BP Pension Fund

2022 Stewardship Report

1 January to 31 December 2022

Contents

Foreword

Welcome to our first Stewardship Report

As Trustee of the BP Pension Fund, we are committed to fulfilling our responsibilities as an asset owner and long-term investor and we recognize that by practicing stewardship effectively and integrating environmental, social and governance (ESG) factors into the Fund's investments, we help to preserve and create value for our members. We focus on three stewardship priorities, climate change, human rights, and board effectiveness, but our responsible investment activities cover a wide range of material and systemic issues.

As an asset owner, our principal lever of influence is through holding our asset managers to account for their integration of ESG factors into their investment decisions, and delivery of stewardship on our behalf, and on behalf of our members. We regularly assess our asset managers against our expectations regarding both engagement and voting and are pleased to discuss this in our report. We also manage part of our portfolio directly through BP Investment Management (BPIM), our in-house asset manager, and carry out ESG investment and stewardship activities in relation to these assets ourselves.

We recognise stewardship is an evolving area and, while making considerable progress in our overall responsible investment journey, we continually look to improve our approach, and require our asset managers to do so. This year, we have enhanced our asset manager responsible investment oversight, and increased the scope of information our asset managers are required to report on. We emphasised the value of thought out and planned engagement strategy, with clear objectives and escalation process, if necessary. By differentiating types of engagement activities into those seeking information and those looking to influence a positive change, we have gathered a much better understanding of not just the quantity but the quality of engagements our asset managers are carrying out on our behalf.

As a result of our focused interactions with our asset managers, we have established an open and honest dialogue which allows us to share and receive constructive feedback. This resulted in stronger collaborative relationships with our asset managers and has allowed us to influence positive stewardship practices more actively where we have seen the potential to do so.

We also recognise the importance of working together with other investors to strengthen our stewardship efforts. Through collaborating with other asset owners, and more broadly, with other investment market participants, our voice can be amplified, and we can share and exchange best practices. As such, we expanded our engagement network by joining the Occupational Pensions Stewardship Council (OPSC) and Institutional Investors Group on Climate Change (IIGCC).

This stewardship report covers the period from 1 January to 31 December 2022; however, as this is our first public stewardship report, where considered necessary, we have incorporated some of the development work undertaken in prior years. We believe this report represents a fair, balanced, and understandable summary of our stewardship approach and delivery.

I hope you find this Report informative and if you have any questions or comments, please do not hesitate to contact the team using details on the final page.

Brendan Nelson
Chair

BP Pension Trustees Limited
on behalf of the **BP Pension Fund**

Alignment to the 2020 UK Stewardship Code principles

The following table sets out where the key elements of the 12 principles of the Code are covered in this report.

Principle		Section/s	Page/s
1	Purpose, strategy and culture	1.1, 1.3	5-6, 10-11
2	Governance, resources and incentives	1.2, 1.5	6-9, 20-22
3	Conflicts of interest	1.7	23
4	Promoting well-functioning markets	2.3	30-47
5	Review and assurance	2.6	57
6	Beneficiary needs	1.6	22
7	Stewardship, investment and ESG integration	1.4, 2.1, 2.2	12-19, 25-29
8	Monitoring asset managers and service providers	1.5, 2.2	20-22, 27-29
9	Engagement	2.3	30-47
10	Collaboration	2.3	30-47
11	Escalation	2.3	30-47
12	Exercising rights and responsibilities	2.4	48-56

1. BP Pension Fund Overview

In this section we provide an overview of the BP Pension Fund (the Fund) and explain how stewardship principles are embodied within the fundamental components that enable the Fund to fulfil its purpose.

1.1. Our purpose

The Fund is a UK defined benefit, occupational pension scheme, whose corporate sponsor is BP p.l.c. (bp).

The members of the Fund comprise current and former employees of bp and their dependants* and the benefits provided are based on factors including the members' age, length of service and final salary prior to leaving or retiring from bp.

> "The purpose of the Fund is to provide benefits as set out in the Fund's Trust Deed and Rules, for approximately 60,000 members."

The Fund closed to new members in 2010 and closed to the future accrual of benefits in 2021, which means that all members are now either deferred members, pensioners, or their dependants. The Fund's membership profile is outlined below, with the average age of members being approximately 69 years.

Age	0-49	50-59	60-69	70-79	80-89	90+	Total
Deferred pensioners	5,228	7,966	2,372	709	96	8	16,379
Pensioners	14	989	10,314	13,212	6,474	1,428	32,431
Dependants	220	265	1,072	2,862	3,970	1,625	10,014
Total	5,462	9,220	13,758	16,783	10,540	3,061	58,824

Visual 1: Details of the Fund's membership profile as at 31 December 2022

The Fund's sole corporate trustee is BP Pension Trustees Limited (BPPTL or the Trustee), a wholly owned subsidiary of bp.

As Trustee of the Fund, we fulfil our purpose by meeting the following goals:

- Paying pensions and other specified benefits in accordance with the Fund's rules and relevant legislation.
- Administering the Fund while fulfilling all relevant duties, considering the interests of all relevant stakeholders, and acting with prudence and reasonableness as the role entails.

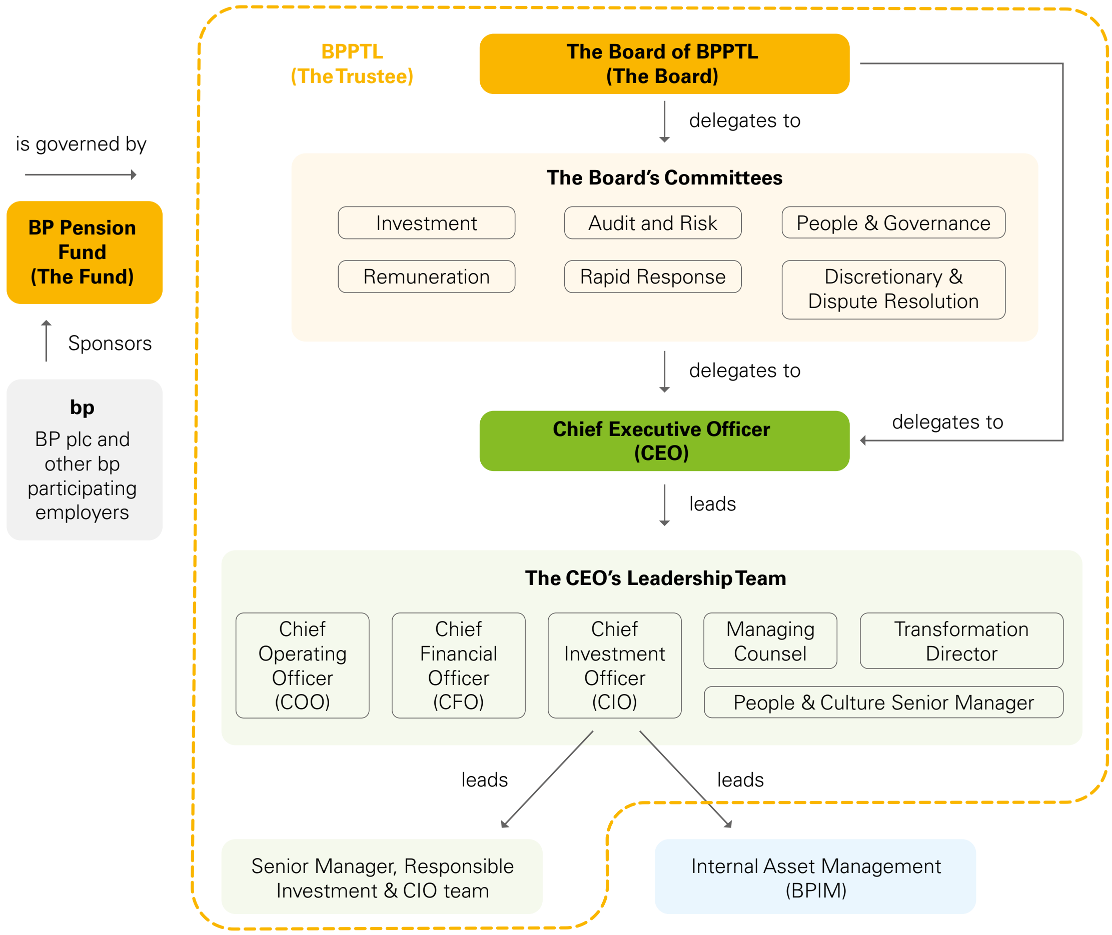
* For simplicity, we refer to 'members' rather than 'beneficiaries' throughout this report.

The Fund's long-term investment objective is to be invested in assets which closely match the liabilities (the expected future benefits owed to members) and to maintain a sufficient funding level (the ratio of assets to liabilities).

The Fund holds approximately £21 billion in assets as at 31 December 2022, and the investment time horizon is long-term, with some pension benefits still expected to be in payment in or around 2080.

1.2. Our governance

The Trustee's organisational and governance structure is designed to support the Fund in achieving its purpose of providing accrued benefits to members, while ensuring transparency and visibility of its activities to the Trustee Board and its committees.



Visual 2: Our organisational and governance structure

The Trustee provides quarterly reports informing the Trustee Board and its committees of its activities, and actively participates in quarterly Board and committee meetings. Each respective meeting Chair encourages open debate and constructive challenge in relation to any proposals put forward to the Trustee Board and its committees. The governance structure facilitates timely, effective decision-making during the meetings by individuals with the appropriate skills and experience.

In 2022, the Trustee Board finalised the results of a detailed governance review which sought to determine whether our core governance principles and structure remained appropriate and fit for purpose in view of the evolving UK pensions governance and regulation. In response to the findings, the committee structure was augmented to help address the specific governance challenges identified.

We recognise the significant role stewardship plays in fulfilling the Fund's purpose, and we explain below how our governance structure has enabled oversight and accountability for effective stewardship.

The Trustee Board, the Board's Committees, and the Chief Executive Officer (CEO) supported by Chief Investment Officer (CIO) and Senior Manager for Responsible Investment, form the core stewardship governance structure overseeing the Fund's stewardship activities.

Our Board

- The Board's duty is to ensure the appropriate processes, systems, people, and procedures are in place to manage the Fund, its investments and risks that arise, in line with its duties, powers and discretions.
- The Board's governance principles set out the Board's overarching governance framework and structure which support it in carrying out its role.
- The Board comprises ten Directors – including an independent chair, four bp-nominated Directors, four member-nominated Directors and an independent Director.
- Under the Board governance principles, the Board ensures that it has the appropriate balance of skills, diversity, experience, independence, and knowledge to enable the effective discharge of its role and responsibilities. The Directors are required to complete an induction programme and continue receiving training and education throughout their directorship.

Our Board's Committees

- The Board retains overall responsibility for the investment strategy; although certain decision-making powers are delegated to its committees, as set out below.
- All committees report directly to the Board and are provided with sufficient advisory and logistical resource to enable them to undertake their duties independently.

Investment Committee	Evaluates proposals for invetsment strategy or policy decision prior to any recommendation to the Board; facilitates, overseas, and monitors the implementation of the Trustee's investment strategy
Audit and Risk Committee	Monitors the effectiveness and the integrity of the Fund's financial reporting, systems of internal control and risk management, internal audit, and external audit processes.
People and Governance Committee	Oversees the people capabilities for the Fund, including succession planning.
Remuneration Committee	Reviews and makes recommendations to the Board on remuneration policies and monitors its implementation.
Discretionary & Disputes Resolution Committee	Determines any exercise of a discretion of the Trustee following referral of a case to it and determines decisions in relation to complaints.
Rapid Response Committee	Responds to any event which might impact the sponsor's ability to support the Fund or have an immediate material adverse impact on the Fund.

Visual 3: High level summary of each of the Board's committees

Our Chief Executive Officer (CEO)

Our Board delegates certain authorities and duties to the CEO, who leads the organisation. The CEO's duties and responsibilities include:

- Supporting the Board in achieving its goals.
- Assisting the Board in discharging its responsibilities by proposing matters for the Board's determination.
- Conducting the executive management of BPPTL and the Fund.
- Overseeing the RI policy's effective implementation and ongoing application, including periodic reports to the Trustee.

Our Chief Investment Officer (CIO)

The CIO leads the investment team, which comprises the CIO team and separately, BPIM, the Fund's internal asset manager. The CIO's duties and responsibilities include:

- Developing, implementing, and maintaining the Fund's investment strategy whilst managing the investment risk.
- Providing oversight of the Fund's asset managers.

Our Senior Manager for Responsible Investment

The Senior Manager for Responsible Investment leads Responsible Investment (RI team), and their duties include:

- Developing the Fund's Responsible Investment policy (RI policy) and embedding responsible investment principles and practices across the Fund.
- Ensuring compliance with responsible investment regulation and alignment with responsible investment initiatives as appropriate.
- Influencing asset managers to continue to develop responsible investment practices across their portfolios and organisations as appropriate.

1.3. Our values and culture

How we work

We believe a strong organisational culture is instrumental in ensuring we achieve the Fund's purpose. As employees of bp, we also adhere to the bp's Code of Conduct, which provides principles-based guidance as to how we work. On an annual basis, we attest to having observed our Code of Conduct.

The values and behaviour statements we highlighted below, support us in nurturing an open, friendly, and respectful culture and demonstrate how our organization culture contributes towards achieving the Fund's purpose.

Purpose and integrity

- ✔ We act in **service of our members**, delivering and protecting their accrued benefits and safeguarding the Fund's assets
- ✔ We maintain a risk-aware mindset and work with integrity – always **doing the right thing**
- ✔ We are mindful of our peers' wellbeing, creating **a safe working environment** – both physically and mentally

Excellence

- ✔ We hold ourselves to high standards of **excellence in delivery**
- ✔ We adopt a **continuous improvement** mindset and have the confidence to speak up, to constructively challenge
- ✔ We **share ideas and collaborate** to achieve a common goal and promote efficiency and effectiveness

Respect and equality

- ✔ We **take time to truly listen** to and hear the opinions of others and remain open-minded to ensure all employees feel they can contribute
- ✔ We treat our people and members equitably and **how we would like to be treated**
- ✔ We **recognise and value excellence** in others

In 2019, we formalised our responsible investment beliefs (see section 1.4), which the Fund's employees are required to abide by. The organisational culture supports the application of the responsible investment beliefs across the team, which enables a clearer and more concerted approach to implementing strong stewardship practices across the Fund to better secure benefits for the Fund's members.

We recognise that the culture of an organisation can evolve in response to various pressures and influences. The role of the Fund's dedicated culture group is to monitor and assess feedback from our employees and drive positive change wherever possible.

Improvements made to employee communications and engagement model

In 2022, having identified the Fund's employee communications and engagement model as the principal focus area, the culture group implemented the following changes:

- A monthly Fund newsletter was initiated to keep employees informed of the key highlights relating to the Fund's activities.
- The quarterly Fund town hall meetings were improved in terms of their content and format. The agenda was refreshed each quarter and broadened to cover a variety of topics delivered by different speakers from across the Fund. Interactive elements such as live polls were included to encourage audience participation.

As we move forward, we will endeavour to continue nurturing our culture in a manner that allows all our employees to feel valued and supported in fulfilling their respective contributions towards achieving the Fund's purpose.

1.4. Our approach to investment and stewardship

Our investment objective

Investment objective

The Trustee's investment objective is to invest the assets of the Fund and to build them up in a responsible manner to a level which is expected to be sufficient to pay the benefits to members and their dependants as and when they fall due, i.e. to a funding level which, in the Trustee's view, minimises reliance on bp and the participating employers.

