

**DS SMITH GROUP PENSION SCHEME
ANNUAL REPORT
FOR THE YEAR ENDED 30 APRIL 2023**

Scheme Registration Number: 10092390

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Contents

	Page
Trustee, Principal Employer and Advisers	1-3
Chairman's Report	4-5
Trustee's Report	6-22
Statement of Trustee's Responsibilities	23
Independent Auditor's Report to the Trustee	24-26
Fund Account for the year ended 30 April 2023	27
Statement of Net Assets (available for benefits)	28
Notes to the Financial Statements	29-44
Independent Auditor's Statement about Contributions to the Trustee	45
Summary of Contributions	46
Actuarial Information	47-50
Appendix 1: Implementation Statement	51-65
Appendix 2: The Chairman's Statement regarding DC Governance	66-72
Appendix 3: Statement of Investment Principles	73-85

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Chairman's Report

Trustee

DS Smith Pension Trustees Limited

Employer-nominated Trustee Directors

Gary Saunders (Chairman) - Independent

AAA Trustee Limited (represented by Phil Holland) - Independent

Jeremy Aron

(resigned 16 June 2022)

Hugo Fisher

Nigel Hayter – Pensioner

(appointed 16 June 2022)

Member-nominated Trustee Directors

Lynn McCallum - Pensioner

Paul Doust - Pensioner

Secretary to the Trustee

Mercer Limited

Adam Clayton, FIA

Belvedere

12 Booth Street

Manchester

M2 4AW

Principal Employer

DS Smith Plc

1 Paddington Street

London

W2 1DL

Scheme Actuary

Neil Brougham, FIA

Mercer Limited

Belvedere

12 Booth Street

Manchester

M2 4AW

Independent Auditor

RSM UK Audit LLP

10th Floor

103 Colmore Row

Birmingham

West Midlands

B3 3AG

Defined Benefit (DB) Investment Managers

Mercer Global Investments Europe Limited (MGIE)

78 Sir John Rogerson's Quay

Dublin 2

Ireland

Mercer Private Investment Partners VI General Partner S.à r.l.

15 Boulevard F.W. Raiffeisen

L-2411 Luxembourg

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Chairman's Report

Sub Investment Managers:

Insight Investment Management (Global) Limited (Insight)
160 Queen Victoria Street
London
EC4V 4LA

Royal London Asset Management (RLAM)
55 Gracechurch Street
London
EC3V 0RL

Schroder Investment Management Limited
1 London Wall Place
London
EC2Y 5AU

DB Investment Custodian

State Street Custodial Services (Ireland) Limited
78 Sir John Rogersons Quay
Dublin 2
Ireland

Northern Trust International Fund Administration Services (Ireland) Ltd
Georges Court
54 - 62 Townsend Street
Dublin 2
Ireland

Alter Domus Alternative Asset Fund Administration S.à r.l.
15 Boulevard F.W. Raiffeisen
L-2411
Luxembourg

Investment Adviser

Mercer Limited (Mercer)
1 Tower Place
West London
EC3R 5BU

Annuity Providers

Legal & General
Canada Life Limited

Defined Contribution (DC) Manager

Utmost Life and Pensions (Utmost
Life) Walton Street
Aylesbury
Bucks
HP21 7QW

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Chairman's Report

Additional Voluntary Contribution (AVC) Providers

Scottish Friendly Assurance Society Ltd (Scottish Friendly)
Galbraith House
16 Blytheswood Square
Glasgow
G2 4HJ

Utmost Life and Pensions (Utmost Life)
Walton Street
Aylesbury
Bucks
HP21 7QW

Bank

Lloyds Bank plc
25 Gresham Street
London
EC2V 7HN

Legal Adviser

Mayer Brown International LLP
201 Bishopsgate
London
EC2M 3AF

Employer Covenant Adviser

PricewaterhouseCoopers LLP
7 More London
Riverside
London
SE1 2RT

Other Adviser

Barnett Waddingham LLP (Investment Oversight Adviser)
2 London Wall Place
London EC2Y 5AU

Scheme Administrator and contact for further information

Buck, a Gallagher Company*
PO Box 319
Mitcheldean
GL14 9BF
Scheme email address: DSSmith@buck.com
Telephone Scheme helpline: 0330 123 3658

*Buck is a trading name in the UK for Buck Consultants Limited (registered number 1615055), Buck Consultants (Administration & Investment) Limited (registered number 1034719), and Buck Consultants (Healthcare) Limited (registered number 172919), which are private limited liability companies registered in England and Wales. All have their registered office at 20 Wood Street, London EC2V 7AF. Buck Consultants (Administration & Investment) Limited and Buck Consultants (Healthcare) Limited are authorised and regulated by the Financial Conduct Authority.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Chairman's Report

I am pleased to present the Annual Report for the year ended 30 April 2023.

It has again been a busy year for the DS Smith Group Pension Scheme (the "Scheme") with the main focus being to refine and monitor the long term strategy for the Scheme, to improve the security of members' benefits.

30 April 2022 represented the latest actuarial valuation (funding check) for the Scheme and the Trustee worked closely with DS Smith Plc (the "Group") to review the strength of the Scheme's funding position and consider the level of ongoing support (see "actuarial valuation" below).

The Scheme faced challenges from a number of external sources, including the impact of rising interest rates and high inflation. The Trustee and the Group worked closely throughout this period to manage risk and maintain the Scheme's funding position (see "Impact of rising interest rates, high inflation and cost of living").

Scheme administrator update

The quality of administration services provided to the Scheme by Buck continues to be overseen and reviewed on at least a monthly basis by the Administration and Governance Committee. Buck have achieved strong Service Level Agreements ("SLAs") averaging over 95% over the period and have increased the support available to the Scheme to ensure this continues.

We hope that you have had a positive experience in any dealings you may have had with Buck, and we are always happy to receive feedback on the service provided.

Actuarial valuation

30 April 2022 is the date of our latest triennial actuarial valuation, where the Trustee review Scheme funding on a statutory basis before agreeing a strategy with the Group to provide sufficient security to members' benefits. The valuation has now been signed-off and this showed a positive improvement in Scheme funding and the Trustee agreed continued support from the Group in the form of additional contributions.

We regularly monitor Scheme funding and are pleased that the funding position has improved (in particular in relation to the size of the funding deficit i.e. the difference between assets and estimated liabilities), not only since the last valuation in 2019 but also over the year to 30 April 2023.

Additionally, as part of our discussions with the Group, we refined our Long-Term Funding Target, which is an agreed strategy with the Group that aims to achieve a higher funding target and provide members with additional security by 2035. We are well on track to achieving full funding on this higher funding target before 2035.

Impact of rising interest rates, high inflation and cost of living

Scheme members may recall, from press coverage at the time, the "gilt market crisis" of September and October 2022 in which Government Bond yields (interest rates) moved sharply higher in response to the Government's "mini Budget" announcement. This impacted what are known as Liability Driven Investment (LDI) portfolios that pension schemes typically and commonly use to manage their two biggest long term risks (interest rates and inflation). The Scheme was not adversely impacted by the crisis, though the Trustee did meet frequently over the period (including with the Group) and took preventative measures to reduce any potential impact.

These proactive measures included an advancement of contributions from the Group and a bridging loan of £100 million. The bridging loan was agreed to reduce the risk that the Scheme made a loss when having to sell assets in response to further market movements. The loan was not required and this was repaid to the Group in full on 31 October 2022. The Trustee is grateful for the support provided by the Group over this period and the work of its advisers to ensure the Scheme was not adversely impacted.

The Trustee appreciates this may be a concerning time for many members given the rising cost of living. In the context of the high levels of inflation experienced over the past year the Trustee considered whether to approach the Group with regards to granting any discretionary increases in April 2023 (in addition to the increases guaranteed under the Scheme Rules). In deciding whether to approach the Group about discretionary increases, the Trustee considered:

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Chairman's Report

- the impact on the security of benefits for all members of the Scheme and the Trustee's long term objectives,
- the funding position of the Scheme,
- past practice in respect of granting discretionary increases,
- the need for the Group to agree to grant a discretionary increase.

In light of all of the above, on balance the Trustee decided not to approach the Group with regards to granting any discretionary increases this year. However, given the persistent high inflationary environment, the Trustee is keeping this topic under review and will be considering this again ahead of the April 2024 increases.

Investment strategy

The year to 30 April 2023 continued in the footsteps of the prior year with turbulent markets and uncertainty in light of continued rising inflation, rapidly rising interest rates as a response to that inflation, and geopolitical concerns such as the conflict in Ukraine. Despite the volatility and uncertainty, however, the Scheme's funding level has remained resilient.

The Scheme continued to operate a de-risking trigger framework throughout most of the year, which is managed and monitored daily by Mercer. As part of the framework, when a specified Scheme funding level is reached, some of the higher risk growth assets are sold and switched to lower risk liability-matching assets. The aim of this is to capture the funding level gain and to reduce the risk in the Scheme's investment strategy. In this reporting year, the Scheme implemented a de-risking step in December 2022. At the same time, the de-risking trigger framework was temporarily suspended whilst the 2022 actuarial valuation was finalised.

Following the crisis in September and October 2022, the Trustee has taken additional proactive steps to reduce the risk of negative impacts due to sharp movements in interest rates or inflation. The aim of these measures is to future-proof the strategy and build in extra resilience to mitigate the risk of crises in the future.

The Trustee continues to review the integration of Environmental, Social and Governance ("ESG") considerations within the Scheme's investments on a regular basis. In particular, the Scheme has published its first Taskforce for Climate Financial Disclosures ("TCFD") report which considers the risks and opportunities for the Scheme from climate change. This report can be found here:

<https://www.dssmith.com/contentassets/a08edd37be584cfa8d9675fb20cbc3ac/ds-smith-group-pension-scheme-tcdf-report-30-april-2023.pdf>

Final thoughts

The funding position of the Scheme continues to improve and the Group and Trustee will work closely to continue to improve this security and reduce risk, with the ultimate aim to ensure members' benefits are paid accurately and on time.

The Trustee continues to review its governance to ensure strong controls are in place for the Scheme. This will be reviewed in further detail to reflect any legislative changes from the Pensions Regulator, in particular its new General Code that is anticipated shortly.

As ever I would like to take this opportunity to thank the management and administration teams for their hard work in looking after the Scheme during the year.

Redacted

Gary Saunders
Chairman of the Board of DS Smith Pension Trustees Limited

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Introduction

The Trustee of the DS Smith Group Pension Scheme (the Scheme) is pleased to present its report together with the audited financial statements for the year ended 30 April 2023.

The Scheme is a defined benefit (DB) scheme with a small number of members invested in a defined contribution fund, previously disclosed within additional voluntary contributions (AVC's). The DB Section of the Scheme aims to provide pension and lump sum benefits at retirement and pension benefits for members' spouses and dependants. The Scheme has been closed to new employees joining DS Smith plc (the Group) since 1 May 2005 and to future service benefits since 30 April 2011.

Constitution

The Scheme is currently governed by a Deed of Variation and Consolidation dated 11 March 2022, as amended from time to time (the Trust Deed and Rules).

Amendments include:

- A Deed of Amendment dated 10 March 2022 agreeing a long-term funding target (LTFT) with the Principal Employer.
- A Deed of Amendment dated 14 October 2022 for a power to borrow between the Principal Employer and the Trustee in order to provide liquidity following recent market uncertainty should it be required.

Copies of the current Trust Deed and Rules of the Scheme and amending deeds are available for inspection, upon written request to the Trustee at the Scheme Administrator, Buck (address shown on page 3).

Management of the Scheme

Trustee

The Scheme is set up as a trust fund and is governed by trust law. Consequently, the Scheme's finances are completely separate from those of the Group. For the protection of members and their dependants, the Trustee has control of the Scheme's assets. The Trustee is responsible for ensuring that the Scheme is run in accordance with the Trust Deed and Rules and is legally bound to protect the interests of the members. Independent professional advisers are engaged to assist the Trustee in the monitoring of the Scheme. The amount of employer deficit contributions required to fund the benefits are set by the Trustee acting on the advice of the Scheme Actuary, together with agreement by the Group. Trustee meetings are held, as a minimum, on a quarterly basis.

Under the Pensions Act 2004 at least one third of the total number of Trustee Directors must be nominated and selected by the Scheme membership or an organisation which adequately represents them (although it is not a requirement for deferred pensioner members to be included in the process). The Trustee has made the necessary arrangements to fulfil its obligations under the Act and the current arrangements are as follows:

- a) There will be up to six Directors on the Board of the Trustee.
- b) Of these, two will be 'Member Nominated Directors' (MND's). They will be selected by a process of seeking nominations from the pensioner members of the Scheme and all deferred members who are employed by the Group ("Deferred Active Members"). A nomination must be supported by two other members eligible to participate in the nomination process.

If there are more nominations than vacancies, potential nominees will be required to complete a questionnaire explaining broadly why they wished to be a Trustee Director, and what they think they will bring to the Trustee Board.

- c) They will then all be interviewed and the appointments are determined in the light of those interviews. The interview panel will include some Scheme members.

If there are fewer nominees than vacancies, the Trustee will open the nomination and selection process again one year after the last date on which nominations could have been made for that vacancy.

MNDs will hold office for a period of five years. A MND who has completed his or her term of office will be eligible for re-nomination at the end of his or her term of office.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Management of the Scheme (continued)

- d) The other Directors (Employer Appointed Directors) may be appointed and removed by DS Smith Holdings Limited (the shareholder of the Trustee).
- e) Casual vacancies which arise, for example if a Trustee Director resigns or leaves, will be filled by appointments made by the Principal Employer (in the case of an Employer Appointed Director), or by running a nomination and selection procedure as described above for the remainder of the 5 year term of office (in the case of a MND) depending on who originally nominated the Trustee Director concerned.
- f) The Chairman of the Board of the Trustee is selected by DS Smith Holdings Limited. The current Chairman is Mr Gary Saunders (who is an Employer Appointed Director). In the event of an equality of votes, the Chairman shall have an additional casting vote. Apart from this, the functions of the Directors will not differ and no special rules are proposed for any decisions to be made by particular Directors.
- g) Regular training is provided for all Trustee Directors. Such training was being provided even before the Pension Act 2004 introduced the Trustee Knowledge and Understanding (TKU) requirements and training is tailored to the specific requirements of the Trustee Directors.
- h) All new Trustee Directors receive induction training from the Scheme Secretary, the Actuary and the Investment adviser. Additionally, they are provided access to Diligent where Scheme documentation is available to them.
- i) Trustee Directors are also required to complete the Regulator's Trustee Toolkit, which provides training for pension scheme trustees.

The names of the Trustee Board Directors who served during the year and at the date of approval of the Annual Report and Accounts are shown on page 1. During the year, Jeremy Aron has resigned, being replaced by Nigel Hayter.

The Trustee held four (2022: four) meetings during the year. The Trustee also held four (2022: four) joint meetings with the Group referred to as Investment & Funding Committee meetings.

Additionally, the Trustee has agreed a sub-committee structure as outlined in the terms of reference agreed in December 2020. These sub-committees have more regular meetings to help the Trustee manage and monitor various aspects of the Scheme management. The current sub-committee structures are as follows:

Administration and Governance

Members with voting powers: Mrs L McCallum (Chair) & Mr J Aron. During the year Mr N Hayter has replaced Mr J Aron.

Investment

Members with voting powers: Mr G Saunders (Chair), Mr H Fisher & Mr A Thompson (Group)**

**Investment responsibility and decisions ultimately lies with the Trustee.

Special Projects

Members with voting powers: Mr P Holland (Chair), Mr P Doust & Group representative as required for project*

*Group voting rights are agreed by the Trustee at the outset of the project.

GMPE Sub Committee

Established in Q2 2023. Members with voting powers: Mr P Doust (Chair), Mr P Holland, and includes representatives from Buck and Mercer.

Statement of Trustee's Responsibilities

The Statement of Trustee's Responsibilities is set out on page 23 and forms part of this Trustee's Report.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Trustee knowledge and understanding

The Pensions Act 2004 requires trustees to have sufficient knowledge and understanding of pensions and trust law and be conversant with scheme documentation. The Pensions Regulator has published a Code of Practice on Trustee Knowledge and Understanding to assist trustees on this matter which became effective from 6 April 2006 and which was revised and reissued in November 2009. The Trustee has agreed a training plan to enable it to meet these requirements.

Financial development

The financial statements on pages 27 to 44 have been prepared and audited in accordance with the Regulations made under Section 41 (1) and (6) of the Pensions Act 1995. They show that the value of the fund decreased from £1,057,669,000 at 30 April 2022 to £791,838,000 at 30 April 2023.

The decrease shown above comprised net withdrawals from dealings with members of £25,474,000 (2022: £27,162,000) together with net loss on investments of £240,357,000 (2022: loss on investments of £37,396,000).

Actuarial review

The latest formal actuarial valuation of the Scheme was carried out with an effective date of 30 April 2022. This was the sixth valuation carried out under the scheme specific funding requirements of the Pensions Act 2004. The main purpose of an actuarial valuation is to assess the financial adequacy of the Scheme in relation to benefits that have accrued to members. The purpose is also to assess an appropriate level of contribution by the Group to maintain the Scheme in a financially sound state.

The valuation was completed within the required timescale on 21 July 2023, at which time the Trustee ensured the following had been put in place:

- A statement of funding principles
- A schedule of contributions
- A recovery plan

The 30 April 2022 valuation was carried out in accordance with the standards as set out in the Pensions Regulator's Code of Practice in force from July 2014. Under the scheme funding regulations, the Trustee is required to adopt a prudent set of assumptions in valuing the Scheme's financial commitments (its liabilities).

The valuation of the Scheme as at 30 April 2022 showed the following:

	30 April 2022 Actuarial Valuation	30 April 2019 Actuarial Valuation
The Scheme's liabilities were valued at	£1,081 million	£1,190 million
The Scheme's assets* were valued at	£1,055 million	£1,037 million
This means that there was an estimated shortfall of	£26 million	£153 million
This gave a funding level of	98%	87%

*excluding AVC investments

From 30 April 2021 to 30 April 2022, the shortfall decreased from £103m to £26m and the funding level improved to 98%. The improvement in the funding position was largely owing to deficit contributions that are paid by the Group, membership experience since the last formal valuation in 2019 and revised assumptions used for valuing liabilities that were adopted as part of the 2022 valuation.

If the Group were to go out of business, or decided to stop contributing to the Scheme, the Scheme may be "wound up" and the Group could be required to pay additional money to buy all members' benefits with an insurance company.

The comparison of the Scheme's assets to the cost of buying the benefits with an insurance company is known as the "buy out position". A pension scheme's buy out position will often show a larger shortfall than the standard actuarial valuation, as insurers are obliged to take a very cautious view of the future and they also need to make a profit.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Actuarial review (continued)

The actuarial valuation at 30 April 2022 showed that the Scheme's assets would not have been enough to buy all members' benefits from an insurance company, as the "buy out position" at that date was:

The Scheme's liabilities assuming wind up were valued at	£1,331 million
The Scheme's assets were valued at	£1,055 million
This means that there was an estimated shortfall of	£276 million
This gave a wind up funding level of	79%

This does not mean that the Group is thinking of winding up the Scheme. The fact that there was a shortfall at the last valuation has not affected the pensions paid from the Scheme and all members who are receiving a pension have received the full amount of their pension.

It is worth remembering that a valuation is just a "snap shot" of the Scheme's funding position and it can change considerably if, for example, there are changes in share prices, gilt yields, or if expectations of how long members live change. The Trustee will continue to monitor the funding position and will provide annual updates to members.

Annuity policies

The Trustee holds insurance policies that secure pensions payable to specified beneficiaries. These policies remain assets of the Trustee, but, as the value of these policies is not material, under current regulations and accounting practice, the Trustee has decided that these policies need not be valued in the net assets statement.

Pension increases

The Consumer Price Index (CPI) increase for the year to September 2022 (which is the reference month for pensioner increases) was 10.1% (September 2021: 3.1%). As such, the Trustee approved a 5.0% (2022 increase: 3.1%) increase with effect from April 2023 for pre 1 May 2005 service and an increase of 2.5% (2022 increase: 2.5%) for post 30 April 2005 service, for the majority of members. Former Containers Scheme members received a nil increase on pre 1997 pension in excess of GMP. Pensioners with a guaranteed 5% increase received this increase on 1 April 2023. Deferred pensions were increased in accordance with legislation and the Trust Deed and Rules. These increases were not to any extent discretionary.

For the majority of members, the inflation measure on which pension increases are based is determined by the Trustee on taking actuarial advice. Currently the Trustee has determined to use the Consumer Price Index, subject to annual review. For pre 1997 leavers of the ex JDS pension scheme, the Group has discretion over what index is to be used. Currently, the Group has agreed to maintain use of the Consumer Price Index in line with other Scheme members, subject to annual review.

Calculation of transfer values

All transfer values paid from 1 October 2008 have been calculated in accordance with methods and assumptions determined by the Trustee, after the advice of the Scheme Actuary. Discretionary benefits were not included in calculating transfer values. No transfer values paid during the year were reduced below the full cash equivalent under the Pension Schemes Act 1993.

Ownership of DS Smith Pension Trustees Limited

DS Smith Pension Trustees Limited has issued share capital of two £1 shares, held by DS Smith Holdings Limited.

There were no transactions in the year between DS Smith Holdings Limited and DS Smith Pension Trustees Limited.

