Engagement Policy Implementation Statement

Boots Pension Scheme

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 (the "Regulations"). The Regulations amongst other things require that the Trustees produce an annual implementation statement which outlines the following:

Explain how and the extent to which they have followed their engagement policy, which is outlined in the SIP.

Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast by the Trustees or on their behalf) during the Scheme year and state any use of the services of a proxy voter during that year.

This document sets out the details, as outlined above. The Engagement Policy Implementation Statement for the Boots Pension Scheme ("the Scheme") has been prepared by Boots Pensions Limited ("the Trustees") and covers the Scheme year 1 April 2020 to 31 March 2021.

Scheme Stewardship Policy Summary

The below bullet points set out the Scheme Stewardship Policy in force over the majority of the reporting year to 31 March 2021. The latest Scheme SIP was updated in September 2020, and can be found at this website:

https://ahb-ukpensionportal.co.uk/Uploads/Documents/00/00/00/53/DocumentFile_FILE/BPS-SIP-September-2020.pdf

- *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 Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries.*
- *The Trustees periodically review 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 Trustees have set out in their policy, the Trustees undertake to engage with the manager and seek a more sustainable position but may look to replace the manager.*
- *The Trustees review the stewardship activities of their investment managers typically on an annual basis, covering both engagement and voting actions. The Trustees will review the alignment of the Trustees' policies 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 Trustees' 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 Trustees 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 Trustees 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 Trustees or the asset manager.*
- *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 asset 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.*

Scheme stewardship activity over the year

Viewpoints Survey and updated Stewardship Policy

In order to better understand the views of the Trustees across themes of cost and transparency (C&T) and responsible investment, a decision was taken to undertake Aon's Viewpoints Survey to support the development of the Scheme's policies and actions. The results of the Viewpoints Survey were then communicated to the Trustees, by Aon, at the Investment Committee meeting held on 15 July 2020, the outcome of which showed a consensus of strong beliefs on the financial materiality of ESG factors and the desire to shift the Scheme's investment portfolio towards more sustainable and impactful investments.

This followed through to updating the SIP and organising an action plan to review the Scheme's investments in respect to ESG risks and opportunities. Throughout the year, the Trustees have been proactive to ensure the Scheme appropriately updated the Stewardship policy in the SIP.

During the Investment Committee meeting held on 5 May 2020, the Trustees acknowledged the expanded regulatory requirements on stewardship, disclosures and costs, and promptly agreed an approach for developing the new policy requirements in the SIP. In line with the requirements, the Trustees reviewed and expanded the Stewardship policy in September 2020. The updated wording in the SIP illustrates how the Trustees recognise the importance of their role as stewards of capital, as well as indicating how the Trustees would review the suitability of the Scheme's investment managers.

Ongoing Monitoring

Investment monitoring takes place on a quarterly basis with a monitoring reports being provided to the Trustees 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 fund 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 fund 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 a fund's level of ESG integration or broader responsible investment developments.

Aon also provides annual risk analysis to the Trustees 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 Trustees consider ESG credentials of fund managers when considering changes to the Scheme's portfolio. In light of the viewpoint survey results in July 2020, Ownership Capital were hired in August 2020 which added exposure to sustainable 'quality' as well as the manager's differentiated focus on ESG engagement. One of the key factors for selecting an investment into the Ownership Capital Global Equity fund was the fundamental bottom up process employed by the manager, which integrates material ESG considerations alongside active engagement.

Training and TCFD reporting

Throughout the year, the Trustees have participated in responsible investment training sessions with Aon, which provided the Trustees with updates on the evolving regulatory requirements and the importance of stewardship activity and appropriate consideration of ESG factors in investment decision making.

During the Ownership Capital selection, the Trustees received additional training on impact investing. This helped the Trustees 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.

At the Investment Committee meeting held on 23 February 2021, the Trustees began discussions to ensure the Scheme progressed towards meeting the requirements as set out as part of the Task Force on Climate-related Financial Disclosures (TCFD). 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.

Aon are currently working with the Trustees through an agreed action plan to meet the required deadline, 1 October 2021.

Voting and Engagement activity – Equity

Over the year, the Scheme has been invested in the following equity funds:

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

Ownership Capital ("OC")

Voting policy

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. It 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.

OC currently cast their proxy votes via a dedicated voting provider, Broadridge.

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.

Because OC view voting as one of their engagement tools, it currently votes its own shares according to their own guidelines. OC state this makes them less prone to mistakes and more consistent with their dialogue with the management teams of their portfolio companies. However, it is always open to discussing voting with their clients, if requested.

Significant voting example

An example of significant vote was against Tyler in May 2020 where the resolution was on executive compensation.

OC voted against the resolution as compensation for selected executives was higher than average and was not aligned to performance to the degree OC deem appropriate.