The Trustee's Statement of Investment Principles (SIP) (see Appendix 2) incorporates our RI policy. The SIP explains how the assets of the Fund are to be invested and outlines the principles which govern the strategic investment decisions. These investment principles are set by the Trustee and reflect our underlying beliefs about investment objectives, governance, and risk, including responsible investment and encompassing an integrated risk management approach.

The Trustee's long-term investment objective is to be invested in assets which closely match the liabilities, and until this is met, we will need to hold a portion 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 factors including asset class, geography, sector, liquidity, and asset manager. This enables us to gradually build up the funding level over time while concurrently managing the risk.

The Fund's investments include listed equities, bonds and other securities issued by corporate or non-corporate (i.e. government) entities, hence we refer to these entities as "investee companies or issuers".

ESG risks

Over the long-term, all investments by their very nature will have exposure to specific risks, including ESG risks. These risks have the potential to affect an investee company or issuer's business model and value drivers, affecting its financial performance and subsequently the value of our investment. For this reason, we believe that investee companies and issuers that demonstrate a sound awareness of ESG risks and seek to mitigate them, are more likely over the long-term, to outperform those that do not.

As such, we hold ourselves and our asset managers accountable for the management of material ESG risks relating to the Fund, and we take measures to monitor and mitigate them when investing on behalf of the Fund.

Our broader strategy

In order to fulfil the Fund's purpose, our broader strategy focuses on applying stewardship principles effectively across all areas as follows:

Investment Strategy

Seeking to achieve appropriate risk-adjusted returns while investing in a responsible manner

Governance

Operating a robust governance and risk management framework which supports the decision-making process

People

Investing in the culture and capabilities of our people, including the systems and processes we use to deliver our work

Projects

Recognising that a continuous improvement mindset will increase our ability and focus to deliver strong results

Each year, we set our specific priorities against the backdrop of the Fund's position, our management priorities, and any key external developments.

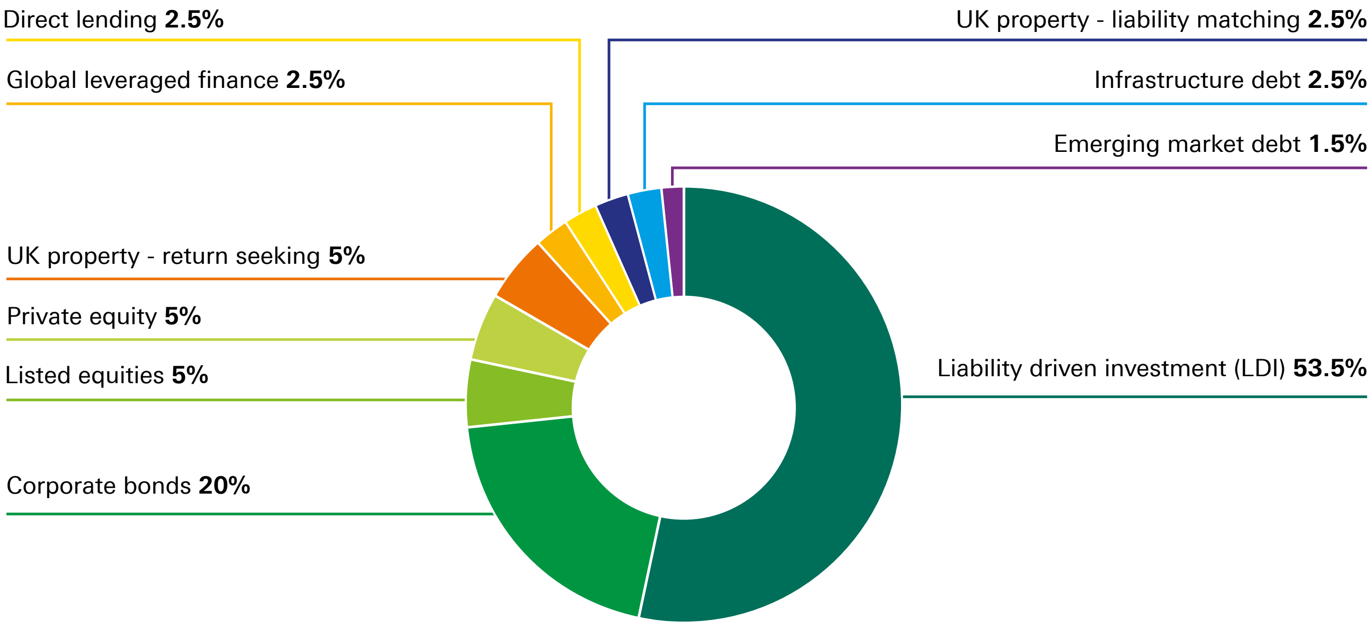
Key investment-related priorities achieved in 2022

- ✔ We agreed our new strategic objectives for the Fund and their associated metrics.
- ✔ We updated our RI policy and produced our first climate change report.
- ✔ We published the Fund's net zero ambition statement.

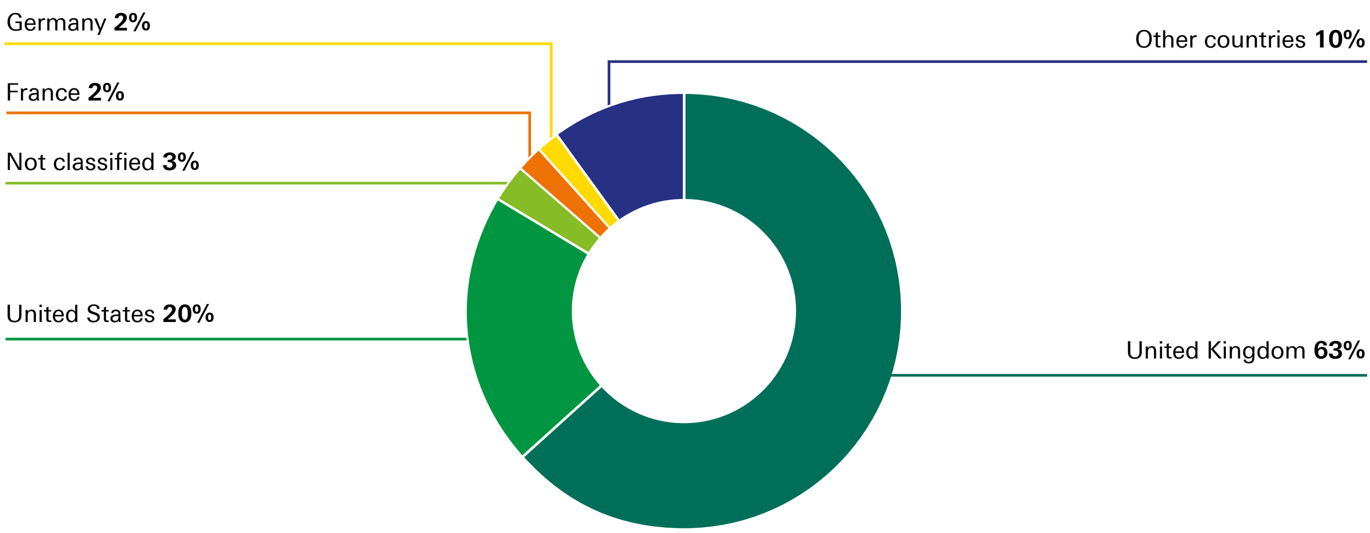
Our investment allocation

The Fund is invested in assets that are diversified by asset class, geography, sectors, liquidity and across asset managers. This helps achieve the Trustee's overall risk-adjusted return objective. The Trustee takes a long–term approach to investment. This implies a willingness to hold illiquid investments where the expected returns justify it. The liquidity risk is managed by having sufficient assets that are always available and are relatively easy to sell so that benefits can be paid as and when they are due.

The Fund's strategic asset allocation is developed to meet the Fund's long-term investment objective of being invested in assets that closely match the liabilities and to maintain a sufficient funding level. The actual asset allocations may vary from their strategic weights due to market movements.



Visual 4: Fund's strategic asset allocation as at 31 December 2022

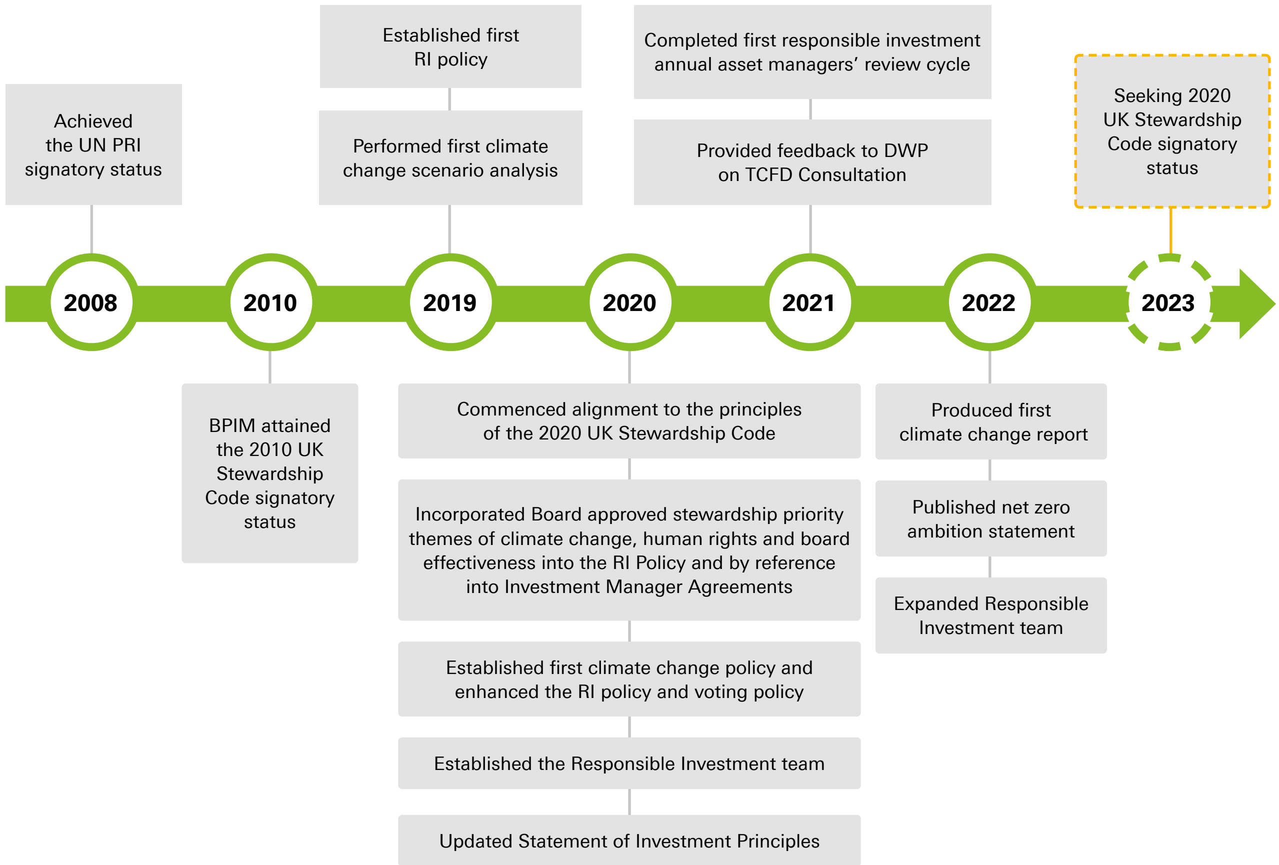


Visual 5: Fund allocation by country of risk as at 31 December 2022

Our approach to stewardship

We recognise that strong stewardship practices are instrumental to the effective management of ESG risks, and we have aligned the Fund's stewardship activities with the principles of the UK Stewardship Code issued by the Financial Reporting Council (FRC) in 2020. Our RI policy details our approach to applying good stewardship practices on behalf of the Fund's members.

The following diagram highlights important milestones we have reached on our responsible investment journey so far.



Visual 6: The Fund's responsible investment milestones

Our responsible investment policy

The formation of the Trustee's RI policy, which incorporates our voting policy and climate change policy, was one of the first steps towards formalising our responsible investment beliefs (RI beliefs), which form part of our overall investment beliefs. The application of our RI beliefs in line with our values and behavioural statements, outlined in section 1.3, support us in implementing strong stewardship practices across the Fund to better secure benefits for the Fund's members.

Our responsible investment beliefs

A 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.

B ESG factors may create both risks and opportunities for the Fund and can be financially material.

C The nature of the liabilities is a key consideration and typically implies a long-term investment horizon, over which we expect ESG factors to become increasingly important.

D Stewardship can and should be applied in respect of all the Fund's assets as is practical. Engagement with investee companies and asset managers is an effective method of instigating change and may increase long term risk-adjusted returns.

E Exercising our voting rights is an important part of active ownership.

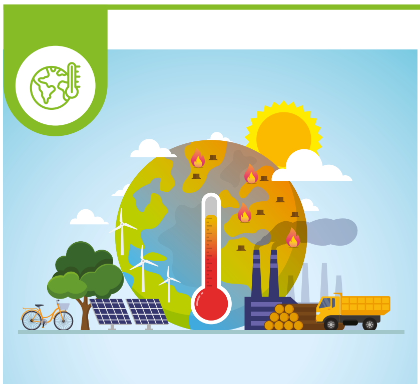
F We expect our asset managers to take appropriate steps to incorporate potentially material ESG factors into their investment analysis and decision-making. The asset managers we instruct to invest on behalf of the Fund are obliged to continue to behave and invest in line with our expectations.

The RI policy, which supplements the SIP, sets out how we seek to implement our RI beliefs to better secure benefits for the Fund's members and shapes the decisions made by the investment team, and the ways in which they engage with the Fund's asset managers. Our RI policy has been approved by the Board and is reviewed on an annual basis to ensure that it is kept up to date with regulatory changes and continues to reflect what we believe to be the best approach to stewardship for the Fund.

In 2022, we updated our RI policy in response to new regulatory obligations, which required publishing an implementation statement to set out how we complied with our SIP and publishing a climate change report to outline how we had taken steps to identify, assess and manage climate-related risks and opportunities. We also updated our climate change policy to reference our net zero ambition statement (see Section 3 for further details). All of the policy updates followed through to the SIP, which incorporates our RI policy.

Our stewardship priorities

In 2020, we explored a range of stewardship themes to prioritise across the Fund and we selected climate change (environmental theme), human rights (social theme), and board effectiveness (governance theme). The themes were chosen for several reasons – namely for their potential risk-return implications for all asset classes in the Fund; their collective embodiment of the Trustee's core values and their alignment with the RI beliefs. The themes have broad, systemic applicability across geographies and asset classes and are therefore significant both at the broader Fund-level and at the asset manager portfolio-level.



Climate change

Climate change is one of the largest and most complex challenges faced by the world today, with proven scientific impacts on the global economy, the environment, natural habitats, and human population, and inherent social and political implications.

We believe climate change can impact our members both directly via the changes that an increased-temperature and a more polluted world will have on their lives, and indirectly via the potential impacts on investment returns and exposure to stranded assets.

Human rights

We believe that financial returns should not be prioritised at the cost of violating the core values of our society. All people have the right to live with fairness, dignity, equality, and respect. It is a crucial means of protection for those who may face abuse, are neglected and isolated across the world.

We place particular focus on the prevention of modern slavery, child labour and the promotion of a fair living wage.

Board effectiveness

Corporate boards represent shareholders' interests and should ensure that the executive do not take excessive risks while having a forward-looking view on the use of corporates' assets.

