BP Pension Fund

Statement of Investment Principles

1. Purpose of this Document

The BP Pension Fund (the Fund) is a defined benefit (DB) pension arrangement, closed to new members and the future build-up of benefits. This document explains how the assets of the Fund are invested and outlines the principles which govern the strategic investment decisions.

The principles are set by the trustee of the Fund, BP Pension Trustees Limited (the Trustee) and reflect the Trustee's underlying beliefs about investment objectives, governance, and risk, including responsible investment and encompassing an integrated risk management approach. The Trustee has prepared this document and keeps it up to date. This Statement of Investment Principles (SIP) will be reviewed at least every three years or immediately following a significant change of investment policy, or any material change to the Fund. The Trustee reviews the continuing suitability of associated SIP policies on a regular basis. In line with regulations, the Trustee publishes the Fund's Implementation Statement on an annual basis.

In preparing this SIP, the Trustee has received written advice from its investment adviser and has consulted BP p.l.c., (the Company) on behalf of all the participating employers. This SIP is designed to comply with the requirements of the Pensions Act 1995, as amended by the Pension Act 2004, and The Occupational Pension Schemes (Investment) Regulations 2005 (the Investment Regulations) and subsequent legislation.

2. Investment Objective

The main purpose of the Fund is to provide the benefits to members and their dependants as set out in the Fund's Trust Deed and Rules (the governing documents).

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 these benefits as and when they fall due, minimising reliance on the Company and the participating employers.

3. Investment Risk and Return

In accordance with the investment objective, the Trustee aims to maintain a position where sufficient assets are held to cover all expected liabilities plus an additional buffer for unexpected adverse events.

The Trustee and the Company have agreed investment risk and return targets, as well as the principles of how these targets will evolve over time. The risk and return targets determine the asset allocation of the Fund, which is reviewed each year. The end of year asset allocation of the Fund is set out in the latest version of the Fund's annual report and financial statements, available to members on PensionLine or upon request. Asset allocation should be flexible over time and details are therefore not included in this SIP.

4. Investment Risk Measurement and Management

The Trustee employs an Investment Risk Return Framework (IRRF) to monitor the ongoing risk and performance of the investment strategy.

The investment strategy agreed between the Trustee and Company targets an expected return over the liabilities (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, and that the level of risk is consistent with the funding level and the expected return targeted, given its view of the covenant strength of the Company and its participating employers.

The principal risk for the Fund is a failure to pay benefits as and when they are due. Investing in assets that do not match the liabilities is a risk which must therefore be managed. The Trustee intends to make efficient use of investment risk to achieve its investment objective by hedging an appropriate proportion of the principal underlying risks (interest rates and inflation) and by diversifying its return-seeking growth assets.

The risk associated with a material fall in value of the assets compared to the liabilities is also mitigated by the Company (on behalf of participating employers) through the contributions that it would be required to make to reduce any shortfall in the funding level, as described in the Statement of Funding Principles.

The Trustee takes a long–term approach to investment. This means a willingness to accept illiquid investments where the expected returns justify it. The illiquidity risk is managed by aiming to ensure that there are sufficient assets available that are relatively easy to liquidate so that benefits can be paid as and when they are due. The Trustee maintains a list of key risks to help protect the Fund, which is reviewed regularly. The Trustee monitors strategic risks, and its Audit and Risk Committee monitors operational controls and risks. The Trustee shares relevant policies, as set out in this SIP, with its investment managers and requests that the managers review and confirm whether their approach is aligned with the Trustee, where possible.

The Trustee's investment managers use derivatives primarily to reduce interest rate and inflation risk, and for efficient portfolio management and hedging purposes. Execution and management of these derivatives are delegated to the respective investment managers.

5. Governance

The Trustee is responsible for investing the assets and for strategic investment decisions, including setting the Fund's overall investment risk and return targets.

It delegates certain responsibilities to both its Investment Committee and the Trustee Executive. It has delegated day-to-day decisions for buying and selling investments, including the realisation of investments, to BP Investment Management Limited (BPIM, the Trustee's in-house asset manager) and to its external asset managers.

State Street Bank and Trust (London Branch) (Custodian) acts as the Fund's global custodian. The Custodian provides safekeeping of the Fund's segregated mandates on behalf of the Fund.

6. Responsible Investment (RI)

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

The Trustee believes that ESG factors may create both risks and opportunities for the Fund and can be financially material. In its RI policy, the Trustee sets out its beliefs and how RI is implemented across the Fund's asset classes, and through engagement, manager selection and monitoring, and reporting. Non-financial matters, such as the views of beneficiaries and members including (but not limited to) their ethical views, are not considered in the selection, retention, and realisation of investments.

Where possible, the Trustee will use its influence to encourage responsible long-term behaviour through its own activities and its asset managers' compliance with its RI policy and the UK Stewardship Code (the Code) principles. The Trustee files its stewardship report with the Financial Reporting Council annually to maintain its Code signatory status and encourages its asset managers to also become signatories where practical. At a minimum, the Trustee expects its asset managers, including its internal manager, BPIM, to have regard to the Code's principles or to an international equivalent.

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 relevant asset classes and asset managers. The Trustee discusses ESG issues and the outcomes of engagement activities with the Fund's asset managers every quarter. The Trustee generally prefers engagement over exclusion as a way of improving long-term behaviour.

In line with regulations, the Trustee reports on its voting and engagement activities undertaken in the Fund in the annual implementation statement, and on its approach to identification, assessment and management of climate-related risks and opportunities in the annual Climate Change report.

As an asset owner, the Trustee believes engagement is key in fulfilling its responsible investment beliefs. It is a signatory to the UN-supported Principles of Responsible Investment, and a member of the UK Asset Owner Council and the Institutional Investors Group on Climate Change.

7. Selecting and Monitoring Asset Managers

The Trustee determines which types of assets its managers may invest in.

The agreements between the Trustee and appointed managers include restrictions on the type of investment a manager can hold, benchmark asset allocation, permissible deviations from the allocation and performance targets. The Trustee carries out regular reviews of its asset managers.

When deciding whether to make any new direct investments the Trustee will obtain written investment advice and consider whether future decisions about those investments should be delegated to the relevant asset manager(s), recognising that responsibility for strategic investment matters is retained by the Trustee. When assessing prospective asset managers, one of the factors the Trustee considers is how ESG factors are taken into account from a long-term risk management and valuation perspective, including the integration of ESG into investment processes, business focus, operational infrastructure, and engagement activities.

The Trustee appoints investment 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 timeframe, subject to a minimum of three years. Among the outcomes the Trustee expects to see delivered and reported on are changes at underlying investments through the use of engagement and voting (stewardship) activities. The Trustee would 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 timeframe than three years due to other factors.

Managers are always paid as a set percentage of the assets under management for a defined set of services. The Trustee will review the fees if there are material changes to the mandate, such as its size, or market pricing dynamics. The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers periodically, where the data are disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

Prior to 1 July 2016, the Trustee offered a facility for members to pay money purchase additional voluntary contributions (MPAVCs) to the Fund. These legacy funds are invested separately by external fund managers, based on the members' choices. The Trustee monitors the ongoing suitability of these fund managers.

8. Expected return on Investments

The assets that are intended to closely match liabilities should produce returns in line with a portfolio of gilts designed to represent the characteristics of the liabilities.

Investments in return-seeking growth assets target a return above gilts that is sufficient to allow the Fund's assets in aggregate to meet the overall investment return targeted.

9. Realisation of Investments

The Trustee manages the Fund's available liquidity and may sell investments, as required, to meet benefit payments as and when they are due.

Updated: 24 February 2025