# Kingfisher Pension Scheme - Money Purchase Section annual governance statement by the Chair of the Trustee

This Annual Statement regarding governance has been prepared in accordance with:

- Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879); and
- The Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 (SI 2018/233).

**Summary for year ended 31st March 2021.**

Money Purchase Section investments: £519m (2020: £359m)
Total membership: 60,534 (2020: 54,710)

## Introduction

I am pleased to present the Trustee's statement of governance, describing how the Trustee has governed the Money Purchase (MP) section of the Kingfisher Pension Scheme during the year end 31 March 2021 (the "Scheme year"). In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended).

My first message to our members is one of support, and that I hope they remain safe. Coronavirus continues to affect the whole of society, and at the Kingfisher Pension Scheme we want to play our part in continuing to help to our members be in the best position for their retirement.

I would like to echo the views of the Pension Regulator, the Financial Conduct Authority, and the Money and Pensions Service (MaPS), and urge members to keep calm and not rush into making decisions about their pension, particularly when there may be heightened risk of pension scams. Inevitably there will be periods of market volatility but it is important to remember that Pensions are a long-term investment. Those members in the default strategy that are approaching their selected retirement age are protected to a greater degree as more of their investments will have transitioned to lower risk assets. The Trustees reviewed and assessed their third-party providers' business continuity plans both in theory, before 'lockdown' and in practice, during the implementation of those plans. Despite the different ways of working in these unprecedented times, we are pleased to report no material deterioration in member service.

This statement covers the following areas:

- The investment strategy relating to the Scheme's default investment arrangement;
- Administration and the processing of core financial transactions;
- Charges and transaction costs within the Scheme;
- Value for members assessment
- Trustee knowledge and understanding;
- Information regarding governance and the Trustee' assessment of the Scheme against the Pensions Regulator's ("TPR's") DC Code of Practice.

## How we manage your scheme

The Trustee Directors who served during the year are detailed in the Scheme's Annual Report and Financial Statements. The Trustee Board consists of ten Trustee Directors, known as Trustees, made up of five Employer appointed Directors, one independent Trustee Director and four Member Nominated Directors (MNDs). The MNDs serve for a period of four years unless their Trusteeship is terminated, or they resign or leave active membership before the end of their term. These Trustee Directors are also able to stand for re-selection for a further one term of four years, making a total of eight years' maximum service.

The Trustee Board operates four subcommittees to help fulfil its governance functions;

- Defined Benefit Investment Committee
- Defined Contribution Investment and Retirement Committee
- Audit, Accounts and Governance Committee
- Benefits Committee

During the Scheme year a Trustee Effectiveness review was carried out, in the light of which some changes are to be made in 2021/22 to further improve governance. Information about this can be found on page 11.

## 1. The default investment strategy

The default strategy is provided for members who join the Scheme and do not choose an investment option for their contributions. Members can also positively choose to invest in the default strategy. As at 31 March 2021, approximately 98% of members were invested in the default strategy.

**Setting an appropriate investment strategy**

The Trustee is responsible for investment governance. This includes ensuring that the default strategy is designed and implemented in the interests of members.

We have chosen the 'lifestyle cash target' strategy as the default strategy. Details of the investment strategy and investment objectives of the default strategy are recorded in a document called the Statement of Investment Principles ("SIP"). This document is available on the Trustee website to members or upon request. A copy of the SIP, including the part relating to the default strategy, is attached as appendix 1 to this statement.

The main investment objectives for the default arrangement are in outline:

- The Default Arrangement should be suitable for the bulk of KPS-MP members and seeks a return of CPI +3% net of all charges over the long term.
- For younger members, investment should be in growth assets: higher-risk investments which are expected to produce significant real returns (after charges) over the long term.
- Over the five years to selected retirement age (**SRA**), investments should be de-risked (relative to cash), with members gradually being switched out of growth assets such that by SRA they are wholly invested in cash/near-cash.
- Growth assets should be suitably diversified to reduce volatility.
- Charges should be substantially below the statutory charge cap of 0.75% per year and should ensure that members receive real value-for-money.

**Performance of the default fund**

The default fund produced an annualized investment return over the last 12 months, 3 years and 5 years of 30.6%, 9% and 10.6% per annum respectively to 31 March 2021.

**Reviewing the default strategy**

The Trustee's DC Investment and Retirement Committee reviews the performance of the default strategy on a quarterly basis with input from the Trustee's investment advisers. These quarterly reviews were carried out during the Scheme year. The Committee was satisfied that the long-term performance was consistent with the Trustee's aims and objectives for the default strategy.

At least once every three years, the Trustee conducts a comprehensive review of the default strategy with the assistance of its advisers. The last such review was completed in October 2019. For this purpose, the Trustee's advisers carried out an in-depth demographic analysis of the membership and supplied projections of member outcomes. The Trustee considered the likely needs of members in retirement along with likely other sources of income, in particular the State pension which for the majority of members will be the main source of income. Having regard to these factors, the Trustee concluded at its meeting in October 2019 that the current default strategy (lifestyle cash target) remained appropriate. Accordingly, no change was made to the default strategy.

**Costs and Charges**

We are required to explain the charges (i.e. administration and investment management fees) and transaction costs (i.e. the costs of buying and selling investments) that are paid by members.

Where information about the member costs and charges is not available, we have to make this clear to you together with an explanation of what steps we are taking to obtain the missing information.

The charges and costs borne by members and the Employer for the Scheme's services are:

| Service | By members | Shared | By the Employer* |
|---|---|---|---|
| Investment management | ✔ | | |
| Investment transactions | ✔ | | |
| Administration | ✔ | | |
| Governance | | | ✔ |
| Communications | | ✔ | |

*Expenses met by the Pension Scheme funded by the employer

The level of charges and transaction costs applicable to the Scheme's default strategy during the last Scheme year were:

- Charges: 0.40%. This is well under the legal charge cap of 0.75%.
- Transaction costs: 0.07%.

All charges and costs described in this statement are per year and are based on the value of a member's relevant fund. So, for example, if a member has £1,000 invested in the default strategy, then per year the member bears the following:
- Charges: 0.40% x £1,000 = £4.00.
- Transaction costs: 0.07% x £1,000 = 70p.

Efforts are made to reduce charges and costs whenever possible.

The charges quoted in the above Statement are the funds' Total Expense Ratios ("TERs"). The TER consists of a fund's Annual Management Charge ("AMC") and Operating Costs and Expenses ("OCE"). OCEs include, for example, the fund's custodian costs. While the AMC is usually fixed, the OCE, and hence the TER, can vary slightly from day to day.

**Transaction costs**

As explained above, transaction costs are costs incurred as a result of buying and selling investments. Members are not directly charged for buying and selling units in the funds, as they are 'swinging single' priced funds. The net asset value of a fund is valued at the mid-market price of the fund's underlying securities. Under a swinging single price regime, when the fund experiences net redemptions or net subscriptions the price may swing down or up to negate the impact of the expected transaction costs.

**Self-select range**

The level of charges for each self-select fund (including those used in the default arrangement) and the transaction costs over the period covered by this Statement are:

| Fund | Charges | Total transaction costs |
|---|---|---|
| Lifestyle Fund (default strategy) | 0.40% | 0.07% |
| Passive Equity fund | 0.46% | 0.09% |
| Diversified Return Fund | 0.34% | 0.04% |
| Money Market Fund | 0.31% | -0.15% |
| Emerging Markets Fund | 1.22% | 0.11% |
| Ethical Fund | 0.96% | 0.00% |
| Pre-Retirement Fund | 0.30% | 0.02% |
| Pre-Retirement Inflation Linked Fund | 0.30% | 0.04% |
| Property Fund | 1.50% | -0.20% |
| Shariah Fund | 0.56% | 0.03% |

Source: Legal and General

The TERs are as at 31 March 2021 and transaction cost information is based on information available for the 12 months to 31 December 2020 as supplied by L&G. This is the best information available to the Trustee at the time of this statement's production.

The total transaction cost figure includes explicit costs of transaction taxes and broker commissions, and the implicit costs of market spread and market impact after any anti-dilution offsets. Figures have been rounded to two decimal places.

