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

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 2024.

Money Purchase Section investments: £799m (2023: £645m)
Total membership: 71,665 (2023: 69,336)

Introduction

I am pleased to present the Trustee's statement of governance, describing how the Trustee has governed the Defined Contribution ('DC') Money Purchase ('MP') Section of the Kingfisher Pension Scheme (the 'Scheme') during the year ending 31 March 2024 (the 'Scheme year'). In doing so, the Trustee provides the various statutory disclosures required by the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended).

This statement covers the following areas:

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

The MP Section of the Scheme has previously received external recognition, being awarded the Pensions Age 'Defined Contribution 2022 Scheme of the Year' award.

How we manage the 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. The MNDs 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 with four standing subcommittees to help fulfil its governance functions;

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

Some of the activities completed during the year were as follows:

- The Trustee introduced a new Independent Financial Advice ('IFA') service through L&G to help further support members during their retirement planning. The service provides members with impartial advice and a personal recommendation based on their individual circumstances and needs.

- The Trustee Board held a number of discussions, and received training, on the Task Force on Climate-Related Financial Disclosures ('TCFD') throughout the year. The Trustee considered the impact of climate change on both Final Salary and MP Sections of the Scheme. Further details about the Trustee's approach to climate change and the impact on the Scheme can be found in the Scheme's TCFD report. The Scheme's first TCFD report was published during the year end 31st March 2024 and is available on the Scheme's website here https://www.kingfisherpensions.com/knowledge-centre/scheme-documentation/

- The Trustee made a new retirement planning tool available to members. The tool helps enable members to plan more effectively, allowing the members to add other pension savings, including other Money Purchase pensions, Final Salary pensions, the State Pension, rental income or any other income. The modeller is also linked to the Pensions and Lifetime Savings Association ('PLSA') Retirement Living Standards, allowing members to compare their projected outcome to the different standards, which they can also personalise based on their own requirements.

- A range of pension benefits webinars were held during the year to help support and increase member pension education and engagement, including a Mid-Life MOT course offered to members via L&G and the Open University. The Scheme also promoted the second year of the industry wide 'Pay your pension some attention' campaign held in 2023.

1.The 'Default Arrangement'

A Default Arrangement 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 Arrangement. As at 31 March 2024, approximately 97% of members were invested in the Default Arrangement.

Setting an appropriate investment strategy

The Trustee is responsible for investment governance. This includes deciding on the aims, objectives and policies for the default arrangement (the 'Default Strategy') and ensuring that the Default Strategy is in the interests of members.

We have chosen the 'Lifestyle Cash Target' as the Default Arrangement. Details of the Default Strategy are recorded in a document called the Statement of Investment Principles ('SIP'). This document is available to members on the Trustee website 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 SIP was last reviewed on 14 December 2022.

The Trustee's aims and objectives for the Default Arrangement are in outline:

- The Default Arrangement should be suitable for the bulk of the Scheme's 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 ten 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 (e.g. stocks & shares) 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.

The Trustee believes that the Default Arrangement remains appropriate for the majority of members given the member demographics and the size of members' retirement accounts.

Reviewing the Default Arrangement

The Trustee's DC Investment and Retirement ('DCIR') Committee reviews the performance of the Default Arrangement on a quarterly basis with input from the Trustee's investment advisers. These quarterly reviews were carried out during the Scheme year. The DCIR Committee was satisfied that the long-term performance was consistent with the Trustee's aims and objectives for the Default Strategy, and that the funds forming the Default Arrangement continued to perform in line with their benchmarks.

At least once every three years, the Trustee conducts a comprehensive review of the Default Arrangement with the assistance of its external professional advisers. The last such review was completed in September 2022. For this purpose, the Trustee's advisers carried out an in-depth demographic analysis of the membership and supplied projections of member outcomes compared to the PLSA Retirement Living Standards. 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 their main source of income. Having regard to these factors, the Trustee approved the following changes at their meeting on 23 September 2022.

