

BP PENSION FUND – Defined Contribution Sections

ANNUAL GOVERNANCE STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2017

Specific governance rules apply to defined contribution pension arrangements like the BP Retailing Pension & Life Assurance Scheme, which is open to new joiners, and the BPFM Pension Scheme, which is closed to new joiners and has no active members (collectively “the Schemes”). The Schemes were designed to help members achieve a good outcome from their pension savings.

As the Trustee Chairman, I am required by law to provide an annual statement which explains what steps have been taken by the Trustee, with help from its professional advisers, to meet the governance standards. The law sets out what information has to be included in my statement and this is covered below.

The Trustee is committed to having high governance standards to help it meet its strategic, fiduciary and administrative responsibilities. More information about its governance structure is on pages 5 to 10 of the Annual Report.

Default investment arrangement

A default scheme arrangement is provided for members of the Schemes who do not choose an investment option for their contributions. Members can also choose to invest in the default investment arrangement which is set up by the Trustee.

The Trustee is responsible for investment governance. This includes setting and monitoring the investment strategy for the Schemes’ default arrangement. We have chosen Legal and General Investment Management (‘LGIM’) as the investment manager for the Schemes’ default arrangement. Details of the investment strategy and investment objectives of the default arrangement are recorded in the “Statement of Investment Principles for the default option”, included as an appendix to the Annual Report and Accounts.

The Trustee is expected to:

- review the investment strategy and objectives of the default investment arrangement at regular intervals, and at least once every three years; and
- take into account the needs of the membership when designing the default arrangement.

The Trustee will review the investment objectives of the default arrangement at least once every three years and on the advice of its investment advisers. The most recent review of the investment objectives of the default arrangement was undertaken during 2016. This review resulted in some changes to the default arrangement being implemented in December 2016 in order to reflect the increased range of options available to members when choosing the final form of their benefits. The performance of the default arrangement relative to its benchmark is monitored on a regular basis. Performance has been consistent with the aims and investment objectives as described in the Statement of Investment Principles for the default option.

Core financial transactions

The Trustee is required to report on the processes and controls in place in relation to the “core financial transactions”. The law specifies that these include the following:

- investing contributions paid into the Schemes;
- transferring assets related to members into or out of the Schemes;
- transferring assets between different investments within the Schemes; and
- making payments from the Schemes to or on behalf of members.

We must ensure that these important financial transactions are processed promptly and accurately. In practice, we delegate this activity to the Schemes’ administrator under an Administration Services Agreement which details the required service standards and associated reporting. Administration is provided by BP Pensions Limited (BPPL), with certain aspects subcontracted to Capita Employee Benefits Limited.

The Trustee has reviewed the processes and controls used by BPPL and examined an independent assurance report on Capita Employee Benefits Limited’s internal controls for year ended 31 December 2017, and consider them to be suitably designed to achieve these objectives.

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I am pleased that there have been no material administration service issues which need to be reported here by the Trustee. We are confident that, to the best of our knowledge and belief, the processes and controls in place with the administrator are robust and will ensure that the financial transactions which are important to members are dealt with properly.

Member-borne charges and transaction costs

We are required to monitor regularly the level of charges which are paid by members. These charges comprise:

- explicit charges, such as the annual management charge, and additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER');
- implicit charges, such as the transaction costs borne within a fund for activities such as buying and selling particular securities within the fund's portfolio. Transaction costs are incurred on an ongoing basis and are implicit within the performance of each fund.

Other costs of providing the Schemes (e.g. administration, communication, and adviser costs) are not charged to members. Where information about the member costs and charges is not available, we have to make this clear together with an explanation of what steps we are taking to obtain the missing information.

The default arrangement uses a blend of several of the funds shown in the table below, with the allocation to specific funds changing as members approach retirement. The TER paid by members at any point in time depends on the underlying fund allocation and, for all members, ranges from 0.124% p.a. to 0.138% p.a. of assets under management.

The Trustee also makes available the range of funds shown below which may be chosen by members as an alternative to the default arrangement. These funds attract TERs of between 0.069% and 0.203% for members who choose them.

Fund	TER (%) as at 31 December 2017
All World Equity Index Fund*	0.138
Asia Pacific (ex-Japan) Developed Equity Index Fund	0.142
Cash Fund*	0.126
Ethical UK Equity Index Fund	0.203
Europe (ex-UK) Equity Index Fund	0.125
Global Equity Fixed Weights (50:50) Index Fund	0.112
Investment Grade Corporate Bonds All Stocks Index Fund*	0.112
Japan Equity Index Fund	0.123
Multi-asset Fund*	0.164
North America Equity Index Fund	0.123
Over 5 Year Index-Linked Gilt Index Fund*	0.076
Pre-Retirement Fund	0.121
UK Equity Index Fund	0.069

* Fund incorporated within the default arrangement

There are also some legacy fund options which continue to be available for certain members but which are not part of the default arrangement. These attract annual management charges between 0% and 1.5% for members invested in them.

The requirement for investment managers to disclose transaction costs was introduced from 3 January 2018 and so was not in place for the period covered by this Statement. Despite this, we have obtained some preliminary data from LGIM on transaction costs in relation to the funds offered and are working with them to analyse and further interpret this data. As such, we expect to be able to provide transaction cost information to members as part of next year's Statement.

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When assessing the charges and transaction costs which are payable by members, the Trustee is required to consider the extent to which the investment options and the benefits offered by the Schemes represent good value for members when this is compared to other options available in the market.

There is no legal definition of “good value” and so the process of determining good value for members is a subjective one. We have received advice on how to assess good value from our advisers and considered regulatory guidance.

As a starting point to assessing good value, we have compared the level of charges in each fund with the levels of charges for similar funds and found them to be competitive. We have also considered how the charges and transaction costs borne by members (the costs of membership) compare against the services and benefits provided by the Schemes (the benefits of membership). The benefits of membership include: the design of the default arrangement and how this reflects the interests of members, the range of investment options and strategies, the efficiency of administration processes, the quality of communications delivered to members, and the governance oversight provided by the Trustee.

Based on our assessment, we have concluded that the Schemes represent good value for members.

Trustee knowledge and understanding

The Trustee is required by law to possess, or have access to, sufficient knowledge and understanding to allow it to exercise its function as trustee properly and to run the Schemes effectively.

The Trustee directors have arrangements in place for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments in the industry. The Trustee company secretary maintains an annual training log for each member of the Trustee board and arranges for training to be made available to individual directors or to the whole Trustee board as appropriate. The Trustee directors also receive training from professional firms or the Trustee board’s professional advisers. Trustee directors may seek advice from independent experts, including professional advice on matters relating to their responsibilities and the affairs of the Trustee. The Trustee board evaluates its performance and effectiveness annually, assisted by an external agency. A detailed review was completed in 2017 and no material issues were highlighted.

All new Directors are required to complete the Trustee Toolkit within a year of their appointment. There is an induction checklist of adviser meetings and training programmes which new Trustee directors have to complete within six months of appointment. No new Trustee directors were appointed during 2017.

As a result of the training activities which have been completed by the Trustee directors individually and collectively as a Trustee board, and taking into account the professional advice available, I am confident that the combined knowledge and understanding of the Trustee board enables the Trustee to exercise properly its duties as Trustee of the Schemes.

(You can find a signed copy of this chairman’s statement in the Trustee’s Report and Accounts.)