Schedule of Contributions

The Pensions Act 2004 requires the Trustee to prepare and maintain a Schedule of Contributions. The Schedule must show the amounts to be paid and the dates by which the contributions are to be paid. The 2022 valuation Schedule of Contributions is shown on pages 47 to 49. The Actuarial Certificate in relation to this Schedule of Contributions is shown on page 50.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Contributions

Since the Scheme closed to future service benefits with effect from 30 April 2011, no member contributions were payable to the Scheme. The Group has continued to meet the shortfall in the Scheme by paying deficit contributions. In the year ended 30 April 2023, the Group paid in £20.2m (2022: £19.8m) of deficit funding contributions agreed as part of the 2019 formal actuarial valuation of the Scheme. The amount of £20.2m was ratified in the formal valuation of the Scheme as at 30 April 2022 which was signed on 21 July 2023.

As part of the 2019 actuarial valuation the Trustee worked closely with the Group to agree a new Recovery Plan and Schedule of Contributions. This Recovery Plan agreed that the Group would remove the deficit at 30 April 2019 by paying annual contributions starting at £19.4m in the year ended 30 April 2021. These annual contributions increase by approximately 2% per annum, such that the final contribution is made by 30 September 2025.

A new Schedule of Contributions was agreed as part of the actuarial valuation carried out as at 30 April 2023, this was put in place on 21 July 2023. This set out that the following contributions would be paid:

To correct the shortfall as at 30 April 2022, the Group will pay contributions as follows:

Scheme Year	Amount £m
2022/23	20.2*

*For the avoidance of doubt, any payments made after 1 May 2022 for the purpose of addressing the shortfall in funding made under the Schedule of Contributions certified on 14 April 2020 shall count towards the payment of £20.2m due by 30 April 2023.

The group has also agreed to pay the following contributions above that required to meet the shortfall as at 30 April 2022:

Scheme Year	Amount £m
2023/24	20.6*
2024/25	21.0
2025/26 (in respect of May to September 2025)	8.9

The revised contributions were expected to be sufficient such that the Scheme's long term funding target will be met by 2035. These contributions may be switched off should the long term funding target be met before 30 September 2025.

The Group also meets the costs of running the Scheme, including the payment of the annual Pension Protection Fund Levy but excluding any manager related investment fees.

Communications to Members

The updated "Pension Focus" newsletter was issued to members in December 2022, this contained details of the Trustee's Annual Report as well as an update on the Scheme's funding position. The Trustee will continue to communicate with members on an annual basis.

Financial Advice

The Trustee is not authorised to give financial advice. The Financial Services & Markets Act 2000 states who is able to provide financial advice and any queries relating to specific arrangements should always be referred to a Financial Adviser authorised to give such advice. Should a member have any queries that do not require the giving of financial advice they should contact the Scheme Administrator, Buck (address shown on page 3).

Free and impartial help with money, backed by the Government is also available at:

<https://www.moneyhelper.org.uk/en>.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Employer Covenant

The Trustee receives regular trading and performance updates from the Group on its financial performance and is kept informed of any significant developments that may affect the employer covenant enjoyed by the Scheme. In addition, as part of the formal actuarial valuations, the Trustee receives independent employer covenant advice on the affordability of deficit contributions. This advice determined that the deficit contributions agreed as part of the 2022 valuation were reasonably affordable, taking into account the competing interests of the Scheme (and the Group's other stakeholders) and the Group's strategies.

The Trustee will continue to regularly review the outcome of the independent covenant monitoring and will maintain an active dialogue with the Principal Employer to ensure that appropriate actions are taken to safeguard the funding position of the Scheme.

Governance

The Pensions Regulator (tPR) is very keen to promote the good governance of pension schemes and the Trustee keeps its procedures and controls under review to help maintain the good governance of the Scheme. The key for the Scheme is to ensure that the correct benefits are paid to the correct beneficiaries at the correct time in accordance with the Trust Deed and Rules. To help ensure the smooth running and risk management of the Scheme, the Trustee has a number of processes in place, including internal control procedures and a risk register. Both the aforementioned documents continue to be maintained and reviewed regularly to ensure they remain up to date. The Trustee also carries out an annual effectiveness review to ensure that all Trustee Directors have the relevant skills, this is then analysed to determine appropriate training and support for the Board going forwards.

Complaints

If a member has a complaint it will be dealt with through the Internal Disputes Resolution Procedure and full details of the Internal Disputes Resolution Procedure are available on application to the Scheme Administrator, Buck. Alternatively, The Money and Pensions Service is available to assist members at any stage of a dispute. The Money and Pensions Service may be contacted at 120 Holborn, London EC1N 2TD. In the event of a complaint you should address your correspondence to the Pensions Administration Manager at the Scheme Administrator, Buck (address shown on page 3).

Nomination of Beneficiary / Dependant(s) Forms

The recipients of any lump sum death benefits is at the discretion of the Trustee. It is important for members to inform the Trustee of the person(s) to whom they would like their death benefits to be paid on their death. This can be done by completing a Nomination Form online via Buck's Pension Portal or alternatively sending this to the Scheme Administrator, Buck, by mail to the address shown on page 3.

If a member has not yet completed a form or a member's circumstances have changed, a new form can be obtained so that the member's wishes can be formally registered.

Anti Money Laundering

HM Revenue and Customs' anti money laundering regime requires certain service providers, including some paid Trustee Directors, to put systems in place that prevent money laundering and report any suspicious transactions to the National Crime Agency (formerly the Serious Organised Crime Agency). In July 2011, the Bribery Act also came into force. The Scheme's legal advisers have previously provided guidance to the Trustee on the regulatory requirements and the Trustee continues to comply with the anti money laundering and Bribery Act 2011 regulations.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Data Protection

For the purposes of administering the Scheme and paying benefits under it, the Trustee has a legal obligation under the Data Protection Act 2018 in processing data relating to members and people who may benefit as a result of their membership of the Scheme. This may include passing such data to the Scheme's employers, prospective employers, actuary, administrators, auditors, insurers, prospective insurers, legal adviser and medical advisers and any other such third parties as may be necessary for the operation of the Scheme. The Trustee is for those purposes a data controller under the Act.

A member is entitled to access their personal information under Section 7 of the Data Protection Act and this right is commonly referred to as subject access. It is most often used by individuals who want to see a copy of the information an organisation holds about them. However, the right of access goes further than this and an individual who makes a written request and pays a fee is entitled to be:

- Told whether any personal data is being processed;
- Given a description of the personal data, the reasons it is being processed and whether it will be given to any other organisations or people;
- Given a copy of the information comprising the data; and
- Given details of the source of the data (where this is available).

Following implementation of the General Data Protection Regulation (GDPR) on 25 May 2018, the Trustee continues to work with its professional advisers to ensure full compliance.

Conflict of Interest

The Conflict of Interest Policy details the Trustee Directors' responsibilities and a protocol for identifying any instance where their personal, business or other interests might come into conflict with their duties as Trustee Directors.

In addition, the Trustee receives a quarterly 'Reporting Register' detailing any declared Trustee Director related conflicts of interest plus any other general breaches (e.g. late contributions, unauthorised payments etc).

The Trustee has established policies to enable any Trustee Director, employee working within the Scheme, or adviser, to report any suspected fraudulent actions to the Board Chairman.

Membership

The membership movements of the Scheme for the year are given below:

	Pensioner and dependant members	Deferred pension members	Total
At 1 May 2022	6,376	3,919	10,295
Adjustments	(34)	(10)	(44)
Retirements	162	(162)	-
Deaths	(226)	(9)	(235)
Transfers out	-	(13)	(13)
Spouses and dependants	87	-	87
Pensions commuted for cash	(1)	(3)	(4)
Pensions ceasing	(10)	-	(10)
At 30 April 2023	6,354	3,722	10,076

Pensioners include 1,225 beneficiaries (2022: 1,206) receiving a pension.

Adjustments relate to movements notified to the Administrator after the completion of the previous year annual renewal. These membership figures do not include movements notified to the Administrator after the completion of the annual renewal.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Investment report

Introduction

The Trustee has delegated day-to-day management of the DS Smith Group Pension Scheme's ("the Scheme") assets (excluding AVCs and DC assets) to Mercer Limited ("Mercer"). The Scheme's assets are primarily Defined benefit (DB) assets which are invested in multi-client collective investment schemes ("Mercer Funds"). The Mercer Funds are domiciled in Ireland (for traditional asset classes) and in Luxembourg (for private markets assets). The Ireland-domiciled collective investment schemes are managed by a management company (Mercer Global Investments Management Limited ("MGIM")) and the Luxembourg-domiciled funds are managed by Mercer Alternatives (Luxembourg) S.à r.l. and, respectively, these entities have appointed Mercer Global Investments Europe Limited ("MGIE") and Mercer Alternatives AG ("Mercer AG") as investment managers of the Mercer Funds. MGIE and Mercer AG are responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Scheme subject to constraints Mercer have agreed with the managers.

The Scheme's DC assets are held in respect of Special Benefit Account members and are accessed via an insurance policy issued to the Trustee by Utmost Life and Pensions. This arrangement provides the Trustee with access to a range of unitised pooled investment vehicles. The investment managers selected by Utmost are responsible for the day-to-day management of the Scheme's assets in accordance with the guidelines of the pooled funds. The Scheme also holds a policy of insurance with Scottish Friendly Assurance Society that offered a facility for members of the Scheme to pay additional voluntary contributions where benefits are held on a DC basis through investment in unitised pooled funds. The Scottish Friendly arrangement is administered by Aegon with investments being held on Mobius Life's investment platform.

The Trustee is accountable for the investment of the Scheme's assets. This includes setting investment objectives, establishing risk and return targets and setting the Scheme's strategic benchmark. However, the Trustee may delegate some aspects of the Scheme's investment arrangements to the Investment and Funding Committee (the "IFC") and Investment Sub-Committee (the "ISC") in order to manage the Scheme's affairs effectively. The Terms of Reference ("ToR") sets out the tasks which can be delegated to the IFC. Any decisions are ultimately the responsibility of the Trustee and therefore any proposed changes are discussed and where appropriate ratified at the Trustee meetings as well.

The Trustee sets the strategic investment strategy for the DB assets (i.e. split between Equity, Opportunistic, Income Focused, Liquid Credit and Liability Driven Investment portfolios) based on the level of investment risk and return it wishes to target. It has then delegated the implementation of this investment strategy to Mercer, in line with agreed guidelines and parameters. De-risking triggers are in place to indicate when it is affordable to de-risk, however these have been suspended since December 2022, and will resume after the actuarial valuation and investment strategy review have been completed. The implementation of the investment strategy takes place where possible, within the Mercer Investment Fund 3 CCF with some less liquid investments held as standalone investments in other Mercer Funds.

The Trustee has obtained and considered the written advice of Mercer on the investment strategy, 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). The Trustee has also appointed an external investment consultant, Barnett Waddingham, to provide ongoing oversight and advice around Mercer's role as Fiduciary Manager of the DB assets.

Investment Principles

The Trustee has produced a Statement of Investment Principles (the "SIP") to comply with the requirements of the Pensions Act 1995 and associated legislation including the Occupational Pension Schemes (Investment) Regulations 2005 (as amended). The SIP is available on request and is also publicly available online here: <https://www.dssmith.com/contentassets/a08edd37be584cfa8d9675fb20cbc3ac/sip-september-2022final.pdf>. There is an Investment Policy Implementation Document (IPID), which accompanies the SIP. This contains information relating to the day to day management of the investments.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

DB Investment Strategy

The following criteria have been applied in determining the DB investment strategy. The security of the accrued rights of members of the Scheme on both a continuing and termination basis is important. No strategy will be employed without first investigating its expected impact on the security of accrued pension benefits for Scheme members.

The investment strategy undertaken or principles applied should have regard to the following objectives:

- The need to protect the security of members' accrued rights.
- The desire to control the costs of benefits by preserving the Scheme's wealth.
- A desire to limit volatility in the contribution rate as a result of any failure of the investment strategy.
- Notwithstanding the above, a preparedness to take on risk in a controlled fashion in order to achieve incremental excess return, coupled with the desire to provide, if considered appropriate and prudent to do so at the time, pension increases above the guaranteed rates, if annual inflation exceeds some or all of those guaranteed rates.

Now that the Scheme is closed, in order to meet these objectives, the Trustee has established a long-term de-risking framework which aims to be fully funded on the Long Term Funding Target (LTFT) basis by 2035.

The Scheme has a dynamic trigger based de-risking framework which is used to guide when to reduce risk. The framework is used to monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise. Responsibility for monitoring the Scheme's asset allocation and undertaking any de-risking activity is delegated to Mercer. Further details on the framework is set out in the IPID. In late 2022 the triggers were temporarily suspended pending finalisation of the 2022 actuarial valuation, and a review of the level of future contributions and investment strategy review.

DC Investment Strategy

The Trustee's primary objective is to act in the best interest of its members and ensure that the members have a suitable range of funds available for investment. The investment profile of the funds available should be consistent with the needs of the members and are reviewed on a regular basis. The range of investment options available to members includes access to Utmost Life's Invest by Age strategy which is a lifestyle investment strategy that aims to help members grow their savings while they are younger by investing mainly in equities before gradually moving into more conservative investments such as government bonds and cash, with the aim of protecting members from significant falls in the value of their savings.

The Chairman's Statement regarding DC Governance included later in this report includes more details on the range of investment options available to members and the default investment strategy.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Environmental, Social and Corporate Governance, Stewardship and Climate Change

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's DB assets and these assets are invested in Mercer Funds managed by MGIE and Mercer AG. Within these funds, Mercer has provided all of the third party investment managers a copy of Mercer's Sustainable Investment Policy. Mercer also aims to invest in managers who take a more active approach to considering ESG in their investment decision making. The managers have been given discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. However, Mercer expects all managers to vote and Mercer monitors the manager's commitment to voting and incorporating ESG factors into their decision making on a regular basis. Mercer also discusses at length with the underlying investment managers their activity with regard to the above. Mercer also monitors the portfolios for UN Global Compact Breaches.

The Trustee receive regular reports and information from Mercer on their monitoring and the managers' compliance. This includes but is not limited to Mercer's ESG ratings for the underlying investment managers, analysis of carbon foot print and voting and engagement activity. Some of the voting and engagement information will be shared with the public on an annual basis.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee's thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's Sustainability Policy, which can be found at <https://investment-solutions.mercer.com/content/dam/mercer-subdomains/delegated-solutions/CorporatePolicies/Sustainability-Policy-March2021.pdf>.

The Scheme has an allocation to Sustainable Private Market Opportunities.

The Trustee will engage with Mercer where areas of concern are identified periodically. In practice, a formal documented review of ESG ratings and Mercer's integration of ESG into their and the underlying managers' investment decision making is undertaken at least annually.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer, MGIE and Mercer AG 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.

The DC and AVC assets are invested in multi-client funds. The Trustee has given the Investment Managers full discretion when evaluating ESG factors and in exercising rights and stewardship obligations attached to the Scheme's investments. Where investments are made on a passive basis, whilst the manager has limited discretion over the selection of individual shares or bond issues (as the manager seeks to match the composition of the benchmark index as closely as possible), the Trustee expects the manager to vote in line with its own corporate governance policy.

However, the Trustee considers how ESG, climate change and stewardship is integrated within the investment process when appointing new investment managers and assesses how the manager's responsible investment philosophy aligns with the Trustee's responsible investment policy.

Member Views

To date member views have not been taken into account in the selection, retention and realisation of investments. However, the Trustee is keen to hear the views of members on ESG and climate change and shares, via the implementation statement, the Scheme's approach to ESG and climate change.

Investment Restrictions due to ESG, Stewardship and Climate Change Considerations

The Trustee has not set any investment restrictions to particular products or activities for ESG reasons, but may consider this in future. They are supportive of Mercer's decision to exclude any holdings in controversial weapons and tobacco from the Mercer Funds, as well as the worst fossil fuel emitters.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Trustee's Policies with Respect to Arrangements with, and Evaluation of the Performance and Remuneration of, Asset Managers and Portfolio Turnover Costs

The Trustee is a long-term investor and is not looking to change its investment arrangements on an unduly frequent basis.

Mercer manages the Scheme's DB assets by way of investment in Mercer Funds. This includes multi-client collective investment schemes and the Mercer Investment Fund 3 CCF which is established only for the Scheme.

Within the Mercer Investment Fund 3 CCF the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in the SIP and as documented in the guidelines to the Fund agreed between the Trustee and Mercer. In particular, the Trustee expects the management of the assets to reflect the long-term nature of the Scheme. 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 using external advice.

Where multi-client Mercer Funds are used the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds.

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 in Mercer Funds.

To evaluate performance of Mercer and the underlying third party managers, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which present performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Scheme is invested. The Trustee reviews the absolute performance and relative performance (over the relevant time period) on a net of fees basis. The Trustee's focus is on the medium to long-term financial performance of the Mercer Funds. The Trustee is also supportive of non-financial considerations being taken into account as highlighted in Section 11 of the Statement of Investment Principles.

Mercer does not 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 third party asset managers appointed by Mercer, MGIE or Mercer AG 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, MGIE or Mercer AG's assessment of how each underlying third party asset manager embeds ESG into their investment process. This includes the asset managers' policies on voting and engagement. The Trustee is also able to assess how Mercer's Sustainable Investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement. Section 11 of the Statement of Investment Principles 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 Scheme.

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

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 3 of the Statement of Investment Principles. The fees for Mercer and MGIE are based on a percentage of the value of the Scheme's assets under management, which covers the advice, and investment management of the assets. In addition, the underlying third party asset 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. The fees paid to Mercer and the underlying third party asset managers are reported separately.

Mercer AG fees are charged based on net commitment for the first four years following the final close and, thereafter, by reference to the Net Asset Value of the Mercer Fund.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Trustee's Policies with Respect to Arrangements with, and Evaluation of the Performance and Remuneration of, Asset Managers and Portfolio Turnover Costs (continued)

Mercer reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer, and the third party asset 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 Scheme's annualised, MiFID II Personalised Cost & Charges statement. The Scheme'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, but before significant restructuring the transaction costs are considered alongside the benefits.

Performance is also reviewed net of portfolio turnover costs. Mercer (within its fiduciary duty) also considers the portfolio turnover of the underlying investment managers.

The performance of managers and costs incurred on investments in respect of the DC and AVC assets held by the Scheme is considered as part of the annual assessment of value for members and is reported within the Chairman's Statement regarding DC Governance later in this report.

Market Background

Investment Markets¹

The second quarter of 2022 saw a continuation of the broad macro trends seen since the beginning of 2022. Surging commodity prices, to some degree the result of the ongoing conflict in Ukraine and associated sanctions against Russia, alongside the enormous monetary and fiscal stimulus of the last two years led to new multi-decade inflation records. Central banks in major regions doubled down on monetary tightening as a consequence, resulting in elevated market volatility and a sell-off in pretty much all asset classes except commodities. Growth expectations were dialed down over the quarter, with a growing number of investors seeing a recession as an increasingly plausible scenario. On the brighter side, there was evidence of supply chains gradually beginning to improve.

Inflation and central bank policy continued to drive markets in the third quarter of 2022. Inflation readings in most major regions remained high and rising. Central banks therefore continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility. Risk assets rose in July on the back of hopes of inflation peaking and the hiking cycle ending, but these hopes were quashed later in the quarter. Furthermore, markets priced in the increasing risk of a recession resulting from the monetary tightening. Therefore most major asset classes ended the quarter with negative returns. Significant continued weakening in sterling mitigated the drawdown for unhedged UK investors. The conflict in Ukraine added to negative sentiment as Russia stepped up its anti-west rhetoric and further restricted natural gas supplies to Europe which exacerbated pressure on energy prices. Volatility spiked in UK markets at the end of Q3 2022 as an unfunded fiscal budget led to a sell-off in government bond markets.

In the fourth quarter of 2022, developed market central banks continued tightening monetary policy but at a slowing pace. Inflation remained on a downward trend from high levels. In China, an end to all Covid-related restrictions boosted sentiment as investors priced in an economic rebound. The narrative of peaking inflation and resilient economic growth drove positive equity returns during October and November, but hawkish messaging from central banks in December led to a premature end of the "Santa rally" even though the quarter as a whole ended with positive equity returns for the first time in a year.

¹ Statistics sourced from Refinitiv unless otherwise specified.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Market Background (continued)

Investment Markets¹ (continued)

The first quarter of 2023 started with optimism over declining inflation and a hope of an end to monetary tightening. The demise of Silicon Valley Bank (SVB), the second largest US bank failure in history, and UBS's shotgun takeover of Credit Suisse in March were the major events of the quarter that briefly rattled markets until calm returned towards quarter end. Developed market central banks continued raising rates through the quarter as overall growth momentum remained robust. Headline inflation continued to slow in major developed economies, except for the UK, but core inflation remained more elevated than expected.

In the UK, fiscal and monetary policy initiatives also impacted markets materially, and the response to the former UK Chancellor's 'mini-budget' on 23 September 2022 was severe with sterling plummeting and gilt yields soaring. The index-linked gilt market became somewhat dysfunctional between then and the morning of 28 September as there were effectively no buyers of index-linked gilts in the market. This resulted in the Bank of England ("BoE") intervening in markets with a temporary gilt purchasing program. Following further gilt market volatility, a change in regime brought an element of calm (and slightly lower gilt yields) due to the perception of a more fiscally responsible approach. The Investment Committee met more frequently over this period to review its exposure to government bonds and collateral. The Scheme retained a high level of collateral over the period.

Overall, the 12-month period to April 2023 saw tightening of financial conditions by major central banks, with the notable exception of China and to some extent Japan, who changed their yield curve control in Q4 2022 by widening the permitted range of the 10-year yield. Inflation remained elevated and peaked in 2022 Q4.

