

Chair's DC Governance Statement, covering 1 April 2024 to 31 March 2025

1. Introduction

The **Kingfisher Pension Scheme** (the "Scheme") is an occupational pension scheme providing defined contribution ("DC") benefits (a DC pension scheme is where employee and employer contributions are paid into it; members choose their investments (or is invested in the default option) and bear the investment risk).

Some members also have defined benefit ("DB") benefits in the Scheme which have attaching DC benefits in respect of Additional Voluntary Contributions ("AVCs"). We have not reported on these AVCs given they are relatively small investments; however we will look to include in future statements.

Governance requirements apply to DC pension arrangements, to help members achieve a good outcome from their pension savings. We, the Trustee of the Scheme, are required to produce a yearly statement (signed by the Chair of the Trustee) covering:

- the design and oversight of the default investment option (ie where contributions are invested for members that do not wish to choose their own investments);
- processing of core financial transactions (ie administration of the Scheme, such as investment of contributions);
- the charges and transaction costs borne by members for the default option and any other investment option members can select or have assets in, such as "legacy" funds;
- an illustration of the cumulative effect of these costs and charges;
- net returns of the investment options;
- how the value members obtain from the Scheme is assessed; and
- Trustee knowledge and understanding.

The key points that we would like members reading this Statement to take away are as follows:

- We regularly monitor the investment arrangements, and we are satisfied that the default and other investment options remain suitable for the membership.
- The administrator has processed core financial transactions promptly and accurately to an acceptable level during the Scheme year, and we remain comfortable with the administrator's performance.
- Fees can have a material impact on the value of your pension savings and the fee impact is greater the more time passes, since fees reduce the amount of money that can grow with future investment returns.
- Fees for the investment options are set out in this Statement, and we remain comfortable that these fees are reasonable given the circumstances of the Scheme and represent value for the benefits members obtain.
- Please rest assured that we are looking after your best interests as members, and we undertake training and receive advice as appropriate so that we have sufficient knowledge and understanding to do so effectively.

2. Default arrangements

The Scheme is used as a Qualifying Scheme for automatic enrolment purposes. This means that it is used as a pension savings scheme for employees who are eligible for automatic enrolment into a pension scheme.

We have made available a range of investment options for members. Members who join the Scheme and who do not choose an investment option are placed into the Lifestyle Cash Target, (the "Default"). We recognise that most members do not make active investment decisions and instead invest in the Default. After taking advice, we decided to make the Default a lifestyle strategy, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date.

There is one legacy default arrangement, the Lifestyle Cash Target (legacy Default), which is no longer used as a default arrangement for new members. This was the default arrangement prior to the changes implemented as a result of the strategy review in September 2022.

We are responsible for investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and our policies regarding the default arrangement are set out in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP covering the default arrangement is attached to this Statement as an Appendix.

We regularly monitor the performance of the Default and will formally review the strategy (aims, objectives and SIP policies) at least every three years.

The Trustee started to review the Default during the period covered by the Chair's Statement, on 11 March 2025. This initial review included a review of the Scheme's membership data to determine the ongoing suitability of the Default. The Default review will continue over 2025, and details of areas covered will be provided in next year's Statement.

The last, completed Default review was completed on 23 September 2022. In this review, the performance and strategy of the Default were reviewed to check whether investment returns (after deduction of charges and costs) have been consistent with the aims and objectives of the Default as stated in the SIP, and to check that it continues to be suitable, and appropriate given the Scheme's risk profiles and membership.

For this purpose, the Trustee's advisers carried out an in-depth demographic analysis of the membership and supplied projections of member outcomes compared to the PLSA Retirement Living Standards. The Trustee considered the likely needs of members in retirement along with likely other sources of income, in particular the State pension, which for the majority of members will be their main source of income. Having regard to these factors, the Trustee approved the following changes at their meeting on 23 September 2022:

- An increase in the equity allocation of the Default in the growth phase
- An increase in the length of the de-risking period from 5 to 10 years
- A decrease in the length of time that cash is introduced from 5 to 3 years

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

These changes were implemented in March 2023.

In addition to triennial strategy reviews we also review the performance of the Default against its objectives on a quarterly basis. This review includes performance analysis to check that the risk and return levels meet expectations. Our reviews over the Scheme year concluded that the Default was performing broadly as expected and consistently with the aims and objectives as stated in the SIP.

Asset allocation breakdown

We are required to show the asset allocation of the default arrangements. In line with DWP's guidance we have also shown this asset allocation for different ages as at the scheme year end.

Lifestyle Cash Target (the Default)

Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 60 y/o %	Allocation at retirement %
Cash	0.5%	0.5%	1.1%	100.0%
Corporate bonds (UK and overseas)	5.7%	5.7%	11.5%	0.0%
UK government bonds	1.0%	1.0%	2.0%	0.0%
Overseas government bonds	2.8%	2.8%	5.6%	0.0%
Listed equities	81.8%	81.8%	63.6%	0.0%
Private equity*	0.5%	0.5%	1.1%	0.0%
Infrastructure*	1.6%	1.6%	3.2%	0.0%
Property*	1.7%	1.7%	3.4%	0.0%
Other	4.3%	4.3%	8.6%	0.0%

*The private equity, infrastructure and property allocations are in respect of investments in pooled funds that give indirect exposure to those types of investment, via investment in equities / listed investments. Other includes global high yield debt and emerging market debt. There are currently no explicit allocations to private debt/credit. Please note, the figures may not sum to 100% due to rounding.

Legacy Lifestyle Cash Target

Asset class	Allocation 25 y/o %	Allocation 45 y/o %	Allocation 60 y/o %	Allocation at retirement %
Cash	0.5%	0.5%	0.9%	100.0%
Corporate bonds (UK and overseas)	5.7%	5.7%	9.6%	0.0%
UK government bonds	1.0%	1.0%	1.7%	0.0%
Overseas government bonds	2.8%	2.8%	4.7%	0.0%
Listed equities	81.8%	81.8%	69.7%	0.0%
Private equity*	0.5%	0.5%	0.9%	0.0%
Infrastructure*	1.6%	1.6%	2.7%	0.0%
Property*	1.7%	1.7%	2.9%	0.0%
Other	4.3%	4.3%	7.2%	0.0%

*The private equity, infrastructure and property allocations are in respect of investments in pooled funds that give indirect exposure to those types of investment, via investment in equities / listed investments. Other includes global high yield debt and emerging market debt. There are currently no explicit allocations to private debt/credit. Please note, the figures may not sum to 100% due to rounding.

