Engagement Policy Implementation Statement

Boots Pension Scheme (the "Scheme")

The Engagement Policy Implementation Statement ("EPIS") has been prepared by the Trustee and covers the Scheme year 1 April 2021 to 31 March 2022.

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations require that the Trustee produces an annual statement which:

- explains how and the extent to which the Trustee has followed its engagement policy which is set out in the Statement of Investment Principles ("SIP"); and

- describes the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast) during the Scheme year and any use of third-party providers of proxy voting services.

Executive summary

Based on the activity over the year by the Trustee and its investment managers, the Trustee believes that the stewardship policy has been implemented effectively. The Trustee notes that its investment managers were able to disclose adequate evidence of voting and engagement activity.

The Trustee expects improvements in disclosures over time, in line with the increasing expectations on investment managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement. In particular, the Trustee expects improvements from Legal and General Investment Management ("LGIM") on their reporting of fund level engagement examples. The Trustee's investment adviser, Aon, will engage with LGIM to encourage improvements in their disclosures.

Scheme stewardship policy

The below bullet points summarise the Scheme's stewardship policy in force over the Scheme year to 31 March 2022.

The full SIP can be found here: wba-boots-pensions.co.uk

- *The Trustee recognises the importance of its 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 takes advice from its 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 its policy, the Trustee [will] engage with the manager and seek a more sustainable position but may look to replace the manager.*

- *The Trustee reviews the stewardship activities of its investment managers, typically on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of the Trustee's policies to those of the Scheme's investment managers and ensure its managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights 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 its 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 investment manager.*

- *From time to time, the Trustee will consider the methods by which, and the circumstances under which, it 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 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.*

Scheme stewardship activity over the year

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis, with a monitoring report being provided to the Trustee by Aon. The reports include environmental, social and governance (ESG) ratings and highlight any areas of concern, or where action is required. The ESG rating system is for buy-rated investment strategies and is designed to assess whether investment managers integrate Responsible Investment and more specifically ESG considerations into their investment decision making process. The ESG ratings are based on a variety of qualitative factors, starting with a proprietary due diligence questionnaire, which is completed by the investment manager. Aon's researchers also conduct a review of the managers' Responsible Investment related policies and procedures, including a review of their Responsible Investment policy (if they have one), active ownership, proxy voting and / or stewardship policies. After a thorough review of the available materials, data and policies, as well as conversation with the investment manager, the lead researcher will award an ESG rating, which is subject to peer review using an agreed reference framework. Ratings will be updated to reflect any changes in an investment strategy's level of ESG integration, or broader Responsible Investment developments.

Aon also provides semi-annual risk analysis to the Trustee that considers different climate change scenarios, and the impact this may have on the Scheme's funding level over the next 20 years.

Manager Appointments

The Trustee considers ESG credentials of investment managers when considering changes to the Scheme's portfolio. Further to the outcome of the viewpoint survey results in July 2020 and the subsequent hiring of Ownership Capital, the Trustee and Aon reviewed the existing equity approach and analysed whether the Scheme had scope to make additional allocations in the area of sustainable and impact equity. This would further improve the balance and diversification of the Scheme's equity allocation.

Having assessed several opportunities, the Trustee agreed to make an additional impact equity investment towards the Mirova Global Sustainable Equity Fund on 18 January 2022. The Mirova investment philosophy is based on the idea of four transitional themes: demographic, environmental, technological and governance. Their fundamental bottom-up analysis focuses on strategic positioning, financial structure, management and valuation on a three to five-year investment horizon. Mirova's investment team also engages with the management teams of portfolio companies to encourage improvement in impact metrics.

Training and TCFD reporting

Throughout the year, the Trustee has participated in Responsible Investment training sessions with Aon, which provided the Trustee with updates on the evolving regulatory requirements, as well as the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

During the Mirova selection, the Trustee received additional training on impact investing. This helped the Trustee to better understand how investments can be made with the intention of measuring social and environmental impact alongside a positive financial return, as well as how businesses can contribute to sustainable development.

