BTPS

Task Force on Climate-Related Financial Disclosures (TCFD) Report 2025

www.btps.co.uk

Contents

TCFD Report 2025

About BTPS

The BT Pension Scheme (BTPS or the Scheme) is one of the largest defined benefit company pension schemes in the UK. A defined benefit pension scheme for former employees and dependents of British Telecommunications plc (BT) and some of its associated companies, the Scheme closed to new members in 2001 and to future accrual for most members in June 2018.

The Scheme's Trustee is BT Pension Scheme Trustees Limited, a corporate Trustee with ultimate fiduciary responsibility for the Scheme and its members.

The Trustee's key responsibility is to ensure that BTPS pays benefits as they fall due.

The Trustee Board has delegated responsibility for day-to-day management of the Scheme to Brightwell (a trading name of BT Pension Scheme Management Limited, a wholly owned subsidiary of the Scheme). Brightwell is the primary service provider to BTPS, subject to ongoing Trustee Board oversight. Brightwell provides a full services offering to BTPS, including executive support, advice, member services administration and investment management.

To fulfil its key responsibility, the Trustee must ensure that the Scheme is (i) adequately funded; (ii) has an appropriate investment strategy, having regard to the Scheme's liabilities, support available from BT, the sponsoring employer and the profile of its members; and (iii) is administered and run in a way which demonstrates an appropriate level of care, skill and value for money for members.

At a glance

253,693
As at 30 June 2025, there were 253,693 members

£2.9bn
Total benefits paid were £2.9bn in the year to 30 June 2025

£33.2bn
The Scheme's net assets were valued at £33.2bn as at 30 June 2025

213,616
As at 30 June 2025, there were 213,616 pensioner members

Foreword

Chair's introduction

TCFD report 2025

The goal of integrating sustainability is to reduce the range of Scheme funding outcomes and increase the resilience of meeting member benefit obligations. Robust evaluation and management of sustainability-related risks and opportunities help achieve this goal aligning with the Trustee's fiduciary duty.

We continue to believe that incorporating sustainability into the Scheme's investment approach strengthens our ability to deliver long-term outcomes for members. Too manage the risks associated with climate change, our approach is built around reducing the emissions intensity of the Scheme's portfolio, thereby improving the resilience of long term funding outcomes.

The Trustee's sustainable investment approach is designed to support the achievement of resilient, risk-adjusted returns. This year, we have made further progress, not only on our interim climate aspirations, but also in developing our thinking around other long term risks such as natural capital. These issues are often interlinked: nature loss and climate risk have the potential to compound the effects of each other and ultimately create risks to economies and companies in which BTPS invests.

While data and frameworks to manage these risks are still developing, we have taken steps to integrate them into our risk management processes, engagement priorities and investment oversight. This includes piloting portfolio-level assessments to help better identify and prioritise these potentially systemic risks within our investments.

Delivering on our ambitions will require continued collaboration with our managers, companies and policymakers. Through our stewardship activities and collaborations, we aim to help shape a more resilient and sustainable financial system.

> This report is our annual update on how we are addressing the sustainability risks facing the Scheme, and how these efforts support our core duty to pay pensions in full, as they fall due.

Jill Mackenzie

Chair of the BTPS Trustee Board

26 September 2025

Introduction

BT Pension Scheme approach

This report has been produced in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), covering the Scheme year to 30 June 2025. We have also used the TCFD framework to discuss broader sustainability-related risks and opportunities in addition to climate change.

The Trustee recognises that the interconnected systemic risks we face today, such as climate change, nature-related risks and other long-term sustainability factors, have the potential to undermine the economies and markets on which we rely to achieve the investment outcomes the Scheme needs. The goal of integrating sustainability is to reduce the range of Scheme funding outcomes and increase the resilience of meeting member benefit obligations. Robust evaluation and management of sustainability-related risks helps achieve this goal and aligns with the Trustee's fiduciary duty.

The Scheme's investments are managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits. The Trustee's approach to sustainable investment is designed to enable resilient risk-adjusted returns for the Scheme and is not a factor that would detrimentally impact investment return.

The Scheme has a long history of being a responsible investor and was a founding signatory of the Principles for Responsible Investment (PRI) in 2006. The importance placed on doing the best for Scheme members over the long-term is inextricably linked to sustainable investment and stewardship. It is a key part of how the Scheme fulfils its fiduciary duty. We believe that how and where the Scheme invests matters, and this is a responsibility we have always taken seriously.

Integration of sustainability may help to reduce the risk of permanent capital loss, and it might also provide investment opportunities. We believe that protecting the system, through collaboration, reduces the likelihood of large negative future financial impacts.

From an investment and fiduciary perspective, the risk of not considering sustainability is significant. There are growing regulatory expectations and requirements which will need to be met.

The implications of climate change are systemic with significant financial and human consequences. Climate change could financially impact the Scheme through the value of its assets. But it also provides opportunities through investments in new technologies as part of the energy transition.

Furthermore, it's becoming increasingly apparent how interconnected sustainability topics are. A key interdependency is how the climate depends on nature. Biodiversity loss, ecosystem degradation and the associated value at risk are all important considerations. Key challenges the world is facing such as freshwater provision, sustainable agricultural, regional conflicts and migration due to resource shortages could be exacerbated by biodiversity loss and ecosystems degradation. The consequences could affect supply chains, availability of resources and therefore growth of many sectors around the world. What makes natural resources particularly challenging however is the link between the reliance on them and businesses through supply chains which are notoriously complex.

The broad area of social factor risk includes human rights, modern slavery, and the use of artificial intelligence. Assessing these risks is important as they have the potential to destabilise the financial systems to which the Scheme is exposed.

Background

What are we doing about it?

In 2020, BTPS set an ambition to achieve net zero greenhouse gas emissions (absolute scope 1-3) by 2035 across its investment portfolio. The purpose of the ambition is to help improve long-term investment outcomes by reducing the material risks posed to BTPS by climate change and positioning the portfolio for decarbonisation trends. Achieving this ambition will involve both reducing emissions from the Scheme's portfolio and investing in assets that will support the transition towards a low carbon economy.

> BTPS believes that reducing exposure to carbon emissions over time should help manage investment outcomes for the Scheme and help reduce the impact of climate risks.

The BTPS net zero ambition is reliant on wider global policy action and societal change. Nevertheless, should this progress fall short of expectations and the ambition become more challenging, the directional progress should limit downside risk outcomes.

Net Zero 2035

By setting the net zero ambition the Scheme will be aligned with the Paris Agreement's goal of limiting global warming to 1.5C and achieving net zero globally by 2050.

This 15-year ambition is overseen by the Trustee Board and will be made up of 5-year targets, fully reassessed every 3 years, and tracked and publicly reported on annually through our TCFD reporting.

The Scheme's ambition is supported by four pillars:

1. Portfolio construction
2. Mandates and managers
3. Stewardship
3. Advocacy

Beneath these pillars are 20 climate actions that the Scheme is committing to.

What does net zero mean?

Net zero emissions means achieving a balance between the greenhouse gas (GHG) emissions produced and the amount removed from the atmosphere, consistent with limiting global warming to 1.5°C and neutralising the impact of any residual emissions by permanently removing an equivalent amount of carbon dioxide (CO2). For BTPS, this will mean reducing the portfolio's emissions through changing investments, engaging with holdings and investing in technologies which reduce or remove emissions.

Expanding beyond climate

BTPS has voluntarily published climate-related disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) since 2018. This report continues to meet the requirements of the Department for Work and Pensions (DWP) TCFD regulations while covering a broader set of sustainability risks and opportunities.

This report continues to be structured in line with TCFD's four pillars and now includes aligned commentary and analysis for nature and social related factors where relevant. This reflects emerging industry standards, such as from the Taskforce on Nature-related Financial Disclosures (TNFD) and the Taskforce on Inequality and Social-related Financial Disclosures (TISFD).

We recognise that data and methodologies, such as carbon accounting and metrics around nature-related impacts, are still evolving. As a result, many of the numbers used in this report are estimates and may be subject to change over time as tools, metrics and market standards develop.

What is TCFD?

Climate change is a complex issue with challenges around data and reporting As such, the Scheme supports the recommendations made by the TCFD, which aims to promote better disclosure of climate-related financial risks in order to improve understanding of the risks and opportunities of climate change.

The TCFD recommendations outline four sections for which stakeholders can report their climate-related financial risks and opportunities.

Governance
How is the organisation's Board and management assessing, managing and providing oversight of climate-related risks and opportunities

Strategy
How these risks impact the organisation's business model

Risk
What and how have risks been identified and managed

Metrics & targets
How are the risks being monitored, and have the appropriate metrics and targets been selected

Governance

This section describes how the Trustee assesses, manages and monitors sustainability-related risks and opportunities.

Trustee Board

The Trustee Board has the ultimate authority for all aspects of the Scheme's management and investment strategy, including sustainability risks and opportunities. The Trustee Board is responsible for setting the Scheme's net zero ambition and reviewing the aspiration every 3 years. The Trustee reviewed the Scheme's net zero ambition in the latest net zero deep dive in 2025 and were comfortable that it is still relevant for the Scheme.

The goal of integrating sustainability is to reduce the range of Scheme funding outcomes and increase the resilience of meeting member benefit obligations. Robust evaluation and management of sustainability-related risks and opportunities help achieve this goal and aligns with the Trustee's fiduciary duty.

Sustainability in BTPS's Investment Principles

The Trustee's Statement of Investment Principles sets out their main objective to ensure that there are sufficient assets to pay benefits to members and their beneficiaries as they fall due, and that all members and beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme.

The Trustee takes an integrated approach to the management of risk in the Scheme and invests in a manner consistent with funding a defined level of benefits, within an acceptable level of risk, and the funding obligations which BT Group (and other entities where relevant) may have, from time-to-time, to the Scheme.

To support this, the Trustee has established a core set of investment beliefs that provide a framework for consistent and effective investment decision-making.

The investment beliefs recognise the importance of being a responsible investor and includes market-related beliefs, such as those concerning the relationship between risk and return, the importance of diversification and the belief that markets can be inefficient.

Sustainability-related risk, and in particular, climate change, is specifically highlighted in the Statement of Investment Principles as it is viewed as a key, long-term risk which may have material, adverse impacts on the Scheme. The Trustee believes that reducing exposure to carbon emissions over time will help manage investment risk associated with future climate change.

The Trustee also recognises that other interconnected sustainability factors, including nature capital, could impact long-term investment outcomes, and considers these under the broader lens of fiduciary responsibility.

Governance continued

BTPS Investment Committee

The Investment Committee (IC) is responsible for strategic investment oversight and directly monitors implementation of the Net Zero 2035 ambition. The implementation of the Scheme's Net Zero 2035 ambition is managed by Brightwell on behalf of the BT Pension Scheme.

The IC identifies and assesses the main sustainability-related risks and opportunities and considers these in-line with the Scheme's investment beliefs, investment policies, risk register, contingency planning and monitoring framework.

