

# Canadian Pacific Companies (Europe) Pension Plan

September 2020

## Statement of Investment Principles

### Introduction

This document constitutes the Statement of Investment Principles ('the SIP') required under Section 35 of the Pensions Act 1995 (as amended) for the Canadian Pacific Companies (Europe) Pension Plan ('the Plan'). It describes the investment policy being pursued by the Trustees of the Plan and is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ('the Myners Principles') and TPR's Investment Guidance for defined benefit pension schemes. This SIP also reflects the requirements of Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018.

The Plan Actuary is Scott Pinder of Willis Towers Watson, the Investment Adviser is River and Mercantile Solutions (collectively termed 'the Advisers').

The Trustees confirm that, before preparing this SIP, they have consulted with Fairmont Hotels Inc., which has changed its name and is now known as Accor Management Canada Inc. ('the Sponsoring Employer') and the Plan Actuary and have obtained and considered written advice from the Investment Adviser.

The Trustees are responsible for the investment of the Plan's assets and where they are required to make an investment decision, the Trustees always receive advice from the relevant Advisers first. They believe that this ensures that they are appropriately familiar with the issues concerned.

In accordance with the Financial Services & Markets Act 2000 ('FSMA'), the Trustees set general investment policy, but have delegated day-to-day investment of the Plan's assets to be undertaken by a range of professional investment managers, hereafter referred to as the 'Investment Manager'.

### Plan Governance

The Trustees are responsible for the governance and investment of the Plan's assets. The Trustees consider that the governance structure is appropriate for the Plan as it allows the Trustees to make the important decisions on investment policy, while delegating the day-to-day aspects to the Investment Manager or the Advisers as appropriate.

The Trustees will review this SIP at least every three years, or following any changes to the investment strategy, and modify it with consultation from the Advisers and the Sponsoring Employer if deemed appropriate. There will be no obligation to change this SIP, the Investment Manager or Adviser as part of such a review.

## Suitability

The Trustees have defined the investment objective and investment strategy with due regard to the Plan's liabilities.

The Trustees have taken advice from the Advisers to ensure that the proposed strategy, and the assets held by the Plan through that strategy, are suitable given its liability profile, the Trustees' objectives, legislative requirements, regulatory guidance and specifications in the trust deed and rules governing the Plan (the Trust Deed).

## Statutory Funding Requirement

The Trustees will obtain and consider proper advice on the question of whether the investments and investment strategy are satisfactory having regard to both the investment objectives and the requirement to meet any statutory funding requirements. The funding position is reviewed periodically by the Plan Actuary, with a full actuarial valuation at least every three years.

The Trustees will consider with the Investment Adviser and the Plan Actuary whether the results of these actuarial valuations suggest that any change to investment strategy is necessary to ensure continued compliance with the statutory funding requirement.

## Investment Objectives

The overall objective of the Plan is to meet the benefit payments promised as they fall due. The Trustees have set the following qualitative objectives:

1. The acquisition of suitable assets, having due regard to the risks set out in this Statement, which will generate income and capital growth to pay the benefits which the Plan provides as they fall due.
2. To limit the risk of the assets being assessed as failing to meet the liabilities over the long term having regard to any statutory funding requirement.
3. To achieve a return on investments which is expected to at least meet the Plan Actuary's assumptions over the long term.

In quantitative terms, the Trustees invest in annuities, with the majority of remaining assets in a blend of cash funds and are in the process of redeeming a small proportion of illiquid assets.

## Implementation of investment strategy

The Trustees have delegated the investment of the Plan assets to the Investment Manager, which has discretion to invest the Plan assets in underlying securities and funds, either directly or through the use of other investment managers of pooled funds (hereafter referred to as the 'Underlying Managers') to run the portfolio on a day-to-day basis. The Trustees have acknowledged and considered with sufficient diligence the potential conflict that may arise from the Investment Manager and the Investment Adviser being the same organisation.

## Monitoring

The Trustees will monitor the performance of the Investment Manager against the agreed performance objectives.

The Trustees, or any other suitably qualified Adviser on behalf of the Trustees, will regularly review the activities of the Investment Manager to satisfy themselves that the Investment Manager continues to carry out their work competently and have the appropriate knowledge and experience to manage the assets of the Plan.

As part of this review, the Trustees will consider whether or not the Investment Manager:

- Is carrying out their function competently.
- Has regard to the need for diversification of investments.
- Has regard to the suitability of each investment and each category of investment.
- Has been exercising their powers of investment with a view to giving effect to the principles contained in this SIP, so far as is reasonably practical.

