

GSK Pension Fund (“the Fund”) **Statement of Investment Principles**

This Statement of Investment Principles covers the defined benefit and the defined contribution sections of the Fund. It is set out in three parts, first the objectives and implementation of the defined benefit section, secondly those of the defined contribution section, and finally the Trustee's overall policy on issues that apply equally to the defined benefit and defined contribution sections.

Defined Benefit Section

Investment Objective

The Trustee aims to invest the assets of the Fund prudently to ensure that the benefits promised to members are provided. In setting the planned investment strategy, the Trustee first considered the lowest risk asset allocation that they could adopt in relation to the Fund's liabilities. The asset allocation strategy they have selected (the planned asset allocation strategy) is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Fund's liabilities.

The planned asset allocation strategy was determined with regard to the liability profile and funding position of the Fund. It was based on the assumption that equities would outperform bonds over the long term. The Trustee considered written advice from its investment advisers when choosing the Fund's planned asset allocation strategy.

The Trustee monitors the planned asset allocation strategy on an ongoing basis.

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect with 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.

RISK MEASUREMENT AND MANAGEMENT

The Trustee recognises that the key risk to the Fund is that it has insufficient assets to make provisions for 100% of its liabilities (“funding risk”). The Trustee has identified a number of risks which have the potential to cause deterioration in the Fund’s funding level and therefore contribute to funding risk. These risks are discussed in this section.

The risks identified by the Trustee fall naturally into two groups; those that the Trustee manages directly itself and those whose management has been delegated to the Directors of the GSK Common Investment Fund ('the CIF Directors').

Risks Managed by the Trustee

The risks identified by the Trustee that are also directly managed by itself are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors (“mismatching risk”). The Trustee and its advisers considered this mismatching risk when agreeing the investment strategy with the CIF Directors.
- The possibility of failure of the Fund’s sponsoring employer (“covenant risk”). The Trustee and its advisers considered this risk when agreeing investment strategy with the CIF Directors and consulted with the sponsoring employer as to the suitability of the proposed strategy.
- The risk of a shortfall of liquid assets relative to the Fund’s immediate liabilities (“cash flow risk”). The Trustee and its advisers liaise with the CIF Directors in order to manage the Fund’s cash flows and take into account the timing of future payments in order to minimise the probability that this occurs.
- The failure by investment markets to achieve the rate of investment return assumed by the Trustee (“market risk”). This risk is considered by the Trustee and its advisers when setting the investment strategy and on an ongoing basis.
- The failure of the insurance companies through which pension in payment liabilities have been insured. This risk is considered by the Trustee Directors and their advisers both upon the initial appointment of the insurance companies and on an ongoing basis thereafter.

Risks Managed by the CIF Directors

The risks identified by the Trustee whose management has been delegated to the CIF Directors are as follows:

- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee and CIF Directors (“manager risk”). This risk is considered by the CIF Directors and their advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.
- The failure to spread investment risk (“risk of lack of diversification”). The CIF Directors and their advisers considered this risk when setting their investment strategy with the Trustee.

Management of Operational Risk

A further risk that the Trustee has identified is the risk of fraud, poor advice or acts of negligence (“operational risk”). Both the Trustee and the CIF Directors have 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.

Regular Monitoring of Risks

The Trustee manages risks using both qualitative and quantitative techniques. In addition, it has a process in place to overview the way in which the CIF Directors are managing the risks that have been delegated to them. Specific details of the risk management processes that the Trustee and the CIF Directors have in place are detailed below.

Qualitative risk management of directly managed risks

Due to the complex and interrelated nature of the risks that the Trustee manages directly, these risks are considered in a qualitative rather than quantitative manner as part of each formal investment strategy review (normally triennially).

Quantitative risk management of directly managed risks

The Trustee may also review the risks directly managed by it quantitatively. For example, the Trustee regularly reviews the progress of the Fund’s funding level over time as part of its ongoing management of mismatching risk.

Monitoring of risks delegated to the CIF Directors

The CIF Directors regularly monitor the risks whose management has been delegated to them by the Trustee. Their monitoring process includes regular analysis of reports containing the following information:

- Performance versus the Fund investment objective as measured by an independent performance measurer.
- Performance of individual fund managers versus their respective targets as measured by an independent performance measurer.
- Any significant issues with the fund managers that may impact their ability to meet their performance targets.

The Trustee regularly receives summaries of the above information and also summaries of the decisions made by the CIF Directors. This forms part of its overall risk monitoring process.