1. An increase in the equity allocation of the Default Strategy at younger ages
2. An increase in the length of the de-risking period from 5 to 10 years
3. A decrease in the length of time that cash is introduced from 5 to 3 years

The growth phase of the Default Arrangement was amended from 50% Passive Equity Fund and 50% Diversified Return Fund to 70% Passive Equity Fund and 30% Diversified Return Fund. The underlying funds are part of the Legal and General Investment Management ('LGIM') Future World Fund range. These funds aim to reduce the impact of climate change risk by prioritising companies which are less carbon-intensive or earn green revenues. The manager has discretion to reduce investment in certain companies which do not, in the manager's view, demonstrate adequate strategies and governance standards to transition to a low carbon economy.

The asset allocation of the Default Arrangement, during the growth phase, at 31st March 2024 was:

Asset Class	Percentage
Listed Equities	86.2%
Bonds	13.8%
Total	**100%**

In addition to global equities, the listed equities allocation includes exposures to global private equity, global real estate and global infrastructure. The exposure to these alternative asset classes is through listed instruments such as Real Estate Investment Trusts ('REITs').

The bonds allocation includes government bonds, inflation linked bonds, investment grade and sub-investment grade bonds.

At the members Selected Retirement Age the Default Arrangement is invested 100% in the Money Market Fund. The Money Market fund invests in cash, cash equivalent securities and high credit quality short term fixed income securities.

Other investment options

The Trustee also offers a range of white-labelled self-select funds covering the major asset classes.

The funds within the range are chosen having regard to members' likely needs, attitude to risk, and value-for-money. These funds are regularly monitored and reviewed by the Trustee.

2. Investment returns

Regulations introduced in 2021 require the Trustee to report on the net investment returns for the Scheme's default arrangement(s) and for each fund which Scheme members are, or have been able to select, and in which members have been invested during the Scheme year. The Trustee has considered the statutory guidance: 'Statutory Guidance: Disclose and Explain Asset Allocation Reporting and Performance-Based Fees and the Charge Cap' issued by the Department for Work and Pensions when preparing this section of the Chair's Statement.

The table below sets out annualised net fund performance to 31 March 2024 for the 1, 3 and 5 year periods for the lifestyle fund (for all ages up to the de-risking phase) and for the self-select fund range.

	1 year (%)	3 years (%)	5 years (%)
Lifestyle Fund (default arrangement)	15.3	5.9	7.6
Passive Equity Fund	18.1	8.3	10.0
Diversified Return Fund	9.1	2.4	4.3
Money Market Fund	5.1	2.4	1.6
Emerging Markets Fund	0.7	-6.2	1.6
Ethical Fund	16.3	6.5	11.5
Pre-Retirement Fund	3.5	-8.2	-3.4
Pre-Retirement Inflation Linked Fund	-0.9	-10.1	-4.9
Property Fund	0.3	1.7	1.4
Shariah Fund	32.2	14.8	17.2

Source: Legal and General

During the year ended 31 March 2024 the default arrangement experienced an investment return of 15.3%, equivalent to a rise of £153 for every £1,000 invested.

3. Costs and Charges

The Trustee is 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 borne by members.

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

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

Service	By members	Shared	By the Scheme
Investment management	✔		
Investment transactions	✔		
Administration	✔		
Governance			✔
Communications	✔		
Retirement		✔	

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

	Charge		Transaction costs	
Period to selected retirement age	% p.a.	£ per £1,000	% p.a.	£ per £1,000
Growth phase – all ages up to ten years before selected retirement age.	0.41	£4.10	0.09	£0.90
At selected retirement age	0.29	£2.90	0	£0.0

The charges are well under the charge cap of 0.75%. 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 data has been supplied for the calendar year to 31 December 2023, being the best information available to the Trustee at the time of this statement's production.

