# 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 has purchased an annuity policy to insure these benefits and minimise the risk that the Scheme is unable to meet this objective.

### 2. STRATEGY

The Scheme invests in a Bulk Purchase Annuity Agreement (“Annuity Policy”) with Legal & General Assurance Society Ltd. (“LGAS”). The Annuity Policy is intended to provide a return which matches the liabilities insured for the membership of the Scheme, and remove unrewarded risks such as interest rates, inflation and longevity, that are associated with those liabilities insured.

In addition to the Annuity Policy, the Scheme holds an immaterial amount of physical cash in the Trustee bank account alongside residual assets, which are in the process of being sold down. These residual assets include a Schroder Investment Management ("Schroders") Property mandate, Leadenhall Capital Partners (“Leadenhall”) Insurance Linked Securities mandate, and Money Market Instruments (“Cash”) held with Legal and General Investment Management ("LGIM"). These residual assets are not held for purposes of return generation, so this is not measured by the Trustee.

The Scheme’s long term asset allocation is a 100% investment in the Annuity Policy with LGAS. The Scheme’s assets do not have an explicit return objective, rather the assets aim to deliver the benefits promised to members.

The Trustee has delegated authority to implement the investment decisions to their Investment Committee (the "IC"). The IC decides on the timing of implementation of investment decisions. The IC takes decisions in line with the terms set out in the IC’s Terms of Reference.

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.

In addition to the residual assets and the Annuity Policy, the Trustee also holds an interest in a separate Pension Funding Partnership which provides a stream of income that is collateralised predominantly by a portfolio of prime retail properties.

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.

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, however this risk has reduced significantly with the Annuity Policy now in place.

- 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. LGAS are responsible for providing the cash for benefit payments covered by the Annuity Policy, the risk that it defaults on this obligation is covered under 'Annuity Policy default risk' below. The remaining assets invested with Schroders and Leadenhall are in the process of being sold, with redemptions submitted for the majority of assets. The remaining assets invested with LGIM are very liquid and can be realised at short notice if required.

- 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 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.

- The risk that LGAS fail to make the pension payments covered by the Annuity Policy as they fall due ("Annuity Policy default risk"). Having considered the credit strength of the insurer as part of the due diligence process, in addition to other factors such as the regulatory environment and other protections available (e.g., the Financial Services Compensation Scheme), the Trustee considered this to be an appropriate investment for the Scheme.

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. The Trustee policy is to monitor these risks periodically.

## 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.

The majority of the Scheme's assets are invested in an Annuity Policy with LGAS. The day-to-day management of these assets is delegated to LGAS. The residual assets are invested with Schroders, Leadenhall and LGIM.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to LGAS, Schroders, Leadenhall, and LGIM through a written contract.

### Responsible Investment

In setting the Scheme's investment strategy the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. This includes the risk that environmental, social and governance 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 performance.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustee has elected to invest the majority of the Scheme's assets in an Annuity Policy and therefore has limited ability to influence the environmental, social, and governance ("ESG") policies and practices of the companies in which the Annuity Policy invests. ESG considerations were a contributing factor in the selection of the Annuity Provider. Residual assets are invested in Property assets with Schroders, Insurance Linked Securities with Leadenhall and cash with LGIM, where the Trustee considers ESG and climate to not present material risks, or where the assets are in the process of being sold down, so the Trustee's ability to monitor and impact change is limited.

**Stewardship – Voting and Engagement**

Following the purchase of the Annuity Policy, the Trustee has delegated the management of the collateral backing the policy to LGAS. This includes responsibility for stewardship activities, including voting and engagement. The Trustee accepts responsibility for how LGAS stewards assets on its behalf, including the casting of votes in line with their voting policies. The Trustee does not attempt to influence the ESG integration or stewardship policies and practices of LGAS in managing these assets but did consider the policies of the insurer at the point of purchasing the buy-in, to the extent it was practical, to ensure the policies were in line with the Trustee's beliefs.

