Boots Pension Scheme (the "Scheme")

Statement of Investment Principles

1. INVESTMENT OBJECTIVE

Boots Pensions Limited (the "Trustee") aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided.

The Trustee adopts a low risk, bond orientated approach in respect of the bulk of the Scheme's assets. For the remaining assets, the Trustee has adopted a higher risk/higher return approach, with the aim of building a buffer over time to protect against adverse market movements and other risks, such as increasing life expectancy and with the aim of achieving the Long-Term Funding Objective (the "LTFO").

The Trustee may review the overall return objective from time to time, after consultation with The Boots Company PLC (the "Sponsoring Employer"). The factors that the Trustee takes into account in their consideration of the overall return objective include the Scheme’s LTFO that has been agreed with the Sponsoring Employer, the desired time to reach the LTFO, the tolerance of risk to the Trustee and the assessment of the Sponsoring Employer’s covenant to the Scheme by the Trustee

2. STRATEGY

In order to meet the investment objective as stated above the Trustee invest in a range of different asset classes, some predominantly risk-reducing assets such as fixed income bonds and some predominantly return-seeking assets such as equities and illiquids. The Scheme’s portfolio is notionally split between the predominantly risk-reducing assets (known as the "Matching Portfolio") and predominantly return-seeking assets (known as the "Growth Portfolio").

The Matching Portfolio seeks to broadly match the characteristics of the Scheme's funded liabilities by typically investing in bonds, derivatives and other fixed income assets that mitigate or hedge the risks arising from interest rates and inflation inherent in the Scheme's liabilities. The Trustee regards these risks as unrewarded and intend to progressively increase the hedging of risk over time, as the funding of the Scheme improves and after consultation with the Sponsoring Employer.

The Trustee maintains a strategic allocation of 75.0% in the Matching Portfolio and 25.0% in the Growth Portfolio. The strategic allocations, along with the strategic hedge ratios, chosen to meet the objective are set out in the table below.

Portfolio	Asset classes	Strategic allocation (%)
Matching		75.0
	• Corporate, supranational and government bonds • Swaps and other interest rate and inflation derivatives • Credit default swaps • Alternative fixed income investments • Asset-backed contribution structures	
Growth		25.0
	• Multi-Factor Equity • Impact Equity • Property • Illiquids • Insurance Linked Securities (ILS)	
Hedge Ratio		
	• Target for interest rate hedging • Target for inflation hedging (Both measured as a proportion of liabilities valued on a Gilts-Flat basis)	88% 88%

This Statement of Investment Principles is produced to meet the requirements of the Pensions Acts 1995 & 2004, the Occupational Pension Schemes (Investment) Regulations 2005 and to reflect the Government's Voluntary Code of Conduct for Institutional Investment in the UK. The Trustee also complies with the requirements to maintain and take advice on the Statement and with the disclosure requirements.

The Trustee has delegated authority to implement the strategic allocation to their Investment Committee (the "IC"). The IC includes representation from the Sponsoring Employer. The IC decides on the timing of implementation of changes to the strategic allocation. The IC will make best endeavours to give full effect to any and all changes to the strategic allocation in a timely fashion that considers the costs of implementation and the availability of suitable investment opportunities.

The asset allocation has been determined with regard to the actuarial characteristics of the Scheme, in particular the strength of the funding position, the assumptions used to assess the funding position, the liability profile and the Sponsoring Employer's covenant. Although there is no formal rebalancing policy, the IC will review the actual allocation regularly and consider whether to rebalance accordingly, taking into account current market conditions and the increasing maturity of the Scheme. The Trustee considers a tolerance of +/- 5% in the allocations to the Matching and Growth portfolios to be appropriate

The IC takes decisions in line with the terms set out in the IC's Terms of Reference.

For the Matching Portfolio, the policy of the Trustee is to seek to mitigate the risk that the Scheme's assets are insufficient to meet the Scheme's liabilities, with the aim of providing security for members' accrued benefits. The policy of the Trustee is to hold a diverse portfolio of income-based assets and suitable derivatives, with the objective of providing ongoing income and protecting the funding position from changes in long-term interest rates and inflation expectations and providing some modest additional return. Within the Matching Portfolio, the Trustee also holds an interest in two separate Pension Funding Partnerships which provide a stream of income that is collateralised predominantly by a portfolio of prime retail properties.

