BIG THINKING
FOR SMALL SCHEMES

Statement of Investment Principles

Kwik-Fit Group Pension and Life Assurance Scheme

September 2020

Barker Tatham™
Pension Investments

1. Introduction

Under the Pensions Act 1995, trustees are required to prepare and review regularly a Statement of Investment Principles, dealing with certain specific matters.

This statement sets out the principles governing decisions about the investment of the assets of the Kwik-Fit Group Pension and Life Assurance Scheme (the Scheme). Before preparing it, the Trustees obtained and considered written professional advice from Barker Tatham Investment Consultants Limited as their investment consultants. Prior to finalising this document, they also consulted with the sponsoring employer, Kwik-Fit Holdings Ltd. Barker Tatham Investment Consultants Limited ("BTIC") are licensed by the Institute and Faculty of Actuaries to provide investment advice.

The Trustees review this Statement on a regular basis and will also do so in response to any material changes to the investment arrangements of the Scheme. Formal reviews will be undertaken no less frequently than every 3 years to coincide with the Actuarial Valuations. Any such review will again be based on written expert investment advice and will be in consultation with the Scheme's sponsoring employer, Kwik-Fit Holdings Ltd.

Signed for and on behalf of the Trustees of the Kwik-Fit Group Pension and Life Assurance Scheme

Signed: …………Glenn Andrews…… Date: …25 September 2020……………………………………

2. Decision Making

The Trustees distinguish between two types of investment decision:

Strategic investment decisions

These decisions are long-term in nature, and driven by an understanding of the objectives, needs and liabilities of the Scheme.

The Trustees take all such decisions. Where appropriate this is after receiving written advice from their investment consultant, and consulting, as appropriate, with the employer.

Examples of such decisions include:

- setting investment objectives;
- setting strategic asset allocation;
- setting benchmarks;
- drafting the Statement of Investment Principles; and
- appointing and removing fund managers.

Work is charged for either by an agreed fee or on a time cost basis. In particular, the investment consultant does not receive commission or any other payments in respect of the Scheme that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate fee structure for the Scheme.

Tactical investment decisions

Tactical investment decisions are based on views of future market movements.

The Trustees employ fund managers to make such judgements, and do not interfere with their decisions. Examples of such decisions include:

- selecting individual stocks;
- temporarily deviating from the strategic asset allocation to take advantage of better market opportunities; and
- timing of entry or exit from a market.

Each investment manager is remunerated by ad valorem charges based on the value of assets managed on behalf of the Scheme. The Trustees believe that this is the most appropriate fee structure for the Scheme.

3. Defined Benefit Section: Myners' Investment Principles

The Trustees recognise the relevance to pension schemes of the Myners' Investment Principles that were published by the Government in October 2001, and updated in March 2008. The Scheme's adherence to (or otherwise) the Myners' Investment Principles is set out below.

Principle 1: Effective Decision-Making

"Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest."

- The Trustees make investment decisions by consulting with professionals that they believe to be best equipped to give that advice. Long-term strategic investment decisions are made in consultation with the Scheme's investment consultant, whereas tactical decisions are made by the appropriate fund manager.

Principle 2: Clear Objectives

"Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers."

- The Trustees have reviewed their investment objectives with the assistance of their investment consultant.

- The investment objectives are set out in Section 4 of this document.

- The strength of the sponsor's covenant is reviewed on a regular basis.

- All the assets of the Scheme are invested via pooled funds. In each case, the fund manager has an explicit benchmark and outperformance target, as well as clear constraints within which to operate.

Principle 3: Risk and Liabilities

"In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk."

- These issues were taken into account in setting the Scheme's investment strategy.

Principle 4: Performance Assessment

"Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members."

- The Trustees currently receive:
  - quarterly performance reports from the fund managers; and
  - annual audited accounts.

Principle 5: Responsible Ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities."

- We have requested the managers to state their adherence to the ISC Statement of Principles and the Stewardship Code.

- The Trustees' policy on responsible ownership is described in Section 9 of this Statement of Investment Principles.

- The Trustees will report on the Scheme's policy on responsible ownership in the annual Implementation Statement.

Principle 6: Transparency and Reporting

"Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate."