To be effective, boards require directors who can work well as a group to fulfil their role and mission.

Implementation of our stewardship priorities

We actively work on ways to address issues in relation to our priority themes both directly, via the Fund's actions, and indirectly, via our asset managers' actions.

Climate change

- ✔ In order to support the delivery of our net zero ambition through collaboration with other investors on climate change related risks and opportunities and helping to drive significant and real progress towards a resilient net zero future, we recently joined the Institutional Investors' Group on Climate Change (IIGCC).

Human rights

- ✔ The Fund's investments include companies or issuers with complex global supply chains. We emphasise to our asset managers the importance we place on ensuring these companies or issuers are diligently monitored and challenged on their potential exposure to human rights violations.
- ✔ In recent years, we have placed particular emphasis on our asset managers' actions towards prevention of modern slavery and child labour, and the promotion of a fair living wage within the companies we are invested in.

Board effectiveness

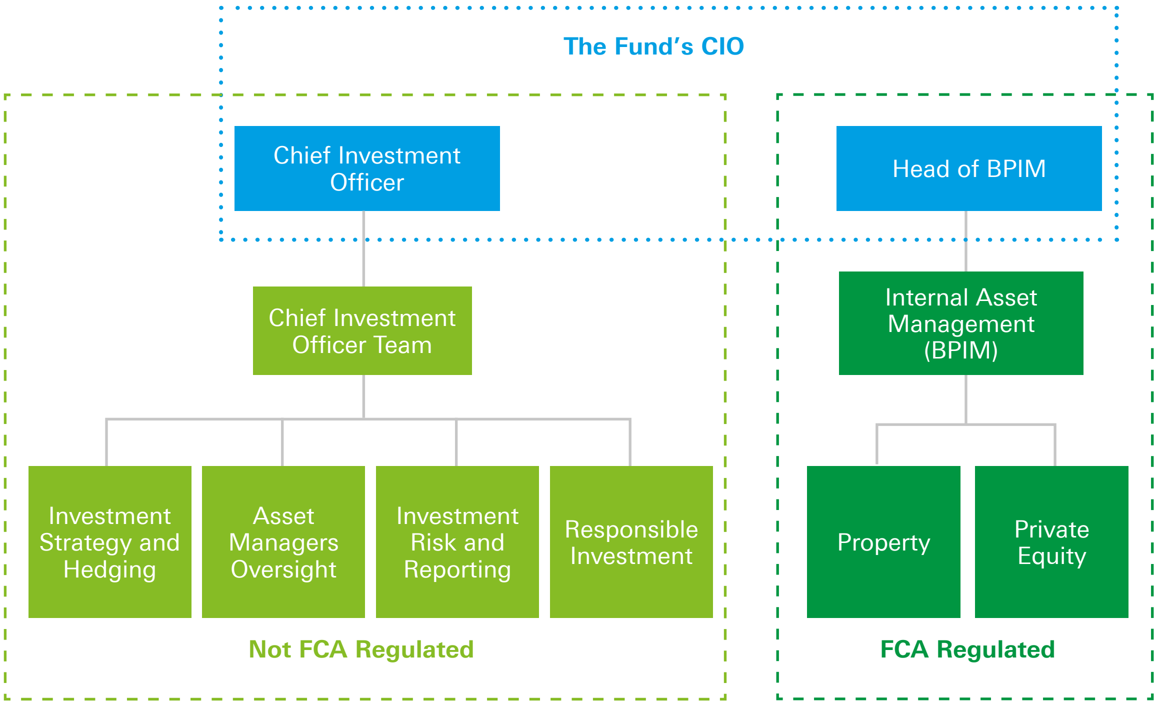
- ✔ The global financial crisis and numerous corporate scandals, and board responses to the global pandemic (Covid-19), have highlighted the need for board members who can actively oversee almost all aspects of an enterprise's operations. Board effectiveness underpins most companies' successful response to concerns around ESG factors.
- ✔ We are conscious that different standards apply in different jurisdictions and between asset classes, so we encourage our asset managers to engage with investee companies to apply best practices and where it's available, seek adherence to their local stewardship code guidelines or refer to the International Corporate Governance Network (ICGN) guidelines.

We use our focus on climate change, human rights, and board effectiveness as a frame to help us to monitor and assess progress made by our asset managers, and to obtain details on their actions and outcomes to gain confidence on whether their processes and engagement activities are likely to be effective.

The asset manager case studies presented later in this report fall within these priority themes. This does not preclude us from engaging on other stewardship and ESG issues raised through shareholder resolutions at general and extraordinary meetings and through the processes and application of our stewardship and voting policy.

Our investment team

Our investment team, which is led by the Fund's CIO, is responsible for delegated investment activities and comprises the functions presented in the diagram below.



Visual 7: The Fund's investment team structure

The "dual-hatted" role of our CIO, as head of BPIM, entails providing leadership to the Trustee's investment team, and the internal asset manager BPIM. The Head of BPIM fulfils Senior Manager Function 1 and 3 roles*.

BPIM is an FCA regulated, wholly owned investment management subsidiary of the Trustee and manages the property and private equity mandates on behalf of the Fund. These mandates account for 12.5% of the total strategic asset allocation. As with our external asset managers, BPIM is required to comply with our RI policy. In addition, BPIM also implement its own RI principles, which are more specific to the property and private equity asset classes.

* Senior Manager roles as the chief execution function (SMF 1) and executive director function (SMF 3), pursuant to the FCA Senior Manager Certification Regime (SMCR).

1.5. Our resourcing of stewardship activities

We have a dedicated RI team led by our Senior Manager for Responsible Investment, who is accountable for the delivery of responsible investment and stewardship across the Fund as a whole, with direct oversight from our Board and Investment Committee.

Enhancements made to stewardship resourcing during 2022

RI team
Recognising the growing demands driven by regulatory deliverables and importance of appropriate resources in delivery of effective stewardship and high-quality reporting, we have doubled our RI headcount to a total of four.

Incentivisation
We include responsible investment and stewardship accountabilities in our annual objectives, with everyone having a responsible investment goal feeding into their overall performance assessment and any bonus award for the year. This reinforces the expectation that responsible investment is, and continues to remain, a principal focus area for the whole team, and not only the more specialist team members.

Training
We adopt a continuous improvement mindset and encourage a learning-oriented environment. Timely and targeted training allows us to facilitate well informed decision making. We keep the training needs of the team under review and individuals in the team receive any specific ESG training that they may require.

Examples of training received in 2022 include:

- In collaboration with our strategic investment adviser, Redington, our Board received training on climate change with a focus on explaining what net zero means for the Fund.
- Our external provider, Ortec Finance, provides regular training to ensure we understand the methodology used when performing climate analysis on the Fund, including any updates to the models and methodology used.

ESG data and stewardship service providers
Access to various ESG data and service providers allows us to perform internal analysis, independent of data provided by our asset managers. This allows us to challenge our asset managers' level of implementation in relation to our RI policy. We conduct periodic reviews of existing and new ESG data and stewardship service providers and continue to receive timely ESG insights.

Monitoring ESG data and service providers

Our major focus in monitoring service providers relates to holding our asset managers to account for their delivery in respect of our stewardship requirements and expectations. In this section we summarise how we monitor and oversee our other service providers.

Institutional Shareholder Services (ISS)

- ISS is our proxy voting services provider, and we use their platform to execute our voting rights on securities held by our asset managers.
- We use their platform to access our voting records, details of upcoming meetings and resolutions, and research reports.
- We use the information provided by ISS, as well as voting recommendations and research reports from our passive listed equity asset manager, LGIM* (which we also access via ISS platform) to inform our voting decisions we make on behalf of the Fund.
- We provide regular feedback to ISS to enhance our client experience.

MSCI ESG Manager

- MSCI is our long-standing ESG data provider, and we access their data and services via the MSCI ESG Manager platform.
- As part of the triannual contract renewal process, we carry out an assessment of services MSCI provides to us, as well as revisit our overall ESG and climate data requirements.
- Most recently we added the MSCI Carbon Footprint services to facilitate calculation, monitoring and reporting of the Fund's financed greenhouse gas (GHG) emissions**.
- We regularly provide feedback to MSCI to enhance our client experience and where relevant challenge them on their methodology.

Ortec Finance

- Ortec Finance has been an important partner in helping us progress in assessment of the potential impact of climate change on the Fund's investments.
- We utilise two of their climate-related products, ClimateMAPS for climate scenario modelling and ClimateALIGN for portfolio alignment metrics calculation and analysis.
- We continue our partnership with Ortec, but also, we continuously monitor the rapidly evolving market of climate change related products and services.

* LGIM has been managing our passive core equity mandate since 2020. LGIM's Investment Stewardship business exercises voting rights globally, holding companies to account across a number of issues, of which some overlap with our own stewardship themes. We find LGIM's voting recommendation and their point of view helpful to consider in arriving at our own voting decisions.

** GHG emissions from an issuer that can be attributed to the Fund under its scope 3 based on its level holdings in the issuer. These are normalised to the issuer's Enterprise Value Including Cash (EVIC) in order to allow equity and fixed income assets to be accounted for similarly.

In addition to our independent strategic investment adviser, Redington, we also have access to a panel of appointed independent advisers. Our regular engagements with our panel of advisers, notably Aon, Mercer and Redington, allows us to keep abreast of ESG/RI developments. As these advisers have strengths and specialisms in different areas, engaging with our whole panel of advisers has been beneficial to the Fund.

As investment consultants are subject to a Competition and Markets Authority order, and in reflection of this, objectives for each investment consultancy firm are agreed with the Trustee. We follow a rigorous annual process of assessment against each of the relevant objectives of consultants on the Trustee's panel.

1.6. Our members

The primary focus on the needs of the members is naturally to provide the benefits to members and their dependents as set out in the Fund's Trust Deed and Rules. In addition to this primary focus, we are conscious that our members may have views on our investment strategy and its implementation.

Enhancements made to communications and engagement model for members

We provide members with a series of communications via post, email and/or made available on the dedicated members' website, "PensionLine". The communications included those referencing the Fund's stewardship and responsible investment activities. During 2022, key communications included:

- Our annual newsletter
- The Trustee's annual report and financial statements
- Our annual implementation statement, which provides public details on our voting activities, engagement with our asset managers and their engagements with companies included in the Fund's investments
- Our annual climate change report
- Our net zero ambition statement

Having recognised the need to strengthen the communications and engagement model between the Fund and its members, we introduced member focus groups in 2022, to engage with a broad range of members to gain insights into their perspectives on a variety of topics. The topics we initially engaged on were the annual newsletter and PensionLine. We continue to discuss how we might best use the focus groups to gather feedback on our stewardship and responsible investment disclosures, so that we can continue to improve their accessibility to readers.

1.7. Our management of conflicts of interest

We appreciate the need to manage conflicts of interest effectively and to ensure that members' interests remain central to our decision-making. We do not believe that all conflicts can be avoided, however through transparent acknowledgement of their existence and appropriate management (including training), we believe that it is possible to reduce the risk sufficiently such that they do not affect decision-making.

Conflicts may arise between the interests of bp and the Trustee, or they may arise between employees and the interests of the Fund. Bp, the Trustee, BPIM and their respective Boards of Directors have arrangements in place that require the identification of potential, perceived and actual conflicts of interest as they arise, and we take steps to avoid or manage conflicts of interest fairly and appropriately. Trustee Directors are required to disclose any conflicts of interest and recuse themselves from making decisions if they are conflicted. Board conflicts are recorded in a separate board-conflicts register and managed accordingly. No additional conflicts were declared during 2022.

To support the Trustee in delivering this approach, we have three separate conflicts of interest policies, each sharing the same key objective of managing conflicts that arise. Each policy is applicable at a different decision-making level within the Fund:

- Our Trustee Board
- BPIM
- bp (covering bp employees)

The procedures to manage conflicts of interest include:

- ✔ All individuals receive training on conflicts of interest.
- ✔ Employees (both new and existing) are expected to disclose actual, potential, and perceived conflicts of interest, which are logged in the bp conflicts-of-interest register.
- ✔ A similar approach is taken with service providers, and suppliers where an employee has a relationship or interest.
- ✔ The Fund is restricted from investing directly in bp, which minimises the risk of any conflict with our sponsor.

Stewardship conflicts could arise where team members who are involved in voting or engagement activities:

- ✔ holds a role at a company that the Fund has a holding in, or
- ✔ have a relationship with someone who holds a role at a company the Fund has a holding in.

In such circumstances team members are required to disclose the potential conflict and steps are taken so that the relevant team member does not participate in any voting or engagement activity (whether directly or collectively with other investors) with the company concerned.

A similar approach is taken with service providers, and suppliers where an employee has a relationship or interest. Employees are recused from making decisions where they are conflicted.

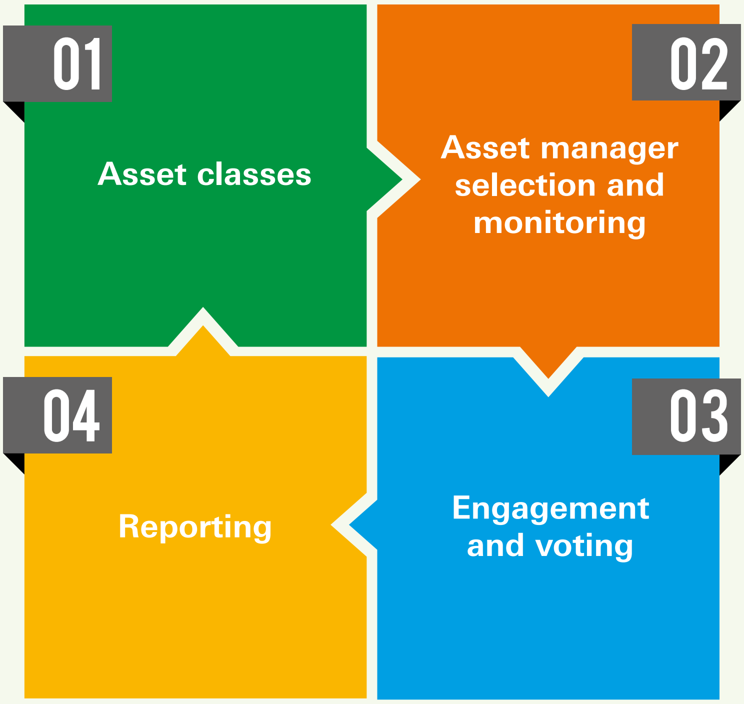
At present, no stewardship-specific conflicts have been identified and so none are included on the conflicts register.

2. Stewardship in practice

This section details how we apply stewardship considerations across the Fund's investments, including ESG factors integration, and explains our approach to direct and collaborative engagement, supplemented with case studies.

Consistent with our RI beliefs, we undertake responsible investment across the Fund's investments wherever practical, to help better secure benefits for the Fund's members.

As outlined in our RI policy, there are **four main elements in the implementation of stewardship and ESG factors**:



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 as a guide to manage our stewardship expectations for each asset class.

We assign one of the following criteria to reflect our expectations of ESG integration, engagement, and reporting per each asset class.

