A Member of The Linde Group

# BOC Pension Scheme

## Annual Report and Financial Statements

**For the year ended 31 March 2022**

Scheme Registration No. 10124787

# Contents

## Trustee and advisers

| | |
|---|---|
| **Trustee Company** | BOC Pension Scheme Trustees Limited |
| **Trustee Directors** | **Employer nominated**<br>J Hylands (former Chair) * (deceased 6 August 2021)<br>A Smith ^ (Chair from 24 November 2021)<br>Capital Cranfield Pension Trustees Limited *<br>represented by: G Emmerson<br>D Gowland +<br>K Russell # |
| | **Member-nominated**<br>D A Beech +<br>S De Vall<br>C D Morton + *# (retired 24 April 2022)<br>J Whiting |
| | # Audit Committee + Governance Committee<br>* Joint Investment Committee ^ Medical Committee |
| **Secretary** | S K Kelly |
| **Scheme administrator** | BOC Pension Services<br>ADP (Pension Payroll) |
| **Principal employer** | The BOC Group Limited |
| **Participating employers** | BOC Limited<br>Linde plc |
| **Actuary** | R Shackleton FIA<br>Hymans Robertson LLP |
| **Auditor** | Ernst & Young LLP |
| **Investment Manager** | BOC Pensions Limited |
| **Legal adviser** | Mayer Brown International LLP |
| **Covenant adviser** | Penfida Limited |
| **Bankers** | HSBC Bank Plc |
| **Medical adviser** | Medigold Health Consultancy Limited |
| **Enquiries** | BOC Pension Services<br>Forge, 43 Church Street West<br>Woking, Surrey, GU21 6HT<br>Email: pensions.uk@boc.com |

# Trustee Report

The Trustee of the BOC Pension Scheme (the "Scheme") presents their annual report for the year ended 31 March 2022.

## Introduction

The BOC Pension Scheme ("BOCPS") is a defined benefit pension scheme set up by a trust deed dated 29 March 1974. Subsequent variations have been issued, the latest dated 29 July 2020. Throughout the year under review, BOCPS Trustees Limited was the Trustee of BOCPS.

The Scheme provides a lump sum benefit in the event of death-in-service and earnings-related pension benefits for and in respect of Scheme members. The Scheme was closed to new entrants on 1 July 2003.

In the Report, "Company" means the principal employer, The BOC Group Limited.

The Scheme investments are held within the BOC Pensions Investment Fund ("BOCPIF"). The Administrator Report for BOCPIF is attached as Appendix A. Further information on this is noted on page 11.

The objective of this Report is to provide a formal and historical record. Less formal publications are used to keep members informed about the progress of the Scheme. Information can also be obtained from the BOC Pension Services internet website www.bocpensions.co.uk.

## Going concern

The Trustee has reviewed reports from its advisers and the Pensions Regulator on the impact of COVID-19, the war in Ukraine and other significant events which could impact pension schemes. The Trustee continues to monitor the Scheme's funding position on a regular basis to ensure benefit payments can be met, and that the Scheme continues to be administered effectively.

The Trustee continues to prioritise bereavement services and payment of retirement benefits, with cash equivalent transfer values (CETVs) being designated a lesser priority. Following the necessity to work from home during 2020 due to the COVID-19 pandemic, the administration team has adopted a longer-term flexible working pattern whilst maintaining full operational function.

A Parent Company Guarantee with Linde Plc remains in place. The Trustee considers that this guarantee alongside regular monitoring of national and global events, including the effects of the conflict and related sanctions in Ukraine and Russia, means that there are not aware of any current issues likely to impact or cause material uncertainty to the Scheme.

The Administrator Report of BOCPIF is attached as Appendix A which details further information on how investments have performed. This can be found in the Market Review section on page 10 of Appendix A. Further comment regarding the impact of global events on investments can be found on page 11 of Appendix A.

## Enquiries and complaints

The address for enquiries about the Scheme, matters regarding entitlement of an individual to benefits, complaints regarding Scheme administration and requests for further information is shown on page 2.

# Trustee Report (continued)

## *Management of the Scheme*

Three of the Trustee Directors, the Independent Trustee[1] and the Professional Trustee are appointed by the Company.

The professional trustee is a trustee company (Capital Cranfield Pension Trustees Limited) who acts as a Trustee Director to the trust. That company has no interest in the assets of the trust; they are not a beneficiary of the trust and are not entitled to share in the assets of the trust.

The Independent trustee was a person (John Hylands) who acted as a Trustee Director to the trust, who after 14 years of service to the Pension Scheme unexpectedly died during the year. They had no interest in the assets of the trust; they were not a beneficiary of the trust and were not entitled to share in the assets of the trust. There is currently no independent trustee appointed to the Scheme.

Following the death of Mr Hylands, Mr Smith was appointed as Chair of the Trustees. Mr Smith was originally appointed to the Trustee board in December 2009.

The term of office of Member-Nominated Trustee Directors is normally five years. The Professional Trustee appointment is on an on-going basis subject to an agreed notice period on either side.

The four Member-Nominated Trustee Directors are elected from and by the Pensions Advisory Council (PAC). The PAC is a body set up by the Company, and responsible to the Company, whose primary role is to provide a sounding board on pensions policy and enable queries and information sharing on behalf of active membership. The PAC met on three occasions during the year.

The PAC comprises:

- contributing members of the Scheme elected by members from the various businesses
- two pensioner representatives elected by retired members of the Scheme
- a Chairman and Vice-Chairman appointed by the Company
- the Director of Pensions Services RUK (ex-officio)

A Trustee Director will generally cease to hold office on resignation or on leaving the Company. The PAC can instigate removal of elected Trustee Directors. The Company has the power to remove appointed Trustee Directors and the Professional Trustee.

The Trustee met on four occasions during the year to review investment activities, administration and any other matters affecting the Scheme and its members. The Trustee has appointed external specialists to advise on legal, investment, actuarial, employer covenant and accounting matters. These individuals and organisations are listed on page 2. The Trustee has written agreements in place with each of them. There were no changes to the advisers for the year in review.

## *Transfer values*

Payments made in respect of deferred pensioners who exercised their option to have a cash equivalent or transfer value paid to another pension arrangement were calculated in accordance with the provisions introduced under Section 97 of Chapter IV of Pension Schemes Act 1993 using tables supplied by the Scheme's Actuary. Payments made during the year fully reflected the value of the accrued benefit rights in each case.

The calculation of transfer payments includes allowance for the Trustee's discretion to permit early payment of a deferred pension, without reduction, in circumstances of ill-health. No other discretionary benefits that could be available are included in transfer calculations.

[1] Mr J Hylands

# Trustee Report (continued)

## *Data protection*

The Scheme is registered under the EU General Data Protection Regulation (GDPR) from 25 May 2018, (previously the Data Protection Act 1998) to process on computer and otherwise, personal information that the Trustee or its delegates may need for Scheme management.

## *Scheme tax and social security status*

The Scheme is a registered scheme with HM Revenue & Customs under Chapter 2 of Part 4 of Finance Act 2004.

## *Committees*

Committees are set up for practical reasons where a number of additional meetings are required and to facilitate additional, targeted, technical training.

The members of each Committee who represent the Trustee are shown on page 2.

**Audit Committee**

The Audit Committee met on four occasions during the year. The Audit Committee is a joint committee consisting of a representative of the Trustees of each of BOCPS, BOC Senior Executive Pension Scheme, BOC Retirement Savings Plan and from the Administrator of BOC Pension Investment Fund (BOC Pensions Limited).

The main objectives of the Committee are to review the plan for the annual audit, review the audit results and discuss them with the Scheme Auditor, consider the letter of representation to the Auditor, review and challenge the Report and Accounts and report to the Trustee Boards on these matters. The Audit Committee formally recommends the approval of the annual report and financial statements to the Trustee.

**Medical Committee**

The Medical Committee met on seventeen occasions during the year. The Medical Committee exists to consider applications from members and the company for the award of medical pensions.

**Governance Committee**

The Governance Committee met on four occasions during the year. The Governance Committee is a joint committee with the Trustee of the BOC Senior Executive Pension Scheme.

The Committee's principal areas of focus are managing conflicts of interest, risk management, Scheme documents, Trustee Knowledge & Understanding and the Trustee's Business Plan.

**Joint Investment Committee**

The Joint Investment Committee (JIC) met on five occasions during the year. The JIC is a corporate entity, BOC Pensions Limited, which is owned jointly by the Trustee and the Trustee of BOC Senior Executive Pension Scheme. Its Board is appointed from Directors of each Scheme.

The Trustee has delegated investment powers under the Trust Deed and Rules to the JIC which then acts as a decision-making body. The Directors of the JIC receive specific investment training. Some tasks such as preparing and maintaining the Scheme's Statement of Investment Principles remain the responsibility of the Trustee.

# Trustee Report (continued)

## *Financial development of the Scheme*

The financial statements set out on pages 16 to 23 have been prepared and audited in accordance with the regulations made under sections 41(1) and (6) of the Pensions Act 1995.

During the year net withdrawals from dealing with members were £113,392k (2021: additions £57,154k). Net returns on investments were £204,541k (2021: £512,686k). As a result, net assets of the Scheme rose to £3,551,127k at 31 March 2022, an increase of £91,149k over the position at 31 March 2021.

## *Actuarial review*

In accordance with the Trust Deed and Rules, the Scheme's Actuary carried out an actuarial valuation of the Scheme as at 31 March 2020. A summary of the Technical Provision results is shown in the table below:

| | **31 March 2020** | **31 March 2017** |
|---|---|---|
| Assets | £2,890m | £2,978m |
| Liabilities | £3,163m | £3,709m |
| Deficit | £273m | £731m |
| Funding level | 91% | 80% |

On 27 March 2020 the Trustee secured a new Linde Plc Parent Company Guarantee, which is a legally binding group-wide commitment to financially support the Scheme. This meant that there were some changes to the actuarial assumptions for the 2020 valuation, which showed a significantly improved funding position compared to 2017. This information was communicated to members in a special newsletter in June 2020.

This resulted in a new Schedule of Contributions being signed on 23 March 2021 which increased Employer contributions for Level A, Level C and Level 3 members. No deficit funding contributions were due this year. The deficit reduction contributions will be payable provided that the payment of such an additional contribution in any year would not be expected to result in a surplus using the assumptions adopted for the actuarial valuation as at 31 March 2020. Deficit funding contributions payable in future years are detailed in note 2.

In his report dated 31 March 2022, the Scheme's Actuary concluded that the Scheme's assets were in surplus by £314m and that the funding level was 110%.

Any Scheme member can obtain a copy of the actuarial valuation report or the Schedule of Contributions by contacting BOC Pension Services at the address shown on page 2.

**Statement of funding principles ("SoFP")**

Under requirements introduced by the Pensions Act 2004, the valuation consists of a statement of funding principles (SoFP), actuarial valuation, Schedule of Contributions and, if the Scheme's assets do not cover the technical provisions (the amount required to pay for the Scheme's built up pension benefits), a recovery plan. Under the SoFP, the Trustee, with advice from the Scheme Actuary and the agreement of the Company, selects the key assumptions to use in the valuation.

The Trustee agreed the valuation results and put in place a SoFP, a recovery plan and a Schedule of Contributions (page 24).

The results of the 2020 valuation were communicated to Scheme members in July 2021.

# Trustee Report (continued)

## *Actuarial review (continued)*

### *Method*

The actuarial method to be used in the calculation of technical provisions is the Projected Unit Method.

### *Actuarial assumptions*

**Discount rate:** term dependent rates set by reference to the market implied gilt yield curve (as derived from the Bank of England data) at the valuation date plus an addition of 1.6% per annum.

**Retail price inflation ("RPI"):** (implied inflation curve) taken as the difference between the Bank of England fixed interest and index linked yield curve at the valuation date.

**Consumer price inflation ("CPI"):** RPI inflation with an adjustment on yields of 0.75% below RPI spot rates.

**Salary increases:** Implied RPI inflation plus 0.25% per annum; and allowing for the cap on salary increases for benefit calculations where applicable. Relevant market information will be used to calculate the effect of any caps. Analysis at 31 March 2020 determined that an assumed increase of 2.5% p.a. at all durations was appropriate.

**Pension increases:** The assumption is made with reference to the RPI curve. The curves will be derived in a consistent manner to the underlying inflation curve making allowance for caps and floors on benefit increases. Other pensions are assumed to increase at their fixed rates.

