BTPS

Annual Report and Accounts 2022

www.btps.co.uk

Contents

About BTPS

The BT Pension Scheme (BTPS or the Scheme) is the largest company pension scheme in the UK and one of the largest pension funds in Europe. A defined benefit pension scheme for employees, former employees and dependants of BT Group (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.

More information on the Trustee Board and Scheme governance can be found on **page 6 and page 30**

The Trustee Board has delegated responsibility for day-to-day management of the Scheme to **BT Pension Scheme Management Limited** (BTPSM, a wholly owned subsidiary of the Scheme), the primary service provider to BTPS, subject to ongoing Trustee Board oversight. BTPSM is also the principal investment advisor to the Scheme.

More information on BTPSM and its Executive can be found on **page 12**

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.

The report on Funding and Investment can be found on **page 14** and the Member Services report can be found on **page 26**

At a glance

The Scheme's funding position **improved to 92%** at 30 June 2022, compared to 88% at 30 June 2020.

As at 30 June 2022, there were **268,978** members.

Total benefits paid were **£2.5bn** in the year to 30 June 2022.

The Scheme's net assets were valued at **£46.9bn** as at 30 June 2022.

The Scheme's net assets were invested **41.2%** in equity-like assets and **58.8%** in cashflow aware assets as at 30 June 2022.

Chair's statement

On behalf of the BTPS Trustee, I am pleased to introduce the Scheme's annual report and financial statements for the financial year to 30 June 2022.

2022 headlines and highlights

In my report last year, I wrote that 2021 had been a year marked by considerable change and challenge. Any cautious optimism we may have had that 2022 would bring a more stable domestic and global environment appears to have been misplaced. As I write a key cross-party priority is addressing the cost of living crisis. Globally, the war in Ukraine continues and COVID continues to impact many aspects of our lives.

The Scheme has been able to weather these events, not least because our de-risking journey began in 2014, meaning the fund was already defensively positioned in terms of hedging and portfolio management. However, we have refreshed our scenario analysis so that we are as prepared as we can be for future extreme events. This 'event planning' extends to monitoring any potential changes to the ownership and corporate structure of BT Group. I have asked Morten Nilsson (BTPSM CEO) to provide more commentary on this work.

As I reflect on the issues that have dominated our agenda during this year, I would highlight the following:

- Value for members – we continue to focus on delivering value for money to our members. The most recent investment cost benchmarking report concluded that BTPS remained low-cost compared with peers, whilst the administration benchmarking report highlighted an improvement in the service delivery score. Our administration costs have reduced in the current year, and we are improving from a benchmarking perspective.
- Realising benefits of investment in technology – the Trustee was pleased to see that the 2022 annual member survey demonstrated continued improvements in member satisfaction levels across all areas. This follows the launch of our new pension administration system, member portal, and the new Scheme website in 2021. Alongside this are the more recent changes to the AVC platform, which has reduced the time to switch between funds from weeks to days.
- Sustainable investment - the Scheme's' core investment principle is sustainable long-term value creation as we acknowledge that strong returns over the long term should emerge from investing in sustainable business. We have a critical role to play through voting at company annual general meetings and engaging with investee companies. These activities help us to manage the financial risks to meeting our funding obligations. Read more in the Sustainable Investment & Stewardship section on pages 22 to 25. I also want to thank our member panel for feedback on our sustainable investment reporting. As detailed on page 169 we received some very useful insights which will help us refine our approach in future. It was also good to have the opportunity to meet some Scheme members in person at an event we hosted this year at the King's Cross Estate, one of our flagship investments. During the visit, we provided more detail about our 2035 Net Zero target and approach to sustainable investment. A short video from the day can be viewed on the following link: **www.btps.co.uk**

Otto Thoresen
Chair of Trustee Board

Chair's statement continued

- Integrated risk management - we take a holistic view of the risks to which the Scheme is exposed. To do this, we consider the covenant (including the protections agreed with BT as part of last year's triennial funding valuation process), the continued appropriateness of the investment strategy, and funding. The Technical Provisions funding deficit as at 30 June 2022 is now £4.38bn (compared to £7.98bn at the last formal valuation as at 30 June 2020) but we also monitor the solvency funding level which is a more stringent measure of the Scheme's funding position and is explained in more detail in Morten's report.
- Trustee Governance – our governance arrangements have proved effective and resilient in the face of the complexities of the past few years. However, earlier this year the Board engaged an independent provider to assess our performance and help us identify whether there are any further refinements to be made to ensure our governance framework remains effective. At the time of publication, the review had not completed. We will publish the actions taken to address the key outcomes in next year's report and accounts. Additionally, over the year, we continued to maintain our commitment to Trustee training, with a keen focus on ESG, cyber risks, and Diversity and Inclusion.
- Regulatory change – as part of our ongoing monitoring of the pipeline of regulatory change we continue to prepare for The Pensions Regulator's (TPR) single code to come into force. In common with other large schemes, we consider that we are well positioned given our continued focus on risk governance in the Scheme.

2022 Annual Report and Accounts

This annual report and financial statements show the financial position of the Scheme on a particular day (30 June 2022) and the money which has gone in and out of the Scheme since 30 June 2021. This exercise is different to the funding valuation which we completed last year. The funding valuation is a detailed financial health check of the Scheme which is carried out every three years and looks at whether the Scheme is likely to be able to pay the benefits that are due in the longer term. As shown in the financial statements on the following pages, BT made deficit funding contributions of £0.9bn in the year to 30 June 2022. In addition, distributions of £180 million were received in respect of the Asset Backed Funding arrangement. None of the additional contribution provisions, agreed with BT as part of the 30 June 2020 valuation, were triggered over the period as we remain 'on track' in terms of the recovery plan.

The financial statements show a £10.4bn fall in the value of the Scheme's assets since last year, largely driven by the performance of our liability hedging investments. These investments are designed to fall in value when changes to interest rates or inflation levels cause the Scheme's liabilities fall, and vice versa, and have made an important contribution to the reduction in the funding deficit since 2020. We saw further steep rises in interest rates during September, during which time our hedges continued to perform as expected, and there has been no worsening in our estimated funding position.

RPI reform during 2020

During 2020, the Government and the UK Statistics Authority consulted on their proposal to effectively replace RPI as a measure of price inflation with CPIH, with the change happening sometime between 2025 and 2030.

In November 2020, the Government announced that this change would happen in 2030. In April 2021, the trustees of the BT Pension Scheme, Ford Pension Schemes and Marks and Spencer Pension Scheme announced that they were seeking a judicial review of the decision to ensure the far-reaching implications on both our Scheme and other DB schemes were fully considered. The hearing took place in June 2022 and in early September 2022 we were disappointed to learn that the High Court had dismissed the judicial review. After careful consideration, the Trustee (along with the trustees of both the M&S and Ford schemes) have taken the decision not to pursue an application to the Court of Appeal.

Close

To close, I would like to thank all the Trustee Directors for their continued commitment and hard work during another very busy year for the Scheme. I would like to welcome back Andy Kerr on his reappointment which was effective 1 March 2022.

Throughout the year, we monitored BTPSM's delivery and operational effectiveness by reference to service performance measures which cover the three service lines (Member Services, Funding and Fiduciary Services, and Trust and Business Services). The BTPS Trustee Directors commend the BTPSM team for their hard work, trusted advice and support. This was recognised through three awards we received in 2022 which recognise our combined achievements over the year.

Otto Thoresen | 6 October 2022

Trustee Board

The following are the Trustee Directors:

Otto Thoresen (A) has extensive experience in pensions, financial services and consumer issues across a range of private and public sector organisations. Before starting his portfolio career he was Director General of the Association of British Insurers from 2011 to 2015. Previously he was Chief Executive of AEGON UK from 2005 to 2011. He was the independent reviewer of the Treasury Review of Generic Financial Advice – the Thoresen Review – published in 2008 which led to the creation of what is now called the Money and Pensions Service. Otto was Chair of the National Employment Savings Trust (NEST) from 2015 to 2022. He is also Chair of the board of Aviva International Insurance, and the board of abrdn's Life and Pension Subsidiary. He is a member of the Court of the University of Aberdeen.

Nigel Cotgrove (B) was a National Officer of the Communication Workers Union (CWU) for 31 years until July 2020. In that role he was the national lead for occupational pensions in telecoms, IT and financial service companies for two decades. This included negotiating on all BT pension issues such as changes to the BTPS; improvements to the defined contribution pension; and the creation of the hybrid pension. He was part of the Airwave Solutions DC Pension Governance Committee between 2007 and 2020.

Nigel has served on the Members' Panel at the National Employment Savings Trust (NEST) since 2016, and is also a Trustee of the CWU 2000 Defined Benefit Pension.

Nigel is a member of the CWU and the National Federation of Occupational Pensioners (NFOP).

Andrew Kerr (B) was employed by BT from 1975 to 2008. He served on the National Executive Committee of the CWU from 1997, and was the President from 1999 to 2008 when he was elected to his current position as Deputy General Secretary (Telecoms and Financial Services). He is responsible for leading negotiations with BT on all occupational matters which has included pensions. Andrew has previously held Trustee positions on the BT Retirement Plan, the National Communications Union (NCU) Staff Superannuation Scheme and was a Governance Committee member of the BT Retirement Saving Scheme. He has a pension from the BT Pension Scheme and is a member of the NFOP.

Ben Marshall (B) has been a trustee of a number of pension schemes continuously for over thirty years, and until his recent retirement was both chair of the General Federation of Trade Unions Pension Scheme and a member of the board of governance of the Steria Defined Contribution Scheme since its creation in 2010. He has also been a trustee of the BT Retirement Plan (now the BTRSS and now a Group Personal Pension Plan), and the Accenture AHRS DC Scheme.

Emily Clark (C) has assumed the post of BT's Chief Financial Officer, Networks, this year, after six years as Chief Economist. Emily's legacy was to create a function which provides economic thinking and analysis to further key commercial, regulatory, policy and strategy goals, wherever it is required in BT Group. Prior to her current role, Emily was a director at a City law firm and, before that, an economic consultant, working for clients in a range of sectors including energy, financial services and communications. In all her roles, Emily has been involved in launching and embedding a range of gender diversity initiatives.

Trustee Board continued

Keith Nichols (C) was formerly Chief Financial Officer and member of the board of management at AkzoNobel N.V., where he played a key role in the sale of Organon BioSciences to Schering Plough and in the acquisition of ICI and its related pension liabilities. Prior to joining AkzoNobel N.V. in 2005, he held various senior finance positions across a number of industrial sectors for companies such as Corus Group, TPG N.V., WPP and BET. He is also an Independent Member of the King's College London Finance Committee and a Fellow of the Association of Corporate Treasurers.

Chris Cheetham (C) was appointed to the Board in September 2020. Chris has over 40 years' experience in the investment management industry, almost all of which has been in senior investment roles. Formerly Chair of the Mineworkers Pension Scheme, which has c.£12bn of assets and 135,000 members, Chris was Chair of HSBC Asset Management (UK) until June 2020. He is a Non-Executive Director of the Pension Protection Fund, a Director of People's Investment Limited and a Trustee of the Science Museum Foundation. Chris began his career with Prudential Portfolio Managers (now M&G) where he worked in a variety of investment management roles, ultimately as Director of Investment Strategy and Research. During his career he held positions as Global CIO of AXA Investment Managers and CEO of AXA Sun Life Asset Management. In May 2003 he joined HSBC's asset management business as Global Chief Investment Officer.

David Viles (C) joined BT Group as Director of Risk, Compliance and Assurance in 2018. David began his professional career at Arthur Andersen in 1988, firstly as an auditor and then building a number of consulting businesses, mostly related to risk. David then joined Deloitte and later BP plc, holding various senior risk-related roles. David re-joined Deloitte in 2015 as a senior advisor in its risk management practice.

Beryl Shepherd (B) was employed by BT Group from July 1978 until November 2019 and was, until August 2019, the president of the CWU and chair of the National Executive Committee of the CWU. She served on the National Executive Committee of the CWU and the Telecom & Financial Services Executive of the CWU from 2002 until 2019 when she relinquished her responsibilities. Beryl is a pensioner member of the Scheme, a member of NFOP and a member of the CWU.

(A) Chair appointed by BT with the agreement of the recognised trade unions.

(B) Member-nominated Trustee Director selected by the recognised trade unions and The National Federation of Occupational Pensioners (NFOP).

(C) Employer-nominated Trustee Director.

CEO update

Reflecting on the year since we published our last report, it's hard to comprehend how much the world has changed.

At home, the UK faces inflation running at a 40-year high and overseas, Russian military forces continue to occupy parts of Ukraine.

Over the summer, the UK saw record high temperatures bringing closer to home the physical effects of climate change. This comes against the backdrop of a global economy still recovering from the pandemic.

As the primary service provider to BTPS, BTPSM provides investment advice, funding and fiduciary management services, covenant oversight, member services, and operational and secretariat services.

During the past year, our focus has been broad. We've supported the Scheme through the current global geopolitical and economic uncertainty, worked to ensure the Scheme is well prepared for any corporate activity that may affect the Scheme's covenant, realised the benefits of investments we've made in technology and continued to develop our leadership position on sustainable investment.

Deficit reduction plan on track

The deficit reduction plan remains on track with the Scheme set to be fully funded by 2030. An interim assessment as at 30 June 2022 estimated that the Scheme's funding position had improved from 88% to 92%, representing a reduction in the funding shortfall (deficit) from £7,978 million as at 30 June 2020 to £4,376 million as at 30 June 2022. The main reasons for the improvement are the deficit contributions paid by BT and a higher than assumed return on the Scheme's assets. As a result, no contingent contributions were required from BT Group.

Whilst the funding position has improved, the value of the Scheme assets has fallen since last year. This reflects the interaction of our assets and liabilities with changes in long term interest and inflation rate expectations. This trend continued following the year-end, when our estimated funding position did not worsen at a time when unprecedented gilt market volatility resulted in further reductions in the value of the Scheme's assets.

Supporting the Scheme in uncertain times

Since the year-end, and up to the date of signing, we saw extreme volatility in the gilt market, with yields rising sharply prior to the Bank of England's gilt-market intervention.

Almost all UK DB schemes hedge their interest rate and inflation risk using a combination of these gilts and interest rate and inflation swaps – financial instruments that we use to protect the Scheme from changes in interest rates.

During this time, our hedges have performed as expected, and whilst the value of the Scheme's assets has fallen over this period, there has been no worsening in our estimated funding position.

Morten Nilsson
BTPSM Chief Executive Officer

CEO update continued

We have continued to work closely with the BTPS Trustee Board to refresh our inflation stress tests and scenario analysis in light of recent announcements, to understand the impact of inflation shocks on our portfolio. Read more in the funding and investment report on page 14.

When the war in Ukraine broke out, institutional investors were quick to respond, divesting from Russian assets in support of the UK government's sanctions and objective to economically isolate Russia.

The Scheme's exposure to Russian securities had always been relatively small due to governance concerns and ownership rights associated with the region and since January 2022, BTPSM had been working closely with our investment managers to minimise this exposure in a disciplined manner.

Corporate event planning

BTPS is a very substantial stakeholder for BT, with a funding deficit of £4.4bn and a solvency deficit of £13.1bn. The funding deficit has a significant level of reliance on the strength of the BT employer covenant – that is, the BT Group's ongoing legal obligation and financial ability to support the Scheme now, and in the future. As such, the Scheme takes a strong interest in all matters relating to the ownership and corporate structure of BT Group.

Any change of control impacting the corporate and capital structure of the Group would lead the Trustee to reassess the strength of the covenant going forwards, and determine appropriate funding and investment plans based on that covenant and the associated level of risk that would then be appropriate. The Trustee response would depend on the extent to which the covenant would be weakened and on any mitigants that would be provided. The Scheme is well prepared to react should there be any change of control which could impact the corporate and capital structure of the BT Group.

Further detail is included in the funding and investment section on page 16.

