

## SmithKline Beecham Pension Plan (“the Plan”)

### Statement of Investment Principles for the Defined Contribution Section - September 2021

This Statement of Investment Principles (“**SIP**”) covers the Defined Contribution (“**DC**”) Section of the Plan. It is set out in three parts:

- 1) Governance Arrangements
- 2) Objectives and Implementation of the DC Section
- 3) The Trustee's Investment Policies

The Plan’s investment arrangements with respect to the DC Section are set out in this SIP. This SIP has been prepared after obtaining written professional advice from Mercer Limited (the “**Investment Adviser**”) which is regulated by the Financial Conduct Authority (“**FCA**”). The Trustee believes that the Investment Adviser meets the requirements of Section 35(5) of the Pensions Act 1995. The Trustee has also consulted with GSK (the “**Principal Employer**”) in forming this document.

For convenience, the Plan’s SIP has been split into two documents. This document covers the DC Section and there is a separate document covering the Defined Benefit (“**DB**”) Section titled the ‘*Statement of Investment Principles for the Defined Benefit Section – September 2021*’.

The Plan is governed by its Trust Deed and Rules which sets out all of the benefits in detail and specifies the Trustee’s investment powers. The investment powers do not conflict with the SIP. This SIP is also designed to fulfil the key objectives of the DC Code of Practice.

The Trustee believes that the Plan’s investment policies and their implementation are in keeping with best practice, including the principles underlying the Pensions Regulator’s DC Code of Practice No 13.

#### **1. Governance Arrangements**

The Trustee is responsible for the investment of the Plan’s assets. The Trustee takes some decisions itself and delegates others (either directly or indirectly) to the Joint DC Committee (“**JDC**”) or to external parties, such as investment advisers or asset managers.

When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to make an informed decision, as well as the Trustee’s ability to effectively execute the decision. The Trustee has established the following decision-making structure.

<p><b>Trustee</b></p> <ul style="list-style-type: none"> <li>• Set structures and processes for carrying out its role.</li> <li>• Determine (with assistance as required) the investment strategy.</li> <li>• Determine (with assistance as required) the climate change policy.</li> <li>• Monitor the JDC and consider proposals made by the JDC.</li> <li>• Select and monitor asset managers of the DC and AVC assets.</li> <li>• Select the DC and AVC investment options.</li> <li>• Select and monitor investment advisers.</li> </ul>	<p><b>JDC</b></p> <ul style="list-style-type: none"> <li>• Review all aspects of the Plan that relate directly to the DC arrangements, including investments, risk monitoring, education and operations.</li> <li>• Aid in the selection and monitoring of the investment advisers and asset managers for the DC pension schemes.</li> <li>• Assist the Trustee with setting the asset allocation of funds.</li> <li>• Set structures for implementing the climate change policy and make day to day decisions relevant to the operation of the climate change policy.</li> <li>• Require the asset managers to operate within the terms of this statement so far as practical.</li> </ul>
<p><b>Investment Advisers</b></p> <ul style="list-style-type: none"> <li>• Advise on all aspects of the investment of the Plan assets, including ESG and implementation.</li> <li>• Advise on this statement.</li> <li>• Provide required training.</li> <li>• Advise the Trustee on suitability of the benchmarks used.</li> <li>• Provide assistance to the Trustee and JDC in meeting their objectives.</li> </ul>	<p><b>Asset Managers</b></p> <ul style="list-style-type: none"> <li>• Operate within the terms of this statement and their written contracts.</li> <li>• Select the individual investments within their portfolios (e.g. individual stocks, bonds, derivatives, repos, etc. as applicable) with regard to their suitability, including consideration of the impact on portfolio diversification.</li> </ul>

## 2. Objectives and Implementation of the DC Section

The JDC recognises that members of the DC Section have differing investment needs, that these may change during the course of their working lives, and that they may have differing attitudes to risk. The JDC regards its primary objective as making available a range of investment funds which enable members to tailor the strategy for their assets to their own needs. The JDC believes that members should generally make their own investment decisions based on their individual circumstances. The JDC also recognises that members may not believe themselves qualified to take investment decisions. As such the Trustee makes available default options to members.

### 2.1 - Investment Objectives

In investing the assets of the Plan in a prudent manner, the Trustee's objectives are as

follows:

1. To provide an appropriate range of pooled investment funds that are intended to meet the varying investment needs and risk tolerances of members so they may satisfy the reasonable risk/return combinations appropriate for most Plan members.
2. To select appropriate investment managers, unitised funds and/or insurance companies to manage each of the investment options.
3. To inform members about their investment options, particularly in relation to the potential risks and rewards of each option.
4. To provide an investment option to members who do not select their own investment options (and who are permitted under the Plan's rules to exercise such a default).
5. To monitor and take advice on the suitability of the investment options provided.
6. To take appropriate advice from the Trustee's investment and legal advisers in order to make informed decisions.
7. To act in the interests of the membership of the Plan as a whole.