### *Key demographic assumptions:*

| | |
|---|---|
| Longevity base tables | 2020 VITA tables |
| Longevity future improvements | CMI 2018 model with a long term rate of improvement of 1.5% p.a, core smoothing parameter of Sκ=7.0 and initial addition 'A' parameter of 0.5. No additional longevity buffer. |
| Pre-retirement mortality | 60% of AM/AF92 tables |

# Trustee Report (continued)

## *Pension increases*

The effective date for pension increases is 1 April each year. The increases during the year to pensions in payment were therefore those effected on 1 April 2021. Increases were provided in accordance with the Scheme Rules, and statutory GMP requirements, as set out below:

Pensions Accrued to 31 March 2011:

| Service Terminated | Over State Pension Age at 1/4/2021 | GMP portion accrued pre 6/4/1988 | GMP portion accrued post 6/4/1988 | Remaining pension ϕ |
|---|---|---|---|---|
| Before April 1997 | Yes | Nil | 1.2% | 1.2% |
| Before April 1997 | No | Fixed rate* | 1.2% | 1.2% |
| From April 1997 | Yes/No | 1.2%** | 1.2%** | 1.2%** |

Pension Accrued from 1 April 2011:

The lesser of the percentage increase in the General Index of Retail Prices (RPI) over the calendar year to the previous 31 December or 2.5% on a rolling five year average. The increase in RPI over the calendar year to 31 December 2021 was 1.2%. Therefore, the rolling five year average was applied. The increase payable from 1 April 2021 on pensions that had been in payment for at least a full year was:

| Date pension started | 2021 increase** |
|---|---|
| 2 March 2011 to 1 March 2021 | 1.2% |

* Either 8.5%, 7.5%, 7%, 6.25%, 4.75%, 4.5%, 4.0% or 3.5% per year depending on leaving date.
** For those pensioners who had been retired for less than 12 months but more than 1 month, a proportionate rate applied.
ϕ Any part of the pension that had been secured with the member's AVC Plan fund was increased on the basis notified to the member when the pension was purchased.

Increases to dependants' pensions followed a similar pattern, subject to the modifications resulting from the Statutory GMP increase requirements for widows and widowers.

The Company did not award a discretionary increase.

# Trustee Report (continued)

## *Pension increases (continued)*

### Deferred Pensions

The GMP portion of qualifying deferred pensions was increased at 1 April 2021 by the Appropriate Fixed Rate of revaluation applicable to the leaving service date, as specified under the contracting-out regulations.

The non-GMP portion of deferred pensions is increased when the pension comes into payment. For leavers up to 31 March 2011 this increase is broadly the lower of 5% per annum compound and the movement in RPI for the period of complete years to 31 December 2010, either from 1 June 1990 or from the later date on which the member left the Scheme. The deferred pension as at 1 June 1990 had already been increased at 3% per annum compound at each 1 April since leaving date. From 1 January 2010 the measure of inflation was changed to the Consumer Prices Index (CPI).

For leavers from 6 April 2009 to 31 March 2011 deferred benefits will increase by a maximum of 2.5% per annum in respect of post-5 April 2009 service. For post-31 March 2011 leavers the maximum increase will be 5% per annum in respect of this period.

For post-31 March 2011 leavers the increase in respect of post-31 March 2011 service is the lower of 2.5% a year or the movement in RPI for the year to the previous 30 September for each complete year from the date on which the Member left the Scheme except for members who resign or are dismissed in which case the measure of inflation will be CPI.

## *Scheme rules*

There were no changes to the Scheme rules during the year.

## *GMP Equalisation*

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issue determined by the judgement arises in relation to many other defined benefit pension schemes. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. On 20 November 2020 the High Court issued a follow-on judgement, which suggested that transfer payments made since May 1990 will need to be topped up to allow for GMP equalisation.

An external organisation has been appointed to assist with the GMP equalisation project, it is estimated that the project will be fully complete during 2023. Based on an initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these to be material to the financial statements and consequently, have concluded that no provision is required at this time.

# Trustee Report (continued)

## *Membership*

| **Active** | Level A | Level B | Level C | Total |
|---|---|---|---|---|
| At 1 April 2021 | 400 | 402 | 30 | 832 |
| Late notifications | (3) | (1) | - | (4) |
| Interlevel movements | 19 | (20) | 1 | - |
| Deaths | (1) | - | - | (1) |
| Leavers with retained benefits | (24) | (35) | (3) | (62) |
| **At 31 March 2022** | **391** | **346** | **28** | **765** |

| **Deferred** | Total |
|---|---|
| At 1 April 2021 | 7,345 |
| Late notifications | (66) |
| New members | 45 |
| Deaths | (24) |
| Retirements | (286) |
| Leavers | (61) |
| **At 31 March 2022** | **6,953** |

| **Pensioners** | Former members | Dependants | Children's allowances | Total |
|---|---|---|---|---|
| At 1 April 2021 | 10,151 | 3,071 | 63 | 13,285 |
| Late notifications | 43 | (11) | (3) | 29 |
| New pensioners | 303 | 178 | 10 | 491 |
| Deaths | (330) | (179) | - | (509) |
| Cessations | - | - | (11) | (11) |
| **At 31 March 2022** | **10,167** | **3,059** | **59** | **13,285** |

'Late notifications' relate to adjustments to the membership in respect of the prior year after the membership reconciliation was completed.

'Cessations' comprise members who have chosen to fully commute their pension, and children ceasing full time education.

# Trustee Report (continued)

## *Investment management*

The Scheme participates in the BOC Pension Investment Fund (BOCPIF), a common investment fund, with the BOC Senior Executive Pension Scheme. The major advantage to the Scheme of investing in BOCPIF is that it benefits from the economies of scale enjoyed by the larger fund, in the form of lower transaction and administration costs. The Trustee is satisfied that the investment objectives of BOCPIF are consistent with those of the Scheme. The operation of BOCPIF is regulated by a deed. The original deed, dated 31 March 1992, has been updated by deeds of variation dated 29 October 2004, 4 March 2008, 9 December 2009 and 3 May 2012.

BOCPIF comprises both commingled assets and assets which are directly attributable to the Participating Schemes. The commingled assets share the same investment funds and are apportioned between the Participating Schemes, in accordance with the terms of the deed, using a standard formula which is derived using the latest SIP as part of the investment strategy agreed by Trustees by the help of the actuaries. The formula ensures that there is no cross-subsidy between the Schemes. It is applied each month to the change in market value of the assets. The change in value is apportioned in the ratio of the interest of each participating Scheme in each of the asset classes of BOCPIF at the start of the month, adjusted to take account of any money invested or withdrawn by the Schemes during the month. The apportionment of the change in value of BOCPIF in the year is shown in Note 7.

An Administrator Report of BOCPIF has been issued and is attached as Appendix A. The Implementation Statement is included on pages 7 to 9 of the Administrator Report. As a consequence, the amount of information in this Report is reduced to avoid duplication. The Annual Report and Financial Statements of BOCPS should be read in conjunction with the Administrator Report of BOCPIF.

## *Approval of the Trustee Report*

The Trustee Report was approved by the Trustee and signed on their behalf on 25 October 2022

# Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- give 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 its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; 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, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising 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 Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions are made to the scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Date: 25 October 2022

# Independent Auditor's Report to the Trustee of the BOC Pension Scheme

## Opinion

We have audited the financial statements of BOC Pension Scheme for the year ended 31 March 2022 which comprise the Fund Account, the Statement of Net Assets and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Scheme during the 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 year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of 12 months from when the Scheme's annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern.

## Other information

The other information comprises the information included in the Annual Report and Financial Statements, other than the Financial Statements, our auditor's report thereon and our auditor's statement about contributions. The Trustee is responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

# Independent Auditor's Report to the Trustee of the BOC Pension Scheme (continued)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### *Responsibilities of the Trustee*

As explained more fully in the Trustee's responsibilities statement set out on page 13, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Trustee is responsible for 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 the Trustees either intends to wind up the Scheme or to cease operations, or has no realistic alternative but to do so.

### *Auditor's responsibilities for the audit of the financial statements*

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Trustee.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant related to pensions legislation and the financial reporting framework. These are the Pensions Act 1995 and 2004 (and regulations made thereunder), FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (Financial Reports of Pension Schemes). We considered the extent to which a material misstatement of the financial statements might arise as a result of non-compliance.

- We understood how the Scheme is complying with these legal and regulatory frameworks by making enquiries of the Trustee. We corroborated our enquiries through our review of the Trustee's meeting minutes.

# Independent Auditor's Report to the Trustee of the BOC Pension Scheme (continued)

- We assessed the susceptibility of the Scheme's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Scheme has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. In our assessment we considered the risk of management override. Our audit procedures included verifying cash balances to independent confirmations, testing manual journals on a sample basis and also those journals where there is a risk of override, and an assessment of segregation of duties. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Trustee for its awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of Trustee's minutes.

- The Scheme is required to comply with UK pensions regulations. As such the Statutory Auditor has considered the experience and expertise of the engagement team to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Scheme with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## *Use of our report*

This report is made solely to the Scheme's Trustee, as a body, 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's 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's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Date: 28 October 2022

# Fund Account for the year ended 31 March 2022

| | Notes | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---|---|---|
| **Contributions and benefits** | | | |
| Employer contributions | 2 | 17,578 | 22,220 |
| Employee contributions | 2 | 248 | 270 |
| Transfers in | 3 | - | 163,109 |
| | | **17,826** | **185,599** |
| Benefits paid or payable | 4 | (107,504) | (111,184) |
| Payments to and on account of leavers | 5 | (20,504) | (14,163) |
| Administrative expenses | 6 | (3,210) | (3,098) |
| | | **(131,218)** | **(128,445)** |
| **Net (withdrawals)/additions from dealings with members** | | **(113,392)** | **57,154** |
| | | | |
| **Returns on investments** | | | |
| Net Interest receivable on cash deposits | | 4 | 9 |
| Share of return in BOCPIF | 7 | 192,910 | 512,677 |
| **Net return on investments** | | **192,914** | **512,686** |
| | | | |
| **Net increase in the fund during the year** | | **79,522** | **569,840** |
| | | | |
| **Net assets of the fund** | | | |
| **At 1 April** | | **3,459,978** | **2,890,138** |
| **At 31 March** | | **3,539,500** | **3,459,978** |

The notes on pages 18 to 23 form part of these financial statements.

# Statement of Net Assets (available for benefits) as at 31 March 2022

| | Notes | 2022 £ '000 | 2021 £ '000 |
|---|---|---|---|
| **Investment assets** | | | |
| Share of BOCPIF | 7 | 3,523,085 | 3,446,675 |
| **Total net investments** | | **3,523,085** | **3,446,675** |
| | | | |
| Current assets | 8 | 20,852 | 18,182 |
| Current liabilities | 9 | (4,437) | (4,879) |
| **Net assets of the Fund at 31 March** | | **3,539,500** | **3,459,978** |

The financial statements summarise the transactions and the net assets of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and other benefits that fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such liabilities, is dealt with in the report on Actuarial Liabilities on pages 6 and 7, and these financial statements should be read in conjunction with them.

The notes on pages 18 to 23 form part of these financial statements.

These financial statements were approved by the Trustee on 25 October 2022.

Signed on behalf of the Trustee

# Notes to the financial statements

## 1. Accounting policies

### *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 (FRS 102) – The Financial Reporting Standard applicable in the UK and Republic of Ireland, issued by the Financial Reporting Council, and with the guidelines set out in the Statement of Recommended Practice (SORP) 2018 – Financial Reports of Pension Schemes.

The Scheme is established as a Trust under English Law. The Scheme's address is shown in the Trustee's report.

### *Investments*

The accounting policies for investments are dealt with in the BOCPIF Administrator Report attached as Appendix A to this report.

### *(a) Contributions*

Employer and members' contributions are accounted for at the rates agreed between the Trustee and the Employer based on recommendations of the Actuary and the Schedule of Contributions.

(i) Members' normal contributions are accounted for when deducted from pay.
(ii) Employers' normal contributions are accounted for in the period in which the corresponding members' contributions are deducted from pay.
(iii) Employers' contributions under Salary Exchange are accounted for in the period that exchanged employee contributions would have been deducted from earnings.
(iv) Employers' deficit contributions are accounted on an accruals basis in accordance with the Schedule of Contributions under which they are paid.

### *(b) Transfers in*

i) Group transfers in are accounted for in accordance with the terms of the merger deed.

