WH Smith Pension Trust

Pension Schemes Registry
Registration Number: 101374331

The Chairman's Report

Year ended 31 March 2023

2. The Chairman's Report

Last year we were able to report that the Trustee had insured the pension liabilities of the Trust with Standard Life. As with the precedent set by our experience in insuring the liabilities of the News Section, in 2018, we were aware that the purchase of a bulk annuity did not necessarily mean we would progress smoothly towards the winding up of the Trust. Whilst we took care to learn the lessons of our previous experience, no two of these transactions are the same, and none is entirely without difficulty. At the time of writing, it remains for the Trustee to finalise its decisions on use of the surplus, after which we hope to proceed towards the issue of individual annuity policies to members, before winding the Trust up during 2024.

2. The Chairman's Report (continued)

Statement regarding DC Governance

The Occupational Pension Schemes (Charges and Governance) Regulations 2015 require the Trustee to include a statement regarding DC governance in the annual report.

Significant events

During the year the Trustee has undertaken steps to simplify the investments structure on the Scheme's road to full Buy-Out. One of these, was transfer of the active Money Purchase section members to the Retirement Savings Scheme (also known as Pension Builder) administered by WH Smith Pensions Department. As of 31 March 2023, the investment assets were still under the Trustee's control, however after year-end, in April 2023, a bulk transfer of all Money Purchase assets was made to Standard Life's Master Trust – where all members now have their own pension account.

Default Arrangement

Members of the DC Section of the Scheme who do not make an explicit choice regarding the investment of their funds use the Cash Lifestyle Fund as a default arrangement. Further details of the default arrangement are in the Trustee's Statement of Investment Principles for the Scheme as a whole, which is included as an appendix to this Report and Accounts and a brief outline is below.

Aims and objectives: The objective of the default arrangement is to target investment growth through investing in equities, automatically moving into cash as the member approaches retirement with a view to the member being wholly invested in cash at retirement.

Kinds of investments held: The investment funds comprising the default arrangement are investments of a long-term contract of insurance with BlackRock, which are accessed via an investment-only platform with Aegon. These funds are the Global Equity Fund and the Cash Fund.

Balance between different kinds of investment and ways of measuring and managing risk: The risk of inflation is mitigated by investing in 100% equities (which would be expected to provide a real rate of return greater than price inflation) until five years before retirement. During the last five years, investments are switched towards a final position of 25% equity and 75% cash. This mix has been designed to limit volatility of returns as the member nears retirement , and provide members with an opportunity for positive investment returns at a time of high interest rates and increasing inflation. Due to the size of their expected DC pots at retirement, most members are likely to take their full benefits as a cash lump sum. By investing in this manner, the Trustee expects to deliver growth over the member's lifetime within the Scheme without excessive risk taking, with an increased focus in the final five years of reducing volatility.

Expected return on investments: The funds are managed passively by BlackRock and returns are expected to be in line with the return of the relevant market index for the underlying asset classes.

Realisation of investments: All funds can easily be realised to provide pension benefits on retirement, or earlier transfer to another pension arrangement.

2. The Chairman's Report (continued)

Default Arrangement (continued)

Social, environmental or ethical considerations: The Trustee recognises and supports the view that social, ethical and environmental best practice should be encouraged so long as such considerations will benefit performance and/or reduce risk. The Trustee believes that best practice in these areas will enhance the performance of the companies it invests in. However, the Scheme does not invest directly in companies as all investments are held via insurance funds. The Trustee does, however, monitor the reports produced by the investment managers to ensure they promote best practice concerning social, ethical and environmental performance.

The Trustee believes that the above default strategy results in assets being invested in the best interests of the members who invest in the default arrangement as a means of positioning themselves to be wholly invested in cash at retirement. The default arrangement has the objective of providing investment growth during most of the member's working life by investing in equities and then switching to risk reducing assets as the member approaches retirement.