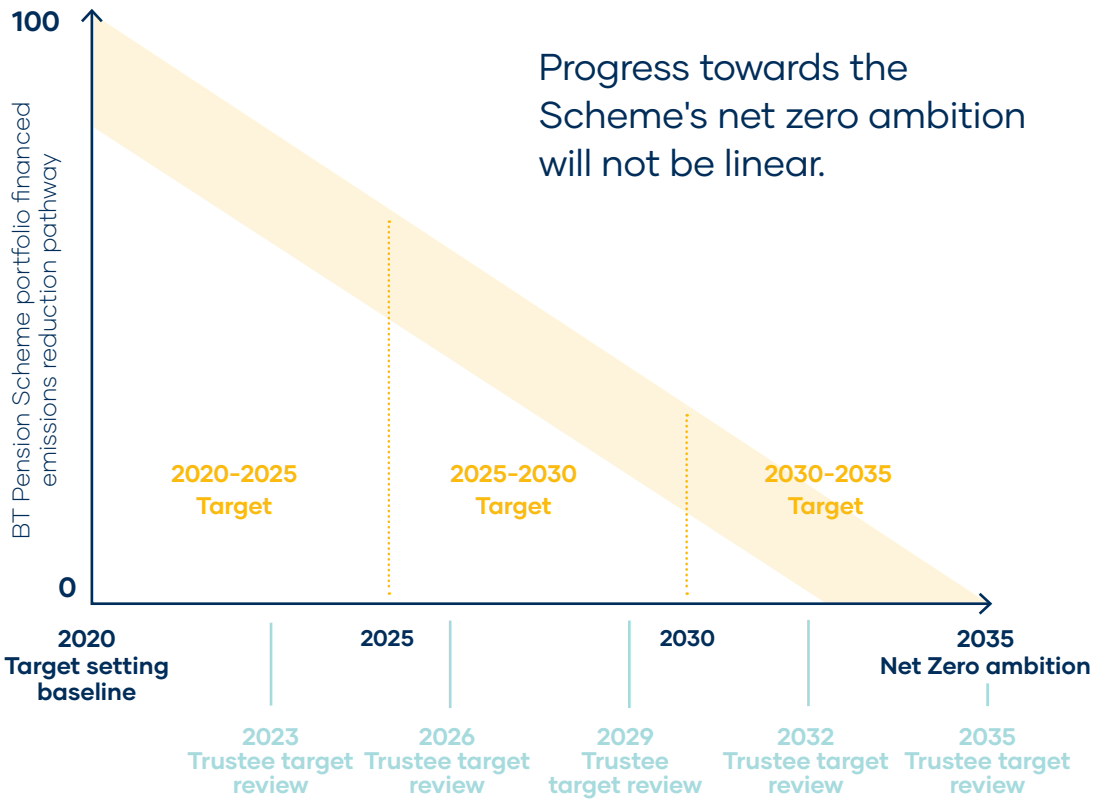
The Net Zero 2035 ambition is made up of 5-year targets, which the IC fully reassesses triennially, and the IC ensures net zero and TCFD-related activities are publicly reported annually through TCFD reporting.

At the IC's latest annual net zero deep-dive, the review confirmed that the Scheme remains on-track against its strategy and is making credible progress towards its 2035 ambition. The 5-year interim milestones and triennial review schedule remain unchanged.

In order to achieve the net zero ambition, the Scheme is reliant on wider societal progress and policy support. Different assets align with net zero on different timescales and a key aspect of implementing the Scheme's approach is to ensure there is no detriment to risk-adjusted returns. Even if global progress falls behind Paris goals, impacting the ability of BTPS to achieve its ambition, the Scheme should still be in a better place, with a portfolio less exposed to climate-related risks.

> The Board, including the IC, receives regular training to ensure that it is appropriately informed on key sustainability-related topics and can challenge Brightwell on its activities.

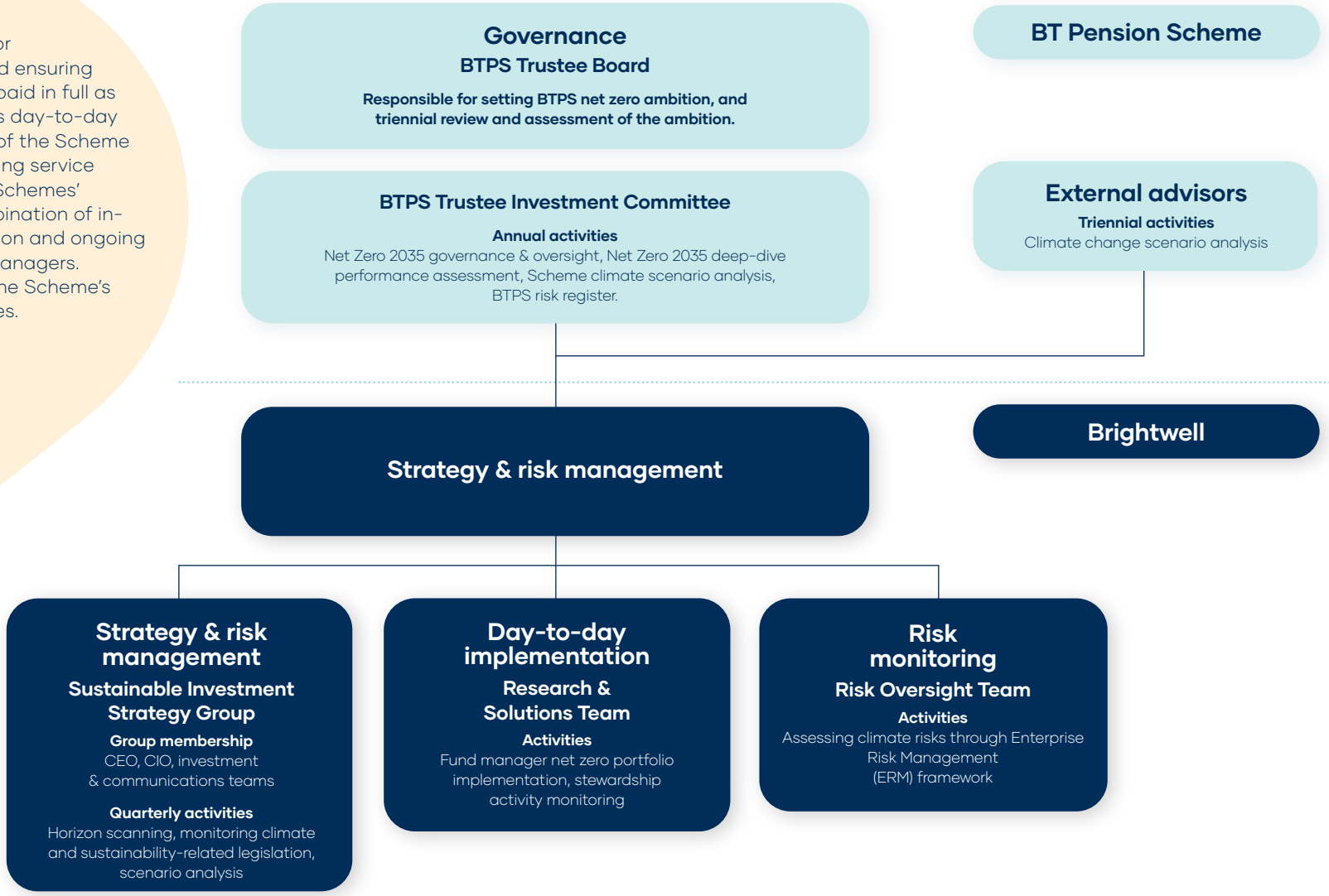
Stylised pathway to Net Zero 2035 with 5 year interim targets and review schedule



Governance continued

The Trustee is responsible for overall governance of BTPS and ensuring members' benefit payments are paid in full as they fall due. The Trustee delegates day-to-day responsibility for the management of the Scheme to Brightwell and oversees the ongoing service provision. Brightwell implement the Schemes' investment strategy through a combination of in-house management, and the selection and ongoing monitoring of external investment managers. Brightwell's services are tailored to the Scheme's beliefs, needs and specific challenges.

BTPS Sustainability Governance Structure



Governance continued

Brightwell is responsible for the day-to-day implementation of the Scheme's sustainability strategy and operates in alignment with the Trustee's sustainability objectives.

Brightwell Sustainable Investment Strategy Group

The group meets quarterly to discuss key sustainability topics with the potential to impact BTPS. The group undertakes horizon scanning of industry themes, upcoming legislation, discusses covenant materiality and digests scenario analysis information to report to the Investment Committee (IC).

This group also coordinates the day-to-day net zero ambition implementation and evaluates progress against BTPS's 20 climate actions. They also represent BTPS at the initiatives it is a member of such as the Net Zero Asset Owner Alliance (NZAOA), the Institutional Investors Group on Climate Change (IIGCC) and the Paris Aligned Investment Initiative (PAII).

The group is also key in establishing and monitoring the Scheme's short, medium and long-term climate aspirations.

Brightwell Investment Team

Brightwell takes an integrated approach to incorporating sustainable investment considerations. The investment team drives the day-to-day implementation of the net zero and sustainability strategy.

The team ensures that the external fund managers appointed to manage the Scheme's assets, integrate sustainability considerations into their investment decision-making. As almost all the Scheme's assets are managed externally, the Scheme's dedicated stewardship professional leads fund manager engagement to encourage stewardship which better manages sustainability-related risks, using engagement and voting as leverage for change, improving transition plans and obtaining better data.

The team coordinates the annual stewardship questionnaire, which managers are required to complete, and gathers a range of ESG information including strategic, mandate and issuer-related sustainability data. The responses are assessed and feedback is provided to the managers.

Finally, the team also coordinates regular training for the wider team and the Trustee on sustainability matters.

Brightwell Investment Risk Oversight Team

The Brightwell Investment Risk Oversight Team acts as an independent second line of defense with the aim of providing assurances that investment activities are performed in a robust risk-controlled environment. They oversee the application of the Risk Management framework and its related policies and procedures, report and escalate risk events, and provide an independent assurance of investment decisions and models. In relation to climate and sustainability risk, this includes maintaining the Scheme's risk register which assesses climate change and sustainability risks and their mitigants, as well as developing their use of data to monitor key metrics.

External advisors

The Trustee IC takes advice from external advisors, where appropriate. In the context of climate change and sustainability, it uses BTPS's actuarial and covenant advisers to undertake triennial climate scenario analysis on its asset, liabilities and covenant. In line with the requirements of the regulations, this work is included in the advisors' investment advice to the Scheme, and all findings are presented to the Sustainable Investment Strategy Group and Trustee IC.

Sustainability training for the Trustee and Brightwell

To ensure the Trustee Board is up-to-date with relevant climate and sustainability knowledge, and is sufficiently informed to identify, assess, manage and challenge sustainability risks, virtual and in-person training is organised by Brightwell. Recordings of training are available on the Trustee resources portal and are made available to all Brightwell employees.

To ensure that Brightwell's investment team and executives are also up-to-date with relevant information, long-term asset manager partners and other external experts are invited to present their latest climate-related thinking and activities. During the year to June 2025, the following training sessions were conducted for the Trustee Board and Brightwell investment and risk staff:

- Annual net zero deep dive (Trustee IC)
- Climate and nature-related risk horizon scanning sessions delivered by external investment managers
- Workshop on the role of the energy transition in pension investment strategy
- Training covering financial risks and opportunities arising from nature loss and associated regulatory developments.

Governance continued

Key 2025 governance progress

Each year the Trustees evaluate progress towards the Scheme's net zero ambition. In January 2025, the Trustee IC conducted its fourth net zero deep dive since the adoption of the ambition. The main conclusions of this review were:

- Climate risks continue to have the potential to negatively impact Scheme funding - monitoring and managing these risks should lead to more predictable funding outcomes
- Sustainability risks are interconnected and are often non-linear, which requires a flexible, pragmatic approach that's integrated into the wider investment process
- Since 2020, the Scheme's assets have decarbonised ahead of expectations with implementation purposely designed to avoid impairing the desired risk-return outcomes
- Expected future regulatory reporting requirements and potential investment risk materiality are leading us to evaluate natural capital and social factors as sustainability risk themes.

BTPS also considers significant global thematic risks and their potential impact on the portfolio from a bottom-up asset and sector perspective which is presented annually to the Trustee.

