Statement of Investment Principles

Introduction

This is the statement of investment principles ("the Statement") made by the Trustees (the "Trustees") of the British Tourist Boards' Staff Pension and Life Assurance Scheme (the "Scheme"). This Statement has been written in accordance with the Pensions Act 1995 (as amended) and is consistent with the Trustees' investment powers as set out in the Trust Deed.

The Statement is subject to review every three years or more frequently as considered appropriate by the Trustees, for example, on a significant change in investment policy. In preparing this statement, the Trustees have consulted with the participating employers (where appropriate) and have taken and considered written advice from the Scheme Actuary and from the Investment Practice of Hymans Robertson LLP.

Scheme objective

The Scheme has been legally sectionalised into 4 sections as follows:

VisitScotland section

The primary objective of the VisitScotland section is to provide pension and lump sum benefits for members of the section on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. The section is open to new entrants and open to future accrual.

The Trustees' over-riding funding principles (consistent with the Statement of Funding Principles) are:

- to have sufficient and appropriate assets to cover the liabilities of the Scheme valued, both in payment and those being accrued, on a statutory basis; and
- to eliminate any funding shortfall identified at the actuarial valuation as quickly as the participating employer can reasonably afford by the payment of additional contributions, taking account of the employer's financial covenant.

For employee members, benefits are based on service completed and take account of future salary increases.

VisitBritain section

The primary objective of the VisitBritain section is to provide pension and lump sum benefits for members of the section on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. The section is closed to new entrants and closed to future accrual.

The Trustees' over-riding funding principles (consistent with the Statement of Funding Principles) are:

- to have sufficient and appropriate assets to cover the liabilities of the section valued on a statutory Technical Provisions basis; and
- to adopt an investment strategy consistent with the assumptions made when determining the value of the section's liabilities.

WG section

The primary objective of the WG section is to provide pension and lump sum benefits for members of the section on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. The section is closed to new entrants and closed to future accrual.

The Trustees' over-riding funding principles (consistent with the Statement of Funding Principles) are:

- to have sufficient and appropriate assets to cover the liabilities of the section valued on a statutory basis; and
- to adopt an investment strategy consistent with the assumptions made when determining the value of the section's liabilities.

VisitLondon section

The primary objective of the VisitLondon section is to provide pension and lump sum benefits for members of the Visit London section on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. The section has no sponsoring employer and is therefore closed to new entrants and closed to future accrual.

As this section has no sponsoring employer, the Trustees' over-riding funding principles are:

- to have sufficient and appropriate assets to cover the liabilities of the Scheme valued, on a 'self-sufficiency' basis; and
- to adopt an investment strategy consistent with the assumptions made when determining the value of the section's liabilities.

Calculation of liabilities

For each of the 4 sections the value of liabilities is calculated on the basis agreed by the Trustees following advice from the Scheme Actuary. The funding position is also assessed on a more stringent wind-up assessment. The funding position is monitored regularly by the Trustees and is formally reviewed at each triennial actuarial valuation, or more frequently as required by the Pensions Act 2004.

Investment strategy

The Trustees have implemented individual investment strategies for each Section which are suitable for each Section's risk-return profile.

To achieve their objectives, the Trustees have agreed the following:

Choosing investments

The Trustees, after seeking appropriate investment advice, have given all managers specific directions as to the asset allocation for the Scheme; day to day investment choice has been delegated to the managers, subject to their respective benchmarks and asset guidelines.

The Trustees are satisfied that the investment managers selected are consistent with the objectives of the Scheme, particularly in relation to diversification, risk, expected return and liquidity. The Trustees seek and consider written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Trustees is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

Remuneration for each mandate is determined at the inception of each mandate based on commercial considerations and typically set on an ad valorem basis. Where appropriate to the nature of the mandate, the term of the mandate and the role the mandate plays within the investment strategy, the Trustees may agree to a fee structure where the manager is incentivised to deliver outperformance relative to an agreed benchmark, typically in conjunction with a lower ad valorem fee. The Trustees periodically review the fees paid to the Scheme's managers.

The Trustees recognise the long-term nature of the Scheme's liability profile and appoints its managers to invest in such a way that generates long term sustainable returns. The Trustees will carry out necessary due diligence on the underlying investment decision making process, to ensure the manager makes investment decisions over an appropriate time horizon aligned with the Scheme objective.

