

pension focus

Annual Report to Members

December 2022





Chairman's welcome...

Welcome to the 2022 Pension Focus.

It has been another busy and productive year for the DS Smith Group Pension Scheme (the "Scheme"), with the Trustee working closely with the Principal Employer to manage risk and work towards our long term objectives, whilst continuing to make sure members' benefits are paid correctly and on time.

Changes to the Trustee Board

In June 2022 we said goodbye to Trustee Director, Jeremy Aron, who resigned from his role. I would like to thank him for his diligent service and wish him all the best. I am confident that in Nigel Hayter we have found a very able replacement, particularly given Nigel's extensive knowledge of the Scheme due to his previous roles at DS Smith. I am looking forward to working with him.

A new Scheme administrator

As I am sure you are now aware, the Scheme's administration has been managed by Buck since June last year. The quality of service provided is reviewed at least monthly by the Administration and

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

Buck recently implemented an online Pension Portal giving members access to information on their benefits whenever needed. Members should have received a welcome letter outlining how to access the Portal and we hope that you have had a chance to do so. If you need any help logging on to the Portal, please contact Buck, you can see their contact details on page 20.

Actuarial valuation

30 April 2022 is the date of our latest triennial actuarial valuation. This is where the Trustee reviews Scheme funding on a statutory basis before agreeing a strategy with the Group to provide security to members' benefits. We will shortly begin working with the Group on how best to achieve this and expect to finish the process before June 2023.

Additionally, as part of our discussions with the Group, we will agree a strategy that aims to achieve the long-term funding target to provide members with security over and above the statutory requirements by 2035.

It is important to know that we regularly monitor Scheme funding and are pleased that the funding position has improved over the year.

Current high inflation

The headlines about current high inflation within the UK may be a concerning time for members. We've worked with our advisers and the Group to consider the impact on the Scheme, particularly in relation to the investment strategy and funding position. Given how the Scheme's assets are invested, the Trustee has a high degree of protection against inflation in place. This means the funding and security of benefits is protected to a large extent against these higher levels of inflation.

Investment strategy

As well as high inflation, 2022 has seen turbulence in investment markets due to rising interest rates across the globe, the conflict in Ukraine and renewed lockdowns in China. This has meant that both the value of assets and liabilities of the Scheme have decreased. However, as mentioned earlier the funding level has improved.

Our investment advisers Mercer Limited monitor the risk levels of the Scheme investments on a daily basis, and look to move assets from higher to lower risk when it is most suitable to do so.

Work continues on integrating Environmental, Social and Governance (“ESG”) considerations within the Scheme’s investments. The Scheme will publish its first Taskforce for Climate Financial Disclosures (“TCFD”) report in 2023 which will show the risks and opportunities for the Scheme from climate change.

Final thoughts

Recently there has been a significant amount of UK economic uncertainty following the previous Chancellor’s ‘mini-budget’ in September 2022 (which has now been largely reversed by the new Chancellor). The Trustee and their advisers monitor the financial markets very closely and have been taking appropriate actions as necessary. So far there has been minimal impact on the funding level of the Scheme.

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.

There are a number of items covered in this newsletter, including financial information and an investment update, as well as an update from the Group. We also give you an update on the Guaranteed Minimum Pension (‘GMP’) equalisation project.

We hope you find this newsletter informative and interesting, and we welcome your comments and feedback. If you have any ideas for content in future issues or any other comments, please do pass them on using the contact details on page 20.



