

McDonald's UK Retirement Benefits Scheme

Statement of Investment Principles

This document is the Statement of Investment Principles (the 'Statement') for the McDonald's UK Retirement Benefits Scheme (the 'Scheme').

Background information on this Statement

This Statement has been drawn up by the McDonald's Restaurants Pensions Trustee Limited (the 'Trustee'). It sets out the principles governing investment decisions made by the Trustee in relation to the Scheme.

This Statement should be read in conjunction with the related document entitled 'Investment Arrangements' which provides further detail on how the investment decisions are implemented. The Statement is also a legal requirement of the Pensions Acts 1995 and 2004, and the Occupational Pension Schemes (Investment) Regulations 2005 (collectively referred to as the 'Pensions Acts') as amended. For the avoidance of doubt the Investment Arrangements document does not legally comprise part of the Statement.

In preparing this document the Trustee has taken into account the requirements of the Pensions Acts. In addition this Statement is designed to fulfil the spirit of the pensions industry Code of Best Practice, published in 2001. The principles set out in this Statement are also consistent with the Trustee's Statement of Funding Principles.

Contents of this Statement

The Statement covers the following principles in relation to the Scheme:

1. Governance arrangements
2. Investment objectives
3. Risk management policies
4. General investment policies
5. Agreeing and reviewing this Statement

Investment Arrangements document

The following further pieces of information are covered in the Investment Arrangements document:

1. The types of investments and financial instruments that are used and the investment restrictions that apply in relation to the Scheme
2. The current advisers and investment managers

1. Governance arrangements

Overview of the arrangements

The Trustee has ultimate responsibility for the management of the investment arrangements of the Scheme's assets. In discharging these responsibilities, the Trustee has established clear Investment Objectives setting out what the Scheme is aiming to achieve. The Investment Objectives relate to the overall funding position of the Scheme and are explained in more detail in the next section of this Statement. The funding position is an assessment of the amount of assets which have been put aside to meet the liabilities of the Scheme.

The Trustee has considered a number of different governance models that could be adopted in order to best achieve its Investment Objectives and has decided to delegate the management of assets to Cardano Risk Management Limited ('Cardano').

Under this governance model the Trustee focuses on setting the high level Investment Objectives and on deciding what types of investments are acceptable for the Scheme. They then delegate day-to-day responsibility for all investment decisions to Cardano. The Trustee considers that Cardano is best placed to invest the assets on its behalf. The Trustee has agreed a performance target and a set of guidelines with Cardano.

Other parties involved

There are a number of parties involved in the Scheme's investment arrangements, namely:

- Trustee
- Scheme Actuary
- Investment Managers
- Providers of direct investments

Responsibility and knowledge

The Trustee has ultimate responsibility for the management of the Scheme and its assets. The Trustee has agreed the overall Investment Objective, permissible assets/investment strategies/derivatives and guidelines for the Scheme's assets. The Trustee has delegated the management of the assets to Cardano. Cardano works within the framework set by the Trustee.

The Trustee confirms that all parties to whom it delegates responsibility have the appropriate knowledge and experience required to take on this role. The Trustee expects each party to carry out the duties delegated with a view to giving effect to the principles in this Statement, so far as is reasonably practical.

2. Investment objectives

The Trustee's primary objective for the Scheme is to provide sufficient assets to pay benefits as they fall due. In order to target this, the Trustee has set an objective for the Scheme's investments, collectively known as the 'Investment Objectives'.

The Investment Objectives are quantifiable statements comprising a return objective and a risk statement.

- The **return objective** states the level of return on the assets relative to the liabilities that the Trustee is targeting for the Scheme
- The **risk statement** defines the level of active risk within which the Trustee expects Cardano to manage the Scheme's investments. Active risk is the risk that the Scheme's investments do not perform in line with the liabilities

Return Objective

The Trustee aims to achieve a return on the Scheme's assets of 2.5% p.a. in excess of the return on the Liability Benchmark. The Liability Benchmark is the portfolio of gilts that best matches the liability profile of the Scheme

Risk Statement

The Trustee expects that the tracking error relative to the Liability Benchmark Return shall not exceed 8%. If the tracking error relative to the Liability Benchmark Return exceeds 10%, Cardano shall notify the Trustee in writing

The "Liability Benchmark" is defined as the liabilities scaled by the funding ratio.