✓ Likely	We expect our asset manager(s) in the asset class to integrate/engage/report
… Possible	We are aware of relatively few asset managers that 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

Asset Class	Integration of ESG factors	Engagement on ESG factors	Reporting on ESG factors
Public Listed Equities	✓	✓	✓
Developed Corporate and Sovereign Debt	✓	✓	✓
Emerging Markets Corporate and Sovereign Debt	✓	…	✓
Global Leveraged Finance	✓	✓	✓
Infrastructure Debt	✓	✓	✓
Direct Lending	✓	…	…
Private Equity	✓	✓	…
UK Property	✓	✓	✓
Liability Driven Investments	…	…	…
Derivatives	✗	✗	✗

Visual 8: Asset class level integration, engagement, and reporting

Case study

Example of taking an opportunity to integrate ESG at an asset class level

In 2022 we implemented an enhancement to the passive portion of our listed equities portfolio moving from a standard market-cap weighted global index to a new customised global index.

The initiative was driven by two objectives:

1. To develop a passively implemented solution that benefits from an index construction methodology that seeks to deliver attractive risk characteristics, such as reduced volatility and drawdowns, when compared to a standard market-cap weighted index.

2. To incorporate environmental, social and governance data, including specific GHG emissions measures, to create a customised index that systematically reflects ESG, including climate, risks, and opportunities in its construction methodology.

The methodology achieves its goals by using a portfolio optimiser with the objective of minimising volatility subject to various constraints including the requirement for a 10% ESG score premium and a carbon emissions requirement to be better or in-line with the parent index.

The resulting passive portfolio are expected to have improved risk characteristics and, in addition, be better placed to capture the opportunities presented by the transition towards a low-carbon economy in line with the goals of the Paris Agreement. We believe that the ESG perspectives incorporated into the customised index construction methodology are relevant to both of these expectations.

A further rationale for the customised solution is the ability to adapt what we do in the future which is likely to be valuable from an ESG and carbon perspective.

2.2. Asset managers

Asset managers – selection

When assessing prospective asset managers, we review how ESG is considered 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 asset managers have appropriate resources to undertake the stewardship activities we would expect of them. Some specific ways in which we promote good stewardship practices include:

Investment Manager Agreements

The investment mandates with each of our asset managers incorporate our RI policy, since we expect all our asset managers to take appropriate steps to integrate potentially material ESG factors, including our three priority stewardship themes, into their investment analysis, investment decision-making and engagement activities with investee companies or issuers. Although voting is largely a matter for equity portfolios, we believe that good stewardship can be applied in respect of all the Fund's assets and should be where this is practical.

Segregated mandates and pooled investment funds

We review the investment objectives and guidelines of pooled funds to ensure alignment with our investment policies, including our RI policy. For segregated mandates, we may set stewardship guidelines within our investment manager agreements where it is appropriate to do so. At present, all of the Fund's investments are managed via segregated mandates.

Exclusions

We favour engagement over exclusion and do not have an exclusions policy, except for restricting our asset managers from investing in securities issued by bp, to mitigate further exposure to the Fund's sponsor. Through dialogue with our asset managers, we may agree restrictions on the types of investments an asset manager can hold, which are then reflected in our investment management agreements. These often reflect asset managers' own firmwide restrictions, such as on exposures to controversial weapons, tobacco, coal, or recreational cannabis.

Assessment period

We appoint asset managers with the expectation of a long-term partnership, which encourages active ownership of the Fund's assets (except in the case of our passive portfolios). When assessing an asset 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.

Asset managers – monitoring

Our role as an asset owner

We are aware that one of our primary roles as an asset owner in the stewardship chain, is to set clear stewardship expectations for our asset managers and to hold them to account for delivery against those expectations. We expect our asset managers to invest and engage in the best interests of the Fund and in accordance with our policies. Where possible, we use our influence as an asset owner, to encourage responsible long-term behaviour through engagement with our asset managers and voting on behalf of the Fund.

One of the ways we effectively manage stewardship and ESG risks includes dedicated monitoring of, and engagement with, our asset managers as a means of driving change with the aim of improving long-term, risk-adjusted returns. By expecting our asset managers to invest in line with our RI policy, we hold them all to a certain standard. Our asset manager monitoring approach is consistent for all asset managers, including BPIM, and comprises the following:

✔ **Encouraging strong stewardship standards and sharing constructive feedback**

We require our asset managers to have regard to the updated 2020 UK Stewardship Code principles where possible, or an international equivalent if applicable. We have been actively encouraging some of our asset managers to become signatories where practical, and monitoring which of our asset managers have attained this status.

✔ **Monitoring stewardship activities on a quarterly basis**

We hold quarterly investment review meetings with our asset managers to discuss their investment performance and receive updates including those relating to business or personnel developments. We include stewardship as a standing agenda item during those meetings and require asset managers to include a stewardship update in their quarterly reports, including participation in stewardship-related initiatives. All quarterly meetings are attended by representatives from both the asset manager oversight and responsible investment teams.

✔ **Monitoring stewardship activities in depth on an annual basis**

In order to gain a comprehensive understanding of each asset manager's stewardship and responsible investment policies, processes, and level of implementation, we hold annual responsible investment review meetings with all of our asset managers.

These meetings form an important part of our asset manager monitoring governance process, covering each asset manager's investment and stewardship activities over the prior year. We place more emphasis on examples our asset managers can provide to demonstrate the consistent integration of ESG factors into their respective investment decision-making processes and how effective they have been in engaging for change with investee companies or issuers. Through these meetings we try to ensure there continues to be progress in ESG factors integration, stewardship, and engagement activities across all asset classes and mandates to the extent possible.

The following table provides a high-level summary of key assessment criteria and findings during meetings covering our asset managers' activities in 2022.

Key criteria	Assessment
Compliance with our RI Policy	All asset managers demonstrated their compliance with our RI policy and evidenced having in place their own policies specifically relating to responsible investment, sustainability and/or stewardship.
ESG Integration	Most asset managers integrate ESG into their investment process in a systematic manner, and they use well established frameworks to identify industry specific ESG factors. Some asset managers are yet to fully demonstrate examples where ESG considerations have contributed towards investment decisions being made.
Engagement	All asset managers continued to engage with companies and issuers in relation to our three priority stewardship themes. The examples provided by the asset managers varied in quality and could be improved by providing more examples of engagements for change.
Reporting	In general, most asset managers made a concerted effort to provide comprehensive responses to our reporting template.

Overall, we are broadly satisfied with the processes put in place by our asset managers to integrate ESG considerations into their investment decisions. Going beyond ESG ratings is, to some degree, the expectation of an advanced approach to integrate ESG. However, this level of sophistication and the nuances that characterise each asset manager's internal ESG ratings make it difficult to compare different approaches, even within the same asset class. This raises challenges for asset owners in monitoring the effectiveness of these approaches and the appropriateness of ESG considerations when looking at specific investments.

2.3. Engagement

The Fund's direct engagement

The majority of investment management functions have been outsourced to external asset managers. As such, apart from the property mandate, we do not directly engage with companies at present. We seek to influence corporate behaviours via our external asset managers, engaging with them on their stewardship approaches and the effectiveness of their engagement efforts. This allows us to exert indirect influence on a broader range of corporate issuers, even outside the scope of our direct holdings.

Direct engagement has proven a useful channel to address broader issues such as market regulation or systemic risks. Further in the report, within the systemic risks and public policy engagement section, we describe some case studies of our engagement on those important topics.

Case study

Examples of the Fund's direct engagement in property mandate

Engagement with commercial tenants

In 2022, we made progress with our direct engagements made via the property asset class, given this mandate is managed internally by BPIM.

BPIM began engaging with the commercial tenants of the properties held within the portfolio, in relation to various ESG initiatives and potential physical improvements to the properties. The purpose of the engagement is to understand the current sustainability commitments the tenants have in place, to determine how best to work together to upgrade the properties and progress further towards achieving our net zero ambition.

Examples of the Fund's direct engagement with asset managers

Signatory status to the Principles for Responsible Investment (PRI)

Context: As signatories, we support the PRI's principles-based approach to improving standards of practice in the responsible investment space through the incorporation of environmental, social and governance factors into investment and ownership decisions.

Action: We identified the asset managers that we felt had the potential to become signatories to the PRI based on our understanding of their specific mandate, asset class and organisational circumstances. In our quarterly and annual meetings, we encouraged these asset managers to formally apply to become a signatory to the PRI or as a minimum, to align their RI practices with the principles of the PRI.

Outcome: All but one of our external asset managers are signatories to the UN PRI, with the remaining asset manager aiming to apply in 2023. Although we have not been directly responsible for this outcome, we feel that the open dialogue we have had with some of our asset managers in consideration of their specific circumstances, has highlighted the value and benefits of becoming a signatory to the PRI.

Responsible Investment in Private Equity

Context: Our approach of challenging our asset managers to enhance their stewardship practices applies not only to external asset managers, but also to our internal asset manager, BPIM. Our private equity mandate is mostly comprised of funds, and as such, BPIM has limited ability to directly influence change at the investee company level. As a limited partner, BPIM's main function is to monitor and engage with general partners (GPs) to influence their stewardship and engagement efforts and increase reporting on the outcomes of those actions. While BPIM engages with GPs on a regular level, tracking of topics and issues discussed has not been done systematically, and therefore proved challenging to report on.

Action: BPIM has been applying responsible investment principles in the investment and management of private equity assets for several years. More recently, they significantly expanded the ESG section within the due diligence questionnaire they issue to GPs upon making new investments. We communicated to the BPIM that although they provide us with examples of their engagements during quarterly meetings, their engagement process could be made more robust if they documented and tracked these engagements in a central repository.

Outcome: BPIM recognised that their existing system to record meetings and engagements with GPs needed to be improved to help to track the types and topics of the engagements in a quantitative manner. The team are currently exploring solutions to track and monitor engagements more effectively and efficiently. They are also engaging with their administrative system provider which collects data on their investments on their behalf, to improve transparency in relation to ESG data. Their aim is to demonstrate improvements made ahead of the 2023 annual RI reporting.

Alignment with UK Stewardship Code principles

Context: We recognise the importance of applying strong stewardship practices to help to mitigate ESG risks effectively and thereby preserve and create sustainable value for our members. Hence, we support the high stewardship standards set out by the FRC in their 2020 UK Stewardship Code (the Code).

Action: Within our contracts with our asset managers, we make clear that we expect them to have regard to the 2020 UK Stewardship Code when investing on behalf of the Fund. For the asset managers that we felt had the potential to become signatories to the Code, we have been engaging with them during our quarterly and annual meetings to highlight the benefits of doing so.

Outcome: 11 out of 15 external asset managers are signatories to the 2020 UK Stewardship Code, and the remaining 4 external asset managers do not plan to become signatories due to resource constraints and/or the legal ramifications due to their main operations being outside the UK. While we are not directly responsible for this outcome, we may have had some level of influence in engendering support for the Code, and we plan to continue our dialogue with the remaining 4 external asset managers to ensure their approach to stewardship is broadly in line with the principles outlined by the FRC.

Systematic Integration of ESG into asset manager's investment process

Context: One of our external asset managers had a highly flexible approach to incorporating ESG perspectives into their research process. Whilst the approach has certain positive aspects, we felt that more structure and consistency in the ESG integration process would result in a more robust approach.

Action: During the quarterly and annual meetings with the asset manager, we discussed examples of ESG integration in depth and received detailed progress reports on ESG process initiatives. We provided constructive feedback based on what we learnt in those meetings, including the merit we saw in a consistently applied, well-structured ESG integration process.

Outcome: The asset manager employed a designated RI specialist to lead their efforts in formalising ESG integration process and developed a research framework based on the materiality map issued by the Sustainability Accounting Standards Board (SASB). The materiality map serves as a visual guide to identify general sustainability issues quickly and easily across companies or industries. The asset manager also set up a dedicated internal committee mandated to review ESG risk considerations across existing and prospective investments.

Counterparty ESG risk assessment and engagement programme in LDI* mandate

Context: Given the LDI mandate represents a substantial part of our asset allocation, we have a significant exposure to various counterparties included in our counterparty panel. We felt it was important to ensure that our LDI asset manager incorporated ESG considerations in selection and ongoing assessment of counterparties on our panel.

Action: Over the course of two years, we held ongoing discussions with the asset manager on strengthening their application of RI to the LDI asset class. As part of those discussions, we requested the asset manager to provide a comprehensive explanation of their internal ESG ratings methodology and explain how it was applied specifically to the LDI asset class. We also requested examples of instances where the ESG rating led to a suspension or removal of a counterparty from the counterparty panel.

Outcome: Our asset manager was very proactive in ensuring our requests were met and demonstrated satisfactory progress in ESG integration within LDI. They provided a thorough explanation of their internal ESG ratings methodology. Although we deemed their methodology to be robust, we noted that the ESG ratings were more credit-focused, primarily used for fundamental credit analysis. Through ongoing conversations with our asset manager, we concluded that supplementing the ESG ratings approach with a more formal, direct engagement programme with banks on the panel would provide a more comprehensive assessment which is focused on the material ESG issues for the counterparties included in the panel.

In early 2022, our asset manager decided to make enhancements to its existing counterparty engagement processes, implementing a more formal programme that was reviewed and approved by the asset manager's CEO and CRO. The first iteration of the new programme focused on four sustainability themes (environmental factors, remuneration, diversity, and cyber/data breaches) and included a comprehensive benchmarking assessment. We have received multiple updates on the progress of the engagement but are yet to receive concrete findings and potential next steps. We expect to receive those over the course of 2023.

*Liability driven investment (LDI) is a way of investing that by convention gives a multiple exposure to UK government bonds (gilts). Pension schemes are using LDI to manage their funding risk.

Examples of the Fund's direct engagement with data and service providers

Accurate and robust data allows for more informed decision making and supports us in assessing progress of stewardship activities. The following examples demonstrate our proactiveness in climate risk analysis, direct engagement with our climate data provider, and our efforts to influence standard voting policy used by a significant portion of investors. Through these actions we have been able not only to enhance the information we ourselves receive but also to enhance information flows to the market as a whole, an important systemic improvement in our view.

Improving the accuracy of the carbon footprint calculator

Action: During 2022 we decided to try to better understand the methodology and equations of the portfolio carbon footprint calculator developed by our GHG emissions data provider. As part of this process, we estimated the carbon emissions at the individual holdings level, in line with our provider's methodology. We held multiple conversations with our provider to understand in depth their methodology and challenge them on their approach.

Outcome: This exercise allowed us to better understand how our provider's tool calculates the Fund's emissions and how holdings with no associated emissions were treated. As a result, we became aware of the importance of ensuring that the set of holdings in the portfolio for which the emissions are calculated, should exclude holdings with no emissions data and the position weights should be rebalanced accordingly. By doing so, we could obtain more accurate results for the total portfolio financed emissions, which is a metric which we are mandated by regulations to disclose in the annual climate change report. Additionally, this analysis allowed us to confirm the list of high emitting companies which we hold in our portfolio, and we expect our asset managers to engage with these companies.

Engaging with our data provider to improve their data update cycle

Action: We conducted a separate exercise in 2022, where we compared emissions data from our existing provider, with data made available from other providers. We were surprised by the considerable number of instances (over 100 in an investment universe of around 3,000 companies or issuers) for which the new publicly available information was missing. We discussed with our provider the appropriateness of the existing data update cycle, and we referenced the frequency of updates that some of the other providers were applying.

Outcome: The provider updated its data refresh cycle, moving from annual to quarterly which allows for newly published information to be captured in a timelier manner. We believe that by having shared our findings and feedback to the provider, we contributed to this outcome.

The Trustee has participated in consultations launched by some of the initiatives or providers with whom it interacts in 2022. One of the examples is the ISS client consultation described below.

