Hilton UK Pension Plan

Statement of Investment Principles

Purpose of this Statement

This Statement of Investment Principles ("SIP") has been prepared by the Trustee of the Hilton UK Pension Plan (the "Plan"). This statement sets out the principles governing the Trustee's decisions to invest the assets of the Plan.

The Plan'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.

Governance

The Trustee of the Plan makes all major strategic decisions including, but not limited to, the Plan's asset allocation and the appointment and termination of investment managers.

When making such decisions, and when appropriate, the Trustee takes proper written advice. The Trustee's investment advisers, Isio Group Limited, are qualified by their ability in and practical experience of financial matters, and have the appropriate knowledge and experience. The investment adviser's 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 Plan.

The Trustee has established an Investment Sub-Committee to monitor the operation of the Plan's investment strategy, make day-to-day decisions as necessary for the smooth running of the Plan, and make recommendations to the Trustee on overall strategy. This structure has been established in order to ensure that decisions are taken by those who have the appropriate training and expertise.

Investment objective

The Trustee invests the assets of the Plan with the aim of ensuring that all members' accrued benefits can be paid. The Plan's funding target on a self-sufficiency basis is specified in the Funding Support Plan, and the Plan's funding position will be reviewed at least annually to assess the position relative to the funding target and whether the investment policy remains appropriate to the Plan's circumstances.

The Plan's present investment expectation, based on the last investment strategy review, is to achieve a return of around 2.5% per annum above the return on long dated UK Government bonds (which are considered to move in a similar fashion to the calculated value of the Plan's liabilities).

Investment strategy

The Plan’s present strategy is to invest according to the following broad asset allocation:

Asset Class	Proportion	Control Range	% of Non-LDI Assets	Expected Return*
Liability Driven Investment (LDI) + Cash	**35%**	**25-45%**	**n/a**	**0.0%**
Non-LDI Portfolio	**65%**	**55-75%**	**100%**	
Infrastructure Equity	12.5%	7.5-17.5%	19%	4.9%
Infrastructure Debt	12.5%	7.5-17.5%	19%	3.3%
Direct Lending	15%	10-20%	23%	4.2%
Asset Backed Securities (“ABS”)**	10%	5-15%	15%	2.0%
High Grade ABS	*75%*			
Global ABS	*25%*			
Long Lease Property	15%	10-20%	23%	2.5%
TOTAL	**100%**	**100%**	**100%**	**2.5%**

Notes: Figures may not sum due to rounding. *Expected return per annum for a 10-year period, net of fees, relative to the yield on fixed-interest gilts. Based on Isio’s assumptions as at 30 June 2023. **For the avoidance of doubt, Insight (the Plan’s ABS manager) will not be required to rebalance the allocation between the ABS Funds except where there is a net flow to or from the ABS Funds or where instructed by the Trustee.

The Trustee recognises that the returns on equities are expected to be greater over the long term than those of bonds; however they are also likely to be more volatile. Other asset classes may outperform bonds but are also likely to be more volatile. A range of different asset classes are used by the Plan to provide diversification and therefore reduce expected volatility.

The expected returns shown in the above table represent long term expectations of asset classes as a whole. Where the Plan has appointed “active” investment managers, their objective is to outperform the market average. Short term returns in some asset classes may exhibit considerable variability.

The Trustee takes a holistic approach to considering and managing risks when formulating the Plan’s investment strategy.

The above investment strategy was derived from careful consideration of the nature and duration of the Plan’s liabilities, the risks of investing in the various asset classes, the implications of the strategy (under various scenarios) for the level of contributions required to fund the Plan, and also the strength of the Sponsor’s covenant. The Trustee considered the merits of a range of asset classes, including various “alternative assets”.