3. Processing of core financial transactions

The processing of core financial transactions is carried out by the administrator of the Scheme, Legal and General ("L&G"). Core financial transactions include (but are not limited to): the investment of contributions, processing of transfers in and out of the Scheme, transfers of assets between different investments within the Scheme, and payments to members/beneficiaries.

We have received assurance from L&G that there are adequate internal controls to support prompt and accurate processing of core financial transactions.

The Scheme has a Service Level Agreement (“SLA”) in place with the administrator which covers the accuracy and timeliness of all core financial transactions. The key processes adopted by the administrator to help it meet the SLA are as follows:

Task description	Target timescale to complete task
Create Member Record	24 hours
Process submitted contribution file	24 hours
Allocate contribution payment	24 hours
Make retirement payment	5 working days
Make lump sum payment	5 working days
Make death payment	5 working days
Make ill health payment	5 working days
Make serious ill health payment	5 working days
Make divorce payment	5 working days
Allocate transfer payment to member account	5 working days
Make short service refund payment	5 working days
Surrender member account	5 working days
Apply bulk transfer payments	Agreed individually with Trustee on a case-by-case basis
Apply individual transfer payment	5 working days
Switch current investments / Redirect future contribution investment	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 2025, the percentage completed within SLA was 99.9%. The Trustee monitors the SLAs on a quarterly basis. The reporting covers: volume completed in target, volume not completed in target, volume total, SLA%, average days outside of SLA (for cases not completed in target).

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

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

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

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

Based on our review processes, we are satisfied that over the period covered by this Statement:

- the administrator was operating appropriate procedures, checks and controls, and operating within the agreed SLA;
- there have been no material administration issues in relation to processing core financial transactions; and
- core financial transactions have been processed promptly and accurately to an acceptable level during the Scheme year.

4. Member-borne charges and transaction costs

We are required to set out the on-going charges incurred by members over the period covered by this Statement, which are annual fund management charges plus additional fund expenses, such as custody costs, but excluding transaction costs; this is also known as the total expense ratio ("TER"). The TER is paid by the members and is reflected in the unit price of the funds.

The stated charges are shown as a per annum ("pa") figure and include any administration charges, since members incur these.

We are also required to disclose transaction cost figures. In the context of this Statement, the transaction costs shown are those incurred when the Scheme's fund managers buy and sell assets within investment funds but are exclusive of any costs incurred when members invest in and switch between funds. The TER and transaction costs are the only costs borne by members.

The charges and transaction costs have been supplied by L&G who is the Scheme's platform provider. When preparing this section of the Statement we have taken account of the relevant statutory guidance.

Default arrangements

The Default and the legacy Default have been set up as a lifestyle approach, which means that members' assets are automatically moved between different investment funds as they approach their target retirement date. This means that the level of charges and transaction costs will vary depending on how close members are to their target retirement age and in which funds they are invested.

For the period covered by this Statement, annualised charges and transaction costs are set out in the following table.

Default charges and transaction costs (% per annum)

Years to target retirement date	TER	Transaction costs
20 or more years to retirement	0.41	0.07
15 years to retirement	0.41	0.07
10 years to retirement	0.41	0.07
5 years to retirement	0.38	0.05
At retirement	0.29	0.00

Legacy Lifestyle Cash Target charges and transaction costs (% per annum)

Years to target retirement date	TER	Transaction costs
20 or more years to retirement	0.41	0.07
15 years to retirement	0.41	0.07
10 years to retirement	0.41	0.07
5 years to retirement	0.39	0.06
At retirement	0.29	0.00

The default arrangements do not have any performance-based fees associated with them.

Self-select options

In addition to the default arrangement, members also have the option to invest in two other lifestyles, targeting annuity purchase and income drawdown, and several other self-select funds. The annual charges for these lifestyles during the period covered by this Statement are set out in the tables below.

Lifestyle Annuity Target charges and transaction costs (% per annum)

Years to target retirement date	TER	Transaction costs
20 or more years to retirement	0.41	0.07
15 years to retirement	0.41	0.07
10 years to retirement	0.41	0.07
5 years to retirement	0.35	0.04
At retirement	0.28	0.00

Lifestyle Drawdown Target charges and transaction costs (% per annum)

Years to target retirement date	TER	Transaction costs
20 or more years to retirement	0.41	0.07
15 years to retirement	0.41	0.07
10 years to retirement	0.41	0.07
5 years to retirement	0.38	0.05
At retirement	0.34	0.02

The level of charges for each self-select fund (including those used in the Default) and the transaction costs over the period covered by this Statement are set out in the following table. The underlying funds used within the Default are shown in **bold**.

Self-select fund charges and transaction costs (% per annum)

Fund name	TER	Transaction costs
Lifestyle Fund	0.41	0.08
Passive Global Equity Fund	0.43	0.11
Diversified Return Fund	0.35	0.02
Money Market Fund	0.29	0.00
Pre-Retirement Fund	0.28	0.00
Pre-Retirement Inflation Linked Fund	0.28	0.05
Ethical Fund	0.93	0.13
Shariah Fund	0.51	0.00
Emerging Markets Fund	1.11	0.15
Property Fund*	1.09	0.00

*The Property Fund TER does not include the Property Expense Ratio of 0.88% as this is not required to be reported on in the TER.

Illustration of charges and transaction costs

The following table sets out an illustration of the impact of charges and transaction costs on the projection of an example member's pension savings. In preparing this illustration, we had regard to the relevant statutory guidance.

- The "before costs" figures represent the savings projection assuming an investment return with no deduction of member borne charges or transaction costs. The "after costs" figures represent the savings projection using the same assumed investment return but after deducting member borne charges and an allowance for transaction costs.
- The transaction cost figures used in the illustration are those provided by the managers over the past five years, subject to a floor of zero (so the illustration does not assume a negative cost over the long term). We have used the average annualised transaction costs over the past five years as this is the longest

period over which figures were available, and should be more indicative of longer-term costs compared to only using figures over the Scheme year.