Realising the benefits of our investments in technology

Following a period of intense business transformation for BTPSM, over the past 12 months we've focused on fully realising the benefits of the investments made in these new technologies.

During the year, we rolled out of a new trading and investment platform for Funding and Fiduciary services. With enhanced automation and a simplified end-to-end operating model, it further enhances our ability to manage risk for the Scheme and provides a robust platform to effectively support our 'one portfolio investment approach' for the Scheme.

In May 2021, BTPSM implemented Procentia's IntelliPen pension administration system and launched a new Scheme website and member portal. The response from members has been hugely positive. From a standing start, we now have over 100,000 members registered to manage their BTPS pension online and, since launch, 60% of newly retired members have committed to confirming their retirement choice using the portal.

Our annual member survey conducted in January 2022 found continued improvements in member satisfaction across all areas. It was particularly pleasing to see the improvements in satisfaction with our online services given our focus on this area. Further details are included in the member services report on page 26.

The latest CEM administration benchmarking report highlighted the continuing improvement in our service delivery. Our administration costs have fallen this year, and are improving from a benchmarking perspective. We remain on track to achieve our 5-year cost per member target, whilst retaining our top-quartile service quality score.

CEO update continued

Progress towards net zero 2035

The Scheme set a 2035 net zero goal in October 2020 driven by an acceptance that climate change is now a clear and present risk to the Scheme meeting its long-term financial commitments, not a future risk.

Since setting the goal, BTPSM has been working closely with the Scheme's managers to ensure that investment mandates are aligned with the goal and have been actively engaging with the highest emitting companies in the portfolio. You can read much more about our activities in our responsible investment and stewardship report on page 136.

In June 2022, the Scheme announced 5-year targets to reduce the scope 1 and 2 carbon intensity of its equity and credit portfolio by at least 25% and real estate by at least 33% by 2025.

Setting realistic 5-year decarbonisation goals is essential on the path to achieving our 2035 net zero goal. But we're under no illusion that reaching this goal will be linear, either for the Scheme or the wider economy.

There are different credible routes to a net zero future, but every route requires strong commitments, trade-offs, and increased policy action from governments and regulatory bodies worldwide.

The Scheme is fully committed to playing its part, supporting companies that have realistic transition plans and providing funding to those that are helping to create a greener future.

Whilst the Scheme's focus has primarily been on climate risk, we have been giving consideration to whether additional risks relating to long-term sustainable investment should be recognised by the Trustee, and incorporated into the Scheme's investment strategy and its implementation. In May, two risks were developed further, recognising they are becoming more imminent: Scarce and Impaired Natural Resources and Geopolitical Instability including inequality. More detail on these new themes can be found on page 158.

Equality, Diversity and Inclusion

Earlier this year, BTPSM joined 19 other signatories who have committed to holding their investment managers to account on diversity and inclusion to improve the asset management industry's performance on this important issue.

Diversity and inclusion will form part of BTPSM's manager selection and we will monitor managers' efforts on an ongoing basis to encourage positive broader industry change.

In addition, BTPSM has joined the Diversity Project which is a cross-company initiative championing a more inclusive culture within the savings and investment profession. Equality, diversity and inclusion is an area we know we can always improve and joining the Diversity Project is a great way for us to learn from others who've been on similar journeys and learn from best practice.

An award-winning pension scheme

Over the past 12 months, BTPS won three leading industry awards: Pension Scheme Administrator of the Year at the European Pensions Awards, Defined Benefit (DB) Scheme of the Year at the Pensions Age Awards and the UK Country Award at the Investments & Pensions Europe (IPE) Awards.

These awards are testament to BTPSM's focus on delivering the best outcomes for the Scheme's members and the hard work of everyone at BTPSM together with our Board of Trustees and our Scheme sponsor, BT. I'm very proud of all we've achieved.

Everyone at BTPSM is honoured to support the Scheme and the Trustee in delivering members' promised pensions every step of the way to, and through, their retirement. This ongoing responsibility is one we carry out with care. diligence and great pride. I hope that is evident in the pages of this report.

Recognition of BTPS in the year to 30 June 2022

European Pensions awards

Pension Scheme Administrator of the Year

"This pension scheme has worked hard to push the boundaries when it comes to administration to develop a fresh proposition that sets the bar high for the industry."

Pensions Age awards

DB Scheme of the Year

"BTPS stood out for its strong environmental, social and governance (ESG) focus and member satisfaction and truly set the bar high in the DB arena."

The judges also felt that the Scheme "had risen to the investment and regulatory challenges facing the DB pension space, serving as an inspiration to other schemes in the pensions marketplace."

IPE awards

UK Country Award

"BTPS is a top UK fund not just in size but in innovation, such as the vehicle to deal with trapped surplus, while its ambition to be net zero by 2035 is well ahead of the industry."

About BTPSM

BTPSM is a wholly-owned subsidiary of the Scheme. It is a regulated entity and authorised by the Financial Conduct Authority (FCA). BTPSM is led by a board of directors that are authorised by the FCA.

BTPSM is the primary service provider (investment advice, funding and fiduciary management services, covenant oversight, member services, and operational and secretariat services) to BTPS.

The BTPSM Executive Board is responsible for reporting and providing assurance to the Trustee that the business is well managed and aligned to the Trustee's objectives. It also has the legal responsibility to ensure that it has adequate resources and governance arrangements to operate the business, including the effective delivery and oversight of Scheme administration, operations, financial performance, and the delivery and oversight of the implementation of the Scheme's investment strategy.

The operational responsibilities and liabilities borne by BTPSM Directors and senior management are distinct from the Trustee's fiduciary responsibilities. Accordingly, the BTPSM Board consists entirely of Executive Directors.

Legal, Compliance and Risk Management

BTPSM operates a risk management framework based on the identification and assessment of key risks, mitigation of risks through the control environment, and ongoing monitoring and reporting to the BTPSM Board and its committees. The framework is supported by BTPSM's policies, procedures and governance structure. The BTPSM Board is ultimately responsible for the oversight of risk management for BTPSM and, as such, is responsible for setting and periodically reviewing the risk strategy in relation to its key areas of risk. In addition to the BTPSM Board and committees, BTPSM also has dedicated Legal, Compliance and Risk Management functions.

The Legal function provides a full suite of legal advice and support to both BTPSM and the Trustee on all relevant laws & regulations including financial services, investment, pensions, corporate, employment and other matters as applicable. This includes the monitoring of relevant changes and developments within the legal and regulatory environment, and advising the Trustee and the BTPSM Board on the impact of these on both the Scheme and BTPSM.

The Compliance function has responsibility for monitoring and providing advice to both BTPSM and the Trustee on compliance with regulatory requirements relevant to BTPSM and the management of the Scheme. This includes establishing and monitoring firm-wide conduct of business requirements (such as personal account dealing and gifts and hospitality); development and oversight of compliance policies; and ongoing compliance monitoring activities, including post-trade surveillance.

The Risk Management function is responsible for maintaining effective risk management across both BTPSM and the Scheme in line with the Risk Management Framework. This includes establishing and implementing relevant policies, providing oversight of the control environment, and making recommendations for change based on risk and control reviews, self-assessments, and risk events.

About BTPSM

Morten Nilsson*, CEO, joined BTPSM in September 2018 and is responsible for leading all aspects of the business in its support of the Trustee of the Scheme and its members.

Morten has spent most of his career in financial services. He joined the pensions and investment industry in 2001 and spent over 10 years with the £90 billion Danish pension scheme ATP, where he held different senior positions across administration, investments, and product and business development. In 2010 he moved to London where he founded NOW: Pensions and, as CEO, grew the business to become one of the largest occupational DC providers in the UK.

Wyn Francis*, CIO, joined BTPSM in 2008 and was confirmed as CIO on 1 January 2021 after serving as Deputy CIO since 2014. Wyn is responsible for advising the Trustee on the investment strategy and implementing that strategy within an agreed delegated authority.

Prior to joining BTPSM, Wyn spent 10 years as a consulting director at PwC and KPMG, where he managed teams responsible for providing market and trading risk management advice. He also held roles structuring and trading interest rate derivatives, and managing fixed income portfolios for Credit Agricole and Credit Lyonnais.

Other Executive Committee members:
Gillian Haselden*, Chief Legal Officer
Simon Langworthy*, Chief Administration Officer
Martin Tully*, Chief Operating Officer
Peter James, Chief Investment Administration Officer (appointed 2 February 2022)
Julia Friend, Chief People Officer (resigned 15 December 2021)
Kevin Samborn, Chief Technology Officer
Ulrik Langermann, Interim Chief People Officer (appointed 13 December 2021)

* Director of BT Pension Scheme Management Limited

Report by the Trustee: **Funding and investment**

Funding and investment

Funding

A full actuarial valuation of the Scheme is undertaken at least once every three years based on a range of assumptions including future inflation, pension increases, salary increases, investment returns and longevity.

The most recently completed full actuarial valuation was carried out at 30 June 2020. The valuation concluded the funding level of the Scheme (i.e. the ratio of assets to the estimate of accrued liabilities at the date of the valuation) was 87.8%. The corresponding funding deficit was £7,978 million.

The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions in the expectation of returning the Scheme to a fully funded position by 30 June 2030.

Under this recovery plan, BT made deficit contributions of £500 million, £1,660 million and £400 million in March 2021, May 2021 and June 2021 respectively, with a further £500 million paid in March 2022 and £400 million paid in June 2022. Further contributions of £400 million and £500 million are due in March 2023 and June 2023 respectively. The formal recovery plan ends on 31 December 2035, but in practice the Scheme is expected to reach full funding by 30 June 2030, as a result of the following:

- The deficiency contributions set out in the Schedule of Contributions that are due before 30 June 2030.
- Use of the £1,660 million contribution paid in May 2021 to invest in an asset backed funding arrangement that will make payments of £180 million a year to the Scheme over 13 years. The payments may end before that time if the Scheme deficit is removed earlier than expected. This asset is secured on EE Limited shares.
- The above payments of £180 million a year reflect amounts due on an underlying loan note with a face value of £1,925 million. The fair value of the Scheme's investment in the asset backed funding arrangement at the date of this investment was £1,660 million. This is less than the face value of the underlying loan note, reflecting the probability of the Scheme becoming fully funded and, therefore, the annual interest payments and capital repayments to the Scheme ending, before the underlying loan note matures.

  The terms of the loan note were agreed on an arms-length basis with appropriate protections for the Scheme, and the Trustee have an entitlement to the full value of the loan note in the event of an insolvency of BT. As such, the asset-backed funding arrangement represents a secure asset for the Scheme, providing a valuable stream of securitised payments. Based on the relevant regulations, the ABF does not amount to an Employer Related Investment, and the Pensions Regulator (TPR) is generally supportive of such funding solutions where the terms are appropriate. Further details are included within the Self investment section in the Report by the Trustee, and Note 16 to the financial statements.
- From 1 July 2023 to 30 June 2030, BT will pay £600 million a year either directly to the Scheme or to a new co-investment vehicle. If these contributions are paid to the co-investment vehicle their value will be recorded as an asset in the Scheme accounts and, to the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the Scheme. Any remaining funds in the co-investment vehicle would be returned to BT if they are not deemed to be needed by the Scheme when assessed by the Trustee over the period 2034 to 2036.

Funding and investment continued

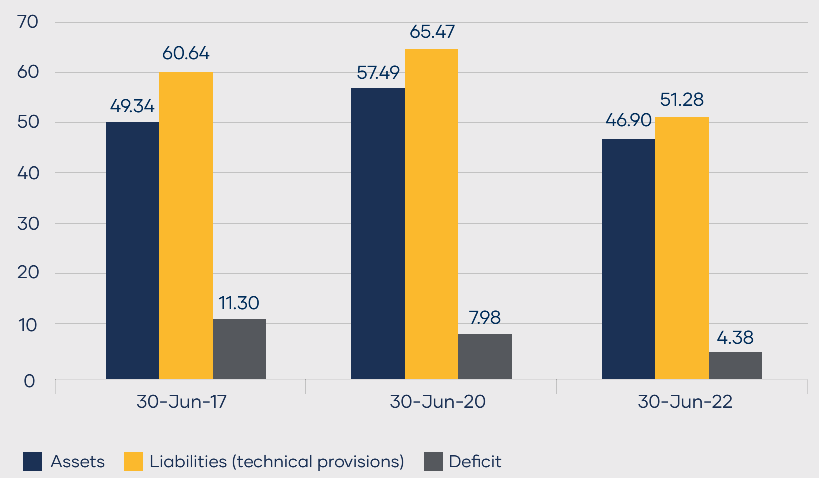
In addition, BT have agreed to pay up to a further £200 million per year to the Scheme if needed to meet any future emerging funding deficit in excess of £1 billion. The need for these contributions will be assessed every year. This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding.

No account was taken of the Crown Guarantee in the actuarial valuation.

Good progress has been made since the date of the 2020 valuation. An interim assessment of the Scheme was prepared as at 30 June 2022 which revealed that the funding deficit had decreased to £4.4bn. The main reasons for the reduction in the deficit are the deficit contributions paid by BT and a higher than assumed return on the Scheme's 'growth' (i.e. equity and equity-like) assets. Based on these calculations, the additional contributions of up to £200m per year, as referred to above, were not required this year.

The reduction in the deficit since the last formal valuation has been achieved despite a reduction in the value of the Scheme's assets. This is because whilst the value of the Scheme's assets has fallen since 30 June 2020, the value of the pension liabilities has fallen by a greater amount, as illustrated in the chart opposite.

Progression of funding position



The interim valuation has been completed on a technical provision basis. The solvency deficit as at 30 June 2022 was £13.1bn. This measure assumes a low-risk, closely matched investment strategy with additional margins for risk included and would be considered in the event the Trustee could not place reliance on the BT covenant.

The Scheme's financial position and the level of BT's contributions will formally be reviewed in full as part of an actuarial valuation due no later than 30 June 2023.

Funding and investment continued

Investment strategy

The Scheme's main objective is to ensure 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. In considering the approach to meeting this objective we take into account the expected progression of the Scheme's annual benefit payments relative to the projected level of Scheme assets as the Scheme matures. We have set an objective to reduce the level of investment risk gradually over time and to increase the level of cashflow aware assets as the proportion of retired members increases. By no later than 2034, we currently intend that we will hold sufficient assets such that, when invested in a portfolio consisting predominantly of cashflow aware bond and bond like investments, it would be reasonable and prudent to expect the assets to provide adequate income plus capital repayments each year to enable benefit payments to be met in full as they fall due.

We take an integrated approach to the management of risk and return in the Scheme. The investment of the Scheme's assets is set to be consistent with funding a defined level of benefits within an acceptable level of risk, having regard to the covenant of BT, and the funding requirements in the Scheme Rules and relevant legislation.

The Trustee considers that a strong employer is the best support for the Scheme, and it takes independent advice on the quality of the covenant of BT and its ability to meet its obligations.

Investment risks and returns are monitored by BTPSM on an ongoing basis and are reviewed regularly by the Trustee. This is based on sensitivity analysis of the Scheme to a wide range of factors including inflation, interest rates, currency, equity, credit and longevity, in order to assess the potential impact on funding and the risks associated with different asset allocations. The volatility of the Scheme's funding position has been reduced through the implementation of an interest rates and inflation hedging programme. The Scheme's assets and liabilities are actively monitored, and the Trustee receives ongoing reports on these. Delegation to BTPSM as investment manager is clear and ensures the Scheme is well positioned to respond quickly to changes in markets and funding levels.

Over the year, BTPSM has continued to monitor the potential impact on the Scheme's investments and funding position in relation to the ongoing uncertainty relating to the COVID-19 pandemic and the impact of geopolitical risk including the conflict between Russia and Ukraine. BTPSM has considered the likely impact on equity prices, interest and inflation rates, foreign currency exchange rates, and real estate valuations, and has explored the possible investment responses.