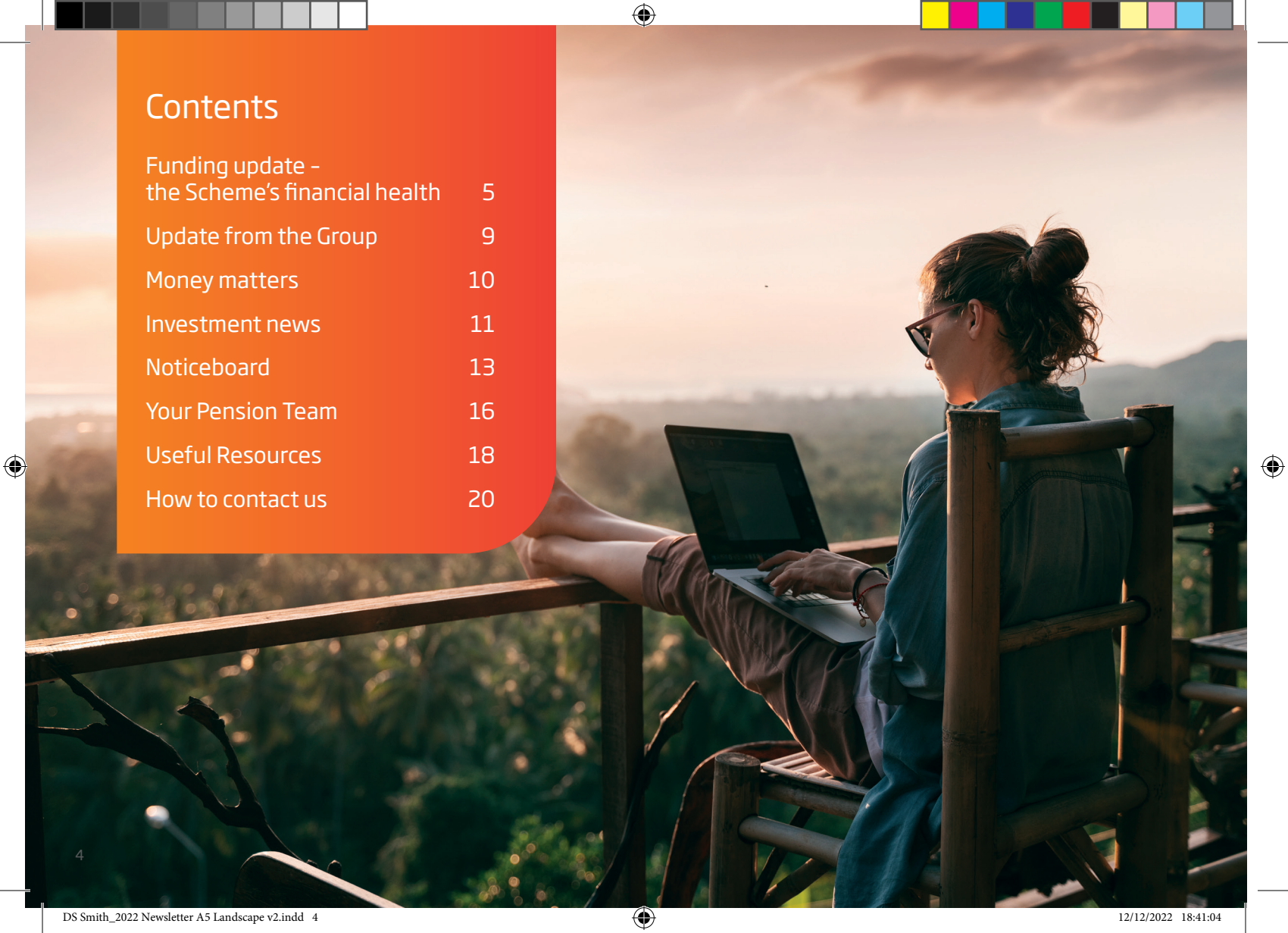
A handwritten signature in black ink, appearing to read 'Gary Saunders'.

Gary Saunders

Chairman of the Board of DS
Smith Pension Trustees Limited

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Funding update – the Scheme’s financial health

The Trustee is responsible for ensuring the Scheme has enough funds to pay your benefits. To do this we have a plan with the primary aim of meeting and maintaining the level of assets that are expected to pay benefits out to members now and in the future. This is known as our ‘liabilities’.