- The illustration is shown for the Default (the Lifestyle Cash Target), as well as two funds from the Scheme's self-select fund range. The self-select funds shown in the illustration are:
 - the fund with the highest annual member borne costs – this is the Emerging Markets Fund; and
 - the fund with lowest annual member borne costs – this is the Pre-Retirement Fund.

Projected pension pot in today's money

Years invested	Default option		Emerging Markets Fund (highest cost)		Pre-Retirement Fund (lowest cost)	
	Before costs	After costs	Before costs	After costs	Before costs	After costs
1	£3,900	£3,900	£3,900	£3,900	£3,900	£3,900
3	£7,900	£7,800	£8,100	£7,900	£7,900	£7,900
5	£12,200	£12,000	£12,600	£12,100	£12,200	£12,100
10	£24,300	£23,600	£25,700	£24,000	£24,300	£23,900
15	£38,700	£37,100	£42,100	£37,800	£38,700	£37,800
20	£55,800	£52,800	£62,500	£54,100	£55,800	£54,000
25	£76,100	£70,900	£88,000	£73,300	£76,100	£73,100
30	£100,100	£91,900	£119,700	£95,700	£100,100	£95,300
35	£123,300	£111,500	£159,300	£122,000	£128,800	£121,500
40	£137,800	£123,400	£208,600	£152,800	£162,700	£152,100

Notes

- Values shown are estimates and are not guaranteed. The illustration does not indicate the likely variance and volatility in the possible outcomes from each fund. The numbers shown in the illustration are rounded to the nearest £100 for simplicity.
- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation. The long term annual inflation assumption used is 2.5%.
- Annual salary growth is assumed to be 2.5%. Salaries could be expected to increase above inflation to reflect members becoming more experienced and being promoted. However, the projections assume salaries increase in line with inflation to allow for prudence in the projected values.
- The starting pot size used is £2,000. This is the approximate average (median) pot size for active (contributing) members aged 25 years and younger (rather than using a whole membership average, we have taken this approach to give a more realistic 40-year projection).
- The projection is for 40 years, being the approximate duration that the youngest scheme member has until they reach the scheme's Normal Pension Age.
- The starting salary is assumed to be £18,000. This is the approximate median salary for active members aged 25 or younger.
- Total contributions (employee plus employer) are assumed to be 10% of salary per year. This is based on the approximate median contribution for active members aged 25 or younger of 5% per year, and the contribution matching structure means that the employer also pays 5% per year.
- The projected before costs annual returns used are as follows:
 - Default option: 3.5% above inflation for the initial years, gradually reducing to a return of 0.5% below inflation at the ending point of the lifestyle.
 - Emerging Markets Fund: 4.5% above inflation
 - Pre-Retirement Fund: 3.5% above inflation
- No allowance for active management outperformance has been made.

Please note that the expected returns used in the projections are the same assumptions used in the Scheme's latest Statutory Money Purchase Illustrations ("SMPIs"). Rules around SMPIs mean that return assumptions are set in a prescribed way based on the volatility of investment returns, with higher volatility meaning higher assumed returns. Therefore, you should interpret the projections with caution and not make any significant change to your investments as a result of them. You should consider obtaining professional financial advice before making any significant change to your investments.

5. Investment returns

This section shows the annual return, after the deduction of member borne charges and transaction costs, for all investment options in which member assets were invested during the Scheme year, over periods to Scheme year-end. We have had regard to the statutory guidance in preparing this Section.

For arrangements where returns vary with age, such as for the default strategy, returns are shown over various periods for a member aged 25, 45 and 55 at the start of the period the returns are shown over.

Default net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)	5 years (% pa)
25	3.4	9.9
45	3.4	9.9
60	3.6	8.1

Lifestyle Annuity Target net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)	5 years (% pa)
25	3.4	9.9
45	3.4	9.9
60	0.2	0.4

Lifestyle Drawdown Target net returns over periods to scheme year end

Age of member at the start of the period	1 year (%)	5 years (% pa)
25	3.4	9.9
45	3.4	9.9
60	3.6	7.7

Self-select fund net returns over periods to scheme year end

Fund name	1 year (%)	5 years (% pa)
Lifestyle Fund	3.4	9.9
Passive Global Equity Fund	3.1	13.0
Diversified Return Fund	3.8	6.1
Money Market Fund	5.1	2.5
Pre-Retirement Fund	-2.5	-5.0
Pre-Retirement Inflation Linked Fund	-5.7	-6.9
Ethical Fund	-4.1	10.2
Shariah Fund	3.6	16.2
Emerging Markets Fund	2.3	5.4
Property Fund	6.6	2.7

6. Value for members assessment

We are required to assess every year the extent to which member borne charges and transaction costs represent good value for members and to explain that assessment. There is no legal definition of 'good value' which means that determining this is subjective. Our general policy in relation to value for member considerations is set out below.

We review all member-borne charges (including transaction costs where available) annually, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. The date of the last review was 16 June 2025. We note that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has also been considered in this assessment.

Our assessment included a review of the performance of the Scheme's investment funds (after all charges and transaction costs) in the context of their investment objectives. The returns on the investment funds members can choose during the period covered by this statement have been consistent with their stated investment objectives.

In carrying out the assessment, we also consider the other benefits members receive from the Scheme, which include:

- our oversight and governance, including ensuring the Scheme is compliant with relevant legislation, and holding regular meetings to monitor the Scheme and address any material issues that may impact members;
- the design of the default arrangements and how this reflects the interests of the membership as a whole;
- the range of investment options and strategies;
- the quality of communications delivered to members;
- the quality of support services, such as the Scheme website where members can access fund information online; and
- the efficiency of administration processes and the extent to which the administrator met or exceeded its service level standards.

Using the criteria described above, we ranked as **very good**, **good**, **fair**, or **poor** the services members receive from the Scheme, as summarised below, together with brief details of our rationale for each rating.

Charges – Good

The charges borne by members (excluding transaction costs) were benchmarked against other similar sized DC schemes. The Trustee will engage in discussion with L&G for any fees identified as being higher than the median level of comparable schemes.

Default investment arrangement – Good

The Default's growth phase has performed broadly in line with comparable strategies. The Trustee will continue to review the Scheme's default strategy in 2025 taking into consideration the Trustee's investment beliefs and membership analysis undertaken during the Scheme year.

