BP Pension Fund
Statement of Investment Principles (DB Section)

1. Purpose of this Document

The BP Pension Fund (the Fund) has a defined benefit (DB) and a defined contribution (DC) section. This document explains how the DB assets of the Fund are to be invested. It also outlines the principles which govern the strategic investment decisions.

The principles are set by the Trustee of the Fund, BP Pension Trustees Limited (the Trustee) and reflect the Trustee's underlying beliefs about investment objectives, governance, and risk, including responsible investment and encompassing an integrated risk management approach. The Trustee has prepared this document and keeps it up to date.

This Statement of Investment Principles (SIP) will be reviewed at least every three years or immediately following a significant change of investment policy or any material change to the Fund. The Trustee reviews the continuing suitability of the SIP's policies on an annual basis in conjunction with the writing of the Implementation Statement.

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

The SIP for the Fund's DC section is separate to this document.

2. Investment Objective

The main purpose of the DB section of the Fund is to provide the benefits to members and their dependants as set out in the Fund's Trust Deed and Rules. The Trustee's investment objective is to invest the DB assets (which include the DB contributions received) and to build up the assets in a responsible manner to a level which is expected to be sufficient to pay these benefits as and when they fall due, i.e. to a funding level which, in the Trustee's view, minimises reliance on the Company and the participating employers.

3. Investment risk and return

The Trustee's long-term investment objective for the DB section is to be invested in assets which closely match the DB liabilities. Until this objective is achieved, the Trustee will need to hold a proportion of the assets in investments that are expected over the long-term to grow by more than the value of the liabilities, to continue to build up the funding level. This proportion will be invested in assets that are diversified by asset class, geography, sectors, liquidity and across fund managers. This will 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 Annual Report and Financial Statements, available to members upon request. Asset allocation needs to be flexible over time and details relating to a particular date are therefore not included in this SIP.

4. Investment Risk Measurement and Management

The Trustee employs an Investment Risk Return Framework to monitor the ongoing risk and performance of the investment strategy. The investment strategy agreed between the Trustee and Company targets an expected return over the liabilities (currently valued by reference to gilt yields) with the intention of achieving a fully funded position (based on expected returns) within agreed timescales. The Trustee seeks to ensure that the investment strategy remains within its risk budget and that the level of risk is consistent with the funding level and the expected return targeted, given its view of the covenant strength of the Company and its participating employers.

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

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

The Trustee takes a long–term approach to investment. This implies a willingness to accept illiquid investments where the expected returns justify it. The illiquidity risk in the DB section is managed by ensuring that there are enough assets available at all times that are easy to sell so that benefits can be paid as and when they are due.

The Trustee maintains a list of key risks in order to help protect the Fund. The Trustee Board monitors strategic risks and its Audit Committee monitors operational controls and compliance risks.

The Trustee shares its policies, as set out in this SIP, with its investment managers, and requests that the managers review and confirm whether their approach is in alignment with the Trustee's policies, where relevant.

5. Governance

The Trustee is responsible for investing the assets of the DB section and is responsible for all strategic investment decisions, including setting the Fund's overall investment risk and return targets. It delegates certain responsibilities to both its Investment Committee and the Trustee Executive. It has delegated the day to day decisions for buying and selling investments, including the realisation of investments, to BP Investment Management Limited (BPIM), its in-house asset manager, and to external asset managers.

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

6. Responsible Investment

The Trustee believes that 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 Responsible Investment (RI) Policy (which is incorporated by reference to this SIP and set out as Appendix A to this SIP), the Trustee sets out its beliefs and how RI is implemented across the Fund's asset classes, and through engagement, manager selection and monitoring, and reporting.

The Trustee defines RI as the incorporation of all relevant financially-material risk factors, including ESG factors, into its investment decisions, to better manage risk and generate sustainable, long-term returns. It is a signatory to the UN-supported Principles of Responsible Investment (PRI).

Non-financial matters, such as the views of beneficiaries and members including (but not limited to) their ethical views, are not taken into account in the selection, retention and realisation of investments.

The Trustee expects BPIM, and where relevant, the Fund's other investment managers, to be signatories to the updated 2020 UK Stewardship Code.

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

While engagement includes the active use of voting rights arising from equity ownership, it is not restricted to equities but should be applied with judgement and as appropriate across all asset classes and asset managers. The Trustee discusses ESG issues and the outcomes of engagement activities with the Fund's asset managers every quarter.

The Trustee will report on its voting and engagement activities undertaken in the Fund annually.

7. Selecting and Monitoring Asset Managers

The Trustee determines which types of assets its managers may invest in. The legal agreements between the Trustee and its appointed managers include restrictions on the type of investment a manager can hold, benchmark asset allocation, permissible deviations from the allocation and performance targets. The Trustee carries out regular reviews of performance of all the asset managers.

