BP Pension Fund

2023 Stewardship Report

1 January to 31 December 2023

Contents

Foreword

Welcome to our second stewardship report.

As the Trustee of the BP Pension Fund (the Fund), we are committed to fulfilling our responsibilities as an asset owner and long-term investor. We recognise that by practising stewardship effectively and integrating environmental, social and governance (ESG) factors into the Fund's investments, we can contribute to the delivery of long term sustainable investment returns, which is in the best financial interest of our members.

Our responsible investment activities cover a wide range of material and systemic issues, in addition to deeper focus on three stewardship priorities: climate change, human rights, and board effectiveness. These priorities were chosen for several reasons – namely for their market-wide nature including potential risk-return implications for all asset classes in the Fund, their collective embodiment of the Trustee's core values and their alignment with our responsible investment (RI) beliefs. In 2023 we have also conducted deep-dive research into the topic of nature and biodiversity, recognising the significance of nature loss as a growing systemic risk to investors. Our Trustee Directors recognised that this is an important area of increasing interest and we are continuing our work to further develop objectives for the Fund in how nature loss considerations could be applied and measured.

As an asset owner, our principal lever of influence is through holding our asset managers to account for their integration of ESG factors into their investment decisions, and delivery of stewardship on our behalf.

We continued to emphasise to our asset managers the value we place on a well thought-out engagement process and an organised means of tracking progress and outcomes from these engagements, particularly when they are aimed at influencing a positive change. This allowed us to gather a much better understanding of not just the quantity but the quality of engagements our asset managers are carrying out on our behalf.

As a result of focused interactions with our asset managers, we have established an open and honest dialogue which allows us to share and receive constructive feedback. This results in stronger collaborative relationships and has allowed us to influence positive stewardship practices more actively where we have seen the potential to do so. We formally assess our asset managers against our expectations in terms of engagement and their compliance with our RI policy on an annual basis.

The voting rights associated with our holdings are exercised by us internally, as part of our active ownership approach. Some of our assets, namely private equity and property, are managed internally by BP Investment Management (BPIM), our in-house asset manager, which carries out ESG integration and stewardship activities in relation to these assets.

We recognise the importance of working together with other investors to strengthen our stewardship efforts and have highlighted in this report examples of our collaborative engagements. Through collaboration with other asset owners, and more broadly, with other investment market participants, our voice can be amplified, and we can share and exchange best practices.

We recognise stewardship is an evolving area and, while making considerable progress in our overall responsible investment journey, we continually look to improve our approach, and we encourage our asset managers to do the same. In 2023 we successfully obtained signatory status to the 2020 UK Stewardship Code. The feedback in the application outcome letter, provided by FRC, was very helpful in showing the areas where we can improve. In this report, we present how, to the extent possible, some of that feedback has already been addressed and which areas we continue to work on.

This stewardship report covers the period from 1 January to 31 December 2023 and we believe it represents a fair, balanced, and understandable summary of our stewardship approach and delivery. I hope you find it informative and if you have any questions or comments, please do not hesitate to contact the team using details on the final page.

Brendan Nelson
Chair

BP Pension Trustees Limited
on behalf of the BP Pension Fund

Alignment to the 2020 UK Stewardship Code principles

The following table sets out where the key elements of the 12 principles of the 2020 UK Stewardship Code (stewardship principles) are covered in this report.

Principle		Section/s	Page/s
1	Purpose, Strategy and Culture	1.1, 1.3	6, 11-12
2	Governance, resources, and incentives	1.2, 1.5	7-10, 23-25
3	Conflicts of interest	1.7	26-27
4	Promoting well-functioning markets	2.3	35-48
5	Review and assurance	2.6	61
6	Beneficiary needs	1.6	25
7	Stewardship, investment and ESG integration	1.4, 2.1, 2.2	13-22, 29-30, 31-34
8	Monitoring asset managers and service providers	1.5, 2.2	23-25, 31-34
9	Engagement	2.3	35-48
10	Collaboration	2.3	35-48
11	Escalation	2.3	35-48
12	Exercising rights and responsibilities	2.4	49-60

1. BP Pension Fund Overview

In this section we provide an overview of the Fund and explain how stewardship principles are embodied within the fundamental components that enable the Fund to fulfil its purpose.

1.1. Our purpose

The Fund is a UK defined benefit, occupational pension scheme, whose corporate sponsor is BP p.l.c. (bp). Its members comprise current and former employees of bp and their dependants[1] and the benefits provided are based on factors including the members' age, length of service and final salary prior to leaving or retiring from bp. The Fund closed to new members in 2010 and closed to the future accrual of benefits in 2021. All members are now either deferred members, pensioners, or their dependants. The Fund's membership profile as at 31 December 2023 is outlined below.

Age	0-49	50-59	60-69	70-79	80-89	90+	Total
Deferred pensioners	4,537	7,619	2,278	752	114	10	**15,310**
Pensioners	13	936	9,914	13,258	6,631	1,431	**32,183**
Dependants	171	244	1,041	2,767	3,950	1,609	**9,782**
Total	**4,721**	**8,799**	**13,233**	**16,777**	**10,695**	**3,050**	**57,275**

The Fund's sole corporate trustee is BP Pension Trustees Limited (BPPTL or the Trustee), a wholly owned subsidiary of bp.

As Trustee of the Fund, we fulfil our purpose by meeting the following goals:

- Paying accrued benefits as they fall due in accordance with the Fund's rules and relevant legislation.
- Administering the Fund while fulfilling all relevant duties, considering the interests of all relevant stakeholders, and acting with prudence and reasonableness as the role entails.

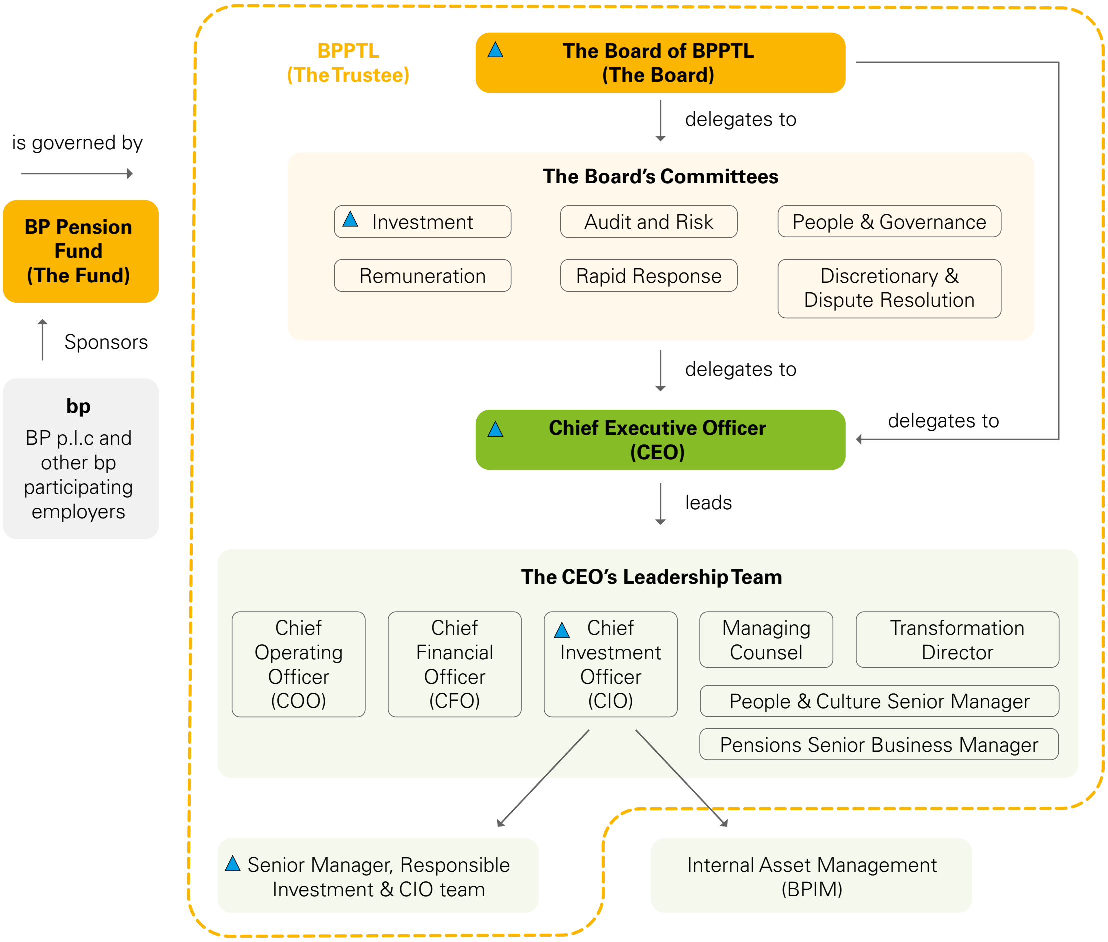
The Fund's long-term investment objective is to be invested in assets which closely match the liabilities (the expected future benefits owed to members) and to maintain a sufficient funding level (the ratio of assets to liabilities).

The Fund holds approximately £20 billion in assets as at 31 December 2023, and the investment time horizon is long term, with some pension benefits still expected to be in payment for decades to come.

[1] For simplicity, we refer to 'members' rather than 'beneficiaries' throughout this report.

1.2. Our governance

The Trustee's organisational and governance structure is designed to support the Fund in achieving its purpose of providing accrued benefits to members, while ensuring transparency and visibility of its activities to the Trustee Board and its Committees.



▲ Responsibility for monitoring of the Fund's Stewardship Activities

The Trustee's Executive organisation (the Trustee Executive or the Fund team), led by the Chief Executive Officer (CEO) and its Leadership Team, has delegated authority for the executive management of the Trustee and the Fund (within parameters set by the Trustee Board). It provides quarterly reports informing the Trustee Board and its Committees of its activities and regularly actively participates in Board and Committee meetings. Each respective meeting Chair encourages open debate and constructive challenge in relation to any proposals put forward to the Trustee Board and its Committees. The governance structure facilitates timely, effective decision-making during the meetings by individuals with the appropriate skills and experience. It is regularly reviewed to ensure it remains fit for purpose, with its last review having taken place in 2022.

We recognise the significant role stewardship plays in fulfilling the Fund's purpose, and we explain below how our governance structure has enabled oversight and accountability for effective stewardship.

The Trustee Board, the Board's Committees and the CEO, supported by the Chief Investment Officer (CIO) and Senior Manager for Responsible Investment, form the core stewardship governance structure monitoring the Fund's stewardship activities.

Our Board

- The Board's duty is to have the appropriate processes, systems, people and procedures in place to manage the Fund, its investments and risks that arise, in line with its duties, powers and discretions.
- The Board's Governance Principles (BGP) set out the Board's overarching governance framework and structure which support it in conducting its role.
- The Board comprises ten Directors – including the Chair (nominated by bp), four further bp-nominated Directors, four member-nominated Directors and an independent Director.
- Under the BGP, the Board endeavours to have the appropriate balance of skills, diversity, experience, independence and knowledge to enable the effective discharge of its role and responsibilities. The Directors are required to complete an induction programme and continue receiving training and education throughout their directorship.

Our Board's Committees

- The Board retains overall responsibility for the investment strategy, including the stewardship strategy and setting the Board's overall stewardship priorities; although certain decision-making powers are delegated to its Committees, as set out below.
- All Committees report directly to the Board and are provided with required support and sufficient advisory resource to enable them to undertake their duties independently.
- A high level summary of each of the Board's Committees is presented in the table below.

Investment Committee	Evaluates proposals for investment strategy or policy decision prior to any recommendation to the Board; facilitates, oversees and monitors the implementation of the Trustee's investment strategy and ongoing responsible investment application, inclusive of stewardship activities and ESG related risk management.
Audit and Risk Committee	Monitors the effectiveness and the integrity of the Fund's financial reporting, systems of internal control and risk management, internal audit, and external audit processes.
People and Governance Committee	Oversees the people capabilities for the Fund, including succession planning, as well as broader governance oversight.
Remuneration Committee	Reviews and makes recommendations to the Board on remuneration policies and monitors its implementation.
Discretionary & Disputes Resolution Committee	Determines any exercise of a discretion of the Trustee following referral of a case to it and determines decisions in relation to complaints.
Rapid Response Committee	Responds to any event which might impact the sponsor's ability to support the Fund or have an immediate material adverse impact on the Fund.

Our Chief Executive Officer (CEO)

Our Board delegates certain authorities and duties to the CEO, who leads the Trustee Executive organisation. The CEO's duties and responsibilities include:

- Supporting the Board in achieving its goals.
- Assisting the Board in discharging its responsibilities by proposing matters for the Board's determination.
- Conducting the executive management of BPPTL and the Fund.
- Overseeing the RI policy's effective implementation and ongoing application, including with regards to stewardship.

Our Chief Investment Officer (CIO)

The CIO leads the investment team, which comprises the CIO team and separately, BPIM, the Fund's internal asset manager. The CIO's duties and responsibilities include:

- Developing, implementing and maintaining the Fund's investment strategy whilst managing the investment risk and ESG related risks.
- Providing oversight of the Fund's asset managers, including in relation to stewardship activities which are largely focused on the stewardship priorities defined later in this report.

Our Senior Manager for Responsible Investment

The Senior Manager for Responsible Investment leads the Responsible Investment team (RI team), and their duties include:

- Developing the Fund's Responsible Investment policy (RI policy) and embedding responsible investment principles and practices across the Fund.
- Delivering the Fund's stewardship activities, which includes focusing on the stewardship priorities approved by the Board.
- Ensuring compliance with responsible investment regulation and alignment with responsible investment initiatives as appropriate.
- Influencing our asset managers to continue to develop responsible investment practices across their portfolios and organisations as appropriate.

1.3. Our values and culture

How we work

We believe a strong organisational culture is instrumental in ensuring we achieve the Fund's purpose. As employees of bp, we also adhere to bp's Code of Conduct, which provides principles-based guidance as to how we work. On an annual basis, we attest to having observed bp's Code of Conduct.

The values and behaviour statements we highlight below, support us in nurturing an open, professional and respectful culture and demonstrate how our organisational culture contributes towards achieving the Fund's purpose.

Purpose and integrity

- ✔ We act in service of our members, delivering and protecting their accrued benefits and safeguarding the Fund's assets.
- ✔ We maintain a risk-aware mindset and work with integrity – always doing the right thing.
- ✔ We are mindful of employees' wellbeing, creating a safe working environment – both physically and mentally.

Excellence

- ✔ We hold ourselves to ambitious standards of excellence in delivery.
- ✔ We adopt a continuous improvement mindset and have the confidence to speak up, to constructively challenge.
- ✔ We share ideas and collaborate to achieve a common goal and promote efficiency and effectiveness.

Respect and equality

- ✔ We take time to truly listen to, hear the opinions of others and remain open-minded so all employees feel they can contribute.
- ✔ We treat our people and members equitably and how we would like to be treated.
- ✔ We recognise and value excellence in others.

Members of the Trustee Executive organisation (the Fund's employees) are required to abide by our RI beliefs (see section 1.4) and the organisational culture supports the application of those beliefs across the team, which enables a clearer and more concerted approach to implementing strong stewardship practices across the Fund. This translates into holding our asset managers to account in how they invest the Fund's assets and how they engage with the investee companies held in the Fund's portfolios.

We recognise that the culture of an organisation can evolve in response to various pressures and influences. The role of the Fund's dedicated culture group is to monitor and assess feedback from our employees and drive positive change wherever possible.