Statement of Investment Principles

A Statement of Investment Principles (SIP) has been agreed by the Trustee following written advice from BTPSM and consultation with BT. The preparation of this statement complies with the requirements of Section 35 of the Pensions Act 1995 and sets out, in general terms, the policy of the Trustee on a number of investment issues. This statement is reviewed regularly and was updated in September 2021. The most recent Statement of Investment Principles is available at **btps.co.uk/RegulatoryReporting**

Details on how the Trustee has implemented the SIP in relation to its stewardship activities are included in the Implementation Statement, which forms part of the Trustee's annual report, in Appendix 2.

Measuring investment performance

The Trustee monitors investment performance against the Scheme's strategic investment objectives. Reports are provided regularly by BTPSM to the Trustee and include information on Scheme level risks, cash flows and the performance of underlying mandates against their respective benchmarks. Details of the annualised investment returns are provided below:

	2022	2021	2020
Actual	-15.7%	-0.2%	9.9%
Real[1] – Adjusted RPI[2]	-27.5%	-4.0%	8.8%
Real[1] – Adjusted CPI[2]	-25.1%	-2.6%	9.3%

	3 years	5 years	10 years	15 years
Actual	-2.6%	0.9%	5.0%	3.9%
Real[1] – Adjusted RPI[2]	-8.1%	-3.6%	1.6%	0.6%
Real[1] – Adjusted CPI[2]	-6.7%	-2.4%	2.6%	1.2%

[1] Scheme real adjusted equals Scheme actual less RPI and CPI respectively.
[2] Retail Prices Index (RPI) and Consumer Prices Index (CPI) are measures of UK inflation.

The negative total investment return in the year to 30 June 2022 has been largely driven by the performance of the liability hedging investments within the cashflow aware portfolio. These investments are specifically intended to hedge or offset changes in the value of Scheme liabilities due to changes in the level of interest rates and inflation.

The value of these investments will fall when the value of the Scheme's liabilities fall, and vice versa. As shown in the chart on page 16, since the date of the last formal valuation, the value of the Scheme's liabilities have fallen by more than the value of the Scheme's assets, leading to a reduction in the size of the funding deficit as at 30 June 2022.

Funding and investment continued

Investment review as at 30 June 2022

Market review
After an exceptional 2021, the first half of 2022 has been difficult for markets. Concerns over the economic implications of the Russian invasion of Ukraine and the potential need for a faster pace of interest rate hikes to combat higher inflation, weighed on both equities and bonds.

Inflation has proven far more persistent than the consensus expected, necessitating a more aggressive pace of rate hikes from central banks than investors were expecting at the start of the year. This has coincided with diminishing real household incomes and subsequently heightened recession risks.

The energy shock is adding to these growth concerns. Europe is reliant on importing oil and natural gas from Russia, which makes the area highly vulnerable to the conflict. The coming winter could pose significant economic challenges to households and businesses given their energy needs and potential supply disruptions.

In the US, inflation unexpectedly rose to 9.1%, a 40-year high, a sign that price pressures are becoming entrenched in the economy. UK CPI rose to 9.1% in May, a fresh four-decade high. RPI rose to 11.7%, with more signs of inflationary pressures building at the wholesale level, as raw material costs rose the most on record.

In response to inflationary pressures, central banks became more hawkish and embarked on a hiking cycle, projecting further tightening to combat inflation. The Bank of England tightened its policy rate from 0.1% to 1.25% by June 2022 and is expected to continue raising rates in subsequent months despite a slowing economy.

For the year ending 30 June 2022, the global equity index MSCI World fell 3% in Sterling terms. UK equities outperformed, rising 4%. The repricing of higher inflation, warranting a more aggressive monetary policy, saw UK 10-year bond yields rise by 150bps to 2.2%. Sterling fell by 12% against the US dollar over the same period. Oil was the best performing asset, rising by 110% year-on-year, driven by geopolitical tensions and the subsequent supply disruptions.

Scheme investment performance

The Scheme assets are managed, as a single portfolio, to a risk and return profile set at the most recent actuarial valuation of the Scheme. To deliver on Scheme objectives, a wide range of assets are held, which for practicality, are grouped by the Trustee into two purpose-based categories.

Equity and equity-like: Formed of higher returning, growth sensitive assets including public equity, this allocation is expected to be the largest contributor to the Scheme return target. This contribution will play a key role in improving Scheme funding over time.

Cashflow aware: The primary objective of the cashflow aware category, which is comprised primarily of fixed income assets such as corporate bonds, is to generate income to cover future pension payments. This allocation also contributes to the Scheme return target. The importance of this allocation will grow as the Scheme matures and pays out more in pensions each year. The level of projected income relative to outgoings is measured by the cashflow coverage ratio.

Funding and investment continued

Also within the cash-flow aware category are liability driven investments (LDI), inflation-linked bonds, and inflation and interest rate derivatives. Alongside generating income, these investments also hedge changes in the value of Scheme liabilities due to changes in the level of interest rates and inflation.

The proportion of the change in liability value hedged by the asset portfolio is known as the 'hedge ratio'. This reduces volatility in the Scheme funding position and increases benefit security. The hedge ratio also incorporates a contribution from the fixed income portfolio.

Overall, the Trustee assesses investment performance relative to both liabilities (the return required under the most recent triennial valuation) and market-based indices (reference returns). Assessment against the liabilities is the primary focus and most important in determining whether performance is on track to achieve the Scheme's long-term funding requirements. However, in the shorter term, markets can be unpredictable and its also important to consider the returns of the Scheme's investments in the context of the wider market backdrop through indices that reflect asset class performance.

Over the last 12 months, the equity and equity like assets produced a return of 1.0%, and over the last 3 years the return was 5.9% per annum. Over the last 3 years, the return on equity and equity like assets is ahead of the expected return of 4.4% per annum.

Over the past year, the cashflow aware portfolio has performed in line with expectations, providing an effective match to the change in the value of the Scheme's liabilities in the anticipated proportions. During the last few years, the interest rate and inflation hedge ratios have been increased to approximately 95% and 90% respectively, to mitigate the effect of changes in interest rates and inflation expectations. This means that approximately 95% of any change to the Scheme's technical provisions due to changes in interest rates, and approximately 90% of any change to the Scheme's technical provisions due to changes in inflation expectations is expected to be offset by the change in value of the cashflow aware portfolio. This hedge has been implemented incrementally over several years. A measured implementation approach has been required because of the large size of the Scheme and the desire not to have an adverse impact on market pricing.

The Scheme's cash flow coverage ratio, which measures the proportion of future pension payments covered by cashflow aware assets, including investment grade corporate and government bonds, is currently at 52% and is expected to increase over time as the Scheme matures.

The Scheme has entered into a longevity insurance contract to protect it against costs associated with the increased life expectancy of members. All else being equal, if members do not live for as long as expected, this will reduce the value of both the longevity insurance contract and the Scheme's liabilities, and this reduction in liabilities will more than offset the investment loss on the longevity insurance contract.

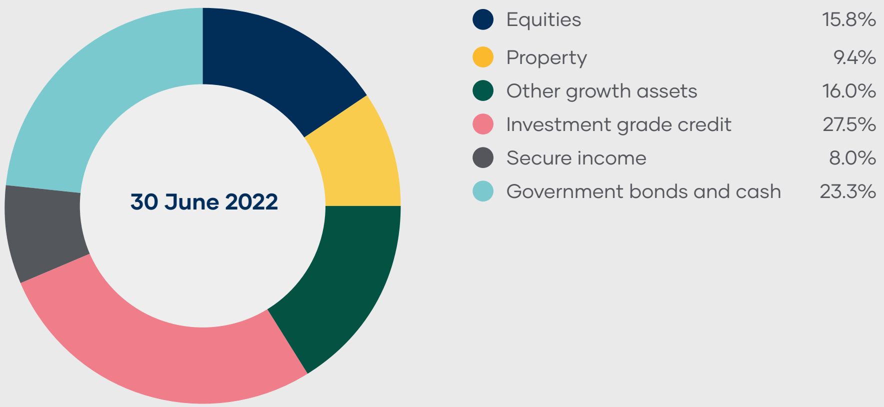
Conversely, if members live for longer than expected, this will increase the value of both the longevity insurance contract and the Scheme's liabilities, and this increase in liabilities will be only partially offset by the gain on the longevity insurance contract.

In effect, the insurance contract reduces the range of outcomes in relation to life expectancy.

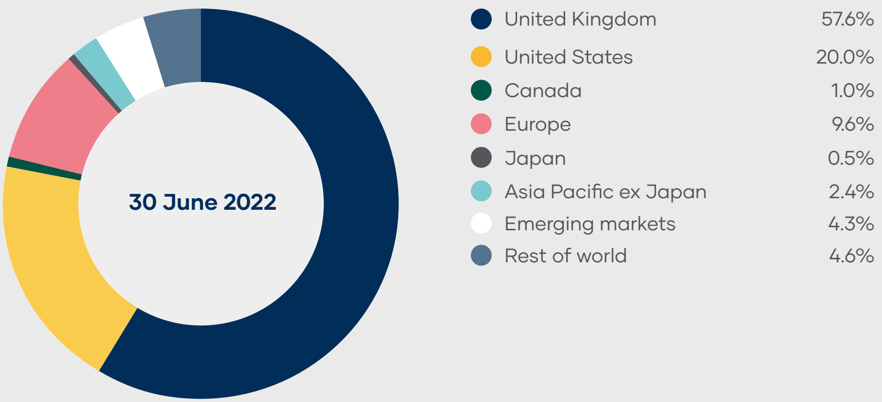
During the course of the year to 30 June 2022, the fair value of the longevity insurance contract has fallen by £13 million, to an investment liability of £1,044 million as at 30 June 2022.

Funding and investment continued

The distribution of investments



Regional breakdown



Distribution of investments

The Trustee takes an integrated approach to the management of risk in the Scheme, setting an investment strategy that is consistent with funding a defined level of benefits within an acceptable level of risk while having regard to the quality of the covenant and the affordability to BT. The allocation of assets between different classes of investments is a key factor in delivering this investment strategy and is reviewed regularly by the Trustee.

The distribution of investments and regional breakdown as at 30 June 2022 is shown in the charts to the left. Pooled investment vehicles, loans, derivatives and cash have been re-allocated to the appropriate asset classes to reflect the underlying exposures. Further explanation of these re-allocations is given in Understanding the financial statements, on page 36.

As explained in the Scheme investment performance section, asset classes are grouped into two purpose-based categories:

- Equity and equity-like, which includes equities, property and other growth assets.
- Cashflow aware, which includes investment grade credit, secure income, and government bonds and cash.

Derivatives and other financial instruments

The Trustee has set objectives and constraints for the Scheme overall, and for the Scheme's investment managers, on the use of derivatives and other financial instruments.

BTPSM uses derivatives to manage the Scheme's risk profile; this includes their use to mitigate the impact on Scheme funding of changes in inflation and interest rates, and to limit the impact of large falls in equity markets. Furthermore, derivatives are used from time-to-time to rebalance the Scheme's asset allocation and for reducing the risks associated with the Scheme's foreign currency exposure.

The Scheme's investment managers, where applicable, use derivatives for the efficient management of the portfolios they manage on behalf of the Scheme. The Scheme's pooled investment funds also use derivatives and other financial instruments to finance their operations, and to manage interest rate and foreign currency risks arising from their operations and from their sources of finance.

Funding and investment continued

Self investment

Regulations require that the Scheme's investments in employer-related investments should not be more than 5% of the Scheme's net assets. At 30 June 2022, the total amount of employer-related investments held by the Scheme was £10 million (2021: £10 million), representing 0.02% (2021: 0.02%) of the Scheme's net assets. There were no properties occupied by BT owned by the Scheme at 30 June 2022 and 30 June 2021.

On 25 June 2018, Britel Scotland II LP subscribed for £2,000 million of bonds issued by BT. Britel Scotland II LP is a Scottish limited partnership in which the Scheme is invested. As the bonds are owned by Britel Scotland II LP, a Scottish Limited Partnership, they do not amount to employer-related investments for the purposes of the relevant regulations. Since the initial subscription, BTPS has sold £224 million of the bond nominal value, and as at 30 June 2022, the value of the BT bonds held by Britel Scotland II LP was £1,582 million (2021: £2,200 million) representing 3.4% of the Scheme's net assets (2021: 3.8%).

The asset backed funding arrangement, described in more detail in the Scheme funding section, is undertaken through the entity BT Falcon 1 LP. This entity holds a loan note with an initial nominal value of £1,925 million issued by EE Group Investments Limited, a subsidiary of the BT plc. As the loan note is held by BT Falcon 1 LP and this entity is a Scottish Limited Partnership with separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations. As at 30 June 2022, following receipt of the second £180 million payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,210 million (2021: £1,430m), representing 2.6% (2021: 2.5%) of the Scheme's net assets: whilst the principal amount outstanding on the EE loan note held by BT Falcon 1 LP was £1,676 million (2021: £1,800 million).

In its guidance, The Pensions Regulator recognises that innovative funding mechanisms of the kind described above may help employers meet their obligations to schemes.

The Trustee has taken reasonable steps to satisfy itself as to the appropriateness of the Scheme's investment exposures to the BT group.

Security of assets

The Scheme's assets are registered in the name of a custodian Trustee, Britel Fund Trustees Limited, through a deed of appointment on behalf of the Scheme, or are held in safe-keeping with independent professional custodians, appointed by the Trustee. The Trustee's policy is to separate management and custody, which minimises the risk of misuse of Scheme assets. A small proportion of liquid Scheme assets continue to be held with a secondary custodian, to provide a prudent contingency in the unlikely event of short-term business continuity issues with the Scheme's master custodian. This additional capability is in line with regulatory recommendations. Custody arrangements are reviewed regularly by the Trustee, with the assistance of BTPSM, to ensure the custodial arrangements are appropriate. The Northern Trust Company has been master custodian since 18 November 2008 and JP Morgan Chase was appointed as secondary custodian on 18 December 2015.

Funding and investment continued

Sustainable investment

BT Pension Scheme's purpose & values

We are acutely aware that how and where we invest matters, and this is a responsibility we have always taken very seriously. We firmly believe that investing responsibly supports long-term value, reduces risk and contributes towards better investment outcomes. As a long-term investor, these qualities are critical to enabling us to pay our members' pensions. We strive to integrate financially-material environmental, social and governance (ESG) factors throughout the investment process, including within the overall investment strategy and asset allocation, the design of our investment mandates, and the selection and ongoing monitoring of our asset managers and engagement with the companies in which we invest. Sound corporate governance and companies that are mindful of their impact on society and the environment in which they operate have a better chance of sustaining long-term economic success. This commitment is central to how the Scheme thinks about its investments and this is mirrored in our responsible investment mission statement:

> **"The Scheme's investments should be managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full."**

As part of our investment strategy, which has sustainability at its core, we consider the potential impact on the Scheme of long-term structural risks, including, for example, climate change and scarce and impaired natural resources.

These risks are inextricably linked and require systemic changes in the way companies operate, pension funds invest and in how we steward our assets.

Funding and investment continued

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 our 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.

The Trustee recognises that emerging, long-term risks including, for example, climate change, geopolitical instability, and natural and scarce resources, may have a material, adverse impact on the Scheme.

The statement is underpinned by three beliefs which run through the Scheme's strategy, governance and investment activities.

Long-term investment horizon

Due to the size and longevity of the Scheme, having a long-term investment horizon gives us both a responsibility and an advantage, which we believe will produce better investment outcomes.

ESG integration

We believe that integrating financially material sustainability considerations into asset manager and security selection processes will help the Scheme and its agents make more informed and better investment decisions.

Stewardship

We believe in strong stewardship because exercising our ownership rights in companies, having our agents and portfolio companies engage with each other, and actively managing physical assets can improve long-term risk-adjusted returns and create sustainable long term value. This ensures our own practices align with our expectation of the other companies and assets in which we invest.

