

**BP Pension Fund**

# 2024 Implementation Statement



# About this statement

As Trustee of the BP Pension Fund (the Fund), the Trustee is required to publish an annual Implementation Statement which explains how it has followed and acted on the principles set out in the Fund's Statement of Investment Principles (SIP), including a description of its voting behaviour and examples of significant votes<sup>1</sup>.

This statement covers the reporting period from 1 January to 31 December 2024 and, in line with regulations, is incorporated in the Fund's Annual Report and Financial Statements. Both documents, the Fund's SIP and Implementation Statement, are publicly available on the Fund's dedicated website **PensionLine**.

## 1. Governance

The Fund's sole corporate trustee is BP Pension Trustees Limited (BPPTL or the Trustee), a wholly-owned subsidiary of BP plc (bp or the Company). The Trustee Board pursues its core objectives within the framework of its wider governance structure, which is designed to ensure that all of the Trustee's fiduciary duties and regulatory obligations are met.

The Trustee is responsible for investing the assets of the Fund and for all strategic investment decisions, including setting the Fund's overall investment risk and return targets. The Trustee Executive, led by the Chief Executive Officer (CEO), has been given delegated authority for the executive management of the Trustee and the Fund (within parameters set by the Trustee Board). The day-to-day decisions for buying and selling investments, including the realisation of investments, are delegated to the Trustee's external asset managers and to BP Investment Management Limited (BPIM) the Trustee's in-house asset manager.

The governance structure facilitates timely, effective decision-making during the Trustee meetings by individuals with the appropriate skills and experience. The overall governance structure is periodically reviewed to ensure it remains fit for purpose in view of the evolving UK pensions

governance landscape, with the last review having taken place in 2022. The current structure provides the Trustee with specific contingency arrangements if a significant event arises. The Trustee Board, the Board's Committees and the CEO, supported by the Chief Investment Officer (CIO) and Senior Manager for Responsible Investment (RI), form the core governance structure monitoring and managing the Fund's stewardship activities.

During 2024, the Trustee's Executive provided and discussed its quarterly reports informing the Trustee Board and its Committees of its activities. At each of the Trustee Board and Board Committee meetings, the respective Chair encouraged open debate and constructive challenge in relation to the proposals put forward by the Trustee Executive. The Board discussed and deliberated on several proposals, for example on the target<sup>2</sup> in the Climate Change report.

<sup>1</sup> Please refer to Appendix 2 for explanation of criteria we use to identify significant votes.

<sup>2</sup> The Fund's regulatory climate change related target is to aim to reduce the identified portfolio-related absolute financed emissions (Scopes 1 and 2) across our publicly listed equities and corporate bonds mandates by at least 50% by 2030. This target is reviewed on an annual basis.



## 2. Investment strategy and risk

### Investment strategy

The Trustee's investment objective is to invest the Fund's assets in a responsible manner that considers downside risk such that the assets are expected to be sufficient to pay benefits to members and their dependents in accordance with the Fund's governing documents as and when they fall due, minimising reliance on bp. In accordance with this objective, the Trustee aims to maintain a position where sufficient assets are available to cover all expected liabilities plus an additional buffer for unexpected adverse events.

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 strategic risk-adjusted return objective. The liquidity risk is managed by having sufficient assets that are available and are relatively easy to sell so that benefits can be paid as and when they are due.

This strategy has enabled the Trustee to gradually build up the funding level, while maintaining an appropriate level of risk, and subsequently steer towards protecting the Fund from potential downside loss. The same approach has also seen a continued reduction in the Fund's exposure to growth assets during 2024. Overall, the Fund's asset allocation is oriented towards closely matching the Fund's liabilities and maintaining a sufficient funding level.

The Fund holds approximately £18 billion in assets as at 31 December 2024, and the investment time horizon is long-term, with pension benefits still expected to be in payment for decades to come. The Fund's investments include bonds, listed equities and other securities issued by corporate or non-corporate (e.g. government) entities, across both public and private markets, as well as property. These entities are referred to as 'investee companies' or 'issuers' and the asset managers are held to account in how they invest the Fund's assets and how they engage with these entities.

### Investment risk management

The Trustee has defined an internal Investment Risk Return Framework (IRRF) to monitor the risk and performance of the investment strategy on an ongoing basis. The Trustee targets an expected return over the liabilities of the Fund (currently valued by reference to gilt yields) with the intention of maintaining a fully funded position over a suitable time horizon (based on expected returns). The Trustee seeks to ensure that the investment strategy remains within its risk tolerance. This includes ensuring that the risk level is appropriate in view of the funding level and the Trustee's investment objectives, given the Trustee's assessment of the covenant strength of the Company.

The IRRF is the primary monitoring dashboard used by the Investment Committee and the Trustee Board aims to ensure that its investment objectives and investment strategy are on track across various key criteria. The IRRF is regularly reviewed and updated, which includes the risk metrics used, to ensure its ongoing suitability for the evolving investment objectives. Following a recent update, a new liquidity metric has been added with a view to helping the Trustee monitor the Fund's illiquid assets allocation relative to a maximum limit.

The Trustee Board has 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 retains overall responsibility for the investment strategy, although certain decision-making powers are delegated to its Committees.
- The Investment Committee evaluates proposals for investment strategy or policy decisions prior to any recommendations being made to the Board; 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.
- The Audit and Risk Committee monitors the effectiveness and integrity of the Fund's financial reporting, systems of internal control and risk management.

