DS Smith Group Pension Scheme

Statement of Investment Principles – September 2021

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'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, this involves investment consulting and investment management services. Mercer is responsible for the day to day investment management. 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”). 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.

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.

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 Barnet 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.

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.

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 Barnet 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.

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