March 2019

Mitchells & Butlers Pension Plan ("the Plan") – DB Section

Statement of Investment Principles

1. Introduction

1.1 The 1995 Pensions Act (the Act) introduced a requirement on all pension plans to draw up a Statement of Investment Principles ("the Statement"). This Statement has been prepared by the Trustee of the Mitchells & Butlers Pension Plan ("the Trustee") to comply with the requirements of the 1995 Pensions Act ("the Act"), the Occupational Pension Schemes (Investment) Regulations 2005 and to fulfil the spirit of the Code of Best Practice ("Myners Report") published in 2001 and revised in 2008. As required under the Act, the Trustee has taken appropriate written advice from its Investment Consultant in preparing this statement. The Trustee refers to this statement when making investment decisions, to ensure that they are consistent with the principles contained in it.

1.2 The Trustee's investment powers are set out within the Plan's governing documentation and relevant legislation. If necessary, the Trustee will take appropriate legal advice regarding the interpretation of these. We note that, according to the law, the Trustee has ultimate power and responsibility for the Plan's investment arrangements.

1.3 The Plan has, principally, defined benefit (DB) liabilities but there is also a defined contribution (DC) section, the assets of which are separately invested.

1.4 Mitchells & Butlers plc ("the Company") is responsible for meeting the balance of costs necessary to finance the defined benefits payable from the Plan and has, therefore, a direct financial interest in the investment return achieved on the Plan's assets. The Company, with whom the Trustee seeks to maintain a good working relationship, has been consulted on the content of this Statement. However, the Trustee's fiduciary obligations to Plan members will take precedence over the Company's wishes, should these ever conflict.

1.5 The DB section was effectively closed from April 2002 to employees joining the Company from this date. The DB section was closed to future accrual on 12th March 2011.

1.6 A separate Statement of Investment Principles has been produced in respect of the DC Section of the Plan.

1.7 The investment arrangements, for the DB Section of the Plan, are detailed in the Investment Policy Implementation Document ("IPID") based on the principles set out in this Statement.

1.8 The Trustee will review this Statement in response to any material changes to any aspects of the investment policy detailed in this document. This will occur no less frequently than every three years to coincide with the actuarial valuation. Any such review will again be based on expert investment advice.

2. Plan Governance

2.1 The Trustee is responsible for the investment of the Plan's assets but is permitted to delegate execution of these responsibilities. When determining which decisions to delegate, and which to retain, the Trustee has taken into account whether it has the appropriate training and is able to secure the necessary expert advice in order to make an informed decision. The Trustee's ability to execute the decision effectively is also taken into account.

2.2 The Trustee has established the Mitchells & Butlers Common Investment Fund Board ("the CIF Board") to focus on investment issues. Details of the CIF Board's duties and responsibilities are included in the IPID.

2.3 An Investment Consultant has been appointed by the Trustee. The Investment Consultant's role is to advise the Trustee and the CIF Board as to the setting, implementation and monitoring of the investment strategy. Details of the Investment Consultant's duties and responsibilities are included in the IPID.

2.4 The Investment Managers are responsible for day-to-day management of the Plan's assets in accordance with guidelines agreed on behalf of the Trustee. They have discretion to buy, sell or retain individual securities in accordance with these guidelines. They report to the CIF Board regularly regarding their performance.

2.5 The Trustee has appointed a Performance Measurer independent of the Plan's Investment Managers. The details of this appointment are set out in the contract between the Plan and the Performance Measurer. Performance is calculated at least quarterly for the Plan's assets in aggregate. Details of the Performance Measurer's duties and responsibilities are included in the IPID.

2.6 The Custodian is responsible for the safekeeping of the Plan's segregated assets and performs the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting). The details of the Custodian's appointment and duties are set out in the contract between the Plan and the Custodian. Details of the Custodian's duties and responsibilities are included in the IPID.

2.7 The responsibility for selecting and monitoring the custodians of the investments managed within any collective investment vehicles resides with the Investment Managers of the respective collective investment funds. The Trustee reviews the effectiveness of the Manager's internal control processes at least annually.