The Trustee recognises that the investment strategy is subject to risk, in particular the risk of a mismatch between the performance of the assets and the calculated value of the liabilities. This risk is monitored by regularly assessing the funding position and the characteristics of the assets and liabilities. The risk is managed by investing in assets which are expected to perform in excess of the liabilities over the long term, and also by investing in a suitably diversified portfolio of assets with the aim of minimising (as far as possible) volatility relative to the liabilities. The Plan’s assets consist predominantly of investments admitted to trading on regulated markets.

Leverage and collateral management

The Trustee will adhere to all relevant regulatory guidance and requirements in relation to leverage and collateral management within the Plan's liability hedging (LDI) mandate.
The Trustee has a stated collateral management policy / framework. The Trustee has agreed a process for meeting collateral calls should these be made by the Plan's LDI investment manager. The Trustee will review and stress test this policy / framework on a regular basis.

Further details on this can be found in Appendix 4.

Investment mandates

The Trustee has appointed the following managers to manage the assets of the Plan.

Manager	Fund	Description
Insight Investment Management (Global) Limited	LDI Enhanced Selection Funds / Liquidity Funds	Aims to hedge c.74% of the interest rate and inflation exposure of the Plan's finalised 2021 liabilities on a Technical Provisions basis.
IFM Investors Proprietary Limited	IFM Global Infrastructure (UK) GBP, L.P.	Aims to achieve a net target return of 10% per annum over the long term (10+ years), which will range between 8-12% per annum depending on the stage of the market cycle.
PATRIZIA Infrastructure Limited	PATRIZIA Infrastructure Debt Partners I SCSp	Aims to provide investors with regular, sustained, long-term distributions from a diversified portfolio high-yield debt investments. Targets a return of Euribor + 4% - 6% p.a. (gross), including any upfront fees (if applicable).
Alcentra Limited	Alcentra European Direct Lending Fund II (GBP) SCSP	Targets a net IRR of 8-10% over the lifetime of the Fund by providing loans to a range of borrowers, typically medium sized businesses.
	Alcentra European Direct Lending Fund III (GBP) SCSP	Targets a net IRR of 7-9% over the lifetime of the Fund by providing loans to a range of borrowers, typically medium sized businesses.
M&G Investments	Secured Property Income Fund	Aims to produce secure, long term, inflation proofed income streams by investing in properties with long leases.
Insight Investment Management (Global) Limited	High Grade ABS Fund	Seeks to produce an interest rate based return, primarily through investment in a portfolio of asset-backed securities (ABS) and corporate floating rate notes (FRNs). The Fund is used as a second tier of collateral to meet capital calls.
	Global ABS Fund	

The investment managers are regulated under the Financial Services and Markets Act 2000.

The Trustee will monitor the allocation between the managers quarterly and take any corrective action, as they see appropriate, in addition cashflows can help maintain the benchmark manager structure (as far as is practicable).

The Trustee acknowledges that the Plan's allocation to LDI is expected to move in a similar manner to the Plan's liabilities, and therefore it may not be beneficial to maintain the benchmark allocation over the long term. The Trustee will monitor this allocation on a quarterly basis.

All decisions about the day-to-day management of the assets have been delegated to the relevant investment managers in a written agreement. This 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 in the above respects into account when selecting and monitoring managers. The investment managers are expected to exercise their powers of investment with a view to giving effect to the principles contained within this statement, so far as reasonably practicable.

The investment managers' remuneration is based upon either a percentage value of the assets under management or a percentage of notional exposure. Some managers may also charge an additional performance-related element. The fees have been negotiated to be competitive.

In most cases, where the Plan's assets are invested in pooled vehicles, the custody of the holdings is arranged by the investment manager. An exception to this is the LDI mandate, for which Northern Trust has been appointed as custodian directly by the Trustee. The custodian provides safekeeping for the assets, and performs all associated administrative duties such as the collection of dividends.