ISS Client Consultation on proposed Benchmark Voting Policy changes

Context: Each year, ISS undertakes a consultation to gather views with respect to their benchmark voting policy changes to ensure a broad range of perspectives is taken into consideration, including the views of institutional investors globally and those of the broader corporate governance community.

Action: We provided feedback to ISS on issues such as board accountability with respect to climate change, board gender diversity, and unequal voting rights. For example, we asked ISS to take into consideration the lack of scope 3 disclosures when deciding on votes regarding director(s), and to consider a broader set of sectors in their recommendations on votes pertaining to emissions' reduction targets. Additionally, we suggested that ISS should consider setting higher expectations for companies with respect to their approach to board diversity, particularly for boards lacking any female representation.

Outcome: We have not yet received communication from ISS that our feedback was or will be considered in their updated benchmark voting policy. Irrespectively, we intend to continue engaging with ISS on raising expectations of companies' actions on climate change, human rights, and other systemic issues.

The Fund's collaborative engagement

We recognise the importance of working together with other investors to progress the responsible investment agenda and optimise our stewardship efforts. Our membership of the below stewardship-related organisations and forums has enabled access to various platforms to share insights into best practices, access research, collaborate with other investors and communicate common concerns. This has helped us to deliver support to regulation and best practice, and to have influence in debates on improvement – important elements of our approach to delivering in relation to major systemic risks for the Fund.

The Fund's membership of stewardship-related organisations and forums

Occupational Pensions Stewardship Council (OPSC)

- The OPSC is a dedicated council of UK pension schemes set up by the Department for Work and Pensions (DWP) to promote and facilitate ambitious standards of stewardship.
- We joined the OPSC in 2022, and at present, we participate in the climate change and private markets work strands, to share our insights and understand best practice approaches including those in relation to shareholder resolutions and climate change reporting.

Principles for Responsible Investment (PRI)

- The PRI is a leading proponent of responsible investment principles, which supports its signatories in incorporating ESG factors into their investment and ownership decisions.
- We became signatory to the PRI in 2008 and remain aligned with the PRI's six principles. We use their framework to report on our responsible investment activities each year. We commonly access the PRI's research to read case studies and gain insight into best practices. We share feedback directly to the PRI and through its signatory consultations.

UK Pension Schemes Responsible Investment Roundtable

- The roundtable is a forum where UK asset owners collaborate on any topic related to responsible investment. It is a supportive group, which collectively allows for efficient gathering and sharing of information.
- We have participated in the roundtable since 2021 and find this an invaluable way for UK asset owners to build connections with our peers. The roundtable works as a collective body whose level of influence is amplified due to its size and membership and fosters collaboration with other organisations (i.e. the PRI, FRC, and FCA).

Institutional Investors Group on Climate Change (IIGCC)

- The IIGCC is a forum for collaboration between pension funds and asset managers to help drive forward significant progress towards achieving net zero and a more resilient future.
- Having joined the group towards the end of 2022, we have been mainly using the platform as a learning tool to gain insight into how we can align our portfolios to the goals of the Paris Agreement. Our intention is to expand our involvement with the IIGCC, particularly with respect to collaborative engagement.

Pensions and Lifetime Savings Association (PLSA)

- The PLSA champions improvements in pension policy for members and provides a forum for UK pension schemes to discuss best practice and key issues.
- We regularly access PLSA guides, research materials and attend their conferences to ensure our approach to responsible investment remains in line with our peers and the PLSA's best practice recommendations.

Case study

Examples of the Fund's collaborative engagements

PRI Reporting and Assessment Framework

Context: In the reporting year, alongside other UK pension schemes, we engaged with the PRI on their reporting and assessment framework which they piloted in 2021. Our overall sentiment was that the reporting framework was better suited for asset managers than asset owners.

Essentially, we felt that completing the report was a long and cumbersome process and required very granular data. Some aspects of the framework were very prescriptive or not fully applicable to asset owners, which raised concerns on whether the assessment would fully reflect responsible investment practices and progress. We also experienced technical issues with the reporting tool, and we found that the navigation functionality impeded the efficiency in completing the report.

Action: The pension scheme members of the UK Pension Schemes RI Roundtable, including the Fund, gathered joint feedback, and invited PRI representatives to attend one of the roundtable meetings. During the meeting, we collectively provided our feedback to the PRI.

Additionally, during the PRI In Person and Online conference in November 2022, PRI hosted a dedicated meeting with UK and Ireland asset owners which we attended, and in which they shared information on improvements made based on the overall feedback from signatories.

Further meetings and calls took place at the beginning of this year, including discussion on potential options for reporting. Subsequently, the PRI shared perspectives gathered with their board of directors.

Outcome: PRI has addressed the feedback provided, by making various changes into their reporting and assessment framework. Some of the improvements include identifying the modules most suitable for asset owners, a reduction in the number of indicators required to be reported on, simplifying the indicator structures, allowing the merging of indicators and the removal of repetition, and reduction in the granularity of some of the modules.

The engagement is still ongoing, and we are yet to assess the effectiveness of improvements made during the 2023 reporting cycle, especially with respect to reduction in reporting effort.

PRI in a Changing World consultation and engagement on the role of PRI

Context: The PRI has undertaken a consultation with its signatories to develop a greater understanding of signatories' challenges, concerns and most importantly expectations of the PRI, including its role within the investment's ecosystem.

Action: Multiple meetings and discussion with the PRI on their Reporting and Assessment Framework, as well as attendance at the PRI conference, presented to us and other asset owners gave us the opportunity to also provide feedback on the role of PRI and express our desire to be more involved in shaping the future direction of the PRI.

Outcome: The attendees of the PRI reporting session during the PRI conference, including ourselves, were offered a bespoke opportunity to openly discuss and share views around the PRI's development. In a meeting with senior individuals from the PRI, we discussed our views on the PRI's activities to date and how PRI can continue to add value to their members going forward.

Our response to consultation: We highlighted in our response that whilst in general, responsible investment so far has focused on the institutional participants in the global financial system, going forward it should keep at the forefront of its beliefs and principles that the underlying asset owners are the beneficiaries of pension schemes and the retail investors living in the real world.

We also expressed our preference for the PRI to increase collaboration with market organisers and financial regulators, provide increased support towards development of minimum set of reporting standards that should be applied across regions and focus on raising the bar further to shape the expectations of what responsible investment will encompass going forward.

Our asset managers' direct engagement

We expect our external asset managers to continuously engage with companies, regulators, investors, and other stakeholders, which can significantly help to better understand material issues affecting their investments and allows them to use their influence to catalyse meaningful, targeted change.

Over the reporting period, our asset managers conducted numerous direct engagements and provided detailed case studies of relevant stewardship activities and outcomes as part of the annual responsible asset managers' review process. We have included example case studies below.

While we recognise that our asset managers are at varying stages of their stewardship journey, we were encouraged by the proactive actions our asset managers took to address material factors such as governance, climate change and human rights throughout the lifecycle of their investments. Asset managers of illiquid and private assets (like direct lending or infrastructure debt) have demonstrated their significant efforts in engagement at the pre-initiation stage given the individual contractual nature of each single investment. For example, our private debt asset managers were able to integrate ESG-linked incentives via KPIs and ratchets to some of the loans issued.

In our 2022 asset manager reporting template, we significantly enhanced the section on stewardship activities and outcomes, and we requested our asset managers to distinguish the examples provided across two categories - engagement for change and engagement for information.

Based on asset managers' responses to our reporting template, and follow-up discussions during the annual RI-dedicated meetings, we were able to quantify how many asset managers provided meaningful engagement examples based on their asset class expectations in our framework. This is shown in the table below.

Engagement examples pertaining to the following stewardship theme	Number of asset managers
Climate change	15 / 17
Human rights	7 / 17
Board effectiveness	8 / 17

Visual 9: Engagement for change case studies by number of asset managers

An immediate action we intend to take, as part of this year's asset manager monitoring process, is request our asset managers to, when applicable and relevant, increase their efforts in carrying out meaningful engagements for change with respect to human rights and board effectiveness themes, and discuss any potential barriers they might have encountered.

Case study

Examples of our asset managers' direct engagements

Through our asset manager monitoring process, we were able to develop the following selection of engagement case studies, which we feel helps to capture the breadth and depth of issues our asset managers have tackled with companies in which the Fund was invested in during 2022.

Improving social practices in the supply chain
Led by GQG (active listed equity manager)

Issue: One of our investee companies, a multinational food & drink conglomerate, has exposure to a wide range of commodities whose complex supply chain is often affected by violations of human and labour rights. Our asset manager was particularly concerned about the risk the company faced in its cocoa supply chain.

Action: Following allegations of labour abuses including forced child labour, the asset manager reached out to the company and sought a detailed account of how the risk of child labour was monitored, encouraging the company to prioritise the economic welfare of workers in its global supply chain. Regular due diligence processes often fail to capture violations at local level, especially for suppliers beyond the 2nd tier and of smaller scale like the cocoa-farming households.

Outcome: The company has made noteworthy progress in this regard with the launch of the Income Accelerator programme which aims to improve the livelihoods of cocoa-farming families, advance regenerative agriculture practices, and promote gender equality. The programme, which is in its preliminary stages, includes paying cash incentives directly to cocoa-farming households for certain activities and enrolling children in schools. Our asset manager continues to monitor the progress of this programme.

Cyber security assessments
Led by Royal London Asset Management (UK corporate bonds manager)

Issue: Cyber-attacks have become a major threat for many organisations since the reserved and confidential information they hold and manage is extremely valuable to themselves and all of their stakeholders. Our asset manager recognised this risk is material and decided to reach out to 12 companies to understand their cyber risk exposure and suggest best practices.

Action: The asset manager assessed publicly available information of the 12 companies with regards to governance structures, business continuity, and risk management of its cyber security against the asset manager's own expectations. The asset manager contacted those companies to arrange a meeting to discuss their findings and provide suggestions for improvement. Only one company was unresponsive, and one company requested to delay the meeting since they were conducting their own internal review on ESG disclosures.

Outcome: One of the 12 companies – a savings and investment company, demonstrated very thorough cyber security practices and exhibited best practice regarding cyber-culture and employee training. The asset manager found that what this company had done, had far exceeded what the company had reported, and the asset manager recommended that the company improve its disclosure on all of its cyber security programmes and endeavours.

The asset manager is finalising its overall findings on all of the 12 companies with tailored suggestions on what they would need to improve and is due to publish a report in 2023.

Legacy Human Rights Controversy
Led by one of our active listed equities managers

Issue: The asset manager was concerned about how the lack of clear disclosure of one of its investee companies on issues related to a legacy human rights controversy (related to its defence business), could affect the company's reputation, and return potential.

Action: The asset manager expressed its desire to see additional transparency, public statements, and active communications on the management of human rights risks, as these initiatives can be important for the business to formally address ESG priorities. The asset manager also highlighted the importance of providing regular updates not limited to annual reporting.

Outcome: The asset manager has been invested in this company for many years; since 2018, the company has made significant progress in reporting key sustainability data and policies which resulted in the publication of a human rights policy and the use of standardised frameworks. In 2022, the company also released a public statement on human rights and incorporated SASB (Sustainability Accounting Standards Board) guidelines in their 2022 Sustainability Report. Furthermore, the company is in active communication with stakeholders, policymakers, and data providers on setting ESG priorities.

UK-based Housing Associations: Just transition for housing association
Led by Royal London Asset Management (UK corporate bonds manager)

Issue: The transition to a greener economy requires changes that may have an adverse impact on workers with lower incomes or those employed in the fossil fuel industry. In general, their standard of living could be significantly reduced if decision-makers do not take the necessary steps to mitigate these risks. Our asset manager which has investments in UK-based Housing Associations (HAs), was concerned about whether existing decarbonisation plans to achieve net zero will support the continuation of meeting the needs of their residents.

Action: Our asset manager reached out to three HAs to better understand the challenges being faced and find out what support they could provide. Additionally, the asset manager engaged with other investors and assessed the potential impact from the UK Government policy.

Outcome: One of the HAs is at the forefront of raising awareness of the solutions and best practice amongst other HAs, highlighting policy gaps to the UK Government and demonstrating a high level of care for residents. Their roadmap to Energy Performance Certificate (EPC) C by 2030 and Net Zero by 2050 (2045 in Scotland) is suitably planned out. The second HA achieved EPC C across all its properties in 2022, which is eight years ahead of the UK Government deadline. Starting six years ago, they estimated that the HA upgraded 4,000 properties from EPC D to C at a cost of approximately £140m. The third HA plans to achieve EPC C by 2030 supported by planned capex for the next five years. Regarding fuel poverty, the HA is taking a targeted approach by identifying the most vulnerable individuals struggling to pay the energy bills; this has revealed to be challenging due to a lack of data on the finances of its residents and the confidentiality of such information.

Our asset managers' collaborative engagement

Participation in collaborative initiatives and engagements is also one criteria of the asset manager monitoring process. We encourage our asset managers to participate in various forums and industry initiatives, as we believe that through combining assets under management, they can engage more effectively with the Fund's larger holdings that typically have high market capitalisation and/or a fragmented investor base. Additionally, we believe that interacting with other asset managers allows cross-fertilisation of different approaches to stewardship and engagement which in turn help with development of best practices and standards.

Some of the examples of our asset managers working together or engaging with various industry organisations are:

- ✔ Ninety One, our Emerging Market debt asset manager, is leading on industry-wide collaborative engagements and advocating for standardised, country-specific Net Zero transition pathways across emerging markets as part of their support for a Just Transition.
- ✔ The Head of ESG & Sustainability of our leveraged finance asset manager, Oak Hill Advisers, is Vice Chair of the ESG Integrate Disclosure Project, an industry initiative bringing together leading lenders in the private credit and syndicated loan markets to improve transparency and accountability on ESG issues.
- ✔ One of our infrastructure debt asset managers (Macquarie) is represented on the GRESB Infrastructure Debt working group, which aims to share knowledge and drive improvements to minimum standards with respect to sustainability. In addition, the asset manager has co-led a project with other asset managers to develop a proposed ESG Debt Covenant package to help standardise ESG information requirement in standard loan documentation through the Loan Market Association.
- ✔ Seven of our asset managers across different asset classes (Insight Investment, Legal & General Investment Management, M&G Investments, Macquarie Infrastructure and Real Assets, Ninety One, Royal London Asset Management and Wellington Management) are members of the Institutional Investors Group on Climate Change (IIGCC) and actively engage with issuers inside and outside Climate Action 100+, on climate-related issues.

Case study

Examples of our asset managers' collaborative engagements

Board Effectiveness in Japan
LGIM (passive listed equity manager)

Issue: The asset manager, together with other members of the Asian Corporate Governance Association network ('ACGA') Japan Working Group recognised a Japanese automotive manufacturer faced several issues relating to its: i) capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure, and ii) board independence, diversity, and effectiveness. Given the company's size and influence at Japan's largest business federation and in industry associations, the asset manager has always questioned the company's lobbying stance and its alignment with a 1.5°C world (this is also one of the asset manager's red lines under sector guides for the auto sector in the Climate Impact Pledge).

Action: As a longstanding member of the ACGA Japan Working Group, the asset manager engages with Japanese companies, including this investee company, to improve their corporate governance and sustainability practices. During the engagement, initiated in Q3 2021, the asset manager voted against three directors due to their concerns about independence at the 2022 AGM. The level of dissent for the re-election of these three directors was low, going from 3.2% to 8.6%.

Outcome: The asset manager was glad to see improvement on transparency, as the company published its views on climate public policy in December 2021. Nonetheless, this is the first step, and the asset manager hopes that this will enable them it to have more in-depth conversations on the company's views on climate and how it plans to shift its strategy.