2.8 The Plan's Actuary performs a valuation of the Plan at least every three years, in accordance with regulatory requirements. The main purpose of the actuarial valuation is to assess the extent to which the Plan's DB assets cover the accrued liabilities and agree the contribution rates. Details of the Plan Actuary's duties and responsibilities, as far as they relate to the Plan's investments, are included in the IPID.

3. Overall Policy, Investment Objectives, Risk, the Statutory Funding Objective (SFO) and Investment Strategy

3.1 Overall investment policy falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustee and is driven by its investment objectives as set out below. The day to day management of the assets is delegated to professional investment managers as described in Section 7.

3.2 Investment Objectives and Strategy

3.2.1 To guide it in its strategic management of the assets, the Trustee (in consultation with the Company) has considered its key investment objectives. The Trustee accepts that it is not itself an expert in the area of investment and that it employs such experts as its investment managers, and accordingly it delegates all day to day investment decisions to those managers.

3.2.2 The Plan will pursue an objective of achieving the requirements of the Statutory Funding Objective used for the most recent actuarial valuation.

3.2.3 In calculating the Technical Provisions, at the last actuarial valuation the Actuary assumed an investment return in line with that achievable from the Plan's investments by reference to gilts with duration and type matching the future benefit payments. The Trustee is aware that the Plan's assets were less than the Technical Provisions at the date of the last actuarial valuation, and has agreed a recovery plan with the Company to meet the shortfall.

3.2.4 Having taken account of the strength of the Company covenant, the Trustee has agreed a recovery period from the actuarial valuation date. Following a detailed review of the strength of the Company covenant, and considering the ongoing commitment of the Company to the Plan, the Trustee has agreed that a degree of investment risk can be taken on, in the expectation of generating excess returns relative to the lowest risk strategy.

3.2.5 In calculating the additional contributions to be made by the Company, during that period, the Trustee has taken into account the unfunded accrued past service liabilities and the investment strategy outlined below. The closure of the DB section to future accrual has not affected the level of additional contributions payable.

3.3 Investment Strategy

3.3.1 The investment strategy has been designed to provide a reasonable probability that the Funding Objective will be achieved.

3.3.2 The investment objectives aim to maintain stability in the level of additional contributions in preference to either:

- Seeking to reduce the timescales to full funding by taking extra investment risk, or
- Risking an increase in additional investment contributions by taking too little investment risk.

3.3.3 In addition, the aim would be that when full funding would be achieved, the investment strategy should be very low risk, retaining a small "growth portfolio" as a buffer to cover unexpected costs amongst other things.

3.3.4 The investment strategy therefore aims to take no more risk than is necessary to achieve the required level of investment return, and as part of this, return sources should be diversified where possible (see 3.4.6, below).

3.3.5 The investment strategy is predicated on the Trustee's belief that:

- Equities provide the most plentiful source of excess return in the long term
- Active investment management can enhance return, but this is not certain. As a result it pays to avoid active management in the most efficient equity and bond markets, diversify between managers with different styles and not allocate too great a proportion of the assets to one manager.
- Whilst correlation between equity markets is high, diversification of equity investments by geographical region is likely to reduce risk.

3.3.6 Details of the Plan's current asset allocation and investment strategy are given in the IPID.

3.4 Investment Risk

3.4.1 In deciding to take investment risk relative to the liabilities, the Trustee has carefully considered the following possible consequences:

- The assets might not achieve the excess return relative to the liabilities anticipated over the longer-term and consequently there may be a need for higher contributions than currently expected from the Company.
- The relative value of the assets and liabilities will be more volatile over the short-term than if investment risk had not been taken. This will increase the possible magnitude of any shortfall of assets relative to the liabilities in the event of discontinuance of the Plan. This consequence is particularly serious if it coincides with the Company being unable to make good the shortfall.
- This volatility in the relative value of assets and liabilities may also increase the short-term volatility of the Company's contribution rate set at successive actuarial valuations.