Continued communications and engagement model

The 2023 communications and engagement efforts within the Trustee Executive included the following:

- The Fund Wrap which is a newsletter to keep the Fund's staff informed of the key highlights relating to the Fund's activities, run by the culture group.
- The Fund townhall meetings which agenda covers a variety of topics delivered by different speakers from across the Fund. Interactive elements such as live polls continue to be included to encourage audience participation.
- The Fund Portal which serves as the Fund's intranet site and contains various relevant documents (i.e. policy, procedures, organisational charts), provides space to post updates and conversation threads relevant to the Fund's staff.

We will continue to nurture our culture in a manner that allows all our employees to feel valued and supported in fulfilling their respective contributions towards achieving the Fund's purpose.

1.4. Our approach to investment stewardship

Our investment objective

The Trustee's investment objective is to invest the assets of the Fund and to build them up in a responsible manner to a level which is expected to be sufficient to pay the accrued benefits to members and their dependants as and when they fall due, i.e. to a funding level which, in the Trustee's view, minimises reliance on bp and the participating employers.

The Trustee's Statement of Investment Principles (SIP) (see Appendix 2) incorporates our RI policy. The SIP explains how the assets of the Fund are to be invested and outlines the principles which govern the strategic investment decisions. These investment principles are set by the Trustee and reflect our underlying beliefs about investment objectives, governance and risk, including responsible investment and encompass an integrated risk management approach.

The Trustee's long-term investment objective is to be invested in assets which closely match the liabilities. This means that the Fund holds a portion of the assets in investments that are expected over the long term, to grow by more than the value of the liabilities. The Fund will be invested in assets that are diversified by factors including asset class, geography, sector, liquidity and asset manager. This strategy has enabled us to gradually build up the funding level, while concurrently managing the risk, and subsequently steer towards protecting the downside loss.

The Fund's investments include listed equities, bonds and other securities issued by corporate or non-corporate (i.e. government) entities. We refer to these entities as 'investee companies or issuers'.

ESG risks

Over the long term, all investments by their very nature will have exposure to specific risks, including ESG risks. These risks have the potential to affect an investee company or issuer's business model and value drivers, affecting its financial performance and subsequently the value of our investment. For this reason, we believe that investee companies and issuers that demonstrate a sound awareness of ESG risks and seek to mitigate them, are more likely over the long-term, to outperform those that do not.

As such, we hold ourselves and our asset managers accountable for the management of material ESG risks relating to the Fund, and we take measures to monitor and mitigate them when investing on behalf of the Fund.

Our broader strategy

In order to fulfil the Fund's purpose, our broader strategy focuses on applying stewardship principles effectively across all areas as follows:

Investment Strategy
Seeking to achieve appropriate risk-adjusted returns while investing in a responsible manner

Governance
Operating a robust governance and risk management framework which supports the decision-making process

Resourcing
Investing in the culture and capabilities of our people, including the systems and processes we use to deliver our work

Mindset
Recognising that a continuous improvement mindset will increase our ability and focus to deliver strong results

Each year, we set our specific priorities against the backdrop of the Fund's position, our management priorities and any key external developments.

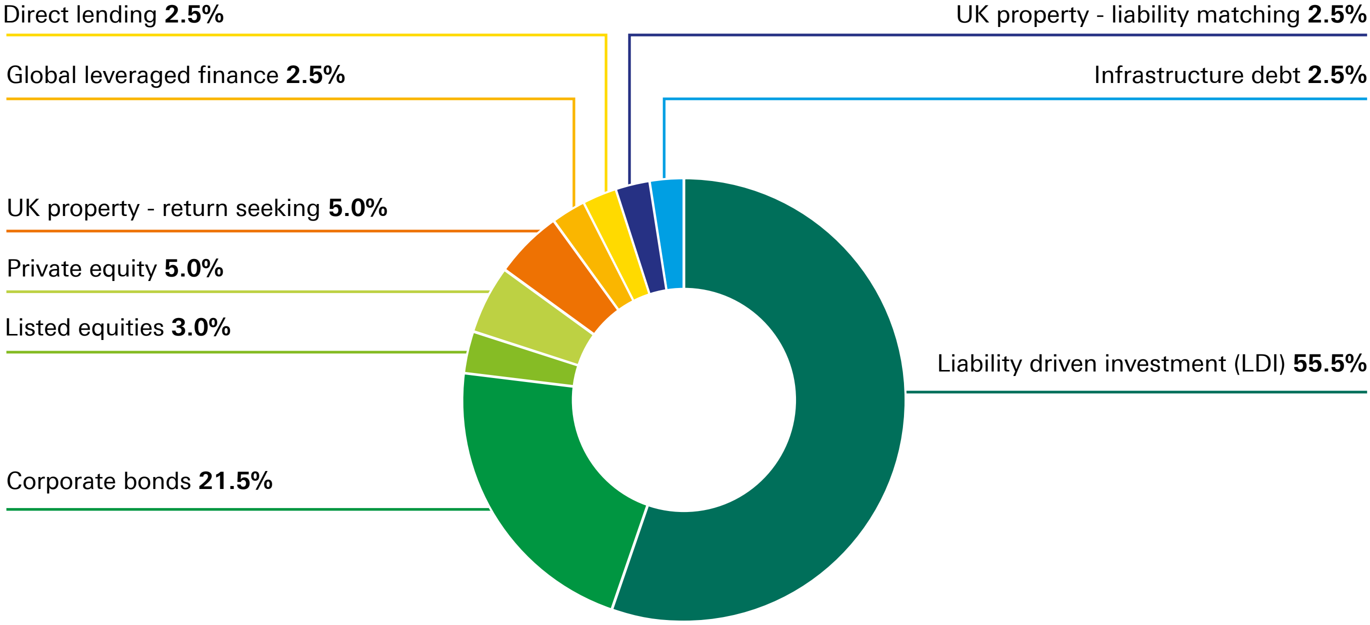
Key investment-related priorities achieved in 2023 are listed below. In Section 2 we expand on the outcomes of these activities.

- ✔ We reviewed the Fund's stewardship priorities to assess the validity, applicability and effectiveness of our implementation approach over the past three years.
- ✔ We carried out deep-dive research into the topic of nature and biodiversity, recognising nature loss as an increasing area of interest and its potential impact on the Fund.
- ✔ We enhanced our framework for monitoring asset managers.
- ✔ We produced our second annual Climate Change Report.
- ✔ We achieved signatory status to the UK Stewardship Code as of August 2023.

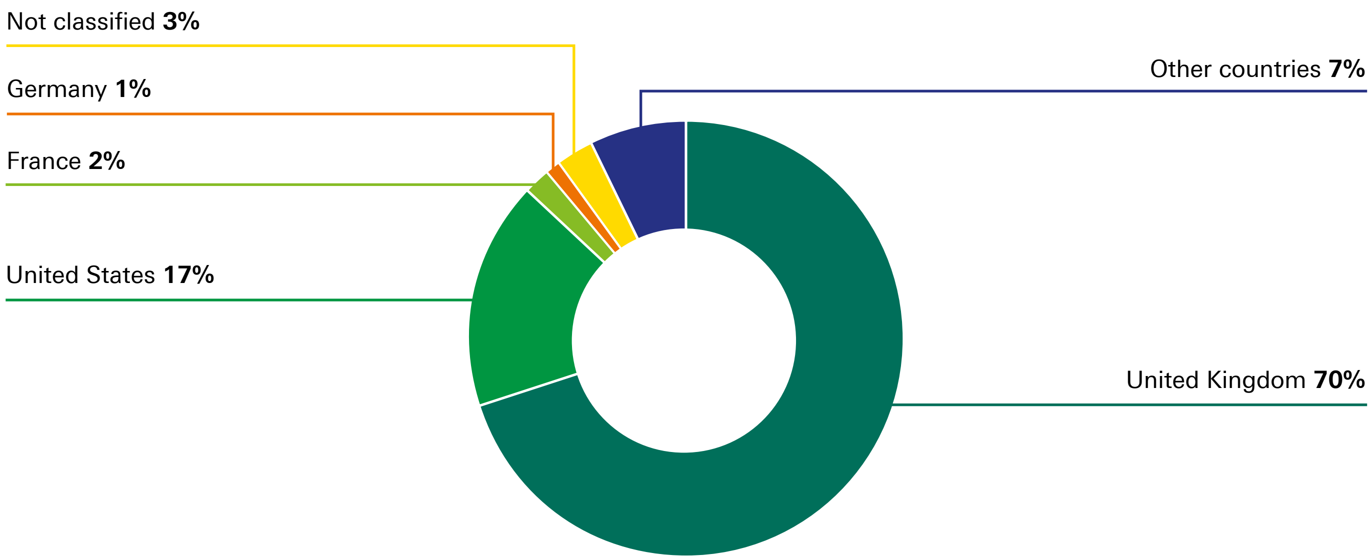
Our investment allocation

The Fund is invested in assets that are diversified by asset class, geography, sectors, liquidity and across asset managers. This helps achieve the Trustee's overall risk-adjusted return objective. The Trustee takes a long–term approach to investment. This includes a willingness to hold illiquid investments where the expected returns justify it. The liquidity risk is managed by having sufficient assets that are always available and are relatively easy to sell so that benefits can be paid as and when they are due.

The Fund's strategic asset allocation is developed to meet the Fund's long-term investment objective of being invested in assets that closely match the liabilities and to maintain a sufficient funding level. The actual asset allocations may vary from their strategic weights due to market movements.



Fund's strategic asset allocation as at 31 December 2023

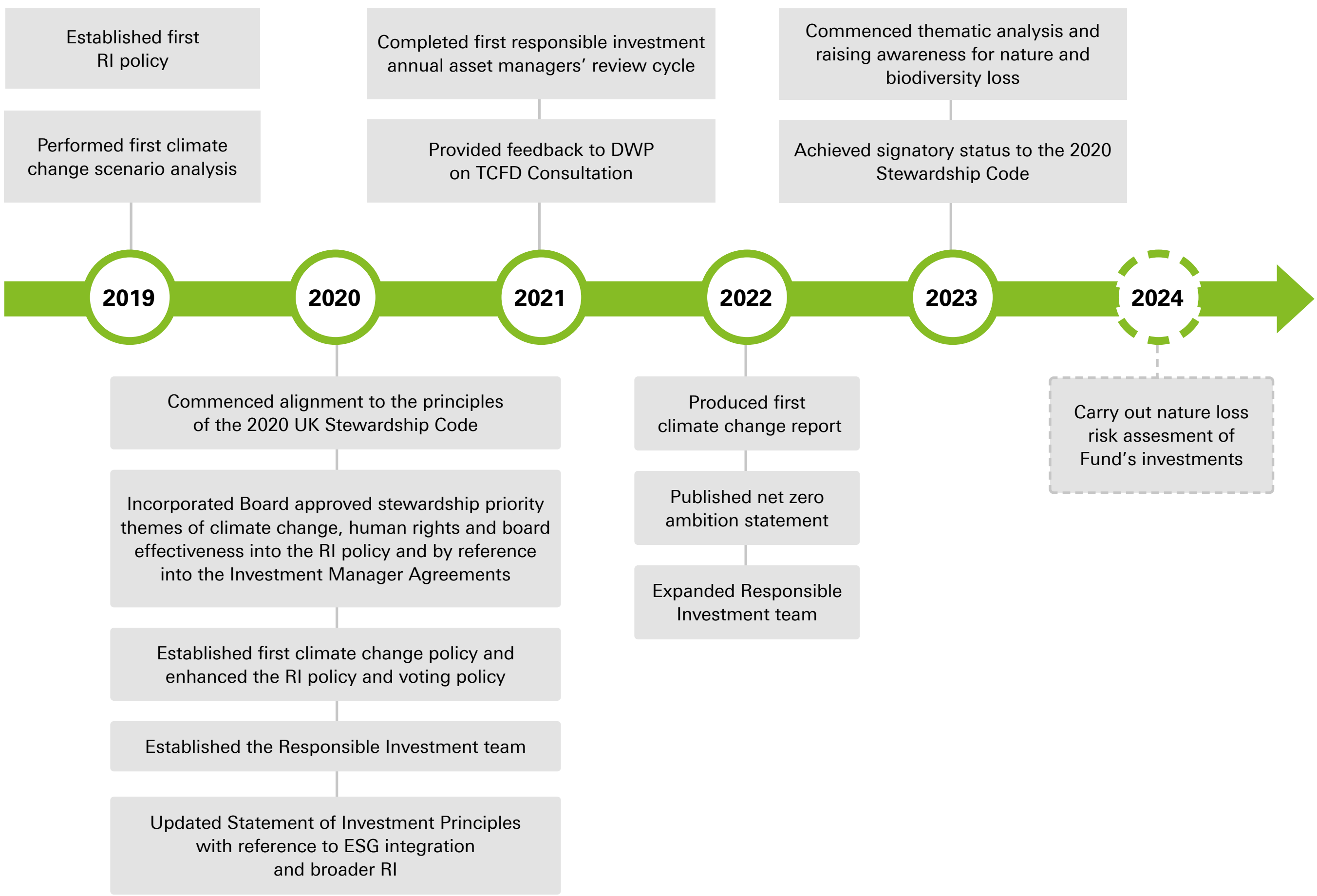


Fund exposure by country of risk as at 31 December 2023

Our approach to stewardship

We recognise that strong stewardship practices are instrumental to the effective management of ESG risks, and we have aligned the Fund's stewardship activities with the principles of the 2020 UK Stewardship Code issued by the Financial Reporting Council. Our RI policy details our approach to applying good stewardship practices on behalf of the Fund's members.

The following diagram highlights important milestones we have reached on our responsible investment journey since establishing our first RI policy.



Our responsible investment policy

The formation of the Trustee's RI policy, which incorporates our voting policy and climate change policy, was one of the first steps towards formalising our responsible investment beliefs (RI beliefs), which form part of our overall investment beliefs. The application of our RI beliefs in line with our values and behavioural statements, outlined in section 1.3, supports implementation of strong stewardship practices across the Fund to better secure benefits for the Fund's members.

Our responsible investment beliefs

A Investing responsibly and achieving long term risk-adjusted returns which allow the Fund to meet its liabilities as they fall due are consistent with each other.

B ESG factors may create both risks and opportunities for the Fund and can be financially material.

C The nature of the liabilities is a key consideration and typically implies a long-term investment horizon, over which we expect ESG factors to become increasingly important.

D Stewardship can and should be applied in respect of all the Fund's assets as is practical. Engagement with investee companies and asset managers is an effective method of instigating change and may increase long term risk-adjusted returns.

E Exercising our voting rights is an important part of active ownership.

F We expect our asset managers to take appropriate steps to incorporate potentially material ESG factors into their investment analysis and decision-making. The asset managers we instruct to invest on behalf of the Fund are obliged to continue to behave and invest in line with our expectations.

The RI policy, which supplements the SIP, sets out how we seek to implement our RI beliefs to better secure benefits for the Fund's members and shapes the decisions made by the investment team, and the ways in which they engage with the Fund's asset managers. Our RI policy has been approved by the Board and is reviewed on an annual basis to keep it up to date with regulatory changes and to continue to reflect what we believe to be the best approach to stewardship for the Fund.

Our stewardship priorities

In 2023, we conducted a review of the Fund's stewardship priorities to assess whether they remain significant in the context of the global economic climate, applicable to the Fund, and whether our implementation approach – covering asset manager oversight (please see sub-section below) and our own collaborative engagements (please see section 2.3) – had been effective over the past three years.

The review involved an examination of the most impactful global risks to investors in the medium-term and consideration of the overall responsible investment industry and regulatory developments.

