BP Pension Fund

2023 Implementation Statement

About this statement

As Trustee of the BP Pension Fund (the Fund), we are required to publish an annual implementation statement which explains how we have followed and acted on the principles set out in our Statement of Investment Principles (SIP), including a description of our voting behaviour and examples of significant votes.

This statement covers the reporting period from 1 January to 31 December 2023 and in line with regulations, is incorporated in our Annual Report and Financial Statements and is publicly available on our website, **PensionLine**.

1. Governance

The Trustee is responsible for investing the assets and for all strategic investment decisions, including setting the Fund's overall investment risk and return targets. The Trustee's executive organisation, led by the Chief Executive Officer (CEO) and her Leadership team, has a delegated authority for the executive management of 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 BP Investment Management Limited (BPIM) (the Trustee's in-house asset manager) and to external asset managers.

The Trustee's organisational and governance structure is designed to support the Fund in achieving its purpose to provide benefits to members as set out in the Fund's Trust Deed and Rules, while ensuring transparency and visibility of its activities to the Trustee Board and its Committees. 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 governance structure facilitates timely, effective decision-making during the meetings by individuals with the appropriate skills and experience. It is regularly reviewed, with its last review having taken place in 2022, to ensure it remains fit for purpose in view of the evolving UK pensions governance landscape. It provides the Trustee with specific contingency arrangements if significant events arise.

Over 2023, the CEO and her Leadership team continued to provide quarterly reports informing the Trustee Board and its Committees of its activities and actively participated in quarterly Board and Committee meetings. Each respective meeting Chair encouraged open debate and constructive challenge in relation to the proposals put forward to the Trustee Board and its Committees.

2. Investment strategy and risk

Investment strategy

The Trustee's long-term investment objective is to invest the Fund's assets and to build them up in a responsible manner to a level which is expected to be sufficient to pay the accrued benefits 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.

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 is invested in assets that are diversified by factors including asset class, geography, sector, liquidity and across asset managers. The Trustee takes a long-term approach to investment. This includes a willingness to hold illiquid investments where the expected risk-adjusted 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.

This strategy had enabled us to gradually build up the funding level, while concurrently managing the risk, and subsequently steer towards protecting the Fund from downside risk. That approach has seen a continued reduction in the Fund's exposure to growth assets during 2023. Overall, the Fund's asset allocation is oriented towards closely matching the Fund's liabilities and so reducing funding level volatility.

Investment risk management

The Trustee 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 (currently valued by reference to gilt yields) and seeks to ensure that the investment strategy remains within its risk parameters, ensuring the risk level is consistent with the funding status and the target expected return, given its assessment of the covenant strength of the Company.

The IRRF is the primary monitoring dashboard used by the Investment Committee and the Trustee Board to ensure that set investment objectives and the de-risking journey plan are on track across various key criteria. It is regularly reviewed and updated, including the risk metrics used, to ensure its ongoing suitability for our evolving investment objectives. Following the most recent update, a new metric has been introduced with a view to helping the Trustee monitor the long-term solvency level required by the Fund in order to ensure a high level of protection for members.

The Trustee Board currently monitors strategic risks, and its Audit and Risk Committee monitors operational controls and compliance risks. We share our policies, as set out in the SIP, with our investment managers, and request that the managers review and confirm whether their approach is in alignment with our policies, where relevant.

3. Selecting and monitoring our asset managers

During 2023, no new asset managers were added and two asset managers were terminated:

- One of the active asset managers in the listed equities structure was terminated based on a reassessment of the most appropriate active manager structure for the Fund, in light of a reduced allocation to the asset class. Relevant factors included risk and return analysis for various structures and a forward-looking evaluation of the managers' respective abilities to help the Fund advance its Responsible Investing priorities.
- The Emerging Market Debt asset manager was terminated due to the removal of this asset class from the strategic asset allocation.

