BOOTS PENSION SCHEME

Pension Schemes Registry: Reference Number 10125195

Report and Statement

of Financial Statements

for the year ended 31 March 2022

BOOTS PENSION SCHEME

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BOOTS PENSION SCHEME

Actuaries	Aon Solutions UK Ltd 3 The Embankment Sovereign Street Leeds LS1 4BJ	“**Scheme Actuary”** - (as defined in the Pensions Act 1995)	Mr R Mellor
Auditor	KPMG LLP 1 St Peter’s Square Manchester M2 3AE	**Banker**	National Westminster Bank PLC 148-149 Victoria Centre Nottingham NG1 3QT

Investment Committee	Mr R Oppenheim (Chairman) Mr A Clare (Global Treasury, Walgreens Boots Alliance) Mr M Muller (resigned 1 July 2021) Mr M Snape (appointed 1 July 2021/resigned 1 December 2021) Mr D A R Thompson (resigned 1 October 2021) Mr A Brown (appointed 1 October 2021) Mr J Ward (appointed 1 December 2021)
Valuation Committee	Mr R Oppenheim (Chairman) Mr M Muller (resigned 1 July 2021) Mr B Horner (appointed 1 July 2021/resigned 15 February 2022) Mr D A R Thompson (resigned 1 October 2021) Mrs R Counsell Mr J Ward (appointed 15 February 2022)
Ill Health Committee	Mrs R Counsell Mrs J Rawson (Pensions Operations Manager, Boots UK Ltd) Mr B Horner (appointed 1 July 2021/resigned 15 February 2022) Mr M Donovan (appointed 15 February 2022)
Audit Committee	Mr D A R Thompson (resigned 1 October 2021) Mrs R Counsell (appointed 1 October 2021) Ms AC Farrell Mr M Snape (resigned 1 December 2021) Mr J Ward (appointed 1 December 2021)

Corporate Events Committee	Mr R Oppenheim (Chairman) Mr M Muller (resigned 1 July 2021) Mr D A R Thompson (resigned 1 October 2021) Mrs R Counsell Mr B Horner (appointed 1 July 2021/resigned 15 February 2022) Mr J Ward (appointed 15 February 2022)
Investment Managers (Bonds, Derivatives and Equities)	Legal & General Investment Management, One Coleman Street. London EC2R 5AA
Investment Managers (Property)	Schroder Investment Management Ltd, 1 London Wall Place, London, EC2Y 5AU
Investment Managers (Bonds)	Wellington Management International Ltd, Cardinal Place, 80 Victoria Street, London, SW1E 5JL
Investment Managers (Emerging Market Debt)	Goldman Sachs Asset Management International, River Court,120 Fleet Street, London, EC4A 2BE
Investment Advisors (Agricultural Property)	Savills (UK) Ltd, Olympic House, Doddington Road, Lincoln, LN6 3SE
Investment Mandates	- Kennedy Lewis Management LP, 111 West 33rd Street, Suite 1910, New York, NY 10120, USA - Ownership Capital B.V. , Herengracht 105-107, 1015BE Amsterdam, The Netherlands - Basalt, PO Box 656, East Wing, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3PP - Leadenhall Capital Partners LLP, Level 15, 70 Mark Lane, London, EC3R 7NQ - Mirova US, 888 Boylston Street, Suite 500, Boston, Massachusetts 02199-8197 (appointed 14 January 2022)
Custodian Bank	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
Solicitors	Sacker & Partners LLP, 20 Gresham Street, London, EC2V 7JE
Financial Advisers	EY LLP, 1 More London Place, London, SE1 2AF

Additional advisers appointed for the Pension Funding Partnership	Cushman & Wakefield 125 Old Broad Street London, EC2N 1AR	Goodwin Proctor (UK) LLP 50 Lothian Road Festival Square Edinburgh EH3 9WJ	Burness Paull 100 Cheapside London EC2V 6DY
Principal Sponsoring Employer	The Boots Company PLC 1 Thane Road West Nottingham NG2 3AA	**Participating Employer**	Boots UK Ltd 1 Thane Road West Nottingham NG2 3AA

BOOTS PENSION SCHEME

Report of the Trustee for the year ended 31 March 2022

The Trustee presents its Annual Report on the affairs of the Boots Pension Scheme ("the Scheme"), in conjunction with the Financial Statements for the year ended 31 March 2022 which have been prepared in accordance with Regulations under S.41 (1) and (6) of the Pensions Act 1995. This seeks to give Scheme members comprehensive details of the Scheme from which their benefits derive, whether those benefits are prospective or are already in payment. Members are invited to address any queries concerning the Report and Financial Statements, or the benefits payable under the Rules of the Scheme, to the Scheme Secretary.

1. **Tax Status**. The Scheme is a "registered pension scheme" for tax purposes. The Trustee knows of no reason why this approval should be prejudiced or withdrawn.

2. **Trustee.** The affairs of the Scheme are overseen by a corporate trustee, Boots Pensions Limited (BPL), and all investments are held in the name, or on behalf, of BPL.

   The Pensions Act 2004 requires that at least one-third of the Directors of BPL are member nominated. The Directors have agreed with The Boots Company PLC (the Employer) that:

   - There will be seven Directors of BPL, three of which will be nominated by the members. This exceeds the minimum one-third required by legislation.
   - When required, nominations will be sought from all categories of membership; although the legislation does not require this.
   - Member Nominated Directors will be selected by a Selection Panel established by the Directors.

   The four Company nominated Directors are selected by The Boots Company PLC.

   Mr D Thompson resigned on 1 October 2021 and was replaced by Mr A Brown. Mr M Snape resigned on 1 December 2021 and was replaced by Mr J Ward. Mr B Horner resigned on 15 February 2022 and was replaced by Mr M Donovan. Mr M Muller resigned on 1 July 2021 and was replaced by Mrs B Lavery.

   The Directors of BPL generally meet four times per year, with additional meetings being convened as and when necessary.