Investment Manager Monitoring and Engagement

The Trustee monitors and engages with the Plan'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 ISC receives a quarterly performance report which details information on the underlying investments' performance, strategy and overall risks, which are	• There are significant changes made to the investment strategy. • The risk levels within the assets managed by

	considered at the relevant ISC meeting. • The Plan's investment managers are invited, in person, to present to the ISC on their performance, strategy and risk exposures. • The Trustee receives a summary of the quarterly ISC meeting at the relevant Trustee meeting.	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	• The Trustee's investment managers provide annual reports on how they have engaged with issuers regarding social, environmental and corporate governance issues. • The Trustee receives information from their investment advisers on the investment managers' approaches to engagement. • 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. • 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.

Employer-related investments

The Trustee's policy is to monitor the Plan's exposure to employer-related investments in accordance with the restrictions outlined in the Pensions Act 1995, the Occupational Pension Schemes (Investment) Regulations 2005 and any subsequent legislative amendments. If the level of employer related investment exceeds 5% of the Plan's value then the Trustee will actively look to address the exposure.

Direct investments

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

Additional voluntary contributions ('AVCs')

The Trustee recognises that the needs of members paying AVCs will vary according to their attitude to risk, investment sophistication and time to retirement. It has therefore made available a money purchase AVC contract with Prudential which offers the following investment options:

- Managed fund;
- Fixed interest fund;
- Variable interest fund
- Gilts fund
- Equity fund;
- Property fund;
- Cash fund;
- Socially responsible fund.

Compliance

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

Appendix 1 - Fees

Manager	Fund	Management Fees
Insight Investment Management (Global) Limited*	LDI Enhanced Selection Funds / Liquidity Funds	The Plan will pay fees on the total value of exposure achieved by investing in the LDI Enhanced Selection Funds: • 0.10% p.a. on the first £100m of exposure; • 0.095% p.a. on the next £150m of exposure; • 0.09% p.a. thereafter. The Plan will pay 0.08%-0.10% p.a. of the Net Asset Value (“NAV”) of the units held in the liquidity funds.
IFM Investors Proprietary Limited**	IFM Global Infrastructure (UK) GBP, L.P.	The Plan will pay a management fee of 0.77% p.a. on the value of invested capital.
PATRIZIA Infrastructure Limited	PATRIZIA Infrastructure Debt Partners I SCSp	The Plan will pay a management fee of 0.55% on the value of invested capital. The fee reflects a discount since the Plan’s commitment will be aggregated with other investors’ commitments who are advised by Isio. The Plan is eligible for a 0.1% discount for committing at First Close which has been reflected in the agreed fee. There is also an operational fee of 0.175% - 0.225% p.a.
Alcentra Limited	Alcentra European Direct Lending Fund II (GBP) SCSP	The Plan will pay a management fee of 0.9% p.a. on the value of invested capital. There is also a performance-related element to the fee structure, whereby Alcentra receive 10% of total returns achieved once they have delivered a return of 5% p.a.
	Alcentra European Direct Lending Fund III (GBP) SCSP	
M&G Investments	Secured Property Income Fund	The Plan will pay a management fee of 0.5% p.a. on the value of invested capital.
Insight Investment Management (Global) Limited*	High Grade ABS Fund	The Plan will pay 0.35% p.a. of the Net Asset Value (“NAV”) of the units held in the Fund.
	Global ABS Fund	

*Insight will provide a 5% discount on fees above £200k p.a.
**IFM’s performance fee includes a 33% catch-up and 50% will be held back each year to offset underperformance in the subsequent year.

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 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 Plan's position deteriorates due to the assets underperforming.	• Selecting an investment objective that is achievable and is consistent with the Plan's Funding Support Plan. • Investing in a diversified portfolio of assets.
Funding	The extent to which there are insufficient Plan 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 Plan.	• When developing the Plan's investment and funding objectives, the Trustee takes account of the strength of the covenant ensuring the level of risk the Plan is exposed to is at an appropriate level for the covenant to support.

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

Risk	Definition	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.
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.