IMPLEMENTATION

The Trustee invests the majority of the DB Section assets through the CIF, which has an independent Trustee board (the CIF Directors). The CIF Directors have delegated the management of the CIF assets to several fund managers.

The Trustee also has assets in the form of insurance policies which are held to match part of the pension in payment liabilities.

The CIF directors monitor the performance of all fund managers on a quarterly basis and assess any significant issues with the fund managers that may impact on their ability to meet the performance objectives set by the Trustee.

The Fund Trustee monitors the major decisions of the CIF, such as asset allocation and manager selection to ensure that they are consistent with the objectives of the Fund Trustee.

The CIF Directors are responsible for ensuring that the asset mix of the GSK CIF does not move too far from the planned asset allocation. The asset allocation is regularly monitored and rebalanced to ensure it remains within certain ranges.

The CIF Directors are responsible for considering whether it would be appropriate to include alternative investments such as private equity and hedge funds in the CIF strategy.

Defined Contribution Section (GWPP)

Investment Objective

In investing the assets of the Fund 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 Fund'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 Fund's rules to exercise such a default).
5. To monitor and take advice on the suitability of the investment options provided.

The DC Section's Investment Objective is implemented using a range of investment options including equity, bond and cash funds. There is also a lifecycle strategy which switches members' funds from global equity 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 expects the long-term return on the investment options that invest predominantly in equities to exceed price inflation and general salary growth. 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.

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 Fund. The Trustee's policy in respect of risk measurement methods and risk management processes is set out below.

The Trustee considers the following sources of risk:

- Risk of not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices.
- 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 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.

IMPLEMENTATION

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

Defined benefit and defined contribution sections

General Investment Policy - Defined Benefit Section

The Trustee of the Fund will, having taken investment advice, decide an overall planned asset allocation for the Fund between the main asset classes which will be communicated to the CIF Directors. The CIF's investment strategy is then developed by the CIF Directors, in conjunction with the trustees of the schemes which participate in the CIF. It is the CIF Directors' policy to consider:

- The underlying schemes' chosen overall asset allocation;
- A full range of asset classes, including alternative asset classes such as private equity.
- The suitability of each asset class in the planned asset allocation strategy.
- The risks and rewards of a range of alternative asset allocation strategies.

- The suitability of the possible styles of investment management and manager diversification.
- The need for appropriate diversification both across asset classes and within asset classes.

Having considered the above and taken advice from the investment advisers, the CIF Directors liaise with the trustees of the schemes which participate in the CIF about the proposed asset allocation strategy for the CIF.

The CIF is structured so as to have a range of sub-funds relating to different asset classes. This allows individual participants of the CIF to tailor the asset allocation of their share of the assets to their specific circumstances (e.g. to increase exposure to bond investment at the expense of equity investment if it was decided that this was appropriate).

The Trustee reviews from time to time whether continued participation in the CIF is appropriate.

General Investment Policy - Defined Contribution Section

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 alternative 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.

General Investment Policy - Both Sections

The Trustee and the CIF Directors have delegated all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract. These duties include:

- Purchase and realisation of investments.
- Taking into account social, environmental and ethical considerations in the selection, retention and realisation of investments in so far as this is consistent with their overall objectives.
- Voting and corporate governance in relation to the Fund's assets including taking into account the Institutional Shareholders' Committee Statement of Principles on the Responsibilities of Institutional Shareholders and Agents¹.

The Trustee and the CIF Directors expect 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.

¹ Marathon's mandate does not require them to comply with the Institutional Shareholders' Committee Statement of Principles on the Responsibilities of Institutional Shareholders and Agents, primarily due to the small size of their organisation and the practical problems that full compliance would present. The Trustee and their advisors have reviewed the voting and corporate governance processes that Marathon do have in place and are satisfied that they are sufficiently robust.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets.

The CIF Directors have appointed a global custodian. The custodian provides safekeeping for all the CIF's assets and performs the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions. The custodian also provides unitisation of the GSK CIF to ensure that Fund's assets are clearly identified.

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 and the CIF Directors have appointed a investment advisers. The advisers operate under agreements to provide services which ensures the Trustee and CIF Directors 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.

