

**GW Contracted-out Money Purchase Scheme (“the Scheme”)  
Statement of Investment Principles**

This Statement of Investment Principles (SIP) covers the defined contribution section of the Scheme. It is set out in three parts:

- 1) Governance arrangements
- 2) Objectives and implementation of the defined contribution section
- 3) The Trustee's investment policy.

**1. Governance Section**

The Trustee is responsible for the investment of the Scheme 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 Advisors or Fund 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. 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>• Select and monitor fund 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 Scheme that relate directly to the DC arrangements, including investments, risk monitoring, education and operations.</li> </ul>
<p><b>Investment Advisers</b></p> <ul style="list-style-type: none"> <li>• Advise on all aspects of the investment of the Scheme assets, including implementation.</li> <li>• Advise on this statement.</li> <li>• Provide required training.</li> <li>• Advise the Trustee on suitability of the benchmarks used.</li> </ul>	<p><b>Fund 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>

*This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 (as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 and to reflect the Government's Voluntary code of conduct for Institutional Investment in the UK. The Trustees also comply with the requirements to maintain and take advice on the Statement and with the disclosure requirements.*

## **2. Objectives, Risk Management and Implementation**

### 2.1 Investment Objectives

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

1. To provide an appropriate range of investment options that is intended to satisfy the reasonable risk/return combinations appropriate for most of the Scheme's 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 Scheme's rules to exercise such a default).
5. To monitor and take advice on the suitability of the investment options provided.

The JDC is responsible for reviewing all aspects of the Scheme 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 Investment Objective is implemented using a range of investment options including equity, diversified growth, bond and cash funds. There is also a lifecycle strategy which switches members' funds from global equity and diversified growth assets into bonds and cash in the period prior to retirement.

The structure of the lifecycle option was chosen so as to try to maximise expected long-term investment returns 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 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 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.

### 2.2 Risk Measurement and Management

The Trustee recognises the key risk is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considered this risk when setting the investment options and strategy for the Scheme. The Trustee's policy in respect of risk measurement methods and risk management processes is set out below.

The Trustee considers, amongst others, the following sources of risk:

- Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices. A fund range has been chosen with the aim of covering most members risk/reward requirements.
- Risk of fund managers not meeting their objectives ("manager risk"). This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter.
- Risk of the default fund being unsuitable for the requirements of some members. The default is reviewed on a regular basis.
- The risk of fraud, poor advice or acts of negligence ("operational risk"). 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.

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 fund 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.

### 2.3 Implementation

The Trustee has selected suitable vehicles for investing the members' accounts.

## **3. Investment Policy**

### 3.1 General Investment Policy

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practical. In addition, fund 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 recognises that it is not possible to specify investment restrictions where assets are managed via pooled funds. For the DC section, it is noted that this is particularly true given that it is L&G that has the direct relationship with the third parties offering the funds (and not the Trustee).

The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests. The Trustee believes that the integration of environmental, social and governance ("ESG") factors within Investment Managers' investment processes is not detrimental to the risk and the sustainable long-term expected returns from the Scheme's investments.

The Trustee does not wish to interfere with the day to day investment decisions of its investment managers. However, the Trustee does encourage its investment managers to comply with the principles outlined in the Principles for Responsible Investing and the UK Stewardship Code where this is appropriate for their mandate.

The Trustee supports the principle of 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 on ESG matters and how they will measure the effectiveness of this strategy. The Trustee reviews regularly the voting strategy of its investment managers.

Assets are mainly invested on regulated markets. We note that some funds may have exposure to securities not on regulated markets. The Trustee has delegated the management of these securities to investment managers to ensure these are kept 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 Trustee's investment advisers have the knowledge and experience required under the Pensions Act 1995.

### 3.2 Suitability

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 strategy.
- 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.

### 3.3 Defined Contribution Section – Default Options

The GSK Lifecycle is the current default option for the Scheme. Over the years just prior to retirement, this option de-risks to an asset allocation designed to be appropriate for a typical member who intends to access their benefits via an inflation linked pension at retirement. Typically, a proportion of members will actively choose the default option because they feel it is the most appropriate for them. However, the vast majority of members are invested in the default option as they have not made an active investment decision.

Until June 2014, there were two default options depending on when a member joined the Scheme. These are the Standard GW COMPS Lifecycle and Legacy GW COMPS Lifecycle. When the new GSK Lifecycle was implemented in June 2014, members in both of these Lifecycles with more than 10 years to their selected retirement date were moved to this new investment option, members with less than 10 years until their selected retirement date continued to be invested in their existing lifecycle, unless they have made an alternative investment choice.

The GSK Lifecycle comprises of 75% GSK Global Equity Index Fund and 25% 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 prior 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".

<b>Years to Retirement Date</b>	<b>GSK Lifecycle</b>	<b>GSK Inflation Linked Pre-Retirement 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%

The Standard GW COMPS Lifecycle is made up of 100% GSK Global Equity Index Fund until the member is 10 years from their Normal Retirement Date or their selected Target Retirement Date, if different, in order to build up their account, this is known as the “growth phase”.

During the 10 years prior 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”.