3. **Investment Committee.** With effect from May 2000, an Investment Committee was established by the Trustee and operates in accordance with formal Terms of Reference. Under the Terms of Reference, the Committee is required to advise the Trustee on the Scheme's investment strategy and monitor the suitability of the investments held by the Scheme. The Committee is also charged with monitoring the performance of the external investment managers and custodian. A report from the Investment Committee on the performance of the Scheme's investments appears on pages 7 to 9 of this Report.

4. **Valuation Committee.** With effect from 1 June 2010, a Valuation Committee was established by the Trustee to progress valuation discussions with the Employer between Trustee meetings. The Trustee agreed formal Terms of Reference for this Committee under which the Committee is required to advise the Trustee on valuation matters.

5. **Ill Health Committee.** With effect from 28 January 2002, an Ill Health Committee was established by the Trustee under agreed Terms of Reference. The purpose of this Committee is to consider applications for immediate early retirement pensions from members with serious health problems.

6. **Audit Committee.** With effect from 17 March 2009, an Audit Committee was established to ensure, on behalf of the Trustee, that appropriate disciplines and controls are in place. The Trustee agreed formal Terms of Reference for this Committee under which the Committee is required to advice the Trustee on the Scheme accounts, and other governance matters.

7. **Scheme Changes.** During the year under review there were no changes to the Scheme rules.

8. **Scheme Membership.** The movement in membership during the year was as follows:

	Deferred	Deferred Pensioners	Pensioners	Dependants	Total
Membership at 31/03/2021	**25,242**	**696**	**25,925**	**3,107**	**54,970**
Adjustment	-138	0	-314	167	-285
Membership at 01/04/2021	25,104	696	25,611	3,274	54,685
Withdrawals					
Preserved Passing NRA	-251	251			0
Transferred	-96	0	0	0	-96
Retired	-948		948		
New Dependants				179	179
Deceased	-15		-531	-169	-715
Terminated	-2			-9	-11
Full Commutation	-52			-1	-53
Membership @ 31/03/2022	**23,740**	**947**	**26,028**	**3,274**	**53,989**
Movements	-1,502	251	103	167	-981

The prior year adjustments above relate to members and pensioners who left the Scheme during the previous year but whose details were updated after 31 March 2021.

Deferred pensioners refer to members over normal pensionable age who have not taken their pension benefits.

The above figures do not include former employees entitled to 'Equivalent Pension Benefits' only.

There were 8 annuitants at 31 March 2021 and 31 March 2022 included in the above membership.

Since 1 July 2010, there have been no active members of the Scheme and the Scheme is closed to future accrual.

9. **Transfers out of the Scheme.** Transfer values paid since 1 October 2008 have been in accordance with Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and include some allowance for discretionary benefits.
There were no bulk transfer payments made during the year.

10. **Pensions in payment – annual review.** Pensions in payment are reviewed each year on 1 April and, if applicable, increased by the lower of 5% and the increase in the Retail Prices Index over the 12 months to the previous 30 September. As the movement in the Index over the year in question was 4.9%, pensions in payment were increased by 4.9% on 1 April 2022 (1.1% in 2021). Preserved pensions due increases related to RPI were similarly increased by 4.9% or, where such increases related to the CPI, the increase was 3.1% (subject to any overriding statutory requirements).

11. **Actuarial Valuation.** The 1 April 2019 valuation was completed in April 2020. Under the Pensions Act 2004 (“PA04”) the Trustee and the Company decide the Technical Provisions, these being the target level of assets appropriate to meet the promised benefits. The Statutory Funding Objective under the PA04 is to hold sufficient and appropriate assets to meet the Technical Provisions.

The Trustee prepared a Statement of Funding Principles on 24 April 2020, as required by PA04, which sets out the Trustee's policy for meeting the Statutory Funding Objective.

The 2019 valuation showed a surplus of £127m which corresponded to a funding level of 102%. As a result, no ongoing contributions are due.

The Actuarial Certification of the Schedule of Contributions, which is reproduced on page 11, certifies that the contributions outlined above are such that the Statutory Funding Objective is expected to continue to be met for the period the Schedule is in force and the contributions set out in the Schedule of Contributions are consistent with the Statement of Funding Principles dated 24 April 2020.

The Trustee is currently reviewing the Technical Provisions as at 1 April 2021. Discussions are still ongoing with the Principal Employer.

12. **Pension Funding Partnerships.** Under the Recovery Plan prepared on 28 June 2011, the Principal Sponsoring Employer made a contribution of £146m on 31 March 2011 which was immediately invested into a Pension Funding Partnership (PFP).

Early payment of contributions of £29.2m and £120m from the 2010 valuation, due by August 2017 and discounted to a value of £127m, was received in March 2012 and immediately invested into a second PFP.

Actual payments due to the Scheme under the two PFP are primarily backed by UK retail property assets giving the Scheme access to those assets in the event of non-payment of the annual payments. During the accounting year the timing of the payments due to the Scheme under the PFP arrangements were amended. A contribution of £1.4M was made to the Scheme in relation to the changes made.

13. **Summary Funding Statement.** The Trustee issues a Summary Funding Statement to all members, this usually being included in the annual Trustee's Review. The next Statement will be issued on completion of the 1 April 2021 valuation.

14. **Investment Report.** The Trustee's investment strategy targets holding circa 75% of the Scheme in assets that broadly match the characteristics of the Scheme's liabilities, and circa 25% in a portfolio invested predominantly in return-seeking assets. A +/- 5% tolerance in allocation between the portfolios is considered appropriate. The matching portfolio includes corporate and government bonds, swaps and other interest rate and inflation derivatives, asset backed contribution structures (the PFPs) and cash. The return-seeking portfolio includes equities and property.

As at 31 March 2022, the Scheme's assets were split as follows:

Matching Assets % of the Scheme's assets invested

3.7	Credit screened bonds
12.1	Active UK bonds
36.5	Swaps & Gilts
15.1	Global credit
4.2	Emerging Market Debt
2.9	PFPs & cash
74.5	

Return-seeking portfolio % of the Scheme's assets invested

12.1	Equities
6.5	Property
3.7	Illiquid assets
3.2	Insurance Linked Securities (ILS)
25.5	

The Investment Committee is constantly reviewing the Scheme's long-term strategy, in consultation with the Employer.