The outcome of the vote was in favour of the resolution. Compensation engagement is an important part of OC's agenda, as it believes compensation needs to be variable and tied to long-term performance.

OC determined this vote significant as it is regarding incentives and compensation.

Engagement policy

As active owners and long-term investors, OC aims to be a good steward of the assets it manages. OC is dedicated to strong stewardship which plays a vital role in responsible investment practices. OC recognises the importance of shareholder engagement and the contribution that ESG considerations can make to sustainable investment outcomes.

As sustainability is fully integrated into OC's overall investment process, all Investment team members bear the responsibility for OC’s ESG focus and engagement process.

OC employs a proprietary, 75-factor extra-financial analytical model (OC Govern™) to integrate qualitative parameters, including ESG/RI considerations, and to monitor progress throughout time.

It generally spends years tracking potential investee companies before making an investment. OC's bottom-up due diligence process involves attending conferences, speaking to employees (both current and past), visiting companies and setting up meetings with executive level team members. Active engagement is a key differentiator of the OC investment process.

On each investment it works to develop a sustainability plan that outlines ESG issues and areas for improvement. After discussing this roadmap with company management, the team continues to use the OC Govern™ model to subsequently monitor progress / improvements. The OC Govern™ model provides a framework for assessing the management and ESG risk profile for the company.

The investment team of OC is responsible for continuously monitoring companies and holdings to ensure that it remains appropriate and suitable for investment. Ultimately this dialogue aims to cover aspects relevant to the decision on whether or not to invest in, or divest from, the company concerned.

Engagement example

From 2017, OC started to engage with Edward Lifesciences (Edwards) regarding Public Health with the objective to promote good health and well-being, especially within developing countries.

The World Health Organization reported that 17.9 million people die each year due to cardiovascular complications, making it the leading cause of death around the world. As a global provider of products used in critical medical procedures, OC believes Edwards has the potential to have a significant and positive societal impact through increasing access to healthcare globally. Edwards’ ESG vision is to be a frontrunner on sustainability in the healthcare industry – both in serving those who can and those who can’t afford its valves - and the company has come a long way in the last three years with an active approach towards linking its core products and services to its sustainability initiatives.

As an outcome of the engagement, Edwards' Every Heartbeat Matters initiative to educate, screen and treat underserved patients has now reached over 1.7 million, with a goal to reach 2.5 million additional underserved structural heart and critical care patients by the end of 2025.

OC is pleased with the achievements of Edwards and continue to engage on this issue, as it believes there is still more impact to be realised.

Legal and General Investment Management ("LGIM")

Voting

LGIM make use of the Institutional Shareholder Services ("ISS")'s proxy voting platform to electronically vote and augment their own research and proprietary ESG assessment tools, but do not outsource any part of the strategic decisions. It has put in place a custom voting policy with specific instructions that apply to all markets globally, which seeks to uphold what it considers to be the minimum best practice standards all companies should observe. LGIM retain the ability to override any voting decisions based on the voting policy if appropriate, for example, if engagements with the company have provided additional information.

Voting example

At an extraordinary general meeting ("EGM") on 18 September 2020, LGIM voted against the resolution to amend the directors' remuneration policy proposed by Pearson. This resolution sought shareholder approval to grant a co-investment share award, an unusual step for a UK company; if this resolution was not passed the proposed new CEO would not take up the role. Many shareholders were keen for the company to appoint a new CEO but were not happy with the plan being proposed. Shareholders were not able to vote separately on the two distinct items and felt forced to accept a less-than-ideal remuneration structure for the new CEO.

LGIM spoke with the Chair of the Board earlier in 2020 on the Board's succession plans and progress for the new CEO. LGIM discussed the shortcomings of the company's remuneration policy. LGIM also spoke with the Chair directly before the EGM and relayed their concerns that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award. LGIM also asked that the post-exit shareholding requirements were reviewed to be brought into line with LGIM's expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy

The outcome of the vote was that 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement.

The vote was deemed significant given the unusual approach taken and LGIM voting against the amendment.

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.

More information can be found on LGIM's engagement policy here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-engagement-policy.pdf

Engagement example

An example of LGIM's engagement was with Proctor and Gamble ("P&G"). P&G uses both forest pulp and palm oil as raw materials within its household goods products. A key issue identified was that the company has only obtained certification from the Roundtable on Sustainable Palm Oil for one third of its palm oil supply, despite setting a goal for 100% certification by 2020. Furthermore, two of their suppliers of palm oil were linked to illegal deforestation.

Following a resolution proposed by another stakeholder, Green Century Capital Management, that P&G should report on their effort to eliminate deforestation in their supply chain, LGIM engaged with P&G, Green Century and with the Natural Resource Defence Counsel to fully understand the issues and concerns.

