

KINGFISHER PENSION SCHEME
STATEMENT OF INVESTMENT PRINCIPLES

GENERAL

Introduction

1. 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.
2. 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.
3. 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.
4. 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))

5. 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.
6. 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.
7. 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.

8. 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

9. The Trustee has the following general beliefs which will guide its investment decisions:
 - (a) **DB liabilities:** A sound understanding of the Scheme's DB liabilities is necessary in order to make appropriate DB investment decisions.
 - (b) **Asset allocation:** Asset allocation is a key decision as regards investment, with significant implications for long-term returns.
 - (c) **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.
 - (d) **Diversification:** Diversification of investments is likely to reduce the level of risk inherent in the overall investment strategy.
 - (e) **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.
 - (f) **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.
 - (g) **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

10. 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.
11. The criteria considered when appointing or removing fund managers include the following:
 - (a) **Business:** evidence of clear strategic direction; supportive ownership from a parent committed to fund management.
 - (b) **People:** high-calibre, experienced professionals; relatively low turnover; clear commitment to fund management culture; strong recruitment and training process.
 - (c) **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,
 - (d) **Performance:** variability within acceptable range relative to fund manager's style.
12. 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

13. 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.
14. 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))

15. The Trustee has the following policies as regards DB investment:
 - (a) **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.

- (b) **Risks, including measurement and management:** The Trustee considers the key risk as regards the DB investments to be as follows:
- (i) **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).
 - (ii) **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.
 - (iii) **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.
 - (iv) **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.

- (v) **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).
 - (vi) **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.
 - (vii) **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-realizable assets.
 - (viii) **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.
- (c) **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.
- (d) **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.
- (e) **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).

- (f) **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.
- (g) **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.

- (h) **Arrangements with fund managers:** The Trustee's policy as regards arrangements with any fund manager is as follows:
 - (i) 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.
 - (ii) The Trustee will ensure that the policies set out in this SIP (so far as relevant) are clearly communicated to the fund manager.
 - (iii) The Trustee will proactively monitor and liaise with the fund manager on a regular basis.
 - (iv) 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.
 - (v) 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.

(vi) 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

16. 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**).
17. 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.
18. 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.
19. 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))

20. 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))

21. The Trustee has the following policies as regards DC investments including the Default Arrangement:
 - (a) **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 things) members' likely needs, attitude to risk, and value-for-money.
- (b) **Risks, including measurement and management:** The Trustee considers the key risks to be as follows:
- (i) **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.
 - (ii) **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.
 - (iii) **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.
- (iv) **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.
- (v) **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.
- (vi) **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.
- (vii) **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.

(c) **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.

(d) **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.

(e) **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).

(f) **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.

- (g) **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.

- (h) **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:
- (i) 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.
 - (ii) 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.
 - (iii) The Trustee will proactively monitor Funds and liaise with the insurer and/or fund managers from time to time.
 - (iv) 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.
 - (v) 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.

(vi) 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))

22. 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.