Equity Markets

At a global level, developed markets as measured by the FTSE World index, returned 3.2%. Meanwhile, a return of -5.8% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 13.2% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 6.0%. The FTSE USA index returned -2.4% while the FTSE Japan index returned 2.0%. The considerable outperformance of UK equities is attributed to the index's large exposure to oil, gas and basic materials.

Equity market total return figures are in Sterling terms over the 12-month period to 30 April 2023.

Bonds

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -15.3%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -28.6% over the year. Yields at the longer end of the nominal yield curve rose less than the shorter end but this was offset by the duration impact on the longer-dated gilt returns. The yield for the FTSE Gilts All Stocks index rose over the year from 2.0% to 3.9% while the Over 15 Year index yield rose from 2.0% to 4.0%.

The FTSE All Stocks Index-Linked Gilts index returned -24.8% with the corresponding over 15-year index exhibiting a return of -36.8%. The combination of falling inflation expectations and increasing nominal yields led to a sharp rise in real yields and underperformance of index-linked gilts relative to nominal gilts.

Corporate debt as measured by the ICE Bank of America Merrill Lynch Sterling Non-Gilts index returned -7.8%.

Bond market total return figures are in Sterling terms over the 12-month period to 30 April 2023.

Currencies

Over the 12-month period to 30 April 2023, Sterling appreciated by 0.1% against the US Dollar from \$1.256 to \$1.257. Sterling appreciated by 5.2% against the Yen from ¥162.66 to ¥171.15. Sterling depreciated against the Euro by -4.3% from €1.19 to €1.14 over the same period.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Investment Review

Investment Performance to 30 April 2023 – DB assets

Portfolio	Inception Dates	Since Inception		3 Years		1 Year	
		Portfolio (% p.a.)	B'mark (% p.a.)	Portfolio (% p.a.)	B'mark (% p.a.)	Portfolio (%)	B'mark (%)
Equity - Insight Synthetic Equity	30/09/22	18.9	18.9	-	-	-	-
Opportunistic - Mercer Select Alternatives Strategies	31/03/20	4.8	0.9	4.8	0.9	3.0	2.6
Opportunistic - UCITS Alternatives Strategies	07/09/22	0.6	3.6	-	-	-	-
Opportunistic - Global Evolution Frontier Markets Debt	20/09/22	0.5	-4.0	-	-	-	-
Opportunistic - MGI UK Cash	31/08/22	2.1	2.2	-	-	-	-
Income Focused – Multi-Asset Credit	31/03/20	7.2	4.0	6.1	4.0	-0.7	5.7
Income Focused – Insight Secured Finance	01/05/20	4.3	1.0	-	-	3.6	2.6
Income Focused – Schroders Secured Finance	01/05/20	3.8	0.9	-	-	3.6	2.6
Income Focused – Absolute Return Fixed Income	30/04/18	1.2	2.4	1.8	2.5	0.5	4.2
Income Focused - Private Markets (PIP VI) Private Debt ^(a)	05/03/21	0.4	0.4	-	-	-	-
Income Focused - Private Markets (PIP VI) Credit Opportunities ^(a)	05/03/21	10.6	10.6	-	-	-	-
Income Focused - Private Markets (PIP VI) Sustainable Opportunities ^(a)	05/03/21	29.0	29.0	-	-	-	-
Income Focused - Private Markets (PIP VI) Infrastructure ^(a)	05/03/21	10.0	10.0	-	-	-	-
Income Focused - Private Markets (PIP VI) Senior Private Debt ^(a)	05/03/21	-1.5	-1.5	-	-	-	-
Liquid Credit – RLAM Credit	19/06/12	2.5	2.5	-4.7	-4.7	-8.7	-8.7
Liquid Credit – Tailored Credit ^(b)	10/06/20	-8.9	-	-	-	-13.1	-
Liquid Credit – Insight Buy & Maintain	03/04/23	0.4	0.4	-	-	-	-
LDI – Insight Liability Driven Investment	18/03/16	-9.9	-9.9	-33.9	-33.9	-64.2	-64.2

Total Portfolio	Inception Dates	Since Inception		3 Years		1 Year	
		Portfolio (% p.a.)	B'mark (% p.a.)	Portfolio (% p.a.)	B'mark (% p.a.)	Portfolio (%)	B'mark (%)
Total (Net of Fees) ^{(c) (d)}	18/03/16	0.2	-	-9.3	-9.8	-23.7	-24.5

Performance provided by State Street Fund Services (Ireland) Limited, Investment Managers, Mercer estimates and Refinitiv. Performance is in £ terms using unsprung returns for the underlying Mercer portfolios; gross of Mercer and net of underlying manager fees; gross of hedging fees (where applicable); net of all other expenses including custody and administration costs. Where the since inception track record is less than one year, performance shown is cumulative and not annualize. Total returns use official (sprung) prices. Where applicable, it includes performance of terminated mandates.

- (a) Figures quoted are estimated by Mercer and are the since inception net internal rates of return (IRR), shown in local currency for the fund, net of underlying manager fees and net of Mercer fee. Due to the long term nature of Private Markets investments it is not meaningful to quote shorter term returns. Returns reflect information available to Mercer at the time the returns were reported and may be adjusted to reflect subsequent information. In cases where investment managers submit historical performance data to Mercer or notify Mercer of a revision to historical performance data subsequent to the publication of Mercer's analysis, this new information will be reflected in subsequent updates of the analysis published by Mercer, but Mercer will not reissue previous analyses to allow for the change to the historical data.
- (b) The portfolio is not managed relative to a benchmark index and instead aims to generate income sufficient to meeting investors' long dated liabilities by minimising the number of defaults and downgrades of underlying securities.
- (c) Total returns are net of Mercer and of underlying manager fees; net of hedging fees (where applicable); net of all other expenses including custody and administration costs. Composite fund benchmark is a composite of relevant comparators for the underlying funds.
- (d) Total returns include quarterly returns for Private Markets calculated by Mercer from Q1 2021 onwards (previously provided by State Street Fund Services (Ireland) Limited) using a Modified Dietz approach based on data provided by Mercer. Over the long term returns are geometrically chain linked using quarterly Total Scheme returns.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Asset Allocation as 30 April 2023 – DB assets

The Scheme's DB investments are categorised within the "Equity", "Opportunistic", "Income Focused", "Liquid Credit" and "LDI" Portfolios. The current asset allocation within these portfolios is shown in the table below:

	Total Portfolio	Actual Asset Allocation				Benchmark Allocation at 30 April 2023 (%)	Long-Term Target Benchmark Allocation at 30 April 2023 (%)
		Start of Year (£m)	End of Year (£m)	Start of Year (%)	End of Year (%)		
Equity	Insight Synthetic Equity	-	51.9	-	6.6	6.0	6.0
	Passive Global Equity – Fundamental Indexation (Hedged)	31.0	-	2.9	-	-	-
	Passive Emerging Markets Equity	11.5	-	1.1	-	-	-
	Passive Global Low Volatility Equity (Hedged)	13.7	-	1.3	-	-	-
	Sustainable Global Equity (Hedged)	29.3	-	2.8	-	-	-
Opportunistic	Mercer Select Alternatives Strategies	39.3	11.9	3.7	1.5	1.0	3.0
	Mercer UCITS Alternatives Strategies	-	5.0	-	0.6	1.0	
	Frontier Market Debt	-	6.7	-	0.9	1.0	
	MGI UK Cash Fund	-	0.0	-	0.0	0.0	
Income Focused	Multi-Asset Credit (Hedged)	104.2	59.9	9.9	7.6	7.0	6.0
	Asia Global High Yield	24.1	-	2.3	-	-	-
	Insight Secured Finance	34.6	28.7	3.3	3.7	3.0	3.0
	Schroders Secured Finance	34.3	29.7	3.3	3.8	3.0	3.0
	Absolute Return Fixed Income (Hedged)	96.7	7.8	9.2	1.0	3.0	0.0
	PIP VI - Senior Private Debt	6.5	35.1	0.6	4.5	4.0	4.0
	PIP VI - Credit Opportunities	19.2	26.1	1.8	3.3	3.0	4.0
	PIP VI - Infrastructure	9.3	18.6	0.9	2.4	2.0	3.0
	PIP VI – Sustainable Opportunities	5.4	12.4	0.5	1.6	2.0	3.0
	PIP VI - Private Debt	5.8	21.6	0.5	2.8	3.0	4.0
Liquid Credit	RLAM Credit	186.1	0.1	17.7	0.0	0.0	0.0
	Tailored Credit	75.6	103.8	7.2	13.2	13.0	13.0
	Insight Buy and Maintain	-	130.5	-	16.6	16.0	16.0
LDI	Insight LDI	322.5	232.8	30.6	29.6	32.0	32.0
	Cash	4.3	2.7	0.4	0.3	0.0	0.0
	Total	1,053.4	785.3	100.0	100.0	100.0	100.0

Source: Mercer.

Figures may not sum to total due to rounding.

The source of the valuation used above is the custodian, State Street Fund Services (Ireland) Limited. These may differ to those used in the financial statements due to different pricing methodologies used by the underlying investment managers and the custodian.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Asset Allocation and Investment Performance as 30 April 2023 – DC assets

The total value of DC assets (excluding AVCs) held as at 30 April 2023 was £0.15m and as such is not broken down further in this report on the grounds of materiality. The performance of funds holding DC assets is noted in the table below.

Fund	Inception Dates	Since Inception		1 Year		3 Years		5 Years	
		Fund (% p.a.)	B'mark (% p.a.)	Fund (%)	B'mark (%)	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
Multi-Asset Growth	1/1/2020	1.6	1.6	-1.1	0.0	8.1	8.3	n/a	n/a
Multi-Asset Moderate	1/1/2020	0.4	2.2	-2.4	-1.1	5.4	6.0	n/a	n/a
Sterling Corporate Bond	1/1/2020	-4.4	-4.1	-8.1	-7.8	-4.7	-3.7	n/a	n/a
US Equity	3/12/1984	9.7	9.1	-2.6	-2.5	12.5	11.8	11.1	10.1
Global Equity	2/6/1986	8.8	7.4	1.2	1.2	12.4	11.2	8.3	6.9
UK Government Bond	3/12/1984	5.4	5.6	-16.0	-17.3	-10.8	-10.1	-3.5	-3.3
Money Market	3/12/1984	4.4	4.4	2.1	1.8	0.5	0.7	0.4	0.6

Employer related Investment

The investments of the Scheme, during the year to 30 April 2023, were invested in accordance with the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. In particular, the Scheme is required to look through any investments held in collective investment vehicles (except those held in life insurance policies) to ensure that the maximum level for employer related investments of 5% of the Scheme's assets is not breached.

The Scheme does not directly hold any shares in the Principal Employer. As at 30 April 2023, the proportion of the Scheme's assets in employer-related investments does not exceed 5% of the market value of the Scheme's assets, and therefore the Scheme complies with legislative requirements. This will continue to be monitored going forward.

Custodial arrangements

State Street Custodial Services (Ireland) Limited is the custodian of the Mercer funds, with the exception of the Private Investment Partners VI Fund where ING Luxembourg S.A. is the custodian and the Insight Investment Management (Global) Limited (Insight) Cash pooled fund which has the Northern Trust International Fund Administration Services (Ireland) Ltd as its custodian.

Where the Mercer funds invest in pooled funds, the portfolio of securities and cash which underlie the pooled fund units issued by the underlying investment managers are held by independent corporate custodians and are regularly audited by external auditors.

The custodians are responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of listed investments. Investments are held in the name of the custodians' nominee companies, in line with common practice for pension scheme investments.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Trustee's Report

Bases of investment managers' fees

The Investment Managers' fees during the year were based upon a percentage of funds under management and, depending on the manager, the rates ranged from 0.01% to 0.90% per annum.

The other investment fees paid relate to custody provided by the investment custodian and the investment advisers' fiduciary fees. The custody fees are based upon the level of transactions per month.

The Trustee's Report was approved on behalf of DS Smith Pension Trustees Limited and signed on its behalf by:

Redacted
..... Trustee Director

Redacted
..... Trustee Director

Date: 23/11/23

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustee is responsible for the maintenance and integrity of the pension and financial information included on the DS Smith Group Pension Scheme website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Independent Auditor's Report to the Trustee of the DS Smith Group Pension Scheme

Opinion

We have audited the financial statements of the DS Smith Group Pension Scheme for the year ended 30 April 2023 which comprise the Fund Account and Statement of Net Assets (Available for Benefits) and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 April 2023, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Scheme's Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Scheme's Trustee with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Scheme's Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Independent Auditor's Report to the Trustee of the DS Smith Group Pension Scheme

Responsibilities of Trustee

As explained more fully in the Trustee's responsibilities statement set out on page 23, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Scheme operates in and how the Scheme is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected, or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the financial statements are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP). We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The audit engagement team identified the risk of management override of controls as the area where the financial statements were most susceptible to material misstatement due to fraud. Audit procedures were performed to review cashbook transactions and external confirmation of investment transactions, and other procedures included but not limited to testing any manual journal entries and any other adjustments, evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside the normal

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Independent Auditor's Report to the Trustee of the DS Smith Group Pension Scheme

course of business and challenging any judgements and estimates.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report

Use of our report

This report is made solely to the Scheme's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK Audit LLP
Chartered Accountants and Statutory Auditor
10th Floor
103 Colmore Row
Birmingham
West Midlands
B3 3AG

Date: 24/11/23

DS Smith Group Pension Scheme**Annual Report for the year ended 30 April 2023****Financial Statements****Fund Account for the year ended 30 April 2023**

	Note	2023 £'000	2022 £'000
Contributions and benefits			
Employer contributions	4	20,200	19,800
Other income	5	4	5
		<u>20,204</u>	<u>19,805</u>
Benefits paid or payable	6	(43,921)	(42,386)
Payments to and on account of leavers	7	(1,677)	(4,568)
Administrative expenses	8	(80)	(13)
		<u>(45,678)</u>	<u>(46,967)</u>
Net withdrawals from dealings with members		(25,474)	(27,162)
Returns on investments			
Investment income	9	36,141	22,333
Change in market value of investments	10	(276,805)	(58,332)
Investment management expenses	11	307	(1,397)
Net returns on investments		<u>(240,357)</u>	<u>(37,396)</u>
Net decrease in the fund during the Year		(265,831)	(64,558)
Net assets of the Scheme at 1 May		1,057,669	1,122,227
Net assets of the Scheme at 30 April		<u>791,838</u>	<u>1,057,669</u>

The notes on pages 29 to 44 form part of these financial statements.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Financial Statements

Statement of Net Assets (available for benefits)

	Note	2023 £'000	2022 £'000
Investment assets:			
Bonds	10	702,448	850,179
DB Pooled investment vehicles	13	381,367	550,258
DC Pooled investment vehicles	14	147	175
Derivatives	15	144,146	38,380
Amounts receivable under reverse repurchase agreements	16	32,241	139,669
AVC investments	18	2,706	3,020
Cash	19	61,903	4,031
Other investment balances	20	4,309	3,068
		<u>1,329,267</u>	<u>1,588,780</u>
Investment liabilities:			
Derivatives	15	(143,480)	(46,204)
Cash	19	(49,590)	-
Obligation to return bonds		(31,951)	-
Amounts due under repurchase agreements	17	(313,992)	(489,390)
Other investment balances	20	(2,741)	-
		<u>(541,754)</u>	<u>(535,594)</u>
Total net investments		787,513	1,053,186
Current assets	25	5,217	5,412
Current liabilities	26	(892)	(929)
Net Assets of the Scheme at 30 April		<u><u>791,838</u></u>	<u><u>1,057,669</u></u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the actuarial review on pages 8 to 9 of the annual report and these financial statements should be read in conjunction with this report.

The notes on pages 29 to 44 form part of these financial statements.

The financial statements on pages 27 to 44 were approved on behalf of DS Smith Pension Trustees Limited and signed on its behalf by:

Redacted

Trustee Director

Trustee Director

Date: 23/11/23

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

1. Identification of the financial statements

The Scheme is established as a trust under English law.

The Scheme was established to provide retirement benefits to certain groups of employees of DS Smith Plc. The address of the Scheme's principal office is Level 3, 1 Paddington Street, London, W2 1DL.

The Scheme had previously been reported as a defined benefit scheme, however, a historic review had highlighted that some of the reported additional voluntary contributions (AVC's) formed defined contribution (DC) benefits for members and were not AVC funds. The scheme is now classed as a hybrid Scheme.

2. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) - The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (SORP) (Revised June 2018).

The financial statements as at 30 April 2023 continue to be prepared on a going concern basis of accounting and no adjustments have been made to the financial statements. In reaching this conclusion, the Trustee has considered the current funding position of the Scheme, the strength of the covenant of DS Smith Plc and the ability of the participating employer to continue to make contributions as due.

3. Accounting policies

The principal accounting policies are set out below. Unless otherwise stated, they have been applied consistently year on year.

3.1 Accruals concept

The financial statements have been prepared on an accruals basis.

3.2 Currency

The Scheme's functional currency and presentational currency is Pounds Sterling (GBP).

Assets and liabilities in foreign currencies are expressed in Sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into Sterling at the rate ruling at the date of the transaction.

Gains and losses arising on translation are accounted for in the change of market value of investments during the year.

3.3 Contributions

Employer deficit funding contributions are accounted for in the period to which they relate, in accordance with the Schedule of Contributions, or on receipt if earlier, with the agreement of the employer and Trustee.

3.4 Transfers

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or discharged which is normally when the transfer amount is paid or received.

3.5 Other income

Income is accounted for in the period in which it falls due on an accruals basis.

3.6 Administrative and other expenses

Administrative expenses are accounted for in the period in which they fall due on an accruals basis. Investment management expenses are accounted for in the period in which they fall due on an accruals basis.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

3.7 Payments to members

Pensions in payment are accounted for in the period to which they relate.

Other benefits, and any associated tax liabilities, are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for on the later of the date of leaving, retirement or death and the date on which any option or notification is communicated to the Trustee. If there is no choice, they are accounted for on the date of retirement or leaving.

3.8 Investment income

Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.

Income from cash and short term deposits, including repurchase agreements, are accounted for on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the investment manager.

Net receipts or payments on repurchase agreements are accounted for on an accruals basis.

Income from foreign currency holdings is translated into Sterling at the rate applicable on the date of the transaction.

Net receipts or payments on swap contracts are reported within investment income on an accruals basis.

3.9 Change in market value of investments

The changes in investment market values are accounted for in the year in which they arise and include profits and losses on investments sold as well as unrealised gains and losses in the value of investments held at the year end.

3.10 Valuation of investments

Quoted securities, including bonds and certain pooled investment vehicles which are traded on active markets have been valued at the quoted price, which is usually the bid price, at the year end.

Accrued interest is excluded from the fair value of fixed income and index linked securities and is included in investment income receivable.

Pooled investment vehicles which are not traded on active markets, but where the investment manager has provided a daily/weekly/monthly trading price, are valued using the last bid/single price, provided by the investment manager at or before the year end.

The PIP VI funds are valued based on NAV pricing at the end of the previous month.

Exchange traded futures are valued at fair value using the daily mark-to-market, which is a calculated difference between the settlement prices at the year end and the inception date. Amounts due from the broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker. The amounts included in change in market value are the realised gains or losses on closed contracts and the unrealised gains or losses on open contracts.

Over the counter (OTC) swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the year end. The amounts included in the change in market value are the realised gains or losses on closed contracts and the unrealised gains or losses on open contracts.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

3.10 Valuation of investments - continued

Over the counter (OTC) forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the year end by entering into an equal and opposite contract at that date.

Repurchase agreements are accounted for as follows:

- For repurchase agreements the Scheme continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.
- For reverse repurchase agreements the Scheme does not recognise the securities received as collateral in its financial statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements.

The Trustee holds insurance policies that secure pensions payable to specified beneficiaries. These policies remain assets of the Trustee, but, as the value of these policies is not material, under current regulations and accounting practice, the Trustee has decided that these policies need not be valued in the Statement of Net Assets.

The AVC investments comprise policies of assurance. The market value of these policies has been taken as the surrender values of the policies at the year end, as advised by the AVC providers.

4. Contributions

	2023	2022
	Total	Total
	£'000	£'000
Employer contributions:		
Deficit funding	<u>20,200</u>	<u>19,800</u>

As required by the Schedule of Contributions certified by the Actuary on 14 April 2020, deficit contributions were paid during the year at a rate of £20.2m (2022: £19.8m). A new Schedule of Contributions was signed on 21 July 2023 which ratified the future deficit contributions due being paid at the rates of: £20.2m (2022/23), £20.6m (2023/24), £21.0m (2024/25), £8.9m (2025/26 May to September 2025).

5. Other income

	2023	2022
	Total	Total
	£'000	£'000
Pension Sharing Order and admin fee income	<u>4</u>	<u>5</u>

6. Benefits paid or payable

	2023	2022
	Total	Total
	£'000	£'000
Pensions paid	38,483	37,461
Commutations of pensions and lump sum retirement benefits	4,995	4,765
Taxation where lifetime or annual allowance exceeded	64	-
Lump sum death benefits	200	38
Refund of contributions on death	<u>179</u>	<u>122</u>
	<u>43,921</u>	<u>42,386</u>

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

7. Payments to and on account of leavers

	2023 Total £'000	2022 Total £'000
Individual transfers out to other schemes	<u>1,677</u>	<u>4,568</u>

8. Administrative expenses

	2023 Total £'000	2022 Total £'000
Bank charges paid	(3)	12
Sundry expenses	<u>83</u>	<u>1</u>
	<u>80</u>	<u>13</u>

Except for the bank charges and one off ad-hoc charges, all other administration expenses are borne by the Group. Negative bank charges relate to refunded bank charges during the year. Sundry expenses for 2023 relate to £83k of interest paid to DS Smith on repayment of the loan referred to in note 27.