The liabilities are calculated as the net present value of the Plan's projected pension cashflows, using rates implied by the gilt markets.

Process for setting the Investment Objectives

The Return Objectives and Risk Statements have been set by the Trustee on the basis of an assessment of the Scheme's current position and consideration of future uncertain events. This involved looking at the Trustee's overall objectives, the Statement of Funding Principles and the Scheme's financial position (including the strength of the sponsoring employer's covenant). In addition to qualitative assessments the Trustee also used asset-liability modelling techniques. As part of this exercise a number of assumptions were made in relation to the level and timing of future contributions.

3. Risk management policies

The Trustee recognises a number of risks are involved in the investment of the Scheme's assets. It is the Trustee's policy to regularly monitor the risks affecting these investments and to manage them where possible so as to avoid the accumulation of excessive risk exposure. In managing these risks the Trustee has regard to the Investment Objectives. The Trustee will work with Cardano to promptly identify any material risks, to consider how best they should be managed, to implement a solution for managing these risks and then to decide how they should be monitored in the future. The Trustee will review its risk management policy on a regular basis.

Key risk affecting the Scheme

The key risk to the Scheme is that the value of its assets is inadequate relative to the value of its liabilities. Ultimately, this could lead to there being insufficient assets to secure all benefits. This is called solvency risk.

The Trustee acknowledges that there are a number of individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustee considers the majority of these risks in a qualitative rather than quantitative manner. Cardano helps manage these risks and also assists by providing risk analysis using quantitative modelling techniques.

Other risk factors

There are a number of other risks affecting the Scheme. Further information on these main risk factors is given in Appendix B, along with a summary of the Trustee's policy on how each risk should be managed and measured.

4. General investment policies

The Trustee has set a number of investment policies in relation to the investments of the Scheme. These cover:

- Types of investments considered
- Balance between investment types
- Expected return on investments
- Realisation of investments
- Use of derivatives
- Socially responsible investment & corporate governance
- Ensuring compliance with the Pensions Acts
- Fee basis for service providers

Types of investments considered

The Trustee seeks to achieve the Scheme's Investment Objective by investing in a suitably diversified mix of assets including (but not limited to) the following investment strategies and investment types:

- Equity
- Credit
- Property
- Macro orientated
- Multi-asset
- Sub-funds
- Cash
- High quality bonds
- Derivatives

Discretion has been provided to Cardano to manage the investments within sub-funds of the Cardano Common Contractual Fund.

Balance between investment types

It is the Trustee's policy to set appropriate guidelines for Cardano, which control the balance between the investment types and reflects its Investment Objectives.

In setting these guidelines the Trustee has considered the characteristics of each of the investment types and has received training and advice from Cardano. The Trustee has also considered the need for flexibility and also overall control of risk. Cardano has been given discretion to manage the balance between the investment types within the guidelines set by the Trustee. Cardano considers the risk and return characteristics of each of the investment types when allocating assets between them. The Trustee will review the balance between the investment types and guidelines from time to time.

The current guidelines are set out in the Investment Arrangements document.

Expected return on investments

The Trustee's policy in relation to expected return on investments is to invest the assets which it believes will, over an appropriate time horizon and having a regard to the need to manage risk appropriately, achieve the Return Objectives. When setting the investment guidelines, the Trustee has considered the expected return, and associated risk for each investment type.

The Trustee monitors the return on the different investment types on a regular basis using reporting provided by Cardano. In the case of severe underperformance the Trustee expects Cardano to review the investments in light of the prevailing economic conditions.

Realisation of investments

As part of the ongoing management of the Scheme, it is necessary for the Trustee to realise investments from time to time. It is the Trustee's policy to ensure that Cardano considers a number of core factors when considering the realisation of investments. These include:

- The potential future returns and risks of the investment
- The liquidity of the investment
- The ongoing appropriateness of the investment

The balance between the benefit payments and future contributions was considered when reviewing the need to realise investments. These considerations will be kept under review.

In light of these considerations, specific liquidity provisions have been included in the guidelines for Cardano. The Trustee has delegated decisions relating to the realisation of investments to Cardano within the agreed guidelines.