Based on our key findings from this review, we concluded that all three stewardship priorities of climate change, human rights, and board effectiveness remain significant factors representing potential systemic risks to the Fund. They continue to have broad systemic applicability across geographies and asset classes and are, therefore, significant both at the broader Fund-level and at the asset manager portfolio-level. In addition, the findings identified nature loss as a growing systemic risk to investors in the medium-term.

Furthermore, we observed an increased call to action from regulators and various market participants, including our peer pension schemes, in recognition of the amplified severity of systemic risks stemming from not only climate change but also nature degradation and biodiversity loss.

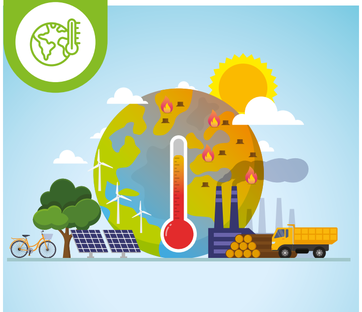
In view of nature's role in underpinning the global economy and its protection and restoration being critical to climate change mitigation and adaptation, we are doing further work to understand how we may be able to incorporate nature loss in our stewardship efforts, including in asset managers' engagement, and to further develop objectives for the Fund in how nature-based considerations could be applied and measured.

Implementation of our stewardship priorities

Below we highlight actions and processes through which we implement our stewardship priorities. In section 2 we particularly highlight some of the outcomes and impacts from these activities based on our asset managers' and our own stewardship efforts.

We use our priorities as a frame to help us to monitor and assess progress made by our asset managers. Each year we obtain details on their actions and outcomes to gain confidence on whether their processes and engagement activities are likely to be effective.

The asset manager case studies presented later in this report fall within these priorities. This does not preclude us from engaging on other stewardship and ESG issues raised through shareholder resolutions at general and extraordinary meetings and through the processes and application of our stewardship and voting policy.



Climate change

Climate change is one of the largest and most complex challenges faced by the world today, with proven scientific impacts on the natural environment, on human population, and on the global economy. These impacts, together with their inherent social and political implications, create material risks for asset owners. The climate change challenge remains not only relevant but of increased urgency given the lack of overall sufficient progress in decarbonising the real economy.

- ✔ We continue to engage with our asset managers on the importance of carrying out effective stewardship with top emitting companies on their progress in reducing greenhouse gas (GHG) emissions, and with companies more generally on ensuring they have credible transition plans.
- ✔ We used 2023 to review existing net zero investment guidelines to elaborate the necessary steps in order to progress on our Net Zero Ambition, which we published in 2022. The key step is the determination of the GHG emissions footprint of the Fund's investments now compared to the Net Zero Ambition baseline year. Whilst we have an understanding of what our emissions metrics looked like at the baseline year, we are currently working on understanding the level of financed emissions as of the end of 2023 for the asset classes covered. Subsequently, we plan to discuss with asset managers how they suggest integrating our Net Zero Ambition aims in our mandates and the potential impact, if any, to the risk-return profile.
- ✔ We remain members of the Institutional Investors' Group on Climate Change (IIGCC), actively involved in some of its working groups (see case study later in this report). We find this group offers us the necessary support to progress in our Net Zero Ambition through collaboration with other investors on climate change related risks and opportunities and helping to drive significant and real progress towards a resilient net zero future.

Human rights

We believe that financial returns should not be prioritised at the cost of violating the core values of our society. All people have the right to live with fairness, dignity, equality, and respect and human rights are a crucial means of protection for those who may face abuse, are neglected and isolated across the world. We place particular focus on the prevention of modern slavery, child labour and the promotion of a fair living wage.

- ✔ The Fund's investments include companies or issuers with complex global supply chains. We continued to emphasise to our asset managers the importance we place on ensuring these companies or issuers are diligently monitored and challenged on their potential exposure to human rights violations.
- ✔ In recent years, we have placed particular emphasis on our asset managers' actions towards the prevention of modern slavery and child labour, and the promotion of a fair living wage within the companies we are invested in. This was driven by our past findings, that not all asset managers were able to provide substantive human rights related engagement case studies demonstrating their efforts to influence change. Being more specific with which human rights related issues we particularly focus on, resulted in asset managers increasing their stewardship efforts on these matters.
- ✔ The guidance on considering social factors in pension scheme investments issued by the UK Taskforce on Social Factors[1] was a much-needed resource which we look to refer to in strengthening our approach to embedding social factors within the Fund's investments.

[1]Social Factors Taskforce (taskforceonsocialfactors.co.uk)

Board effectiveness

Corporate boards have a primary role to represent shareholders' interests and make sure their executives do not take excessive risks while having a forward-looking view on the use of assets. Board effectiveness, the ability of board members to prudently oversee all aspects of an enterprise's companies' operations and to work well as a group to fulfil their role and objectives, underpins most companies' successful response to concerns around ESG factors.

- ✔ We are conscious that different standards apply in different jurisdictions and between asset classes, so we encourage our asset managers to engage with investee companies to apply best practices and where they are available, to seek adherence to their local stewardship code guidelines or refer to the International Corporate Governance Network (ICGN) guidelines.

Nature loss

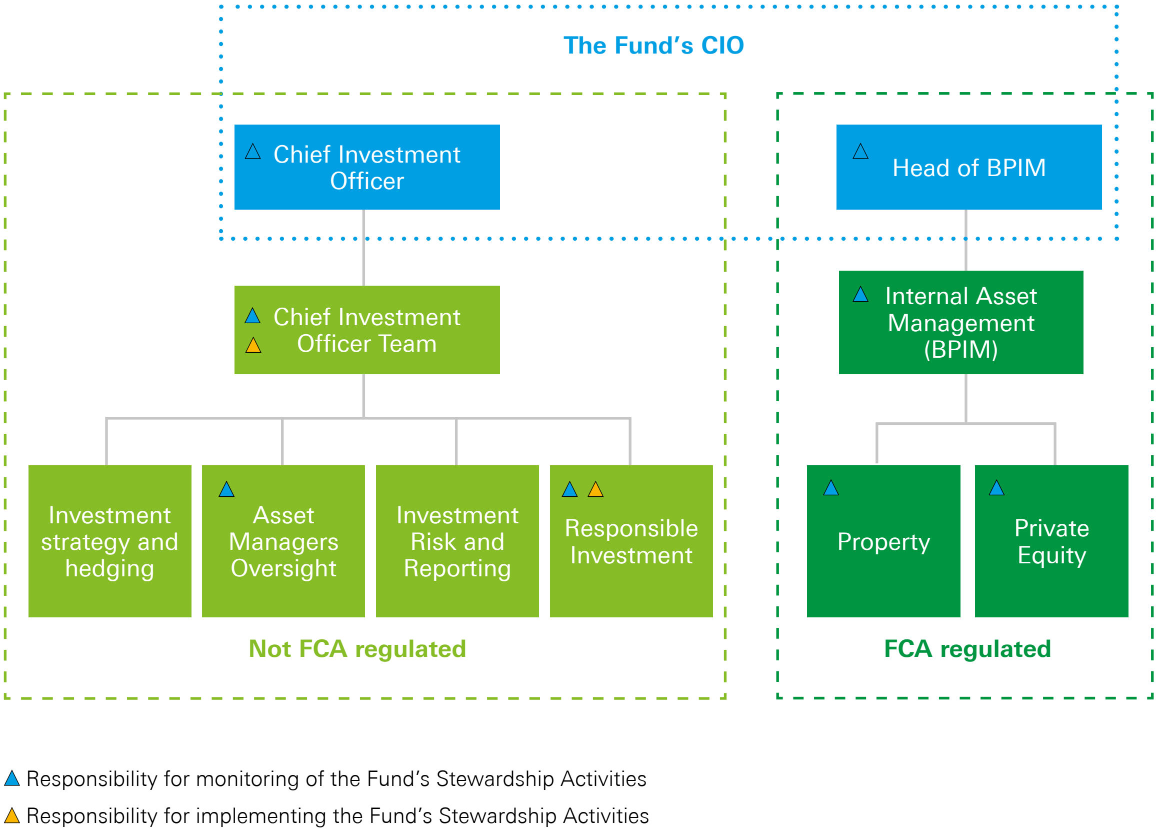
As highlighted in the previous section, we believe that nature loss poses a systemic risk to the Fund and reaching net zero greenhouse gas emissions by 2050 is directly dependent on protecting and restoring nature. As such, in order to further develop clear objectives for the Fund with respect to nature loss, we would like to gain a better understanding of the Fund's exposure to nature loss and how we can be an effective steward for nature.

- ✔ We have been conducting discussions with our asset managers to understand the level of awareness they have of the systemic risk that nature loss poses to the economy, the financial system and consequently, their portfolios. We plan to assess more formally how our managers integrate nature loss into their investment processes and stewardship activities, encouraging further progress where appropriate.
- ✔ Over 2024 we plan to conduct a nature loss risk assessment of the Fund's investments, to have a clearer understanding of its main impacts and dependencies on nature, and better understand our exposure across varied factors driving nature loss.

Our investment team

Our investment team, which is led by the Fund's CIO, is responsible for delegated investment activities and comprises the functions presented in the diagram below.

The Fund's investment team structure



The 'dual-hatted' role of our CIO, as head of BPIM, entails providing leadership to the Trustee Executive's investment team, and the internal asset manager BPIM with careful management to ensure both roles are as distinct as possible. The Head of BPIM fulfils Senior Manager Function 1 and 3 roles[2].

BPIM is an FCA regulated, wholly owned investment management subsidiary of the Trustee and manages the property and private equity mandates on behalf of the Fund. These mandates account for 12.5% of the total strategic asset allocation. As with our external asset managers, BPIM is required to comply with our RI policy. In addition, BPIM also implements its own RI principles, which are more specific to the property and private equity asset classes.

[2] Senior Manager roles are the chief execution function (SMF 1) and executive director function (SMF 3), pursuant to the FCA Senior Manager Certification Regime (SMCR).

1.5. Our resourcing of stewardship activities

We have a dedicated RI team led by our Senior Manager for Responsible Investment, who is accountable for the delivery of responsible investment and stewardship across the Fund as a whole, with direct oversight from our Board and Investment Committee.

Continued enhancements made to stewardship resourcing during 2023

Incentivisation
We include responsible investment and stewardship accountabilities in our annual objectives, with everyone in the investment team having a responsible investment goal feeding into their overall performance assessment and any bonus award for the year. This reinforces the expectation that responsible investment is, and continues to remain, a principal focus area for the whole team, and not only the more specialist team members.

Training
We adopt a continuous improvement mindset and encourage a learning-oriented environment. Timely and targeted training allows us to facilitate well-informed decision making. We keep the training needs of the investment team under review and individuals in the team receive any specific ESG training that they may require.

Examples of training received in 2023 include:

- In collaboration with our strategic investment adviser, Redington, our Board received training on:
  - Social Factors in Stewardship and a case study focusing on human rights as part of broader ESG considerations and training.
  - Definition and types of portfolio alignment metrics ahead of the Trustee selecting a specific metric to report in the Fund's Climate Change Report.
- Our external provider, Ortec Finance, provided training to the Board on *Navigating Climate Metrics: An Insight into Ortec Finance Implied Temperature Rise Model*.
- The CIO team has participated in multiple training sessions with Ortec Finance to understand the methodology used when performing climate analysis on the Fund, including any updates to the models and methodology used.

Monitoring ESG data and stewardship service providers

Access to various ESG data and stewardship service providers allows us to perform analysis, independent of data provided by our asset managers. This allows us to challenge our asset managers' level of implementation in relation to our RI policy. We conduct periodic reviews of existing and new ESG data and stewardship service providers and continue to receive timely ESG insights. We use ESG data from various service providers to carry out ESG-related analysis, to assist our regulatory reporting requirements, and help us hold our asset managers, to account for their delivery in respect of our stewardship requirements and expectations. The information, data and analysis we have access to through these providers helps us monitor progress against our stewardship priorities. On an ongoing basis we monitor the effectiveness of our data and service providers' delivery. Given our growing interest in nature loss, we are in the process of identifying a specialist provider of nature data to help us better monitor our asset managers' integration of nature loss-related indicators. In this section we summarise how we monitor and oversee our current service providers.

Institutional Shareholder Services (ISS)

- ISS is our proxy voting services provider, and we use their platform to execute our voting rights on securities held by our asset managers.
- We use their platform to access our voting records, details of upcoming meetings and resolutions, and research reports.
- We use the information provided by ISS, as well as voting recommendations and research reports from our passive listed equity asset manager, LGIM[3] (which we also access via the ISS platform) to inform our voting decisions on behalf of the Fund.
- We provide regular feedback to ISS to enhance our client experience.
- During 2023 we responded to ISS's annual global benchmark policy survey, which allows us to use our influence to inform ISS voting policy development on a variety of different topics across global markets.

MSCI ESG Manager

- MSCI is our long-standing ESG data provider, and we access their data and services via the MSCI ESG Manager platform.
- We carried out an assessment of services MSCI provides to us and revisited our overall ESG and climate data requirements. We found that the level of our usage of ESG ratings and related data has significantly decreased, and we predominantly relied on MSCI to access climate change related metrics and the underlying data. As a result we terminated access to ESG ratings and expanded our access to climate change related metrics and relevant analysis to assist us with further developing and monitoring our Net Zero Ambition.
- We regularly provide feedback to MSCI to enhance our client experience and where relevant, we challenge them on their methodology.

[3] LGIM has been managing our passive core equity mandate since 2020. LGIM's Investment Stewardship business exercises voting rights globally, holding companies to account across a number of issues, of which some overlap with our own stewardship priorities. We find LGIM's voting recommendation and their point of view helpful to consider in arriving at our own voting decisions.

Ortec Finance

- Ortec Finance has been an important partner in helping us progress our assessment of the potential impact of climate change on the Fund's investments.
- We utilise two of their climate-related products, ClimateMAPS for climate scenario modelling and ClimateALIGN for portfolio alignment metrics calculation and analysis.
- We continue our partnership with Ortec, however we also continuously monitor the rapidly evolving market of climate change related products and services.

Use of advisers

In addition to our independent strategic investment adviser, Redington, we have access to a panel of appointed independent advisers. Our regular engagements with our panel of advisers allows us to keep abreast of ESG/RI developments. Since these advisers have strengths and specialisms in different areas, engaging with our whole panel of advisers has been beneficial to the Fund.

Each investment consultant has specific objectives that are agreed with the Trustee. We follow a rigorous annual process of assessment against each of the relevant objectives of consultants on the Trustee's panel.

1.6. Our members

The Trustee's primary focus is to provide the accrued benefits to members and their dependents when they fall due as set out in the Fund's Trust Deed and Rules. In addition to this primary focus, we are conscious that our members may have views on our investment strategy and its implementation, so we provide them with regular communications as outlined below. In reporting to our members, we have provided a fair and balanced position summarising our stewardship activities.

For the purposes of reporting on stewardship, we provide members with a series of communications via post, email and/or made available on the dedicated members' website, PensionLine. The communications included those referencing the Fund's stewardship and responsible investment activities. During 2023, key communications included:

- Our annual newsletter
- An update to PensionLine, to improve member experience and site navigation to facilitate ease of access for the information required. We also provided instructions on how to register for PensionLine
- The Trustee's annual report and financial statements
- Our annual implementation statement, which provides public details on our voting activities, engagement with our asset managers and their engagements with companies included in the Fund's investments
- Our second annual climate change report and first annual stewardship report.

1.7. Our management of conflicts of interest

From a stewardship perspective, conflicts may arise between the interests of bp and the Trustee, or they may arise between employees and the interests of the Fund, bp, the Trustee, or BPIM and their respective Boards of Directors.