When deciding whether to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the relevant asset manager(s), recognising that responsibility for all strategic investment matters is retained by the Trustee.

When assessing prospective asset managers, one of the factors the Trustee considers is how ESG factors are taken into account, as outlined in its RI policy.

The Trustee appoints investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund’s assets. When assessing a manager’s performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years.

The Trustee would not expect to terminate a manager’s appointment based purely on short-term performance. However, a manager’s appointment could be terminated within a shorter timeframe than three years due to other factors.

Managers are generally paid as a set percentage of the assets under management for a defined set of services. The Trustee reviews the fees annually to confirm they are in line with market practices.

The Trustee reviews the portfolio transaction costs and portfolio turnover range of managers annually, where the data is disclosed and available. The Trustee will then determine whether the costs incurred were within reasonable expectations.

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

8. Expected Return on Investments

The assets of the DB section that are intended to closely match liabilities should produce returns in line with a portfolio of gilts designed to represent the characteristics of the liabilities. Investments in return-seeking growth assets target a return above gilts that is sufficient to allow the Fund's assets in aggregate to meet the overall investment return targeted.

9. Realisation of Investments

At present, DB contributions, together with investment income, are sufficient to pay the majority of current pensions under the DB section. The Trustee manages the Fund's available liquidity and may sell investments, as required, to meet benefit payments as and when they are due.

1 October 2020

APPENDIX A

BP Pension Trustees Limited

Responsible Investment Policy

This policy (the 'Policy') sets out how BP Pension Trustees Limited (the 'Trustee', 'we' or 'our'), as corporate trustee of the BP Pension Fund (the 'Fund') seeks to implement its Responsible Investment Beliefs in conjunction with our Statements of Investment Principles (as amended from time to time and reviewed at least every three years).

This Policy supplements the Fund's Statements of Investment Principles (SIPs) and covers the Trustee's approach to responsible investment. This also covers the matters required under Regulations 2(3)(b)(vi)-(vii) and 2(3)(c) of the Occupational Pension Schemes (Investment) Regulations 2005 (the Investment Regulations).

The Trustee describes its purpose, governance structure and corresponding investment objectives for the Defined Benefit ('DB') and Defined Contribution ('DC') sections respectively within its SIPs.

What is Responsible Investment?

We are a signatory to the United Nations-supported Principles for Responsible Investment ('PRI'), which is an investor-led network supporting its members with best practice and guidance on environmental, social and governance, including but not limited to climate change ('ESG') issues.

We define Responsible Investment ('RI') similarly to the PRI as the incorporation of all relevant financially-material risk factors, including ESG factors, into our investment decisions, to better manage risk and generate sustainable, long-term returns.

Climate change and the energy transition are particular ESG factors that we consider from an integrated risk management perspective. Similarly, we have a formal process in which our asset managers report quarterly on their evaluation of ESG factors, including climate change, in relation to the assets in which they invest on the Trustee's behalf. More information on our approach to climate change risk management, including our intention to disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosures ('TCFD') can be found in Appendix 1.

1. Our RI Beliefs

We believe that:

a) ESG factors, including but not limited to climate change, may create both risks and opportunities for the Fund and can be financially material.

b) Investing responsibly and achieving long term risk-adjusted returns which allow the Fund to meet its liabilities as they fall due are consistent with each other.

c) The nature of the DB section's liabilities is a key consideration and typically implies a long-term investment horizon, over which we expect ESG factors to become increasingly important. For the DC section, we expect members to invest over their lifetime until retirement which may imply a long-term investment horizon.

d) Engagement with investee companies and asset managers is an effective method of instigating change and may increase long term risk-adjusted returns. While engagement includes the active use of voting rights arising from equity ownership, we also believe that good stewardship can and should be applied in respect of all of the Fund's assets where practical.

e) We expect our asset managers to take appropriate steps to incorporate potentially material ESG factors into their investment analysis and decision-making. The managers we instruct to invest on behalf of the Fund are obliged to continue to behave and invest in line with our expectations.

Our RI Beliefs set out above form part of our overall Investment Beliefs.

The regulations define "non-financial matters as the views of the members and beneficiaries."[1] These are not taken into account in the selection, retention and realisation of investments.

2.1 Why and how do we implement RI?

Consistent with our investment beliefs, we undertake RI across the Fund's investments, wherever practical, to help better secure benefits for DB members and to support DC members in investing to improve member outcomes.

There are four main elements in implementing RI: (i) asset classes; (ii) asset manager selection and monitoring; (iii) stewardship and voting (engagement); and (iv) reporting. Each is considered in detail below.