The duration of each mandate is determined by the Trustees at the inception of each mandate. For open-ended investments, the Trustees generally engage managers on an ongoing basis with no pre-determined term of appointment. For such mandates, the Trustees expect the minimum duration of the appointment will be three years, this being the period over which performance of the mandate can be appropriately evaluated although all mandates are subject to ongoing review against various financial and non-financial metrics in addition to their continued appropriateness within the investment strategy. For close-ended investments, the Trustees expect the term of the appointment to be the lifetime of the investment.

The Trustees review the performance of each of its managers and mandates on a regular basis against a series of metrics, including financial performance against the benchmark and objectives of the mandate, the exercise of stewardship responsibilities (including engagement with issuers) as set out in greater detail below, and the management of risks. Material deviation from performance or risk targets is likely to result in the mandate being formally reviewed.

Kinds of Investments to be held

The Scheme may invest in, amongst others, quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, private lending, commodities, either directly or through pooled funds. The Scheme may also make use of derivatives and contracts for difference (or in pooled funds investing in these products) for the purpose of efficient portfolio management or to hedge specific risks.

The Trustees consider all of these classes of investment to be suitable to the circumstances of the Scheme. Within the Insight and Baillie Gifford funds, the Trustees have limited control over the choice of assets underlying the policy. The Trustees have assessed this as being appropriate given the Scheme's circumstances. They have the option of investing outside the policies or changing the policy if the underlying assets no longer suit the Scheme's liability profile.

Balance between different kinds of investments

The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market each manager will maintain a diversified portfolio of stocks through direct investment or pooled vehicles.

Risk

The Trustees monitor risk in two ways. As indicated above, they have set a strategic asset allocation benchmark for each Section of the Scheme. They assess risk relative to that benchmark by monitoring the asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the funding level of each Section of the Scheme. The Trustees do not expect managers to take excess short-term risk and will regularly monitor the manager's performance against the benchmarks and objectives set on a short, medium and long terms basis.

Expected return on investments

Over the long term, the overall level of investment returns for each Section of the Scheme is expected to exceed the rate of return assumed by the Scheme Actuary in funding basis for each Section.

Realisation of investments

The majority of the underlying assets can be realised quickly if required. The Trustees recognise this may involve costs and investments such as property and private lending may be more illiquid. Where the Trustees do invest in less liquid assets, the Trustees will consider whether the additional liquidly risk is justified and appropriately rewarded.

Portfolio turnover

The Trustees have expectations of the level of turnover within each mandate which is determined at the inception of the mandate, based on the Trustees' knowledge of the manager, investment process and the nature of the portfolio. Whilst the Trustees expect performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustees expects managers to report on at least an annual basis on the underlying assets held within the portfolio with a summary of any transactions over the period. The Trustees will challenge its managers if there is a material change in portfolio turnover or if the level of turnover seems inappropriate.

Consideration of financially material factors in investment arrangements

The Trustees recognise that the consideration of financially material factors, including ESG factors, is relevant at different stages of the investment process. The strategic benchmark for each Section has been determined using appropriate economic and financial assumptions from which expected risk/return profiles for different asset classes have been derived. These assumptions apply at a broad market level and are considered to implicitly reflect all financially material factors other than climate change.

Given the inherent uncertainty associated with climate change and relatively short investment horizon of the Section, the Trustees have not sought to explicitly consider the risks of climate change in setting its strategic benchmark or implementing its strategy.

The Trustees expect the Scheme's investment managers to take all financially material factors into account where relevant and the terms of the mandate permit.

- In passive mandates, the Trustees recognise that the choice of benchmark dictates the assets held by the investment manager and that the manager has minimal discretion to take account of factors that may be deemed to be financially material. The Trustees accept that the role of the passive manager is to deliver returns in line with the market and believe this approach is in line with the basis on which their current strategy has been set.

- In active mandates, the Trustees recognise that the manager has freedom to exercise discretion as to the choice of assets held.

Consideration of non-financially material factors in investment arrangements

Non-financially material factors are the views of members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the Section.

The Trustees have not considered any non-financially material factors in the development and implementation of their investment strategy.

Stewardship

The Trustees recognise that stewardship encompasses the exercise of voting rights, engagement by and with investment managers and the monitoring of compliance with agreed policies.

Voting and engagement

The Trustees have adopted a policy of delegating voting decisions on stocks to their investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The investment managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

Where relevant, the Trustees have reviewed the voting policies of their investment managers and determined that these policies are appropriate.