### 3. Responsible investment (RI)

The Trustee defines RI as the incorporation of all relevant financially material risk factors, including environmental, social and governance (ESG) factors, into investment decisions, to better manage risk and help generate sustainable, long-term returns.

The SIP incorporates the RI policy and sets out how the assets of the Fund are to be invested. It also outlines the principles which govern strategic investment decisions. Those investment principles are set by the Trustee and reflect the Trustee's underlying beliefs about investment objectives, governance, and risk, including RI, and encompass an integrated risk management approach.

The Fund's RI principles are outlined in the RI policy and they acknowledge that financially material ESG risks can have an impact on investment value. The Trustee holds itself and its asset managers accountable for managing those risks and actively monitoring and, where possible, trying to mitigate them.

The Trustee has adopted and implemented its RI principles in alignment with its fiduciary duties. Its commitment extends to continually evaluating the substance of the RI principles and their effectiveness over time. As a signatory to the Principles of Responsible Investment (PRI), the Trustee adheres to PRI's reporting requirements and uses the PRI's resources and collaborates with peers.

The Fund has made significant progress on RI over the past few years – particularly in respect of analysing the potential impacts of climate change on the Fund and broadening the understanding of the nexus between climate change and biodiversity and nature loss.

Each year, the Trustee sets out specific priorities against the backdrop of the Fund's position, its management priorities, and any key external developments. All key investment-related priorities set for 2024 have been achieved and some examples are provided in relevant sections below.



## 4. Stewardship

The Trustee recognises that strong stewardship practices are instrumental to the effective management of ESG risks. The Fund's stewardship activities have been aligned with the principles of the UK Stewardship Code and the Fund obtained the signatory status in August 2022.

As a responsible steward of the Fund's assets, the Trustee acknowledges the active role it should play in the stewardship process, and it utilises its position as an asset owner to promote responsible long-term behaviour wherever appropriate and possible. The Fund retained signatory status to the UK Stewardship Code, following submission of the Stewardship report covering the 2023 scheme year. For the latest Stewardship report please visit **PensionLine**.

Most of the Fund's investment management functions are carried out by external asset managers, whom the Trustee expects to exercise certain rights and responsibilities in relation to the assets they have invested in on the Trustee's behalf. This includes the managers' engagement with underlying companies or issuers on relevant matters, though excludes the managers' use of voting rights for listed equities which have been retained by the Trustee. Due to this outsourced investment model, the Trustee does not interact directly with investee companies and issuers, except via BPIM engaging with relevant counterparties within the property mandate.

The Trustee aims to encourage responsible corporate behaviours through its external asset managers, by discussing their stewardship strategies and the success of their engagement initiatives. This approach enables the Trustee to indirectly influence a wider array of corporate issuers, even beyond the Fund's direct holdings.

The approach to stewardship involves monitoring the asset managers' adherence to the Trustee's RI policy, climate change policy and voting policy. Engagement is prioritised over exclusion as a means to drive positive change over the long-term. The annual responsible investment monitoring framework combines quantitative and qualitative elements. It allows for assessment of the managers' level of engagement and subsequent outcomes related to each stewardship priority. Importantly, this framework does not limit focus to stewardship priorities only and engagement extends to other stewardship

themes and relevant ESG factors that arise as part of the ongoing process of monitoring the managers' activities as well as the voting process, especially as pertains to shareholder resolutions. Further details are provided in the relevant sections below.

### Implementation of the Fund's stewardship priorities

In addition to holding the asset managers accountable for integrating the Trustee's stewardship priorities, the Trustee actively take steps to address relevant issues through its own actions as well as those of the Trustee Executive. Examples of key activities and progress made in 2024 include:

#### Climate change

- Strengthened engagement with asset managers on the importance of effective stewardship with top carbon-emitting companies, and more broadly with all relevant issuers, on their credible transition plans which support long-term financial performance.
- Assessed performance against the target<sup>3</sup>, set out in the Trustee's 2023 Climate Change report, for the decrease of absolute financed greenhouse gas (GHG) emissions for listed equities and corporate bond mandates versus benchmark metrics as of 2021.
- Progressed in the implementation of the Net Zero Ambition (NZA) through a number of focused meetings with the corporate bond managers to understand their capabilities in supporting our NZA.
- Contributed to climate-related initiatives alongside other investors to help drive meaningful progress towards a resilient net zero future.
- Produced the annual Climate Change report covering the 2023 scheme year in line with the Department of Work and Pensions climate regulations.

<sup>3</sup> Please see footnote 2.

## Human rights

- As the Fund's investments include companies or issuers with complex global supply chains, the Trustee has continued to emphasise to asset managers the importance placed on ensuring those companies and issuers are monitored and challenged on their potential exposure to human rights violations.
- Between 2023 and 2024 more asset managers engaged with investee companies on modern slavery and a fair living wage, and on a more frequent basis. The number of asset managers providing meaningful case studies demonstrating engagement for change on human rights increased in 2024.

## Board composition and oversight

- The refinement of the Trustee's priority from board effectiveness to board composition and oversight has enabled a more specific focus and closer monitoring of progress.
- Corporate boards have a primary role to represent shareholders' interests and ensure executives do not take excessive risks. As different standards apply in different jurisdictions and between asset classes, asset managers are encouraged to engage with investee companies/issuers to apply best practices in ways which adherence to local corporate governance guidelines or refer to the International Corporate Governance Network (ICGN) guidelines, as appropriate.