2.2 Asset Classes

The impact and relevance of each ESG factor varies with the characteristics and implementation of a given asset class. Given our current asset allocation, we use the following framework to demonstrate the options for applying RI, based on our current asset manager information:

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[1] The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018, defines "non-financial matters" as the views of the members and beneficiaries including (but not limited to) their ethical views and their views in relation to social and environmental impact and present and future quality of life of the members and beneficiaries of the trust scheme. Source: www.legislation.gov.uk/uksi/2018/988/regulation/4/made

Asset Class	**Integrate** *Can ESG considerations be integrated into the investment process?*	**Engage** *Is engagement with the controlling entity of the underlying assets feasible?*	**Report** *Is it possible to identify and report on the ESG characteristics of portfolios?*
Liquid Markets			
Developed Market Equities	🟢	🟢	🟢
Emerging Market Equities	🟢	🟡	🟢
Equity Option Overlay	🔴	🔴	🔴
Liquid & Semi-Liquid Credit			
GBP Corporate Bonds	🟢	🟢	🟢
Global Corporate Bonds	🟢	🟢	🟢
Global Leverage Finance: High Yield & Leveraged Loans	🟢	🟢	🟢
Illiquid Credit			
Liability-Matching Property	🟢	🟢	🟢
Direct Lending*	🟢	🟢	🟢
Infrastructure Debt	🟢	🟢	🟢
Illiquid Markets			
Private Equity	🟢	🟡	🟡
Return-Seeking Property	🟢	🟢	🟢
LDI / Liabilities			
Liability Benchmark	🔴	🔴	🟡
Nominal / Index Linked Gilts			

**pending implementation*

We have assessed the above based on current information:

- 🟢 Likely – we expect our asset manager(s) in the asset class to integrate/engage/report.
- 🟡 Possible – we are aware of relatively few asset managers who currently integrate/engage/report and/or it may only be possible on a limited portion of assets.
- 🔴 Unlikely – we do not expect to find asset managers who are able to integrate/engage/report on a meaningful portion of their assets and/or ESG is not yet a meaningful risk factor for the respective asset class.

2.3 Asset Manager Selection and Monitoring

When assessing prospective asset managers, we consider how ESG is taken into account from a long-term risk management and valuation perspective, including the integration of ESG into investment processes, business focus, operational infrastructure, and engagement activities. We also consider whether the managers have appropriate resources to undertake the stewardship activities we would expect of them.

When investing in a pooled investment fund, the Trustee reviews the investment objectives and guidelines of the fund with the intention to align with the Trustee's investment policies. Where segregated mandates are used, the Trustee may set explicit guidelines within the investment management agreement where it is appropriate to do so. We expect that they, including BP Investment Management Limited ('BPIM'), our wholly owned asset manager, shall invest and engage in the best interests of the Fund and in accordance with this Policy.

All our existing segregated investment management agreements comply with these requirements and include restrictions on the type of investments a manager can hold. They also detail performance targets, a benchmark asset allocation and permissible deviations, and a requirement that managers take appropriate steps to incorporate ESG factors in the investment process and engagement approach.

This Policy is shared with the managers at the start of the relationship and when the Policy is materially updated, and the investment manager agreements are updated following any changes, obliging the managers to continue to invest and engage in line with this Policy.

We appoint asset managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets. When assessing a manager's performance, the focus is on longer-term outcomes and is assessed over a medium to longer-term timeframe, subject to a minimum of three years.

We do not expect to terminate a manager's appointment based purely on short-term performance. However, a manager's appointment could be terminated within a shorter timeframe than three years due to other factors.

Our quarterly meetings with asset managers include a dedicated ESG and Stewardship section. We augment this from time to time with additional analyses on listed equities, using Style Analytics Ltd and MSCI ESG indices, to better understand the ESG characteristics of our investments and we will regularly review our suppliers of ESG data and indices. The Trustee Executive also has access to Mercer Limited's Global Asset Manager database and Bloomberg Inc., and other data services and tools which together supplement the ESG aspects of asset manager monitoring.

2.4 Stewardship and Voting (Engagement)

We expect all our asset managers to have regard to the updated 2020 UK Stewardship Code or an international equivalent, and encourage them to become signatories where practical.

Where possible, we use our influence to encourage responsible long-term behaviour through our voting policy as detailed in Appendix 2 and prefer engagement. Our voting policy is incorporated by reference to this RI Policy.

While engagement includes the active use of voting rights arising from equity ownership, it is not restricted to equities but should be applied with judgement and as appropriate across asset classes and all the Fund's assets and asset managers, where practical. We discuss ESG issues and the outcomes of engagement activities with our asset managers every quarter.

