Mitchells & Butlers Pension Plan

Statement of Investment Principles
Defined Contribution Section

Date signed: 25/9/19

Barnett Waddingham LLP

September 2019

Contents

1. Introduction

1.1. This Statement of Investment Principles ("the Statement") has been prepared by Mitchells & Butlers Pensions Limited ("the Trustee") and relates to the defined contribution (DC) benefits provided through the Mitchells & Butlers Pension Plan ("the Plan"). The Statement sets down the principles which govern the decisions about the investments that enable the Plan to meet the requirements of:

- the Pensions Act 1995, as amended by the Pensions Act 2004; and
- the Occupational Pension Schemes (Investment) Regulations 2005 as amended by the Occupational Pension Schemes (Investment) (Amendment) Regulations 2010 and the Occupational Pension Schemes (Charges and Governance) Regulations 2015.

The Trustee has produced a separate Statement which sets out the principles governing the defined benefit (DB) section of the Plan.

1.2. In preparing this statement the Trustee has consulted Mitchells & Butlers plc, the Principal Employer, and obtained advice from Barnett Waddingham LLP, the Trustee's investment consultants. Barnett Waddingham is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

1.3. This statement has been prepared with regard to the 2001 Myners review of institutional investment (including subsequent updates).

1.4. The Trustee will review this Statement at least every three years or if there is a significant change in any of the areas covered by the Statement or the demographic profile of members.

1.5. The investment powers of the Trustee are set out in Clause 7 of the Definitive Trust Deed & Rules, dated 6 April 2006. This Statement is consistent with those powers.

2. Choosing investments

2.1. The Trustee carefully considers its Investment Objectives, shown in the appendix, when designing the range of investment options to offer to members of the Defined Contribution Section ("the DC Section") of the Plan. The Trustee also acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings – and therefore, whilst seeking good member outcomes net of fees, it also considers the level of risk that is appropriate based on the anticipated needs of the membership profile of the DC Section.

2.2. The Trustee's policy is to offer a range of "off-the-shelf" governed investment arrangements suitable for the DC Section's membership profile into which members can choose to invest their contributions and those contributions made by the employer. Details of these are given in the appendix. In doing so, the Trustee considers the advice of their professional advisers, who they consider to be suitably qualified and experienced for this role.

2.3. The day-to-day management of the DC Section's assets is undertaken by Legal and General Investment Management (LGIM). LGIM is authorised and regulated by the Financial Conduct Authority, and is responsible for stock selection and the exercise of voting rights.

2.4. The Trustee reviews the appropriateness of the DC Section's investment strategy on an ongoing basis. This review includes consideration of the continued competence of the investment manager with respect to its performance within any guidelines set. The Trustee will also consult the employer before amending the investment strategy.

3. Investment objectives

3.1. The Trustee has discussed and agreed key investment objectives in light of an analysis of the DC Section's membership profile as well as the constraints the Trustee faces in achieving these objectives. These are set out in the Appendix.

4. Kinds of investments to be held

4.1. The DC Section is permitted to invest in a wide range of assets including equities, bonds, cash, property and alternatives.

5. The balance between different kinds of investments

5.1. The Trustee has made available a range of 'Target Date' investment options called Pathway. Through Pathway member's assets are automatically invested in line with a pre-determined strategy that changes at different stages of membership. For example, whilst a member is a long way off accessing their retirement savings, emphasis is placed on medium to higher risk funds (i.e. investment largely in growth assets) in search of long-term, inflation-protected growth. As the member's target retirement date approaches, their retirement savings are progressively switched to hold a larger proportion of lower risk assets so as to protect the value of the retirement savings relative to the way in which they are expected to be accessed.

5.2. Members can choose to invest in any of the Pathway options detailed in the Appendix. Where members do not choose where their contributions, and those made on their behalf by the employer, are invested, the Trustee will invest these contributions according to the default investment strategy set out in the Appendix.

5.3. The Trustee considers the merits of both active and passive management for the various elements of the DC Section's portfolio and may select different approaches for different asset classes.