Understanding Sustainable Investment terminology

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

Environmental, social and governance factors (ESG) - Using ESG or sustainability information to identify companies with good practices and superior business models. Environmental factors consider how a company performs as a steward of nature e.g. climate change, energy emissions and waste management. Social factors examine how a company manages its relationships with employees, suppliers, customers and the community. Governance deals with how a company is governed, and can assess executive pay, shareholder rights and audit.

ESG integration - Integrating ESG factors into investment analysis to determine if an investment's risks are outweighed by potential investment returns. This can provide investors with a deeper insight into the quality of a company's management, culture, risk profile and other characteristics, before they invest and make more informed and better investment decisions.

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 society." (UK Stewardship Code, 2020).

Funding and investment continued

Governance

The implications of the sustainable investment statement in terms of governance, investment strategy, portfolio management and reporting are set out in the **Responsible Investment Policy**.

The Responsible Investment Policy is approved and owned by the Investment Committee. These responsibilities include the consideration of emerging long-term structural risks that may impact the delivery of the Scheme's funding strategy. This committee oversees the Scheme's sustainable investment strategy, which includes ensuring that the Scheme's activities comply with and fulfil its fiduciary and regulatory obligations in this area.

The day-to-day implementation of the sustainable investment strategy has been delegated to BTPSM, with activity focused on the following three core areas:

1. Understanding the risks and opportunities that may face the Scheme because of its long-term investment horizon.
2. Integrating financially material environmental, social and governance (ESG) factors into the Scheme's investment process, including in the design of investment mandates, new manager searches and ongoing monitoring of managers.
3. Ensuring that the Scheme is delivering long-term value through responsible ownership. The Scheme is committed to being a responsible steward of its assets, including engaging with the companies in which it owns shares to hold management to account, and ensuring that companies consider long-term risks and opportunities, including those relating to environmental, social and governance matters, that contribute to long-term, sustainable value.

Sustainable investment targets are also included in both the BTPSM corporate objectives, and the individual objectives of BTPSM's senior management team.

Funding and investment continued

Sustainable investment in the investment hierarchy

The Head of Sustainable Investment (SI) for BTPSM reports to the Head of Research & Investment Solutions, and oversees the Scheme's sustainable investment strategy and its effective implementation throughout BTPSM, external asset managers and stewardship services providers. The Head of SI reports on sustainable investment matters to the Trustee via regular Investment Committee meetings, and is also responsible for engaging with other asset owners and third-parties to inform best practice and improve the effectiveness of the Scheme's sustainable investment activities.

Key areas of discussion across the organisation included continuing the Scheme's journey to net zero by 2035 and enhancing manager stewardship activities.

The Scheme is undertaking a significant amount of work in this space. If you would like to learn more about what we have done over the past year, please refer to:

Appendix 1: Net Zero 2035 & TCFD report

The Scheme supports the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), which aim to promote better disclosure of climate-related financial risks to improve understanding of the risks and opportunities of climate change. This section provides further details on our governance framework, strategy, and risk management approach in relation to climate-related risks, as well as climate change activities.

Appendix 2: SIP Implementation Statement

In accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019, the Trustee has prepared an Implementation Statement. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy, and other policies and practices within the Statement of Investment Principles, during the year.

Appendix 3 : Stewardship Code response

To promote stewardship excellence in the UK, the Financial Reporting Council (FRC) enhanced the UK's Stewardship Code 2020 (the Code) to set high stewardship standards for asset owners and asset managers, and for service providers that support them. The Scheme proudly retained it's signatory status in 2021 and, in this section, you will learn more about BTPSM's activities on behalf of BTPS, engagement and voting.

Report by the Trustee: **Member services**

Member services

Administration platform and member portal

In May 2021, we introduced Procentia's pioneering IntelliPen pension administration system, and launched a new Scheme website and member portal, **www.btps.co.uk**. The Scheme's member portal was the culmination of more than two year's work, developed using in-depth member research and digital best practice to understand member needs – particularly at the point of retirement. It's designed to be easy to navigate and is personalised to each member.

Unlike traditional member portals, Procentia's IntelliPen technology enables BTPS members to access advanced functionality previously only available to administrators, and make data changes that update directly onto the main database, in real time.

One of the system's key features is a pension calculator which enables members approaching retirement to model their benefits, helping them decide when to take their pension by showing them its value at different retirement dates as well as modelling all of the options available to them. A slider that moves between the minimum and maximum tax-free lump sum for an individual member shows them the impact changing their lump sum has on their annual pension, how they can use any Additional Voluntary Contributions (AVCs) and how that differs on any given date. A truly personalised retirement planner.

The portal also enables members to update personal information quickly, download their pension payslips and P60s, and see the value of their pension each month and their payment dates.

In the year since launch, over 100,000 BTPS members have registered for the portal, over 425,000 calculations have been run and 60% per cent of newly retired members have committed to confirming their retirement choice online.

Our focus is now on fully realising the benefits of the new Procentia administration system and continuously improving the service we provide built on firm foundations.

Member satisfaction survey

In January 2022, we carried out the fourth of our member satisfaction surveys, which was sent to 120,000 members. As well as the survey completion rate increasing, showing higher levels of member engagement, the results showed another year-on-year improvement in member satisfaction. Online services in particular saw significant improvements which we believe is due to the introduction of the enhanced member portal over the year.

Additional Voluntary Contributions (AVC) transition

In May 2022, we transitioned our members' AVCs from our 4 existing providers to funds managed by LGIM. The new range of 12 funds offers a broader investment choice for our members and follows improved sustainable investing practices.

Administration of the new funds will be carried out in-house on IntelliPen with an automated gateway to LGIM, enabling us to provide an improved service to our AVC members.

Looking forward

Pensions Dashboard

Over the year we have continued to engage with the government on the Pensions Dashboard Programme. Working together with Procentia, we have commenced a project to implement the Dashboard through IntelliPen and believe we are well placed to connect in line with the government's proposed schedule in late 2023.

GMP equalisation

A project to equalise guaranteed minimum pensions (GMPs) between men and women has commenced, with updates so far made to ensure that transfers from the Scheme are now being paid on an equalised basis. This is a highly complex area and it is likely to take some time to implement for all affected members.

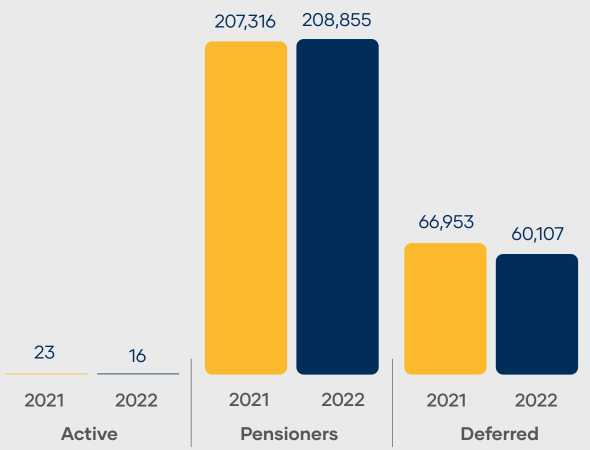
Member services continued

Membership

On 31 March 2001 the Scheme was closed to new entrants. On 30 June 2018 the Scheme was closed to future accrual for most members.

In the year to 30 June 2022, the number of active members fell from 23 to 16. The number of pensions being paid rose from 207,316 to 208,855. The number of members with deferred rights fell from 66,953 to 60,107.

Membership of the Scheme falls into one of three 'sections': Section A, Section B and Section C. Details of these can be found on: **www.btps.co.uk**



Changes to membership

	30 June 2022	30 June 2021	30 June 2020
Membership			
Active members:	16	23	31
Deferred members:	60,107	66,953	73,868
Current pensioners of whom:	208,855	207,316	206,105
Retired employees	173,167	171,817	170,701
Widows / widowers	33,784	33,583	33,419
Children/dependents	1,904	1,916	1,985
	Year ended 30 June 2022	**Year ended 30 June 2021**	**Year ended 30 June 2020**
Changes to membership			
Normal age retirements from active status	0	0	3
Ill health early retirements	23	26	53
Early retirement	3,187	3,574	3,707
Deferred benefits set up	1	0	16
Normal age retirements from deferred status	2,465	2,250	2,192
Benefits transferred out and trivially commuted	485	553	666
Optants out	0	0	0
Death in service	0	1	0
Death in retirement	6,703	6,926	7,278
Death in deferment	79	126	96
Late retirement	72	50	33
Child leavers	44	38	16
New records set up			
Section B rejoiners	0	0	0
Widows, spouse, widowers, and dependents	1,919	1,896	1,913
Children	26	47	25
Benefits transferred in	0	0	0

Member services continued

Pension increases

Pensions are increased in accordance with legislation and the Rules of the Scheme. Currently, this means that, where applicable, the rate of pension increases for Sections A and B is measured by reference to the Consumer Prices Index (CPI), and the rate of pension increases for Section C is measured by reference to the Retail Prices Index (RPI), up to 5%.

In April 2022, the increase for Sections A and B pensions in payment was 3.1% and the increase for Section C pensions was 5.0%. The Trustee does not have the power to pay pension increases above the level required by the Scheme Rules without the agreement of BT.

For deferred beneficiaries for all sections, each member's pension is revalued for the period between the date of leaving service and the date the pension commences.

Revaluation for each year the benefit was deferred before 2011 is calculated by reference to RPI, and revaluation from 2011 onwards is calculated by reference to CPI.

Cash equivalent transfer values

Transfer values paid during the year were calculated in the manner prescribed by regulation. Discretionary benefits are not included in the calculation of transfer values.

Judicial review on RPI reform

In November 2020, the government announced that the way that the retail prices index ("RPI") would be calculated was going to change so that it would align with the consumer prices index (including housing) ("CPIH"). This change was set to take place from 2030.

The current methodology for RPI is estimated to result in a calculation that is approximately 1% higher on average than CPIH. Under the BTPS rules, members in Section C receive increases on their pension in payment by reference to RPI and BTPS hold a number of RPI linked assets. As such, both member pensions and the value of assets held in the Scheme would be materially impacted by this change.

As a result of this, the Trustees of BTPS together with the Ford Pension Schemes and Marks and Spencer Pension Scheme brought a judicial review against the Chancellor of the Exchequer and the UK Statistics Authority. A judicial review is to review and challenge the process and any related decision made by a public body to ensure it is fair and lawful.

The hearing took place in June 2022, with the Trustees contesting the government's case and defending Scheme members and Scheme assets from the detrimental effects of this decision which they do not believe have been fully considered. In early September 2022 we were disappointed to learn that the High Court had dismissed the judicial review. After careful consideration, the Trustee (along with the trustees of both the M&S and Ford schemes) have taken the decision not to pursue an application to the Court of Appeal.

Report by the Trustee: **Governance of the Scheme**

Governance of the Scheme

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 governance arrangements for the Scheme take account of the recommendations and Codes of Practice of The Pensions Regulator (TPR) and best practice, and are kept under continuous review.

The Trustee Board

The Trustee Board's key responsibility is to ensure that BTPS pays benefits as they fall due. The Board discharges its responsibilities through an annual programme of meetings. During the year the Board met eight times. The Board has a forward agenda in place, for a rolling period of twelve months, to ensure that it meets its statutory obligations, and has adequate time to prepare and plan for milestones in the management and operation of the Scheme.

Over the course of the year, the Board considered, monitored or oversaw a wide range of strategic and operational initiatives related to the Scheme's funding, investments and administration, and has kept members informed of these developments.

Trustee Board committees

The Trustee Board has delegated some powers and responsibilities for certain matters to three Board committees. Where powers are delegated to a committee, the committee must act in the same manner, and bear in mind the same considerations, as the Board would have done had there not been any delegation. Terms of reference are in place for each committee and these are reviewed annually to ensure that they remain relevant and fit for purpose.

The membership, responsibilities, activities and details of attendance of the Trustee Board and its Committees and Sub-Committees is set out in Appendix 4.

Trustee policies

The Trustee understands that it needs to have policies and arrangements which ensure compliance with applicable laws, regulations and best practice governance. Trustee Directors are required to comply with a range of policies which relate to personal conduct (e.g. Conflicts of Interest) and those which have a wider application in relation to the operation of the Scheme (e.g. Responsible Investment). The Trustee Directors act in accordance with policies related to Confidentiality, Conflicts of Interest, Anti-Bribery, Gifts and Hospitality, Data Protection and Whistleblowing.

Appointment and removal of Trustee Directors

There is a process in place for the appointment, removal and ongoing appraisal of Trustee Directors. In accordance with the Trustee's Articles of Association, and the Trust Deed and Rules, there are nine Trustee Directors (the Chair, four employer-nominated Trustee Directors and four member-nominated Trustee Directors).

Appointment of the Chair

The Chair of the Trustee Board is appointed by BT after consultation with, and agreement of, the recognised trade unions. BT will determine the Chair's period of office.

Employer-nominated Trustee Directors

BT also appoints four employer-nominated Trustee Directors. An employer-nominated Trustee Director can be removed from office by BT.

Member-nominated Trustee Directors

The Trust Deed and Rules and Articles of Association require that four member-nominated Trustee Directors are appointed. A member-nominated Trustee Director selection and nomination procedure is in place whereby member-nominated Trustee Directors are appointed by BT after being selected by the recognised trade unions and The National Federation of Occupational Pensioners (NFOP). In the event of a vacancy, the recognised trade unions and NFOP will convene a selection panel to fill that vacancy. Candidates from each constituent organisation will be considered by the selection panel. Existing member-nominated Trustee Directors will be re-nominated at the end of their term of office unless one of the constituent organisations represented on the selection panel disagrees. Additional nominations may be considered. On request by the recognised trade unions and the NFOP, BT will, unless it considers the request to be unreasonable, remove a member-nominated Trustee Director from office.

Governance of the Scheme continued

Trustee Directors term of appointment

At the end of a term of appointment, Trustee Directors are eligible for re-appointment. Unanticipated vacancies, for example as a result of death or resignation, are normally filled within six months. The Scheme Rules do not provide guidance on the length of service of Trustee Directors. If a Trustee Director fails to attend any meeting of the Trustee Directors for a period of six months, the remaining Trustee Directors, or a majority of them, may send a request to BT to remove that person from office.

Time requirement

Trustee Directors are expected to devote sufficient time as necessary to carry out their duties. The time commitment in the first year following their appointment may be higher as the Trustee Director requires time to familiarise himself or herself with the rules and operation of the Scheme.

Performance

Consistent with The Pensions Regulator's (TPR's) 'best practice' guidelines, a Trustee skills assessment exercise was undertaken in May 2022. The outcome of the assessment is that the BTPS Board and Committees have the right blend of skills and experience to fulfill their duties. Additionally, as a result of the new legal requirements in relation to ESG that came into force in October 2021, Trustees now have increased responsibilities in this area.

Trustee Knowledge and Understanding (TKU)

All of the Trustee Directors have the relevant skills and knowledge necessary to carry out their roles effectively. The Trustee Directors are required within six months of their appointment to have knowledge and understanding of the laws relating to pensions and trusts, and the principles relating to Scheme funding and investment of assets on behalf of members. They are also required to be familiar with how the Scheme operates and its governing documents.

Working with our regulator

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. BTPSM has worked closely with TPR during the year and provided assurance to them on a broad range of matters including internal controls and managing risks, reporting, record keeping and communicating to members. Early in 2022, TPR reinstated its one-to-one supervision of the Scheme which had been suspended as a result of COVID-19. Once the supervision process is complete, TPR will issue the Scheme with a response. This is a cyclical supervision activity that is carried out across 25 of the UK's largest pension schemes.

BTPS are committed to ensuring compliance with EU and UK GDPRs respectively, working with the Information Commissioner's Office (ICO) to remain up-to-date. We communicate with the ICO on a regular basis to gain advice and opinion, and to ensure our Data Governance framework remains compliant and effective.