At least once every three years, the Trustee must ask the Scheme Actuary to produce an Actuarial Valuation report. The Scheme Actuary measures the financial health of the Scheme by calculating the liabilities and comparing this with the assets.

If there are fewer assets than liabilities, it is said to have a ‘shortfall’; if there are more assets than liabilities, it is said to have a ‘surplus’. In years where a formal Actuarial Valuation is not due, the Scheme Actuary carries out an interim check on the funding level known as an ‘Actuarial Report’.

We’ve included the results of the full Actuarial Valuation as at 30 April 2019 and the annual updates as at 30 April 2020 and 2021 below. The next Actuarial Valuation date was 30 April 2022, and the Trustee is overseeing the process of finalising the results alongside the Group and the Scheme Actuary. This will be communicated to you when complete.

Assets

The amount of money invested in the Scheme

Liabilities

The amount of money that would be needed to pay for the pension benefits that have built up in the Scheme

	30 April 2019 valuation	30 April 2020 report	30 April 2021 report
The Scheme’s liabilities were valued at	£1,190m	£1,292m	£1,222m
The Scheme’s assets* were valued at	£1,037m	£1,122m	£1,119m
This means that there was an estimated shortfall of	£153m	£170m	£103m
This gave a funding level (assets divided by liabilities) of	87%	87%	92%

**excluding AVC investments*

Funding update – the Scheme’s financial health

What has changed since April 2021?

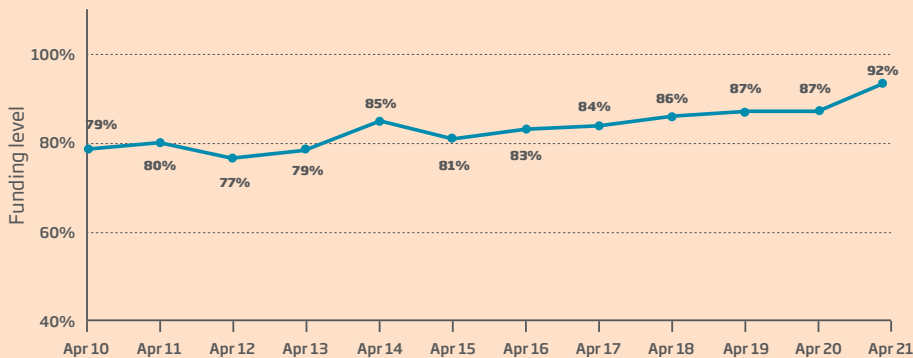
Since April 2021, it’s estimated that the funding level has remained relatively stable. However given changes in market conditions, the value of both the assets and liabilities have fallen. Overall, this means that the deficit (i.e. the gap between assets and liabilities) has actually fallen.

As referred to in the introduction, the Trustee worked with the Group to make sure the impact of the mini-budget in September 2022 was managed. This included setting up a loan from the Company in the event the Scheme was required to pay additional cash in relation to its investments. This money was not required and has since been returned to the Group.

Longer term progress

The Trustee is conscious that each update only shows the progress of the Scheme over a three year period which does not capture the longer term improvement in Scheme funding. The chart below shows the progression in Scheme funding since the April 2010 valuation up to the last Actuarial Report in 2021.

Historical funding position - from April 2010



How does the Trustee monitor the Group’s ability to support the Scheme?

In managing the Scheme, the Trustee must consider the strength of the Group and its ability to support the Scheme financially. The Trustee reviews this regularly, and another independent review will be carried out by PwC as part of the 2022 Actuarial Valuation.

How is the shortfall going to be paid off?