Self-select investment range – Good

The alternative lifestyles and self-select funds available to the Scheme are concise, covering different asset classes and at-retirement targets. The Trustee will be reviewing the fund range in 2025 to consider whether this remains suitable for members.

Administration – Very good

L&G's service levels over the Scheme year were very good and there were no material administration issues in relation to processing core financial transactions.

Governance – Very good

The Trustee is committed to the governance of the Scheme. The Trustee Board and the Committees have clearly defined roles and responsibilities, and knowledge and understanding is of a high standard.

Communications – Good

A range of communications were issued to members over the year to 31 December 2024, covering various topics.

At-retirement support – Good

Members have access to a good level of at-retirement support and options.

Scheme design – Very Good

The Company and Trustee's commitment to the Scheme is good as demonstrated in the Scheme design and contribution structure.

As detailed in the earlier section covering the processing of core financial transactions, we are comfortable with the quality and efficiency of the administration processes.

We believe that the transaction costs provide value for members as the ability to transact forms an integral part of the investment approaches and expect this to lead to greater investment returns net of costs over time.

Overall, we believe that members of the Scheme are receiving good value for money for the charges and cost that they incur, for the reasons set out in this section. We aim to improve value for members in future through by taking the following steps:

- Continuing the review of the Scheme's default investment strategy;
- Giving consideration to reviewing retirement solutions currently being developed in the market to understand if these could benefit members in the Scheme; and
- Giving consideration to implementing setting strategic communications objectives and providing targeted communications to help improve member understandability and hence confidence with making decisions about retirement benefits.

7. Trustee knowledge and understanding

We are required to maintain appropriate levels of knowledge and understanding to run the Scheme effectively. We have measures in place to comply with the legal and regulatory requirements regarding knowledge and understanding of relevant matters, including investment, pension and trust law. Details of how the knowledge and understanding requirements have been met during the period covered by this Statement are set out below.

With the help of our advisers, we regularly consider training requirements to identify any knowledge gaps. Our advisers proactively raise any changes in governance requirements and other relevant matters as they become aware of them. Our advisers typically deliver training on such matters at Trustee meetings if they were material. The Scheme is a hybrid scheme having both a legacy Defined Benefit and an active Defined Contribution section, therefore the Trustee Knowledge and Understanding agendas cover both benefit structures. During the period covered by this Statement, we received training on the following topics:

Date	Topic and trainers
04/07/2024	Actuarial valuation refresher training by Hymans
11/07/2024	Impact investing – trends in sustainability & transition to a low carbon economy by Blackrock
11/07/2024	Actuarial valuation training by Hymans
11/07/2024	Defence and scenario planning in the event of corporate action
09/10/2024	Actuarial valuation training by Hymans
09/10/2024	Discretionary benefits training by Mayer Brown
09/10/2024	2024 Defined Contribution benchmarking Survey by Aon
16/01/2025	Actuarial valuation training, run on frameworks risks and surplus usage by Hymans
16/01/2025	A macroeconomic update by Insight Investment
16/01/2025	Cybersecurity and introduction to 'Cyturion' a cyber response tool by Pinsent Masons
19/03/2025	Private Markets by LCP and Fulcrum

Additionally, training is provided at Trustee Board and Sub-Committee meetings to support the Trustee's decision making. This included sessions on DC beliefs, Long-Term Asset Funds (LTAFs) and Task Force on Climate-Related Financial Disclosures (TCFD). We also receive quarterly updates on topical pension issues from our advisers.

We are familiar with and have access to copies of the Scheme's governing documentation and documentation setting out our policies, including the Trust Deed & Rules and SIP (which sets out the policies on investment matters). In particular, we refer to the Trust Deed and Rules as part of considering and deciding to make any changes to the Scheme, and the SIP is formally reviewed annually and as part of making any change to the Scheme's investments. Further, we believe that we have sufficient knowledge and understanding of the law relating to pensions and trusts and of the relevant principles relating to the funding and investment of occupational pension schemes to fulfil our duties.

The Trustee is required to complete the Pensions Regulator's Trustee Toolkit (an online learning programme, designed to help trustees of pension schemes meet the minimum level of knowledge and understanding required by law). New Trustee Directors must complete this within six months of their appointment. Regular training is provided on aspects of the Trustee Knowledge and Understanding requirements. Other training relates to topical items or specific issues under consideration and during the Scheme year.

A training log is maintained in line with best practice and the training programme is reviewed annually to ensure it is up to date. Additionally, the Scheme has in place a structured induction process for new trustees.

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

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

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

During the Scheme year a Trustee Effectiveness review was completed. The review was facilitated by LCP. The results were reviewed by the Trustee Board and there were no areas of concern. Another review is planned for 2025/26.

Additionally, the Board is supported by a dedicated secretariat of pensions professionals with extensive experience, and the Board has appointed professional advisers with whom we meet regularly. The DC Investment & Retirement Committee meetings take place on a quarterly basis and are attended by the investment advisers and the legal advisers, when required. These advisers report on matters specific to the Scheme, as well as to update on developments in legislation and the industry to ensure we are kept up to date on events. In addition, advisers are expected to take a proactive stance and raise pertinent matters as they arise.

Considering our knowledge and experience and the specialist advice received from the appointed professional advisors (eg investment consultants, legal advisors), we believe that we are well placed to exercise our functions as the Trustee of the Scheme properly and effectively.

Rachel Croft

ITS Limited, represented by Rachel Croft, Chairperson

18 June 2025

Date: _____

Signed by the Chair of Trustee of the Kingfisher Pension Scheme

KINGFISHER PENSION SCHEME
STATEMENT OF INVESTMENT PRINCIPLES

GENERAL

Introduction

1. This is the statement of investment principles (**SIP**) for the Kingfisher Pension Scheme (the **Scheme**). The SIP is designed to meet the requirements of section 35 of the Pensions Act 1995 (the **Act**) and the Occupational Pension Schemes (Investment) Regulations 2006 (the **Regulations**). Except where the express provisions of the SIP or the context require otherwise, terms used in the SIP have the meanings which apply for the purpose of the Act and Regulations. References to **Paragraphs** are to paragraphs of the SIP.
2. The SIP has been prepared by the Scheme's trustee (the **Trustee**) after consulting the Scheme's employers and considering written advice from a suitably-qualified adviser, in so far as Regulation 2(2) requires.
3. The Scheme has defined benefit (**DB**) and defined contribution (**DC**) parts. The DB part consists of the Scheme's final salary section (**KPS-FS**) excluding DC AVC funds. The DC part consists of the money purchase section (**KPS-MP**) and AVC funds as just mentioned. In the SIP the DB and DC parts are dealt with separately.
4. The SIP includes both the statement of investment principles for the Scheme generally, in accordance with Regulation 2, and (in Paragraphs 16-22) the statement of investment principles for the default arrangement under KPS-MP (the **Default Arrangement**), in accordance with Regulation 2A.