All realisations made by Cardano will be done in accordance with the terms and conditions contained in the agreement between Cardano and the Trustee. It is the Trustee's policy to review the approach taken by Cardano to realising investments from time to time.

Use of derivatives

As part of the overall consideration of Scheme's investments, the Trustee has agreed to use derivatives such as forwards, futures, swaps and options for risk management and for the efficient implementation of the investment strategy. The Trustee has delegated responsibility for the design and implementation of derivatives strategies to Cardano. The design and execution of derivative strategies will be subject to the guidelines contained in the agreement between Cardano and the Trustee. Cardano will use derivatives within the portfolios when it deems appropriate to do so in order to support the achievement of the Trustee's Investment Objectives within the agreed guidelines.

Financially material considerations over the appropriate time horizon of the investments

The Trustee has a long-term time horizon for its portfolio. and, as such, recognise that being a responsible investor should improve financial outcomes. The Trustee recognises that over the long term “financially material considerations” include environmental, social and governance considerations (including the potential impact of climate change) (‘ESG factors’) will have an impact on financial outcomes.

The Trustee delegates responsibility to take account of ESG factors in investment decision-making to Cardano. This includes investments made directly by the Cardano as well as those in pooled funds managed by third parties. In the latter case, Cardano is responsible for ensuring that the external investment managers appropriately incorporate ESG factors within their investment process. The Trustee monitors how Cardano incorporates ESG factors on a regular basis.

The extent to which non-financial matters are taken into account in the selection, retention and realisation of investments

The Trustee believes that by being a responsible investor, it is managing investment risk with the aim of enhancing long-term portfolio returns which is in the best interests of the members and beneficiaries of the Scheme. Beyond these requirements of responsible investing, the Trustee does not explicitly target any non-financial matters in the selection, retention and realisation of investments.

In particular, the Trustee does not seek out or obtain the views of the members and beneficiaries, including their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the scheme for the purposes of taking those views into account in its investment decision making. However, the Trustee and Cardano work closely to ensure that evolving issues which affect the value of the Scheme’s assets are taking into account.

The exercise of the rights (including voting rights) attaching to the investments

Responsibility for the exercising of rights (including voting rights) attaching to investments is delegated to the investment managers. The Trustee’s policy (which Cardano give effect to) is that the Scheme’s investment managers should be encouraged to discharge their responsibilities in respect of investee companies in accordance with the Stewardship Code published by the Financial Reporting Council.

Undertaking engagement activities in respect of the investments

The Trustee believes that effective engagement can add value to Scheme investments. Where relevant, the Trustee prefers its investment managers to have an explicit strategy (taking into account the Trustee’s ESG policies), outlining the circumstances in which they will engage with a company (or other relevant persons including an issuer of debt or stakeholder) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance matters) and how they will measure the effectiveness of this strategy.

Cardano is responsible for engaging with investment managers regarding those investment managers’ voting records and level of engagement with the underlying investments, where this is expected to have meaningful impact (and the Trustee monitors Cardano’s activity in this regard).

Arrangements with the Fiduciary Manager

The Trustee delegates various activities in relation to the Scheme's investments to Cardano as set out in this Statement. Cardano is responsible, in particular, for ensuring each underlying investment manager is aligned with the Trustee's policies as set out below.

The Trustee keeps Cardano's and the underlying investment managers' performance under review and encourages them to make decisions focused on medium to longer-term financial outcomes. The Trustee does not encourage investment managers to take into account non-financial performance as it is not the Trustee's policy for non-financial matters to be taken into account.

The Trustee receives regular reports from Cardano, including on portfolio turnover costs incurred by the underlying investment managers (i.e. as a result of the buying, selling, lending or borrowing of investments). The Trustee's review process includes specific consideration of how Cardano and the underlying investment managers' have implemented the responsible investing policies and engagement activities included in this Statement.

Although the Trustee's arrangement with Cardano and the underlying investment managers are expected by the Trustee to be long-term partnerships, appointments could be terminated within a shorter timeframe due to other factors such as a significant change in business structure of the investment team or where they fail to ensure alignment with the Trustee's policies as set out in this SIP. The Trustee believes that this approach incentivises investment managers to align their strategy and decisions with the Trustee's policies.