## Other ESG considerations

- In addition to the Fund's stewardship priorities, the Trustee engaged on other stewardship themes and ESG issues, for example on nature loss which can represent a significant risk for many sectors.
- An initial nature and biodiversity risk assessment of the Fund's investments was conducted in 2024, and nature-specific training was received by the Investment Committee and the Trustee Board.

## The Fund's collaborative engagement efforts

The Trustee recognises the importance of working together with other investors to progress the responsible investment agenda and optimise its stewardship efforts. The Trustee's membership of the relevant organisations and forums enables access to insights into best practices and research materials and provides a platform to collaborate with other investors. It also offers an efficient route to provide input and feedback to the relevant regulators and contribute to debates on improvement which are important in addressing major systemic risks for the Fund.

The Trustee recognises that there is continuous scope to evolve its approach to investing in a responsible manner, and the Trustee Executive periodically evaluates its existing memberships, further industry initiatives and organisations.

Organisations and forums actively contributed to in 2024: Asset Owner Council (AOC), The Institutional Investors Group on Climate Change (IIGCC) and Principles for Responsible Investment (PRI).

# 5. Selecting and monitoring asset managers

The Fund's policies, as set out in the SIP, are shared with external asset managers and with BPIM, with request for review and confirmation that their investment approaches are in alignment with Trustee's policies, where relevant.

During 2024, there were no new asset manager appointments and no asset manager relationships were terminated. Quarterly asset manager monitoring process was followed for all asset managers, which included meetings to discuss investment performance and positioning updates, business developments, personnel changes, RI and stewardship matters. Managers' compliance with the Fund's relevant policies was assessed, as stipulated in the SIP.

Effort was also made to make existing process more efficient and effective. During 2024 a more structured RI agenda was introduced for the quarterly meetings with asset managers, focusing on the integration of our stewardship priorities. In addition, semi-annual meetings with managers were introduced to discuss progress on prioritised engagements.

The asset managers' fees, as well as portfolio turnover and transaction costs, are compared against market benchmarks for similar investment funds, to ensure that they remain reasonable. The Trustee's view is that these costs were within reasonable expectations over the period covered by this report.

The External Manager Monitoring Policy document was reviewed and updated in December 2023 and whilst no substantive changes were made, various updates were added to ensure the policy fully reflects the principles of the Fund's RI Policy.

## Holding asset managers to account on stewardship

We look to set clear stewardship expectations for asset managers and hold them accountable for meeting those expectations as feasible, which forms an important part of being a responsible steward of the Fund's assets. The asset managers are expected to invest in line with the Trustee's RI policy and engage with investee companies or issuers in the best interests of the Fund and its beneficiaries. The asset manager monitoring approach is a form of assurance and it is consistent for all asset managers, including BPIM, and comprises the following:

### Encouraging high stewardship standards

- The managers are encouraged to adhere to the principles of the UK Stewardship Code or an international equivalent or a principles based organisation like the UN PRI.
- The managers' collaborations with other entities and their active participation in stewardship initiatives are actively monitored. All 15 of the Fund's asset managers are now signatories to the UN PRI and 12 of them are signatories to the UK Stewardship Code or international equivalent.

### Monitoring stewardship activities on a quarterly basis

- Investment review meetings with asset managers are conducted on a quarterly basis to discuss investment results, receive updates on business, positioning or personnel changes, and progress in their stewardship and engagement activities.
- Asset managers' processes for identifying, prioritising, and tracking engagements and relevant statistics are also regularly evaluated. Most of the managers have these processes in place or are working on developing them.

## Reviewing RI progress and stewardship activities in depth on an annual basis

- Assessment of asset managers' compliance with the Trustee's RI policy is carried out annually and this is followed up with feedback and review meetings. This allows for deeper insights into the RI approach undertaken by the managers.
- The RI designated annual meetings allow for a greater understanding of the managers progress in application of RI in practice and for substantive discussions on case studies. These meetings play a vital role in the asset manager monitoring governance process.
- Examples of such case studies are highlighted in **Appendix 1**.

## Sharing constructive feedback on an ongoing basis

- The manager monitoring process fosters stronger collaborative relationships with asset managers and allows the Trustee to actively influence positive stewardship practices.
- The importance of robust and efficient tracking of manager engagements is emphasised and the majority of the managers made noteworthy progress in this area throughout 2024.
- Emphasis is also placed on the importance of managers providing outcome-focused engagement case studies, as evidence of their actions and alignment with the Trustee's approach.

## Annual 2024 RI Managers review

Overall, satisfactory progress in relation to the managers' respective stewardship practices was observed during 2024. At the same time, the need for continued focus on engagement for change with respect to the Trustee's specific stewardship priorities remains an area of focus. Engagement with managers to further develop robust engagement tracking over time will continue.