Given recent issues relating to the Japanese automotive company's group companies, the asset manager will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

Financing the Just Transition
Royal London Asset Management (UK corporate bonds manager)

Issue: The transition to a greener economy requires changes that will impact communities and workers disproportionally. By banks establishing a Just Transition policy, the financial sector could better assist the wide range of industries, regions, and communities that they provide capital to.

Action: Our asset manager engaged with a global bank, along with the UK charity Friends Provident Foundation, during 2021 and 2022 on their net zero commitment, climate transition plans and requested explicit integration of Just Transition considerations into the bank's existing set of climate policies.

Outcome: The bank partly incorporated the Just Transition considerations into its published climate transition plan draft. Following further feedback, the bank improved definitions for 'existing' and 'new' oil field and clarified the wording of the commitment. The notion of the "Just Transition" is incorporated as one of the three policy objectives ('support a Just and affordable Transition, recognising the local realities in all the communities we serve').

Furthermore, the bank agreed to further review climate transition plans to assess oil and gas and energy utilities clients' failure to progress on climate plan disclosures and implementation. Failing to do so will mean losing access to finance from the bank. The bank also improved definitions around engagement, making explicit what 'regular' or 'insufficient' engagement meant. However, the bank did not act on requests to include climate lobbying and limited use of offsets in the assessment of climate transition plans.

Climate Action 100+
M&G (UK corporate bonds manager), Ninety One (emerging markets debt manager)

Context: Climate Change, as presented through many sections of this report, is a global systemic challenge. In addition to pressing regulators to implement more restrictive policies to support achievement of the Paris Agreement goals; the private sector has a key role to play.

Almost 700 investors who share the same concerns on the lack of concrete actions from corporates to align their strategies and capital allocation towards achieving the goal of the Paris Agreement, work together through Climate Action 100+ (CA100+). They engage with over 160 companies, who as some of the largest GHG emitters, are responsible for over 80% of the world's emissions.

Action: The investors involved in this initiative coordinate their expectations and team up to create a unique channel of communication with corporates. This helps to achieve a critical level of assets that boards, and executives cannot ignore and allows companies to understand better investors' expectations.

CA100+ initiated its 5-year engagement cycle in 2018. Investors participating in CA100+ have engaged in a multitude of ways with corporates, having regular meetings with chairs of boards, executives (including CEOs and CFOs), and sustainability and investor relations representatives, according to the need and level of progress achieved by corporates during this journey. As necessary, investors also coordinated escalation activity, often speaking at the AGMs to express their concerns or encourage further efforts.

Outcome from the UK corporate bonds manager's engagements
Our UK corporate bonds manager is a CA100+ co-lead on, among others, an engagement with a German chemicals' producer. The asset manager met with the company on several occasions throughout 2022 to urge it to add scope 3 to its existing scope 1 and 2 carbon emissions reduction targets, and to commit to decarbonising its feedstock by 2050. The company is now part of the SBTi expert group, working on a sector-specific methodology for the chemicals industry, and hopes to be able to get good enough data to set a scope 3 target by the end of 2023. No promise was made on decarbonising feedstock and the company explained that the majority of its products would always be carbon-based. However, in future, carbon from CCU (carbon capture and utilisation), recycling or bio-based feedstocks, such as biomethane, would increasingly replace fossil-based feedstocks.

Outcome from the emerging markets debt manager's engagements
Our emerging market debt manager leads industry-wide collaborative engagements and is an advocate for standardised, country-specific net zero transition pathways across emerging markets as part of its support for a Just Transition.

South Africa is facing substantial challenges in the energy sector with regular shortages and blackouts while most of its base load is coming from outdated coal plants. The asset manager engaged with a state-owned electric utility company based in South Africa, whose debt is close to 8% of the country's GDP. The asset manager is cognisant of the company's debt burden and the challenges of current solvency and, along with other investors of a collaborative climate working group, is asking the company how it plans to transition to generate and distribute sufficient clean energy for the country, and at what cost.

Currently the company has no consolidated plan which specifies its 2030-2050 roadmap, other than renewables build out intentions and the closing of end-of-life coal plants. It is clear, however, that their transition will put workers and communities at the forefront, ensuring it is fair and reasonable. The lack of clarity is problematic from an investor perspective as there is no view on the company's overarching plan, and therefore little accountability. The asset manager will continue to engage with the company to publish a transparent transition strategy and emissions outlook, conscious of the challenging circumstances in which this issuer operates.

Escalation of engagement

While we believe in continuous dialogue, relationship building, and collaboration to promote lasting positive change, we acknowledge the need for the escalation of engagement issues in cases of urgency (e.g. material news) and/or where the investment is slow to respond to concerns. We encourage our asset managers to have systems in place to facilitate the tracking and prioritisation of issues for escalation.

When monitoring asset managers on their escalation activities, we request the following information:

- methods the asset manager used to escalate issues with entities where engagement had not been achieving the desired outcome.
- outcomes of escalation that is ongoing or concluded within the year. This may include (but is not limited to) actions or changes made by the party engaged with, how outcomes of escalation have informed investment decisions (i.e. buy, sell, hold), any changes in the escalation approach, and whether objectives were met.

Case study

Examples of our asset managers' escalation of engagement

Below we highlight some examples of how our asset managers have escalated the engagement and what lead to that decision.

Concerns about freedom of speech in the midst of management changes
Led by one of our active listed equities managers

Context: The asset manager invested in a social media firm back in 2018 and during the holding period, they engaged with management (including the CEO at the time) to address concerns regarding balancing of health and safety initiatives in the platform versus freedom of speech. During this time, the company underwent a CEO transition. While evaluating the new CEO's strategy, an offer to acquire the company was made which diverted management's focus.

Action: The asset manager met with the CEO and other senior executives to express its concerns and inform the company of its expectations regarding the issues identified.

Outcome: The asset manager sought progress from the company to address the social risk issues on the platform over the early years of the investment. While progress on health and safety of the platform were made under previous management, the asset manager had concerns on the new management capacity to set a clear strategy. The firm's ongoing social and governance concerns combined with the uncertainty created by a new potential ownership, ultimately led to the asset manager's decision to divest.

Engagement outcome after vote escalation
Led by LGIM (passive listed equity manager)

Context: As one of the largest public energy companies in the world, this investee company's climate policies, actions, disclosures, and net zero transition plans have the potential for considerable influence across the industry as a whole, and particularly in the US. However, the asset manager identified several areas for consideration, namely: lack of scope 3 emissions disclosures (embedded in sold products); lack of integration / a comprehensive net zero commitment; lack of ambition in operational reductions targets and lack of disclosure of climate lobbying activities.

Action: The asset manager engaged regularly with the company, focusing on minimum expectations under the Climate Impact Pledge. The asset manager found that the improvements made were not sufficient, which resulted in applying an escalation strategy.

The asset manager's first step was to vote against the re-election of the Chair as provided in the asset manager's Climate Impact Pledge. Subsequently, in the absence of further improvements, the asset manager placed the energy firm on its "Climate Impact Pledge divestment list" in 2021. In terms of further escalation via voting, in 2022 the asset manager supported two climate-related shareholder resolutions (i.e. voted against management recommendation) at the AGM, reflecting the continued wish for the company to take sufficient action on climate change in line with minimum expectations. One resolution passed, obtaining 51% of votes in favour, while the other proposal saw a significant level of dissent against management with 27.1% votes in favour of it.

Outcome: Since 2021 the company has started to be more engaged with shareholders as it disclosed its scope 3 emissions (estimated), a 'net zero by 2050' commitment (for scopes 1 and 2 emissions), set interim operational emissions reduction targets and improved disclosure of its lobbying activities.

Nonetheless, this progress has been deemed insufficient for an energy company of this scale and the asset manager decided to retain the company in its Climate Impact Pledge divestment list, which is expected to result in a gradual reduction in the size of their holding and no further investment.

Child labour violations in Developed Markets
Oak Hill Advisors (global leveraged finance manager)

Context: U.S. officials said the Labour Department had seen a nearly 70% increase in child labour violations since 2018, including in hazardous occupations. During 2022, 835 companies were found to have violated child labour laws in the U.S. territory. One of these companies included a borrower in our leveraged finance portfolio since this company was under investigation from the U.S. Department of Labour for allegations of child labour at several of its plants.

Action: The asset manager engaged with this company's current and previous sponsors to be assured this was an isolated incident and that adequate procedures and monitoring would be put in place going forward.

Outcome: The company is a large private employer with over 10,000 employees across the U.S. Results of the U.S. Department of Labour investigations confirmed violations were perpetuated across eight states with over 100 teenagers involved. Whilst the borrower prohibits in its policy the employment of anyone under the age of 18, asset managers at local plants did not properly apply the mandated controls and verifications during the hiring process and, at times, misrepresented employees' data in the internal records. These wrongdoings are generally hard to detect and can only be identified via site audits. Ultimately, upon further review, our asset manager decided to sell the asset in our portfolio and believes lessons from this incident will help inform future pre-investment due diligence, ongoing monitoring, and engagement with companies with similar ESG risk factors.

Systemic risks and public policy engagement

As an asset owner with investments across different jurisdictions and asset classes, systemic risks could directly impact our ability to fulfil our goal of providing pension benefits to members if they are not monitored and addressed adequately.

In addition to ESG-related systemic risks, the Fund is exposed to the broad array of financial, political, and geopolitical risks typical of the financial industry. Recent events have highlighted how changes in the global economic environment since the Covid-19 pandemic can have immediate material impacts on financial markets and their participants.

Moreover, we recognise that without action from governments and policy makers, we will not be able to achieve real economy decarbonization. Hence, it is necessary to continue to develop the Fund's direct and collective engagement endeavours to support policy and regulation relevant for achieving global net zero emissions by 2050 or sooner.

Case study

Examples of our engagements on systemic risks and public policy

Engagement on liquidity risk with regulators

Context: The DWP Climate Change regulations relating to pension schemes do not include specific guidelines for disclosures with respect to LDI mandates. We have frequently questioned our LDI asset manager on the approach that other pension schemes were taking to address this topic and the advice they were able to source from the regulators through their engagements.

Action: Our LDI asset manager offered to host a roundtable discussion with representatives from other large DB pension schemes on climate-related disclosures for LDI mandates, and more broadly on the consideration of LDI with respect to net zero. The discussions led to a follow-up meeting with the same group, to which both the DWP and the Pensions Regulator (TPR) were invited.

Outcome: The DWP and TPR joined the roundtable discussion and offered some clarification with respect to climate-related disclosures for LDI mandates. Along with our peers, we have shared thoughts and asked questions to the regulators on the broader net zero strategy and highlighted the importance of increased collaboration of regulators with DB pension schemes given they are the biggest lenders to the UK Government. We will be looking to continue discussions and receive further feedback from regulators on concerns we raised.

Engagement on liquidity risk with regulators

Context: With central banks in most developed markets raising interest rates to tackle inflation, liquidity has been significantly tightened after more than a decade of zero and negative rates. This increase in rates may impair borrowers' capacity to repay whilst reducing the liquidity available to those financial institutions that have not managed interest rate-related risk adequately. The gilt crisis, which followed the UK Government's "mini-budget" in September 2022, evidenced the need for the pension fund industry to work together with regulators to improve liquidity and reduce leverage to levels which better reflect market conditions and structural dynamics.

Action: We maintained regular dialogue with our LDI asset manager on the actions they were taking to improve industry standards in relation to the robustness of collateral buffers to support LDI derivative positions. Subsequently, we provided feedback on how our LDI asset manager could engage with key institutions such as the DWP and the Bank of England (BoE) on improving resiliency across the whole industry.

Our LDI asset manager maintains regular dialogue with UK Governmental bodies including the BoE, the UK Debt Management Office (DMO), TPR and the Financial Conduct Authority (FCA). During the recent gilt crisis, these conversations intensified in frequency, particularly with the BoE. Our LDI manager shared information on client intentions (both to raise collateral and asset execute in the gilt market, including expected market impact), expected utilisation of the financial stability facility and potential solutions to deal with the crisis in both the short and long term.

Outcome: The BoE ultimately took several steps during September and October 2022 with the intention of stabilising the gilt market. The input they received from our LDI asset manager, as well as other LDI asset managers, is highly likely to have impacted the steps they took.

Supporting the sustainability of financial markets

Context: The DMO maintains responsibility for debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. In 2012, the EU's financial markets regulator and supervisor, ESMA (European Securities and Markets Authority) brought into force the European Market Infrastructure Regulation (EMIR). Its purpose was to enhance the transparency of derivative markets and assist in reducing risks to financial stability.

Action: Our LDI asset manager maintains regular dialogue with the DMO to share insights and information in relation to gilt issuance and current market conditions. The lead orders from the large LDI programs they have executed, have been key inputs into the DMO's decisions on which categories of gilts to sell.

Our asset manager also engaged directly with the UK DMO on its inaugural green gilt issuance and following the introduction of the UK Government's first green gilt, they continued their engagement with the UK DMO during 2022 on impact issuance. They discussed several topics, including impact reporting on green gilts and potential future sustainability-linked bond issuance.

Since the inception of the EMIR, our LDI asset manager has recognised that the pension scheme exemption is valuable to its clients and has been at the forefront of their discussions with EU and UK authorities. Since Brexit created a UK pension scheme exemption, our LDI asset manager has actively liaised with UK regulators and policymakers to press for an extension to the exemption in the UK – preferably on a permanent basis.

Outcome: Most notably, in September 2022 and in conjunction with the PLSA, our LDI asset manager held a roundtable event with the UK Government Treasury department, which allowed several large UK pension schemes and the PLSA to discuss the need to extend the UK pension scheme clearing exemption, ideally permanently, with UK policymakers. In March 2023, the Treasury announced a two-year extension of the exemption to June 2025. More broadly, we believe that the sustainability of markets is a key responsibility of market participants and our LDI asset manager has been active in attempting to influence outcomes in many areas (e.g. the LIBOR transition via International Swaps and Derivatives Association (ISDA), green gilts clearing exemption for UK pension funds and RPI (Retail Prices Index) reform).

Addressing investment related impact from the Russian invasion of Ukraine

Context: In addition to the tragic toll on lives and communities, the Russian invasion of Ukraine in February 2022, also impacted global economic growth and the supply chain of fundamental commodities. Impacts of the invasion are expected to have continual effects on the global economy which, together with higher interest rates, are reflected in lower evaluation of holdings across all asset classes, with a few exceptions linked to specific industries.

Action: Immediately following the invasion, we directly contacted all our asset managers to assess the Fund's direct and indirect exposure to Russian equity and debt issuers. The Fund's exposure was in two of our listed equity mandates, and the emerging market debt mandate. Additionally, once sanctions were introduced, our focus was to ensure immediate compliance with the regulatory obligations imposed.

Outcome: We decided that where regulatory sanctions permitted, we would divest according to the changing landscape of restrictions and sanctions imposed on securities from Russian issuers. Our listed equity asset managers attempted to fully exit from impacted securities, however, settlement in these stocks was not possible. In line with the index provider, price stocks denominated in the Russian Rouble currency were marked down to zero. Reduction of Russian exposure in our emerging market debt mandate required us to closely liaise with our asset managers on a case-by-case basis while monitoring the evolvement of imposed sanctions relevant companies withdrawing from their Russian businesses and relationships. The asset manager was able to exit from one of the positions however was unable to do so for two remaining corporate bonds and the Russian government bonds.