The method used to calculate transaction costs over the period can result in negative values. Negative transaction costs are shown where an overall beneficial pricing environment has occurred at the point of trading underlying assets over the period, which has more than offset the costs of the trades.

**Impact of costs and charges - illustration of charges and transaction costs**

The Trustee has asked Hymans Robertson to illustrate the impact over time of the costs and charges borne by members. These illustrations show projected fund values in today's money before and after costs and charges for 3 typical members at different stages from joining the Scheme up to retirement.

The tables in Appendix 2 to this Statement show these figures for:

- The default arrangement; as well as
- Funds from the Scheme's self-select fund range representing funds that have
    - the greatest number of members
    - the highest and second highest annual member borne costs and that have higher risk profiles
    - the lowest annual member borne costs, which has the lowest risk profile.

Appendix 2 also provides important notes of the assumptions used in calculating these illustrations. The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne fees or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne fees and an allowance for transaction costs.

- As an example, for a member who joined the default arrangement at age 22, paying the typical contribution rate of 10%, charges and costs (based on the figures for this Scheme year) would reduce their projected pot value, at retirement, in today's money from £92,774 to £83,449.

The Trustee has taken account of relevant statutory guidance in preparing the illustrations

## 2. Good value for members

- Each year, with the help of their advisers, the Trustee carries out an assessment of whether the charges and transaction costs for the default arrangement and other investment options, which are borne in full or in part by members, represent good Value for Members. Value is not simply about low cost – the Trustee also considers the quality and scope of provision compare against similar schemes and available external benchmarks.

### Approach

- The Trustee adopted the following approach to assessing Value for Members for the last year:
- Services – considered the investment, administration, communication services where members bear or share the costs;
- Outcomes – weighted each service according to its likely impact on outcomes for members at retirement;
- Comparison – the cost and quality of each service were compared against similar schemes and available external comparisons;
- Rating – each service was rated on the below basis.

### Results for the Year ending 31 March 2021

- The Scheme gave **GOOD** Value for Members in the year ending 31 March 2021. The Trustee also assess all the services members use. The Scheme gave **GOOD** overall value for money in the year ending 31 March 2021.
- The ratings, weightings and rationale for the assessment is set out below.

| Rating | Definition |
|---|---|
| Excellent | The Trustee considers the Scheme offers excellent value for members providing services within a top 20% quality/cost range compared with other options or similar schemes in the market. |
| Good | The Trustee considers the Scheme offers good value for members providing services at better quality/cost compared with other typical options or similar schemes in the market. |
| Average | The Trustee considers the Scheme offers average value for members providing similar services at similar quality/cost compared with other typical options or similar schemes in the market. |
| Below average | The Trustee considers the Scheme offers below average value for members providing similar services at higher cost for similar quality compared with other typical options or similar schemes in the market. |
| Poor | The Trustee considers the Scheme offers poor value for members providing services within the bottom 20% quality/cost range compared with other options or similar schemes in the market. |

The rationale for the rating of each service was in outline:

| Service and weighting | Rating | Rationale |
|---|---|---|
| Investment 40% | EXCELLENT | The Trustee notes that 97% of members are in the default lifestyle strategy. The default lifestyle strategy is under the 0.75% p.a. charge cap requirement. The strategy ranges from 0.31% p.a. to a maximum of 0.41% p.a. depending on where the member currently sits in the investment glidepath. This is higher than the average charge of 0.28% p.a. in the DWP's 2020 survey for bundled schemes with over 1,000 members. The Trustee also provides 9 funds for the membership to self-select from including property, emerging markets, ethical and Shariah law funds. The Trustee considers that this is a suitable range of self-select funds and is a similar range to other peer Schemes. The performance for most of the funds has been in line, or in excess of, their respective benchmarks. The Trustee and its DC investment adviser continues to monitor charges and receives quarterly detailed investment reports that consider performance relative to benchmarks. The Trustee considers the impact of Environmental, Social and Governance (ESG) risks and has integrated ESG-titled funds in the Scheme's default investment strategy and self-select fund range. The Trustee is regularly updated by L&G and the Scheme's advisers on ESG developments and is introducing Tumelo to gain feedback from members on ESG matters. |
| Administration 20% | GOOD | The Trustee receives regular reports on performance against the agreed service levels. These show that, over the 12-month period, L&G achieved 99.8%; above the target service levels of 95%. Core financial transactions have, generally, been processed promptly and accurately. There is good record keeping and member complaints remain very low as a % of total membership, with 12 complaints in the year to 31 March 2021. There was one data security breach, impacting one member, and L&G's Standard and Poor's ('S&P') rating is AA- which indicates that they are financially sound. Administration systems capabilities and controls in place to ensure regulatory compliance are effective and the Trustee considers L&G to have an experienced administration team. |
| Communication 20% | GOOD | The Scheme offers a website (including modellers) to members and provides a range of appropriate guides and other relevant information for members who are building their pension to those nearing retirement. Relevant communications are sent to members at appropriate points in their pension's lifecycle to inform and support members' decision making. The Scheme is externally accredited with the Pension Quality Mark Plus demonstrating that Scheme communications are clear and easy to understand. 'Online' engagement has increased in the last 12 months with the number of 'manage your account' member registrations increasing from 25.6% as at 31 March 2020 to 28.6% members as at 31 March 2021 – a c12% increase. |
| Governance 15% | EXCELLENT | The Trustee provides effective, independent oversight and management of the Scheme to ensure regulatory compliance, assess and enhance value, manage risks and ensure that members' interests are considered. The Trustee Board |

| | | |
|---|---|---|
| | | has had quarterly meetings over the last 12 months and, in addition, operated four sub-committees to help fulfil its governance functions. The Board has 10 Trustee Directors with good gender diversity and access to a wide range of diverse professional skills and expertise including suitably qualified external advisors. The Chair of the Board is a professional independent trustee with over 40 years of experience. A Trustee effectiveness review was carried out and the Board is confident that it has established and maintained procedures and controls to ensure the effectiveness and performance of the scheme and service providers. The Board have collectively, and individually, maintained and developed their knowledge over the year. The Trustee Board is also a member of the Pensions Management Institute's Trustee Group. |
| Retirement 5% | GOOD | The Trustee, through L&G, offers a good range of communications, including guides, to ensure members make informed decisions as they approach retirement. The Trustee signposts appropriate guidance services available to members and provides access to LV to support members who need individual advice with their retirement options. |

New decisions made by the Trustees in 2020/21 are now being planned and will be deployed in Scheme Year 2021/2022

1. Group Pensions in conjunction with Legal & General and a firm called Pension Geeks will in October 2021 host via a pension awareness week, a number of web broadcasts for DC money purchase members.
2. In March 2021, the Trustee confirmed their intention to switch the above Multi Asset Fund to the Future World Multi Asset Fund which has further enhanced ESG (Environmental, Social & Governance) integration features. This migration commenced at the beginning of May 2021 and was completed by the end of May 2021
3. The Trustee is working with L&G and Tumelo (a Bristol based fintech company) to give its DC money purchase members (c 59,775 persons) access to what companies they have their pension invested in and additionally provide the members with the opportunity to share their views on how shareholder votes should be cast in relation to these companies, including ESG: climate change, gender equality, diversity and human rights. This service will hopefully be introduced before the KPS pension awareness week (see point 1 above) in October 2021.
4. The Trustees are currently, through their third-party administration providers, in the process of committing to the TPR pensions scams pledge. The pledge sets out the minimum steps TPR expects Trustees to take to protect members. TPR wants Trustees to commit to making members aware of scam risks but to also to carry out appropriate due diligence and communicate any concerns to members looking to leave their pension scheme.

## 3. Administration and core financial transactions

The Trustee is required to report to you about the processes and controls to ensure that "core financial transactions" are processed promptly and accurately. The law specifies that these include the following:

- investing contributions paid into the Scheme;
- transferring assets related to members into or out of the Scheme;
- transferring assets between different investments within the Scheme; and
- making payments from the Scheme to or on behalf of members.

The Trustee has put in place processes to adhere to these requirements as follows:

- Appointing a professional third-party administrator, Legal and General (L&G)
- Having in place service level agreements (SLAs) with the administrator which cover the accuracy and timeliness of core financial transactions as explained in more detail in the bullet points below.

