

Pizza Hut (UK) Investment Plan (the "Plan")

Statement of Investment Principles – June 2025

1. Introduction

The Trustee of the Pizza Hut (UK) Investment Plan (the "Plan") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The Statement is intended to affirm the investment principles that govern decisions about the Plan's investments. The Trustee's investment responsibilities are governed by the Plan's Trust Deed and Rules, of which this Statement takes full regard. A separate document (the Summary of Investment Arrangements) detailing the specifics of the Plan's investment arrangements is available upon request.

This Statement replaces the previous statement dated January 2024.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with Yum! III (UK) Limited (the "Sponsor") to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Plan's investment arrangements and, in particular on the Trustee's objectives.

2. Process For Choosing Investments

The Trustee has appointed Mercer to act as discretionary investment manager, by way of Mercer's Dynamic De-risking Solution, to implement the Trustee's strategy whereby the level of investment risk reduces as the Plan's funding level improves. In this capacity, and subject to agreed restrictions, the Plan's assets are invested in multi-client collective investment schemes ("Mercer Funds") managed by a management company (Mercer Global Investments Management Limited ("MGIM")). MGIM has appointed Mercer Global Investments Europe Limited ("MGIE") as investment manager of the Mercer Funds. In practice, MGIE delegates the discretionary investment management for the Mercer Funds to sub-investment managers based in countries such as Ireland, UK and USA and those sub-investment managers will manage either a sub-fund or certain segments of a sub-fund. Mercer has expertise in identifying, selecting and combining highly rated fund managers who are best placed and resourced to manage the Plan's assets on a day to day basis.

In considering appropriate investments for the Plan, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee understands that taking some investment risk, with the support of the Sponsor, is necessary to improve the Plan's current and ongoing solvency funding positions. The Trustee recognises that equity (and other growth asset) investment will bring increased volatility to the funding level, but in the expectation of improvements in the Plan's funding level through equity (and other growth asset) outperformance of the liabilities over the long term.

The Trustee's primary objective is to act in the best interest of its members and ensure that the obligations to the beneficiaries of the Plan can be met. In meeting this objective the Trustee's further objectives are to:

- By means of an agreed combination of investment return and funding budget from the Sponsor, move the Plan to a position of being 105% funded on a de-risked funding basis (gilts +0.0% p.a.), with an objective of achieving this by 2025 to 2030. The target funding level of 105% is set as a very broad proxy for potential buy-out prices, noting that the Trustee does not expect 105% to be a perfect match.
- In doing so, to opportunistically reduce the degree of risk in the Plan's investment arrangements, thereby helping to protect the Plan's improving funding position.

The Trustee recognises this ultimately means investing in a portfolio of bonds but believe that at the current time some investment in equities and other growth assets ("Growth Portfolio") is justified to target enhanced return expectations and thereby target funding level improvements. The Trustee recognises that this introduces investment risk and these risks are discussed below.

The Trustee has agreed that the Plan should move progressively towards a target of an entirely bond-based investment strategy ("Matching Portfolio") as its funding level increases. The Trustee will monitor progress against this target.

The objectives set out above and the risks and other factors referenced in Section 4 of this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations are discussed in section 9.

