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

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

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

Summary for year ended 31st March 2020

Money Purchase Section investments : £359m (2019 : £342m)
Total membership : 55,440 (2019 : 50,681)

Introduction

I am pleased to present the Trustee's statement of governance, describing how the Trustee has governed the Scheme's Money Purchase (MP) section of the Kingfisher Pension Scheme during the year end 31 March 2020 (the "Scheme year"). In doing so, we provide the various statutory disclosures required by the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended).

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

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

This statement covers the following areas:

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

How we manage your scheme

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

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

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

During the year a Trustee diversity review was completed, the results showing a good age and gender diversity (see appendix III).

1.The default investment strategy

The default strategy is provided for members who join the Scheme and do not choose an investment option for their contributions. Members can also positively choose to invest in the default strategy. At 31 March 2020, approximately 97% of members were invested in the default strategy.

Setting an appropriate investment strategy

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

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

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

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

Reviewing the default strategy

The Trustee's DC Investment and Retirement Committee reviews the performance of the default strategy on a quarterly basis with input from the Trustee's investment advisers. These quarterly reviews were carried out during the Scheme year.

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

The Trustee did however decide to introduce a third lifestyle option, alongside the existing cash and annuity target options: "lifestyle drawdown target", for members to consider if they think they may wish to take a drawdown approach in retirement.

Costs and Charges

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

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

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

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

*Expenses met by the Pension Scheme funded by the employer

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

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

All charges and costs described in this statement are per year and are based on the value of a member's relevant fund. So, for example, if a member has £1,000 invested in the default strategy, then per year the member bears the following:

- Charges: 0.40% x £1,000 = £4.00.
- Transaction costs: 0.07% x £1,000 = 70p.

Efforts are made to reduce charges and costs whenever possible.

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

Transaction costs

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

Self-select range

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

Fund	Charges	Total transaction costs
Lifestyle Fund (default strategy)	0.40%	0.07%
Passive Equity fund	0.46%	0.08%
Diversified Return Fund	0.34%	0.04%
Money Market Fund	0.31%	-0.04%
Emerging Markets Fund	1.22%	0.18%
Ethical Fund	0.96%	0.19%
Pre-Retirement Fund	0.30%	-0.02%
Pre-Retirement Inflation Linked Fund	0.30%	0.01%
Property Fund	1.35%	-0.49%
Shariah Fund	0.56%	0.03%

Source: Legal and General

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.

For any funds which hold an investment managed by a third party, the transaction costs provided by the third-party manager are represented in this report as an indirect external fund transaction cost.

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

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

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

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

- The default arrangement; as well as
- 3 funds from the Scheme's self-select fund range representing funds that have
    - the highest and lowest annual member borne costs
    - the highest and lowest before costs expected return
    - the greatest number of members

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

- As an example, for a member who joined the default arrangement at age 22, paying the typical contribution rate of 10%, charges and costs (based on the figures for this Scheme year) would reduce their projected pot value, at one year from retirement, in today's money from £96,295 to £86,743.

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

<u>2. Good value for members</u>

The Trustee has assessed the extent to which the charges and transaction costs set out above represent good value for members and has concluded that the Scheme offers good value for money relative to peers including other pension schemes of a similar size and nature (using data from TPR) and other public surveys and relative to options available to the Trustee with alternative investment managers and providers.

The Trustee included consideration of the following in reaching this conclusion:

- Charges
- Transaction costs
- Net of cost investment performance for members
- Investment risk measures
- The type and quality of administration service received by members
- Governance arrangements including investment and charges monitoring activity
- The design and range of investment options available to members
- Investment manager ratings where relevant
- Additional services available to members, including retirement support, services, communications and member tools.

As a starting point to assessing “good value”, we have compared the level of charges in each fund with the levels of return they have delivered to members. The charges are reviewed by the DC Investment and Retirement Committee each quarter as is the performance of the funds.

Value for money is a key consideration and is one of the factors in the Trustee’s decision to use passively managed funds as the building blocks for the default strategy.

