BP Pension Fund

Responsible Investment Policy

Purpose of this Document

This policy (the 'Policy') sets out how BP Pension Trustees Limited (the 'Trustee', 'we' or 'our'), as corporate trustee of the BP Pension Fund (the 'Fund') seeks to implement its Responsible Investment Beliefs in conjunction with our Statement of Investment Principles ('SIP').

This Policy supplements the Fund's SIP and covers the Trustee's approach to responsible investment. This also covers the matters required pursuant to the Occupational Pension Schemes (Investment) Regulations 2005 and the Occupational Pension Schemes Climate Change Governance and Reporting Regulations 2021 (collectively, the 'Regulations').

1. What is Responsible Investment?

We are a signatory to the United Nations-supported Principles for Responsible Investment ('UN PRI'), which is an investor-led network working towards understanding the investment implications of environment, social and governance factors, and supporting its international network of investor signatories in incorporating these factors into their investment and ownership decisions.

We define Responsible Investment ('RI') similarly to the UN PRI as the incorporation of all relevant financially-material risk factors, including ESG (Environmental, Social, and Governance) factors, into our investment decisions, to better manage risk and generate sustainable, long-term returns.

2. Our RI Beliefs

We believe that:

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 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 managers we instruct to invest on behalf of the Fund are obliged to continue to behave and invest in line with our expectations.

Our RI Beliefs set out above form part of our overall Investment Beliefs.

The Regulations define 'non-financial matters as the views of the members and beneficiaries.'[1] These are not considered in the selection, retention, and realisation of investments.

3. Why and how do we implement RI?

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

There are four main elements in implementing RI:

(i) asset classes

(ii) asset manager selection and monitoring

(iii) engagement and voting (stewardship); and

(iv) reporting.

Climate change, human rights and board effectiveness are the three main topics our Board agreed to put more focus on. This does not limit other issues to be added in the future or our scrutiny on other ESG factors that we consider from an integrated risk management perspective. Similarly, we have a formal process in which our asset managers report quarterly on their evaluation of ESG factors, including climate change, in relation to the assets in which they invest on the Trustee's behalf.

[1]The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, defines "non-financial matters" as the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme. Source: www.legislation.gov.uk/uksi/2018/988/regulation/4/made

3.1. 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 to demonstrate the options for applying RI, based on our current asset manager information and the following categorisation:

- **Likely** – we expect our asset manager(s) in the asset class to integrate/engage/report.
- **Possible** – we are aware of few asset managers who 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 into the investment process	ENGAGEMENT on ESG factors with entity of the underlying asset	REPORTING on ESG characteristics of portfolio
Public Listed Equities	Likely	Likely	Likely
Developed Corporate and Sovereign Debt	Likely	Likely	Likely
Emerging Markets Corporate and Sovereign Debt	Likely	Possible	Likely
Global Leverage Finance	Likely	Likely	Likely
Infrastructure Debt	Likely	Likely	Likely
Direct Lending	Likely	Possible	Possible
Private Equity	Likely	Likely	Possible
Property	Likely	Likely	Likely
Liability Driven Investments	Possible	Possible	Possible
Derivatives	Unlikely	Unlikely	Unlikely

In managing climate change risks and opportunities, in addition to assessing the carbon footprint of our assets with the support of MSCI, we partnered with Ortec Finance to perform climate scenario modelling and forward-looking alignment analysis for the asset classes for which methodology exists.

3.2. Asset Manager Selection and Monitoring

When assessing prospective asset managers, we consider how ESG factors are considered from a long-term risk management and valuation perspective, including the integration of ESG factors into investment processes, business focus, operational infrastructure, and engagement activities. We also consider whether the managers have appropriate resources to undertake the stewardship activities we would expect of them.

When investing in a pooled investment fund, the Trustee reviews the investment objectives and guidelines of the fund with the intention to align with the Trustee's investment policies. Where segregated mandates are used, the Trustee may set explicit guidelines within the investment management agreement where it is appropriate to do so. We expect that they, including BP Investment Management Limited ('BPIM') (our internal asset manager) shall invest and engage in the best interests of the Fund and in accordance with this Policy. All our existing segregated investment management agreements comply with these requirements and include restrictions on the type of investments a manager can hold. They also detail performance targets, a benchmark asset allocation and permissible deviations, and a requirement that managers take appropriate steps to incorporate ESG factors in the investment process and engagement approach.

This Policy is shared with the managers at the start of the relationship and when the Policy is materially updated, and the investment manager agreements are updated following any changes, obliging the managers to continue to invest and engage in line with this Policy.

We appoint asset managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term period, subject to a minimum of three years.

We do not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter period than three years due to other factors.

In addition to the designated annual responsible investment meetings with all asset managers, our quarterly meetings also include a dedicated Responsible Investment section.

3.3. Engagement and Voting (Stewardship)

We expect all our asset managers to have regard to the updated 2020 UK Stewardship Code or an international equivalent and encourage them to become signatories where practical.

Where possible, we use our influence to encourage responsible long-term behaviour through our voting, and in general prefer engagement over exclusion. Our voting policy is incorporated by reference to this RI Policy.

While engagement includes the active use of voting rights arising from equity ownership, it is not restricted to 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 discuss ESG issues and the outcomes of engagement activities with our asset managers every quarter.