- A copy of this Statement of Investment Principles is available to members on request, and can also be viewed on a publicly available website.

- Other documents such as actuarial valuation reports, the Statement of Funding Principles, the Schedule of Contributions, Implementation Statements and the Annual Report and Accounts are also available to members on request. Additionally the Implementation Statement can be viewed on a publicly available website.

- A representative from the employer regularly attends Trustee meetings and this helps communication with the employer over investment matters.

4. DB: Investment Objectives

The Trustees' investment policy for the defined benefit section is guided by the following objectives:

What constitutes risk?

The Trustees regard the key investment risk as being the risk of future investment returns failing to cover the growth in the Scheme's liabilities over a prolonged period. In order to measure and monitoring the risk, the Trustees will monitor, with the Scheme Actuary, the funding position of the Scheme, and will aim to have sufficient assets to meet the Scheme's liabilities within agreed timeframes.

Appetite for risk

The Trustees will also monitor the strength of the covenant of the Sponsor when setting the degree of risk within their investment strategy. The Trustees believe that the current distribution of investments is appropriate in relation to the nature of the Scheme's liabilities and the Sponsor's commitment to the Scheme. The Trustees will monitor the ongoing appropriateness of their asset distribution at each actuarial valuation.

Other considerations

- **Flexibility**
  The Scheme invests in liquid assets that can be sold at short notice to meet any cash flow requirements.

- **Exposure to property markets**
  The Scheme has no existing exposure to property (e.g. through a charge over the sponsor's property), so this asset class is not precluded from the strategy.

5. DB: Implementation

The Trustees set their strategy based on the objectives set out in Section 4 and written advice from the investment consultants.

As investment markets (particularly interest rates and inflation expectations) move, the split between the assets will vary. There is no automatic rebalancing as this could lead to the interest rate or inflation exposures of the Scheme being over- or under- hedged. Instead, the hedges are monitored on a regular basis by the investment consultants. Remedial action is recommended when appropriate.

The table below gives the allocation as at September 2020, following an investment strategy review.

Fund	Benchmark	Performance Target	Fees	Initial Allocation
LGIM Dynamic Diversified Fund	FTSE Developed World Index 50% Hedged to GDP	In line with the benchmark	0.3% p.a.	30.0%
LGIM Global Equity Fixed Weights (50:50) GBP Hedged Index Fund	Composite of 50/50 distribution between UK and Overseas	The investment objective of the fund is to provide diversified exposure to the UK and overseas equity markets.	0.1% p.a.	10.0%
LGIM Matching Core – Real Short Fund	Markit iBoxx Real Short	Provide exposure to and protection from changes in interest rates and inflation	0.24% p.a.	23.4%
LGIM Self-Sufficiency Credit -Real Short Fund		The fund aims to generate a return of gilts +0.5% p.a.	0.2% p.a.	20.0%
LGIM Cash Fund		The fund aims to track the sterling total return of the benchmark to within +/- 0.25% p.a. for two years in three	0.1% p.a.	16.6%
				100.0%

LGIM - Diversified Fund

- The LGIM Diversified Fund targets equity-like returns with a lower level of risk. It has a passive allocation to a wide variety of asset classes

LGIM – Global Equity Fixed Weights (50:50) GBP Hedged Index Fund

- The LGIM Global Equity Fixed Weights (50:50) GBP Hedged Index Fund aims to provide diversified exposure to the UK and overseas equity markets. The fund will invest 50% in the UK and 50% overseas. The overseas distribution is fixed with 17.5% in North America, 17.5% in Europe (ex UK), 8.75% in Japan and 6.25% in Asia Pacific (ex Japan).

LGIM – Matching Core Real Short Fund

- This fund aims to protect the Scheme from movements in either long-term interest rates or expected inflation.
- These funds use derivatives and gilts to hedge these risks.
- If long-term interest rates fall, or inflation expectations rise then then the value of the Scheme's liabilities will increase. These funds will mitigate the impact on the Scheme's funding level by rising a similar amount. If liabilities fall in value, the reverse is true.

LGIM – Self-Sufficiency Credit – Real Short Fund

- This fund invests in high credit corporate bonds and uses an overlay of inflation linked derivatives, to give a profile that matches a typical pension scheme's liability.
- The fund aims to generate expected returns above gilts of +0.5% per annum.