We have also considered how the charges and transaction costs borne by members (the costs of membership) compare against the services and benefits provided by the Scheme (the benefits of membership). The Trustee benchmarks by comparing both the money purchase offering and the provider against what else is available.

Achieving value for money for members whilst offering good benefits and high level of customer service is a key consideration.

The benefits of Scheme membership include:

- A default strategy that is appropriate for the majority of members (members that are generally low earners, paying low contribution rates), whilst still offering a suitable range of investment funds for members that may wish to express their own investment views or have different circumstances and needs i.e. our self-select range of funds.

- the award winning ‘Saving for Your Future’ education programme which employs a range of communication media including the development of an educational pensions ‘App’.

- All scheme members become eligible for life assurance of 4 X pensionable salary if death in service occurs

The effectiveness of the administration is reviewed by the DC Investment and Retirement Committee on a quarterly basis with administration results compared to the service level agreement levels for timeliness.

Based on our assessment we have concluded that the Scheme represents ***good value for members***.

3. Administration and core financial transactions

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

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

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

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

L&G reports on the Service Standards specified below, on a quarterly basis.
The reports are then reviewed as explained below.

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

The administrator aims to complete at least 95% of its administration work and core financial transactions within these service levels.

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

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

- Monitoring of the SLAs is on a quarterly basis by the Trustee, via the DC Investment and Retirement and the Accounts, Audit & Governance Administration Sub-Committees and the in-house group pensions team.
- The Scheme has an agreed payroll timetable and escalation process in place with Legal & General which provides a further structured control to monitoring contribution processing.
- The Scheme is compliant with TPR's DC Code of Practice on reporting late payment of contributions and with the relevant legislation.
- Maintaining close working links between the in-house group pension team and the administrator. SLAs are provided to the in-house group pension team on a monthly basis.
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.
- Preparing a Risk Register which outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls and mitigation steps for each risk. The Risk Register is subject to ongoing monitoring and review, by both the Trustee and the group pension team.
- A review of the Legal & General data accuracy reporting for the Scheme was completed.
- Appointing a Registered Auditor to undertake an annual audit. The Scheme Auditor independently tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.

Overall, the Trustee is satisfied that during the year:

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

Security of Assets :

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

4. Knowledge and understanding of the Trustee

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

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

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

The Trustee undertook the following reviews during the last year:

Date	Review of
June 2019	Assessed the overall effectiveness of the Trustee Board as a decision-making body – This was facilitated by an independent consultancy firm.
October 2019	DC Pension Scheme Governance Checklist – A questionnaire of DC legal and regulatory requirements, provided by the Scheme's legal advisers, was reviewed and completed by the Trustee. This was one of the measures used during the Scheme year to help ensure the Trustee's have sufficient knowledge and understanding of the law relating to pensions and trusts.

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

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

The new Trustee director appointed during the Scheme year was provided with, and familiarised themselves with, key documents to ensure a working knowledge of the Trust Deed and rules was established. New Trustees complete an induction programme, which includes completing TPR's online trustee toolkit. The Trustee toolkit is an online learning programme from TPR aimed at trustees of occupational pension schemes.

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

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

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

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

As mentioned above, this TKU training covers a wide range of both DB & DC topics and for 2019/20 included Trustee duties on:

- GMP Equalisation*
  - Different approaches to GMP equalisation
  - Known / unknowns
  - Indicative timelines
  - Consideration of high level policy questions

  The above TKU given by Alan Garbarino of Hymans Robertson, Andrew Udale-Smith of Bath Actuarial, Duncan Buchanan of Hogan Lovells and Richard Evans of Mayer Brown International

- Integrating ESG into your investments – The Scheme SIP was reviewed during the Scheme year. It was amended to take into account the Trustee's ESG beliefs.

  Meryam Omi, Head of Sustainability and Responsible Investment Strategy and Simon Chinnery Head of DC Client Solutions LGIM

- Pension Trustee effectiveness review – Consultants were engaged to provide an independent review process. It was concluded the Trustee was an effective decision-making body and was able to properly exercise its function.

  Leonard Bowman of Bath Actuarial and the in-house Group Pensions executive

Where appropriate the training includes a cross reference to the appropriate provision in the Trust Deed or other document if relevant.