## 2.2 - Investment Strategy

The JDC is responsible for reviewing all aspects of the Plan that relate directly to the DC arrangements, including investments, risk monitoring, education and operations. Following such review, the JDC may take action for the efficient and effective operation of the DC arrangements, although ultimately it has no power, except where this has been delegated by the Trustee from time to time.

The DC Section's investment objectives are implemented using a range of investment options including equity, diversified growth, bond and cash funds. Both active and passive management options are offered to members, depending on asset class. The current default lifecycle strategy, the GSK Lifecycle Drawdown Option, targets income drawdown and automatically switches members' funds from growth assets, such as global equity and diversified growth assets into assets with a lower risk and return, designed to reduce volatility whilst retaining exposure to growth assets. This lifecycle is the default investment arrangement offered to members of the Plan.

Two alternative lifecycles for members targeting the purchase of an inflation-linked annuity at retirement, GSK Lifecycle Pension Option, and cash lump sums at retirement, GSK Lifestyle Cash Option, are also available.

The GSK Lifecycle Pension Option and the GSK Lifecycle (pre-2014) Options are legacy default investment options.

The Trustee aims to make available a range of options which satisfy the needs of the majority of members and in doing so attempt to find an appropriate balance in the range and kind of investments offered to members to offer flexibility and choice, as well as

simplicity and cost control.

The structures of all of the lifecycle options were chosen so as to try to deliver high levels of investment returns in the long term while providing some protection against changes in the amount of members' benefits as they approach retirement.

It is the Trustee's policy to provide suitable information for members so that they can make the appropriate investment decisions. The range of funds was chosen by the Trustee after taking expert advice from the Trustee's investment advisers.

The Trustee periodically reviews the suitability of the options provided and from time to time will change or introduce additional investment funds as appropriate. Day-to-day management of the assets is delegated to professional investment managers via an investment platform.

Benefits in the DC Section are determined by the value of members' individual accounts at retirement. A member's retirement benefits depend on:

- the level of contributions made by the member or made on the member's behalf, including prior transfer values from other arrangements (if applicable);
- investment returns achieved (net of fees); and
- where applicable, annuity terms prevailing at the time of the member's retirement.

The Trustee has a reasonable expectation that the long-term return on the investment options that invest predominantly in equities should exceed price inflation and general salary growth. The long-term expected return on diversified growth assets is to achieve equity-like returns, with less volatility than equities. The long-term returns on the bond and cash options are expected to be lower than those on the predominantly equity options. However, bond funds are expected to help reduce volatility in relation to the price of annuities giving some protection in the amount of secured pension for members closer to retirement. Clearly bonds themselves will not provide a hedge against changes in the demographic assumptions insurers use to price annuity contracts. Cash funds are expected to provide protection against changes in short-term capital values and may be appropriate for members receiving part of their retirement benefits in the form of tax-free cash.

### 2.3 - Risk Measurement and Management

The Trustee regards "risk" as the likelihood of failing to achieve the objectives and policies detailed above and seeks to minimise these risks, in so far as is possible. The Trustee recognises the key risk is that members will have insufficient savings for retirement or savings that do not meet their expectations. The Trustee considered this risk when setting the investment options and strategy for the Plan. The Trustee's policy in respect of risk measurement methods and risk management processes is set out in this section.

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

regarding both the default investment options and alternative offerings to members.

Type of Risk	Risk	Description	How is the risk monitored and managed?
Market risks	Inflation risk	The risk that returns over members' working lives do not keep pace with inflation.	The Trustee makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation.
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	Members are able to set their own investment allocations, in line with their risk tolerances. During the growth phase of the default option, members are invested in an allocation which is expected to grow their pension savings in excess of inflation
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Within active funds, management of many of these market risks is delegated to the asset manager(s). The JDC considers fund performance, including that of the default investment options, on a quarterly basis.
	Equity, property and other price risk	The risk that market movements lead to a substantial reduction in the value of a member's savings.	
	Capital	The risk that the monetary value of a member's account falls.	The Trustee's objective is to provide investment options where the asset value is unlikely to fall except in abnormal market conditions. A Money Market fund is an example of such an option that is offered to members.

