



**Kingfisher Pension Scheme**

# Annual Report and Financial Statements

For the year ended 31 March 2022

## Contents

|   |           |
|---|-----------|
| <b>Trustee and advisers .....</b>   | <b>2</b>  |
| <b>Trustee's report .....</b>   | <b>3</b>  |
| <b>Statement of Trustee's Responsibilities .....</b>  | <b>15</b> |
| <b>Independent auditor's report .....</b>   | <b>16</b> |
| <b>Fund Account for the year ended 31 March 2022 .....</b>  | <b>19</b> |
| <b>Statement of Net Assets as at 31 March 2022 .....</b>  | <b>20</b> |
| <b>Notes to the financial statements .....</b>  | <b>21</b> |
| <b>Independent auditor's statement about contributions .....</b>  | <b>36</b> |
| <b>Summary of contributions .....</b>   | <b>37</b> |
| <b>Actuary's calculation of technical provisions .....</b>  | <b>38</b> |
| <b>Actuary's Certification of the Schedule of Contributions .....</b>   | <b>39</b> |
| <b>Report on Actuarial Liabilities (forming part of the Trustee's report) .....</b>   | <b>40</b> |
| <b>Compliance statement .....</b>   | <b>41</b> |
| <b>Kingfisher Pension Scheme - Money Purchase Section annual governance statement by the Chair of the Trustee Board .....</b> | <b>43</b> |
| <b>Appendix I: Statement of investment principles .....</b>   | <b>54</b> |
| <b>Appendix II: Tables illustrating the impact of charges and costs .....</b>   | <b>65</b> |

## Trustee and advisers

### TRUSTEE

Kingfisher Pension Trustee Limited

### TRUSTEE DIRECTORS

#### Employer nominated

BESTrustees Limited represented by Clive Gilchrist  
Gillian Baker (appointed 30 June 2022)  
Jo Bevan (appointed 30 March 2022)  
Crispin Burridge (deceased 18 February 2022)  
Sally Clifton  
Helen Jones  
Elizabeth Messud (resigned 30 March 2022)  
Simon Ogle (appointed 30 June 2022)  
Paul Shearer

#### Member nominated

Lee Aspin  
Yolanda Jackson  
David Lumsdon (resigned 17 February 2022)  
Grant MacGregor (appointed 30 June 2022)  
Jane Winsbrow

### PARTICIPATING EMPLOYERS

B&Q Limited  
B&Q (Retail) Guernsey Limited  
B&Q (Retail) Jersey Limited  
Kingfisher Information Technology Service (UK)  
Limited  
Kingfisher International Products Limited  
Kingfisher plc  
Screwfix Direct Limited

### SECRETARY TO THE TRUSTEE

Dermot Courtier

### ACTUARY

Lisa Deas FFA, Hymans Robertson LLP

### AUDITOR

Grant Thornton UK LLP

### LEGAL ADVISERS

Mayer Brown International LLP  
Eversheds LLP

### GROUP LIFE ASSURANCE

Unum Limited

### INVESTMENT MANAGERS

#### Final Salary section

Aberdeen Asset Managers Limited  
BlackRock Global Renewable Fund II LLP  
BlackRock Investment Management  
Hayfin Direct Lending GP Ltd  
Insight Investment Management (Global) Ltd  
Legal & General Investment Management  
LGT Capital Partners (Ireland) Limited  
PIMCO Europe Limited

#### Money Purchase section

Legal and General Assurance Society Limited

### ANNUITY PROVIDERS

Legal and General Assurance Society Limited  
Pension Insurance Corporation  
Aviva Life & Pensions UK Limited

### INVESTMENT ADVISERS

Aon Solutions UK Limited  
Barnett Waddingham LLP

### CUSTODIAN

State Street Bank & Trust Company

### AVC PROVIDERS

BlackRock Investment Management (UK) Limited  
Legal and General Assurance (Pensions Management)  
Limited

### BANKERS

Barclays Bank plc

### ADMINISTRATORS

#### Final Salary Section

Hymans Robertson LLP

#### Money Purchase Section

Legal and General Assurance Society Limited

### NAME AND ADDRESS FOR ENQUIRIES

Secretary to the Trustee  
Kingfisher plc  
3 Sheldon Square  
London W2 6PX

## Trustee's report

The Trustee of the Kingfisher Pension Scheme (the 'Scheme') present their annual report for the year ended 31 March 2022.

### Constitution of the Scheme

The Scheme provides a Final Salary section ('FS') and a Money Purchase section ('MP') which holds Scheme funds on trust to apply them for the purpose of paying pensions and other benefits. It is governed by a Trust Deed dated 15 December 1986 and subsequent amendments.

The Final Salary section closed to future accrual on 1 July 2012. The Money Purchase section was introduced on 1 April 2004.

The Money Purchase section does not pay pensions as annuities are purchased to fund pension benefits which are bought in the name of the member. Post the April 2015 'Freedom and Choice' legislation changes, members also now have the voluntary option to take cash and / or transfer monies to an income drawdown solution.

### Management of the Scheme

The Trustee Directors who served during the year are listed on page 2.

The professional Trustee is a trustee company (BESTrustees Limited) who acts as a Trustee Director to the trust. That company has no interest in the assets of the trust; they are not a beneficiary of the trust and are not entitled to share in the assets of the trust. The professional Trustee and six of the Trustee Directors are appointed by the Company.

The member nominated Trustee Directors serve for a period of four years unless their Trusteeship is terminated, they resign or leave active membership before the end of their term. These Trustee Directors are also able to stand for re-election for a further one term of four years, making a total of eight years' maximum service.

The number of the Trustee Directors shall never be more than 14 or (except on account of casual vacancies or where the Trustees are or include a company) fewer than three. Within these limits, the Company will have power by deed to remove Trustees from office or to appoint new or additional Trustees. A Trustee will be discharged if they are removed or replaced by the Company (provided that there is at least one Trustee remaining) or if they resign by written notice both to the Company and to the other Trustees (provided that the Trustees continuing in office are at least three in number or include a company). A company which is not the sole Trustee will cease to be a Trustee upon going into liquidation.

In January 2022 the Trustee launched an MND campaign to recruit a replacement for David Lumsdon. The campaign concluded in June 2022 which resulted in Grant MacGregor being appointed on 30 June 2022.

### Committees

The Trustee has established the following sub committees to facilitate additional targeted and technical matters:

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

## Trustee's report (continued)

### Financial development of the Scheme

The Financial Statements of the Scheme for the year ended 31 March 2022, as set out on pages 19 to 35 have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995. A summary is shown below:

| £m  | 31 March 2022 |            | 31 March 2021 |            |
|---|---------------|------------|---------------|------------|
|   | FS Section    | MP Section | FS Section    | MP Section |
| Net (withdrawals)/additions from dealing with members | (133.0)       | 58.7       | (118.0)       | 52.7       |
| Net returns on investments                            | 75.2          | 40.7       | 132.7         | 108.3      |
| Net (decrease) / increase in fund                     | (57.8)        | 99.4       | 14.7          | 161.0      |
| Transfers between sections                            | 5.5           | (5.5)      | 0.6           | (0.6)      |
| Net assets at the end of the year                     | 3,606.8       | 619.2      | 3,659.1       | 525.3      |

### Actuarial review (Final Salary section)

The latest triennial actuarial valuation of the Scheme was carried out as at 31 March 2019. The results of the actuarial review as at 31 March 2021 are show below:

|                     | 31 March 2021 |         | 31 March 2019 |
|---------------------|---------------|---------|---------------|
|                     | TP            | 2FO*    | TP            |
| Assets              | £3,649m       | £3,649m | £3,573m       |
| Liabilities         | £3,363m       | £3,704m | £3,416m       |
| Surplus / (Deficit) | £286m         | (£55m)  | £157m         |
| Funding level       | 109%          | 99%     | 105%          |

\*Further explanation of 2FO is provided in the Investment Report on page 7.

In accordance with the Schedule of Contributions signed on 6 April 2020, the Company was required to pay contributions of £27m each Scheme year to the Final Salary section to improve the Scheme's 2FO position. Income from the Special Purpose Vehicle ('SPVI') is deducted from this contribution. SPVI is the expected amount of income to be received from the Trustee's partnership interest in the SPV in that year based on the interest held at the start of the year, adjusted to allow for a reconciliation of actual SPV income from prior years against those previously recognised in SPVI in prior years. Further information on the SPV is provided in note 13 on page 27. Information on contributions received in the year is shown in note 2 on page 23.

The Report on Actuarial Liabilities forms part of the Trustee's Report and is shown after Actuary's Certification of the Schedule of Contributions on page 39.

### Next actuarial valuation

The 31 March 2022 actuarial valuation of the Scheme is ongoing, and the results will be included in next year's Trustee's Report. The Trustee expects to review the draft results towards the end of 2022 and agree the final valuation report within the statutory timescale.

On 30 August 2022 a new Schedule of Contributions was signed, which removes the requirement for the Company to pay sponsor contributions from 1 August 2022. The Scheme will continue to receive the income from the SPV to improve the Scheme's 2FO position.

## Trustee's report (continued)

### Membership

| Membership                    | Final Salary Section |               |              |               | Money Purchase Section |               |               |
|-------------------------------|----------------------|---------------|--------------|---------------|------------------------|---------------|---------------|
|                               | Deferred             | Pensioners*   | Dependants   | Total         | Active                 | Deferred      | Total         |
| <b>1 April 2021</b>           | <b>14,958</b>        | <b>14,387</b> | <b>1,384</b> | <b>30,729</b> | <b>26,434</b>          | <b>34,100</b> | <b>60,534</b> |
| Opening balance adjustment**  | -                    | 3             | -            | 3             | 215                    | (72)          | 143           |
| New                           | -                    | -             | 172          | 682           | 6,563                  | 6,677         | 13,240        |
| Deaths                        | (35)                 | (438)         | (90)         | (563)         | -                      | (8)           | (8)           |
| Retirements                   | (510)                | 510           | -            | (510)         | (11)                   | (629)         | (640)         |
| Commutations full / trivial   | (380)                | (1,049)       | (151)        | (1,580)       | -                      | -             | -             |
| Leaver with retained benefits | -                    | -             | -            | -             | (6,677)                | -             | (6,677)       |
| Cessations/surrenders         | -                    | (1)           | (9)          | (10)          | (6)                    | (172)         | (178)         |
| Transfers out                 | (86)                 | -             | -            | (86)          | (5)                    | (763)         | (768)         |
| Reinstatements                | 2                    | -             | 2            | 4             | -                      | -             | -             |
| <b>31 March 2022</b>          | <b>13,949</b>        | <b>13,412</b> | <b>1,308</b> | <b>28,669</b> | <b>26,513</b>          | <b>39,133</b> | <b>65,646</b> |

\*Included in the pensioner numbers are 8,598 (2021:533) which are secured by annuity contracts. Further information on annuity contracts is provided in note 14.

The number of life insurance only members at the year-end is 13,676 (2021: 18,908)

\*\* relates to late notifications of members

Employees who opt out of the Scheme before contributions are remitted are not included in these statistics.

### Pension increases (Final Salary section)

Pensions in payment receive guaranteed annual increases matching the rise in the Retail Prices Index ('RPI') (during a calendar year) up to a maximum of 5%. Where inflation exceeds 5%, the Trustee may consider the payment of additional discretionary increases at the request of the Employer.

Increases from the Scheme do not apply to that element of the pension in payment representing any Guaranteed Minimum Pension ('GMP') earned before 6 April 1988 after age 60 for females, or 65 for males, as these increases are provided with the State pension. The Scheme is required to provide GMP as a consequence of contracting-out of the State Earnings Related Pension Scheme (SERPS). The GMP element earned after April 1988 will be increased by the Scheme in line with inflation, as required by legislation, up to a limit of 3% per annum. Pension increases over the last three years are shown in the table below:

| Year | Pension Increase | RPI   |
|------|------------------|-------|
| 2022 | 5% (capped)      | 7.5%  |
| 2021 | 1.2 %            | 1.2 % |
| 2020 | 2.2 %            | 2.2 % |

Increases for pensioners in the Channel Islands are calculated in accordance with their own RPI. The RPI for Jersey and Guernsey was 3.8% and 4.4% respectively at December 2021.

Each year, the Scheme increases deferred pensions in line with inflation, up to 5% per annum between the date of leaving and the date of retirement. These increases are non-discretionary.

## Trustee's report (continued)

### GMP Equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issue determined by the judgement arises in relation to many other defined benefit pension schemes. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts.

On 20 November 2020 the High Court issued a follow-on judgement, which suggested that transfer payments made since May 1990 will need to be topped up to allow for GMP equalisation.

Based on the assessment of the backdated amounts and related interest due, the Scheme Actuary has estimated the effect to be an increase in 0.2% of the Scheme's liabilities. An allowance for this is made in the liabilities to reflect the estimated impact.

### Changes to rules

There were no changes to the Scheme rules during the year.

## Investment Report

### Custody

Custodian services are provided by State Street Bank and Trust Company Limited. Although the Trustee has delegated day to day management of the Scheme's investments to external managers, the custody (safekeeping) of the segregated assets is carried out independently of the managers by State Street Bank and Trust Company Limited. The underlying assets of pooled investment vehicles are held under the custody of separate custodians appointed by the manager of the respective pooled fund. The Scheme's investment in the Special Purpose Vehicle and the annuity contracts are held directly by the Trustee.

### Investment management

The Trustee delegates the day-to-day management to professional external investment managers. The Trustee sets the investment strategy for the Scheme after taking advice from the Scheme's investment advisers. The Trustee has put in place investment mandates with their investment managers which implement this strategy.

In accordance with s35 of the Pensions Act 1995, a Statement of Investment Principles has been prepared by the Trustee which incorporates the investment strategy. A copy of the Statement is available to members upon request and is included as appendix I to these financial statements.

Investment managers are remunerated by fees based on a percentage of funds under management and in some instances a percentage of performance above benchmark.

Investment managers have been asked to exercise voting rights where relevant, referring back to the Group Pensions Department only those issues which they feel are contentious and warrant further discussion before taking action.

The Trustee has delegated day to day investment decisions to its appointed investment managers (within certain guidelines and restrictions).

The Trustee believes that all companies should be run in a socially responsible way as in the long run this should contribute to the success of those companies, but equally recognises its fiduciary responsibility to act in the best financial interests of the Scheme's members. Therefore, the Trustee's policy is that the investment managers should take account of social, environmental and governance (ESG) considerations to the extent that they may have a financial impact on investment performance. With this in mind the Trustee Board also encourages managers to pursue policies of engagement with their investee companies.

## Trustee's report (continued)

### Objectives and Performance (Final Salary Section)

Kingfisher plc (the Company) and Kingfisher Pension Trustee Limited (the Trustee) have an agreed funding and investment plan for the Scheme, the Secondary Funding Objective (2FO), which targets a strong funding level and relatively low investment risk, and which is in excess of the minimum Statutory Funding requirements. The Secondary Funding Objective target is for the Scheme to be 100% funded on a gilts-flat basis by 2030, this is anticipated to approximate the cost of securing benefits through annuities at that time.