Climate change and the energy transition have been identified as one of the themes about which our asset managers are encouraged to engage with underlying portfolio companies, with the other themes being human rights (social) and board effectiveness (governance). Other issues that the Trustee considers to be financially material to the Fund include strategy, capital structure, management of actual or potential conflicts of interest, risks, environmental impact, social considerations and corporate governance.

2.5 Reporting and disclosure

We are aware that reporting of RI is currently evolving, with proposals for investee companies to provide more information in future in their financial disclosures. This includes, for example, the recommendations of the TCFD, which we support and intend to disclose in line with from 2022.

We will continue to monitor regulatory developments, industry best practice and evolve our reporting received from our asset managers and in our reporting to the members of the Fund in consultation with our auditor and advisers.

Currently, the main communication to our members is via PensionLine (the Fund's website), Highlights (our annual member newsletter, which includes statutory disclosures) and our Fund Annual Report and Financial Statements. In line with the latest regulations, we will publicly disclose via an implementation statement how we have carried out the specifics set out in this Policy, including voting behaviour and the most significant votes cast.

Combined, these provide platforms, where appropriate, for us to give updates on our RI activities as they develop.

2.6 Industry initiatives and engagement collaborations

We recognise that there is continuous scope to improve how we invest responsibly. We evaluate industry initiatives and will consider supporting ESG organisations or initiatives.

We recognise that we cannot support all organisations or initiatives and so will review our associations periodically.

3.1 Managing conflicts of interest

Any conflict of interest between us, as asset owners, and/or our agents (advisers, fund managers), should be monitored and managed appropriately. BPIM has its own conflicts of interest policy, which was updated on 31 July 2017.

The Trustee board has its own conflicts of interest policy, which was updated and adopted on 5 July 2017. In addition, the Trustee Executive (the chief executive officer and team) has its own conflicts of interest principles, which follows the Trustee board policy, the bp Code of Conduct (as updated from time to time on www.bp.com) and the bp Conflicts of Interest policy dated 16 May 2018 (as updated from time to time).

3.2 Governance and Review of this Policy

This Policy has been approved by the Trustee board and will be subject to review from time to time to confirm that it remains up to date and appropriate. The Trustee chief executive officer shall oversee its effective implementation and ongoing application, including periodic reports to the Trustee.

We periodically seek external assurance that the guidelines set out in this document are put into practice and enable effective stewardship.

8 October 2020

Appendix 1

Climate change policy

We, as the Trustee of the BP Pension Fund, recognise climate change as a systematic, long-term material financial risk to the value of the Fund's investments. The Trustee has a fiduciary duty to consider climate change risk when making investment decisions. Within the context of its fiduciary responsibility, the Trustee is supportive of the goals of the Paris Agreement to minimise the impacts of climate change by limiting global warming to well below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C. In this context, we have agreed the following policy:

1. We will appropriately factor in climate change risks and opportunities when making strategic asset allocation and manager selection decisions.

2. We expect our appointed asset managers to be cognisant of climate change risks and opportunities within their investment processes as applied to the Fund's assets. Asset managers are required to annually report on how these risks and opportunities have been incorporated into the investment process within applicable guidelines and restrictions.

3. In line with our preference for engagement rather than exclusion, we require our asset managers to actively encourage investee companies to disclose in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and put in place robust processes to better manage climate change associated risks. However, we also expect asset managers to independently consider whether exclusion or engagement is more appropriate within their investment process, based on their own risk assessment.

4. We encourage the further development of asset classes that are supportive of obtaining the 'well below 2°C' target provided they are all based within the primary fiduciary framework.

5. We are currently embedding the capability to support TCFD and aim to incorporate its recommendations into the Fund's reporting, subject to availability of data. This includes carrying out climate-risk scenario analysis on the Fund's assets, liabilities and sponsor covenant.

6. We support the further development of effective climate change risk metrics to enhance the ability of all stakeholders in the investment chain to assess and minimise such risks.

7. We recognise that climate change will be subject to much further analysis and subsequent policy changes in the coming years. We are supportive of adopting an evolving policy in order that all relevant developments are considered.

Introduced: 1 October 2020

Appendix 2

Voting Policy

As far as practicable, the Trustee will exercise its right to vote in the general meetings of the companies in which the Fund invests. We exclusively reserve our voting rights; asset managers are not permitted to exercise voting rights attaching to any of the Fund's investments without our prior approval.

We use voting to express our position on certain topics. Both we and our managers may also engage with companies, to emphasise certain points and encourage related actions to be taken.

We consider factors such as the advice of a proxy voting agent when deciding how to vote and may also consider research from our asset managers. We vote always in the best interests of the Fund, including taking into account the Responsible Investment Policy, and use our judgement when considering whether or not to follow the proxy voting agent's recommendations.

Voting activity is reported quarterly to the Trustee board.

Updated: 8 October 2020