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

The Trustee board is also a member of the Pensions Management Institute's Trustee Group and is able to show CPD accreditation on an annual basis. All Trustee Directors are required to show evidence of at least 15 hours of CPD annually to keep the accreditation.

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

Other board members have substantial professional knowledge and expertise in (variously) commercial, investment, financial, legal pensions and governance matters. During the year the in-house Group Pensions executive team conducted a diversity review of the composition of the KPTL Board. The findings of this review are summarised in Appendix III.

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

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

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

5. Trustee Statement of MP Governance

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

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

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

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

- Updated the Statement of Investment Principles, meeting new regulatory requirements that came into effect from 1st October 2019.
- An in-depth review of the Scheme's default strategy.
- As a consequence of the COVID-19 pandemic emergency, reviewed and updated the Scheme's risk register and invoked the Schemes disaster recovery plan to work remotely.

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

26 June 2020

Appendix I: Statement of Investment Principles (SIP)

11th September 2019

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))

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 90% 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-realisable 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.

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

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 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 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.

The underlying investment managers of the DC funds are all signatories to the UK Stewardship Code.

Legal and General provide corporate governance and responsible investment presentations to the Trustee, outlining their stewardship approach and reporting on their engagement and voting activities.

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

Appendix II: Tables illustrating the impact of charges and costs

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 41, with a pension pot size of £9,812 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 £)
1	£61,438	£57,400
3	£59,299	£55,527
5	£55,645	£52,295
10	£43,951	£41,838
15	£33,051	£31,870
20	£22,890	£22,369
25	£13,418	£13,314
27	£9,812	£9,812

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

For a selection of the self-select funds:

Years to retirement	Passive Equity Fund		Money Market Fund		Emerging Markets 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 £)
1	£70,477	£64,659	£40,361	£38,850	£77,648	£62,099
3	£64,714	£59,742	£38,477	£37,122	£70,792	£57,542
5	£59,159	£54,953	£36,526	£35,322	£64,259	£53,081
10	£46,133	£43,518	£31,335	£30,487	£49,239	£42,336
15	£34,250	£32,810	£25,663	£25,133	£35,924	£32,150
20	£23,410	£22,785	£19,465	£19,202	£24,121	£22,494
25	£13,520	£13,397	£12,693	£12,633	£13,657	£13,339
27	£9,812	£9,812	£9,812	£9,812	£9,812	£9,812

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

The assumptions used in these calculations are detailed below.

Representative Member 2: Deferred Member, age 38, with a pension pot size of £4,015 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 £)
1	£5,635	£4,975
3	£5,742	£5,100
5	£5,704	£5,104
10	£5,317	£4,865
15	£4,957	£4,637
20	£4,621	£4,420
25	£4,307	£4,212
30	£4,015	£4,015

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

For a selection of the self-select funds:

Years to retirement	Passive Equity Fund		Money Market Fund		Emerging Markets 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 £)
1	£6,839	£5,880	£2,402	£2,220	£8,076	£5,472
3	£6,593	£5,727	£2,488	£2,313	£7,696	£5,356
5	£6,355	£5,579	£2,578	£2,409	£7,334	£5,243
10	£5,797	£5,224	£2,817	£2,668	£6,501	£4,971
15	£5,289	£4,891	£3,078	£2,955	£5,763	£4,712
20	£4,824	£4,580	£3,363	£3,273	£5,109	£4,467
25	£4,401	£4,288	£3,675	£3,625	£4,529	£4,235
30	£4,015	£4,015	£4,015	£4,015	£4,015	£4,015

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

The assumptions used in these calculations are detailed below.