### *(c) Benefits*

(i) Benefits are generally accounted for in the year in which the member notifies the Trustee of their decision on the type of benefit to be taken or, if there is no member choice, on the date of retirement or leaving. For members with whom we have lost contact, benefits are accounted for on the date that we establish a contact with the member or beneficiary or, if later, the date that the relevant benefit has been identified.
(ii) Individual transfers are accounted for when the liability is discharged which is normally when paid.

### *(d) Expenses*

Administration expenses met by the Scheme are accounted for on an accruals basis.

### *(e) Currency*

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

# Notes to the financial statements (continued)

## 2. Contributions

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---:|---:|
| *Employer contributions* | | |
| Normal | 16,473 | 18,450 |
| Pensions Protection Fund Levy | 1,017 | 859 |
| Augmentations* | 88 | 2,911 |
| **Total employer contributions** | **17,578** | **22,220** |
| *Employee contributions* | | |
| Normal | 248 | 270 |
| **Total employee contributions** | **248** | **270** |
| **Total contributions** | **17,826** | **22,490** |

Employer normal contributions include contributions in respect of salary sacrifice arrangements.

* On 1 October 2020 Linde Plc, The Company, Gist Limited, the respective Trustee of the Gist Limited Pension Scheme ('GLPS') and BOCPS completed an agreement to merge GLPS into the Scheme. Gist Limited offered an Early Retirement with Company Consent ("ERCC") programme to allow active GLPS members with deferred Scheme benefits to retire early if they were over the age of 54 on 30 June 2019. This programme used an actuarial reduction as set out in the GLPS rules. The cost of meeting this actuarial reduction was met by Gist Limited and is shown as augmentations.

Following the signature of a new Schedule of Contributions on 23 March 2021, five annual deficit funding contributions of £15m and contributions of £2m for costs of running the Scheme are payable each year. The deficit reduction contributions will be payable provided that the payment of such an additional contribution in any year would not be expected to result in a surplus using the assumptions adopted for the actuarial valuation as at 31 March 2020 (but updated to reflect market conditions). The Trustee will notify the company if any contribution can be reduced or is not required by 30 November in the year in which it would be payable, based on the estimated funding position of the Scheme as at 30 September in the year in which it would be payable.

The funding position as of 30 September 2021 was 107.3% which meant no Employer contributions were payable. For information on the latest funding position please refer to the update in the Actuarial Review on page 6.

## 3. Transfers in

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---:|---:|
| Group transfers in from GLPS | **-** | **163,109** |

Group transfers in comprises the liquidation of assets and the subsequent transfer of cash and working capital from GLPS in accordance with the merger agreement referred to in note 2.

# Notes to the financial statements (continued)

## 4. Benefits paid or payable

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---|---|
| Pensions | 97,871 | 94,956 |
| Commutation and lump sum retirement benefits | 11,672 | 19,517 |
| AVC annuitisations | - | (46) |
| Lump sum death benefits | 290 | 748 |
| Disinvestments from BOCRSP-AVC Section | (2,329) | (3,991) |
| | **107,504** | **111,184** |

Payment of retirement benefits relating to the Gist Limited ERCC programme disclosed in note 2, are included within 2021 commutation and lump sum retirement benefits.

The negative values above reflect the AVC amounts transferred to the Scheme to provide funding for all or part of the benefit payment mentioned above. AVC annuitisation comprises those members who chose to take their AVC value as pension. Further explanation of the disinvestments process from BOCRSP-AVC Section can be found in note 7 on page 21.

## 5. Payments to and on account of leavers

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---|---|
| Individual transfer to other schemes | 19,832 | 12,969 |
| Pension sharing orders | 1,540 | 1,733 |
| Disinvestments from BOCRSP-AVC Section | (868) | (539) |
| | **20,504** | **14,163** |

The negative values above reflect the AVC amounts transferred to the Scheme to provide funding for all or part of the leaver payment mentioned above. Further explanation of the disinvestments process from BOCRSP-AVC Section can be found in note 7 on page 21.

## 6. Administrative expenses

Costs charged to the Scheme relate solely to the administration of the Scheme.

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---|---|
| Administration and processing | 1,624 | 1,454 |
| Actuarial fees | 226 | 407 |
| Audit fees | 97 | 97 |
| Pension Protection Fund Levy | 1,017 | 859 |
| Legal and other professional fees | 246 | 281 |
| | **3,210** | **3,098** |

# Notes to the financial statements (continued)

## 7. Investments

**Investment reconciliation**

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---|---|
| Share of BOCPIF at 1 April | 3,446,675 | 2,884,695 |
| Investment | - | 161,303 |
| Withdrawals | (116,500) | (112,000) |
| Share of return | 192,910 | 512,677 |
| **Share of BOCPIF at 31 March** | **3,523,085** | **3,446,675** |

The share of BOCPIF includes any directly attributable investment holdings. Further breakdown is provided in Appendix A.

Investment and withdrawals comprise the GLPS assets transfer to BOCPIF and cash withdrawn to pay benefits.

**AVC Investments**

Members of the Scheme may make additional voluntary contributions to a range of investment facilities, which are administered by the Trustee of BOC Retirement Savings Plan (BOCRS Plan). When a member retires, or dies, the funds accumulated within BOCRS Plan (AVC section) in respect of that member are paid to the Trustee of the Scheme to provide additional benefits for, or in respect of, that member. They may also be paid to the Scheme when a member leaves service for transfer to another approved pension scheme. These amounts are shown in notes 4 and 5 as negative amounts.

The financial statements of BOCRS Plan are not included in the financial statements of the Scheme, but are separately available. A copy of these statements can be obtained by contacting BOC Pension Services at the address shown on page 2.

## 8. Current assets

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---|---|
| Amounts due from other BOC pension arrangements | 196 | - |
| Cash balances | 20,656 | 18,182 |
| | **20,852** | **18,182** |

Amounts due from other BOC pension arrangements comprise £15k due from the Senior Executive Pension Scheme (SEPS) and £181k due from the AVC Section of the BOC Retirement Savings Plan (RSP). Further detail on this is disclosed in note 11.

Cash in the current account comprises two months of benefit payment funding, which is being held to reduce risk of funding short-term cash outflows.

# Notes to the financial statements (continued)

## 9. Current liabilities

| | 2022<br>£ '000 | 2021<br>£ '000 |
|---|---|---|
| Benefits payable | 1,600 | 3,232 |
| Accrued expenses | 1,320 | 524 |
| Tax due to HMRC | 1,517 | 1,114 |
| Other creditors | - | 6 |
| Amounts due to other BOC pension arrangements | - | 3 |
| | **4,437** | **4,879** |

Amounts due to other BOC pension arrangements comprise £Nil (2021: £3,467 due to BOCRS Plan). Further detail on this is disclosed in note 11 below.

## 10. Employer related investments

Direct employer-related investment is not permitted under the Scheme Rules.

## 11. Related party transactions

The following related party transactions occurred during the year.

The Scheme has received member contributions in respect of directors of the Trustee who are also Scheme members. These transactions are in accordance with the Scheme Rules.

The costs incurred by BOC Group Limited in providing Scheme administration services are rechargeable to the Scheme. Amounts paid during the year were £1,207k with a further £1,008k due to be paid, included in accruals in note 9. In 2021 £3,064k was paid, with a further £141k accrued.

Key management personnel includes: the independent Trustee Director (up to 6 August 2021), the professional Trustee Director and the retired member-nominated Trustee Directors who received total remuneration of £75,369 (2021: £103,598) during the year. The fees for key management personnel are met by the Company. The independent Trustee Director (up until 6 August 2021) charged a combined fee for services to the Scheme, BOC Senior Executive Pension Scheme and BOC Pension Investment Fund. This total fee is included within the above remuneration.

Amounts due from other BOC pension arrangements disclosed in note 8 comprise £15k due from SEPS in relation to its share of the annual audit fees and £181k due from the AVC Section of the Retirement Savings Plan-AVC Section in relation to member AVCs.

Amounts due to other BOC pension arrangements disclosed in note 9 comprise £Nil as at 31 March 2022. At 31 March 2021 £3,467 was due to the Retirement Savings Plan-AVC Section for an AVC disinvestment which did not proceed as a retirement in that Scheme year.

Due to the GLPS merger (a related party) as detailed in note 2 , the amount shown in note 3 was transferred into the Scheme in 2021.

# Notes to the financial statements (continued)

## 12. Contingent liabilities

The Scheme had no contingent liabilities or commitments at 31 March 2022. Details of commitments of BOCPIF are set out in Appendix A.

# Actuarial Certification of the Schedule of Contributions



## Appendix

## Schedule of Contributions – Actuarial Certificate

Name of Scheme: BOC Pension Scheme

**Adequacy of contributions**

I certify that, in my opinion, the contributions shown in this Schedule of Contributions are such that the statutory funding objective on 31 March 2020 can be expected to be met by the end of the period specified in the recovery plan dated March 2021.

**Consistency with statement of funding principles**

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated March 2021.

Please note that the adequacy of contributions statement in this certificate relates to the Scheme's statutory funding objective. For the avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the Scheme's full liabilities with annuities if the Scheme were to wind up.

| | |
|---|---|
| Date | 23 March 2021 |
| Name | Richard Shackleton |
| Qualification | Fellow of the Institute and Faculty of Actuaries |
| Name of Employer | Hymans Robertson LLP |
| Address | One London Wall, London EC2Y 5EA |

**This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.**

# Summary of contributions

During the year ended 31 March 2022 the contributions payable to the Scheme under the Schedule of Contributions were as follows:

| | £ '000 |
|---|---|
| Employer normal contributions | 16,473 |
| Pension Protection Fund Levy | 1,017 |
| Augmentations | 88 |
| Employee normal contributions | 248 |
| **Total contributions under Schedule of Contributions and per note 2 of the financial statements** | **17,826** |

Further details regarding augmentations are disclosed in note 2.

All contributions were received by their due date as required by the Schedules of Contribution.

Signed on behalf of the Trustee on 25 October 2022.

# Independent Auditor's Statement about Contributions

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

We have examined the summary of contributions to the BOC Pension Scheme for the Scheme year ended 31 March 2022 which is set out on page 25.

In our opinion contributions for the Scheme year ended 31 March 2022 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme actuary on 23 March 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 on page 25 have in all material respects been paid at least in accordance with the Schedule 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 Schedule of Contributions.

***Respective responsibilities of trustee and auditor***

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a Schedule of Contributions 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 Schedule of Contributions and to report our opinion to you.

***Use of our statement***

This statement is made solely to the Scheme's Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement 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 as a body, for our work, for this statement, or the opinions we have formed.

Date: 28 October 2022

# Appendix A BOC PIF Administrator Report

# BOC Pension Investment Fund

## Administrator Report

**For the year ended 31 March 2022**

# Contents

# Directors and advisers

| | |
|---|---|
| **Administrator** | BOC Pensions Limited |
| **Directors** | J Hylands (former Chair) (deceased 6 August 2021)<br>A Smith (Chair) (appointed 24 November 2021)<br>Capital Cranfield Pension Trustees Limited<br>represented by: G Emmerson<br>C Morton (resigned 14 April 2022)<br>K Russell (appointed 19 May 2022)<br>C Schlegel<br>A Smith (appointed 24 November 2021)<br>N Twist |
| **Secretary** | S K Kelly |
| **Adviser** | Mercer Limited |
| **Auditor** | Ernst & Young LLP |
| **Legal adviser** | Mayer Brown International LLP |
| **Bankers** | HSBC Bank Plc |
| **Custodian** | BNY Mellon Asset Servicing BV |
| **Investment Managers** | AHL Dimension (Cayman) Limited<br>AllianceBernstein L.P.<br>Ares Real Estate Secured Income Fund, L.P.<br>ArrowStreet Capital, L.P.<br>Aviva Investors UK Commercial Real Estate Senior Debt L.P.<br>Aviva Investors Alternative Income Solutions General Partner S.A.R.L.<br>Barings Global Advisers Limited<br>Baillie Gifford & Co.<br>BlackRock Investment Management UK Ltd<br>Bridgepoint Credit Services S.A.R.L.<br>(formerly EQT Fund Management S.A.R.L.)<br>CBRE Global Investors (UK Funds) Limited<br>Elementum Advisors LLC<br>Highbridge Capital Management LLC<br>Insight Investment Management (Global) Limited<br>Invesco Asset Management Limited<br>LGT Capital Partners<br>Lynx Asset Management AB<br>Marshall Wace Funds PLC<br>Neuberger Berman Group L.L.C.<br>Pharo Macro Management, Inc<br>PGIM Fixed Income<br>Record Currency Management Limited<br>Schroder Investment Management Limited<br>Vontobel Asset Management, Inc.<br>Wadhwani Asset Management LLP<br>Wellington Management International Limited |

# Introduction

This report covers the management of BOC Pension Investment Fund ("The Fund") for the year to 31 March 2022. The Fund is a common investment fund in which the Participating Schemes are BOC Pension Scheme ("BOCPS") and BOC Senior Executive Pension Scheme ("SEPS").