Governance and compliance (Regulation 2(3)(a))

5. The Trustee has ultimate power and responsibility as to investment policy, though the Trustee is required to consult the Scheme's employers in certain circumstances as described in Paragraph 7. The Trustee has delegated certain of its investment functions to two subcommittees: the DB Investment Committee and the DC Investment & Retirement Committee.
6. The Trustee will invest with a view to giving effect to the principles in the SIP, in accordance with section 36(5) of the Act. Before making any investment, the Trustee will obtain and consider proper advice on whether the investment is satisfactory, having regard to the SIP and the requirements of the Regulations as to suitability, in accordance with Regulation 36(3) of the Act. The Trustee will determine the intervals at which it will obtain proper advice as regards existing investments, and will obtain and consider such advice accordingly.
7. The Trustee will review, and if necessary revise, the SIP at least every three years and in any event without delay after any significant change in investment policy. Before revising the SIP, the trustee will consult the Scheme's employers and consider written advice from a suitably-qualified person, in so far as Regulation 2(2) requires.

8. The Trustee will review the default strategy and the performance of the Default Arrangement at least every three years, and in any case without delay after any significant change in relevant investment policy or in the demographic profile of relevant members. The Trustee will in particular review the extent to which investment returns under the Default Arrangement (after deduction of charges) are consistent with the Trustee's aims and objectives in respect of the Default Arrangement. The Trustee will if necessary revise the SIP after any review.

Investment beliefs

9. The Trustee has the following general beliefs which will guide its investment decisions:
 - (a) **DB liabilities:** A sound understanding of the Scheme's DB liabilities is necessary in order to make appropriate DB investment decisions.
 - (b) **Asset allocation:** Asset allocation is a key decision as regards investment, with significant implications for long-term returns.
 - (c) **Investment risk:** Long-term returns on growth (or return-seeking) assets (e.g. equities) are likely to be higher than those on matching assets (e.g. bonds), but also more volatile. It is necessary to take a certain level of investment risk in order to generate adequate returns (i.e. adequate in order for the DB funding target to be affordable for employers and in order for DC benefits to meet members' expectations at retirement). Appropriate tools should be used to monitor and measure risk. Investment decisions should be made with regard to an agreed risk budget. The Trustee's focus should be on taking intended risks which it believes will be rewarded. Unintended, unrewarded risks should be hedged against in so far as practicable and cost-effective.
 - (d) **Diversification:** Diversification of investments is likely to reduce the level of risk inherent in the overall investment strategy.
 - (e) **Passive versus active management:** Passive investment management is likely to provide the best returns net of charges in many asset classes, particularly developed equity markets. However, active management can sometimes add value. As to active management, a specialist approach (focussing on a particular asset class) is more likely to add value than a balanced approach. The Trustee is satisfied that it has the resources needed in order to put in place and monitor a specialist management structure.
 - (f) **Fees:** Appropriate fee rates and structures will depend on the nature of the investment and on the terms commercially available but may sometimes include a performance-related element.
 - (g) **Responsible ownership:** Investee companies should be run in a responsible way, with due regard to environmental, social and governance (**ESG**) issues, because in the long term this is likely to contribute to the companies' financial success.

Fund managers

10. Having regard to the requirements of the Financial Services and Markets Act 2000, the Trustee delegates day-to-day investment decisions to authorised fund managers. The DB and DC Investment Committees appoint, review and remove fund managers, with appropriate support from the Trustee's investment advisers and Kingfisher's group pensions department.
11. The criteria considered when appointing or removing fund managers include the following:
 - (a) **Business:** evidence of clear strategic direction; supportive ownership from a parent committed to fund management.
 - (b) **People:** high-calibre, experienced professionals; relatively low turnover; clear commitment to fund management culture; strong recruitment and training process.
 - (c) **Process:** effective approach to accessing/interpreting research; robust, repeatable investment process; process consistent with stated philosophy. The Trustee expects its fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process,
 - (d) **Performance:** variability within acceptable range relative to fund manager's style.
12. The DB & DC Investment Committees monitor fund managers' performance against the applicable benchmarks, using the services of an independent performance measurement company. In addition, the Committees regularly meet with fund managers and review managers' capabilities as against the criteria in Paragraph 11.

DB INVESTMENT

Background

13. The Scheme is subject to the statutory funding objective (**SFO**) under the Pensions Act 2004, whereby the Scheme is required to have sufficient and appropriate assets to meet the expected cost of providing members' past service benefits (the **Technical Provisions**). As at the effective date of the 31 March 2022 valuation, the Scheme was fully-funded on the SFO basis.
14. Additionally, the Trustee and the employers have agreed a secondary funding objective (**2FO**) for the Scheme, which is to reach full-funding on a "gilts flat" basis by 2030. The Trustee is seeking to achieve and maintain the 2FO through a combination of investment returns and employer contributions, if required.

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

15. The Trustee has the following policies as regards DB investment:
 - (a) **Kinds of investment, and the balance between them:** Having regard to the funding objectives described above, the Trustee's investment strategy is as follows:
 - The bulk of the DB funds (as at 31 March 2022, 88%) will be invested in assets which are intended broadly to match the DB liabilities, including gilts, corporate bonds, swaps, buy-in policies. In addition, the Trustee will seek to hedge approximately 96% of both the interest rate risk and the inflation risk via a suitable hedging portfolio.
 - A small proportion of DB funds (as at 31 March 2022, 12%) will be invested in growth assets, including equities and alternative assets such as private equity, property and commodities, with a view to achieving the 2FO.
 - The Trustee invests in a Special Purpose Vehicle (SPV) which provides a regular income stream to the Scheme. The SPV provides recourse for the Scheme to the underlying property assets in the event of Kingfisher plc's insolvency.
 - The portfolio will be gradually de-risked over the period to 2030 such that by then the portfolio will be invested entirely in matching assets. The timing and magnitude of switches from growth to matching assets will be determined by the Trustee, in consultation with the employers, with a view to ensuring cost-efficiency.

