

REGULATORY STATEMENTS: ANNUAL IMPLEMENTATION STATEMENT (DC 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 Statements 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 Contribution ('DC') section of the Fund and its associated SIP. The implementation statement relating to the Defined Benefit ('DB') section and its SIP is separate to this document.

This statement has been prepared with assistance from Aon, the Trustee's DC adviser, 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. However, the reported manager's voting and engagement information covers the full Fund year to 31 December 2020.

Governance

The SIP was updated in July 2019 to take account of new regulations which came into effect from 1 October 2019. The regulations required the Trustee to include policies relating to responsible investment, stewardship (e.g. voting and engagement) and non-financial factors such as members' views.

There were no significant changes made to the investment strategy or the SIP over the Reporting Period. However, the SIP was reviewed and revised prior to this, to take account of regulatory changes which required the Trustee to outline policies regarding how it incentivises asset managers to achieve its long-term objectives, its policies on cost transparency, voting and stewardship, and how its policies align with that of the sponsoring employer in relation to sustainability.

The most recent SIP was agreed and approved by the Trustee ahead of the 1 October 2020 deadline.

The Trustee consulted with BP p.l.c., (the 'Company') when making these changes and obtained written advice from Aon, its DC adviser.

Investment Objective

The Trustee outlines in its SIP several key objectives and policies. This section details how the investment policies and objectives as stated in the SIP have been adhered to and achieved in practice over the Reporting Period.

Over the Reporting Period, the Trustee provided members with a range of investment choices. For members who do not wish to make an active investment decision, a default lifestyle arrangement is in place, which moves members from higher risk, growth-seeking assets, such as equities, into lower risk, capital preservation, assets as they approach retirement. In

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addition, 13 self-select funds are available from which members can choose depending on their risk appetite and if they are comfortable making their own investment decisions.

Members can access information on the investment choices made available through the Fund in the member handbook and on the members' secure website.

All funds made available to members over the Reporting Period were invested predominantly in liquid instruments, which are traded on regulated markets.

Investment Strategy

An investment strategy review was not carried out during the Reporting Period although a review was completed in June 2020. It concluded that the default lifestyle strategy and the self-select fund range remained appropriate and that no changes should be made at that time.

Selection and Monitoring of Asset Managers

The vast majority of the Fund's DC assets are invested with Legal and General Assurance (Pensions Management) Limited ('LGIM'). During the Reporting Period, the Trustee received a quarterly report from LGIM as expected, which provided information on the short and long-term performance of the funds that are open to new contributions from members (including those underlying the default lifestyle strategy), as well as risk-related analysis of these funds.

The Trustee has carried out a review of the fund information provided by LGIM during the Reporting Period and this review did not raise concerns about LGIM's ability to meet the performance targets set by the Trustee or the adequacy of LGIM's investment strategies to meet the Trustee's objectives stated in the SIP.

The Fund also has a small proportion of assets invested with Utmost Life and Pensions and Prudential, but they are closed to new contributions. While a review of these closed arrangements was not carried out during the Reporting Period, these arrangements are reviewed at least every three years or as circumstances or changes may require.

The Chairman's Statement for the year covering 31 December 2019 was produced by the Trustee and was published in a publicly accessible location, ahead of the regulatory deadline. This statement remained in force over the Reporting Period and included all available cost and charges information, including transaction costs, for the funds offered to members over the period.

While the Trustee has not set specific ranges for acceptable costs and charges, the Trustee is satisfied that cost and charges for the period were reasonable.

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 believes that environmental, social and governance (ESG) factors, including but not limited to climate change and the energy transition, may create both risks and opportunities for the Fund and can be financially material. In its RI Policy, the Trustee set out its beliefs and the way in which RI is implemented across the Fund's asset classes, the latter through engagement, manager selection, monitoring and reporting.

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Non-financial matters, such as the views of beneficiaries and members including (but not limited to) their ethical views and their views in relation to social and environmental impact, are not explicitly considered in the selection, retention, and realisation of investments.