L&G reports to the Trustee on the Service Standards specified below, on a quarterly basis.

The reports are then reviewed as explained below.

| TASK DESCRIPTION | WORK ITEM | SERVICE DAYS |
|---|---|---|
| Create Member Record | **joiner files** | 24 hours |
| Process submitted contribution file | **contribution files** | 24 hours |
| Allocate contribution payment | **cash allocation** | 24 hours |
| Make retirement payment | **retirement payment** | 5 working days |
| Make lump sum payment | **lump sum payment** | 5 working days |
| Make death payment | **death payment** | 5 working days |
| Make ill health payment | **ill health payment** | 5 working days |
| Make serious ill health payment | **serious ill health payment** | 5 working days |
| Make divorce payment | **divorce payment** | 5 working days |
| Allocate transfer payment to member account | **transfer payment** | 5 working days |
| Make short service refund payment | **short service refunds** | 5 working days |
| Surrender member account | **surrender** | 5 working days |
| Apply bulk transfer payments | **transfers in (bulk)** | Agreed individually with Trustees on a case by case basis |
| Apply individual transfer payment | **transfers in (individual)** | 5 working days |
| Switch current investments / Redirect future contribution investment | **investment management (switches)** | 24 hours |

The administrator aims to complete at least 95% of its administration work and core financial transactions within these service levels. For the year to 31 March 2021, the percentage completed within SLA was 99.8%

The reporting covers: volume completed in target, volume not completed in target, volume total, service levels (SLA) %, average days outside of SLA (for cases not completed in target).

The Trustees monitored core financial transactions and administration service levels during the year:

- Monitoring of the SLAs is on a quarterly basis by the Trustee, via the DC Investment and Retirement and the Accounts, Audit & Governance Administration Sub-Committees and the in-house group pensions team.
- The Scheme has an agreed payroll timetable and escalation process in place with Legal & General which provides a further structured control to monitoring contribution processing.
- The Scheme is compliant with TPR's DC Code of Practice on reporting late payment of contributions and with the relevant legislation.
- Maintaining close working links between the in-house group pension team and the administrator. SLAs are provided to the in-house group pension team on a monthly basis.
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.
- Preparing a Risk Register which outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls and mitigation steps for each risk. The Risk Register is subject to ongoing monitoring and review, by both the Trustee and the group pension team.
- A review of the Legal & General data accuracy reporting for the Scheme was completed.
- Appointing a Registered Auditor to undertake an annual audit. The Scheme Auditor independently tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.
- Reviewing the AAF 01/06 Type 2 internal controls report of Legal and General, a report audited by independent auditors. The report covered the period 1 October 2019 to 30 September 2020. No major exceptions were reported.
- Monthly cash reconciliations are performed by the Legal and General accounting operation team on all bank accounts. Reconciliations are documented, checked, and authorised by the team manager. The cut-off date for completion of reconciliation is the 15th working day of the

month.

- For contributions, on the payroll cycle dates all contribution files must be submitted to Legal and General, by payrolls via Manage Your Scheme (MYS). MYS contains validation requiring the scheme to exactly match the structure held on file by Legal & General's administration platform (FPF). This includes details of members on premium holidays and members who are leaver status. The submission file cannot be submitted by the employer until all fields have been validated. Daily, weekly and monthly reports are generated and issued by the Business Intelligence team providing details of exceptions.

Overall, the Trustee is satisfied that during the year:

- Core financial transactions were processed accurately, promptly and efficiently;
- There have been no material administration errors in relation to processing core financial transactions; and
- Given the recent development of the COVID-19 pandemic emergency, both the Scheme and service providers disaster recovery plans, allowing for home remote working, could be enabled and continued throughout the whole Scheme Year 2020/21.

Security of Assets:

The Trustee has previously assessed the level of security of the assets, taking legal advice where appropriate. The Trustee is satisfied with the level of protection available to members' assets and believes that risks to the security of assets are suitably controlled. The Trustee will continue to keep this position under review.

## 4. Knowledge and understanding of the Trustee

The law requires the Trustee Board to possess sufficient knowledge and understanding to run the Scheme effectively, including as to key scheme documents, pensions and trust law and funding and investment principles. We take our training and development responsibilities seriously and keep a record of the training completed by each member of the Trustee Board. This training record is reviewed annually by the group pensions team in conjunction with the Chair to identify any gaps in the knowledge and understanding across the board as a whole.

The Trustee Directors have also appointed suitably qualified and experienced advisers to complement their own knowledge and to ensure they have access to the required skills, and this allows us to work with our professional advisers to fill in any gaps.

Reviews were carried out in the Scheme year and based on self-assessment by the Trustee with input from the group pensions team.

As part of Trustee's training, all Trustee Directors are asked to familiarise themselves on appointment, with support from the group pensions team, with the main documents and policies of the Scheme, including but not limited to:

- the Trust Deed and Rules of the Scheme.
- the Memorandum and Articles of Association of the Trustee;
- the SIP; and
- the members' booklet.

New Trustees complete an induction programme, which includes completing TPR's online trustee toolkit. The Trustee toolkit is an online learning programme from TPR aimed at trustees of occupational pension schemes.

The Trustee toolkit includes a series of online learning modules and downloadable resources developed to help Trustees meet the minimum level of knowledge and understanding introduced in the Pensions Act 2004. New Trustees must complete this within six months of their appointment. All Trustees (excluding the newly appointed Trustee with less than six month's service) have completed the TPR's toolkit, including the new essential modules "How a DC scheme works" and "Investment in a DC scheme".

Trustee Directors commit to completing the own personal development training, either at the relevant meetings or by personal study.

During the Scheme year, Trustees were regularly sent pensions bulletins to assist them in keeping up to date with current matters, including relevant information about changes to pensions law and regulations. Legal and General regulatory updates, focusing on both TPR and FCA aspects, were included in the Trustee Board papers during the year. When particular matters of strategic importance are being discussed at the Committee or Board, training is provided ahead of any decisions.

The group pensions team also organises a number, normally 3 to 4, bespoke and in-house trustee training days throughout the year, involving internal and external professional speakers. The KPS is a hybrid Scheme having both a legacy DB and an active DC money purchase section, therefore the TKU agenda's cover both benefit structures. The days are open to all Trustee Directors, potential future Trustees, Company delegates and group pensions team members.

As mentioned above, this TKU training covers a wide range of both DB & DC topics and for 2020/21 included Trustee duties on:

| Date | Review of |
|---|---|
| 27.01.2021 | Club Vita Longevity update – Mark Sharkey – Club Vita Team<br>An overview of the bespoke longevity assumptions used by the Scheme.<br>• Benchmarking the demographic characteristics of the Scheme membership versus the industry average.<br>• Future longevity trends and the impact of COVID-19 on pension scheme risk management.<br>A light-hearted look at some of the more unusual drivers of longer life, from keeping active in old age to having a companion in your twilight years |
| 17.06.20<br>07.10.20<br>02.12.20<br>24.02.21 | LGIM DC user group<br><br>Members of the Group Pensions Executive attend these quarterly events managed by LGIM which are DC focused. |
| 27.01.2021 | A Global Macroeconomic & Geopolitical update – Steven Bell BMO, Chief Economist. |
| 03.11.2020 | Pensions Scams – Michael Broomfield & Paul Brackston The Pensions Regulator |
| 03.11.2020 | Death and Incapacity Benefits including terms of Scheme documents and case studies Richard Evans Partner, MBI. Scheme Lawyer. |
| 03.11.2020 | Financial Wellbeing & Communications Charlotte Anthony, Anna Living and Steven Dean Legal & General. |
| 07.07.2020 | Legal & General's Approach to ESG & Stewardship – Sacha Sedan |
| 07.07.2020 | Legal training and a regulatory update – Richard Evans Partner MBI & Scheme Lawyer |
| 07.07.2020 | DC Value Assessment workshop – Declan Wainwright, Hymans Robertson |

Where appropriate the training includes a cross reference to the appropriate provision in the Trust Deed

For future trustee reference, all of the presentations used on these TKU days are stored in a TKU section of our diligent board packs service.