LGIM – Cash Fund

- This fund offers daily liquidity and aims to preserve capital.
- It invests in a diversified portfolio of low risk money-market securities.

6. Defined Contributions: Myners' Investment Principles

Principle 1: Clear roles and responsibilities

"Roles and responsibilities in relation to investment decision making and governance are clearly defined and communicated to interested parties."

- This lays foundations for the process of investment governance and advocates that schemes have defined and documented roles and responsibilities for each element of the governance chain. The Trustees have outlined these roles in this Statement.

Principle 2: Effective decision making

"Decisions relating to investment governance are taken on a fully informed basis and the investment governance processes are sound."

- The Trustees make investment decisions based on quality and timely information and/or advice provided by professionals that they believe to be best equipped to provide that information or advice.

Principle 3: Appropriate investment options

"The investment options provided take account of a range of member risk profiles and needs and are designed appropriately."

- The Trustees have formally reviewed their investment objectives and investment options with the assistance of their investment consultant.

- The Scheme offers an appropriate default option and a range of other investment options, given the expected risk tolerances and requirements of Scheme members.

Principle 4: Appropriate default strategy

"An appropriately designed investment strategy is offered for members who prefer not to make a choice."

- A relatively straightforward default strategy is set up that would cater for the majority of members, given the profile of the members.

- The default lifestyling arrangement currently in place specifically targets the purchase of an annuity at retirement together with a cash lump sum.

Principle 5: Effective performance assessment

"The performance of investment options is monitored."

- The Trustees currently:
  - Receive quarterly valuation reports from the fund provider (Aviva)
  - Meet at least twice a year, when they also review fund performance
  - Prepare an annual report to members, including annualised investment returns for a selection of funds and the Auditor's statement on contributions paid.

Principle 6: Clear and relevant communication to members

"Clear information on the investment options and their characteristics that will allow members to make informed choices is provided."

- Members are provided with annual benefit statements, and have access to detailed investment reports in paper or electronic format, from Aviva.

- Communications are tailored to the expertise of the members, with information on how to seek further assistance, if required.

- The Trustees are required to produce an annual Chair's Statement. This statement is made available on a public website.

- A copy of this Statement of Investment Principles is available to members on request and can also be viewed on a publicly available website.

- A representative from the employer (who may also be a Trustee and/or a member of the Scheme) regularly attends Trustees' meetings and this helps communication with the employer over investment matters.

7. DC: Trustees' Investment Objectives, Policy on Risk and Investment Beliefs

Trustees' investment objectives

The Trustees recognise that members have differing investment needs and that these may change during the course of the members' working lives. The Trustees also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based on their individual circumstances and, therefore, see their duty as making available a range of suitable investment options, sufficient to allow members to tailor their own investments.

The Trustees also recognise that some members may not believe themselves able to make an investment decision and, as such, the Trustees make available a default option.

The Trustees regularly review the suitability of the options provided. The next review will take place in 2021.

Trustees' policy with regard to risk

The Trustees are mindful of their responsibility to provide members with an appropriate range of investment funds.

The Trustees recognise that in a DC arrangement, members assume the investment risks themselves. The Trustees further recognise that members are exposed to different types of risk at different stages of their working lifetimes. Broadly speaking, the following types of risk can be identified:

- **Investment-return risk**
    - This is the risk that the investment return over the members' working lives will not keep pace with inflation and does not provide adequate savings to meet members' retirement income needs.

- **Underperformance risk**
    - This is the risk that the investment vehicles in which monies are invested under-perform the expectations of the Trustees.

- **Annuity-rate risk**
    - This is the risk that a member's ability to purchase an adequate annuity at retirement is compromised by rising annuity prices.

- **Drawdown risk**
    - This is the risk that a member's invested pension fund can fluctuate according to what the market is doing.

- **Market movement risk**
    - This is the risk that investment market movements in the period immediately prior to retirement leads to a substantial reduction in the level of members' retirement savings.

- **Lump-sum risk**
    - When close to retirement, a member may still be fully invested in those asset classes (every type except Cash), which are subject to volatility in capital-value terms.