Matching assets constituted 88% of Scheme assets at March 2022 and is expected to constitute 100% of Scheme Assets by March 2030. The Scheme is targeting hedging of the interest rate (94%) and inflation (94%) risks through its liability hedging portfolio. The Company and the Trustee will agree circumstances under which this de-risking plan could be accelerated.

Other details relating to the 2FO and the Statutory Funding Objective are set out in the Statement of Funding Principles which is available to members upon request.

The performance of the Scheme's investments is measured against the Scheme specific benchmark. Taking all portfolios together, the return achieved by the Scheme during the year to 31 March 2022 is shown in the following table:

| Annualised return over | 1 year | 3 years | 5 years |
|------------------------|--------|---------|---------|
| Actual                 | 0.6%   | 3.7%    | 4.1%    |
| Benchmark              | 0.3%   | 3.1%    | 3.8%    |

Reviewing performance over the longer periods is more relevant to the Scheme's long-term objectives.

### Objectives and performance (Money Purchase Section)

A default strategy is provided which the Trustee believes is suitable for the needs of the membership. The Trustee reviews the investment default on a regular basis. The default option for the Money Purchase Section is currently the cash target lifestyle option. The objective for the default option is to target investment returns of CPI + 3% after all charges over the long term.

Over the year to 31 March 2022 the return of the default strategy is shown in the following table:

| Annualised return over | 1 year | 5 years |
|------------------------|--------|---------|
| Actual                 | 8.2%   | 8.0%    |
| Benchmark              | 8.7%   | 7.6%    |
| CPI + 3% (long term)   | n/a    | 5.7%    |

The Trustee makes available to members of the Money Purchase Section an appropriate range of investment options to which members and the Employer will contribute in order to provide each member with a fund which will be used to secure their benefit at retirement. The Money Purchase Section offers a facility for members to contribute more on a voluntary basis.

## Implementation Statement

### 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](http://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 2022.

## Trustee's report (continued)

### 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, when the SIP was expanded to cover the Trustee's policies on stewardship and arrangements with fund managers.

### 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 December 2021 the Trustee reviewed the written objectives for its investment advisers, so as to meet the requirements of the Competition and Markets Authority.

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

| Date       | Review of   |
|------------|---|
| 19.01.2022 | Club Vita – Longevity Update. Including; (i) Baseline longevity: highlights from annual reporting (ii) Future improvements in longevity, and (iii) Longevity as a risk: COVID-19 and climate change - Mark Sharkey, Club Vita |
| 19.01.2022 | Legal Update – Richard Evans, Mayer Brown   |
| 08.11.2021 | Actuarial Valuation training Part 2 - Lisa Deas and Leonard Bowman, Hymans Robertson  |
| 04.11.2021 | Practical Diversity, Equity and Inclusion for Pension Schemes – Lynda Whitney and Susan Hoare, Aon  |
| 04.11.2021 | Actuarial Valuation training Part 1 - Lisa Deas and Abigail Pearson, Hymans Robertson   |
| 15.07.2021 | Pensions Dashboard overview and update - Chris Curry, The Pensions Policy Institute   |
| 15.07.2021 | Liability Driven Investment - Paul Richmond and Hannah Ni Riain, Insight Investment   |

#### 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. No change was made to this long-term strategy during the year.

During the year, the Trustee implemented the long-term strategy by continuing to invest predominantly in matching assets. 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 2022, the proportions of matching and return seeking assets were approximately 88% and 12% respectively.

In July 2021 the Trustee took the opportunity to further de-risk the Scheme in accordance with the long-term strategy by completing a third bulk annuity purchase, building on the annuity purchases completed in 2015 and 2018. The transaction was completed with Aviva Life & Pensions UK Limited and addressed over 8,000 pensioner members. Whilst it targeted this pensioner population, and removes the longevity risk associated with them, the annuity is an asset of the overall Scheme, and it thereby helps provide greater security of benefits for all of the Scheme's final salary members.

## Trustee's report (continued)

### *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.

During the year, the Trustee gave effect to its strategy by continuing to make available L&G funds which (in the Trustee's view) meet the aims described above.

A change was made to the funds used for the purpose of the Default Arrangement in May 2021: the Trustees completed a transition from the Multi-Asset Fund to the Future World Multi-Asset Fund which has further enhanced ESG (Environmental, Social & Governance) integration features. For the Default Arrangement the relevant funds are now the L&G Future World Fund and the L&G Future World Multi-Asset Fund (during the growth phase) and the L&G Money Market Fund (for de-risking). There were no changes to the Self-Select Options.

### *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, other than the wind up of the residual LaSalle property portfolio, 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 Insight Investment Management, HayFin Capital Management, BlackRock Investment Management, PIMCO, abrdn, and LGIM.

### *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 Investment Management (LGIM). 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, as mentioned above, the Trustee transitioned from the Multi-Asset Fund to the Future World Multi-Asset Fund in May 2021, which has further enhanced ESG integration features.

## Trustee's report (continued)

LGIM are part of the Net Zero Asset Managers initiative which is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner across all assets under management. In line with this commitment, in November 2021 LGIM set a target for 70% of eligible assets under management to be managed in line with this net-zero ambition by 2030. In addition, drawing on industry best practice, they have set out LGIM's key requirements for any investment portfolio to be considered net-zero aligned. This includes setting targets, adopting a decarbonisation pathway, engaging for change, excluding misaligned companies, and growing 'green' opportunities.

LGIM also applies a "Climate Impact Pledge"—each year LGIM 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.

In October 2021, LGIM launched the fifth engagement cycle of the Climate Impact Pledge. LGIM analyse and directly engage with around 60 companies in 15 climate-critical sectors on their strategic approach to climate change, and to what extent they are aligning their businesses with the constraints and opportunities of a net-zero transition. The programme targets companies that are large and influential in their respective sectors, but who are not yet meeting 'best practice' expectations. These are companies who could have a significant positive effect across their industries and value chains by setting and pursuing ambitious net-zero targets. During 2022, LGIM will continue to press companies to establish robust decarbonisation strategies, with granular interim roadmaps to 2050.

In 2021 LGIM continued to hold directors to account for their management of climate risk and took action against over 100 companies under their Climate Impact Pledge.

LGIM also published their biodiversity policy. This commits LGIM to addressing biodiversity loss by working with policymakers and developing their capacity to assess biodiversity risks and opportunities. In 2021 LGIM also signed the 'Finance for biodiversity pledge'.

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.

### *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.

However, during the year The Trustee, working with L&G and Tumelo (a Bristol based fintech company) launched a member engagement tool providing members with greater transparency of the companies they have their pension invested in. The tool also provides the members with the opportunity to share their views on how certain shareholder votes should be cast in relation to these companies, on issues including ESG: climate change, gender equality, diversity and human rights. These member views are shared with the investment managers who are then able to take them into consideration when voting. The vote the investment manager casts is in turn shared with the members, with rationale as to why the investment manager voted the way they decided.

## Trustee's report (continued)

In October 2021, The Trustees in conjunction with Legal & General and a firm called Pension Geeks held a virtual pensions awareness week. The week addressed a broad range of topics including workplace pensions, the gender pension gap, investing and ESG. This remote event received a material level of engagement with members working in many geographically based B&Q stores and Screwfix branches, helping them better understand and plan their retirement provision. This pension awareness week was a contributing factor to the Scheme winning the Pension Age DC Pension Scheme of the Year award in February 2022.

### Voting

#### *Voting arrangements*

The core equity manager for both the Final Salary and Money Purchase Section is LGIM. 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 LGIM as described below.

LGIM'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 LGIM'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.

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

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

#### *Voting behaviour*

The LGIM Investment Stewardship team comprises 22 professionals with an average of 11 years' experience in areas including responsible investment, investment stewardship, accounting and audit, impact investment, and public policy. The Head of Investment Stewardship, Kurt Morriesen, reports directly to LGIM's CEO, Michelle Scrimgeour. As part of the Trustee training programme for 2022, the Trustees are inviting LGIM's Stewardship Team to present and provide an update on their latest stewardship activities.

During 2021 LGIM cast over 180,200 votes at over 15,400 meetings. In 2021, LGIM also began pre-declaring voting intentions in a centralised, transparent and easily accessible format. These voting intentions highlight the companies and resolutions they believe require additional scrutiny by the market and cover a range of ESG topics.

LGIM report on their compliance with their engagement policies annually, via their Active Ownership Report.

The funds that have an exposure to equities within the default arrangement are as follows:

- L&G Future World Multi-Asset Fund
- L&G Future World Fund

## Trustee's report (continued)

The table below, sets out the further details relating to LGIM's voting record for stocks held within each fund for the year to 31 March 2022.

|  | Future World MAF | Future World Fund |
|--|------------------|-------------------|
| How many meetings were you eligible to vote at over the year to 31/03/2022?  | 8,296            | 2621              |
| How many resolutions were you eligible to vote on over the year to 31/03/2022?   | 85,030           | 32,190            |
| What % of resolutions did you vote on for which you were eligible?   | 99.72%           | 99.80%            |
| Of the resolutions on which you voted, what % did you vote with management?  | 79.11%           | 80.79%            |
| Of the resolutions on which you voted, what % did you vote against management?   | 20.35%           | 18.18%            |
| Of the resolutions on which you voted, what % did you abstain from?  | 0.53%            | 1.03%             |
| In what % of meetings, for which you did vote, did you vote at least once against management?                                    | 71.71%           | 70.47%            |
| What % of resolutions, on which you did vote, did you vote contrary to the recommendation of your proxy adviser? (if applicable) | 12.85%           | 12.09%            |

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 LGIM over the year included the following:

|  |  |
|--|--|
| <b>Company name:</b> Microsoft                                     |  |
| <b>Sector:</b> Software & services <b>Market cap:</b> US \$2,311bn |  |
| <b>Issue identified:</b>   | The company recently re-combined the chair and CEO roles, after having these separate for a number of years.   |
| <b>Summary of the resolution:</b>                                  | To re-elect CEO Satya Nadella, and John Thompson (Nomination Committee Chair and Lead Independent Director).   |
| <b>How LGIM voted:</b>   | LGIM voted against both resolutions.   |
| <b>Rationale for the vote decision:</b>                            | LGIM has set out expectations for all companies to have a separate chair and CEO. This recombination of the roles during 2021 at Microsoft was particularly disappointing as it has had a separation of the roles for many years. Given the company did not seek prior shareholder approval for the re-combination of roles, we also voted against the board Nomination Committee Chair / Lead Independent Director. |
| <b>Outcome:</b>  | While engagement with the company has been fruitful over the years, we conveyed our disappointment at this governance change. Both directors were re-elected with over 90% support from shareholders.  |
| <b>Why is this vote significant?</b>                               | This vote was significant because it related to one of LGIM's engagement themes: Board effectiveness.  |

## Trustee's report (continued)

|   |   |   |  |
|---|---|---|--|
| <b>Company name:</b> ExxonMobil Corporation |   | <b>Market cap:</b> \$236.9bn  |  |
| <b>Sector:</b> Oil and gas                  |   |   |  |
| <b>Issue identified:</b>                    | <p>Due to persistent concerns around governance, climate and capital allocation, the company was removed from select LGIM strategies in 2019, with sanctions applied under LGIM's Climate Impact Pledge.</p> <p>In 2020, LGIM announced that they would be opposing the re-election of the company's chair/CEO as they believe the separation of roles provides a better balance of authority and responsibility.</p> <p>In 2021, they escalated their engagement by supporting an activist investor who proposed an alternative slate of directors, as the experience and skills of the proposed four candidates would, in their view, make a positive contribution to board effectiveness and oversight. LGIM announced their voting stance ahead of the AGM, with their position being widely covered in major news outlets and referenced in the voting recommendations from proxy adviser ISS.</p> |   |  |
| <b>Summary of the resolution:</b>           | Proxy content at the AGM, 26 May 2021   |   |  |
| <b>How LGIM voted:</b>                      | <p>LGIM voted FOR:</p> <ul style="list-style-type: none"> <li>• The four activist-proposed director nominees</li> <li>• A number of ESG shareholder proposals report</li> </ul> <p>auditors</p>   | <p>LGIM voted AGAINST:</p> <ul style="list-style-type: none"> <li>• The re-election of the chair/CEO</li> <li>• The remuneration</li> <li>• The reappointment of</li> </ul> |  |
| <b>Rationale for the vote decision:</b>     | <p>LGIM have had multiple engagements with the company but remained dissatisfied with the strength of the company's climate targets and strategy, along with the levels of transparency around sustainability and lobbying, and with the levels of board oversight (in particular the combined chair/CEO roles).</p>  |   |  |
| <b>Outcome:</b>                             | <ul style="list-style-type: none"> <li>• Three of the four proposed new directors were appointed.</li> <li>• The chair of the remuneration committee, against whom LGIM voted last year, was not reappointed to the board.</li> <li>• A majority of shareholders voted for a report on climate-related lobbying.</li> </ul>   |   |  |
| <b>Why is this vote significant?</b>        | <p>This is most high-profile example to date of a climate-related proxy contest; a recently formed hedge fund with a minority stake managed to galvanise sufficient support to replace a third of the board at a company that less than a decade ago was the world's largest by market capitalisation. For LGIM, the escalation is in keeping with their approach of holding individual directors accountable for their companies' climate performance. LGIM have commented on the significance on the vote repeatedly in the media and in their blog.</p>  |   |  |

## Trustee's report (continued)

|   |  |
|---|--|
| <b>Company name:</b> HSBC Holdings plc<br><b>Sector:</b> Banking <b>Market cap:</b> £80.6bn |  |
| <b>Issue identified:</b>  | <p>The bank has repeatedly been identified as a substantial climate change financier, continuing to finance new fossil fuel projects not in line with the Paris Agreement goals.</p> <p>To work towards a net-zero future aligned with Paris Agreement goals, ShareAction initially proposed a resolution to strengthen HSBC's climate change policies and disclosure.</p> <p>As a result of further discussions between the company, the proponents and shareholders, ShareAction was sufficiently comfortable with management's counter proposal to withdraw its own resolution.</p> |
| <b>Summary of the resolution:</b>   | <ul style="list-style-type: none"> <li>• AGM: 28 May 2021</li> <li>• Resolution 15 – to set, disclose and implement short- and medium-term targets, to publish and implement a phase-out policy and to report on progress.</li> </ul>  |
| <b>How LGIM voted:</b>  | <p>LGIM voted FOR the management-proposed climate change resolution (in line with management's recommendation).</p>  |
| <b>Rationale for the vote decision:</b>   | <ul style="list-style-type: none"> <li>• LGIM has engaged with HSBC on its climate change policies and disclosures for a number of years, and they joined a collaborative engagement around the shareholder proposal ahead of the 2021 AGM.</li> <li>• LGIM encouraged the Board to reach a compromise with the proponents to require only a single resolution, and so were happy to support management's climate change proposal at the AGM.</li> </ul>   |
| <b>Outcome:</b>   | <ul style="list-style-type: none"> <li>• Engagement between company, proponent and institutional shareholders led to the preferred outcome of a single resolution supported by management and proxy advisers.</li> <li>• Resolution 15 received overwhelming support with 99.71% of votes cast FOR.</li> <li>• LGIM will continue to monitor the strength of HSBC's climate change policies and progress towards improved disclosure of targets and emissions across the portfolio.</li> </ul>   |
| <b>Why is this vote significant?</b>  | <p>The topic of the proposal was in line with LGIM's climate change policy stance and their campaign to push for a net-zero economy globally.</p> <p>Ahead of the AGM and while engagement between the parties continued, LGIM had many client and press queries regarding their views and likely vote on the proposals.</p>   |

The Trustee's Annual Report, which includes the Statement of Trustee's Responsibility on page 15 and the Compliance Statement on pages 41 to 42, were approved by the board and signed on its behalf by:

*Clive Gilchrist*

BESTrustees Limited  
Represented by Clive Gilchrist, Chairman  
15 September 2022

## Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the scheme in the form of an annual report. The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible for the maintenance and integrity of the financial information of the Scheme included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

## Independent auditor's report

### Opinion

We have audited the financial statements of the Kingfisher Pension Scheme (the 'Scheme') for the year ended 31 March 2022, which comprise the Fund Account, the Statement of Net Assets (available for benefits) and notes forming part of the financial statements, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

In our evaluation of the Trustee's conclusions, we considered the inherent risks associated with the Scheme's operating model including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the Trustee and the related disclosures and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are approved by the Trustee.