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

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

- (b) **Risks, including measurement and management:** The Trustee considers the key risk as regards the DB investments to be as follows:
- (i) **Mismatch risk** – The risk that the assets fail to keep pace with the liabilities. Mismatch risk can include inflation, interest rate and longevity risks. The risk is measured by regular assessment of the potential development of the liabilities relative to the current and target mixes of investments. The risk is managed via a liability-driven investment programme whereby, among other things, the Trustee invests substantially in assets which are intended broadly to match the liabilities, and hedges against residual inflation and interest rate risk (see (a) above)
 - (ii) **Collateral Adequacy risk** – The Scheme is invested in leveraged Liability Driven Investment (“LDI”) arrangements to provide protection against adverse changes in interest rates and inflation expectations. The LDI manager may from time to time call for additional cash to be paid to the LDI portfolio in order to support a given level of leverage. Collateral adequacy risk is the risk that the Scheme may not be able to post additional cash to the LDI portfolio within the required timeframe. A potential consequence of this risk is that the Scheme’s interest rate and inflation hedging could be reduced, and that the Scheme’s funding level could suffer as a result. In order to manage this risk, the Trustee has a collateral monitoring and collateral waterfall framework in place to ensure that the Scheme has a reasonable liquidity buffer should cash need to be posted to the LDI manager at short notice.
 - (iii) **Concentration risk** – The risk that undue concentration in a single asset or asset class leaves the Scheme exposed should that asset or asset class fall in value. This risk is addressed by investing across a broad range of asset classes as described in (a) above. Within each asset class further diversifying conditions are imposed on fund managers, e.g. limits on maximum holdings in any one asset. No investment is permitted in Kingfisher plc shares or bonds, other than indirectly through pooled funds.
 - (iv) **Manager risk** – The risk that underperformance by a fund manager will adversely affect overall investment returns. To manage this risk, the Trustee will, where appropriate, allocate assets in a given asset class to two or more different fund managers, who may in turn employ different investment approaches (e.g. active versus passive). The Trustee sets clear objectives for fund managers and lays down guidelines and restrictions as to achieving those objectives. The Trustee monitors both the performance of fund managers against their objectives and the performance of DB investments as a whole.

- (v) **Risks as to derivatives:**
- **Counterparty risk** – The risk of counterparty failure. This risk is managed through conditions as to the selection of counterparties and through the posting of collateral (including suitable margin).
 - **Basis risk** – The risk of a mismatch between the Trustee's obligations under the payable leg of a derivative and the relevant backing assets. The Trustee manages this risk via its investment policy and via delegation to suitably capable fund managers.
 - **Liability risk** – The risk of a divergence between the performance of a derivative and the relevant DB liabilities, e.g. because of an unanticipated change in the basis on which those liabilities are valued. The Trustee manages this risk by constructing its derivative strategy based on a best estimate of future DB cashflows.
- (vi) **Currency risk** – The risk that, where investments are overseas, returns are adversely affected by currency movements. This risk is addressed by hedging an appropriate proportion of the currency exposure (having regard to the extent to which hedging can be achieved efficiently).
- (vii) **Custodian risk** – The risk that the custodian of the Scheme's assets (or an overseas sub-custodian) misplaces assets. The Trustee manages this via a robust process for the appointment and monitoring of the custodian, and by imposing suitable terms as to the use of sub-custodians.
- (viii) **Liquidity risk** – The risk that, due to a shortage of cash, the Trustee is unable to pay benefits when due or is forced to make an unintended asset sale. The Trustee manages this risk by forecasting cashflows and ensuring that a suitable proportion of DB funds are invested in readily-realizable assets.
- (ix) **Environmental Social and Governance Issues** – Risk of the extent to which ESG factors including climate change are not appropriately reflected in asset prices and / or not considered in investment decision making processes leading to underperformance relative to targets. The Trustee considers this risk by taking advice from their investment adviser and discussing ESG integration with investment managers.
- (c) **Expected returns:** The assets, taken as a whole, are expected to generate returns over the long term that modestly exceed gilts. Target returns for particular portfolios will be agreed with the relevant fund managers.
- (d) **Realisation of investments:** Arrangements are in place to minimise the risk that the Trustee will need to realise investments unexpectedly – see (b)(vii) above. Disposals of individual holdings within a portfolio will normally be a matter for the relevant fund manager. The Trustee does however pro-actively seek and review information as to transaction costs.

- (e) **Financially-material considerations:** The Trustee believes that ESG issues may have a material impact on the performance of investments over the appropriate time horizon, which the Trustee takes to be the period to 2030 (the target date for the 2FO). The Trustee has regard to ESG considerations when investing, in so far as consistent with the Trustee's duties as regards seeking returns and mitigating risk. In particular, the Trustee takes account of climate-related risks and opportunities in the management of the DB global equity portfolio, the Trustee's view being that climate change and the expected transition to a low-carbon economy give rise to long-term financial risks for the Scheme and for member outcomes. The Trustee has implemented a "climate change tilt", i.e. it has more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and fossil fuel assets relative to their sector. The Trustee has also invested in a global renewable energy fund. The Trustee assesses the investment managers' approach to ESG as part of the investment manager selection process. Other than in this regard, it is left to fund managers to determine the extent to which ESG issues are taken into account when making investment decisions. The Trustee recognises that passive managers may be constrained by the need to track relevant indices, but nevertheless expects such managers to pursue a policy of engagement with investee companies (see below).
- (f) **Non-financial matters:** The Trustee recognises that some DB members may have strong views as to non-financial matters including ethical issues. However, the Trustee does not feel that there is any clear consensus as to non-financial matters across the Scheme membership. Against that background, the Trustee does not seek to take account of members' views as to non-financial matters when investing.
- (g) **Voting and investor rights and engagement:** The Trustee encourages fund managers to vote and exercise other investor rights, and to engage with investee companies and other relevant persons on relevant matters, with a view to furthering the Trustee's long-term financial interests and the policies described above. The fund managers decide whether and how to vote and engage on particular issues, referring back to the Trustee only where they deem an issue to be contentious and to warrant discussion by the Trustee. Stewardship information supplied by fund managers is reviewed and, where a review gives rise to a concern, the Trustee will consider how best to address that concern with the relevant manager.

