

REGULATORY STATEMENTS: ANNUAL IMPLEMENTATION STATEMENT (DB SECTION)

Introduction

Under the new regulatory requirements covering occupational pension schemes, BP Pension Trustees Limited ('Trustee'), on behalf of the BP Pension Fund ('Fund'), is required to publish an annual Implementation Statement setting out how the policies described in the Fund's Statement of Investment Principles ('SIP') have been implemented.

This is the first such statement produced by the Trustee. It is intended to meet the updated regulations and aims to set out at a high level how the Trustee's policy on stewardship and engagement has been implemented. It will be included in the Trustee's Annual Report and Financial Statements and made publicly available.

This statement focuses on the Defined Benefit ('DB') Section of the Fund and its associated SIP. The implementation statement relating to the Defined Contribution ('DC') section and its SIP is separate to this document.

This statement has been prepared by the Trustee on behalf of the Fund for the period from 1 October 2020 to 31 December 2020 (the 'Reporting Period'), as required by the new regulations.

Governance

There were no material amendments made to the SIP during the Reporting Period.

The Trustee has conducted its respective oversight activities in accordance with its responsibilities. There was one Investment Committee meeting and two Trustee Board meetings held over the Reporting Period. The quarterly reporting framework has enabled its stakeholders to better understand and evaluate the Fund's performance, compliance with investment guidelines and the Trustee's progress towards achieving its investment objectives.

The Trustee has made informed strategic investment decisions in accordance with its rights and responsibilities to enable the achievement of the Trustee's long-term investment objectives as set out in the SIP.

Investment Objective

The Trustee's long-term investment objective is to be invested in assets which closely match the DB liabilities and to build up the assets in a responsible manner to a level which is expected to be sufficient to pay benefits as and when they fall due, i.e. to a funding level which, in the Trustee's view, minimises reliance on its sponsor, BP p.l.c., ('Company') and the participating employers.

In order to incrementally achieve the investment objective and to continue to build up the funding level, the Trustee has invested a proportion of DB assets in investments that are expected over the long-term to grow by more than the value of the DB liabilities. This proportion is invested in assets that are diversified by asset class, geography, sectors, liquidity and across fund managers to help achieve the Trustee's overall risk-adjusted return objective.

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 Trustee's Annual Report and Financial Statements, available to members upon request.

REGULATORY STATEMENTS: ANNUAL IMPLEMENTATION STATEMENT (DB SECTION)

Throughout the Reporting Period, the Trustee employed its risk return framework to monitor the ongoing risk and performance of the investment strategy. The details are summarised below.

Expected Return

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 achieving a fully funded position (based on expected returns) within agreed timescales.

Over the period, the funding level on the target funding basis (gilts + 0.5%) has increased primarily driven by positive performance from return-seeking assets. The expected return (the central case outcome of the rate of return, across the portfolio) is above the required return (return that would be required to meet the funding target of 105% on a gilts + 0.5% basis), and therefore on track to achieve the funding target by 2026. The funding target has been set to minimise reliance on the Company and participating employers and is subject to change as part of investment strategy and milestone strategy review.

Investment Risk

The Trustee seeks to ensure that the investment strategy remains within its risk budget. The level of risk is consistent with the funding level and the expected return targeted, taking into account the covenant strength of the Company and the participating employers.

The Funding Ratio at Risk ('FRaR'), which is the risk measure used in the risk and return framework representing the 95th percentile loss on the funding level over 1-year, has been reduced, in line with a long-term de-risking plan, by asset allocation changes via increased exposure to corporate bonds and emerging market debt, and decreased allocation to listed equities.

Selection and Monitoring of Asset Managers

During the Reporting Period, the listed equities mandate, previously managed by BP Investment Management Limited ('BPIM'), was transferred to external managers. In accordance with the Trustee's Manager Selection and Monitoring process, six new managers have been appointed. Legal and General Investment Management Limited ('LGIM') was selected to manage the Passive Global Equities mandate and four other investment managers were chosen to manage Active Global Equities mandates. A new Emerging Market Debt mandate was also put in place, with one external manager appointed.

The asset managers' fees, as well as portfolio turnover and transactions costs, are reviewed by the Trustee to ensure they are in line with the market. The next such review will be undertaken in 2021.

Responsible Investment

The Responsible Investment Policy, which is incorporated into the SIP by reference, was adopted by the Trustee in 2019 ('RI Policy') and has been kept up to date and in line with any recent regulatory changes. The Trustee remains a signatory to the UN-supported Principles of Responsible Investment and complies with its annual reporting requirement.