The Investment Committee monitors the performance of the portfolios regularly against funding levels and benchmarks. Northern Trust act as custodian. The custodian's internal controls and procedures are subject to an annual review by their external auditors, as required under ISAE3402.

The Scheme is invested in two pooled funds, one Global Equity, one Global Bonds, both of which have their own custodians appointed. The Scheme is invested in accordance with the Occupational Pension Schemes (Investment) Regulations 2005.

The position on self-investment is set out in Note 15 on page 31.

At 31 March 2022, the market value of the Scheme was £7,118.4m
At 31 March 2022, the 10 largest individual investments held by the Scheme were:

Description		Bid value
LGIM DIVERSIFIED MULTI-FACTOR EQUITY -MPAD		581,601,554.68
UK (GOVERNMENT OF) 0.125% I/L	22/03/2058	539,036,635.85
CAAZ - ACTGLBLCORPBD FD GBP HGD (DIST)		528,285,523.40
UK (GOVERNMENT OF) 0.25% I/L	22/03/2052	415,756,596.66
TSY 2046 I/L STOCK DUE	22/03/2046	283,460,851.95
HSBC BANK PLC 0.8% FROM 04/11/2021 TO	24/07/2023	234,824,051.30
LEADENHALL VALUE INSURANCE LINKED GBP		217,863,506.33
UK (GOVT OF) IDX/LKD SNR GBP	22/03/2044	204,472,434.26
UK (GOVT OF) 0.875% BDS GBP	31/01/2046	183,992,238.00
PENSION FUND PARTNERSHIP 1		159,850,001.15

The performance of the assets over 1 & 3 years, compared to the expected target return, is shown below;

	Returns 1 year (%)		Returns 3 years (% p.a.)	
	Fund	**Target**	**Fund**	**Target**
Growth Assets				
LGIM – Diversified Multi-Factor Equity	9.27	7.71	8.46	11.21
Schroders - Property	3.38	2.46	3.03	2.39
Matching Assets				
LGIM – Passive Bonds	(0.1)	n/a	(4.33)	n/a
LGIM – Private Bonds	(1.11)	n/a	4.74	n/a
LGIM – Active UK Bonds	(4.40)	(5.39)	2.02	1.24
LGIM – Swaps	6.09	n/a	6.57	n/a
LGIM – Global Corporate Bond [1]	(4.02)	(4.74)	n/a	n/a
Wellington – Global credit	10.56	8.75	5.17	4.39
GSAM – Emerging Market Debt	14.14	11.46	4.92	4.97

[1.] Performance is not shown for the 3-year period because the funds were switched to income paying during the year.

A copy of the Statement of Investment Principles, dated March 2022, as required by Section 35 of the Pensions Act 1995 is available along with the Trustee report and accounts at www.wba-boots-pensions.co.uk. There have been no departures from the Statement of Investment Principles during the year.

The implementation statement is outlined on pages 34 to 41 and forms part of the Trustees report.

The Trustee has delegated all day-to-day decisions about the investments that fall within each mandate, including the realisation of investments, to a range of carefully selected and monitored fund managers through written contracts. When choosing investments, the Trustee and the fund managers (to the extent delegated) are required to have regard to the criteria for investment set out in The Occupational Pension Schemes (Investment) Regulations 2005 (regulation 4). The fund managers' duties also include:

- Taking into account social, environmental or ethical considerations in the selection, retention and realisation of investments.
- Voting and corporate governance in relation to the Scheme's assets.

The Trustee periodically monitors the Scheme's investments to consider the extent to which the investment strategy and decisions of the investment managers 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.

The Trustee receives regular reports and verbal updates from its investment adviser on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustee focuses on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme's objective and will typically assess the investment managers over 3-year periods.

The Trustee will typically only appoint investment managers who offer full cost transparency to manage assets of the Scheme. This will be reviewed before the appointment of any new managers, and the Trustee will review on a case by case basis any existing managers that do not comply.
The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager's style and historic trends. Where the Trustees' monitoring identifies a lack of consistency the mandate will be investigated and reviewed.
Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers' fund holdings change over a year.

The Trustee undertakes analysis of the Scheme's costs and performance on typically a 3-yearly basis by receiving benchmarking analysis comparing the Scheme's specific costs and performance of the underlying managers relative to those of the wider market. This is in line with the Trustee's policies on reviewing the kinds and balance of investments to be held.

The Trustee believes that having appropriate governing documentation, setting clear expectations to the investment managers, and regular monitoring of investment managers' performance and investment strategy, is in most cases sufficient to incentivise the investment managers to make decisions that align with the Trustee's policies and are based on assessments of medium- and long term financial and non-financial performance.

Additional Voluntary Contributions. The Scheme holds AVCs with Phoenix Life (formerly London Life), Prudential and the Legal & General Assurance Society Limited. The Investment Committee reviewed the suitability of the current investment options, the non with-profits AVC's with Phoenix Life and Prudential were transferred to Legal & General during 2021/22.

15. **Group Litigation Order (GLO) against HM Revenue & Customs (HMRC)**. In 2007 the Trustee was advised that the Scheme had a legitimate claim against HMRC for the recovery of tax withheld from dividends received in respect of overseas equities and Foreign Income Dividends prior to 1997.

    The Trustee therefore instigated a claim against HMRC in the High Court, through a Group Litigation Order (GLO) with over 100 other major pension schemes, to recover withheld tax. The GLO is a formal cost sharing mechanism administered by a court order to simplify administration and avoid multiple claims on the same issue. A test case has been nominated from the GLO members (the BT Pension Scheme). It is expected that the points at issue will be referred to the European Court of Justice for resolution.

    The Trustee is being advised by Pinsent Masons LLP in respect of this claim which, if successful, will lead to the repayment to the Scheme of several million pounds.

