

Engagement Policy Implementation Statement

Boots Supplementary Pension Plan (the “Plan”)

The Engagement Policy Implementation Statement (“EPIS”) has been prepared by the Trustees (the “Trustees”) and covers the Plan 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 Trustees produce an annual statement which:

- explains how and the extent to which the Trustees have followed their engagement policy which is set out in the Statement of Investment Principles (“SIP”); and
- describes the voting behaviour by, or on behalf of, the Trustees (including the most significant votes cast) during the Plan year and any use of third-party providers of proxy voting services.

Executive summary

Based on the activity over the year by the Trustees and their investment manager Legal & General Investment Management (“LGIM”), the Trustees believe that the stewardship policy has been implemented effectively.

Whilst the Trustees note that LGIM was not able to provide any engagement examples at fund level, the Trustees are satisfied with the engagement activity of the investment manager at a firm level, as well as their engagement policy which applies to all funds. The Trustees expect improvements from LGIM in its reporting of fund level engagement examples. The Trustees’ investment adviser, Aon, will engage with LGIM to encourage improvements in its disclosures.

Plan stewardship policy

The below bullet points summarise the Plan’s stewardship policy in force over the Plan year to 31 March 2022

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

- *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.*
- *The Trustees review LGIM’s stewardship activities typically on an annual basis, which supports the Trustees in determining the extent to which the Plan’s stewardship policy has been followed throughout the year. As the Plan invests only in bonds or derivatives, the exercise of voting rights is typically not applicable and so the stewardship focus is on more general engagement activity.*
- *The Trustees will review the alignment of the Trustees’ policies to those of the Plan’s investment manager and ensure the manager uses its 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.*

Plan stewardship activity over the year

Training

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.

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. The Trustees agreed to not pursue any impact opportunities, as these were deemed not suitable for the Plan's investment strategy. The Plan continues to target and hold discussions over a future Buy-In transaction and therefore, the Trustees prefer to maintain the fixed income portfolio managed by LGIM.

Ongoing Monitoring

The Trustees review LGIM's stewardship activities typically on an annual basis, which supports the Trustees in determining the extent to which the Plan's stewardship policy has been followed throughout the year. As the Plan invests only in bonds or derivatives, the exercise of voting rights is typically not applicable and so the stewardship focus is on more general engagement activity.

Aon's investment manager research team also produces ESG ratings for the LGIM funds. 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 manager's 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 a fund's level of ESG integration or broader Responsible Investment developments.

Engagement activity – fixed income funds

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 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 Plan invests in the following pooled fixed income funds:

Manager	Fund Name
Legal and General Investment Management ("LGIM")	Active Corp Bond - All Stocks
Legal and General Investment Management ("LGIM")	AAA-AA-A Bonds - All Stocks Index

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.

The manager takes an active role in stewardship and considers it their duty to be accountable to the Plan's assets and ensure it upholds the highest corporate governance standards and identify ESG risks and opportunities. They monitor a number of areas and conduct engagement on various issues. LGIM's top five engagement topics/ ESG issues are: climate change; remuneration; diversity; board composition; and strategy.

All decisions are made by LGIM's Investment Stewardship team and in accordance with their relevant Corporate Governance, Responsible Investment, and Conflicts of Interest policies, which are reviewed annually. The Corporate Governance team meets with the 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'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. When one-to-one engagement does not yield results, LGIM has a number of escalation options, from voting sanctions through to divestment from the securities of an unresponsive company in select funds.

At the time of writing, LGIM had not provided engagement examples for the funds. The Trustees' investment adviser, Aon, has engaged at length with LGIM regarding its lack of strategy level engagement reporting. LGIM has confirmed it is working towards producing this information later in 2022. As such Aon and the Trustees 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 funds the Plan 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.