Throughout the year, the Trustee has been in discussions with Aon, and other relevant parties, to meet the requirements set out as part of the Task Force on Climate-related Financial Disclosures (TCFD) and produce the relevant TCFD report for the Scheme. The TCFD establishes a set of eleven clear, comparable and consistent recommended disclosures about the risks and opportunities presented by climate change. The increased transparency encouraged through the TCFD recommendations is intended to lead to decision-useful information and therefore better-informed decision-making on climate-related financial risks. The TCFD has structured its recommendations around four pillars: governance; strategy; risk management; and metrics and targets.

The Trustee, in conjunction with its investment adviser, will be producing its first TCFD disclosures report as at the 31 March 2022 year end.

Voting and Engagement activity – Equity and multi-asset funds

Over the year, the material equity and multi-asset investments held by the Scheme were:

Legal and General Investment Management (“LGIM”)	Diversified Multi Factor Equity
Legal and General Investment Management (“LGIM”)	World Equity Index (AVC)
Ownership Capital	Global Equity Fund

In this section there is a summary of voting information and examples of significant voting activity for each of the Scheme’s relevant managers. The investment managers provided examples of ‘significant’ votes they participated in over the period. Each manager has their own criteria for determining whether a vote is significant. Examples of what might be considered a significant vote are:

- a vote where a significant proportion of the votes (e.g. more than 15%) went against the management’s proposal;
- where the investment manager voted against a management recommendation or against the recommendation of a third-party provider of proxy voting;
- a vote that is connected to wider engagement with the company involved;
- a vote that demonstrates clear and considered rationale;
- a vote that the Trustee considers inappropriate or based on inappropriate rationale; and
- a vote that has significant relevance to members of the Scheme.

The Trustee considers a significant vote as one which the voting manager deems to be significant.

Legal & General Investment Management (“LGIM”)

Voting policy

LGIM uses proxy voting adviser Institutional Shareholder Services (“ISS”) to execute votes electronically and for research. LGIM also receives research from Institutions Voting Information Service ("IVIS”). This augments LGIM’s own research and proprietary ESG assessment tools. LGIM does not outsource any part of the voting decisions to ISS. LGIM has a custom voting policy in place with ISS. This seeks to uphold what LGIM considers to be best practice standards companies should observe. LGIM can override any voting decisions based on the voting policy if appropriate. For example, if engagements with the company have provided additional information.

Voting decisions are made by LGIM’s Investment Stewardship team in accordance with the relevant Corporate Governance, Responsible Investment, and Conflicts of Interest policies. Each member of the team is allocated a specific sector globally, so that the voting is undertaken by the same individuals who engage with the relevant company.

Voting statistics for the Diversified Multi-Factor Equity and World Equity Index funds are summarised below.

	For the period from 1 April 2021 – 31 March 2022			
	Number of resolutions eligible to vote on over the period	% of resolutions voted on for which the fund was eligible	% of resolutions voted against management	% of resolutions abstained
Diversified Multi-Factor Equity	16,077	100.0	17.9	1.2
World Equity Index	36,675	99.8	19.0	0.9

Voting example

In June 2021, LGIM voted against a resolution to elect the Chief Executive Officer (“CEO”) of retailer Target Corporation to the role of Chair of the company’s board, as well. It is LGIM’s policy to advocate for the separation of CEO and board chair roles. LGIM believes these two roles are substantially different, requiring distinct skills and experiences due to risk management and oversight. In addition, LGIM expects a CEO or non-executive director not to hold too many board positions, to ensure they can undertake their duties effectively. LGIM considered this vote to be significant because it is an example of how it applied and escalated its voting policy on the topic of combined board chair and CEO roles. 93.7% of shareholders voted in favour of the resolution, however the Trustee still expects LGIM to continue to make clear its concerns with the company regarding this matter.