We followed our quarterly manager monitoring process for all our asset managers, which includes meetings held to discuss investment performance updates, business developments, personnel changes, responsible investment (RI) and stewardship matters. During 2023, we made a number of improvements to our manager monitoring criteria in relation to RI and stewardship which are outlined in sections 4 and 5. The asset managers' fees, as well as portfolio turnover and transactions costs, are compared with similar market benchmarks to ensure that they remain reasonable. Our view was that these costs were within reasonable expectations during the period of this report.

The External Manager Monitoring policy was reviewed and updated in 2023, and while there were no substantive changes, various updates were made to ensure the policy fully reflects the Fund's RI policy.

4. Responsible investment (RI)

We define 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 generate sustainable, long-term returns.

Our SIP incorporates our Responsible Investment policy (RI policy) and 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 RI, and encompass an integrated risk management approach.

Our investment principles serve as the bedrock for our investment objectives, which, in turn, reflect our governance beliefs and support our integrated risk-management process and RI framework.

The Fund's RI principles are outlined in the RI policy and they acknowledge that material ESG risks can impact investment value. We hold ourselves and our managers accountable for managing these risks and actively monitor and mitigate them.

As signatories to the Principles of Responsible Investment (PRI), we have adopted and implemented our RI principles in alignment with our fiduciary duties. Our commitment extends to continually evaluating their substance and effectiveness over time. We believe this approach enhances our ability to fulfil our commitments to our members while aligning our investment practices with broader societal interests. We consistently adhere to the PRI's reporting requirements and actively harness their resources and collaborate with peers.

In relation to the Fund's RI journey, significant progress has been made over the past few years – particularly with respect to the analysis of the potential impacts of climate change on the Fund. We continue to ensure that the Fund's policy documents reflect the new developments that have been made.

Each year, we set our specific priorities against the backdrop of the Fund's position, our management priorities and any key external developments. The sections below outline key priorities we achieved in 2023.

Holding our managers to account

As part of our comprehensive approach to monitoring and managing stewardship and ESG risks, we actively engage with our asset managers to drive positive change and enhance long-term, risk-adjusted returns. While we do recognise that our asset managers have different strengths and weaknesses, and that there are differences between asset classes which we outlined in our RI policy, our expectations are clear: asset managers must align their investments with our RI policy, and all managers are held to a certain standard.

Our asset manager monitoring process applies uniformly to all asset managers, including BPIM, and encompasses the following key elements:

1. **Encouraging strong stewardship standards.**
   We require asset managers to have regard to the 2020 UK Stewardship Code principles (or international equivalents where applicable). We actively encourage them to become signatories and monitor their progress in achieving this status on an ongoing basis.
2. **Annual review into stewardship activities.**
   To gain deeper insights into each asset manager's stewardship and responsible investment policies, processes, and implementation levels, we request comprehensive reporting from all our asset managers on these topics. Enhancements made to our annual questionnaire included requesting examples where our priorities of climate change, human rights and Board effectiveness, were a significant factor in the investment decision, and we requested case studies to evidence where our managers have engaged for change in relation to our stewardship priorities. With each manager, we subsequently hold annual meetings dedicated to strengthening our understanding of their practical RI application. These meetings play a vital role in our asset manager monitoring governance process, assessing their investment and stewardship activities over the preceding year and ensuring progress across all asset classes and mandates to the extent possible.
3. **Quarterly stewardship monitoring.**
   We conduct quarterly investment review meetings with our asset managers, which include responsible investment and stewardship as a recurring agenda item, and asset managers are expected to provide stewardship updates in their quarterly reports, including participation in relevant initiatives. Representatives from both the asset manager oversight and responsible investment teams attend these meetings. During 2023, we also placed more emphasis on collecting case studies which evidenced where our asset managers have engaged for change.
4. **Sharing constructive feedback on an ongoing basis.**
   Our improved annual and quarterly monitoring processes have resulted in stronger collaborative relationships with our managers, and this has allowed us to influence positive stewardship practices more actively where we have seen potential to do so.