Transaction costs

As explained on the previous page, 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	TER Charges	Total transaction costs
Lifestyle Fund (default arrangement)	0.41%	0.09%
Passive Equity fund	0.43%	0.12%
Diversified Return Fund	0.35%	0.04%
Money Market Fund	0.29%	0.00%
Emerging Markets Fund	1.11%	0.18%
Ethical Fund	0.93%	0.16%
Pre-Retirement Fund	0.28%	0.00%
Pre-Retirement Inflation Linked Fund	0.28%	0.05%
Property Fund	1.76%	0.00%
Shariah Fund	0.54%	0.00%

Source: Legal and General

There were no performance-based fees incurred by the default arrangement during the period covered by this statement.

The Total Expense Ratios (TERs) are as at 31 March 2024 and transaction cost information is based on information available for the 12 months to 31 December 2023 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. In accordance with the Financial Conduct Authority's Conduct of business sourcebook (COBS) 19.8, where aggregated transaction costs result in a negative value these costs have been adjusted by L&G to zero for reporting purposes.

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 funds with highest and lowest levels of risk
  - the funds with the highest and lowest costs

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 18, 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 £198,648 to £173,599.

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

4. Good 'Value for Members'

Each year, with the help of their external professional advisers, the Trustee carries out an assessment of whether the charges and transaction costs for the Default Arrangement and other investment self-select 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 compared 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 retirement outcomes for members;
- 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 2024

The Scheme gave **EXCELLENT** Value for Members in the year ending 31 March 2024 for investment, communication, administration and retirement where members pay part or all of the costs.

The Trustee also assess all the services members use (not just those for which they pay part or all of the costs for). The Scheme gave **EXCELLENT** overall value for money in the year ending 31 March 2024.

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%	GOOD	The Trustee notes that 96.9% 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 0.29% p.a. to a maximum of 0.41% p.a. depending on where the member currently sits in the investment glidepath. This is marginally higher than the average charge of 0.28% p.a. in the DWP's 2020 survey for bundled schemes with over 1,000 members. However, the Scheme's strategy uses a multi-factor equity approach which is 50% currency hedged (rather than a simple market cap approach), which can be more expensive than the strategies employed by peer schemes. The Trustee also provides 9 funds for the membership to self-select from including property, emerging markets, ethical and Shariah 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 with 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 is regularly updated by L&G and the Scheme's advisers on ESG developments and has introduced Tumelo to gain feedback from members on ESG matters.
Administration 20%	EXCELLENT	The Trustee receives regular reports on performance against the agreed service levels. These show that, over the 12-month period, L&G achieved 99.9%; above the target service levels of 95%. Core financial transactions have, generally, been processed promptly and accurately. Member complaints remain very low as a % of total membership, with 42 complaints in the year to 31 March 2024. L&G are rated AA- by Standard & Poor's, Aa3 by Moody's and AA- by Fitch 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 in-house administration and help-line team.
Communication 20%	EXCELLENT	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 PLSA's Pension Quality Mark, 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 37.9% as at 31 March 2023 to 43.3% members as at 31 March 2024.

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 has had quarterly board 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 significant pensions 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 its service providers. The Board have collectively, and individually, maintained and developed their knowledge over the year with dedicated training days. The Trustee Board is also a member of the Pensions Management Institute's Trustee Group.
Retirement 5%	EXCELLENT	The Trustee, through both L&G and Hargreaves Lansdown, 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 an Independent Financial Advice (IFA) service via L&G to support Money Purchase members who need individual advice with their retirement options, an additional IFA service is available via LV for members who may also have final salary pension benefits. The Trustee has also introduced a new feature within their targeted communications strategy through their 'lifepoint' letters to keep members informed about their retirement journey for members within 10 years of retirement. Members receive 'wake up' packs from age 50, and then every five years until they crystalise their benefits. The new lifepoint letters are issued ten years and four years before the member's selected retirement age. They have also improved their retirement modeller and provided webinars for members covering a range of topics including retirement planning and support. Members are also being appropriately signposted to Pension Wise and Money Helper.

5. 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.

Day-to-day administration is managed through work management systems with built-in controls to ensure a high level of quality through checking processes. These are also subject to quality sampling.

Quality controls are reviewed at a monthly "Risk and Controls Committee", which is overseen by L&G's Workplace DC Pensions Senior Leadership team. All processes are documented and assigned to the owners within the appropriate business team.