We understand the importance of and appreciate the need to manage conflicts of interest effectively and this remains central to our decision-making. We do not believe that all conflicts can be avoided, however through transparent acknowledgement of their existence and appropriate management (including training), we believe that it is possible to reduce the risk sufficiently such that they do not affect decision-making with regards to stewardship. Where appropriate, we seek assurance from third party advisers, consultants, and internal audit on the adequacy of our policies and controls.

The measures we take to avoid or manage conflicts of interest include:

- ✔ Training – all Fund employees and Trustee Directors receive regular training on conflicts of interest.
- ✔ Policy adherence – all Fund employees and Trustee Directors are required to adhere to the bp code of conduct and bp conflicts of interest policy. BPIM also maintains its own conflicts of interest policies and the Trustee board has its own policy to address specific conflicts that may arise between those parties and other stakeholders. Where relevant, information barriers and other policies and controls such as personal account dealing are implemented. We require our suppliers and external asset managers to adhere to the bp code of conduct, and we take steps to identify conflicts of interest with third party suppliers at the onboarding stage and on an ongoing basis.
- ✔ Restrictions – the Fund is restricted from investing directly in bp, which minimises the risk of conflict with our sponsor.
- ✔ Disclosure requirements – all Fund employees and Trustee Directors are required to disclose actual, potential, and perceived conflicts of interest and where appropriate, suitable measures are put in place in order to manage such conflicts with regards to stewardship. A similar approach is taken with service providers, and suppliers where an employee has a relationship or interest. All asset managers, including BPIM, are required to disclose stewardship related material conflicts of interest when filling out our annual RI questionnaire. Any conflicts relating to our stewardship activities which we have identified and managed, would be disclosed in our stewardship report.
- ✔ Record keeping – Fund employee conflicts are recorded in the bp conflicts of interest register. Board conflicts are recorded in an independent board-conflicts register and managed accordingly.

From a stewardship perspective, we have arrangements in place that require the identification and recording of potential, perceived and actual conflicts of interest as they arise, and we take steps to manage conflicts of interest fairly and appropriately.

For example, conflicts may arise in relation to stewardship activities when:

- ✔ Trustee Directors may also be bp employees which could give rise to conflicts between their duties to bp and duties to the Fund, or they may also be members of the Fund which could give rise to conflicts between their duties to the Fund and their own personal circumstances.
- ✔ External asset managers or their employees may be incentivised to act to benefit themselves rather than their client (the Fund) or they may engage with investee companies in such a way that conflicts with other asset managers or the Fund's position.
- ✔ The Fund's position or activities on stewardship may conflict with the position of the Fund's sponsor bp.
- ✔ The Fund's employees or Trustee Directors may be a director of, have business interests or have relationships with one of our investee companies, external assset managers, professional advisers, or other counterparties and may have obligations that conflict with their obligations to the Fund.

In such circumstances, conflicted parties are required to disclose the potential conflict and appropriate steps would be taken so that the relevant individual does not participate in any voting or engagement activity (whether directly or collectively with other investors) with the company concerned.

A similar approach is taken with service providers and suppliers where an employee has a relationship or interest. Employees are recused from making decisions where they are conflicted.

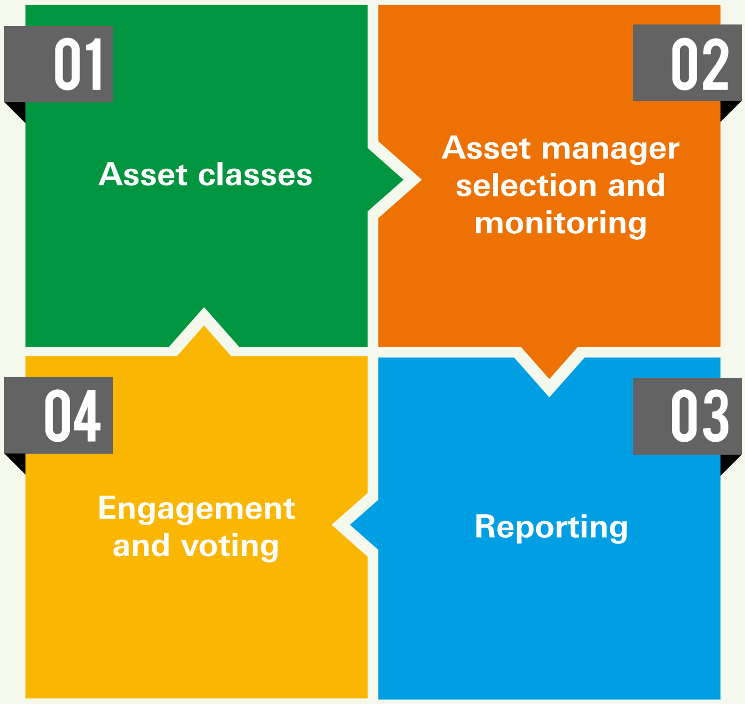
At present, no stewardship-related conflicts have been identified, however, as set out above, we keep this under regular review.

2. Stewardship in practice

This section details how we apply stewardship considerations across the Fund's investments, including the integration of ESG factors, and explains our approach to direct and collaborative engagement, supplemented with case studies.

Consistent with our RI beliefs, we undertake responsible investment across the Fund's investments wherever practical, to help better secure benefits for the Fund's members.

As outlined in our RI policy, there are four main elements in the implementation of stewardship and ESG factors:



2.1. Asset classes

The impact and relevance of each ESG factor varies with the characteristics and implementation of a given asset class. Given our current asset allocation, we use the following framework, outlined in our RI policy, as a guide to indicate and manage our stewardship expectations pertaining to ESG integration, engagement and reporting for each asset class.

There are three levels of expectations we can assign:

Likely	We expect our asset manager(s) in the asset class to integrate/engage/report.
Possible	We are aware of relatively few asset managers that currently integrate/engage/report and/or it may only be possible on a limited portion of assets.
Unlikely	We do not expect to find asset managers who are able to integrate/engage/report on a meaningful portion of their assets and/or ESG is not yet a meaningful risk factor for the respective asset class.

Asset class	Integration of ESG factors	Engagement on ESG factors	Reporting on ESG factors
Public listed equities	Likely	Likely	Likely
Developed Corporate and Sovereign Debt	Likely	Likely	Likely
Emerging Markets Corporate and Sovereign Debt	Likely	Possible	Likely
Global Leveraged Finance	Likely	Likely	Likely
Infrastructure Debt	Likely	Likely	Likely
Direct Lending	Likely	Likely	Possible
Private Equity	Likely	Likely	Possible
UK Property	Likely	Likely	Likely
Liability Driven Investments	Possible	Possible	Possible
Derivatives	Unlikely	Unlikely	Unlikely

During 2023 we shifted from asking our asset managers whether they integrated ESG factors in their decision making to asking for substantive evidence of ESG integration. We asked our asset managers to demonstrate how ESG factors influence their decision-making process. We received a number of case studies of investment decisions where ESG factors played a substantial part of the decision-making. An example case study is set out on the following page.

Example: ESG factors integration

Engagement led by Barings

Asset class: Private Direct Lending

Sector: IT Consulting and Outsourcing

Context: Key Performance Indicators (KPIs) related to ESG have been established by the asset manager to reduce the level of interest to be paid as these are met, in accordance with the facility agreement set up in December 2022 with the company. Expanding the use of electric vehicles was considered a suitable factor to be included among these KPIs.

Action: The asset manager set out yearly ratcheting targets for the increased use of electric vehicles by 2026. The adherence to these KPIs would see the interest rates on the company's loans reduce yearly.

Outcome: The ratchets were finalised in January 2023, and a meeting with the management was planned for February 2024 to inquire about the progress made in 2023 towards the initial annual goal.

2.2. Asset managers

Asset managers – selection

In the process of evaluating potential asset managers, we examine how they incorporate ESG from a long-term risk management and valuation standpoint. This includes their integration of ESG into investment processes, business focus, operational infrastructure and engagement activities. We also assess if the asset managers possess the necessary resources to carry out the stewardship activities we expect from them. Here are some specific methods we use to encourage good stewardship practices:

Investment Manager Agreements
Our investment mandates with each of our asset managers include our Responsible Investment (RI) policy. We expect all our asset managers to integrate potentially significant ESG factors, including our three stewardship priorities, into their investment analysis, decision-making and engagement activities with investee companies or issuers. While voting is primarily an issue for equity portfolios, we believe that good stewardship can be applied to all of the Fund's assets where practical. In the case of equity managers, while they don't exercise voting on our behalf, we expect them to carry out wider stewardship activities such as engagement with underlying issuers on relevant matters on our behalf.

Segregated Mandates and Pooled Investment Funds
We review the investment objectives and guidelines of pooled funds to align with our investment policies, including our RI policy. For segregated mandates, we may establish stewardship guidelines within our investment manager agreements where appropriate. Currently, all of the Fund's investments are managed via segregated mandates.

Exclusions
We prefer engagement over exclusion and do not have an exclusions policy, except for prohibiting our asset managers from investing in securities issued by bp and any other investments on the UK's list of sanctions, to limit further exposure to the Fund's sponsor. While some of our asset managers may have their own exclusions policy either at the firm level or pertaining to certain mandates, none of those exclusions are incorporated in our Investment Manager Agreements.

Assessment Period
We appoint asset managers with the expectation of a long-term partnership, which promotes active ownership of the Fund's assets (except in the case of our passive portfolios). When evaluating an asset manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, with a minimum of three years.

Asset managers – monitoring

We understand that one of our main roles as an asset owner in the stewardship chain is to set clear stewardship expectations for our asset managers and to hold them accountable for meeting those expectations. We expect our asset managers to invest and engage with investee companies in the best interests of the Fund and in accordance with our policies. Where possible, we use our influence as an asset owner to encourage responsible long-term behaviour through engagement with our asset managers and voting on behalf of the Fund.

One of the ways we effectively manage stewardship and ESG risks includes dedicated monitoring of, and engagement with, our asset managers as a means of driving change with the aim of improving long-term, risk-adjusted returns. By expecting our asset managers to invest in line with our RI policy, we hold them all to a high standard. Our monitoring of asset managers is a form of assurance, which covers asset managers' stewardship activities on behalf of the Fund. Our asset manager monitoring approach is consistent for all asset managers, including BPIM, and comprises the following:

✔ **Encouraging strong stewardship standards and sharing constructive feedback:**
We require our asset managers to adhere to the updated 2020 UK Stewardship Code principles where possible, or an international equivalent if applicable. We have been actively encouraging some of our asset managers to become signatories where practical, and monitoring which of our asset managers have attained this status. The table below summarises the number of our asset managers with signatory status and membership to UN PRI.

STEWARDSHIP			
Have managers evidenced meeting stated criteria?	**YES**		**NO or N/A**
	4Q 2023	Change vs. 2022	4Q 2023
UK Stewardship Code Signatory[1,2]	12 / 15	+2 (BPIM PE and BPIM Property)	Aristotle[1], Westbourne[1], Oak Hill[3]
UN PRI Signatory[2]	15 / 15	+ 1 (Westbourne)	

[1] We consider asset managers' size and geographic location in our assessment. Aristotle is a member of the International Corporate Governance Network; Westbourne as a smaller manager, currently lacks resources to support FRC's reporting requirements.

[2] BPIM PE and Property are considered as meeting these criteria implicitly via BP Pension Fund.

[3] Oak Hill's parent company (T. Rowe Price) is a signatory, but they indicated their consideration of becoming a signatory themselves.

✔ **Monitoring stewardship activities on a quarterly basis:**
We conduct investment review meetings with our asset managers every quarter to discuss their investment results and to receive updates on business or personnel changes. Stewardship is a regular item on the agenda during these meetings, and we require asset managers to provide a stewardship update in their quarterly reports, which includes their involvement in stewardship-related initiatives. Representatives from both the asset manager oversight and responsible investment teams attend all quarterly meetings.

✔ **Monitoring stewardship activities in depth on an annual basis:**
To thoroughly understand each asset manager's stewardship and responsible investment policies, processes, and their level of application, we conduct annual responsible investment review meetings with all our asset managers. These meetings are a crucial component of our asset manager monitoring governance process, encompassing each asset manager's investment and stewardship activities over the previous year. We prioritise examples that our asset managers can provide to illustrate the consistent incorporation of ESG factors into their individual investment decision-making processes and their effectiveness in advocating for change with investee companies or issuers. During 2023 we made improvements to our reporting template, focusing on firm-level indicators of institutional alignment with our RI policy such as the asset managers' mindset and wider approach to RI, the level of resourcing of RI activities, and ESG integration and engagement on each of our priorities. This enhancement helps us understand ESG indicators better. Through these meetings, we understand ongoing progress on the integration of ESG factors and stewardship activities across all asset classes and mandates as far as possible.

The following table provides a high-level summary of key assessment criteria and findings during meetings covering our asset managers' activities in 2023.

Key criteria	Assessment
Institutional alignment with our RI policy (Mindset)	During the year all asset managers evidenced their adherence to our RI policy and have made progress compared to 2022, especially regarding integration of climate change analysis. The asset managers provided evidence of their own policies that pertain specifically to responsible investment, sustainability and/or stewardship.
Resourcing	Resourcing levels for RI activities vary greatly between different asset managers, which for some can affect the quality of ESG integration and engagement. In 2023 we started requesting more transparent disclosure of our asset managers' resourcing of their RI activities to help provide an indication of whether this was appropriate in our opinion. This is now built into our annual RI manager monitoring template. Except for one asset manager, all of our managers have dedicated RI teams, they have disclosed the size of their RI functions and most also disclosed average years of experience.
ESG integration	Most asset managers systematically incorporate ESG factors into their investment strategies, using recognised frameworks to determine ESG factors specific to each industry. However, there are some asset managers who meet our minimum standard but we continue to monitor very closely given the risk of falling behind our expectations. During 2023 we asked our asset managers if they are integrating nature loss and biodiversity in their stewardship activities, and if not, whether they plan to do so. We found that the majority of managers have taken initial steps to integrate nature considerations in the investments process and stewardship and some are getting involved in relevant industry initiatives.

Engagement	All asset managers continued to engage with investee companies and issuers in relation to our four stewardship priorities. During 2023 we continued to increase the emphasis on meaningful examples of engagement activities undertaken by our managers to drive change and improvements, asking each of them for relevant case studies. The examples provided by the asset managers varied in quality and quantity, which means that we need to continue the dialogue on alignment of their engagement efforts with our RI policy, but also to be clear in our communications to ensure asset managers have clarity on our expectations and do not fall behind those expectations. Europe headquartered managers appeared to be slightly ahead on sharing case studies presenting engagement for change.
Reporting	In general, most asset managers made a concerted effort to provide comprehensive responses to our reporting template.

In general, we are satisfied with the methods our asset managers have implemented to incorporate ESG factors into their investment decisions. We recognise ESG factors integration into the investment process can be complex and as such a purely uniform approach cannot always be taken. Given the varying approaches and nuances behind ESG factors integration across asset managers, monitoring the effectiveness of it across different strategies within, and outside, of the same asset class can prove challenging. This presents difficulties for asset owners when trying to monitor the effectiveness of these strategies and the suitability of ESG factors in relation to specific investments.

2.3. Engagement

The Fund's direct engagement

Most of our investment management functions are handled by external asset managers. While engagement includes the active use of voting rights arising from equity ownership, it is not restricted to listed equities and should be applied with judgement and as appropriate across asset classes and all the Fund's assets and asset managers, where practical. We expect all our asset managers to exercise their rights and responsibilities in relation to the assets they have invested in on our behalf, in line with our RI policy, with the exception of voting rights for listed equity assets which we have retained internally within the Fund.