The table below provides a high-level summary of key assessment criteria and findings related to managers' activities in 2024.

| Key criteria  | Assessment   |
|---|--|
| <b>Institutional alignment with our RI policy (Mindset)</b> | All of the asset managers evidenced their adherence to the Trustee's RI policy, demonstrating year on year progress. The managers' responses on stewardship activities were found to be of a higher standard than in previous years.<br><br>In 2023 only two managers were evaluated as having met only the minimum standard with regards to stewardship. They have since both improved their approach in 2024, either to a good or a high standard.   |
| <b>Resourcing</b>   | The resourcing levels for RI activities vary greatly between managers, which can affect the application of ESG integration and engagement. All but one manager have dedicated RI teams. Most managers disclosed the size of their RI functions and many provided average years of relevant experience.   |
| <b>ESG integration</b>                                      | All managers evidenced that ESG considerations are taken into account in various investment processes. 2024 saw a noted overall improvement in the managers' ability to evidence the Fund's stewardship priorities being integrated into decision-making. Some of the managers also provided examples on integrating nature loss.  |
| <b>Engagement</b>   | The managers continued to engage with investee companies and issuers in relation to the Trustee's stewardship priorities where appropriate and relevant.<br><br>The case studies set out in this Implementation Statement were selected to demonstrate engagements for enacting change specifically. The tightened approach reflects the focus on the quality of the engagement over the quantity. Overall, the managers shared a larger number of case studies than in prior years demonstrating their attempts to encourage companies to enhance their standards in ways that protect and enhance value for investors. Many of the Fund's managers are investing in data platforms with a focus on engagement recording and tracking which is encouraging. |
| <b>Reporting</b>  | In general, most asset managers made a concerted effort to provide comprehensive responses to the Trustee's annual RI questionnaire. Overall, an improvement has been seen in the quality and timeliness of responses.   |

## 6. Voting

Shareholder voting is considered to be an important investor right, enabling expression of stance on major issues, and influencing investee companies to drive positive change. Through the segregated mandates across all of the listed equity portfolios, the Trustee retains the right to exercise voting rights directly associated with the Fund's holdings. Whenever feasible, those voting rights are used to promote responsible long-term behaviour among the companies in the Fund's investment portfolio.

The Trustee's approach to voting is implemented via a systematic and rigorous process which involves incorporating research and recommendations from the proxy voting adviser, Institutional Shareholder Services (ISS), as well as insights and voting recommendations from the Fund's external passive equity asset manager, Legal and General Investment Management (LGIM). Additionally, perspectives are sought from the active asset managers who engage directly with companies in their portfolios and as long-term investors often have well established relationships and understanding of each company's specific circumstances.

Throughout the year, a record was maintained of all votes cast (identifying those deemed most significant) as well as the reasoning behind each voting decision. Voting records for 2024 were shared with the Trustee's investment advisor, who used its proprietary system to aggregate voting statistics and identify significant votes based on post-vote criteria.

The Trustee aims to prioritise the best interests of the Fund's members in voting decisions. Discretion is exercised when deciding whether to follow the recommendations of LGIM, ISS, or the asset managers. For further details, including voting statistics and significant votes, please refer to **Appendix 2**.

## 7. Members

The Trustee's primary duty is to provide the stated 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, the Trustee is conscious that members may have views on the Fund's investment strategy and its implementation, and regular communications are provided to members (via post, email and/or dedicated members' website, **PensionLine**) as outlined below:

- Annual member newsletter
- Further regular updates and broader information sources provided via **PensionLine** (where work was undertaken to further improve member experience and site navigation)
- The Trustee's annual report and financial statements
- The Implementation statement, Climate Change report and Stewardship report

## 8. Looking ahead

The Trustee has diligently followed the principles set in the SIP and further strengthened its approach in several key areas. Securing member's benefits remains at the core of every decision the Trustee makes. As a responsible and active asset owner, the Trustee is dedicated to managing the Fund's assets in a manner that prioritises the Fund, while also acknowledging the long-term effects of its investment choices on both the environment and society.

In 4Q 2025 the Trustee plans to carry out a review of its RI strategy to ensure it continues to be fit for purpose.



## Appendix 1 : Engagement examples over the reporting period

Below, the Trustee provides examples to demonstrate some of the direct engagements the Fund carried out in 2024 and some of the direct engagements the Fund's asset managers carried out on the Trustee's behalf.

### Fund's direct engagement with data and service providers

#### Example: Participation in ISS governance policy roundtable

**Context:** The Fund's proxy voting platform provider, ISS, sought investor feedback on future voting policy developments concerning corporate governance issues, at their ISS Governance Policy Roundtable. A member of the Fund's RI team participated in this roundtable, which was also attended by representatives from various investment managers and asset owners.

**Action:** During the roundtable, investors shared their views and feedback on ISS's future voting policies. The Fund's RI team member actively participated in discussions, providing insights and perspectives on the voting approach in relation to key corporate governance issues (such as executive remuneration). Multiple participants expressed their opinions openly and stressed the importance of ISS adequately incorporating feedback into their policies.

**Outcome:** The roundtable served as a platform for constructive dialogue, aiming to improve future policy developments and enhance corporate governance practices. It provided a collaborative environment where diverse viewpoints on corporate governance were shared. This engagement underscored the need for ISS to strengthen their approach to incorporating investors' feedback into their voting policies.

### Fund's direct engagement with asset managers

#### Example: Counterparty ESG engagement programme

Asset class: Liability Driven Investment (LDI)

**Context:** Given the LDI mandate represents a substantial part of the Fund's asset allocation, the Trustee has significant exposure to various counterparties included on the Fund's panel.