16. **Regulatory Matters.** Details relating to the Scheme have been registered with the Pensions Regulator. The Pensions Regulator is based at:

    Napier House
Trafalgar Place
Brighton
BN1 4DW

    The Pension Tracing Service can be contacted at:

    Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA.

    The address of MaPS, The Money and Pensions Service and that of the Pensions Ombudsman, is;

    Money and Pension Service (MaPS)
120 Holborn
London
EC1N 2TD

    Pensions Ombudsman
10 South Colonnade
Canary Wharf
E14 4PU

    MaPS is available at any time to assist members and beneficiaries of pension schemes in connection with any pensions query they may have; or difficulty which they have failed to resolve with the trustees or administrators of the scheme. The Pensions Ombudsman, in turn, may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme.

    To the extent that members of the Scheme already have access to a formal disputes procedure, it is hoped that an approach to MaPS or the Ombudsman would need to be made only as a last resort. Members are invited to address any enquiries or concerns to the Scheme Secretary at 1 Thane Road West, Nottingham, NG2 3AA or by emailing Group.pensions@boots.co.uk

On behalf of the Trustee on 6 October 2022

R Oppenheim, Chairman, Boots Pensions Limited

ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS

Name of Scheme: Boots Pension Scheme

Adequacy of rates of contributions
I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 1 April 2019 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles
I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 24 April 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

Signature:

Date: 29 June 2021

Name: Robert Mellor Qualification: Fellow of the Institute and Faculty of Actuaries

Address: 3 The Embankment
Sovereign Street
Leeds
West Yorkshire
LS1 4BJ

Name of employer: Aon Solutions UK Ltd

Boots Pension Scheme - Report on Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every pension scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to in the Scheme. This is assessed using the assumptions agreed between the Trustee and the Company and set out in the Statement of Funding Principles dated 24 April 2020, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 1 April 2019. This showed that on that date:

The value of the technical provisions was: £6,945 million

The value of the assets was: £7,072 million

The most recent actuarial report of the Scheme, which is required in years where a full actuarial valuation is not carried out, was carried out as at 1 April 2020. This showed that on that date:

	1 April 2020
Value of Technical Provisions (£M)	7,096
Market value of assets (£M)	6,883

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the Current Unit Method.

Significant financial assumptions

Discount interest rate: Term dependent rates set by reference to the fixed interest gilt yield curve (as derived from Bank of England data) at the valuation date plus an addition of 1.15% per annum.

Future Retail Prices Index inflation: Term dependent rates derived from the Bank of England fixed interest and index-linked gilt yield curves at the valuation date.

Future Consumer Prices Index inflation: Term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 0.75% per annum.

Deferred pension increases: Derived from underlying RPI inflation assumption allowing for the maximum of 5% per annum and the minimum of 0% per annum.

Pensions are subject to a minimum of the statutory requirements with future rates of increases for benefits in excess of GMPs in line with the CPI inflation assumption.

Pensions in payment increases: For pensions in excess of GMPs, derived from the underlying RPI inflation assumption allowing for the maximum of 5% per annum and the minimum of 0% per annum.

For post 88 GMPs, derived from the underlying CPI inflation assumption allowing for the maximum of 3% per annum and the minimum of 0% per annum.

Expenses: Allowance made for future administration expenses of the Scheme (including the provision of IFA advice for members at retirement). For the 1 April 2019 valuation, an addition of £65M was made to the technical provisions.

GMP equalisation: A loading of 0.4% of liabilities accrued to the valuation date is included in the technical provisions for potential GMP equalisation costs.

Significant demographic assumptions

Post-retirement mortality: Standard tables SAPS S3 "All" for males and SAPS S3 "Middle" for females, with scaling factors as set out in the table below:

Category	Sex	Base table	Equivalent single scaling factor
Deferreds	Males	SAPS S3 "All"	106%
	Females	SAPS S3 "Middle"	105%
Non-dependant pensioners	Males	SAPS S3 "All"	99%
	Females	SAPS S3 "Middle"	107%
Dependant pensioners	Males	SAPS S3 "All"	111%
	Females	SAPS S3 "Middle"	99%

An allowance for improvements in mortality in line with the CMI_2018 Core Projections with a smoothing parameter S_k = 7.0, an "A" parameter A = 0.25 and a long term annual rate of improvement in mortality rates of 1.5% per annum.

Cash commutation: Each member is assumed to take 74% of the permitted maximum lump sum on retirement based on commutation factors in force at 1 April 2019, uplifted by 10%.

Statement of Trustee's responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

(i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes*.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so;
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is fair and impartial.

The Trustee has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the Trustee of the Boots Pension Scheme

Opinion

We have audited the financial statements of Boots Pension Scheme ("the Scheme") for the year ended 31 March 2022 which comprise the Fund Account and the Statement of Net Assets *(available for benefits)* and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2022 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud.

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

• Enquiring of the Trustee, as to the Scheme's high-level policies and procedures to prevent and detect fraud as well as enquiring whether it has knowledge of any actual, suspected or alleged fraud.

• Reading Trustee Board, Valuation, Audit and Investment Committee minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee (or its delegates including the Scheme Administrator) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as the valuation of the Pension Funding Partnerships, Level 3 bonds and Level 3 pooled investment vehicles.

On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Scheme wide fraud risk management controls.

We performed procedures including:

Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared.