4. Risk Management and Measurement

There are various risks to which any pension Plan is exposed. The Trustee's policy on risk management over the Plan's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Plan's assets and its liabilities and the Sponsor's ability to support this mismatch risk.
- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Plan's accruing liabilities as well as producing more volatility in the Plan's funding position.
- To control the risk outlined above, the Trustee, having taken advice, set the split between the Plan's Growth and Matching Portfolios such that the expected return on the overall portfolio is expected to be sufficient to meet the objectives outlined in section 3. As the funding level improves, investments will be switched from the Growth Portfolio into the Matching Portfolio with the aim of reducing investment risk.
- Whilst moving towards the target funding level, the Trustee recognises that even if the Plan's assets are invested in the Matching Portfolio there may still be a mismatch between the interest-rate and inflation sensitivity of the Plan's assets and the Plan's liabilities due to the mismatch in duration between assets in the Matching Portfolio and actuarial liabilities.
- The Trustee invests in leveraged LDI funds to maintain the liability hedging without impacting on expected return but recognise that the use of leveraged LDI brings with it additional liquidity risks and requirements which can change over short periods of time with interest rate changes. The Trustee and Mercer review the matching portfolio as part of the regular reporting and strategy reviews, including consideration of the market stress buffer and governance.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has delegated the asset allocation decisions within the Growth and Matching Portfolios to Mercer (subject to certain restrictions). Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification within the Trustee's portfolio.
- To help the Trustee ensure the continuing suitability of the current investments, Mercer provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds to enable the monitoring of differences between the expected and experienced levels of risk and return.
- There is a risk that the day-to-day management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes it believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk and when investing in certain asset classes where, due to relatively efficient markets, the scope for achieving added value is more limited.
- To help diversify manager-specific risk, within the context of each of the Growth and Matching Portfolios, the Trustee expects that the Plan's assets are managed by appropriate underlying asset managers.
- By investing in the Mercer Funds, the Trustee does not make investments in securities that are not traded on regulated markets. However, should the Plan's assets be invested in such securities, in recognition of the associated risks (in particular liquidity and counterparty exposure), such investments would normally only be made with the purpose of reducing the Plan's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event, the Trustee would ensure that the assets of the Plan are predominantly invested on regulated markets.
- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Plan's liquidity requirements and time horizon when setting the investment strategy and liquidity risk is managed by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy. Given the potential for a bulk annuity to be purchased in the short to medium-term, the Trustee took the decision in December 2023 to divest from their direct property and less liquid hedge fund allocations, transferring the proceeds to liquid proxies, in order to increase the liquidity of the Plan's assets.
- The Plan is subject to currency risk because some of the investment vehicles in which the Plan invests are denominated or priced in a foreign currency. Within the context of the Mercer Funds used in the Growth and Matching Portfolios, to limit currency risk, a target non-sterling currency exposure is set and the level of non-sterling exposure is managed using currency hedging derivatives such as forwards and swaps.
- The Trustee recognises that environmental, social and corporate governance concerns, including climate change, have a financially material impact on return. Section 9 sets out how these risks are managed.
- Should there be a material change in the Plan's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current de-risking strategy remains appropriate.

5. Investment Strategy

The Trustee, with advice from the Plan's investment consultant and Plan Actuary, has carried out reviews of the Plan's investment strategy, first in 2010, then typically annually with the most recent being in 2025. These reviews considered the Trustee's investment objectives, their ability and willingness to take risk (the "risk budget") and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the first of these reviews in 2010, the key decision was to seek a long-term solution to "de-risk" the Plan's assets relative to its liabilities over time using a dynamic trigger-based de-risking framework. The Trustee decided to engage Mercer to implement their de-risking strategy by way of its Dynamic De-risking Solution. The approach undertaken related to the asset allocation to the Plan's funding level (on an actuarial basis using a single discount rate of 0.0% p.a. in excess of the appropriate gilt yields i.e. "gilts + 0.0% basis").

Following progression of the Plan's funding level and having significantly de-risked the Plan's investment strategy the Trustee decided at the review in December 2023, to cease the dynamic trigger-based de-risking framework and hold a fixed allocation to growth assets. This allocation was set with consideration of the Trustee's short to medium term objective of securing a buy-out of the Plan's liabilities with an insurance company and their risk budget.

After the investment strategy review in March 2025, the Trustee decided to revise the target timeframe of achieving the proxy buyout target, by bringing it forward five years (i.e. from 2030-2035 to 2025-2030), reflecting the Plan's funding position and expected progression.

The investment strategy mandates the following practices:

- To hold sufficient growth assets to target a funding of 105% on a gilts +0.0% basis, as a proxy for the cost of buy-out prices, by 2025 to 2030;
- To manage investment risk by:
 - Maintaining a minimum level of growth assets that is still expected, with a reasonable degree of certainty, to meet the funding level target with the target timeframes;
 - Reducing un-hedged liability exposures to the extent practicable;
- To monitor the progress in the funding level relative to the estimated buy-out cost in order to capture any risk transfer opportunity, should it arise.

The investment strategy takes account of the Plan's initial funding level on a gilts +0.0% basis and is based on a model of the progression of the Plan's funding level.

Responsibility for monitoring the Plan's asset allocation, and undertaking any rebalancing activity, is delegated to Mercer. Mercer reports quarterly to the Trustee on its rebalancing activities.