Climate change has been identified as one of the themes about which our asset managers are encouraged to engage with underlying portfolio companies, with the other themes being human rights and board effectiveness. We look for clear reporting by our managers of not just engagement activity but also the outcomes of that activity. Where we believe managers are not delivering as broadly or effectively as they should be in all circumstances we will press for improvements.

3.4. Reporting and disclosure

In line with the Regulations which are underpinned by the TCFD (Taskforce on Climate related Financial Disclosure) recommendations, we are reporting on an annual basis our climate change governance, strategy, risk management and relevant metrics and targets. Additionally, we publicly disclose via an implementation statement the way in which we have carried out the specifics set out in this Policy, including voting behaviour.

We continue to monitor regulatory developments, industry best practice and evolve our reporting received from our asset managers and in our reporting to the members of the Fund in consultation with our auditor and advisers.

In addition to our Implementation Statement and Climate Change report, PensionLine (the Fund's website) remains our main communication channel with our members.

4. Industry initiatives and engagement collaborations

As an asset owner, we believe engagement is key in fulfilling our responsible investment beliefs.

At present in addition to being the United Nations Principles for Responsible Investment (UN PRI) signatory, we are also members of the Operational Pensions Stewardship Council and the Institutional Investors Group on Climate Change (IIGCC). We recognise that there is continuous scope to improve how we invest responsibly, and as such we periodically evaluate joining other industry initiatives and organisations.

We also expect our managers to join appropriate industry initiatives and collaborations as part of their efforts towards effectiveness and efficiency in responsible investment.

5. Managing conflicts of interest

Any conflict of interest between us, as asset owners, and/or our agents (advisers, asset managers), should be monitored and managed appropriately.

BPIM has its own conflicts of interest policy, which was updated on 1 September 2021.

The Trustee board has its own conflicts of interest policy, which was updated and adopted on 5 July 2017, which follows the bp Code of Conduct (as updated from time to time on www.bp.com) and the bp group Conflicts of Interest policy dated 16 May 2018 (as updated from time to time).

6. Governance and Review of this Policy

This Policy has been approved by the Trustee board and will be subject to review from time to time to confirm that it remains up to date and appropriate.

The Trustee chief executive officer shall oversee its effective implementation and ongoing application, including periodic reports to the Trustee.

We periodically seek external assurance that the guidelines set out in this document are put into practice and enable effective stewardship.

Updated: 26 January 2023

Appendix 1

Climate Change Policy

We, as the Trustee of the BP Pension Fund, recognise climate change as a systematic, long-term material financial risk to the value of the Fund's investments.

The Trustee has a fiduciary duty to consider climate change risks when making investment decisions. Within the context of its fiduciary responsibility, the Trustee is supportive of the goals of the Paris Agreement to minimise the impacts of climate change by limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C.

In this context, we have established our net zero ambition which is to achieve net zero greenhouse gas (GHG) emissions for the whole portfolio by 2050, or sooner, and see a reduction of at least 50% GHG emissions across public listed equity and corporate bond mandates by 2030. We believe adopting this net zero ambition will help us to contribute to real economy decarbonisation, while effectively managing the Fund's climate-related risks and opportunities.

In support of our net zero ambition and consideration of climate change risk when making investment decisions we have agreed the following policy:

1. We will appropriately factor in climate change risks and opportunities when making strategic asset allocation and manager selection decisions.
2. We expect our appointed asset managers to be cognisant of climate change risks and opportunities within their investment processes as applied to the Fund's assets. Asset managers are required to annually report on how these risks and opportunities have been incorporated into the investment process within applicable guidelines and restrictions.
3. In line with our preference for engagement rather than exclusion, we require our asset managers to actively encourage investee companies to disclose in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and put in place robust processes to better manage climate change associated risks. However, we also expect asset managers to independently consider whether exclusion or engagement is more appropriate within their investment process, based on their own risk assessment.
4. We report annually in line with Regulations which incorporate TCFD recommendations.
5. We support the further development of effective climate change risk metrics to enhance the ability of all stakeholders in the investment chain to assess and minimise such risks.
6. We recognise that climate change will be subject to much further analysis and subsequent policy changes in the coming years. We are supportive of adopting an evolving policy in order that all relevant developments are considered.

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Appendix 2

Voting Policy

As far as practicable, the Trustee will exercise its right to vote in the general meetings of the companies in which the Fund invests.

We exclusively reserve our voting rights; asset managers are not permitted to exercise voting rights attached to any of the Fund's investments without our prior approval.

We use voting to express our position on certain topics, which include ESG factors, and more specifically our ESG themes of board effectiveness, human rights, and climate change. Both we and our managers may also engage with companies, to emphasise certain points and encourage related actions to be taken.

We consider factors such as the advice of a proxy voting agent when deciding how to vote and may also consider research from our asset managers. We vote always in the best interests of the Fund, in line with the Responsible Investment Policy, and we use our judgement when considering whether to follow the proxy voting agent's recommendations.

Summary of Voting activity is reported annually to the Trustee board, but if deemed relevant, some of the key highlights might be shared with the Board on a more frequent basis.

In line with Regulations, we publicly disclose example of significant votes and summary of voting activity in an annual Implementation Statement.

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