Engagement policy

LGIM has a six-step approach to its investment stewardship engagement activities, broadly these are:

1. Identify the most material ESG issues;
2. Formulate the engagement strategy;
3. Enhancing the power of engagement;
4. Public Policy and collaborative engagement;
5. Voting; and

6. Reporting to stakeholders on activity.

LGIM monitors several ESG subjects and conducts engagement on various issues. It's top five engagement topics are climate change, remuneration, diversity, board composition and strategy. LGIM's engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all their clients.

At the time of writing, LGIM had not provided engagement examples for the funds. The Trustee's investment adviser, Aon, has engaged at length with LGIM, regarding its lack of fund level engagement reporting. LGIM has confirmed it is working towards producing this information later in 2022. As such, both Aon and the Trustee expect to see improvements in LGIM's reporting from next year going forward. The example provided below is at a firm level, i.e. it is not specific to the fund the Scheme is invested in.

Engagement example

Over 2021, LGIM engaged with several companies on the topic of antimicrobial resistance. Antimicrobial resistance occurs when bacteria, viruses, fungi, and parasites change over time and no longer respond to medicines, making infections harder to treat and increasing the risk of disease. LGIM states that the overuse and inappropriate use of antimicrobials in human activities are often linked to antimicrobial agents getting into the ecosystem. In particular, water sanitation systems have not been designed to address antimicrobial resistance.

LGIM reached out to 20 water utility companies, through an open letter, to understand if they were aware of the issue of antimicrobial resistance and whether they plan to introduce monitoring systems to detect agents such as antibiotic-resistant bacteria. LGIM also had meetings with some of the companies and found that awareness of antimicrobial resistance was generally low. LGIM believed this was due to the lack of regulatory requirements and little perception of the potential business risks.

After these engagements, LGIM found several investee companies were considering their approach to antimicrobial resistance. In particular, one utility company sought to understand what happens to contaminants in its wastewater treatment process and implemented a programme to try to understand improvements it could make to its systems.

Ownership Capital ("OC") – Global Equity Fund

Voting policy

OC uses the services of proxy voting service provider Broadridge to cast votes. OC's investment team decides how to vote based on the firm's view of corporate governance best practice and their knowledge of each company's business situation. The manager supplements this through an ongoing dialogue with management. The recommendations are collected by one member of the investment team, responsible for the screening of the recommendations against the internal voting policy and checking for consistency against previous voting activity. Once this screening is successfully performed, the voting instructions are sent to the proxy voting platform.

Votes are determined to be significant by OC's investment team on a case-by-case basis in accordance with their voting policies and the impact of each vote in question. OC views voting as one of its engagement tools and resultantly votes on their own shares in accordance with their own guidelines, as opposed to those of their clients. This makes OC less prone to mistakes and more consistent with their dialogue with the management teams of their portfolio companies.

The table below shows the voting statistics for OC's Global Equity Fund for the year from 1 April 2021 to 31 March 2022.

Number of resolutions eligible to vote on over the period	231
% of resolutions voted on for which the fund was eligible	100%
Of the resolutions on which the fund voted, % that were voted against management	19%
Of the resolutions on which the fund voted, % that were abstained from	4%

Voting example

In January 2022, OC voted against a proposal to ratify named Executive Officers' Compensation for PTC Inc. OC believes compensation structure is important to determine future management motivation and fair terms for shareholders. At PTC Inc., 74% of pay is performance based, but pay-performance ratios have been poor historically. Half of Long-Term Incentives ("LTIs") are still time based and 25% of LTIs are still measured annually. There are some improvements but not enough, as OC feel there is room to balance pay-performance better, while adopting long term measurement periods. Though the resolution was passed, OC continues to focus on pay for performance, and ensuring executive compensation is aligned with shareholders' interests.