3.4.2 The Trustee has taken advice on these issues from the Investment Consultant and the Plan Actuary. It has also received independent advice in respect of the strength of the Company's covenant, and regularly holds related discussions with the Company.

3.4.3 In establishing the investment strategy, the Trustee has sought to manage the following risks where possible:

- Leverage which can expose the Plan, unnecessarily, to absolute loss.

- Investing in strategies which are not transparent, which could expose the Plan to risks of which the Trustee is unaware.

- Investing in illiquid assets. The Trustee has adopted a cautious approach here, since potential forced sales can be costly, and the Plan's need for liquidity may change unexpectedly.

- The use of derivative instruments may expose the Plan to counterparty and basis risk. Where possible, the Trustee has decided to invest in physical assets over derivatives.

3.4.4 Investment Risk & Company Covenant

- The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Company and the Company's willingness to contribute appropriately to the Plan. The financial strength and perceived commitment of the Company to the Plan is monitored on a six monthly basis and the Trustee will consider reducing investment risk relative to the liabilities should either of these deteriorate.

3.4.5 Investment Risk & Funding Position

- As a result of the desire to take no more investment risk than is required to achieve the level of investment return needed to achieve full funding, it follows that the degree of investment risk the Trustee is willing to take depends on the financial position of the Plan. The Trustee monitors the financial level of the Plan and its liability profile, with a view to altering the investment objective, risk tolerance and/or return target should there be a significant change in either.

3.4.6 Investment Risk – Diversification & Currency hedging

- There are many different combinations of assets and investment management approaches that could be adopted in targeting a particular level of investment risk and/or expected return. The Trustee's objective is to identify those combinations that it believes are likely to maximise the return (net of all costs) for the level of risk taken.

- The Trustee believes that diversification limits the impact of any single risk. The Trustee therefore seeks to diversify the Plan's investments by asset type and by region. However, the diversification of risk across multiple sources is constrained by the Trustee's ability to implement and effectively monitor the range of investments being considered.

- Through its currency overlay manager and the use of currency hedged pooled funds, the Trustee has implemented a currency hedging programme which is designed to eliminate a material proportion of the currency risk inherent in holding overseas assets.

3.4.7 Investment Risk – identified sources

- The asset categories set out below are among those that have been considered in setting the Plan's asset strategy. The Trustee has noted the risks that investing in these asset categories introduces relative to the liabilities. Deciding to invest in assets other than the matching assets is a source of strategic risk, of which the risks below are components:

    - UK Government bonds – although UK Government bonds are the lowest risk asset relative to the Plan's liabilities, they are not risk free. Interest rate risk exists if the cash flow profile of the UK Government bonds held differs from that of the projected liabilities. Inflation risk exists if the assets and projected liabilities have different linkages to inflation.

    - Other bonds – in addition to interest rate risk and inflation risk, investing in certain bonds may introduce credit risk and currency risk. Credit risk reflects the possibility that the payments due under the bond might not be made by the borrower or that the capital is not repaid when the bond matures. Currency risk will arise through investment in non-Sterling bonds, given that the Plan's liabilities are denominated in Sterling, because changes in exchange rates will impact the value of the assets relative to the liabilities.

    - Swaps – arguably, implementing a swap overlay portfolio could provide the best solution to matching assets with liabilities. However, implementing a swap portfolio would introduce different risks, including counterparty risk, and a risk that the underlying assets would not generate sufficient returns in order to fulfil the swap obligation.

    - Counterparty risk is similar to credit risk and reflects the possibility that the swap dealer may not live up to its contractual obligations. Off exchange derivative transactions, like swaps, may also involve greater risk than exchange traded assets because there is no exchange market on which to close out an open position. Bid and offer prices will be established by dealers in these instruments and consequently it may be difficult to establish a fair price. As a result it may be difficult to liquidate or assess the value or risk exposure of an existing position.