Cardano is paid using a combination of fixed, ad valorem and performance fees in line with normal market practice, for a given scope of services which includes consideration of whether the Trustee's policies have been followed (including long-term factors, responsible investment and engagement). The Trustees review the costs incurred in managing the Scheme's assets annually.

Arrangements with all Investment Managers

The Trustee believes that an understanding of, and engagement with, Investment Managers' arrangements (including the Fiduciary Manager) is required to ensure they are aligned with Trustee's policy, including their Responsible Investment policy. In accordance with latest regulation, it is the Trustee's policy to ensure that the following are understood and monitored by the Cardano:

- How investment manager arrangements incentivise investment managers to align their strategy and decisions with the Trustee's policies
- How investment manager arrangements incentivise investment managers to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term
- How the method (and time horizon) of the evaluation of investment managers' performance and their remuneration are in line with the Trustee's policies
- Portfolio turnover costs incurred by the investment managers, in the context of the investment manager's targeted portfolio turnover (defined as the frequency within which the assets are expected to be bought or sold)
- Duration of the arrangement with the investment manager

The responsibility for monitoring these aspects day to day has been delegated to Cardano. They are responsible for ensuring each underlying investment manager is aligned with the Trustee's policies at the time of appointment or explaining why this is not the case. They are also required to report back to the Trustee on any areas of potential divergence between Trustee's policy and investment manager practice on an ongoing basis, including their own.

Stewardship policies and voting records are reviewed (and discussed with the investment managers) at least annually by the Cardano, who will collate the qualitative and quantitative information required to allow the Trustee to review all of the above aspects in sufficient detail each year. The Trustee will challenge any arrangements or stewardship practices that do not align with their Responsible Investment approach.

Compliance with the Pensions Acts

The Pensions Acts distinguish between investments which are purchased directly by the Trustee ('direct investments') and investments where management is delegated to a investment manager under a written contract. An example of the former would be the purchase of an insurance policy by the Trustee (e.g. additional voluntary contributions policies), where there is no investment management agreement.

When deciding whether to make any new direct investments, the Trustee will obtain written advice from Cardano. They will also consider whether future decisions about those investments should be delegated to an investment manager.

The Trustee's policy is to review any direct investments held by the Scheme and to obtain written advice about them at regular intervals.

This written advice will cover the issues set out in the Pensions Acts and the principles contained in this Statement.

It is the Trustee's policy to regularly monitor and review the practices of Cardano (and, if applicable, any other investment manager appointed by the Trustees under the Pensions Acts) to ensure that the Trustee's powers of investment are being exercised in accordance with the Pensions Acts, and with a view to giving effect to the principles in this Statement as far as practicable. If the Trustee becomes aware that any manager is not carrying out its duties in accordance with the Pensions Acts or this Statement, it will promptly review this situation with Cardano.

Fee basis for service providers

The Trustee uses a range of fee arrangements which may include performance related fees, fees as a percentage of the assets managed and fixed fees. The Trustee delegates the consideration of suitable fee bases to Cardano. Cardano considers a range of factors, including the level of the fees offered and the alignment of interests that the fees give with the Trustee's objectives.

Additional Voluntary Contributions

The Scheme provides a facility for members to pay AVCs into the Scheme to enhance their benefits at retirement. Members are offered a range of funds in which to invest their AVC payments. The Trustee's objective is to provide a range of funds that will provide a suitable long term return for members, consistent with members' reasonable expectations.

In keeping with their policy for the main Scheme assets, the Trustee's policy is to seek to achieve the objective through investing in a suitable mixture of real and monetary assets.

5. Agreeing and reviewing this Statement

Advice received

The Trustee has obtained written advice on the content of this statement from Cardano. It will also take written advice on any future major changes to this Statement.

The Trustee is satisfied that Cardano has the knowledge and experience required by the Pensions Acts to perform this role.

Consultation

The Trustee has consulted the appropriate Principal Employer and sponsoring companies, on the content of this Statement and will consult with them on future changes.

Compliance and review

The Trustee will monitor compliance with this Statement regularly and in any event will review this Statement at least every three years and also following any significant change in investment policy.

