

# **BP Pension Fund**

## **Statement of Investment Principles (DC Section)**

### **1. Purpose of this Document**

The BP Pension Fund (the Fund) has a defined benefit (DB) section and a defined contribution (DC) section. In this document, the trustee of the Fund, BP Pension Trustees Limited (the Trustee), sets out its statement of investment principles governing decisions about

- a) the range and nature of the investment options made available to members of the DC section and to those members for whom it invests money purchase additional voluntary contributions (MPAVCs)
- b) the default investment option within the DC section

The Statement of Investment Principles for the Fund's DB section is separate to this document.

The principles are set by the Trustee, and reflect the Trustee's underlying beliefs about investment objectives, governance, and risk, including responsible investment. 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 underlying membership profile.

In preparing this SIP the Trustee has received written advice from its DC 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.

### **2. Investment Objective**

The Trustee is responsible for investing the assets of the DC section (c.£15m), and the assets relating to members' MPAVCs (c.£35m), in a prudent manner, in line with members' preferences (where indicated). Its aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. In setting strategy, the Trustee has taken into account members' circumstances, in particular the range of members' attitudes to risk and term to retirement. A default investment option is available for DC members to choose should they wish, or to be applied if they do not make an active decision regarding their investment strategy.

### **3. Kinds of Investments and the Balance Between Them**

The Trustee's policy is to provide suitable information so that members can make appropriate investment decisions. In choosing the Fund's investment options, it is the Trustee's policy to consider:

- a full range of asset classes;
- the suitability of the possible styles of investment management and the need for manager diversification;
- the suitability of each asset class for a DC scheme;
- the need for appropriate diversification of asset classes; and
- the cost and value for money of each investment option.

The Trustee reviews regularly the suitability and range of choice of the funds available to DC members, and members with MPAVCs, on the basis of written advice covering the

issues set out in the Occupational Pension Schemes (Investment) Regulations 2005 and this SIP. Members are able to adjust the balance between the funds in which they invest.

#### **4. Selecting and Monitoring Asset Managers**

The Trustee holds money purchase funds either from MPAVCs paid by members or from contributions paid by and on behalf of members to the DC section. The money purchase funds are invested separately by external fund managers. The members have a say in how these contributions are invested.

Most of these assets are invested in a range of passive pooled funds managed by Legal & General Investment Management (LGIM), with the remainder invested in a range of legacy funds and with-profit policies managed by other providers, all of which are closed to new contributions.

The Trustee is not involved in LGIM's day to day method of operation and so cannot directly influence attainment of the performance target. However, the Trustee measures performance of the assets compared to their benchmarks on a regular basis, along with monitoring any significant issues with LGIM that may impact its ability to meet the performance targets set by the Trustee.

LGIM is remunerated as a set percentage of the assets under management. This is in keeping with market practice. Annual investment management charges are met by the members by deduction from the unit price. The annual investment management charges, at the total expense ratio level, are monitored and reviewed on a regular basis with the aim of keeping them within the charge cap and at competitive levels.

Certain assets relating to DC members and members' MPAVCs are invested in pooled funds and with-profit policies from a range of legacy providers. The Trustee also reviews and monitors the continued ongoing suitability of these providers taking account of emerging industry trends and developments, and whether there are any structural or other issues which could affect the continued ongoing suitability of the providers. No new contributions are invested with these providers.

#### **5. Aims and Investment Objectives of the Default Option**

The Trustee is responsible for setting an appropriate investment strategy for the default option which takes into account the likely investment needs and risk tolerances of the membership.

Following advice from its DC investment adviser, the Trustee has selected the Lifestyle strategy as the default option for the DC section.

The Lifestyle strategy has been designed to offer members greater flexibility when choosing the final form of their benefits, recognising the new flexibilities introduced as a result of the Government's "Freedom and Choice" consultation and the Fund's emerging experience as a result of those changes.