Assets invested with the appointed asset managers are represented by the cash value of units, which represent the value of the underlying investments. The Trustee does not therefore directly exercise voting rights in relation to the underlying investments and consideration of voting and engagement issues for the majority of the Fund's DC and AVC assets is exercised by the asset managers.

With the help of its DC adviser, the Trustee has gathered and analysed engagement and voting data information for each of its funds. This is presented later in this statement. The Trustee notes that LGIM is exercising their respective voting and engagement abilities in a responsible manner and consistent with the Trustee's RI policy. The Trustee will continue to consider and discuss best practice in these areas with its DC adviser and amend policies and action plans when needed.

Investment manager voting and engagement

Please note that because of the availability of data, we have reported manager voting and engagement information covering the full year to 31 December 2020.

Overall, the Trustee is of the opinion that the stewardship carried out on behalf of the Fund is adequate. The Trustee notes examples of the willingness and ability of LGIM to take proactive votes against management where appropriate.

Having said this, the Trustee recognises that it has a responsibility as a large institutional investor to encourage and promote ambitious standards of stewardship in relation to the assets in which the Fund invests. Accordingly, the Trustee continues to anticipate improvements over time in line with the increasing expectations on asset managers and their significant influence to generate positive outcomes for the Fund through considered voting and engagement.

Equity and Multi-asset Funds

Over the year, the Fund invested in the following equity and multi-asset funds:

Underlying Investment Manager	Underlying Fund Name
LGIM	All World Equity Index Fund
	Asia Pacific (ex-Japan) Developed Equity Index Fund
	Ethical UK Equity Index Fund
	Europe (ex-UK) Equity Index Fund
	Global Equity Fixed Weights (50:50) Index Fund
	Japan Equity Index Fund
	UK Equity Index Fund
	North America Equity Index Fund
	Multi Asset Fund

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Voting Policy

LGIM's Investment Stewardship team uses Institutional Shareholder Services Inc., ('ISS')'s 'Proxy Exchange' electronic voting platform to vote clients' shares electronically. All voting decisions are made by LGIM, and they do not outsource any part of these. LGIM's use of ISS recommendations is purely to augment their own research and proprietary ESG assessment tools. LGIM's Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions.

Fund	All World Equity Index Fund	Asia Pacific (ex-Japan) Equity Index Fund	Ethical UK Equity Index Fund	Europe (ex-UK) Equity Index Fund	Global Equity Fixed Weights (50:50) Index Fund	Japan Equity Index Fund	North America Equity Index Fund	UK Equity Index Fund	Multi Asset Fund
Resolutions eligible to vote on	39,613	4,299	5,007	10,695	43,630	6,697	10,174	13,941	120,584
% Resolutions voted	99.5%	100.0%	100.0%	99.9%	100.0%	100.0%	99.9%	99.9%	99.3%
% Of resolutions voted against management	17.9%	25.4%	6.4%	15.3%	16.2%	13.1%	27.5%	7.0%	17.2%
% Resolutions abstained	0.5%	0.0%	0.0%	0.4%	0.1%	0.0%	0.0%	0.0%	0.6%

Significant votes

LGIM takes into account several criteria that are outlined by the Pensions and Lifetime Savings Association ('PLSA') in determining which votes are considered "**significant**".

Some of the main criteria are as follows.

- **High profile vote** with noteworthy degree of controversy attracting substantial client and / or public scrutiny.
- **Significant client interest** for a vote either directly communicated to the Investment Stewardship team at LGIM's annual Stakeholder roundtable event or attracting significant increase in requests from clients.
- **Sanction vote** resulting from a direct or collaborative engagement.
- **Vote linked to an LGIM engagement campaign**, in line with LGIM Investment Stewardship's 5-year ESG priority engagement themes.

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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.

LGIM has been able to provide the following **examples of significant votes**.

Pearson

Fund: UK Equity, Global Equity (50:50) Fixed Weights, Ethical UK Equity

Resolution: An amendment to the company's **remuneration policy** seeking shareholder approval for the grant of a co-investment award, with an all-or-nothing approach from the proposed new CEO who would not take up the role if resolution was not passed.

