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