5.4. The Trustee is aware that the appropriate balance between different kinds of investments will vary over time and the asset allocation may change as the membership profile evolves.

6. Risks

6.1. Risk in a defined contribution plan lies with the members themselves. The Trustee has considered a number of risks when designing and providing suitable investment choices to members. A comprehensive list of risks is set out in the Trustee risk register, however, the main investment risks affecting all members are:

Inflation risk	The risk that the investments do not provide a return at least in line with inflation, thus eroding the purchasing power of the retirement savings. The Trustee makes available investment options that are expected to provide a long-term real rate of return.
Conversion risk	The risk that fluctuations in the assets held, particularly in the period before retirement savings are accessed, lead to uncertainty over the benefit amount likely to be received. Across the Pathway investment options (see Appendix) available through the DC Section, the Trustee changes the proportion and type of investments so that each will target a different benefit choice.
Retirement income risk	The risk that a member's retirement income falls short of the amount expected, whether this is due to lower investment returns than expected or insufficient contributions being paid. The Trustee periodically reviews the appropriateness of the Pathway investment options to ensure member outcomes can be maximised. Communications to members will seek to encourage them to regularly review the level of their contributions, but ultimately this is a risk which lies with each member.
Credit risk	This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Trustee undertakes due diligence on fund managers and service providers. The investment manager assesses the credit risk of assets in their portfolios.
Interest rate risk	This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates. The Trustee makes available funds that have a specified yield objective.

Other price risk	This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Trustee mitigates this risk by appointing a suitable investment manager and suitable underlying investments that do not expose the DC Section members to undue risk.
Investment manager risk	The Trustee monitors the performance of the DC Section's investment manager on a regular basis in addition to having meetings with them from time to time as necessary. The Trustee has a written agreement with the investment manager, which contains a number of restrictions on how the investment manager may operate.
Concentration/ Market risk	The investment manager is expected to manage properly diversified portfolios and to spread assets across a number of individual shares and securities.
Currency risk	The DC Section may gain exposure to overseas currencies by investing in assets that are denominated in a foreign currency or via currency management. Currency risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. Funds are sterling denominated and the investment manager uses their expertise to set levels of currency hedging.
Loss of investment	The risk of loss of investment by the investment manager and custodian is assessed by the Trustee. This includes losses beyond those caused by market movements (e.g. default risk, operational errors or fraud). The Trustee also undertakes an annual review of the internal controls and processes of the investment manager.

7. Expected return on investments

7.1. The Trustee has regard to the relative investment return, net of fees, and risk that each asset class is expected to provide. The Trustee is advised by its professional advisors on these matters, who it has deemed to be appropriately qualified.

7.2. The Trustee has selected LGIM as the investment manager to the DC Section following a robust selection process and offers a series of 'off-the-shelf' investment strategies that have been designed and implemented by LGIM. The Trustee has delegated the day-to-day management of these off-the-shelf strategies to LGIM, who manage the strategies with reference to a pre-set range of investment parameters and is responsible for the day-to-day selection of investments.

7.3. The Trustee reviews the performance of LGIM, and the range of off-the-shelf strategies, at least quarterly to ensure they perform in line with expectations. This review takes account of the returns achieved and the likely aims and objectives of members.

7.4. The Trustee recognises the need to distinguish between nominal and real returns and to make appropriate allowance for inflation when making decisions and comparisons.

8. Realisation of investments

8.1. The Trustee has selected LGIM as the investment manager to the DC Section and has delegated the responsibility for buying and selling investments to LGIM. The Trustee regularly reviews LGIM as the investment manager to the DC Section to ensure continued suitability.

9. Socially Responsible Investment, Corporate Governance and Voting Rights

9.1. The Trustee believes that environmental, social and corporate governance ("ESG") issues, including climate change, can have a financially material impact on the level of risk and performance of investment portfolios and should therefore be considered as part of the DC Section's investment process.