Assessing whether the judgement made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee (as required by auditing standards) and discussed with the Trustee the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee's meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and its delegates and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the Schedules of Contributions in our Statement about Contributions on page 32 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report, the Implementation Statement, Taskforce for Climate-related Financial Disclosure and the actuarial certification of the schedule of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in its statement set out on page 14, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it intends to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Julie Radcliffe
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One St Peter's Square
Manchester
M2 3AE

Date: 6 October 2022

BOOTS PENSION SCHEME

FINANCIAL STATEMENTS

FUND ACCOUNT FOR THE YEAR ENDED 31 March 2022

	Note	2022 £m	2021 £m
CONTRIBUTIONS AND BENEFITS			
Employer Contributions	5	1.4	-
Benefits payable	6	(191.9)	(185.2)
Payments to and on account of leavers	7	(22.2)	(45.6)
Administrative expenses	4	(3.6)	(4.0)
Net withdrawals from dealings with members		(216.3)	(234.8)
RETURNS ON INVESTMENTS			
Investment income	11	76.5	95.1
Change in market value of investments	8	101.2	418.7
Investment management expenses	12	(8.5)	(11.1)
Net returns on investments		169.2	502.7
Net (decrease)\ increase in the Scheme during the year		(47.1)	267.9
Net assets of the Scheme at the beginning of the year		7,165.5	6,897.6
Net assets of the Scheme at the end of the year		**7,118.4**	**7,165.5**

The notes on pages 20 to 31 form part of these financial statements.

BOOTS PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AT 31 March 2022

	Note	2022 £m	2021 £m
Investment Assets	8		
Bonds		4,863.5	4,364.0
Pooled Investment Vehicles		2,432.2	3,312.4
Derivatives		766.9	634.4
Pension Funding Partnerships		198.0	231.0
Property		0.5	0.5
AVC investments		15.3	15.8
Cash and Deposits		138.0	212.5
Reverse repurchase Agreements		505.5	281
Other Investment Assets		39.4	29.3
		8,959.3	**9,080.9**
Investment Liabilities	8		
Derivatives		(407.4)	(377.3)
Repurchase Agreements		(946.7)	(1,259.5)
Cash and Deposits		(25.6)	-
Other Investment Liabilities		(50.0)	(19.0)
Bonds		(416.5)	(276.5)
Total Investments		**7,113.1**	**7,148.6**
Current Assets	13	10.9	24.8
Current Liabilities	14	(5.6)	(7.9)
Net assets of the Scheme at the end of the year		**7,118.4**	**7,165.5**

The notes on pages 20 to 31 form part of these financial statements.

The financial statements summarise the transactions and net assets of the Scheme. They do not take account of liabilities to pay pensions and other benefits in the future. The actuarial position of the Scheme, which does take account of such liabilities, is dealt with in the Report on Actuarial Liabilities on page 12 and these Financial Statements should be read in conjunction therewith.

These financial statements were approved by the Trustee on 6 October 2022

Signed on behalf of the Trustee

R Oppenheim, Chairman

BOOTS PENSION SCHEME

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) FOR THE YEAR ENDED 31 March 2022

1 Basis of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to meet obligations as they fall due for at least the next twelve months from the approval of these financial statements.

In reaching this conclusion, the Trustee considered the impact of the current economic environment on the Scheme and on the sponsoring employer, The Boots Company PLC. As per the last tri-ennial actuarial valuation as at 1 April 2019, the Scheme was at a funding level of 102%. As there were sufficient assets to cover the Scheme's liabilities at the valuation date, no recovery plan is required, and no employer's contribution are required. There are no active members and hence, no employee contributions received. Using the Trustee's approximate funding tracking tool, the latest update shows the technical provisions funding level to have increased to approximately 104% at 30 June 2022. Note the actuarial valuation as at 1 April 2021 is currently underway and so the 30 June 2022 figure is subject to change.

The Employer operates in the Pharmaceutical and Retail sectors. The Trustee is continuing to monitor the likely financial and operational impact that the current economic environment will have on the company.
On this basis, the Trustee considers that the Scheme will continue to operate, and therefore believes that it remains appropriate to prepare the financial statements on a going concern basis.

2. Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustees' Report.

3. Accounting Policies

a) The financial statements have been prepared on an accrual's basis.

b) Investments are included at fair value, determined as follows: -

i) Bonds (Government – Supranational and Corporate)	:	Included at clean bid prices. Short sell bonds are included at the negative quoted price. Accrued interest is shown as interest due from securities.
ii) Swaps	:	Valued taking the current value of the future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date. Included at market value at the year-end as notified by the Custodian
iii) Futures	:	Included at market values determined using market quoted prices. Assets are included at quoted bid prices, liabilities at offer prices.

3 Accounting Policies (continued)

iv)	Forward Foreign Exchange Contracts	:	Valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
v)	Pooled investment vehicles	:	Included at bid prices or at single price where no bid price is available, as notified by the investment manager.
vi)	Properties	:	A valuation of agricultural property is carried out by Savills, Agricultural Surveyors.
vii)	Pension Funding Partnership	:	The Scheme's interest in the Pension Funding Partnerships (PFPs) is stated at the Trustee's estimate, having taken advice, of the present value of expected future cash flows arising from the PFPs. The discount rate used to determine present value is based on market gilt rates at the reporting date adjusted for credit and liquidity risks. This has been valued at 31 March 2022 by AON Solutions UK Ltd.
viii)	Additional Voluntary Contributions		The value of unit-linked funds is based on bid price at 31 March 2022 as provided by the investment manager. The value of with-profits funds includes bonuses, part of which represents a final bonus which cannot be guaranteed and can be varied up or down in the future.
ix)	Annuity Policies	:	Legacy annuity policies are held in the name of the Trustee. The Trustee has discussed these annuity policies with their advisers and have concluded that they are immaterial to the Scheme assets and therefore included at a nil value in the Financial Statements. Annuities are issued by Canada Life, Friends Provident, L&G, Phoenix Life and ReAssure.
x)	Repurchase agreement	:	Repurchase agreements (repo) – the Scheme continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount. Reverse repurchase agreements (reverse repo) – the Scheme does not recognise the securities as collateral in its financial statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements. The obligation to return bonds received under the reverse repurchase agreements which have subsequently been sold is recognised as a liability

c) Investment Income

i) Interest is accrued on a daily basis

ii) Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income.

iii) Investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the unit price and reported within 'Change in Market Value'.