The majority of the DB fund managers, including all managers investing in listed equities, are signatories to the UK Stewardship Code.
- (h) **Arrangements with fund managers:** The Trustee's policy as regards arrangements with any fund manager is as follows:
 - (i) The Trustee will enter into a contract with the fund manager on terms which are appropriate having regard to the policies set out in this SIP, including terms as to investment objectives/benchmarks; constraints (e.g. concentration limits); financially-material considerations;

remuneration; performance measurement and reporting; and termination of the arrangement.

- (ii) The Trustee will ensure that the policies set out in this SIP (so far as relevant) are clearly communicated to the fund manager.
- (iii) The Trustee will proactively monitor and liaise with the fund manager on a regular basis.
- (iv) If the Trustee identifies that the fund manager is failing to meet the Trustee's objectives, the Trustee will engage with the manager with a view to understanding and (as far as possible) addressing the failure.
- (v) If there is a serious or persistent failure to meet the Trustee's objectives, the Trustee will formally review the fund manager's appointment and (depending on the outcome of the review) may terminate the arrangement.
- (vi) Specifically:
 - **Incentives to align decisions with Trustee's policies:** Where appropriate, fund managers may be given a direct incentive to achieve the target investment return agreed with the Trustee, via a suitable performance fee. In all cases fund managers have an indirect incentive to align strategy and decisions with the Trustee's policies, given the process of communication, monitoring, liaison, engagement and review mentioned above.
 - **Incentives to think long-term and to engage:** Fund managers have an indirect incentive to make decisions based on medium- to long-term financial and non-financial performance and to engage with investee companies in order to improve performance, given the process of communication, monitoring, liaison, engagement and review mentioned above. Where performance fees apply, the terms are set with a view to ensuring that short-term performance is not given undue priority; see below.
 - **Performance and remuneration evaluation:** Fund managers' performance and remuneration are evaluated in the round and over predetermined medium- to long-term periods. Investment returns are a factor, but they are not assessed on a purely short-term basis. Performance as against the Trustee's other objectives and policies is taken into account. Where the arrangements with a fund manager include a performance fee, the terms will be set with a view to ensuring that the manager does not give undue priority to short-term investment returns, to the detriment of long-term returns or the Trustee's other objectives and policies.
 - **Portfolio turnover:** The Trustee recognises that in addition to annual management charges and performance fees, there are other costs incurred by asset managers that can increase the overall cost incurred by their investments (such as transition costs from portfolio turnover). The Trustee ascertains fund managers' policies as regards

portfolio turnover and monitors turnover costs regularly. In general, the Trustee does not go further and formally monitor or specify targets as to turnover or associated costs, because the Trustee recognises that these costs are a necessary cost to generate returns and that the level of these costs varies by asset class and manager. However, where a fund manager is underperforming, the Trustee may scrutinise portfolio turnover and associated costs as part of its review.

- **Duration:** Arrangements with fund managers are generally open-ended but with the Trustee having the right to terminate at any time.

DC INVESTMENT, INCLUDING THE DEFAULT ARRANGEMENT

Background

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

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

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

DC investment policies (Regulations 2(3), 2A(1)(b), (d))

21. The Trustee has the following policies as regards DC investments including the Default Arrangement:
 - (a) **Kinds of investment, and the balance between them:**
 - **Default Arrangement:** During the growth phase investment is split between the Passive Equity Fund i.e. the L&G Future World Fund and the

Diversified Return Fund i.e. the L&G Future World Multi Asset Fund. The Passive Equity Fund is invested in global equities, including an ESG climate tilt with 50% of the overseas currency exposure hedged. The Multi-Asset Fund is invested in a range of global assets including equities, government and corporate bonds, real estate, infrastructure and private equity, while reflecting significant ESG issues into the fund's investment strategy; the balance as between the different asset classes is determined by Legal & General. In the de-risking phase investment is gradually switched (as outlined above) to the Money Market Fund. The Money Market Fund is invested in money market instruments and fixed deposits.

- **Self-Select Options:** The Trustee's policy is to offer a simple range of white-labelled Funds covering the major asset classes, with the underlying investments of each Fund being suitably diversified within the relevant asset class. The Funds within the range are chosen having regard to (among other thing) members' likely needs, attitude to risk, and value-for-money.

(b) **Risks, including measurement and management:** The Trustee considers the key risks to be as follows:

- (i) **Inflation risk** – The risk that the investment returns over members' working lives are inadequate relative to inflation.
 - **Default Arrangement:** Inflation risk is addressed by investing over the bulk of members' working lives in Funds which hold growth assets which are expected to produce positive real returns, and by monitoring the performance of those Funds as against an inflation-based target.
 - **Self-Select Options:** Inflation risk is addressed by informing members of the risk and by offering Funds which hold growth assets and are expected to produce positive real returns.
- (ii) **Shortfall risk (opportunity cost)** – The risk that members end up with insufficient funds at retirement with which to secure a reasonable income.
 - **Default Arrangement:** Shortfall risk is addressed by investing over the bulk of members' working lives in Funds which hold growth assets and by monitoring the performance of those Funds, and by de-risking over the ten years to SRA so as to limit members' exposure to adverse market movements. See (v) below as regards the shortfall risk which arises from de-risking to cash for members who take benefits via annuity purchase or drawdown.
 - **Self-Select Options:** Shortfall risk is addressed by informing members of the risk and by offering Funds which hold growth assets and Funds which enable members to de-risk in the run-up to retirement.
- (iii) **Currency risk** – The risk that, where Funds' underlying investments are overseas, returns are adversely affected by currency movements.