Issue: Despite Pearson issuing a series of profit warnings under its previous CEO, shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy. LGIM spoke with the chair of the board on the board's succession plans and progress for the new CEO, as raised concerns about shortcomings of the company's current remuneration policy.

Many shareholders were unhappy with proposed resolution but keen for the company to appoint a new CEO. However, they were not able to vote separately on the two distinctly different items.

Rational for the voting decision: LGIM relayed their concerns directly to the chair that the performance conditions were weak and should be re-visited to strengthen the financial underpinning of the new CEO's award and requested that the post-exit shareholding requirements were reviewed to be brought in line with expectations for UK companies. In the absence of any changes, LGIM took the decision to **vote against** the amendment to the remuneration policy.

Outcome: Although the resolution has been passed, as only 33% of shareholders voting against the co-investments plan and therefore, by default, the appointment of the new CEO, it highlighted concerns around governance, which LGIM has stated will need to be addressed through continuous engagement in future.

The Procter & Gamble Company

Fund: North America Equity Index Fund

Resolution: Shareholder resolution by the proponent, Green Century, for the company to report on their efforts to eliminate **deforestation**.

Issue: Within its household goods products, P&G uses both forest pulp and palm oil as raw materials, and both are leading drivers of deforestation and forest degradation, which is responsible for approximately 12.5% of greenhouse gas emissions that contribute to climate change.

Despite setting a goal for 100% certification from the Roundtable on Sustainable Palm Oil by 2020, P&G has only obtained certification for one third of its palm oil supply, and two of their suppliers of palm oil were linked to illegal deforestation.

The fact that suppliers have been found to have links with deforestation calls into question due diligence and supplier audits.

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Rational for the voting decision: Following a round of extensive engagement on the issue with P&G, the Natural Resource Defence Council as well as with the proponent of the resolution, Green Century, LGIM decided to **support the shareholder resolution**.

A key priority issue for LGIM is to ensure that companies they invest client assets in are not contributing to deforestation, which is linked to LGIM's five-year strategy to tackle climate change.

Outcome: The resolution received the support of 67.68% of shareholders (including LGIM). LGIM has asked P&G to respond to the Carbon Disclosure Project ('CDP') Forests Disclosure and continue to engage on the topic and push other companies to ensure more of their pulp and wood is from Forest Stewardship Council ('FSC') certified sources.

More detail on LGIM's significant votes can be found here: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/cg-quarterly-report.pdf

Engagement approach

LGIM does not outsource its engagement activities. It has a six-step approach to engagement activities which includes:

1. Identifying the most material issues and focusing on specific ESG themes they can address.
2. Identifying and setting long-term goals for the engagement, which often may take many years to occur.
3. Formulating an engagement strategy, including prioritising engagement in companies where they have the biggest holdings, which poses the greatest risk and opportunities to market performance.
4. Tracking progress of the engagement activity to assist evaluation of stewardship approaches and performance.
5. Regularly reviewing the progress, impact and success of engagement and amending the engagement strategy if required.
6. Consistently and regularly reporting to clients on the engagement outcomes and detailing case studies.

LGIM's engagement policy aims to encourage companies to adopt sustainable business models. Engagement at LGIM covers governance in its broadest sense looking at all material issues including regulation, listing rules, mergers and acquisitions, corporate strategy, and capital and financial management. LGIM's top five engagement topics with companies are on climate change, remuneration, diversity, board composition and strategy.

LGIM is currently working on reporting developments that should allow it to provide more targeted strategy level engagement information.

However, this is not due to be available before 2021. As a result, LGIM is unable to provide information about engagement at an individual fund level.

Fixed Income and Cash Funds

The Fund invests in several fixed income and cash funds; Investment Grade Corporate Bonds All Stocks Index Fund, over 5 years Index Linked Gilt Index Fund, Pre-Retirement Fund and Cash Fund.

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Due to the nature of the securities held in these funds, there is no scope for voting activity and little opportunity for engagement. As such, no comment is provided on them further in this statement.

Closed arrangements

The Trustee's DC adviser has requested engagement and voting information in relation to the closed arrangements with Prudential and Utmost Life and Pensions. However, the requested data has not been provided at the time of writing this statement despite best endeavours to obtain same.

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.