 6 portfolio companies)<br><br>PATRIZIA has engagement with all of the Fund's portfolio companies with respect to Environmental, Social and Governance factors.<br><br>At this time, the Fund is not able to provide engagement activity at a topic level | The Fund has a Sustainable and Responsible Investment Policy and defines stewardship as engagement during investment due diligence, covering all ESG aspects. The investment team engages with portfolio companies on a broad spectrum of ESG topics. They do not set clear objectives and milestones, and engagement is typically done on an ad-hoc basis.<br><br>Examples of significant engagements include:<br><br>Adapteo – PATRIZIA engaged with Adapteo to assess its sustainability strategy at a Company-level, particularly on how to improve collaboration. Adapteo showed they were on track to implement their sustainability strategy.<br><br>Applegreen – PATRIZIA has engaged with Applegreen (as part of their wider infrastructure debt strategy) on their plans to roll-out EV charging infrastructure. PATRIZIA provided assistance with an amendment to the existing financing documentation and providing views on how the company can optimise the financial structure. The roll-out of the EV infrastructure remains ongoing and will take several years given construction time and costs involved. |

Note: PATRIZIA engagement data is at 31 Match 2024.

[1]AFME stands for the Association for Financial Markets in Europe (including European Union and the United Kingdom), which provide expertise across a broad range of regulatory and capital market issues. The AFME standard template is used widely across Europe to harmonise and simplify the process of collating and comparing data.

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