6. Realisation of Investments

The Trustee on behalf of the Plan hold shares in the Mercer Funds. In its capacity as investment manager to the Mercer Funds, MGIE, and the underlying sub-investment managers appointed by MGIE, within parameters stipulated in the relevant appointment documentation, have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments.

7. Cash flow and cash flow management

Cash flows, whether positive or negative, are taken into account by Mercer when it rebalances the Plan's assets in line with the Plan's strategic allocation. Mercer is responsible for raising cash flows to meet the Plan's requirements.

8. Rebalancing

As noted, responsibility for monitoring the Plan's asset allocation and any rebalancing activity is undertaken by Mercer. Mercer reviews the balance between the Growth and Matching Portfolios on an ongoing basis. If at any time the balance between the Growth and Matching Portfolios is deemed to be outside an agreed tolerance range, Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth Portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

Rebalancing takes place in accordance with the provisions of the discretionary investment management agreement entered into between the Trustee and Mercer, and unless specifically agreed, any assets outside of the Growth and Matching Portfolios will not be part of such rebalancing.

9. Environmental, Social, and Corporate Governance, Stewardship, and Climate Change

The Trustee and Mercer believe in integrating financially material sustainability transition and socio-economic risks into investment decision-making, which can potentially enhance portfolio resilience.

The Trustee has appointed Mercer to act as discretionary investment manager in respect of the Plan's assets and such assets are invested in a range of Mercer Funds managed by MGIE.

Mercer's Investment Philosophy uses a holistic approach, considering market-wide and systemic risks and incorporating sustainability considerations objectives, governance, rewarded risk and value maximization considerations. Mercer's full investment philosophy is also available here: [Investment philosophy](#).

The Trustee has reviewed Mercer's [Sustainability Policy](#), which sets out the key principles and guidelines used by Mercer to consider and respond to sustainability risks and opportunities in investment process decision-making.

Asset managers appointed to manage the Mercer Funds are expected to assess and reflect sustainability risks and opportunities in security or asset selection and portfolio construction including climate transition considerations, and this forms part of the selection process.

Mercer's approach to managing climate transition risks and opportunities is consistent with the framework recommended by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), seeking to incorporate the following key principles:

- *Portfolio resilience – Incorporating climate metrics in portfolio management including investment manager monitoring and strategic asset allocation modelling. Climate related risks and opportunities are taken into account in the Plan's strategic and dynamic asset allocation decisions.*
- *Effective stewardship – Engaging with appointed investment managers, via collaborative initiatives or directly with companies, to support decarbonisation and an orderly climate transition. Mercer's [Stewardship Policy](#) outlines the key principles and Mercer' approach to embedding effective stewardship in the investment process, including in manager selection, monitoring and reporting.*
- *Sustainability solutions– Including exposure to investment managers that identify longer-term environmental themes and who seek to invest in companies delivering solutions to environmental challenges. An allocation to Sustainable Equities is directly made by the Plan.*

Mercer's [Climate-Related Financial Disclosures Report](#) report highlights Mercer's approach in more detail. Disclosure consistent with the TCFD recommendations is also encouraged for appointed managers.

In order for the Trustees to oversee, assess and manage climate-related risks and opportunities for the Plan, Mercer provides reporting to the Trustee at least annually, on integration of sustainability considerations, stewardship monitoring results, relevant and available climate-related metrics and climate transition analysis.

Mercer screens and monitors listed portfolios for high-severity incidents as flagged according to the UN Global Compact ("UNGC") Principles that relate to human rights, labour, environment, and corruption issues, as identified by our appointed external research provider and will prioritise engagement with the managers owning those companies based on an internally developed framework.

Mercer may also elect to participate, as appropriate, in collaborative industry engagement initiatives related to engagement priorities, or other topics that are considered aligned with the best interests of the Plan.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer and MGIE make investment decisions with the aim of improving long-term risk adjusted returns and assesses whether selected sub-investment managers have policies and procedures that manage conflicts in relation to stewardship. Sub-investment managers are required to report on any conflicts of interest and demonstrate that they have adhered to their conflicts of interest policies and reported any breaches.

Member views

The views of members and other beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life, are not taken into account in the selection, retention and realisation of investments within the Plan. The Trustee will review their policy towards this on a periodic basis.