<b>Years to Retirement Date</b>	<b>GSK Global Equity Index Fund</b>	<b>GSK Inflation Linked Pre-Retirement Fund</b>	<b>GSK Cash Fund</b>
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%

The Legacy GW COMPS Lifecycle is made up of 100% GSK Global Equity Index Fund until the member is 10 years from their Normal Retirement Date or their selected Target Retirement Date, if different, 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 be switched to the GSK Inflation Linked Pre-Retirement Fund (according to the table below) over 5 years and then held in this position for a further five years, in order to protect the value of their account. This is known as the “pre-retirement phase”.

<b>Years to your Normal Retirement Date (age 65) or selected Target Pension Date</b>	<b>GSK Global Equity Index Fund*</b>	<b>GSK Inflation Linked Pre-Retirement Fund</b>
10+	100%	0%
9	80%	20%
8	60%	40%
7	40%	60%

6	20%	80%
5	0%	100%
4	0%	100%
3	0%	100%
2	0%	100%
1	0%	100%
0	0%	100%

The aims of the current, and legacy default options, and the ways in which the Trustees seek to achieve these aims are detailed below:

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

*The GSK Lifecycle's growth phase invests 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 both the Legacy GW COMPS Lifecycle and Standard GW COMPS Lifecycle invests in equities alone. These investments are expected to provide growth over the long term and some protection against inflation erosion. This investment strategy 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 Trustees believe the primary aim should be to provide protection against a mismatch between asset values and the expected costs of retirement benefits.*

*In view of the above, the Trustees consider the level of risk within the default option in the context of the variability of returns relative to annuity prices and cash rates.*

*These aims are achieved via automated lifestyle switches over the ten year period to a member's selected retirement date for the Standard GW COMPS Lifecycle, Legacy GW COMPS Lifecycle and the five year period for the GSK Lifecycle. 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. However for the Legacy GW COMPS Lifecycle there is no cash fund.*

- 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 both the GSK Lifecycle and the Standard GW COMPS Lifecycle arrangements, 75% of the member's assets will be invested in the GSK Inflation Linked Pre-Retirement Fund and 25% in a money market fund. Whereas for Legacy GW COMPS Lifecycle, 100% of the member's assets will be invested in the GSK Inflation Linked Pre-Retirement Fund.*

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

- The default option manages investment risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. In designing the default 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 option.
- Assets in the default option 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 Scheme's membership in order to inform decisions regarding the default option. Based on this understanding of the membership, a default option that targets a scheme pension at retirement is considered appropriate.
- Members are supported by clear communications regarding the aims of the default options and the access to alternative investment approaches. If members wish to, they can opt to choose 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 option; the target benefits are merely used to determine the investment strategy held pre-retirement.
- Assets in the default option 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 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 safe custody of the Scheme'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 Scheme's membership and the Trustees's views of how the membership will behave at retirement, the Trustees believe that the current default option is appropriate and will continue to review this overtime, at least triennially, or after significant changes to the Scheme's demographic, if sooner.

#### 3.4 Direct Investments

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund 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 the L&G policy. 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 fund manager(s).

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 fund 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

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

There is further information contained in the document titled “Supplementary information to the SIP GW Contracted-out Money Purchase Scheme” on the following:

- Defined contribution section: Fund manager summary
- Fund Manager Summary
- Fee Structures for 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:** December 2017

**GW Contracted-out Money Purchase Scheme (“the Scheme”)  
Supplementary information to the Statement of Investment Principles**

The Statement of Investment Principles for the GW Contracted-out Money Purchase Scheme sets out the guiding principles upon which the Scheme’s 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 Scheme’s investments.

The Trustee has obtained written professional advice from the Scheme’s Investment Consultant, Mercer, in preparing this document.

Fund Manager Summary

The fund range offered to members of the Scheme 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 fund manager mandates and performance targets are shown in the table below:

Provider	Fund manager	Name of Fund	Benchmark	Performance Target
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management, Aberdeen Standard Investments and Nordea Asset Management	GSK Lifecycle Fund	22.5% FTSE All Share Index / 52.5% FTSE AW - World (Ex-UK) Index 50% GBP hedged (with the exception of emerging markets)/ 25% 7 day LIBID +3.5%p.a.	This fund is comprised of 75% GSK Global Equity Fund and 25% 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 (Pensions Management) Ltd</b>	Legal & General Investment Management	GSK Global Equity Index Fund	30% FTSE All Share Index / 70% FTSE AW - World (Ex-UK) Index 50% GBP hedged (with the exception of emerging markets)	To provide a return in-line with the Index
<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	FTSE AW - World (Ex-UK) Index 50% GBP hedged (with the exception of emerging markets)	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 3 year period
<b>Legal &amp; General Assurance (Pensions Management) Ltd</b>	Legal & General Investment Management, Aberdeen Standard Investments and Nordea 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)

The current default option is the GSK Lifecycle and there is also a legacy lifestyle arrangement known as the GSK Lifecycle (pre 2014). Details on these investment options are set out in the Statement of Investment Principles.

#### 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 selected as the investment adviser to the Trustee.

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 Scheme's matters while allowing the Trustee a degree of control and predictability over fees.