From this engagement, LGIM decided to support the resolution as, although P&G introduced a number of measures to ensure their business does not contribute to deforestation, LGIM felt P&G was not doing as much as it could. LGIM has asked P&G to respond to the CDP (formerly Carbon Disclosure Project) Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council certified sources.

More detail on this stewardship example can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement activity – Fixed income

Whilst voting rights are not applicable to non-equity mandates, the Trustees recognise that debt investors have significant capacity for engagement with issuers of debt. Debt financing is continuous, and therefore a vested interest on the part of debt issuers to ensure that institutional investors are satisfied with the issuer's strategic direction and policies. Whilst upside potential may be naturally limited, in comparison to equities, downside risk mitigation and credit quality is a critical part of investment decision-making. The following examples demonstrate some of the engagement activities being carried out on behalf of the Scheme over the year.

The Scheme invests in the following pooled fixed income funds:

Manager	Fund Name
LGIM	Credit Screened Bond Portfolio
LGIM	Active Bond Portfolio
LGIM	Active Global Bond Portfolio
Goldman Sachs Asset Management ("GSAM")	Emerging Market Blended
Wellington Management group	Wellington Global Credit

LGIM

LGIM's direct engagement with companies is a way they seek to identify ESG risks and opportunities. On-going dialogue with companies is a fundamental aspect of LGIM's responsible investment commitment. Investment teams and the Corporate Governance team regularly meet companies together. The Corporate Governance team meets with the Active Equity and Fixed Income team on a bi-weekly basis to share information gained from analysis and engagement activity. This is a forum for raising and discussing particular investment and ESG concerns, insights and updates. LGIM aims to raise the performance of the whole market through ESG capability and engagement of companies globally.

Engagement example

LGIM provided an engagement case study where it engaged with a credit issuer, the energy company BP. LGIM's investment stewardship team and BP had regular engagements in relation to their strategy and role in the energy transition. These topics included the long-term oil price assumption, credible targets to decarbonise the portfolio and commitment to achieve these targets. LGIM's key focus from a credit perspective was to re-enforce the stability of the credit rating and strength of the balance sheet as BP progresses towards de-carbonisation. In early 2020, BP announced a shift towards low-carbon energy and shrinking long term investment in fossil fuels. BP is now very well placed amongst its peer group from a global decarbonisation perspective. Also, decarbonisation targets are backed up by a new net dent target, reduced dividend pay-out, and a divestiture target which all point to an acceleration in deleveraging.

GSAM

Each year, GSAM create an annual engagement focus list, which for 2021 includes:

- ESG Frameworks
- Board Compositions
- Corporate Strategy
- Climate Related Topics
- Social Risks
- Proxy & Shareholder Relations

In October 2020, GSAM launched a climate collaboration engagement framework to encourage disclosure of material emissions data. The GSAM Stewardship Team worked across the investment management teams, including the fixed income team, to identify companies held in their portfolios who do not disclose emissions data considered material under the Sustainability Accounting Standards Board (SASB) framework. GSAM are seeking to engage with these companies to promote disclosure of material climate data.

Engagement example

The GSAM Global Stewardship Team has engaged with a US regional bank several times over the last three years on ways to improve their sustainability reporting. GSAM most recently spoke to the company’s head of investor relations to review their latest sustainability report. Based on investor feedback, the company made the following changes to their reporting:

• Included disclosure on culture and community engagement initiatives in their most recent sustainability report.

• Conducted an evaluation of the SASB and Global Reporting Initiative standards.

• Substantially increased benefits program over the last few years.

• Focused attention on changing workforce dynamics and preparing employees for a technology-driven environment.

• Increased paid time for their employee volunteer program, up approximately 40% from the year prior.

As a result, earlier within 2021, the company informed GSAM that it had received the Corporate Social Responsibility Award from the Foreign Policy Association

Wellington

Direct engagement with company management on a range of issues, including strategy, financial performance and risk, capital structure, and ESG considerations, is a core part of Wellington's investment process. A substantial portion of their company research is informed by direct, persistent contact with company management and boards of directors, both in their offices and through on-site company visits. Portfolio managers, industry analysts, and ESG analysts all take part in, and have a shared responsibility for, their ongoing dialogue with investee companies, as well as suppliers, customers, and competitors. Investors host more than 10,000 company meetings around the world each year. Maintaining this ongoing dialogue is central to how Wellington implements their stewardship responsibilities and informs the investment decisions it makes on behalf of their clients.

Over the period to 31 March 2021, Wellington has engaged with 389 corporate entities over a wide range of industries.