We continue to monitor and review our exposure to other risks, such as cyber security, biodiversity loss and corruption, that may only have a local/issuer level impact but may in the future become more relevant globally.

As a large asset owner, we recognise the strength of our influence not only affects idiosyncratic risk within the Fund, but also drives systemic and market-wide change for the benefit of all stakeholders. As such, we endeavour to actively engage with financial industry participants and participate in initiatives where we have expertise and an opportunity to make a lasting impact on the wider ecosystem.

2.4. Voting

Approach to voting

Another key lever we use to influence investee companies is shareholder voting. By investing via segregated mandates across all our listed equity portfolios, we retained the right to directly exercise the voting rights attached to our holdings. Where possible, we use voting rights to encourage responsible long-term behaviour by the companies in which we invest. We view voting as an important investor right which allows us to express our position on critical issues (e.g. topics related to our engagement stewardship priorities).

We approach voting through a systematic and rigorous process which encompasses research and vote recommendations provided by our proxy voting adviser, Institutional Shareholder Services (ISS), and our passive equity external asset manager, LGIM. We also consider views from our other asset managers, who can often provide an insightful perspective gained through direct engagement with companies included in our portfolios. We vote in the best interests of the Fund's members, in alignment with our RI policy, and apply judgement when considering whether to follow LGIM, ISS or our asset managers' recommendations.

The Fund's allocation to listed equities has significantly decreased in recent years due to de-risking. As a result of the benchmark update for the passive portion of our listed equities portfolio, the number of stocks decreased from c.2100 to c.400, which means that with a reduced universe of companies in the equity portfolio, we have fewer opportunities to deliver change in any given year. Engagement has become even more important for us, and we have therefore persistently encouraged our asset managers to deliver evidence of their meaningful and effective stewardship activities.

The decrease in allocation to listed equities has also led us to re-visit the rationale behind our stock lending programme. Having considered this issue in detail, including its impact on the voting process, we reached a decision in March 2023 to discontinue the stock lending process. Our intention is to cease all lending activities by the end of 2Q 2023.

Significant votes

We pay particularly close attention to votes that we deem to be significant. When determining which votes are considered significant, we assess several criteria including those outlined by the PLSA. Through a methodical filtering process allowing consistent treatment for companies which may be held in more than one mandate, we narrow down the votes that are to undergo further scrutiny, ultimately selecting those that make up the significant votes category.

In summary, votes with the following criteria (reviewed annually), are considered significant (it is worth noting that this list is not exhaustive, and it is possible that a theme, issue, or company that was not previously considered significant has risen up the agenda by the time voting decisions are taken):

- high-profile or controversial votes – this includes votes with a significant level of opposition from investors to a company resolution, a significant level of support for an investor resolution, or a level of media interest
- votes with potential financial implications – some votes may be considered to have a material impact on future company performance
- votes with a potential impact on a stewardship outcome
- votes relating to an identified conflict of interest with the Trustee's asset managers
- votes in non-listed equity asset classes.

In addition to votes fulfilling the criteria outlined above, we also consider as significant and pay substantial attention to votes pertaining to our stewardship priorities.

2022 proxy voting - highlights and statistics

Governmental and pension industry focus on stewardship and ESG topics, in particular climate change, gained momentum in 2022. The number of environmental and social proposals increased. For instance, the US saw a record number of shareholder proposals on environmental and social issues filed in 2022. The SEC's November 2021 guidance on shareholder proposals widened the scope of permissible proposals that address significant social policy issues. This has led to broader environmental and social proposals, including some of lesser quality and relevance, going to a vote.

Alongside the increased scope of climate change resolutions, we observed last year that concerns on climate moved beyond shareholder proposals, and were often reflected in votes against directors' re-election, approval of annual reports or executive compensation.

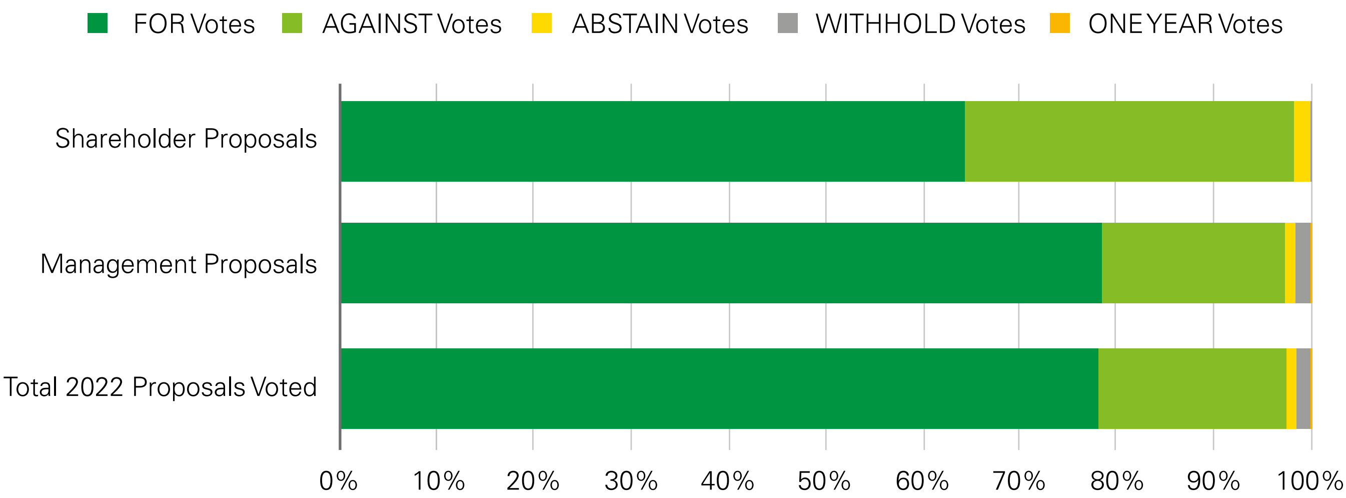
The number of proposals requesting independent civil rights and non-discrimination audits significantly increased in the U.S. We supported several resolutions which requested independent audits of diversity, equity, and inclusion practices (DEI).

Within the US market, we noted a rise in anti-ESG shareholder proposals, though from a very low base. These proposals are usually submitted by groups or individual activists that oppose the work of "pro-ESG" investors. As the intent behind most of these proposals is less to offer a constructive path to change and more to disrupt ESG progress achieved so far, they had to be reviewed thoroughly to fully understand the context in which they were presented.

Voting statistics

The tables below examine our voting statistics over the reporting period*. During the reporting period, from 1 January 2022 to 31 December 2022, we voted on 27,620 proposals, accounting for 99.2% of all votable proposals. We voted in favour of 21,578 (77.5%) resolutions, voted against 5,335 (19.2%) resolutions and, abstained, withheld, or voted on "one year" items for the balance.

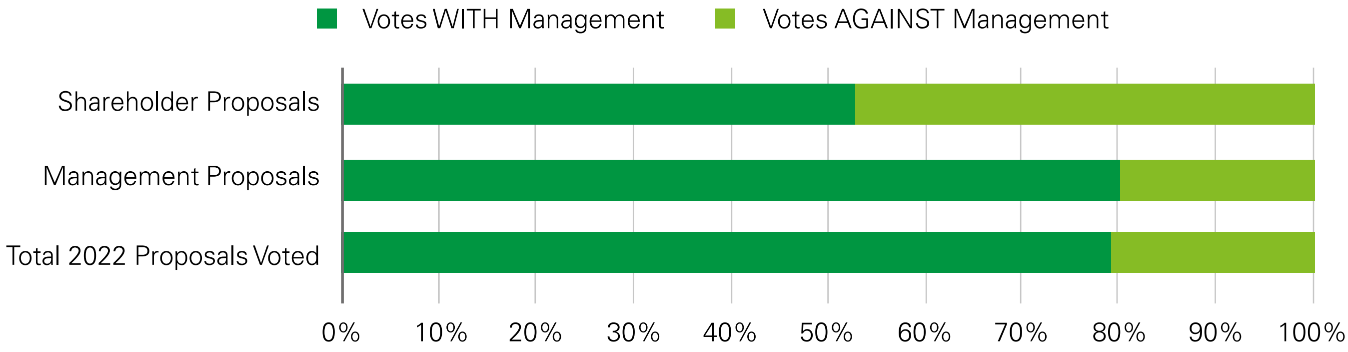
We voted against management on 5,773 resolutions (20.7% of total). Of these, 5,335 (92.8.%) resolutions were management proposals.



	Total 2022 Proposals Voted	Management Proposals	Shareholder Proposals
FOR Votes	21,578	21,009	569
AGAINST Votes	5,335	5,036	299
ABSTAIN Votes	273	259	14
WITHHOLD Votes	419	418	1
ONE YEAR Votes	15	15	0

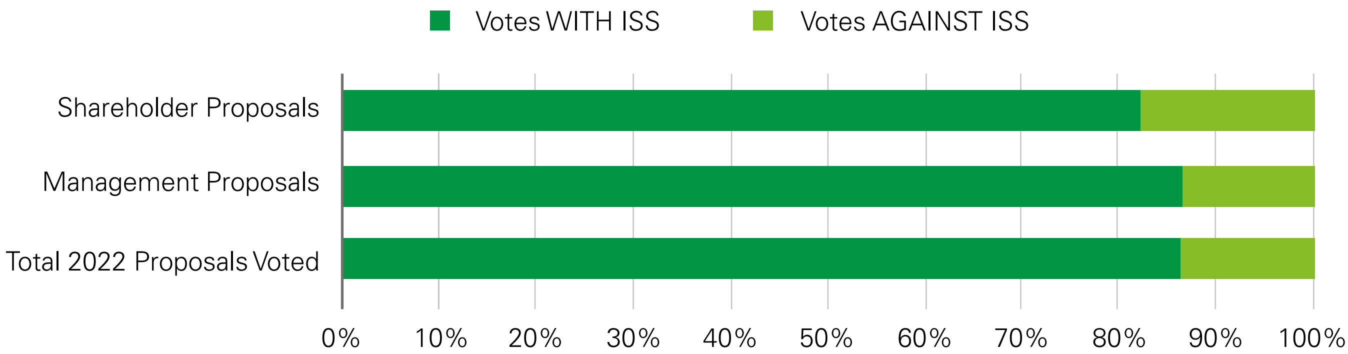
Visual 10: Summary of total proposals voted in 2022 based on ISS data

[6] These statistics are our best estimates due to a number of challenges with the data provided from ISS. We cleaned the data to remove duplicate resolutions when the same company was held by two or more of our asset managers, we also removed the proxy cards on which we did not vote during proxy contests, non-votable proposals, and a legacy custodian account.



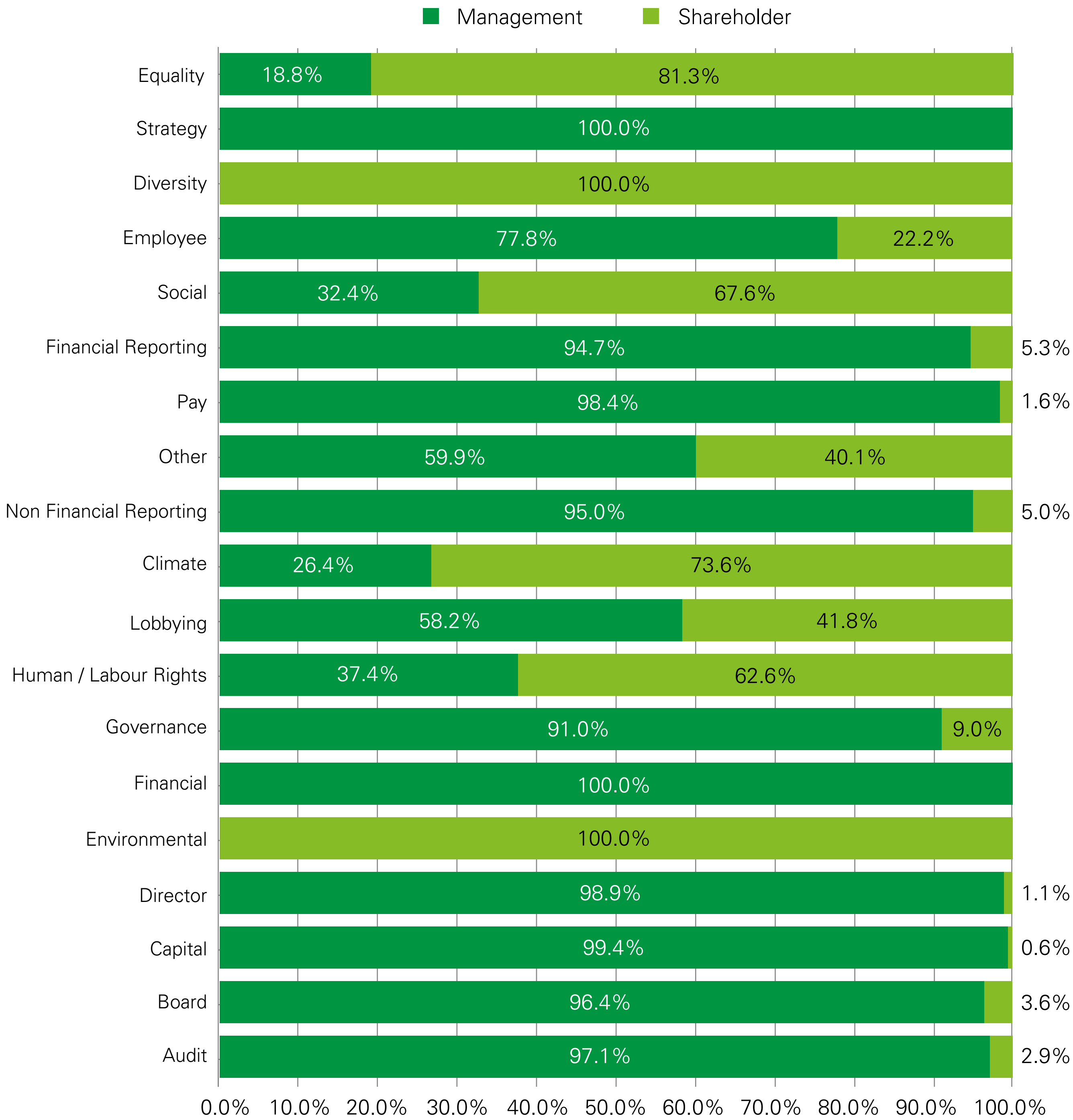
	Total 2022 Proposals Voted	Management Proposals	Shareholder Proposals
Votes WITH Management	21,847	21,382	465
Votes AGAINST Management	5,773	5,355	418

Visual 11: Summary of votes with and against Management based on ISS data



	Total 2022 Proposals Voted	Management Proposals	Shareholder Proposals
Votes WITH ISS	23,799	23,074	725
Votes AGAINST ISS	3,821	3,663	158

Visual 12: Summary of votes with and against ISS based on ISS data



Visual 13: Proportion of total management and shareholder resolutions voted in 2022 (based on internal vote categorisation and ISS statistics)

Case study

Examples of our significant votes on Climate Change

The Travelers Companies

The non-profit foundation As You Sow has put forward a shareholder resolution requesting the insurance company, The Travelers Companies, to report on efforts to measure, disclose and reduce GHG emissions associated with their underwriting activities. The resolution stated that Travelers lagged its peers on climate change as Travelers has not joined the Net Zero Insurance Alliance, does not measure, and disclose financed emissions, and has not adopted emissions targets that are aligned with the Paris Agreement goal of limiting warming to 1.5 degrees Celsius. In line with the Trustee's climate change theme, we voted in favour of this resolution to signal that Travelers should seek to further assess and manage climate risks from its underwriting, investment, and insurance activities.