**Action:** Over multiple years, the Trustee has engaged with Insight on strengthening their application of RI principles in relation to the LDI asset class. The Trustee encouraged them to consistently incorporate ESG considerations in the selection and ongoing assessment of these counterparties, as well as consider developing more structured engagements with the counterparty banks on the Fund's panel. In 2022, Insight initiated structured engagements with key counterparties to address selected material ESG issues. Responding to evolving regulations and stakeholder expectations, in Q2 2024, Insight expanded the focus of their counterparty engagement to include other areas, for example natural capital and human rights. In 2024, the Trustee discussed with Insight the importance of structured and comprehensive monitoring of the programme's progress, including findings and further steps. The Trustee encouraged additional resourcing, transparency in prioritisation of counterparties for further engagement, and the necessity of forward looking timeline and milestones.

**Outcome:** Insight has been very receptive and appreciative of the Trustee's feedback. In the Trustee's view they made significant progress in the counterparty ESG engagement programme, as well as improved reporting on progress and key findings. This enhanced reporting allowed the Trustee to better track their actions and outcomes. While pleased with the progress, the Trustee aims to continue to engage with Insight on allocating additional resources to this significant engagement programme.

## Our asset managers' direct engagement

### Example: Incorporation of ESG targets in climate strategy

Stewardship priority: Climate change

Engagement led by Nikko Asset Management (Nikko AM)

Asset Class: Listed Equities

**Context:** The industrial gas and engineering company is playing a vital role in the energy transition which was the principal reason for the manager's investment decision. However, due to the nature of its operations, the company represents the largest carbon footprint in the manager's portfolio in terms of Scopes 1 and 2 GHG emissions.

**Action:** Nikko AM initiated engagement with this company in 2022 to discuss important considerations to take into account for the credible and successful execution of the company's climate strategy. This included adoption of meaningful ESG targets and the management's remuneration to be linked to those. Whilst the company made substantial improvements in these areas, Nikko AM continued engaging with the company as it saw further potential for improvement. For example, they emphasised the need for the GHG emissions targets linked to annual bonus payouts, to be more stretching and meaningful, whilst remaining cognisant of what may be achievable.

**Outcome:** In 2024 Nikko AM noted the company made considerable progress in meeting the expectations set. This included the company's climate goal to be independently certified, and more ambitious targets linked to absolute GHG emissions compared to those set at the 2023 AGM.

### Example: Modern slavery and labour risks in the supply chain

Stewardship priority: Human rights

Engagements led by Wellington Management

Asset Class: Global Corporate Bonds

**Context:** Supply chains of this large online retail and marketplace company span several regions, including those with higher risk of labour-related abuse. The company's fulfilment centres and delivery services have drawn scrutiny due to high injury rates and challenging working conditions.

**Action:** During 2024, Wellington engaged with the company on labour-related issues which they deemed critical to business performance due to the company's extensive global operations and large workforce. Wellington sought to understand the specific measures the company has implemented to monitor and mitigate modern slavery and forced labour risks within their supply chain particularly in China and Saudi Arabia. The manager requested detailed updates on the company's auditing processes and the role of their social responsibility team. Wellington also enquired about the company's approach to managing labour issues in Germany, where ongoing strikes have raised concerns about labour practices.

**Outcome:** The company has established a social responsibility team for supply chain monitoring; increased their on-the-ground presence in Asia; and used a risk-based approach for audits, focusing on high-risk areas and conducting follow-ups. They have also emphasised efforts to ensure independent mechanisms to support human rights in China and implemented standards in Saudi Arabia. In Germany, the company reported a decrease in employee participation in labour strikes and highlighted efforts to increase wages, incentives, and implement works councils to foster dialogue with employees. Wellington recognised the company's efforts, however remained concerned about the company's credibility in managing human rights risks and felt that human rights and supply chain risks remained elevated and decided to divest from the company.

### Example: Enhancing executive compensation practices

Stewardship priority: Board composition and oversight

Engagement led by Capital Group

Asset Class: Global Corporate Bonds

**Context:** As part of the Capital analyst's assessment of material risks related to a U.S.-based semiconductor design and manufacturing company, potential concerns were identified regarding executive compensation and the possibility that certain directors may be overcommitted, potentially limiting their effectiveness on the company's board.

**Action:** Capital Group's view is that linking compensation to appropriate performance criteria and metrics can encourage a long-term focus. On this basis, Capital Group investment associates met with senior company representatives to discuss executive compensation. The discussions covered both the short-term and long-term incentives, including considerations by the company to add performance share units with specific metrics to the long-term incentives. Capital Group's analysts shared with the company its understanding of certain relevant industry practices, including metrics that the company may wish to consider.

**Outcome:** The company has been receptive to Capital Group's feedback on pay practices and expressed their intention to discuss these topics at subsequent board meeting, as well as consider aligning incentives with appropriate metrics and other pay practices. Capital Group's intention was to continue the engagement to understand the outcome from the company's board discussions. Encouraged by the company's overall receptiveness, Capital Group initiated a position in this company in early 2024. Capital Group intends to continue the engagement to understand the ongoing outcomes from the company's board discussions.

### Example: Sustainability themed engagement with tenants

Stewardship priority: Climate change

Engagement led by BPIM Property

Asset Class: Property

**Context:** Over the past two years BPIM Property team have been engaging with tenants on improving the sustainability profile of the assets. The team is cognisant of the Minimum Energy Efficiency Standard (MEES) legislation that states that landlords cannot let a property that has an Energy Performance Certificate (EPC) rating of E or below. According to the legislation, all properties must have an EPC of C by 2030.