- **Market-switching risk**
    - If there is to be switching between investment vehicles and it is performed wholesale, members may be unnecessarily exposed to the fluctuations in the markets on a particular day.

Underlying investment principles

The Trustees, having taken investment advice, have adopted the investment strategy based on the following underlying principles:

- long term growth on investment options that invest predominantly in equities and other growth seeking asset classes (e.g. diversified growth funds) will exceed price inflation and general salary growth

- the long-term returns on bonds and cash options will be lower than the largely equity invested options

- bond funds broadly match the price of annuities, and so investing in a bond fund is expected to provide some protection for the amount of protected pension that a member could expect to purchase at retirement

- Cash funds provide protection against changes in short terms capital values, and may be appropriate for members taking all, or part, of their retirement benefits in the form of a cash lump sum (although it is not guaranteed that these funds will not fall in value).

In choosing the Scheme's investment options, the Trustees have considered:

- A full range of asset classes, including alternative asset classes
- the suitability of each asset class within a defined contribution scheme
- the need for appropriate diversification and adequate liquidity.

The member options are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid, as far as is reasonably possible, accumulations of risk in the individual member's portfolios as a whole. Investment in derivatives is only made by the managers in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

The Trustees have made the full range of funds on Aviva's platform available for DC members in addition to the default strategy.

8. DC: Default Strategy

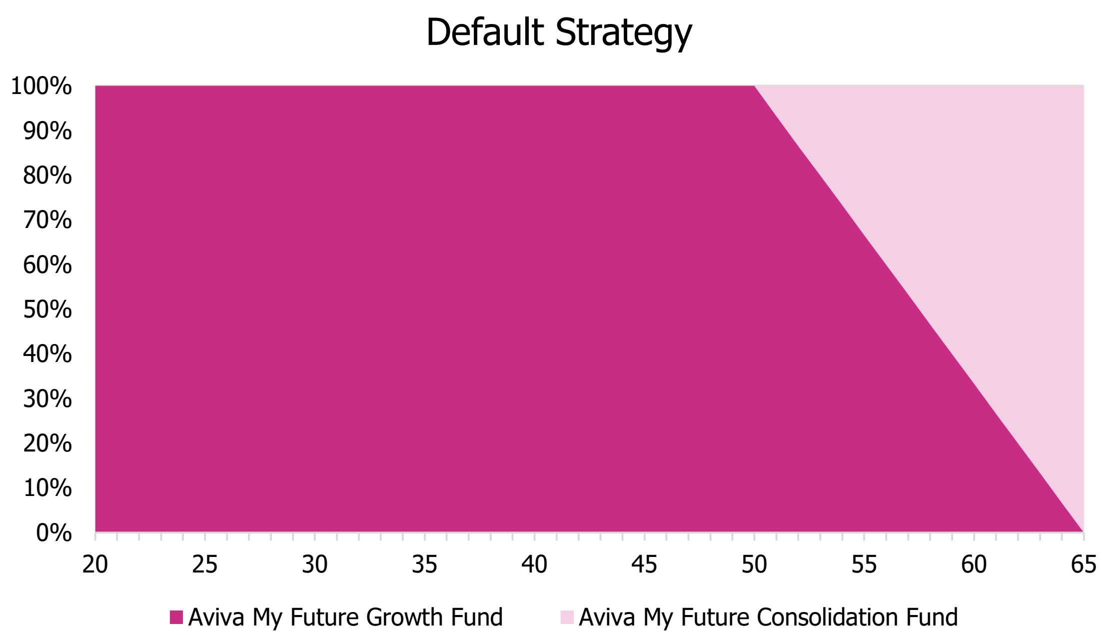
Objectives

- The Trustees have selected a default investment strategy for Scheme members who do not wish to select their own investments.
- The strategy was reviewed in 2018, taking into account general member behaviour at retirement, in light of the pension freedoms introduced in 2015.

Strategy

- 100% investment in the **Aviva My Future Growth fund** until the age of 50*
- Switch investments on a monthly basis into lower risk **Aviva My Future Consolidation Fund**
- Switching period of 15 years

*Note that normal retirement date ("NRD") is 65 for all active and most deferred members.