Internal control and risk management

The Trustee Board has overall responsibility for the Scheme's risk management and has delegated the monitoring of risk to the relevant Committees of the Board. Day-to-day risk management activities, including the implementation of policies, procedures, controls and risk mitigation actions, have been delegated to BTPSM. BTPSM provides assurance reporting to the relevant Committees and the Trustee Board on a regular basis.

Working with BTPSM the Trustee has identified the principal risks facing the Scheme which could impact upon their ability to meet the Scheme's strategic objectives and affect the Scheme's reputation. The key risks listed below are a subset of the overall risk landscape that is monitored for the Scheme.

Funding risk

The risk that the Scheme's assets fail to cover the pension benefits due to members. BTPSM works alongside the Scheme's Trustee to manage this risk through the careful implementation of an agreed investment strategy aligned to the actuarial valuations and close monitoring of the sponsor's covenant. The Trustee has specific responsibility for determining the investment parameters, agreeing key suppliers, and ensuring the Scheme meets its regulatory and legal obligations.

Governance of the Scheme continued

Supplier performance failure risk
The risk that a third party appointed by the Scheme fails to deliver a business-critical service resulting in financial or reputational damage. BTPSM is a key supplier of services to the Scheme covering both member administration and investment management activities which are covered by its own risk management framework. BTPSM manages third party supplier risks via a rigorous supplier management framework which covers supplier selection, ongoing performance monitoring and taking remedial action where necessary. Business critical suppliers are also required to have business continuity plans in place that are aligned to the Scheme's expectations.

Investment performance risk
The risk that investment returns fail to meet expectation leading to the Scheme funding ratios being below acceptable levels. To manage this risk, BTPSM follows a structured investment process managed by experienced investment professionals. This is supplemented by independent investment risk monitoring.

Legal and regulatory risks
The risk that BTPS breaches the Scheme rules or fails to comply with UK law or fails to meet the regulatory obligations set by The Pensions Regulator. To manage this risk BTPSM employs experienced legal and compliance professionals, and applies a structured compliance monitoring programme. To maintain awareness of future obligations BTPSM undertakes regular horizon scanning activities.

Information security risk
The risk that the confidentiality of the member data is compromised. BTPSM manages this risk by adopting industry best practice for information security and data protection. Key areas of focus include the application of extensive cyber risk controls, full compliance to GDPR and an ongoing education program for staff to maintain awareness.

Fraud risk
The risk of fraudulent activity that impacts members or internal financial fraud within BTPSM. To manage the member facing risks, BTPSM provides guidance to members and applies strict controls to prevent unauthorised access to the member portal. Internal fraud risk is mitigated via the application of strict authorisation protocols and segregation of duties.

Climate change risk
The risk of material financial impact from climate change. This is either due to inappropriate actions taken in pursuit of the Scheme's 'Net Zero' objective or by asset values becoming impaired due to extreme climate related developments. BTPSM manages this risk by applying ESG factors to its investment process.

Further information about BTPSM's risk management framework is included in the section 'About BTPSM' on page 12.

For the Trustee,
Otto Thoresen | 6 October 2022

Statement of Trustee's responsibilities in relation to the audited financial statements

Statement of Trustee's responsibilities in relation to the audited financial statements

The audited financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee.

Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement about whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the Statement of Trustee's responsibilities accompanying the Trustee's Summary of contributions.

The Trustee is responsible for such internal controls as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Understanding the financial statements

The disclosures in the financial statements are determined by pensions legislation, UK GAAP including the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), and the guidelines in the Statement of Recommended Practice (SORP) revised 2018 (Pensions SORP). These set out how the assets of the Scheme are to be presented in the Consolidated statement of net assets and the relevant notes. The Scheme can gain exposure to different asset classes by investing in pooled investment vehicles (PIVs), or by using derivatives as well as segregated mandates.

Investments in PIVs and derivatives are shown separately at fair value in the Consolidated statement of net assets. The presentation of these investments, as guided by the Pensions SORP, differs to the asset allocation of the Scheme as managed by the Trustee as at 30 June 2022. The table to the right reclassifies assets such as PIVs, derivatives and loans into their appropriate asset classes so the asset allocation as at 30 June 2022 can be observed.

		Reclassification					
Asset class	**Value per consolidated balance sheet £m**	**PIVs £m**	**Note**	**Other £m**	**Note**	**Managed value £m**	**Managed allocation %**
Equities	5,906	-		(5,906)		-	0.0%
Actively managed	-	892		3,752		4,644	9.9%
Passively managed	-	-		1,426		1,426	3.0%
Private equity	-	1,286		52		1,338	2.9%
Equities	**5,906**	**2,178**		**(676)**		**7,408**	**15.8%**
Bonds	26,122	-		(26,122)		-	0.0%
Investment grade credit	-	27		12,894		12,921	27.5%
Secure income	-	2,298		1,447		3,745	8.0%
Government bonds and cash	-	1,943		8,985		10,928	23.3%
Bonds, cash & secure income	**26,122**	**4,268**		**(2,796)**		**27,594**	**58.8%**
Property	**1,646**	**2,654**		**89**		**4,389**	**9.4%**
Absolute return	-	1,185		-		1,185	2.5%
Mature infrastructure	-	715		628		1,343	2.9%
Non-core credit	-	3,507		1,474		4,981	10.6%
Other growth assets	**-**	**5,407**		**2,102**		**7,509**	**16.0%**
Other categories							
PIVs	14,507	(14,507)		-		-	0.0%
Loans	100	-		(100)		-	0.0%
Other net assets	(1,381)	-		1,381		-	0.0%
	46,900	-		-		**46,900**	**100%**

Footnotes
[1] Investments in pooled investment vehicles (PIVs) have been reclassified into the appropriate asset class.
[2] Other net assets include deposits and short-term investments, derivatives contracts, AVC investments, special purpose vehicles, other investment assets and liabilities, the longevity insurance contract and net current assets. These have been reclassified to their appropriate asset exposures.
[3] Loans include investments in debt instruments and have been reclassified to the investment grade credit or secure income category within the bonds, cash and secure income asset class.
[4] Exposures to equities are obtained in part through the use of derivatives. It is therefore the notional amount of the derivatives that will determine the Scheme's exposure.
[5] The Scheme consolidates entities in accordance with FRS 102 and thus the underlying assets and liabilities of those entities are presented in the appropriate lines in the Consolidated statement of net assets where permitted by the Pensions SORP. Reclassifications between asset classes have therefore been applied so the managed asset exposure is adequately reflected.
[6] The cash balance represents the value of cash and cash equivalents, net of the amount required to back open derivative contracts (refer to footnote 4 above).
[7] Equities have been reclassified between those that are actively and passively managed.
[8] Bonds have been reclassified between investment grade credit or secure income category within the bonds, cash and secure income asset class.
[9] Investments are classified according to the legal nature of the security or investment instrument within the Consolidated statement of net assets. Within the managed allocation, investments are classified according to the sector to which each investment mandate has exposure. Reclassifications between asset classes have therefore been applied so the managed asset exposure is adequately reflected.

Independent auditor's report

To the Trustee of the BT Pension Scheme

Opinion

We have audited the financial statements of BT Pension Scheme ("the Scheme") for the year ended 30 June 2022 which comprise the Consolidated fund account, the Consolidated statement of net assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 30 June 2022 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee and inspection of policy documentation, as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Trustee Board, Audit and Risk Committee, and Investment Committee meeting minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee or their delegates (including the Scheme administrator and the Scheme management) may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the valuation of directly held property, the valuation of the longevity contract, the valuation of the Scheme's interest in a special purpose vehicle, and the valuation of Level 3 pooled investment vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an

Independent auditor's report

agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These include manual journals posted by Scheme management;
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have material effect on the financial statements from our general commercial and sector experience, and through discussion with the Trustee and their delegates (as required by auditing standards), and from inspection of the Scheme's regulatory and legal correspondence, and discussed with the Trustee and their delegates the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation), and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Scheme is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation, data protection legislation, and recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustees and their delegates and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the schedule of contributions in our statement about contributions on page 40 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would be to identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Independent auditor's report

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions), and the Chair's Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 35, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Fang Fang Zhou
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

6 October 2022

Independent auditor's statement about contributions

To the Trustee of the BT Pension Scheme

Statement about contributions

We have examined the summary of contributions payable under the payment schedule to the BT Pension Scheme in respect of the Scheme year ended 30 June 2022 which is set out on page 41.

In our opinion contributions for the Scheme year ended 30 June 2022 as reported in the Summary of Contributions and payable under the Schedule of Contributions have, in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 12 May 2021.

Scope of work

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 35, the Scheme's Trustee is responsible for ensuring that there is a prepared, maintained and, from time-to-time, revised payment schedule showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

Fang Fang Zhou
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

6 October 2022

Summary of contributions

Statement of Trustee's responsibilities in respect of contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is a prepared, maintained and, from time-to-time, revised Schedule of Contributions showing the rates of contributions payable towards the Scheme by, or on behalf of, the employer and the active members of the Scheme, and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme, and for procuring that contributions are made to the Scheme in accordance with the Schedule.

The following summary has been prepared on behalf of, and is the responsibility of, the Trustee. It sets out the employers' and employees' contributions payable to the Scheme under the Schedule of Contributions for the year ended 30 June 2022. The Scheme's auditor reports on contributions payable under the Schedule, as shown in the '2022 per Schedule' column to the right, in their statement about contributions.

	2022 per Schedule £m	2022 additional £m	2022 total £m
Employers' normal contributions	0	0	0
Employees' normal contributions	0	0	0
Employers' deficit funding contributions	900	0	900
Employers' other contributions	48	0	48
Employees' additional voluntary contributions	0	0	0
	948	**0**	**948**

Approved on behalf of the Trustee Board,

Otto Thoresen
Chair
6 October 2022

Consolidated fund account

For the year ended 30 June 2022

	Notes	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Contributions and benefits			
Employers' contributions	3	948	2,620
Employees' contributions	3	0	0
Total contributions		**948**	**2,620**
Benefits paid or payable	4	(2,526)	(2,561)
Payments to and on account of leavers	5	(237)	(250)
Administration expenses	6	(40)	(66)
Net withdrawals from dealing with members		**(1,855)**	**(257)**
Return on investments			
Investment income	8	1,175	1,013
Change in market value of investments	9	(9,620)	(878)
Investment management expenses	10	(87)	(96)
Interest payable		(3)	(1)
Taxation	11	10	6
Net returns on investments		**(8,525)**	**44**
Net decrease in the Scheme during the year		**(10,380)**	**(213)**
Net assets of the Scheme			
At 1 July		57,280	57,493
At 30 June		**46,900**	**57,280**

The notes on pages 44 to 72 form part of these financial statements.

Consolidated statement of net assets
(Available for benefits)

As at 30 June 2022

	Notes	30 June 2022 £m	30 June 2021 £m
Investment assets			
Equities		5,906	10,252
Bonds		26,122	30,599
Property		1,646	1,458
Pooled investment vehicles	12	14,507	12,728
Loans		100	164
Derivatives	13	3,154	2,565
AVC investments	14	129	158
Deposits and short-term investments		977	1,380
Special purpose vehicles	16	1,210	1,430
Other investment assets	15	467	598
Total investment assets		**54,218**	**61,332**
Investment liabilities			
Derivatives	13	(5,950)	(1,873)
Longevity insurance contract	17	(1,044)	(1,031)
Other investment liabilities	18	(233)	(1,103)
Total investment liabilities		**(7,227)**	**(4,007)**
Total net investments		**46,991**	**57,325**
Current assets	21	108	135
Current liabilities	22	(199)	(180)
Net assets of the Scheme at 30 June		**46,900**	**57,280**

The financial statements summarise the transactions of the Scheme and the net assets at the disposal of the Trustee. It does not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the Actuary's statement and report on actuarial liabilities, and these financial statements should be read in conjunction with this report.

The notes on pages 44 to 72 form part of these financial statements.

These financial statements were approved by the Trustee Board on 6 October 2022 and signed on their behalf by:

Otto Thoresen
Chair

David Viles
Trustee Director

Notes to **the financial statements**

Notes to the financial statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including amendments to these regulations issued on 1 March 2016, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (FRS 102) and guidance set out in the revised Statement of Recommended Practice 'Financial Reports of Pension Schemes' (Revised 2018) (Pensions SORP).

The financial statements have been prepared on the going concern basis. In performing the going concern assessment, the principal risks and uncertainties facing the Scheme have been reviewed, and it has been concluded that these risks do not cast significant doubt on the Scheme's ability to continue as a going concern. These include risks associated with Scheme funding, the employer covenant, and Scheme investment performance, alongside legal and regulatory risks, and operational risks.

The impact of these risks, including the processes to mitigate and manage these, has been considered by the Trustee for a period of at least 12 months from the date of signing these financial statements. As part of the consideration, the Trustee reviews various severe but plausible individual and combined scenarios prepared by management, covering the principal risks that could present a going concern risk to the Scheme, and consideration of post year-end events.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Functional and presentational currency

The Scheme's functional currency and presentational currency is Sterling (GBP). Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the year end. Transactions denominated in foreign currencies are translated into Sterling at the spot exchange rate at the date of the transaction. The financial statements of consolidated overseas subsidiary undertakings are translated into Sterling at the exchange rates ruling at the year end.

Foreign exchange gains and losses arising on conversion or translation are dealt with in the Consolidated fund account as part of the Change in market value of investments.

Contributions

Employers' and employees' normal contributions and employers' deficit and other funding contributions are accounted for on an accruals basis in accordance with the Schedule of Contributions certified by the Actuary. Additional voluntary contributions are accounted for on an accruals basis.

Benefits

Pensions in payment are accounted for in the year in which they relate. Payments represent all valid benefit claims notified to the Trustee during the Scheme year. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving. Pension benefits include realised gains or losses on the longevity insurance contract incurred during the year.

Transfers

Individual transfers in and out of the Scheme are accounted for on a cash basis. Group transfers are accounted for on a cash basis, unless the terms of the agreements signed by the Trustee relating to such transfers state otherwise.

Administration and other expenses

Administration and other expenses are accounted for on an accruals basis.

Basis of consolidation

Under FRS 102, the Pensions SORP and the Pensions Act, it is not a requirement for the Scheme to consolidate subsidiary undertakings and joint ventures. The Trustee has elected to prepare consolidated financial statements for the Scheme, that consolidate subsidiaries which were set up for the operation of the Scheme or subsidiaries that are not held exclusively with a view to resale, in line with the requirements of FRS 102 and the Pensions SORP. Subsidiaries that are held exclusively with a view to resale, such as those held as part of the Scheme's investment portfolio, have not been consolidated and are held at fair value in the Consolidated statement of net assets.

Notes to the financial statements

Investments in subsidiary undertakings

A subsidiary undertaking is defined as an entity controlled by another entity. Control is defined as the power to govern the operating and financial policies of an entity to obtain benefits from its activities.

Under FRS 102, a subsidiary undertaking shall be excluded from consolidation and included at fair value where the investment is held exclusively with a view to subsequent resale. FRS 102's definition of "held exclusively with a view to subsequent resale" includes an interest which is held as part of an investment portfolio. An interest held as part of an investment portfolio is one where its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as a vehicle through which the investor carries out business.

A summary of subsidiary undertakings that are consolidated is included in note 26 'Subsidiary undertakings'. The results of subsidiary undertakings that are consolidated in these financial statements are included from the date of acquisition and up to the date of disposal using the acquisition method of accounting. Consolidation is based on the latest available financial statements for those undertakings with a year end up to three months prior to that of the Scheme. In the case where an undertaking has a year end of more than three months prior to that of the Scheme then management information is used. Adjustments are made to align the accounting policies of the relevant undertaking with those of the Scheme.