L&G's workplace pensions business is also subject to regular independent internal auditing from the L&G Group Internal Audit department, which is independent of all business and operational functions in the L&G Group plc; it reports to the Group Audit Committee on the effectiveness of the control environment in mitigating the key risks of the group.

An in-depth annual administration update was held by the DC Investment and Retirement Committee during the period covered by this statement. The DC Investment and retirement Committee also visited the new L&G administration Centre in Cardiff in June 2024.

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

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 Trustee 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 2024, the percentage completed within SLA was 99.9%. The Trustee monitors the SLAs on a quarterly basis.

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

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

- Monitoring of the SLAs is conducted 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 Trustee's quarterly monitoring and reviews did not identify any material issues for the scheme year.

- 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 The Pension Regulator's general 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.
- Review of the Audit and Assurance Faculty (AAF) internal controls report of Legal and General, a report audited by independent auditors.
- 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 My Scheme Updates ('MSU'). MSU 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 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.
- L&G provided a report on data quality produced with reference to the Record Keeping Guidance published by the Pensions Regulator. This concluded that common data was present for 99.99% of membership data as at 31 March 2024.

Overall, the Trustee is satisfied that during the year:

- Core financial transactions were processed accurately, promptly and efficiently; and
- There have been no material administration errors in relation to processing core financial transactions.

Security of Assets

The Trustee periodically assesses the level of security of the assets, taking legal advice where appropriate. The latest review took place in December 2022 and 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.

The security of assets is also addressed in the L&G AAF report reviewed by the Trustee. The Trustee also receives and reviews the L&G disaster recovery plan.

6. Trustee Knowledge and Understanding ('TKU')

The law requires the Trustee Board to possess sufficient TKU to run the Scheme effectively, including knowledge and understanding of key scheme documents, pensions and trust law and funding and investment principles. The Trustee takes its training and development responsibilities seriously and keeps 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 external professional advisers to complement their own knowledge and to ensure they have access to the required skills, and this allows the Trustee to work with its professional advisers to fill in any gaps.

As part of the Trustee's training, on appointment all Trustee Directors familiarise themselves, 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 Statement of Investment Principles; and
- the members' booklet.

New Trustee Directors complete an induction programme, which includes completing TPRs online trustee toolkit. The trustee toolkit is an online learning programme 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 Trustee Directors must complete this within six months of their appointment. All Trustees (excluding any newly appointed Trustee with less than six months' service) have completed the Pensions Regulator's toolkit, including the modules "How a Defined Contribution scheme works" and "Investment in a Defined Contribution scheme".

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

During the Scheme year, Trustee Directors were provided with pensions bulletins to assist them in keeping up to date with current matters, including relevant information about changes to pensions law and regulations. When particular matters of strategic importance are being discussed at the Committees or Board, TKU training is provided ahead of any decisions.

The Scheme has a plan in place to conduct Trustee training days during the year to address ongoing training appropriate to their duties. The effectiveness of these practices, and the training received, are reviewed on an ongoing basis. Trustee training days are organised throughout the year, involving internal and external professional speakers. The KPS is a hybrid scheme having both a legacy Defined Benefit and an active Defined Contribution section, therefore the TKU agenda's cover both benefit structures. The days are open to all Trustee Directors, potential future Trustee Directors, Company delegates and group pensions team members.

As mentioned above, this TKU training covers a wide range of both DB & DC topics and for 2023/24, included Trustee duties on:

Date	**Topic and trainers**
17.1.2024	Cyber Security - Paul McGlone and Harija Sheikh, Aon
17.1.2024	The Mansion House Reforms – Defined Benefit (DB), Defined Contribution (DC), Collective Defined Contribution (CDC) - Lisa Deas and Ross McNeill Hymans Robertson
17.1.2024	Illiquid Assets - Long Term Assets Fund ("LTAF") and how they can be used in Defined Contribution – Sam Cobley, LCP
12.10.2023	Longevity – Mark Sharkey, Hymans Robertson
12.10.2023	An interactive introduction to behavioural risks and groupthink – Zoë Burdo, LCP
6.07.2023	Macroeconomic update – Steven Bell, Columbia Threadneedle
6.07.2023	Legal & General – Stewardship and Environmental Social Governance (ESG) – Maria Ortino, LGIM
6.07.2023	Legal training focussing on death and incapacity benefits – Richard Evans, Mayer Brown International