Global thematic risks

Four key themes were identified in 2025, emissions and sustainability being one of them:

Thematic risks	Implications	Actions
Geo-political conflicts US-China, Middle East, Russia-Ukraine	• Greater fiscal spending (& higher rates) • Supportive of 'national champions' • Increased dispersion & volatility	• Monitor & manage high risk country exposures • Adapt & evolve planned portfolio activity based on thematic outcomes
Deglobalization pressures Growing trade protectionism	• Rising costs for global supply chain • Risks of global trade fragmentation • Inflationary pressures due to supply disruptions	• Monitor tariff exposure across sector and geographies • Incorporate trade protectionism in inflation and macro scenarios
Artificial intelligence Growing economic influence	• Implications & responses regionally different • Potential leads to more social risks • Sectorial impacts are very differentiated	• Develop clearer risk and opportunity framework • Integrate into Stewardship framework
Emissions & sustainability Evolving perspectives	• Paring back to government and corporate ambitions • Increasing impact of global nationalism around climate policy • Regional disparities widening	• Monitor exposure to climate exposed regions • Monitor risk to sectors and companies with high dependencies and impacts on nature

Key 2026 focus

Follow-up work from the triennial review of the net zero ambition is our key priority. In particular, we are going to continue to:

Increase our focus on forward-looking metrics

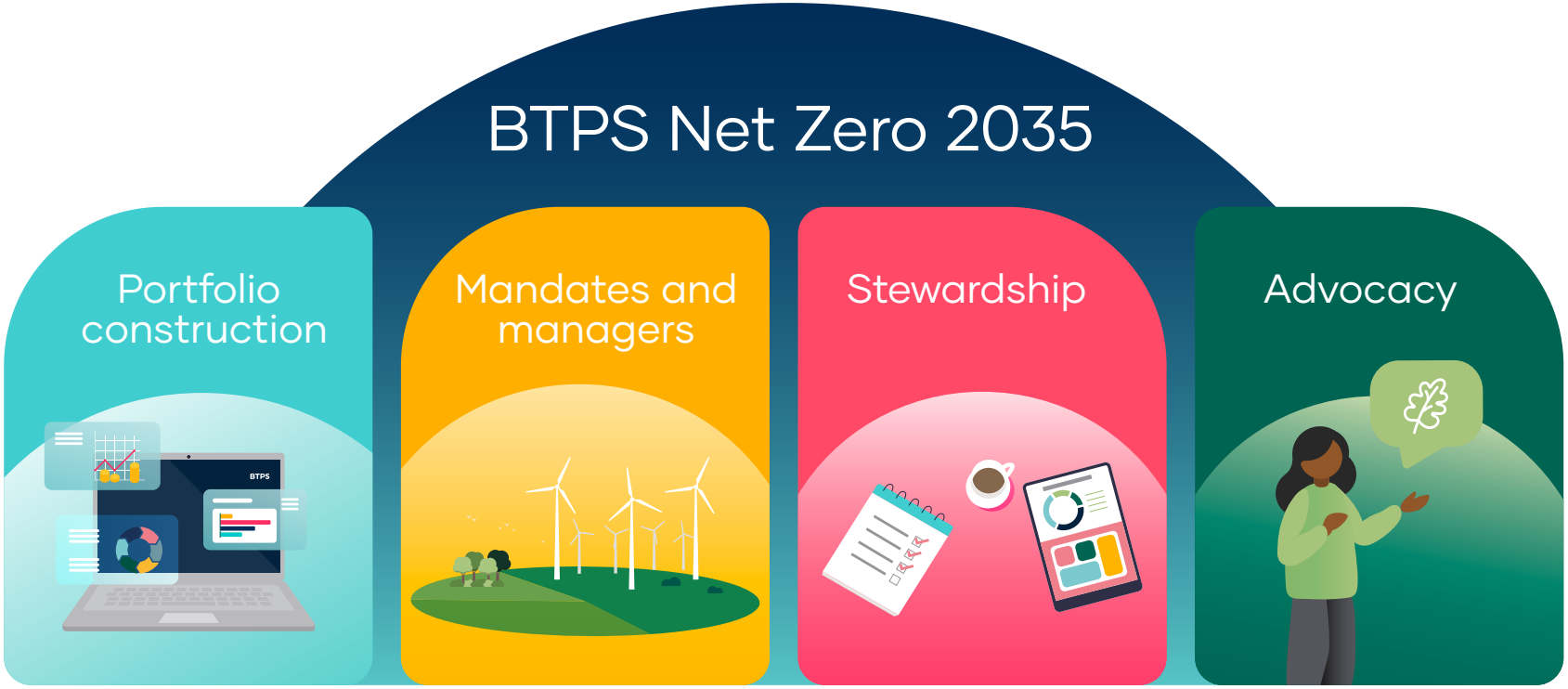
Develop the measurement and monitoring of scope 4 emissions

Focus on interconnections between climate change, natural capital, and social risks and opportunities

Strategy

This section explains BTPS's Net Zero 2035 ambition, the Scheme's plan to address sustainability-related risks and opportunities, climate change scenario analysis, nature and social risk mapping, and the associated implications for our investment strategy.

Climate change poses interrelated physical, transitional and systemic risks for the Scheme and its assets. In particular, we are expanding our analysis to better understand the effect of nature loss, ecosystem risks and social factors on asset values, investment security and overall portfolio resilience.



Beneath these pillars are multiple climate actions that BTPS is committing to.

Strategy continued

Key 2024/25 strategy progress

Pillar 1: Portfolio construction

Our strategic portfolio construction process is central to the delivery of BTPS's sustainability objectives. We will integrate material risks into assessing the Scheme's resilience as part of the portfolio design process.

Medium and longer-term considerations

Over the next 10 years, there will be a change in the investments held by BTPS. By 2035, almost all of the Scheme's members will be retired. As a result, the Scheme's investment strategy will need more investments that are focused on safe, predictable income such as bonds and secure income assets, to meet members' monthly pension payments. This creates an opportunity to make investments in companies that have lower emissions and increase investment in climate change transition solutions. This review and analysis falls within the portfolio construction pillar.

Transition risk and opportunities will be a key focus over the coming decade as the Scheme builds its credit-focused cashflow-generating portfolio. There might be opportunities to invest in decarbonisation strategies that help abate emissions.

Over the longer term, sovereign bonds, or government debt, will remain a significant allocation to hedge against inflation and match the Scheme's liabilities. However, there is currently a lack of emissions accounting agreement for sovereign bonds and most governments, the UK included, have net zero targets stretching beyond the Scheme's 2035 ambition. Ultimately, the Scheme's ambition is reliant on action, both in the UK and globally, by governments and companies.

Portfolio construction actions

2025 progress	2026 focus
• Annual deep dive review of net zero ambition. • Ongoing assessment of forward-looking carbon metric of adopting different forward-looking metrics into portfolio guidelines and the impact on expected risk-adjusted returns.	• Build climate scenarios into in-house scenario & stress testing framework. • Continue monitoring the impact of climate change alongside other thematic risks, and increase focus on overlaps & trade-offs between them.

Beyond 10 years, the Scheme will have a much lower risk portfolio, less impacted by climate change. Moreover, delivering on the Net Zero 2035 ambition will give greater portfolio resilience as the Scheme matures.

Strategy continued

Pillar 2: Mandates & managers

One of the key levers to mitigate the impact of significant long-term risks on Scheme assets is via its investment managers. As part of Pillar 2 of the net zero ambition, the Scheme will align mandates with its net zero ambition subject to there being no impact on risk-return outcomes. Mandate objectives will vary by asset class and the strategy of the manager. For example, the objectives set for property investment managers will be different from investment managers investing in the shares of companies.

Medium and longer-term considerations

Managers are required to report annually against a stewardship questionnaire.

The questionnaire is used as one of the inputs to assess managers' progress in helping the Scheme achieve its ambitions. How managers and mandates are evaluated and monitored also forms part of our risk management process, which is described in more detail later in this report. The questionnaire was updated in 2024 to include new questions on other long term sustainability risks.

The near-term focus is on ensuring all fund manager mandates recognise the Scheme's net zero ambition.

Mandates & managers

2025 progress	2026 focus
• We integrated net zero language into our cashflow-aware credit mandates. • We developed a 'sustainability charter' with a credit manager, agreeing on broad principles for the Fund Manager to follow when implementing the Scheme's investment strategy. • Scheme managers were reviewed against our scorecard and given feedback.	• We will continue researching climate and sustainability-focused investment opportunities with existing and prospective managers. • We will further develop the suite of climate and sustainability metrics that we track and measure with specific focus on net zero alignment and impact (e.g. avoided emissions), as well as nature-related metrics.

Strategy continued

BTPS Member visit to Milton Park, Oxford

This year, members visited Milton Park, a leading science and technology hub located in Oxfordshire. The park is recognised for its significant contribution to the UK's innovation ecosystem, hosting over 250 companies and employing more than 9,000 people.

Major resident companies are at the forefront of life sciences and advanced technology sectors. For example, it includes Evotec - one of world's leading drug discovery and development companies which partnered with Oxford University to develop the Oxford-AstraZeneca COVID-19 vaccine.

Milton Park has attracted substantial investment, supporting the development of state-of-the-art facilities and infrastructure. This investment has reinforced its position as a premier destination for high-growth businesses having secured over 7.5% of the UK's overall investment in life sciences over the past decade.

The park's sustainability vision is central to its long-term strategy, with initiatives focused on reducing carbon emissions, enhancing green spaces and promoting sustainable transport options. These efforts align with broader environmental goals and demonstrate a commitment to responsible development.

Milton Park has generated strong returns for the Scheme to date, with consistent growth in occupancy rates, rental income and asset value, reflecting its ongoing appeal to innovative businesses and investors. It has produced a c.14% 5-year annualised return to March 2025.

Watch a video filmed with our BTPS members on the day

Strategy continued

Pillar 3: Stewardship

Stewardship plays an important role in how the Scheme aligns its investments with our net zero 2035 ambitions. We expect our managers and stewardship partners to actively engage with companies, regulators and other stakeholders.

Medium and longer-term considerations

BTPS requires managers to vote and engage on material sustainability issues, including climate change, with companies and other stakeholders in the financial system. Over time, the Scheme expects the companies it invests in to make appropriate emissions disclosures and have clear plans for reducing their emissions to net zero.

Over the next 3 to 5 years, on the climate front, we are placing increased emphasis on engaging companies in challenging sectors such as transportation, steel and utilities.

During the year, Brightwell began engaging with managers on their approach to integrating natural capital into their stewardship activities. Brightwell will continue to build capability in natural capital by establishing a programme to explore how BTPS managers assess financially material nature-related risks, such as deforestation and ecosystem degradation.

The Scheme is also embedding social considerations more directly into stewardship. This includes asking managers to engage on issues that are most material to their portfolios, such as on human rights practices, supply chain conditions and workforce diversity. Further analysis in this area will help us identify high-risk sectors.

Brightwell's stewardship activity will continue to evolve to reflect the interconnected nature of climate, nature and social risks, and their importance to long-term value and member outcomes.

For more information on the Scheme's stewardship approach, please see BTPS's latest stewardship report: **www.btps.co.uk/SustainableInvestment**

Stewardship

2025 progress	2026 focus
• Focused on supporting managers to establish and develop their net zero stewardship practices and alignment to net zero through increased engagement, including priorities to voting. • Monitoring managers' engagements with heavy emitters in their portfolios.	• Assess fund managers' actions, progress and impact from stewardship activity. Additionally, improve relative assessment of stewardship impact across managers. • Engage with managers to create a framework to assess the effectiveness of different industry groups.

Strategy continued

Every year discussions take place with the Scheme's key long-term asset managers about how they could better use stewardship to deliver on the Scheme's Net Zero 2035 ambition. Creating a Net Zero Stewardship Programme, based on the Paris Aligned Investment Initiative (PAII) **Net Zero Stewardship Toolkit**, managers were provided with a framework to achieve three goals: drive emission reductions over 15 years; establish materiality-based and goal-orientated engagement plans which would be trackable and refreshed regularly; and to support industry collaborative engagements where appropriate. To achieve this, managers have four objectives:

1. **5-year portfolio coverage target**
   Implement a 5-year engagement plan with stewardship strategies, policies and action plans in place to align investments with net zero
2. **Focus on the top 70% largest emitters**
   Managers must focus on the top 70% of the heaviest carbon emitters in the Scheme's portfolio, pushing them to align with a net zero pathway, either through direct or collective engagement and stewardship actions
3. **Escalation strategy**
   Managers must establish an escalation strategy for non-improvers over time and if after 5 years no progress is made, divestment of that investment could be considered
4. **Reporting**
   Managers are expected to report progress against milestones to BTPS quarterly.

As companies do not change overnight, we cannot expect progress to be linear, therefore measuring milestones will be key to monitoring progress. In line with the Net Zero Stewardship Toolkit, we have asked managers to monitor the progress of their investments against five milestones:

i. Not aligned

ii. Committed to aligning

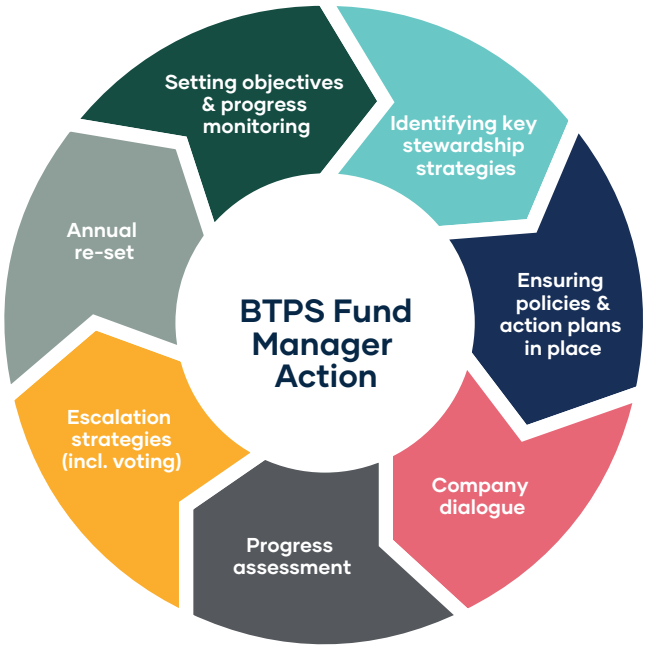
iii. Aligning towards a net zero pathway

iv. Aligned to a net zero pathway

v. Net zero

With changes to data, investment strategy, corporate actions and stewardship advancing, we expect this programme to evolve over time. Progress can be different across asset classes. For instance, the guidance for private equity investors was released in May 2023 and Brightwell has been working with the Scheme's private equity manager to incorporate this guidance. Alignment to a net zero pathway is still generally in its infancy in this asset class, whilst progress in other asset classes is more advanced. We are mindful of this but continue to push for alignment across all asset classes in which we invest.