Investment Restrictions

In order to maintain a high level of liquidity the Trustee has restricted investment in direct property and certain illiquid hedge fund allocations. Beyond this the Trustee has not set any investment restrictions in relation to particular Mercer Funds.

10. Trustee's policies with respect to arrangements with, and evaluation of the performance and remuneration of, asset managers and portfolio turnover costs

When engaging Mercer as discretionary investment manager to implement the Trustee's investment strategy outlined in section 5, the Trustee are concerned that, as appropriate and to the extent applicable, Mercer is incentivised to align its strategy and decisions with the profile and duration of the liabilities of the Plan, in particular, long-term liabilities.

As Mercer manages the Plan's assets by way of investment in Mercer Funds, which are multi-client collective investment schemes, the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds but the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in section 5. The Trustee has taken steps to satisfy themselves that Mercer has the appropriate knowledge and experience to do so and keeps Mercer's performance under ongoing review.

Should Mercer fail to align its investment strategies and decisions with the Trustee's policies, it is open to the Trustee to disinvest some or all of the assets invested managed by Mercer, to seek to renegotiate commercial terms or to terminate Mercer's appointment.

To evaluate performance, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Plan's funding level and the Mercer Funds in which the Trustee is invested. Such reports have information covering fund performance for the previous three months, one-year, three years and since inception. The Trustee reviews the absolute performance and relative performance against a portfolio's and underlying investment manager's benchmark (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial and non-financial performance of Mercer and the Mercer Funds.

Neither Mercer or MGIE make investment decisions based on their assessment about the performance of an issuer of debt or equity. Instead, assessments of the medium to long-term financial and non-financial performance of an issuer are made by the underlying sub-investment managers appointed by MGIE to manage assets within the Mercer Funds. Those managers are in a position to engage directly with such issuers in order to improve their performance in the medium to long term. The Trustee is, however, able to consider Mercer's and MGIE's assessment of how each underlying sub-investment manager embeds ESG into their investment process and how the manager's responsible investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement.

Section 9 provides further details of the steps taken, and information available, to review the decisions made by managers, including voting history and the engagement activities of managers to identify decisions that appear out of line with a Mercer Fund's investment objectives or the objectives/policies of the Plan.

The asset managers are incentivised as they will be aware that their continued appointment by MGIE will be based on their success in meeting MGIE's expectations. If MGIE is dissatisfied then it will, where appropriate, seek to replace the manager.

The Trustee is a long-term investor and are not looking to change their investment arrangements on an unduly frequent basis. However, the Trustee does keep those arrangements under review, including the continued engagement of Mercer using, among other things, the reporting described above.

The Trustee monitors, and evaluates, the fees it pays for asset management services on an ongoing basis taking into account the progress made in achieving its investment strategy objectives as outlined in section 5. Mercer's, and MGIE's, fees are based on a percentage of the value of the Plan's assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition, the underlying sub-investment managers of the Mercer Funds also charge fees based on a percentage of the value of the assets under management. In some instances, some of the underlying managers may also be entitled to charge fees based on their performance.

MGIE reviews the fees payable to sub-investment managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Plan. Mercer's, MGIE's, and the sub-investment managers', fees are outlined in a quarterly investment strategy report prepared for the Trustee, excluding performance-related fees and other expenses involved in the Mercer Funds not directly related with the management fee.

Details of all costs and expenses are included in the Mercer Funds' Supplements, the Report & Accounts and within the Plan's annualized, MiFID II compliant Personalised Cost & Charges statement. The Plan's Personalised Cost & Charges statement also include details of the transaction costs associated with investment in the Mercer Funds.

The Trustee does not have an explicit targeted portfolio turnover range, given the de-risking mandate, but rebalancing ranges have been designed to avoid unnecessary transaction costs being incurred by unduly frequent rebalancing. Performance is reviewed net of portfolio turnover costs, with the review of portfolio turnover of the underlying investment managers undertaken by MGIE.

11. Additional Assets

Under the terms of the trust deed the Trustee is responsible for the investment of any Additional Voluntary Contributions paid by members. The Trustee reviews the investment performance of the chosen providers as appropriate and takes advice as to the providers' continued suitability.

12. Review of this Statement

The Trustee will review this Statement at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of pension plan investments.

Signed on behalf of the Trustee of the Pizza Hut (UK) Investment Plan

Signed: _____ Date: 3rd July 2025
Name: James Double