<u>Engagement example</u>

An example of engagement is where Wellington engaged with Wolters Kluwer ahead of the 2021 annual general meeting to discuss changes made to the company's executive compensation plan. While the plan failed to garner the 75% shareholder support required to pass in 2020, Wellington is encouraged that recent changes and Wolters' broader engagement with shareholders will have built more support for the 2021 vote. It also discussed succession planning and greenhouse gas (GHG) emissions disclosure.

Wellington takes a positive view of the company's efforts to thoughtfully incorporate the various, and somewhat conflicting, shareholder preferences into its pay plan. For example, European shareholder concerns regarding the quantum of pay for the CEO should be balanced against Wolters Kluwer's position as a global company with a strong US revenue base. It is also led by a CEO who has been instrumental to the firm's strong performance. The CEO has accepted a 10% reduction in total target pay over the next two years to help the plan succeed. Wellington has offered to continue to engage over the coming year as the company works to improve disclosure and integrate ESG factors more holistically into its core business strategy.

Engagement activity – Alternatives

The Scheme is invested in the following alternative strategies:

Manager	Fund Name
Leadenhall Capital Partners	Leadenhall Value Fund
Schroders Investment Management	UK Property Fund

The Trustees recognise that the investment nature and processes in respect of these alternative funds may mean that stewardship is potentially less applicable or may have a less tangible financial benefit. Nonetheless, the Trustees still expect that all their managers should open a dialogue to engage with key stakeholders it invests in should it identify concerns that may be financially material. The Trustees also recognise that the long-term and physical nature of real asset investments make ESG considerations especially important, and that attention is given to sustainability issues and trends, including the impact of climate change, resource constraints and demographic trends through its real asset investments

Leadenhall Capital Partners

Over the year, the Scheme invested in alternatives such as insurance linked securities and gold. This section details examples of policies and practices at Leadenhall Capital Partners (Leadenhall), the appointed underlying insurance linked securities manager. Leadenhall assesses adherence to ESG principles by considering specific factors including:

- Environmental impact including pollution prevention and remediation, reduced emissions, preventing the spread of pandemic disease and adherence to environmental safety and regulatory standards.
- Social impact including human rights, welfare and community impact issues.
- Governance issues including board structure, remuneration, accounting quality and corporate culture.

Pricing for climate change risk is an inherent part of Leadenhall's analysis of potential investments. MS Amlin, part of Leadenhall's parent group and a reinsurer with sourcing and underwriting resources that Leadenhall leverages, is very active in monitoring, studying and looking at ways to tackle climate change. It is a Member of the Cambridge Institute for Sustainability Leadership and ClimateWise. Through this, MS Amlin aims to better communicate, disclose and respond to the risks and opportunities associated with the climate-risk protection gap.

Leadenhall perform a detailed review of their investment counterparties policies and controls including those concerning their explicit ESG and Corporate Social Responsibility frameworks. Where appropriate it will make recommendations to avoid investment counterparties who are not aligned with ESG policies.

Schroders

Schroders produces an Annual Sustainability Report which addresses ESG considerations, including provision of specific case studies of Schroders' actions and resulting outcomes.

Schroders' Real Estate business participates in the GRESB (Global ESG Benchmark for Real Assets), the industry standard Real Assets sustainability benchmark, where the Fund scores well versus its peers (outperforming its peer group on each assessed metric). Schroders acknowledge that improving the characteristics of its asset portfolio is key to efficiency and improving asset values.

Schroders requires developments and refurbishments to incorporate sustainable standards and building certifications, with minimum standards in place. Schroders has also set specific targets across the Real Estate portfolio, which we view as a meaningful commitment to action. These include:

- Reduction of energy consumption by 18% over 2016-2021;
- 32% reduction in greenhouse gas emissions over 2016-2021;
- Zero landfill waste; and
- 100% consumption of renewable electricity.

Summary

Overall, the Trustees are of the opinion the stewardship carried out on behalf of the Scheme is satisfactory. The Trustees note examples of the willingness and ability of Ownership Capital, and LGIM to take proactive votes against management where appropriate.

Having said that, the Trustees recognise that it has a responsibility as a large institutional investor to encourage and promote high standards of stewardship in relation to the assets that the Scheme invests in. Accordingly, the Trustees continue to expect improvements over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Scheme through considered voting and engagement.

Appendix

	Number of resolutions eligible to vote on	% of resolutions voted on for which eligible	% resolutions voted against management	% resolutions abstained.
Ownership Capital	236	100.0%*	15.7%	0.4%
LGIM Active Global Corporate Bond (Hedged)	34	100.0%	26.5%	2.9%
LGIM Diversified Multi-Factor Equity Fund	22,827	99.9%	16.5%	0.4%
LGIM World Equity Index	40,987	99.8%	18.1%	0.6%

** The only circumstance in which Ownership Capital do not vote are when it is in the process of fully divesting a portfolio company or have already fully divested the stake prior to the AGM*