Where appropriate, the Trustees will engage with and may seek further information from their investment managers on how portfolios may be affected by a particular issue.

The Trustees do not engage directly but believe it appropriate for the Scheme's investment managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks. Where necessary, investment managers are expected to notify the Trustees of any issue on which it may be beneficial for the Trustees to undertake further engagement. The Trustees will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustees expect the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustees separately consider any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

Monitoring

The Trustees aim to meet with the Scheme's investment managers on an annual basis. The Trustees provide their managers with an agenda for discussion, including, where appropriate, ESG issues. Managers are challenged both directly by the Trustees and by their investment advisers on the impact of any significant issues including, where appropriate, ESG issues that may affect the prospects for return from the portfolio.

Governance

The Trustees have ultimate responsibility for decision making on investment matters.

The Trustees have established an Investment sub-committee (ISC), formed by a sub-set of their number, either to make recommendations to the full Trustee Board or to make decisions on matters delegated under its Terms of Reference.

David Kidd

Chair of the Trustees

Signed for and on behalf of the Trustees of the British Tourist Boards' Staff Pension and Life Assurance Scheme

Appendix: Asset Allocation Guidelines

The table below shows the current strategic benchmarks for the Scheme.

Strategic benchmark allocations				
Asset class	**VisitBritain**	**VisitScotland**	**WG**	**VisitLondon**
Equities	14%	40%	10%	-
Multi-asset	23%	20%	15%	10%
Private lending	15%	15%	15%	-
Investment grade credit (CDS)	5%	2.5%	5%	-
Property	15%	10%	15%	-
Liability driven investments	22%	12.5%	34%	90%
Cash	6%	-	6%	-
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The below table shows the current fund benchmarks for each asset class.

Fund benchmark allocations				
Mandate	**VisitBritain**	**VisitScotland**	**WG**	**VisitLondon**
Equities				
LGIM market-cap fund portfolio*	50%	50%	50%	-
LGIM Diversified Multi-Factor Equity Fund	50%	50%	50%	-
Multi-asset				
Baillie Gifford Diversified Growth Fund	50%	50%	50%	100%
Insight Broad Opportunities Fund	50%	50%	50%	-
Private lending				
Partners Group Multi-Asset Credit Fund 2017	100%	100%	100%	-
Investment grade credit (CDS)				
BlackRock Diversified Credit Fund	100%	100%	100%	-
Property				
Threadneedle Property Unit Trust	100%	100%	100%	-
Liability driven investments				
BlackRock LDI fund portfolio*	100%	100%	100%	-
LGIM LDI fund portfolio*	-	-	-	100%
Cash				
BlackRock Sterling Ultra Short Bond Fund	100%	-	100%	-

*The LGIM market-cap fund portfolio, BlackRock LDI fund portfolio and LGIM LDI fund portfolio all invest in a portfolio of underlying pooled funds as determined by the Trustees. The below tables show the fund benchmarks for these portfolios.

LGIM market-cap fund portfolio	Target weight	Rebalancing range
UK Equity Index Fund	74.0%	+/- 3.0%
North America Equity Index Fund – GBP Hedged	8.0%	+/- 1.5%
Europe (ex UK) Equity Index Fund – GBP Hedged	8.0%	+/- 1.5%
Japan Equity Index Fund – GBP Hedged	5.0%	+/- 1.5%
Asia Pacific (ex-Japan) Equity Fund – GBP Hedged	5.0%	+/- 1.5%
Total	**100.0%**	

BlackRock LDI fund portfolio	Target weight	Rebalancing range
Levered LDI funds – Conventional Gilts	31.9%	N/A
Levered LDI funds – Index-Linked Gilts	68.1%	N/A
Total	**100.0%**	

BlackRock fund weightings float in line with the actual asset allocation and are not rebalanced in line with a benchmark. The Trustees review the fund allocation at least every 3 years, or early as required. Weightings shown above are as at 31 May 2020.

LGIM LDI fund portfolio	Target weight	Rebalancing range
Un-levered LDI funds – Conventional Gilts	94.1%	N/A
Un-levered LDI funds – Index-Linked Gilts	5.9%	N/A
Total	**100.0%**	

The LGIM fund weightings float in line with the actual asset allocation and are not rebalanced in line with a benchmark. The Trustees review the fund allocation at least every 3 years, or early as required. Weightings shown above are as at 31 May 2020.