Rationale

- The Aviva My Future Fund invests in growth assets.
- The Aviva My Future Consolidation Fund aims to provide a broad 'base' for members to reflect the pension freedoms.

9. Other Matters – Both DB & DC

Introduction

This section covers those matters prescribed in Sections 35 and 36 of The Pensions Act 1995, The Pensions Act 2004 and the 2005 Investment Regulations 2005/3378 (as amended from time to time).

Choosing Investments

The assets of the Scheme are invested in pooled vehicles. Selection of the individual underlying assets has been wholly delegated to the fund managers listed in the Appendix.

Kinds of Investments

The Trustees may invest in the following asset classes (via the fund managers) on behalf of the Scheme:

- UK equities
- Overseas equities
- Corporate bonds
- Gilts (conventional and index-linked)
- Cash
- Overseas bonds
- Property
- Derivatives

The presence of an asset class on the list does not imply that the Scheme is currently invested in such assets.

Balance between Investments

The Trustees recognise the advantages of diversification between UK and overseas investment in equities from the perspective of:

- Reducing the risk that results from investment in any one particular market; and
- Enhancing return.

Risk (Defined Benefits)

The Trustees pay close regard to the risks that may arise through a mismatch between the Scheme's assets and its liabilities, and to the risks that may arise from the lack of diversification of investments. They believe that the investment policies to be followed by their investment managers do have adequate regard to the need to diversify within each asset class as well as in terms of stock selection.

Under the Pensions Act 2004, trustees must now state their policy on the ways in which risks are to be measured and managed. These are set out below.

- **Solvency / funding risk:**
    - is managed through setting an investment strategy (primarily asset allocation) with an appropriate level of risk.
    - is measured using an Asset Liability Model from the investment consultant.
    - is monitored in quarterly reports from the investment consultant.

- **Manager risk:**
    - is managed through selecting funds with a suitable target levels of risk, and that the investment consultant have deemed the managers' risk controls as acceptable.
    - is measured and monitored from quarterly reports from the fund managers and the investment consultant.

- **Liquidity risk:**
    - is managed by ensuring that the majority of the pooled funds used by the Scheme are liquid and can be sold at short notice to meet any cash flow requirements.

- **Political risk:**
    - is managed by investing globally.

- **Sponsor risk:**
    - is managed via the actuarial valuation process.
    - is measured and monitored by regular assessment of the Sponsor's covenant by the Trustees.

Expected Return on Investments

Gilts are the easiest asset class for which to predict the long-term returns. Providing that they are held to maturity, and ignoring reinvestment risk, the return on gilts over their lifetime will be the current Gross Redemption Yield (GRY).

The Trustees base their expected investment returns for other asset classes on this GRY as a starting point. Over the long-term, they expect the following returns per year over and above that of gilts:

Developed market equities	+3.0%
Diversified Growth Funds	+3.0%
Corporate bonds	+1.0%

Realisation of Investments

The Scheme's assets are invested in the investment managers' pooled vehicles, which in turn invest in securities traded on recognised exchanges. The Trustees conclude that the majority of the Scheme's investments can be realised at short notice if necessary.

Environmental, Social and Corporate Governance Policies

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest through pooled funds. They acknowledge that they cannot directly influence the environmental, social and governance ("ESG") policies and practices of the companies in which the pooled funds invest. The Trustees also acknowledge that where index tracking pooled vehicles are employed, ESG considerations cannot be taken into account due to the nature of the investment.

In principle, the Trustees believe that ESG factors can have an impact on the performance of its investments and that the management of ESG risks and the exploitation of ESG opportunities, especially in relation to climate change, can add value to the portfolio. To that effect, the Trustees expect their fund managers, where appropriate, to have integrated ESG factors as part of their investment analysis and decision-making process.

Appropriate weight will be given to ESG factors in the appointment of fund managers.

The Trustees believe that the stewardship responsibilities attached to the ownership of shares are important but recognise that investment in pooed funds limits their ability to be fully involved. The Trustees expect their investment mangers to report in detail on how they have exercised voting rights attached to shares including across passive equity mandates. Managers are expected to be signatories to the FRC UK Stewardship Code.

