

Engagement Policy Implementation Statement

Boots Supplementary Pension Plan

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; and
- Describe the voting behaviour by, or on behalf of the Trustees (including the most significant votes cast by Trustees or on their behalf) during the plan 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 Supplementary Pension Plan (the "Plan") has been prepared by the Trustees and covers the Plan year 1 April 2020 to 31 March 2021.

Plan Stewardship Policy Summary

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

https://ahb-ukpensionportal.co.uk/Uploads/Documents/00/00/00/54/DocumentFile_FILE/BSPP-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 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

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 Plan'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.

This followed through to updating the SIP and throughout the year, the Trustees have been proactive to ensure the Plan 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 Plan's investment manager.

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.

During Q2 2020, the Trustees received 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. The Trustees agreed to not pursue any impact opportunities, as these were deemed not suitable for the Plan's investment strategy. As the Plan targets a future Buy-In transaction, the Trustees prefer to maintain the fixed income portfolio managed by Legal & General Investment Management.

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 management research team also produce 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 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.

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 Plan over the year.

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

Legal and General Investment Management ("LGIM")

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'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.

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

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 amongst the peer group from a global decarbonisation perspective.

Also, decarbonisation targets are backed up by a new net debt target, reduced dividend pay-out, and a divestiture target which all point to an acceleration in deleveraging.

Summary

Overall, the Trustees are of the opinion the stewardship carried out by LGIM on behalf of the Plan is satisfactory. The Trustees recognise that voting activity is not applicable to the Plan's asset portfolio, which is invested only in fixed income funds. The Trustees note that LGIM have a framework for engaging with relevant stakeholders and the manager provided examples to demonstrate their willingness and ability to undertake engagement with credit issuers where appropriate.

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 Plan 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 Plan through considered engagement.