Due to this predominantly outsourced investment model, we do not have direct interactions with companies, except via BPIM engaging with relevant counterparties within the property mandate. We nonetheless aim to shape corporate behaviours indirectly, through our external asset managers, and seek to do so by influencing them in discussions about their stewardship strategies and the impact of their engagement activities. We believe that this enables us to have considerable influence across a broad range of exposures in our portfolios.

Direct engagement has been an effective method to address wider issues such as market regulation or systemic risks. In the section on systemic risks and public policy engagement, we provide some examples of our engagement on these crucial subjects.

Example: Property Tenant Engagement

Asset Class: Property

Action: In 2023, BPIM initiated its tenant engagement strategy with the primary goal of fostering interaction with our tenants. BPIM started with the three biggest retail tenants occupying properties within the Liability Matching Assets (LMA). The initial attention to assets within the LMA portfolio was because of its longer term nature – longer leases often mean limited scope for direct asset improvement.

Outcome: BPIM's initial target for tenant outreach was 40% across both the LMA and RSA (Return Seeking Assets). They exceeded their engagement targets on both the LMA and RSA, achieving 85% for LMA and 91% for RSA. However, in the initial year of the programme BPIM only received responses from 20% of tenants (likely because of limited incentive to engage from the tenants or not reaching the appropriate team or department within the company). BPIM intend to continue this programme into 2024, with a different approach, and build further tenant engagement over time. Their plan is to utilise all tenant interaction opportunities (i.e. rent reviews, applications to alter, lease renewals) to advance these discussions. BPIM will pursue their engagement with larger tenants, while JLL (their managing agent) will handle smaller property assets.

The Fund's direct engagement with asset managers

We often encourage our asset managers to report more of their engagement activities and what they do as stewards. For asset managers where we are not satisfied with their reporting, we request additional information to ensure we can accurately assess their efforts.

Example: Counterparty ESG engagement programme

Asset Class: LDI

Context: Given the LDI mandate represents a substantial part of our asset allocation, we have a significant exposure to various counterparties included in our counterparty panel. We felt it was important that our LDI asset manager incorporated ESG considerations in selection and ongoing assessment of counterparties on our panel. We also looked for a more structured engagement with the banks on the counterparty panel.

Action: We have been engaging with our LDI asset manager for multiple years on further development and strengthening of their application of RI to the LDI asset class. In early 2022, they launched a formal multi-year ESG counterparty engagement programme, covering 25 of their largest counterparties, most of which are banks on our counterparty panel. In 2023, we focused our efforts on engaging our LDI asset manager to get more insightful updates on the progress of the counterparty engagement programme, including examples of findings, feedback provided to the banks, and further steps in the overall engagement programme.

Outcome: Our LDI asset manager made significant progress in the counterparty ESG engagement programme itself and how they report to us the progress and key findings with case studies at the individual company level. This enhanced reporting allowed us to better track actions of our asset manager and the outcomes they achieved. During 2023, they met with 12 counterparties, completed 18 meetings and achieved 3 pre-defined outcomes. Additionally, the asset manager plans to join appropriate industry initiatives to further engage with the UK government and with its counterparty banks. We will continue to engage with our LDI asset manager as we believe there is both some room for improvement and further potential on expanding this engagement. Some of the topics we started discussions on are with respect to the level of resourcing for their counterparty ESG engagement programme and the overall prioritisation of this programme.

Example: Driving debtholder engagement

Asset class: Infrastructure Debt

Context: Our infrastructure debt manager, which is very well resourced with a lot of expertise in the RI space, has a significant market share in this asset class. Given their size and level of resourcing, we believe they are in a position to drive the collaborative engagement of debtholder investors, especially in the infrastructure space.

Action: During our annual engagement with the asset manager, we asked them to consider pursuing innovative solutions to drive debtholder engagement in infrastructure given this is a space we view as lagging behind. They are active participants in the Infrastructure Debt Industry Working Group, working on how the GRESB (Global Real Estate Sustainability Benchmark) approach to ESG data assessment, scoring and benchmarking can be used to inform infrastructure debt providers in the same way it does infrastructure equity providers. They are also active participants of the ESG Private Credit Working Group to try to unify ESG data collection by providing a consistent set of requirements as 'best practice' for borrowers when reporting to lenders in respect of ESG matters and facilitate lenders' compliance with their increasing ESG disclosure.

Outcome: We are pleased with the asset manager's progress over the past year and that the underlying infrastructure that we are funding is managed in a sustainable manner, in spite of their position as a debtholder. We will continue to monitor their efforts on innovative solutions to improve debtholder engagement in the infrastructure space.

Example: UN PRI membership and engagement with water companies

Asset class: Infrastructure Debt

Context: Through our monitoring of asset managers we engaged with one of our infrastructure debt managers to encourage them to become a signatory of the UN PRI and formalise a process for integrating ESG into their investment process. Additionally, although ESG considerations form part of the asset manager's due diligence process, we feel they have been reluctant to participate in stewardship efforts in relation to the assets owned, particularly with respect to water companies.

Action: Over the year we engaged with the asset manager on their efforts to become a signatory to the PRI, to develop a formalised ESG integration process and to address their lack of engagement with water companies, especially given concerns around pollution at some of these companies. Resourcing has been cited as the primary reason for the lack of progress and minimal stewardship activity given the asset manager's small size. However, we felt that a shift in mindset is necessary for the asset manager to align to our RI policy, which we have voiced. We suggested considering hiring specialist resource, utilising a specialist adviser or participating in collaborative working groups to help drive further advancement.

Outcome: They have made satisfactory progress over the course of 2023, having become a signatory to the PRI and formalising their ESG integration process including the introduction of a credit impact score. We look forward to hearing how the asset manager harnesses the PRI's resources as a new signatory and hope they can take a step forward in relation to their stewardship activities, especially in relation to engaging water companies on pollution-related issues.

The Fund's direct engagement with data and service providers

The Trustee has participated in consultations launched by some of the initiatives or providers with whom it interacted in 2023. One of the examples is the ISS Client consultation described below.

Example: 2023 ISS Annual Global Benchmark Policy Survey

Context: ISS undertook a two-stage consultation to first gather views on environmental, social and governance topics and then with respect to their benchmark voting policy changes. This means a broad range of perspectives is taken into account, including the views of institutional investors globally. The responses to the survey help inform ISS voting policy development on a variety of different topics across global markets.

Action: As part of the annual review of the ISS benchmark policy, members of the RI and CIO team of the Fund participated in the first stage and provided responses and feedback on E, S and G topics in September 2023. We pressed for these to be taken into consideration in the second stage of the consultation and for the updates in the guidelines due to be implemented by 2024. Among other things, we emphasised that the policy should be globally consistent on principles and policy application on environmental and social topics, particularly climate change, biodiversity and human rights. We also highlighted the importance of considering Just Transition concerns, and aligning companies' climate transition plans with the goals of the Paris Agreement in limiting the temperature increase to well below 1.5°C.

Outcome: ISS published its proposed benchmark voting policy changes for 2024 in October 2023. We were disappointed to observe that there was a lack of social and environmental-related amendments or improvements in it. We will engage with ISS to better understand their methodology in incorporating client feedback, including the link between survey responses and subsequent policy development. We also intend to continue engaging with ISS on raising expectations of companies' actions on climate change, human rights and other systemic issues.

The Fund's collaborative engagement

We recognise the importance of working together with other investors to progress the responsible investment agenda and optimise our stewardship efforts. Our membership of the below stewardship-related organisations and forums has enabled access to various platforms to share insights into best practices, access research, collaborate with other investors and communicate common concerns. This has helped us to provide input and feedback directly to the relevant regulators and to have influence in debates on improvement – important elements of our approach to addressing major systemic risks for the Fund.

The Fund's membership of stewardship-related organisations and forums

Occupational Pensions Stewardship Council (OPSC)

- The OPSC is a dedicated council of UK pension schemes set up by the Department for Work and Pensions (DWP) to promote and facilitate ambitious standards of stewardship.
- We joined the OPSC in 2022, and at present, we participate in the climate change and private markets work strands, to share our insights and understand best practice approaches including those in relation to shareholder resolutions and climate change reporting.
- As of the end of 2023, the OPSC merged with the UK Pension Schemes RI Roundtable creating the Asset Owner Council (AOC).

UN Principles for Responsible Investment (PRI)

- The PRI is a leading proponent of responsible investment, which supports its signatories in incorporating ESG factors into their investment and ownership decisions.
- We became a signatory to the PRI in 2008 and remain aligned with the PRI's six principles. We use their framework to report on our responsible investment activities each year. We commonly access the PRI's research to read case studies and gain insight into best practices. We share feedback directly to the PRI and through its signatory consultations.

UK Pension Schemes Responsible Investment Roundtable (RI Roundtable)

- The roundtable is a forum where UK asset owners collaborate on any topic related to responsible investment. It is a supportive group, which collectively allows for efficient gathering and sharing of information.
- We have participated in the roundtable since 2021 and find this an invaluable way for UK asset owners to build connections with our peers. The roundtable works as a collective body whose level of influence is amplified due to its size and membership and fosters collaboration with other organisations (i.e. the PRI, FRC and FCA).
- As of the end of 2023 it merged with OPSC creating the Asset Owner Council (AOC).

Institutional Investors Group on Climate Change (IIGCC)

- The IIGCC is a forum for collaboration between pension funds and asset managers to help drive forward significant progress towards achieving Net Zero and a more resilient future.
- Having joined the group towards the end of 2022, we have been mainly using the platform as a learning tool to gain insight into how we can align our portfolios to the goals of the Paris Agreement. Our intention is to expand our involvement with the IIGCC, particularly with respect to collaborative engagement.

Pensions and Lifetime Savings Association (PLSA)

- The PLSA champions improvements in pension policy for members and provides a forum for UK pension schemes to discuss best practice and key issues.
- We regularly access PLSA guides, research materials and attend their conferences so our approach to responsible investment remains in line with our peers and the PLSA's best practice recommendations.

The Fund's collaborative engagements with peers

Example: Co-chairing of the UK Asset Owner RI Roundtable

Context: We have been members of the Occupational Pensions Stewardship Council (OPSC) since 2022 and the UK Pension Schemes Responsible Investment Roundtable since 2021. The OPSC was originally convened by the Department for Work and Pensions (DWP), with secretariat run by Share Action. However, in 2023 the DWP withdrew as a convener of the organisation. This was a catalyst for the two organisations to start a merger, recognising the aims of the two organisations were similar – to bring asset owners together, capturing large and small investors alike. The aim of the merger is to have a more efficient body to address responsible investment matters relevant for the UK asset owners.

Action: In the second half of 2023 our Senior Manager Responsible Investment became the co-chair of the RI Roundtable to contribute to the efficient functioning of this collaborative engagement with peers. To carry out the practicalities of the merger and set out the terms of reference of the newly formed Asset Owner Council (AOC), the Senior Manager RI alongside the other co-chair, formed a working group, comprising members of the OPSC and the RI Roundtable. The merger working group was supported by the PRI providing the Secretariat and liaised with representatives from the FRC in their capacity as a chair of the Stewardship Regulators Group.

Outcome: The details of the newly emerged Asset Owner Council are to be finalised in 1Q 2024 (i.e. Terms of Reference) but the group has commenced to fulfil its purpose by providing a forum for:

- Sharing best practice on investor stewardship and responsible investment implementation
- Engaging with regulators/government in a coordinated way
- Encouraging ambitious standards of stewardship and collaboration among asset owners (including offering practical support for smaller asset owners)
- Encouraging open and honest discussion among practitioners.

PRI is continuing to run the initiative's secretariat and there are a number of active working groups already (i.e. Voting Alignment Group, Corporate Governance Group), in addition to a regular meeting with representatives from the Stewardship Regulators Group (for example including representatives from the FCA, DWP, TPR, FRC), referred to as the Alphabet meeting which has been originally initiated by the OPSC. Next steps are to appoint the AOC Steering Group.

Our asset managers' direct engagement

Given our outsourced model of direct engagement, it is expected that our external asset managers will maintain ongoing interactions with companies, regulators, investors and other stakeholders. This continuous engagement can greatly aid in understanding significant issues impacting their investments and enables them to leverage their influence to instigate substantial and focused change.

Throughout the reporting period, our asset managers have carried out numerous direct engagements and have been able to evidence pertinent stewardship activities including outcomes as part of the yearly review process.

We acknowledge that our asset managers are at different points in their stewardship journey. However, we welcomed the proactive measures our asset managers undertook to address significant factors such as governance, climate change and human rights throughout their investments' lifecycle. Many of these are systemic issues that are of significance broadly across our investment portfolio, and so the efforts of our managers in these areas have benefits beyond just the positive outcomes for individual issuers.

In our 2023 asset manager reporting template, we enhanced the section on stewardship activities and outcomes. This has enabled us to be more granular in our discussions with asset managers and to set higher expectations for their stewardship work – which we believe gives us more scope for positive outcomes from our dialogues with them. Similar to last year, our asset managers were asked to differentiate the examples provided into two categories - engagement for change and engagement for information. This year we put more emphasis on asking our asset managers for evidence of their stewardship activities in both quality and quantity. We have included some example case studies below.

Based on the asset managers' responses to our reporting template and subsequent discussions during the annual RI-focused meetings, we were able to quantify the number of asset managers who provided significant engagement examples based on their asset class expectations in our framework. This is illustrated in the table below.

Engagement examples pertaining to the following stewardship priorities	Number of asset managers in 2022*	Number of asset managers in 2023
Climate change	14/15	11/15
Human rights	6/15	10/15
Board effectiveness	8/15	7/15

*We have removed asset managers which were terminated in 2023, hence the values differ to those presented in the 2022 Stewardship Report

In comparison to 2022, there was a redistribution of the number of asset managers providing significant engagement examples across each of the priorities. Overall, the number of managers providing meaningful human rights examples increased by four, while those providing climate change and board effectiveness examples decreased by three and one respectively.

Examples of our asset manager's direct engagement

Through our asset manager monitoring process, we were able to develop the following selection of engagement case studies, which we feel helps to capture the breadth and depth of issues our asset managers have tackled with companies in which the Fund was invested in during 2023.

Environmental: Climate Change

Example: Disclosure of carbon footprints and commitment to CDP reporting
Engagement led by Nikko Asset Management

Sector: Automotive
Asset class: Listed Equity – Active

Action: The asset manager initially requested the company to disclose its carbon footprint, set targets and commit to CDP reporting. However, after recognising the company's extensive climate strategy work, including the publication of Scope 1, 2 and 3 emissions and the establishment of targets across all scopes, the focus shifted towards Scope 3 emissions. The asset manager appreciated the targets but saw room for improvement in the company's ambition. It therefore sought further measures to reduce Scope 3 emissions and urged for more disclosure and accessibility of information for non-US investors.

Outcome: Essentially, all of the asset manager's initial expectations have been fulfilled. However, the issue persists that climate-related information is not presently accessible to investors based outside the US. As a result, third-party ESG providers such as MSCI continue to penalise the company for not having clear targets. The newly adjusted expectations are still being evaluated and will be closely monitored.

Example: Net zero emissions
Engagement led by M&G

Sector: Energy
Asset class: UK Corporate Bonds

Context: A proposal was put forward to the company, a worldwide oil and gas producer, to set a clear Scope 3 target for all emissions.