Additionally, TCFD training was conducted at the Trustee Board meetings throughout the year. Training addressed a wide range of areas including how climate change relates and impacts global financial systems, as well as the evolving reporting requirements for pension schemes, and how climate risk could be considered within an integrated risk management framework. The Trustee published their first TCFD report in June 2023.

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

All presentations used for these TKU days are stored in a TKU section of the online board packs service, for Trustee reference.

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

Further Trustee training days are planned to be held during 2024/25.

Trustee skills, experience and diversity

The Trustee operates four sub-committees, in addition to the Board itself, to help fulfil its governance functions. The Trustee has a relatively large, gender and age diverse board with members bringing a range of relevant skills and experience. The Chair is an independent professional trustee.

Other Board members have substantial professional knowledge and expertise in a wide range of disciplines including finance, human resources, tax, audit, purchasing and store management.

The Trustee regularly considers the diversity of the Board in relation to core characteristics such as gender, age and ethnicity as well as the mix of skills, experience and cognitive diversity. Where vacancies on the Board arise, the Trustee, where it is in their gift, seek to recruit new trustees who enhance the diversity of the Board and its overall effectiveness.

All board members have the requisite trustee knowledge and understanding as described above. Additionally, 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, The Trustee is satisfied that the Board is composed of 'fit & proper' persons and able to properly exercise its Trustee functions.

During the Scheme year a Trustee Effectiveness review was completed. The review was facilitated by Hymans Robertson. The results were reviewed by the Trustee Board and there were no areas of concern. Another review is planned for 2024/25.

Taking into account the knowledge and experience of the Trustee Directors, combined with the specialist advice received from the appointed professional advisors, the Trustee Directors believe they are well placed to exercise their functions as Trustee Directors of the Scheme properly and effectively.

7. Trustee Statement of MP Governance

The Trustee undertakes ongoing assessments of the Scheme against The Pension Regulator's Code 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 The Pensions Regulator's Code of Practice.

ITS Limited,
represented by Rachel Croft, Chairperson
On behalf of the Trustee
Date: 9 August 2024

Appendix I

14 December 2022

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 2022 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 and maintain the 2FO through a combination of investment returns and employer contributions, if required.

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 2022, 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 96% 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 2022, 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) **Collateral Adequacy risk** – The Scheme is invested in leveraged Liability Driven Investment ("LDI") arrangements to provide protection against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Scheme may not be able to post additional cash to the LDI portfolio within the required timeframe. A potential consequence of this risk is that the Scheme's interest rate and inflation hedging could be reduced, and that the Scheme's funding level could suffer as a result. In order to manage this risk, the Trustee has a collateral monitoring and collateral waterfall framework in place to ensure that the Scheme has a reasonable liquidity buffer should cash need to be posted to the LDI manager at short notice.

(iii) **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.

(iv) **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.

(v) **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.

(vi) **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).

(vii) **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.

(viii) **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.

(ix) **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-related risks and opportunities in the management of the DB global equity portfolio, the Trustee's view being that climate change and the expected transition to a low-carbon economy give rise to long-term financial risks for the Scheme and for member outcomes. The Trustee has 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 ten years to selected retirement age (**SRA**), investments should be de-risked, 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), (d))

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 between the Passive Equity Fund i.e. the L&G Future World Fund and the

Diversified Return Fund i.e. the L&G Future World 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, while reflecting significant ESG issues into the fund's investment strategy; 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.