For the Growth Portfolio, the policy of the Trustee is to seek to improve the Scheme's funding position in a manner consistent with the LTFO framework agreed between the Trustee and the Sponsoring Employer. The Trustee considers investments such as equities, property and other illiquid assets to be suitable assets. The policy of the Trustee is to make the assumption that riskier assets such as equities will outperform lower risk assets such as gilts over the long term. Therefore, the Trustee expects the assets held in the Growth Portfolio to provide a return over the long-term which is higher than that of the Matching Portfolio. However, the Trustee also acknowledges the potential volatility in the returns on the Growth Portfolio assets, in particular relative to the Scheme's liabilities.

Within the Matching and Growth portfolios the Scheme invests in assets that are denominated in GBP sterling and overseas currencies. The Scheme's default position is to hedge overseas currency risk back to sterling, but the IC will consider opportunities to take overseas currency exposure when it is expected to be beneficial to the returns on the Scheme's assets.

When choosing the Scheme's asset allocation strategy, the Trustee considers written advice from its investment advisors and, in doing so, addressed the following:

- The need to consider a full range of asset classes.
- The risks and rewards of a range of alternative asset allocation strategies.
- The suitability of each asset class.
- The need for appropriate diversification.

In addition, the Trustee also consulted with the Sponsoring Employer when setting this strategy.

The Trustee will operate an IRM framework to initiate consultation with the Company, and delegate the monitoring and implementation to the IC. Consultation to reduce the Scheme's funding risk will begin if certain thresholds are passed.

The IRM framework gives the Trustee agreement to commence consultation in certain circumstances. The IC can propose alternative actions to the Trustee at any time or decide not to commence consultation if they agree it is not appropriate to do so. The only exception to this agreement is around the level of interest rate and inflation hedging. At each current trigger level, automatic action will be taken by the Trustee, with IC notice, to instruct the raising of the Strategic Hedge Ratio.

In setting and implementing the Scheme's investment strategy, the Trustee does not explicitly take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life matters (defined as non-financial factors).

3. RISK

The Trustee recognises that the key risk to the Scheme is that it has insufficient assets to make provisions for 100% of its liabilities ("funding risk"). The Trustee has identified a number of risks which have the potential to cause deterioration in the Scheme's funding level and therefore contribute to funding risk. These are as follows:

- The risk of a significant difference in the sensitivity of asset and liability values to changes in financial and demographic factors ("mismatching risk"). The Trustee and its advisers considered this mismatching risk when setting the investment strategy and have specifically structured the matching portfolio so as to mitigate interest rate and inflation risks.

- The risk of a shortfall of liquid assets relative to the Scheme's immediate liabilities ("cash flow risk"). The IC and its advisers will manage the Scheme's cash flows taking into account the timing of future payments in order to minimise the probability that this occurs.

- The failure by the fund managers to achieve the rate of investment return assumed by the Trustee ("manager risk"). This risk is considered by the IC and its advisers both upon the initial appointment of the fund managers and on an ongoing basis thereafter.

- The risk related to custodian banks and the ability of these organisations to settle trades on time and provide secure safekeeping of the assets under custody ("custodian risk"). This risk is managed by periodical review of the custodian's activity and discussing the performance of the custodian with its advisers and the fund managers when appropriate.

- The failure to spread investment risk ("risk of lack of diversification"). The Trustee and its advisers considered this risk when setting the Scheme's investment strategy. The Trustee has mandated the fund managers of the Matching Portfolio to maintain suitably diversified portfolios. The mandates are regularly reviewed and where appropriate amended by the IC and its advisers. The Growth Portfolio is invested in a diversified portfolio of return seeking assets.

- The possibility of failure of the Scheme's sponsoring employers ("covenant risk"). The Trustee and its investment and covenant advisers considered this risk when setting investment strategy and consulted with the Sponsoring Employer as to the suitability of the proposed strategy.

- The risk of fraud, poor advice or acts of negligence ("operational risk"). The Trustee has sought to minimise such risk by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee or the IC on behalf of the Trustee consider the majority of these risks in a qualitative rather than quantitative manner as part of each formal investment strategy review. Some of these risks may also be modelled explicitly during the course of such reviews.

Having set an investment objective for the Matching Portfolio which relates directly to the Scheme's liabilities and implemented it using a range of fund managers, the policy of the Trustee is to monitor, where possible, these risks quarterly.

In setting the investment strategy, the primary concern of the Trustee is to act in the best financial interests of the Scheme and its beneficiaries, seeking returns that are consistent with a prudent and appropriate level of risk. This includes the risk that Environmental, Social and Governance (ESG) factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustee considers this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance. The IC receives periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.