Over the Scheme year, the Trustee, with the help of its investment adviser, implemented improvements to the investment strategy following a triennial review of the investment strategy, including the default arrangement. The review concluded that the strategy had delivered returns consistent with the aims and objectives listed above, but that there were some improvements that could be made to make it more suitable for members going forward. In June 2022, the Trustee approved the following changes to the default strategy:

- The Aquila Life 60:40 Global Equity Fund was replaced with the BlackRock MSCI World Index Fund. The reason for this is to have an equity portfolio that better reflects the size of stock markets around the world.

- A higher allocation to equities will be made at the point at which members reach retirement. The lifestyle strategy was amended so that members will remain 25% invested in equities at their chosen retirement age. This change had been approved to provide members with an opportunity for positive investment returns at a time of low interest rates and increasing inflation. The point at which members start switching out of equities – five years from retirement – stayed the same.

The replacement of the Aquila 60:40 Global Equity Index Fund with the BlackRock MSCI Index Fund applied across all three lifestyle strategies (Cash, Annuity and Drawdown targeting) and in the Plan's self-select range.

The Trustee also reviewed the glidepaths for the Annuity and Drawdown targeting lifestyles and was comfortable they remained appropriate.

As part of the review, the Trustee agreed to set the Cash targeting lifestyle as the default arrangement for all members, including the small section for whom the Annuity lifestyle remained the default.

Finally, the Trustee implemented the addition of three new self-select funds to the Plan's range: the Aegon BlackRock ESG Strategic Growth Fund, the Aegon HSBC Islamic Global Equity Index Fund and

2. The Chairman's Report (continued)

Default Arrangement (continued)

the Aegon BlackRock Emerging Markets Equity Index Fund. The Trustee, based on the advice of its investment adviser, is satisfied with the range of self-select options offered. It is comfortable it covers all relevant asset classes and caters for members with specific investment needs.

All of these changes were communicated to members in April 2022 and implemented in June 2022.

Processing Scheme core financial transactions

The Trustee has a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the DC Section of the Scheme and payments to and in respect of members) are processed promptly and accurately.

These transactions are undertaken on the Trustee's behalf by the WHSmith Pensions Department and the Investment platform provider, Aegon. In relation to the AVCs, some core financial transactions are carried out by Utmost Life & Pensions on the Trustee's behalf. The Trustee has reviewed the processes and controls implemented by Aegon and the WHSmith Pension Department and considers them to be suitably designed to achieve these objectives. The Trustee has also agreed service levels and reporting of performance against those service levels in quarterly administration reports. The WHSmith Pensions Department closely monitors any transactions carried out by Utmost Life & Pensions.

The Trustee regularly reviews this information and has concluded that all DC transactions over the year were processed promptly and accurately. This reporting also demonstrated to the Trustee that no administration issues arose over the reporting year.

In light of the above, the Trustee considers that the requirements for processing core financial transactions specified in the Administration Regulations have been met over the reporting year.

Member-borne charges and transaction costs

The Administration Regulations require the Trustee to make an assessment of all ongoing charges and transactions costs borne by the DC Section members and AVC members, and the extent to which those charges and costs represent good value for money for members.

These charges comprise:

- explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the investment platform provider fund managers as part of the Total Expense Ratio (TER). The additional expenses include other costs associated with managing the fund, e.g. audit, legal, custody etc;
- transaction costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.

Information on the transaction costs over the reporting year was requested from Aegon and Utmost Life & Pensions.

2. The Chairman's Report (continued)

Member-borne charges and transaction costs (continued)

The Scheme attracts a management charge depending on which fund the investments are held in. The following table shows the charges for each of the funds available in the Scheme over the reporting year.

The highest charge on any Aegon BlackRock fund is 0.40% pa, which is lower than the maximum permitted default fund charge of 0.75% and the Trustee is satisfied that it has negotiated a good deal for members.