3. Accounting Policies (continued)

iv) Amounts received from the Pension Funding Partnerships are treated as proceeds arising from capital redemptions in the partnership.

v) Receipts from annuity policies held by the Trustee to fund benefits payable to Scheme members are included within investment income on an accruals basis.

c) The functional and presentational currency of the Scheme is Sterling. Balances denominated in foreign currencies are translated into Sterling at the rate ruling at the year-end date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

d) Deficit contributions and special contributions, if any, are accounted for in the period they are due under the Schedule of Contributions.

e) Benefits payable represent all valid benefit claims in respect of the Scheme year and are accounted for in the period they fall due for payment.

f) Individual transfers out are accounted for when paid, when the member liability is discharged.

g) Investment Management Expenses are accounted for on an accruals basis. Fees are paid quarterly, calculated on the value of the funds under management.

h) Administrative expenses are accounted for on an accruals basis.

4 Administrative Expenses

Administrative expenses are met from the assets of the Scheme. The Scheme Actuary has allowed for this when assessing the employer contributions required to be paid to the Scheme.

	2022	**2021**
	£m	**£m**
In house administration costs	(0.8)	(0.8)
Professional fees	(2.5)	(2.9)
Other costs	(0.3)	(0.3)
	(3.6)	**(4.0)**

The PPF levy is met directly by the Employer.

5 Employer Contributions

The Scheme closed to future accrual on 30 June 2010. Therefore, no Employer's normal contributions have been made in the year.

	2022	**2021**
	£m	**£m**
Employer – special contribution	1.4	-

In June 2021 a Schedule of Contributions was signed and a special contribution of £1.4m was paid in July 2021. No deficit contributions are due to the Scheme.

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) FOR THE YEAR ENDED 31 March 2022

6 Benefits Payable

	2022 £m	2021 £m
Pensions to retired members and spouses/dependants	(169.2)	(166.3)
Lump sums on retirement	(21.8)	(18.6)
Death benefits	(0.9)	(0.3)
	(191.9)	**(185.2)**

7 Payment to and on account of leavers

	2022 £m	2021 £m
Individual transfers out	(19.6)	(44.9)
Pensions (Transfer Sharing)	(2.6)	(0.7)
	(22.2)	**(45.6)**

8 Investments

	Market Value at 31.03.21	Purchases & Derivatives Payments	Sales & Derivatives Receipts	Change in Market Value	Market Value at 31.03.22
	£m	**£m**	**£m**	**£m**	**£m**
Bonds (net)	4,087.5	2,426.0	(1,959.5)	(107.0)	4,447.0
Pooled Investment Vehicles	3,312.4	2,091.8	(3,115.8)	143.8	2,432.2
Derivatives	257.1	161.6	(139.2)	80.0	359.5
Pension Funding Partnerships	231.0	-	(10.1)	(22.9)	198.0
Property	0.5	-	-	-	0.5
AVC investments	15.8	-	(0.4)	(0.1)	15.3
	7,904.3	**4,679.4**	**(5,225.0)**	**93.8**	**7,452.5**
Cash	212.5			7.4	112.4
Repurchase / Reverse Repurchase Agreements	(978.5)				(441.2)
Other Investment balances	10.3				(10.6)
Net investment assets	**7,148.6**			**101.2**	**7,113.1**

The Scheme has outstanding commitments of £138.3m in relation to Illiquid assets at 31 March 2022 (£272.5m 2021)

The holdings of pooled investment vehicles are analysed below:

	2022 £m	2021 £m
Liquidity Fund	119.2	812.3
Property	431.9	376.9
Equity	928.2	1,308.4
Bonds	692.9	721.2
Private Equity	260.0	93.6
	2,432.2	**3,312.4**

8. Investments (continued)

Costs are also borne by the Scheme in relation to transactions in the investment portfolios. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable. There were no transaction costs borne in relation to the Pension Funding Partnership (2021: £nil).

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Futures Contracts

Type of Future	Expiry	Exposure (Notional Amount) £m	Asset Value at Year End £m	Liability Value at Year End £m
UK Fixed Income Futures	<3 month	(39.7)	0.273	
Overseas Fixed Income Futures	<3 month	119.9		(0.438)
Overseas cash futures	<3 month	(6.9)	0.017	
			0.29	(0.438)

The liability value at 31 March 2021 was £(0.148)m.

The Scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.
Included within cash balances are £2.15m in respect of initial and variation margins arising on open futures contracts at the year-end (2021: £0.9m)

Forward Foreign Exchange (FX)

The Scheme had open FX contracts at the year-end as follows:

Contract	Settlement Date	Currency Bought		Currency Sold		Value at Year End £m Asset	Liability
Forward OTC	Within 1 month	EUR	0.5m	GBP	-0.5m	0.0	-
Forward OTC	Within 1 month	EUR	123.9m	USD	-122.3m	1.6	
Forward OTC	Within 1 month	GBP	28.7m	EUR	-28.9m	0.2	-
Forward OTC	Within 1 month	GBP	1,425.2m	USD	-1,443.4m	18.2	-
Forward OTC	Within 1 month	USD	260.1m	EUR	-260.5m	0.4	-
Forward OTC	Within 2 month	USD	598.5m	GBP	-600.3m	1.8	-
Forward OTC	Within 2 month	USD	16.8m	JPY	-16.4m	0.4	
					Total	2.0	-20.6

8. Investments (continued)

Swaps
The Scheme had the following swap contracts outstanding at the year-end

Type of Contract	Notional Principal £m	2022 Market value (asset) £m	2022 Market value (liability) £m	2022 Market value (net) £m
Expiration				
Up to 1 year	502.4	0.0	(58.2)	(58.2)
1 to 5 years	1,486.1	47.2	(45.8)	1.4
5 to 10 years	1,434.8	111.1	(48.9)	62.2
10 to 15 years	501.1	91.1	(77.6)	13.5
15 to 20 years	1,021.1	196.3	(20.2)	176.1
Over 20 years	1,234.2	312.0	(129.2)	182.8
Total swaps held by the Scheme at 31 March 2022	**6,179.7**	**757.7**	**(379.9)**	**377.8**
Total swaps held by the Scheme at 31 March 2021	**6,662.9**	**622.7**	**(364.6)**	**258.1**

At the year end, the Scheme had cash collateral at counterparties of £207.2m in respect of OTC swaps and (£83.7)m in respect of repurchase agreements.