To eliminate the shortfall of £153m calculated at the Actuarial Valuation as at 30 April 2019, the Trustee and Group agreed a funding plan which was expected to lead to the Scheme being fully funded by September 2025. This is called the Scheme's 'Recovery plan'. The agreed payment schedule is set out below:

Scheme Year	Group Deficit Contributions (£m)
2019/20	19.0
2020/21	19.4
2021/22	19.8
2022/23	20.2
2023/24	20.6
2024/25	21.0
2025/26*	8.9

* in respect of May to September 2025

If the assumptions used in the Actuarial Valuation do not all turn out to be what happens in the future, it may be necessary to change the level of contributions to the Scheme or the period over which the shortfall is paid off.

The Pensions Regulator has legal powers to take action following an Actuarial Valuation as to:

- The method or assumptions used to calculate the liabilities or the length and structure of the Recovery plan
- The contributions that should be paid under the Schedule of Contributions.

As part of the 2019 Actuarial Valuation the Trustee and Group agreed the method and assumptions to be adopted and the contributions to be paid, and the Regulator did not have any issues with the Actuarial Valuation.

The Trustee and Group will re-assess the payment schedule required as part of the 30 April 2022 Actuarial Valuation. In addition, the Group also meets the cost of the Pension Protection Fund levies and the costs of running the Scheme.

Funding update – the Scheme’s financial health

What would happen if the Scheme were to be wound up?

It’s a legal requirement for us to let you know what the funding position would be if the Scheme were to be wound up (i.e. it came to an end) and the benefits were secured with an insurance company (the ‘wind up’ of the Scheme). This ‘wind-up valuation’ is purely to comply with legal regulations. The Group has no plans to wind up the Scheme.

If the Scheme had been wound up on 30 April 2019 (the last valuation date) then the estimated amount of assets the Scheme would have needed to ensure benefits were paid in full was £1,463m. The Scheme had assets of £1,037m at this date so the wind-up shortfall was £426m and the wind-up funding level was 71%.

In the event of the Scheme winding up, the law requires the Group to pay sufficient money to the Trustee so that we can purchase the full benefits built up in the Scheme with an insurance company. If the Group became insolvent at that time and were not able to pay the full amount, the Pension Protection Fund might be able to take over the Scheme and pay compensation to members.

Further information and guidance is available on the PPF website at www.ppf.co.uk.

Payment to the Group

As part of our update, we are required to tell you if a payment has been made to the Group since we last sent you an Annual Funding Statement.

Following the market uncertainty following September’s ‘mini-budget’, the Group agreed to pay a short term loan of £100m to the Scheme in order to provide liquidity should it be required. Once markets stabilised, the Scheme returned this loan amount to the Group on 31 October 2022. The option to request a similar loan will be in place until mid-January.

Other than this return of the loan amount we confirm that no other payments have been made to the Group. This payment was purely a precautionary measure and the money was not required.



Update from the Group

DS Smith Plc is the main employer of the Scheme and as agreed in the Schedule of Contributions contributes over £20m into the Scheme annually.

The Group and the Trustee meet regularly to discuss Scheme governance and work closely and collaboratively to monitor, review and assess investment matters via an Investment and Funding Committee.

On the right is a snapshot from the Group's latest accounts and below details of the Group's 'Now and Next Sustainability Strategy'. You can see the full report and accounts at www.dssmith.com/investors/annual-reports.

Revenue (£m)
£7,241m



Return on sales (%)
8.5%



Free cash flow (£m)
£519m



Adjusted operating profit (£m)
£616m



Now and Next Sustainability Strategy

The Group's Now and Next strategy details how they will deliver on Climate Change. A summary is shown below for information:

Our focus is on:



Closing the loop through better design



Protecting natural resources by making the most of every fibre



Reducing waste and pollution through circular solutions



Equipping people to lead the transition to a circular economy

We will continue to:

- Drive carbon reduction
- Care for forests and their biodiversity



By 2025 we will protect forests and enhance biodiversity wherever we operate



By 2030 we will reduce our CO2 emissions by 30 percent per tonne of production against a 2015 baseline

Maintain that 100% of in-scope sites are ISO 50001 certified each year

Money matters

Financial Highlights - Accounts

A summary of the Scheme's income and expenditure is shown on the right. Full financial details are in the formal Annual Report & Accounts, which is available on written request from the administration team at Buck (see page 20).

