KINGFISHER PENSION SCHEME (KPS)

Implementation Statement for the year ending 31 March 2021

22 June 2021

Background

The Trustee maintains a Statement of Investment Principles (**SIP**) for the two sections of the Kingfisher Pension Scheme – the Final Salary Section and the Money Purchase Section. The SIP is available on the Scheme's website, www.kingfisherpensions.com/wp-content/uploads/2020/09/Statement-of-Investment-Principles--September-2020.pdf.

This statement, which is required by legislation, explains how the Trustee has implemented the SIP during the year ending 31 March 2021. The statement will be included in the Scheme's Report and Accounts and published on the Scheme's website.

Changes to the SIP

The Trustee reviews the SIP at least once every three years, and following any significant change in investment policy. The last review for these purposes was carried out in September 2020.

The SIP was amended in in order to comply with new statutory requirements. After consulting its legal and investment advisers, the Trustee added statements about its policies on stewardship and on arrangements with fund managers (including arrangements as to compliance with the Trustee's policies, engagement with investee companies, portfolio turnover, and performance and remuneration). The new statements are in Paragraphs 15(g)/(h) and 21(g)/(h) of the SIP.

In addition, an amendment was made to the SIP to reflect a small increase in hedging under the Final Salary Section.

Giving effect to the SIP

The Trustee is satisfied that it has followed the SIP throughout the year for both the Final Salary and Money Purchase Sections. The following paragraphs provide information about how the SIP has been followed.

Governance

In accordance with the SIP, certain investment functions have been delegated to the DB Investment Committee and the DC Investment and Retirement Committee (the **Investment Committees**). There was no change to the role or responsibilities of the Investment Committees during the year.

The Investment Committees met quarterly during the year to consider investment matters, supported by the Trustee's investment advisers where appropriate as provided for in the SIP.

In November 2020 the Trustee reviewed the written objectives for its investment advisers, so as to meet new requirements of the Competition and Markets Authority.

During the year, the Trustee Board received training as to;

Date	**Review of**
27.01.2021	Club Vita Longevity update – Mark Sharkey – Club Vita Team An overview of the bespoke longevity assumptions used by the Scheme. • Benchmarking the demographic characteristics of the Scheme membership versus the industry average. • Future longevity trends and the impact of COVID-19 on pension scheme risk management. A light-hearted look at some of the more unusual drivers of longer life, from keeping active in old age to having a companion in your twilight years.
27.01.2021	A Global Macroeconomic & Geopolitical update – Steven Bell BMO, Chief Economist.
03.11.2020	Pensions Scams – Michael Broomfield & Paul Brackston The Pensions Regulator
03.11.2020	Death and Incapacity Benefits including case studies Richard Evans Partner, MBI.

	Scheme Lawyer.
03.11.2020	Financial Wellbeing & Communications Charlotte Anthony, Anna Living and Steven Dean Legal & General.
07.07.2020	Legal & General's Approach to ESG & Stewardship – Sacha Sedan
07.07.2020	Legal training and a regulatory update – Richard Evans Partner MBI & Scheme Lawyer
07.07.2020	DC Value Assessment workshop – Declan Wainwright, Hymans Robertson

Investment strategy – Final Salary Section

For the Final Salary Section, the SIP provides that the Trustee will invest with the aim of achieving the Scheme's secondary funding objective, i.e. to be fully-funded on a "gilts flat" basis by 2030. The bulk of the portfolio is to be invested in assets which broadly match the Scheme's liabilities (gilts, corporate bonds, swaps and buy-in policies). In addition a substantial part of the interest rate and inflation risk to be hedged using suitable assets. A small proportion of the portfolio is to be invested in return-seeking assets (equities and alternative assets such as private equity, property and commodities). The portfolio is to be gradually de-risked so that by 2030 it consists entirely of matching assets. The timing of de-risking is determined by the Trustee in consultation with the Company.

In March 2021 the Trustee took the opportunity to de-risk the Scheme further and lock in some of the gains the Scheme had experienced during the year. £100m was switched from return seeking assets to matching assets.

No change was made to this long-term strategy during the year. The DB Investment Committee monitored the asset allocation on a quarterly basis and is satisfied that the allocation remained in accordance with the SIP. As at 31 March 2021, the proportions of matching and return seeking assets were 89% and 11% respectively.

Investment strategy – Money Purchase Section

For the Money Purchase Section, the SIP provides that the Trustee will make available a Default Arrangement (for members who do not make their own investment choices) and Self-Select Options (for members who wish to choose). The aim as regards the Default Arrangement is to invest in growth assets for younger members but with de-risking to cash (or similar) over the five years to selected retirement age; to achieve long-term returns, after charges, of CPI + 3%; and for charges to be well below 0.75% p.a. The aim as regards the Self-Select Options is to offer a simple range of white-labelled funds covering the major asset classes, with suitable diversification within each fund.