Summary from 2023 annual responsible investment review meetings

Through the annual RI meetings, we try to ensure there continues to be progress in ESG integration, stewardship and engagement activities across all asset classes and mandates to the extent 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 2023, all asset managers evidenced their adherence to our RI policy and have made progress compared to the previous year, especially regarding the integration of climate analysis. The 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 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 evidenced that they 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 them 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 asset 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 stewardship priorities. During 2023, we continued to increase the emphasis on meaningful examples of engagement activities undertaken by our asset 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 be clear in our communication to ensure asset managers have clarity on our expectations and do not fall behind these expectations. Europe-headquartered managers appeared to be slightly ahead on sharing 'engagement for change' case studies.
Reporting	In general, most asset managers made a concerted effort to provide comprehensive responses to our annual questionnaire.

5. Stewardship

As a responsible steward of our assets, we recognise the active role we should play in the stewardship process, and we utilise our position as an asset owner to promote responsible long-term behaviour wherever possible. In 2023, we successfully obtained signatory status to the 2020 UK Stewardship Code. Our Stewardship Report can be found on PensionLine.

Our approach involves three key components: our asset managers' adherence to our RI policy, climate change policy and voting policy. In general, we prioritise engagement over exclusion as a way to drive positive change over the long-term. Our annual responsible investment monitoring framework combines quantitative and qualitative elements. It allows us to assess our managers' level of engagement and impact related to each stewardship priority. Importantly, this framework does not limit us since we remain open to engaging on other ESG themes and addressing issues that arise during our ongoing monitoring and the annual company shareholder resolution process.

The quarterly and annual discussions with our asset managers provide insights into their engagement activities and the resulting outcomes. Key areas of focus include:

- **Formal processes**
  We evaluate whether our managers have established formal processes for identifying, prioritising and tracking engagements and relevant statistics. Most of our managers have these processes in place or are working on developing them.
- **Collaborations and initiatives**
  We closely monitor our managers' collaborations with other entities and their active participation in stewardship initiatives. All 15[1] of our managers are now signatories to the UN PRI and 12[2] of our managers are signatories to the UK Stewardship Code 2020.
- **Engagement case studies**
  We request examples where our managers have engaged for change in relation to each of our priority themes and we have highlighted some examples in **Appendix 1** of this document. In comparison to the previous year, there was a redistribution of the number of 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. This decrease is linked to our raised expectation, which we communicated to our managers last year, of how they engage with investee companies and what examples they provide to demonstrate their efforts in engaging for change rather than just for information. Although we acknowledged progress, based on what our managers submitted to us this year, some of the case studies appeared as aiming to collect information rather than to ask/suggest changes to investee companies.

Overall, we have observed satisfactory progress in relation to our managers' respective stewardship practices. The need for continued focus on engagement for change with respect to our stewardship priorities specifically remains a key priority to ensure asset managers do not fall behind our expectations. We will continue engaging with our managers to further develop robust stewardship practices and enhance the effective implementation of our stewardship priorities.

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

[2]Oak Hill's parent company (T. Rowe Price) is a signatory, and Oak Hill have indicated they are considering becoming a signatory directly.

Following our stewardship priorities review conducted in 2023, we will continue to focus on climate change, human rights, Board composition and oversight as our stewardship priorities, and 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. Setting stewardship priorities enables us to effectively monitor progress and consistency across our managers and asset classes in relation to these critical issues.

Implementation of our stewardship priorities

In addition to holding our managers accountable for integrating our stewardship priorities, we actively take steps to address relevant issues through our own actions.

Climate change

- In July 2023, we published our second climate change report aligned with the Task Force on Climate-Related Financial Disclosures (TCFD) framework to explain our approach to the identification, assessment and management of climate-related risks and opportunities.
- In order to support the delivery of 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, we joined the Institutional Investors' Group on Climate Change (IIGCC) and we are active members of some of the initiative's working groups (see case study further in the report).

Human rights

- The Fund's investments include companies or issuers with complex global supply chains. We emphasise to our asset managers the importance we place on ensuring these companies and 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 prevention of modern slavery and child labour, and the promotion of a fair living wage within the companies we are invested in.