9. Investment income

	2023 Total £'000	2022 Total £'000
Income from bonds	16,282	12,491
Income from pooled investment vehicles	20,281	12,186
Net interest on swaps	5,048	(23)
Interest on cash deposits	287	(1,067)
Repurchase agreement interest	(5,773)	(1,272)
Miscellaneous income	<u>16</u>	<u>18</u>
	<u>36,141</u>	<u>22,333</u>

10. Reconciliation of investments

Defined Benefit investments	Value at 1 May 2022 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Value at 30 April 2023 £'000
Bonds	850,179	472,753	(449,503)	(202,932)	670,497
Pooled investment vehicles	550,258	554,006	(676,829)	(46,068)	381,367
Derivatives	(7,824)	131,056	(94,771)	(27,795)	666
AVC investments	3,020	720	(1,021)	(13)	2,706
	<u>1,395,633</u>	<u>1,158,535</u>	<u>(1,222,124)</u>	<u>(276,808)</u>	<u>1,055,236</u>
Repurchase agreements	(349,721)				(281,751)
Cash and cash equivalents	4,031				12,313
Other investment balances	3,068				1,568
	<u>1,053,011</u>				<u>787,366</u>
DC Pooled Investment Vehicles*	175	-	(31)	3	147
Total Investments	<u>1,053,186</u>			<u>(276,805)</u>	<u>787,513</u>

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

10. Reconciliation of investments (continued)

10.1 Transaction costs

There were no direct transaction costs incurred during the year. Indirect transaction costs are incurred through the bid-offer spread on investments within the pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

11. Investment management expenses

	2023 Total £'000	2022 Total £'000
Administration, management and custody	750	1,846
Investment management fee rebates	<u>(1,057)</u>	<u>(449)</u>
	<u>(307)</u>	<u>1,397</u>

The investment management fee rebates relate to the investments managed by Mercer Global Investments and the Secured Finance pooled funds. These are a result of the actual fund expenses being less than those originally charged in the unit price. The rebates are reinvested into the funds to purchase additional units.

12. Taxation

The Scheme is a registered pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

13. DB Pooled investment vehicles

	2023 Total £'000	2022 Total £'000
Equity	-	85,407
Bonds	237,299	367,655
Hedge Funds	16,944	39,649
Cash & derivatives	13,197	11,413
Other (private markets)	<u>113,927</u>	<u>46,134</u>
	<u>381,367</u>	<u>550,258</u>

The pooled investments are held in the name of the Scheme. Except for the income generated by the MGI and Secured Finance funds which are shown in note 9, income generated by these funds is not distributed, but retained within the pooled investments and reflected in the market value of the units.

14. DC Pooled investment vehicles

	2023 Total £'000	2022 Total £'000
Equity	1	1
Bonds	1	1
Hedge Funds	7	8
Cash	<u>138</u>	<u>165</u>
	<u>147</u>	<u>175</u>

The DC assets are held in with Utmost Life and Pensions under the policy name JDS Special Benefit Account.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

15. Derivatives

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme as follows:

The Trustee aims to match as far as possible the Liability Driven Investment (LDI) portfolio and the Scheme's long term liabilities, in particular in relation to their sensitivities to interest rate and inflation movements. The Trustee has entered into OTC interest rate and inflation swaps that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

Forward foreign exchange - In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

At the year end the Scheme had the following derivatives:

	Assets £'000	Liabilities £'000	2023 £'000	Assets £'000	Liabilities £'000	2022 £'000
Exchange traded						
Futures	72,010	(72,010)	-	-	-	-
Over the counter contracts						
Swaps	36,757	(36,411)	346	38,380	(46,204)	(7,824)
Forward foreign exchange	35,379	(35,059)	320	-	-	-
	<u>144,146</u>	<u>(143,480)</u>	<u>666</u>	<u>38,380</u>	<u>(46,204)</u>	<u>(7,824)</u>

A summary of the Scheme's outstanding derivative contracts at the year end aggregated by key characteristics is set out below:

15.1 Swaps

Nature	Notional amounts £'000	Expiration Date	Aggregate asset value £'000	Aggregate liability value £'000
Interest rate swaps	110,796	<1 year	7,575	(2,945)
Interest rate swaps	182,838	<2 years	5,084	(7,422)
Interest rate swaps	313,705	5-10 years	21,425	(24,278)
Interest rate swaps	15,980	10-20 years	2,386	-
Interest rate swaps	700	20-30 years	-	(66)
Inflation rate swaps	6	<1 year	-	(229)
Inflation rate swaps	906	<2 years	-	(781)
Inflation rate swaps	20,995	5-10 years	169	(325)
Inflation rate swaps	22,850	10-20 years	45	(365)
Inflation rate swaps	7,550	20-30 years	73	-
Total 2023	<u>676,326</u>		<u>36,757</u>	<u>(36,411)</u>
Total 2022	<u>876,207</u>		<u>38,380</u>	<u>46,204</u>

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

15.2 Futures

Nature	Economic Exposure	Expires	Asset value £'000	Liability value £'000
Total 2023	711	June 2023	72,010	(72,010)
Total 2022	-	-	-	-

15.3 Forward foreign exchange

Number of Contracts	Settlement date	Currency bought	Currency sold	Asset value £'000	Liability value £'000
3	May 2023	17,302,629 GBP	21,586,000 USD	136	-
1	May 2023	1,260,105 GBP	1,436,000 EUR	-	(2)
3	June 2023	16,816,264 GBP	20,926,000 USD	186	-
Total 2023				322	(2)
Total 2022	-	-		-	-

15.4 Collateral

Collateral held in respect of swaps held was as follows:

	2023 Total £'000	2022 Total £'000
Collateral received		
Cash	12,059	11,161
Collateral pledged		
Bonds	(11,088)	(19,310)

16. Amounts receivable under reverse repurchase agreements

Reverse repurchase agreements are a form of short term lending, where the Scheme has purchased assets with the agreement to resell at a fixed date and price.

At 30 April 2023, amounts receivable under reverse repurchase agreements totalled £32,241,200 (2022: £139,669,218).

17. Amounts due under repurchase agreements

Repurchase agreements are a form of short term borrowing, where the Scheme has sold assets with the agreement to repurchase at a fixed date and price.

At 30 April 2023, amounts payable under repurchase agreements totalled £313,991,643 (2022: £489,390,277).

In respect of reverse repurchase agreements and repurchase agreements, at 30 April 2023, £267,646,239 (2022: £318,584,022) of bonds reported in the Scheme assets within note 15.1 were held by counterparties, and shown as collateral pledged. In addition, collateral received and pledged was £732,997 (2022: £936,674) and £18,257,270 (2022: £32,190,121) respectively.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

18. AVC investments

The Trustee holds assets within the main fund and also holds assets which are separately invested from the main fund in the form of individual policies of assurance and pooled investment vehicles. These are secure additional benefits, on a money purchase basis, for those members who have elected to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to 30 April each year, confirming the amounts held to their account and the movements during the year.

The total amount of AVC investments at the year end is shown below:

	2023	2022
	Total	Total
	£'000	£'000
Utmost Life and Pensions	394	406
Scottish Friendly Assurance Society Ltd	2,312	2,614
	<u>2,706</u>	<u>3,020</u>

19. Cash

	2023	2022
	Total	Total
	£'000	£'000
Cash - Sterling assets	58,044	46,182
Cash - Sterling liabilities	(49,075)	(42,151)
Cash - foreign currency assets	3,859	-
Cash - foreign currency liabilities	(515)	-
	<u>12,313</u>	<u>4,031</u>

20. Other investment balances

	Assets	Liabilities	2023	Assets	Liabilities	2022
	£'000	£'000	£'000	£'000	£'000	£'000
Investment income receivable	<u>4,309</u>	<u>(2,741)</u>	<u>1,568</u>	<u>3,797</u>	<u>(729)</u>	<u>3,068</u>

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

21. Fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities which the reporting entity can access at the assessment dates.
- Level 2 Inputs other than quoted prices included within Level 1 which are observable for the asset or liability, either directly or indirectly. Observable inputs are inputs which reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.
- Level 3 Unobservable inputs for the asset or liability. Unobservable inputs are inputs which reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	2023 Level 1 £'000	2023 Level 2 £'000	2023 Level 3 £'000	2023 Total £'000
Bonds	-	670,497	-	670,497
DB Pooled investment vehicles	-	190,387	190,980	381,367
DC Pooled investment vehicles	-	147	-	147
Derivatives	-	320	346	666
Repurchase agreements	-	(281,751)	-	(281,751)
AVC investments	-	2,680	26	2,706
Cash	12,313	-	-	12,313
Other investment balances	1,568	-	-	1,568
	13,881	582,280	191,352	787,513

Analysis for the prior year end is as follows:

	2022 Level 1 £'000	2022 Level 2 £'000	2022 Level 3 £'000	2022 Total £'000
Bonds	-	850,179	-	850,179
DB Pooled investment vehicles	-	395,557	154,701	550,258
DC Pooled investment vehicles*	-	175	-	175
Derivatives	-	-	(7,824)	(7,824)
Repurchase agreements	-	(349,721)	-	(349,721)
AVC investments	-	2,993	27	3,020
Cash	4,031	-	-	4,031
Other investment balances	3,068	-	-	3,068
	7,099	899,183	146,904	1,053,186

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

22. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed at the end of the reporting period: this is set out in the revised Statement of Recommended Practice (SORP), published in June 2018.

All risk disclosures are based on Mercer's interpretation of guidance issued by the Pensions Research Accountants Group (PRAG) as at June 2015. For further information on all Mercer funds, please refer to the audited fund financial statements.

The risks set out by FRS 102 for disclosure are as follows:

Market risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **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.
- **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.

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 Scheme has exposure to the above risks through the assets held to implement its investment strategy. The investment strategy has been designed to balance the risk and return while allowing the Scheme to achieve its objectives.

The Trustee has taken the step to reduce investment risk within its portfolio by implementing a de-risking strategy whereby the level of investment risk inherent in the Scheme's investment arrangements will reduce further as the Scheme's funding level improves. The Trustee agreed the way in which the investment risk should be reduced and has delegated the implementation of the de-risking strategy to Mercer. The de-risking strategy comprises funding level triggers which are monitored daily by Mercer. When a pre agreed trigger level is breached, Mercer opportunistically switches the assets from the Growth Portfolio to the Matching Portfolio. Mercer constructs portfolios of investments that are expected to maximise the return given the targeted level of risk. In late 2022 the triggers were temporarily suspended pending finalisation of the 2022 actuarial valuation, and as part of that the level of future contributions and investment strategy review.

The investment objectives and risk limits of the Scheme are further detailed in the SIP.

With regard to the Scheme's DC assets, the investment objectives and risk management are implemented through the selection of pooled investment funds. The Trustee monitors their investment objectives and risks through regular reviews of the investment funds underlying their insurance policies.

Further information on the Trustee' approach to risk management, credit and market risk is set out below.

(i) Investment Strategy – DB assets

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Scheme payable under the Trust Deed and Rules as they fall due. The investment strategy is agreed by the Trustee, taking into account considerations such as the strength of the Employer covenant, the long-term liabilities of the Scheme and the Recovery Plan agreed with the Employer. The key decision is the split between the Opportunistic, Equity, Liquid Credit, Income Focused and LDI portfolios and the liability hedge ratio. More details on the investment strategy are set out in the SIP.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

22. Investment risks (continued)

The Scheme's current target investment strategy is as follows:

- 61.0% in investments that share characteristics with the long term liabilities of the Scheme, specifically the 'Liquid Credit', 'LDI' and 'Cash' assets. These are invested in assets including government and corporate bonds as well as funds incorporating derivative instruments to hedge the impact of interest rate movements and inflation expectations on the long term liabilities.
- 39.0% in investments that seek to generate a return above the liabilities, including the Equity, Opportunistic and Income Focused portfolios. These are invested in assets including equities, hedge funds, absolute return fixed income, multi-asset credit, frontier market debt, secured finance and finally, private markets.
- There is approximately a 73% currency hedge ratio within the Growth Portfolio. This is achieved through a currency hedging policy using currency hedging derivatives such as forwards and swaps within the various Growth Portfolio's Mercer Funds held. Please note that additional currency risk may arise when underlying managers take active currency positions or from allocations to fixed income assets denominated in non-sterling currencies.

The actual allocations will vary from the above due to market price movements, dynamic asset allocation decisions, trigger breaches and intervals between rebalancing the portfolio.

Financial Risk Breakdown

The following table summarises the extent to which the various asset classes of investments are affected by financial risks. Since the assets are all invested in pooled funds as opposed to being held on a direct basis, the risks are referred to as indirect:

Fund	Portfolio	Indirect Currency Risk	Indirect Interest Rate Risk	Indirect Credit Risk	Indirect Other Price Risk
Insight Synthetic Equity (Direct Risk)	Equity	X	X		X
Frontier Market Debt	Opportunistic	X	X	X	X
UCITS Alternatives Strategies (Hedged)	Opportunistic	X	X	X	X
Select Alternatives Strategies (Hedged)	Opportunistic	X	X	X	X
MGI UK Cash Fund	Opportunistic		X	X	
Mercer Multi-Asset Credit Fund (Hedged)	Income Focused	X	X	X	X
Insight Secured Finance (Hedged)	Income Focused	X	X	X	X
Schroders Secured Finance (Hedged)	Income Focused	X	X	X	X
Absolute Return Fixed Income (Hedged)	Income Focused	X	X	X	X
Mercer Private Investment Partners VI	Income Focused	X	X	X	X
Insight Buy and Maintain (Direct Risk)	Liquid Credit	X	X	X	
RLAM Corporate Bonds (Direct Risk)	Liquid Credit		X	X	
Tailored Credit I	Liquid Credit	X	X	X	
Insight Liability Driven Investment (Direct Risk)	LDI		X	X	X

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

22. Investment risks (continued)

(ii) Market risk

a. Currency risk

Within a look through of the Funds, the Scheme is not exposed to direct currency risk as the segregated mandates with RLAM and Insight are limited to investing in Sterling denominated assets only, with the exception of the Insight Buy & Maintain mandate. However, Insight hedges any foreign currency exposure.

Indirect currency risk arises from the Scheme's investment in Sterling or US Dollar priced pooled investment vehicles which hold underlying investments denominated in foreign currency. To manage the currency risk associated with this holding, the Trustee seeks to hedge the majority of the non-Sterling exposure by investing in currency hedged investment vehicles. The net currency exposure at year end was c. 24% (2022: c. 15%).

b. Interest rate risk

The Scheme is subject to direct interest rate risk within the bespoke pooled fund because it directly holds bonds (both government and corporate), derivatives and cash in its segregated mandates with RLAM and Insight. Indirect interest risk was also present over the year because the underlying investments held in the underlying Mercer pooled funds, are sensitive to changes in interest rates. The interest rate risk exposure that these holdings introduce does not seek to be hedged because the managers actively manage it with the intention to add value.

The Trustee has a benchmark allocation at year end to Liquid Credit (29.0%) and LDI mandate (32.0%). As at 30 April 2023, these assets represented 59.5% of total assets (2022: c. 55.5%). The variance from the target allocation (1.5%) is due to market movements.

With reference to these assets, if interest rates fall, the value of the underlying holdings will rise to help match the increase in actuarial liabilities arising from a fall in the discount rates. Similarly, if interest rates rise, the underlying investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. As at 30 April 2023, the Scheme had a target hedge ratio of c. 85.0% of the interest rate and inflation rate sensitivity of the Scheme's funded LTFT liabilities.

Opportunistic and Income Focused Portfolios, at lesser extent also have indirect interest rate risk.

c. Other price risk

Other price risk arises principally in relation to the Scheme's Equity, Opportunistic and Income Focused Portfolios, which had a benchmark allocation of 39.0% as at 30 April 2023. The portfolios include fixed income-orientated assets such as Multi-Asset Credit, Absolute Return Fixed Income and Frontier Market Debt, as well as investments aiming to achieve capital growth, including equities and hedge funds and private markets. These risks are managed, to an extent, by ensuring that the portfolios are well diversified (in terms of asset type and geographical region).

As at 30 April 2023, the Equity, Opportunistic and Income Focused portfolios represented 40.2% of total assets (2022 c. 44.1%) The variance from the target allocation (1.2%) is largely a result of market movements and the funding of private market commitments.

The LDI mandate at lesser extent will also have indirect other price risk.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

22. Investment risks (continued)

(iii) Credit risk

The Scheme's LDI and Liquid Credit Portfolios are subject to credit risk because the Scheme directly invests in bonds, has entered into Over the Counter (OTC) derivatives and repurchase agreements and holds cash balances. However, a large proportion of the LDI Portfolio is invested in government bonds to reduce credit risk. The value of these assets, as at 30 April 2022 and 2023, are disclosed in the accounts. The notes below provide more detail on how this risk is managed and mitigated for the different investments held within the segregated mandate:

- **Corporate Bonds:** mitigated by investing in corporate bonds which are rated at least investment grade at the point of purchase. With regards to corporate bonds, the Trustee accepts the associated higher credit risk (relative to government issued debt) in exchange for higher expected return, but the managers are expected to manage the risk by diversifying the portfolios to minimise the impact of default by any one issuer. This is the position at the current and previous year end.
- **Derivatives:** OTC derivative contracts (including swaps and options) and repurchase agreements are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives and repurchase agreements is reduced by daily collateralisation using high quality collateral and the use of a number of bank counterparties. This is the position as at the current and previous year end.
- **Derivative and Repurchase Agreement Counterparties:** mitigated by requiring all counterparties to be investment grade credit rated. Additionally, for each type of derivative used, exposure limits have been established to ensure that this risk is diversified across a range of counterparties. This is the position as at the current and previous year end.
- **Cash balances:** mitigated by ensuring cash is primarily held with a diversified range of institutions and in a liquid pooled fund. This is the position at the current and previous year end.

Credit risk is also managed by employing experienced active managers in these particular asset classes and by limiting the overall exposure of credit within the Growth Portfolio.

A summary of the pooled investment vehicles by type of arrangement is set out below.

Arrangement type	Start of Year (£m)	End of Year (£m)
Open ended investment companies	430.2	267.4
Common Contractual Funds	73.9	-
Shares of limited liabilities partnerships	46.2	113.9
Total	550.3	381.3

(iv) Investment Strategy – DC assets

Setting the investment strategy for the Scheme's assets is the responsibility of the Trustee and is driven by their investment objectives. The remaining elements of investment policy are related to the day to day management of the assets which is delegated to professional investment managers.

The DC assets have exposure to market and credit risk because of the range of investment options offered to members. The Trustee has identified and seeks to manage the Scheme's investment risks by taking them into account when setting the Scheme's strategic investment objectives. The investment objectives and risk management are implemented through the selection of pooled investment funds, which are accessed through long term insurance policies with Utmost Life and Scottish Friendly. The Trustee monitors the investment objectives and risks through regular reviews of the investment funds underlying their insurance policies.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

22. Investment risks (continued)

(iv) Investment Strategy – DC assets (continued)

To manage the investment objectives and control the risks set out above, the Trustee has made available a range of funds for members that allow exposure to a range of asset classes. These include equity, property, bonds, multi-asset and money market funds. Members can combine the investment funds in any proportion to determine the balance between different kinds of investments. This will also determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances. Each of the available funds is considered to be diversified across an appropriate number of underlying holdings / issuers.

The table below sets out the funds offered to members and how they are affected by financial risks. Since the assets are all invested in pooled funds as opposed to being held on a direct basis, the risks are referred to as indirect.

Policy	Fund	Indirect Currency Risk	Indirect Interest Rate Risk	Indirect Credit Risk	Indirect Other Price Risk	Indirect Liquidity Risk
Utmost Life (DC)	Multi-asset Growth	X	X	X	X	
	Multi-asset Moderate	X	X	X	X	
	Sterling Corporate Bond		X	X	X	
	US Equity	X	X		X	
	Global Equity	X	X		X	
	UK Government Bond		X	X	X	
	Money Market		X	X	X	
Utmost Life (AVC)	Multi-asset Cautious	X	X	X	X	
	Money Market		X	X	X	
	Clerical Medical With-Profits	X	X	X	X	
Scottish Friendly (AVC)	Sterling Liquidity		X	X	X	
	Passive UK Equity	X	X		X	
	Over Five-year Index-Linked Gilt		X	X	X	
	Continental European Equity	X	X		X	
	Global ex-UK	X	X		X	
	Japan Equity	X	X		X	
	Pacific Basin ex-Japan Equity	X	X		X	
	US Equity	X	X		X	
	All Stock UK Corporate Bond		X	X	X	
	All Stock Fixed Interest Gilt		X	X	X	
	Select World Equity	X	X		X	
	World Equity	X	X		X	

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

22. Investment risks (continued)

(v) Credit Risk

The Scheme's DC assets are subject to direct credit risk in relation to Utmost Life and Scottish Friendly through its holding in unit-linked funds.

This risk is mitigated by the type of arrangement, which is also subject to periodic review. Utmost Life and Scottish Friendly are regulated by the Financial Conduct Authority and the Prudential Regulation Authority and maintains separate funds for its policyholders. Scottish Friendly investments are held in its own investment unit linked funds. Utmost Life investments are invested in its own unit-linked funds, with the exception of the Clerical Medical With-Profits Fund which is accessed via a reinsurance agreement with Scottish Widows Limited.