Investments in joint ventures

Investments in joint ventures are contractual arrangements to undertake economic activity subject to joint control. The Scheme invests in joint ventures as part of its investment portfolio. The Scheme is not required to consolidate investments in joint ventures but it may choose to do so where permitted. The fair value of the net assets in a joint venture are presented in a manner that best represents the nature of the investments. Investments in joint ventures are presented as pooled investment vehicles.

Investments

Purchases and sales of securities are accounted for on a trade date basis. Property purchases are accounted for on exchange of unconditional contracts, otherwise on completion, and sales are accounted for on completion.

Offsetting financial assets and liabilities

Financial assets and liabilities are not offset unless there is a legally enforceable right to offset the assets and liabilities and the Scheme intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Valuation of investments

Investment assets and liabilities are included in the financial statements at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Securities listed on order-driven exchanges are valued at closing bid prices at the year end. Other securities listed on recognised stock exchanges are valued at closing bid prices. For bond investments this valuation is reduced by the accrued interest therein, with accrued interest included in Other investment assets. Bond investments are classified as Level 1 in the fair valuation hierarchy where the valuation can be supported by quoted trade prices in active markets.

Unquoted securities consist of equities, bonds, pooled investment vehicles and loans, and are included at fair values estimated by the Trustee using appropriate valuation techniques. Unquoted equities are valued in accordance with International Private Equity and Venture Capital (IPEVC) guidelines based on the latest information provided by investment managers, and the price of recent market transactions if they represent fair value. Unquoted bonds are valued using the latest market prices or discounted cash flow models that consider credit risk. Unquoted pooled investment vehicles are fair valued at year end based on the year end, or most recently available, net asset valuations provided by investment managers. Unquoted corporate loans are carried at fair value using the latest available prices in the market. Loans advanced for other investment activities are carried at cost less any provision for impairment.

Notes to the financial statements

UK investment properties are independently valued by CBRE Limited, chartered surveyors, on the basis of market value in accordance with the latest version of the RICS Valuation– Global Standards (incorporating the International Valuation Standards) and the UK national supplement (the "Red Book"). Overseas properties are valued by independent nationally recognised appraisal firms that hold the Member of the Appraisal Institute designation. The valuations take into consideration the current estimate of the rental values and market yields of properties.

Derivatives are fair valued using the following valuation techniques:

- For exchange traded derivatives that are assets, fair value is based on closing bid prices. For exchange traded derivatives that are liabilities, fair value is based on closing offer prices
- Future contracts are exchange traded and fair value is determined using the exchange price for closing out the contract at the year end.

Options can be exchange traded or over-the-counter contracts. For exchange traded options contracts, fair value is determined using the exchange price for closing out the option at the year end. For over-the-counter options contracts, fair value is determined using pricing models that consider the time value of money, volatility and the current market and contractual prices of the underlying instruments.

Swaps are over-the-counter contracts and fair value is the current value of the future expected net cash flows, taking into account the time value of money. Fair value is calculated using discounted cash flows and market data at year end.

Open forward foreign currency contracts are over-the-counter contracts and are valued using forward currency rates at the year end. The unrealised appreciation or depreciation on open forward foreign currency contracts is calculated based on the discounted net present value of the difference between the contracted rate and the rate to close out the contract.

The longevity insurance contract is valued based on the future expected net cash flows, taking into account the time value of money and using market data at the year end.

Special purpose vehicles
In accordance with the Pensions SORP, the ABF arrangement described in the Report by the Trustee is classified as a special purpose vehicle. Special purpose vehicles entitle the Scheme to receive a stream of cashflows over a fixed period. The Scheme's right to receive these cashflows ceases in the event the Scheme becomes fully funded before the end of the fixed period. Special purpose vehicles are valued using a stochastic valuation approach that considers the time value of money and the probability of the Scheme becoming fully funded before the end of the fixed period.

Distributions from the special purpose vehicle are treated as either income or capital receipts in accordance with the agreement between the Scheme and the Scottish Limited Partnership through which the arrangement is conducted.

Notes to the financial statements

Investment income
Dividend income from equity investments is accounted for on the ex-dividend date. Interest income from bonds, deposits and short-term investments is taken into account on an accruals basis. Rental income from property is accounted for on an accruals basis. Income from pooled investment vehicles is accounted for when declared by the investment manager. Insurance risk and premium fees on the longevity insurance contract are recognised in the year incurred.

Change in market value of investments
The change in market value of investments during the year comprises all increases and decreases in the fair values of investments held at any time during the year, including profits and losses realised on sales of investments during the year and unrealised changes in market value of investments held during the year.

Sale and repurchase agreements
Securities sold subject to repurchase agreements are included in the financial statements within their respective investment classes at the year end fair value of the securities to be repurchased. Cash received is recognised as an asset and the corresponding obligation is recognised as a liability. Securities purchased subject to reverse repurchase agreements are included in the financial statements within Other investment assets at the year end fair value of the securities to be repurchased. The Scheme does not recognise the cash delivered to the counterparty as a receivable.

Collateral
Cash collateral balances due from and due to brokers are included in the financial statements within Other investment assets and liabilities. Non-cash collateral posted by the Scheme by way of title transfer is derecognised in the Scheme's financial statements. Non-cash collateral pledged to the Scheme is not recognised, whilst non-cash collateral pledged by the Scheme continues to be recognised in the financial statements.

Commitments
Commitments for property investments are stated at the amount authorised by the Trustee to provide development finance and to purchase properties. Commitments for securities investments are stated at the amount which may be called on partially paid and unpaid shares or which may be due on sub-underwriting contracts or which remain undrawn in commitments to pooled investment vehicles.

Accounting estimates and judgements
No significant judgements have been made by the Trustee in the application of the principal accounting policies. Significant assumptions and estimates have been made in the valuation of the Scheme's financial assets and liabilities classified as level 3 under the fair valuation hierarchy. Details of these financial assets and liabilities, the valuation techniques applied, and the significant valuation assumptions, are provided in note 19 of these financial statements.

As noted above, UK investment properties are valued in accordance with the RICS Red Book standards. There is risk to the fair value of the Scheme's property investments, comprising variation in the yields that the market attributes to the real estate investments and the market income that may be earned. Real estate investments can be impacted adversely by external factors such as the general economic climate, supply and demand dynamics in the market, competition and increase in operating costs.

Notes to the financial statements

3. Contributions

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Employers' normal contributions	0	1
Employers' deficit funding contributions[1]	900	2,560
Employers' other contributions[2,3] (refer to note 6)	48	59
Employers' contributions	**948**	**2,620**
Employees' normal contributions	0	0
Employees' additional voluntary contributions	0	0
Employees' purchase of added years	0	0
Employees' contributions	**0**	**0**
Total contributions	**948**	**2,620**

[1] Deficit funding contributions are being paid by the employer into the Scheme in accordance with a recovery plan, due to end on 31 December 2035, in order to improve the Scheme's funding position.

[2] Employers' other contributions include reimbursement of the Pension Protection Fund levy (PPF levy) in accordance with the Schedule of Contributions certified on 12 May 2021.

[3] An amount of £30 million is included within employers' other contributions in respect of administrative expenses.

4. Benefits paid or payable

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Pensions[4]	2,176	2,168
Commutations of pensions and lump sum retirement benefits	341	387
Lump sum death benefits	8	4
Taxation where lifetime or annual allowance exceeded[5]	1	2
	2,526	**2,561**

[4] In July 2014 a longevity insurance arrangement was entered into to protect the Scheme against costs associated with potential increases in life expectancy. This arrangement covers approximately 20% of the Scheme's longevity risk. Pensions benefits include a realised loss of £21 million on the arrangement during the year (2021: Realised loss of £17 million).

In 2019 the High Court clarified that trustees will need to equalise benefits to allow for inequalities that arise from the calculation and payment terms for gross minimum pensions (GMP). As a result, some members will receive higher pensions, and will be eligible for back pay of historical pension entitlements. The latest available estimate of the amount of historical entitlements to be settled by the Scheme is £5 million.

A liability has not been recognised in respect of these back payments, which will be recorded as benefits paid in the year they are settled.

[5] Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime allowance or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability. This included twenty five cases in respect of lifetime allowances amounting to £1.025 million (2021: twenty seven cases amounting to £1.530 million), and one case in respect of annual allowances amounting to £0.022 million (2021: two cases amounting to £0.061 million).

Notes to the financial statements

5. Payments to and on account of leavers

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Individual transfers in	–	–
Group transfers in	–	–
Individual transfers out	(237)	(250)
	(237)	**(250)**

6. Administration expenses

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Net PPF levy and associated costs (refer to note 3)	16	29
Administration expenses[6]	24	37
	40	**66**

[6] Administration expenses include pensions administration expenses, actuary fees, custody fees, legal fees, other professional fees, and includes £0.4 million of expenses in respect to related party transactions (2021: £0.4 million). Refer to note 24 'Related party transactions' for further information.

Notes to the financial statements

7. Auditors' remuneration

A summary of remuneration received by KPMG LLP as auditors to the Scheme and subsidiary undertakings during the year are disclosed in the table below.

	Year ended 30 June 2022 £k	Year ended 30 June 2021 £k
Fees payable to the Scheme auditor for audit of the Scheme financial statements	365	367
Fees payable to the Scheme auditor for audit of the Scheme subsidiaries pursuant to legislation	1,336	1,217
Total audit fees	**1,701**	**1,584**
Audit related assurance services	14	16
Taxation compliance services	-	-
Other assurance services	-	-
All other services	-	-
Total non-audit fees	**14**	**16**
Fees payable to the Scheme's auditor in respect of associated pension scheme	18	18
	1,733	**1,618**

Notes to the financial statements

8. Investment income

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Dividends from equities	201	166
Income from bonds[8]	521	531
Net rental income from properties[9]	59	52
Income from pooled investment vehicles	40	50
Derivatives	261	172
Longevity insurance contract	(29)	(29)
Special purpose vehicles	56	55
Interest on deposits and short-term investments	66	16
	1,175	**1,013**

[8] Refer to note 24 'Related party transactions' for further information.

[9] Net rental income from properties is stated after deducting £26 million of property related expenses (2021: £21 million).

9. Reconciliation of investments

	Market value at 30 June 2021, £m	Net investment / (disinvestment), £m	Change in market value, £m	Market value at 30 June 2022, £m
Investment assets/(liabilities)				
Equities	10,252	(4,153)	(193)	5,906
Bonds	30,599	1,230	(5,707)	26,122
Property	1,458	122	66	1,646
Pooled investment vehicles	12,728	430	1,349	14,507
Loans	164	(61)	(3)	100
Derivatives[10]	692	1,940	(5,428)	(2,796)
AVC investments	158	(30)	1	129
Special purpose vehicles	1,430	(180)	(40)	1,210
Longevity insurance contract	(1,031)	-	(13)	(1,044)
	56,450	**(702)**	**(9,968)**	**45,780**
Deposits and short-term investments	1,380		89	977
Other investment assets/(liabilities)	(505)		259	234
	57,325		**(9,620)**	**46,991**

[10] Derivatives include both derivative assets and liabilities which are presented separately in the Consolidated statement of net assets.

Notes to the financial statements

	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Net investment / (disinvestment) £m
Investment assets / liabilities			
Equities	5,634	(9,787)	(4,153)
Bonds	7,493	(6,263)	1,230
Property	242	(120)	122
Pooled investment vehicles	2,607	(2,177)	430
Loans	–	(61)	(61)
Derivatives[10]	3,439	(1,499)	1,940
AVC investments	–	(30)	(30)
Special purpose vehicles	–	(180)	(180)
	19,415	**(20,117)**	**(702)**

Transaction costs are incremental costs directly attributable to the acquisition or disposal of an investment, and are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs incurred during the year amounted to £13 million and includes fees, commissions and taxes (2021: £9 million). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments and costs charged within pooled investment vehicles, however they are not separately provided to the Scheme.

Year ended 30 June 2022	Transaction costs				
	Fees £m	Commissions £m	Taxes £m	Other £m	Total £m
Investment assets / liabilities					
Equities	–	4	5	–	9
Bonds	–	–	–	–	–
Property	2	–	–	–	2
Pooled investment vehicles	2	–	–	–	2
Derivatives	–	–	–	–	–
	4	**4**	**5**	**–**	**13**

Notes to the financial statements

Year ended 30 June 2021	Transaction costs				
	Fees £m	Commissions £m	Taxes £m	Other £m	Total £m
Investment assets / liabilities					
Equities	–	4	4	–	8
Bonds	–	–	–	–	–
Property	–	–	–	–	–
Pooled investment vehicles	–	–	–	–	–
Derivatives	–	1	–	–	1
	–	**5**	**4**	**–**	**9**

10. Investment management expenses

	Year ended 30 June 2022 £m	Year ended 30 June 2021 £m
Investment management expenses[11]	87	96
	87	**96**

[11] Investment management expenses include £32 million of expenses to operate BT Pension Scheme Management Limited (2021: £28 million).

Notes to the financial statements

11. Taxation

The Scheme is a registered pension scheme under the provisions of Schedule 36 of the Finance Act 2004 for taxation purposes and in turn has been granted Exempt Approved Scheme Tax Status by HMRC that enables the Scheme to benefit from specific statute that exempts it from income tax on investment income and capital gains tax on gains on disposal. However, income from trading activities is not investment income and therefore does not fall under the specific exemption and will be assessed for tax in the normal way. The tax charge or credit presented in the Consolidated fund account represents irrecoverable withholding taxes or refunds of withholding taxes arising on investment income and deferred taxation.

In managing the tax risk of the Scheme the Trustee will preserve the Exempt Approved Scheme Tax Status of the Scheme and comply fully with and keep up-to-date with all relevant tax laws and regulations in all relevant jurisdictions in which the Scheme operates and/or invests.

12. Pooled investment vehicles

	30 June 2022 £m	30 June 2021 £m
Equities	891	29
Bonds	1,547	1,351
Hedge funds	5,520	5,150
Liquidity funds	1,943	1,577
Mature infrastructure	715	667
Private equity	1,298	1,666
Property	2,593	2,288
	14,507	**12,728**

Included within pooled investment vehicles are certain investments where legal or contractual restrictions can limit the timing of redemptions. This is a characteristic of the investments which is considered as part of the initial investment decision making process, and these restrictions are actively monitored on an ongoing basis.

Notes to the financial statements

13. Derivatives

Objectives
The Trustee has authorised the use of derivatives as part of the overall investment strategy for the Scheme. The main objectives for the use of derivatives are summarised below.

Futures contracts
Futures contracts are entered into as a method of managing the Scheme's exposure to a particular market or sector. Futures contracts provide an efficient way of modifying portfolio risk to remain within asset allocations governed by the investment strategy of the Scheme.

Options contracts
Options contracts are purchased or sold as a method of managing the Scheme's exposure to a particular market or sector.

Swap contracts
Swap contracts are used to modify the Scheme's exposure to various asset classes. Interest rate swaps are held to decrease the Scheme's interest rate risk exposure. Inflation swaps are held to decrease the Scheme's inflation risk exposure.

Foreign exchange forward contracts
Foreign exchange forward contracts are used to manage the Scheme's currency exposures. Disclosure of the derivatives held at year end are set out opposite.

Assets	30 June 2022 £m	30 June 2021 £m
Futures	12	5
Options	54	51
Swaps	3,060	2,465
Forward foreign exchange	28	44
	3,154	**2,565**

Liabilities	30 June 2022 £m	30 June 2021 £m
Futures	(18)	(24)
Options	(312)	(57)
Swaps	(5,063)	(1,564)
Forward foreign exchange	(557)	(228)
	(5,950)	**(1,873)**

Notes to the financial statements

13. Derivatives

The economic exposure represents the notional value of securities purchased or sold under the futures contracts. All of the contracts settle in less than one year (2021: all contracts settle in less than one year). As at 30 June 2022 the Scheme held cash collateral of £21 million on futures contracts (2021: the Scheme held cash collateral of £203 million on futures contracts).