No change was made to this strategy during the year. Nor was there any change to the funds used for the purpose of the Default Arrangement or the Self-Select Options. For the Default Arrangement the relevant funds continue to be the L&G Future World Fund and the L&G Multi-Asset Fund (during the growth phase) and the L&G Money Market Fund (for de-risking), as described in the SIP. In March 2021 the Trustee decided to switch the L&G Multi-Asset Fund to the Future-World Multi-Asset fund, (see below) the switch taking place in May 2021.

Fund managers and performance

All day-to-day investment decisions throughout the year were delegated to authorised fund managers, in accordance with the SIP. Accordingly decisions as to the sale and purchase of assets underlying the Trustee's chosen funds were made by the fund managers, subject to the applicable mandates.

During the year no fund managers were appointed or removed and there were no material changes to the arrangements with the existing fund managers.

The Investment Committees monitored fund managers' performance against the applicable benchmarks on a quarterly basis, using the services of an independent performance measurer, in accordance with the SIP. Turnover costs (where available) were also monitored, along with ESG issues and voting behaviour as described below. In all cases the Committees were satisfied that the Trustee's objectives (taken together) were met.

In accordance with the SIP, the Investment Committees liaised with fund managers on a regular basis throughout the year.

The Investment Committees invite the investment managers to provide updates at their meetings. During the year the Committees held discussions and received updates from HayFin Capital Management, PIMCO, Aberdeen, LGT Capital Partners, LGIM, BMO Global Asset Management.

Financial matters including ESG

The Trustee believes that environmental, social and governance (**ESG**) issues may have a material impact on the long-term performance of investments. The SIP provides that the Trustee will have regard to ESG issues when investing, so far as consistent with the Trustee's duties as regards seeking returns and mitigating risk. Fund managers' approaches to ESG will be considered when making appointments. Thereafter the Trustee will monitor and engage with fund managers as regards ESG issues as appropriate, and will take account of such issues when reviewing managers' performance. Subject to that it is left to managers to determine the extent to which ESG issues are taken into account when making underlying investments.

Further to the policy set out in the SIP, the Trustee has continued to apply a "climate" tilt to the core equity investments under both the Final Salary and Money Purchase Sections, managed by Legal & General (**L&G**). The approach gives a greater weighting to companies which are less carbon-intensive, relative to their sector, or which have greater engagement in the transition to a green economy. Under the Final Salary Section the Trustee also invests in a global renewable energy fund. Under the Money Purchase Section, in March 2021, the Trustee decided to switch the Multi Asset Fund to the Future World Multi Asset Fund which has further enhanced ESG (Environmental, Social & Governance) integration features. This migration took place in May 2021.

L&G also applies a “Climate Impact Pledge”– each year L&G engages with the largest companies across the world identified as key to meeting global climate change goals, and commits to disinvesting from companies that fail to demonstrate sufficient action. During 2020 L&G were part of a collective action of 30 fund managers who set a goal of achieving net zero carbon emissions across their investment portfolios by 2030.

In accordance with the SIP, the Trustee has encouraged fund managers to vote and exercise other investor rights, and to engage with investee companies and other relevant persons on ESG issues.

The quarterly investment reports which the Investment Committees received from the Trustee's investment advisers included assessments as to fund managers' integration of ESG considerations into their investment processes, and their stewardship practices. In addition fund managers supplied information as to their own stewardship. The Committees were satisfied that the information received did not give rise to concerns which, in accordance with the SIP, should be raised with the fund managers.

L&G provided a corporate governance and responsible investment presentation to the Trustee, the session discussed their approach to ESG, outlining their stewardship approach and their reporting regarding engagement and voting activities. Matters discussed included the impact of climate change, engagement with companies, including case studies, and the action L&G had taken on diversity.

Non-financial matters

The Trustee has regard to ESG issues when investing as described above. The Trustee recognises that members may have their own strong views on ethical, social and environmental issues (**non-financial matters**), but does not believe that there is any clear consensus as to non-financial matters across the membership. Against that background, in accordance with the SIP, the Trustee has continued to offer the Ethical Fund and the Shariah Fund as Self-Select Options under the Money Purchase Section, but has not otherwise sought to take account of members' views on non-financial matters when investing.

Voting

Voting arrangements

The core equity manager for both the Final Salary and Money Purchase Section is L&G. The Trustee does not exercise voting rights, as its investments are through pooled funds with many other participating investors. Instead voting rights are exercised by L&G as described below.

L&G’s voting and engagement activities are driven by its Investment Stewardship team, made up of ESG professionals. The team determines how to vote and engage with investee companies in order to achieve the best outcome for L&G's clients as a whole. For this purpose the team has adopted formal policies (reviewed each year) on corporate governance, responsible investment and conflicts of interest. The team draws on its own research and ESG assessment tools, and on ISS recommendations and reports of the Institutional Voting Information Services.