Engagement policy

OC integrates financially relevant ESG factors into fundamental financial analysis and engages with portfolio companies on ESG issues, to improve their long-term risk/ return profile. Over the last 12 months, they have engaged with 100% of their portfolio companies. The focus is on seeking positive change in all of the companies that OC invests in. For example, climate risk is an area of focus on which OC engaged with all their portfolio companies during 2021. Not only does OC actively engage with all their companies on emission reduction and reporting but have they have also set formalized emissions targets at the portfolio level.

In the short term, OC tracks its activity with companies to assess the success of their engagement. OC typically expects to engage directly with the senior management of all portfolio companies through multiple in-person meetings each year, as they believe that successful engagement requires sustained and intensive interaction over multiple years. Over the long term, success and progress is measured by assessing the outcomes achieved through engagement.

Engagement example

OC has engaged at length with Xero, an accounting software provider for small and medium sized businesses ("SME"). OC's engagement with Xero has focused on continuing its strong ESG agenda, including disclosing on and reducing its carbon emissions. OC have also started engaging with Xero on its strategic impact ability to assist SMEs to better understand and manage their own GHG emissions.

The company's current sustainability efforts are widely recognized with inclusions in multiple ESG Indices such as the FTSE4Good Index and the Bloomberg Gender-Equality Index. The company is highly rated for ESG by the MSCI (a provider of ESG related solutions and services) and its comprehensive efforts around tackling the climate crisis have been recognized by the Australian government.

OC will continue work with the company on its roadmap to achieve initiatives in helping customers, as they believe that Xero can have a much more widespread impact by doing so, rather than solely focusing on internal ESG improvements.

Engagement activity – fixed income funds

Whilst voting rights are not applicable to non-equity mandates, the Trustee recognises that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and so debt issuers have a vested interest to make sure that investors are happy with the issuer's strategic direction and policies. Whilst upside potential may be limited in comparison to equities, downside risk mitigation and credit quality are critical parts of the investment decision-making process.

The following examples demonstrate some of the engagement activity carried out by the Scheme's fixed income managers over the year.

Goldman Sachs Asset Management ("GSAM")

<u>Engagement policy</u>

GSAM's Global Stewardship Team serves as a dedicated resource to all their investment teams globally, overseeing several key program areas including direct engagement with company management on a subset of companies they have invested in. To guide its engagements, the Global Stewardship Team has established a Focus List of thematic priorities. This Focus List is updated annually based on their observations of local market and emerging best practices. For 2021, engagement priority areas include targeting companies based on:

- ESG Reporting;
- Board Composition;
- Corporate Strategy;
- Environmental Risks; and
- Social Risks.

The Global Stewardship Team also focuses on proactive, outcomes-based engagement, to promote best practices. GSAM's investment teams regularly engage with companies including in one-on-one and investor group settings. It is an important component of their research process and gives them unique insights into management quality, business model, financial performance and strategy as well as future business prospects.

<u>Engagement example</u>

GSAM engaged with a Mexican Cement producer over issues such as net-zero carbon concretes, future projects and plans to achieve long term carbon emissions related targets. As a result of this engagement, carbon emissions fell by 22% from 1990 to 2020. As part of this, multiple engagements during 2020 resulted in increased use of alternative fuel & decarbonized raw materials and improved carbon capture. The company further aims to reduce carbon emissions by 35% by 2030 and target zero carbon emissions by 2050.

Wellington Management Group ("**Wellington"**)

<u>Engagement policy</u>

The goal of Wellington's stewardship activities – engaging with company managements and voting proxies on clients' behalf – is to support decisions that will maximize the long-term value of securities they hold in client portfolios. In order to assist analysts and portfolio managers in fulfilling its stewardship responsibilities, they have a dedicated research team of ESG experts. The ESG Research Team, part of the central investment research function, researches and provides company- and sector-specific ESG analysis and engages directly with company management teams on ESG topics to influence company behaviour toward best practices.

