WH Smith Retirement Savings Plan

Statement of Investment Principles

October 2019

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1 Introduction

WH Smith Retirement Savings Plan Limited ("the Trustee") of the WH Smith Retirement Savings Plan ("the Plan") has drawn up this Statement of Investment Principles ("the Statement") to comply with the requirements of the Pensions Act 2004 and prior legislation ("the Act"). The Trustee will review this Statement regularly, and no less frequently than every three years with reference to any material changes to any aspects of the Plan which are judged to have a bearing on the stated Investment Policy.

The Plan, also known as "Pensionbuilder", is the defined contribution scheme offered to new employees of the participating employers under the Plan.

Each member's benefits are generally dependent on contributions paid, the investment returns achieved and, for members that decide to purchase an annuity at retirement, the rate of conversion of accumulated capital at the date of retirement (part or all of which can generally be taken as a lump sum) to a pension annuity contract with an insurance company.

1.1 Investment Powers

The Trust is governed by the Trust Deed and Rules effective from 1st September 2006 ("the Trust Deed").

This Statement is consistent with the Trustee's investment powers set out in Clause 13 (Investment) of the Trust Deed.

1.2 Compliance With Legislative Requirements

In preparing and maintaining this Statement the Trustee is required to set out its policy for securing compliance with the requirements of section 36 of the Pensions Act 1995 (Choosing Investments) which, in summary, requires:

- The Trustee to exercise their powers of investment in accordance with supporting regulations, namely, the Occupational Pension Scheme (Investment) Regulations 2005 (the 2005 Regulations)

- That any fund manager to whom discretion is delegated must exercise their discretion in accordance with the 2005 Regulations

- That before investing in any manner the Trustee must obtain and consider proper advice on the question of whether the investment is satisfactory having regard to the requirements of the 2005 Regulations so far as they relate to the suitability of investments.

The Trustee's policy for securing compliance with these requirements is as follows:

- Section 4 of the 2005 Regulations requires that the Trustee must exercise their discretion in accordance with the provisions set out in the said regulation. The Trustee has taken advice and is comfortable that the investments comply with the 2005 Regulations.

- Compliance with this Statement and hence the regulations is covered in Section 5 of this Statement.

- As required under the Act, the Trustee consults suitably qualified people in obtaining written advice relating to the Trust's investments.

The 2005 Regulations require that the Trust's assets must be invested:

a) In the best interests of the members and beneficiaries; and

b) In the case of a potential conflict of interest, in the sole interest of members and beneficiaries.

The Trustee's policy for complying with these requirements is to take, where the Trustee considers it appropriate, legal advice to resolve any perceived or actual conflict of interest.

2 Investment Objectives, Risk And Strategy

2.1 Investment Objectives

The investment objectives are as follows:

1. To offer members a range of investment funds to enable them to design an investment strategy of appropriate liquidity which aims to generate income and capital growth which, together with the contributions from the relevant Sponsor, will provide a fund at retirement with which members can choose to either purchase a pension annuity, adopt an income drawdown approach or withdraw as cash.

2. To offer members a range of investment funds which recognise their differing investment needs and that these needs change as they progress towards retirement age.

    i. Younger members, such as those with more than 5 years to retirement, have a greater need for capital growth which will ensure, over the long term, that the value of their investment accounts keep pace with inflation, and, if possible, with salary escalation. Such an objective is, in the opinion of the Trustee, more likely to be achieved by investing a greater proportion of the member's fund in equities, although the Trustee recognises that the value of such investments may be more volatile than other types of investment and that there can be no guarantee that equities will outperform less risky assets.

    ii. Older members, such as those with 5 years or less to retirement, who are targeting an annuity or cash or combination of both, will require a greater level of consistency in return and security.

3. To offer members sufficient investment options to reflect the different routes members can take at retirement, the Trustee offers several different Lifestyle arrangements targeting an annuity and tax-free cash, income drawdown and cash.