Throughout the year under review, BOC Pensions Limited was the Administrator of The Fund.

On 8 May 2007, the Trustees of the Participating Schemes ("the Trustees") agreed to delegate most of their investment responsibilities to a Joint Investment Committee ("JIC"). The JIC is a corporate entity, known as BOC Pensions Limited ("BOCPL"), which was transferred to the joint ownership of the Trustees of the Participating Schemes on 6 August 2007. Members of the JIC are required to be Trustee Directors of the Participating Schemes, excluding one Director who is a Director of BOCPL only. The JIC was formally constituted on 11 December 2007. The JIC also serves as the Administrator of The Fund. The JIC is supported by the Pensions Investment Department.

The operation of The Fund is regulated by a deed. The original deed, dated 31 March 1992, was updated by deeds of variation dated 29 October 2004, 4 March 2008, 9 December 2009 and 3 May 2012.

The Fund comprises both commingled assets and assets which are directly attributable to the Participating Schemes. The commingled assets are apportioned between the Participating Schemes, in accordance with the terms of the deed, using a formula derived by using the Participating Schemes' latest Statement of Investment Principles ("SIP") as part of the investment strategy agreed by the Trustees with the help of the actuaries. The formula ensures that there is no cross-subsidy between the Participating Schemes. It is applied each month to the change in market value of the assets. The change in value is apportioned in the ratio of the interest of each Participating Scheme in each of the asset classes of The Fund at the start of the month, adjusted to take account of any money invested or withdrawn by the Participating Schemes during the month. The apportionment of the change in value of The Fund in the year to 31 March 2022 is shown in note 2 to the financial statements.

As noted on page 3 of the BOCPS Annual Report and Financial Statements, on 1 October 2020 Linde Plc, The Company, Gist Limited, the respective Trustee of the Gist Limited Pension Scheme ('GLPS') and BOCPS completed an agreement to merge GLPS into BOCPS. The assets of GLPS were liquidated and transferred as cash into the Fund on 1 October 2020. This amount is shown in the comparatives in note 2 on page 21.

# Investment Report

## *Investment Principles*

Each Participating Scheme has its own SIP which were last updated and adopted on 17 September 2020.

## *Investment Policy*

Current regulation requires the Trustees to state the following:

- How the arrangement with the investment managers incentivises the investment managers to align their investment strategies with the Trustees' investment policies, including in relation to ESG
- How the arrangement incentivises the investment managers to make decisions based on their assessment of investee companies' medium to long term financial and non-financial performance and engage accordingly
- How the method and time horizon for evaluating the investment manager's performance, and the basis of their remuneration, are aligned with the Trustees' other investment policies;
- How they define and monitor portfolio turnover (frequency of buying or selling) costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range;
- The duration of the arrangements with the investment managers

The Administrator notes that the Participating Schemes' SIPs set out their policies on the employment of investment managers, monitoring performance and ESG related factors. The above points are considered at a manager level on an ongoing basis and as part of the due diligence process. The Administrator recognises that managers will exhibit short term volatility but are assessed over the long term, with managers expected to also produce ongoing cost analysis. Where managers are not able to produce information requested an assessment is made as to whether there is reason to continue with the strategy, recognising that not every strategy is compatible with some of the requirements.

Throughout the year under review, the investment policy was set by the Trustees of the Participating Schemes. The Administrator was responsible for ensuring that the investment management structure and the objectives set for each Investment Manager were consistent with the investment policy set by the Trustees. In addition, the Trustees require that investment managers explain how they take ESG social, environmental and ethical considerations into account.

## *Relationship with Investment Managers*

Investment Managers are appointed by the Administrator. As required by the Participating Schemes' Rules, all the investment management firms are independent of The BOC Group Limited. The Administrator enters into investment management agreements with each Investment Manager, setting out in detail the terms on which each portfolio is managed. Each agreement includes a detailed set of guidelines to be followed by the Investment Manager.

To the extent that the Investment Manager proposes investing in pooled funds, the JIC will ensure that the objectives and risk controls followed by these funds are consistent with those which the JIC would impose on the Investment Manager for a separately managed mandate.

# Investment Report (continued)

## *Investment Management Structure*

The following Investment Managers served as at 31 March 2022, managing portfolios in accordance with the mandates shown (all mandates are actively managed unless otherwise stated).

| **Investment Manager by asset class** | **Mandate** |
|---|---|
| Liability Driven Investment "LDI" | |
| Insight Investment Management (Global) | BOC Pension Scheme LDI |
| | BOC Senior Executive Pension Scheme LDI |
| Bonds | |
| PGIM | Active Credit |
| Schroders | Active Credit |
| Neuberger Berman | Global Credit |
| Invesco | Syndicated Corporate Loans |
| Aviva Investors | Real Estate Loans |
| Insight Investment Management | Real Estate Loans |
| Ares Real Estate Secured Income Fund | Real Estate Loans |
| Barings | Private Corporate Loans |
| Bridgepoint (formerly EQT) | Private Corporate Loans |
| Property | |
| CBRE Global Investors | Fund of Funds |
| Equities | |
| AllianceBernstein | Global Equities |
| AQR | Global Equities |
| Baillie Gifford | Global Equities |
| Vontobel | Global Equities |
| Wellington | Global Equities |
| Currency | |
| Record Currency Management | Passive Currency |
| Alternatives | |
| Elementum | Natural Catastrophe Reinsurance |
| LGT Capital Partners | Natural Catastrophe Reinsurance |
| AHL Dimension | Hedge Fund – Multi Strategy |
| Arrowstreet | Hedge Fund – Long/Short |
| Highbridge | Hedge Fund – Multi Strategy & Tactical Credit |
| Lynx | Hedge Fund – Global Macro |
| Marshall Wace | Hedge Fund – Long/Short |
| Pharo Macro | Hedge Fund – Credit |
| Wadwhani | Hedge Fund – Global Macro |
| Cash | |
| BlackRock Investment Management UK Ltd | Money Market Fund |

The mandates given to each Investment Manager are more fully described in the latest SIP of the Participating Schemes.

# Investment Report (continued)

## *Custody*

The Custodian is appointed by the Administrator. The Administrator believes it is essential that the assets of The Fund should be held by a Custodian with secure, accurate and timely administration systems which ensure that those assets are clearly identifiable and which minimise the risk of any loss. The Administrator has to be satisfied that the Custodian has in place systems and procedures that should safeguard The Fund's assets.

The Pensions Investment Manager reviews the annual reports on controls issued by the Custodian and by the Investment Managers and reports any issues of significance to the JIC.

The London branch of BNY Mellon Asset Servicing BV (BNYM) served as Custodian throughout the year.

## *Exercise of Voting Rights*

The voting action is governed by the SIPS of the Participating Schemes. The Trustees believe that proxy-voting decisions are part of the investment process to achieve the best outcome for the Participating Schemes. Therefore, the appointed Investment Managers have the responsibility for voting all proxies pertinent to the assets held under their management mandate. Managers are required to keep records of exercised votes and report to the JIC on request. Equity managers will provide their calendar year data on voting which the Pensions Investment Manager will report annually to the JIC.

## *Employer-related Investment*

Legislation prohibits the trustees of most occupational pension schemes, including the Participating Schemes, from making employer-related investments in excess of 5% of scheme assets. The Rules of the Participating Schemes impose a stricter limitation by not allowing any direct investment in, or loans to, Linde plc (or, previously, The Linde Group AG, The BOC Group plc) or any Group company. Investment in property owned by, or occupied by, Linde plc (or, previously, The Linde Group AG, The BOC Group plc) or any Group company is also prohibited. The same restrictions are also imposed on The Fund.

The Administrator does permit Investment Managers to invest in pooled equity funds designed to track the performance of the relevant index, and also to deal in financial futures. Since the pooled funds may invest in Group companies, investment in such funds may result in an indirect exposure to Linde plc. Also, where Group companies form part of a particular index, investment in financial futures will result in an indirect exposure to Linde plc. Having taken legal advice, the Trustees of the Participating Schemes have satisfied themselves that such indirect investment is permitted by their Rules, and that the exposure to Group companies' shares which could result would not be material to the Participating Schemes.

Details of any employer-related investments are given in note 16 to the financial statements.

# Investment Report (continued)

## *Annual Engagement Policy Implementation Statement*

**Introduction**

This statement sets out how, and the extent to which, the Engagement Policy in the Statement of Investment Principles ("SIPs") produced by the Trustees have been followed during the year to 31 March 2022. The SIPs have 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 Schemes**

The Trustees believe it is important to consider the policies in place in the context of the investment objectives they have set. The objectives of the Participating Schemes included in the SIPs 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 (BOCPS) / gilt yields plus 1.3% per annum (SEPS). 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 SIPs are those that the Trustees determine to be financially material considerations in relation to the schemes.

**Policy on ESG, Stewardship and Climate Change**

The Participating Schemes' SIPs include 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 Trustees believe 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 Trustees 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 Trustees also consider 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 2022 relating to the Trustees' policies on ESG factors, stewardship and climate change.

# Investment Report (continued)

## *Annual Engagement Policy Implementation Statement (continued)*

**Engagement**

- The Trustees require that investment managers explain how they take ESG considerations into account. The Company 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 Trustee meetings.

- Investment managers are expected to evaluate ESIG 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 Trustees monitor compliance with the principles of the UK Stewardship Code. As at 31 March 2022 all of the equity managers (4/4) confirmed that they are signatories of the 2020 UK Stewardship Code.

- The Trustees asked all equity managers to provide details on their voting over the year, which were subsequently reviewed and reported on at the JIC. The Trustees 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 Trustees have increasingly been incorporating ESG as a regular item on update calls, requesting details on progress made in this area from all managers. The Trustees 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 Trustees have asked their investment consultant to conduct a more fundamental ongoing review of ESG, climate change and its role in the schemes' investment strategies. To date, this work has focussed on understanding where the schemes currently sit 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 portfolios, whilst remaining cognisant of the fiduciary duty to members.

**Voting Activity**

The Trustees believe 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 Trustees' policies.

The Trustees do not use the direct services of a proxy voter.

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

# Investment Report (continued)

## *Annual Engagement Policy Implementation Statement (continued)*

- **Wellington - Global Quality Growth Equity**

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

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

- There have been 1,073 votable proposals over the year, of which Wellington has voted in 999 of these proposals on behalf of the Trustee.
- In around 94% of these votes for proposals, Wellington has indicated their support to the companies' management, while voting against around 6% of the proposals.

- **Baillie Gifford - Global Alpha**

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

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

- There have been 1,293 votable proposals over the year, of which Baillie Gifford has voted in 1,249 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 2% of the proposals and abstained on 1%.

- **Vontobel - Quality Growth Global Equity**

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

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

- There have been 827 votable proposals over the year, of which Vontobel has voted in 827 of these votable proposals on behalf of the Trustee.
- In around 89% of these votes for proposals, Vontobel has indicated their support to the companies' management, while voting against around 10% of the proposals and abstained on 1%.

- **Alliance Bernstein - Global Core Equity**

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

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

- There have been 138 votable proposals over the year, of which Alliance Bernstein has voted in 138 of these votable proposals on behalf of the Trustee.

In around 96% of these votes for proposals, Alliance Bernstein has indicated their support to the companies' management, while voting against around 4% of the proposals.

# Investment Report (continued)

## *Market Review*

Inflation risks, and the impact on interest rates, economic growth, currencies and the labour force, were the key investment market concerns throughout 2021. While markets generally held steady throughout the year, Q1 2022 brought significant falls across major equity and fixed interest markets, with the added shock of the Ukraine/Russia conflict and its accompanying geopolitical risks and supply chain impact

**Inflation**

Following the reduction in demand across most sectors during COVID lock-downs around the globe, the opening of economies saw a bounce-back in consumer and corporate demand which could not be met as a result of reduced supply capacity. This pushed up inflation, which was generally considered to be temporary in Q2 2021, although concerns of it being more protracted began to increase as the year progressed. Commodity, especially Energy, and Food prices in particular rose significantly and this was exacerbated in Q1 2022 by the unexpected full scale Russia/Ukraine military crisis.