Annual net zero stewardship process expectations



Strategy continued

Climate-related engagement examples over the year 1 July 2024 – 30 June 2025

Accelerating decarbonisation in a European ferry business

Infrastructure equity engagement via Federated Hermes

Issue: Federated Hermes engaged with Scandlines, a Danish ferry operator, to support its climate transition strategy in line with the Paris alignment.

Action: In 2024, engagement was conducted through the Board and Safety & Sustainability Committee (chaired by Federated Hermes until year-end). Discussions focused on supporting the execution of two major electrification projects—a new electric vessel and the retrofitting of two ferries. Advocacy for third-party validation of emissions targets also continued.

Outcome: The new electric vessel is on track to launch in the second half of 2025, and the retrofitting is expected to be completed by 2026, together reducing total emissions by ~13% compared to 2022. Scandlines continues to deepen its decarbonisation strategy with Federated Hermes' ongoing support.

Driving climate disclosure and shareholder alignment in Canadian rail

Public equity engagement via TCI

Issue: TCI engaged with Canadian National and Canadian Pacific, two Canadian rail operators, to push for improved climate transparency, Paris-aligned emissions targets and annual shareholder advisory votes.

Action: TCI held multiple discussions with both companies' leadership and board chairs throughout 2024, advocating for annual greenhouse gas (GHG) reporting and investor accountability mechanisms.

Outcome: Canadian National proposed its own resolution in line with TCI's ask, prompting withdrawal of TCI's proposal. Canadian Pacific agreed to support TCI's resolution. Both companies now allow shareholders to vote annually on ESG plans, marking a significant governance and climate milestone.

Strategy continued

Nature-related engagement examples over the year 1 July 2024 – 30 June 2025

Meeting evolving sustainability expectations in new real estate developments

Real estate engagement via Federated Hermes

Issue: ESG integration in real estate development required updates to ensure new projects meet evolving environmental, social and nature-related expectations.

Action: Federated Hermes commissioned consultants to revise its ESG design guidelines with higher targets, incorporating net zero, increased biodiversity, sustainable drainage, energy efficiency and occupier engagement. The guidelines now mandate consideration of nature-based solutions such as green roofs, pollinator-friendly landscaping and habitat creation, alongside measures to reduce noise and light pollution. They apply to all new developments and major redevelopments across all project stages—from initial brief through design, construction and handover.

Outcome: Federated Hermes' updated ESG guide has been rolled out to development managers and embedded into early-stage design. An ongoing monitoring process is being established to track implementation, measure ecological outcomes and raise standards over time, ensuring that assets deliver the highest environmental performance while contributing to local biodiversity and climate resilience.

Reviewing progress against a brewery company's sustainability strategy, particularly around water use efficiency

Corporate credit engagement via Wellington Management

Issue: Wellington engaged with AB InBev, the world's largest brewer, which produces, distributes and sells a portfolio of around 500 beer brands across more than 150 countries. The company's scale and reliance on agricultural inputs expose it to material environmental risks including water stress in key sourcing regions, biodiversity loss from supply chain impacts, and the need to advance circular economy practices to reduce waste and emissions. Addressing these issues is critical to maintaining operational resilience and safeguarding long-term value.

Action: In Q4 2024, Wellington met with AB InBev to review progress on its sustainability strategy, focusing on water efficiency, biodiversity risk management and circular economy initiatives. Discussions covered the company's Taskforce on Nature-related Financial Disclosures (TNFD) reporting plans, measures to improve water stewardship in high-risk regions, and efforts to increase recycling rates, particularly glass, in core markets such as Europe and Latin America. They also assessed governance structures underpinning sustainability delivery and the integration of environmental targets into capital planning.

Outcome: AB InBev demonstrated notable progress, reporting measurable improvements in water use efficiency and the protection of biodiversity within its supply chain, as well as significant increases in glass recycling volumes. Wellington was encouraged by the strengthened governance framework and commitment to environmental targets, viewing these developments as evidence of the company's proactive approach to managing nature-related risks. Wellington will continue to monitor delivery against 2025 commitments, including operational and capital expenditure plans, to ensure sustained progress.

Strategy continued

Social-related engagement examples over the year 1 July 2024 – 30 June 2025

Assessing modern slavery risk

Corporate credit engagement via M&G

Issue: One of UK's largest supermarket chains, Tesco, operates in a sector with high modern slavery risk. This prompted engagement to assess their risk management and human rights disclosures.

Action: M&G engaged with Tesco's Head of ESG in 2024 to discuss their modern slavery risk strategy and encourage improved transparency.

Outcome: Tesco confirmed action against modern slavery is a core pillar of its Human Rights strategy and shared details of its updated approach, developed with input from key stakeholders. Progress is reported annually with examples of issue identification and resolution. M&G was satisfied with the quality of disclosures and Tesco's proactive approach.

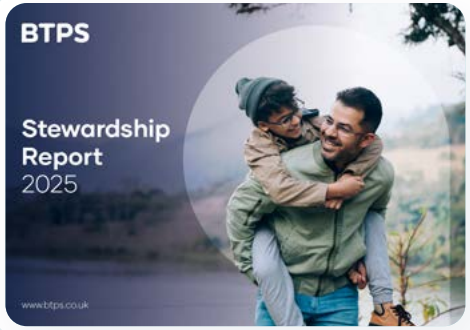
Improving awareness of social issues in supply chains

Private equity engagement via Federated Hermes

Issue: Engagement addressed the General Partner's (GP) practices around diversity, equity and inclusion (DE&I) and human rights, including their oversight of portfolio company exposure.

Action: Federated Hermes held two meetings in 2024. They discussed DE&I mentoring efforts, expectations around human rights policies (especially modern slavery risks in supply chains), and material digital risks such as cybersecurity, data protection, and AI bias.

Outcome: The GP demonstrated progress on DE&I, and awareness of material digital and human rights risks. Federated Hermes will monitor their progress and follow up on the way they assess this through their supply chain risk.



For more information on engagements carried out on the Scheme's behalf, please see the Scheme's latest stewardship report:
BTPS Portal – Sustainable investment

Strategy continued

Pillar 4: Advocacy

BTPS recognises that advocacy and third-party cooperation play a key role in achieving the Scheme's net zero 2035 ambition. As part of our four-pillar sustainability approach, BTPS works with peers, policymakers, standard-setters and service providers to improve the wider financial system's ability to respond to systemic risks.

Medium and longer-term considerations

Over the next 5 years, BTPS will continue to use its influence to advocate for net zero-aligned policy and regulation with policy makers, governments, and the investment industry and other stakeholders.

Over the next 5 years, BTPS will continue to use its influence to engage policymakers, governments, regulators and other industry stakeholders to advocate for improved transparency on climate-related risks, enhanced methodologies, and frameworks. This includes supporting efforts to improve the quality and coverage of data, especially in harder-to-measure areas like private markets and sovereign debt.

We also encourage the creation of government programmes to mobilise investments in sustainable and resilient growth. In alignment with BTPS, Brightwell will also incentivise staff to achieve net zero and offset its own operational emissions.

In 2025, BTPS joined Nature Action 100, a global investor initiative focused on mobilising corporate action to halt and reverse nature loss.

Over the longer term, the Scheme's advocacy goals and actions will evolve based on the requirements to protect long-term financial outcomes for members, whilst promoting the Paris alignment, global decarbonisation and tackling other systemic issues.

Advocacy actions

2025 progress	2026 focus
• Improved data coverage across private equity, private debt and opportunistic strategies through manager engagement and industry collaboration. • Joined Nature Action 100 and are preparing for engagement. • Steering Committee member for the Governance for Growth Investor Campaign (GGIC), championing the benefits of effective corporate governance to drive long-term sustainable investment growth for pension scheme members.	• Continue collaborating with peers to push industry for improved climate data across all asset classes, particularly private assets. • Support ongoing development of emerging disclosure and best practice frameworks, such as TNFD and TISFD. • Continue to support the GGIC.

Climate scenario analysis

> In this section, we explore climate change scenario analysis across the Scheme's assets, liabilities and covenant, and how our returns could be impacted under these scenarios.

Our approach to climate scenario analysis

The Trustee has a responsibility to manage the risk of climate change to Scheme funding, and the associated risks and opportunities within the Scheme's investment portfolio. The objective of the climate scenario analysis is to assess how robust the Scheme's investment strategy is to climate-related risks and help quantify the potential effects that climate change may impose on the Scheme's assets, liabilities and covenant. Although the Trustee recognises potential limitations of climate scenario analysis, including material uncertainty on assumptions, they believe the analysis helps to demonstrate that the Scheme's strategy is robust to the potential impact of climate change.

For several years, BTPS has undertaken climate change scenario analysis with the consulting firm Mercer to help determine the impact of different global warming scenarios on its assets. In line with regulatory requirements, in 2023 we ran a new set of scenarios, in partnership with the Scheme actuary, Willis Towers Watson (WTW), on the Scheme's assets and liabilities, and Penfida, our covenant advisor, in partnership with BT Group, on the covenant arrangements. We did this to reflect the significant changes to the investment portfolio over that period.

According to the Regulations and Statutory Guidance, Trustees are required to undertake and report climate scenario analysis on a frequency of no less than once every 3 years.

This year, the Trustee has yet to update its climate scenario analysis as the Trustee believes that the existing analysis from 2023 is still appropriate and relevant. This is because there have been no material changes to the Scheme's investment strategy or asset allocation, nor significant changes to the climate-related risks the Scheme is exposed to.

Transition & physical risks

As part of the analysis undertaken in 2023, the Trustee has categorised the potential impact of climate change into physical risks and transition risks.

Transition risks
This relates to the risks and opportunities arising from efforts made to transition towards a net zero economy (both domestically and globally) to limit climate change. These risks and opportunities are generally expected to occur in the medium term, with some perhaps occurring in the short term.

Physical risks
This relates to the direct impact of climate change on the Scheme and its members. These risks are expected to be longer-term in nature, but they are also expected to be limited in scope to the effects of climate change-related weather and other natural events on the businesses of invested companies, and the effect of changing temperatures on the mortality of Scheme members.

Asset & liabilities scenario analysis

Time horizons

The Trustee has explored the potential effects of climate change over a range of different time horizons for the Scheme using 31 December 2022 as the baseline.

Short term – 1 year

A 1 year period over which the Scheme may be impacted by climate-driven shocks.

Medium term – 12 years

The period to 2034 in which the Scheme is expected to de-risk linearly to the long-term portfolio. The impact of climate over this time horizon may be a result of climate-driven shocks and/ or the slower accumulation of costs arising from climate change, and the actions taken to mitigate or respond to it. Transition risks are likely to dominate the climate risk over this time period.

Long term – 13 years +

The period from 2034 onwards, in which the Scheme is expected to maintain the de-risked portfolio. Physical risks are likely to dominate the climate risk over this time period.

Climate scenario analysis continued

How is life expectancy impacted by climate change?

Life expectancy under possible future scenarios is impossible to predict accurately and will depend on complex interactions between various factors. In the UK, there are positive and negative outcomes, and direct and indirect impacts from increases in temperatures.

