

**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).

**What is Responsible Investment?**

We are a signatory to the United Nations-linked 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 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 will formalise a process with our investment managers to report back on their evaluation of ESG factors including climate change, in relation to the assets in which they invest on the Trustee's behalf.

**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 can be wholly consistent with each other.
- c) The nature of the Fund's liabilities is a key consideration and typically implies a long-term investment horizon, over which we expect ESG factors to become increasingly important.
- 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 be applied in respect of all of the Fund's assets where practical.
- e) Our asset managers should take appropriate steps to incorporate potentially material ESG factors into their investment analysis and decision-making, and should be ready to explain and report on how this has been done.

- f) The regulations define “non-financial matters as the views of the members and beneficiaries.”<sup>1</sup> These are not taken into account in the selection, retention and realisation of investments.

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

## 2. How do we implement RI?

We undertake RI across the Fund’s investments, wherever practical, to help fulfil one of our primary responsibilities of ensuring the Fund holds adequate assets to pay the benefits promised to and in respect of our members and beneficiaries as they fall due. 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.

### 2.1 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:

Asset Class	Integrate	Engage	Report
	<i>Can ESG considerations be integrated into the investment process?</i>	<i>Is engagement with the controlling entity of the underlying assets feasible?</i>	<i>Is it possible to identify and report on the ESG characteristics of portfolios?</i>
<b>Liquid Markets</b>			
Developed Market Equities	●	●	●
Emerging Market Equities	●	●	●
Equity Option Overlay	●	●	●
<b>Liquid &amp; Semi-Liquid Credit</b>			
GBP Corporate Bonds	●	●	●
Global Corporate Bonds	●	●	●
Global Leverage Finance: High Yield & Leveraged Loans	●	●	●
<b>Illiquid Credit</b>			
Liability-Matching Property	●	●	●
Direct Lending*	●	●	●

<sup>1</sup> 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/ukxi/2018/988/regulation/4/made](http://www.legislation.gov.uk/ukxi/2018/988/regulation/4/made)

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.

## 2.2 Asset Manager Selection and Monitoring

When assessing prospective asset managers for selection, 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, the business focus, operational infrastructure, and engagement activities. We expect that they, including BP Investment Management Limited ('BPIM'), our wholly-owned asset manager, shall invest in the best interests of the Fund and in accordance with this Policy.

The investment management agreements which the Trustee has entered into with our existing investment managers comply with these requirements. This means that asset managers are expected to take appropriate steps to ensure ESG factors are incorporated into their investment analysis and decision-making processes within applicable guidelines and restrictions.

Any action we take should be proportionate given the asset class's long-term strategic importance, governance budget and the costs involved.

Our quarterly meetings with asset managers include a dedicated ESG section. We augment this from time to time with additional analyses on listed equities, using Style Analytics Ltd and Morgan Stanley Capital International ('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 supplements the ESG aspects of asset manager monitoring.

BPIM monitors MSCI ESG ratings for individual equity holdings; where appropriate, any noteworthy issues or rating movements are discussed at its weekly portfolio meetings. In addition, BPIM has a process under which certain equities are shortlisted for extra scrutiny and possible reweighting, using these ESG metrics.

## **2.3 Stewardship and Voting (Engagement)**

We have an investment management agreement with BPIM. BPIM is a signatory to the September 2012 UK Stewardship Code (the 'Code') and uses the Code's principles as guidance for stewardship and voting. Consistent with Principle 5 of the Code, BPIM engages collectively through the Investor Forum which is more effective given our small holding size in individual companies.

Where possible, we use our influence to encourage responsible long-term behaviour through our voting policy and prefer engagement, where possible, rather than excluding investments through screening or other methods. While engagement includes the active use of voting rights arising from equity ownership, it is not restricted to equities but can be applied with judgement and as appropriate across asset classes and all the Fund's assets and asset managers. We discuss ESG issues with our asset managers every quarter.

We have agreed a voting policy with BPIM who, supported by the analysis of Institutional Shareholder Service Inc. (ISS, a leading proxy advisor), strives to vote on our behalf on all resolutions, in the best interests of the Fund and in accordance with our voting policy and corporate governance best practices. Our membership of the Pensions and Lifetimes Savings Association (PLSA) provides annual updates on corporate governance and voting guidelines and themes. We exercise our right to vote in general meetings of companies in which the Fund invests. BPIM's responsibility is to vote in the best interests of the Fund. It considers ISS recommendations to help it reach its conclusions as to what voting decision is in the Fund's best interests. BPIM also reports on its voting activities to us on a regular basis.

## **2.4 ESG Reporting**

We are aware that reporting of ESG factors 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 Task Force on Climate-related Financial Disclosures (TCFD).

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

The main communication to our members is via PensionLine (the Fund's website), Highlights (our annual member newsletter, including statutory disclosures through this) and our Fund Annual Report and Financial Statements. These provide platforms, where appropriate, for us to give updates on our RI activities as they develop.

## **3. Governance and Review of this Policy**

This Policy has been approved by the Trustee board of directors 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.

**1 October 2019**