Insurance policies – annuities

The legacy annuity policies relate to benefits due for eight individuals. The Trustee no longer purchases annuities to meet Scheme liabilities. Annuities are issued by Canada Life, Friends Provident, Legal & General, Phoenix Life and TW&T ReAssure. No collateral is held in relation to these assets. These policies remain assets of the Trustee but, as the value is immaterial, the Trustee has decided that these policies need not be included in the Statement of Net Assets.

Pension Funding Partnership - PFPs

The Pension Funding Partnership (PFPs) is the Scheme's interest in two Scottish Limited Partnerships which own an interest in groups of freehold property currently occupied by the Sponsoring Employer. Its fair value represents the present value of amounts due to the Scheme over a multi-year period. Collateral, in the form of the freehold property currently in use by the Sponsoring Employer is available to the Trustees in the event the amounts due to the Scheme are not received. This collateral is valued at least 105% of the value of the PFP assets at 1 April 2022.

Repurchase Agreement

At the year end, within other investment assets and liabilities, amounts payable under repurchase agreements amounted to £946.7m (2021: £1,295.5m) and reverse repurchase agreements of £505.5m (2021: £281m) At the year end £880.1m (2021: £889.4m) of bonds reported in the financial statements are held by the counterparties under the repurchase agreement and £506.9m of cash under the reverse repurchase agreements. The negative bond holdings of £416.5m (2021: £276.5m) represent the obligation to return the bonds received as collateral assets under reverse repurchase agreement. The obligation arises due to the asset being used in sales activity, thus exposing the Scheme to the risks and rewards of the ownership of the collateral asset.

8. Investments (continued)

Concentration of Investments

The Scheme investments include the following which represent more than 5% of the total value of the net assets.

	2022 £m	2022 %	2021 £m	2021 %
LGIM LIQUIDITY FUN LGIM STERLING	-	-	691.2	9.6
Legal and General CSAG – Active Global Corporate Bond pooled fund	-	-	565.1	7.9
Legal and General MPAD Diversified Multi Factor Equity pooled fund	581.6	8.1	1,148.9	16.0
UK (Gov) 0.125% 2058	539.0	7.6	-	-
CAAZ ACTGLBLCORPBD Fund	528.2	7.4	-	-
UK (Gov) 0.25% 2052	415.7	5.8	-	-

9 Investment Fair Value Hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;

Level 3: inputs which are unobservable (i.e. for which the market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 31 March 2022				
Bonds (net)	-	4,212.4	234.6	4,447.0
Pooled investment vehicles	92.2	2,037.4	302.6	2,432.2
Derivatives	(0.1)	45.3	314.3	359.5
Pension Funding Partnership	-	-	198.0	198.0
Property	-	-	0.5	0.5
AVC investments	-		15.3	15.3
Cash	60.0	52.4	-	112.4
Repurchase / Reverse Repurchase Agreements (net)	-	(441.2)	-	(441.2)
Other investment balances	0.1	(11.2)	0.5	(10.6)
	152.2	5,895.1	1,065.8	7,113.1

9 Investment Fair Value Hierarchy (continued)

At 31 March 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Bonds (net)	-	3,819.1	268.4	4,087.5
Pooled investment vehicles	777.3	2,267.9	267.2	3,312.4
Derivatives	0.7	(119.0)	375.4	257.1
Pension Funding Partnership	-	-	231.0	231.0
Property	-	-	0.5	0.5
AVC investments	-	-	15.8	15.8
Cash	42.0	170.5	-	212.5
Repurchase / Reverse Repurchase Agreements (net)	-	(978.5)	-	(978.5)
Other investment balances	0.2	9.3	0.8	10.3
	820.2	**5,169.3**	**1,159.1**	7,148.6

10 Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out below. This does not include annuity insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

10 Investment Risks (continued)

(i) Credit risk

The Scheme is subject to credit risk as the Scheme invests in bonds, derivatives, has cash balances and Pooled Investment Vehicles. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.
Analysis of direct credit risk. The credit risk disclosure for year ended 31 March 2022 were categorised by the Scheme's Custodian.

31 March 2022

	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Bonds (net)	4,443.9	3.1	-	4,447.0
Pooled Investment Vehicles	63.8	-	2,368.4	2,432.2
Derivatives	-	-	359.5	359.5
Pension Funding Partnership	-	-	198.0	198.0
Cash	(24.3)	-	136.7	112.4
Repurchase / Reverse Repurchase Agreements	-	-	(441.2)	(441.2)
	4,483.4	**3.1**	**2,621.4**	**7,107.9**

31 March 2021

	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Bonds (net)	4,051.1	36.4	-	4,087.5
Pooled Investment Vehicles	49.9	-	3,262.5	3,312.4
Pension Funding Partnership	-	-	231.0	231.0
Derivatives	-	-	257.1	257.1
Cash	155.3	-	57.2	212.5
Repurchase / Reverse Repurchase Agreements	-	-	(978.5)	(978.5)
	4,256.3	**36.4**	**2,829.3**	**7,122.0**

The Scheme's policy is to hold a diverse portfolio of high-quality sterling and US Dollar denominated bonds and interest rate and inflation swaps with the broad objective of achieving a yield in line with that of a typical AA rated bond index. The Trustee manages the associated credit risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by any one issuer.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 7). Cash is held within financial institutions which are at least investment grade credit rated.

10 Investment Risks (continued)

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2022 £m	2021 £m
Unit Linked Insurance Contracts	1,108.6	1,710.0
Authorised Unit Trusts	1,183.6	825.2
Open Ended Investment Companies	140.0	777.2
	2,432.2	**3,312.4**

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by only investing in pooled funds which invest in at least investment grade credit rated securities.