The Trustee board is also a member of the Pensions Management Institute's Trustee Group and is able to show CPD accreditation on an annual basis. All Trustee Directors are required to show evidence of at least 15 hours of CPD annually to keep the accreditation. This can include throughout the year, attending seminars offered by the Schemes professional advisers and other Employee Benefit Consultants (EBC's).

During the Scheme year a Trustee Effectiveness review was carried out, with the resulting action plan to commence and be delivered in 2021/22:

- New trustee directors should be allocated a buddy / mentor to assist them to get to know the Scheme.
- Group Pension Executive will develop a presentation on the history and the governance of the Scheme.
- Development of a chair and trustee director job specification
- Ask senior executives within the UK banners to do more to promote pension Scheme membership i.e. the DC Money Purchase section
- More proactive marketing of the PLSA retirement income standards and make pension communications 'snappier' and focused e.g. the App.
- Consider designating one of the trustee directors as the Board's ESG climate change champion.
- In late 2021 / 22 run another MND Recruitment Exercise and develop a reserve list of trustee directors including Employer Nominated Director(s).
- Invite some of the existing trustee directors to sit on a 2nd Committee.
- Develop a Trustee / Scheme diversity and inclusion policy including some specialist TKU supported by the Aon team.

The Trustee operates four committees to help fulfil its governance functions. The Trustee has a relatively large, gender diverse board with members bringing a range of relevant skills and experience. The Chair is an independent professional trustee of more than 40 years' experience of the pensions and investment industries and attends and speaks regularly at pension and investment conferences. Other trustee directors and members of the group pensions team also attend and speak regularly at pension and investment conferences and play a pro-active role across the pensions industry e.g. PLSA., MasterTrusts.

Other board members have substantial professional knowledge and expertise in (variously) commercial, investment, financial, legal pensions and governance matters.

All board members have the requisite trustee knowledge and understanding as described above. Board members on the DC Investment and Retirement Committee have received specialist training in investment matters.

The board is supported by a dedicated secretariat of pensions professionals with extensive experience, and by leading external professional advisers. On the basis of these factors, we are satisfied that the board is composed of 'fit & proper' persons and able to properly exercise its Trustee functions.

Based on the analysis of the board's functions and the training provided, the Trustee Board considers that the Trustee Directors combined knowledge and understanding together with the legal, covenant, investment and actuarial advice which they receive, enables them to properly exercise their functions in relation to the Kingfisher Pension Scheme.

## 5. Trustee Statement of MP Governance

The Trustee undertakes ongoing assessments of the Scheme against TPR's DC Codes of Practice and related guidance and has implemented a structured plan for governance in this respect.

The Trustee considers that the systems, processes and controls across key governance functions are consistent with those set out in TPR's Code of Practice.

A clear and transparent process exists to appoint member nominated Trustees.

During the year the Trustees undertook the following activities, over and above "business as usual":

- As a consequence of the COVID-19 pandemic emergency, reviewed and updated the Scheme's risk register and invoked the Schemes disaster recovery plan to work remotely.

BESTrustees Limited,
represented by Clive Gilchrist, Chairman
On behalf of the Trustee

## APPENDIX 1: Statement of investment principles

### KINGFISHER PENSION SCHEME
### STATEMENT OF INVESTMENT PRINCIPLES

### GENERAL

#### Introduction

This is the statement of investment principles (**SIP**) for the Kingfisher Pension Scheme (the **Scheme**). The SIP is designed to meet the requirements of section 35 of the Pensions Act 1995 (the **Act**) and the Occupational Pension Schemes (Investment) Regulations 2006 (the **Regulations**). Except where the express provisions of the SIP or the context require otherwise, terms used in the SIP have the meanings which apply for the purpose of the Act and Regulations. References to **Paragraphs** are to paragraphs of the SIP.

The SIP has been prepared by the Scheme's trustee (the **Trustee**) after consulting the Scheme's employers and considering written advice from a suitably-qualified adviser, in so far as Regulation 2(2) requires.

The Scheme has defined benefit (**DB**) and defined contribution (**DC**) parts. The DB part consists of the Scheme's final salary section (**KPS-FS**) excluding DC AVC funds. The DC part consists of the money purchase section (**KPS-MP**) and AVC funds as just mentioned. In the SIP the DB and DC parts are dealt with separately.

The SIP includes both the statement of investment principles for the Scheme generally, in accordance with Regulation 2, and (in Paragraphs 16-22) the statement of investment principles for the default arrangement under KPS-MP (the **Default Arrangement**), in accordance with Regulation 2A.

#### Governance and compliance (Regulation 2(3)(a))

The Trustee has ultimate power and responsibility as to investment policy, though the Trustee is required to consult the Scheme's employers in certain circumstances as described in Paragraph 7. The Trustee has delegated certain of its investment functions to two subcommittees: the DB Investment Committee and the DC Investment & Retirement Committee.

The Trustee will invest with a view to giving effect to the principles in the SIP, in accordance with section 36(5) of the Act. Before making any investment, the Trustee will obtain and consider proper advice on whether the investment is satisfactory, having regard to the SIP and the requirements of the Regulations as to suitability, in accordance with Regulation 36(3) of the Act. The Trustee will determine the intervals at which it will obtain proper advice as regards existing investments, and will obtain and consider such advice accordingly.

The Trustee will review, and if necessary revise, the SIP at least every three years and in any event without delay after any significant change in investment policy. Before revising the SIP, the trustee will consult the Scheme's employers and consider written advice from a suitably-qualified person, in so far as Regulation 2(2) requires.

The Trustee will review the default strategy and the performance of the Default Arrangement at least every three years, and in any case without delay after any significant change in relevant investment policy or in the demographic profile of relevant members. The Trustee will in particular review the extent to which investment returns under the Default Arrangement (after deduction of charges) are consistent with the Trustee's aims and objectives in respect of the Default Arrangement. The Trustee will if necessary revise the SIP after any review.

#### Investment beliefs

The Trustee has the following general beliefs which will guide its investment decisions:

**DB liabilities**: A sound understanding of the Scheme's DB liabilities is necessary in order to make appropriate DB investment decisions.

**Asset allocation**: Asset allocation is a key decision as regards investment, with significant implications for long-term returns.

**Investment risk**: Long-term returns on growth (or return-seeking) assets (e.g. equities) are likely to be higher than those on matching assets (e.g. bonds), but also more volatile. It is necessary to take a certain level of investment risk in order to generate adequate returns (i.e. adequate in order for the DB funding target to be affordable for employers and in order for DC benefits to meet members' expectations at retirement). Appropriate tools should be used to monitor and measure risk. Investment decisions should be made with regard to an agreed risk budget. The Trustee's focus should be on taking intended risks which it believes will be rewarded. Unintended, unrewarded risks should be hedged against in so far as practicable and cost-effective.

**Diversification**: Diversification of investments is likely to reduce the level of risk inherent in the overall investment strategy.

**Passive versus active management**: Passive investment management is likely to provide the best returns net of charges in many asset classes, particularly developed equity markets. However, active management can sometimes add value. As to active management, a specialist approach (focussing on a particular asset class) is more likely to add value than a balanced approach. The Trustee is satisfied that it has the resources needed in order to put in place and monitor a specialist management structure.

**Fees**: Appropriate fee rates and structures will depend on the nature of the investment and on the terms commercially available, but may sometimes include a performance-related element.

**Responsible ownership**: Investee companies should be run in a responsible way, with due regard to environmental, social and governance (**ESG**) issues, because in the long term this is likely to contribute to the companies' financial success.

**Fund managers**

Having regard to the requirements of the Financial Services and Markets Act 2000, the Trustee delegates day-to-day investment decisions to authorised fund managers. The DB and DC Investment Committees appoint, review and remove fund managers, with appropriate support from the Trustee's investment advisers and Kingfisher's group pensions department.

The criteria considered when appointing or removing fund managers include the following:

**Business**: evidence of clear strategic direction; supportive ownership from a parent committed to fund management.

**People**: high-calibre, experienced professionals; relatively low turnover; clear commitment to fund management culture; strong recruitment and training process.

**Process**: effective approach to accessing/interpreting research; robust, repeatable investment process; process consistent with stated philosophy. The Trustee expects its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process,

**Performance**: variability within acceptable range relative to fund manager's style.

The DB & DC Investment Committees monitor fund managers' performance against the applicable benchmarks, using the services of an independent performance measurement company. In addition, the Committees regularly meet with fund managers and review managers' capabilities as against the criteria in Paragraph 11.