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Trustee with respect to going concern are described in the 'Responsibilities of the Trustee for the financial statements' section of this report.

## Independent auditor's report (continued)

### Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Responsibilities of the Trustee for the financial statements

As explained more fully in the Statement of Trustee's Responsibilities, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant are the Pensions Acts 1995 and 2004 and those that relate to the reporting frameworks (Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996), Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice "Financial Reports of Pension Schemes" 2018 ("the SORP").

## Independent auditor's report (continued)

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with management and the Trustee and from inspection of Trustee board minutes and legal and regulatory correspondence. We enquired about the policies and procedures regarding compliance with laws and regulations with the Trustee.

We assessed the susceptibility of the Scheme's financial statements to material misstatement, including how fraud might occur, by making enquires with those charged with governance and performing an evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- large and unusual journal entries, journal entries between the Fund Account and the Statement of Net Assets and posted to suspense accounts;
- the valuation of the annuity policies and the special purpose vehicle using a method not permitted under the SORP; and
- potential bias in the valuation of the annuity policies and special purpose vehicle.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Trustee has in place to prevent and detect fraud;
- journal entry testing, with a focus on large journals and those journal entries with unusual account combinations or posted to suspense accounts;
- confirming the methodology used to value the annuity policies and special purpose vehicle directly with the respective provider;
- utilising our internal experts to assess the reasonableness of the valuation of the annuity policies and special purpose vehicle; and
- assessing matters reported to the Trustee through review of Trustee's minutes and the results of the Trustee's evaluation of such matters.

In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and financial statements with applicable financial reporting requirements.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

All members of the engagement team have completed all specific pension audit training. All team members are qualified accountants or working towards that qualification and are considered to have sufficient knowledge and experience of Schemes of a similar size and complexity, appropriate to their role within the team. The engagement team is required to complete mandatory pensions sector training on an annual basis, thus ensuring they have sufficient knowledge and of the sector the underlying applicable legislation and related guidance.

We did not identify any matters relating to non-compliance with the laws and regulations specified above or relating to fraud.

### Use of our report

This report is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

## Fund Account for the year ended 31 March 2022

| £m  | Notes | FS             | MP           | Total<br>2022  | FS             | MP           | Total<br>2021  |
|---|-------|----------------|--------------|----------------|----------------|--------------|----------------|
| <b>Contributions and benefits</b>                             |       |                |              |                |                |              |                |
| Employer contributions  | 2     | 11.1           | 66.3         | 77.4           | 12.6           | 59.3         | 71.9           |
| Employee contributions  | 2     | -              | 9.8          | 9.8            | -              | 8.3          | 8.3            |
| Individual transfers in                                       |       | -              | 3.2          | 3.2            | -              | 2.1          | 2.1            |
| Other income  | 3     | 3.6            | -            | 3.6            | 2.5            | -            | 2.5            |
|   |       | 14.7           | 79.3         | 94.0           | 15.1           | 69.7         | 84.8           |
| Benefits payable  | 4     | (105.1)        | (3.7)        | (108.8)        | (80.7)         | (11.5)       | (92.2)         |
| Payments to and on account of leavers                         | 5     | (36.3)         | (15.7)       | (52.0)         | (46.8)         | (4.6)        | (51.4)         |
| Other payments  | 6     | (2.3)          | -            | (2.3)          | (2.2)          | -            | (2.2)          |
| Administrative expenses                                       | 7     | (4.0)          | (1.2)        | (5.2)          | (3.4)          | (0.9)        | (4.3)          |
|   |       | (147.7)        | (20.6)       | (168.3)        | (133.1)        | (17.0)       | (150.1)        |
| <b>Net (withdrawals)/additions from dealings with members</b> |       | <b>(133.0)</b> | <b>58.7</b>  | <b>(74.3)</b>  | <b>(118.0)</b> | <b>52.7</b>  | <b>(65.3)</b>  |
| <b>Returns on investments</b>                                 |       |                |              |                |                |              |                |
| Investment income   | 8     | 86.5           | -            | 86.5           | 15.6           | -            | 15.6           |
| Change in market value of investments                         | 16    | (6.4)          | 40.7         | 34.3           | 122.6          | 108.3        | 230.9          |
| Investment management expenses                                | 9     | (4.9)          | -            | (4.9)          | (5.5)          | -            | (5.5)          |
| <b>Net returns on investments</b>                             |       | <b>75.2</b>    | <b>40.7</b>  | <b>115.9</b>   | <b>132.7</b>   | <b>108.3</b> | <b>241.0</b>   |
| <b>Net (decrease)/increase in the fund during the year</b>    |       | <b>(57.8)</b>  | <b>99.4</b>  | <b>41.6</b>    | <b>14.7</b>    | <b>161.0</b> | <b>175.7</b>   |
| Transfer between sections                                     |       | 5.5            | (5.5)        | -              | 0.6            | (0.6)        | -              |
| Net assets of the Scheme at 1 April                           |       | 3,659.1        | 525.3        | 4,184.4        | 3,643.8        | 364.9        | 4,008.7        |
| <b>Net assets of the Scheme at 31 March</b>                   |       | <b>3,606.8</b> | <b>619.2</b> | <b>4,226.0</b> | <b>3,659.1</b> | <b>525.3</b> | <b>4,184.4</b> |

The notes on pages 21 to 35 form part of these financial statements.

## Statement of Net Assets as at 31 March 2022

| £m  | Notes     | 2022             | 2021      |
|---|-----------|------------------|-----------|
| <b>Final Salary Section</b>                       |           |                  |           |
| <b>Investment assets:</b>                         | <b>16</b> |                  |           |
| Bonds   |           | <b>2,001.4</b>   | 3,121.7   |
| Pooled investment vehicles                        | <b>11</b> | <b>1,296.0</b>   | 1,314.7   |
| Derivatives                                       | <b>12</b> | <b>664.5</b>     | 997.4     |
| Special purpose vehicle                           | <b>13</b> | <b>143.7</b>     | 158.2     |
| Insurance policies                                | <b>14</b> | <b>1,282.4</b>   | 431.8     |
| AVC investments                                   | <b>15</b> | <b>17.8</b>      | 9.8       |
| Cash & cash equivalents                           |           | <b>38.6</b>      | 24.7      |
| Other investment balances                         | <b>18</b> | <b>66.8</b>      | 35.3      |
|   |           | <b>5,511.2</b>   | 6,093.6   |
| <b>Investment liabilities:</b>                    |           |                  |           |
| Derivatives                                       | <b>12</b> | <b>(685.9)</b>   | (991.2)   |
| Other investment balances                         | <b>18</b> | <b>(1,228.1)</b> | (1,472.9) |
| <b>Total net investments</b>                      |           | <b>3,597.2</b>   | 3,629.5   |
| <b>Current assets</b>                             | <b>21</b> | <b>16.7</b>      | 32.4      |
| <b>Current liabilities</b>                        | <b>22</b> | <b>(7.1)</b>     | (2.8)     |
| <b>Total net assets of FS</b>                     |           | <b>3,606.8</b>   | 3,659.1   |
| <b>Money Purchase Section</b>                     |           |                  |           |
| Investment assets:                                | <b>16</b> |                  |           |
| Pooled investment vehicles                        | <b>11</b> | <b>612.1</b>     | 519.6     |
| <b>Current assets</b>                             | <b>21</b> | <b>8.0</b>       | 6.9       |
| <b>Current liabilities</b>                        | <b>22</b> | <b>(0.9)</b>     | (1.2)     |
| <b>Total net assets of MP</b>                     |           | <b>619.2</b>     | 525.3     |
| <b>Total net assets of the Scheme at 31 March</b> |           | <b>4,226.0</b>   | 4,184.4   |

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Final salary section, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included on page 40 and the Actuarial review on page 4 and these Financial Statements should be read in conjunction with that Report.

Signed for and on behalf of the Trustee of the Kingfisher Pension Scheme on 15 September 2022.

*Clive Gilchrist*

BESTrustees Limited,  
represented by Clive Gilchrist, Chairman

*S Clifton*

Trustee Director

## Notes to the financial statements

### 1. Accounting policies

#### Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP) May 2018 - Financial Reports of Pension Schemes.

The Scheme is established as a Trust under English Law. The Scheme's address is shown in the Trustee's report.

The Trustee has performed a Going Concern assessment. Amongst other things, their assessment took into account the Scheme funding position, availability of liquid cashflows, the employers ability to continue to fund contributions and the strength of the insurer to continue to fund insured benefits. They also noted that there has been no decision made to wind up the scheme. On this basis the Trustee considers the Going Concern basis appropriate.

The principal accounting policies of the Scheme are as follows:

#### a) Investments

- i) Investments are included at fair value.
- ii) All listed investments are stated at the bid price at the date of the Statement of Net Assets.
- iii) Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.
- iv) Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads as provided by the investment manager. Non-daily priced funds are valued at the latest available price prior to the year-end date.
- v) Derivatives are stated at fair value.
  - Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year-end date.
  - Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
  - All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.
- vi) Repurchase and Reverse Repurchase arrangements.

Under repurchase (repo) arrangements, the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the Financial Statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability.

Under reverse repurchase (reverse repo) arrangements, the Scheme does not recognise the collateral securities received as assets in its Financial Statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the Financial Statements.
- vii) The Special Purpose Vehicle (SPV) is valued on a discounted cash flow basis by the Employer's treasury team. A discount rate, based on property asset backed bonds and adjusted for Kingfisher plc's credit rating, is applied to the projected future cash flows. The discount rate changes to a risk-free rate when the vacant possession value of the properties exceeds the value of the future income streams.
- viii) Annuities purchased in the name of the Trustee unless immaterial, are included in the Financial Statements at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions and methodology. Annuity valuations are provided by the Scheme Actuary as at the year-end date.

## Notes to the financial statements (continued)

### b) Investment Income

- i) Interest is accrued on a daily basis.
- ii) Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- iii) Investment income arising and distributed from pooled investment vehicles is recognised on an accruals basis. Income arising from underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles accumulation fund. This is reflected in the unit price and reported within 'Change in Market Value'.
- iv) Receipts from annuity policies held by the Trustee to fund benefits payable to Scheme members are included within investment income on an accruals basis to match benefits payable.
- v) Income from the SPV investment is recognised on a paid basis. Accrued income due for the period to 31 March but paid post year end is reflected in the year end valuation of the SPV asset
- vi) Interest is accrued monthly on swap contracts on basis consistent with the terms of the contract.
- vii) Income payable under repurchase agreements is accounted for on an accruals basis.

### c) Foreign Currencies

The functional and presentational currency of the Scheme is Sterling. Balances denominated in foreign currencies are translated into Sterling at the rate ruling at the year-end date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

### d) Contributions

Employee normal and AVC contributions are accounted for when deducted from pay, apart from contributions deducted from auto-enrolled members during the opt out period which are accounted for on the earlier of receipt or the expiry of the opt out period. Employer normal, deficit funding and PPF levy contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid. None were paid in the year.

### e) Payments to members

- i) Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving. Pensions in payment are accounted for in the period to which they relate.
- ii) Opt outs are accounted for when the Scheme is notified of the opt out.
- iii) Individual transfers in or out are accounted for when member liability is discharged/accepted which is normally when paid or received.

### f) Expenses

Expenses are accounted for on an accruals basis. The Final Salary Section bears all the costs of administration and investment management. Money purchase annual management charges are deducted directly from the members' retirement accounts.

## Notes to the financial statements (continued)

### 2. Contributions

| £m              | 2022        |             |             | 2021 |      |       |
|-----------------|-------------|-------------|-------------|------|------|-------|
|                 | FS          | MP          | Total       | FS   | MP   | Total |
| <b>Employer</b> |             |             |             |      |      |       |
| Normal          | -           | 66.3        | 66.3        | -    | 59.3 | 59.3  |
| Deficit Funding | 11.0        | -           | 11.0        | 12.5 | -    | 12.5  |
| PPF Levy        | 0.1         | -           | 0.1         | 0.1  | -    | 0.1   |
|                 | <b>11.1</b> | <b>66.3</b> | <b>77.4</b> | 12.6 | 59.3 | 71.9  |
| <b>Employee</b> |             |             |             |      |      |       |
| Normal          | -           | 9.8         | 9.8         | -    | 8.3  | 8.3   |
|                 | <b>11.1</b> | <b>76.1</b> | <b>87.2</b> | 12.6 | 67.6 | 80.2  |

Employer normal contributions include contributions in respect of salary sacrifice arrangements.

The employers were required to pay deficit funding contributions to the FS section of £27m per annum (less SPV investment income as shown in note 8) plus the PPF Levy per annum under the Schedule of Contributions dated 6 April 2020 for the period 7 April 2020 to 31 July 2024. Deficit funding contributions payable by the employers will cease from August 2022 in accordance with a new Schedule of Contributions that was signed on 30 August 2022.