(ii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy. The Scheme's total net unhedged exposure by major currency at the year-end was as follows:

	2022 £m	2021 £m
US Dollar	95.0	190.4
Euro	68.6	134.2
Japanese Yen	27.6	52.7

(iii) Interest rate risk

The Scheme is subject to interest rate risk on the bond portfolio comprising bonds and interest rate swaps held either as segregated investments or through pooled vehicles and cash. At the year end the bond portfolio comprised:

	2022 £m	2021 £m
Direct		
Bonds	4,447.0	4,087.5
Derivatives	359.5	257.1
Repurchase / Reverse Repurchase Agreements	(441.2)	(978.5)
Indirect		
Pooled investment vehicles	692.9	721.2

(iv) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes equities held in pooled vehicles and investment properties. The Trustee manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

10 Investment Risks (continued)

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2022 £m	2021 £m
Indirect		
Pooled Property	431.6	376.9
Pooled Equity	928.1	1308.4
Pension Funding Partnership	198.0	231.0

Additional Voluntary Contributions

The Trustee holds assets invested separately from the main fund with Phoenix Life Limited (formerly London Life Limited) and Legal & General Assurance Society Limited which secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement confirming the amounts held in their account and the movements in the year. The accounts are a mixture of 'with profit' and 'unit-linked' structures, across the different providers. The aggregate amounts of AVC investments are as follows:

	2022 £m	2021 £m
Phoenix Life Limited	1.6	2.7
Legal & General Assurance Society Limited	13.7	13.1
	15.3	**15.8**

11 Investment Income

	2022 £m	2021 £m
Bonds	61.7	83.0
Pooled Investment Vehicles	14.6	12.4
Interest on Cash and Deposits	0.2	(0.3)
	76.5	**95.1**

12 Investment Management related Expenses

	2022 £m	2021 £m
Investment management and administration	(8.5)	(11.1)
	(8.5)	**(11.1)**

13 Current Assets

	2022 £m	2021 £m
Cash in Current Account	10.1	24.5
Other Current Assets	0.8	0.3
	10.9	**24.8**

NOTES (FORMING PART OF THE FINANCIAL STATEMENTS) FOR THE YEAR ENDED 31 March 2022

14 Current Liabilities

	2022 £m	2021 £m
PAYE due	(2.0)	(1.9)
Accrued investment management fees	(1.8)	(3.1)
Accrued administration expenses due to The Boots Company PLC	(1.4)	(2.7)
Accrued professional fees	(0.4)	(0.2)
	(5.6)	**(7.9)**

15 Self-Investment

There was no self-investment during the year (2021: Nil).

16 Related Party Transactions

Two of the Directors who served during the year were in receipt of a pension from the Scheme. The Chairman and Member Nominated Directors receive an honorarium, all Directors are able to claim sundry travel expenses associated with carrying out their responsibilities to the Scheme.
Employer contributions are dealt with in Note 5.
The recharge of certain costs by The Boots Company PLC is dealt with in Note 4. Amounts due to the Principal Employer, The Boots Company PLC at the year-end are dealt with in Note 14. Current assets include £114,289 due from the Boots Supplementary Pension Plan (the Plan) in relation to pensioner payroll and transfer out paid by the Scheme on behalf of the Plan. (2021 - £66,551).
Under a deed dated 15 May 20212, WBA Financial Services Limited has provided a continuing guarantee to the Scheme for all its guaranteed obligations, subject to a cap of £3.9bn.

17. GMP Equalisation

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. Following on from the original judgement, a further High Court ruling on 20 November 2020 has provided clarification on the obligations for Trustees. This judgement focussed on the GMP treatment of historic transfers out of members' benefits, an issue which had not been addressed in the 2018 GMP ruling. Under this ruling, trustees are required to review historic transfer values paid from May 1990 to assess if any top up payment is required to be paid to the receiving scheme, to reflect members' rights to equalised GMP benefits. The impact of this court case will be considered by the Trustee at future meetings and decisions will be made as to the next steps. Any adjustments necessary will be recognised in the financial statements for the year ended 31 March 2023. It is not possible to estimate the value of any such adjustments at this time.

18. Post balance sheet event

As a result of the recent market events there was a dramatic downturn in UK markets in September 2022 which impacted LDI portfolios and provision of additional collateral. The Trustee has been actively monitoring collateral levels and ensured that there are sufficient buffers in place through portfolio rebalancing. There has been no forced unwinding of any hedge positions. The Trustee continues to take proactive and considered steps, in conjunction with their advisers, to assess the situation and respond to it.

Independent Auditor's Statement about Contributions to the Trustee of the Boots Pension Scheme

Statement about Contributions

We have examined the summary of contributions payable under the Schedules of Contributions to the Boots Pension Scheme for the Scheme year ended 31 March 2022 which is set out on page 33.

In our opinion contributions for the Scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects from 1 April 2021 to 28 June 2021 been paid at least in accordance with the schedule of contributions certified by the Scheme actuary on 24 April 2020 and subsequently been paid at least in accordance with the Schedule of Contributions certified by the Scheme actuary on 29 June 2021.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 33, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee for our work, for this statement, or for the opinions we have formed.

Julie Radcliffe

Julie Radcliffe **6 October 2022**
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

Statement of Trustee's Responsibilities in respect of Contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Scheme in accordance with the schedule.

Trustee's Summary of Contributions payable under the schedules in respect of the Scheme year ended 31 March 2022

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Scheme under the schedules of contributions certified by the actuary on 24 April 2020 and 29 June 2021 in respect of the Scheme year ended 31 March 2022. The Scheme auditor reports on contributions payable under the schedules in the Auditor's Statement about Contributions.

Contributions payable under the Schedules in respect of the Scheme year	**£m**
Employer Special Contribution	1.4
Total contributions payable to the Scheme as reported in the Financial Statements and as reported on by the Scheme Auditor	1.4

Signed on behalf of the Trustee on 6 October 2022

R Oppenheim, Chairman

Engagement Policy Implementation Statement (forming part of the Trustee's report)

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, has produced its first TCFD disclosures report as at the 31 March 2022 year end. The TCFD report can be found here; wba-boots-pensions.co.uk

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")

Engagement policy

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.

Engagement example

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")

Engagement policy

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.