Action: The asset manager interacted with the company's investor relations, urging the company to establish a clear Scope 3 target for all emissions by the 2024 AGM. The asset manager is eager to see proof that the company is helping its customers expedite their own transition, similar to what has been observed in other sectors that are difficult to decarbonize.

Outcome: The company has committed to achieving Net Zero emissions by 2050 and has set a global target to reduce Scope 3 emissions from oil by 40%. However, this target does not extend to broader Scope 3 emissions, for which the company plans to maintain only intensity targets. To support their customers in reducing carbon emissions, the company has created a specialised division and is making substantial investments in research and development. One-third of the company's capital expenditure is dedicated to green energy projects, a ratio that is anticipated to remain consistent in the next cycle. The company has affirmed its proactive role in advocating for renewable energy policies in Europe and currently has 80GW of renewable projects underway. Moving forward, the asset manager intends to reconvene with the company to share its thoughts on the metrics and KPIs to be included in the company's 2023 Sustainability and Climate report.

Social: Human Rights

Example: Human rights across the supply chain
Engagement led by Wellington Management

Sector: Social Technology
Asset class: Global Corporate Bonds

Action: During the final quarter of 2023, the asset manager engaged with the company to better comprehend their approach towards responsible AI and human rights. The company faced criticism in early 2023 for allowing unrestricted downloads of its initial AI model. In response, the company restricted access and integrated controls into its revised model. In general, even though the asset manager continues to view the company's social risks as higher than its peers, it appears that the company is making progress in handling the complex social challenges it faces. This perspective has been strengthened through the asset manager's interactions with the company. In relation to human rights, the asset manager noted that there was more clarity needed on the consistency of metrics over time, however, the existing disclosures remained extensive and had significantly improved from prior years.

Outcome: The asset manager is content with the information received and will continue to monitor the situation. In terms of human rights, the asset manager noticed a requirement for more uniformity in metrics over time. Nonetheless, the current disclosures are thorough and represent a substantial improvement from past years. The asset manager expects continued improvements as the company responds to the results of their risk assessment and enhances their annual human rights reporting.

Example: Human Capital Management Practices
Engagement led by Capital Group

Sector: Mining and Materials
Asset class: Global Corporate Bonds

Context: In 2022, the company released the findings of a report summarising an independent review of workplace culture that uncovered systematic instances of bullying, as well as a high rate of individuals who had reported sexual harassment and racism at work. The asset manager's analysts had earlier engaged with the company on this matter in February 2022, subsequent to the report's publication.

Action: In March 2023, ESG and equity analysts from the asset manager interacted with the company to review how it had enhanced human capital management practices and to reflect on the most recent audit of the company's cultural heritage management system. The company conveyed that it has since put into action 85% of the report's recommendations, with the goal of implementing 100%, and is also investigating new metrics to track its human capital management initiatives. The company has also disclosed the outcomes of an extensive third-party audit of its cultural heritage management systems, as part of its remediation strategy following the destruction of Juukan Gorge. The company was looking to further demonstrate its dedication to enhancing stakeholder relations in Australia and for example expressed interest in facilitating future disclosures, thus providing investors with the ability to closely monitor the company's progress.

Outcome: The asset manager will continue to oversee these disclosures and the advancements the company achieves in its relations with the community and efforts in human capital management.

Governance: Board Effectiveness

Example: Ensuring diversity across the board
Engagement led by Capital Group

Sector: Telecommunications
Asset class: Global Corporate Bonds

Context: The company, a US-based company, offers broadband connectivity and cable operations. The asset manager's ESG investment framework for telecommunication services emphasises board composition and diversity. This emphasis is increased by the need for fresh perspectives as the sector transitions from Pay TV to broadband and wireless.

Action: To address concerns about governance risks, the asset manager's analysts engaged with the company multiple times over the years, advocating for board refreshment and an enhancement in diversity. The most recent interaction was in November 2023 and covered both board composition and diversity. On board composition, the analysts pointed out that former CEOs and representatives of dominant companies occupy nearly half of the board seats. This could potentially hinder productive boardroom discussions and independent supervision. To underscore this concern, they asked for more transparency regarding these directors' contributions. On board diversity, the analysts encouraged the company to take meaningful steps for improving diversity, to help bring forward innovative ideas and broader perspectives.

Outcome: Since the asset manager's engagement, the company has been actively addressing concerns about board composition. The company has shown a growing readiness to nominate new candidates for board positions, indicating a greater openness to new viewpoints. The company also responded positively to the asset manager's call for more transparency about the board. In terms of board diversity, the company has pledged to appoint a female board member at the next vacancy. The asset manager was encouraged by the company's commitments to date and will continue to monitor and engage with developments.

Example: Ensuring checks and balances within the company board
Engagement Led by Nikko Asset Management

Sector: Medical Technology
Asset class: Listed Equity – Active

Context: In 2022, the asset manager initiated active engagement with the company to comprehend the unexpected acquisition of another firm in February 2022. This raised questions about the checks and balances within the company's Board, where the CEO is also the founder. The importance of ongoing engagement on issues related to corporate culture and the power balance at the Board level, particularly between the CEO and other Directors, was emphasised. Towards the end of 2022 and the start of 2023, the company became the target of a campaign by a shareholder activist, which underscored the urgent need for enhanced independent oversight and greater accountability on the company's Board.

Action: Between November 2022 and June 2023, the asset manager conducted four calls with the company to address governance and activist concerns. In May 2023, the asset manager met with the company to get updates on the dispute between activists and management. They noted signs of slow progress towards the change. To escalate the engagement, the asset manager voted for more CEO oversight and supported expanding the board from 5 to 7 with individuals nominated by the activist shareholder. A November 2023 meeting with the CFO indicated positive changes and showed progress being made.

Asset manager's collaborative engagement

Participation in collaborative initiatives and engagements is also one criteria of the asset manager monitoring process. We encourage our asset managers to participate in various forums and industry initiatives, as we believe that through combining assets under management, they can engage more effectively with the Fund's larger holdings that typically have high market capitalisation and/or a fragmented investor base. Additionally, we believe that interacting with other asset managers allows cross-fertilisation of different approaches to stewardship and engagement which in turn help with development of best practices and standards. Some examples of our asset managers' collaborative engagements are:

Example: Encouraging companies to set targets for reducing emissions
Engagement led by Royal London Asset Management

Sector: Energy
Asset class: UK Corporate Bonds

Context: As part of its Net Zero Stewardship Programme and in accordance with its Net Zero Asset Managers Initiative (NZAMI) commitment, the asset manager aimed to scrutinise and engage with companies that account for a minimum of 70% of the emissions financed by its investments by 2030. The goal was to encourage these companies to adopt targets for reducing emissions and plans for transitioning to a climate-friendly model, all backed by scientifically sound methodologies. The intention of this strategy was to drive decarbonisation in the real economy.

Action: The asset manager, as a participant in Climate Action 100+, engaged with the company on corporate lobbying and noticed potential inconsistencies between the responses to EU consultations from the company and its subsidiary. The company clarified that its subsidiary was advocating for more policy options rather than opposing proposals. The asset manager plans to continue engagement on climate and broader ESG issues due to the company's significant role in the transition. During the CA100+ collaborative engagement, the focus was on enhancing the company's emission targets, reducing Scope 1 emissions and refining disclosures related to various environmental factors.

Outcome: The company has established new goals to decrease its Scope 1 emissions from power production by 60%, 70% and 80% by the years 2025, 2030 and 2035, respectively, using 2017 as the reference year. The firm has already cut its Scope 1 emissions in half between 2017 and 2022. The company also provided more details about its Net Zero by 2050 objective, confirming that it encompasses Scope 3 emissions, which make up nearly 80% of its current emissions. The goal involves reducing emissions by a minimum of 90%, with the remaining 10% being offset through high-quality carbon removal projects post-2030.

Escalation of engagement

While we believe in continuous dialogue, relationship building and collaboration to promote lasting positive change, we acknowledge the need for the escalation of engagement issues in cases of material issues and/or where the company is slow to respond to concerns. We encourage our asset managers to have systems in place to facilitate the tracking and prioritisation of issues for escalation. When monitoring asset managers on their escalation activities, we request the following information:

- methods the asset manager used to escalate issues with entities where engagement had not been achieving the desired outcome.
- outcomes of escalation that is ongoing or concluded within the year. This may include (but is not limited to) actions or changes made by the party engaged with, how outcomes of escalation have informed investment decisions (i.e. buy, sell, hold), any changes in the escalation approach, and whether objectives were met.

Examples of our asset managers' escalation of engagement

Below we highlight some examples of how our asset managers have escalated their engagement with companies, including examples that have led to a decision to divest and examples where the escalation has not yet been achieved and the engagement is still ongoing.

Example: Concerns about corporate governance transparency
Engagement led by Nikko Asset Management

Sector: Medical
Asset class: Listed Equity – Active

Context: The company provides home medical equipment, serving hospitals, sleep labs, nursing facilities and clinics. At the 2022 AGM proxy voting adviser ISS recommended withholding support for three directors based on weakness of the company's internal controls and the board's failure to remove the classified structure. Such structure divides the board into three staggered classes of directors (designated Class I, Class II, and Class III), with each class having a three-year term, as this can entrench management and deter takeovers and proxy contests, which our asset manager believes could adversely impact shareholder rights.

Action: The asset manager recognised the company's strategic vision, however, felt there was work to do in terms of governance. In 2023 they engaged with the company to better understand if the financial controls issue was a function of a rapid change in business and were also keen to see a commitment to ending the classified board structure.

Outcome: Although the company remains well placed strategically, the asset manager has become increasingly concerned about the company's ability to deliver on the position, with management having consistently over promised on improved financial performance. Due to the unsatisfactory performance at senior management and uncertainty created by the CEO's departure, the asset manager did not see this as a tangible sign of improvement in the company's governance practices. As a result, the manager divested from the stock.

Example: Strategy for reducing carbon emissions
Engagement led by Wellington Management

Sector: Environmental services
Asset class: Global Corporate Bonds

Context: The company is a provider of crucial environmental services, which include water provision, sanitation, waste collection and recovery operations, catering to clients globally.

Action: The asset manager interacted with the issuer on environmental matters, seeking an update on their strategy for reducing carbon emissions, following previous discussions on this subject. From this interaction, the asset manager discovered that the company has not yet set ambitious goals for reducing carbon emissions and, in their opinion, the company is not adequately addressing the emissions related to their waste-to-energy business segment. While there is some understanding of the difficulties involved, the asset manager believes that the company could make greater efforts to investigate solutions such as carbon capture. Despite multiple discussions on this subject, the asset manager believes the issuer has made minimal progress in its strategy for reducing carbon emissions.

Outcome: Following a combined evaluation of ESG and credit factors, the asset manager decided to fully divest from the issuer. The asset manager intends to maintain engagement with the issuer to stay informed about its strategies for managing environmental risks as they evolve.

Systemic risks and public policy engagement

As an asset owner with investments across different jurisdictions and asset classes, systemic risks could directly affect our ability to pay pension benefits to members if they are not monitored and addressed adequately. Public policy engagement helps us proactively understand systemic ESG risks in the wider economy and manage such risks in our portfolio.

In addition to ESG-related systemic risks, the Fund is exposed to the broad array of financial, political and geopolitical risks typical of the financial industry. Changes in the global economic environment can often have immediate material impacts on financial markets and their participants. We use an internally defined Investment Risk Return Framework (IRRF) to assess the risk and performance of the Fund's investment strategy on an ongoing basis. It is regularly reviewed and updated, including the risk metrics used, to ensure its ongoing suitability for our evolving investment objectives. Additionally the Fund has a risk framework and policy that included consideration of the Fund's principal and emerging risks. It seeks to avoid incidents and enhance business outcomes by understanding the risk environment and allowing us to identify, assess, manage, monitor, and report risks.

Moreover, we recognise that without action from governments and policy makers, we will not be able to achieve real economy decarbonization. Hence, it is necessary to continue to develop the Fund's direct and collective engagement endeavours to support policy and regulation relevant for achieving global net zero emissions by 2050 or sooner.

We continue to monitor and as relevant assess the materiality of impact to the Fund from other ESG risks, which may only have a local/issuer level impact but may in the future become more relevant globally.

As a large asset owner, we recognise the strength of our influence not only affects idiosyncratic risk within the Fund but can also drive systemic and market-wide change. As such, we endeavour to actively engage with financial industry participants and participate in initiatives where we have expertise and an opportunity to contribute towards the well-functioning of financial markets and the overall economy.

Example: Engagement with IIGCC Sovereign Bonds and Country Pathways Working Group

Context: A representative from the Fund's RI team took part in the IIGCC Sovereign Bonds & Country Pathways Working Group. The group concentrated on three key areas:

- Data: The objective was to approve additional data sources and discuss expectations for sovereign disclosure.
- Methodology: The aim was to revise and enhance the methodology, and offer guidance on targets for portfolio coverage, engagement threshold and reference target for portfolio decarbonisation.
- Engagement: The goal was to lay the groundwork for upcoming collective engagement efforts related to sovereign bonds.

Action: The group's primary task was to draft the guidance for setting net zero targets and implementing them for sovereign bonds, which will be included in the next version of the net zero Investment Guideline. Given the importance of sovereign bonds to the Fund and the existing ambition for net zero, we believed it was in the best interests of the Fund to actively participate in the process of determining what is material for an LDI investor and contributing to the thinking about what stewardship options are available. We participated in two sub-groups: one focused on identifying the correct methodology for apportioning emissions, and the other on reviewing and endorsing tools for Sovereign Net Zero Assessments.

Outcome: The guidance for setting net zero targets and implementing them for sovereign bonds investments is in its final draft stage and is expected to be published in the first half of 2024.

2.4. Voting

Approach to voting

Another significant method we employ to influence the companies we invest in is through shareholder voting. By investing through segregated mandates across all our listed equity portfolios, we retain the right to directly exercise the voting rights associated with our holdings. As part of our voting policy, we exclusively reserve our voting rights. We use these voting rights, wherever possible, to promote responsible long-term behaviour in the companies we invest in. We always vote in the best interests of the Fund. We see voting as a crucial investor right that allows us to voice our stance on key issues, such as those related to our stewardship engagement priorities.

Our voting process is systematic and rigorous, incorporating research and vote recommendations from our proxy voting adviser, Institutional Shareholder Services (ISS), and our passive equity external asset manager, LGIM. We also take into account the views of our other asset managers, who often provide valuable insights through their direct engagement with the companies in our portfolios. We cast our votes in the best interests of the Fund, in line with our RI policy, and exercise discretion when deciding whether to follow the recommendations of LGIM, ISS, or our asset managers.

In recent years, the Fund's allocation to listed equities has significantly reduced due to de-risking measures. This reduction in the number of companies in the equity portfolio means we have fewer opportunities to effect change in any given year. Consequently, engagement has become even more critical for us, and we have consistently urged our asset managers to provide evidence of their impactful and effective stewardship activities.

The reduction in allocation to listed equities has also prompted us to reconsider the reasoning behind our stock lending programme. After a detailed examination of this issue, including its impact on the voting process, we decided in March 2023 to discontinue the stock lending process. By May 2023, all stocks had been recalled and the stock lending programme is now fully terminated.