Direct impacts relate to increases in global (and UK) temperatures throughout the year:

Reduction in mortality rates	Increase in mortality rates
Milder winter (so a reduction in excess winter deaths)	Increased summer heatwaves (so an increase in excess summer deaths)
	Weather-related disruption and larger swings in temperature

Indirect impacts are comparable to the transition risks on the asset side, arising due to changes in society to combat or adapt to climate change:

Reductions in mortality rates	Increase in mortality rates
Economic gains from positive action on climate change	Deterioration in health services (due to weaker economies)
Healthier diets (e.g. less red meat)	Less healthy diets (e.g. price increases for fresh produce)
Healthier lifestyles (e.g. warmer weather encourages more outdoor activity)	Disruptions to water supplies
Healthier environments (e.g. less pollution)	Less healthy environment (if pollution levels do not fall)

Climate scenario analysis continued

Climate scenario pathways

The table opposite summarises the four scenarios considered. These scenarios are, in part, defined through their success, or otherwise, in meeting the Paris Agreement target of limiting warming to below 2 degrees and ideally 1.5 degrees celsius. The scenarios differ in the size of the physical risks, based on the resulting temperature impacts, but also on the size of the transition risks. The climate emergency and inevitable policy response scenarios represent bigger transition risks due to the more immediate and disorderly nature of the scenarios. The lowest common denominator scenario represents the greatest physical risk due to the slow pace of transition towards a low carbon economy. Typically, if transition cost is high, then physical cost is expected to be somewhat lower (as the impacts have been mitigated), and vice versa.

	Lowest common denominator	Inevitable policy response	Global coordinated action	Climate emergency
Description	A 'business as usual' outcome where current policies continue with no further attempt to incentivise further emissions reductions. Socioeconomic and technological trends do not shift markedly from historical patterns	Delays in taking meaningful policy action result in a rapid policy shift in the mid/late 2020s. Policies are implemented in a somewhat - but not completely - coordinated manner resulting in a more disorderly transition to a low carbon economy	Policy makers agree on, and immediately implement, policies to reduce emissions in a globally coordinated manner. Companies and consumers take most actions available to capture opportunities to reduce emissions	A more ambitious version of the global coordinated action scenario where more aggressive policy is pursued and more extensive technology shifts are achieved, in particular the deployment of negative emissions technologies at scale
Temperature rise (vs. pre-industrial levels)	~3.5°C	~2.0°C	~2.0°C	~1.5°C
Renewable energy by 2050	30-40%	80-85%	65-70%	80-85%
Physical risk level (longer term)	High	Low – medium	Low	Low
Transition risk level (shorter term)	Low	High	Low – medium	Medium - high
Life expectancy improvement	Negligible improvement	Some improvement	Very strong improvement	Strong improvement

Climate scenario analysis continued

Modelling methodology & limitations

In each of the scenarios considered, separate transition and physical costs for asset classes have been derived by assessing the impact on corporate cashflows:

- Transition risks are modelled through projected carbon pricing impacts
- Physical risks are evaluated using MSCI data on individual asset exposure.

These impacts are translated into year-by-year estimates, guided by qualitative expectations about the pace at which costs emerge. While we acknowledge the limitations in climate scenario modelling, we still consider it a valuable, though not definitive, tool in our broader climate risk management framework.

The key limitations we acknowledge include:

- **High uncertainty and complexity**
  The analysis involves forecasting emissions and temperature changes, converting them into risk factors, and then estimating financial impacts. Each step introduces uncertainty, so outputs are better interpreted qualitatively rather than quantitatively
- **Applicability by asset class**
  The focus on corporate cashflows ensures better applicability to corporate assets (e.g. equities and corporate credit). In contrast, sovereign credit (e.g. gilts) shows no direct impact in this analysis, and no scenario-specific modelling of interest rates or inflation is included, although the Scheme is well hedged against these risks
- **Market pricing uncertainty**
  Investment performance depends on the difference between priced-in risk and actual outcomes, yet we cannot accurately assess how much climate risk is currently reflected in asset prices
- **Geographic and sector variability**
  Climate impacts will vary significantly by region and industry. As BTPS continues to allocate more toward UK-based assets, understanding these localised sensitivities becomes increasingly important
- **Underestimation of physical risks**
  Most models exclude climate tipping points, leading to potential underestimation of physical risks. However, due to BTPS's maturity, we believe our portfolio is more exposed to transition risk than to long-term physical risks.

Climate scenario analysis continued

Scheme impact

Base case

This is the central funding projection against which the climate scenarios are considered. It projects forwards, using Willis Towers Watson's investment model, the Scheme's assets and liabilities (on the Technical Provisions (TP basis) as at 31 December 2022. It assumes that the asset allocation at that date de-risks linearly to the long-term portfolio by 2034. We expect that current market pricing, which is to some extent built into the model, only allows for a small amount of transition risk (similar to the lowest common denominator scenario) and makes no allowance for physical risk. This is a prudent view that leads to bigger climate scenario impacts than would have been modelled under a less prudent view on current market pricing, designed to reflect the uncertainty of climate outcomes and the purpose of the analysis in assessing the potential size of the risk. Under this projection, the Scheme is expected to reach full funding in 2030

.

Assets

Shocks to the asset returns were applied at an asset class level. As at the date of analysis, the Scheme held a portfolio comprising largely of UK government bonds and UK credit, but also noteworthy allocations to secure income assets, real estate and return-seeking equities (the latter two absent from the terminal portfolio from 2034). Under all scenarios, most asset classes were expected to be negatively impacted to varying degrees by the climate transition and associated physical risk. The exception was UK government bonds on which we expect climate outcomes to have a limited price impact.

Liabilities

Life expectancy is assumed to be impacted in several ways, both directly and indirectly. These include the potential for warmer winters, impacts on lifestyles and air quality, and the physical impact of increased natural disasters. Overall, life expectancies are expected to improve, relative to the base case, in the Global Coordinated Action scenario, and deteriorate to different degrees in all other scenarios. Other than the impact on mortality and longevity assumptions, the Scheme's liabilities are assumed not to change with no other changes to the Technical Provisions basis needed.

Climate scenario analysis continued

Covenant

The Trustee has considered the impact of climate change on the BT sponsor covenant in the context of the wider telecom sector, information provided by BT and scenario analysis undertaken by WTW on the Scheme's funding position.

Based on this information, the Trustee's covenant adviser, Penfida, concluded that:

As a major global telecommunications company, BT faces several risks relating to the ongoing climate change crisis with the level of carbon emissions generated by the global telecommunications industry remaining material.

However, relative to other industries (e.g. oil & gas, or steel production), the telecommunications sector is not considered an emissions-intensive sector, with 180 tonnes of CO2 produced per million Euros of revenues, which is in line with the carbon intensity of the MSCI Europe Index[1] and slightly below the MSCI World Index[1]. In contrast to other sectors, telecommunications operators expect the impacts and reactions to climate change to have a net positive impact on the sector, with total opportunities outweighing the costs by 1.8% of revenue, mostly due to increased demand for products and services[2].

Furthermore, the telecommunications sector has a unique role to play in helping other sectors abate or reduce emissions including, for example, by enabling remote working and thereby avoiding travel emissions.

Additionally, based on third party assessments, BT's positioning with respect to climate change initiatives relative to peers and the wider market (including its net zero target) is favourable[3].

BT is targeting net zero (Scope 1 &2) emissions for its own business by March 2031, and net zero (Scope 3) emissions for its suppliers and customers by March 2041, which puts it in a reasonable position to address climate change-related risks.

Actions taken by BT to meet this target include purchasing 100% of its electricity from renewable sources, where markets allow, and transitioning its fleet to zero emissions or electric vehicle models. In the 2025 financial year, BT's Scope 1 & 2 carbon emissions fell by c.5% and its Scope 3 emissions fell by c.10%.

A comparison of the impact of climate change relative to BT's base case expectations suggests that the covenant provided by BT to the Scheme is expected to remain resilient under the climate change scenarios identified and modelled by BT Group.

[1] Oliver Wyman. (2021). The next level of emission reductions in telecom operators.
[2] Ibid
[3] MSCI ESG Rating, May 2025

Climate scenario analysis continued

Conclusions

The conclusions drawn from the scenario analysis, based on the potential impact of climate change on the Scheme over the different time periods defined, are as follows:

Short term
The biggest potential impact of climate change on the Scheme would be a climate shock in a high transition scenario. Such an event could have a material impact on the funding level however, it is of an equivalent magnitude to other downside scenarios to investment performance that we model with an expected once in 20-year occurrence.

Medium term
In the medium term, the Scheme is also exposed to high transition scenarios and may see a deterioration in the funding level as a result of transition costs as well as potential improvements to longevity.

Long term
In the longer term, the Scheme is expected to be materially de-risked and holding asset classes, such as investment grade corporate debt, that are less exposed to the physical risks that are likely to be prevalent. The Scheme is therefore less exposed to climate risks in the long term.

The Scheme already has in place detailed ongoing monitoring of investment risk and stress scenarios as part of the funding strategy, and climate change risk is an extension of that overall investment risk process. The results of the climate stress tests above show that the Scheme's investment strategy is not immune to the potential impact of climate change, and therefore that considering climate risk when setting allocations, and in the implementation of the strategy, is critical. Key areas the Trustee will focus on are asset allocation, strategy implementation and a deeper assessment of investment grade credit, and the secured income portfolios which form the core of the expected long term Scheme portfolio.

Key 2026 focus

The Trustee will continue to monitor BT's resilience to the risks posed by climate change and its progress towards its targets in determining if and to what extent its strategy would need to change.

Assessing nature impacts and dependencies

BTPS recognises that nature loss and the degradation of natural capital could pose systemic, material risks to long-term asset values, portfolio resilience and the wider economy.

In 2025, we analysed our portfolio-level, nature-related risks using the ENCORE tool (Exploring Natural Capital Opportunities, Risks and Exposure). The analysis aimed to build a foundational understanding of the Scheme's dependencies and impacts on nature. This analysis forms the basis for our evolving nature strategy and will inform prioritisation of themes in our wider risk management framework.

The ENCORE analysis provided a valuable 'first lens' through which to understand the exposure of the Scheme to potential nature-related risks arising from sectors that are dependent or impactful on nature.

The ENCORE assessment evaluates how different sectors depend on nature and the pressures they exert on natural capital. It uses a five-point materiality scale (very high, high, medium, low and very low) to indicate the significance of each dependency or impact.

Key insights include:

Analysis insight	Implication
Many sectors in the Scheme's portfolio rely on nature, especially for services like flood protection, storm protection, and reliable water supply.	If these natural services are degraded, business operations could be disrupted and costs increased.
Utilities and manufacturers in the portfolio depend on clean, steady water supply.	If rivers, wetlands, or aquifers are damaged, these companies could face higher costs or service interruptions.
Several sectors in the portfolio have elevated exposure to land usage.	This can lead to deforestation and loss of biodiversity. This increases the risk of future regulation.
Some sectors in which the Scheme invests rely on water usage, e.g. manufacturing.	This could create local water shortages or trigger stricter rules, putting those companies at risk.
Some companies in the portfolio are higher emitters of greenhouse gases and other pollutants than others, even within the same sector.	This not only harms the environment but could also lead to higher costs from carbon taxes, stricter pollution controls, or negative publicity.

Assessing nature impacts and dependencies continued

Our next steps:

Grouping these recurring dependencies and impacts into broader themes helps BTPS prioritise risk management efforts. It highlights the need to engage with managers on topics such as physical climate resilience, water stewardship, land-use practices and emissions reduction across both carbon and other pollutants.

BTPS will continue to:

- Include nature risk into ongoing risk monitoring and asset class deep-dives
- Engage with selected fund managers to explore how nature risks are integrated into their investment processes, particularly within high-dependency sectors identified in the screening
- Monitor the evolution of the Taskforce on Nature-related Financial Disclosures (TNFD)
- Contribute to industry efforts to reform nature-related data flows, transparency and reporting standards
- As methodologies mature and more granular portfolio-level data on nature, biodiversity and natural capital become available, we will develop our dependency and impact assessments using additional tools, forward-looking indicators, and manager-reported, asset-level data.

BTPS recognises nature-related financial risks are systemic, non-linear and can be interconnected with climate and social risks. Understanding the portfolio's exposure to nature-related impacts and dependencies is essential to enhancing resilience, fulfilling fiduciary duty and supporting long-term value

Risk management

Next, we explain our processes for identifying, assessing and managing climate-related risks and how we integrate these into our overall risk management framework.

BTPS takes an integrated approach to risk management, recognising that sustainability risks including climate change could have material financial consequences for the Scheme's assets, liabilities and sponsor covenant. These risks are systemically interconnected and, if not effectively identified and managed, could erode long-term value and increase volatility across markets.

There are 3 core aspects to our approach to risk and its effective management within the Scheme.