APPENDIX A – Investment responsibilities of different parties

The division of investment responsibilities for the Scheme is set out below. This list is not meant to be exhaustive.

Trustee

The Trustee has ultimate responsibility for decision-making on investment matters. The Trustee's investment responsibilities include:

- Deciding on an appropriate governance structure for the management of the Scheme including the role of advisers and other third parties
- Setting appropriate Investment Objectives for the Scheme, following advice from Cardano and the Scheme Actuary
- Agreeing the range of investment types to be used to achieve the Investment Objectives, taking account of the need to manage risks
- Agreeing the policies for governing investment manager arrangements
- Monitoring the appropriateness of Cardano's services
- Monitoring the Scheme's compliance with the pensions industry's Code of Best Practice
- Reviewing the content of this Statement at least every three years and following any significant change in investment strategy
- Modifying this Statement, if deemed appropriate, in consultation with the appropriate Principal Employer and sponsoring companies and with written advice from Cardano
- Monitoring compliance with this Statement on an ongoing basis
- Identifying the training needs of its members and itself, on an annual basis
- Reviewing the AVC providers

Cardano

Cardano's role includes providing investment advice to the Trustee and the investment management of the assets. A summary of the duties that fall into each category are shown below:

Cardano – investment advice

- Advisory services in relation to the Scheme and its risk and return objectives (including asset/liability modelling)
- High level asset allocation recommendations
- Advice on the risk management overlay strategy
- Advice in respect to the Client's Statement of Investment Principles (as defined in section 35 of the Pensions Act 1995)
- Transition management advice
- General strategy advice

- Advice relating to potential conflicts of interest, including their own

Cardano – investment management

- Designing and implementing investment solutions appropriate to the Investment Objectives set by the Trustee
- Appointing and removing investment managers
- Investment manager mandate definition and negotiation
- Designing and executing derivative strategies for and on behalf of the Trustee
- Portfolio monitoring, including checking consistency of investment manager arrangements with Trustee policies
- Appointing transition managers for and on behalf of the Trustee
- Advice relating to potential conflicts of interest, including their own
- Ongoing management of the assets delegated to them within the terms of their agreement with the Trustee

Scheme Actuary

The key aspects of the Scheme Actuary's role in relation to the Scheme that have a bearing on investment decisions include:

- Liaising with Cardano on the suitability of the Scheme's Investment Objective given the liabilities of the Scheme
- Ensuring consistency between the Statement of Funding Principles and the Trustee's Investment Objectives and investment strategies
- Assessing the funding ratio of the Scheme by performing valuations and advising on the appropriate contribution levels
- Providing data to enable decisions about hedging liability risks to be taken and implemented
- Estimating the cashflows of the Scheme, to be used in the calculation of the value of liabilities
- Advice relating to potential conflicts of interest, including their own

Investment Managers

The investment managers' responsibilities include:

- Managing the assets delegated to them within the terms of their agreement
- Providing regular reports on their performance, including any agreed benchmark and performance targets
- Providing reports at least annually on portfolio turnover and costs, including their remuneration
- Instructing their custodian on corporate governance and voting issues, including issues relating to Socially Responsible Investment
- Where relevant, providing information at least annually on how they are incentivised to consider both financial and non-financial risks over the

medium to long term, including but not limited to detailing their engagement activities with investee companies

- Ensure that they are complying with the requirements applicable to them in this Statement. In particular, when investing the assets delegated to them they must be invested in the best interests of members and beneficiaries. Their powers of investments must be exercised so as to ensure the security, quality, liquidity and profitability of the portfolio as a whole

APPENDIX B – Further information on the additional risk factors

The table below provides some further detail on the major individual risk factors affecting the solvency risk. This includes a summary of what each of the risks are as well as the Trustee's policy on how each risk is measured and managed.

For all of these risks, the Trustee receives updates and advice from Cardano.