In the event of default by Utmost Life or Scottish Friendly, the Scheme is protected by the Financial Services Compensation Scheme ("FSCS") and may be able to make a claim for 100% of its policy value, although noting that compensation is not guaranteed.

(vi) Indirect Credit and Market Risk

The Scheme's DC assets are subject to indirect credit and other risks arising from the underlying investments held in the unit linked funds.

- Indirect credit risk arises in relation to underlying bond investments held in the pooled investment vehicles.
- Indirect currency risk arises from the Sterling priced pooled investment vehicles which may hold underlying investments denominated in foreign currency.
- Indirect interest rate risk arises where the underlying investments of a pooled investment vehicle are exposed to interest rate risk which affects the price of fixed income investments and other risks such as equity market price risk.
- Liquidity relates to the potential for trading to be suspended or incur material costs.

The Trustee has considered indirect risks in the context of the investment strategy. The indirect risks relevant to individual funds are as set out in the table above.

In addition, members were exposed to annuity price and inflation risk (the risk that the purchasing power of their investments is eroded by inflation or impacted by annuity purchase prices) and this is addressed by allowing investment in vehicles that will mitigate the impact of these risks such as fixed interest and index linked gilts. The funds which provide exposure to interest rate risk are those where this is considered appropriate to mitigate the impact of annuity price risk.

The Trustee has selected the above funds and has considered the indirect risks in the context of the investment strategy described here and in the Statement of Investment Principles and believe these to be appropriate. Risks are mitigated where appropriate. This includes diversification of individual stock exposures within individual pooled funds (except in relation to UK Government debt which is considered low risk). In addition, funds which are expected to provide lower risk investments (in absolute terms or relative to purchasing power) focus on Government or investment credit/cash, where default risk is considered low.

23. Concentration of investments

The following investments each account for more than 5% of the Scheme's net assets at the year end:

	2023	2023	2022	2022
	£'000	%	£'000	%
Mercer Select Alternatives Strategies Fund	103,775	13.1	39,649	3.8
Mercer Multi-Asset Credit Fund	60,573	7.7	102,324	9.7
Mercer Absolute Return Fixed Income Fund	7,802	0.1	96,715	9.1
Mercer Tailored Credit Fund	11,905	1.5	75,574	7.1
Mercer Passive Funds	-	-	85,407	8.1

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Notes to the Financial Statements

24. Employer-related investments

The investments of the Scheme, during the year to 30 April 2023, were invested in accordance with the Occupational Pension Schemes (Investment) Regulations 2005 and subsequent legislation. In particular, the Scheme is required to look through any investments held in collective investment vehicles (except those held in life insurance policies) to ensure that the maximum level for employer related investments of 5% of the Scheme's assets is not breached.

The Scheme does not directly hold any shares in the Principal Employer. As at 30 April 2023, the proportion of the Scheme's assets in employer-related investments does not exceed 5% of the market value of the Scheme's assets, and therefore the Scheme complies with legislative requirements. This will continue to be monitored going forward.

25. Current assets

	2023 Total £'000	2022 Total £'000
Cash deposits held with the Scheme Administrator	5,215	5,411
Accrued bank interest	2	-
Prepaid pension payments	-	1
	<u>5,217</u>	<u>5,412</u>

26. Current liabilities

	2023 Total £'000	2022 Total £'000
Lump sums on retirement payable	457	79
Death benefits payable	221	26
Investment management expenses payable	214	802
PAYE payable	-	22
	<u>892</u>	<u>929</u>

27. Related party transactions

(a) Entities with control, joint control or significant influence over the Scheme

In respect of the year ended 30 April 2023, the Group paid the following on behalf of the Scheme.

- Remuneration and expenses to the Trustee Directors of £33,600 (2022: £31,402).
- Pension Protection Fund levy of £261,459 (2022: £486,924).

Historically, the Scheme recharged the Group with the costs associated with running the Scheme and recharged the Group for administration services provided by the Group Pensions Office. With effect from 1 May 2013 all costs were paid direct by the Group. During the year the Group incurred costs of £1,524,053 (2022: £1,194,260) on behalf of the Scheme.

A deed of amendment dated 14 October 2022 agreed to a short term loan from the Employer in order to provide liquidity following recent market uncertainty should it be required. A loan was subsequently received from the Employer on 17 October 2022 for £100m with an interest rate of 2.75%, which was repaid with interest of £83,000 on 28 October 2022.

(b) Key management personnel of the Scheme or its parent (in aggregate)

Except for the Chairman, Mr P Holland (AAA Trustee Limited) and Mr H Fisher, all Trustee Directors are pensioner members of the DS Smith Group Pension Scheme and receive benefits in accordance with the Trust Deed and Rules.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Independent Auditor's Statement about Contributions to the Trustee

Statement about contributions payable under schedule of contributions

We have examined the Summary of Contributions payable to the DS Smith Group Pension Scheme on page 46, in respect of the Scheme year ended 30 April 2023.

In our opinion the contributions for the Scheme year ended 30 April 2023 as reported in the Summary of Contributions on page 46 and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 14 April 2020.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 46 in the Summary of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully on page 23 in the Statement of Trustee's Responsibilities, the Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Use of our statement

This statement is made solely to the Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

RSM UK Audit LLP

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants
10th Floor
103 Colmore Row
Birmingham
West Midlands
B3 3AG

Date: 24/11/23

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Summary of Contributions

During the year ended 30 April 2023, the contributions payable to the Scheme by the Employer were as follows:

**2023
Total
£'000**

Contributions payable under the Schedule of Contributions certified by the Actuary on 14 April 2020:

Employer contributions:

Deficit funding **20,200**

Contributions payable under the Schedule of Contributions certified by the Actuary on 14 April 2020 **20,200**
(as reported on by the Scheme Auditor) and reported in the financial statements

Approved on behalf of DS Smith Pension Trustees Limited and signed on its behalf by:

Redacted

. Trustee Director

..... Trustee Director

Date: 23/11/23

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Actuarial Information

Actuarial Valuation as at 30 April 2022 Schedule of Contributions

DS Smith Group Pension Scheme

Status of this document

This schedule has been prepared by the Trustee of the DS Smith Group Pension Scheme ("the Trustee" of the "Scheme") to satisfy the requirements of section 227 of the Pensions Act 2004, after obtaining the advice of Neil Brougham, the actuary to the Scheme appointed by the Trustee.

This document is the first schedule of contributions put in place for the Scheme since 30 April 2022 valuation. It supersedes all earlier versions.

After discussions, a pattern of contributions was agreed by the Trustees and the employer, DS Smith Plc (the "Group"), on 28 April 2023.

The Trustee and the Group have signed this schedule on page 3 to indicate that it represents an accurate record of the agreed pattern of contributions.

The schedule is effective from the date it is certified by the Scheme Actuary on page 4.

Contributions to be paid to the Scheme from 21 July 2023 to 21 July 2028

Group's contributions in respect of the shortfall in funding as per the recovery plan of 21 July 2023

The actuarial valuation of the Scheme as at 30 April 2022 revealed a shortfall in the assets, when measured against the Scheme's technical provisions, of £26m.

To correct the shortfall as at 30 April 2022, the Group will pay contributions as follows:

Scheme Year	Amount £m
2022/23	20.2*

for the avoidance of doubt, any payments made after 1 May 2022 for the purpose of addressing the shortfall in funding made under the Schedule of Contributions certified on 14 April 2020 shall count towards the payment of £20.2m due by 30 April 2023.

DS Smith Group Pension Scheme

Annual Report for the year ended 30 April 2023

Actuarial Information

ACTUARIAL VALUATION AS AT 30 APRIL 2022 – SCHEDULE OF CONTRIBUTIONS

Page 2

Additional contributions agreed by the Group

The Group has also agreed to pay the following contributions above that required to meet the shortfall as at 30 April 2022:

Scheme Year	Amount £m
2023/24	20.6
2024/25	21.0
2025/26 (in respect of May to September 2025)	8.9

Contributions will be paid by the last day of the Scheme Year (30 April) to which they relate, although the Trustee and Group can agree for the payments to be made earlier if appropriate and, if so, the date of payment will become the due date. However, the contributions due in the Scheme Year 2025/26 will be paid no later than 30 September 2025.

The funding level will be monitored monthly (using the last day of the month) on the Long Term Funding Target ("LTFT") basis by the Scheme Actuary in line with the agreed funding monitoring protocol. If these updates indicate that at two consecutive month end dates the Scheme is fully funded against the LTFT, then the additional contributions set out above will cease with effect from the month of the relevant check.

The Group will continue to pay contributions to the Scheme to meet the costs of the Scheme's PPF levies and expenses or the Group will put in place arrangements to meet these expenses directly, unless otherwise agreed by the Group and Trustee.

In the event that additional contributions cease under the above condition, the Scheme Actuary will continue to monitor the funding level monthly (using the last day of the month) on the LTFT basis. If these updates indicate that at two consecutive month end dates the Scheme is in deficit against the LTFT, then the additional contributions set out above will recommence with effect from the month of the relevant check.

Further contributions required in respect of benefit augmentations

Further contributions may become payable as a result of augmentations of pensions or other benefits under Clause 8.1 of the Trust Deed and Rules of the Scheme. Under such circumstances, the payment should be received by within 60 days of the instruction to make the payment.

Payments in respect of administration and other costs

The Group shall meet the cost of any administrative and other expenses incurred by the Trustee (including PPF levies but excluding any manager-related investment fees which will be deducted directly from the assets) as and when they fall due.

Arrangements for other parties to make payments to the Scheme

In certain circumstances, and as permitted by the Trust Deed and Rules of the Scheme, payments towards the Scheme may be paid by someone other than the Group, in lieu of contributions otherwise due from the Group. Under such circumstances, the Trustee's agreement will be sought prior to any payment being made.

Dates of review of this schedule

This schedule of contributions will be reviewed by the Trustee and the Group no later than 15 months after the effective date of each actuarial valuation, due every three years.

Group and Trustee agreement

This schedule of contributions has been agreed by the Trustee and the Group on 21 July 2023.

Signed on behalf of DS Smith Plc

Redacted

Name

RICHARD PIKE

Position

GROUP FINANCE DIRECTOR

Date of signing

21 July 2023

Signed on behalf of the Trustee of the DS Smith Group Pension Scheme

Redacted

Name

Gary Saunders

Position

Chair of Trustee

Date of signing

21 July 2023

Certificate Of Schedule Of Contributions

Name of the Scheme

DS Smith Group Pension Scheme

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective as at 30 April 2022 could have been expected to be met by the end of the period specified in the recovery plan dated 21 July 2023.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 21 July 2023.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature

Redacted

Name

Neil Brougham

Date of signing

21 July 2023

Qualification

Fellow of the Institute and Faculty of Actuaries

Name of employer

Mercer Limited

Address

Belvedere
12 Booth Street
Manchester
M2 4AW



Mercer Limited is authorised and regulated by the Financial Conduct Authority
Registered in England No. 984275 Registered Office: 1 Tower Place West,
Tower Place, London EC3R 5BU

A business of Marsh McLennan

DS Smith Group Pension Scheme (“the Scheme”)

Annual Implementation Statement for the Year Ended 30 April 2023

1. INTRODUCTION

This Implementation Statement (the “Statement”) sets out the Trustee’s assessment of how, and the extent to which, it has followed its Statement of Investment Principles (“SIP”), including its engagement policy and its policy with regard to the exercise of rights (including voting rights) attaching to the Scheme’s investments during the one-year period to 30 April 2023 (the “Scheme Year”). The Trustee’s policies are set out in their Statement of Investment Principles (“SIP”) which is available online and this statement should be read in conjunction with the SIP. The SIP was updated in September 2022.

This Statement has been produced in accordance with the *Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018* and the *Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019* along with guidance published by the Pensions Regulator.

The Trustee invests the Defined Benefit (DB) assets of the Scheme in a fiduciary arrangement with Mercer Limited (“Mercer”). Under this arrangement Mercer are appointed to provide consulting services, discretionary investment manager services and day-to-day management of the Scheme’s assets by investment in a range of specialist pooled funds (the “Mercer Funds”). Management of the assets of each Mercer Fund is undertaken by a Mercer affiliate, Mercer Global Investments Europe Limited (“MGIE”) and Mercer Alternatives (Luxembourg) S.à r.l. (PIP VI). MGIE are responsible for the appointment and monitoring of suitably diversified portfolio of specialist third party investment managers for each Mercer Fund’s assets. The Trustee has also appointed an external investment consultant, Barnett Waddingham, to provide ongoing oversight and advice around Mercer’s role as the Fiduciary Manager.

The Trustee invests the Defined Contribution (DC) and Additional Voluntary Contribution (“AVC”) assets with Utmost Life and Pensions and Scottish Friendly Assurance Society who are also responsible for appointing the third party managers.

The publicly available [Sustainability Policy](#) sets out how Mercer addresses sustainability risks and opportunities and considers Environmental, Social and Corporate Governance (ESG) factors in decision making across the investment process. The [Stewardship Policy](#) provides more detail on Mercer’s beliefs and implementation on stewardship specifically. Under these arrangements, the Trustee accepts that where multi-client funds are used they do not have the ability to directly determine the engagement or voting policies or arrangements of the managers of the Mercer Funds. However, the Scheme does use a bespoke multi-asset fund and the Trustee has made Mercer aware that they expect Mercer to manage its assets in a manner, as far as is practicably possible, that is consistent with the Trustee’s engagement policy and their policy with regard to the exercising of rights attaching to the Scheme’s investments. The Trustee reviews regular reports from Mercer with regard to the engagement and voting undertaken on their behalf in order to consider whether their policies are being properly implemented.

Section 2 of this Statement sets out the investment objectives of the Scheme and changes which have been made to the SIP during the Scheme Year.

Sections 3 to 6 of this Statement also sets out how, and the extent to which, the policies in the Trustee’s SIP for the Scheme have been followed.

Sections 7 and 8 include information on the engagement and key voting activities of the underlying asset managers within the Scheme.

Taking the analysis included in Sections 2 to 8 together, it is the Trustee’s belief that their policies in the SIP have been successfully followed during the Scheme Year.

2. STATEMENT OF INVESTMENT PRINCIPLES

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the objectives it has set.

DB Assets

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 Scheme can be met. To guide it in its strategic management of the assets and control of the various risks to which the Scheme is exposed, the Trustee has considered its objectives and adopted the following objectives:

- The need to protect the security of members' accrued rights
- The desire to control the costs of benefits by preserving the Scheme's wealth
- A desire to limit volatility in the contribution rate as a result of any failure of the investment strategy
- To target the Scheme being fully funded on a gilts +0.25% p.a. funding basis (the "lower risk basis") by 2035. In conjunction with the 30 April 2022 Actuarial Valuation the Trustee is considering making a change to this target to reflect the change in the Long Term Funding Target agreed as part of the Valuation.

The SIP was updated in September 2022, but there was no change in the Trustee's overarching DB investment objectives.

DC Assets and AVCs

The Trustee's primary objective is to act in the best interest of its members and ensure that the members have a suitable range of funds available for investment. The investment profile of the funds available should be consistent with the needs of the members and are reviewed on a regular basis. The addition of dedicated DC references in the SIP was made in September 2022.

Assessment of how the Trustee's policies in the SIP have been followed during the Scheme Year

In summary, it is the Trustee's view that the policies in the SIP (which was in place during the Scheme Year) have been followed during the Scheme Year.

3. INVESTMENT MANDATES

Realisation of investments

DB Assets

Policy

The Trustee's policy is that there should be sufficient liquidity within the Scheme's assets to meet short term cashflow requirements in the majority of foreseeable circumstances, so that realisation of assets will not disrupt the Scheme's overall investment policy. Further details are set out in the following sections of the SIP:

- Realisation of Investments (SIP Section 6)
- Cash Flow Management and Rebalancing (SIP Section 7)

How has this policy been met over the Scheme Year?

The majority of the Scheme's assets are invested in daily-dealt pooled fund investment arrangements many of which distribute cashflows on a regular basis. These pooled investment arrangements are themselves regulated and underlying investments are mainly invested in regulated markets. Where pooled investment arrangements do not invest assets in regulated markets, these are not expected to account for a material proportion of assets. Therefore, assets should be realisable at short notice, based on member and Trustee's demand.

Where more illiquid assets are used, their size is carefully considered as a proportion of total assets. The Trustee continues to delegate responsibility for the monitoring and rebalancing of the Scheme's asset allocation to Mercer. Where investments or disinvestments were arranged during the year, the policies stipulated within the relevant appointment documentation have been followed.

DC Assets and AVC Assets

The majority of the assets are invested in daily dealt funds (with the exception of the With-Profit policies) which can also be realised easily if required by a member.

4. ENVIRONMENTAL, SOCIAL, AND GOVERNANCE

Financial and non-financial material considerations and how those considerations are taken into account in the selection, retention and realisation of investments

DB Assets Policy Summary

The Scheme's SIP includes the Trustee's policy on Environmental, Social and Governance ('ESG') factors, stewardship and climate change. This policy sets out the Trustee's beliefs on ESG and climate change and the processes followed by the Trustee in relation to voting rights and stewardship.

In order to establish the Trustee's beliefs and produce the policy in the SIP, the Trustee has previously undertaken training provided by its investment consultant, Mercer, on responsible investment which covered ESG factors, stewardship, climate change and the approach taken by Mercer. These beliefs were re-confirmed during the year as the Trustee received training on climate change risks including scenario analysis in preparation for the Task Force on Climate-Related Financial Disclosures (TCFD) that it will need to make in 2023 and also carried out a Responsible Investment Total Evaluation (RITE) in late 2022. In practice, a formal documented review of Mercer's approach to sustainability is undertaken at least annually.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer, MGIE and Mercer Alternatives (Luxembourg) S.à r.l. 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.

The Trustee is willing to hear from the members on their views on the selection, retention and realisation of investments from an ESG and climate change perspective.

Over the year the Section's equity investments (which included a sustainability-themed global equity fund) changed from a physical basis to a synthetic basis (via equity futures on various regional equity markets) as part of implementing improvements to the Scheme's collateral management framework and its efficiency, with respect to the Scheme's risk-reducing liability hedging strategy. Whilst beneficial to collateral management, the change however allows the Trustee to exercise less control over the equity managers from a stewardship perspective (such as voting and engagement) as synthetic equity exposure does not provide any associated equity shareholder voting rights. Given the limited size of the allocation and the likely future de-risking which will involve selling this asset, the Trustee see this as suitable.

Towards the end of the year, a large bespoke corporate bond mandate was transferred to a new investment manager. This change served multiple purposes, one of which was that the mandate explicitly integrates ESG and sustainability-related considerations, investment restrictions and targets, such as the aim of achieving "net zero" by 2050, as part of the Scheme's wider ESG considerations.

How the Policy has been implemented over the Scheme Year

The following work was undertaken during the year relating to the Trustees' policy on ESG factors, stewardship and climate change, and sets out how the Trustees' engagement and voting policies were followed and implemented during the Scheme Year.

Policy Updates

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer's, and MGIE's, investment processes and those of the underlying asset managers in the monitoring process. Mercer, and MGIE, provide reporting to the Trustee on a regular basis.

The Mercer [Sustainability Policy](#) is reviewed regularly.. In August 2022 the policy was updated to reflect enhancements to the approach to climate change modelling and transition modelling, additional detail on how the policy is implemented, monitored and governed and, as part of the commitment to promote diversity, finalising MGIE's signatory status to the UK chapter of the 30% Club.

In line with the requirements of the EU Shareholder Rights Directive II, Mercer have implemented a standalone [Stewardship Policy](#) to specifically address the requirements of the directive. This Policy was also updated in August 2022 to reflect enhancements made to Mercer's stewardship approach including an introduction of Engagement Dashboards and Trackers, an enhanced UN Global Compact engagement and escalation process and a Client engagement survey.

UN Principles of Responsible Investing scores for 2021 (based on 2020 activity) were issued over Q3 2022. Mercer were awarded top marks for overarching Investment and Stewardship Policy section, underpinned by strong individual asset class results.

Climate Change Reporting and Carbon Foot-printing

Mercer and the Trustee believe climate change poses a systemic risk and recognise that limiting global average temperature increases this century to "well below two degrees Celsius", as per the 2015 Paris Agreement, is aligned with the best economic outcome for long-term diversified investors. To achieve this, Mercer plans across its fund range to reduce portfolio relative carbon emissions by at least 45% from 2019 baseline levels by 2030. This decision was supported by insights gained from Mercer's Investing in a Time of Climate Change (2015 and 2019) reports, Mercer's Analytics for Climate Transition (ACT) tool and advice framework, and through undertaking climate scenario analysis and stress testing modelling.

Mercer's approach to managing climate change risks is consistent with the framework recommended by the Financial Stability Board's TCFD, including the [Mercer Investment Solutions Europe - Investment Approach to Climate Change 2022 Status Report](#). The Trustee is in the process of setting its own climate reduction target and this will be included in the inaugural TCFD report.

Mercer have during the year undertaken climate scenario modelling and stress testing on the Scheme's assets, in line with the TCFD recommendations. The Trustee, through carbon footprinting, has already considered at a high level the exposure.

ESG Rating Review

Where available, ESG ratings assigned by Mercer are included in the investment performance reports produced by Mercer on a quarterly basis and reviewed by the Trustee. ESG ratings are reviewed by MGIE during quarterly monitoring processes, with a more comprehensive review performed annually - which seeks evidence of positive momentum on ESG integration and compares the Mercer funds overall ESG rating with the appropriate universe of strategies in Mercer's Global Investment Manager Database (GIMD). Engagements are prioritised with managers where their strategy's ESG rating is behind that of their peer universe.