**Action:** BPIM continues its tenant engagement exercise initiated in 2023 with the aim of building relationships with tenants and understanding their approach to sustainability and any relevant commitments they made. During 2024 BPIM contacted around 90% of the tenants and shared information on how landlords and tenants could collaborate to improve the sustainability of the buildings and reduce energy bills, for example solar panel installation and Electric Vehicle (EV) charger initiatives.

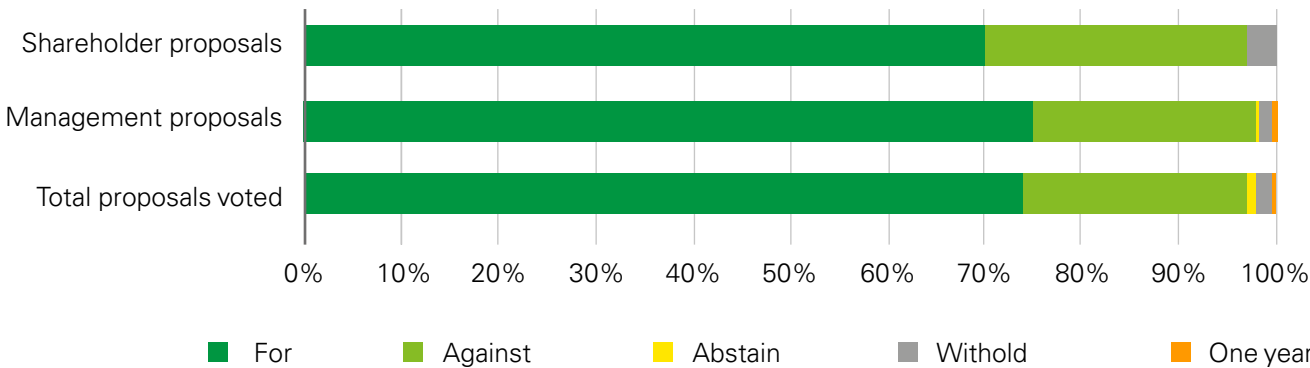
**Outcome:** Whilst response rate was relatively low, BPIM found these conversations positive, with tenants being proactive and engaged with many of the initiatives. BPIM observed that many of the respondents had sustainability commitments and a strategy in place. For example, one of the tenants provided information about its net zero ambition across its own operations by 2035 and its plans to use 100% renewable energy across its estate by the end of 2025. Other tenants expressed interest also in proactively looking at installing solar panels and either have LED lighting installed or have plans to do so.

# Appendix 2: Summary of voting behaviour and examples of significant votes over the reporting period

## Proxy voting statistics

The tables below present the Fund’s voting statistics from 1 January 2024 to 31 December 2024 aggregated by Redington. During the reporting period the Trustee voted on 4,171 votable proposals, accounting for 95% of all votable proposals. The Trustee voted in favour of 3,202 (77%) resolutions, voted against 907 (22%) resolutions and, abstained, withheld, or voted on ‘one year’ items for the balance (1%). The Trustee voted against management on 1,012 resolutions (24% of total). Of these, 892 (88%) resolutions were management proposals and the rest shareholder resolutions (12%). The Trustee voted contrary to ISS recommendation on 745 resolutions (18% of the total votes). Of these, 714 (96%) resolutions were management proposals and the rest shareholder proposals (4%).

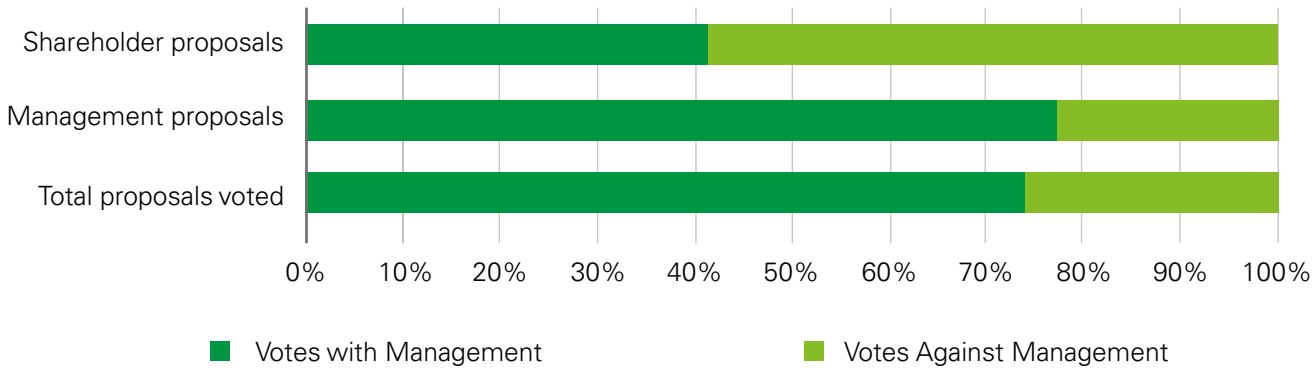
## Summary of total proposals voted in 2024 based on ISS data



|          | Total proposals voted | Management proposals | Shareholder proposals |
|----------|-----------------------|----------------------|-----------------------|
| For      | 3,202                 | 3,080                | 122                   |
| Against  | 907                   | 830                  | 77                    |
| Abstain  | 11                    | 11                   | 0                     |
| Withhold | 47                    | 43                   | 4                     |
| One year | 4                     | 4                    | 0                     |