4. To consider and appropriately manage the cost and complexity of administering and communicating the range of investment funds offered

5. To offer members access to relevant information to enable them to make investment decisions appropriate to their investment needs

2.2 Risk

The Trustee has considered risk from a number of perspectives. These are as follows:

- The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore, secure an adequate pension ("*inflation risk*").

  The Trustee offers equity based investments which, over the long term, would be expected to provide a real rate of return greater than both price inflation and earnings growth.

- The risk of deterioration in the rate of exchange of accumulated funds for pension annuities ("*annuity risk*").

  One of the "Lifestyle" investment approaches automatically moves members' assets into index-linked gilts, corporate bonds and cash in order to limit volatility of returns relative to the price of annuities.

- The risk that the investment vehicles in which the monies are invested do not meet the expectations of the members ("*inherent investment risk*"). This applies particularly to falls in the short-term value of these investments.

  The Trustee offers members access to educational material to assist members' understanding of the risk and potential rewards of different types of investment vehicles.

- Actions by investment managers in the day-to-day management of the assets such that they will not achieve the rate of investment return assumed by the Trustee ("*investment manager risk*").

  In aiming to control investment manager risk, the Trustee's attention is focussed on the risk of the investment manager underperforming the objectives set, and the risks inherent in a manager's particular style of management. To minimise this risk the Trustee has appointed an investment manager who manages the investments on an index-tracking basis aimed at providing a return in line with the relevant market index for the asset class concerned.

- The risk that members feel unequipped to undertake selection of investment strategy ("*lack of knowledge risk*").

  The Trustee recognises that management of pension assets is a specialist function, and offers a series of "Lifestyle" investment options, which are designed to adapt automatically to members' changing needs over their working lives as they approach their intended retirement option.

The Trustee monitors these risks regularly.

2.3 Investment Strategy

The Trustee has entered into a contract of insurance with BlackRock ("the Investment Manager"). Under this contract of insurance there is a range of funds available, managed by the Investment Manager. The Investment Manager's fees, which are expressed as a percentage of the value of the assets under management, are included in the unit price of the funds.

The Trustee has delegated the day-to-day investment management to BlackRock. The table below shows the seven funds that are available to members.

Members may invest in a series of Lifestyle arrangements or directly in the underlying funds. Currently three Lifestyle options are offered – targeting either an annuity, income drawdown or a cash lump sum at retirement.

Name	Benchmark
Aquila Life (60:40) Global Equity Fund	60% of FTSE All Share Index return, 13.3% of FTSE All-World Developed Europe ex-UK Index return, 13.3% of FTSE USA Index return, 6.7% of FTSE All-World Japan Index return and 6.7% of FTSE All-World Pacific ex-Japan Index return. Calculated and rebalanced on a calendar quarterly basis.
Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund	FTSE UK Gilts Index-Linked Over 5 Years Index.
Aquila Life Corporate Bond Index Fund Over 15 Years	Iboxx Sterling Non-Gilts Over 15 Years Index
Aquila Life Cash Fund	7 Day LIBID
Aquila Life UK Equity Index Fund	FTSE All Share Index
Aquila Life World ex-UK Equity Index Fund	FTSE All-World Developed ex-UK Index
Aquila Life Overseas Bond Index Fund	JP Morgan Global ex-UK Traded Government Bond Index

The different Lifestyle arrangements invest in four funds i.e. the Global Equity Fund, the Over Five Years UK Index-Linked Gilt Index Fund, the Corporate Bond Index Fund Over 15 Years and the Cash Fund.

Members have a choice of funds in which to invest their Company contributions. Under the Lifestyle options the pattern of this investment is defined by the Trustee.

Each of the different Lifestyle approaches adopt an equity bias for younger members (through the Global Equity Fund) in order to benefit from the expected higher potential long-term returns that the Trustee believes will arise from such investments. Older members' assets are moved into either the Over 5 Years UK Index-Linked Gilt Index Fund, the Corporate Bond Index Fund Over 15 Years and the Cash Fund, or a combination of these funds as they approach retirement, dependent on which Lifestyle arrangement is chosen. The Trustee considers this an appropriate policy towards risk and expected returns.

