# Boots Supplementary Pension Plan (the 'Plan')

## Statement of Investment Principles

## 1. INVESTMENT OBJECTIVE

The Trustees aim to invest the assets of the Plan prudently to ensure that the benefits promised to members are provided.

The Trustees have purchased an annuity policy to insure these benefits and minimise the risk that the Plan is unable to meet this objective.

## 2. STRATEGY

During the third quarter of 2022 the Trustees established a Bulk Purchase Annuity Agreement ("Annuity Policy") with Legal & General Assurance Society ("LGAS"). The Annuity Policy is intended to match the liabilities for the membership of the Plan, as well as removing unrewarded risks such as interest rates, inflation and longevity, that are associated with the Plan's liabilities.

The current planned long term asset allocation strategy chosen to meet the objective above is set out in the table below.

| Asset classes | Weighting (%) |
|---|---|
| Bulk Purchase Annuity Agreement | 100.0 |
| Cash | 0.0 |

The Plan has residual assets held outside of the annuity policy with Legal and General Investment Management ("LGIM"). Broadly speaking, 67% of these assets are held within the Sterling Liquidity Fund and the remaining 33% are held in the LGIM 6A Corporate Bond All Stocks Index Fund.

At the time of this SIPs publication, the residual assets held by the Plan totalled approximately £4.8m. The assets will be used to cover expenses and to provide a pickup in yield, to better protect the value of cash in a high inflationary environment. As such, the assets will be drawn down over time, and are not held with a view to generate return for the Plan.

The asset allocation strategy was determined with regard to the actuarial characteristics of the Plan, in particular the strength of the funding position, covenant and the liability profile.

When choosing the Plan's asset allocation strategy, the Trustees considered 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.

The Trustees' policy is to prohibit any direct investment in the Sponsoring Employer.

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

In setting and implementing the Plan's investment strategy the Trustees do not explicitly take into account the views of Plan 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 key risk to the Plan is 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 its 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 Trustees considered this to be an appropriate investment for the Plan.

In setting the investment strategy, the Trustees' primary concern is to act in the best financial interests of the Plan 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 Trustees consider this risk by taking advice from their investment adviser when setting the Plan's asset allocation, when selecting managers and when monitoring their performance. The Trustees receive periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Plan's assets and liabilities.

In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have elected to invest the Plan's Defined Benefit assets in an Annuity Policy and therefore cannot directly influence the ESG policies and practices of the companies in which the Annuity Policy invests.

## 4. IMPLEMENTATION

Aon, as the selected investment adviser, operate under an Agreement to provide a service which ensures the Trustees are fully briefed to take decisions themselves and to monitor those they delegate. Aon is paid on a time cost basis for all the work they undertake for the Plan although fixed fees may be negotiated by the Trustees for certain projects. This structure has been chosen to ensure that cost-effective, independent advice is received.

The Trustees' Annuity Policy with LGAS is classified as a direct investment. The day-to-day management of the assets is delegated to the Annuity Provider.

### Arrangements with investment managers

Before entering into the Annuity Policy with LGAS, the Trustees reviewed the governing documentation associated with the Policy and considered the extent to which it aligned with the Plan's requirements.

The Trustees believe that having appropriate governing documentation is sufficient to incentivise the Annuity Provider to make decisions that align with the Trustees' policies and are based on assessments of medium and long-term financial performance.

Following the purchase of the Annuity Policy, the responsibility for managing arrangements with asset managers lies with LGAS. This responsibility may include ensuring that arrangements with appointed asset managers are aligned to achieving the long-term objectives of LGAS and the Plan.

There is no set duration for arrangements with the Annuity Provider.

The Trustees periodically monitor the Plan's investments held outside of the Annuity Policy, to consider the extent to which the investment strategy and decisions are aligned with the Trustees' policies, 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.

### Stewardship policy

The Trustees recognise 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 Plan invests, as this ultimately creates long-term financial value for the Plan and its beneficiaries.

Following the purchase of the Annuity Policy, responsibility for voting and engagement with managers has been delegated to the Annuity Provider, LGAS.

In relation to assets that remain outside of the Annuity Policy, on an annual basis, the Trustee will ask its investment manager, LGIM, for evidence of its achievements in respect of responsible investment, stewardship practices and exercise of voting rights.

The Trustees will review the alignment of the Trustees' policies to those of the Plan's investment manager and ensure their manager uses their influence as major institutional investors to carry out the Trustees' rights and duties as a responsible asset owner.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an investment manager or another holder of debt or equity, and other stakeholders. The Trustees 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 Trustees are aware of the importance of monitoring total investment costs and the impact these costs can have on the overall value of the Plan's assets.

Following the purchase of the Annuity Policy, responsibility for monitoring costs has been delegated to the Annuity Provider. The Trustees therefore do no monitor costs relating to the Policy. The Trustees 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.

In relation to assets that remain outside the Annuity Policy, the Trustees recognise that in addition to annual management charges, there are a number of other costs incurred throughout the investment process that can increase the overall cost incurred by their investments.

## 5. GOVERNANCE

The Trustees are responsible for the investment of the Plan's assets in accordance with and subject to the provisions of the Plan's Trust Deed and Rules and general trust law. The Trustees take some decisions themselves and delegate others. When deciding which decisions to take themselves and which to delegate, the Trustees have 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 Trustees have established the following decision-making structure:

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|---|
| **Trustees**<br>• Monitor actual returns versus the Plan's investment objective.<br>• Set structures and processes for carrying out its role.<br>• Select and monitor the asset allocation strategy.<br>• Select direct investments (see below).<br>• Appoint and monitor investment advisers and fund manager(s).<br>• Make ongoing decisions relevant to the operational principles of the Plan's investment strategy |
| **Investment Adviser**<br>• Advise on all aspects of the investment of the Plan assets, including implementation.<br>• Advise on this statement.<br>• Provide required training to the Trustees.<br>• Advise on the suitability of direct investments. |
| **Fund Manager(s)**<br>• Manage pooled funds in line with their objectives. |
| **Annuity Provider**<br>• Manage annuity policy to pay the agreed liabilities of the Plan. |

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 Trustees' policy is to review its direct investments and to obtain written advice about them at regular intervals (normally annually). When deciding whether or not to make new direct investments the Trustees 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 Trustees (or, to the extent delegated, by the fund manager(s)) 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 Trustees' investment adviser has the knowledge and experience required under the Pensions Act 1995.

LGIM is remunerated on an ad valorem fee basis agreed and periodically reviewed by Trustees.

In addition, the fund manager(s) pays commission to third parties on many trades it undertakes in the management of assets and also incurs other ad hoc costs.

The Trustees consulted The Boots Company Plc about the content of this statement. The Boots Company Plc has been appointed by the other participating employers in the Plan to act for this purpose.

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