As at 31 December 2022, in the Annual Sustainability Report provided by Mercer, the Trustee noted over 20% of Mercer's funds have seen an improved ESG rating over the year and the vast majority have a rating ahead of the wider universe. Due to the nature of certain strategies, they do not have an ESG rating (i.e. are N rated) and are therefore excluded from this review.

Approach to Exclusions

As an overarching principle, Mercer and MGIE prefer an approach of positive engagement rather than negative divestment. However Mercer and MGIE recognises that there are a number of cases in which investors deem it unacceptable to profit from certain areas and therefore exclusions will be appropriate.

Controversial weapons are excluded from active equity and fixed income funds, and passive equity funds. In addition tobacco companies (based on revenue) are excluded from active equity and fixed income funds. The Mercer sustainability-themed funds have additional exclusions, for example covering gambling, alcohol, adult entertainment and fossil fuels.

Mercer expanded exclusions to further promote environmental and social characteristics across the majority of the multi-client building block funds over the second half of 2022, in line with EU SFDR Article 8 classification, as well as aligning Mercer's existing active and passive exclusions across their fund range.

In addition, Mercer and MGIE monitors for high-severity breaches of the UN Global Compact (UNGC) Principles that relate to human rights, labour, environmental and corruption issues.

The Trustee has considered but not set any of its own specific investment restrictions to particular products or activities for ESG reasons, but will continue to keep this under review. However, it is supportive of Mercer's decision to exclude any holdings in controversial weapons and tobacco from the Mercer Funds and of Mercer taking responsibility in this area.

Sustainability-themed investments

An allocation to the Private Market Partners VI Sustainable Opportunities Fund is directly made by the Scheme.

Diversity

From 31 December 2020, gender diversity statistics have also been included in the quarterly reporting for the Mercer equity funds and this is being built into a broader Mercer Investment Solutions International policy on Diversity, Equity and Inclusion, sitting alongside Mercer's established Diversity Charter.

Mercer consider broader forms of diversity in decision-making, but currently report on gender diversity. As at 31 December 2022, 36% of the Key Decision Makers (KDM's) within Mercer IS team are non-male, and Mercer's long term target is 50%.

Within the Fixed Income universe the average fund has 8% non-male KDM's and within the EMEA Active Equity universe the average is 12%. Figures relating to Mercer Fixed Income and Active Equity Funds are currently slightly ahead at 9% and 13%.

In Q3 2022 MGIE was confirmed as a signatory of the UK Chapter of the 30% Club.

Within the DC and AVC assets, the assets are invested with underlying managers which are selected by Utmost and Scottish Friendly, ESG is a consideration which is taken into account in their selection of the managers.

5. MONITORING THE INVESTMENT MANAGERS

DB Policy

The Trustee's policy for the DB Section managers is set out in Section 12 of the SIP.

How has this policy been met over the Scheme Year?

The Trustee receives regular reports and information from Mercer on their monitoring and the managers' compliance. This includes but is not limited to Mercer's Manager Research ESG ratings for the underlying investment managers, analysis of the carbon footprint and voting and engagement activity.

Incentivising asset managers to align their investment strategies and decisions with the Trustee's policies

The Trustee's investment strategy is based on the advice from Mercer which is predicated on a de-risking framework which is seeking to meet the Trustee's key objectives as defined within the SIP and therefore intrinsically aligns Mercer with said policies. The Quarterly Strategy Report, is reviewed by the Trustee on a quarterly basis and includes the Scheme's funding level progression. The Trustee also uses Barnett Waddingham on a quarterly basis to assist it with reviewing Mercer's alignment with the Trustee's policies. The underlying investment managers are set specific targets which are designed to collectively ensure the Scheme is on track for its de-risking framework. If managers are not performing as intended they will be replaced.

The duration of the arrangements with asset managers

The Trustee is a long-term investor and does not seek to change the investment arrangements on a frequent basis. Mercer has been appointed as a fiduciary management partner to assist the Trustee in achieving the Scheme's long-term objectives. In that role, there is an expectation of a longer-term relationship until the journey is completed. This will be reviewed periodically. The Trustee employs a third party evaluator (Barnett Waddingham) to review Mercer's capacity to deliver the service it was appointed to, on a quarterly basis.

Mercer provide ongoing oversight of all underlying asset managers and will ensure the asset managers' continued appropriateness. As such there is no set duration for manager appointments.

DC & AVC Assets Policy

The underlying investment managers within the DC and AVC assets are monitored by Scottish Friendly and Utmost. The Trustee then receives advice from Mercer on an ad-hoc basis reviewing Scottish Friendly and Utmost.

Evaluation of asset managers' performance and remuneration for asset management services

The quarterly reports and ad-hoc investment updates were reviewed by the Trustee and discussed at investment committee meetings. The reports include financial metrics and Mercer Manager Research Ratings for the underlying asset managers that comprise the Mercer Funds over the medium and longer term. The Mercer Research Rating includes a Manager Rating which indicates Mercer's view on the likelihood of a manager to achieve their performance objective and an ESG Rating which gives an indication of the extent to which ESG considerations are incorporated into the managers' investment process. Where underlying asset managers are not meeting expectations, Mercer is expected to engage with these managers. This has led to changes to the underlying asset managers within the Mercer funds over the year. Over the year, the Trustee has continued to receive reporting from Mercer on the underlying asset managers and their continued suitability. Furthermore, the Trustee relies on Mercer to renegotiate underlying asset manager fees on new and existing appointments.

Monitoring portfolio turnover costs

As noted in the SIP, the Trustee does not explicitly monitor portfolio turnover costs incurred by the Scheme. Investment manager performance is reported and evaluated net of all fees and transaction costs (costs incurred as a result of buying and/or selling assets), and where possible, performance objectives for investment managers were set on a net basis. In this way, managers are incentivised to keep portfolio turnover costs to the minimum required to meet or exceed their objectives. The Trustee also receives from Mercer and reviews the annual MiFID II cost & charges statement and CMA cost and charges statements which provides the detail of costs incurred by the Scheme's assets including the transaction costs.

6. STRATEGIC ASSET ALLOCATION

Kinds of investments to be held, the balance between different kinds of investments and expected return on investments

DB Assets

Policy

The Trustee's policy on the kinds of investments to be held and the balance between different kinds of investments can be found under the following sections of the SIP:

- Roles and Responsibilities (SIP Section 2)
- Investment Objectives (SIP Section 3)

Further granular detail can be found in the Investment Policy Implementation Document (IPID) to the SIP.

How has this policy been met over the Scheme Year?

The Trustee has decided to delegate the implementation of the desired investment strategy to Mercer, with pre-agreed funding level de-risking triggers agreed which prompt action being taken by Mercer to progressively de-risk the Scheme's investment strategy.

The Trustee considers the way in which investment risk should be reduced and have delegated the monitoring of the de-risking triggers to Mercer who review the funding level on a daily basis. During the year, the Scheme has made continued progress against its long-term objective of being fully funded on a gilts + 0.25% p.a. basis by 2035. Mercer constructs portfolios of investments that are expected to maximise the return (net of all costs) given the targeted level of risk and the investment objectives over the lifetime of the Scheme.

Risks, including the ways in which risks are to be measured and managed

Policy

The Trustee recognises a number of risks involved in the investment of the assets of the Scheme and that the choice and allocation of investments can help to mitigate these risks. Details of these risks and how they are measured and managed can be found under Section 5 (Policy on Risk) of the SIP.

How has this policy been met over the Scheme Year?

As detailed in Section 5 of the SIP, the Trustee considers both quantitative and qualitative measures for these risks when deciding investment policies and evaluating Mercer's actions relating to the strategic asset allocation, dynamic asset allocation and choice of sub-investment managers and asset classes.

The strategy report is reviewed by the Trustee on a quarterly basis – this includes the overall funding level risk and as appropriate comments on the other risks to which the Scheme is exposed. The annual reviews of the investment strategy provides the Trustee with an opportunity to consider their long-term objectives and assess the Value at Risk ("VaR") – i.e. how much the deficit could increase by, or more, in a 1 in 20 downside event for the Scheme – which is a primary measure for assessing the mismatch between the Scheme's assets and liabilities and the Company's ability to support it.

DC & AVC Assets

The Trustee makes available a range of funds for the DC and AVC benefits which are reviewed to ensure they are suitable.

7. VOTING AND ENGAGEMENT DISCLOSURES

The Trustee's investments take the form of shares or units in the Mercer Funds, for the main DB assets and funds with Utmost Life and Scottish Friendly for the DC & AVC assets.

Within these funds, any voting rights that do apply with respect to the underlying investments are, ultimately, delegated to the third party investment managers appointed by Mercer, Scottish Friendly and Utmost. Mercer's view is that the managers have more detailed knowledge of both the governance and the operations of the investee companies and has therefore enables managers to vote based on their own proxy-voting execution policy, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. As such the Trustee does not use the direct services of a proxy voter, but the underlying managers are likely to.

Please note that, since the DC & AVC assets represent a very small and therefore immaterial proportion of the total assets of the Scheme (approximately less than 0.5% of total Scheme assets), the voting and engagement disclosures provided below relate to the DB assets only.

Voting: As part of the monitoring of managers' approaches to voting, Mercer assesses how managers are voting against management and seeks to obtain the rationale behind voting activities, particularly in cases where split votes may occur (where managers vote in different ways for the same proposal). Mercer portfolio managers will use these results to inform their engagements with managers on their voting activities.

Set out below is a summary of voting activity for the one-year period ending 31 March 2023 for a range of Funds that the Scheme's assets are invested in. This may include information in relation to funds that the Scheme's assets were no longer invested in at the year end. The statistics set out in the table below for the Mercer funds are drawn from the Glass Lewis voting system (via Mercer's custodian). Typically, votes exercised against management can indicate a thoughtful and active approach. This is particularly visible where votes have been exercised to escalate engagement objectives. The expectation by Mercer is for all shares to be voted.

DB Assets

The Scheme was invested in the pooled equity funds shown below until mid-October 2022 when they were fully redeemed as part of investment strategy changes. Following this change to the nature of the DB Section's strategy, the bulk majority of the underlying assets subsequently had no exercisable voting rights to report, although it is noted that a small portion of the Mercer Multi-Asset Credit Fund invests in equity linked securities.

Fund	Total Proposals		Vote Decision					For/Against Mgmt	
	Eligible Proposals	Proposals Voted On	For	Against	Abstain	No Action	Other	For	Against
Mercer Multi-Asset Credit Fund ⁽¹⁾	11	11	91%	9%	0%	0%	0%	91%	9%
Mercer Passive Emerging Markets Equity Fund ⁽²⁾	26,187	25,405	80%	17%	3%	0%	0%	82%	18%
Mercer Passive Fundamental Indexation Global Equity UCITS CCF ⁽²⁾	2,558	2,524	85%	13%	0%	1%	0%	84%	16%
Mercer Passive Low Volatility Equity UCITS CCF ⁽²⁾	3,852	3,766	84%	14%	0%	2%	0%	83%	17%
Mercer Passive Sustainable Global Equity UCITS CCF ⁽²⁾	16,150	15,689	78%	19%	0%	2%	0%	78%	22%

⁽¹⁾ Voting Activity figures for the Mercer Multi-Asset Credit fund relate to a small number of equity holdings within the fund's underlying segregated mandates. Please note this does not include voting activity from any underlying pooled strategies within the fund over the period

⁽²⁾ The Scheme fully redeemed its holding in the equity funds in mid-October 2022 as part of investment strategy changes. As such the votes in this table reflect the votes for the full year to 31 March 2023 and not the Scheme's shorter partial year holding period.

- "Eligible Proposals" reflect all proposals of which managers were eligible to vote on over the period
- "Proposals Voted On" reflect the proposals managers have voted on over the period (including votes For and Against, and any frequency votes encompassed in the "Other" category)"
- "No Action" reflects instances where managers have not actioned a vote. MGIE may follow up with managers to understand the reasoning behind these decisions, and to assess the systems managers have in place to ensure voting rights are being used meaningfully
- "Other" refers to proposals in which the decision is frequency related (e.g. 1 year or 3 year votes regarding the frequency of future say-on-pay).

Significant Votes: The Trustee has based the definition of significant votes on Mercer's Beliefs, Materiality and Impact (BMI) Framework. Reported below are the *most* significant proposals over the period. Significant proposals are determined using the following criteria:

1. The proposal topic relates to an Engagement Priority (climate change, human/labour rights, and diversity). This is classified in the "Proposal Description" column below, referenced as Environmental, Social, and Governance respectively.
2. The most significant proposals reported below relate to the three companies with the largest weight in each fund (relative to other companies in the full list of significant proposals).

Most Significant Votes

None of the votes within the Mercer Multi-Asset Credit Fund related to Engagement Priority topics and thus did not constitute significant votes to be reported. The significant votes shown below for the equity funds are for the full year to 31 March 2023. As the Scheme fully redeemed its equity fund holdings in mid-October 2022, not all of the below are relevant to the Scheme's holding period specifically.

Fund	Proposal Description	Company	Holding Weight in Mercer Fund (%) (2)	Meeting Date	Manager Vote Decision (1)	Vote Outcome (% Shareholder Support)
Mercer Passive Fundamental Indexation Global Equity UCITS CCF	Governance: Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Apple Inc	7%	10-Mar-23	For	33%
	Social: Shareholder Proposal Regarding Report on Hiring Practices	Microsoft Corporation	2%	13-Dec-22	Against	11%
	Environmental: Approval of Climate Action Plan	Rio Tinto plc	1%	8-Apr-22	For	82%
Mercer Passive Low Volatility Equity UCITS CCF	Governance: Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Apple Inc	1%	10-Mar-23	For	33%
	Social: Shareholder Proposal Regarding Human Rights Reporting	Kroger Co.	1%	23-Jun-22	For	21%
	Social: Shareholder Proposal Regarding Report on Hiring Practices	Microsoft Corporation	1%	13-Dec-22	Against	11%
Mercer Passive Sustainable Global Equity UCITS CCF	Social: Shareholder Proposal Regarding Human Rights Impact Assessment Report	Alphabet Inc	2%	1-Jun-22	For	23%
	Environmental: Shareholder Proposal Regarding Lobbying Activity Alignment with the Paris Agreement				For	19%
	Environmental: Shareholder Proposal Regarding Report on Physical Risks of Climate Change				For	18%
	Governance: Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	Apple Inc	8%	10-Mar-23	For	33%
	Social: Shareholder Proposal Regarding Report on Hiring Practices	Microsoft Corporation	5%	13-Dec-22	Against	11%

- (1) "Mixed" refers to occasions where underlying managers have voted differently for the same proposal. Vote decisions of this nature are monitored and fed into the wider engagement process with managers. In this case, two managers voted "For" and two managers voted "Against" the proposal.
- (2) Approximate size of the holding in the Fund as at the date of the vote. Size at the end of the relevant quarter.

8. EXAMPLES OF ENGAGEMENT ACTIVITY BY THE SCHEME'S THIRD PARTY INVESTMENT MANAGERS

The following are examples of engagement activity undertaken by the Scheme's investment managers.

Fund	Issue	Action Taken	Outcome
<p>Royal London Asset Management</p>	<p>Governance – Remuneration policy</p>	<p>The company (BP) reached out to RLAM to seek views on the remuneration report and its remuneration policy, which is due to be renewed at this year's annual general meeting (AGM).</p>	<p>In its letter, BP outlined decisions made by the remuneration committee in respect of annual bonus and long-term incentive plan outcomes. RLAM has been paying close attention to BP's pay decisions, as at last year's AGM, we noted that no downward discretion was applied to bonus outcomes notwithstanding the fatalities that occurred. This resulted in RLAM voting to abstain on the remuneration report, as we would generally expect a significant amount of discretion to be exercised, in case of fatalities. With this year's AGM just around the corner, the letter sent by BP did allude to more workforce fatalities suffered during the year, however, it was unclear whether this would result in an adequate level of downward discretion. In our response to the company, we clarified our stance around the treatment of safety metrics and enquired how the committee intend to reflect the fatalities in variable incentive pay-outs. The company responded, thanking us for the feedback and referred us to the published annual report, which included more details around the safety components.</p>
<p>Royal London Asset Management</p>	<p>Climate – Net Zero targets</p>	<p>As part of the Net Zero Asset Managers initiative (NZAM), our primary engagement objective is to evaluate and influence companies, which represent at least 70% of RLAM's financed emissions by 2030, to adopt emissions reduction targets and climate transition plans that are reinforced by credible science-based methodologies. We have developed 12 indicators to help assess companies' climate transition plans. Through this approach, we expect to influence real-economy decarbonisation that will in turn support RLAM's target of a 50% reduction in emissions by 2030.</p>	<p>As part of the Net Zero Engagement Initiative (NZEI), a collaborative engagement initiative by the Institutional Investor Group on Climate Change (IIGCC), RLAM sent letters to 107 companies. The letters asked companies to have credible net zero transition plans. This is in line with the Net Zero Investment Framework and RLAM's own 12 indicator approach. The key transition plan requests set out in the letter were: 1) a comprehensive net zero commitment; 2) aligned GHG targets; 3) emissions performance tracked; and 4) credible decarbonisation strategy. Companies have until 28 April 2023 to respond to the letter and the response will inform subsequent engagement steps.</p>

<p>Royal London Asset Management</p>	<p>Environment – Water Utilities engagement project</p>	<p>Engagement for change to encourage the water industry to focus on issues in relation to climate adaptation, antimicrobial resistance, biodiversity, customers, and community.</p>	<p>We have initiated Phase two of the water utilities engagement project, with a selected number of clients, to agree the purpose of the engagement and investor expectations. The objective of this engagement is to identify best practices on environmental and social issues to ensure that the water sector continues to meet its regulatory requirements whilst considering the communities they serve. Once the investor expectations are finalised, we will be writing to the water utilities to organise meetings to be held in the next quarter.</p>
<p>Royal London Asset Management</p>	<p>Social – Social Housing</p>	<p>To encourage transparency and improve disclosures around the governance structures and processes in place to tackle damp and mould in properties managed by housing associations.</p>	<p>We have received 26 responses to the letters we sent to numerous housing associations, with many sharing the responses provided to the Regulator of Social Housing on damp and mould. We have been able to identify examples of best practice across governance, risk assessments, repairs etc. This will be shared with our fixed income investment teams to assess the investment risk of these borrowers and determine whether further engagement on this topic is required.</p>
<p>Insight Investment Management</p>	<p>Environmental – Engaging with the UK’s largest water company (Thames Water) on water scarcity and pollution</p>	<p>We held three engagements with the issuer between September 2022 and January 2023 centred on the issuer’s environmental and governance policies. In particular we engaged on Thames Water’s water management, biodiversity and land use, and executive remuneration policies.</p> <p>During our first engagement, we focussed on water scarcity and pollution stemming from leakages and untreated overflows respectively, which are both major risks from an environmental perspective. On leakages, the issuer provided detail on the operational challenges in detecting and fixing leaks when they occur. For example, adverse weather conditions can create difficulties in meeting leakage targets. Thames Water revealed it has dedicated part of an £11.5bn business plan to improve leakage and river health.</p> <p>At our third engagement, Thames Water revealed it would not meet its leakage targets for 2023, with the network still suffering from the summer drought, given a 38% increase in mains bursts, despite fixing over 30,700 leaks. We also touched on executive remuneration after news reports. Thames Water stated it follows best practices and has an independent remuneration</p>	<p>We will continue to monitor Thames Water’s progress on pollution, its adherence to its biodiversity targets and executive remuneration. We are paying close attention to the progress of water utilities on water leakages and whether they meet future targets.</p>

committee. It also pointed out that it has not paid a dividend in some time, which it feels shows restraint.

Thames Water also revealed its goals for 2023 to 2025, which are to invest £1.2bn in sewage treatment works. Increase its biodiversity by 5% at over 250 key sites and generate more of its own energy. It also revealed it doesn't current have any science based targets, and viewed the cost as prohibitive.

**Mercer Absolute
Return Fixed
Income**

UN Global Compact Red Flag engagement - PG&E is an American company providing natural gas and electric service. It has been implicated in safety issues, the most serious of which include a gas pipeline explosion in 2010 and, more recently, ignitions of massive wildfires in California. Liabilities from these events pushed the company into bankruptcy. In 2020, PG&E emerged from bankruptcy with a new and highly experienced management team, intent on bringing a new culture of safety to the business. We saw this as an opportunity for the company to materially improve its risk profile and safety record.

We initiated an engagement with the following objectives:
Continued use of power shutdowns, where relevant, to manage short term wildfire risk
Provision of clearly defined undergrounding strategy within wildfire mitigation plan
Improve data transparency and disclosure around wildfire safety statistics
Provision of a solution to the Fire Victims Trust shareholding overhang

The CEO and wider team have been receptive. The company has now secured a wildfire safety certificate from the regulator and is working.

**Mercer Multi-
Asset Credit
(Beach Point)**

Environment & Climate - Pollution, Biodiversity Loss & Natural Resource Degradation; Transparent Disclosure of Material ESG Factors.

The objective of the engagement was (1) to gain greater insight into the midstream company's impact on natural resources and biodiversity—material considerations for the issuer and the midstream sector, overall,— and (2) to encourage better disclosure and future performance on ESG goals, with particular focus on carbon emissions reporting as a high-impact business.

Direct contact with C Level Executives; In this investment, we believe we have operated from a position to potentially have greater influence over the company's environmental, social, and/or governance outcomes as we have maintained a relationship with EPIC Y's management team and financial sponsor (having been invested in the name) and we also structured a unique financing solution in Q1 2021 to help address the company's near-term liquidity needs. As part of these financing discussions, we emphasized our focus on ESG issues and conducted an engagement call with EPIC Y, our investment analyst, and our Head of ESG to discuss material environmental, social, and governance considerations.