Fund Name	Annual management charge (%)	Additional fund expenses %	Total expense ratio %	Transaction costs (%)
Aegon BlackRock UK Equity Idx S5	0.15	0.00	0.15	0.07
Aegon BlackRock World (ex-UK) Equity Idx S4	0.15	0.01	0.16	0.00
Aegon BlackRock Aquila Life Overseas Bond Idx Class S4	0.25	0.02	0.27	-0.05
Aegon BlackRock Cash S2 [1 2]	0.10	0.03	0.13	0.01
Aegon BlackRock Emerging Markets Equity Idx O2	0.23	0.08	0.31	-0.03
Aegon BlackRock ESG Strategic Growth I3	0.40	0.02	0.42	0.09
Aegon BlackRock iShares 5-yr Index-Linked Gilt Idx S3	0.10	0.01	0.11	0.03
Aegon BlackRock MSCI World Idx I1[1 2]	0.40	0.01	0.41	0.00
Aegon BlackRock 15-yr Corporate Bond Idx	0.15	0.01	0.16	0.11
Aegon HSBC Islamic Global Equity Idx I1	0.40	0.00	0.40	0.01
Utmost Life & Pensions				
Multi-Asset Moderate [3]	0.75	0.00	0.75	0
Multi-Asset Cautious [3]	0.75	0.00	0.75	0
Managed [3]	0.75	0.00	0.75	0.01

[1] These funds are used in the Lifestyle arrangements
[2] These funds are used in the default arrangement
[3] Utmost funds data as at 30 December 2022

Illustration of charges and transaction costs

From 6 April 2018, The Trustee is also required to produce an illustration of the cumulative effect of the costs and charges on members' retirement fund values.

The tables below illustrate the effect of the costs and charges at different ages on members' projected retirement pots for a typical member invested in the default strategy (Cash Lifestyle Strategy comprising two funds: Cash Fund and MSCI World Index Fund).

The former active members had previously ceased membership (31 January 2023) and joined the Retirement Savings Plan (also known as Pensionbuilder) administered by the WH Smith Pensions Department. The money purchase assets were transferred in bulk to Standard Life Master Trust in April 2023.

2. The Chairman's Report (continued)

Illustration of charges and transaction costs (continued)

Deferred Members:

For a deferred member invested in the Cash Lifestyle Fund, the estimated impact of charges on accumulated fund values is shown below. The amounts shown relate to a member aged 43 (the youngest deferred member), current fund value of £18,798 and a Retirement Age of 65.

Projected pot in today's money (deferred member)						
Default lifestyle strategy			MSCI World Index		Cash	
Years	Before charges	After all costs & charges deducted	Before charges	After all costs & charges deducted	Before charges	After all costs & charges deducted
1	£19,257	£19,189	£19,257	£19,189	£18,357	£18,333
3	£20,389	£20,159	£20,389	£20,159	£17,507	£17,436
5	£21,588	£21,179	£21,588	£21,179	£16,697	£16,583
10	£24,902	£23,959	£24,902	£23,959	£14,831	£14,628
15	£28,725	£27,104	£28,725	£27,104	£13,174	£12,903
20	£32,210	£29,846	£33,135	£30,662	£11,703	£11,382
22	£31,903	£29,427	£34,177	£31,493	£11,406	£11,077

The illustrations above have been carried out in line with the statutory guidance and assume the following:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. Inflation is assumed to be 2.5% each year.
3. Contributions are assumed to increase in line with assumed earnings inflation of 2.5% each year.
4. Values shown are estimates and are not guaranteed.
5. The projected growth rates for each fund (before charges) are as follows:
   a. MSCI World Index: 5.5% pa
   b. Cash fund: 0.1% pa.
6. Charges have been assumed to be in line with those over the reporting year (or calendar year in the case of transaction costs) as set out in the table above.

Value for Members

The Trustee is required to assess the extent to which the fees and costs represent good value for members. We have carried out this assessment in relation to the charges set out above and the services offered by the Scheme.

Good value means different things to different people. Good value is a subjective matter and there is no publicly available data which is sufficiently comprehensive, reliable and consistent to enable us to compare the value of the benefits of Scheme membership against those provided elsewhere. We have therefore relied on our own knowledge and experience, the advice of our advisers and the Pensions Regulator's guidance (contained in Code of Practice 13).