Board effectiveness

- 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/borrowers to apply best practices and where it is available, seek adherence to their local corporate governance guidelines or refer to the International Corporate Governance Network (ICGN) guidelines.

Nature loss

- In 2023, we have 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 and one of increasing focus. As a result, we are continuing our work to develop objectives that can be applied by the Fund in this area.
- Over the course of 2024 we plan to review nature loss in greater depth. We will work closely with our adviser and hold discussion with our asset managers. The expectation is that this will lead to a nature loss risk assessment of the Fund's assets and a better understanding of the Fund's exposure to different nature loss factors.

Collaborative engagement

We maintain an attitude of continuous improvement and continue our collaborative engagement efforts through different channels:

- The Occupational Pensions Stewardship Council (OPSC), which we joined in 2022, is a dedicated council of UK pension schemes set up to promote and facilitate ambitious standards of stewardship. We joined this council in 2022, and we participate in the climate change and private markets work strands to share our insights and understand best practice approaches. As of the end of 2023, the OPSC merged with the UK Pension Schemes RI Roundtable, creating the Asset Owner Council (AOC). We have been members of the RI Roundtable since 2021. 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.
- The Institutional Investors Group on Climate Change (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 in 2022, we have been mainly using the platform as a learning tool to gain insight into aligning our portfolios with the goals of the Paris Agreement. Our intention is to expand our involvement with the IIGCC, particularly with respect to collaborative engagement. In 2023, a representative from the Fund's RI team took part in the IIGCC Sovereign Bonds & Country Pathways Working Group, which concentrated on data, methodology and engagement efforts related to sovereign bonds.
- ISS serves as a leading provider of corporate governance and responsible investment solutions to financial market participants. In 2023 we responded and gave feedback on the Institutional Shareholder Services (ISS) 2023 Global Benchmark Policy Survey.

6. Voting

Shareholder voting serves as another powerful tool for influencing investee companies. Through our segregated mandates across all listed equities portfolios, we retain the right to exercise voting rights associated with our holdings directly. Whenever feasible, we leverage these voting rights to promote responsible long-term behaviour among the companies in our investment portfolio. We consider voting a crucial investor right, enabling us to express our stance on critical issues, including those related to our engagement stewardship priorities.

Our approach to voting consists of a systematic and rigorous process which involves thorough research and recommendations from our proxy voting adviser, Institutional Shareholder Services (ISS), as well as insights from our passive equity external asset manager, LGIM. Additionally, we value perspectives from our other asset managers who engage directly with companies in our portfolios.

Our voting decisions prioritise the best interests of the Fund's members, aligning with our RI policy. We exercise judgment when determining whether to follow LGIM, ISS or our asset managers' recommendations. For further details, including voting statistics and significant votes, please refer to **Appendix 2** of this document.

The Fund's allocation to listed equities has significantly decreased in recent years due to de-risking. This has resulted in a smaller universe of companies held and fewer opportunities to use voting as a lever for change in any given year. As such, we have focused closely on the engagement aspect of stewardship and have encouraged our asset managers to deliver evidence of their meaningful and effective stewardship activities. The decrease in allocation to listed equities has also led us to re-visit the rationale behind our stock lending programme. Having considered this issue in detail, including its impact on the voting process, we reached a decision in March 2023 to discontinue the stock lending process, with all activities ceased in May 2023 following Board approval.

7. Members

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

- Our annual newsletter
- 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 third annual climate change report and second annual stewardship report.

8. Looking ahead

We believe that we have diligently followed the principles set in our SIP and strengthened our approach in several key areas. Securing our member's benefits remains a core part of every decision we make. We aim to further strengthen our RI monitoring process so we can challenge the asset managers on their approach to sustainable investment, and better articulate to them the themes we consider important, such as nature loss and climate change. Additionally, next year we intend to place particular focus on understanding how asset managers can support us in achieving our Net Zero Ambition, while continuing to deliver on objectives set in respective investment manager agreements.