If the Trustees are not satisfied with the Investment Manager they will ask the Investment Manager to take steps to rectify the situation. If the Investment Manager still does not meet the Trustees requirements, the Trustees will remove the Investment Manager and appoint another.

## Corporate Governance and Stewardship

The Trustees and Investment Manager have agreed, and will maintain, formal agreements setting out the scope of the Investment Manager's activities, charging basis and other relevant matters. The Investment Manager has been provided with a copy of this SIP and is required to exercise its powers with a view to giving effect to the principles contained herein and in accordance with subsection (2) of Section 36 of the Pensions Act 1995.

The Trustees have appointed the Investment Manager to implement the Plan's investment strategy. The Investment Manager manages assets directly on behalf of the Trustees as well as having delegated authority to appoint, monitor and change the Underlying Managers.

The Investment Manager is appointed to carry out its role on an ongoing basis. The Trustees periodically review the overall value-for-money of using R&M Solutions, and information in relation to costs associated with investing is included in the quarterly monitoring report. The Trustees are satisfied that these arrangements incentivise the Investment Manager:

- to align its investment strategy and decisions with the Trustees' investment policies, such as their return target and the restrictions detailed in the Investment Management Agreement, and
- to assess and make decisions based on the medium- to long-term financial and non-financial performance of issuers of debt or equity, and to engage with such issuers to improve this medium- to long-term performance. The success of such engagement will contribute to the Plan's performance, which is measured relative to the Trustees' long-term performance objectives.

The Plan's investments are generally made via pooled investment funds, in which the Plan's investments are pooled with those of other investors. As such, direct control of the process of engaging with the companies that issue these securities, whether for corporate governance purposes (such as capital structure) or other financially material considerations, is delegated to the Underlying Managers.

The Trustees have delegated responsibility for monitoring and voting on decisions relating to their Underlying Manager holdings to the Investment Manager. The Investment Manager has in place a voting policy which sets out how it will aim to vote at a general meeting of a pooled fund. For any special resolutions or extraordinary general meetings, the proposed votes of the Investment Manager are subject to additional sign-off by the appropriate representative from the Investment Manager.

The Investment Manager undertakes regular reviews of all Underlying Managers. These reviews incorporate benchmarking of performance and fees, with some managers on performance-related fees as well as performance reviews (including understanding key drivers of performance), investment due diligence meetings and operational due diligence reviews. The

Investment Manager reviews the governance structures of Underlying Managers, as well as assessing whether their fees, expenses (and any other charges) are in line with industry peers at inception and from time to time whilst invested.

Where it can be determined, the Investment Manager assesses whether Underlying Manager remuneration arrangements are aligned with the Trustees' objectives. The method and time horizon for evaluating and remunerating Underlying Managers is determined by criteria set by the Investment Manager, as detailed above.

The Trustees acknowledge the inherent potential for conflicts of interest which exist as part of ongoing Investment management business activities. As an FCA regulated firm, the Investment Manager is required to prevent or manage conflicts of interest. Where Underlying Managers are also regulated, they are likely to be subject to such requirements to manage conflicts of interest as are applicable in their jurisdiction of incorporation or operations. The Investment Manager directly monitors these as part of their regulatory filings (where available), the Investment Manager also monitors this as part of ongoing review. The Investment Manager's Conflict of Interest policy is available publicly here:

[https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate\\_Governance/RMG\\_Conflicts\\_of\\_Interest\\_Policy.pdf](https://riverandmercantile.com/Asp/uploadedFiles/file/Corporate_Governance/RMG_Conflicts_of_Interest_Policy.pdf)

The Investment Manager oversees the turnover costs incurred by Underlying Managers as part of its ongoing monitoring process and evaluates such costs to determine if they are in line with peer groups and the Investment Manager's expectations. Where there are material deviations the Investment Manager engages with Underlying Managers to understand the rationale for such deviations and take appropriate action.

## Realisation of Investments

The majority of assets are held in underlying pooled funds. The Investment Manager is permitted to hold illiquid investments (as defined in the Investment Management Agreement), which the Trustees acknowledge can take additional time to realise. The Trustees have considered this risk against the possibility of needing to realise these assets and is comfortable it is a reasonable approach to take.

## Derivatives

The Trustees may enter into contracts with counterparties, including investment banks, in order to execute derivative transactions. The Trustees have taken advice on the suitability of the contracts and have delegated responsibility to the Investment Manager to implement these instruments on its behalf. Derivative instruments are typically used for risk management purposes in the portfolio.