9.2. As the DC Section's investments are held in pooled target date funds managed by LGIM, the ESG considerations are set by LGIM for each of the underlying funds within the strategy. The Trustee monitors how ESG, climate change and stewardship are integrated within the investment process adopted by LGIM and considers these issues as part of the criteria when reviewing the suitability of the DC Section's investment options.

9.3. The Trustee does not currently explicitly take into account members' views in selection, retention or realisation of investments.

9.4. The Trustee believes that good stewardship and positive engagement can lead to improved governance and better risk-adjusted investor returns. The Trustee delegates the exercise of rights (including voting rights) attached to the DC Section's investments to LGIM, who are signatories of the UK Stewardship code.

9.5. In selecting and reviewing its investment managers to the DC Section, where appropriate, the Trustee will consider investment managers' policies on engagement and how these policies have been implemented. The Trustee will do so by taking advice from its investment adviser, Barnett Waddingham.

9.6. The Trustee will consider ESG and stewardship using information from their advisers, investment managers and industry specialist bodies and in doing so, consider whether to review its own policy and procedures. The Trustee will report on ESG and stewardship at least annually, making this available to members

10. Monitoring

10.1. Investment Performance: The Trustee reviews the performance of each Pathway investment option offered through the DC Section against the stated performance objective and, in doing this, the Trustee receives a performance monitoring report on a quarterly basis. This monitoring takes into account both short-term and long-term performance. The investment manager's overall suitability for each mandate will be monitored as frequently as the Trustee considers appropriate in light of both its performance and other prevailing circumstances.

10.2. Objectives: The Trustee monitors the suitability of the objectives for the DC Section (as detailed in the appendix) and performance (net of fees) against these objectives at least every three years and also when there is any significant change in the investment policy, underlying economic conditions, regulations or the profile of the members.

10.3. Investment Choices: The Trustee monitors the ongoing appropriateness of the investment choices offered on a periodic basis.

11. Agreement

11.1. This Statement was agreed by the Trustee, and replaces any previous statements. Copies of this Statement and any subsequent amendments will be made available to the employer, the investment manager, the actuary and the Plan auditor upon request.

Signed:.. **Date:** 25\9\19

On behalf of the Trustee of the Mitchells & Butlers Pension Plan

A.W. Harrison, Director for
The Law Debenture Pension Trust Corporation p.l.c.

Note on investment policy of the Plan's DC Section in relation to the current Statement of Investment Principles dated September 2019

1. The balance between different kinds of investment

The Trustee's main investment objectives are:

seek to achieve good member outcomes net of fees and subject to acceptable levels of risk;

to provide a suitable default investment option that is likely to be suitable for a typical member;

to offer an appropriate range of Pathway investment options so that members can choose the outcome most suitable for them, recognising that members may have different needs and objectives;

to ensure that the expected volatility of the returns achieved is managed through appropriate diversification of the use of asset types in order to control the level of volatility where possible and risk in the value of members' pension pots; and

to reduce the risk of the assets failing to meet projected retirement income levels.

The Trustee is responsible for the design of the default investment option and for choosing which Pathway investment options to make available to members. Members are responsible for their own choice of investment options (including where the default investment option is selected for them because they have not selected other funds).

2. Default option

The Trustee acknowledges that members will have different attitudes to risk and different aims for accessing their retirement savings, and so it is not possible to offer a single investment option that will be suitable for each individual member. However, having analysed the DC Section's membership profile, the Trustee believes that members are most likely to access benefits using drawdown. The Trustees has therefore decided that LGIM's Journey Plan 2 – the drawdown targeted pathway investment option, represents a suitable default investment option for the majority of members who do not make a choice about how their contributions (and those made on their behalf by the employer) are invested. The aims, objectives and policies relating to the default option are intended to ensure that assets are invested in the best interests of relevant members and their beneficiaries. For ease of reference, this default strategy is called the 'Default Pathway Option'.

The Default Pathway Option is a range of target date investment funds that invest predominantly in passive investment funds managed by LGIM. The asset allocation of the Default Pathway Option investment options is set with reference to a member's chosen or default retirement age and adjusts the allocation to each underlying fund over time.