We learned through our engagement that EPIC Y performed extensive environmental siting studies prior to construction in an effort to avoid any ecological impacts from the construction and operation of their pipelines system. These efforts helped mitigate risks to rare, threatened, or endangered species around the pipeline. We are also encouraged by their increased disclosure on their environmental impact as an outcome to our ESG engagement efforts. In August 2022, the company released their first sustainability report, which include reporting Scope 1 and 2 GhG emissions. We remain investors in EPIC Y.

<p>Mercer Multi-Asset Credit (CQS)</p>	<p>Labour/Human rights) - Staffing issues following COVID. Understand future staffing plans and any initiatives undertaken to improve staff morale and engagement (such as engagement surveys, wellbeing initiatives and wider social engagements)</p>	<p>We have spoken with Lufthansa on multiple occasions regarding this issue, as well as seeking Science-Based Targets verification of their interim targets (which happened last summer). Lufthansa confirmed that they would continue with their planned staff reduction, resulting in a total headcount of 100,000 at the end of 2022. However, there have since been industry-wide staffing challenges as consumer demand has rebounded strongly. Employee engagement initiatives are best practice with annual all-employee surveys that are analysed by senior management by team and location. Anonymity is retained via the requirement of a minimum of 5 responses for analysis, instilling employee confidence in the process. Results are presented to the Supervisory Board and Group Executive Board and managers must demonstrate progress against the issues raised</p>	<p>We are impressed by their employee engagement initiatives but continue to monitor their future staffing plans and the impact this may have on staff morale.</p>
<p>Mercer Insight Secured Finance</p>	<p>Climate - Decarbonisation approach. Morgan Stanley (MS) is included within the Counterparty engagement programme and scored poorly on the ESG questionnaire we sent. We organised this engagement to get more detail on the company's ESG approach in order to provide detailed and informed recommendations</p>	<p>MS was one of the only banks which was not a signatory to the Principles of Responsible Banking or Equator principles, it is therefore not clear how it is assessing environmental and social risk in project financing activities. MS is in the top proportion of banks for fossil fuel financing according to RAN report (offshore oil and gas, and fracking financing) - Coal power policy: Whilst MS prohibits direct financing for new coal power plants or refinancing of existing coal plants, potential exceptions can be made for plants that use CCUS technology, which makes the exclusion weaker than some other banks. There does not appear to be a coal power phase out date agreed</p>	<p>We held a follow up meeting to discuss outstanding Environmental (and other ESG) concerns. Formal written feedback has been shared.</p>
<p>Mercer Tailored Credit Fund</p>	<p>Diversity practices - At Toyota, we have identified their key issues to be: i) capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure, and ii) board independence, diversity and effectiveness.</p>	<p>We originally started our engagement with Toyota in September 2021, alongside fellow shareholders. Our second meeting was held earlier this year to discuss climate change, board composition and capital allocation. We spoke with TMC's Chief Sustainability Officer. Throughout these meetings, which were attended by Toyota's investor relations team and chief sustainability officer, we expressed our concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence.</p>	<p>In September 2022, we spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors add value to the board and the quality of board discussions. Given a recent controversy at one of Toyota's group companies (Hino), we will continue to engage with the company on corporate governance issues and push for better practices in terms of corporate governance.</p>

DS SMITH GROUP PENSION SCHEME

YEAR ENDED 30 APRIL 2023

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 MAY 2022 – 30 APRIL 2023

This statement is produced pursuant to Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by subsequent legislation. It explains how the DS Smith Group Pension Scheme ("the Scheme") is meeting the governance standards that apply to occupational pension schemes that provide money purchase benefits (also known as Defined Contribution schemes or "DC").

The Scheme has DC benefits that arose from members of the Scheme who were former members of the John Dickinson Stationery Limited Pension Scheme who benefitted from a distribution of surplus in the John Dickinson Stationery Limited Pension Scheme in 1992. Each of these members had a money purchase account set up for them within that Scheme, which was credited with a balance.

The assets and liabilities of the John Dickinson Stationery Limited Pension Scheme transferred to the DS Smith Group Pension Scheme in 1997.

The Scheme also holds DC benefits in the form of additional voluntary contributions (AVCs). For some members of the Scheme, their AVC savings have a guarantee that their fund will provide a Guaranteed Minimum Pension (GMP) benefit at retirement. Upon retirement in the Scheme the member would receive the greater of their fund value and the GMP benefit. The Trustee is aware that the scheme administrator, Buck, has a process for checking member records for the presence of the GMP underpin when undertaking retirement and transfer cases.

The Trustee is considering alternative approaches for the future provision of DC and AVC benefits within the Scheme. As some of the existing arrangements have a GMP underpin the Trustee will take this into account when approaching pension providers for terms for an alternative pension arrangement.

The DC benefits within the Scheme for Special Benefit Accounts are in respect of 66 members invested in a policy with Utmost Life and Pensions ("Utmost") valued at around £147,000. The Scheme also holds AVC policies with Utmost (valued at around £0.4m) and Scottish Friendly (valued at around £2.3m). The Scottish Friendly arrangement is administered by Aegon and investments are on a platform provided by Mobius Life.

Default arrangement

Following the discovery of the presence of DC benefits in the Scheme, the Trustee updated its Statement of Investment Principles. The amended Statement of Investment Principles dated September 2022, which includes a statement of principles in relation to the Plan's default investment arrangement, is attached to this statement. This covers our aims and objectives in relation to the default investment arrangement as well as our policies in relation to matters such as risk and diversification.

Members of the Scheme who do not make an explicit choice regarding the investment of their funds are invested in the default strategy arrangement. The current default arrangement is the Utmost Life Money Market Fund. This was established as the default arrangement following a transfer from Equitable Life when the Trustee understood these savings to be AVCs. However, the Trustee did receive appropriate regulated advice in late 2019 on the suitability of this fund for members that were to be invested in it when the transfer of assets from Equitable Life to Utmost occurred at the beginning of 2020. It should be noted that the Trustee is currently undertaking a review of the investment performance of the Scheme's DC and AVC investment options. Pending the outcome of this and the considerations for the future of the DC benefits within the Scheme. If the DC benefits are to remain in the Scheme the Trustee will undertake a review of the Scheme's DC investment options, including the default strategy.

The current default has been compliant with the 0.75% per annum charge cap over the year to 30 April 2023.

DS SMITH GROUP PENSION SCHEME

YEAR ENDED 30 APRIL 2023

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 MAY 2022 – 30 APRIL 2023 (CONTINUED)

Processing Scheme transactions

The Trustee has a specific duty to ensure that core financial transactions relating to the DC and AVC benefits are processed promptly and accurately.

Due to the Scheme being closed, transactional activity is limited to retirements, transfer, deaths and investment switches. In the vast majority of cases members would contact the Scheme's Administrator, Buck, in the first instance in relation to these activities, who in turn co-ordinate with Utmost and/or Scottish Friendly as required.

The Trustee monitors the administration activity undertaken by Buck and their performance against service level agreements quarterly. However, this is not specific to DC and AVC activity.

During the year, 10 DC members took their retirement benefits from the Scheme totalling around £30,000 of investments. One member of the Utmost AVC arrangement retired during the year, and one transferred out. Total assets for these two transactions was around £16,000.

Utmost does provide some detail of how it has performed against its own service level agreements ("SLA"), but only across all of its clients. It does not provide client specific data on performance against SLA. For the calendar year 2022 it quoted:

- 95% of payments were made within 5 days
- 95% of illustrations were completed within 10 days
- 90% of general servicing was completed within 10 days

The Trustee has not received any information on how Scottish Friendly has performed against its Service Level Agreements during the Scheme Year.

Within the Scottish Friendly AVC arrangement over the year 14 members retired, 2 transferred out and one member died. These transactions related to around £285,000 of Scheme assets.

The Trustee can also report that:

- Buck has been operating procedures, checks and controls within its SLAs; and
- There has been no material administrative errors relating to the processing of core financial transactions.

Charges and transaction costs

The law requires the Trustee to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and transaction costs represent good value for members. Transaction costs relate to the buying, selling, borrowing or lending of the underlying securities in the funds used. We have taken account of the statutory guidance when preparing this section of the report.

Please note that this data covers the 12 month period to 31 March 2023 due to the timing and nature of data that is received from Utmost and Scottish Friendly, whilst this statement covers the 12 month period to 30 April 2023. Utmost have also provided annual management charges and transaction costs, they have not disclosed details of their total expenses.

DS SMITH GROUP PENSION SCHEME

YEAR ENDED 30 APRIL 2023

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 MAY 2022 – 30 APRIL 2023 (CONTINUED)

Scheme Default arrangement

Note that the Scheme's default arrangement complied with the 0.75% annual charge cap over the year to 30 April 2023.

Fund	Annual Management Charge (%p.a.)	Transaction Cost (% over the year)
Money Market	0.50	0.01

Source: Utmost, details provided to 31 March 2023

Utmost – AVCs and potential Self-Select options for members with Special Benefit Accounts

Fund	Annual Management Charge (%p.a.)	Transaction Cost (% over the year)
Multi-Asset Growth	0.75	0.26
Multi-Asset Moderate	0.75	0.32
Sterling Corporate Bond	0.75	0.13
US Equity	0.75	0.07
Global Equity	0.75	0.11
UK Government Bond	0.50	0.26
Multi-Asset Cautious	0.75	0.36

Source: Utmost, details provided to 31 March 2023

Scottish Friendly – AVCs

Fund	Total Expense Ratio (%p.a.)	Transaction Cost (% over the year)
ML DB Passive World Equity Fund	0.80	0.15
ML Passive All Stock Fixed Interest Gilt Fund	0.80	0.30
ML Passive Continental European Equity Fund	0.80	0.21
ML Passive Global Ex-UK Equity Fund	0.80	0.15
ML Passive Over Five-year Index-linked Gilt Fund	0.80	0.42
ML Passive Japan Equity Fund	0.80	0.07
ML Passive Pacific Basin Ex-Japan Equity Fund	0.80	0.12
ML Passive UK Equity Fund	0.80	0.06
ML Passive US Equity Fund	0.80	0.14
ML Select World Equity Fund	0.93	0.24
ML Sterling Liquidity Fund	0.80	0.08
ML All Stock UK Corporate Bond Fund	0.94	0.06

Source: Mobius Life, details provided to 31 March 2023.

Investment returns

This section states the annual return, after the deduction of member borne charges and transaction costs, for all default arrangements and investment options that members are able, or were previously able, to select and in which members' assets were invested during the scheme year.

When preparing this section of the statement the Trustee has taken account of the relevant statutory guidance and guidance issued by the Pensions Regulator. As the investment strategy of the default arrangement is to only invest in the Utmost Life Money Market Fund, investment returns do not vary with a member's age. Returns experienced by any member of the default arrangement would be in line with the information provided below for the Utmost Life Money Market Fund.

DS SMITH GROUP PENSION SCHEME

YEAR ENDED 30 APRIL 2023

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 MAY 2022 – 30 APRIL 2023 (CONTINUED)

Utmost

Some of the funds used by members were only launched on 1 January 2020, and as such do not have investment performance over a 5 year period.

Fund	1 year net performance to 30 April 2023 (%p.a.)	3 year annualised net performance to 30 April 2023 (%p.a.)	5 year annualised net performance to 30 April 2023 (%p.a.)
Multi-Asset Growth	-1.1	8.1	n/a
Multi-Asset Moderate	-2.4	5.4	n/a
Sterling Corporate Bond	-8.1	-4.7	n/a
US Equity	-2.6	12.5	11.1
Global Equity	1.2	12.4	8.3
UK Government Bond	-16.0	-10.8	-3.5
Money Market	2.1	0.5	0.4
Multi-Asset Cautious	-5.2	0.1	n/a

The fund shown in **bold** is the Scheme's default arrangement.

Source: Utmost

Scottish Friendly

Mobius Life was unable to provide accurate net performance data covering the period to 30 April 2023. This data was requested and Mobius Life provided historic data on unit prices for the Trustee to calculate performance. However, there were apparent errors in this data with unit prices being exactly replicated across a number of days through an extended time period. These had been queried with Mobius but had not been agreed at the time of producing this statement

The Trustee is able to source performance data that is gross of the Scheme's annual management charge, but net of other expenses incurred within the fund over the period to 30 June 2023. These were obtained from factsheets through a website maintained by Aegon in relation to the investment options available.

Fund	1 year performance to 30 June 2023 (%)	5 year performance to 30 June 2023 (%p.a.)
ML DB Passive World Equity Fund	13.7	10.3
ML Passive All Stock Fixed Interest Gilt Fund	-14.5	-4.2
ML Passive Continental European Equity Fund	18.7	7.2
ML Passive Global Ex-UK Equity Fund	-6.4	8.0
ML Passive Over Five-year Index-linked Gilt Fund	-20.0	-5.4
ML Passive Japan Equity Fund	12.6	4.0
ML Passive Pacific Basin Ex-Japan Equity Fund	2.5	3.5
ML Passive UK Equity Fund	8.7	3.3
ML Passive US Equity Fund	13.7	12.8
ML Select World Equity Fund	9.5	9.9
ML Sterling Liquidity Fund	3.1	0.9
ML All Stock UK Corporate Bond Fund	-5.1	-0.6

Source: Mobius Life

DS SMITH GROUP PENSION SCHEME

YEAR ENDED 30 APRIL 2023

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 MAY 2022 – 30 APRIL 2023 (CONTINUED)

Cumulative effect of costs and charges

We have taken account of statutory guidance when preparing this section of the report. The compounding effect of charges on a member's fund can be illustrated as follows:

Illustrations for an "Average" member				
Years from now	Special Benefit Account Utmost Money Market Fund (Lowest charge fund and the Scheme's default arrangement)		ML Passive Over 5 year Index Linked Gilt Fund (Most expensive fund)	
	Before Charges	After Charges and costs deducted	Before Charges	After Charges and costs deducted
1	£2,680	£2,660	£2,680	£2,650
2	£2,760	£2,730	£2,760	£2,690
3	£2,840	£2,800	£2,840	£2,740
5	£3,010	£2,940	£3,010	£2,830
10	£3,490	£3,320	£3,490	£3,090
15	£4,050	£3,750	£4,050	£3,370
19	£4,560	£4,140	£4,560	£3,610

To ensure that these calculations are representative of the membership, the Trustee has made some assumptions in producing these illustrations:

1. Values shown are estimated projections and are not guarantees or predictions.
2. The illustration allows for a money purchase benefit at age 46 and continues for a period of 19 years until age 65 (normal retirement age).
3. The starting pot size is assumed to be £2,600, which is the average pot size for Special Benefit Account members.
4. No further contributions are being paid.
5. Inflation is assumed to be 2.5% each year.
6. The projected growth rates before charges and costs is 3.0% per annum for the Money Market Fund and 3.0% per annum for the Over 5 Year Index Linked Gilt Fund.
7. The charges applied are 0.5% per annum for the Money Market Fund (plus 0.01% average transaction costs in relation to the year to 31 March 2022 and 2023) and 0.8% plus 0.42% transaction costs over the year to 31 March 2023 for the Over 5 Year Index Linked Gilt Fund. This is the first year that transaction costs have been provided for the AVC investment options through Scottish Friendly.

DS SMITH GROUP PENSION SCHEME

YEAR ENDED 30 APRIL 2023

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 MAY 2022 – 30 APRIL 2023 (CONTINUED)

Value for members

The Trustee has undertaken an assessment of value for members pending its further work in relation to the continued suitability of the provision of DC benefits through the Scheme. This assessment focussed on the level of charges and performance of the investment options offered to members. It also considered the other aspects of DC provision that provide value to members where the costs of these are not met by members. As the costs of these benefits are not member-borne, they do not (currently) form part of the statutory value for members assessment. Nevertheless, these services add further value to members' experience of the Plan.

Fund charges were benchmarked against wide-ranging Mercer survey of total expense ratios for underlying funds held on the majority of the universe of DC investment platforms in the market. The majority of funds are in the upper quartile of range of costs in the database. The charges incurred typically offer poor value due to the level of charges being high compared to the database.

Performance was reasonable overall. Most funds have performed either in line with, or above their comparators over three and five years. The Money Market Fund that contains the vast majority of assets performed broadly in line with its objective. As a result the assessment concluded that overall the Scheme was offering reasonable value for members in relation to investment.

In addition, the Scheme's sponsor bears the cost of the Scheme's governance, administration and member communication programmes. Many of the Scheme's DC members also have a final salary pension benefit provided within the Scheme and/or have a Guaranteed Minimum Pension underpin attached to their defined contribution savings. This underpin provides further value to members as a minimum value of benefit that would be provided through the Scheme.

The Scheme is not a "specified scheme" for the purpose of Regulation 25(1A) of the Occupational Pension Schemes (Scheme Administration) Regulation 1998. This is because it has total assets in excess of £100m. The Regulations impose a requirement that "specified schemes" compare various aspects of their DC benefits against at least 3 comparator schemes. Because the Scheme is not a "specified scheme", this exercise has not been carried out.

Trustee's knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 sets out the requirement for Trustee to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as Trustee properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice 07 and 13.

The Trustee is currently putting in place arrangements for ensuring that its Directors take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a review of training needs to help identify any knowledge gaps in respect of the provision of DC benefits.

The Trustee also includes legislative updates, specific training by external advisers and trustee knowledge and understanding on the agenda when applicable.

All of the Trustee Directors have completed the Pension Regulator's Trustee Toolkit and new Trustee Directors are required to complete this in its entirety within six months of taking up office. All the Trustee Directors have familiarised themselves with the Scheme's governing documents, in particular, the Scheme's Trust Deed and Rules and Statement of Investment Principles and accompanying Implementation Statement.

DS SMITH GROUP PENSION SCHEME

YEAR ENDED 30 APRIL 2023

THE CHAIR'S STATEMENT REGARDING DC GOVERNANCE: 1 MAY 2022 – 30 APRIL 2023 (CONTINUED)

The Scheme maintains a training log in line with best practice and reviews its training programme annually to ensure it is up to date. In addition, a questionnaire is used to carry out an annual evaluation of the knowledge and understanding of the directors of the Trustee, and to identify training needs.

Taking into account knowledge and experience of the Directors of the Trustee with the specialist advice (both in writing and whilst attending meetings) from the appointed professional advisers, the directors of the Trustee believe they are well placed to exercise their function as directors of the Trustee properly and effectively.

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by the Occupational Pension Schemes (Charges and Governance) 2015 and subsequent legislation ('the Regulations') and I confirm that the above statement has been produced by the Trustee to the best of its knowledge.

Redacted

Chair of the Board of DS Smith Pension Trustees Limited

23/11/23
Date:

DS Smith Group Pension Scheme

Statement of Investment Principles – September 2022

1. Introduction

This Statement has been prepared by DS Smith Pension Trustees Limited as the Trustee of the DS Smith Group Pension Scheme (the 'Scheme'). It sets out the principles that govern the decisions about the investment of the Scheme's assets. The Trustee will refer to this Statement when making investment decisions to ensure that they are consistent with these principles.

The Scheme is primarily a Defined Benefit ("DB") arrangement although it also contains a Defined Contribution ("DC") arrangement and Additional Voluntary Contributions ("AVC"). The majority of this Statement is relevant to the DB element of the Scheme, unless specified otherwise.

The Scheme's investment arrangements, based on the principles set out in this Statement, are detailed in the Investment Policy Implementation Document ("IPID") which is available on request. The IPID will be reviewed promptly in response to any changes to the manager structure or strategy.

In preparing this Statement, the Trustee has obtained written advice from the Scheme's Fiduciary Manager (acting as both Investment Consultant and Investment Manager). Where matters described in this Statement may affect the Scheme's funding policy, input has also been obtained from the Scheme Actuary.

The Trustee's investment powers are set out within the Scheme's governing documents and relevant legislation.

The Trustee seeks to maintain a good working relationship with the Principal Employer, DS Smith Plc (the 'Group') and will discuss any proposed changes to this Statement with the Group. However, the Trustee's fiduciary obligations to the Scheme members will take precedence over the Group's wishes should these ever conflict.

The Trustee believes that the investment policies and their implementation are in keeping with the Pensions Act 1995 and subsequent legislation.

The Trustee does not expect to revise this Statement frequently because it covers broad principles. However, it will be reviewed at least once every three years and without delay after any relevant, material changes to the Scheme or to pension legislation.

2. Roles and Responsibilities

The Trustee has established an Investment and Funding Committee (the "IFC") to focus on strategic investment and funding matters. It aims to achieve an effective, integrated investment and funding strategy for the Scheme. The IFC's remit is defined by the IFC Terms of Reference ("ToR") which has been agreed by the Trustee.

The Trustee is accountable for the investment of the Scheme's assets. This includes setting investment objectives, establishing risk and return targets and setting the Scheme's strategic benchmark. However, the Trustee may delegate some aspects of the Scheme's investment arrangements to the IFC and Fiduciary Manager in order to manage the Scheme's affairs effectively. The ToR sets out the tasks which can be delegated to the IFC.

The Trustee has also established an Investment Sub Committee (the "ISC") to focus solely on investment matters and to report to the IFC a summary of what has been discussed over the quarter. In addition, the Trustee has appointed Mercer Limited to provide fiduciary management services for the Scheme's DB assets. This involves investment consulting and investment management services. Mercer is responsible for the day to day investment management, except for the Scheme's DC and AVC assets. The Trustee has appointed an external investment consultant, Barnet Waddingham, to provide ongoing oversight and advice around Mercer's role as Fiduciary Manager.