Futures	30 June 2022				30 June 2021			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Equities	–	(267)	–	(4)	172	(2,142)	2	(2)
Fixed interest	94	(1,420)	12	(1)	80	(1,470)	3	(8)
	94	**(1,687)**	**12**	**(5)**	**252**	**(3,612)**	**5**	**(10)**
Over the counter								
Fixed interest	–	(15)	–	(13)	–	(10)	–	(14)
	–	**(15)**	**–**	**(13)**	**–**	**(10)**	**–**	**(14)**
	94	**(1,702)**	**12**	**(18)**	**252**	**(3,622)**	**5**	**(24)**

Notional amount of outstanding contracts represents the value of underlying securities protected by the purchased options. All of the contracts settle within five years (2021: all of the contracts settle within five years).

Options	30 June 2022				30 June 2021			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Equities	2,723	–	54	–	3,288	–	21	–
	2,723	**–**	**54**	**–**	**3,288**	**–**	**21**	**–**
Over the counter								
Currency	–	(3,562)	–	(46)	–	(3,305)	–	(4)
Interest rate swaptions	500	(13,365)	–	(266)	1,130	(13,032)	30	(53)
	500	**(16,927)**	**–**	**(312)**	**1,130**	**(16,337)**	**30**	**(57)**
	3,223	**(16,927)**	**54**	**(312)**	**4,418**	**(16,337)**	**51**	**(57)**

Notes to the financial statements

Swaps			30 June 2022			
Type of contract	Expiration	Nature of swap	Notional Long £m	Notional Short £m	Asset £m	Liability £m
Equity total return	<5 years	Common stock	7,246	-	62	(11)
Interest rate	<49 years	Fixed for floating & floating for fixed	34,166	-	968	(4,296)
Inflation	<47 years	Coupon for floating	17,237	(4,719)	2,024	(399)
Bond total return	<3 years	UK Government bonds	1,690	-	1	(354)
Credit default	<5 years	Itraxx Europe	161	(155)	5	(3)
			60,500	**(4,874)**	**3,060**	**(5,063)**

Swaps			30 June 2021			
Type of contract	Expiration	Nature of swap	Notional Long £m	Notional Short £m	Asset £m	Liability £m
Equity total return	<4 years	Common stock	7,053	-	3	(6)
Interest rate	< 49 years	Fixed for floating & floating for fixed	34,830	-	1,818	(964)
Inflation	<48 years	Coupon for floating	16,624	-	572	(510)
Bond total return	< 3 years	UK Government bonds	2,189	-	70	(82)
Credit default	< 5 years	Itraxx Europe	134	(6)	2	(2)
			60,830	**(6)**	**2,465**	**(1,564)**

The Scheme held cash collateral of £6 million, received pledged bond collateral of £72 million, and it pledged bond collateral of £3,205 million on swap contracts and the longevity insurance contract (2021: the Scheme held cash collateral of £809 million, received pledged bond collateral of £104 million and it pledged bond collateral of £1,999 million on swap contracts and the longevity insurance contract). Collateral amounts reflect the net amount of collateral received or pledged from, or pledged to, each counterparty. Security arrangements in relation to the special purpose vehicle are detailed in note 16.

Notes to the financial statements

Forward foreign exchange							
Currency		30 June 2022			30 June 2021		
Bought	Sold	Notional £m	Asset £m	Liability £m	Notional £m	Asset £m	Liability £m
GBP	USD	14,205	-	(408)	14,495	2	(204)
GBP	EUR	642	-	(10)	443	1	-
GBP	Other	630	1	(20)	570	2	(1)
USD	Other	3,244	26	-	2,512	36	-
Other	Other	2,694	1	(119)	1,713	3	(23)
		21,415	**28**	**(557)**	**19,733**	**44**	**(228)**

All of the contracts settle in less than one year (2021: all of the contracts settle in less than one year).

14. Additional voluntary contributions

Members' additional voluntary contributions (AVCs) are invested separately from the principal Scheme on a money purchase basis with Legal & General Investment Management Limited and Standard Life Assurance Company. These assets are in the form of pension policies securing additional benefits on a money purchase basis for members who elected to pay AVCs. Members participating in these arrangements receive an individual annual statement each year, confirming the amounts held in their account and the movements in the year. The aggregate amount of AVC investments is as follows:

	30 June 2022 £m	30 June 2021 £m
At start of year	158	175
Net withdrawals by members	(30)	(37)
Change in market value of investments	1	20
At end of year	**129**	**158**

Notes to the financial statements

15. Other investment assets

	30 June 2022 £m	30 June 2021 £m
Accrued investment income	181	156
Amounts due from brokers	161	201
Margin deposits - initial	20	193
Margin deposits - variation	2	9
Repurchase agreements	49	-
Other[12]	54	39
	467	**598**

[12] Relates to pension surplus on the Hermes Group Pension Scheme valued in accordance with FRS 102. Refer to note 24 'Related party transactions' for further information.

16. Special purpose vehicles

	30 June 2022 £m	30 June 2021 £m
Special purpose vehicles	1,210	1,430
	1,210	**1,430**

The asset backed funding arrangement, described in more detail in the Scheme funding section of the Report by the Trustee, is undertaken through the entity BT Falcon 1 LP. On 12 May 2021 the Scheme invested as a limited partner in BT Falcon 1 LP, a Scottish limited partnership, in which the other partners are companies in the BT group. The partnership holds a loan note issued by EE Group Investments Limited, a BT group company, with a face value of £1,925 million.

The loan note pays interest at a coupon rate of 3.377% per annum. Repayments to BT Falcon 1 LP follow a linear amortisation profile, with payments on the note due annually in June.

The loan note is due to mature in 2033, 12 years after issue. The Scheme received a deficit funding contribution from BT of £1,660 million to fund its investment in BT Falcon 1 LP. EE Group Investments Limited owns 100% of the shares in EE Limited. BT Falcon 1 LP holds security over certain of EE Group Investments Limited's assets, including its shares in EE Limited, so that in the case of default under the loan note, the Scheme as a limited partner ultimately has recourse to the shares of EE Limited.

The purchase cost of the Scheme's limited partnership interest was £1,660 million. Under the terms of the limited partnership agreement and subject to the conditions therein, on or before 30 June each year, BT Falcon 1 LP will distribute to the Scheme capital and interest amounts it has received in respect of the loan note, provided that the Scheme was in deficit on a technical provisions basis as at 30 June of the preceding year.

The Trustee commissioned Willis Towers Watson to perform a valuation for financial statements purposes of the Scheme's limited partnership interest in BT Falcon 1 LP at inception and at each year end. The valuation is based on the net present value of the coupon receipts, discounted as for securities of similar standing, and uses a stochastic model to estimate the likelihood of becoming fully funded on a technical provisions basis before the term of the partnership is completed. As at 30 June 2022, following receipt of the second £180m payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,210 million, representing 2.58% of the Scheme's net assets; whilst the principal amount outstanding of the EE loan note held by BT Falcon 1 LP was £1,676 million.

As the loan note is held by BT Falcon 1 LP and BT Falcon 1 LP is a Scottish limited partnership with separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations.

Notes to the financial statements

17. Longevity insurance contract

	30 June 2022 £m	30 June 2021 £m
Longevity insurance contract[13]	1,044	1,031
	1,044	**1,031**

[13] Represents unrealised loss on longevity insurance contract involving the exchange of future payments based on expected longevity with future payments based on actual longevity.

18. Other investment liabilities

	30 June 2022 £m	30 June 2021 £m
Amounts due to brokers	215	273
Deferred income	12	13
Margin deposits - initial	–	8
Margin deposits - variation	6	809
	233	**1,103**

Notes to the financial statements

19. Fair valuation hierarchy

The fair values of financial assets and liabilities have been estimated based on the following fair value hierarchy:

Level 1: Unadjusted quoted price in an active market for identical assets or liabilities that can be accessed at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly

Level 3: Inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing whether inputs are observable, and whether the unobservable inputs are significant, may require judgment and a careful analysis of the inputs used to measure fair value, including consideration of factors specific to the asset or liability. The Scheme's financial assets and liabilities have been fair valued using the hierarchy categories.

For certain types of investments, the market uncertainty arising as a result of the COVID-19 pandemic increases the level of judgement required in the measurement of fair value. These typically include investments where the valuation approach is based on modelling expected future cashflows to be received from the investment, and are categorised as Level 3 under the fair valuation hierarchy. The valuation policy for each type of Scheme investment is disclosed in Note 2 of the financial statements.

30 June 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	5,218	-	688	5,906
Bonds	12,994	12,191	937	26,122
Property	-	-	1,646	1,646
Pooled investment vehicles	-	5,554	8,953	14,507
Loans	-	100	-	100
Derivatives	62	(2,858)	-	(2,796)
AVC investments	-	129	-	129
Longevity insurance contract	-	-	(1,044)	(1,044)
Deposits and short term investments	977	-	-	977
Special purpose vehicles	-	-	1,210	1,210
Other investment assets/(liabilities)	131	49	54	234
	19,382	**15,165**	**12,444**	**46,991**

30 June 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	9,460	-	792	10,252
Bonds	17,271	12,053	1,275	30,599
Property	-	-	1,458	1,458
Pooled investment vehicles	-	4,584	8,144	12,728
Loans	-	164	-	164
Derivatives	16	676	-	692
AVC investments	-	158	-	158
Longevity insurance contract	-	-	(1,031)	(1,031)
Deposits and short term investments	1,380	-	-	1,380
Special purpose vehicles	-	-	1,430	1,430
Other investment assets/(liabilities)	(544)	-	39	(505)
	27,583	**17,635**	**12,107**	**57,325**

Notes to the financial statements

The significant assumptions applied in the determination of fair values for financial assets and liabilities subject to valuation techniques are set out below.

Level 2	30 June 2022 £m	30 June 2021 £m	Valuation technique	Significant assumptions
Bonds	12,191	12,053	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Pooled investment vehicles	5,554	4,584	Published net asset values	Redemption discount
Loans	100	164	Amortised cost	Discount rate, credit risk
Derivatives	(2,858)	676	Forward rates, yield curves	Cost of carry, yield curves
AVC investments	129	158	Published net asset values	Redemption discount
Other investment assets	49	–	Amortised cost	Repo rate, credit risk
	15,165	**17,635**		

Level 3	30 June 2022 £m	30 June 2021 £m	Valuation technique	Significant assumptions
Equities	688	792	IPEVC guidelines	Discount rate, earnings assumptions
Bonds	937	1,275	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Property	1,646	1,458	RICS guidelines	Rental yields, occupancy rates
Pooled investment vehicles	8,953	8,144	Published net asset values	Redemption discount
Longevity insurance contract	(1,044)	(1,031)	Discounted cashflow	Discount rate, cashflow profile, actuarial assumptions
Special purpose vehicles	1,210	1,430	Discounted cashflow, stochastic analysis	Discount rate, cashflow profile, actuarial assumptions
Other investment assets	54	39	Projected unit method	Discount rate, inflation rate, salary increases, mortality assumptions
	12,444	**12,107**		

Notes to the financial statements

20. Investment risks

Investment objective
The investment objective of the Scheme is to maintain an investment portfolio with appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The Trustee sets the investment strategy for the Scheme as detailed in the Statement of Investment Principles (SIP). FRS 102 requires the disclosure of information in relation to market risk and credit risk.

- **Market risk:** This is the risk the fair value or future cash flows of a financial instrument may fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.
  - **Interest rate risk:** This is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
  - **Currency risk:** This is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
  - **Other price risk:** This is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuers, or factors affecting all similar financial instruments traded in the market.
- **Credit risk**: This is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Scheme is exposed to inflation risk and longevity risk as detailed below.

- **Inflation risk:** This is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in inflation.

The Scheme is subject to inflation risk because some of the Scheme's investments are held in inflation linked bonds and derivatives. The Trustee hedges Scheme liabilities on a sensitivity basis as part of the investment strategy. Under this strategy, if inflation increases the value of inflation linked investments will rise to help match the increase in actuarial liabilities arising from an increase in inflation linked pension payments. Similarly, if inflation falls the inflation linked investments will fall in value as will the actuarial liabilities.

- **Longevity risk:** This is the risk of higher than expected life expectancy trends amongst the Scheme's pensioners.

A longevity insurance arrangement has been entered into to protect the Scheme against costs associated with potential increases in life expectancy of the Scheme's pensioners. This arrangement covers approximately 20% of the Scheme's longevity risk.

The Trustee manages investment risks within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These objectives and risk limits are implemented by BTPSM, and through investment management agreements in place with investment managers, and monitored by the Trustee. Further information on the Trustee's approach to risk management is detailed in this note.

Liquidity risk
The Scheme is exposed to liquidity risk, which is the risk that the Scheme will encounter difficulty in realising its assets or raising funds to meet its obligations, primarily in respect to funding members' pension benefits and collateral requirements. The Trustee manages the Scheme's liquidity risk by monitoring potential and actual future liquidity requirements on an ongoing basis, ensuring that sufficient cash resources can be made available for the projected cash requirements of the Scheme.

Notes to the financial statements

20. Investment risks

Interest rate risk
The Scheme is subject to interest rate risk on bonds, pooled investment vehicles, loans, derivatives, deposits and short-term investments. The Trustee hedges Scheme liabilities on a sensitivity basis as part of the investment strategy. Under this strategy, if interest rates fall, the value of these investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, investment values will fall in value, as will the actuarial liabilities, because of an increase in the discount rate.

Currency risk
The Scheme is subject to currency risk as some investments are held in overseas markets, either as segregated investments or pooled investment vehicles.

The Trustee manages currency exposures with strategic currency hedging benchmark limits achieved through a currency hedging policy. It is also exposed to indirect currency risk on underlying investments held in pooled investment vehicles.

Other price risk
Other price risk arises in the Scheme's investments portfolio that includes equities, property, pooled investment vehicles and derivatives. The Trustee has set a target investment return expected to be sufficient to support payment of the Scheme's liabilities. A diverse portfolio of investments is used to manage exposure to price movements.

The table below summarises the extent to which various classes of investments are affected by market risks.

	Market risk				
	Interest rate risk	Currency risk	Other price risk	30 June 2022, £m	30 June 2021, £m
Equities	○	◐	●	5,906	10,252
Bonds	●	◐	○	26,122	30,599
Property	○	◐	●	1,646	1,458
Pooled investment vehicles	◐	◐	●	14,507	12,728
Loans	●	◐	○	100	164
Derivatives	●	◐	◐	(2,796)	692
AVC investments	◐	◐	●	129	158
Longevity insurance contract	◐	○	●	(1,044)	(1,031)
Special purpose vehicles	●	○	●	1,210	1,430
Deposits and short term investments	●	◐	○	977	1,380
Other investment assets/(liabilities)	◐	◐	◐	234	(505)
				46,991	**57,325**

In the table, the relevant risks affect the asset classes with significant exposure, some exposure or no exposure, with the following definitions:

- ● An investment risk determined to have significant exposure is a risk that, in the judgment of management, represents a material component of gross overall investment risk exposure to the Scheme, before derivative overlay contracts are taken into consideration to manage investment risk.
- ◐ An investment risk determined to have some exposure is a risk that, in the judgement of management, has a limited contribution to gross overall investment risk exposure to the Scheme.
- ○ An investment risk determined to have no exposure is a risk that, in the judgment of management, has either a residual or no contribution to gross overall investment risk to the Scheme.

In addition, the Trustee uses derivative contracts to manage investment risk exposures of the Scheme, as detailed in note 13.

Notes to the financial statements

20. Investment risks

Credit risk

The Scheme is subject to direct credit risk as it invests in bonds, pooled investment vehicles, loans, over-the-counter derivatives, special purpose vehicles, and holds deposits and short-term investments. It is also exposed to indirect credit risk on underlying investments held in pooled investment vehicles. The Pensions SORP recommends that credit risk exposure on investments in pooled investment vehicles is disclosed on a look-through basis. Credit quality of direct and indirect investments subject to credit risk is provided in this note.