### 3. Other income

| £m                       | 2022 |    |       | 2021 |    |       |
|--------------------------|------|----|-------|------|----|-------|
|                          | FS   | MP | Total | FS   | MP | Total |
| Claims on term insurance | 3.6  | -  | 3.6   | 2.5  | -  | 2.5   |

### 4. Benefits payable

| £m  | 2022         |            |              | 2021 |      |       |
|---|--------------|------------|--------------|------|------|-------|
|   | FS           | MP         | Total        | FS   | MP   | Total |
| Pensions  | 62.9         | -          | 62.9         | 61.8 | -    | 61.8  |
| Commutations of pensions and lump sum retirement benefits | 37.6         | 4.3        | 41.9         | 16.1 | 10.1 | 26.2  |
| Lump sum death benefits                                   | 4.5          | (0.6)      | 3.9          | 2.8  | 1.4  | 4.2   |
| Purchase of annuities                                     | 0.1          | -          | 0.1          | -    | -    | -     |
|   | <b>105.1</b> | <b>3.7</b> | <b>108.8</b> | 80.7 | 11.5 | 92.2  |

Lump sum death benefits under the MP section are negative due to the release of a prior year accrual which was no longer required.

### 5. Payments to and on account of leavers

| £m                                    | 2022        |             |             | 2021 |     |       |
|---------------------------------------|-------------|-------------|-------------|------|-----|-------|
|                                       | FS          | MP          | Total       | FS   | MP  | Total |
| Pension sharing orders                | 0.5         | 0.2         | 0.7         | -    | -   | -     |
| Individual transfers to other Schemes | 35.8        | 15.5        | 51.3        | 46.8 | 4.6 | 51.4  |
|                                       | <b>36.3</b> | <b>15.7</b> | <b>52.0</b> | 46.8 | 4.6 | 51.4  |

## Notes to the financial statements (continued)

### 6. Other payments

| £m   | 2022 |    |       | 2021 |    |       |
|--|------|----|-------|------|----|-------|
|  | FS   | MP | Total | FS   | MP | Total |
| Premiums on term insurance paid to the insurer | 2.3  | -  | 2.3   | 2.2  | -  | 2.2   |

### 7. Administrative expenses

| £m                            | 2022 |     |       | 2021 |     |       |
|-------------------------------|------|-----|-------|------|-----|-------|
|                               | FS   | MP  | Total | FS   | MP  | Total |
| Administration and processing | 3.2  | 1.2 | 4.4   | 2.7  | 0.9 | 3.6   |
| Actuarial fees                | 0.3  | -   | 0.3   | 0.2  | -   | 0.2   |
| Audit*                        | 0.1  | -   | 0.1   | 0.1  | -   | 0.1   |
| Legal and professional fees   | 0.2  | -   | 0.2   | 0.2  | -   | 0.2   |
| Trustee fees                  | 0.1  | -   | 0.1   | 0.1  | -   | 0.1   |
| PPF Levy                      | 0.1  | -   | 0.1   | 0.1  | -   | 0.1   |
|                               | 4.0  | 1.2 | 5.2   | 3.4  | 0.9 | 4.3   |

\*Audit fees for the year to 31 March 2022 were £77,250.

### 8. Investment income

| £m                                      | 2022  |    |       | 2021   |    |        |
|---|-------|----|-------|--------|----|--------|
|   | FS    | MP | Total | FS     | MP | Total  |
| Income from bonds                       | 22.5  | -  | 22.5  | 27.5   | -  | 27.5   |
| Income from pooled investment vehicles  | 6.6   | -  | 6.6   | 3.8    | -  | 3.8    |
| Income from SPV                         | 16.1  | -  | 16.1  | 14.5   | -  | 14.5   |
| Annuity income                          | 40.0  | -  | 40.0  | 17.7   | -  | 17.7   |
| Net interest on cash deposits and repos | (2.5) | -  | (2.5) | (4.3)  | -  | (4.3)  |
| Income from derivatives                 | 3.7   | -  | 3.7   | (43.7) | -  | (43.7) |
| Other                                   | 0.1   | -  | 0.1   | 0.1    | -  | 0.1    |
|   | 86.5  | -  | 86.5  | 15.6   | -  | 15.6   |

Investment income on cash and cash instruments includes £2.6m (2021: £4.4m) of interest payments payable under repurchase agreements. Other income consists of income from class actions and stock lending (see note 20).

### 9. Investment management expenses

| £m                                     | 2022 |    |       | 2021 |    |       |
|--|------|----|-------|------|----|-------|
|  | FS   | MP | Total | FS   | MP | Total |
| Administration, management and custody | 4.7  | -  | 4.7   | 5.3  | -  | 5.3   |
| Performance measurement services       | 0.1  | -  | 0.1   | 0.1  | -  | 0.1   |
| Other advisory fees                    | 0.1  | -  | 0.1   | 0.1  | -  | 0.1   |
|  | 4.9  | -  | 4.9   | 5.5  | -  | 5.5   |

### 10. Tax

The Kingfisher Pension Scheme is a registered pension Scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate as stated in Note 1 (b) (ii).

## Notes to the financial statements (continued)

### 11. Pooled Investment Vehicles (PIVs)

The Final Salary Section holdings of PIVs are analysed below:

| £m                      | 2022           | 2021           |
|-------------------------|----------------|----------------|
|                         | Total          | Total          |
| Bond funds              | 932.9          | 957.3          |
| Equity funds            | 126.3          | 118.3          |
| Property and Farmland   | 2.9            | 15.3           |
| Alternative asset funds | 233.9          | 223.8          |
|                         | <b>1,296.0</b> | <b>1,314.7</b> |

The Money Purchase Section holdings of PIVs are analysed below:

| £m                       | 2022         | 2021         |
|--------------------------|--------------|--------------|
|                          | Total        | Total        |
| Equity funds             | 34.1         | 29.1         |
| Bond funds               | 2.4          | 2.7          |
| Cash funds               | 32.3         | 25.2         |
| Diversified Growth funds | 543.0        | 462.4        |
| Property funds           | 0.3          | 0.2          |
|                          | <b>612.1</b> | <b>519.6</b> |

All Money Purchase assets are designated to members. Assets are allocated to provide benefits to the individuals on whose behalf the contributions were paid and the assets identified in the Statement of Net Assets do not form a common pool of assets available for members generally. Members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

### 12. Derivatives

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme.

The Scheme has entered into interest rate and inflation swap contracts, to alter the duration and inflation exposure of the bond assets to better reflect the Scheme's liabilities and cash flow profile.

Futures are used to adjust interest rate exposures and replicate bond positions. Futures often provide a cheap and efficient way of modifying portfolio risk.

Summarised details of the derivatives held at the year-end are set out below:

| £m      | 2022         |                | 2021         |                |
|---------|--------------|----------------|--------------|----------------|
|         | Assets       | Liabilities    | Assets       | Liabilities    |
| Swaps   | 664.5        | (685.8)        | 997.4        | (991.1)        |
| Futures | -            | (0.1)          | -            | (0.1)          |
|         | <b>664.5</b> | <b>(685.9)</b> | <b>997.4</b> | <b>(991.2)</b> |

## Notes to the financial statements (continued)

### (i) Swaps

The Scheme had derivative contracts outstanding at the year-end relating to its LDI investment portfolio. These contracts are traded over the counter (OTC) and are shown in the following table:

| £m                      | Number of | Notional     |             |              | 2022           |
|-------------------------|-----------|--------------|-------------|--------------|----------------|
| Nature of Contract      | Contracts | Principal    | Maturity    | £ Asset      | £ Liability    |
| UK - Interest rate swap | 23        | <b>407.4</b> | 0-5 Years   | 12.2         | (24.6)         |
|                         | 40        | <b>478</b>   | 5-10 Years  | 74.1         | (60.4)         |
|                         | 52        | <b>845.5</b> | 10-20 Years | 147.8        | (187.0)        |
|                         | 70        | <b>136.2</b> | 20-30 Years | 144.8        | (145.6)        |
|                         | 47        | <b>681.5</b> | 30-40 Years | 69.5         | (118.0)        |
|                         | 21        | <b>135.2</b> | 40-50 Years | 9.4          | (28.2)         |
| UK – RPI                | 27        | <b>554.4</b> | 0-5 Years   | 34.1         | (17.1)         |
|                         | 45        | <b>618.6</b> | 5-10 Years  | 56.3         | (37.1)         |
|                         | 49        | <b>670.5</b> | 10-20 Years | 42.0         | (45.5)         |
|                         | 45        | <b>485.1</b> | 20-30 Years | 27.9         | (16.0)         |
|                         | 27        | <b>186.7</b> | 30-40 Years | 24.7         | (5.4)          |
|                         | 12        | <b>64.4</b>  | 40-50 Years | 21.7         | (0.9)          |
|                         |           |              |             | <b>664.5</b> | <b>(685.8)</b> |

The counterparties to the swaps are banking institutions. Collateral, either gilts or cash, is held to support the unrealised gain/loss on swaps. At the year-end, the value of collateral posted to and from counterparties was £20.9m (2021: £21.9m).

|                             | £m     |                                   | £m     |
|-----------------------------|--------|-----------------------------------|--------|
| Barclays Bank               | (16.1) | Lloyds Bank Plc                   | 19.3   |
| BNPParibas                  | (1.8)  | Merrill Lynch International       | (23.2) |
| Citigroup                   | 2.8    | Morgan Stanley & Co International | (12.7) |
| Credit Suisse International | 1.5    | Natwest Markets Plc               | 5.3    |
| Goldman Sachs International | (18.1) | UBS AG                            | (1.0)  |
| HSBC Bank Plc               | 23.1   |                                   |        |

The positive and negative values represent collateral held or (pledged) by the Scheme to support the value of the swaps.

### ii) Futures – These contracts are exchange traded

| £m                       | Notional   |           |         | 2022         |
|--------------------------|------------|-----------|---------|--------------|
| Nature                   | Amount     | Duration  | £ Asset | £ Liability  |
| UK fixed interest future |            | June 2022 |         |              |
| <b>Total 2022</b>        | <b>5.1</b> |           | -       | <b>(0.1)</b> |
| <b>Total 2021</b>        | <b>9.3</b> |           | -       | <b>(0.1)</b> |

## Notes to the financial statements (continued)

### 13. Special Purpose Vehicle (SPV)

In January 2011 UK property assets with a market value of £83m were sold to the Kingfisher Scottish Limited Partnership (KSLP) and leased back to B&Q plc under standard commercial lease terms. The KSLP gives recourse for the Scheme to the property assets in the event of Kingfisher's insolvency. The Kingfisher Group retains control over these properties including the flexibility to substitute alternative properties. The Trustee's partnership interest in KSLP entitles it to the majority of the income of the partnership until 2031. At the end of this term, Kingfisher plc has the option to acquire the Trustee's partnership interest in KSLP. A further two UK properties with a combined market value of £119m were transferred to the partnership in June 2011 and leased back to B&Q plc under standard commercial lease terms.

On an ongoing basis, the Scheme receives a regular income stream from the partnership that forms part of the annual cash contribution from the Group to the Pension Scheme under the Schedule of Contributions.

### 14. Insurance Policies

The Scheme held bulk buy-in insurance policies at the year-end as follows:

| £m  | 2022<br>Total  | 2021<br>Total |
|---|----------------|---------------|
| Legal & General Assurance Society Limited | 222.1          | 234.0         |
| Pensions Insurance Corporation            | 185.0          | 197.8         |
| Aviva Life & Pensions UK Limited          | 875.3          | -             |
|   | <b>1,282.4</b> | <b>431.8</b>  |

As a continuing move towards de-risking the Scheme, the Trustee completed a third bulk annuity purchase for 8,049 members in July 2021 with Aviva Life & Pensions UK Limited, providing greater security of benefits for the Scheme's final salary members.

In addition to the above, the Trustee holds annuity contracts that secure the benefits of a small number of pensioner members. The value of these contracts is considered immaterial and therefore the Trustee continues to recognise these contracts at a £nil valuation.

### 15. Additional Voluntary Contributions (AVCs)

| £m                  | 2022<br>Total | 2021<br>Total |
|---------------------|---------------|---------------|
| <b>Final Salary</b> |               |               |
| Prudential          | 15.7          | 7.8           |
| Legal & General     | 0.9           | 1.0           |
| BlackRock           | 1.1           | 1.0           |
| Phoenix Life        | 0.1           | -             |
|                     | <b>17.8</b>   | <b>9.8</b>    |

AVCs paid by members of the Final Salary Section to secure additional money purchase benefits, are invested separately from the other Scheme assets to ensure there are individual funds for each member which are clearly identifiable. Each member of the Money Purchase Section is allocated an individual clearly identifiable investment fund (known as a retirement account) and AVCs paid by such members are invested in the same retirement account.

## Notes to the financial statements (continued)

### 16. Investment reconciliation

Reconciliation of investments held at beginning and end of year.

| £m                              | Value at<br>1 April 2021 | Purchases at<br>cost &<br>derivative<br>payments | Sales proceeds &<br>derivative receipts | Change in<br>market<br>value | Value at<br>31 March<br>2022 |
|---------------------------------|--------------------------|--|---|------------------------------|------------------------------|
| <b>Final Salary Section</b>     |                          |  |   |                              |                              |
| Bonds                           | 3,121.7                  | 233.1  | (1,392.6)                               | 39.2                         | <b>2,001.4</b>               |
| Pooled investment vehicles      | 1,314.7                  | 11.4   | (29.5)                                  | (0.6)                        | <b>1,296.0</b>               |
| Derivatives                     | 6.2                      | 71.9   | (110.4)                                 | 10.9                         | <b>(21.4)</b>                |
| Special Purpose Vehicle         | 158.2                    | -  | -                                       | (14.5)                       | <b>143.7</b>                 |
| Insurance Policies              | 431.8                    | 902.0  | -                                       | (51.4)                       | <b>1,282.4</b>               |
| AVC Investments                 | 9.8                      | -  | (1.8)                                   | 9.8                          | <b>17.8</b>                  |
|                                 | 5,042.4                  | 1,218.4  | (1,534.3)                               | (6.6)                        | <b>4,719.9</b>               |
| Cash deposits                   | 24.7                     |  |   | 0.2                          | <b>38.6</b>                  |
| Other investment balances       | (1,437.6)                |  |   | -                            | <b>(1,161.3)</b>             |
| Net investment assets           | 3,629.5                  | 1,218.4  | (1,534.3)                               | (6.4)                        | <b>3,597.2</b>               |
| <b>Money Purchase Section *</b> |                          |  |   |                              |                              |
| Net investment assets           | 519.6                    | 105.2  | (53.4)                                  | 40.7                         | <b>612.1</b>                 |

\*The assets are allocated to members of the Scheme.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Other investment balances include £1,222.1m of repurchase and reverse repurchase agreements (2021: £1,470.4m).

### 17. Transaction costs

Transaction costs of £0.5k (2021: nil) are included in the cost of purchases and sales proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commission and stamp duty.

Transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

### 18. Repurchase and reverse repurchase agreements

At the year end, within other investment assets and liabilities, amounts payable under repurchase agreements amounted to £1,227.3m (2021: £1,472.3m) and amounts receivable under reverse repurchase agreements amounted to £5.2m (2021: £1.9m). At the year-end £1,134.3m (2021: £1,406.1m) of bonds reported in Scheme assets are held by counterparties under repurchase agreements.

The counterparties to the repurchase agreements are banking institutions. Collateral, either gilts or cash, is pledged to support the change in value of the gilts used to enter the repurchase agreements. At the year-end, the value of collateral posted to and from counterparties was £67.6m (2021: £52.5m).

|                                    | £m     |                               | £m     |
|------------------------------------|--------|-------------------------------|--------|
| BNP Paribas                        | (6.1)  | HSBC Bank Plc                 | (1.5)  |
| Barclays Bank                      | (7.0)  | LCH Clearnet                  | (5.2)  |
| Canadian Imperial Bank Of Commerce | (1.9)  | Lloyds Bank Corporate Markets | (4.4)  |
| Insight Government Liquidity Fund  | (1.5)  | Lloyds TSB                    | (19.2) |
| Goldman Sachs International        | (11.6) | Scotiabank                    | (9.2)  |

## Notes to the financial statements (continued)

### 19. Investment Fair Value Hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

- Level 1: Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date.
- Level 2: Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.
- Level 3: Inputs are unobservable, i.e. for which market data is unavailable.

Where multiple inputs are involved in determining the fair value of an instrument, the categorisation is based on the lowest level input (i.e. highest number) that is significant.

| £m                          |         |           |         |           |
|-----------------------------|---------|-----------|---------|-----------|
| At 31 March 2022            | Level 1 | Level 2   | Level 3 | Total     |
| <b>Final Salary Section</b> |         |           |         |           |
| Bonds                       | 2,001.4 | -         | -       | 2,001.4   |
| Pooled investment vehicles  | -       | 1,059.2   | 236.8   | 1,296.0   |
| Derivatives                 | (0.1)   | -         | (21.3)  | (21.4)    |
| Special Purpose Vehicle     | -       | -         | 143.7   | 143.7     |
| Insurance Policies          | -       | -         | 1,282.4 | 1,282.4   |
| AVC investments             | -       | 17.8      | -       | 17.8      |
| Cash deposits               | 38.6    | -         | -       | 38.6      |
| Other investment balances   | 60.8    | (1,222.1) | -       | (1,161.3) |
|                             | 2,100.7 | (145.1)   | 1,641.6 | 3,597.2   |

#### Money Purchase Section

|                                   |   |       |   |       |
|-----------------------------------|---|-------|---|-------|
| <b>Pooled investment vehicles</b> | - | 612.1 | - | 612.1 |
|-----------------------------------|---|-------|---|-------|

| £m                          |         |           |         |           |
|-----------------------------|---------|-----------|---------|-----------|
| At 31 March 2021            | Level 1 | Level 2   | Level 3 | Total     |
| <b>Final Salary Section</b> |         |           |         |           |
| Bonds                       | 3,121.7 | -         | -       | 3,121.7   |
| Pooled investment vehicles  | -       | 1,075.6   | 239.1   | 1,314.7   |
| Derivatives                 | (0.1)   | -         | 6.3     | 6.2       |
| Special Purpose Vehicle     | -       | -         | 158.2   | 158.2     |
| Insurance Policies          | -       | -         | 431.8   | 431.8     |
| AVC investments             | -       | 9.8       | -       | 9.8       |
| Cash deposits               | 24.7    | -         | -       | 24.7      |
| Other investment balances   | 32.8    | (1,470.4) | -       | (1,437.6) |
|                             | 3,179.1 | (385.0)   | 835.4   | 3,629.5   |

#### Money Purchase Section

|                                   |   |       |   |       |
|-----------------------------------|---|-------|---|-------|
| <b>Pooled investment vehicles</b> | - | 519.6 | - | 519.6 |
|-----------------------------------|---|-------|---|-------|

## Notes to the financial statements (continued)

### 20. Investment risks

#### Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report for the Final Salary and Money Purchase Sections. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out below.

The risk disclosures below do not cover AVCs as they are deemed to be immaterial.

The insurance policies (note 14) exactly match the liabilities that they cover, and the Financial Services Compensation Scheme stand behind authorised insurance companies to provide additional protection. The insurance policies do not therefore feature in the risk disclosures.

#### Concentration risk

Excluding gilts, the Scheme's final salary investments that constitute more than 5% of total net assets of the Scheme are as follows: Aviva Life & Pensions UK Limited 20.83% (2021: n/a), PIMCO Diversified Income Fund 7.80% (2021: 8%), BlackRock Absolute Return Bond Fund 6.82% (2021: 7%), Insight Absolute Return Fund 6.45% (2021: 6%), L&G insurance policy 5.29% (2021: 6%).

### Final Salary Section

#### (i) Credit risk

The FS Section is subject to credit risk as the Scheme invests directly in bonds, OTC derivatives, has cash balances, undertakes stock lending activities and enters into repurchase agreements. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

## Notes to the financial statements (continued)

### Analysis of direct credit risk

| £m                      | Non-investment   |       |         |           |
|-------------------------|------------------|-------|---------|-----------|
| At 31 March 2022        | Investment grade | grade | Unrated | Total     |
| Bonds                   | 2,001.4          | -     | -       | 2,001.4   |
| Special Purpose Vehicle | -                | -     | 143.7   | 143.7     |
| OTC Derivatives         | (21.4)           | -     | -       | (21.4)    |
| Cash deposits           | 38.6             | -     | -       | 38.6      |
| Repos                   | (1,222.1)        | -     | -       | (1,222.1) |
| PIVs                    | -                | -     | 1,296.0 | 1,296.0   |
|                         | 796.5            | -     | 1,439.7 | 2,236.2   |

| £m                      | Non-investment   |       |         |           |
|-------------------------|------------------|-------|---------|-----------|
| At 31 March 2021        | Investment grade | grade | Unrated | Total     |
| Bonds                   | 3,121.7          | -     | -       | 3,121.7   |
| Special Purpose Vehicle | -                | -     | 158.2   | 158.2     |
| OTC Derivatives         | 6.2              | -     | -       | 6.2       |
| Cash deposits           | 24.7             | -     | -       | 24.7      |
| Repos                   | (1,470.4)        | -     | -       | (1,470.4) |
| PIVs                    | -                | -     | 1,314.7 | 1,314.7   |
|                         | 1,682.2          | -     | 1,472.9 | 3,155.1   |

Credit risk arising on bonds is mitigated by investing largely in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. Currently the Scheme's directly held bonds are all in gilts and quasi-government bonds. This is the position at the year end and the prior year end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 12 (i)). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts, but all counterparties are required to be at least investment grade.

Cash is held within financial institutions which are at least investment grade credit rated.

The Scheme lends certain bonds and equity securities under a Trustee approved stock lending programme. At the year end the Scheme had lent £81m of bonds (2021: £97m). The Scheme held collateral delivered to secure obligations in respect of loaned securities consisting of cash, bonds and equities with a market value of not less than 102% of the market value of the transferred securities. If the transferred market value of the collateral falls below 100%, the Scheme will enforce prompt delivery of additional collateral.

Credit risk on repurchase agreements is mitigated through collateral arrangements as disclosed in note 18.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst several pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled manager.

## Notes to the financial statements (continued)

A summary of pooled investment vehicles by type of arrangement is as follows:

| £m                              | 2022<br>Total  | 2021<br>Total  |
|---------------------------------|----------------|----------------|
| Unit linked insurance contracts | 108.0          | 96.9           |
| Authorised unit trusts          | 286.6          | 294.0          |
| Open ended investment companies | 664.7          | 684.7          |
| Limited liability companies     | 236.8          | 239.1          |
|                                 | <b>1,296.0</b> | <b>1,314.7</b> |

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by only investing in pooled funds which invest in at least investment grade credit rated securities.

### (ii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through currency hedging.

The Scheme's total net unhedged exposure by major currency at the year-end was as follows:

| £m              | 2022<br>Total | 2021<br>Total |
|-----------------|---------------|---------------|
| <b>Currency</b> |               |               |
| US Dollar       | 36.9          | 48.8          |
| Euro            | 3.2           | 1.0           |
| Japanese Yen    | 9.0           | 7.3           |
| Other           | 61.5          | 64.2          |

Currencies included in 'Other' are predominantly emerging market currency exposures contained in the Aberdeen Standard Investments portfolio.

### (iii) Interest rate and inflation risk

The Scheme is subject to interest rate risk on the LDI investments comprising bonds and interest rate and inflation swaps held either as segregated investments or through pooled vehicles and cash. The Scheme has hedged 94% of interest and inflation rate risk. At the year end the Scheme exposures comprised:

| £m                      | 2022<br>Total | 2021<br>Total |
|-------------------------|---------------|---------------|
| <b>Direct</b>           |               |               |
| Bonds                   | 2,001.4       | 3,121.7       |
| Derivatives             | (21.4)        | 6.2           |
| <b>Indirect</b>         |               |               |
| Bond PIVs               | 932.9         | 873.1         |
| Alternative asset PIVs  | 233.9         | 223.5         |
| Special Purpose Vehicle | 143.7         | 158.2         |

## Notes to the financial statements (continued)

### (iv) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities and alternative assets held in pooled vehicles.

The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets. At the year end, the Scheme's exposure to investments subject to other price risk was:

| £m                           | 2022<br>Total | 2021<br>Total |
|------------------------------|---------------|---------------|
| <b>Indirect</b>              |               |               |
| Equity PIVs                  | 126.3         | 144.1         |
| Property & Farmland          | 2.9           | 15.3          |
| Special Purpose Vehicle      | 143.7         | 158.2         |
| Other alternative asset PIVs | 233.9         | 223.5         |

## Money Purchase Section

### (i) Direct credit risk

Legal and General invest all the Scheme's funds in fund manager unit linked funds which are party to reinsurance arrangements. In the event of default by Legal and General, the Scheme is protected by the Financial Services Compensation Scheme.

### (ii) Indirect credit and market risks

The MP section was also subject to indirect credit and market risk arising from the underlying investments held in the funds. The funds which have significant exposure to these risks are set out below:

| 2022 and 2021                        |             |                       |                    |                  |
|--------------------------------------|-------------|-----------------------|--------------------|------------------|
| Money Purchase Section               | Credit risk | Foreign exchange risk | Interest rate risk | Other price risk |
| Lifestyle fund                       | ✓           | ✓                     | ✓                  | ✓                |
| Passive Equity Fund                  | x           | ✓                     | x                  | ✓                |
| Emerging Markets Fund                | x           | ✓                     | x                  | ✓                |
| Ethical Fund                         | x           | ✓                     | x                  | ✓                |
| Shariah Fund                         | x           | ✓                     | x                  | ✓                |
| Pre-Retirement Fund                  | ✓           | x                     | ✓                  | x                |
| Pre-Retirement Inflation Linked Fund | ✓           | x                     | ✓                  | x                |
| Money Market Fund                    | ✓           | x                     | ✓                  | x                |
| Diversified Return Fund              | ✓           | ✓                     | ✓                  | ✓                |
| Property Fund                        | ✓           | x                     | x                  | ✓                |

The analysis of these risks set out above is at Scheme level. Member level risk exposures will depend on the funds invested in by members. The Trustee has selected the above funds and have considered the indirect risks in the context of the investment strategy described in the Trustee's Report.

## Notes to the financial statements (continued)

### 21. Current Assets

| £m                  | 2022        |            |             | 2021 |     |       |
|---------------------|-------------|------------|-------------|------|-----|-------|
|                     | FS          | MP         | Total       | FS   | MP  | Total |
| Cash balances       | 14.0        | 1.6        | 15.6        | 31.7 | 1.0 | 32.7  |
| Contributions due * | 0.1         | 6.3        | 6.4         | -    | 5.7 | 5.7   |
| VAT recoverable     | 0.2         | -          | 0.2         | -    | -   | -     |
| Other debtors       | 2.4         | 0.1        | 2.5         | 0.7  | 0.2 | 0.9   |
|                     | <b>16.7</b> | <b>8.0</b> | <b>24.7</b> | 32.4 | 6.9 | 39.3  |

\*Contributions were received after the year end, in accordance with the Schedule of Contributions.

### 22. Current Liabilities

| £m               | 2022       |            |            | 2021 |     |       |
|------------------|------------|------------|------------|------|-----|-------|
|                  | FS         | MP         | Total      | FS   | MP  | Total |
| Expense accruals | 1.3        | -          | 1.3        | 1.3  | -   | 1.3   |
| Unpaid benefits  | 4.6        | -          | 4.6        | 1.5  | 1.2 | 2.7   |
| Other creditors  | 1.2        | 0.9        | 2.1        | -    | -   | -     |
|                  | <b>7.1</b> | <b>0.9</b> | <b>8.0</b> | 2.8  | 1.2 | 4.0   |

### 23. Related party transactions

Transactions with related parties of the Scheme have been disclosed in the annual report as follows:

The Scheme has received employer contributions in respect of seven of the directors of the Trustee Board who are or were contributing members of the Scheme. These were paid in accordance with the Schedule of Contributions and the Rules of the Scheme.

The costs incurred by Kingfisher plc in providing Scheme administration services are rechargeable to the Scheme. Amounts charged during the year were £849k (2021: £681k). Kingfisher plc also recovers VAT on administration services paid by the Scheme. The VAT paid back to the Scheme during the year was £727k (2021: £514k). The balance owed by Kingfisher plc at year end is £152k (2021: £28k).

Helen Jones and Sally Clifton both receive pension payments from the Scheme. The pensions are calculated in accordance with the Rules of the Scheme.

Trustee Director Fees are analysed in the table below:

| £ 000'              | 2022        | 2021  |
|---------------------|-------------|-------|
|                     | Total       | Total |
| BESTrustees Limited | 39.3        | 67.0  |
| Helen Jones         | 11.0        | 6.0   |
| Sally Clifton       | 6.7         | 6.0   |
|                     | <b>57.0</b> | 79.0  |

The amount owed to Trustee Directors at the year end was £16k (2021: £12k).

### 24. Self-investment

No investment is permitted in the shares or bonds of Kingfisher plc, or Companies majority owned by Kingfisher plc, other than indirectly through investment in pooled funds. The exposure to Kingfisher plc through pooled funds is less than 0.1% of total Scheme assets.

## Notes to the financial statements (continued)

### 25. Contingencies and commitments

At 31 March 2022 the Scheme had the following outstanding undrawn capital commitments:

| £m                        | 2022       | 2021        |
|---------------------------|------------|-------------|
| HayFin Fund III           | 5.4        | 9.7         |
| BlackRock renewables fund | 1.9        | 2.1         |
|                           | <b>7.3</b> | <b>11.8</b> |

As at 31 March 2022, a final premium or repayment is due under the buy-in policies. The final premium or repayment cannot be determined until data cleansing has been finalised; and the Trustee has signed the final benefit specification, indicating that the benefit specification (including the data) includes the correct beneficiaries and the benefits have been correctly specified.