The value of the Scheme, including Additional Voluntary Contributions (AVCs) and the John Dickinson Stationery (JDS) Limited Special Benefits Account, decreased over the year from £1,122.2m at 30 April 2021 to £1,057.7m at 30 April 2022. The decrease of £64.5m represents a 5.7% reduction of the value of the Scheme.

Scheme accounts

SCHEME AS AT 30 APRIL 2021:

£ 1,122.2m

INCOME

Including investment income and employer contributions of: £19.8m

OUTGOINGS

made up of payments to members and death benefits

CHANGE IN MARKET VALUE:

the change in the value of the assets during the year

TOTAL INCOME
£42.1m

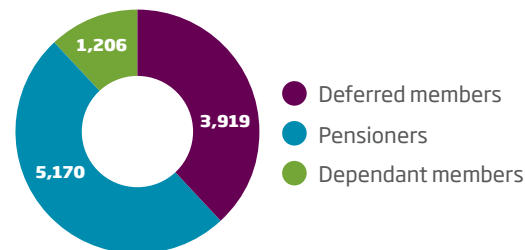
TOTAL OUTGOINGS
£48.4m

CHANGE IN MARKET VALUE
-£58.2m

SCHEME AS AT 30 APRIL 2022:

£1,057.7m

Membership at 30 April 2022



At the year-end the membership of the Scheme had decreased from 10,432 to 10,295.



Pension increases

In general, pensions in payment are increased each year using the Consumer Prices Index for the year to September.

The Trustee approved a 3.1% increase to pre 2005 service benefits and a 2.5% increase to post 2005 service benefits with effect from April 2022 for the majority of members.

Former members of the Containers Scheme received no increase on benefits earned before 1997 other than statutory increases on GMP benefits. Pensioners with a guaranteed 5% increase received this on 1 April 2022.

Investment news

To help the Trustee to monitor, review and assess investment matters, the Investment and Funding Committee, which consists of the Trustee and representatives from the Group, continued to meet at least quarterly throughout the financial year. In addition a smaller sub-committee meets on a regular basis.

In the last few years, the Trustee has been particularly focused on reducing investment risk which has involved choosing from a wider mix of investment options.

Environmental, Social, and Governance considerations

The Trustee is focused on:

- continuing to build Environmental, Social and Governance (“ESG”) considerations into its assets
- reducing the carbon ‘footprint’ of its assets; and
- increasing investments into assets with a social impact.

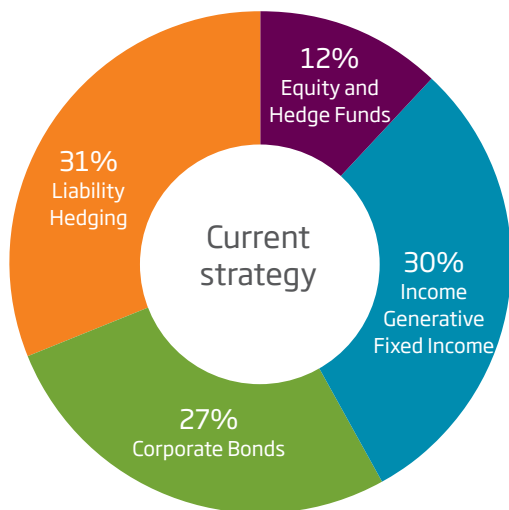
The Trustee believes this is the correct policy for ensuring our assets are protected for the longer term. Further details on the Trustee’s approach to ESG considerations can be found in the Statement of Investment Principles and Implementation Statement (page 14). The Trustee welcomes the views of the members in this area and any member wishing to comment should send an email for the attention of the Trustee to DSSmith@buck.com

Investment news

Scheme Investment Strategy

The Scheme holds a wide spread of investments across different countries and types of investment. These assets are invested in growth assets to provide returns to reduce the shortfall as well as more defensive assets to reduce the impact of sudden changes in market conditions on the Scheme's funding position.