4. IMPLEMENTATION

Aon has been selected as investment adviser to the Trustee and IC. They operate under an agreement to provide a service which ensures the Trustee and IC are fully briefed to take decisions themselves and to monitor those to whom they delegate. Aon is paid on a combination of a fixed fee and time cost basis for the majority of the work they undertake for the Scheme although other approaches may be agreed by the IC for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

Arrangements with investment managers

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to a range of carefully selected and monitored fund managers through written contracts. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in the Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to:

- Take into account environmental, social and governance considerations in the selection, retention and realisation of investments; and
- Exercise the voting rights of the Trustee in relation to Scheme assets.

The Trustee periodically monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers are aligned with the policy of the Trustee, including those on non-financial matters. This includes, where possible and appropriate, monitoring the extent to which investment managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their investment adviser.

The Trustee receives regular reports and verbal updates from their investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objective and will typically assess the investment managers over 3-year periods.

The Trustee also receives annual stewardship reports on the monitoring and engagement activities carried out by their investment managers, which supports the Trustee in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustee shares the policies, as set out in this SIP, with the Scheme's investment managers, and request that the investment managers review and confirm whether their approach is in alignment with the policy of the Trustee. This is more feasible where the Scheme has segregated arrangements in place.

Before appointment of a new asset manager, the Trustee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the policy of the Trustee. Where possible, the Trustee will seek alignment but where this is not possible, for example if the Scheme invests in a collective investment vehicle, then the Trustee may express their expectations to the investment managers in by other means (such as through a side letter, in writing, or verbally at the Trustee's meeting).

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers, and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the policy of the Trustee and are based on assessments of medium- and long-term financial and non-financial performance.

Where investment managers are considered to make decisions that are not in line with the policy of the Trustee, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with investment managers, although the continued appointment for all investment managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration may be defined by the nature of the underlying investments.

The Trustee believes they have a duty as institutional investors to invest in a responsible manner and where appropriate will query managers on the rationale for holding positions in companies who contribute significant negative externalities to society.

The IC has taken steps to satisfy itself that the fund managers have the appropriate knowledge and experience for managing the Scheme's investments and that they are carrying out their work competently. The IC regularly reviews the continuing suitability of the fund managers and takes advice from the investment adviser with regard to any changes. Each of the fund managers has been set a specific benchmark and performance objective by the Trustee which is monitored in detail by the IC on a quarterly basis. As part of ongoing monitoring of the Scheme's investment managers, the IC will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Scheme's investment managers' integration of ESG on a quarterly basis.

With the exception of underlying holdings in pooled fund investments, the policy of the Trustee is to prohibit any direct investment in the ultimate parent of the Sponsoring Employer, or in any of its subsidiaries. The Trustee has received legal advice that its interest in the Pension Funding Partnerships does not constitute an employer-related investment for the purposes of the Pensions Act 1995.

The Trustee may also invest in other (predominantly return seeking) alternative assets, for example private equity, hedge funds and absolute return funds, infrastructure and commodities from time to time. Before implementing a decision to revise its asset allocation strategy to include investment in such other assets, the Trustee will consult with the Sponsoring Employer with regard to the revised asset allocation strategy.

The Trustee may also invest in other (predominantly risk reducing) assets, for example insurance products and/or assets expected to give some protection against increases in the liabilities due to improvements in longevity, or changes in interest rates or inflation.

Stewardship policy

The Trustee recognises the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.

The Trustee periodically reviews the suitability of the Scheme's appointed investment managers and take advice from their investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in their policy, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their investment managers typically on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the policy of the Trustee to those of the Scheme's investment managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the rights of the Trustee and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned.

It is the expectation of the Trustee that the Scheme's investment managers will prioritise and actively monitor for these risks within the investment, providing transparency on engagement and voting actions with respect to mitigating these risks as appropriate.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustee or the asset manager.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Costs, remuneration and transparency

The Trustee is aware of the importance of monitoring their investment managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustee recognises that in addition to annual management charges, there are a number of other costs incurred by their investment managers that can increase the overall cost incurred by their investments.

The Trustee collects annual cost transparency reports covering their investments and ask that the investment managers provide this data in line with appropriate industry recognised templates for each asset class.