1 Scheme risk management

This is the overarching framework governing and setting out how risks are monitored and managed, including climate, nature and social risk.

The sections below provide more information across each of these areas. In addition, day-to-day management of the Scheme's investments are delegated to Brightwell, including the monitoring and managing of the associated risks. The Risk Management Framework is designed to ensure that these risks are managed effectively, proportionately and in-line with the Trustee Board's expectations.

The Scheme is committed to identifying, monitoring and managing risks by determining the likelihood of a risk materialising and the impact of a risk having appropriate mitigating controls in place and, when required, taking actions to avoid, transfer or accept the risks.

Three lines of defence | Risk taxonomy | Risk assessment

2 Scheme funding and investment strategy

Climate risk is a risk factor that we consider and integrate from a funding and investment perspective. Climate scenario analysis on our assets, liabilities and sponsor covenant is a key part of this, together with ongoing carbon footprinting of our portfolio.

Climate risk is considered and integrated into our funding and investment risk activities. Climate scenario analysis of our assets, liabilities and sponsor covenant, ongoing portfolio carbon footprinting and remaining in line with the Scheme's Asset Management Parameters (AMP), are the tools we use to manage it.

In addition to climate risk, the Scheme is also strengthening its understanding of how nature-related and social risks may impact long-term funding strategy. During the reporting year, BTPS undertook a portfolio-level review to assess nature and social risk exposure across sectors.

Over time, these insights will be considered as part of investment strategy discussions, support enhancements to the Asset Management Parameters (AMP), and help ensure the Scheme is resilient to a broader set of systemic sustainability risks.

Asset Management Parameters (AMP) | Scenario analysis | Carbon footprinting

3 Investment implementation

Our day-to-day investment process also integrates sustainability-related risk into our decision-making, particularly around the design of investment mandates, the selection and monitoring of fund managers, and stewardship activity undertaken on behalf of the Scheme, guided by the Scheme's Statement of Investment Principles (SIP).

Statement of Investment Principles (SIP) | Mandates and managers | Stewardship

Risk management continued

Scheme risk management

The Scheme's ambition is to be net zero by 2035, and interim targets are set and reported on annually. The purpose of the risk framework is to support the achievement of the Scheme's objectives by providing an integrated approach to identifying, assessing and managing material risks across the business. This includes the development of enhanced ESG risk processes and scenario analysis that not only address climate-related risks, but also cover natural capital dependencies and systemic social risks.

Brightwell has adopted a 'three lines of defence' governance model which provides a consistent, transparent and clearly documented allocation of accountability, and segregation of functional responsibilities. This segregation of responsibility helps to establish a control framework that improves understanding and encourages continuous improvement.

1. The first line of defence leads and oversees the business while owning the risks and managing them on a day-to-day basis. The first line risk owners are also responsible for identifying, measuring, assessing and monitoring the risks. Brightwell's Chief Investment Officer (CIO) owns the investment risks and is responsible for investment teams who specifically identify and manage climate-related risks.
2. The Investment Risk and Operational Risk Teams are part of the second line of defence and are responsible for designing the framework, risk management oversight and challenge to the first line. Work is underway to integrate the climate risk metrics into second line oversight activities and Trustee Investment Committee reporting.
3. The third line of defence is the internal audit function, which provides independent assurance on the adequacy of the design and effectiveness of the first and second lines of defence.

Risk taxonomy

The taxonomy defines the risk landscape and provides a common language and description of the level one and level two risk categories. Level one risks are defined at a high-level, with level two risks being more detailed subcategories.

Strategic risk is a level one risk category with ESG risk being a level two within that category. ESG risk is defined as "an adverse sustainability impact due to an environmental (including climate changes), societal or governance, or geopolitical event".

As the risk framework and our wider capabilities are developed, this will enable appropriate risk appetites to be set and enable ESG and climate risks to be monitored against specific targets.

Risk assessment

The risk management system and processes support the execution of the risk framework, including the maintenance of its taxonomy and controls, risk events and issue mitigations, and reporting and escalation requirements.

Reporting provides assurance to key stakeholders that there is a clear and comprehensive risk management approach in place to manage the Scheme risk environment, along with corresponding controls to effectively mitigate those risks.

Climate risk is considered as an enduring (ongoing) risk which may adversely impact the delivery of the Scheme's funding strategy. Whilst the scope and frequency of our controls are being improved, high-risk exposures and incidents are reported to the Investment Committee. BTPS performs an annual performance review of the Scheme comparing outcomes against expectations and investment beliefs. Regular asset class deep-dives include coverage of responsible investment and climate risk. An assessment of the Scheme's exposures to high and low carbon assets, transition and physical risks, and scenario analysis will also be conducted annually as part of the Trustee net zero deep-dive.

Risk management continued

Scheme funding & investment strategy

The Scheme also manages the risks of climate change through its funding and investment strategy. This is done in three ways:

Asset Management Parameters (AMP)

Guidelines set to ensure long-term funding goals, risk profiles and other metrics, including climate performance, are maintained and achieved

Climate scenario analysis

Undertaken across the three main axes of our funding status: liabilities, assets and the sponsor covenant

Carbon

Conducted annually, across several climate metrics, to track historical performance and forward-looking key performance indicators (KPIs).

Asset Management Parameters

The Asset Management Parameters (AMP) are the guidelines within which the Scheme's investment portfolio is managed on a day-to-day basis. The AMP is set by the Trustee Investment Committee (IC) and reviewed regularly to ensure it is consistent with the long-term funding goals and risk profile required to meet our long-term pension promises. The AMP sets out the primary investment objectives and constraints guiding implementation. Since 2020, when climate change was explicitly referenced in the Scheme's SIP, the net zero emissions objective has been included in the AMP.

Specific climate risk metrics have been integrated into the AMP and will be reported to the Trustee on an ongoing basis. From a risk perspective, the first line of defence investment team seeks to ensure that the Scheme's investment strategy and implementation are consistent with the AMP. The second line of defence risk team monitor portfolio compliance with the constraints set out in the AMP, challenging the first line of defence functions to ensure adherence to the AMP limits. The third line of defence, the internal audit function, seeks to ensure that the first and second lines have robust policies and processes to manage within the AMP limits, as well as seeking assurance and evidence around the controls in place to appropriately manage the Scheme within the AMP.

Scenario analysis

For several years, BTPS has undertaken climate change scenario analysis to help determine the impact of different global warming scenarios on its assets. Beginning in 2015, the Scheme, together with several other institutional investors, partnered with Mercer on their study investigating the potential impact of climate change on investment returns and their resilience. As part of this work, the impact of different climate warming scenarios were evaluated, ranging from 2°C, 3°C and 4°C. This work had important implications in highlighting the magnitude of climate risk and was a contributing factor in BTPS setting its net zero ambition in 2020.

Since then, we have further developed the Scheme's scenario analysis to capture the potential impact climate change may have on Scheme liabilities and the corporate sponsor covenant.

Risk management continued

Carbon footprinting

Carbon footprinting plays an important role in monitoring and management of climate risk in our portfolio design and construction. This activity is currently performed by the first line of defence assisted by third party providers.

With the Scheme's longer-term Net Zero 2035 ambition, as well as interim carbon reduction targets that are set to ensure the journey towards the long-term ambition, footprinting allows us to evaluate progress and take action as required.

Annual monitoring of the Scheme's climate and emissions metrics allows us to adjust the portfolio as part of the de-risking glidepath, to remain within the expected carbon reduction corridor. It also means we can estimate our absolute and emissions intensity footprint for the overall portfolio and different asset classes.

Eight key metrics are tracked and reported to the Trustee as part of the annual net zero deep-dive, which is a detailed analysis of the Scheme's progress against its Net Zero 2035 ambition.

Footprinting also helps us identify our highest emitting investments which, in turn, gives direction to our net zero stewardship activities.

For more information on stewardship carried out on the Scheme's behalf, please see the Scheme's latest stewardship report:

BTPS Portal - Sustainable investment.

Risk management continued

Investment implementation

The Scheme's day-to-day investment process also integrates climate and sustainability-related risk into decision-making, particularly around its investment principles, the design of investment mandates, the selection and monitoring of fund managers, and stewardship activity undertaken on behalf of the Scheme.

Statement of Investment Principles

The Statement of Investment Principles (SIP) sets out the principles governing how decisions about investments are made, and has been prepared in accordance with all relevant legislation and best practice guidelines. The SIP refers to climate change specifically, as it is viewed as a key, long-term risk which may have material, adverse impacts on the Scheme. The Trustee believes that reducing exposure to carbon emissions over time will improve investment outcomes and reduce the impact of potential adverse outcomes associated with future climate risk. The Trustee also believes that active stewardship (i.e. exercising ownership rights and undertaking engagement activities) can improve long-term, risk-adjusted returns and has appointed an external adviser as the Scheme's primary provider of stewardship services.

Managers & mandates

As detailed in the Strategy section, implementation of the Scheme's net zero and sustainability ambition is centered on four key pillars. Of these, there are a subset that are important in appropriately managing risks associated with implementation. In particular:

Design of investment mandates

Ensuring the investment mandates given to fund managers seek to focus on sustainability-related objectives and reporting requirements.

Selection of fund managers

Ensuring the fund managers responsible for managing BTPS assets consider and integrate climate and sustainability risk as part of their investment process. It is expected that the fund managers employed by BTPS help mitigate sustainability-related risk through their processes and adherence to their mandate objectives that will include net zero emissions objectives. Ensuring managers operate in this way, and meet their emissions goals, is another key risk management activity.

Stewardship

As noted in the Stewardship section of the report, we have long supported and encouraged our managers and stewardship provider, Federated Hermes EOS, to use voting and engagement as tools to push the Scheme's investments to address climate change and systemic risk. We view stewardship as such a key tool that it is one of four pillars of the Scheme's net zero ambition in helping manage sustainability-related risks. We believe in being active owners of our assets and expect our equity fund managers to use their voting powers to support appropriate sustainability-related shareholder resolutions, and all our managers to regularly engage with company executives and Boards on climate change and other systemic issues. As part of the Scheme's Net Zero Stewardship Programme, we expect all our fund managers, across all asset classes, to engage with investments in our portfolio to establish credible net zero transition plans. For more information, please see the Stewardship section of the sustainability report.

Key 2026 focus

The Trustee will continue to assess how it can better integrate climate with other long term sustainability risks that impact Scheme resilience

Metrics and targets

In this final section, we discuss the metrics and targets the Scheme has set to assess and progress its net zero ambition, and climate and sustainability-related risks and opportunities. We look at our performance since 2020, and explore the limitations and challenges with data.

In line with The Department of Work and Pensions (DWP) TCFD regulations, occupational pension schemes are now required to report on at least four metrics to measure and track climate-related performance. We have selected the following metrics and targets, which will be reviewed triennially.

These metrics and targets are subject to change over time, either due to regulation, improvements in data or changes required to goals.