In the UK consumer price inflation hit 7.0% by March 2022, and continued to a 40 year high of 9.0% in April 2022 with further increases expected. The UK had the highest inflation rate of the G7 countries in April with the US: 8.3%, Germany: 7.4%, and France 4.8%. Energy imports and how countries are mitigating these price rises were a large factor in these rates, with other supply constraints including labour shortages.

**Interest rates**

In a step to control inflation, the Bank of England key interest rate remained at historic lows of 0.1% from March 2020 until December 2021 after which it was progressively hiked in 0.15%/0.25% steps up to 1.25% in June 2022, and further rises are anticipated this and next year. The US Federal Reserve followed a similar path raising rates from 0-0.25% to 1.50-1.75% from March to June 2022, while the ECB and Bank of Japan have been more reluctant to raise rates, to support the economy, with rates yet unchanged from ultra-low levels. Central Banks have been reducing quantitative easing with the Bank of England ending bond purchases in December 2021 and the US in March 2022.

**Economic Growth**

The UK experienced the highest economic growth of the G7 nations in 2021 at 7.4%, and continued with comparably good growth of 0.8% in Q1 2022 (Eurozone 0.6%, US -0.4%). This does obscure the weakness of 2020 for the UK, and comparing real GDP to pre-pandemic levels (i.e. Q4 2019 to Q1 2022) the UK was fourth of the G7 at +0.7% and broadly in line with the Eurozone and Canada at +0.8% and behind the US at +2.8%.

The OECD forecasts, in June 2022, that the real GDP growth of the UK will be +3.7% and in line broadly in line with the highest growers Canada and US.

**Equities**

Global Equity markets advanced over from Q2 to the end of 2021, with periods of weakness surrounding the US elections and the new Omicron variant subsiding by the year end. However, in Q1 2022 equities fell on inflation concerns and the impact on interest rate policy and economic output, along with the Russia/Ukraine conflict exacerbating supply issues, and has continued post year end.

Over the year to 31 March 2022, despite the pull-back in Q1, key equity market indices posted strong returns, excluding Asia and Emerging Markets, with (in GBP terms) the MSCI World +15%, S&P 500 +21%, and FTSE Europe ex-UK +7%, FTSE All-Share +13%, MSCI Emerging Markets -7% and Japan -3%.

# Investment Report (continued)

## *Market Review (continued)*

**Equities (continued)**

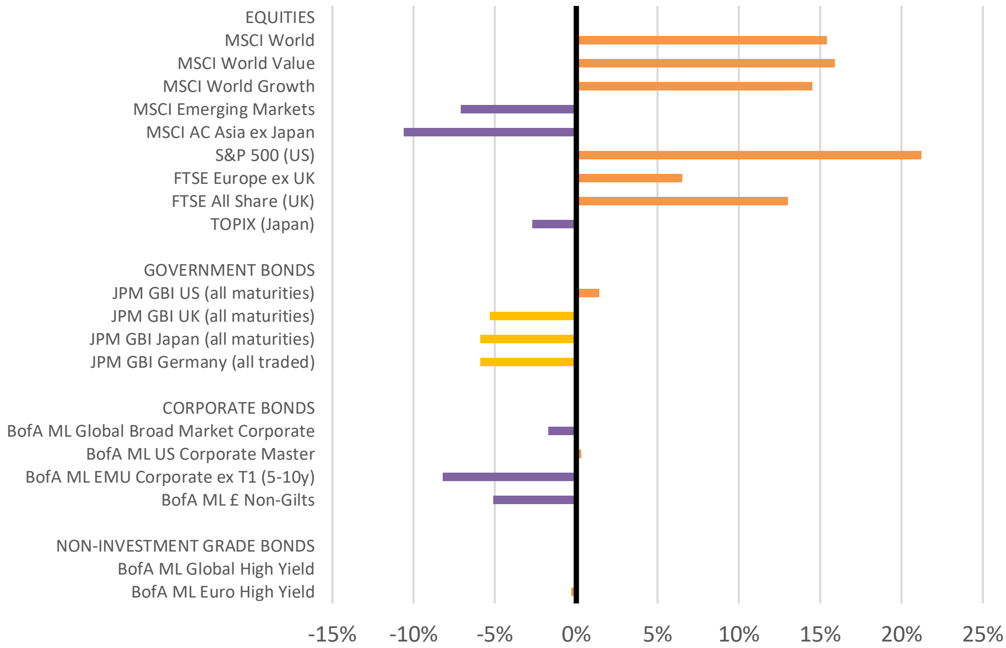
There was a move back to Growth stocks after the Q1 2021 rotation to Value, but this again reversed in Q1 2022 amid broader concerns of recessionary pressures. Global Growth moderately underperformed Global Value over the year to 31 March 2022, and this pressure on growth valuations may persist.

**Bonds**

After having risen sharply in Q1 2022 from historic ultra-low levels, government bond yields in the US, UK and Eurozone showed some volatility but remained within a 0.5% range. However, as the longer term nature of inflation became apparent the expectation of policy interest rate hikes pushed up rates significantly over Q1 2022. The value of government bonds has conversely dropped in local currency terms. Similarly credit spreads have widened on concerns of economic pressure, and over one year corporate bond values have dropped in local currency terms.

**1 Year Performance**

The chart below highlights performance of various investment markets over the year to 31 March 2022 (in GBP terms):




Source: Thomson Reuters Datastream

**Global events**

The Fund has continued to engage with investment managers throughout the year regarding potential valuation, liquidity and operational issues that may have arisen as a result of both COVID-19 and more recently the war in Ukraine. Although the overall exposure to Russian investments within the portfolio is low, the valuations included within the Statement of Net assets, include adjustments to write the value of any holdings as at 31 March 2022 to £nil. Taking into account this adjustment, there has been limited negative impact on performance in the Fund.

The Trustee continues to monitor the operational impact of global developments and has no significant concerns regarding the Fund's ongoing ability to fulfil its operational or cash flow requirements, or investment managers' ability in the appropriate management of their mandates.

# Investment Report (continued)

## *Fund Performance*

The performance of The Fund and its Investment Managers is measured by an independent performance measurement service provided by BNY Mellon Asset Servicing BV. This service calculates investment returns for BOCPS and SEPS in The Fund, including income and changes in market value.

Investment performance, shown for the BOCPS and SEPS which comprise The Fund, for one, three and five years ended 31 March 2022 was as follows:

| | 1 year | | 3 years pa | | 5 years pa | |
|---|---|---|---|---|---|---|
| **Total Fund** | **Actual** | **Benchmark** | **Actual** | **Benchmark** | **Actual** | **Benchmark** |
| BOCPS | 6.1% | 3.1% | 6.8% | 3.8% | 6.1% | 3.3% |
| SEPS | 5.4% | 6.4% | 5.1% | 4.2% | 4.8% | 4.1% |

Short-term market fluctuations can cause the absolute rate of return to vary considerably from year to year. It is important to look at the investment performance over the long-term; too much emphasis should not be placed on the absolute rate of return achieved in any one year.

This Investment Report was approved by the Administrator on 25 October 2022 and signed on its behalf by:

## Statement of Administrator Responsibilities

The non-statutory financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Administrator. The Trust Deed requires the Administrator to make available audited non-statutory financial statements for each Fund year that:

- show a true and fair view of the financial transactions of The Fund during The Fund year and of the amounts and disposition at the year end of the assets and liabilities, and

- state whether applicable accounting standards have been followed and whether the financial statements have been prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and the Statement of Recommended Practice (SORP) May 2018 as it relates to common investment funds

In discharging the above responsibilities, the Administrator is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Fund will not be wound up.

The Administrator has a general responsibility for ensuring adequate accounting records are kept and for taking such steps that are reasonably open to them to safeguard the assets of The Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

# Independent Auditor's Report to the Administrator of the Fund

## *Opinion*

We have audited the financial statements of BOC Pension Investment Fund for the year ended 31 March 2022 which comprise the Fund Account, the Statement of Net Assets and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, including FRS102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:
- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022, and of the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

## *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Conclusions relating to going concern*

In auditing the financial statements, we have concluded that the Administrator's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of 12 months from when the Fund's annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the Administrator with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern.

## *Other information*

The other information comprises the information included in the Annual Report of the Administrator, other than the financial statements and our auditor's report thereon. The Administrator is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

# Independent Auditor's Report to the Administrator of the Fund (continued)

## *Responsibilities of the Administrator*

As explained more fully in the Statement of Administrator responsibilities set out on page 13, the Administrator is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Administrator determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Administrator is responsible for assessing the Fund'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 the Administrator either intends to wind up the Fund or to cease operations, or has no realistic alternative but to do so.

## *Auditor's responsibilities for the audit of the financial statements*

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Administrator.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant related to the financial reporting framework. This is FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (Financial Reports of Pension Schemes). We considered the extent to which a material misstatement of the financial statements might arise as a result of non-compliance.

- We understood how the Fund is complying with these legal and regulatory frameworks by making enquiries of the Administrator. We corroborated our enquiries through our review of the Administrator's directors' meeting minutes.

- We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. In our assessment we considered the risk of management override. Our audit procedures included verifying cash balances and investment balances to independent confirmations, testing manual journals on a sample basis and also those journals where there is an increased risk of override, and an assessment of segregation of duties. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.

# Independent Auditor's Report to the Administrator of the Fund (continued)

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Administrator for its awareness of any non-compliance of laws or regulations and review of Administrator's directors' minutes.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## *Use of our report*

This report is made solely to the Fund's Administrator, as a body, in accordance with the engagement letter dated 15 October 2021. Our audit work has been undertaken so that we might state to the Fund's Administrator 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 Fund's Administrator as a body, for our audit work, for this report, or for the opinions we have formed.

Date: 28 October 2022

# Fund Account
# For the year ended 31 March 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Net investments** | | | |
| BOC Pension Scheme | 2 | (116,500) | 49,303 |
| BOC Senior Executive Pension Scheme | 2 | (10,500) | (20,059) |
| **Net (withdrawals)/additions attributable to Participating Schemes** | | **(127,000)** | **29,244** |
| | | | |
| **Returns on investments** | | | |
| Investment income | 3 | 50,011 | 44,081 |
| Change in market value of investments | 4 | 166,433 | 501,728 |
| Investment management expenses | 6 | (9,001) | (8,796) |
| **Net return on investments** | | **207,443** | **537,013** |
| | | | |
| **Net increase in fund during the year** | | **80,443** | **566,257** |
| | | | |
| **Net assets of the fund** | | | |
| **At 1 April** | | **3,710,539** | **3,144,282** |
| **At 31 March** | | **3,790,982** | **3,710,539** |

The notes on pages 19 to 37 form part of these financial statements.

# Statement of Net Assets Attributable to Participating Schemes As at 31 March 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Investment assets** | 4 | | |
| Global equities | | 879,175 | 868,806 |
| Private secured loans | | 1,026,227 | 921,619 |
| Liquid alternatives | | 408,255 | 342,275 |
| Cash instruments | | 44,787 | 48,674 |
| Emerging market debt | | 265,328 | 266,502 |
| Listed credit | | - | 99,544 |
| Natural catastrophe reinsurance contracts | | 201,771 | 210,759 |
| Property | | 6,478 | 9,009 |
| Liability driven investments | 7 | 997,577 | 883,227 |
| Derivatives | 8 | 5,906 | 50,264 |
| Cash and cash equivalents | | 2,733 | 35,221 |
| Other investment balances | 9 | 74,474 | 54,776 |
| | | **3,912,711** | **3,790,676** |
| **Investment liabilities** | 4 | | |
| Derivatives | 8 | (80,240) | (31,333) |
| Other investment balances | 9 | (37,882) | (45,167) |
| | | **(118,122)** | **(76,500)** |
| **Total net investments** | 4 | **3,794,589** | **3,714,176** |
| Current liabilities | 14 | (3,607) | (3,637) |
| **Net assets of the Fund at 31 March** | 2 | **3,790,982** | **3,710,539** |

The notes on pages 19 to 37 form part of these financial statements.

These financial statements were approved by the Administrator on 25 October 2022 and signed on its behalf by:

# Notes to the financial statements

## 1. Accounting policies

### *Basis of preparation*

The non-statutory financial statements have been prepared by the Administrator as required by the Trust Deed and summarise the transactions and net assets of the BOC Pension Investment Fund. The non-statutory financial statements have been prepared in accordance with FRS 102 (The Financial Reporting Standard applicable in the UK and Republic of Ireland), and to the extent required with the guidelines set out in the Statement of Recommended Practice (SORP) May 2018 – Financial Reports of Pension Schemes, to the extent that they relate to common investment funds. The headings shown on the face of the Statement of Net Assets are consistent with those used as the basis for accounting and reporting investment valuations by the custodian. Further analysis is set out below.