Appendix 1: Engagement examples over the reporting period

External asset managers handle the majority of our investment management tasks. Therefore, except for the property mandate, we currently do not have direct interactions with companies.

We aim to shape corporate behaviours through our external asset managers, by discussing their stewardship strategies and the success of their engagement initiatives. This approach enables us to indirectly influence a wider array of corporate issuers, even those beyond our direct holdings.

Below, we provide examples to demonstrate some of the direct engagements we carried out in 2023.

Responding to the 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 ESG 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 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.

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 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 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 to ensure 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: BPIM engagement with tenants of our real estate assets
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.

Our asset managers' direct engagement

We hold the view that active involvement not only benefits the Fund's members, but also positively impacts the environment and society at large. Therefore, we anticipate that the Fund's managers will continuously interact with companies, regulators, investors and other relevant parties as needed. This ongoing dialogue allows for a more profound comprehension of the significant issues impacting the managers' investments and empowers our managers to effect substantial and specific changes.

In our annual RI questionnaire, we request our managers to differentiate between engagements aimed at change and those intended for gathering information. We also request them to detail their engagement strategy, including the goal, anticipated milestones and escalation procedure, if necessary, for each engagement they report to us.

The following examples demonstrate some of the direct interactions we or our managers had in 2023.

Example: Climate change - Net zero emissions
Engagement led by M&G
Sector: Energy
Asset class: UK corporate bonds

Action: A proposal was put forward to the company, as a worldwide oil and gas producer, to set a clear Scope 3 target for all emissions. 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 under way. Moving forward, the asset manager intends to reconvene with the company to share its thoughts on the metrics and KPIs to be included in company's 2023 Sustainability and Climate report.

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: Board effectiveness - Ensuring checks and balances within the company Board
Engagement Led by Nikko Asset Management
Sector: Medical Technology
Asset class: Listed equities - 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 manager voted for more CEO oversight and supported expanding the Board from five to seven, with individuals nominated by the activist shareholder. A November 2023 meeting with the CFO indicated positive changes and showed progress being made.

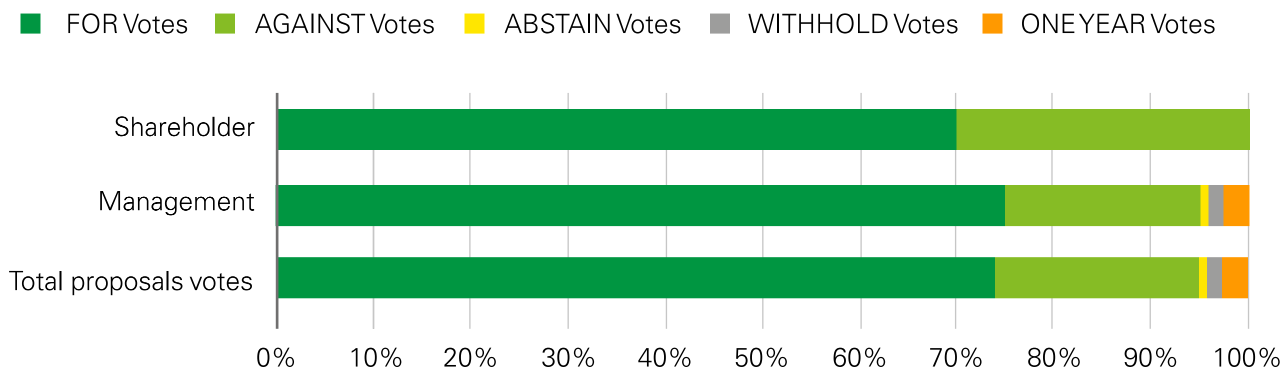
Outcome: Three new independent directors were appointed to the Board after the 2023 Annual General Meeting, including two directors nominated by the activist shareholder.

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

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%).