The chart below shows the revised investment strategy at year end.



- Liability Hedging**
Assets designed to move in line with the liabilities
- Equity and Hedge Funds**
Assets designed to generate additional investment return
- Income Generative Fixed Income**
Assets designed to provide income to meet benefit payments
- Corporate Bonds**
Investments in Companies that provide return and income



Noticeboard



High Inflation - How does it impact me?

At the time of writing, the “Cost of Living Crisis” is taking hold and we understand this will be concerning for many members. With regards to your benefits in the Scheme, the majority of members will have some inflation protection in relation to some or all of your benefit. The majority of pensions in payment from the Scheme increase each year in line with consumer price inflation up to a specified maximum as set out in the Scheme’s Trust Deed and Rules. The actual increase will depend on the type of pension and when it was earned.

In recent years inflation has been relatively low and the maximum increases have not impacted the increases applied to pensions, however due to the generally very high inflation in 2022,

these caps are expected to apply to your next pension increase and therefore you will not receive a full inflation increase on your benefit.

Generally, pensions not yet in payment in the Scheme also increase by law each year in line with price inflation subject to an overall maximum. The increases that are applied before you have retired are different from those that will apply after you have retired. The high levels of inflation currently being seen in the UK may impact on members’ retirement decisions. If you are considering taking your benefits from the Scheme you should consider taking independent financial advice. Your adviser will be able to help you consider the effects of inflation on your decision making.

Noticeboard

Online pension portal and deferred benefit statements

As part of Buck's administration service, a Pension Portal is available to access information online about your benefits. As this portal will contain details about any deferred benefits it will replace the usual annual benefit statements that are sent to deferred members. In future years, the updated version of this communication will be issued via the online portal unless members choose to opt out. You can access the Pension Portal by visiting: <http://www.buckhrsolutions.co.uk/dssmith> You should have received details on how to access the portal, if you need a reminder of your details please contact Buck on the details on page 20 or via DSSmith@buck.com.



Online pensioner payslips

The Epay website which includes details of your payslips, P60's and annual increase letters is being replaced by the new Pension Portal mentioned opposite. **We will be closing the Epay website on 5 April 2023.** Payslips are now available and we will contact you separately to provide further notification. Again please contact DSSmith@buck.com for further details on how to access the new portal, if you have not received these already.

Have we got your current email address?

The Trustee is looking at the best and most efficient way to update members in a timely manner. We plan to use online communication more, this will save time and money - whilst being kinder to the environment. We would therefore encourage all members to update your personal email address with Buck. To do this please contact Buck by email with your full name, member reference number and date of birth at DSSmith@buck.com

The SIP and Implementation Statement

These documents show how the Trustee invest the Scheme's assets. The Trustee agreed to an updated Statement of Investment Principles ('SIP') in September 2021. The Trustee also agreed to an updated Implementation Statement in September 2022.

These are both available to members at <https://www.dssmith.com/company/our-leadership/ds-smith-group-pension-trustees>



Be wary of pension scams

During this time, we ask that you be extra vigilant for pension scams. We have heard reports of pension scammers trying to take advantage of pension scheme members worried about the current investment market turbulence. Please be extremely wary of any uninvited approaches about your pension savings.

These could be by telephone, email or text and may pretend to be from a legitimate source, such as HMRC (His Majesty's Revenue and Customs - the tax office). Learn how to spot the signs and check who you're dealing with on the FCA's ScamSmart website to give yourself the biggest protection against fraudsters which you can find via the Money and Pensions Service website or directly at the following link: <http://www.fca.org.uk/scamsmart>.

Update on GMP Equalisation

As communicated in previous newsletters, in October 2018 the High Court ruled that all UK pension schemes must take steps to equalise pension benefits for men and women in relation to GMP built up between 17 May 1990 and 5 April 1997.