### *Income and expenditure*

a) Withdrawals represent monies transferred from The Fund to the two Participating Schemes. These are determined by the monthly funding requirements of each Participating Scheme. These amounts are shown as withdrawals in the Fund Account.
b) Investment income and expenditure are dealt with in the transactions of The Fund on an accruals basis. Investment managers are remunerated on a fee basis in accordance with the terms under which they were appointed.
c) Dividends from quoted securities are accounted for when the security is declared ex-div.
d) Income from overseas investments is translated into Sterling at rates of exchange ruling on the date of receipt. Income is stated net of attributable tax credits but gross of recoverable withholding taxes which are accrued with the associated investment income.
e) Interest on swaps is included within investment income.
f) Where income is not distributed on unit trusts/managed funds, the income arising on underlying assets is accounted for within change in market value of investments.

### *Investments*

g) Listed investments are valued on the basis of last traded price or bid price at the year end depending on the conventions of the stock exchange on which they are listed. Investments in pooled investment vehicles (unit trusts/managed funds) are valued at bid price or at the single quoted price. Unquoted securities are included in the financial statements at the value supplied by the investment manager. The underlying assets are valued using the guidelines of the British Venture Capital Association. Fixed interest securities are stated at the price excluding accrued interest (the “clean” price). Accrued income is accounted for within investment income.
h) Liquid alternatives and private secured loans are valued at the net asset value as at the year end. The Administrator believes that this accounting policy equates to fair value.
i) Natural catastrophe investments are valued at the net asset value as at the year end as advised by the Investment Manager. The Administrator has reviewed the pricing and valuation policy issued by the Investment Manager and believes that this accounting policy equates to fair value.
j) 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.

# Notes to the financial statements (continued)

## 1. Accounting policies (continued)

***Derivatives***

k) Derivatives are accounted for at market value. Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date and entering into an equal and opposite contract at that date. Open positions on fixed-interest and equity financial futures contracts are included in the financial statements at market value at the year end. Purchased options with negative market values are valued at nil. Swaps are valued at fair value at the price notified by the Investment Manager. All gains and losses arising on derivative contracts are reported within the Change in Market Value of investments.

l) The Fund enters into agreements with counterparties whenever possible to reduce its credit exposure on derivative transactions and, when appropriate, obtains collateral. The agreements provide that if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis. Collateral receipts and payments that are not beneficially owned by The Fund are not included in the net asset statement. Any interest that becomes payable or receivable arising from the agreements is recorded as interest expense or interest income respectively.

m) Under repurchase arrangements, the Fund 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 liability.

***Currency***

n) The Scheme’s functional currency and presentational currency is pounds sterling (GBP).

o) Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

p) Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

# Notes to the financial statements (continued)

## 2. Fund apportionment

| | BOCPS 2022 £'000 | SEPS 2022 £'000 | Total Fund 2022 £'000 | Total Fund 2021 £'000 |
|---|---|---|---|---|
| Apportioned fund at 31 March 2021 | 3,446,675 | 263,864 | 3,710,539 | 3,144,282 |
| Withdrawals | (116,500) | (10,500) | (127,000) | (132,059) |
| Transfer in from GLPS | - | - | - | 161,303 |
| Share of increase in value of Fund | 192,910 | 14,533 | 207,443 | 537,013 |
| **Apportioned fund at 31 March 2022** | **3,523,085** | **267,897** | **3,790,982** | **3,710,539** |

| **Apportionment by Participating Scheme** | BOCPS 2022 £'000 | SEPS 2022 £'000 | Total Fund 2022 £'000 | Total Fund 2021 £'000 |
|---|---|---|---|---|
| Global equities | 849,518 | 28,328 | 877,846 | 882,362 |
| Emerging market debt | 251,193 | 13,472 | 264,665 | 272,343 |
| Listed credit and private secured loans | 957,580 | 66,656 | 1,024,236 | 1,035,487 |
| Property | 6,270 | 208 | 6,478 | 9,071 |
| Cash | 41,550 | 69 | 41,619 | 72,667 |
| Liquid alternatives | 383,598 | 16,149 | 399,747 | 350,427 |
| Natural catastrophe reinsurance contracts | 170,374 | 8,291 | 178,665 | 204,778 |
| LDI | 863,002 | 134,724 | 997,726 | 883,404 |
| **Apportioned fund at 31 March 2022** | **3,523,085** | **267,897** | **3,790,982** | **3,710,539** |

Derivatives, cash under management and the associated current assets and liabilities shown in the statement of net assets have been allocated to the relevant mandate for each Participating Scheme.

Detail regarding the 2021 Transfer in from GLPS is noted in the Introduction section on page 3.

Set out below an analysis of the fund's assets by underlying asset type rather than the mandates used by the Administrator of the Fund, the Scheme actuary or the Fund's custodian:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Global Equities | 858,773 | 852,577 |
| Listed Credit and private secured loans | 521,459 | 620,274 |
| Pooled investment Vehicles | 2,307,869 | 2,034,630 |
| Derivatives | 5,906 | 50,264 |
| Other investments | 74,474 | 54,776 |
| Cash | 144,230 | 178,155 |
| **Investment assets** | **3,912,711** | **3,790,676** |
| | | |
| Derivatives | (80,240) | (31,333) |
| Other Investments | (37,882) | (45,167) |
| **Investment liabilities** | **(118,122)** | **(76,500)** |
| | | |
| **Total net investments** | **3,794,589** | **3,714,176** |

# Notes to the financial statements (continued)

## 3. Investment income

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Income from global equites | 11,560 | 7,844 |
| Income from private secured loans | 18,039 | 15,521 |
| Income from emerging market debt | 14,200 | 14,616 |
| Income from listed credit and liability driven investments | 1,356 | 4,050 |
| Income from natural catastrophe reinsurance contracts | 1,102 | 1,592 |
| Income from property | 3,648 | 190 |
| Net interest receivable on cash deposits | 106 | 268 |
| **Investment income** | **50,011** | **44,081** |

## 4. Reconciliation of investments

| | Value at 1 April 2021 £'000 | Purchases at costs and derivative payments £'000 | Sales proceeds and derivative receipts £'000 | Change in market value £'000 | Value at 31 March 2022 £'000 |
|---|---|---|---|---|---|
| Global equities | 868,806 | 627,405 | (650,019) | 32,983 | 879,175 |
| Private secured loans | 921,619 | 284,033 | (223,571) | 44,146 | 1,026,227 |
| Liquid alternatives | 342,275 | 1,028 | (786) | 65,738 | 408,255 |
| Cash instruments | 48,674 | 382,143 | (388,261) | 2,231 | 44,787 |
| Emerging market debt | 266,502 | 498,824 | (482,393) | (17,605) | 265,328 |
| Listed credit | 99,544 | 832 | (100,749) | 373 | - |
| Natural catastrophe reinsurance contracts | 210,759 | 106,770 | (128,500) | 12,742 | 201,771 |
| Property | 9,009 | 3,421 | (1,945) | (4,007) | 6,478 |
| Liability driven investments | 883,227 | 125,887 | (125,194) | 113,657 | 997,577 |
| Derivatives | 18,931 | 87,687 | (97,698) | (83,254) | (74,334) |
| | **3,669,346** | **2,118,030** | **(2,199,116)** | **167,004** | **3,755,264** |
| Cash | 35,221 | | | (571) | 2,733 |
| Other investment balances | 9,609 | | | - | 36,592 |
| **Total investments** | **3,714,176** | | | **166,433** | **3,794,589** |

Investments in liquid alternatives consist of 8 Hedge Fund investment managers.

# Notes to the financial statements (continued)

## 5. Transaction costs

| | Fees & Taxes £'000 | Commissions £'000 | 2022 Total £'000 | 2021 Total £'000 |
|---|---|---|---|---|
| Global equities | 150 | 1 | 151 | 2 |
| Emerging market debt | 372 | 271 | 643 | 651 |
| Listed credit | - | 6 | 6 | 12 |
| **Total investments costs** | **522** | **278** | **800** | **665** |

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the investment reconciliation table. In addition to these direct transaction costs, indirect costs are also borne by The Fund in relation to transactions in pooled investment vehicles. However, such costs and bid-offer spreads are taken into account within calculating the price of these investments and are therefore not separately identifiable.

## 6. Investment management expenses

| **Asset** | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Administration, management and custody | 8,279 | 8,146 |
| Other advisory fees | 645 | 568 |
| Performance measurement services | 77 | 82 |
| | **9,001** | **8,796** |

Other advisory fees comprise amounts for in–house investment services and advice supplied by Mercer Limited.

# Notes to the financial statements (continued)

## 7. Qualifying investment funds

The two Participating Schemes have separate scheme-specific liability driven investment (LDI) portfolios held in a Qualifying Investment Fund (QIF) managed by Insight Investment Management (Global) Limited. The LDI manager was set targets for matching a proportion of the interest rate and inflation sensitivity of the latest projected liability cashflows, as provided by the Actuary for each Participating Scheme. The purpose of this approach is to hedge a proportion of the risks associated with the Schemes' exposure to movements in interest rates and inflation. The LDI manager employs a number of investment instruments to achieve the hedging strategy which includes gilts, index-linked gilts, interest rate swaps, inflation swaps, repurchase agreements and cash. These portfolios are registered in the name of The Fund.

Although the Fund invests in two separate portfolios within the QIF and therefore owns units in pooled funds, the underlying assets are closely monitored as part of review of the LDI strategy.

As at the year-end the scheme-specific LDI investments consisted of the following sub-funds:

| | BOCPS 2022 £ m | SEPS 2022 £ m | Total Fund 2022 £ m | Total Fund 2021 £ m |
|---|---|---|---|---|
| ***Fixed income sub-fund*** | | | | |
| Government bonds | 453.7 | 21.3 | 475.0 | 450.7 |
| Government index linked | 1,303.4 | 140.2 | 1,443.6 | 1,251.5 |
| High grade | 49.9 | - | 49.9 | - |
| Investment funds | 158.4 | 12.9 | 171.3 | 219.4 |
| Interest rate swaps | 1.6 | - | 1.6 | 0.5 |
| LPI & RPI swaps | - | 0.8 | 0.8 | 0.7 |
| Repurchase agreements | (1,185.4) | (44.4) | (1,229.8) | (990.4) |
| Liquidity | 2.0 | - | 2.0 | 4.7 |
| | 783.6 | 130.8 | 914.4 | 937.1 |
| ***Inflation sub-fund*** | | | | |
| RPI swaps | 22.6 | 3.9 | 26.5 | (53.7) |
| Total | **806.2** | **134.7** | **940.9** | **883.4** |

Notes: Liquidity consists of cash, pending trades and pending FX transactions.

# Notes to the financial statements (continued)

## 8. Derivative contracts

### *Objectives and policies for holding derivatives*

The JIC has authorised the use of derivatives by their Investment Managers as part of their investment strategy for The Fund. The use of derivatives is permitted for the efficient management of market risks or for the efficient management of strategic exposures. Derivatives are not permitted for market speculation. The main objectives for the use of key classes of derivatives and the policies followed during the year are as follows:

#### Swaps

As part of their LDI strategy the JIC has authorised the use of swaps by Insight Investment Management (Global) to allow better matching to the long-term liabilities of the Schemes. These are primarily held within the QIF portfolio with a range of additional swaps as set out in the table that follows.

#### Options

In order to mitigate some of the risks of a large fall in equity markets the JIC may instruct Insight Investment Management (Global) to put in place equity options. These would be held within the QIF portfolios. During the accounting period, no equity options were held by the portfolio.

#### Futures

A number of the Investment Managers are permitted to trade futures contracts as part of their portfolio of assets. In addition, futures contracts were held as part of the management of the Strategic equity exposure during the year. The underlying economic exposure of any futures is broadly equivalent to cash offsetting.

#### Repurchase Agreements (Repos)

Repos are collateralised lending transactions which permit the Manager to secure cash loans to purchase additional Index Linked Gilts to better match long-term liabilities of the Schemes. The JIC has allowed the use of Repos by Insight Investment Management (Global) up to certain limits which are kept under review.