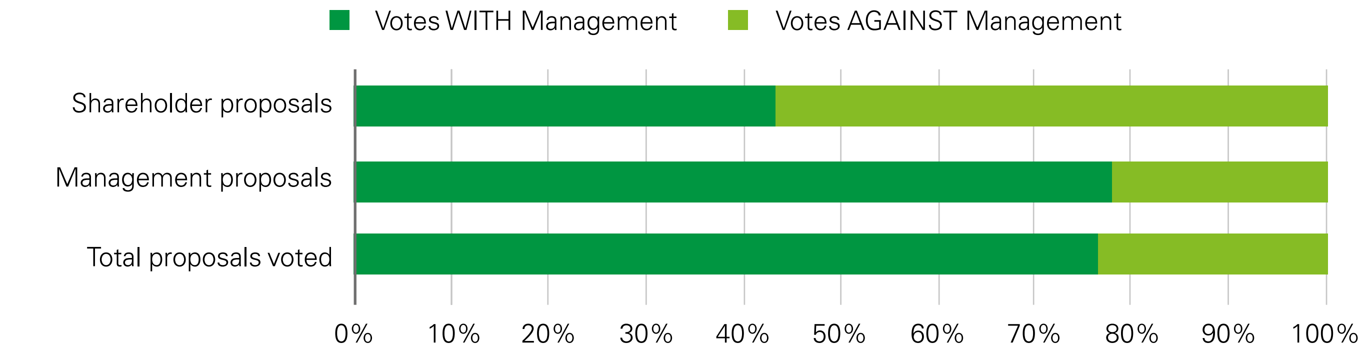
We voted against management on 1,217 resolutions (23.5% of total). Of these, 1,079 (88.7%) resolutions were management proposals and the rest shareholder resolutions (11.3%). We voted against ISS on 886 resolutions (17.1% of total voted). Of these, 817 (92.2%) resolutions were management proposals and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

Summary of total proposals voted in 2023 based on ISS data



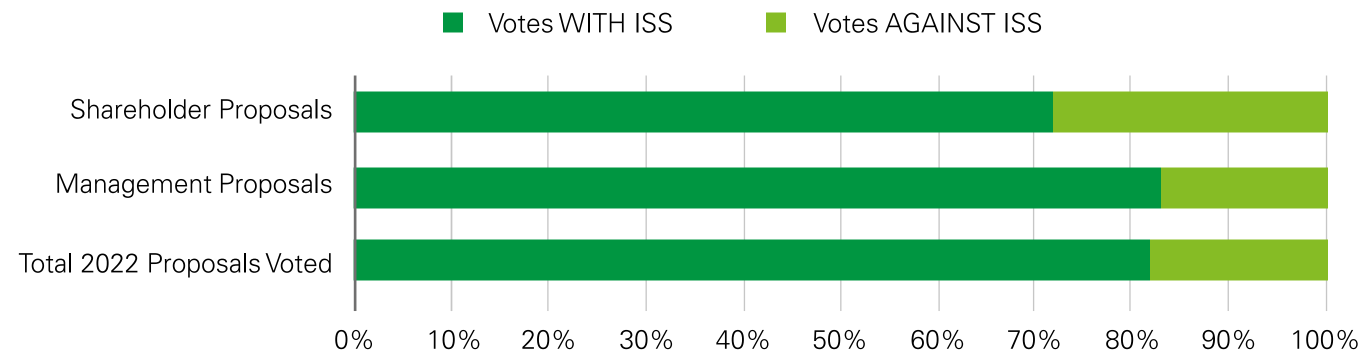
	Total proposals votes	Management	Shareholder
FOR Votes	3,867	3,694	173
AGAINST Votes	1,113	1,039	74
ABSTAIN Votes	31	31	-
WITHHOLD Votes	58	58	-
ONE YEAR Votes	100	100	-