Type of Risk	Risk	Description	How is the risk monitored and managed?
Liquidity risk		The risk that the Plan's assets cannot be realised at short notice in line with member demand.	<p>The Plan is invested in daily dealt and daily priced pooled funds via an insurance policy with Legal and General.</p> <p>Asset managers are expected to manage the liquidity of assets in the underlying strategies and keep exposures to any illiquid assets to prudent levels.</p>
Asset Manager risk		The risk that the appointed asset managers do not meet their fund performance objectives, fail to carry out operational tasks, do not ensure safe-keeping of assets or breach agreed guidelines.	<p>The Trustee considers fund returns relative to the benchmark. This is monitored on a quarterly basis.</p> <p>The Trustee considers the Investment Adviser's rating of the investment managers on an ongoing basis and monitors the Plan's active funds against a robust framework.</p>
Pension Conversion risk		The risks that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	<p>The Trustee makes available lifestyle strategies for members.</p> <p>Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.</p> <p>Members can select a lifestyle strategy in accordance with their personal preferences and retirement objectives.</p>

Type of Risk	Risk	Description	How is the risk monitored and managed?
	Environmental, Social and Corporate Governance (“ESG”) risk	The risk that ESG concerns, including climate change, have a financially material impact on the return of the Plan’s assets.	<p>The management of this risk has been considered and asset managers are expected to integrate this into their processes.</p> <p>The Trustee reviews the asset managers’ policies and actions in relation to this from time to time.</p> <p>The Trustee policy on Responsible Investment and Corporate Governance is set out in Section 3.1.</p>
	Operational risk	The risk of fraud, ineffective governance structure, poor advice or acts of negligence in the operation of the Plan.	<p>The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced and that suitable liability and compensation clauses are included in all contracts for professional services received.</p> <p>The Trustee reviews the Plan risk dashboard on a quarterly basis to ensure risks are identified and adequate controls are in place to ensure the effective running of the Plan including areas such as the effectiveness of the committee, communications and adequate provisions in place with service providers as well as a number of the other risks previously listed.</p>

The Trustee considers these risks to be applicable across the lifetime of a members’ time within the DC Section of the Plan.

Due to the complex and interrelated nature of these risks, the Trustee considers these risks in a qualitative rather than quantitative manner as part of each formal strategy review.

Some aspects of the risks may be modelled explicitly.

In addition, the Trustee measures risk in terms of the performance of the assets compared to the benchmarks on a regular basis, usually quarterly, along with monitoring any significant issues with the asset managers that may impact their ability to meet the performance targets set by the Trustee.

The Trustee has established a risk register and monitors risks in accordance with this.

### **3. The Trustee's Investment Policies**

#### **3.1 - General Investment Policy (including ESG and Stewardship)**

The Trustee and the JDC expect the underlying asset managers to manage the assets under the terms of their respective contracts. In addition, asset managers pay commissions to third parties on many trades they undertake in the management of the assets.

For the DC section, the majority of the fund range offered to members is accessed through a platform provided by Legal & General Assurance (Pensions Management) Limited ("**L&G**"). The Trustee accesses the platform via a long-term insurance contract with L&G. L&G operates within the terms of this Statement and the written contract. The Trustee reviews the liquidity of the funds offered to members to ensure that assets are readily realisable.

The Trustee considers sustainable investment to be the integration of environmental, social and governance factors into investment decisions. The Trustee believes that **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. The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests directly or indirectly. The Trustee believes that the integration of ESG factors within asset managers' investment processes may have the ability to have a positive impact on the risk and the sustainable long-term expected returns from the Plan's investments.

The Trustee expects the underlying managers to evaluate ESG factors, including climate change considerations, exercising voting rights and stewardship obligations attached to investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code. The Trustee does not wish to interfere with the day-to-day investment decisions of its investment managers. The Trustee reviews the compliance of managers against the UK Stewardship Code on an annual basis and engages with managers who are not aligned with best practice standards.

##### **3.1.1 - Climate change**

The Trustee has set out its policy relating to the governance of climate related risks in a separate document, the TCFD Report. The Trustee plans to include its climate change targets and portfolio metrics in the TCFD Report from 2022.

The Trustee supports the principle of good corporate governance and shareholder activism and, for relevant mandates, prefers its investment managers to have an explicit strategy, outlining the circumstances in which they will engage with a company (or issuer of debt or stakeholder, if applicable) on relevant matters (including performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, social and environmental impact and corporate governance) and how they will measure the effectiveness of this strategy. The Trustee reviews regularly the voting strategy of its investment managers.

### 3.1.2 - Arrangements with Asset Managers: Policy

The Trustee believes that an understanding of, and engagement with, asset managers' arrangements is required to ensure they are aligned with the Trustee's policy, including its Sustainable Investment policy. In accordance with latest regulation, it is the Trustee's policy to ensure that the following are understood and monitored:

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

How the Trustee considers these policies are explained in more detail below.

### 3.1.3 - Arrangements with Asset Managers: Implementation

The Trustee through delegation to the JDC considers their investment adviser's assessment of how each asset manager embeds ESG into its investment process and how the asset manager's responsible investment philosophy aligns with the Trustee's responsible investment policy. This includes consideration of the underlying asset managers' policy on voting and engagement and compliance with the Stewardship Code. The Trustee will use this assessment as part of their considerations when taking decisions around selection, retention and realisation of asset manager appointments.