The Trustee will typically only appoint investment managers who offer full cost transparency to manage assets of the Scheme. This will be reviewed before the appointment of any new managers, and the Trustee will review on a case-by-case basis any existing managers that do not comply.

The Trustee accepts that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the monitoring by the Trustee identifies a lack of consistency the mandate will be investigated and reviewed.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year.

The Trustee undertakes analysis of the Scheme's costs and performance on typically a 3-yearly basis by receiving benchmarking analysis comparing the Scheme's specific costs and performance of the underlying managers relative to those of the wider market. This is in line with the policy of the Trustee on reviewing the kinds and balance of investments to be held.

The benchmarking analysis can be used to assess the value for money received from the Scheme's assets on a regular basis and challenge the Scheme's investment managers where appropriate. The Trustee will review the investment managers relative to their objective to ensure that the net of fees performance has met their requirements.

The Trustee is open to managers implementing performance related fees if these are suitable for the Scheme and are aligned with the objectives of the Scheme.

Additional Voluntary Contributions (AVCs)

It is the policy of the Trustee that the investments representing members' AVCs will, in normal circumstances, be realised, in relation to the member in question, at the time when benefits to or in respect of that member become payable or a transfer value becomes payable. Members are entitled to switch between the AVC investment vehicles.

If the Trustee judges that any of the AVC investments are no longer appropriate having regard to the requirements of Section 36 (choosing investments) of the Pensions Act 1995 and Regulation 4 of the Occupational Pension Schemes (Investment) Regulations 2005, it is the policy of the Trustee to consider whether it is appropriate to review, and if necessary, change those investments.

If, having considered advice from Aon, the Trustee believes that any insurance policies are no longer suitable for the Scheme, it will withdraw the assets from those policies. The Trustee will take written advice before investing the Scheme's assets in any new insurance policies.

5. GOVERNANCE

The Trustee of the Scheme is responsible for the investment of the Scheme assets in accordance with and subject to the provisions of the Scheme's Trust Deed and Rules and general trust law. The Trustee takes some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustee has taken into account whether they have the appropriate training and expert advice in order to take an informed decision and the applicable legal requirements. The Trustee has established the following decision-making structure:

Trustee	**Investment Committee**
• Monitor actual returns versus Scheme investment objective. • Set structures and processes for carrying out its role. • Select and monitor planned asset allocation strategy. • Appoint Trustees to the Investment Committee. • Select direct investments (see below). • Consider recommendations from the Investment Committee. • Appoint investment advisers and fund managers. • Operating an Integrated Risk Management (IRM) framework	• Make recommendations to the Trustee on: — Selection of investment advisers and fund managers. — Structure for implementing investment strategy. • Monitor investment advisers and fund managers. • Monitor direct investments. • Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy. • Monitor and implement the IRM framework
Investment Adviser	**Fund Managers**
• Advise on all aspects of the investment of the Scheme assets, including implementation and monitoring. • Advise on this statement. • Provide required training.	• Operate within the terms of this statement and their written contracts. • Select individual investments with regard to their suitability and diversification. • Advise the Trustee on suitability of the indices in its benchmark.

The Pensions Act 1995 distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, e.g. purchase of an insurance policy or units in a pooled vehicle. The latter are known as direct investments.

The policy of the Trustee is to review its direct investments and to obtain advice about them at regular intervals (normally annually). These include vehicles available for members' AVCs. When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager(s).

The written advice will consider the issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and the principles contained in this statement. The regulations require all investments to be considered by the Trustee (or, to the extent delegated, by the fund managers) against the following criteria:

- The best interests of the members and beneficiaries
- Security
- Quality
- Liquidity
- Profitability
- Nature and duration of liabilities
- Tradability on regulated markets
- Diversification
- Use of derivatives

The investment advisor of the Trustee has the knowledge and experience required under the Pensions Act 1995.

The Trustee expects the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

All fund managers are remunerated on an ad valorem or performance related fee basis agreed and periodically reviewed by the IC.

In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets and also incur other ad hoc costs.

The Trustee appoints a custodian who provides safekeeping for all the Scheme's assets and performs the administrative duties attached, such as the collection of interest and dividends and dealing with corporate actions.

The Trustee consulted the Sponsoring Employer about the content of this statement. The Sponsoring Employer has been appointed by the other participating employers in the Scheme to act for this purpose.

The Trustee will review this SIP at least every three years and immediately following any significant change in investment policy. The Trustee will take investment advice and consult with the Sponsoring Employer over any changes to the SIP.

Dated: August 2022