The aim and objective of the default option is to provide an investment strategy which manages risk over time, taking into account members' greater capacity for risk early on when they start saving for retirement and reduced capacity for risk in later years when they approach retirement. This is achieved through automatic switching of investments from equities into a more diversified strategy as the member approaches retirement.

The Lifestyle strategy invests in a range of passive funds managed by LGIM. Details of the underlying funds and the change in asset allocation over time are set out in the Investment Guide which is available to all DC members on request or via the Trustee's website.

During the period up to 15 years before a member's selected retirement age, assets are invested in a global equity fund with the aim of seeking to provide a higher return than

both price inflation and bonds. As the member approaches retirement, the assets will gradually be moved into a more diversified strategy including a multi-asset fund, a corporate bond fund, an index-linked gilt fund and a cash fund in addition to the global equity fund. This strategy reflects analysis of the projected outcomes at retirement for the membership profile of the DC section, as well as the emerging experience of both the Fund and the broader market in the new regulatory environment.

Selection of investments within each of the underlying funds has been delegated to the fund manager subject to targeting their respective objectives.

## **6. Review of the Default Investment Option**

The default investment option described above was implemented in December 2016 following a review which took account of the changes in pension legislation which allow members a greater degree of flexibility regarding how and when to access their benefits at retirement.

The default option, including projected outcomes and performance of the default option, will be reviewed at least every three years (or without delay after any significant change in investment policy or member demographics) with reference to the manner in which DC members take their benefits. Any review will take into account the extent to which the return on the investments is consistent with the aim and objective described above.

## **7. Investment Risk Measurement and Management**

The Trustee recognises the key risk in relation to the DC section is that members will have insufficient income in retirement or an income that does not meet their expectations. The Trustee considered this risk when setting the investment options, including the default option, and strategy for the Fund. The Trustee considers the following sources of risk:

- the risk of benefits under the DC section, after all fees and costs, not meeting the reasonable expectations of members, bearing in mind members' contributions and fund choices
- the risk of fund managers not meeting their objectives. This risk is considered by the Trustee and its advisers both upon the initial appointment of the fund manager and on an ongoing basis thereafter
- the risk of the default option being unsuitable for the requirements of some DC members
- the risk of fraud, poor advice or acts of negligence. The Trustee has sought to minimise such risks by ensuring that all advisers and third-party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

Due to the complex and interrelated nature of these risks, the Trustee considers them in a qualitative rather than quantitative manner as part of each formal strategy review.

In determining the choice of funds offered, the Trustee has considered and taken advice on the risks that investment returns of DC members will not keep pace with inflation and the risk of investment market movements.

## **8. The Expected Return on Investments**

The return on equities is expected to exceed price inflation over the long term. The long-term return on bonds is expected to be lower than that on equities. Cash funds are expected to offer protection against changes in short-term capital values.

## 9. Realisation of Investments

Investment in pooled funds or with-profit policies gives rights to the cash value of the units or policy rather than to the underlying assets. The investment managers are responsible for the selection, retention and realisation of the underlying investments as well as the appointment and monitoring of the custodian of the underlying investments.

The Trustee is responsible for the realisation of the value of the units or policy as required. It recognises there is a risk of holding assets that cannot easily be realised and therefore aims to ensure that assets held with its managers are realisable at short notice.

## 10. Responsible Investment

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

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 RI Policy, 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 extent to which ESG factors should influence the design of the default option and the range of investment funds made available to members is considered as part of the periodic review process. Any changes arising as a result of the next review will be reported in a revised SIP and in the Annual Chairman's Statement regarding DC Governance.

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 and present and future quality of life of the beneficiaries and members of the Fund, are not taken into account in the selection, retention and realisation of investments.

As mentioned previously, assets invested with LGIM are represented by the cash value of units, which represent the value of the underlying investments. The Trustee does not therefore 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 MPAVC assets is exercised by LGIM. It reports quarterly summarising its engagement with companies and how it voted on corporate matters.

**1 October 2019**