The underlying asset managers are appointed based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and risk characteristics required for the asset class being selected. Whilst the Trustee notes that their ability to influence

decision making within pooled fund structures is limited, the underlying asset managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed to manage. As such, the Trustee believes this creates alignment between the asset managers and themselves. Consequently, if the Trustee is dissatisfied, then they will look to replace the manager. If the investment objective for a particular asset manager's fund changes, the Trustee will review the appointment to ensure it remains appropriate and consistent with the Trustee's wider investment objectives.

The JDC meets with underlying asset managers annually and receives updates from the managers on their ESG policies and engagement activity. Where needed the JDC, on behalf of the Trustee, will challenge managers on their policies and instances where managers may not be aligned with best practices within the industry. This action is taken to try to ensure continuing improvement over the medium to long term in the performance of assets from both a financial and non-financial perspective.

The JDC receives and considers performance reports from their investment advisers on a quarterly basis, which present performance information for the funds over three months, one year, three years, five years, and since inception. The JDC reviews the absolute performance, relative performance against a suitable index used as the benchmark, and against the underlying manager's stated target performance (over the relevant time period) on a net-of-fees basis. Whilst the JDC and the Trustee's focus is on long-term performance, they also take shorter-term performance into account.

If an underlying manager is not meeting performance objectives, or their investment objectives for the fund have changed, the Trustee may review the suitability of the manager, and change the manager where required. As managers are remunerated based on the level of assets managed, there is a direct interest for asset managers to perform in line with objectives in order to retain mandates and continue to receive compensation on an ongoing basis.

The Trustee does not currently define target portfolio turnover ranges for asset managers, particularly as the Trustee uses pooled funds, however, the JDC will engage with an asset manager, on behalf of the Trustee, if portfolio turnover is higher than expected. The JDC considers portfolio turnover costs indirectly through consideration of trading costs incurred throughout the year for a fund, provided within transaction cost data the Trustee receives annually, and is considered as part of the annual value for members assessment.

All the funds used within the DC Section are open-ended, with no set end date for the arrangements. The Default Lifecycle Strategy, alternative lifecycle strategies and the freecycle fund range are reviewed on at least a triennial basis. An underlying manager's appointment may be terminated if it is no longer considered to be optimal, nor have a place in the lifecycle strategies or freecycle fund range.

The policies detailed in this section apply across the range of investment options made available to members including the default investment arrangements, legacy default investment arrangements, the alternative GSK Lifecycle options and the self-select GSK investment fund range.

The Trustee did not seek member views in forming their initial approach around ESG, stewardship, climate change and non-financial matters within the Plan's investments. Since adopting their current approach, the Trustee has sought member views and will continue to seek these views from time to time and will use these to inform decisions regarding the development of the Trustee's policy in the future. The Trustee will continue to review this policy regularly to ensure that the policy is appropriate for the Plan's membership.

Assets are mainly invested on regulated markets. Some funds may have exposure to securities not on regulated markets. The Trustee expects that asset managers will monitor these and keep these to prudent levels.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

The Trustee has appointed investment advisers. The advisers operate under agreements to provide services which ensures the Trustee and JDC are fully briefed to take decisions themselves and to monitor those they delegate.

The members can invest in a range of fund options. It is the Trustee's policy to consider:

- The risks and rewards of a range of different asset allocation strategies.
- The suitability of each asset class in the lifecycle strategies.
- The suitability of the possible styles of investment management and the option of manager diversification for members.
- The need for appropriate diversification both across asset classes and within asset classes.
- The liquidity of the funds offered to members to ensure that assets are readily realisable.

### 3.2. - Policy in Relation to the Default Investment Option

#### 3.2.1 - The Plan's Default Options

The GSK Lifecycle Drawdown Option is the current default investment option for the Plan as members' accrued funds and contributions have been automatically directed to this investment option. Over the years just prior to retirement, the current default option de-risks to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via income drawdown at retirement.

In addition, the Plan has two legacy default funds where some members' accrued funds and contributions were previously automatically directed. These are the GSK Lifecycle Pension Option and the GSK Lifecycle (pre-2014) Option. The current and legacy default investment options are not defined as default arrangements for the purposes of auto-enrolment.

Some members will actively choose the default investment option because they feel it is the most appropriate for them. However, the vast majority of members are invested in the default investment option as they have not made an active investment decision.

Until June 2014, the default investment option for the Plan was the GSK Lifecycle (pre-2014) Option, a legacy default investment option as a result of it being used by over 80% of the membership of the Plan. This legacy default investment option is not a default arrangement for the purposes of auto-enrolment. When the GSK Lifecycle Pension Option was implemented as the default investment option for the Fund in June 2014, members with 10 years or more to their selected retirement date were moved to the GSK Lifecycle Pension Option. Members with less than 10 years until their selected retirement date (as at 1 June 2014) continue to be invested in the GSK Lifecycle (pre-2014) Option legacy default investment option, unless they have made an alternative investment choice.