Scheme-wide climate metrics & targets

Metric	Description	Rationale for inclusion	2025 Target
Absolute emissions, also known as total carbon emissions (tCO2e, scope 1&2)[1]	Total carbon emissions attributable to the portfolio, at a given point in time. Tonnes of carbon dioxide & equivalents (tCO2e).	Statutory guidance. Helps set baseline & track emission evolution.	-
Carbon footprint, also known as financed emissions (tCO2e/$m invested, scope 1&2)	The amount of tCO2e emitted per million dollars of BTPS's investments.	Statutory guidance. Helps compare portfolios & perform attribution analyses.	At least 25% reduction in equity & corporate credit investments against 2020 baseline year.
Weighted average carbon intensity (WACI, tCO2e/$m revenues, scope 1&2)	Measure of carbon emissions normalised by million dollars company revenues.	Enables comparison of portfolio, its sectoral exposure with benchmark & measures a portfolio's exposure to carbon-intensive companies. It can also adjust for impact of expected decline in portfolio size, low data coverage levels for certain asset classes & alignment with real world change.	At least 25% reduction in equity & corporate credit investments against 2020 baseline year.
Portfolio alignment (%)	Proportion of equity & credit portfolio that has emission reduction targets in line with the Paris Agreement goals.	Assesses percentage of portfolio with approved, science-based emission reduction targets aligned with Paris Agreement. Helps focus stewardship efforts on investments with no targets.	At least 50% increase in equity & corporate credit investments against 2022 baseline year.
Data Coverage (%)[2]	Percentage of portfolio with company-reported emissions.	Identifies parts of portfolio lacking emissions data. We are reliant on fund managers & data providers to improve this but can push policy makers to require better disclosure.	-

Metrics and targets continued

Portfolio emissions data Scopes 1 & 2

	Absolute emissions tCO2e, scaled to 100% coverage)	Carbon footprint (tCO2e/$m invested)	WACI (tCO2e/ $m revenues)	Portfolio alignment (%)	Portfolio GHG data coverage (%)
Listed equities (as at 30 June 2025)	183,070	53.3	232.9	62.0%	97.4%
Listed equities (as at 30 June 2020)	451,585	-	136.0	-	97.5%
Comparator – MSCI World	*101,601*	*30.6*	*91.2*	*56.3%*	*99.9%*
Listed investment grade credit (as at 30 June 2025)	362,484	31	79.6	32.20%	80.4%
Listed investment grade credit (as at 30 June 2020)	845,881	-	198.0	-	68.1%
Comparator – BBG Global Agg Corporate	*811,622*	*69.3*	*196.0*	*22.8%*	*96.2%*
BTPS total equity & corporate credit portfolio (as at 30 June 2025)	545,554	35.9	113.5	38.79%	84.2%
BTPS total equity & corporate credit portfolio (as at 30 June 2020)	1,297,466	-	184.4	-	74.5%

Metrics and targets continued

Infrastructure and real estate

As at 30 June 2025	Absolute emissions tCO2e, scaled to 100% coverage)	Carbon footprint (tCO2e/$m invested)	WACI (tCO2e/ $m revenues)	Portfolio alignment (%)	Portfolio GHG data coverage (%)
Infrastructure	159,429	127.3	473.2	87%	100%
Real estate	15,873	3.2	6.6 (per metre squared)	94%	89%

Government bonds

As at 30 June 2025	Absolute emissions tCO2e, scaled to 100% coverage)	Carbon footprint (tCO2e/$m invested)	WACI (tCO2e/ $m revenues)	Portfolio alignment (%)	Portfolio GHG data coverage (%)
Government bonds	2,416,592	133.0	86.56	-	-

Metrics and targets continued

Listed equities

Portfolio/metric	2020 value	2025 value	% change vs 2020 baseline year
Absolute emissions (tCO_2e)	451,585	183,070	-59.5%
Carbon footprint (tCO_2e/ US$ m invested)	N/A	53.3	N/A
WACI (tCO_2e/US$ m revenue)	136.0	232.9	+71.2%
Portfolio alignment (%)	N/A	62.0%	N/A
GHG data coverage (%)	97.5%	97.4%	-0.1 pp[1]

Investment-grade credit

Absolute emissions (tCO_2e)	845,881	362,484	-57.1%
Carbon footprint (tCO_2e/ US$ m invested)	N/A	31.0	N/A
WACI (tCO_2e/US$ m revenue)	198	79.6	-59.8%
Portfolio alignment (%)	N/A	32.2%	N/A
GHG data coverage (%)	68.1%	80.4%	+12.3pp[1]

Total equity & credit portfolio

Portfolio / metric	2020 value	2025 value	% change vs 2020 baseline year
Absolute emissions (tCO_2e)	1,297,466	545,554	–58.0%
Carbon footprint (tCO_2e/ US$ m invested)	N/A	35.9	N/A
WACI (tCO_2e/US$ m revenue)	184.4	113.5	–38.4%
Portfolio alignment (%)	N/A	38.79%	N/A
GHG data coverage (%)	74.5%	84.2%	+9.7pp[1]

[1]pp denotes percentage points to describe the difference between two percentages.

Metrics and targets continued

Since the 2020 baseline year, BTPS's combined listed equity and credit portfolio has made meaningful progress on decarbonisation. The weighted average carbon intensity (WACI) of these assets has fallen by around 38% (184.4 tCO_2e/US$ m revenue in 2020 to 113.5 tCO_2e/US$ m in 2025). Absolute financed emissions have declined by about 58% over the same period, although part of this reduction reflects a smaller asset base following the sale of listed equities in late 2022.

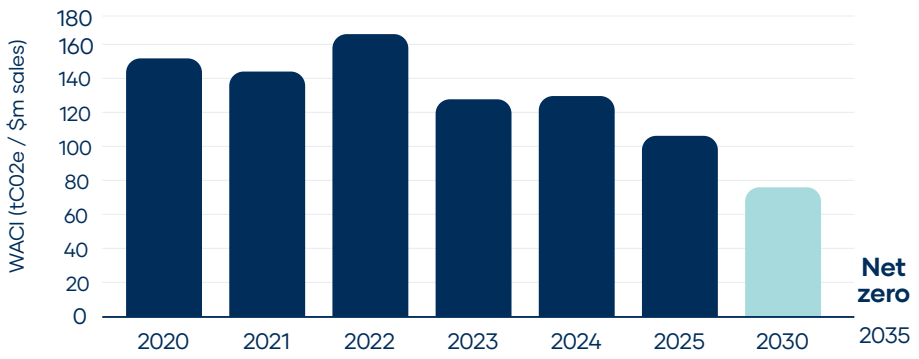
> Year-on-year changes in emissions can be volatile and we remain focused on the long-term trajectory towards net zero.

For example, the carbon footprint of the public equity portfolio rose from 48.3 to 53.3 tCO_2e per US$m invested between 2024 and 2025. This increase reflects the relatively concentrated nature of the equity portfolio and changes in sector exposure; a single company can materially influence the metric. By contrast, credit financed emissions intensity fell from 44.6 to 31 tCO_2e per US$m invested, and the credit portfolio's WACI dropped by roughly 25% in the year. We therefore caution against over-interpreting short-term fluctuations while noting that, on most carbon metrics, the portfolio has trended lower since 2020.

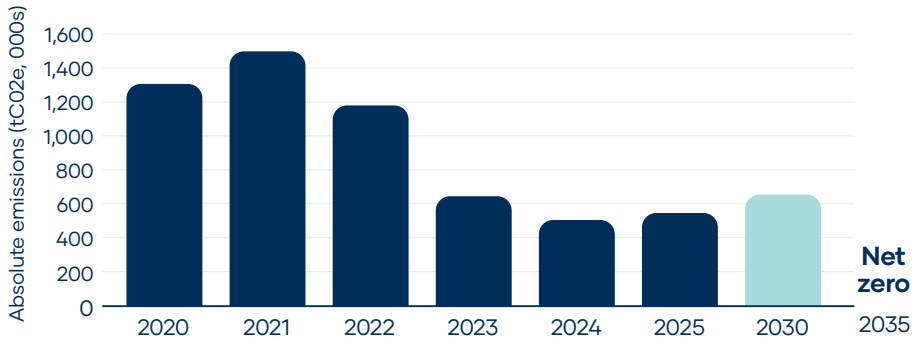
The significant reduction in absolute emissions over the past few years has been driven largely by asset sales within the listed equity portfolio, but the listed credit portfolio has also delivered more than a 50% reduction in absolute emissions. Encouragingly, both the equity and credit portfolios have a smaller carbon footprint than comparable market benchmarks.

Data coverage has also improved, and more companies are setting science-based targets: portfolio alignment rose from 53.8% to 62% for equities and from 28.9% to 32.2% for credit over the past year. We are encouraged by the trend of increased corporate disclosure, particularly within the credit portfolio, and by the growing number of companies with or seeking Science-Based Targets initiative (SBTi) approval.

Equity & corporate credit WACI performance vs. net zero ambition



Equity & corporate credit absolute emissions performance vs. net zero ambition



Metrics and targets continued

Emissions data is continually improving. More companies are now reporting their emissions, others are improving the depth and scope of their emissions reporting, and specialist data providers are competing to provide more comprehensive information. These improvements generally result in capturing a more detailed and accurate picture of portfolio emissions over time. It is likely that continued improvements in both current and historic data coverage and quality will lead to restatement of historical emissions. This can make year-on-year comparisons more challenging, but over time, as data collection improves, these swings will reduce.

BTPS's net zero ambition is designed to improve the Scheme's funding outcomes and has two aims: reducing emissions in the portfolio and investing in transition investment opportunities. Decarbonising BTPS's portfolio is an important priority however, it will not necessarily aid the overall global transition. Instead, using our influence to push companies will likely prove more powerful than divesting heavy emitters to reach an emissions goal.

Like all other investors setting net zero goals, we are only able to go as fast as the wider macro-economic conditions and policies allow us. Our ambition is to achieve net zero by 2035 however, we are reliant on real world change. If global leaders and policy makers do not set strong net zero goals with supporting policies, it will be challenging to meet net zero whilst also achieving our primary objective of meeting member pension promises.

Metrics and targets continued

BTPS recognises that climate, nature and social risks are interconnected systemic issues. While our reporting and target-setting processes around climate and carbon performance are more developed, we have taken steps in 2025 to identify and assess nature-related and social risks in the portfolio.

Metrics and targets for nature

In 2025, BTPS began integrating portfolio-level exposure to nature-related risks by undertaking a screening using the ENCORE tool, which identifies sector-level dependencies on ecosystem services and pressures on the natural environment. The screening helped us identify sectors within our portfolio that are highly dependent on ecosystem services such as utilities.

While data availability and standardisation for nature-related risks are still evolving, this initial assessment has enabled us to:

- Establish a baseline map of nature-related dependencies across the portfolio
- Prioritise thematic areas (e.g. deforestation, water stress and biodiversity loss) for further investigation, and
- Inform engagement priorities with managers in high-risk sectors.

As data and methodologies mature, BTPS will continue to explore the available nature-related metrics, such as:

- % of portfolio assets exposed to sectors with high or very high nature dependencies (based on frameworks like ENCORE)
- % of companies assessed with disclosed TNFD-aligned frameworks or nature-related targets in place
- Exposure to deforestation-linked commodities, and
- Engagement coverage on natural capital topics.

We will also aim to track our alignment to the emerging TNFD disclosure framework.

Metrics and targets for social factors

Just as climate and nature-related risks impact portfolio resilience, systemic social factors can present a material investment risk. In 2025, BTPS undertook analysis of its social risk exposure using the Social Insight Factor Tool (SIFT), to map the prevalence of structural social factor exposures across sectors.

This work has provided BTPS with:

- A baseline assessment of asset class and sector-level social factor exposure
- Insights into themes such as algorithmic profiling and discrimination, harmful user interactions enabled by online platforms, and data privacy, and
- A mechanism to prioritise and monitor risk over time.

Our near-term focus is on continuing to establish these baseline assessments to understand alignment with leading frameworks (TNFD and TISFD).

Appendix one: Data quality and limitations

At present, climate and carbon data availability varies significantly across companies, geographies and asset classes. While we purchase emissions data from a third- party data provider, this only covers equity and corporate credit investments. This represents about a third of our portfolio.

We supplement this coverage with manager-provided information on infrastructure and real estate emissions. We continue to work with our asset managers, especially for private exposures, to increase coverage over time. Like many investors, BTPS is dependent on the quality and completeness of climate data, and of net zero methodologies for different asset classes.

> Much improvement across the industry is still required which is something Brightwell is actively contributing to.

1. **Entity mapping** – Companies may be represented more than once if they issue financial instruments in different forms. To reduce this risk we have made a concerted effort to ensure that the correct identification has occurred, however there is still the risk that there are errors.
2. **Carbon apportionment** – Many different factors can impact the calculation of enterprise value or total capital, e.g. negative equity value or a lack of enterprise value for banks and insurers. Consequently, this could heavily impact an issuer's calculated emissions intensity. Again, while we have made efforts to account for these issues, the calculations may be incorrect.
3. **Scope 3 emissions** – The Trustee has, in so far as it is able, tried to obtain Scope 1, 2 and 3 GHG emissions from across the portfolio. Unfortunately, obtaining scope 3 emissions is far more challenging due to poor data quality, weak reporting, changing estimation methodologies and the potential for double-counting. We have included it as far as we are able.
4. **Data quality and availability** – Data on carbon emissions, particularly Scope 3 emissions, can be difficult to obtain due to its challenging nature, or it is of poor quality. In those instances, we report on estimated emissions. We expect to see this become less of an issue year-on-year.
5. **Private markets** – In asset classes such as private credit and equity, data is weaker as investments are in smaller companies or different asset classes that do not have an emissions reporting methodology. To support improvement in private equity reporting, we support the ESG Data Convergence Initiative, led by the Institutional Limited Partners Association (ILPA). We also call on regulators to request that these different markets better report climate data.
6. **Sovereign debt** – Like all defined benefit schemes, BTPS has significant investments in government bonds, also known as sovereign debt. This is because sovereign debt is a key risk management tool to hedge against inflation and match liabilities. Sovereign debt emissions can be calculated in many ways however, this lack of emissions accounting agreement means there is a risk of double counting emissions. Emissions numbers which are achieved are not comparable to equity and corporate credit emissions calculations, and there is currently no way of assessing any forward-looking climate information related to sovereign debt. As a result, we continue to support industry efforts to align sovereign debt accounting methodology via NZAOA.