Data cleansing is required due to the shift in membership from when the data was originally supplied to the Insurer and the following twelve month period. The completion of this exercise ensures that the Scheme and the Insurer are not adversely affected.

Should further changes be notified after the final premium has been calculated, additional charges may be incurred.

In addition to the expected contingent liability for a potential premium adjustment once data validation is complete, there is a further potential liability in relation to annuity income as no reconciliation has yet been completed of actual amounts due versus lump sum monthly amounts received to date.

## Independent auditor's statement about contributions to the Trustee of the Kingfisher Pension Scheme

We have examined the summary of contributions to the Kingfisher Pension Scheme (the 'scheme') for the scheme year ended 31 March 2022 which is set out in the Trustee's report on page 37.

In our opinion, contributions for the scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the scheme actuary on 6 April 2020.

### Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions.

### Respective responsibilities of Trustee and the auditor

As explained more fully in the statement of Trustee's responsibilities set out on page 15 the scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the scheme by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions and to report our opinion to you.

### Use of our statement

This statement is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our work, for this statement, or for the opinions we have formed.

Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Milton Keynes

15 September 2022

## Summary of contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time revising a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

### Trustee's Summary of Contributions payable under the Schedules in respect of the Scheme year ended 31 March 2022

This Summary of Contributions has been prepared by, and is the responsibility of, the Trustee. It sets out the employer and employee contributions payable to the Scheme under the Schedule of Contributions certified by the actuary on 6 April 2020 in respect of the Scheme year ended 31 March 2022. The Scheme Auditor reports on contributions payable under the Schedule in the Auditor's Statement about Contributions. The Schedule of Contributions requires a total of £27m less SPV income.

| Contributions payable under the Schedules in respect of the Scheme year                   | £m          |
|---|-------------|
| <b>Employer</b>   |             |
| Normal contributions  | 66.3        |
| Deficit contributions   | 11.0        |
| Other contributions PPF levy  | 0.1         |
| <b>Employee</b>   |             |
| Normal contributions  | 9.8         |
| <b>Contributions payable under the Schedule (as reported in the Financial Statements)</b> | <b>87.2</b> |

Signed on behalf of the Trustee of the Kingfisher Pension Scheme on 15 September 2022

*Clive Gilchrist*

BESTrustees Limited,  
represented by Clive Gilchrist, Chairman

## Actuary's calculation of technical provisions

### Appendix C: Technical provisions certificate

My certification of the calculation of the technical provisions is included below. I am also required to certify the adequacy of the contribution rates set out in the schedule of contributions. That certificate is appended to the contribution schedule.

**Actuarial certification of the calculation of technical provisions as required by regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005**

Name of scheme: Kingfisher Pension Scheme

#### Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2019 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated August 2019.

|                  |  |
|------------------|--|
| Signature        | <i>Crawford Taylor</i>                           |
| Date             | 5 August 2019                                    |
| Name             | Crawford Taylor                                  |
| Qualification    | Fellow of the Institute and Faculty of Actuaries |
| Name of Employer | Hymans Robertson LLP                             |
| Address          | 20 Waterloo Street<br>Glasgow<br>G2 6DB          |

## Actuary's Certification of the Schedule of Contributions



Kingfisher Pension Scheme | Hymans Robertson LLP

### Kingfisher Pension Scheme

### Schedule of Contributions – Actuarial Certificate

#### Adequacy of contributions

In my opinion, the contributions shown in this schedule are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

#### Consistency with statement of funding principles

In my opinion, this schedule of contributions is consistent with the statement of funding principles dated August 2019.

Please note that the adequacy of contributions statement in this certificate relates to the scheme's statutory funding objective. For the avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the scheme's full liabilities with annuities if the scheme were to wind up.

|                  |  |
|------------------|--|
| Signature        | <i>Lisa Deas</i>                                 |
| Date             | 30 August 2022                                   |
| Name             | Lisa Deas  |
| Qualification    | Fellow of the Institute and Faculty of Actuaries |
| Name of Employer | Hymans Robertson LLP                             |
| Address          | 20 Waterloo Street<br>Glasgow<br>G2 6DB          |

This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

## Report on Actuarial Liabilities (forming part of the Trustee's report)

Under Section 222 of the Pensions Act 2004, every Scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to base on pensionable service to the valuation date. This is assessed at least every 3 years using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out by Crawford Taylor as at 31 March 2019. This showed that on that date the value of the technical provisions was: £3,416 million. The value of the assets at that date was £3,573 million. The technical provisions funding level was 105%.

The value of the technical provisions is based on assumptions about several factors that will influence the Scheme in future, such as the levels of investment return, when members will retire and how long members will live. The method and significant actuarial assumptions used to determine the technical provisions were set by the Trustee after taking advice from Crawford Taylor and are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

### Significant actuarial assumptions

Discount rate:

Pre-retirement: The pre-retirement discount rate is the market implied fixed interest gilt yield curve plus 2% p.a.

Post-retirement: The post-retirement discount rate is market implied fixed interest gilt yield curve.

Inflation: The market implied inflation yield curve.

Pension increases: The Scheme Rules include provision for increases in line with RPI price inflation up to a maximum of 5% and a minimum of 0% each year, to pensions in excess of GMP. For the actuarial valuation as at 31 March 2019 these increases are assumed to follow the assumed rate of price inflation adjusted to allow for the cap and floor.

Mortality: *Base tables*  
The mortality base tables are a suite of bespoke assumptions which reflect the characteristics of the Scheme's membership. They make allowance for observed variations in mortality according to age, gender reason for retirement (illness or normal health), pension amount, salary, postcode based lifestyle group. The assumptions adopted vary according to the characteristics of each individual member.

#### *Future improvements*

Future improvements in longevity will be assumed to be in line with the CMI 2018 model calibrated to Club VITA experience with a long-term rate of improvement of 1.5% p.a. for both males and females, assuming "peaked" short term improvements. The CMI 2018 model used incorporates the core smoothing parameter (SK=7.0), and an initial addition to improvement parameter of +0.5% for males and +0.25% for females. Long-term rates are assumed to taper to 0% p.a. over the age range 90 to 120 for non-pensioners and 85 to 110 for pensioners.

GMP equalisation: An estimate of 0.2% of liabilities has been allowed for to reflect the expected impact of GMP equalisation

*Crawford Taylor*

Fellow of the Institute and Faculty of Actuaries

Hymans Robertson LLP

5 August 2019

## Compliance statement

### Enquiries about the Scheme

Any enquiries concerning the Scheme or requests for copies of this Report, individual benefit statements, the Trust Deed and Rules or the latest report on the Actuarial Valuation of the Scheme should be addressed to the Head of Group Pensions at the office of Kingfisher plc as noted on page 2.

### Transfer Values

All transfer values paid during the year were calculated as cash equivalents (within the meaning of Chapter IV Part IV of the Pension Schemes Act 1993) and verified in the manner prescribed under Section 97 of the Act. No allowance for discretionary benefits was made in the calculation of cash equivalents.

### Internal Disputes Resolution Procedure

Any questions you have should be directed to the Administrators first of all, as they have full details of your membership of the Scheme. The Administrators will make every attempt to answer your questions, but if you have a complaint or dispute that you cannot resolve with the Administrators, you should use the Internal Dispute Resolution Procedure, via Kingfisher Group Pensions department.

This is a formal procedure, put in place by the Trustee, to settle any complaints and disputes about the Scheme. It is available on request to all members and beneficiaries, including leavers who still have rights in the Scheme, pensioners and other individuals who have an entitlement or possible entitlement in the Scheme.

There are two stages:

#### Stage one

Kingfisher Group Pensions Department will give you a form to complete to register your complaint. If you wish, you may nominate a representative to make the complaint on your behalf. Your complaint will be investigated by the Head of Group Pensions and you will normally receive a response within 10 days. The response will include details about how you progress to Stage two of the procedure, if your complaint is not resolved at Stage one.

#### Stage two

If you are unhappy with the response from the Head of Group Pensions, you can refer your complaint to the Trustee. You should do this within six months of receiving the Head of Group Pensions response. You will normally be sent a response within two months of your complaint.

### Pensions Ombudsman

If the problem remains unresolved, members then have the facility to refer the matter to The Pensions Ombudsman who can be contacted at:

*10 South Colonnade, Canary Wharf, E14 4PU*  
*Tel : 0800 917 4487*  
*Email : [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)*  
*Web : [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)*

If you have general requests for information or guidance concerning your pension arrangements contact:

*The Money and Pensions Service (MaPS)*  
*Holborn Centre, 120 Holborn, London EC1N 2TD*  
*Tel : 01159 659570*  
*Email : [contact@maps.org.uk](mailto:contact@maps.org.uk)*  
*Web : [www.moneyandpensionsservice.org.uk](http://www.moneyandpensionsservice.org.uk)*

## Compliance statement (continued)

### Other Pensions Organisations

#### The Pensions Regulator

Kingfisher Pension Scheme is regulated by the Pensions Regulator who regulates the running of occupational pension Schemes and can intervene if those responsible have failed in their duties. Their address is:

*Napier House, Trafalgar Place, Brighton BN1 4DW*

*Tel: 0345 600 0707*

*Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)*

*Web: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)*

#### Pension Protection Fund (PPF)

The PPF was set up in April 2005 to protect the pensions of most members of defined benefit Schemes where employers get into financial difficulties and leave a Scheme without enough funds to pay the pensions in full.

The PPF can be contacted at:

*Renaissance, 12 Dingwall Road, Croydon, Surrey CRO 2NA*

*Tel : 0345 600 2541*

*Email : [information@ppf.co.uk](mailto:information@ppf.co.uk)*

*Web : [www.ppf.co.uk](http://www.ppf.co.uk)*

#### Pension Wise

Following changes in Pension Legislation, more options are now available. To help you understand your retirement options, the Government has set up a free and impartial service, called MoneyHelper. (MoneyHelper will not recommend any products or tell you what to do with your money).

*Website Address: [www.moneyhelper.org.uk](http://www.moneyhelper.org.uk)*

*To book a phone or face to face appointment call: 0800 138 3944*

### Tax Status with HM Revenue & Customs

The Scheme is a 'registered pension Scheme' for tax purposes under the Finance Act 2004. As such most of its income and investment gains are free of taxation. However, the Scheme cannot reclaim certain amounts of withholding taxes relating to overseas investment income.

### Constitution

The Kingfisher Pension Scheme is constituted by a Trust Deed and is administered in accordance with the Rules contained in the Deed. Members may inspect this Trust Deed on application to the Trustee or Scheme Administrator. The Final Salary Section of the Scheme is contracted-out of the State Second Pension.

### Member Information

Membership of the Pension Scheme is voluntary. The Trustee Board, together with the participating companies, is committed to providing easy-to-understand information to existing members and those eligible to join. This information includes:

- Personal Benefit Statements, which give individual members information annually on the benefits they may receive.
- 'Member Guide', the explanatory booklets for the Money Purchase Section and Final Salary Section.
- 'AVC Fund Fact Sheets' for members of the Final Salary Section giving full details of the available AVC options.

All of these publications are online at our website [www.kingfisherpensions.com](http://www.kingfisherpensions.com).

## 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 31<sup>st</sup> March 2022.

Money Purchase Section investments: £612m (2021: £519m)  
Total membership: 65,646 (2021: 60,534)

### 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 during the year end 31 March 2022 (the "Scheme year"). In doing so, we provide 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") Defined Contribution Code of Practice.

I am pleased to say that the work completed on the Money Purchase Section of the Scheme has received external recognition, with the Scheme being awarded the Defined Contribution Scheme of the Year award at the February 2022 Pensions Age awards.

### 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 MND 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 with four standing subcommittees to help fulfil its governance functions;

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

There were a number of activities completed during the year.

In October 2021, Group Pensions in conjunction with Legal & General and a firm called Pension Geeks held a virtual pensions awareness week. The week addressed a broad range of topics including workplace pensions, the state pension, the gender pension gap and investing. The event received a good level of nationwide engagement across Kingfisher plc, KITS and various B&Q and Screwfix stores with members, helping them better understand and plan their retirement provision.

## Annual governance statement (continued)

The Trustee, working with L&G and Tumelo (a Bristol based fintech company) launched a member engagement tool providing members with greater transparency of the companies they have their pension invested in. The tool also provides the members with the opportunity to share their views with investment managers on how certain shareholder votes should be cast in relation to these companies, on issues including ESG: climate change, stewardship, gender equality, diversity and human rights.

In May 2021, the Trustee made changes to the underlying funds forming the default strategy, further enhancing the ESG (Environmental, Social & Governance) integration features. Further details about the change can be found in the next section of this report.

### **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 2022, approximately 98% 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 '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 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 arrangement**

The Trustee's DC Investment and Retirement 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 Committee was satisfied that the long-term performance was consistent with the Trustee's aims and objectives for the default strategy, 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 strategy and default arrangement with the assistance of its advisers. The last such review was completed in October 2019. For this purpose, the Trustee's advisers carried out an in-depth demographic analysis of the membership and supplied projections of member outcomes. The Trustee considered the likely needs of members in retirement along with likely other sources of income, in particular the State pension which for the majority of members will be the main source of income. Having regard to these factors, the Trustee concluded at its meeting on 16<sup>th</sup> October 2019 that the current default strategy and default arrangement (lifestyle cash target) remained appropriate. Accordingly, no change was made. In 2022 the Trustee will be completing a further comprehensive review of the default strategy and default arrangement to help ensure that they remain appropriate, the Trustee is aiming to complete the review during September 2022.

## Annual governance statement (continued)

The Trustee constantly monitors and discusses fund enhancements and opportunities, during 2020 and 2021 the Trustees had been focussing on the L&G Future World Multi-Asset Fund. This resulted in a change being made to the funds used for the purpose of the Default Arrangement, in May 2021 the Trustees completed a transition of the Multi-Asset Fund to the Future World Multi-Asset Fund which has further enhanced ESG (Environmental, Social & Governance) integration features. For the Default Arrangement the relevant funds are now the L&G Future World Fund and the L&G Future World Multi-Asset Fund (during the growth phase) and the L&G Money Market Fund (for de-risking). There were no changes to the Self-Select Options.

### 2. Investment returns

#### Fund performance net of fees to 31<sup>st</sup> March 2022 (annualised returns)

|                                      | 1 year (%) | 3 years (%) | 5 years (%) |
|--------------------------------------|------------|-------------|-------------|
| Lifestyle Fund (default arrangement) | 8.2        | 9.4         | 8.0         |
| Passive Equity Fund                  | 12.5       | 12.5        | 10.0        |
| Diversified Return Fund              | 4.0        | 6.2         | 5.8         |
| Money Market Fund                    | 0.0        | 0.3         | 0.4         |
| Emerging Markets Fund                | -13.5      | 4.3         | 3.1         |
| Ethical Fund                         | 9.8        | 16.2        | 13.6        |
| Pre-Retirement Fund                  | -7.0       | 0.5         | 1.4         |
| Pre-Retirement Inflation Linked Fund | -1.7       | 1.8         | 2.2         |
| Property Fund                        | 22.0       | 7.5         | 5.5         |
| Shariah Fund                         | 21.4       | 21.2        | 16.3        |

Source: Legal and General

### 3. 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 borne 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 arrangement during the last Scheme year were:

- Charges: 0.41%. This is well under the legal charge cap of 0.75%.
- Transaction costs: 0.06%.