The GSK Lifecycle Drawdown Option was implemented as the default investment option in July 2021. At that time, members with more than three years to their selected retirement date (as at 1 July 2021) and who were invested in the GSK Lifecycle Pension Option were moved to the GSK Lifecycle Drawdown Option. Members at that time with three years or less to their selected retirement date (as at 1 July 2021) and invested in the GSK Lifecycle Pension Option continue to be invested in the GSK Lifecycle Pension Option a legacy default option, unless they have made an alternative investment choice.

The current default investment option (the GSK Lifecycle Drawdown Option) comprises of the GSK Lifecycle Fund (65% GSK Global Equity Index Fund and 35% GSK Diversified Growth Fund) until the member is 5 years from their normal retirement date or their selected target retirement date, in order to build up their account. This is known as the “growth phase”.

During the 5 years up to this date, the member’s account will gradually be switched to the GSK Retirement Income and GSK Cash Funds (according to the table below), in order to to prepare the member for income drawdown. This is known as the “pre-retirement phase”.

<b>Years to Retirement Date</b>	<b>GSK Lifecycle Fund</b>	<b>GSK Retirement Income Fund</b>	<b>GSK Cash Fund</b>
5+	100%	0%	0%
4	80%	20%	0%
3	60%	40%	0%
2	40%	52%	8%
1	20%	64%	16%
0	0%	75%	25%

### 3.2.2 - Legacy Default Options

The GSK Lifecycle Pension Option (a legacy default option) comprises the GSK Lifecycle Fund until the member is 5 years from their normal retirement date or their selected retirement date, in order to build up their account. This is known as the “growth phase”.

During the 5 years up to this date, the member's account will gradually be switched to the GSK Inflation Linked Pre-Retirement and GSK Cash Funds (according to the table below), in order to protect the value of their account. This is known as the "pre-retirement phase".

Years to Retirement Date	GSK Lifecycle Fund	GSK Inflation Linked Pre-Retirement Fund	GSK Cash Fund
5+	100%	0%	0%
4	80%	20%	0%
3	60%	40%	0%
2	40%	52%	8%
1	20%	64%	16%
0	0%	75%	25%

The GSK Lifecycle (pre 2014) Option (legacy investment option) comprises of 100% GSK Global Equity Index Fund until the member is 10 years from their normal retirement date or their selected target retirement date, in order to build up their account. This is known as the "growth phase".

During the 10 years up to this date, the member's account will gradually be switched to the GSK Inflation Linked Pre-Retirement and GSK Cash Funds (according to the table below), in order to protect the value of their account. This is known as the "pre-retirement phase".

Years to Retirement Date	GSK Global Equity Index Fund	GSK Inflation Linked Pre-Retirement Fund	GSK Cash Fund
10+	100%	0%	0%
9	90%	7.5%	2.5%
8	80%	15%	5%
7	70%	22.5%	7.5%
6	60%	30%	10%
5	50%	37.5%	12.5%
4	40%	45%	15%
3	30%	52.5%	17.5%
2	20%	60%	20%
1	10%	67.5%	22.5%
0	0%	75%	25%

### 3.2.3 - The aims of the default

The aims of the current and legacy default investment options, and the ways in which the Trustee seeks to achieve them are detailed below:

- To generate returns in excess of inflation during the growth phase of the strategy whilst managing downside risk.

*The GSK Lifecycle Drawdown Option (current default) and GSK Lifecycle Pension Option's (legacy default) growth phases invest in equities and other growth-seeking assets (through an absolute return/diversified growth fund). These investments are expected to provide equity-like growth over the long term with some downside protection and some protection against inflation erosion. The growth phase of the GSK Lifecycle (pre 2014) Option (legacy default) invests in equities alone. These investments are expected to provide growth over the long term and some protection against inflation erosion. The GSK Lifecycle (pre-2014) Option (legacy default) de-risks out of equities sooner, to account for the fact that equities can be subject to downside risk.*

- To provide a strategy that reduces investment risk for members as they approach retirement.