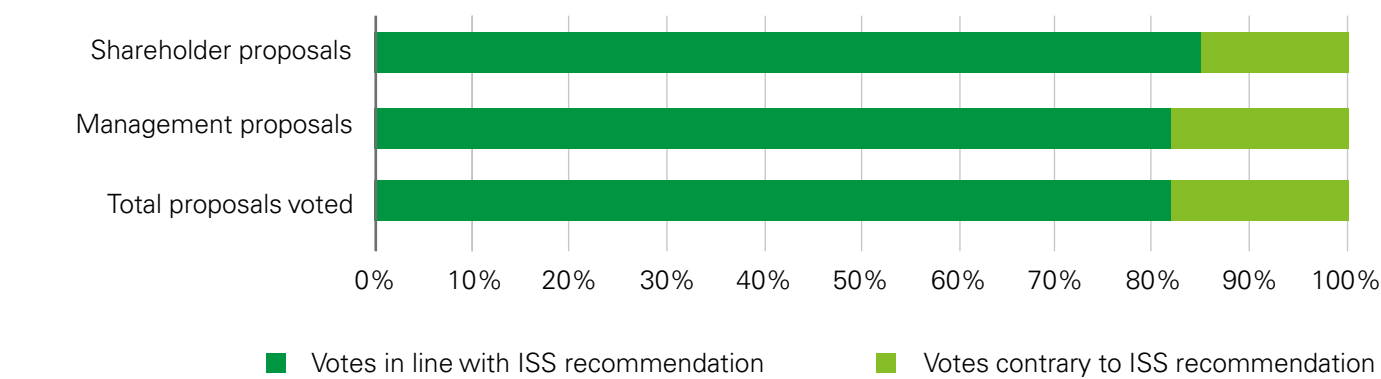


Summary of votes with and against Management based on ISS data



|                          | Total proposals voted | Management proposals | Shareholder proposals |
|--------------------------|-----------------------|----------------------|-----------------------|
| Votes WITH Management    | 3,159                 | 3,076                | 83                    |
| Votes AGAINST Management | 1,012                 | 892                  | 120                   |

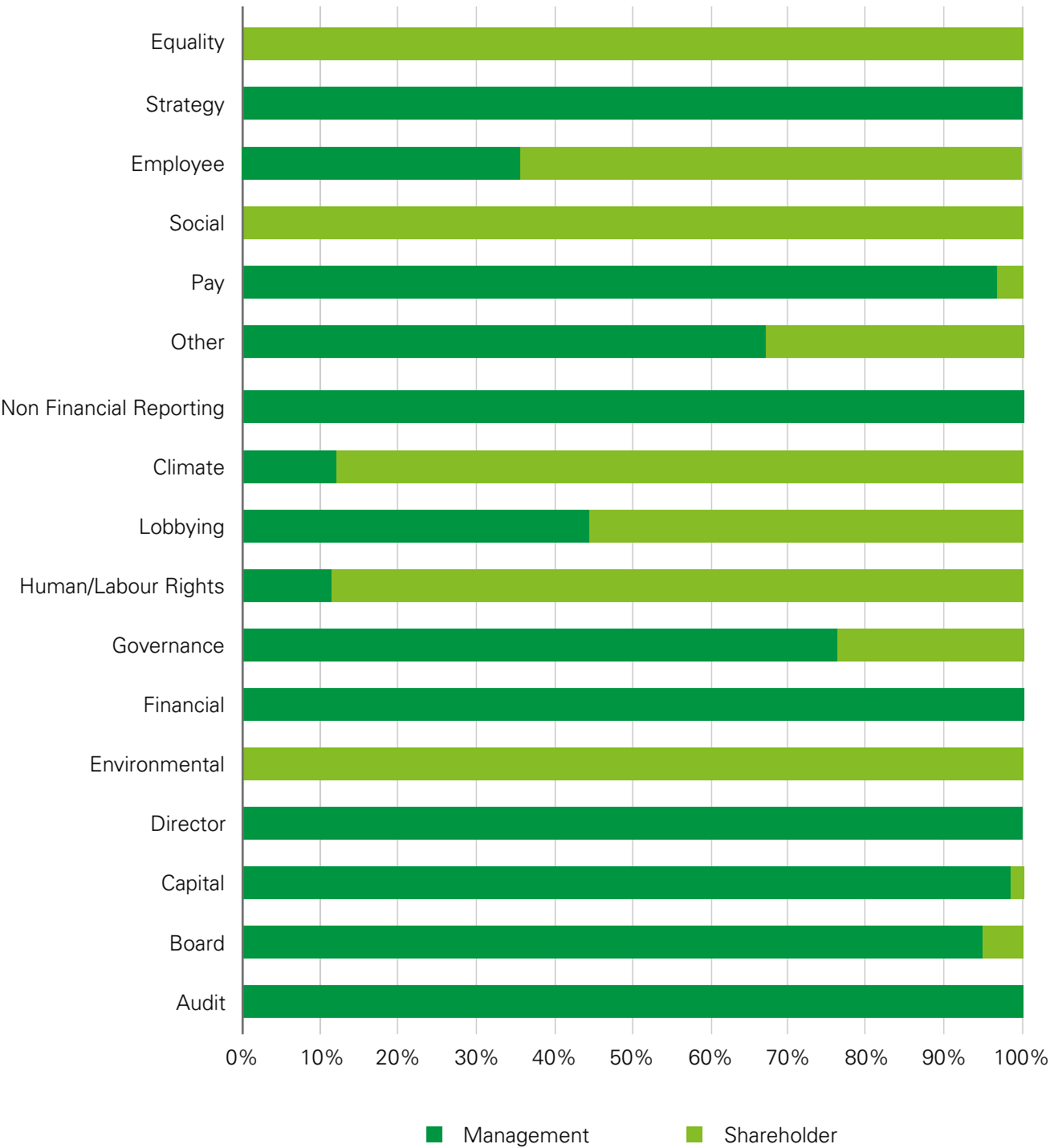
Summary of votes with and against ISS based on ISS data