2. The Chairman's Report (continued)

Value for Members (continued)

We reached our conclusion following a process where we:

- considered the benefits of membership in terms of the design of the default arrangement, the range of investment options provided, the quality of the Scheme's governance and the administration service
- Looked at the costs paid by the members and compared them to the benefits

We concluded that, while the fees and costs are not the lowest available on the market, they are competitive, and that membership of the Scheme represents good value for members. The main reasons for this are:

- Strong governance and oversight from the Trustee Board.
- Tailored communications and services provided by a dedicated in-house Team.
- A lifestyling default investment strategy, designed to de-risk as members approach retirement.
- A competitive range of self-select investment options, alongside the default investment options including the addition of 3 new funds.

Over the 2022 – 2023 Scheme year, the Trustee undertook the following steps to improve value for members:

- The Trustee in conjunction with its advisers assessed the suitability of the Schemes' default arrangement and implemented the following:
  - Replacement of the Aquila Life 60:40 Equity Fund with the MSCI World Index Fund to mitigate home bias to the UK stock market.
  - Increase the allocation to equities at retirement for the cash-targeting lifestyle so as to retain a degree of capital growth.
  - Transition all members to the cash targeting lifestyle (as opposed to the legacy annuity targeting default arrangement) as this is more aligned with how members are expected to take their pension.

To cater for members with specific investment needs, the Trustee agreed the addition of 3 new funds to the Scheme's self-select range: an ESG focused fund, a Shariah compliant equity fund and an Emerging market equity fund.

Investment returns

The table below shows the net performance of Aegon over the year, three years and five years ending 31 March 2023. The benchmark shown does not take into account the annual management charges levied by Aegon.

	1 Year		3 Years		5 Years	
Aegon BlackRock Aquila Life Fund	**Performance**	**Benchmark**	**Performance**	**Benchmark**	**Performance**	**Benchmark**
MSCI World Index	4.92*	4.88*	N/A	N/A	N/A	N/A
UK index-linked over 5 years	(29.59)	(30.44)	(10.48)	(9.22)	(4.17)	(4.13)
Corporate bonds over 15 years	(23.44)	(23.21)	(8.52)	(8.37)	(3.64)	(3.52)
Cash	2.09	2.22	0.72	0.72	0.71	0.64
UK equity	2.35	2.92	13.45	13.81	4.76	5.04
World ex-UK equity	(1.57)	(1.06)	16.12	16.62	10.76	11.01
Overseas bonds	(2.35)	(2.14)	(5.13)	(4.97)	(0.51)	(0.70)

*Please note the Aegon BlackRock MSCI World Index does not have investment return data for 3 and 5 years periods, as this fund was only invested in during the year.

2. The Chairman's Report (continued)

Trustee's knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, the investment of Scheme assets and other matters to enable them to exercise their functions as Trustee properly. This requirement is underpinned by guidance in the Pensions Regulator's Code of Practice 07. The comments in this section relate to the Trustee as a body in dealing with the Scheme.

The Trustee has put in place arrangements for ensuring that it takes personal responsibility for keeping up-to-date with relevant developments and carries out a self-assessment of training needs. The Secretary to the Trustee reviews the self-assessments annually and arranges for training to be made available to individual Trustee Directors or to the whole trustee body as appropriate.
In addition, the Trustee receives advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

Over the year covered by this statement, the Trustee has:

- carried out due diligence exercise on a buy-in policy provider;
- carried out an exercise in cooperation with independent advisors to ensure all information on the pension scheme has been disclosed in preparation for the buy-in;
- made decisions on specific member cases, taking into account the requirements of the Scheme's Trust Deed and Rules and also the wider law relating to pensions and trusts;
- carried out regular annual tasks, such as reviewing and signing off the Trustee Report and Accounts demonstrating a working knowledge of the Statement of Investment Principles;
- reviewed and discussed an assessment of the DC Section of the Scheme against the legal requirements set out in the Pension Regulator's DC Code of Practice, helping to maintain their knowledge of the law relating to (DC) pensions and trusts;

The majority of the existing Trustee Directors have completed the Pension Regulator's Trustee Toolkit. The remaining Trustee Directors will complete this in the current scheme year. New Trustee Directors are required to complete this within six months of taking up office.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustee considers that it is enabled properly to exercise its functions as a Trustee.

Jeremy Stone

Jeremy Stone
Chairman

30 October 2023