# DB INVESTMENT

## Background

The Scheme is subject to the statutory funding objective (**SFO**) under the Pensions Act 2004, whereby the Scheme is required to have sufficient and appropriate assets to meet the expected cost of providing members' past service benefits (the **Technical Provisions**). As at the effective date of the 31 March 2019 valuation, the Scheme was fully-funded on the SFO basis.

Additionally, the Trustee and the employers have agreed a secondary funding objective (**2FO**) for the Scheme, which is to reach full-funding on a "gilts flat" basis by 2030. The Trustee is seeking to achieve the 2FO through a combination of employer contributions and investment returns.

**DB investment policies (Regulation 2(3)(b), (c) and (d))**

The Trustee has the following policies as regards DB investment:

**Kinds of investment, and the balance between them**: Having regard to the funding objectives described above, the Trustee's investment strategy is as follows:

- The bulk of the DB funds (as at 31 March 2019, 88%) will be invested in assets which are intended broadly to match the DB liabilities, including gilts, corporate bonds, swaps, buy-in policies. In addition the Trustee will seek to hedge approximately 94% of both the interest rate risk and the inflation risk via a suitable hedging portfolio.
- A small proportion of DB funds (as at 31 March 2019, 12%) will be invested in growth assets, including equities and alternative assets such as private equity, property and commodities, with a view to achieving the 2FO.
- The Trustee invests in a Special Purpose Vehicle (SPV) which provides a regular income stream to the Scheme. The SPV provides recourse for the Scheme to the underlying property assets in the event of Kingfisher plc’s insolvency.
- The portfolio will be gradually de-risked over the period to 2030 such that by then the portfolio will be invested entirely in matching assets. The timing and magnitude of switches from growth to matching assets will be determined by the Trustee, in consultation with the employers, with a view to ensuring cost-efficiency.

The Trustee is satisfied that this strategy will ensure that assets held to cover the Technical Provisions are invested in a manner appropriate to the nature and duration of the benefits payable, in accordance with Regulation 4(4). In implementing the strategy the Trustee will have due regard to the requirements of Regulation 4(3), (5), (6) and (7) as to diversification, investment in unlisted assets, and the security, quality, liquidity and profitability of the portfolio as a whole.

In accordance with Regulation 4(8), the Trustee will invest in derivatives only to reduce risk (either as part of the strategic asset allocation or on a tactical basis, e.g. to cover exposed positions) or to facilitate efficient portfolio management. Derivatives will not be used to for speculative purposes or to "gear up" returns.

**Risks, including measurement and management**: The Trustee considers the key risk as regards the DB investments to be as follows:

**Mismatch risk** – The risk that the assets fail to keep pace with the liabilities. Mismatch risk can include inflation, interest rate and longevity risks. The risk is measured by regular assessment of the potential development of the liabilities relative to the current and target mixes of investments. The risk is managed via a liability-driven investment programme whereby, among other things, the Trustee invests substantially in assets which are intended broadly to match the liabilities, and hedges against residual inflation and interest rate risk (see (a) above).

**Concentration risk** – The risk that undue concentration in a single asset or asset class leaves the Scheme exposed should that asset or asset class fall in value. This risk is addressed by investing across a broad range of asset classes as described in (a) above. Within each asset class further diversifying conditions are imposed on fund managers, e.g. limits on maximum holdings in any one asset. No investment is permitted in Kingfisher plc shares or bonds, other than indirectly through pooled funds.

**Manager risk** – The risk that underperformance by a fund manager will adversely affect overall investment returns. To manage this risk, the Trustee will where appropriate allocate assets in a given asset class to two or more different fund managers, who may in turn employ different investment approaches (e.g. active versus passive). The Trustee sets clear objectives for fund managers and lays down guidelines and restrictions as to achieving those objectives. The Trustee monitors both the performance of fund managers against their objectives and the performance of DB investments as a whole.

**Risks as to derivatives**:

- **Counterparty risk** – The risk of counterparty failure. This risk is managed through conditions as to the selection of counterparties and through the posting of collateral (including suitable margin).
- **Basis risk** – The risk of a mismatch between the Trustee's obligations under the payable leg of a derivative and the relevant backing assets. The Trustee manages this risk via its investment policy and via delegation to suitably capable fund managers.
- **Liability risk** – The risk of a divergence between the performance of a derivative and the relevant DB liabilities, e.g. because of an unanticipated change in the basis on which those liabilities are valued. The Trustee manages this risk by constructing its derivative strategy based on a best estimate of future DB cashflows.

**Currency risk** – The risk that, where investments are overseas, returns are adversely affected by currency movements. This risk is addressed by hedging an appropriate proportion of the currency exposure (having regard to the extent to which hedging can be achieved efficiently).

**Custodian risk** – The risk that the custodian of the Scheme's assets (or an overseas sub-custodian) misplaces assets. The Trustee manages this via a robust process for the appointment and monitoring of the custodian, and by imposing suitable terms as to the use of sub-custodians.

**Liquidity risk** – The risk that, due to a shortage of cash, the Trustee is unable to pay benefits when due or is forced to make an unintended asset sale. The Trustee manages this risk by forecasting cashflows and ensuring that a suitable proportion of DB funds are invested in readily-realisable assets.

**Environmental Social and Governance Issues** – Risk of the extent to which ESG factors including climate change are not appropriately reflected in asset prices and / or not considered in investment decision making processes leading to underperformance relative to targets. The Trustee considers this risk by taking advice from their investment adviser and discussing ESG integration with investment managers.

**Expected returns**: The assets taken as a whole are expected to generate returns over the long term that modestly exceed gilts. Target returns for particular portfolios will be agreed with the relevant fund managers.

**Realisation of investments**: Arrangements are in place to minimise the risk that the Trustee will need to realise investments unexpectedly – see (b)(vii) above. Disposals of individual holdings within a portfolio will normally be a matter for the relevant fund manager. The Trustee does however pro-actively seek and review information as to transaction costs.

**Financially-material considerations**: The Trustee believes that ESG issues may have a material impact on the performance of investments over the appropriate time horizon, which the Trustee takes to be the period to 2030 (the target date for the 2FO). The Trustee has regard to ESG considerations when investing, in so far as consistent with the Trustee's duties as regards seeking returns and mitigating risk. In particular, the Trustee takes account of climate change risks in the management of the DB global equity portfolio and have implemented a “climate change tilt”, i.e. it has more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector. The Trustee has also invested in a global renewable energy fund. The Trustee assesses the investment managers’ approach to ESG as part of the investment manager selection process. Other than in this regard, it is left to fund managers to determine the extent to which ESG issues are taken into account when making investment decisions. The Trustee recognises that passive managers may be constrained by the need to track relevant indices, but nevertheless expects such managers to pursue a policy of engagement with investee companies (see below).

**Non-financial matters**: The Trustee recognises that some DB members may have strong views as to non-financial matters including ethical issues. However, the Trustee does not feel that there is any clear consensus as to non-financial matters across the Scheme membership. Against that background, the Trustee does not seek to take account of members' views as to non-financial matters when investing.

**Voting and investor rights and engagement**: The Trustee encourages fund managers to vote and exercise other investor rights, and to engage with investee companies and other relevant persons on relevant matters, with a view to furthering the Trustee's long-term financial interests and the policies described above. The fund managers decide whether and how to vote and engage on particular issues, referring back to the Trustee only where they deem an issue to be contentious and to warrant discussion by the Trustee. Stewardship information supplied by fund managers is reviewed and, where a review gives rise to a concern, the Trustee will consider how best to address that concern with the relevant manager.

The majority of the DB fund managers, including all managers investing in listed equities, are signatories to the UK Stewardship Code.

**Arrangements with fund managers**: The Trustee's policy as regards arrangements with any fund manager is as follows:

The Trustee will enter into a contract with the fund manager on terms which are appropriate having regard to the policies set out in this SIP, including terms as to investment objectives/benchmarks; constraints (e.g. concentration limits); financially-material considerations; remuneration; performance measurement and reporting; and termination of the arrangement.