#### Forward foreign exchange

In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns a proportion of the underlying investment portfolio is invested overseas. To reduce the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme is in place over a proportion of the equity holdings and over the investment in alternatives and certain types of global credit.

# Notes to the financial statements (continued)

## 8. Derivative contracts (continued)

At the year end The Fund had the following derivatives:

| **Assets** | 2022<br>£'000 | 2021<br>£'000 |
|---|---|---|
| *Exchange traded:* | | |
| Futures | 196 | 3,008 |
| *Over-the-counter contracts:* | | |
| Swaps | 4,221 | 3,329 |
| Forward foreign currency | 1,489 | 43,927 |
| **Total derivative assets** | **5,906** | **50,264** |
| **Liabilities** | | |
| *Exchange traded:* | | |
| Future contracts | 22 | 12 |
| *Over-the-counter contracts:* | | |
| Swaps | 47,208 | 30,123 |
| Forward foreign exchange contracts | 33,010 | 1,198 |
| **Total derivative liabilities** | **80,240** | **31,333** |
| **Net derivative contracts** | **(74,334)** | **18,931** |

### *Futures*

| Type | Expiration | Notional Principal £'000 | Asset £'000 | Liability £'000 |
|---|---|---|---|---|
| International government bonds | < 1 year | - | 111 | - |
| Treasury futures | < 1 year | - | 85 | 22 |
| **Total futures** | | | **196** | **22** |

# Notes to the financial statements (continued)

## 8. Derivative contracts (continued)

### *Swaps*

| Type | Expiration | Notional Principal £'000 | Asset £'000 | Liability £'000 |
|---|---|---|---|---|
| Cleared zero coupon swaps | 1 - 6 years | (12,128,015) | 320 | 177 |
| Cleared interest rate swaps | 1 - 11 years | (1,847,044) | 561 | 792 |
| Credit default swaps | < 1 year | (3,230) | - | 503 |
| Interest rate swaps | 1 - 5 years | 16,840 | 13 | 68 |
| Other swaps | < 1 year | (216,597) | 1,715 | 41,418 |
| Other swaps | 1 - 3 years | (497,465) | 1,612 | 4,250 |
| **Total swaps** | | | **4,221** | **47,208** |

### *Forward Foreign Exchange Contracts*

| Expiration | Currency bought | Currency sold | Asset £'000 | Liability £'000 |
|---|---|---|---|---|
| 1 - 3 months | GBP | HKD | 1 | - |
| 1 - 3 months | GBP | USD | - | 89 |
| 1 - 3 months | GBP | ZAR | 1 | - |
| 1 - 3 months | HUF | USD | - | 4 |
| 1 - 3 months | THB | USD | 1 | - |
| 1 - 3 months | USD | CHF | - | 1 |
| 1 - 3 months | USD | CNH | - | 7 |
| 1 - 3 months | USD | CNY | - | 46 |
| 1 - 3 months | USD | CZK | - | 9 |
| 1 - 3 months | USD | EUR | 2 | - |
| 1 - 3 months | USD | GBP | 294 | - |
| 1 - 3 months | USD | HUF | - | 16 |
| 1 - 3 months | USD | PLN | 1 | - |
| 1 - 3 months | USD | ZAR | - | 4 |
| | | | **300** | **176** |

| Expiration | Currency bought | Currency sold | Asset £'000 | Liability £'000 |
|---|---|---|---|---|
| > 3 months | AUD | GBP | - | - |
| > 3 months | CNH | USD | 19 | - |
| > 3 months | CNY | USD | 16 | - |
| > 3 months | CZK | USD | - | 22 |
| > 3 months | EUR | GBP | 18 | - |
| > 3 months | EUR | PLN | 5 | - |
| > 3 months | GBP | AUD | - | 301 |
| > 3 months | GBP | CAD | - | 112 |
| > 3 months | GBP | CHF | - | 45 |
| > 3 months | GBP | EUR | - | 176 |
| > 3 months | GBP | HKD | - | 2 |
| > 3 months | GBP | USD | - | 31,956 |
| > 3 months | HUF | USD | - | 38 |
| > 3 months | MXN | USD | 46 | - |
| > 3 months | PLN | USD | - | 30 |
| > 3 months | RON | USD | - | 9 |
| > 3 months | TRY | USD | 14 | - |
| > 3 months | USD | EUR | 71 | - |
| > 3 months | USD | GBP | 997 | - |
| > 3 months | USD | SGD | - | 2 |
| > 3 months | USD | ZAR | - | 141 |
| > 3 months | ZAR | USD | 3 | - |
| | | | **1,189** | **32,834** |

| | Asset £'000 | Liability £'000 |
|---|---|---|
| **Total forward foreign exchange contracts** | **1,489** | **33,010** |

# Notes to the financial statements (continued)

## 9. Other investment balances

| Assets | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Dividends and interest receivable | 8,351 | 5,813 |
| Outstanding settlements | 63,266 | 46,217 |
| VAT due from HMRC | 154 | 206 |
| Tax recoverable | 2,703 | 2,540 |
| | **74,474** | **54,776** |

| Liabilities | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Outstanding settlements | 37,882 | 45,167 |
| | **37,882** | **45,167** |

## 10. Stock-lending

The Administrator instructed the Custodian not to perform any stock-lending in the year.

# Notes to the financial statements (continued)

## 11.Allocation of investments by manager

Investments can be further analysed by investment manager as shown below:

| | | | 2022 | | 2021 | |
|---|---|---|---|---|---|---|
| | | | £'000 | % | £'000 | % |
| AHL | Hedge fund | Liquid Alternatives | 29,693 | 0.8% | 27,237 | 0.8% |
| AllianceBernstein | Global equity mandate | Global equities | 230,764 | 6.1% | 232,057 | 6.2% |
| AQR | Multi strategy hedge fund | Liquid Alternatives | (2,875) | - | - | - |
| | Global equity mandate | Global equities | 273 | - | 459 | - |
| Ares | Real estate loans | Private Credit | 111,348 | 2.9% | 110,535 | 3.0% |
| Arrowstreet | Equity Long/Short fund | Liquid Alternatives | 88,897 | 2.3% | 64,041 | 1.7% |
| Aviva | Real estate bond fund | Corporate bonds | 267,073 | 7.0% | 240,473 | 6.5% |
| Barings | Private corporate loans | Private Credit | 275,265 | 7.3% | 249,347 | 6.7% |
| Baillie Gifford | Global equity mandate | Global equities | 193,546 | 5.1% | 209,035 | 5.6% |
| BlackRock | Cash fund | Other | 47,674 | 1.3% | 84,101 | 2.3% |
| Bridgepoint | Private corporate loans | Private Credit | 176,060 | 4.6% | 139,009 | 3.7% |
| CBRE Global Investors | Active property fund | Property | 6,478 | 0.2% | 9,071 | 0.2% |
| Elementum | Natural Catastrophe Reinsurance | Natural catastrophe contracts | 114,226 | 3.0% | 133,324 | 3.6% |
| Highbridge | Multi strategy hedge fund | Liquid Alternatives | (329) | (0.1%) | 4,698 | 0.2% |
| | Credit Fund | Liquid Alternatives | 98,214 | 2.6% | 89,596 | 2.4% |
| | BOCPS LDI | Scheme LDI | 806,173 | 21.2% | 703,450 | 18.9% |
| Insight | SEPS LDI | SEPS LDI | 134,724 | 3.6% | 125,962 | 3.4% |
| | Collateral | UK Gilts | 56,799 | 1.5% | 53,925 | 1.5% |
| Insight | Real estate loans | Private Credit | 5,115 | 0.2% | 7,562 | 0.3% |
| Invesco | Syndicated Corp Loans | Senior Secured Loans | 191,103 | 5.0% | 176,874 | 4.8% |
| LGT | Natural Catastrophe Reinsurance | Natural catastrophe contracts | 66,155 | 1.7% | 71,453 | 1.9% |
| Lynx AM | Hedge fund | Liquid Alternatives | 34,577 | 0.9% | 30,085 | 0.8% |
| Marshall Wace | Hedge fund | Liquid Alternatives | 83,197 | 2.2% | 75,370 | 2.0% |
| Neuberger Berman | Listed credit | Corporate bonds | - | 0.0% | 106,105 | 2.9% |
| PGIM | Active credit mandate | EM Corporate bonds | 81,066 | 2.1% | 82,973 | 2.2% |
| Pharo Macro | Hedge fund | Liquid Alternatives | 14,756 | 0.4% | 16,199 | 0.4% |
| Record Currency Management | Passive currency management | Currency Overlay | (1,369) | 0.0% | 2,054 | 0.1% |
| Schroders | Active credit mandate | EM Corporate bonds | 183,053 | 4.8% | 188,627 | 5.1% |
| Stone Harbor | Active credit mandate | EM Corporate bonds | - | - | 16 | - |
| Vontobel | Global equity mandate | Global equities | 232,223 | 6.1% | 224,507 | 6.0% |
| Wadwhani | Hedge fund | Liquid Alternatives | 50,743 | 1.3% | 42,602 | 1.1% |
| Wellington | Global equity mandate | Global equities | 219,967 | 5.8% | 213,429 | 5.7% |
| **Total investments** | | | **3,794,589** | **100.0%** | **3,714,176** | **100.0%** |

Amounts in the above table include cash and other investment balances which are disclosed in note 4.

# Notes to the financial statements (continued)

## 12.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 an identical asset or liability that the entity can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;
- Level 3 – inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability

The Funds net investment assets and liabilities disclosed on page 18 have been fair valued using the above hierarchy categories as follows:

| 2022 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Global equities | 879,175 | - | - | 879,175 |
| Private secured loans | - | - | 1,026,227 | 1,026,227 |
| Liquid alternatives | - | - | 408,255 | 408,255 |
| Cash instruments | 44,787 | - | - | 44,787 |
| Emerging market debt | - | 265,328 | - | 265,328 |
| Natural catastrophe reinsurance contracts | - | - | 201,771 | 201,771 |
| Property | - | - | 6,478 | 6,478 |
| Liability driven investments | - | 997,577 | - | 997,577 |
| Derivatives | - | (74,334) | - | (74,334) |
| Cash | 2,733 | - | - | 2,733 |
| Other investment balances | 36,592 | - | - | 36,592 |
| **Total investments** | **963,287** | **1,188,571** | **1,642,731** | **3,794,589** |

| 2021 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Global equities | 868,806 | - | - | 868,806 |
| Private secured loans | - | - | 921,619 | 921,619 |
| Liquid alternatives | - | - | 342,275 | 342,275 |
| Cash instruments | 48,674 | - | - | 48,674 |
| Emerging market debt | - | 266,502 | - | 266,502 |
| Listed credit | - | 99,544 | - | 99,544 |
| Natural catastrophe reinsurance contracts | - | - | 210,759 | 210,759 |
| Property | - | - | 9,009 | 9,009 |
| Derivatives | - | 18,931 | - | 18,931 |
| Liability driven investments | - | 883,227 | - | 883,227 |
| Cash | 35,221 | - | - | 35,221 |
| Other investment balances | 9,609 | - | - | 9,609 |
| **Total investments** | **962,310** | **1,268,204** | **1,483,662** | **3,714,176** |

# Notes to the financial statements (continued)

## 12.Fair value hierarchy (continued)

### Basis of classification

***Bonds and emerging market debt***

The Fund invests in developed and emerging market corporate and sovereign bonds. In the absence of a quoted price in an active market they are valued on a 'clean' basis which excludes accrued interest using observable market data such as recently executed transaction prices of securities of the issuer or comparable issuers. The Fund categorises these investments as level 2.

***Global Equities***

Directly-held global equities are normally quoted at bid prices which are readily available and regularly occurring in active markets from relevant securities exchanges. The Fund categorises these investments as Level 1.

***Property, liquid alternatives and loans***

The Fund invests in pooled investment vehicles including property, hedge funds and real estate loans. The pooled investment vehicles which are traded regularly are included at Level 2 of the fair value hierarchy. The prices are published by the pooled investment vehicle manager at bid price on a daily or weekly basis.

Unquoted pooled investment vehicles using net asset values are valued by the pooled investment vehicle manager using fair value principals to value the underlying investments of the pooled arrangement. These investments which are subject to certain redemption notice periods and are not traded. The Fund categorises these investments as Level 3.

Property funds are closed ended and are valued as level 3 as per SORP guidance.