Under the Lifestyle approach switching between the four funds happens quarterly over a lifestyle period of either 5 or 10 years up to a member selected retirement age or 65 years.

Regulations require that the Trustee nominates a fund as the default arrangement for members who do not specify their own investment choice. Having taken appropriate investment advice, the Trustee has nominated the 5 year Lifestyle approach targeting annuity cash lump sum at retirement as the default arrangement.

The Investment Manager must exercise the investment powers delegated to it in such a manner as to give effect to this Statement so far as is reasonably practicable.

3 Day to Day Management of the Assets

3.1 Investment Manager Monitoring

The Trustee receives reports from the Investment Manager. Through this process of regular reporting, the Trustee aims to ensure that the Investment Manager is carrying out its work competently and in compliance with the Act, and that the Trustee's investment objectives are met.

3.2 Realisation of Investments

The members' accounts are held in funds which can easily be realised to provide pension benefits on retirement, or earlier on transfer to another pension arrangement.

3.3 Custody of Investments

The appointment of the custodian for the investments is the responsibility of the Investment Manager. The Investment Manager's fees include fees for custodial services which are included in the unit price of the funds.

4 Environmental, Social and Governance ("ESG") Factors and Stewardship

Environmental, Social and Governance ("ESG") Factors

The Trustee incorporates all financially material considerations into decisions on the selection, retention and realisation of investments through strategic asset allocation decisions and the appointment of investment managers, so far as possible. The Trustee believes the investment time horizon to fund all future benefits to be less than ten years.

The Trustee believes that ESG factors (including but not limited to climate risk) may not be financially material over the time horizon of the Scheme and it will have varying levels of importance for different types of assets invested by the Scheme. The Trustee nevertheless expects its investment managers to factor ESG considerations into investment decision making where they have the discretion to do so.

The Trustee requires its investment advisor to review and rate the investment managers' credentials in managing risks arising from ESG and report this to the Trustee.

Non-financial matters including views of beneficiaries and members are not ordinarily taken into account in the selection, retention and realisation of investments. This stance is periodically reviewed, and if members express views in the future, the Trustee will consider these.

The Trustee requires its investment advisor and investment managers to communicate new and emerging risks arising from ESG considerations. This will continually inform the Trustee's policy which will be reviewed periodically and kept up to date with industry practice.

Stewardship

Direct engagement with underlying companies (as well as other relevant persons) of which the Trustee owns shares and debt is carried out by the Scheme's investment managers.

The Trustee expect their investment managers to practice good stewardship. This includes monitoring, engaging with issuers of debt or equity on financially material ESG issues, and using voting rights to effect the best possible long-term outcomes.

When appointing a new investment manager, the Trustee's investment advisers assess the ability of each investment manager in engaging with underlying companies in order to promote the long-term success of the investments. When selecting, monitoring and de-selecting asset managers, engagement is factored into the decision-making process to the appropriate level for the specific asset class in question.

5 Compliance with this Statement

The Trustee will monitor compliance with this Statement annually. In particular the Trustee will obtain confirmation from the Investment Manager that they have complied with this Statement as supplied to them and the Trustee undertakes to advise the Investment Manager promptly and in writing of any material change to this Statement.

Jeremy Stone

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Signed on behalf of WH Smith Retirement Savings Plan Limited

29th January 2020

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Date

Appendix 1: Investment Restrictions

The assets of the Plan are invested in pooled fund vehicles and the investment restrictions applying to these pooled funds are determined by the Investment Manager.

Employer-related investments

As the Plan invests in pooled funds, the Trustee cannot constrain the discretion of the Investment Managers. Therefore, indirect employer-related investment is permitted although such investments will be disclosed and monitored from time to time.

The level of investment by the Trustee in one of the Sponsors, or in associated companies, must not represent more than 5% of the relevant Section's assets.