Representative Member 3: Active Member who has just joined the scheme, age 22, 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 £)
1	£96,295	£86,743
3	£94,818	£85,608
5	£90,930	£82,400
10	£76,843	£70,532
15	£63,712	£59,219
20	£51,471	£48,437
25	£40,061	£38,160
30	£29,425	£28,365
35	£19,510	£19,028
40	£10,267	£10,130
45	£1,652	£1,648

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

For a selection of the self-select funds:

Years to retirement	Passive Equity Fund		Money Market Fund		Emerging Markets 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 £)
1	£114,776	£100,688	£50,863	£48,264	£133,237	£94,746
3	£107,415	£94,835	£49,359	£46,929	£123,766	£89,500
5	£100,320	£89,135	£47,800	£45,538	£114,740	£84,364
10	£83,683	£75,523	£43,653	£41,802	£93,990	£71,993
15	£68,505	£62,778	£39,121	£37,664	£75,595	£60,266
20	£54,659	£50,845	£34,170	£33,081	£59,289	£49,148
25	£42,027	£39,671	£28,761	£28,006	£44,833	£38,608
30	£30,505	£29,208	£22,850	£22,384	£32,018	£28,616
35	£19,993	£19,412	£16,392	£16,157	£20,658	£19,143
40	£10,403	£10.240	£9,336	£9.261	£10,587	£10,163
45	£1,655	£1,651	£1,626	£1,623	£1,660	£1,649

The assumptions used in these calculations are detailed below.

Assumptions:

- The opening DC pot size of £9,812 for an active member and £4,015 for a deferred member, which was the average pot size for members at 31 March 2020;
- A contribution in current day terms 10% p.a. (5% employee and 5% employer), which was the most popular contribution choice for members in the Scheme as at 31 March 2020;
- The investment return assumed for each fund above is as follows:

Fund	Real Return % p.a.
Passive Equity Fund	4.4
Diversified Return Fund	3.5
Money Market Fund	0.7
Emerging Markets Fund	5.0

- Inflation is assumed to be 2.5% p.a.;
- 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	0.4625	0.08
Diversified Return Fund	0.3400	0.04
Money Market Fund	0.3130	-0.04
Emerging Markets Fund	1.2200	0.18

- 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 and transaction costs supplied for the year to 31 March 2020;
- 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.

Appendix III: Improving the diversity of Trustees on Pension Boards

TPR – Future of Trusteeship and Governance

Over the last year, the Group Pensions executive has completed a diversity review of the KPTL Board, because evidence suggests that diverse groups are more effective at making decisions. Share Action(i) argues that if governance groups better reflect the diversity of the wider group they represent, their collective life experiences will improve their capacity to understand the unique challenges faced by each of their pension scheme savers.

The KPTL Board has 10 trustee directors, the Chair of the Board being a professional trustee, with over 40 years of experience. There are then 5 (50%) Employer Nominated trustee directors appointed by the Company and 4 (40%) Member Number trustee directors appointed after a comprehensive recruitment process from active, deferred and pensioner members of the Scheme and a selection interview involving both Employer representatives and existing independent trustee directors.

In addition, the KPTL Board has equal (50% / 50%) gender diversity 5 out of 10 male trustees and 5 out of 10 female trustees. Also, it has 30% of its trustees under the age of 50 and therefore still in the accumulation saving phase and 70% of trustees aged over 50 who are starting to think about and then commence the decumulation phase of their journey into retirement. The Board also has a wide range of diverse professional skills, points of view and expertise available to it in the form of legal, accountancy, company secretariat, compliance and audit, consumer marketing and retail viewpoint.

The Board also have a strong pro-active approach on succession planning, appointing after a thorough selection process, 'reserve trustees' who receive equal TKU as the permanent Board trustee directors and who are ready to take on the full trustee role when the opportunity presents itself. As at 31 March 2020, 30% of the trustee directors had been appointed via this process with one remaining reserve director 'sat on the bench' until called upon.

SUMMARY	
Director Status	1 X Professional Trustee 5 X Employer Nominated Director (50%) 4 X Member Nominated Directors (40%)
Business	10% Professional Trustee 30% B&Q 20% Screwfix 10% KITS 30% Kingfisher
Professional & skills experience	Varied skills and experience
DB Final Salary or DC Money Purchase Member	80% active members & 20% pensioner members
Gender	50% M 50% F
Age	70% of directors are over age 50 and 30% under age 50
Ethnic Grouping	All White
Director from Reserve List	30%

Source: (i) https/ / shareaction.org/wp-content/uploads/2018/06/TheEngagemetdeficit.pdf