- **Default Arrangement:** Currency risk is addressed in respect of the Passive Equity Fund by hedging of 50% of the currency exposure as described above.
 - **Self-Select Options:** Currency risk is addressed by informing members of the risk and by offering the Passive Equity Fund for members who wish to invest in global equities with some hedging of the currency exposure.
- (iv) **Concentration risk** – The risk that undue concentration in a single asset or asset class leaves members exposed should that asset or asset class fall in value.
- **Default Arrangement:** Concentration risk is addressed by investing, during the growth phase, across two Funds with a broad range of underlying assets as described above.
 - **Self-Select Options:** Concentration risk is addressed by informing members of the risk and by offering Funds across a range of different asset classes, with the underlying assets of each Fund being diversified within the relevant asset class.
- (v) **Benefit conversion risk** – The risk that relative market movements in the run-up to retirement lead to a substantial reduction in the benefits secured.
- **Default Arrangement:** Benefit conversion risk is addressed via de-risking during the ten years prior to SRA. The Trustee recognises that significant risk remains for members who retire before SRA and/or who take benefits via an annuity or drawdown rather than in cash. This residual risk is addressed by informing members of the risk and by offering suitable alternative Self-Select Options (see below).
 - **Self-Select Options:** Benefit conversion risk is addressed by informing members of the risk and by offering Funds which members may use to mitigate it, including the Money Market Fund, the Pre-Retirement Fund and Pre-Retirement Inflation Linked Fund.
- (vi) **Manager risk** – The risk that underperformance by a fund manager will adversely affect a member's overall investment returns.
- **Default Arrangement:** Manager risk is addressed by investing during the growth phase partly in a Fund which is passively managed, and by regularly monitoring the performance and capabilities of the fund managers of the actively managed Funds.
 - **Self-Select Options:** Manager risk is addressed by offering several Funds which are passively managed, and by regularly monitoring the performance and capabilities of the fund managers of the actively managed Funds.
- (vii) **Environmental Social and Governance Issues** – Risk of the extent to which ESG factors including climate change are not appropriately

reflected in asset prices and / or not considered in investment decision making processes leading to underperformance relative to targets. The Trustee considers this risk by taking advice from their investment adviser and discussing ESG integration with investment managers.

(c) **Expected returns:**

- **Default Arrangement:** The strategy's objective is to generate returns over the long term of CPI + 3% per annum after all charges. This is not guaranteed and there may be periods of underperformance against this return target. The Trustee takes investment advice when reviewing the default strategy to help determine whether the return target remains appropriate.

The growth phase invests in asset classes that are expected to grow in value relative to inflation more than other investments. Cash/near-cash is expected to generate returns in accordance with prevailing market interest rates, though there is a small chance that returns will be negative.

- **Self-Select Options:** For each Fund a target return, appropriate to the underlying assets, is agreed and monitored.

(d) **Realisation of investments and liquidity:** The Trustee's holdings in Funds will be sold as and when necessary for the purpose of investment switches, benefit payments or transfers-out. The Trustee believes that for members it is important that holdings are suitably liquid, so that any decision which members make to switch investments, take benefits or transfer can be implemented without delay. Accordingly, the Trustee's policy is not to invest in Funds which are illiquid or under which a material proportion of the underlying assets are illiquid, and the Trustee does not currently have plans to invest in any such Funds in the future. The Diversified Return Fund, which comprises part of the Default Arrangement during the growth phase, has some exposure to illiquid asset classes (e.g. property and infrastructure) for reasons of diversification, but this exposure is achieved through liquid instruments. Accordingly, the Trustee expects that all holdings will be readily realisable in all normal market conditions. Realisation of the underlying investments of the Funds is a matter for their fund managers. The Trustee does however pro-actively seek and review information as to transaction costs.

(e) **Financially-material considerations:** The Trustee believes that ESG issues may have a material impact on the performance of investments over the appropriate time horizon, which the Trustee takes to be members' working lives. The Trustee has regard to ESG considerations when investing, in so far as consistent with the Trustee's duties as regards seeking returns and mitigating risk. In particular, the Trustee takes account of climate-related risks and opportunities, the Trustee's view being that climate change and the expected transition to a low-carbon economy give rise to long-term financial risks for member outcomes. The Trustee selected the L&G Future World Fund as the underlying fund of the Passive Equity Fund in part to mitigate the financially material risks associated with climate change. The Fund has a "climate change tilt", i.e. it has more exposure to companies generating revenue from low-carbon opportunities, and less exposure to companies with higher carbon emissions and

fossil fuel assets relative to their sector. The Trustee also selected the L&G Future World Multi-Asset Fund as the underlying fund of the Diversified Return Fund which reflects significant ESG considerations into the fund's investment strategy. The Trustee assesses the investment managers' approach to ESG as part of the investment manager selection process. Other than in this regard, it is left to the fund managers to determine the extent to which ESG issues are taken into account when making decisions as to the underlying investments. The Trustee recognises that passive managers may be constrained by the need to track relevant indices, but nevertheless expects such managers to pursue a policy of engagement with investee companies (see below).

- (f) **Non-financial matters:** The Trustee recognises that some DC members may have strong views as to non-financial matters including ethical issues. However, the Trustee does not feel that there is any clear consensus as to non-financial matters across the Scheme membership. Against that background, the Trustee has determined that the Self-Select Options should include the Ethical Fund and the Shariah Fund, but does not otherwise take account of members' views on non-financial matters when investing.
- (g) **Voting and investor rights and engagement:** Voting and other rights attaching to the investments of the Funds are exercisable by the fund managers. It is left to the fund managers to determine whether and how to exercise those rights. The Trustee does however monitor and engage with the fund managers. L&G provide corporate governance and responsible investment presentations to the Trustee, outlining their stewardship approach and reporting on their engagement and voting activities. Stewardship information supplied by L&G/fund managers is reviewed and, where a review gives rise to a concern, the Trustee will consider how best to address that concern with L&G/the relevant manager.

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

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

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

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

22. The Trustee considers that KPS-MP members will typically be relatively risk-averse and on retirement will take their benefits in cash form. The Trustee is conscious of the significant impact which charges and transaction costs can have, over the long term, on the benefits which members receive. The Trustee is also conscious that members may want to take or transfer their benefits at short notice and without delay. The Trustee's default strategy described in Paragraphs 20 and 21 above is intended to serve the best interests of members by striking an appropriate balance, during the growth phase, as between maximising returns while reducing volatility; by de-risking in the run-up to retirement so as to avoid conversion risk; by ensuring that holdings are suitably liquid; and by delivering real value for members.