The objective of the Default Pathway Option is to build real retirement income, while managing possible downside risk. It also aims to align asset the allocation with members' chosen retirement goals in the run-up to retirement. This is consistent with the Trustee's main investment objectives as set out in section 1 of this Appendix. The Default Pathway Option is designed with the assumption that individuals in this default are likely to hold higher-risk assets such as equities, property and alternative investments and favour drawdown, but may also hold some lower-risk investments in retirement such as cash or bonds (or purchase an annuity).

The statements made in the main body of this Statement of Investment Principles also apply to the default arrangement.

3. Alternative investment options

Acknowledging the challenge of identifying the best solution for different groups of members, and in focusing on its key objective, the Trustee has focused on outcome-orientated Pathways. Alongside the default investment option, the Trustee has arranged for LGIM to provide two additional Pathway investment options:

- An Annuity Targeted Pathway;
- A Cash Lump Sum Targeted Pathway.

Both of these Pathway investment options use the same growth phase as the Default Pathway Option and then tailor the strategy towards the member's desired outcome over the 10 years to retirement.

The performance of Pathway investment options will be monitored as frequently as the Trustee considers appropriate in light of the prevailing circumstances. The monitoring takes into account both short-term and long-term performance.

4. Fee agreements

The fee arrangements with the investment manager are summarised below:

	Fund management charge	Annual management charge	Total expense ratio
Default Pathway Option	0.19%	0.10%	0.29%
Annuity Targeted Pathway	0.19%	0.10%	0.29%
Cash Lump Sum Targeted Pathway	0.19%	0.10%	0.29%

The Trustee reviews these charges periodically as part of the Value for Member assessments.

5. Additional Voluntary Contributions (AVCs) for the Defined Benefit (DB) Section

The Trustee previously offered members of the DB Section of the Plan the ability to accrue additional retirement benefits through a number of separate AVC policies. These AVC benefits are held in arrangements managed by Prudential, Standard Life, LGIM and Equitable Life and all are now closed to new members and there are no future contributions being paid.

The AVC benefits invested with LGIM are held in the same funds that are made available to Plan members (described in this Statement) and therefore the fee arrangements that apply are the same as set out in section 4 of this appendix.

For all other AVC policies, the fee arrangements that apply are set out below:

Prudential

Fund name	Total Expense Ratio
Prudential With Profits Fund	Prudential does not state an explicit TER for its With Profits Fund as charges are deducted before bonuses are applied to members' benefits, however, they are estimated to be in the region of 1%.

Fund name	Total Expense Ratio
Prudential Deposit Fund	The charges quoted for the Prudential Deposit Fund are nil as they are taken into account in the interest payable to members.

Standard Life

Fund name	Total Expense Ratio
Standard Life With Profits Fund	Standard Life does not quote an explicit TER for the With Profits Fund as charges are taken into account prior to the addition of bonuses
Standard Life Millennium With Profits Fund	Standard Life do not quote an explicit TER for the Millennium With Profits Fund as charges are taken into account prior to the addition of bonuses
Standard Life Managed Fund	1.00%

Equitable Life

Fund name	Total Expense Ratio
Equitable Life With Profits Fund	1.00%

With Profits Funds

A With Profits Fund is a pooled investment vehicle, which combines the assets of all investors to provide exposure to a range of asset classes. The fund is managed in line with its published Principles and Practices of Financial Management (PPFM) however the provider does have some discretion over how this is achieved.

The value of a With Profit fund is not directly linked to the value of the underlying assets. Instead, returns over the period are smoothed by retaining some profits in periods of higher growth and paying out more during periods of lower profits. This smoothing is achieved through a combination of regular bonuses and final bonuses.

Regular bonuses are paid annually and represent the amount that the with profit fund manager believes appropriate to be passed onto members. There is usually no guarantee that regular bonuses will paid. Once paid however, they cannot be taken away providing the member keeps their investment in the policy until retirement or death.

Final bonuses (also known as terminal bonuses) may be added when benefits are paid. These are not guaranteed and will depend on a variety of factors including the fund performance over the period, bonuses already paid, expenses etc.