The Trustee will ensure that the policies set out in this SIP (so far as relevant) are clearly communicated to the fund manager.

The Trustee will proactively monitor and liaise with the fund manager on a regular basis.

If the Trustee identifies that the fund manager is failing to meet the Trustee's objectives, the Trustee will engage with the manager with a view to understanding and (as far as possible) addressing the failure.

If there is a serious or persistent failure to meet the Trustee's objectives, the Trustee will formally review the fund manager's appointment and (depending on the outcome of the review) may terminate the arrangement.

Specifically:

- **Incentives to align decisions with Trustee's policies**: Where appropriate, fund managers may be given a direct incentive to achieve the target investment return agreed with the Trustee, via a suitable performance fee. In all cases fund managers have an indirect incentive to align strategy and decisions with the Trustee's policies, given the process of communication, monitoring, liaison, engagement and review mentioned above.
- **Incentives to think long-term and to engage**: Fund managers have an indirect incentive to make decisions based on medium- to long-term financial and non-financial performance and to engage with investee companies in order to improve performance, given the process of communication, monitoring, liaison, engagement and review mentioned above. Where performance fees apply, the terms are set with a view to ensuring that short-term performance is not given undue priority; see below.
- **Performance and remuneration evaluation**: Fund managers' performance and remuneration are evaluated in the round and over predetermined medium- to long-term periods. Investment returns are a factor but they are not assessed on a purely short-term basis. Performance as against the Trustee's other objectives and policies is taken into account. Where the arrangements with a fund manager include a performance fee, the terms will be set with a view to ensuring that the manager does not give undue priority to short-term investment

returns, to the detriment of long-term returns or the Trustee's other objectives and policies.

- **Portfolio turnover**: The Trustee recognises that in addition to annual management charges and performance fees, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments (such as transition costs from portfolio turnover). The Trustee ascertains fund managers' policies as regards portfolio turnover and monitors turnover costs regularly. In general the Trustee does not go further and formally monitor or specify targets as to turnover or associated costs, because the Trustee recognises that these costs are a necessary cost to generate returns and that the level of these costs varies by asset class and manager. However, where a fund manager is underperforming, the Trustee may scrutinise portfolio turnover and associated costs as part of its review.
- **Duration**: Arrangements with fund managers are generally open-ended but with the Trustee having the right to terminate at any time.

## DC INVESTMENT, INCLUDING THE DEFAULT ARRANGEMENT

### Background

In accordance with the Pensions Act 2008 and the Scheme's governing rules, the Trustee has put in place:

- a Default Arrangement in which KPS-MP members' (including automatically enrolled employees) retirement accounts are by default invested; and
- a range of other 'white-labelled' DC investment options from which members may choose (**Self-Select Options**).

The DC investments consist primarily of holdings in unitised funds (**Funds**) offered by insurance companies. The Funds invest in turn (via their fund managers) but the underlying assets of the Funds are not owned by the Trustee.

The Trustee has chosen a "Lifestyle Cash Target" as the Default Arrangement. The Trustee's investments under the arrangement consist of units in Funds offered by Legal & General Assurance Society Limited (**L&G**), described further in Paragraph 21(a). The Self-Select Options consist primarily of Funds offered by L&G, although some other legacy investments are retained for certain longstanding members.

The Default Arrangement and the Self-Select Options are regularly monitored and reviewed by the Trustee and may be changed by the Trustee at any time.

### Aims and objectives for the Default Arrangement (Regulation 2A(1)(a))

The Trustee's aims and objectives for the Default Arrangement are as follows:

- The Default Arrangement should be suitable for the bulk of KPS-MP members and seeks a return of CPI +3% net of all charges over the long term.
- For younger members, investment should be in growth assets: higher-risk investments which are expected to produce significant real returns (after charges) over the long term.
- Over the five years to selected retirement age (**SRA**), investments should be de-risked (relative to cash), with members gradually being switched out of growth assets such that by SRA they are wholly invested in cash/near-cash.
- Growth assets should be suitably diversified to reduce volatility.
- Charges should be substantially below the statutory charge cap of 0.75% per year and should ensure that members receive real value-for-money.

### DC investment policies (Regulations 2(3), 2A(1)(b))

The Trustee has the following policies as regards DC investments including the Default Arrangement:

**Kinds of investment, and the balance between them**:

- **Default Arrangement**: During the growth phase investment is split equally between the Passive Equity Fund i.e. the L&G Future World Fund and the Diversified Return Fund i.e. the L&G Multi Asset Fund. The Passive Equity Fund is invested in global equities, including an ESG climate tilt with 50% of the overseas currency exposure hedged. The Multi-Asset Fund is invested in a range of global assets including equities, government and corporate bonds, real estate, infrastructure and private equity; the balance as between the different asset classes is determined by Legal & General. In the de-risking phase investment is gradually switched (as outlined above) to the Money Market Fund. The Money Market Fund is invested in money market instruments and fixed deposits.
- **Self-Select Options**: The Trustee's policy is to offer a simple range of white-labelled Funds covering the major asset classes, with the underlying investments of each Fund being suitably diversified within the relevant asset class. The Funds within the range are chosen having regard to (among other thing) members' likely needs, attitude to risk, and value-for-money.

**Risks, including measurement and management**: The Trustee considers the key risks to be as follows:

**Inflation risk** – The risk that the investment returns over members' working lives are inadequate relative to inflation.

- **Default Arrangement**: Inflation risk is addressed by investing over the bulk of members' working lives in Funds which hold growth assets and which are expected to produce positive real returns, and by monitoring the performance of those Funds as against an inflation-based target.
- **Self-Select Options**: Inflation risk is addressed by informing members of the risk and by offering Funds which hold growth assets and are expected to produce positive real returns.

**Shortfall risk (opportunity cost)** – The risk that members end up with insufficient funds at retirement with which to secure a reasonable income.

- **Default Arrangement**: Shortfall risk is addressed by investing over the bulk of members' working lives in Funds which hold growth assets and by monitoring the performance of those Funds, and by de-risking to cash over the five years to SRA so as to limit members' exposure to adverse market movements. See (v) below as regards the shortfall risk which arises from de-risking to cash for members who take benefits via annuity purchase or drawdown.
- **Self-Select Options**: Shortfall risk is addressed by informing members of the risk and by offering Funds which hold growth assets and Funds which enable members to de-risk in the run-up to retirement.

**Currency risk** – The risk that, where Funds' underlying investments are overseas, returns are adversely affected by currency movements.

- **Default Arrangement**: Currency risk is addressed in respect of the Passive Equity Fund by hedging of 50% of the currency exposure as described above.
- **Self-Select Options**: Currency risk is addressed by informing members of the risk and by offering the Passive Equity Fund for members who wish to invest in global equities with some hedging of the currency exposure.

**Concentration risk** – The risk that undue concentration in a single asset or asset class leaves members exposed should that asset or asset class fall in value.

- **Default Arrangement**: Concentration risk is addressed by investing, during the growth phase, across two Funds with a broad range of underlying assets as described above.
- **Self-Select Options**: Concentration risk is addressed by informing members of the risk and by offering Funds across a range of different asset classes, with the underlying assets of each Fund being diversified within the relevant asset class.

**Benefit conversion risk** – The risk that relative market movements in the run-up to retirement lead to a substantial reduction in the benefits secured.

- **Default Arrangement**: Benefit conversion risk is addressed via de-risking to cash/near-cash in the five years prior to SRA. The Trustee recognises that significant risk remains for members who retire before SRA and/or who take benefits via an annuity or drawdown rather than in cash. This residual risk is addressed by informing members of the risk and by offering suitable alternative Self-Select Options (see below).
- **Self-Select Options**: Benefit conversion risk is addressed by informing members of the risk and by offering Funds which members may use to mitigate it, including the Money Market Fund, the Pre-Retirement Fund and Pre-Retirement Inflation Linked Fund.

**Manager risk** – The risk that underperformance by a fund manager will adversely affect a member's overall investment returns.

- **Default Arrangement**: Manager risk is addressed by investing during the growth phase partly in a Fund which is passively managed, and by regularly monitoring the performance and capabilities of the fund managers of the actively managed Funds.