L&G disclose their voting records on their website at the end of each month, including summaries of their positions for significant shareholder votes. L&G's voting policies are reviewed annually and take into account feedback from its clients. Every year, L&G holds a stakeholder roundtable event where investors are invited to express their views to the Investment Stewardship team.

L&G uses ISS's "ProxyExchange" electronic voting platform in order to vote. However, strategic decisions as to voting are made by L&G as described above. To ensure that ISS votes in accordance with those strategic decisions, L&G has put in place a place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what L&G consider to be minimum best practice standards which all companies should observe. L&G retains power to override any proposed voting decisions of ISS.

Voting behaviour

During the year L&G announced that it will vote against FTSE 100 companies with all-white boards if they fail to diversify their leadership teams by 2022. They also wrote to the S&P 500 companies in the USA, explaining that they expect their boards to include at least one black, Asian or other minority ethnic member by January 2022. If companies fail to meet that target, L&G have explained that they will openly vote against the re-election of their chairman or the head of their nomination committee.

During 2020 LGIM cast over 138,600 votes at over 14,000 meetings. They voted against 11,489 resolutions and voted against 75% of companies. LGIM opposed the election of more than 4,700 directors over governance concerns. In 2021, LGIM will sanction companies in Germany when directors are elected for longer than four years.

For further information about how the Trustee engaged with fund managers as to voting and stewardship, see the "Financial matters" section above.

Key votes

In the Trustee's view, the most significant votes are those as to ESG issues which are likely to affect long-term investment performance. Significant votes by L&G over the year included the following:

Company name: The Procter & Gamble Company (P&G)

Sector: Household goods and home construction **Market cap:** $325.8 billion

Issue identified: P&G uses both forest pulp and palm oil as raw materials within its household goods products. The company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Two of their Tier 1 suppliers of palm oil were linked to illegal deforestation. Finally, the company uses mainly Programme for the Endorsement of Forest Certification (PEFC) wood pulp rather than Forestry Stewardship Council (FSC) certified wood pulp.

Why is it an issue?

Palm oil and forest pulp are both considered leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change. The fact that Tier 1 suppliers have been found to have links with deforestation calls into question due diligence and supplier audits. Only FSC certification offers guidance on land tenure, workers', communities and indigenous people's rights and the maintenance of high conservation value forests.

Summary of the resolution: Resolution 5 – Report on effort to eliminate deforestation. The AGM took place on 13 October 2020.

How LGIM voted: LGIM voted in favour of the resolution.

Rationale for the vote decision: LGIM engaged with P&G to hear its response to the concerns raised and the requests raised in the resolution. LGIM spoke to representatives from the proponent of the resolution, Green Century. In addition, LGIM engaged with the Natural Resource Defence Counsel to fully understand the issues and concerns.

Rationale for the vote?

Following a round of extensive engagement on the issue, LGIM decided to support the resolution. Although P&G has introduced a number of objectives and targets to ensure their business does not impact deforestation, LGIM felt it was not doing as much as it could. The company has not responded to CDP Forest disclosure; this was a red flag to LGIM in terms of its level of commitment. Deforestation is one of the key drivers of climate change. Therefore, a key priority issue for LGIM is to ensure that companies LGIM invest their clients' assets in are not contributing to deforestation.

Any other steps?

LGIM has asked P&G to respond to the CDP Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from FSC-certified sources.

Outcome: The resolution received the support of 67.68% of shareholders (including LGIM). LGIM will continue to engage with P&G on the issue and will monitor its CDP disclosure for improvement.

Why is this vote significant? It is linked to LGIM's five-year strategy to tackle climate change and attracted a great deal of client interest.

Company name : Fast Retailing Co. Limited

Sector : Consumer discretionary: Specialty retail - Apparel retail **Market cap:** JPY 9.74 trillion

Issue identified: Japanese companies in general have trailed behind European and US companies, as well as companies in other countries in ensuring more women are appointed to their boards. A lack of women employed is also a concern below board level.

Summary of the resolution: Resolution 2.1: Elect Director Yanai Tadashi at the company's annual shareholder meeting held on 26 November 2020.

How LGIM voted: LGIM voted against the resolution.

Rationale for the vote decision: LGIM has for many years promoted and supported an increase of appointing more women on boards, at the executive level and below. On a global level LGIM consider that every board should have at least one female director. LGIM deem this a de minimis standard. Globally, LGIM aspire to all boards comprising 30% women.

In the beginning of 2020, LGIM announced that they would vote against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for companies included in the TOPIX100 where these standards were not upheld.

LGIM opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to act on this issue.

Outcome: Shareholders supported the election of the director. LGIM will continue to engage with and require increased diversity on all Japanese company boards, including Fast Retailing.

Why is this vote significant? LGIM considers it imperative that the boards of Japanese companies increase their levels of diversity.