*As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustee believes that a default strategy that seeks to reduce investment risk as the member approaches retirement is appropriate. Moreover, as members approach retirement, the Trustee believes the primary aim should be to provide protection against a mismatch between asset risk factors and the expected uses of retirement benefits.*

*The Trustee considers the level of risk within the GSK Lifecycle Drawdown Option (current default) in the context of the need to maintain an expected risk and return suitable for income drawdown. The Trustee reduces investment risk via automated lifestyle switches over the five year period to a member's selected retirement date. Investments are switched firstly into the GSK Retirement Income Fund, which invests in diversified mix of assets to provide an appropriate expected risk and return for income drawdown. In the years leading up to retirement, an allocation to a cash fund is introduced for capital preservation purposes, and to allow members to take a 25% pension commencement lump sum.*

*The Trustee considers the level of risk within the GSK Lifecycle Pension Option (legacy default) and the GSK Lifecycle (pre-2014) Option (legacy default) in the context of the variability of returns relative to annuity prices and cash rates. The aim of the legacy default investment option are achieved via automated lifestyle switches over the ten year period to a member's selected retirement date for the GSK Lifecycle (pre-2014) Option (legacy default) and the five year period for GSK Lifecycle Pension Option (legacy default). Investments are switched firstly into the GSK Inflation Linked Pre-Retirement Fund, which invests in a mix of UK government bonds and investment grade corporate bonds to broadly match short term changes in the price of inflation-linked annuities. In the years leading up to retirement, an allocation to a cash fund is introduced for capital preservation purposes, and to allow members to take a 25% pension commencement lump sum.*

- For the GSK Lifecycle Drawdown Option (current default), to provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take their benefits via income drawdown.

*At the member's selected retirement date, 75% of the member's assets will be invested in the GSK Retirement Income Fund and 25% in a money market fund.*

- For the GSK Lifecycle Pension Option (legacy default) and the GSK Lifecycle (pre-2014) Options (legacy default), to provide exposure, at retirement, to assets that are broadly appropriate for an individual planning to take their benefits via an inflation-linked pension at retirement.

*At the member's selected retirement date, within the GSK Lifecycle Pension Option (legacy default) and GSK Lifecycle (pre-2014) Option (legacy default), 75% of the member's assets will be invested in the GSK Inflation Linked Pre-Retirement Fund and 25% in a money market fund.*

The Trustee's policies in relation to the default investment options are detailed below:

- The GSK Lifecycle Drawdown Option (current default) and GSK Lifecycle Pension Option (legacy default) manage investment risks through a diversified strategic asset allocation consisting of traditional and alternative assets. The GSK Lifecycle (pre-2014) Option (legacy default) manages investment risks through a diversified strategic asset allocation consisting of traditional assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default investment options, the Trustee has explicitly considered the trade-off between risk and expected returns. In particular, when reviewing the investment strategy of the default investment options, the Trustee considers risk quantitatively in terms of the variability of investment returns and potential retirement outcomes for members. From a qualitative perspective, the Trustee also considers risk in terms of the (mis)alignment of investments with the retirement benefits targeted by the default investment options. For the legacy default investment options, the Trustee also carefully considered the risk of moving members' assets into the current default option and viewed it not to be in the best interests of those members.
- Assets in the default investment options are invested in the best interests of members and beneficiaries, taking into account the profile of members. In particular, the Trustee considered high level profiling analysis of the Plan's membership in order to inform decisions regarding the default investment options. Based on this understanding of the membership, the current default investment option target of income drawdown at retirement is considered appropriate. Members invested in the legacy default investment options, which target the purchase of an annuity at retirement, is also considered appropriate.
- Members are supported by clear communications regarding the aims of the default investment options and the access to alternative investment approaches. If members wish to, they can opt to choose an alternative lifecycle option or their

own investment strategy on joining but also at any other future date. Moreover, members do not have to take their retirement benefits in line with those targeted by the default investment options; the target benefits are merely used to determine the investment strategy held pre-retirement.

- Assets in the default investment options are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various investment managers. The safe custody of the Plan's assets is delegated to professional custodians, as appointed by the governing bodies of the respective pooled funds.

Taking into account the demographics of the Plan's membership and the Trustee's views of how the membership will behave at retirement, the Trustee believes that the current and legacy default investment options are appropriate and will continue to review this overtime, at least triennially, or after significant changes to the Plan's demographic, if sooner.

Prior to mapping members' investments from the legacy default investment option to the current default investment option, the Trustee took appropriate investment advice and considered this option to be suitable for members in order to keep them in a similar type of investment arrangement as they were in previously and taking account of the demographics of the members invested in the legacy default investment option. The Total Expense Ratios ("TERs"), which is the cost associated with the managing and operating of the funds, are below the charge cap legislation requirement of 0.75% p.a. that applies to default investment options.

The Trustee considered high level profiling analysis of the Plan's membership in order to inform decisions regarding the default investment options. Based on this understanding of the membership and investment advice, the Trustee considers that the default investment options are appropriate to ensure that assets are invested in the best interests of relevant individuals.

### 3.3 - Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to an asset manager under a written contract and those where a product is purchased directly, e.g. the purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The Trustee's policy is to review its direct investments and to obtain written advice about them at regular intervals. These include vehicles available for members' DC contributions and AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the asset manager(s).