GOVERNANCE

The Trustee and CIF Directors are responsible for the investment of the Fund assets. The Trustee takes some decisions itself and delegates others. 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 take an informed decision. The Trustee has established the following decision making structure:

<p>Trustee</p> <ul style="list-style-type: none"> • Set structures and processes for carrying out its role. • Determine (with assistance from the CIF Directors where necessary) asset allocation strategy. • Monitor the CIF. • Consider proposals made by the CIF Directors. • Review the Fund’s participation in the CIF. • Select and monitor fund managers of the DC and AVC assets. • Select and monitor investment advisers. 	<p>CIF Directors</p> <ul style="list-style-type: none"> • Select and monitor investment advisers and CIF fund managers. • Assist the Trustee with setting its asset allocation strategy as required. • Set structures for implementing the investment strategy. • Make day to day decisions relevant to the operation of the strategy. • Require the fund managers to operate within the terms of this statement so far as practical.
<p>Investment Advisers</p> <ul style="list-style-type: none"> • Advises on all aspects of the investment of the Fund assets, including implementation. • Advises on this statement. • Provides required training. • Advise the Trustee on suitability of the indices in the benchmark. 	<p>Fund Managers</p> <ul style="list-style-type: none"> • Operate within the terms of this statement and their written contracts. • Select the individual investments within their portfolios (e.g. individual stocks, bonds etc as applicable) with regard to their suitability, including consideration of the impact on portfolio diversification.

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, eg 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 fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 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

Appendix - Specification of Investment Arrangements

This appendix includes information relating to the Trustee's planned asset allocation strategy and sets out details about the Fund's asset managers. This appendix is included for convenience and does not form part of the Trustee's Statement of Investment Principles.

Defined Benefit Planned Asset Allocation

The current **planned asset allocation strategy** is as follows and was set after taking advice from the Trustee's investment advisers and consulting with the Employer.

Asset Class	Weighting (%)	Range (%)
Equities	50	30.0-52.5
Bonds	45	42.5-70
Property	5	1.0-7.5

Following analysis carried out by the CIF Directors in conjunction with the Employer, the Trustee has decided to move from this strategy towards a lower risk strategy as follows:

Asset Class	Weighting (%)	Range (%)
Return seeking	30	25-35
Matching	70	65-75

The intention is to reach this lower risk strategy by the end of 2015.

Return seeking assets: Return seeking assets are those assets that are expected to achieve a higher level of investment return (composed of capital growth and income) than a portfolio of assets that broadly match a pension scheme's liability characteristics. Equally, the volatility of investment return is expected to be higher and the risk of capital loss is higher for these assets. Examples of return seeking assets include equity and property.

Matching assets: Matching assets are those assets that exhibit similar characteristics to the nature of the liabilities. Typically the expected return on these assets will be lower than that of the return seeking assets, however the volatility relative to the liabilities is expected to be lower. Examples of matching assets include index linked gilts and corporate bonds.

The Trustee also holds some annuities with insurance companies and has buy-in policies to cover a proportion of the pension in payment liabilities with the Prudential. The Trustee may increase the use of such policies as part of the derisking process.

Defined Benefit Section: Fund Manager Implementation

For equities, the CIF Directors decided on a core (passive)/satellite (high performance) structure. This had an initial approximate 50/50 split between active and passive management, although recent manager changes have reduced the active component. The CIF Directors have also decided that Legal & General will be retained as the core passive manager and that the equity benchmark will exclude GSK to avoid self-investment. All bonds are managed on a passive basis.

The fund manager mandates and outperformance targets are shown in the table below:

Fund Manager	Benchmark Allocation	Index	Outperformance Target
BlackRock (formerly Merrill Lynch)	UK Equities	FTSE All-Share ex GlaxoSmithKline	To outperform the benchmark by 2.0% per annum over a rolling three year period
UBS Global Asset Management	European Equities	FTSE World Europe ex GlaxoSmithKline	To outperform the benchmark by 3.0% per annum over a rolling three year period
Marathon	Global Equities	FTSE All World ex GlaxoSmithKline	To outperform the benchmark by 3.0% per annum over a rolling three year period
Legal & General	Multi-Asset	Floating Benchmark	To perform in line with the benchmark over rolling three year periods and to manage overall benchmark according to planned asset allocation
CB Richard Ellis	Property	Retail Price Index	To outperform the Retail Price Index by 4% p.a.
Aberdeen	Property	Retail Price Index	To outperform the Retail Price Index by 6% p.a.

Note: All outperformance targets are gross of fees unless stated.

The CIF Directors have appointed BlackRock to advise on the weightings in the benchmark to different equity and bond markets. These weightings will be reviewed on a regular basis.

The Trustee has not set an explicit investment outperformance objective, but if all active managers achieve their targets the total fund will outperform its benchmark net of fees.

Defined Benefit Section: Stocklending

Put simply, stocklending is the practice whereby the owner of securities (often equity stocks) lends them out to another investor for a period of time, with the borrowing investor paying a fee for the privilege. In the majority of cases, the purpose is to enable the borrower to settle a sale transaction involving that security.