Summary of votes with and against Management based on ISS data



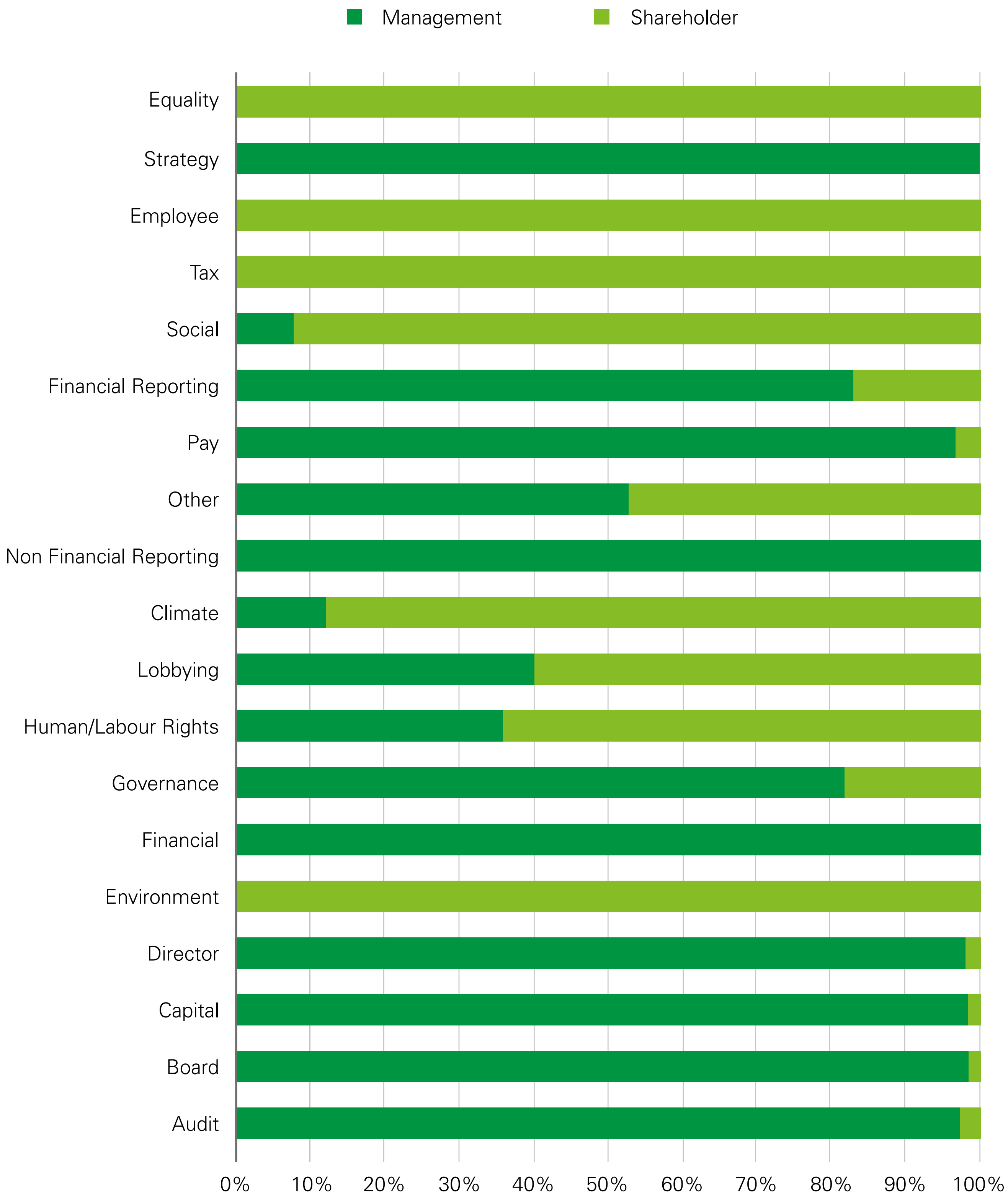
	Total proposals voted	Management proposals	Shareholder proposals
Votes WITH Management	3,952	3,843	109
Votes AGAINST Management	1,217	1,079	138

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

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 Pensions & Lifetime Savings Association (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 equities 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 adviser, 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.

Voting examples

Examples of significant votes on climate change

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.

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 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.

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.

Examples of significant votes on human rights

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.

Hershey Company	
Sector	Confectionery
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.

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	Whilst 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'.

Examples of significant votes on Board effectiveness

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%.

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.