    - Gilt repurchase agreements ("repos") – similar to swaps, gilt repos give rise to an element of counterparty risk. In addition, gilt repos introduce "roll risk", as the repo market does not generally trade for terms beyond one year, and contracts are most frequently three to six months in length. This means that regular "rolling" of positions is required in order to maintain the desired exposure. So although these short-dated contracts offer a large amount of flexibility, they do also create greater uncertainty in terms of maintaining the exposure created and the future costs of doing so.

- Equities – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments contracted under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities is captured in the form of the equity mismatch risk. The equity mismatch risk may be broken down into the credit risk of the underlying company, and the volatility risk associated with the stability of the price of the equity, as well as currency risk for equities denominated in currencies other than Sterling, among other risks.

- Property – the return generated by an investment in property can be broken down into income and capital. The income component is subject to interest rate risk and inflation risk relative to the liabilities. There is also uncertainty as to the long-term level of the income. The capital value of the property is determined by the buyer and seller of the property and is not certain. The risks and uncertainty, including currency risk in the case of properties outside the UK, are captured within property mismatch risk. In addition, property is generally less liquid than traditional assets such as equities and bonds, and may be difficult to sell in times of market stress. Property is a relatively heterogeneous asset category, with sub-categories potentially exhibiting very different behavioural characteristics and attaching risk exposures.

- Infrastructure and Real Estate Debt – investment in these private debt funds involve an investment in a portfolio of loans made to fund infrastructure and commercial real estate projects respectively, across the UK and globally. Investments are made via commitments over a period of one to two year, known as the investment period. Income is then received from the underlying loans over the term of the investment; usually 5-7 years for real estate debt and 15-20 years for infrastructure debt. As with other bond investments, interest rate and inflation risk may arise depending on the nature of the underlying loans. Currency risk may arise through any loans which are not Sterling denominated. Credit risk is also present should any default occur on the underlying loans. In addition, as these loans are made over a long term, liquidity risk also arises. However, the yield available on these loans is usually higher than that on conventional bonds to compensate for this.

- Secured Finance – a form of private lending that seeks to allocate to various debt instruments, including (but not limited to) mortgage backed securities and collateralised loan obligations, on a global basis. These particular debt instruments are secured against a tangible asset or collateral from the borrower that can be claimed by the lender in case of default. The asset class looks to access illiquidity, complexity and scarcity premia, as well as structural inefficiencies across markets, to provide a yield pick-up versus conventional bonds. The underlying investments can be illiquid and may take a number of years to be fully deployed. Infrastructure and Real Estate Debt are also forms of Secured Finance.

- Currency – as outlined above, overseas asset investment introduces currency risk.

- Regulatory risk – this arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.

- Liquidity risk - this refers to the ease with which assets are marketable and realisable. This risk applies to all the asset categories listed above, albeit to varying degrees.

3.4.8 **Investment Risk - Securities Lending**

- The Trustee has carried out a thorough analysis of the risks involved in the Custodian's Securities Lending Programme. A number of the risks would be reduced as a result of indemnities provided by the lending agent for the Programme, and the Trustee recognises that careful analysis and management of the risks can lead to a successful programme, generating additional income for the Plan. However, the Trustee currently considers that the collateral management risks outweigh those benefits and has therefore decided not to participate in their Securities Lending Programme.

3.4.9 **Investment Risk – Active Management**

- The Trustee recognises that the use of active investment managers introduces a risk that they may underperform on a net of fee basis. However, the Trustee believes that in certain markets and asset classes, this risk is outweighed by the potential gains from successful active management. The risk is controlled by the use of a multiple manager structure, using managers with a balance of investment styles and by employing passive management for a proportion of the assets. In addition, the Trustee imposes certain restrictions on the investment managers which are outlined in the IPID.

3.4.10 The Trustee acknowledges that it is not possible to monitor all the risks listed above at all times. However, it seeks to take on those risks it expects to be rewarded for over time, in the form of excess returns, in a diversified manner. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objective, risk tolerance and return target.