Stocklending is an activity that is well established amongst larger UK pension schemes and in 2006 the CIF Directors decided to participate in a stocklending programme themselves. This decision was made following a period of careful consideration and the CIF Directors discussed the matter with their investment advisor prior to deciding to proceed. The CIF Directors decided that it was appropriate to appoint BNY Mellon Asset Servicing, who are the CIF's custodian, as the stocklending agent.

There are risks associated with stocklending and the CIF Directors considered these risks carefully prior to implementing the programme. One such risk is that the borrower fails to return the stocks lent to them. The CIF Directors decided to mitigate this risk by requiring the borrower to post gilts as collateral, with these assets passing to the possession of the CIF Directors in the event that stocks are not returned. The CIF Directors are comfortable that the processes they have in place with regards to the posting of collateral means that the risk of material loss due to borrowers failing to return stocks is small.

The CIF Directors also have the right to immediately recall stocks and will do this if a sale instruction is received by a fund manager as to not inhibit their day to day fund management activity. The CIF Directors will continue to review the appropriateness of the stocklending arrangement they have in place from time to time.

Defined Contribution Section: Fund Manager Implementation

The fund manager mandates for the defined contribution section of the Fund and performance targets are shown in the table below:

Open to members:

Provider	Name of Fund	Index	Performance Target
Legal & General Assurance (Pensions Management) Ltd	GSK Index-Tracking Global Equity Fund	50% FTSE All Share Index / 50% FTSE World (Ex-UK) Index	To provide a return in-line with the Index
Legal & General Assurance (Pensions Management) Ltd	GSK Index-Tracking UK Equity Fund	FTSE All Share Index	To provide a return in-line with the Index
Legal & General Assurance (Pensions Management) Ltd	GSK Index-Tracking Overseas Equity Fund	FTSE World (Ex-UK) Index	To provide a return in-line with the Index
Legal & General Assurance (Pensions Management) Ltd	GSK Index-Tracking Bond Fund	50% FTSE-A Index Linked (over 5 years) Index / 50% FTSE-A Government (over 15 years) Index*	To provide a return in-line with the Index
Legal & General Assurance (Pensions Management) Ltd	GSK Cash Fund	7 Day LIBID**	To provide a return in-line with the Index
Legal & General Assurance (Pensions Management) Ltd	GSK Index-Tracking Index Fund	60% FTSE All Share index / 8% FTSE World North America Index / 10% FTSE World Europe (ex UK) Index / 5% FTSE World Japan Index / 3.5% FTSE World Asia-Pacific (ex Jap) Index / 3.5% FTSE AW All emerging Market Index / 5% FTSE-A Government (all stocks) Index / 5% FTSE-A Index-Linked (over 5 year) Index*	To provide a return in-line with the Index
Legal & General Assurance (Pensions Management) Ltd	GSK Index-Tracking Balanced Fund	45% FTSE All-Share / 45% FTSE World (Ex-UK) / 5% FTSE-A Index Linked (over 5 years) Index / 5% FTSE-A Government (over 15 years) Index*	To provide a return in-line with the Index

* This is the benchmark index of the fixed interest element of the portfolio. Legal & General also show fixed interest returns against the iBoxx Sterling Sovereigns & Sub-Sovereigns AAA (over 15 year) index in their literature as a further comparison.

** Monitoring index benchmark only

Closed to members:

Provider	Name of Fund	Index	Performance Target
Equitable Life	With Profits	Not applicable.	Not applicable.

There is also a lifecycle option. In the main this invests in the GSK Index-Tracking Global Equity Fund (described above) up to 10 years prior to retirement and then switches into bonds and cash gradually over the last 10 years. There are also some legacy lifestyle arrangements that have shorter switching periods.

Defined Benefit and Defined Contribution Section: Additional Voluntary Contribution (AVC) Fund Manager Implementation

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

Provider	Name of Funds
Legal & General Assurance (Pensions Management) Ltd	Unitised Funds shown above
Equitable Life*	With Profits

* This provider is now closed to contributors.

Fee Structures for managers and advisers

All managers are paid fees in relation to the size of assets managed. In addition BlackRock and UBS are paid a fee based on their investment performance. The Trustee believes that they represent competitive rates for the types of mandates awarded.

Aon Hewitt has been selected as investment adviser to the Trustee and the CIF in respect of the Defined Benefit section. Mercer has been selected as the investment adviser to the Trustee in respect of the Defined Contribution section.

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 Fund’s matters while allowing the Trustee a degree of control and predictability over fees.