The selection, retention and realisation of assets within the pooled funds are delegated to the respective investment managers in line with the mandates of the funds. Likewise, the investment managers have full discretion (within the constraints of their mandates) on the

extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 (as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and subsequent legislation) and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the asset managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The policy for the Plan's DC assets which are classified as direct investments are set out in this statement.

#### **4. Supplementary information to the SIP**

There is further information contained in the document titled '*Supplementary information to the Statement of Investment Principles ("SIP") for the DC Section of the SBPP– September 2021*' on the following:

- Defined Contribution (DC) Fund Asset Manager Summary
- Defined Benefit and Defined Contribution Section: Additional Voluntary Contribution (AVC) Asset Manager Summary
- Fee Structures for Asset Managers and Advisers

#### **5. Compliance with this statement**

The Trustee will review this SIP at least every 3 years and as soon as practicable following a significant change in investment strategy. The Trustee will take investment advice and consult with the Employer over any changes to the SIP.

**Dated:** September 2021

## Version Control Record

The following table records changes to this document:

2006	Initial Creation
2008	Regular Update
2008	Proposed stocklending wording
2008	Changed Goodman to Aberdeen
Nov 2009	Review and update
Feb 2010	Update and wording
Nov 2010	Update and wording
Jan 2011	Update and wording
Jan 2012	Update and wording for DC section in Appendix
Sept 2012	DB changes by GSK Treasury
Oct2012	DB changes by GSK Treasury
May 2014	Update DC section
Nov 2014	Update DC section
Jan 2015	Update SRI wording
Nov 2015	Add DC default wording and minor typo tweaks
Nov 2017	Addition of wording regarding investments on non-regulated markets. Changes to the Supplementary Information
Nov 2018	Update DC Section Changes to the Supplementary Information
July 2019	Update DC Section Changes to the Supplementary Information
September 2019	Updated Investment Policy wording
March 2020	Update to become a DC only version of the SIP Update DC Section Changes to the Supplementary Information
September 2020	Updated Investment Policy wording Updated Policies in relation to the Default Investment Option to reflect Utmost Life Mapping Changes to the Supplementary Information
September 2021	Updated Policies in relation to Investment Strategy and the Default Investment Option following the change in default target Additional wording relating to ESG and climate change policies Removed wording on Utmost Life Changes to the Supplementary Information Minor typo tweaks

**SmithKline Beecham Pension Plan (“the Plan”)  
Supplementary information to the Statement of Investment Principles (“SIP”) for  
the DC Section of the SBPP– September 2021**

The SIP for the Plan sets out the guiding principles upon which the Plan’s DC investments are made. The purpose of this supplementary information is to provide details of specific investments in place alongside other information relevant to the management of the Plan’s DC investments.

The Trustee has obtained written professional advice from the Plan’s investment consultant, Mercer, in preparing this document.

**Defined Contribution (DC) Asset Manager Summary**

The majority of the fund range offered to members of the DC section of the Plan is accessed through a platform provided by Legal & General Assurance (Pensions Management) Limited (“L&G”). The Trustee accesses the platform via a long-term insurance contract with L&G. The asset manager mandates and performance targets are shown in the table below:

**Open to members:**

<b>Provider</b>	<b>Asset manager</b>	<b>Name of Fund</b>	<b>Benchmark</b>	<b>Performance Target</b>
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management, Nordea Investment Funds, Fulcrum Asset Management and Man Asset Management	GSK Lifecycle Fund	65%: 3.0% FTSE All Share Index / 3.0% Solactive L&G ESG UK Index / 17.5% FTSE AW - World (Ex-UK) / 17.5% Solactive L&G ESG Developed (Ex-UK) Index / 22.0% FTSE AW - World (Ex-UK) – GBP Hedged / 22.0% Solactive L&G ESG Developed (Ex-UK) Index GBP Hedged / 5.0% FTSE AW – All Emerging Markets / 5.0% Solactive L&G ESG Emerging Markets Index / 5.0% FTSE Global Developed Small Cap Index  35%: LIBID 7 day +3.5%p.a.	This fund is comprised of 65% GSK Global Equity Fund and 35% GSK Diversified Growth Fund.  For the global equity portion of the fund the target is to provide a return in-line with the equity indices.  For the diversified growth portion of the fund the target is to outperform 7 day LIBID by +3.5%p.a (net of fees).
<b>Legal &amp; General Assurance</b>	Legal & General Investment	GSK Retirement Income Fund	Bank of England Base Rate + 3.5% per year	Bank of England Base Rate + 3.5% per year