In considering appropriate investments for the Scheme, 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).

The Scheme's assets are invested in collective investment schemes ("Mercer Funds"), with the exception of the DC and AVC assets. The Mercer Funds are domiciled in Ireland (for traditional asset classes) and in Luxembourg (for private markets assets). The majority of the assets are invested in Mercer Investment Fund 3 CCF ("MIF3") which has been specifically set-up to create a bespoke portfolio of investments for the Scheme.

The Ireland-domiciled collective investment schemes are managed by a management company (Mercer Global Investments Management Limited ("MGIM")) and the Luxembourg-domiciled funds are managed by Mercer Alternatives (Luxembourg) S.à r.l. and, respectively, these entities have appointed Mercer Global Investments Europe Limited ("MGIE") and Mercer Alternatives AG ("Mercer AG") as investment managers of the Mercer Funds. In practice, MGIE and Mercer AG delegates the discretionary investment management for the Mercer Funds to third party investment managers. Mercer has expertise in identifying, selecting and combining highly rated investment managers who are best placed and resourced to manage the Scheme's assets on a day to day basis.

The Trustee sets the strategic investment strategy (i.e. split between Equity, Opportunistic Income Focused, Liquid Credit and Liability Driven Investment portfolios) based on the level of investment risk and return it wishes to target. It has then delegated the implementation of this investment strategy to Mercer, in line with agreed guidelines and parameters. The implementation of the investment strategy takes place within the Mercer Investment Fund 3 CCF where possible, with some less liquid investments held as standalone investments in other Mercer Funds.

The investment managers are responsible for the day-to-day management of the Scheme's assets in accordance with the guidelines agreed with the Mercer Fund. The investment managers have been given the discretion to buy, sell or retain individual securities in accordance with these guidelines. The investment managers report to Mercer

regularly regarding performance. Mercer then provides monitoring on the Mercer Funds and the Scheme's assets in aggregate to the Trustee.

The Custodian and Administrator of the Mercer Funds is appointed by the Mercer Funds and is responsible for the safekeeping of the Scheme's assets and for performing the associated administrative duties with segregated assets (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting). The Mercer Funds receive regular statements of assets from the Custodian and Mercer uses this for the reporting it provides to the Trustee and IFC/ISC. Where the Mercer Funds invest in other pooled funds they will have their own custodian and administrator. The Scheme does not have its own Custodian.

The Scheme Actuary performs a valuation of the Scheme 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 Scheme's assets cover the accrued liabilities and agree an appropriate funding strategy for the Scheme. In addition, the Scheme Actuary provides quarterly funding updates monitoring the funding level.

The Trustee has agreed with the Group a secondary funding target, the Long-Term Funding Target ("LTFT"). This valuation basis is broadly consistent with the lower-risk, predominantly bond-based investment strategy that is envisaged will ultimately be in place when the Scheme has substantially de-risked. The LTFT funding level is monitored on a daily basis by Mercer, who also provide regular updates to the Trustee.

Mercer's fee (as Fiduciary Manager) is agreed in advance and based on a percentage of the value of the assets under management, the fees are deducted automatically from the Scheme's assets via the Mercer Funds. The investment managers also levy fees based on a percentage of the value of the assets under management which are deducted via the Mercer Funds. Custodian fees are a combination of percentage of assets plus transaction related charges and they are also automatically deducted from the assets within the Mercer Funds.

The Scheme's DC assets are invested in pooled funds on the Utmost Life platform. The investment managers are responsible for the day-to-day management of the Scheme's assets in accordance with the guidelines of the pooled funds.

3. Investment Objectives

The following criteria have been applied in determining the investment strategy. The security of the accrued rights of members of the Scheme on both a continuing and termination basis is important. No strategy will be employed without first investigating its expected impact on the security of accrued pension benefits for Scheme members.

The investment strategy undertaken or principles applied should have regard to the following objectives:

- The need to protect the security of members' accrued rights
- The desire to control the costs of benefits by preserving the Scheme's wealth.

- A desire to limit volatility in the contribution rate as a result of any failure of the investment strategy.
- Notwithstanding the above, a preparedness to take on risk in a controlled fashion in order to achieve incremental excess return, coupled with the desire to provide, if considered appropriate and prudent to do so at the time, pension increases above the guaranteed rates, if annual inflation exceeds some or all of those guaranteed rates.

Now that the Scheme is closed, in order to meet these objectives, the Trustee has established a long-term de-risking framework which aims to be fully funded on the Long-Term Funding Target basis by 2035. The Trustee significantly reduced funding level risk in 2016 and continues to look for opportunities to reduce risk whilst maintaining the overall level of expected return and generating this in a more efficient and diversified manner. In 2020, the Scheme's investment strategy was restructured to align with the increasingly cashflow negative position of the Scheme. The Scheme has invested in a number of mandates that are expected to provide income to support benefit payments, whilst retaining a high degree of hedging against interest rates and inflation risk.

The Scheme has a dynamic trigger based de-risking framework which is used to guide when to reduce risk. The framework is used to monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise. Responsibility for monitoring the Scheme's asset allocation and undertaking any de-risking activity is delegated to Mercer. Further details on the framework is set out in the IPID.

The following criteria have been applied in determining the investment strategy for the DC assets. The Trustee's primary objective is to act in the best interest of its members and ensure that the members have a suitable range of funds available for investment. The investment profile of the funds available should be consistent with the needs of the members and are reviewed on a regular basis.

The Trustee also recognises that members may not believe themselves qualified to make investment decisions. As such, the Trustee makes available a default option, the "Utmost Life Money Market Fund". The Utmost Life Money Market Fund places the emphasis on preserving capital whilst aiming to provide a return in line with prevailing short term money market rates.

4. Risk and Return Targets

The Trustee understands that taking some investment risk, with the support of the Group, is necessary to improve the Scheme's Technical Provisions and LTFT funding positions. The Trustee recognises that equities and other growth assets (such as hedge funds, investment and sub-investment grade credit and asset-backed securities) will bring increased volatility of the funding level, but believes this risk is justified in the expectation of improvements in the Scheme's funding level through outperformance of the liabilities over the long term.

The primary investment objective is to achieve a long-term return above the change in the value of the Scheme's liabilities, while maintaining a prudent approach to meeting the Scheme's liabilities. Before deciding to take investment risk relative to the liabilities, the Trustee receives advice from the Fiduciary Manager and Scheme Actuary. In particular, the Trustee considers carefully the following possible issues:

- Over the short-term, the inclusion of investment risk will mean that the relative value of the assets and liabilities will be more volatile than if investment risk had not been taken. This will increase the likelihood of there being a shortfall of assets relative to the liabilities in the event of a discontinuance of the Scheme. This consequence is particularly serious if it coincides with the Group being unable to make good the shortfall.
- The increased volatility in the relative value of assets and liabilities from taking investment risk may also increase the short-term volatility of the Group's contribution rate.

The ability of the Scheme to take investment risk is dependent on the continuing financial strength of the Group and its willingness to contribute appropriately to the Scheme. Having regard to the above issues, the Trustee adopts investment arrangements that it believes offer an acceptable trade-off between risk and return.

The aim of the long-term de-risking framework is to identify opportunities to de-risk the Scheme's investment strategy, reducing the reliance upon the employer covenant over time, with the goal of reaching a fully funded position on the Long-Term Funding Target basis by the target date of 30 April 2035.

5. Policy on Risk

The Trustee acknowledges the largest source of risk over the lifetime of the Scheme is the decision not to match assets and liabilities. The Trustee regularly reviews the level of liability hedging and the level of strategic risk against the liabilities. The Trustee aims to match 100% of the interest rate and inflation risk associated with the Scheme's assets.

To control risk, the Trustee sets the split between the Scheme's investments such that the expected return on the portfolio is sufficient to meet the objectives outlined in Section 3 of this Statement. As the funding level improves, investments will be switched towards less risky assets, whilst maintaining or increasing the significant degree of liability hedging.

- The Trustee recognises that even if the Scheme's assets are invested in matching assets there are practical constraints associated with achieving an exact match of the Scheme's assets and the Scheme's liabilities. The Trustee attempts to manage this risk where possible. For example, in 2019 the Trustee implemented a trigger-based framework to purchase CPI-linked liability hedging assets in order to provide a more accurate hedge of the liabilities.
- The Trustee has chosen to employ active management in some areas. Active management gives rise to *active risk*, which arises due to the potential for selecting an active manager that underperforms its benchmark net of management and transaction fees. Though the use of active management increases risk, the Trustee believes this is outweighed by the potential gains from successful asset management. To help diversify manager-specific risk, the Trustee has delegated responsibility for the selection, appointment, removal and monitoring of the Scheme's investment managers to Mercer via the Mercer Funds.

- The delegation of manager selection and sub-asset class selection allows the Trustee to focus on the strategic matters such as allocation between the broad asset classes which has most impact on risk levels.
- To help the Trustee ensure the continuing suitability of the current investments, Mercer and Barmet Waddingham provides the Trustee with regular reports regarding the performance of the underlying asset managers appointed within the relevant Mercer Funds.
- Across all of the Scheme's investments, the Trustee is aware of the potential for regulatory and political risks. *Regulatory risk* 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. Investments within the Mercer Funds may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made within diversified portfolios and with specialist managers. In any event, the Mercer Funds are regulated vehicles and the Trustee, with Mercer's advice, seeks to ensure that the assets of the Scheme are predominantly invested on regulated markets.
- The Trustee is also aware of concentration risk which arises, for example, when a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers. With the exception of the Scheme's Liability Driven Investment Portfolio, the overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.
- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme'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.
- The Trustee further recognises longevity risk. This refers to the risk that an individual will live longer than their life expectancy according to the actuarial assumptions used within the triennial valuation. In that situation, the liabilities of the Scheme will be higher than estimated as pensions will be paid for longer than assumed. The Trustee keeps this risk under review.
- The Trustee recognise that environmental, social and corporate governance concerns including climate change can have a financially material impact on risk and return. Section 11 sets out how these risks are managed.

The Trustee acknowledges that it is not possible to monitor all of the risks listed above at all times. However, the Trustee seeks to take on those risks which it expects to be rewarded for over time, in the form of excess returns, in a diversified manner.

The Trustee has considered risk from a number of perspectives in relation to the DC Section, including the default. The list below is not exhaustive, but covers the main risks considered by the Trustee to be financially material.

Risk	How it is Managed	How it is measured
<p>Market Risk</p> <p>The risk that low investment returns over members' working lives or unfavourable market movements in the years just prior to retirement will secure an inadequate pension.</p>	<p>The Trustee provides members with a range of funds, across various asset classes. Members are able to set their own investment strategy in line with their aims and risk tolerances.</p>	<p>The performance of the available funds is monitored on an annual basis.</p>
<p>Interest Rate Risk</p> <p>The risk that unfavourable interest rate movements, particularly in the years just prior to retirement may lead to a reduction in the pension that the member's retirement account can secure.</p>	<p>The Trustee provides members with a range of funds, across various asset classes, which will have varying sensitivities to interest rate risk.</p>	<p>The performance of investment funds and market fundamentals, including interest rates, are monitored on an annual basis.</p>
<p>Inflation Risk</p> <p>The risk that investments do not keep pace with inflation.</p>	<p>The Trustee provides members with a range of funds, across various asset classes, which have varying exposure to inflation risk. These include equities which are generally viewed to have inflation hedging properties.</p>	<p>Annual performance reports consider the long term performance of the funds to help the Trustee assess whether the returns have kept pace with inflation.</p>
<p>Manager Risk</p> <p>The risk that the chosen underlying investment manager underperforms the benchmark against which the manager is assessed.</p>	<p>The Trustee provides members with a range of funds, across various asset classes, which have varying levels of active management.</p>	<p>It is the Trustee's policy to monitor performance on an ongoing basis relative to the fund's benchmark and stated targets/objective.</p>
<p>Mismatch Risk</p> <p>The risk that the financial assets a member is invested in as they approach retirement are not suited to the way they will access their retirement benefit.</p>	<p>The Trustee has made a range of funds available to members including share, cash, and bond funds that can be selected by members as they approach retirement.</p>	<p>It is the Trustee's policy to monitor performance on an ongoing basis.</p>

Risk	How it is Managed	How it is measured
<p>Liquidity Risk</p> <p>The risk that assets may not be readily marketable when required.</p>	<p>The pooled funds in which the Trustee allows members to invest provide the required level of liquidity. Units in the pooled funds in which the Scheme invests are believed to be readily redeemable.</p>	<p>When considering new investment options or reviewing existing options, the Trustee considers the pricing and dealing terms of the underlying funds.</p>
<p>Concentration Risk</p> <p>The risk that a portfolio has an over-allocation to a single asset class, sector, country, or counterparty, thereby having a high exposure to non-systemic risk factors.</p>	<p>The Trustee has made a range of funds available to members, so that they can choose to invest in a well-diversified portfolio. The range of funds enables diversification by asset class (e.g. equity, bonds, cash), by region and includes both passively and actively managed funds, which can help achieve diversification.</p>	<p>It is the Trustee's policy to monitor performance on an ongoing basis.</p> <p>The Trustee also periodically reviews the default investment option and self-select range.</p>
<p>Exchange Rate Risk</p> <p>The value of an investment in the member's base currency may change as a result of fluctuating foreign exchange rates.</p>	<p>The Trustee has made a range of funds available to members, across various asset classes, which have varying levels of exposure to foreign exchange rates.</p>	<p>It is the Trustee's policy to monitor performance on an ongoing basis.</p>
<p>Environmental, Social and Governance Risk</p> <p>ESG factors can have a significant effect on the performance of the investments held by the Scheme, e.g. extreme weather events, poor governance.</p>	<p>The Trustee's policy on ESG risks is set out in Section 11 of this Statement.</p> <p>The incorporation of ESG considerations is delegated to the Provider who in turn delegates to the underlying investment managers.</p>	<p>It is the Trustee's policy to monitor performance on an ongoing basis and ESG considerations are taken into account by the Platform provider in the selection of managers.</p>

6. Realisation of Investments

The Trustee on behalf of the Scheme hold shares in the Mercer Funds. The investment managers to the Mercer Funds, (including the underlying third party asset managers appointed by MGIE and Mercer AG), 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.

In regard the DC assets, the Scheme's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments.

7. Cashflow Management and Rebalancing

Mercer is responsible for raising cash flows to meet the Scheme's requirements according to an agreed process in place between the Trustee and Mercer and within the guidelines for the Mercer Funds.

8. Strategic Benchmark/Objective

The Trustee has established a strategic objective and investment benchmark for the Scheme, along with the long-term de-risking framework. Full details of the Scheme's current objective, benchmark and the long-term de-risking framework are set out in the IPID.

9. Investment Managers

The Trustee has appointed Mercer to act as discretionary investment manager. The Trustee has taken steps to satisfy itself that Mercer has the appropriate knowledge and ensures that it is fit to manage the Scheme's investments. The Trustee regularly reviews with the assistance of Barmet Waddingham the continuing suitability of Mercer, including Mercer's ability to select, appoint, remove and monitor the appointed managers. The MGIE funds are regulated by the Central Bank of Ireland, the FCA has approved the use of the MGIE funds in the UK and Mercer Limited is regulated by the FCA. The Mercer AG funds are organised under the laws of the Luxembourg and the FCA has approved the use of the Mercer AG funds in the UK.

In its capacity as investment manager to the Mercer Funds, Mercer, and the underlying third party asset managers appointed by Mercer, 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.

The investment managers have been selected for their expertise in different specialisations and each manages investments for the Mercer Funds to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured. The IPID gives brief details of each investment managers' mandate.

Where cash is held within a Mercer Fund this is swept into a short term liquidity fund. . Otherwise cash is held in the Trustee bank account to meet short-term cashflow requirements.

The Trustee has selected Utmost Life as investment platform provider for the DC assets. Utmost Life offers a range of funds to members managed by various underlying fund managers. Further detail regarding the fund range are available in the IPID.

10. Investment Restrictions

As highlighted above formal investment management arrangements are in place for the managers used in the Mercer Funds. These include restrictions on the type of instruments that can be used. In addition, the Trustee has agreed with Mercer, fund guidelines for the Mercer Investment Fund 3 CCF which has been set-up solely for the assets of the Scheme. The purchase of shares of DS Smith plc is also prohibited unless via a multi-client pooled fund, but there is an overall limit that no more than 5% of the Scheme's assets (either pooled or directly held) can be held in Employer Related Investments.

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

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognise that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

As noted above, the Trustee has appointed Mercer to act as discretionary investment manager in respect of the Scheme's assets and these assets are invested in Mercer Funds managed by MGIE and Mercer AG. Within these funds, Mercer has provided all of the third party investment managers a copy of Mercer's Sustainable Investment Policy. Mercer also aims to invest in managers who take a more active approach to considering ESG in their investment decision making. The managers have been given discretion in evaluating ESG factors, including climate change considerations, and exercising voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. However, Mercer expects all managers to vote and Mercer monitors the manager's commitment to voting and incorporating ESG factors into their decision making and on a regular basis and discusses at length with the underlying investment managers their activity with regard to the above. Mercer also monitors the portfolios for UN Global Compact Breaches.

The Trustee receive regular reports and information from Mercer on their monitoring and the managers' compliance. This includes but is not limited to Mercer's ESG ratings for the underlying investment managers, analysis of carbon foot print and voting and engagement activity. Some of the voting and engagement information will be shared with the public on an annual basis.

The United Nations' Sustainable Development Goals (SDGs) inform Mercer's long term investment beliefs and direct Mercer's and the Trustee's thinking when it comes to converting systemic risks into transformational investment opportunities as outlined in Mercer's [Sustainability Policy](#).

The Scheme has an allocation to Sustainable Equities and Sustainable Private Market Opportunities.

The Trustee will engage with Mercer where areas of concern are identified periodically. In practice, a formal documented review of ESG ratings and Mercer's integration of ESG into

their and the underlying managers' investment decision making is undertaken at least annually.

The Trustee recognises the conflict of interest which may arise in the context of responsible investment. Mercer, MGIE and Mercer AG 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.

Member views

To date member views have not been taken into account in the selection, retention and realisation of investments. However, the Trustee is keen to hear the views of members on ESG and climate change and shares via the implementation statement the Scheme's approach to ESG and climate change.

Investment Restrictions due to ESG, Stewardship and Climate Change Considerations

The Trustee has not set any investment restrictions to particular products or activities for ESG reasons, but may consider this in future. They are supportive of Mercer's decision to exclude any holdings in controversial weapons and tobacco from the Mercer Funds.

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

The Trustee is a long-term investor and is not looking to change their investment arrangements on an unduly frequent basis.

Mercer manages the Scheme's assets by way of investment in Mercer Funds. This includes multi-client collective investment schemes and the Mercer Investment Fund 3 CCF which is established only for the Scheme.

Within the Mercer Investment Fund 3 CCF the Trustee expects Mercer to manage the assets in a manner that is consistent with the Trustee's overall investment strategy as outlined in this SIP and as documented in the guidelines to the Fund agreed between the Trustee and Mercer. In particular, for the management of the assets to reflect the long-term nature of the Scheme. 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 using external advice.

Where multi-client Mercer Funds are used the Trustee accepts that they do not have the ability to determine the risk profile and return targets of specific Mercer Funds.

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 in Mercer Funds.

To evaluate performance of Mercer and the underlying third party managers, the Trustee receives, and considers, investment performance reports produced on a quarterly basis, which presents performance information and commentary in respect of the Scheme's funding level and the Mercer Funds in which the Scheme is invested. The Trustee reviews the absolute performance and relative performance (over the relevant time period) on a

net of fees basis. The Trustee's focus is on the medium to long-term financial performance of the Mercer Funds. The Trustee is also supportive of non-financial considerations being taken into account as highlighted in Section 11.

Mercer does not 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 third party asset managers appointed by Mercer, MGIE or Mercer AG 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, MGIE or Mercer AG's assessment of how each underlying third party asset manager embeds ESG into their investment process. This includes the asset managers' policies on voting and engagement. The Trustee is also able to assess how Mercer's Sustainable Investment philosophy aligns with the Trustee's own responsible investment policy. This includes the asset managers' policies on voting and engagement. Section 11 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 Scheme.

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

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 3. The fees for Mercer and MGIE are based on a percentage of the value of the Scheme's assets under management, which covers the advice, and investment management of the assets. In addition, the underlying third party asset 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. The fees paid to Mercer and the underlying third party asset managers is reported separately.

Mercer AG fees are charged based on net commitment for the first four years following the final close and, thereafter, by reference to the Net Asset Value of the Mercer Fund.

Mercer reviews the fees payable to third party asset managers managing assets invested in the Mercer Funds on a regular basis with any negotiated fee savings passed directly to the Scheme. Mercer, and the third party asset 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 Scheme's annualised, MiFID II Personalised Cost & Charges statement. The Scheme'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, but before significant restructuring the transaction costs are considered alongside the benefits. Performance is also reviewed net of portfolio turnover costs. Mercer (within its fiduciary duty) also considers the portfolio turnover of the underlying investment managers.

13. Additional Voluntary Contribution Assets ("AVCs")

Assets in respect of members' AVCs are invested in a range of investment options. With the assistance of Mercer, the AVC arrangements will be reviewed periodically to ensure that the investment range available remains consistent with the objectives of the Trustee and the needs of the members. More information on the AVC providers is detailed in the IPID.

14. 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 or legislation. 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 scheme investments.

For and on behalf of DS Smith Pension Trustees Limited as Trustee of the DS Smith Group Pension Scheme