You may have GMP as part of your Scheme benefits if you were a contributing member at any time between 6 April 1978 and 5 April 1997, but not all members have GMP. The Trustee continues to monitor developments in this area including the latest judgment from this case in relation to historic transfer values.

The Trustee has been working with our advisers and the Group to develop a plan for dealing with GMP equalisation. These are complex undertakings for most schemes and take a significant amount of time to complete. We will keep you informed on progress of the work being carried out, in particular if your benefits are affected. Some pensions may require a small uplift as a result of GMP equalisation, however many will not be impacted at all.

Your Pension Team

Scheme Trustee

The Trustee is responsible for making sure that your interests are protected. It is their job to make sure the rules of the Scheme are followed, all contributions are paid into the Scheme, benefits are paid on time and records of all transactions are kept.

The Trustee of the Scheme is DS Smith Pension Trustees Ltd.

The current Trustee Directors are:



Gary Saunders (Chairman)
- Independent



Nigel Hayter - Pensioner



AAA Trustee Limited (represented by
Phil Holland) - Independent



Hugo Fisher - Employee

Member-nominated Trustee Directors



Lynn McCallum - Pensioner



Paul Doust - Pensioner

Scheme advisers

The Trustee delegates some day-to-day responsibilities to professional experts and takes advice when making decisions.

The current advisers are:

Actuary

Neil Brougham FIA, Mercer Limited

Administrator

Buck

Auditors

RSM UK Audit LLP

Legal adviser

Mayer Brown International LLP

Covenant adviser

PricewaterhouseCoopers LLP

Fiduciary Manager

Mercer Limited

Investment managers

- Mercer Global Investments Europe Limited
- Insight Investment Management (Global) Limited (Insight)
- Irish Life Investment Management Limited
- Royal London Asset Management (RLAM)
- Schroder Investment Management Limited

Investment advisers

Mercer Limited

Investment oversight

Barnett Waddingham LLP

Scheme Secretary

Mercer Limited

Useful Resources

There are lots of resources available with information about pensions, and where to go to get retirement guidance and advice. We have listed some of these resources below.

MoneyHelper

www.moneyhelper.org.uk

MoneyHelper is a resource that offers impartial help on all aspects of money, including benefits, savings and pension choices. It is backed by the Government, free to use, and incorporates services previously provided by the Pensions Advisory Service, the Money Advice Service and Pension Wise.

MoneyHelper has a number of sections dedicated to different financial topics:

Pensions & retirement

Offers guidance on all stages of pensions, from just starting out, to retirement. It also includes help on State Pensions and what to do if you have a complaint.

Pension Wise

Offers free, impartial guidance on retirement options for people age 50 and over. Pension Wise provides guidance to help members of Defined Contribution pension schemes understand their options; it can also be used by people with Defined Benefit pensions who want to look into flexible retirement options.

Everyday money

To help people learn to manage money better, including budgeting, bank accounts and different types of credit.

Work

Provides information about working, including benefits, tax, and redundancy



Age UK - www.ageuk.org.uk

Age UK is a charitable organisation that provides help and assistance to older people. It offers advice on finances, and ways to keep active and healthy, and avoid loneliness into old age.



Gov.uk

The Government's website where you can find information about everything relating to tax, pensions and the State Pension. Pages you might find useful are:

- **State Pension** - for people who reached their State Pension Age before April 2016
- **New State Pension** - for people who reach their State Pension Age after 2016
- **State Pension Age** - find out when your State Pension Age is expected to be
- **Trace a pension** - trace an occupational pension scheme but have lost their information

How to contact us

Buck administers the Scheme on behalf of the Trustee.

Should you have any queries, Buck can be contacted at:

DS Smith Group Pension Scheme

Buck (Bristol)

PO Box 319

Mitcheldean

GL14 9BF

Tel: **0330 123 3658**

Email: **DSSmith@buck.com**