The ESG Research Team tracks all engagements they host and attend in a proprietary ESG tracking tool. Within this assessment, they note company attendees, topics discussed, and assign each topic a qualitative assessment indicating their concern level and progress towards achieving engagement objectives. In particular, they are tracking the feedback they provided to the company and the outcome of the engagement, in terms of how it influenced an investment decision and/or how the company is acting based on the feedback.

The Sustainable Investment team ensures that all investors are familiar with the full range of escalation tools at their disposal when companies fail to adequately address concerns raised through engagement. There may be cases where their escalation through private engagements proves unsuccessful. In these instances, investors have recourse to public engagement tools. Any decision to engage publicly is very carefully weighted and decided on a case-by case basis, in collaboration with their Stewardship Practice Leader and the Investment Stewardship Committee.

In June 2019, Wellington published its Engagement Policy, approved by the Investment Stewardship Committee. This policy is publicly available on their website in compliance with the European Shareholder Rights Directive.

Engagement example

Wellington engaged with American Tower Corp (AMT) focusing on climate change issues. AMT has a higher-than-average weighted average carbon intensity because they lack science-based targets for emissions reductions.

Wellington spoke with AMT's investor relations and their sustainability team to discuss their emissions' reductions targets, provide feedback on client perspective, and speak to Wellington's involvement as a signatory to the Net Zero Asset Managers initiative. AMT is increasingly focused on carbon emissions and has made progress towards diversifying its revenue stream. For example, AMT has completed 53% of their 10-year goal to reduce diesel-related greenhouse gas emissions by 60% by 2027, from a 2017 baseline. It has also invested in sustainable projects in some emerging market countries, which while capital intensive, may provide social benefits.

Initially, Wellington found AMT's unwillingness to commit to science-based targets disappointing, believing that they would prioritize revenue generation over carbon emissions reductions. However, as a result of the engagement AMT has since adopted science-based targets (SBTs). Wellington will continue to engage with AMT to ensure their targets are met and also to encourage that they work towards increasing the ambitiousness of these targets.

Engagement activity – Alternatives

The Trustee acknowledges that the ability of alternative managers to engage with and influence investee companies may be less compared to equity managers. However, it is encouraging to see from the information they provided for the EPIS that the managers are aware and active in their role as stewards of capital.

The following section demonstrates some of the engagement activity being carried out by the Scheme's alternative managers over the year.

Leadenhall Capital Partners ("Leadenhall")

Engagement policy

Leadenhall is an Insurance Linked Securities ("ILS") manager. Reinsurance can be socially responsible and can align to many of the UN's Sustainable Development Goals ("SDGs") but the measurements and data on ESG is still at its infancy. Over the Scheme year, Leadenhall engaged with over 60% of its counterparties regarding ESG-related matters. These conversations are currently qualitative rather than quantitative, but Leadenhall is working to provide standardisation of data within the reinsurance sector. During the Scheme year, Leadenhall engaged with an ESG consultant in 2021 and retained them in 2022, to help with the development of its own ESG framework and measurements. Leadenhall expects that this framework, together with ongoing education and training, will enable qualitative and quantitative engagement of counterparties at all levels.

Engagement example

During 2021, Leadenhall as a firm, engaged with brokers and counterparties at senior levels on matters like operational risks, cyber/ information security and product risks. Discussions at senior levels as well as industry media are ongoing by the manager's senior leadership. The objective is to engage Leadenhall's counterparties in starting to measure and incorporate ESG considerations in the liabilities. In 2021, work was ongoing to build out Leadenhall's framework and to translate the European Union's Sustainable Finance Disclosure Regulation ("SFDR") focused on "asset measures" in a manner to be able to apply them to "liability measures" that are more relevant for (re)insurance counterparties. These measurements have been used by the portfolio managers and analysts since 2021 and have become part of the process for approving new investments.