|                                       | Total proposals voted | Management proposals | Shareholder proposals |
|---------------------------------------|-----------------------|----------------------|-----------------------|
| Votes in line with ISS recommendation | 3,426                 | 3,254                | 172                   |
| Votes contrary to ISS recommendation  | 745                   | 714                  | 31                    |



Proportion of total management and shareholder resolutions voted in 2024  
(based on internal vote categorisation and ISS statistics)



## Significant votes

The Trustee gives special attention to votes that it considers to be of high importance. The determination of which votes are deemed significant is based on several criteria including those specified by the PLSA. At a pre-vote level, the Trustee employs a systematic filtering process that applies 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.

As part of the Trustee's process to identify significant votes, the Trustee uses a tool it has developed that utilises data on upcoming resolutions from the Trustee's proxy voting advisor, ISS. This tool also maps these resolutions to those flagged by the PRI, Climate Action 100+, and ShareAction. Additionally, it monitors votes for the Fund's holdings that may be flagged by the UN Global Compact.

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:

- The significance of the resolution itself i.e., driven by the size and public significance of the company and whether there is a significant level of investor opposition to management or a degree of media interest.
- The nature of the resolution, particularly if it encompasses the stewardship priorities relevant to the Fund and other themes the Trustee is closely monitoring.

For 2024, the Trustee's pre-vote significant vote identification was complemented by Redington's proprietary system which also considers post-vote criteria (i.e. voting result). As such the Trustee has included in the examples below information on the headline vote result vs management, and the vote vs management after free float adjustment. This adjustment seeks to remove the impacts of dominant shareholders and any voting rights distortions, aiming to provide an indication of the true level of dissent among outside shareholders. Because these calculations involve a number of assumptions, the percentage disclosed here can only ever be an approximation.



## Examples of significant votes during 2024

### Stewardship priority: Climate change

| Company Name                                   | Canadian National Railway Company   |    |
|--|---|----|
| Sector   | Rail Transportation   |    |
| Summary of the resolution                      | This Canadian rail transportation company sought shareholder approval for its Climate Action Plan through an advisory vote. |    |
| Recommendations                                | Both ISS and LGIM supported this resolution.  |    |
| The Trustee's vote                             | The Trustee backed this management resolution.  |    |
| Rationale for the Trustee's vote               | The company's climate transition plan includes clear targets, specific actions, and a strong governance framework.          |    |
| Headline vote result vs management             |   | 5% |
| Vote vs management after free float adjustment |   | 5% |

### Stewardship priority: Human rights

| Company Name                                   | Meta Platforms, Inc.  |     |
|--|---|-----|
| Sector   | Social Media  |     |
| Summary of the resolution                      | A shareholder proposal requested that this US social media company publishes an independent third-party Human Rights Impact Assessment examining the use of artificial intelligence driving its targeted advertising practices. |     |
| Recommendations                                | Both ISS and LGIM were in favour of this resolution.  |     |
| The Trustee's vote                             | The Trustee supported this shareholder resolution.  |     |
| Rationale for the Trustee's vote               | The Trustee believed that this report could provide more transparency on the company's management of human rights-related risks related to targeted advertising.  |     |
| Headline vote result vs management             |   | 17% |
| Vote vs management after free float adjustment |   | 54% |

## Stewardship priority: Human rights

| Company Name                                   | <b>The TJX Companies, Inc.</b>   |     |
|--|--|-----|
| Sector   | Retail   |     |
| Summary of the resolution                      | A shareholder proposal called for a report assessing the effectiveness of current company due diligence in preventing forced, child, and prison labour in this US retail company's supply chain. |     |
| Recommendations                                | ISS opposed this resolution while LGIM supported it.   |     |
| The Trustee's vote                             | The Trustee supported this shareholder resolution.   |     |
| Rationale for the Trustee's vote               | A vote in favour was applied as the Trustee considers human rights issues carry the potential to be a material risk to retail companies' supply chains.  |     |
| Headline vote result vs management             |  | 20% |
| Vote vs management after free float adjustment |  | 20% |

## Stewardship priority: Board composition and oversight

| Company Name                                   | <b>Honeywell International Inc.</b>  |     |
|--|--|-----|
| Sector   | Industrial Conglomerates   |     |
| Summary of the resolution                      | A shareholder proposal requiring an Independent Board Chair at this US industrial conglomerates company.                                       |     |
| Recommendations                                | ISS opposed this resolution while LGIM supported it.   |     |
| The Trustee's vote                             | The Trustee supported this shareholder resolution.   |     |
| Rationale for the Trustee's vote               | An Independent Board Chair is a best practice the Trustee firmly supports, and which is gradually becoming accepted practice in the US market. |     |
| Headline vote result vs management             |  | 26% |
| Vote vs management after free float adjustment |  | 26% |