REGULATORY STATEMENTS: ANNUAL IMPLEMENTATION STATEMENT (DB SECTION)

The principles, applied by the Trustee in its actions towards achieving the investment objectives, reflect its underlying beliefs about governance and employing an integrated risk management approach which encompasses responsible investment.

Over the course of the Reporting Period, and preceding months, the Trustee has made significant enhancements within its manager selection and monitoring process, as well as its reporting framework, to bring those into close alignment with the 2020 UK Stewardship Code principles. Consideration and regard to the environmental, social and governance ('ESG') factors within the investment process have remained significant factors within the asset manager selection process.

Where possible, the Trustee has used its influence to encourage responsible long-term behaviour through its own activities and its asset managers' compliance with its RI Policy and UK Stewardship Code principles. The Trustee prefers engagement over exclusion as a way of improving long-term behaviour.

The Trustee meets with all its asset managers on a quarterly basis and as part of those meetings, discusses engagement activities which they undertook, along with underlying ESG issues and the outcomes of those engagements.

On an annual basis, each asset manager is obliged to fill out the RI and stewardship reporting template which has been developed over this Reporting Period. In addition to quarterly manager meetings, annual meetings dedicated to stewardship and responsible investment will take place during first few months of each calendar year.

As far as the Trustee is aware, there have been no investment decisions that have deviated away from the RI Policy during the period covered in this statement.

Stewardship and Voting

The DB SIP is supplemented by the RI Policy which covers the Trustee's approach to responsible investment. Where possible, the Trustee uses its influence to encourage responsible long-term behaviour through the Trustee's voting policy which is incorporated within the RI Policy.

While the Trustee exclusively reserves voting rights and asset managers are not permitted to exercise voting rights attached to any of the Fund's investments without prior approval, shares for a passive mandate were voted by LGIM according to their policy during Reporting Period. This approach has been taken to ensure a new voting process could be developed and established following the transition of the listed equities mandate to external managers.

At the time of writing this statement, all voting activities are being exercised internally within the Trustee following successful implementation of the new voting process.

As far as practicable, the Trustee exercises its right to vote in the general meetings of the companies in which the Fund invests. The Trustee exercises its voting rights to express its position on specific topics including the following themes: climate change and the energy transition (environmental), human rights (social), and board effectiveness (governance). The Trustee's investment managers are also encouraged to engage with their underlying portfolio companies on these themes.

The Trustee approaches voting through a systematic and dynamic process. In addition to reviewing recommendations from the proxy voting advisor, Institutional Shareholder Services,

REGULATORY STATEMENTS: ANNUAL IMPLEMENTATION STATEMENT (DB SECTION)

Inc., ('ISS'), the voting policies from LGIM as well as the active managers' views are also taken into consideration, in order to leverage the expertise on the companies they engage with.

The Trustee always votes in the best interests of the Fund, in alignment with the RI Policy, and applying judgement when considering whether to follow the proxy voting agent's recommendations.

Guided by the stewardship themes referenced above, the Trustee considers several criteria, including those outlined by the Pensions and Lifetime Savings Association ('PLSA') in determining which votes are considered "significant". Through a methodical filtering process, ensuring consistent treatment for companies which may be held in more than one mandate, the Trustee narrows down the votes which are to undergo further scrutiny, ultimately selecting those that make up the "significant votes" category.

In summary, votes with the following criteria (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 which was not previously considered important has risen up the agenda by the time voting discussions occur and decisions would need to be taken.