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 arrangement, then per year the member bears the following:

- Charges: 0.41% x £1,000 = £4.10.
- Transaction costs: 0.06% x £1,000 = 60p.

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.

## Annual governance statement (continued)

### 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                                 | TER Charges | Total transaction costs |
|--------------------------------------|-------------|-------------------------|
| Lifestyle Fund (default arrangement) | 0.41%       | 0.17%                   |
| Passive Equity fund                  | 0.45%       | 0.16%                   |
| Diversified Return Fund              | 0.37%       | 0.18%                   |
| Money Market Fund                    | 0.32%       | 0.00%                   |
| Emerging Markets Fund                | 1.20%       | 0.18%                   |
| Ethical Fund                         | 0.96%       | 0.15%                   |
| Pre-Retirement Fund                  | 0.30%       | 0.00%                   |
| Pre-Retirement Inflation Linked Fund | 0.30%       | 0.00%                   |
| Property Fund                        | 1.61%       | 0.00%                   |
| Shariah Fund                         | 0.56%       | 0.13%                   |

Source: Legal and General

The Total Expense Ratios (TERs) are as at 31 March 2022 and transaction cost information is based on information available for the 12 months to 31 December 2021 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 highest and second highest annual member borne costs and that have higher risk profiles
  - the lowest annual member borne costs, which has the lowest risk profile.

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

- As an example, for a member who joined the default arrangement at age 22, paying the typical contribution rate of 10%, charges and costs (based on the figures for this Scheme year) would reduce their projected pot value, at retirement, in today's money from £118,631 to £106,057.

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

## Annual governance statement (continued)

### 2. 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 compare against similar schemes and available external benchmarks.

#### Approach

The Trustee adopted the following approach to assessing Value for Members for the last year:

- Services – considered the investment, administration, communication services where members bear or share the costs;
- Outcomes – weighted each service according to its likely impact on 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 2022

The Scheme gave **EXCELLENT** Value for Members in the year ending 31 March 2022 for investment, communication and administration 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 2022.

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.                    |

## Annual governance statement (continued)

The rationale, based on an assessment by Hymans Robertson, for the rating of each service was in outline:

| Service and weighting | Rating    | Rationale   |
|-----------------------|-----------|---|
| Investment<br>40%     | GOOD      | The Trustee notes that 97.5% 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 0.32% p.a. to a maximum of 0.41% p.a. depending on where the member currently sits in the investment glidepath. This is higher than the average charge of 0.28% p.a. in the DWP's 2020 survey for bundled schemes with over 1,000 members. 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 law funds. The Trustee considers that this is a suitable range of self-select funds and is a similar range to other peer Schemes. The performance for most of the funds has been in line, or in excess of, their respective benchmarks. The Trustee and its DC investment adviser continues to monitor charges and receives quarterly detailed investment reports that consider performance relative to benchmarks. The Trustee considers the impact of Environmental, Social and Governance (ESG) risks and has integrated ESG-titled funds in the Scheme's default investment strategy and self-select fund range. The Trustee is regularly updated by L&G and the Scheme's advisers on ESG developments and has introduced Tumelo to gain feedback from members on ESG matters. |
| Administration<br>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 99.7%; above the target service levels of 95%. Core financial transactions have, generally, been processed promptly and accurately. There is good record keeping and member complaints remain very low as a % of total membership, with 32 complaints in the year to 31 March 2022. There were no data security breaches and common data quality is high at 98.6%. L&G's Standard and Poor's ('S&P') rating is AA- which indicates that they are financially sound. Administration systems capabilities and controls in place to ensure regulatory compliance are effective and the Trustee considers L&G to have an experienced in-house administration and help-line team.   |
| Communication<br>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 Pension Quality Mark Plus, demonstrating that Scheme communications are clear and easy to understand and was an early adopter of the PLSA Retirement Income Standards. The Scheme also won the 'DC Pension Scheme of the Year' in the 2022 Pensions Age Awards. 'Online' engagement has increased in the last 12 months with the number of 'manage your account' member registrations increasing from 28.6% as at 31 March 2021 to 32.9% members as at 31 March 2022 – a c.15% increase. Further, e-mail addresses are now held for over 71% of members to facilitate member communication. In the year to 31 March 2022, the Scheme also held a Pensions Awareness week for members and the Scheme launched a new online application ('Coll8') which will be used by members to access details of their pension.   |

## Annual governance statement (continued)

|                           |                  |  |
|---------------------------|------------------|--|
| <p>Governance<br/>15%</p> | <p>EXCELLENT</p> | <p>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. Over the last year, a fundamental review of the Scheme Risk Register has taken place against the backdrop of the pandemic, the Russian / Ukrainian War and changing regulations. The Trustee Board has had quarterly meetings over the last 12 months and, in addition, operated four sub-committees to help fulfil its governance functions. The Board has 10 Trustee Directors with good gender diversity and access to a wide range of diverse professional skills and expertise including suitably qualified external advisors. The Chair of the Board is a professional independent trustee with over 40 years of experience. A Trustee effectiveness review was carried out and the Board is confident that it has established and maintained procedures and controls to ensure the effectiveness and performance of the Scheme and service providers. The Board have collectively, and individually, maintained and developed their knowledge over the year with 3 dedicated training days. The Trustee Board is also a member of the Pensions Management Institute's Trustee Group. The Trustee and L&amp;G are also committed to TPR's Pension Scam pledge aimed at protecting members benefits.</p> <p>With regard to contributions, the Scheme offers a 5% employee / 5% employer match from base pay upwards with the option for members to increase this to an 8% employee / 14% employer match. The Trustee, and its DC advisor, considers this benchmarks very positively against other UK retail pension schemes.</p> |
| <p>Retirement<br/>5%</p>  | <p>GOOD</p>      | <p>The Trustee, through both L&amp;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 LV to support members who need individual advice with their retirement options. Members also being appropriately signposted to Pension Wise and Money Helper.</p>  |

The Trustee has agreed an action plan for the following year to improve value where necessary and obtain any missing information. This action plan along with details of the missing information and value assessment limitations are detailed in other sections of this Chairs Statement.

### **3. Administration and core financial transactions**

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

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

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

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

## Annual governance statement (continued)

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

| <b>TASK DESCRIPTION</b>  | <b>WORK ITEM</b>                        | <b>SERVICE DAYS</b>                                       |
|--|---|---|
| Create Member Record   | <b>joiner files</b>                     | 24 hours  |
| Process submitted contribution file                                  | <b>contribution files</b>               | 24 hours  |
| Allocate contribution payment  | <b>cash allocation</b>                  | 24 hours  |
| Make retirement payment  | <b>retirement payment</b>               | 5 working days  |
| Make lump sum payment  | <b>lump sum payment</b>                 | 5 working days  |
| Make death payment   | <b>death payment</b>                    | 5 working days  |
| Make ill health payment  | <b>ill health payment</b>               | 5 working days  |
| Make serious ill health payment                                      | <b>serious ill health payment</b>       | 5 working days  |
| Make divorce payment   | <b>divorce payment</b>                  | 5 working days  |
| Allocate transfer payment to member account                          | <b>transfer payment</b>                 | 5 working days  |
| Make short service refund payment                                    | <b>short service refunds</b>            | 5 working days  |
| Surrender member account   | <b>surrender</b>                        | 5 working days  |
| Apply bulk transfer payments   | <b>transfers in (bulk)</b>              | Agreed individually with Trustees on a case by case basis |
| Apply individual transfer payment                                    | <b>transfers in (individual)</b>        | 5 working days  |
| Switch current investments / Redirect future contribution investment | <b>investment management (switches)</b> | 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 2022, the percentage completed within SLA was 99.7%

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 The Pension Regulator's Defined Contribution Code of Practice on reporting late payment of contributions and with the relevant legislation.
- Maintaining close working links between the in-house group pension team and the administrator. SLAs are provided to the in-house group pension team on a monthly basis.
- Ensuring that detailed disaster recovery plans are in place with the administrator, other relevant third parties, and within the sponsoring employer.
- Preparing a Risk Register which outlines the risks to members and the Scheme, including those in relation to financial transactions, and considers the impact, likelihood, controls and mitigation steps for each risk. The Risk Register is subject to ongoing monitoring and review, by both the Trustee and the group pension team.
- A review of the Legal & General data accuracy reporting for the Scheme was completed.
- Appointing a Registered Auditor to undertake an annual audit. The Scheme Auditor independently tests a sample of financial transactions for accuracy and timeliness as part of the annual audit process.
- Reviewing the AAF 01/06 Type 2 internal controls report of Legal and General, a report audited by independent auditors. The report covered the period 1 October 2020 to 30 September 2021. No major exceptions were reported.
- Monthly cash reconciliations are performed by the Legal and General accounting operation team on all bank accounts. Reconciliations are documented, checked, and authorised by the team manager. The cut-off date for completion of reconciliation is the 15th working day of the month.
- For contributions, on the payroll cycle dates all contribution files must be submitted to Legal and General, by payrolls via Manage Your Scheme (MYS). MYS contains validation requiring the scheme to exactly match the structure held on file by Legal & General's administration platform (FPF). This includes details of members on premium holidays and members who are leaver status. The submission file cannot be submitted by the employer until all fields have been validated. Daily, weekly and monthly reports are generated and issued by the Business Intelligence team providing details of exceptions.

## Annual governance statement (continued)

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 continued impact of the COVID-19 pandemic, both the Scheme and service providers disaster recovery plans, allowing for home remote working, could be enabled and continued throughout the whole Scheme Year 2021/22.

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. Trustee Knowledge and Understanding (TKU)**

The law requires the Trustee Board to possess sufficient knowledge and understanding ("TKU") 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.

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

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

New Trustees complete an induction programme, which includes completing The Pensions Regulator's online trustee toolkit. The Trustee toolkit is an online learning programme aimed at trustees of occupational pension schemes. During the year one new Trustee was appointed and provided with access to the above documentation in order for them to familiarise themselves with it.

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 Pensions Regulator's toolkit, including the new essential modules "How a Defined Contribution scheme works" and "Investment in a Defined Contribution 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 & General regulatory updates, focusing on both The Pensions Regulator and Financial Conduct Authority 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, TKU training is provided ahead of any decisions.

## Annual governance statement (continued)

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 Defined Benefit (DB) and an active Defined Contribution (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 2021/22 included Trustee duties on:

| Date       | Review of   |
|------------|---|
| 19.01.2022 | Club Vita – Longevity Update. Including; (i) Baseline longevity: highlights from annual reporting (ii) Future improvements in longevity, and (iii) Longevity as a risk: COVID-19 and climate change - Mark Sharkey, Club Vita                 |
| 19.01.2022 | Legal training – Richard Evans, Mayer Brown: transfers-out (including relevant provisions of Trust Deed and Rules); Trustee arrangements and member-nominated directors; role of the Pensions Regulator; and proposed single Code of Practice |
| 08.11.2021 | Actuarial Valuation training Part 2 - Lisa Deas and Leonard Bowman, Hymans Robertson  |
| 04.11.2021 | Practical Diversity, Equity and Inclusion for Pension Schemes – Lynda Whitney and Susan Hoare, Aon  |
| 04.11.2021 | Actuarial Valuation training Part 1 - Lisa Deas and Abigail Pearson, Hymans Robertson   |
| 15.07.2021 | Pensions Dashboard overview and update - Chris Curry, The Pensions Policy Institute   |
| 15.07.2021 | Liability Driven Investment - Paul Richmond and Hannah Ni Riain, Insight Investment   |

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

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

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

### Trustee effectiveness

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

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

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

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

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.

## Annual governance statement (continued)

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 both sections of the hybrid Kingfisher Pension Scheme.

### **5. Trustee Statement of MP Governance**

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

A clear and transparent process exists to appoint member nominated Trustees and a Member Nominated Director exercise is being conducted in 2022.

*Clive Gilchrist*

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

30 June 2022

## Appendix I: 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.

## Statement of investment principles (continued)

### 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.

## Statement of investment principles (continued)

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

### DB INVESTMENT

#### Background

13. The Scheme is subject to the statutory funding objective (SFO) under the Pensions Act 2004, whereby the Scheme is required to have sufficient and appropriate assets to meet the expected cost of providing members' past service benefits (the Technical Provisions). As at the effective date of the 31 March 2019 valuation, the Scheme was fully-funded on the SFO basis.
14. Additionally, the Trustee and the employers have agreed a secondary funding objective (2FO) for the Scheme, which is to reach full-funding on a "gilts flat" basis by 2030. The Trustee is seeking to achieve the 2FO through a combination of employer contributions and investment returns.

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

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

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

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

## Statement of investment principles (continued)

- (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.

## Statement of investment principles (continued)

- (vii) **Liquidity risk** – The risk that, due to a shortage of cash, the Trustee is unable to pay benefits when due or is forced to make an unintended asset sale. The Trustee manages this risk by forecasting cashflows and ensuring that a suitable proportion of DB funds are invested in readily-realizable assets.
- (viii) **Environmental Social and Governance Issues** – Risk of the extent to which ESG factors including climate change are not appropriately reflected in asset prices and / or not considered in investment decision making processes leading to underperformance relative to targets. The Trustee considers this risk by taking advice from their investment adviser and discussing ESG integration with investment managers.
- (c) **Expected returns:** The assets taken as a whole are expected to generate returns over the long term that modestly exceed gilts. Target returns for particular portfolios will be agreed with the relevant fund managers.
- (d) **Realisation of investments:** Arrangements are in place to minimise the risk that the Trustee will need to realise investments unexpectedly – see (b)(vii) above. Disposals of individual holdings within a portfolio will normally be a matter for the relevant fund manager. The Trustee does however pro-actively seek and review information as to transaction costs.
- (e) **Financially-material considerations:** The Trustee believes that ESG issues may have a material impact on the performance of investments over the appropriate time horizon, which the Trustee takes to be the period to 2030 (the target date for the 2FO). The Trustee has regard to ESG considerations when investing, in so far as consistent with the Trustee's duties as regards seeking returns and mitigating risk. In particular, the Trustee takes account of climate change risks in the management of the DB global equity portfolio and have implemented a “climate change tilt”, i.e. it has more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector. The Trustee has also invested in a global renewable energy fund. The Trustee assesses the investment managers’ approach to ESG as part of the investment manager selection process. Other than in this regard, it is left to fund managers to determine the extent to which ESG issues are taken into account when making investment decisions. The Trustee recognises that passive managers may be constrained by the need to track relevant indices, but nevertheless expects such managers to pursue a policy of engagement with investee companies (see below).
- (f) **Non-financial matters:** The Trustee recognises that some DB members may have strong views as to non-financial matters including ethical issues. However, the Trustee does not feel that there is any clear consensus as to non-financial matters across the Scheme membership. Against that background, the Trustee does not seek to take account of members' views as to non-financial matters when investing.
- (g) **Voting and investor rights and engagement:** The Trustee encourages fund managers to vote and exercise other investor rights, and to engage with investee companies and other relevant persons on relevant matters, with a view to furthering the Trustee's long-term financial interests and the policies described above. The fund managers decide whether and how to vote and engage on particular issues, referring back to the Trustee only where they deem an issue to be contentious and to warrant discussion by the Trustee. Stewardship information supplied by fund managers is reviewed and, where a review gives rise to a concern, the Trustee will consider how best to address that concern with the relevant manager.