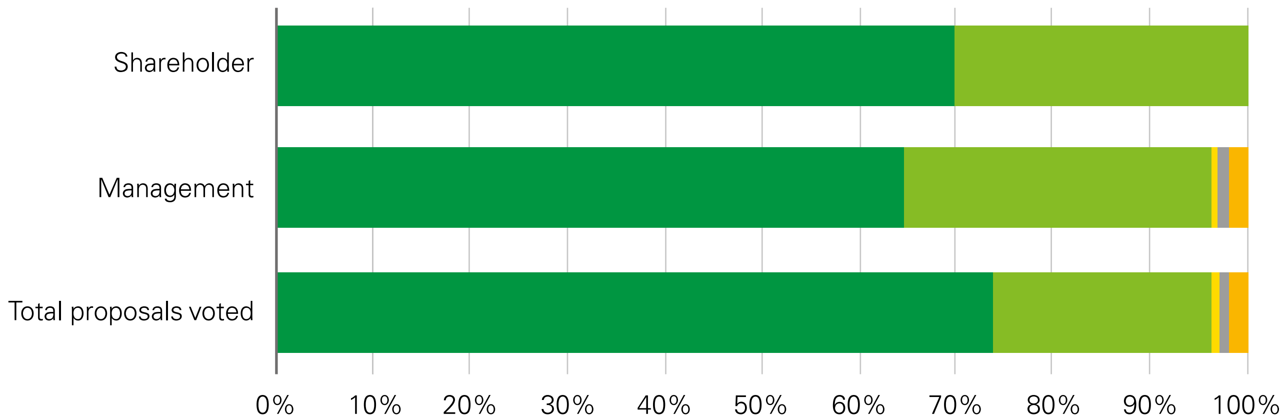
Proxy voting statistics

The tables below present our voting statistics from 1 January 2023 to 31 December 2023. During the reporting period we voted on 5,195* votable proposals, accounting for 96.8% of all votable proposals. We voted in favour of 3,867 (74.8%) resolutions, voted against 1,113 (21.5%) resolutions and, abstained, withheld, or voted on 'one year' items for the balance (3.7%).

We voted against management on 1,217 resolutions (23.5% of total). Of these, 1,079 (88.7%) resolutions were management proposals and the rest shareholder resolutions (11.3%). We voted against ISS on 886 resolutions (17.1% of total voted). Of these, 817 (92.2%) resolutions were management proposals and the rest shareholder proposals (7.8%).

*This includes 26 proposals related to the proxy contests where the voting instruction was set to Do Not Vote (DNV) meaning that these votes were not placed through the proxy chain. The DNV proposals are excluded from the voting statistics presented in the tables.

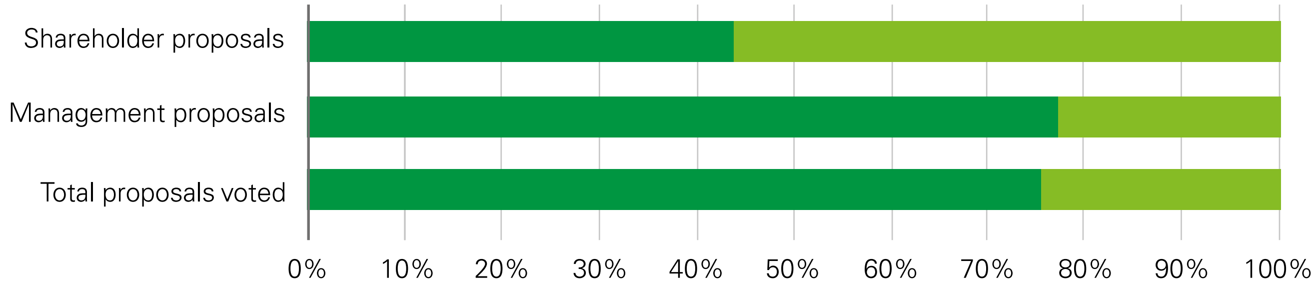
Summary of total proposals voted in 2023 based on ISS data



	Total proposals voted	Management	Shareholder
For	3,867	3,694	173
Against	1,113	1,039	74
Abstain	31	31	0
Withold	58	58	0
One year	100	100	0

For   Against   Abstain   Withhold   One year

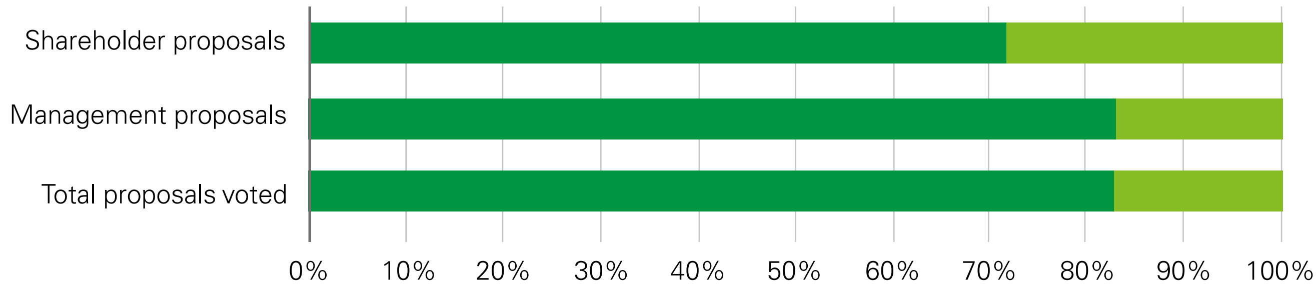
Summary of votes with and against management based on ISS data



	Total proposals voted	Management proposals	Shareholder proposals
Votes WITH Management	3,952	3,843	109
Votes AGAINST Management	1,217	1,079	138

Votes WITH Management Votes AGAINST Management

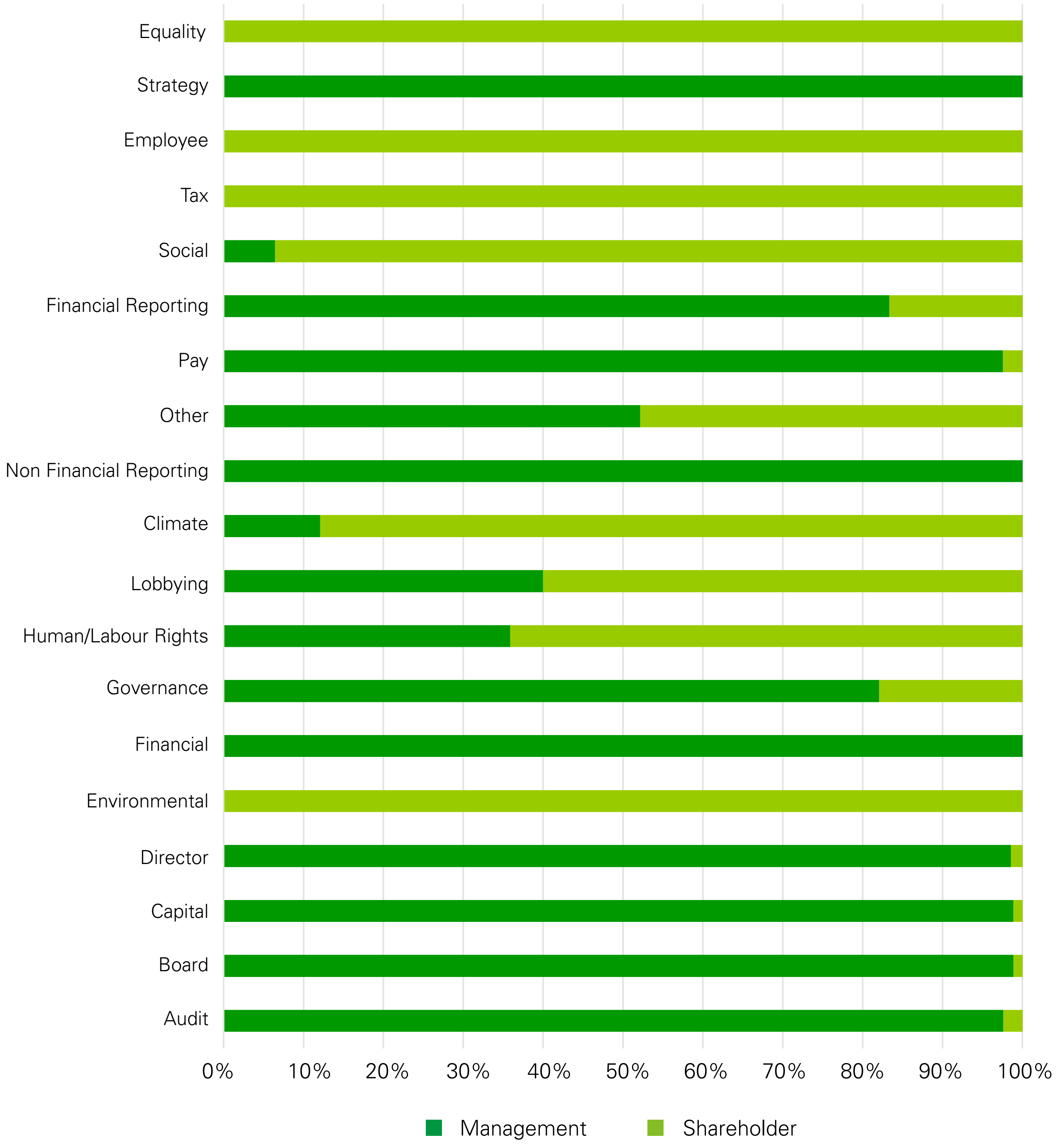
Summary of votes with and against ISS based on ISS data



	Total proposals voted	Management proposals	Shareholder proposals
Votes WITH ISS	4,283	4,105	178
Votes AGAINST ISS	886	817	69

Votes WITH ISS Votes AGAINST ISS

Proportion of total management and shareholder resolutions voted in 2023 (based on internal vote categorisation and ISS statistics)



Significant votes

We give special attention to votes that we consider to be of high importance. The determination of which votes are deemed significant is based on several criteria, including those specified by the PLSA. We employ a systematic filtering process that means uniform treatment for companies that may be included in more than one mandate, thereby refining the votes that require further examination and ultimately identifying those that fall into the category of significant votes.

In summary, votes that meet the following criteria (which are reviewed annually) are considered significant. It is worth noting that this list is not exhaustive, and it is possible that a theme, issue, or company that was not previously deemed significant has become more prominent by the time voting decisions are made:

- High-profile or controversial votes - these include votes with a significant level of investor opposition to a company resolution, a significant level of support for an investor resolution, or a degree of media interest.
- Votes with potential financial implications - some votes may be seen as having a substantial impact on the future performance of the company.
- Votes with a potential impact on a stewardship outcome.
- Votes related to an identified conflict of interest with the Trustee's asset managers.
- Votes in non-listed equity asset classes.

In addition to votes that meet the above criteria, we also regard votes related to our stewardship priorities as significant and devote considerable attention to them.

As part of the process to identify significant votes, we use data on upcoming resolutions from our proxy voting advisor ISS. We also map these to the resolutions that have been flagged by the UN PRI, Climate Action 100+, and ShareAction. Additionally, we monitor the votes at our holdings that might be flagged by the UN Global Compact.

Examples of significant votes during 2023

Trustee stewardship priority: Climate Change

Company name	The TJX Companies
Sector	Retail
Summary of the resolution	This US clothing company proposed the re-election of its Chair.
Voting recommendations	ISS recommended a vote in favour of this resolution. However, LGIM recommended voting against it due to the company's inaction after being informed that it did not meet LGIM's minimum standards related to climate change.
Our vote	We cast our vote against the Chair's re-election.
Rationale for our vote	We observed that TJX has set a net-zero target, but it does not include Scope 3 emissions. As a clothing company, most of TJX's carbon footprint is in its upstream supply chain, yet it does not calculate its Scope 3 emissions from its purchased goods, which places its disclosures behind those of its peers. This, along with LGIM's recommendation, led us to vote against the Chair.
Vote outcome	Despite this, the Chair was re-elected with 92.8% of the votes in favour and 7.1% against.

Company name	The Travelers Companies
Sector	US Insurer
Summary of the resolution	Green Century Capital Management, a US asset manager, proposed the adoption of a time-bound policy to cease underwriting for new fossil fuel exploration and development.
Voting recommendations	Travelers management and ISS opposed this proposal, while LGIM supported it.
Our vote	We cast our vote against this resolution.
Rationale for our vote	We concluded that the resolution was overly restrictive, particularly considering that the company has not yet established a 1.5-degree target for its underwriting portfolios. We would anticipate the company to initially adopt a net zero target for its underwriting portfolios before considering endorsing a request for this target to be more rigorous by discontinuing the underwriting of new fossil fuel supplies.
Vote outcome	The opposition to management was minimal, with 8.7% of votes supporting this resolution, 1.3% abstaining and 90% opposing it.

Company name	The Toronto-Dominion Bank
Sector	Banking
Summary of the resolution	InvestNow, a Canadian non-profit organisation that promotes investment in Canadian Natural Resources, asked the Canadian bank to pledge to continue investing in and financing the Canadian oil and gas sector, and to ensure that none of its policies inadvertently promote divestment from the sector.
Voting recommendations	The management, ISS and LGIM all recommended voting against this. We also voted against the shareholder resolution. The bank is part of the Net-Zero Banking Alliance and is committed to achieving net zero by 2050. In response to the resolution, the Board stated that it supports the financing of responsible conventional energy programmes and refuted the claim that it encourages divestment from the sector.
Our vote	We cast our vote against this resolution.
Rationale for our vote	We found the resolution to be too restrictive and believed it could hinder the bank from tightening its transition goals in the future, if this is necessary to meet its net zero target.
Vote outcome	The opposition to management was minimal, with 1.8% of shares, divided between 1% in favour of this resolution and 0.8% abstaining. The majority of the votes, 98.2%, were against the resolution.

Trustee stewardship priority: Human Rights

Company name	Metro Inc
Sector	Food and Pharmaceuticals Retailer
Summary of the resolution	A proposal from a shareholder called for an independent evaluation of the impact on human rights of migrant workers within the company's operations and supply chain.
Voting recommendations	Both management and ISS opposed this resolution, while LGIM supported it.
Our vote	We backed this shareholder resolution.
Rationale for our vote	Metro has disclosed in detail its processes and policies to safeguard the rights of all workers within its operations and along its supply chain. The company is also considering broadening the scope of its oversight mechanisms, and as far as we are aware, there also does not seem to be significant human rights controversies involving Metro. However, considering the significant presence of migrant workers in Metro's supply chain, we believed that an independent assessment would assist the company in identifying any potential issues and areas for improvement.
Vote outcome	The opposition to management was relatively high, at 28.8% of votes, with 71.2% against the resolution.

Company name	Hershey Company
Sector	Confectionary
Summary of the resolution	A shareholder resolution requested Hershey to issue a report detailing whether and how its living wage statement and its planned implementation will eliminate the use of child labour in its West African cocoa supply chain by 2025.
Voting recommendations	Hershey management and ISS opposed this resolution, while LGIM supported it.
Our vote	We cast our vote in favour of this resolution.
Rationale for our vote	The company discloses information about its cocoa sourcing policies and practices and how it manages general supply chain human rights risks, particularly those related to child labour. Furthermore, the company seems to be making significant efforts to address the root causes of child labour in the cocoa supply chain by creating programmes aimed at enhancing the livelihoods of cocoa farmers and communities. However, the proponent argues that the company's Living Wage and Income Position Statement lacks a specific, time-bound commitment and action plan for implementation. The proponent cites the International Labour Organisation Convention 182 and the UN Sustainable Development Goal 8.7, which call for the eradication of all child labour by 2025. We believe that the suggested report would offer more information to shareholders and assist them in better evaluating whether the company's Living Wage and Income Position statement will contribute to the elimination of child labour in the company's cocoa supply chain.
Vote outcome	The opposition to management was very low, with 3.9% of shares, divided between 3.6% in support of this resolution and 0.3% abstaining. The rest of the votes, 96.1%, were against the resolution.

