

Annual Engagement Policy Implementation Statement for the BOC Pension Investment Fund

Introduction

This statement sets out how, and the extent to which, the Engagement Policy in the SIP produced by the Trustee has been followed during the year to 31 March 2021. This statement has been produced in accordance with The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018/2019 and the guidance published by the Pensions Regulator.

Investment Objectives of the Scheme

The Trustee believes it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Scheme included in the SIP are as follows:

- to ensure that the Scheme's assets are sufficient to meet its liabilities to provide beneficiaries with benefits as specified in the Scheme's Trust Deed and Rules.
- by targeting an annual investment return in excess of the liability discount rate assumed in the actuarial valuation without taking undue risk.
 - The target investment return for the time being is gilt yields plus 2.2% per annum. It is expected that this target is reduced in the future depending on the funding level and market conditions.
 - The Trustee will aim to reduce risk to as a low a level as possible consistent with this return objective. The main concepts followed to achieve this are diversification of asset classes and asset liability matching.

The objectives set out above, and the risks and other factors referenced in the SIP are those that the Trustee determine to be financially material considerations in relation to the Scheme.

Policy on ESG, Stewardship and Climate Change

The Scheme's SIP includes the Trustees' policy on Environmental, Social and Governance ('ESG') factors, stewardship and Climate Change. This policy sets out the Trustees' beliefs on ESG and climate change and the processes followed by the Trustees in relation to manager monitoring, voting rights and stewardship.

The Trustee believes that environmental, social, and corporate governance (ESG) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

In order to establish these beliefs and produce this policy, the Trustees worked with their investment consultant to understand the potential relevant risks. These include ESG and climate-change related financially material risks arising from the Scheme's investments. The Trustee also considers the voting and stewardship activities of their investment manager to be essential in the ongoing management of these risks.

The following work was undertaken during the year to 31 March 2021 relating to the Trustee's policies on ESG factors, stewardship and climate change.

Implementation Statement (continued)

Engagement

- The Trustee requires that investment managers explain how they take ESG considerations into account. The Governance Committee circulated governance letters to all investment managers over the year, including questions on integration of ESG, sustainability and stewardship into their investment processes, as well as ensuring ongoing compliance with regulatory requirements. These responses were subsequently discussed at the Joint Investment Committee ('JIC').
- Investment managers are expected to evaluate ESG factors, including climate change considerations, exercise voting rights and stewardship obligations attached to the investments in accordance with their own corporate governance policies and current best practice.
- The Trustee monitors compliance with the principles of the UK Stewardship Code. As at 31 March 2021 all of the Scheme's equity managers (4/4) confirmed that they have submitted the relevant documentation to become signatories of the 2020 UK Stewardship code.
- The Trustee asked all equity managers to provide details on their voting over the year, which were subsequently reviewed and reported on at the JIC. The Trustee also received details of relevant engagement activity for the year from the investment managers and discussed these directly with the managers during review meetings.
- For the Schemes' equity and fixed income managers, the Trustee has increasingly been incorporating ESG as a regular item on update calls, requesting details on progress made in this area from all managers. The Trustee also considered benchmarking analysis conducted by the investment consultant that compared the managers' ESG approaches to the broader universe of equivalent strategies, in order to better understand how those managers were performing.
- The Trustee has asked its investment consultant to conduct a more fundamental ongoing review of ESG, climate change and its role in the Scheme's investment strategy. To date, this work has focussed on understanding where the Scheme currently sits from an ESG perspective, establishing a baseline (with respect to ESG ratings and carbon emissions for example) and considering asset allocation changes to improve the sustainability credentials of the portfolio, whilst remaining cognisant of the fiduciary duty to members.
- As part of this review, carbon foot-printing analysis of the Scheme's global equity portfolio and investment grade credit mandate was undertaken as at 31 March 2021. The analysis included both carbon intensity (as measured by Weighted Average Carbon Intensity – "WACI") and potential emissions metrics. The key findings are set out below:
 - The current carbon intensity (WACI) of the listed equity portfolio is 69% lower than the MSCI ACWI benchmark.
 - The listed equity portfolio's future potential emissions (from exposure to fossil fuel reserves) are 79% lower than the MSCI ACWI benchmark.

Voting Activity

The Trustee believes that exercise of voting rights forms part of the investment process to achieve the best long-term outcome. Therefore this activity is delegated to investment managers. Managers are required to keep records of exercised votes and report to the JIC on request. Investment managers are expected to provide voting summary reports on a regular basis, at least annually. The reports are reviewed to ensure that they align with the Trustee's policy.

BOC Pension Scheme

Implementation Statement (continued)

The Trustee does not use the direct services of a proxy voter.

Over the last 12 months, the key voting activity on behalf of the Trustee was as follows:

Wellington - Global Quality Growth Equity

The voting policy of the manager has been considered by the Trustee and the Trustee deems it to be consistent with its investment beliefs.

Key votes undertaken over the prior year are summarised as below:

- There have been 1,075 votable proposals over the year, of which Wellington has voted in 1,023 of these proposals on behalf of the Trustee.
- In around 96% of these votes for proposals, Wellington has indicated their support to the companies' management, while voting against around 4% of the proposals.

Baillie Gifford - Global Alpha

The voting policy of the manager has been considered by the Trustee and the Trustee deems it to be consistent with its investment beliefs.

Key votes undertaken over the prior year are summarised as below:

- There have been 1,212 votable proposals over the year to 31 March 2021, of which Baillie Gifford has voted in 1,134 of these proposals on behalf of the Trustee.
- In around 97% of these votes for proposals, Baillie Gifford has indicated their support to the companies' management, while voting against around 3% of the proposals

Vontobel - Quality Growth Global Equity

The voting policy of the manager has been considered by the Trustee and the Trustee deems it to be consistent with its investment beliefs.

Key votes undertaken over the prior year are summarised as below:

- There have been 738 votable proposals over the year, of which Vontobel has voted in 738 of these votable proposals on behalf of the Trustee.
- In around 92% of these votes for proposals, Vontobel has indicated their support to the companies' management, while voting against around 8% of the proposals.

AllianceBernstein - Global Core Equity

- There have been 196 votable proposals over the year, of which Alliance Bernstein has voted in 196 of these votable proposals on behalf of the Trustee.
- In around 95% of these votes for proposals, Alliance Bernstein has indicated their support to the companies' management, while voting against around 5% of the proposals.