The management was against this proposal. This proposal passed, receiving 55.2% votes in favour, 43.7% votes against, and 1% abstentions.

Royal Dutch Shell Plc

A shareholder resolution filed by the consortium of shareholders, coordinated by Follow This, requested the company to set and publish targets that are aligned with the goal of the Paris Agreement., which is to limit global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. Moreover, it was asked that these quantitative targets should cover the short-, medium-, and long-term GHG emissions of the company's operations and the use of its energy products (scopes 1, 2, and 3). We noted that the Climate Action 100+ says that Shell's targets are not aligned with 1.5°C. Considering the company's progress in its energy transition strategy, primarily around disclosure and the strengthening of its interim emissions reduction targets, in addition to the constructive ongoing engagements by one of our asset managers, LGIM, with the company in pursuing its alignment with the 1.5°C trajectory, we decided to not support the resolution.

The management was against this proposal. The level of dissent against management was significant, with 20.3% of votes in favour of this resolution and 79.7% against it.

JPMorgan Chase

The Sierra Club foundation has filed a proposal requesting JPMorgan Chase to issue a report that sets absolute targets for financed GHG emissions in accordance with the United Nations Environment Programme Finance Initiative (UNEP FI) recommendations to the G20 Sustainable Finance Working Group. We voted against this shareholder proposal as we observed that the bank has established financed emissions carbon intensity targets, which appear to be the industry standard according to ISS. We noted that the UNEP FI recommendations mention the absolute contraction approach as one of several approaches to measure and deploy portfolio emissions reductions. As such, we found this resolution to be too prescriptive.

The management recommended to vote against this resolution. This proposal gathered 15.3% votes in favour of it, 83.1% against it, and 1.6% abstentions.

Case study

Examples of our significant votes on human rights

Meta Platforms

Shareholders put forward the resolution requesting the social media company, Meta Platforms (previously Facebook) to publish an independent third-party human rights impact assessment (HRIA), examining the actual and potential human rights impacts of Facebook's targeted advertising policies and practices throughout its business operations. The company has received intense media backlash over the use of its targeted advertising to discriminate against marginalised groups, according to ISS. We supported this proposal as it would enable shareholders to better assess Meta's management of risks related to its targeted advertising policies and practices.

The management was against this proposal. The level of dissent against management was significant, with 23.8% of votes in favour of this resolution. The remaining votes, 76.2%, were against the resolution.

Twitter

Arjuna Capital put forward a resolution to interactive media company, Twitter, requesting a nomination at the next Board election at least one candidate who: (a) has high level of human and/or civil rights experience and is widely recognized as such as determined by the Board, and (b) will qualify as an independent director within the standards of the New York Stock Exchange. Consistent with the Trustee's human rights theme, we voted in favour of this resolution, as we did the previous year, given we felt that an independent director with the appropriate skills and background covering ethical issues would assist the board in navigating such complex issues.

The management recommended to vote against this resolution. This proposal gathered 14.8% votes in favour of it, 84% against it, and 1.2% abstention.

Apple

We voted in favour of the shareholder resolution requesting the company to prepare and publish a report on the extent to which Apple's policies and procedures effectively protect workers in its supply chain from forced labour, including the extent to which Apple has identified suppliers and sub-suppliers that are at significant risk for forced labour violations, the number of suppliers against which Apple has taken corrective action due to such violations, and the availability and use of grievance mechanisms to compensate affected workers.

The company provides extensive disclosures on its policies and procedures regarding how it aims to prevent forced labour in its supply chain, including several independent audits conducted, according to ISS. However, in June 2021, the Chairs of the Congressional-Executive Commission on China issued a statement saying that there was "mounting evidence" that Apple's supply chain was implicated in forced labour in China.

The management recommended voting against this resolution. The level of dissent against management was high, as 33.7% of votes supported this proposal. The remaining, 66.3% of votes, were against this resolution.

General Motors Company

The National Legal and Policy Center (NLPC) has submitted a proposal requesting that the company report on the extent to which its business plans with respect to electric vehicles may involve, rely, or depend on child labour outside the United States.

Cobalt is a metal currently used in most electric car batteries. According to Amnesty International more than half the world's cobalt comes from the Democratic Republic of Congo, where Amnesty has documented children and adults mining in perilous conditions. We voted in favour of this shareholder proposal as we wanted to encourage the company to provide additional information on its efforts to eliminate child labour from its supply chain.

The management was against this resolution. The level of dissent against management was significant, 23.5% of shares, split between 22% of in favour of this resolution and 1.4% abstaining. The remaining votes, 76.5%, were against the resolution.

Case study

Examples of our significant votes on board effectiveness

Alphabet

Arjuna Capital has submitted a proposal requesting that Alphabet report on the company's steps to increase gender and racial board diversity, specifically to report on the company's policies and practices to help ensure its elected Board of Directors attains racial and gender representation that is better aligned with the demographics of its customers and/or regions in which it operates. We supported this proposal as we consider diversity and inclusion issues to be a material factor to companies.

The management advised voting against this resolution. 5.2% of votes were in favour of this proposal, 94.4% against, and 0.4% abstention.

Kansai Electric Power Co (KEPCO)

This resolution was put forward by shareholders to electric utilities company Kansai Electric Power Co (KEPCO) requesting amendment of the articles to reduce the maximum board size and require majority outsider board, flagging potential governance issues. Consistent with the Trustee's board effectiveness theme, we voted in favour of this resolution, as we did the year before, as we consider a smaller board comprised of majority independent non-executive directors leads to better shareholder outcomes.

The management was recommending voting against this resolution. 16.7% of shares voted in favour of it, 82.0% against it, and 1.3% abstained.

Expedia Group

We withheld our votes for several directors' election*, including all incumbent compensation committee members due to the issue of overboarding, and egregious compensation-related decisions given misalignment between executive compensation and company performance. We expect companies to obtain annual shareholder approval of executive directors' pay and a sufficient portion of awards to be assessed against performance conditions to ensure alignment of remuneration with company performance. We also expect directors to hold limited external roles, especially if they hold a full-time job, to ensure they can undertake their duties within the company effectively.

The management advised voting for all seven directors' election. We withheld from voting for six of these directors, four of which gathered significant dissenting votes, with votes against them ranging from 43.6% to 52.5%, and two of them receiving few dissenting votes, with votes against them of 2.4% and 7.1%, respectively. All the remaining votes were in favour of their election.

* Directors at Expedia, like in many US companies, are elected by plurality vote which means that the winning candidate only needs to get more votes than a competing candidate. As directors ran unopposed at Expedia's AGM, they only needed one vote to be elected. While a vote against is meaningless in this case, shareholders have the option to express dissatisfaction with a candidate by indicating that they wish to "withhold" their vote to elect said director. It is effectively an "abstain" vote.

2.5. Reporting

We regularly report on our responsible investment activities to the Trustee board and relevant committees.

In compliance with regulations, we publish our annual implementation statement which is included within the Fund's annual report and financial statements. In line with the DWP Climate Change regulations, aligned with the Task Force on Climate-related Financial Disclosures, we published our first climate change report in July 2022.

All regulatory reports, as well as relevant policies are available via the Fund's website PensionLine.

2.6. Assurance of our stewardship approach

Our use of independent specialist advisers means we receive impartial assurance with regards to our stewardship practices and useful insights into best practice, potentially leading to enhanced approaches and delivery. We periodically seek external assurance that the guidelines set out in the RI policy are put into practice and enable effective stewardship.

We continue to engage with our peers and perform internal research to ensure our stewardship approach is in line with asset owner best practice and any areas for improvement.

Examples of how we have sought assurance include:

- when initiating our RI policy, we consulted with our strategic adviser Redington and an independent specialist RI adviser.
- we have a formal periodic review process to ensure our investment policies are kept up to date, remain fit for purpose and reflect our stewardship and responsible investment ambition.

As the area of stewardship and responsible investment delivery assurance develops, we continue to use independent insights to identify ways by which we can enhance our approach to ESG integration and to stewardship.

Those external advisers have also read this report in draft and provided input and comments. With the support of the assurance that this gives us, the Trustee is content that this report summarizes our stewardship activities and outcomes in an accurate, clear, and informative way.

Looking ahead

As responsible and active asset owners, we are committed to investing our assets in the best interests of our members, with consideration for the long-term implications of our investment decisions on the environment and society as a whole.

With this report, we hope to have shed light on the progress we have made so far and are seeking to continue to make on this stewardship journey. We are pleased with the work we have done over the reporting period to further enhance our approach to stewardship and responsible investment. This includes the Fund expanding dedicated responsible investment resource, which means we have the necessary capacity and accountability for monitoring and improving our approach.

We believe that the significant improvements we made over the course of 2022, for example with respect to the annual responsible investment asset manager monitoring process, provide a powerful means of progressing the effectiveness of ours and our asset managers' stewardship activities. Moreover, while our responsible investment approach covers the full range of material ESG issues, we expect our three key stewardship themes of climate change, human rights, and board effectiveness to continue to encourage us to be targeted in our approach and have a clear focus for the long-term sustainable outcomes that we want to achieve.

Although we have made meaningful improvements to our stewardship approach this year, we know that effective stewardship relies on an attitude of continuous improvement. One of the areas of focus for us is expanding our activities with respect to material sustainability related risks and opportunities. We recognize and support the emerging concept of macro stewardship and the importance of asset owners and asset managers increasing their direct and collaborative engagement efforts with governments, public sector, and civil society. By addressing wider, systemic issues, we can aid in improving the outcomes not just for our members but for the whole economy.

We look forward to further advancing our stewardship approach and sharing in future reviews the improvements that we make and the outcomes that we manage to achieve.

Appendices

Glossary

Asset Manager(s)	BPIM and/or the external organisation(s) appointed to manage investment mandates on behalf of the Fund.
Board of Directors to BP Pension Trustees Limited (The Board/The Trustee Board)	The Board ensures the appropriate processes, systems, people, and procedures are in place to manage the Fund, its investments and risks that arise, in line with its duties, powers and discretions.
BP Investment Management Limited (BPIM)	BPIM is the Fund's internal asset manager, responsible for managing the property and private equity mandates on behalf of the Fund. BPIM is an FCA regulated, wholly owned investment management subsidiary of the Trustee.
BP Pension Fund (The Fund)	The Fund is a UK defined benefit, occupational pension scheme, whose corporate sponsor is BP p.l.c. (bp). The purpose of the Fund is to provide benefits as set out in the Fund's Trust Deed and Rules, for approximately 60,000 members.
BP Pension Trustees Limited (BPPTL/The Trustee)	BPPTL is a wholly owned subsidiary of BP p.l.c. and is responsible for paying pensions and other specified benefits in accordance with the Fund's rules and relevant legislation, and administering the Fund while fulfilling all relevant duties, considering the interests of all relevant stakeholders, and acting with prudence and reasonableness as the role entails.
BP p.l.c. (bp)	BP p.l.c. is the organisation that had initially set up the defined benefit pension scheme, and they are the corporate sponsor of the Fund, which means it would be responsible for supplementing the benefits due to members and their dependants if there was a shortfall in those available through the Fund.
CDP	The CDP is a not-for-profit charity formerly known as the Carbon Disclosure Project, which runs a global disclosure system to help investors, companies, cities, states, and regions to report and manage their environmental impacts.
Code of Conduct	A principles-based guide as to how the Fund's employees work, and was established by our sponsor, bp.

Defined benefit (DB)	A type of pension scheme under which an employer or sponsor promises employees a specified pension payment, lump-sum, or a combination of these on retirement. The benefit is calculated by a formula based on the employee's earnings history, tenure of employment and age.
Environmental, social, and governance (ESG)	The categories under which investors classify non-financial risks and/or opportunities which would have the potential to affect an investee company or issuer's business model and value drivers, thereby affecting its financial performance and subsequently the value of the investment.
Financial Conduct Authority (FCA)	The FCA is the UK's regulatory body responsible for regulating the conduct of financial services providers, investment firms and consumer credit firms to ensure that UK financial markets are honest, competitive, and fair.
Financial Reporting Council (FRC)	The FRC regulates auditors, accountants, and actuaries, and sets the UK's Corporate Governance and Stewardship Codes. The FRC promotes transparency and integrity in business, and its work is aimed at investors and others who rely on company reports, audit, and high-quality risk management.
Green House Gas (GHG) emissions	Gases that trap heat in the atmosphere, with the main ones being carbon dioxide (CO2), methane, nitrous oxide, and various synthetic chemicals.
Member(s)	The members of the Fund comprise current and former employees of bp and their dependants.
Paris Agreement	A legally binding international treaty on climate change which was adopted by 196 parties in 2015. The goal of the Agreement is to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels" and pursue efforts "to limit the temperature increase to 1.5°C above pre-industrial levels." In recent years, world leaders have stressed the need to limit global warming to 1.5°C by the end of this century.
Pensions and Lifetime Savings Association (PLSA)	The main UK body which brings together the pensions industry and other parties to raise standards, share best practice, and support their members. Their aim is to help people to achieve a better income in retirement.
Principles for Responsible Investment (PRI)	The PRI is an independent international not-for-profit organisation that encourages investors to use responsible investment to enhance returns and better manage risks. It acts in the long-term interests of its signatories, the financial markets, and economies in which they operate, and ultimately the environment and society as a whole.

Responsible investment (RI)	An approach to investment which involves the consideration of environmental, social and governance issues when making investment decisions and influencing investee companies and/or issuers (known as active ownership or stewardship). This approach complements traditional financial analysis and portfolio construction techniques.
Responsible Investment policy (RI policy)	The RI policy supplements the Fund's SIP. It covers the Trustee's approach to responsible investment and incorporates our voting policy and climate change policy.
Statement of Investment Principles (SIP)	A legally required document for pension schemes that comprises a written statement of the investment principles governing decisions about investments.
Task force on climate-related financial disclosures (TCFD)	A task force comprising members from across the G20, convened by the Financial Stability Board to develop recommendations on the types of disclosures companies should make to support investors, lenders, and insurance underwriters in appropriately assessing and pricing risks related to climate change.
Trust Deed and Rules	The Fund's governing documentation.

Links to referenced documents

Statement of Investment Principles →

2022 Implementation statement →

Responsible Investment policy (includes Climate Change and Voting policies) →

Net Zero Ambition statement →

2022 Climate Change report →

bp Code of Conduct (including section on conflicts of interest) →

Important information

The information contained in this report may cover general activity on stewardship, investments, voting, responsible investment, climate, ESG, including opinions, prospects, results, forward-looking statements. Use of forward-looking terminology using words such as 'may,' 'believe', 'aim', 'will,' 'should,' 'expect,' 'anticipate', 'seek', 'intend', or the negatives thereof or other variations (together, 'forward-looking statements') are not a reliable indicator of performance of the Fund. There can be no assurance that any of the matters set out in these forward-looking statements are attainable, will actually occur or will be realised or are complete or accurate.

The Trustee has prepared this report for the Fund based on internally developed data, publicly available information, and third-party resources with whom it has contractual relationships. Although we believe the information obtained from third party sources to be reliable, it may not be independently verified, and we cannot guarantee its accuracy or completeness.

Contact details:
BP Pension Trustees Limited
Chertsey Road
Sunbury-on-Thames
Middlesex
TW16 7BP

bpPensionFundRI@bp.com