(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 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 over the ten 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 during the ten 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 and liquidity**: 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 believes that for members it is important that holdings are suitably liquid, so that any decision which members make to switch investments, take benefits or transfer can be implemented without delay. Accordingly, the Trustee's policy is not to invest in Funds which are illiquid or under which a material proportion of the underlying assets are illiquid, and the Trustee does not currently have plans to invest in any such Funds in the future. The Diversified Return Fund, which comprises part of the Default Arrangement during the growth phase, has some exposure to illiquid asset classes (e.g. property and infrastructure) for reasons of diversification, but this exposure is achieved through liquid instruments. Accordingly, the Trustee expects that all 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. In particular, the Trustee takes account of climate-related risks and opportunities, the Trustee's view being that climate change and the expected transition to a low-carbon economy give rise to long-term financial risks for member outcomes. 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 also selected the L&G Future World Multi-Asset Fund as the underlying fund of the Diversified Return Fund which reflects significant ESG considerations into the fund's investment strategy. 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 is also conscious that members may want to take or transfer their benefits at short notice and without delay. 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; by ensuring that holdings are suitably liquid; and by delivering real value for members.

Appendix II : Tables illustrating the impact of charges and costs and charges

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 42, with a pension pot size of £21,600, on a salary of £24,000 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 £)
26	£21,600	£21,600
25	£24,615	£24,506
20	£41,019	£40,096
15	£59,878	£57,608
10	£81,560	£77,278
5	£105,516	£98,541
3	£114,935	£106,796
1	£122,653	£113,499
0	£125,144	£115,630

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

Years to retirement	Diversified Return Fund		Money Market Fund		Emerging Markets Fund		Pre-Retirement 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 £)	Before costs and charges (today's £)	After costs and charges (today's £)
26	£21,600	£21,600	£21,600	£21,600	£21,600	£21,600	£21,600	£21,600	£21,600	£21,600
25	£24,304	£24,222	£23,859	£23,795	£24,970	£24,684	£24,748	£24,686	£24,748	£24,357
20	£38,429	£37,770	£34,992	£34,518	£44,176	£41,614	£42,177	£41,633	£42,177	£38,862
15	£53,618	£52,082	£45,856	£44,835	£67,984	£61,366	£62,792	£61,414	£62,792	£54,640
10	£69,952	£67,201	£56,457	£54,760	£97,497	£84,410	£87,176	£84,504	£87,176	£71,803
5	£87,516	£83,171	£66,803	£64,308	£134,084	£111,297	£116,016	£111,456	£116,016	£90,474
3	£94,906	£89,808	£70,871	£68,025	£151,066	£123,267	£128,978	£123,459	£128,978	£98,394
1	£102,515	£96,593	£74,899	£71,685	£169,572	£135,999	£142,841	£136,229	£142,841	£106,584
0	£106,403	£100,041	£76,898	£73,494	£179,438	£142,665	£150,129	£142,916	£150,129	£110,784

The assumptions used in these calculations are detailed below.

Representative Member 2: Deferred Member, age 39, with a pension pot size of £6,100, 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 £)
29	£6,100	£6,100
25	£6,820	£6,695
20	£7,841	£7,520
15	£9,015	£8,447
10	£10,364	£9,488
5	£11,803	£10,565
3	£12,315	£10,933
1	£12,629	£11,131
0	£12,642	£11,108

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	Diversified Return Fund		Money Market Fund		Emerging Markets Fund		Pre-Retirement 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 £)	Before costs and charges (today's £)	After costs and charges (today's £)
29	£6,100	£6,100	£6,100	£6,100	£6,100	£6,100	£6,100	£6,100	£6,100	£6,100
25	£6,465	£6,373	£5,982	£5,914	£7,244	£6,901	£6,977	£6,903	£6,977	£6,525
20	£6,952	£6,733	£5,837	£5,690	£8,980	£8,051	£8,252	£8,058	£8,252	£7,098
15	£7,476	£7,112	£5,696	£5,474	£11,132	£9,393	£9,761	£9,406	£9,761	£7,721
10	£8,039	£7,513	£5,559	£5,266	£13,800	£10,959	£11,545	£10,979	£11,545	£8,399
5	£8,645	£7,936	£5,425	£5,066	£17,107	£12,786	£13,655	£12,815	£13,655	£9,137
3	£8,900	£8,112	£5,372	£4,988	£18,642	£13,600	£14,604	£13,633	£14,604	£9,449
1	£9,162	£8,292	£5,319	£4,912	£20,315	£14,465	£15,618	£14,503	£15,618	£9,773
0	£9,296	£8,383	£5,293	£4,874	£21,206	£14,918	£16,151	£14,959	£16,151	£9,939