Appendix two: Emissions calculation methodologies

Enterprise Value Including Cash

Enterprise Value Including Cash (EVIC) is an alternative measure to Enterprise Value (EV) used to estimate the value of a company by adding back cash and cash equivalents to EV. The underlying data used for the EVIC calculation is sourced from a company's accounting year-end annual filings.

$$EVIC = \text{Market capitalisation at fiscal year-end date} + \text{preferred stock} + \text{minority interest} + \text{total debt}$$

Absolute emissions

This metric measures the total greenhouse gas emissions (GHGs) attributable to a portfolio. Trustees are recommended to report this number by the Department of Work and Pensions (DWP) regulation, covering at least scopes 1 and 2 GHGs.

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)$$

Carbon footprint

This metric normalises financed emissions by a total value invested in a portfolio and measures the emission impact of a portfolio per million US dollar invested. It allows for like-for-like comparisons across different portfolios and the contribution of individual issues can be examined to identify large relative contributors to overall emissions. The DWP regulations recommend that this number is reported by Trustees.

$$\frac{\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 GHG emissions}_i\right)}{\text{current portfolio value (\$M)}}$$

Weighted Average Carbon Intensity

Weighted Average Carbon Intensity (WACI) is a measure of carbon emissions normalised by revenues. Since revenues are a repeatable comparison point across issuers, WACI can be used for analysis across portfolios, sectors and asset classes. Companies with high emissions and low revenues are also more likely to be vulnerable to carbon pricing therefore, this metric is useful from a risk analysis perspective and can highlight potential exposure to transition risks.

$$\sum_{n}^{i}\left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i}\right)$$

Portfolio alignment

This metric measures the proportion of equity and credit portfolio that has emission reduction targets in-line with the Paris Agreement goals and helps BTPS focus stewardship efforts on investments with no targets. This year, the Trustee has assessed the percentage of the portfolio with approved, science-based emission reduction targets, also known as SBTi targets, aligned with the Paris Agreement. Science-based targets provide a clearly defined pathway for companies and financial institutions to reduce greenhouse gas (GHG) emissions, helping to prevent the worst impacts of climate change and future-proofing business growth. Targets are considered 'science-based' if they are in-line with what the latest climate science deems necessary to meet the goals of the Paris Agreement; limiting global warming to 1.5°C above pre-industrial levels.

However, how portfolio alignment is calculated may change over time as methodologies and data improve, particularly in relation to how we can calculate alignment as per guidance in the NZIF stewardship toolkit. The DWP regulations recommend that this number is reported by Trustees.

Appendix three: Scope 3 emissions metrics for equities and corporate bonds

Scope 1-3 emissions as at 30 June 2025	Absolute emissions (tCO2e, scaled to 100% coverage)	Carbon footprint (tCO2e/$m invested)	WACI (tCO2e/ $m revenues)	Portfolio GHG data coverage (%)
Listed equities	**1,648,734**	**496.2**	**1,376.2**	**99.7%**
Comparator - MSCI World	1,005,661	302.7	771.6	99.9%
Listed credit	**3,505,931**	**299.6**	**607.2**	**80.4%**
Comparator - BBG Global Agg Corporate	4,799,204	410.0	882.1	96.2%

Scope 3

We are also reporting, where available, estimated Scope 3 emissions. Scope 3 comprises emissions that are not produced by the company itself but by those that it is indirectly responsible for, up and down its value chain. These are typically much larger than Scope 1 & 2 emissions. Apart from the potential of double counting by summing up Scope 3 emissions across a portfolio of companies, disclosure of Scope 3 data remains limited and most of the coverage in the table above relates to estimated values by MSCI. As a result, the Scheme, similar to other asset owners, continues to prioritise reduction in and monitoring of Scope 1 & 2 emissions.

Appendix four: Glossary of terms

2°C Scenario
An internationally agreed threshold to limit the rise in global temperatures to below 2°C from pre-industrial levels.

Biodiversity
The variety of plant and animal life in the world or in a particular habitat. High biodiversity is typically associated with ecosystem resilience.

Bond (or corporate credit)
A type of debt security, issued by a firm and sold to investors. The company gets capital and in return the investor is paid a pre-established fixed or variable interest rate.

Business Model Red Flags (Shift Project)
Indicators of structural exposure to social risks anchoring the SIFT tool; examples include labour exploitation and product misuse.

CA100+
CA100+ is a coalition of over 400 global investors with nearly $40 trillion in AUM focused on engagement with the largest emitters for enhanced governance, strategy actions and disclosure around climate change.

Carbon footprint
The amount of carbon dioxide released into the atmosphere because of the activities of a particular organisation. Most often expressed as tonnes of CO2 emission per USD$ million of revenues.

Climate change
The long-term global shift in weather patterns due to manmade greenhouse gas (GHG) emissions.

Corporate governance
The system of rules, practices and processes by which a company is directed and controlled.

Covenant strength
A measure of the ability of the employer to meet its obligations to the Scheme.

Credit default swap
A credit default swap is a contract which transfers the credit risk of an issuer from one party to another party.

Custodian
A custodian or custodian bank is a financial institution that holds customers' securities for safekeeping to prevent them from being stolen or lost. The custodian may hold stocks or other assets in electronic or physical form.

Deforestation
The action of clearing a wide area of trees, often leading to biodiversity loss and climate-related risks.

Derivative
A financial contract whose price is derived from the movement in an underlying asset e.g. a single security or basket of securities, interest rates, inflation levels, exchange rates or index movements. Examples of derivative instruments are futures, forwards, options and swaps.

Diversity, Equity & Inclusion (DE&I)
Practices aimed at ensuring fair treatment and opportunity regardless of individual differences or backgrounds.

Ecosystem services
Benefits to people provided by ecosystems, such as climate regulation, water purification and pollination.

ENCORE Tool (Exploring Natural Capital Opportunities, Risks and Exposure)
A tool that helps financial institutions understand the potential impact of environmental change on the economy.

Engagement
The practice of shareholders entering into dialogue with management of companies to change or influence the way in which that company is run.

Equities
Shares directly held in companies.

Equity
A method of raising fresh capital by selling shares of the company to public, institutional investors or financial institutions. The people who buy shares are referred to as shareholders of the company because they have received ownership interest in the company.

ESG
Environmental, social and governance issues that constitute the three pillars of Responsible Investments. E, S, and G are the three central factors in measuring the sustainability qualities of an investment.

ESG integration
The incorporation of ESG factors and analysis into investment decisions.

Exposure
The level of risk to a particular asset, asset type, sector, market or government.

Fiduciary duty
The duties (or equivalent obligations) that exist to ensure that those who manage other people's money act in the interests of beneficiaries, rather than serving their own interests.

Funding position
The funding position of a scheme is how its current market value of assets compares with its liabilities. It can be expressed as a ratio or percentage of the scheme's assets and liabilities (known as the funding level).

Appendix four: Glossary of terms

Gilt
Sterling bond issued by the UK Government.

Government bond
Debt-based investment where money is loaned to a government in return for an agreed rate of interest. Governments use them to raise funds that can be spent on new projects or infrastructure, and investors can use them to get a set return paid at regular intervals.

Greenhouse gas emissions (GHG)
The main GHGs in the Earth's atmosphere are carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O) and ozone (O3). These gases absorb and re-emit heat thereby keeping the planet's atmosphere warmer than it otherwise would be. Human activities, such as the burning of fossil fuels, are increasing the levels of GHGs in the atmosphere, causing global warming and climate change. The gases are categorised into three scopes:

Scope 1 covers direct emissions from the reporting company's owned or controlled sources; Scope 2 covers indirect emissions from purchased electricity, steam energy, heating and cooling; and Scope 3 includes all other indirect emissions that occur in the company's value chain.

Index-linked securities
Securities on which the rate of interest and the capital value are linked to the rate of inflation.

Infrastructure
Investments in 'real assets' which contain physical assets such as bridges, roads, highways, sewage systems or energy.

Institutional Investor Group on Climate Change (IIGCC)
A forum for collaboration by institutional investors on the investor implications of climate change.

Intergovernmental Panel on Climate Change (IPCC)
The United Nations intergovernmental body for assessing the science of climate change. The IPCC's assessment reports supported the creation of the Paris Agreement

Low-carbon economy
An economy based on low-carbon power sources w ith minimal carbon emissions into the environment. It also implies a world where the temperature increase is contained well below 2°C or 1.5°C.

Market value
The best estimate of the price for which assets could be sold at a given date.

Natural capital
The world's stocks of natural assets including geology, soil, air, water and all living things, which provide ecosystem services.

Negative emissions technologies
Mechanisms for the absorption and storage of carbon and other atmospheric greenhouse gases, which are considered vital to attaining net zero carbon emissions.

Net zero
Achieving net zero emissions (absolute scope 1-3) in the investment value chain and investing in transition solutions to reduce or remove carbon emissions from the atmosphere.

Net Zero Asset Owners Alliance
An asset owner alliance committing to transitioning their investment portfolios to Net Zero GHG emissions by 2050, playing a key role in helping the world deliver on a 1.5°C target and addressing Article 2.1c of the Paris Agreement.

Paris Agreement
The Paris Agreement was reached at COP21 in 2015. Its aim is to ensure global warming in the 21st century remains well below 2°C above the average level recorded for the period 1850 to 1900 and to support efforts to limit global warming to 1.5°C.

Private equity
Equity investments in companies that are not publicly traded.

Proxy voting
A proxy vote is a ballot cast by one person on behalf of another. One of the benefits of being a shareholder is the right to vote on certain corporate matters. Since most shareholders cannot attend the annual and special meetings at which the voting occurs, corporations provide shareholders with the option to cast a proxy vote. Shareholders may vote at the Annual or Extraordinary General Meetings (AGM/EGMs) of the companies in which they invest.

Real estate
Investments in office buildings, industrial parks, apartments or retail complexes.

Responsible investment
Incorporating corporate environmental, social and governance (ESG) factors into investment decision-making to help investors identify future risks and opportunities.

Science Based Targets initiative (SBTi)
Defines and promotes best practice in emissions reductions and net zero targets in line with climate science.

Securities lending
Loaning shares of stock, commodities, derivative contracts or other securities to other investors or firms.

Appendix four: Glossary of terms

Share
A unit of ownership in a company or financial asset.

SIFT (Social Insight Factor Tool)
A diagnostic tool developed by Brightwell and Canbury Insights that maps sectors against social issues.

Stewardship
The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Sustainable investment
Aiming to generate long-term financial returns while contributing positively to society and the planet.

Systemic risk
A risk that has the potential to trigger widespread disruption to financial or economic systems, often non-diversifiable and interconnected.

Task Force on Climate-related Financial Disclosures (TCFD)
Will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders.

The Scheme
The BT Pension Scheme.

The Transition Pathway Initiative (TPI)
Co-founded in 2016 by the Environment Agency Pension Fund and the Church of England National Investing Bodies. The initiative assesses how companies are preparing for the transition to a low-carbon economy and will form the basis for engagement with companies.

TISFD (Taskforce on Inequality and Social-related Financial Disclosures)
An emerging initiative to create a unified disclosure framework relating to financial risks driven by inequality.

TNFD (Taskforce on Nature-related Financial Disclosures)
A global initiative to guide corporate and financial sector disclosures on nature-related risks and opportunities.

Trustee Directors
Directors of BT Pension Scheme Trustees Limited, the corporate Trustee of the BT Pension Scheme (the Trustee). A Director of the Trustee is also a member of the Trustee Board.

UK Stewardship Code
A code first published by the Financial Reporting Council in 2010 to enhance the quality of engagement between asset managers and companies in the UK. Its principal aim is to make asset managers more active and engaged in corporate governance matters in the interests of their beneficiaries.

United Nations Principles for Responsible Investment (PRI)
A United Nations (UN) supported and investor-led global coalition promoting the incorporation of environmental, social and governance factors.

BTPS

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