- **Self-Select Options**: Manager risk is addressed by offering several Funds which are passively managed, and by regularly monitoring the performance and capabilities of the fund managers of the actively managed Funds.

**Environmental Social and Governance Issues** – Risk of the extent to which ESG factors including climate change are not appropriately reflected in asset prices and / or not considered in investment decision making processes leading to underperformance relative to targets. The Trustee considers this risk by taking advice from their investment adviser and discussing ESG integration with investment managers.

**Expected returns**:

- **Default Arrangement**: The strategy's objective is to generate returns over the long term of CPI + 3% per annum after all charges. This is not guaranteed and there may be periods of underperformance against this return target. The Trustee takes investment advice when reviewing the default strategy to help determine whether the return target remains appropriate.

  The growth phase invests in asset classes that are expected to grow in value relative to inflation more than other investments. Cash/near-cash is expected to generate returns in accordance with prevailing market interest rates, though there is a small chance that returns will be negative.

- **Self-Select Options**: For each Fund a target return, appropriate to the underlying assets, is agreed and monitored.

**Realisation of investments**: The Trustee's holdings in Funds will be sold as and when necessary for the purpose of investment switches, benefit payments or transfers-out. The Trustee expects that such holdings will be readily realisable in all normal market conditions. Realisation of the underlying investments of the Funds is a matter for their fund managers. The Trustee does however pro-actively seek and review information as to transaction costs.

**Financially-material considerations**: The Trustee believes that ESG issues may have a material impact on the performance of investments over the appropriate time horizon, which the Trustee takes to be members' working lives. The Trustee has regard to ESG considerations when investing, in so far as consistent with the Trustee's duties as regards seeking returns and mitigating risk. The Trustee selected the L&G Future World Fund as the underlying fund of the Passive Equity Fund in part to mitigate the financially material risks associated with climate change. The Fund has a "climate change tilt", i.e. it has more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector. The Trustee assesses the investment managers' approach to ESG as part of the investment manager selection process. Other than in this regard, it is left to the fund managers to determine the extent to which ESG issues are taken into account when making decisions as to the underlying investments. The Trustee recognises that passive managers may be constrained by the need to track relevant indices, but nevertheless expects such managers to pursue a policy of engagement with investee companies (see below).

**Non-financial matters**: The Trustee recognises that some DC members may have strong views as to non-financial matters including ethical issues. However, the Trustee does not feel that there is any clear consensus as to non-financial matters across the Scheme membership. Against that background, the Trustee has determined that the Self-Select Options should include the Ethical Fund and the Shariah Fund, but does not otherwise take account of members' views on non-financial matters when investing.

**Voting and investor rights and engagement**: Voting and other rights attaching to the investments of the Funds are exercisable by the fund managers. It is left to the fund managers to determine whether and how to exercise those rights. The Trustee does however monitor and engage with the fund managers. L&G provide corporate governance and responsible investment presentations to the Trustee, outlining their stewardship approach and reporting on their engagement and voting activities. Stewardship information supplied by L&G/fund managers is reviewed and, where a review gives rise to a concern, the Trustee will consider how best to address that concern with L&G/the relevant manager.

The fund managers of all Funds are signatories to the UK Stewardship Code.

**Arrangements with fund managers**: As mentioned in Paragraphs 16 to 18, DC investments are made via insurance companies, principally L&G. Whilst the Trustee selects the underlying Funds which are made available to members, the fund managers of those Funds are appointed by the insurer. Consequently the Trustee has no direct arrangements with fund managers. However, in the interests of transparency, the Trustee's policy as regards analogous matters is as follows:

The Trustee will enter into a contract with the insurer on terms which are appropriate having regard to the policies set out in this SIP, including terms as fees; performance measurement and reporting; and termination of the arrangement.

When choosing Funds, the Trustee will so far as practicable ensure that the applicable terms are likewise appropriate, including the terms as to investment objectives/benchmarks; constraints (e.g. concentration limits); financially-material considerations; non-financial matters; and fees.

The Trustee will proactively monitor Funds and liaise with the insurer and/or fund managers from time to time.

If the Trustee identifies that a Fund is failing to meet the Trustee's objectives, the Trustee will engage with the insurer and/or fund manager with a view to understanding and (as far as possible) addressing the failure.

If there is a serious or persistent failure to meet the Trustee's objectives, the Trustee will formally review the Fund's selection and (depending on the outcome of the review) may close or withdraw the Fund or terminate the arrangement with the insurer.

Specifically:

- **Incentives to align decisions with Trustee's policies; incentives to think long-term and to engage**: The Trustee ensures that the terms of Funds are appropriate having regard to the Trustee's policies, as mentioned above. The Trustee considers that the process of monitoring, liaison, engagement and review mentioned above provides L&G (and, to some extent, indirectly, fund managers) with an incentive to align strategy and decisions with the Trustee's policies, to make decisions based on medium- to long-term financial and non-financial performance, and to engage with investee companies in order to improve performance. As mentioned above, the Trustee has no direct arrangements with fund managers. That being the case, the Trustee believes that it would not be practicable to directly incentivise fund managers as regards the matters discussed in this paragraph.
- **Performance and remuneration evaluation**: Fund performance and charges are evaluated in the round and over predetermined medium- to long-term periods. Investment returns are a factor but they are not assessed on a purely short-term basis. Performance as against the Trustee's other objectives and policies is taken into account. There are no performance fees in relation to the Funds.
- **Portfolio turnover**: The Trustee may have regard to portfolio turnover when selecting Funds. In addition the Trustee receives and assesses data from insurers as regards Funds' transaction costs. To that extent the Trustee monitors turnover costs. In general the Trustee does not go further and formally monitor or specify targets as to turnover or associated costs, because in the Trustee's view such further monitoring and target-setting would not add significant value. However, where a fund manager is underperforming, the Trustee may scrutinise portfolio turnover and associated costs as part of its review.
- **Duration**: Arrangements with insurers are generally open-ended but with the Trustee having the right to terminate at any time. Likewise the Trustee is generally able to close or withdraw underlying Funds at any time.

**Ensuring the default strategy is in members' interests (Regulation 2A(1)(c))**

The Trustee considers that KPS-MP members will typically be relatively risk-averse and on retirement will take their benefits in cash form. The Trustee is conscious of the significant impact which charges and transaction costs can have, over the long term, on the benefits which members receive. The Trustee's default strategy described in Paragraphs 20 and 21 above is intended to serve the best interests of members by striking an appropriate balance, during the growth phase, as between maximising returns while reducing volatility; by de-risking in the run-up to retirement so as to avoid conversion risk; and by delivering real value for members.

**APPENDIX 2 : Member cost illustrations**

The following tables show the potential impact of the costs and charges borne by average members. This is shown as projected values in today's money at several times up to retirement for a selection of funds.

**Representative Member 1: Active Member, age 40, with a pension pot size of £13,035, on a salary of £16,935 p.a., making 10% contributions (5% employee; 5% employer) and retiring at age 68 in line with the State Pension Age**

**For the default arrangement:**

| Years to retirement | Before costs and charges (today's £) | After costs and charges are taken (today's £) |
|---|---|---|
| 28 | £13,035 | £13,035 |
| 25 | £18,628 | £18,408 |
| 20 | £28,414 | £27,638 |
| 15 | £38,812 | £37,222 |
| 10 | £49,859 | £47,173 |
| 5 | £61,597 | £57,507 |
| 3 | £65,033 | £60,505 |
| 1 | £66,640 | £61,887 |
| 0 | £66,799 | £61,999 |

Source: Hymans Robertson based on data supplied by Legal & General (L&G) and the Kingfisher Pensions Team.