Risk factor	What is the risk?	How is this measured?	How is this managed?
Interest rate risk	The interest rate used to value the Scheme's liabilities falls. This would result in an increase in the value of the liabilities.	The Trustee monitors the mismatch between the exposure of the assets and the exposure of the liabilities of the Scheme to interest rates as part of the regular monitoring process.	The Trustee delegates the management of this risk to Cardano. Cardano manages this risk by investing in certain assets, and uses hedging techniques for and on behalf of the Trustee, which help to mitigate this risk.
Inflation risk	<p>Inflation is higher than expected, causing the value of a members' pensions to be greater than expected.</p> <p>This would lead to the value of the Scheme's liabilities being greater than expected.</p>	The Trustee regularly monitors the portfolios to assess the mismatch between the exposure of the assets and the exposure of the liabilities of the Scheme to inflation.	The Trustee delegates the management of this risk to Cardano. Cardano manages this risk by investing in certain assets, and uses hedging techniques for and on behalf of the Trustee, which help to mitigate this risk.
Demographic risk	The value of the Scheme's liabilities increases due to members living longer than expected.	The Trustee receives regular updates on changes in demographics from the Scheme Actuary.	<p>The Trustee acknowledges that readily-tradable instruments to hedge this type of risk do not currently exist and therefore this risk cannot be fully mitigated.</p> <p>The Trustee makes an allowance for this risk in setting the respective actuarial assumptions.</p>

Economic risk	<p>That economic and financial conditions cause the return on investments to be worse than expected.</p> <p>In this situation it may be hard to find investments that will achieve the investment return objective.</p>	The Trustee regularly monitors the portfolios in the context of the changing economic climate.	Cardano invests the Scheme's assets across a range of different types of investments to help reduce the impact of this risk.
Sponsor risk	<p>The Principal Employer and/or sponsoring companies do not/cannot make sufficient contributions to support the payment of the Scheme's benefits.</p> <p>This may lead to a greater reliance on investment returns to pay for the benefits.</p>	<p>The Trustee considers the ability and willingness of the Principal Employer and sponsoring companies to support the continuation of the Scheme and make good any current / future deficit.</p> <p>The Trustee also periodically reviews a number of key factors, including sponsor covenant, size of deficit, etc., relative to a number of metrics.</p>	Sponsor risk has been taken into account when agreeing suitable Investment Objectives. If there is a significant change in the sponsor's covenant, the Trustee will review its Investment Objectives.
ESG (including climate change) risk	The potential for non-financial factors to adversely impact the value of the assets or overall funding position	The Fiduciary Manager measures ESG risk based on the materiality of potential impact on each investment and distinguishes between high and low focus positions.	The Fiduciary Manager monitors the portfolio regularly to ensure ESG risks are being appropriately considered in ongoing investment decisions.
Concentration risk	<p>The failure to spread investment risk.</p> <p>This may be caused by investing in too narrow a range of investments, or investments that are</p>	The Trustee monitors the portfolios regularly to identify where assets are concentrated.	Cardano ensures the Scheme's assets are spread across a range of investments. The Trustee has set investment guidelines for Cardano to ensure

	affected by markets in a similar way.		assets are not concentrated.
Liquidity risk	There is a shortfall in liquid assets relative to the Scheme's immediate cashflow requirements.	The Trustee monitors the level of cashflow required on a regular basis.	The Trustee has set guidelines to limit the total value of assets invested in illiquid assets.
Investment manager risk	The investment managers fail to beat their investment benchmark.	Cardano monitors the actual deviation of returns relative to the manager's benchmark for and on behalf of the Trustees.	Cardano reviews the investment managers as part of their assessment process.
Risk in relation to Cardano	Cardano fails to meet its objectives.	The Trustee monitors the performance of the portfolios against the Scheme's Investment Objectives.	<p>The Trustee carried out an extensive selection process ahead of appointing Cardano.</p> <p>The Trustee ensures that Cardano is suitably qualified and experienced to perform its role.</p>
Operational risk	The risk of loss as a result of fraud, poor advice, acts of negligence or lack of suitable processes.	Cardano undertakes due diligence on investment managers and the custodian on behalf of the Trustee.	<p>The Trustee discusses Cardano's process as part of their overall review process.</p> <p>The Trustee ensures that all advisers and third party service providers are suitably qualified and experienced.</p>
Political risk	The risk of loss resulting from political intervention (e.g. changes in policy) or through political instability.	Cardano monitors the concentration of investments by countries/regions for and on behalf of the Trustees.	The Trustee has set guidelines within which Cardano can invest the Scheme's assets. These ensure assets are spread across a range of different types of investments.