The Trustee expects LGAS to be signatories to relevant initiatives which may include the UN Principles for Responsible Investment, and where relevant adopt, the Financial Reporting Council's UK Stewardship Code for the asset classes in which they invest.

The Scheme's residual assets are invested in Property assets with Schroders, Insurance Linked Securities with Leadenhall and cash with LGIM. Given the relatively small proportion of Scheme assets invested with Schroders, Leadenhall and LGIM which are in the process of being sold, the Trustee does not have a formal stewardship policy in place for these assets.

**Members' Views and Non-Financial Factors**

In setting and implementing the Scheme's investment strategy the Trustee does not take into account the views of Scheme's 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").

### Arrangements with investment managers

Before entering into the Annuity Policy with LGAS, the Trustee reviewed the governing documentation associated with the Policy and considered the extent to which it aligned with the Scheme's requirements. Following the purchase of the Annuity Policy, and with the exception of the residual assets, the responsibility for managing arrangements with the underlying asset managers lies with

LGAS. This responsibility may include ensuring that arrangements with appointed asset managers are aligned to achieving the medium and long-term objectives of LGAS and as established within the contractual terms of the Annuity Policy of the Scheme.

Given the relatively small proportion of residual assets invested outside of the Annuity Policy, and the nature of the investments held, the Trustee does not maintain a policy for the arrangements with Schroders, Leadenhall and LGIM.

No performance monitoring is carried out in relation to the Annuity Policy however checks are carried out to ensure the payments received from the policy are in line with expectations.

There is no set duration for arrangements with the Annuity Provider, however, as the residual assets held with Schroders, Leadenhall and LGIM are in the process of being sold down, these arrangements are expected to cease with these Fund Managers before the end of 2025.

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 Partnership does not constitute an employer-related investment for the purposes of the Pensions Act 1995.

The Trustee may invest in 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.

## Costs, remuneration and transparency

Following the purchase of the Annuity Policy, responsibility for monitoring costs of the majority of the Scheme's assets has been delegated to LGAS. The Trustee therefore does not monitor costs relating to the Policy. The Trustee paid a premium to LGAS when the Annuity Policy was initiated, and as a result there are no ongoing fees in respect of the Policy.

The Scheme's residual assets are invested in Property assets with Schroders, Insurance Linked Securities with Leadenhall and cash with LGIM. Given the relatively small proportion of Scheme assets invested with Schroders, Leadenhall and LGIM which are in the process of being sold, the Trustee does not have a formal Cost Monitoring policy in place for these assets.

Targeted portfolio turnover is defined as the expected frequency with which an investment manager's fund holdings change over a year. Given the majority of the Scheme's assets are invested in the Annuity Policy, the Trustee does not monitor portfolio turnover.

## 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:

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| **Trustee**<br>• Monitor actual returns versus Scheme investment objective.<br>• Set structures and processes for carrying out its role.<br>• Select and monitor planned asset allocation strategy.<br>• Appoint Trustees to the Investment Committee.<br>• Select direct investments (see below).<br>• Consider recommendations from the Investment Committee.<br>• Appoint investment advisers, fund managers and other service providers. | **Investment Committee**<br>• Make recommendations to the Trustee on:<br>— Selection of investment advisers, fund managers and other service providers.<br>— Structure for implementing investment strategy.<br>• Monitor investment advisers, fund managers and other service providers.<br>• Monitor direct investments.<br>• Make ongoing decisions relevant to the operational principles of the Scheme's investment strategy. |
| **Investment Adviser**<br>• Advise on all aspects of the investment of the Scheme assets, including implementation and monitoring.<br>• Advise on this statement.<br>• Provide required training. | **Fund Managers**<br>• Operate within the terms of this statement and their written contracts.<br>• Select individual investments with regard to their suitability and diversification.<br>• Advise the Trustee on suitability of the indices in its benchmark. |
| **Annuity Provider**<br>• Manage annuity policy to pay the agreed liabilities of the Scheme. | |

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 to act within an investment capacity for the Scheme.

The Trustee expects the annuity provider and fund manager(s) 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: May 2024**