4. Responsible Investment and Corporate Governance

4.1 The Trustee believes that environmental social and corporate governance ("ESG") issues can affect the performance of investment portfolios and should therefore be considered as part of the Plan's investment process.

4.2 The Trustee has given their investment managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations relating to the Plan's investments.

4.3 It is accepted that pooled investments will be governed by the individual policies of the investment managers. These polices are reviewed as part of the consideration of pooled investments.

4.4 The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Plan's beneficiaries and aligned with fiduciary duty.

4.5 The Trustee is supportive of the UK Stewardship Code published by the Financial Reporting Council in July 2010 and encourages the Plan's equity managers who are registered with the FCA to comply with the UK Stewardship Code. Such managers are expected to report on their adherence to the UK Stewardship Code on an annual basis.

5. Myners Principles

5.1 The Government issued a Code of Best Practice ("the Code") in October 2001 following publication of the Myners Review. This was subsequently updated in 2008 for defined benefit schemes.

5.2 The policy of the Trustee is to ensure that as far as is practical, it adheres to the spirit of the Principles and undertakes a periodic assessment of its compliance with the Code.

6. Cash Requirements

6.1 In aggregate, the Plan has a negative cash flow, after taking into account investment income. As a result, it is necessary to withdraw funds from investment managers from time to time in order to fulfil cash requirements. The selection of managers for funds withdrawal will take into account the agreed asset allocation and transaction costs, and will be ratified by the CIF Board.

7. Day-to-day Management of the Assets

7.1 The Trustee participates, for the investment of the Plan's assets, in a common investment fund (the Mitchells & Butlers Common Investment Fund ("the CIF")) with the Mitchells & Butlers Executive Pension Plan. The terms of reference of the CIF Board are set out in the IPID.

7.2 The present investment management structure is a combination of active, buy-and-maintain, buy-and-hold, and passive management of assets which comprise the strategic benchmark.

7.3 The Trustee agrees that the amount of the Plan's assets to be managed under active, passive, buy-and-hold and buy-and-maintain mandates will vary between each major asset class. The CIF Board will review the proportions on a regular basis or whenever circumstances warrant and may adjust the proportions following such review.

7.4 The CIF Board has agreed a set of investment guidelines for each of the investment, which are incorporated in the Investment Management Agreements. An outline of these guidelines is included in the IPID.

8. Additional Voluntary Contributions (AVCs)

8.1 Existing Additional Voluntary Contribution assets for former DB section members are invested with the Prudential Assurance Company in either a With Profits or Cash Fund, or in the range of funds available to DC section members through investment manager(s), in accordance with the member's choice. No further AVC investments may be made by employees into DB section AVC funds.

9. Monitoring

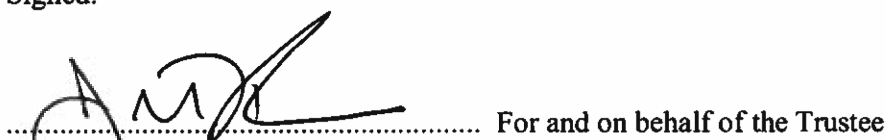
9.1 The Trustee will monitor compliance with this Statement at least annually. In particular, it will obtain written confirmation from each manager that it has complied with the relevant parts of the investment regulations and that they have complied with this Statement so far as is reasonably practicable.

9.2 The CIF Board meets the investment managers regularly to review the investment managers' actions together with the reasons for and background behind investment performance.

9.3 The CIF Board also retains the assistance of its Investment Consultant to provide further help with reviewing and monitoring all of the CIF's investment managers, recommending new/replacement managers after consultation with the CIF Board, meeting with the CIF Board each quarter and the Trustee on an annual basis, and preparing quarterly and annual reports for the Trustee and the CIF Board.

THIS STATEMENT OF INVESTMENT PRINCIPLES SUPERSEDES THE PREVIOUS STATEMENT

Signed:



.... For and on behalf of the Trustee

.... For and on behalf of the Trustee

March 2019