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

## Statement of investment principles (continued)

- (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.

## Statement of investment principles (continued)

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

### DC INVESTMENT, INCLUDING THE DEFAULT ARRANGEMENT

#### Background

16. In accordance with the Pensions Act 2008 and the Scheme's governing rules, the Trustee has put in place:
  - a Default Arrangement in which KPS-MP members' (including automatically enrolled employees) retirement accounts are by default invested; and
  - a range of other 'white-labelled' DC investment options from which members may choose (**Self-Select Options**).
17. The DC investments consist primarily of holdings in unitised funds (Funds) offered by insurance companies. The Funds invest in turn (via their fund managers) but the underlying assets of the Funds are not owned by the Trustee.
18. The Trustee has chosen a "Lifestyle Cash Target" as the Default Arrangement. The Trustee's investments under the arrangement consist of units in Funds offered by Legal & General Assurance Society Limited (L&G), described further in Paragraph 21(a). The Self-Select Options consist primarily of Funds offered by L&G, although some other legacy investments are retained for certain longstanding members.
19. The Default Arrangement and the Self-Select Options are regularly monitored and reviewed by the Trustee and may be changed by the Trustee at any time.

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

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

## Statement of investment principles (continued)

### 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.

## Statement of investment principles (continued)

- (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.

## Statement of investment principles (continued)

- (d) **Realisation of investments:** The Trustee's holdings in Funds will be sold as and when necessary for the purpose of investment switches, benefit payments or transfers-out. The Trustee expects that such holdings will be readily realisable in all normal market conditions. Realisation of the underlying investments of the Funds is a matter for their fund managers. The Trustee does however pro-actively seek and review information as to transaction costs.
- (e) **Financially-material considerations:** The Trustee believes that ESG issues may have a material impact on the performance of investments over the appropriate time horizon, which the Trustee takes to be members' working lives. The Trustee has regard to ESG considerations when investing, in so far as consistent with the Trustee's duties as regards seeking returns and mitigating risk. The Trustee selected the L&G Future World Fund as the underlying fund of the Passive Equity Fund in part to mitigate the financially material risks associated with climate change. The Fund has a "climate change tilt", i.e. it has more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector. The Trustee assesses the investment managers' approach to ESG as part of the investment manager selection process. Other than in this regard, it is left to the fund managers to determine the extent to which ESG issues are taken into account when making decisions as to the underlying investments. The Trustee recognises that passive managers may be constrained by the need to track relevant indices, but nevertheless expects such managers to pursue a policy of engagement with investee companies (see below).
- (f) **Non-financial matters:** The Trustee recognises that some DC members may have strong views as to non-financial matters including ethical issues. However, the Trustee does not feel that there is any clear consensus as to non-financial matters across the Scheme membership. Against that background, the Trustee has determined that the Self-Select Options should include the Ethical Fund and the Shariah Fund, but does not otherwise take account of members' views on non-financial matters when investing.
- (g) **Voting and investor rights and engagement:** Voting and other rights attaching to the investments of the Funds are exercisable by the fund managers. It is left to the fund managers to determine whether and how to exercise those rights. The Trustee does however monitor and engage with the fund managers. L&G provide corporate governance and responsible investment presentations to the Trustee, outlining their stewardship approach and reporting on their engagement and voting activities. Stewardship information supplied by L&G/fund managers is reviewed and, where a review gives rise to a concern, the Trustee will consider how best to address that concern with L&G/the relevant manager.

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

- (h) **Arrangements with fund managers:** As mentioned in Paragraphs 16 to 18, DC investments are made via insurance companies, principally L&G. Whilst the Trustee selects the underlying Funds which are made available to members, the fund managers of those Funds are appointed by the insurer. Consequently the Trustee has no direct arrangements with fund managers. However, in the interests of transparency, the Trustee's policy as regards analogous matters is as follows:
- (i) The Trustee will enter into a contract with the insurer on terms which are appropriate having regard to the policies set out in this SIP, including terms as fees; performance measurement and reporting; and termination of the arrangement.
- (ii) When choosing Funds, the Trustee will so far as practicable ensure that the applicable terms are likewise appropriate, including the terms as to investment objectives/benchmarks; constraints (e.g. concentration limits); financially-material considerations; non-financial matters; and fees.

## Statement of investment principles (continued)

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

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

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

22 September 2020

## 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 £14,965, on a salary of £17,950 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 £) |
|---------------------|--------------------------------------|---|
| 27                  | £14,965                              | £14,965                                       |
| 25                  | £19,170                              | £19,014                                       |
| 20                  | £30,422                              | £29,678                                       |
| 15                  | £42,815                              | £41,161                                       |
| 10                  | £56,465                              | £53,528                                       |
| 5                   | £71,501                              | £66,845                                       |
| 3                   | £76,274                              | £71,000                                       |
| 1                   | £78,993                              | £73,294                                       |
| 0                   | £79,597                              | £73,750                                       |

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

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

| Years to retirement | Passive Equity Fund                  |                                     | Money Market Fund                    |                                     | Emerging Markets Fund                |                                     | Property Fund                        |                                     |
|---------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                     | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) |
| 28                  | £14,965                              | £14,965                             | £14,965                              | £14,965                             | £14,965                              | £14,965                             | £14,965                              | £14,965                             |
| 25                  | £19,270                              | £19,087                             | £18,024                              | £17,921                             | £19,909                              | £19,450                             | £19,070                              | £18,540                             |
| 20                  | £30,906                              | £30,024                             | £25,289                              | £24,865                             | £34,152                              | £31,797                             | £29,945                              | £27,506                             |
| 15                  | £43,908                              | £41,926                             | £32,038                              | £31,214                             | £51,564                              | £45,952                             | £41,751                              | £36,512                             |
| 10                  | £58,436                              | £54,881                             | £38,308                              | £37,019                             | £72,847                              | £62,180                             | £54,570                              | £45,556                             |
| 5                   | £74,668                              | £68,979                             | £44,131                              | £42,326                             | £98,863                              | £80,783                             | £68,487                              | £54,641                             |
| 3                   | £81,682                              | £74,961                             | £46,343                              | £44,320                             | £110,823                             | £88,967                             | £74,383                              | £58,286                             |
| 1                   | £89,015                              | £81,149                             | £48,491                              | £46,243                             | £123,783                             | £97,609                             | £80,475                              | £61,938                             |
| 0                   | £92,805                              | £84,323                             | £49,541                              | £47,179                             | £130,664                             | £102,111                            | £83,598                              | £63,766                             |

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

The assumptions used in these calculations are detailed below.

**Representative Member 2: Deferred Member, age 38, with a pension pot size of £5,555, making 0% contributions and retiring at age 68 in line with the State Pension Age.**

**For the default arrangement:**

| Years to retirement | Before costs and charges (today's £) | After costs and charges are taken (today's £) |
|---------------------|--------------------------------------|---|
| 30                  | £5,555                               | £5,555  |
| 25                  | £6,119                               | £5,982  |
| 20                  | £6,739                               | £6,442  |
| 15                  | £7,423                               | £6,938  |
| 10                  | £8,176                               | £7,471  |
| 5                   | £9,005                               | £8,045  |
| 3                   | £9,157                               | £8,118  |
| 1                   | £9,061                               | £7,979  |
| 0                   | £8,928                               | £7,837  |

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

## Tables illustrating the impact of charges and costs (continued)

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

| Years to retirement | Passive Equity Fund                  |                                     | Money Market Fund                    |                                     | Emerging Markets Fund                |                                     | Property Fund                        |                                     |
|---------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                     | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) |
| 30                  | £5,555                               | £5,555                              | £5,555                               | £5,555                              | £5,555                               | £5,555                              | £5,555                               | £5,555                              |
| 25                  | £6,207                               | £6,046                              | £5,160                               | £5,079                              | £6,790                               | £6,368                              | £6,031                               | £5,579                              |
| 20                  | £6,935                               | £6,580                              | £4,794                               | £4,644                              | £8,300                               | £7,301                              | £6,548                               | £5,604                              |
| 15                  | £7,749                               | £7,161                              | £4,453                               | £4,246                              | £10,146                              | £8,370                              | £7,110                               | £5,629                              |
| 10                  | £8,658                               | £7,793                              | £4,137                               | £3,882                              | £12,402                              | £9,596                              | £7,719                               | £5,653                              |
| 5                   | £9,674                               | £8,482                              | £3,843                               | £3,550                              | £15,160                              | £11,001                             | £8,381                               | £5,678                              |
| 3                   | £10,113                              | £8,774                              | £3,731                               | £3,425                              | £16,428                              | £11,619                             | £8,661                               | £5,688                              |
| 1                   | £10,572                              | £9,076                              | £3,623                               | £3,304                              | £17,802                              | £12,272                             | £8,951                               | £5,698                              |
| 0                   | £10,810                              | £9,231                              | £3,570                               | £3,245                              | £18,531                              | £12,612                             | £9,099                               | £5,703                              |

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

The assumptions used in these calculations are detailed below.

**Representative Member 3: Active Member who has just joined the scheme, age 22, on a salary of £17,950 p.a., making 10% contributions (5% employee; 5% employer) and retiring at age 68 in line with the State Pension Age.**

### For the default arrangement:

| Years to retirement | Before costs and charges (today's £) | After costs and charges are taken (today's £) |
|---------------------|--------------------------------------|---|
| 46                  | £0                                   | £0  |
| 45                  | £1,790                               | £1,786  |
| 40                  | £11,279                              | £11,125                                       |
| 35                  | £21,730                              | £21,182                                       |
| 30                  | £33,242                              | £32,012                                       |
| 25                  | £45,921                              | £43,675                                       |
| 20                  | £59,887                              | £56,235                                       |
| 15                  | £75,269                              | £69,760                                       |
| 10                  | £92,211                              | £84,326                                       |
| 5                   | £110,873                             | £100,012                                      |
| 3                   | £116,309                             | £104,464                                      |
| 1                   | £118,607                             | £106,185                                      |
| 0                   | £118,631                             | £106,057                                      |

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

## Tables illustrating the impact of charges and costs (continued)

For a selection of the self-select funds:

| Years to retirement | Passive Equity Fund                  |                                     | Money Market Fund                    |                                     | Emerging Markets Fund                |                                     | Property Fund                        |                                     |
|---------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                     | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) | Before costs and charges (today's £) | After costs and charges (today's £) |
| 46                  | £0                                   | £0                                  | £0                                   | £0                                  | £0                                   | £0                                  | £0                                   | £0                                  |
| 45                  | £1,793                               | £1,788                              | £1,760                               | £1,757                              | £1,809                               | £1,797                              | £1,788                               | £1,774                              |
| 40                  | £11,378                              | £11,197                             | £10,181                              | £10,086                             | £12,028                              | £11,559                             | £11,180                              | £10,666                             |
| 35                  | £22,089                              | £21,437                             | £18,003                              | £17,701                             | £24,520                              | £22,751                             | £21,378                              | £19,597                             |
| 30                  | £34,056                              | £32,581                             | £25,270                              | £24,664                             | £39,789                              | £35,581                             | £32,450                              | £28,568                             |
| 25                  | £47,427                              | £44,709                             | £32,020                              | £31,030                             | £58,454                              | £50,290                             | £44,472                              | £37,578                             |
| 20                  | £62,368                              | £57,909                             | £38,291                              | £36,850                             | £81,269                              | £67,153                             | £57,524                              | £46,627                             |
| 15                  | £79,062                              | £72,275                             | £44,116                              | £42,172                             | £109,158                             | £86,485                             | £71,694                              | £55,717                             |
| 10                  | £97,714                              | £87,910                             | £49,527                              | £47,038                             | £143,248                             | £108,648                            | £87,080                              | £64,846                             |
| 5                   | £118,556                             | £104,926                            | £54,553                              | £51,487                             | £184,919                             | £134,056                            | £103,784                             | £74,016                             |
| 3                   | £127,562                             | £112,146                            | £56,463                              | £53,158                             | £204,076                             | £145,232                            | £110,860                             | £77,695                             |
| 1                   | £136,976                             | £119,615                            | £58,316                              | £54,770                             | £224,835                             | £157,036                            | £118,173                             | £81,380                             |
| 0                   | £141,843                             | £123,445                            | £59,223                              | £55,555                             | £235,857                             | £163,184                            | £121,920                             | £83,226                             |

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 £14,965 for an active member and £5,555 for a deferred member, which was the average pension pot size for members at 31 March 2022;
- 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 2022;
- The investment return assumed for each fund above is as follows:

| Fund                    | SMPI Growth Rate % p.a. (supplied by L&G) |
|-------------------------|---|
| Passive Equity Fund     | 4.8                                       |
| Diversified Return Fund | 4.2                                       |
| Money Market Fund       | 1.0                                       |
| Emerging Markets Fund   | 6.7                                       |
| Property Fund           | 4.2                                       |

- 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     | 0.45                        | 0.10                     |
| Diversified Return Fund | 0.37                        | 0.02                     |
| Money Market Fund       | 0.32                        | 0.00                     |
| Emerging Markets Fund   | 1.20                        | 0.16                     |
| Property Fund           | 1.61                        | 0.00                     |

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

## Tables illustrating the impact of charges and costs (continued)

**Please note that these illustrated values:**

- Use TER supplied for the year to 31 March 2022;
- Use transaction costs supplied for the past 3 years to 31 December 2021 being the best information available to the Trustee at the time;
- Are estimates using assumed rates of future investment returns and inflation which may not be borne out in practice;
- May differ in the future to reflect changes in regulatory requirements or investment conditions;
- Will be affected by future, and as yet unknown, changes to the Scheme's investment options;
- Are not guaranteed;
- Depend upon how far members in the default lifestyle option are from retirement as the funds used change over time;
- May not prove to be a good indication of how a member's individual DC savings might grow; and
- Comply with the Technical Actuarial Standards (TAS) 100: Principles for Technical Actuarial Work.