On 6 June 2019, the Government published the Occupational Pension Schemes (investment and Disclosure) (Amendment) Regulations which expand the requirements for Statements of Investment Principles such as this. To be compliant with these regulations, the Trustees have set further ESG policies.

The Trustees' policies are set out below:

- **How they incentivise their appointed investment managers to align investment strategy and decisions with the trustees' policies, including risk, return and ESG.**

  The scheme invests solely in pooled funds where fees charged are a combination of fixed fees and a proportion of the assets under management. There are no performance related components of the fees.

The only incentivisation that the Trustees can exert is through the decision to retain or liquidate their holdings in each fund.

The investment strategies of the pooled funds are aligned to the Trustees' investment objectives by selecting funds with suitable characteristics:

- Benchmarks
- Risk Budgets
- Constraints
- Approaches (this includes ESG where appropriate)
-

The Trustees maximise the probability of its investment objectives being met by selecting an appropriate and Scheme-specific combination of such funds with advice from their investment consultant.

- **How the asset manager is incentivised to make decisions on assessments about medium to long term financial and non-financial performance of an issuer of debt or equity. Also, how the managers are incentivised to engage with the issuers in order to improve their performance.**

  Active fund managers are retained subject to, amongst other criteria, achieving adequate medium-to long-term performance. In order to do so, they will need to make assessments about the medium to long-term financial performance of debt and equity issuers. They will also need to assess non-financial performance in as much as it may be a source of risk.

  It also incentivises them to engage with issuers where this is in the financial interests of the Scheme (i.e. where it will make a material impact on the performance of the fund).

  Passive fund managers are not expected to make assessments about the financial or non-financial performance of the issuers of securities they invest in.

- **How the method and time horizon of the evaluation of managers' performance and remuneration are in line with the trustees' policies.**

  The Trustees receive quarterly reports from the fund managers and regular analysis from their investment consultant. The investment consultant takes into account the performance of the fund managers but does not restrict their analysis to performance alone. However, given these funds are passively managed, the performance is expected to be broadly in line with the benchmarks.

  Performance is compared to the benchmark and tracking error target of each fund, in order to ensure that this is in alignment to the objectives and policies of the Trustees.

  In selecting pooled funds, the Trustees and their investment consultant take into account the fees charged by the fund manager. These are judged in terms of value for money given the nature of the fund, particularly the asset class and outperformance target.

Fund managers need to give the Trustees notice if they plan to change the level of the fees. If this occurs, the Trustees seek advice from their investment consultant on whether to retain or replace the manager.

- **How the trustees monitor portfolio turnover costs incurred by the manager/s (and how they define and monitor targeted portfolio turnover or turnover range).**

  Given the size of the Scheme's investment it would not be cost effective to monitor the turnover or turnover costs directly. The performance figures that the Trustees and its investment consultant analyse are net of transaction costs, so this is taken into account indirectly. The Trustees do not believe that they should micro-manage the level of turnover provided that the net outcome to the Scheme is acceptable.

- **The duration of their arrangement with the asset manager**.

  In order to maintain an incentive for the fund manager to perform well, the Trustees do not enter any fixed term arrangement with their manager. Investments in each pooled fund are only retained for as long as the aim of the fund is consistent with the overall investment objectives of the Scheme and the Trustees have confidence that the fund managers can credibly deliver that aim in a cost-effective manner.

Appendix 1: Third Party Arrangements

Advisors

The following advisors assist the Trustees:

Scheme Actuary
Stephanie Murphy
Premier Pensions Management Limited
AMP House, Dingwall Road
Croydon
CR0 2LX

Pension Consultant
Premier Pensions Management Limited
AMP House, Dingwall Road
Croydon
CR0 2LX

Investment Consultant
Barker Tatham Investment Consultants Limited
AMP House, Dingwall Road
Croydon
CR0 2LX

Fund Managers

The Trustees have appointed the following fund managers:

Legal & General Investment Management Ltd
1 Coleman Street,
London
EC2R 5AA

Aviva Investors
Saint Helen's,
1 Undershaft,
London
EC3P 3DQ

Phoenix Life Limited
Juxon House,
100 St Paul’s Churchyard,
London
EC4M 8BU