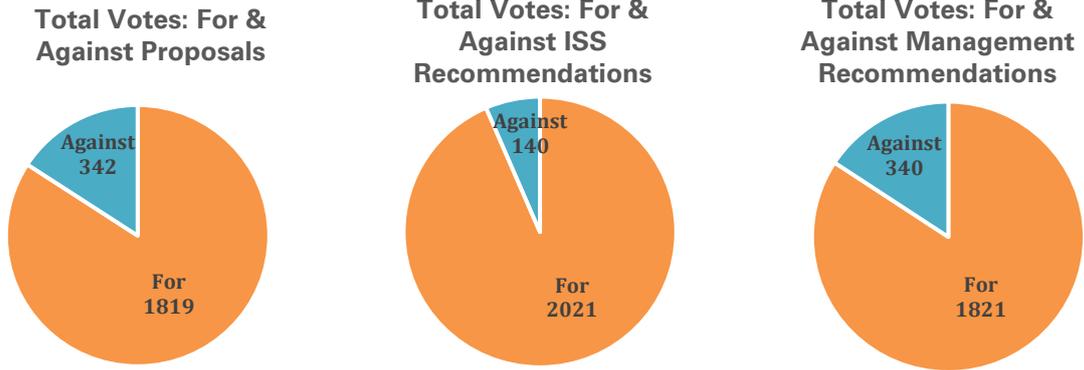
- **High-profile or controversial votes** – this includes votes with a significant level of opposition from investors to a company resolution; a significant level of support for an investor resolution; a level of media interest; a level of political or regulatory interest; a level of industry debate, or sanction votes as a result of engagement.
- **Votes with potential financial implications** – some votes may be considered to have a material impact on future company performance. For example, the approval of a merger or a requirement to publish a business strategy that is aligned with the Paris Agreement on climate change.
- **Votes with a potential impact on a stewardship outcome** – for example, votes relating to a decision which may reduce investors' voice or downgrade investors' voting rights (i.e. debt for equity swap or management buyout).
- **Votes relating to an identified conflict of interest with the Trustee's asset managers.**
- **Votes in non-listed equity asset classes** – where there is a voting opportunity in private equity, infrastructure debt, or other asset classes – it is very likely that by its nature alone, it will be a significant vote.

The voting activity is reported quarterly to the Trustee Board, and the data is presented at the Fund level.

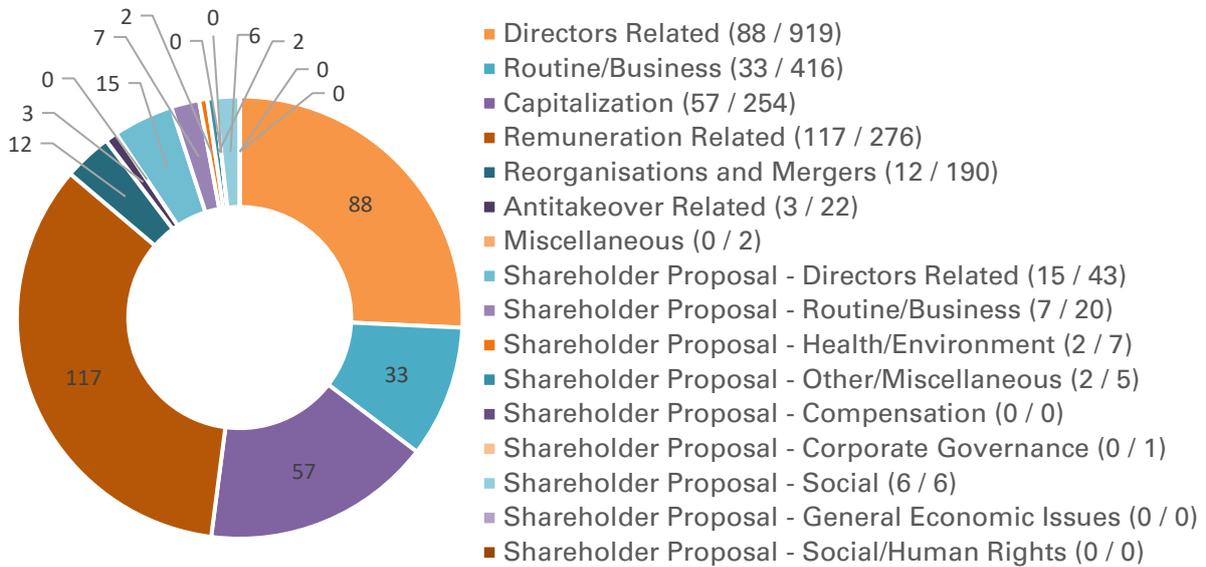
The Reporting Period covers what tends to be a relatively quiet time in terms of Annual General Meetings held and voting activities. In total, the Trustee voted on ballots for 254 companies across 2,161 resolutions.

The following charts present how resolutions were voted.

REGULATORY STATEMENTS: ANNUAL IMPLEMENTATION STATEMENT (DB SECTION)



Q4 2020 Global Voting Summary: Votes Against / Votes Total



Source: BP Pension Fund based on voting statistics data from ISS Proxy Exchange.

Summary

The Trustee is comfortable that the policies described in the SIP have all been adequately followed over the Reporting Period. The Trustee will consider disclosing more information in future Implementation Statements, as appropriate and as industry guidelines and investment manager reporting in this area evolves.