**For a selection of the self-select funds:**

| Years to retirement | Passive Equity Fund | | Money Market Fund | | Emerging Markets Fund | | Property Fund | |
|---|---|---|---|---|---|---|---|---|
| | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) |
| 28 | £13,035 | £13,035 | £13,035 | £13,035 | £13,035 | £13,035 | £13,035 | £13,035 |
| 25 | £18,792 | £18,521 | £17,028 | £16,919 | £19,696 | £19,031 | £18,512 | £17,935 |
| 20 | £29,001 | £28,036 | £23,108 | £22,775 | £32,402 | £29,877 | £28,003 | £26,020 |
| 15 | £40,032 | £38,033 | £28,535 | £27,937 | £47,432 | £41,885 | £37,966 | £34,002 |
| 10 | £51,951 | £48,537 | £33,381 | £32,489 | £65,208 | £55,182 | £48,424 | £41,884 |
| 5 | £64,830 | £59,575 | £37,706 | £36,502 | £86,234 | £69,905 | £59,403 | £49,666 |
| 3 | £70,268 | £64,145 | £39,304 | £37,971 | £95,684 | £76,227 | £63,946 | £52,751 |
| 1 | £75,876 | £68,807 | £40,830 | £39,368 | £105,790 | £82,812 | £68,577 | £55,821 |
| 0 | £78,747 | £71,173 | £41,568 | £40,040 | £111,104 | £86,207 | £70,927 | £57,350 |

Source: Hymans Robertson based on data supplied by L&G and the Kingfisher Pensions Team.

The assumptions used in these calculations are detailed below.

**Representative Member 2: Deferred Member, age 38, with a pension pot size of £5,340 making 0% contributions and retiring at age 68 in line with the State Pension Age.**

**For the default arrangement:**

| Years to retirement | Before costs and charges (today's £) | After costs and charges are taken (today's £) |
|---|---|---|
| 30 | £5,340 | £5,340 |
| 25 | £5,674 | £5,545 |
| 20 | £6,028 | £5,758 |
| 15 | £6,405 | £5,979 |
| 10 | £6,805 | £6,208 |
| 5 | £7,230 | £6,447 |
| 3 | £7,241 | £6,409 |
| 1 | £7,053 | £6,207 |
| 0 | £6,895 | £6,053 |

Source: Hymans Robertson based on data supplied by L&G and the Kingfisher Pensions Team.

**For a selection of the self-select funds:**

| Years to retirement | Passive Equity Fund | | Money Market Fund | | Emerging Markets Fund | | Property Fund | |
|---|---|---|---|---|---|---|---|---|
| | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) |
| 30 | £5,340 | £5,340 | £5,340 | £5,340 | £5,340 | £5,340 | £5,340 | £5,340 |
| 25 | £5,770 | £5,611 | £4,767 | £4,708 | £6,316 | £5,913 | £5,606 | £5,273 |
| 20 | £6,235 | £5,896 | £4,256 | £4,151 | £7,471 | £6,547 | £5,884 | £5,206 |
| 15 | £6,737 | £6,195 | £3,799 | £3,660 | £8,836 | £7,249 | £6,177 | £5,140 |
| 10 | £7,279 | £6,510 | £3,392 | £3,226 | £10,452 | £8,027 | £6,484 | £5,076 |
| 5 | £7,865 | £6,840 | £3,028 | £2,845 | £12,362 | £8,887 | £6,807 | £5,011 |
| 3 | £8,113 | £6,977 | £2,894 | £2,705 | £13,221 | £9,257 | £6,940 | £4,986 |
| 1 | £8,368 | £7,116 | £2,765 | £2,572 | £14,139 | £9,642 | £7,077 | £4,961 |
| 0 | £8,499 | £7,187 | £2,703 | £2,508 | £14,622 | £9,841 | £7,146 | £4,948 |

Source: Hymans Robertson based on data supplied by L&G and the Kingfisher Pensions Team.

The assumptions used in these calculations are detailed below.

**Representative Member 3: Active Member who has just joined the scheme, age 22, on a salary of £16,935 p.a., making 10% contributions (5% employee; 5% employer) and retiring at age 68 in line with the State Pension Age.**

**For the default arrangement:**

| Years to retirement | Before costs and charges (today's £) | After costs and charges are taken (today's £) |
|---|---|---|
| 46 | £0 | £0 |
| 45 | £1,683 | £1,679 |
| 40 | £10,410 | £10,267 |
| 35 | £19,683 | £19,184 |
| 30 | £29,535 | £28,443 |
| 25 | £40,002 | £38,058 |
| 20 | £51,124 | £48,042 |
| 15 | £62,940 | £58,408 |
| 10 | £75,495 | £69,173 |
| 5 | £88,834 | £80,351 |
| 3 | £92,314 | £83,217 |
| 1 | £93,211 | £83,884 |
| 0 | £92,774 | £83,449 |

Source: Hymans Robertson based on data supplied by L&G and the Kingfisher Pensions Team.

Year ended 31 March 2021

**For a selection of the self-select funds:**

| Years to retirement | Passive Equity Fund | | Money Market Fund | | Emerging Markets Fund | | Property Fund | |
|---|---|---|---|---|---|---|---|---|
| | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) |
| 46 | £0 | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 45 | £1,686 | £1,681 | £1,654 | £1,652 | £1,701 | £1,690 | £1,681 | £1,671 |
| 40 | £10,517 | £10,340 | £9,383 | £9,314 | £11,118 | £10,675 | £10,334 | £9,960 |
| 35 | £20,060 | £19,439 | £16,283 | £16,070 | £22,257 | £20,625 | £19,418 | £18,145 |
| 30 | £30,371 | £29,000 | £22,442 | £22,026 | £35,431 | £31,641 | £28,954 | £26,227 |
| 25 | £41,513 | £39,046 | £27,941 | £27,277 | £51,014 | £43,839 | £38,964 | £34,207 |
| 20 | £53,552 | £49,602 | £32,850 | £31,907 | £69,446 | £57,345 | £49,472 | £42,086 |
| 15 | £66,560 | £60,694 | £37,233 | £35,989 | £91,247 | £72,300 | £60,503 | £49,865 |
| 10 | £80,615 | £72,348 | £41,145 | £39,588 | £117,032 | £88,859 | £72,082 | £57,547 |
| 5 | £95,803 | £84,594 | £44,638 | £42,760 | £147,532 | £107,193 | £84,238 | £65,132 |
| 3 | £102,215 | £89,665 | £45,928 | £43,922 | £161,239 | £115,067 | £89,268 | £68,138 |
| 1 | £108,828 | £94,837 | £47,160 | £45,026 | £175,899 | £123,267 | £94,396 | £71,130 |
| 0 | £112,213 | £97,462 | £47,756 | £45,558 | £183,606 | £127,495 | £96,998 | £72,620 |

Source: Hymans Robertson based on data supplied by L&G and the Kingfisher Pensions Team.

**Assumptions:**

- The opening pension pot size of £13,035 for an active member and £5,340 for a deferred member, which was the average pension pot size for members at 31 March 2021;
- A contribution in current day terms 10% p.a. (5% employee and 5% employer), which was the most popular contribution choice for members in the Scheme as at 31 March 2021;
- The investment return assumed for each fund above is as follows:

| **Fund** | **SMPI Growth Rate % p.a. (supplied by L&G)** |
|---|---|
| Passive Equity Fund | 4.1 |
| Diversified Return Fund | 3.4 |
| Money Market Fund | 0.2 |
| Emerging Markets Fund | 6.0 |
| Property Fund | 3.5 |

- Inflation is assumed to be 2.5% per annum;
- The investment transaction costs, and total expense ratios assumed for each fund above are as follows:

| Fund | Total Expense Ratio (TER) % | Fund Transaction Costs % |
|---|---|---|
| Passive Equity Fund | 0.47 | 0.11 |
| Diversified Return Fund | 0.34 | 0.03 |
| Money Market Fund | 0.31 | -0.06 |
| Emerging Markets Fund | 1.22 | 0.17 |
| Property Fund | 1.50 | -0.24 |

- The assumptions as used in the Statutory Money Purchase Illustrations included with members' benefit statements have otherwise been used.

**Please note that these illustrated values:**

- Use TER supplied for the year to 31 March 2021;
- Use transaction costs supplied for the past 3 years to 31 December 2020 being the best information available to the Trustee at the time;
- Are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice;
- May differ in the future to reflect changes in regulatory requirements or investment conditions;
- Will be affected by future, and as yet unknown, changes to the Scheme's investment options;
- Are not guaranteed;
- Depend upon how far members in the default lifestyle option are from retirement as the funds used change over time;
- May not prove to be a good indication of how a member's individual DC savings might grow; and
- Comply with the Technical Actuarial Standards (TAS) 100: Principles for Technical Actuarial Work.