## Financially material investment considerations

These considerations which include the below "Risks" can affect the long-term financial performance of investments and can (but do not have to) include environmental, social and governance factors (otherwise known as "ESG") where relevant. All references to ESG also include climate change.

The Trustee's policy is to delegate consideration of financially material factors, including ESG to the Investment Manager who considers these when constructing the portfolio, including looking at Underlying Managers. All references to ESG relate to financial factors only. As part of their ongoing monitoring, the Trustee reviews some key metrics on a regular basis that are provided by the Investment Manager covering ESG which enable them to engage with the Investment Manager and understand the impact of ESG on the portfolio.

ESG factors and stewardship are considered, in the context of long term performance, by the Investment Manager as part of the manager selection criteria. This review occurs before they are approved for investment in the portfolio. Once an Underlying Manager is appointed, the Investment Manager monitors the ESG implementation and ongoing compliance with

other factors, like stewardship as a part of overall engagement. Given the Trustees have secured members' benefits with an insurance company and the residual assets are invested in cash and illiquid assets, action regarding this policy is now limited.

## Risks

The Trustees recognise a number of risks involved in the investment of the assets of the Plan. These risks, and how they are measured and managed, include:

- **Funding and asset/liability mismatch risk** – the risk that the funding level is adversely affected due to a mismatch between the assets and liabilities. This risk is managed in the following ways:
  - The Trustees hold annuities which match a significant proportion of the liabilities. The Trustees also has a surplus which is held in cash.
  - The Trustees recognise the risk of a negative impact on the funding level due to changes in the actuarial assumptions used to calculate the liabilities and variation in experience.
  - When setting and reviewing investment strategy, the Trustees examine how the investment strategy impacts on downside risk.
  - This risk is also monitored through regular actuarial and investment reviews including monthly portfolio updates.
- **Underperformance risk** – the risk of underperforming the benchmarks and objectives set by the Trustees. This risk is minimised using the following techniques:
  - The use of instruments and strategies designed to control the extent of downside exposure.
  - The selective use of active management when appropriate given market conditions, the asset class considered and where the benefits (risk and/or return) are expected to outweigh the additional costs/fees.
  - Regular monitoring of the managers' performance, processes and capabilities with respect to their mandate and by the diversification across multiple Underlying Managers by the Investment Manager.
- **Cash flow risk** – addressed through the monitoring of the cash flow requirement of the Plan to control the timing of any investment/disinvestment of assets.
- **Concentration risk** – the risk of an adverse influence on investment values from the concentration of holdings is reduced by the diversification of the assets.
- **Counterparty risk** – the risk of a counterparty to an agreement not carrying out his side of the deal. Where derivatives are used, the risk of counterparty default is reduced through the requirement in the relevant documentation that regular collateral or margin payments be made. It is also considered in the selection of counterparties and the incorporation of protection mechanisms in the documentation in the event of a downgrade in credit quality of an existing counterparty.
- **Country risk** – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- **Default risk** – the risk of income from assets not being paid when promised. This is addressed through restrictions for the Investment Manager and Underlying Managers, e.g. a minimum credit rating of the bonds they are allowed to buy and also a high proportion of the bonds held are government bonds which have little default risk.
- **ESG risk** – the risk of adverse performance due to ESG related factors including climate change. This is addressed by the Investment Manager's ESG assessment at the point of investment with Underlying Managers. A summary of the overall ESG characteristics in the portfolio in the quarterly governance report.
- **Mismanagement risk** – the risk of unsuitable investment activity by the Investment Manager. This is addressed in the agreement with the Investment Manager, and in turn by the Investment Manager with the Underlying Managers, which

contain restrictions on the proportion and type of asset classes that the Investment Manager or Underlying Managers may invest in.

- **Organisational risk** – the risk of inadequate internal processes leading to problems for the Plan. This is addressed through regular monitoring of the Investment Manager and Advisers by the Trustees, and of the Underlying Managers by the Investment Manager.
- **Sponsor risk** – the risk of the Sponsoring Employer ceasing to exist which, for reasons of prudence, has been taken into account when setting the asset allocation strategy. The Trustees regularly review the covenant of the Sponsoring Employer.

The Trustees will keep these risks and how they are measured and managed under regular review.

## Non-financial matters

The Trustees do not at present take into account non-financial matters (such as members’ ethical considerations, social and environmental impact matters or future quality of life considerations for members and beneficiaries) when making investment decisions as there is no likely common view on any ethical matters which members are likely to hold. At this time the Trustees have no plans to seek the views of the membership on ethical considerations.

Signed:.....

Date:.....

For and on behalf of the Trustees of the Canadian Pacific Companies (Europe) Pension Plan