***Natural catastrophe reinsurance investments***

Natural catastrophe reinsurance investments comprise contract and bonds which are valued on an average of all independent broker-dealer bids (if long) or a price provided by an independent broker-dealer if short. Broker-dealers base their prices on a mixture of observable input, comparable trades and estimates. The bonds are either priced weekly or monthly. These investments are subject to certain redemption notice periods and are not publicly traded regularly. The Fund categorises these investments as Level 3.

***Derivatives***

The Fund uses widely recognised valuation models for determining fair values of OTC interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including both credit and debit valuation adjustments for counterparty and own credit risk, foreign exchange spot and forward rates and interest rate curves. Repurchase agreements are priced at Par. For these financial instruments, significant inputs into models are market observable and are included within Level 2 of the fair value hierarchy.

***Liability driven investments***

The LDI comprises bonds and derivatives for which valuation methods are disclosed above.

# Notes to the financial statements (continued)

## 13. Concentration of investments

Investments which represent more than 5% of The Fund net assets at the end of the current or prior year end were as follows:

| Asset | Concentration | 2022 £'000 | Concentration | 2021 £'000 |
|---|---|---|---|---|
| Barings | 7.37% | 279,761 | 6.60% | 244,799 |
| Aviva CRE | 5.77% | 219,105 | 5.32% | 197,574 |

## 14. Current liabilities

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Accrued expenses | **3,607** | **3,637** |

Accrued expenses comprise investment management fees payable at the year end.

## 15. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks to which The Fund is exposed at the end of the reporting period. These risks are set out by FRS 102 as follows:

1. **Credit risk**: the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
2. **Market risk**: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.
   - **Currency risk**: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
   - **Interest rate risk**: the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
   - **Other price risk**: the risk that the fair value or future cash flows of a financial instrument 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 financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund has exposure to the above risks because of the investments it makes to implement the investment policy.

**Investment policy**

Overall investment policy falls into two parts. The strategic management of members' assets is fundamentally the responsibility of the Administrator acting on advice from their investment consultant, Mercer Limited, and is driven by their investment objectives as set out in the Statement of Investment Principles ("SIP"). The remaining elements of policy are part of the day-to-day management of the assets which are delegated to professional investment managers. Decisions on appointment and retention of investment managers are taken by the Administrator on advice from their investment consultant.

# Notes to the financial statements (continued)

## 15.Investment risks (continued)

**Investment strategy**

The Administrator, whom has delegated authority from the Participating Schemes' Trustees, is responsible for determining The Fund's investment strategies, which are set after taking appropriate advice. Subject to complying with the agreed strategies, which specify the target proportions of The Fund which should be invested in the principal market sectors, the day-to-day management of the asset portfolios, is the responsibility of the Investment Managers.

The Administrator's objective is to invest the assets in the best interest of the members and beneficiaries. Within this framework the Administrator has agreed a number of objectives to help guide them in their strategic management of the assets and control of the various risks to which The Fund is exposed.

The Funds' strategic asset allocation is set out by the Participating Schemes below:

| Asset Class | BOCPS Strategic Exposure | SEPS Strategic Exposure |
|---|---|---|
| Global Equity | 25.0% | 10.0% |
| Emerging Market Debt & Listed Credit | 8.0% | 5.0% |
| Private Debt | 30.0% | 25.0% |
| Liquid Alternatives & Insurance-Linked Securities | 15.0% | 8.0% |
| **Return Seeking Assets** | **78.0%** | **48.0%** |
| LDI | 20.0% | 50.0% |
| Cash | 2.0% | 2.0% |
| **Matching Assets** | **22.0%** | **52.0%** |
| **Total** | **100.0%** | **100.0%** |

The Administrator has the responsibility for deciding The Fund's underlying asset allocation and selecting and monitoring the specific investment managers.

The Administrator manages the investment risks through a strategic asset allocation which is set taking into account the strategic investment objectives. The investment objectives and risk limits are implemented through the investment management agreements in place with The Fund's Investment Managers and monitored by the Administrator through regular reviews of the investment portfolios. The investment objectives and risk limits of The Fund is further detailed in the SIPs.

# Notes to the financial statements (continued)

## 15. Investment risks (continued)

The following table summarises the extent to which the various classes of investments are affected by financial risks:

| | Credit risk | Market risk | | | 2022 | 2021 |
|---|---|---|---|---|---|---|
| | | Currency | Interest rate | Other price | £'000 | £'000 |
| Global equities (Direct) | □ | ■ | □ | ■ | 872,832 | 878,438 |
| Emerging market debt (Direct) | ■ | ■ | ■ | □ | 262,755 | 268,892 |
| Listed credit (Direct) | ■ | ■ | ■ | □ | - | 105,008 |
| Senior loans (Direct) | ■ | □ | ■ | ■ | 192,064 | 190,257 |
| Private corporate loans (Direct) | ■ | □ | ■ | ■ | 451,325 | 388,356 |
| Commercial real estate ("CRE") loans (Direct) | ■ | □ | ■ | ■ | 116,463 | 118,097 |
| Commercial real estate ("CRE") loans (Indirect) | ■ | □ | ■ | ■ | 259,249 | 240,474 |
| Insurance-linked securities ("ILS") (Direct) | ■ | □ | ■ | ■ | 154,860 | 189,086 |
| Liability Driven Investment ("LDI") (Direct) | ◘ | □ | ■ | □ | 997,578 | 883,227 |
| Hedge Funds (Indirect) | ◘ | ◘ | ◘ | ■ | 396,872 | 349,827 |
| Property (Indirect) | ◘ | □ | □ | ◘ | 6,478 | 9,009 |
| Cash * (Direct) | ◘ | □ | ◘ | □ | 44,788 | 48,674 |
| **Total** | | | | | **3,755,264** | **3,669,346** |

*Source: Investment Managers. Figures may not sum due to rounding.*

** denotes cash held within the BlackRock portfolio*

In the above table, the risk noted affects the asset class [■] significantly, [◘] partially or [□] hardly/not at all.

Note: Cash and other investment balances disclosed in note 4 on page 22 are excluded from the above table.

# Notes to the financial statements (continued)

## 15. Investment risks (continued)

### *Credit Risk*

The Fund is subject to direct credit risk through the holdings in Emerging Market Debt, Senior and CRE Loans, LDI, Investment Grade Corporate Bonds, Residential Mortgage Backed Securities ('RMBS') and cash mandates. In addition, The Fund is subject to indirect credit risk through the pooled Hedge Fund and Property mandates.

- The Fund has exposure to investment grade and non-investment grade assets within the listed credit and emerging market debt, senior corporate and CRE loan portfolios. The credit risk of these portfolios is mitigated by holding a diversified portfolio of underlying assets that minimises the impact of a particular issuer defaulting on its obligations. The Administrator invests in non-investment grade assets with a view to adding value over that which is available with investment grade assets.

The table below provides a breakdown of the average credit quality of each underlying portfolio as at 31 March 2022:

| £'000<br>Asset Class | AAA | AA | A | BBB | BB or below |
|---|---|---|---|---|---|
| Emerging Market Debt | - | - | - | 262,755 | - |
| Listed Credit | - | - | - | - | - |
| Senior Loans | - | - | - | - | 192,064 |
| CRE Loans | - | - | - | 5,115 | - |
| LDI | - | 997,578 | - | - | - |
| Cash * | 44,787 | - | - | - | - |

** denotes cash held within the BlackRock portfolio only*

31 March 2021:

| £'000<br>Asset Class | AAA | AA | A | BBB | BB or below |
|---|---|---|---|---|---|
| Emerging Market Debt | - | - | - | 268,892 | - |
| Listed Credit | - | - | - | 105,008 | - |
| Senior Loans | - | - | - | - | 190,257 |
| CRE Loans | - | - | - | 7,562 | - |
| LDI | - | 883,227 | - | - | - |
| Cash * | 48,674 | - | - | - | - |

- OTC derivative contracts within the LDI portfolio are not guaranteed by any regulated exchange and therefore The Fund is subject to risk of failure of the counterparty. The credit risk for OTC swaps and repurchase agreements is reduced through collateral arrangements in place with the investment managers. The Fund's exposure to repurchase agreements as at 31 March 2022 was £1,185.4m (2021: £990.4m), and collateral was valued at £56.8m (2021: £54.0m).

- Credit risk arising on cash held within the trustee bank accounts is mitigated by ensuring cash is held with institutions which are at least investment grade credit rated. The cash balances are minimised and are intended only to meet the ongoing costs of the Participating Schemes (for example, member benefit payments and administration expenses).

The credit risk associated with cash and government bonds is expected to be minimal.

# Notes to the financial statements (continued)

## 15. Investment risks (continued)

**Pooled investment arrangements**

The pooled investment arrangements used by The Fund comprise unit-linked insurance contracts and authorised unit trusts. The Fund's holdings in pooled investment vehicles are not rated by credit rating agencies. The Administrator manages and monitors the credit risk arising from their pooled investment arrangements by considering the nature of the arrangement, the legal structure and regulatory environment.

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 manager operates and diversification of investments amongst a number of pooled arrangements. Cash held by the pooled manager's custodian is not ring-fenced but the credit risk arising on this is mitigated through the use of regular cash sweeps (typically daily) and investing cash in liquidity funds.

Investments backing unit-linked insurance contracts are comingled with the insurer's own assets and direct credit risk is mitigated by capital requirements and the Prudential Regulatory Authority's regulatory oversight. In the event of default by the insurer, The Fund may be protected by the Financial Services Compensation Fund ("FSCS") and may be able to make a claim for a proportion of its policy value, although noting that compensation is not guaranteed. The Administrator carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.

Some of The Fund's pooled arrangements invest in other pooled arrangements, for example, the investment in Property. The Administrator has considered the impact of these arrangements in relation to The Fund's exposure to failure by the sub-funds who may have different regulatory protections compared to the pooled investment made directly by The Fund and believes that the indirect credit risk arising from these sub-funds is appropriate due to the potential reward.

### Market Risk

Market risk comprises three types of risk:

**a) Currency Risk**

The Fund is subject to direct currency risk because some of The Fund's investments are held in overseas markets or are dominated/priced in a foreign currency (i.e. a currency other than sterling) and not hedged back to sterling. The Fund's foreign currency exposure comes from the holdings in global and emerging market equities and emerging market debt.

The Administrator seeks to hedge part of The Fund's overseas developed market equity exposure against currency movements. Developed equity exposure is hedged back to sterling using forward contracts on the US dollar (50%), euro (60%) and Hong Kong dollar (50%).

The direct currency risk arising from the emerging market debt and emerging market equity allocation is left unhedged as the Administrator believes that these currencies can be expected to appreciate relative to sterling over the long term.

The investment managers have discretion to take currency positions within the Hedge Fund mandates, although these positions are generally held for short periods in order to generate returns or hedge portfolios and are not necessarily strategic in nature.

# Notes to the financial statements (continued)

## 15. Investment risks (continued)

**b) Interest Rate Risk**

The Fund is subject to direct interest rate risk through the investments in emerging market debt, senior and CRE loans, investment grade corporate bonds, RMBS, ILS and cash mandates. In practice the interest risk from the cash holdings is minimal, as it is mitigated by holding short duration money market instruments.

The Administrator has LDI mandates in place for both Participating Schemes, with the objective of hedging the interest rate risk. Over time, the Administrator may decide to decrease the level of interest rate exposure with a view to adding value. Under these strategies, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

**c) Other Price Risk**

Other price risk arises principally in relation to The Fund's return-seeking assets which include equities, emerging market bonds, Senior and CRE Loans, RMBS, ILS, Hedge Funds and Property.

The Administrator manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

## 16. Employer related investments

There were no directly held employer-related investments at any time during the year. Further information about The Fund's policy on employer related investments is disclosed on page 6. Assets invested in pooled vehicles may from time to time may make an "employer related investment", however in the context of the size of the Fund's assets it is unlikely that this will be material.

## 17. Related party transactions

The following related party transactions occurred during the year.

The costs incurred by BOC Group Limited in providing services for payment of Scheme investment administration fees are rechargeable to The Fund. Amounts charged during the year were £2.4m (2021: £3.2m) and are included in note 6.

As noted on page 3 of this report, GLPS (a related party) was merged into BOCPS in October 2020. The amount shown in note 2 on page 21 as 'Transfer in from GLPS' transferred into the Fund in 2021.

## 18. Contingent liabilities

Capital commitments at 31 March 2022 are shown in the table below:

| | Currency | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Barings | USD | 42,994 | 71,009 |
| Bridgepoint | EUR | 36,134 | 78,878 |
| Aviva Investors UK | GBP | 2,000 | 31,574 |