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 18, on a salary of £20,000 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 £)
50	£0	£0
45	£10,599	£10,474
40	£22,785	£22,239
35	£36,795	£35,455
30	£52,902	£50,300
25	£71,420	£66,974
20	£92,711	£85,705
15	£117,188	£106,744
10	£145,330	£130,377
5	£176,034	£155,585
3	£187,705	£165,024
1	£196,480	£171,984
0	£198,648	£173,599

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	Diversified Return Fund		Money Market Fund		Emerging Markets Fund		Pre-Retirement 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 £)	Before costs and charges (today's £)	After costs and charges (today's £)
50	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
45	£10,245	£10,153	£9,758	£9,689	£11,018	£10,679	£10,754	£10,682	£10,754	£10,305
40	£21,261	£20,878	£19,279	£19,010	£24,676	£23,138	£23,474	£23,150	£23,474	£21,514
35	£33,108	£32,208	£28,571	£27,977	£41,607	£37,675	£38,520	£37,703	£38,520	£33,708
30	£45,847	£44,176	£37,639	£36,604	£62,596	£54,634	£56,315	£54,691	£56,315	£46,973
25	£59,547	£56,818	£46,487	£44,904	£88,615	£74,421	£77,364	£74,520	£77,364	£61,402
20	£74,278	£70,173	£55,122	£52,888	£120,869	£97,506	£102,260	£97,666	£102,260	£77,099
15	£90,119	£84,280	£63,548	£60,570	£160,853	£124,440	£131,707	£124,683	£131,707	£94,173
10	£107,154	£99,182	£71,770	£67,960	£210,419	£155,864	£166,537	£156,218	£166,537	£112,747
5	£125,472	£114,924	£79,794	£75,070	£271,864	£192,526	£207,734	£193,029	£207,734	£132,952
3	£133,180	£121,467	£82,950	£77,838	£300,384	£208,849	£226,249	£209,422	£226,249	£141,523
1	£141,115	£128,154	£86,074	£80,563	£331,464	£226,210	£246,051	£226,862	£246,051	£150,387
0	£145,170	£131,553	£87,625	£81,910	£348,034	£235,300	£256,461	£235,996	£256,461	£154,932

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

The assumptions used in these calculations are detailed below.

Assumptions:

- The opening pension pot size of £21,600 for an active member and £6,100 for a deferred member, which was the average pension pot size for members on 31 March 2024.
- 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 of 31 March 2024.
- The investment return assumed for each fund above is as follows:

Fund	SMPI Growth Rate % p.a. (supplied by L&G)
Passive Equity Fund	6.0
Diversified Return Fund	4.0
Money Market Fund	2.0
Emerging Markets Fund	7.0
Pre-Retirement Fund	6.0
Property Fund	6.0

- 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	0.43	0.11
Diversified Return Fund	0.35	0.02
Money Market Fund	0.29	0.00
Emerging Markets Fund	1.11	0.18
Pre-Retirement Fund	0.28	0.00
Property Fund	1.76	0.00

- 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 2024.
- Use average transaction costs supplied for the past 5 years to 31 December 2023 being the best information available to the Trustee at the time.
- For information purposes only and using the same effective date of 31 December 2023, the 12-month transaction costs for all available funds are noted below:

Fund	Fund Transaction Costs %
Passive Equity Fund	0.12
Diversified Return Fund	0.04
Money Market Fund	0.00
Emerging Markets Fund	0.18
Ethical Fund	0.16
Pre-Retirement Fund	0.00
Pre-Retirement Inflation Linked Fund	0.05
Property Fund	0.00
Shariah Fund	0.00

- 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.