Company name	Nike Inc
Sector	Sports Apparel
Summary of the resolution	The UK activist investor and shareholder advocacy group Tulipshare submitted a precatory proposal requesting a report assessing the effectiveness of Nike's existing supply chain management. It is concerned that Nike has not provided adequate analysis regarding the efficacy of traceability steps taken to address the risks of alleged Uyghur forced labour across its supply chain tiers. The proposal suggested that Nike should publish a report detailing the methods and metrics used to evaluate performance on forced labour and wage theft risks, among other disclosures. The communication manager of Tulipshare pointed out that Nike allegedly breaches OECD guidelines in its treatment of garment workers in Cambodia and Thailand. Nike is among the leaders in its peer group when it comes to the scope of its suppliers' audits (tier, 1, 2 and 3) but it is in the middle of the pack on its raw materials sourcing according to our ESG data provider.
Voting recommendations	Nike management and ISS opposed this resolution, while LGIM supported it.
Our vote	We supported the resolution.
Rationale for our vote	We supported the resolution in order to signal to Nike that this is an issue we would like them to continue to prioritise and disclose more about its progress.
Vote outcome	While 12% of shareholders voted for the resolution, 88% were against the resolution, which was rejected. The board of directors deemed it 'unnecessary', citing Nike's 'commitment to ethical practices' that permeate its operations and supply chain, starting 'at the highest level'.

Trustee stewardship priority: Board effectiveness

Company name	Masimo Corporation
Sector	Medical Technology
Summary of the resolution	A proxy dispute occurred at the US medical technology Masimo, where the dissident proxy card called for the election of two dissident nominees, in place of the re-election of two management-nominated directors. The proxy battle arose from disagreements over Masimo's announcement of the acquisition of Sound United. This approximately $1 billion deal triggered a fall in Masimo's market cap by nearly $5 billion. Even if there were some positive aspects, the transaction fundamentally altered the nature of the company.
Voting recommendations	ISS recommended voting for the dissident nominees due to the board's actions. It also flagged concerns about the company's corporate governance, which it analysed as being designed to back management at the expense of shareholders. While management advised withholding votes for the dissident nominees, Nikko, the fund manager which is invested in the stock, voted for the dissident nominees for the shares for which it had voting authority delegated, trusting that increased oversight of Masimo's management would likely benefit shareholders through improved financial performance and governance.
Our vote	We cast our votes for the dissident nominees, agreeing that there was a need for change.
Rationale for our vote	We believed that the board should improve its relationship with shareholders and demonstrate its ability to oversee management effectively.
Vote outcome	Both dissident nominees were elected, with one receiving 77% of the votes in favour and the other receiving 65%.

Company name	Berkshire Hathaway
Sector	Conglomerate
Summary of the resolution	A shareholder proposal at Berkshire Hathaway, a US conglomerate with significant involvement in the insurance, freight rail transportation and utility sectors, asked the company to disclose how it governs climate-related risks, including the audit committee's oversight of such risks and disclosures
Voting recommendations	Management opposed this resolution, while LGIM and ISS supported it.
Our vote	We cast our vote in favour of the resolution.
Rationale for our vote	While the company has taken measures to clarify how the board manages climate-related risks and opportunities, stating that the audit committee is responsible for overseeing these matters, it does not disclose information about the climate risk-related skills it seeks in its directors, nor does it provide information on how the audit committee has considered climate concerns throughout the year. We believed that the information requested would be beneficial and would enable shareholders to assess the board's oversight of climate change risks.
Vote outcome	The opposition to management was relatively significant, with 18.3% of shares voting in favour or abstaining. The rest of the votes, 81.6%, were against the resolution.

2.5. Rights and responsibilities

We believe that active ownership and making use of our voting rights is part of our duty as an asset owner.

In addition to voting rights related to our listed equity holdings, we are mindful of our rights and responsibilities across other assets, for example related to property and private equity investments made by our internal manager, BPIM.

Property
As a real estate landlord, BPIM often engage with tenants when they wish to make improvements to the buildings they occupy. These improvements might relate to building safety or ESG upgrades such as adding solar panels or EV charge points. BPIM collaborate with the occupier in order that the works are in accordance with the lease terms and are executed properly. In certain situations, BPIM may offer to contribute towards the cost of these works.

In terms of enforcing our rights and responsibilities, BPIM employ external managing agents to regularly inspect properties within the portfolio to confirm the tenant is occupying in accordance with the lease provisions and the ongoing value of the asset is maintained.

Private Equity
BPIM's investor rights are strictly limited by the governing documents given it is investing via limited partnership structures that are the standard legal structures for all our PE mandate's fund and co-investment holdings. This is an intentional requirement to maintain the 'limited liability' status of all investors. This structure protects the relevant fund's investors in the same way that shareholders are largely protected from legal responsibility of the actions of executives of companies. Limited Partner rights will be limited to specifically defined voting opportunities to change key commercial terms, and in exceptional circumstances often the ability to remove the management of the fund and/or elect for an early termination of the fund. Therefore, a private equity investor's ability to influence the management and approach that the general partners take in the day to day management of the fund, including the influence or control they may exert on the underlying corporate entities within the fund is substantially limited.

Prior to investing, BPIM PE conducts a thorough due diligence process to ensure they are comfortable that the manager will adopt a suitably responsible approach, as dictated by the fund documents, prospectus, and responses to diligence questions. Although BPIM as an investor has a degree of informal commercial influence in communicating preference or required standards that it expect managers to meet during this fund-raising process, and while an active investor, ultimately the General Partner will set out its position and the extent it is legally bound in its fund documentation and promotional communications with prospective investors. It is usual to see extremely limited/minimal legal commitments to specific conduct, beyond adhering to local laws and regulations. Investors cannot collectively negotiate in direct collaboration with other prospective investors to set terms. This is where independent industry bodies are key in engaging with multiple stakeholder groups and can provide industry guidelines and best practice documents with the aim of improving standards and transparency. BPIM is a member of the British Private Equity & Venture Capital Association (BVCA) and the Institutional Limited Partners Association (IILPA) and proactively engages with both in formulating and the promotion of best practice.

In recent years, third party service providers (for example RepRisk which BPIM uses to actively monitor their investments) have also increased the accountability of managers to broader stakeholders by filtering publicly available information as a paid for service that investors and others can subscribe to.

2.6. Reporting

We consistently provide updates on our responsible investment initiatives to the Trustee Board and relevant Committees. In accordance with regulations, our annual implementation statement is included in the Fund's annual report and financial statements. Additionally, we released our second annual climate change report in July 2023, aligning with the DWP Climate Change regulations and following the Task Force on Climate-related Financial Disclosures (TCFD) guidelines.

All regulatory reports and relevant policies can be accessed through the Fund's website, PensionLine.

2.7. Assurance of our stewardship approach

Given our overall outsourced investment model, most stewardship activities taken on behalf of the Fund are conducted by our asset managers. As such, an important form of assurance is our monitoring and oversight of our asset managers, which was described in detail in previous sections.

As part of the review of stewardship priorities we conducted in 2023, in addition to both the validity and applicability of those priorities, we also looked to assess the effectiveness of our implementation approach since establishing our RI Policy.

Additionally, we engage with independent experts and consultants to provide unbiased assurance and additional oversight on our stewardship practices, offering valuable insights that could lead to improved strategies and execution. We regularly seek external validation that the guidelines of our RI policy are effectively implemented.

We consistently interact with our counterparts and conduct in-house research to align our stewardship approach with the best practices of asset owners and identify potential areas for enhancement.

Here are some instances where we sought assurance:

- During the inception of our RI policy, we sought advice from our strategic adviser, Redington, and an independent RI specialist.
- We have a systematic review process in place so that our investment policies remain current, suitable and reflect our ambition for stewardship and responsible investment.

As the field of stewardship and responsible investment assurance evolves, we continue to leverage independent insights to identify ways to improve our approach to ESG integration and stewardship.

Our external advisers have reviewed this report and provided their feedback. With the assurance this provides, the Trustee is satisfied that this report accurately, clearly and informatively summarises our stewardship activities and outcomes.

Looking ahead

As responsible and active asset owners, we are dedicated to managing our assets in a manner that prioritises our Fund, while also acknowledging the long-term effects of our investment choices on both the environment and society.

Through this report, we aim to highlight the advancements we've made and aspire to continue on this path of stewardship. We take pride in the efforts we've made during the reporting period to refine our approach to stewardship and responsible investment.

We believe that the improvements and developments we made over the course of 2023 provide a powerful means of progressing both the effectiveness of our, and our asset managers', stewardship activities, and the breadth and relevance of the issues we consider.

While our responsible investment approach covers the full range of material ESG issues, we expect that climate change, human rights and nature loss will continue to warrant a targeted approach with a clear focus on the long-term sustainable investment outcomes for the benefit of our members, but also wider society and the planet.

Although we have made meaningful improvements to our stewardship approach this year especially in the way we monitor asset managers, we know that effective stewardship relies on an attitude of continuous improvement. We plan to concentrate some of our efforts on streamlining and automating our processes for gathering accurate data and identifying votes pertaining to our stewardship priorities. Nature loss will remain our area of focus, and in addition to the risk assessment of our Fund's investments, we plan to increasingly raise awareness among our asset managers on systemic risks related to nature loss as well as outline an appropriate plan of actions we can take, considering latest industry guidance (for example the TNFD recommendations), to start assessing and monitoring risks associated with nature loss.

We look forward to further advancing our stewardship approach and sharing in future reviews the improvements that we make and the outcomes that we manage to achieve.

Glossary

Asset manager(s)	BPIM and/or the external organisation(s) appointed to manage investment mandates on behalf of the Fund.
Board of Directors to BP Pension Trustees Limited (the Board/the Trustee Board)	The Board ensures the appropriate processes, systems, people, and procedures are in place to manage the Fund, its investments and risks that arise, in line with its duties, powers and discretions.
BP Investment Management Limited (BPIM)	BPIM is the Fund's internal asset manager, responsible for managing the property and private equity mandates on behalf of the Fund. BPIM is an FCA regulated, wholly owned investment management subsidiary of the Trustee.
BP Pension Fund (The Fund)	The Fund is a UK defined benefit, occupational pension scheme, whose corporate sponsor is BP p.l.c. (bp). The purpose of the Fund is to provide benefits as set out in the Fund's Trust Deed and Rules, for approximately 57,000 members.
BP Pension Trustees Limited (BPPTL/The Trustee)	BPPTL is a wholly owned subsidiary of BP p.l.c. and is responsible for paying pensions and other specified benefits in accordance with the Fund's rules and relevant legislation, and administering the Fund while fulfilling all relevant duties, considering the interests of all relevant stakeholders, and acting with prudence and reasonableness as the role entails.
BP p.l.c. (bp)	BP p.l.c. is the organisation that had initially set up the defined benefit pension scheme, and they are the corporate sponsor of the Fund, which means it would be responsible for paying additional contributions to the Fund in the event of any shortfall of assets relative to the Fund's liabilities following a triennial actuarial valuation.
CDP	The CDP is a not-for-profit charity formerly known as the Carbon Disclosure Project, which runs a global disclosure system to help investors, companies, cities, states and regions to report and manage their environmental impacts.
Code of Conduct	A principles-based guide as to how the Fund's employees work, established by our sponsor, bp.

Defined benefit (DB)	A type of pension scheme under which an employer or sponsor promises employees a specified pension payment, lump sum or a combination of these on retirement. The benefit is calculated by a formula based on the employee's earnings history, tenure of employment and age.
Environmental, social, and governance (ESG)	The categories under which investors classify non-financial risks and/or opportunities which would have the potential to affect an investee company or issuer's business model and value drivers, thereby affecting its financial performance and subsequently the value of the investment.
Financial Conduct Authority (FCA)	The FCA is the UK's regulatory body responsible for regulating the conduct of financial services providers, investment firms and consumer credit firms to ensure that UK financial markets are honest, competitive and fair.
Financial Reporting Council (FRC)	The FRC regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes. The FRC promotes transparency and integrity in business, and its work is aimed at investors and others who rely on company reports, audit and high-quality risk management.
Greenhouse gas (GHG) emissions	Gases that trap heat in the atmosphere, with the main ones being carbon dioxide (CO^2), methane, nitrous oxide and various synthetic chemicals.
GRESB	Global Real Estate Sustainability Benchmark provides validated ESG performance data and peer benchmarks for investors and managers to improve business intelligence, industry engagement and decision-making.
LMA	Liability Matching Assets.
Member(s)	The members of the Fund comprise current and former employees of bp and their dependants.
Paris Agreement	A legally binding international treaty on climate change which was adopted by 196 parties in 2015. The goal of the Agreement is to keep 'the increase in the global average temperature to well below 2°C above pre-industrial levels' and pursue efforts 'to limit the temperature increase to 1.5°C above pre-industrial levels.' In recent years, world leaders have stressed the need to limit global warming to 1.5°C by the end of this century.
Pension and Lifetime Savings Association (PLSA)	The main UK body which brings together the pensions industry and other parties to raise standards, share best practice and support their members. Their aim is to help people to achieve a better income in retirement.

Principles for Responsible Investment (PRI)	The PRI is an independent international not-for-profit organisation that encourages investors to use responsible investment to enhance returns and better manage risks. It acts in the long-term interests of its signatories, the financial markets and economies in which they operate, and ultimately the environment and society as a whole.
Responsible investment (RI)	An approach to investment which involves the consideration of environmental, social and governance issues when making investment decisions and influencing investee companies and/or issuers (known as active ownership or stewardship). This approach complements traditional financial analysis and portfolio construction techniques.
Responsible Investment policy (RI policy)	The RI policy supplements the Fund's SIP. It covers the Trustee's approach to responsible investment and incorporates our voting policy and climate change policy.
RSA	Return Seeking Assets.
Statement of Investment Principles (SIP)	A legally required document for pension schemes that comprises a written statement of the investment principles governing decisions about investments.
Task force on climate-related financial disclosures (TCFD)	A task force comprising members from across the G20, convened by the Financial Stability Board to develop recommendations on the types of disclosures companies should make to support investors, lenders and insurance underwriters in appropriately assessing and pricing risks related to climate change.
Task force on nature-related financial disclosures (TNFD)	A task force consisting of 40 individual members representing financial institutions, corporates and market service providers which has developed a set of disclosure recommendations and guidance that encourage and enable business and finance to assess, report and act on their nature-related dependencies, impacts, risks and opportunities. The aim of those recommendations and guidance is to enable businesses and finance to integrate nature into decision making. TNFD's aim is to support a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes, aligned with the Global Biodiversity Framework.
Trust Deed and Rules	The Fund's governing documentation.

Links to referenced documents

Statement of Investment Principles →

2023 Implementation statement →

Responsible Investment policy (includes Climate Change and Voting policies) →

Net Zero Ambition statement →

2023 Climate Change report →

bp Code of Conduct (including section on conflicts of interest) →

Important information

The information contained in this report may cover general activity on stewardship, investments, voting, responsible investment, climate and ESG, including opinions, prospects, results and forward-looking statements. Use of forward-looking terminology using words such as 'may,' 'believe', 'aim', 'will,' 'should,' 'expect,' 'anticipate', 'seek', 'intend', or the negatives thereof or other variations (together, 'forward-looking statements') are not a reliable indicator of performance of the Fund. There can be no assurance that any of the matters set out in these forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate.

The Trustee has prepared this report for the Fund based on internally developed data, publicly available information and third-party resources with whom it has contractual relationships. Although we believe the information obtained from third party sources to be reliable, it may not be independently verified, and we cannot guarantee its accuracy or completeness.

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