<b>Provider</b>	<b>Asset manager</b>	<b>Name of Fund</b>	<b>Benchmark</b>	<b>Performance Target</b>
<b>(Pensions Management) Ltd</b>	Management			
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	GSK UK Equity Index Fund	FTSE All Share Index	To provide a return in-line with the Index.
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	GSK Overseas Equity Index Fund	18.6% FTSE AW - World (Ex-UK) / 18.6% Solactive L&G ESG Developed (Ex-UK) Index / 23.4% FTSE AW - World (Ex-UK) – GBP Hedged / 23.4% Solactive L&G ESG Developed (Ex-UK) Index GBP Hedged / 5.3% FTSE AW – All Emerging Markets / 5.3% Solactive L&G ESG Emerging Markets Index / 5.3% FTSE Global Developed Small Cap Index	To provide a return in-line with the Index.
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	GSK Inflation-linked Pre-Retirement Fund	Composite of gilt (predominantly inflation-linked gilts) and corporate bond indices, aiming to match the cashflows from a typical inflation-linked annuity product	To provide a return broadly in-line with the Index.
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	GSK Cash Fund	7 Day LIBID	To outperform the index by 0.1% p.a. over a rolling three year period.
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management, Nordea Investment Funds, Fulcrum Asset Management	GSK Diversified Growth Fund	7 day LIBID+ 3.5% p.a.	To outperform 7 day LIBID by 3.5% p.a. over the long term (net of fees).

<b>Provider</b>	<b>Asset manager</b>	<b>Name of Fund</b>	<b>Benchmark</b>	<b>Performance Target</b>
	and Man Asset Management			
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	HSBC Global Asset Management	GSK Shariah Fund	Dow Jones Islamic Titans 100 Index	To provide a return in-line with the Index.
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	GSK Global Sustainable Equity Fund	6% Solactive L&G ESG UK Index / 37% Solactive L&G ESG Developed (Ex-UK) Index / 46% Solactive L&G ESG Developed (Ex-UK) Index GBP Hedged / 11% Solactive L&G ESG Emerging Markets Index	To provide a return in-line with the Index.

The following fund is a part of the Lifecycle options, and is only open to historic contributors on freestyle basis.

<b>Provider</b>	<b>Fund manager</b>	<b>Name of Fund</b>	<b>Benchmark</b>	<b>Performance Target</b>
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	GSK Global Equity Index Fund	6% FTSE All Share Index / 35.0% FTSE AW - World (Ex-UK) / 44.1% FTSE AW - World (Ex-UK) – GBP Hedged/ 10.0% FTSE AW – All Emerging Markets / 5.0% FTSE Global Developed Small Cap Index Fund	To provide a return in-line with the Index

In addition to the funds available above, the Trustee makes available three lifecycle options:

- The GSK Lifecycle Drawdown Option
- The GSK Lifecycle Pension Option
- The GSK Lifecycle Cash Option

Details on the first two lifecycle strategies are shown earlier in this document.

The GSK Lifestyle Cash Option comprises of 65% GSK Global Equity Index Fund and 35% GSK Diversified Growth Fund until the member is 5 years from their normal retirement date or their selected target retirement date, in order to build up their account during the “growth phase”.

During the 5 years up to this date, the member’s account will gradually be switched to the GSK Cash Fund (according to the table below), in order to protect the value of their account. At retirement date the option is invested completely in cash.

Years to Retirement Date	GSK Lifecycle Fund	GSK Cash Fund
5+	100%	0%
4	80%	20%
3	60%	40%
2	40%	60%
1	20%	80%
0	0%	100%

**Closed to members:**

There is a legacy default option known as the GSK Lifecycle (pre 2014). Details of this closed legacy investment option is set out in the SIP.

DB and DC Section: Additional Voluntary Contribution (AVC) Asset Manager Summary

The fund managers for members’ additional voluntary contributions (AVCs) are shown below:

Provider	Fund manager	Name of Funds
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	Various unitised funds
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management	Diversified Fund
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Nordea Investment Funds	Nordea Stable Return – Diversified Growth Fund
<b>Zurich With-Profits*</b>	-	With-Profits
<b>Prudential*</b>	-	With-Profits
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Fulcrum Asset Management	Fulcrum – Diversified Absolute Return Fund

<b>Provider</b>	<b>Fund manager</b>	<b>Name of Funds</b>
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Man Asset Management	Alternative Systematic Risk Premia
<b>MGM Assurance*</b>	-	With-profits and unit linked

\* These providers are closed to new contributions.

### Fee Structures for Managers and Advisers

All managers are paid fees in relation to the size of assets managed. The Trustee believes that they represent competitive rates for the types of mandates awarded.

Mercer has been appointed as the investment adviser to the Trustee in respect of the DC Section of the Plan.

Professional advisers, including the investment and legal advisers, are paid fees using a combination of fixed fee arrangements and based on their time spent on the Trustee's behalf. The Trustee believes that this time based fee arrangement is suitable for professional advisers as it provides a framework for ensuring a suitable amount of attention is paid to the Plan's matters while allowing the Trustee a degree of control and predictability over fees.