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. To maintain an appropriate allocation to contractual and illiquid assets in line with the Plan's investment objective and liquidity requirements.
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.
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: 1. Responsible Investment ('RI') Policy / Framework 2. Implemented via Investment Process 3. A track record of using engagement and any voting rights to manage ESG factors 4. ESG specific reporting 5. UN PRI Signatory The Trustee monitors the managers on an ongoing basis.
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.
Non-financial	Any factor that is not expected to have a financial impact on the Plan's investments.	Non-financial matters are not taken into account in the selection, retention or realisation of investments.

Appendix 3

The Trustee has the following policies in relation to the investment management arrangements for the Plan:

How the investment managers are incentivised to align their investment strategy and decisions with the Trustee's policies.	• As the Plan is invested in pooled funds, there is not scope for these funds to tailor their strategy and decisions in line with the Trustee's policies. However, the Trustee invests in a portfolio of pooled funds that are aligned to the strategic objective. • The Plan's mandates for Infrastructure Equity and Direct Lending are subject to a performance related fee.
How the investment managers are incentivised to make decisions based on assessments of medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with them to improve performance in the medium to long-term.	• The Trustee reviews the investment managers' performance relative to medium and long-term objectives as documented in the investment management agreements. • The Trustee monitors the investment managers' engagement and voting activity on an annual basis as part of their ESG monitoring process. • The Trustee does not incentivise the investment managers to make decisions based on non-financial performance.
How the method (and time horizon) of the evaluation of investment managers' performance and the remuneration for their services are in line with the Trustee's policies.	• The Trustee reviews the performance of all of the Plan's investments on a net of cost basis to ensure a true measurement of performance versus investment objectives. • The Trustee evaluates performance over the time period stated in the investment managers' performance objective, which is typically 3 to 5 years. • Investment manager fees are reviewed annually to make sure the correct amounts have been charged and that they remain competitive.
The method for monitoring portfolio turnover costs incurred by investment managers and how they define and monitor targeted portfolio turnover or turnover range.	• The Trustee does not directly monitor turnover costs. However, the investment managers are incentivised to minimise costs as they are measured on a net of cost basis.
The duration of the Plan's arrangements with the investment managers	• The duration of the arrangements is considered in the context of the type of fund the Plan invests in. • For closed ended funds or funds with a lock-in period the Trustee ensures the timeframe of the investment or lock-in is in line with the

	Trustee’s objectives and Plan’s liquidity requirements. • For open ended funds, the duration is flexible and the Trustee will from time-to-time consider the appropriateness of these investments and whether they should continue to be held.
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. • The Trustee, via their investment advisers, will engage with managers about ‘relevant matters’ at least annually.

Appendix 4 - Collateral management policy

At the time of writing, the Trustee has agreed for the Plan to target holding c.50% of the LDI mandate's NAV in liquid assets with the LDI manager that can be used for collateral purposes if required.

The Trustee will review their collateral management policy no less frequently than annually, or as soon as possible in the event of significant market movements.

The LDI Manager will adopt the following process when collateral levels within the pooled LDI funds fall outside of prescribed levels.

Trigger	Action	Responsibility
When collateral falls below 300bps (lower collateral trigger level) for the Insight LDI mandate	Assets sold from below collateral waterfall to restore buffer to 350 bps	Insight is responsible for automatic collateral waterfall arrangements
When collateral falls below 300 bps (lower collateral trigger level) and assets within the automatic collateral waterfall are exhausted	Consider disinvestment of other mandates / alternative funding options	Insight is responsible for the rebalancing notifications. Trustee responsible for decision / implementation if the assets within the automatic collateral waterfall are depleted.

The latest collateral waterfall is set out below. Assets below are held with the same manager as the LDI mandate (Insight), reflecting the lower governance burden on the Trustee. Disinvestments are instructed automatically by Insight.

Manager	Asset Class	Dealing frequency	Notice period	Settlement period	Tier Level
Insight	Liquidity Fund	Daily frequency	T – 1	T	1
Insight	High Grade ABS	Daily frequency	T – 2	T + 3	2
Insight	Global ABS	Daily frequency	T – 2	T + 3	3