30 June 2022	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	21,448	905	3,769	26,122
Pooled investment vehicles	-	-	14,507	14,507
Loans	-	-	100	100
OTC derivatives	(2,858)	-	-	(2,858)
Special purpose vehicles	-	-	1,210	1,210
Deposits and short term investments	977	-	-	977
Gross exposure	**19,567**	**905**	**19,586**	**40,058**
Credit derivatives (notional amount of contracts)	(6)	-	-	(6)
Net exposure	**19,561**	**905**	**19,586**	**40,052**
Indirect exposure				
Bonds	25	130	268	423
Pooled investment vehicles	-	-	462	462
Loans	-	106	1,470	1,576
OTC derivatives	-	-	-	-
Deposits and short term investments	-	-	10	10
Gross exposure	**25**	**236**	**2,210**	**2,471**
Credit derivatives (notional amount of contracts)	(29)	-	-	(29)
Net exposure	**(4)**	**236**	**2,210**	**2,442**

Notes to the financial statements

30 June 2021	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	26,462	1,066	3,071	30,599
Pooled investment vehicles	-	-	12,728	12,728
Loans	-	-	164	164
OTC derivatives	676	-	-	676
Special purpose vehicles	-	-	1,430	1,430
Deposits and short term investments	1,380	-	-	1,380
Gross exposure	**28,518**	**1,066**	**17,393**	**46,977**
Credit derivatives (notional amount of contracts)	(128)	-	-	(128)
Net exposure	**28,390**	**1,066**	**17,393**	**46,849**
Indirect exposure				
Bonds	17	174	112	303
Pooled investment vehicles	-	-	1,291	1,291
Loans	1	79	1,345	1,425
OTC derivatives	2	-	-	2
Deposits and short term investments	-	-	-	-
Gross exposure	**20**	**253**	**2,748**	**3,021**
Credit derivatives (notional amount of contracts)	(46)	-	-	(46)
Net exposure	**(26)**	**253**	**2,748**	**2,975**

An investment grade rating indicates the counterparty to the security has a relatively low risk of default. Credit risk is managed under a credit risk management and counterparty approval policy. Approved counterparties are subject to credit risk assessments, regular monitoring of exposures against approved limits, credit quality and changes in credit conditions. Credit risk on derivatives depends on whether the derivatives are exchange traded or over-the-counter. Exchange traded derivatives are transacted with clearing brokers and credit risk is restricted to margin amounts posted to the clearing broker. Over-the-counter derivatives are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure by the counterparty. International Swaps and Derivatives Association (ISDA) agreements with executed credit support annexes are in place with counterparties. The credit risk for over-the-counter derivatives is managed by collateral arrangements with counterparties.

The Scheme's investments in pooled investment vehicles are unrated. Credit risk on pooled investment vehicles is mitigated by the underlying investments of the pooled investment vehicles being ring-fenced from the investment manager, the regulatory environments in which the investment managers operate and diversification of investments amongst a number of pooled arrangements. Due diligence reviews of investment managers are conducted on an ongoing basis, including the monitoring of any changes to the regulatory and operating environments of investment managers.

Notes to the financial statements

21. Current assets

	30 June 2022 £m	30 June 2021 £m
Employers' contributions due	-	-
Employees' contributions due	-	-
Other debtors	102	119
Bank balances	6	16
	108	**135**

All contributions due to the Scheme were paid in full to the Scheme within the timescale required by the Schedule of Contributions in force at the year end.

22. Current liabilities

	30 June 2022 £m	30 June 2021 £m
Accrued benefits	99	86
Other creditors	100	94
	199	**180**

23. Securities lending

No securities were on loan as at 30 June 2022 (30 June 2021: none).

24. Related party transactions and balances

In considering the Scheme's related party relationships it is necessary to assess the substance of relationships and not merely their legal form.

FRS 102 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

This note provides information on transactions between the Scheme and related parties, all of which were conducted on terms equivalent to those that prevail in arm's length transactions.

Trustee related party transactions

Members of the Trustee Board represent key management personnel of the Scheme. Total compensation payable to members of the Trustee Board during the year was £0.4 million (2021: £0.4million).

Notes to the financial statements

24. Related party transactions and balances continued

Emily Clark and David Viles received no fees as they are employed by BT.

Two Trustee Directors were members of the Scheme at 30 June 2022 (2021: two).

Further details on the compensation of members of the Trustee Board is included in the below table:

	Year ended 30 June 2022 £k	Year ended 30 June 2021 £k
Otto Thoresen	150	150
Chris Cheetham (appointed 16 September 2020)	44	20
Emily Clark	0	0
Nigel Cotgrove	32	32
The Law Debenture Society (represented by David Felder, resigned 16 September 2020)	0	13
Andrew Kerr	44	48
Ben Marshall	36	40
Keith Nichols	82	91
Beryl Shepherd	35	35
David Viles	0	0
	423	**429**

Employer-related transactions

Hermes GPE FRWL Holdco Limited (Holdco) is a subsidiary of the Scheme and it invests in Fallago Rig Windfarm Limited (FRWL). FRWL operates a wind farm that is generating electricity from renewable sources in Great Britain. Effective 1 April 2014 to 31 March 2034, FRWL and BT entered into a power purchase agreement. BT agreed to purchase 50% of the metered output generated by the wind farm and certain associated benefits, including Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs). In addition, effective 1 April 2014 to 31 March 2034, Holdco and BT agreed to make certain payments based upon the difference between the price payable under the power purchase agreement for electrical output and a price specified in the agreement.

During the year, a subsidiary of the Scheme, Hestia UK Residential Investment 1 Limited Partnership ('Hestia'), acquired the long leasehold on a property to be held as part of the Scheme's real estate investment portfolio. BT Group held the freehold to this property. The leasehold included an embedded option enabling the acquirer of the leasehold to also purchase the freehold. Hestia exercised this option on acquisition of the long leasehold. The transfer of economic benefits to the property under this transaction occurred through the acquisition of the long leasehold. Hestia did not acquire the long leasehold from a related party, and therefore the acquisition of the long leasehold is not a related party transaction.

Notes to the financial statements

24. Related party transactions and balances continued

Self-investments designated as employer-related investments
As at 30 June 2022 the Scheme held £0 million in BT ordinary shares (2021: £0 million) and £10 million in BT index- linked investments (2021: £10 million). The total amount of employer-related investments represent 0.02% of the net assets of the Scheme (2021: 0.02%). As at 30 June 2022 there were no properties occupied by BT owned by the Scheme (2021: none).

Limited partnership investments not designated as employer-related investments
On 25 June 2018, Britel Scotland II LP subscribed for £2,000 million of bonds issued by BT in the primary market. Britel Scotland II LP is a Scottish limited partnership in which the Scheme is invested. The bonds were issued in three nominal and three CPI-linked tranches as detailed below:

15 years:
£330 million fixed interest and £330 million CPI linked

21 years:
£330 million fixed interest and £330 million CPI linked

24 years:
£340 million fixed interest and £340 million CPI linked

As at 30 June 2022, the notional amount of these bonds held was £1,777 million (2021: £1,777 million), and these investments were valued at £1,582 million (2021: £2,200 million) and represent 3.4% of the net assets of the Scheme (2021: 3.8%). These bonds are held by Britel Scotland II LP, a Scottish limited partnership, and therefore are not employer-related investments for the purposes of the relevant regulations.

The asset backed funding arrangement, described in more detail in the Scheme funding section, is undertaken through the entity BT Falcon 1 LP. On 12 May 2021, the Scheme invested in BT Falcon 1 LP, a Scottish limited partnership, making a capital contribution of £1,660 million for a limited partnership interest. On the same day, BT Falcon 1 LP purchased a loan note with a nominal value of £1,925 million issued by EE Group Investments Limited, a subsidiary of the BT Group. The capital contribution is less than the nominal value of the loan note, which reflects the probability of the Scheme becoming fully funded, and therefore the annual payments to the Scheme ending before the underlying loan note matures. Under the terms of the limited partnership agreement and subject to the conditions therein, on or before 30 June each year, BT Falcon 1 LP will distribute to the Scheme capital and interest amounting to the £180 million it has received in respect of the loan note, provided that the Scheme was in deficit on a technical provisions basis as at 30 June of the preceding year. As the loan note is held by BT Falcon 1 LP, and this entity is a Scottish limited partnership with separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations.

As at 30 June 2022, following receipt of the second £180 million payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,210 million, representing 2.6% of the Scheme's net assets; whilst the principal amount outstanding on the EE loan note held by BT Falcon 1 LP was £1,676 million.

Hermes Group Pension Scheme
The Hermes Group Pension Scheme (HGPS) is a defined benefit pension scheme closed to new entrants and future accrual. Effective 15 December 2017, Hermes ceased to be a principal employer of HGPS under the Flexible Apportionment Arrangement. The Trustee of BT Pension Scheme assumed Hermes' liabilities in respect to HGPS as the sole principal employer, as well as obligations for all future contribution payments and expenses. HGPS is funded with the assets of the scheme that are held separately from those of BT Pension Scheme. However, the Trustee of the BT Pension Scheme has the ability to use Scheme assets, if needed, to fund HGPS obligations under its trust deed and rules.

The pension surplus of HGPS at 30 June 2022 amounted to £54 million (2021: £39 million), calculated on an FRS 102 basis by the scheme's actuary. The pension surplus is included in Other investment assets, with any gains and losses on revaluation included in Change in market value of investments.

Notes to the financial statements

24. Related party transactions and balances continued

Hermes Group Pension Scheme	30 June 2022 £m	30 June 2021 £m
Scheme assets	212	268
Scheme liabilities	(158)	(229)
	54	**39**

No contributions were paid or due to HGPS from December 2018.

25. Commitments and contingent liabilities

	30 June 2022 £m	30 June 2021 £m
Property	474	303
Calls on partly paid shares and underwriting commitments	3,038	2,106
	3,512	**2,409**

Notes to the financial statements

26. Subsidiary undertakings

Subsidiary undertaking	Principal activity	Holding	Ownership % 30 June 2022	Ownership % 30 June 2021
Subsidiary undertakings presented on a consolidated basis				
BT Pension Scheme Management Limited[14]	Primary service provider to BTPS	Ordinary shares	100	100
BT Pension Scheme Administration Limited[14]	Pension administration	Ordinary shares	100	100
Procentia Limited[14]	Pensions technology	Ordinary shares	75	75
Britel Scotland II L.P.[16]	Investment management	Partnership capital	100	100
SMLP Bristol L.P.[14]	Property investment and development	Partnership capital	100	100
Carraway Belfast Investments Unit Trust[17]	Property investment and development	Units	100	100
Carraway Tunbridge Wells Investments Unit Trust[17]	Property investment and development	Units	100	100
NOMA L.P.[16]	Property investment and development	Partnership capital	100	100
Hestia UK Residential Investment 1 Limited Partnership[17]	Property investment and development	Partnership capital	100	100
Retail Value L.P.[14]	Property investment and development	Partnership capital	100	100
Skypark Unit Trust[17]	Property investment and development	Units	100	100
Hermes One Centenary Way L.P. [14]	Property investment and development	Partnership capital	100	100
Hermes Three Chamberlain Square L.P. [14]	Property investment and development	Partnership capital	100	100
Subsidiary undertakings not presented on a consolidated basis				
Ares European Credit Strategies Fund II (B) L.P.[18]	Investment management	Partnership capital	100	100
Argent Group Ltd[14]	Property investment and development	Ordinary shares	100	100
Britel Real Estate Investments (Australia) Trust[22]	Property investment and development	Units	100	100
BTPS Insurance ICC Limited[15]	Longevity insurance	Ordinary shares	100	100
BTPS (No.1) IC Limited[15]	Longevity insurance	Ordinary shares	100	100
Hermes National Segregated Account I L.P.[19]	Property investment and development	Partnership capital	99	99
HCN L.P.[18]	Investment management	Partnership capital	100	100
Hermes Group Pension Scheme[14]	Pension scheme	Trustee	100	100
Hermes Direct Lending Fund L.P.[14]	Investment management	Partnership capital	100	100
Hermes GPE FRWL Holdco Limited.[14]	Investment in private equity	Ordinary shares	93	93
Hermes GPE Horizon II L.P.[16]	Investment in private equity	Partnership capital	100	100
Hermes GPE Horizon III L.P.[16]	Investment in private equity	Partnership capital	100	100
Hermes Real Estate Senior Debt Holdings S.a.r.l[21]	Property investment and development	Partnership capital	100	100
Lionstone-Hermes Real Estate Venture L.P.[19]	Property investment and development	Partnership capital	99	99
MEPC Fund Unit Trust.[14]	Property investment and development	Units	100	100
Hexagon Real Estate Investments Sarl.[20]	Property investment and development	Ordinary shares	75	75
Orthogonal Partners I L.P.[16]	Investment management	Partnership capital	100	100
Strategic Investment Portfolio L.P[17]	Investment management	Partnership capital	100	100

[14] Registered in England;
[15] Registered in Guernsey;
[16] Registered in Scotland;
[17] Registered in Jersey;
[18] Registered in Cayman Islands;
[19] Registered in USA;
[20] Registered in France;
[21] Registered in Luxembourg;
[22] Registered in Australia.

The fair value of net assets of subsidiary undertakings that are not consolidated by the Scheme in aggregate amounted to £4,598 million (2021: £4,865 million). This comprised of £8,098 million of assets and £3,500 million of liabilities (2021: £5,227 million of assets and £362 million of liabilities).

27. Subsequent events

Following the year-end, there was a significant fall in the value of the Scheme's assets, during a period of significant market volatility in the second half of September. Prior to the Bank of England's gilt-market intervention, there was an estimated £11bn fall in the value of the Scheme's assets. Our hedges have continued perform as expected, and up to the date of signing there has been no worsening in our estimated funding position.

Actuary's statement and report on actuarial liabilities

Actuary's statement and report on actuarial liabilities

The Trustee has appointed me as Scheme Actuary with effect from 1 July 2022. The most recent actuarial valuation of the Scheme was carried out as at 30 June 2020 by the previous Scheme Actuary.

The main purpose of an actuarial valuation of the Scheme is to determine whether or not the assets already held by the Trustee are sufficient to finance the prospective benefit entitlements of current and former members.

An actuarial valuation requires assumptions to be made about future financial and demographic conditions. A summary of the results of the actuarial valuation at 30 June 2020 is in the table to the right, together with the assumptions used.

BT Pension Scheme	30 June 2020
Assets - £million	57,493
Liabilities (Technical Provisions) - £million	65,471
Deficit - £million	7,978
Funding level	87.8%
Average nominal discount rate (per annum)	1.4%
Average RPI inflation (per annum)	3.2%
CPI inflation (long term) (per annum)	2.4%
Life expectancy (age at death)	
Average male pensioner age 65	86.9
Average female pensioner age 65	88.6
Average male pensioner at 65 (age 45 now)	88.5
Average female pensioner at 65 (age 45 now)	90.5

The above discount rate is a Scheme average; the full assumption allows for a transition from return seeking assets to liability cashflow hedging assets over time. The above mortality rates are also a Scheme average; the full assumptions take into account influences on mortality expectations such as pension amount. Further details on the assumptions used are set out in the Scheme's Statement of Funding Principles which is available to members on request.

Actuary's statement and report on actuarial liabilities

As set out above, the valuation of the Scheme as a continuing scheme revealed a deficiency of £7,978 million. The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions in the expectation of returning the Scheme to a fully funded position by 30 June 2030. Deficit contributions of £500 million, £1,660 million and £400 million were paid in March 2021, May 2021 and June 2021 respectively, with a further £500 million paid in March 2022 and £400 million paid in June 2022. Further contributions of £400 million and £500 million are due in March 2023 and June 2023 respectively. Details of the other deficit contributions due are documented in the Schedule of Contributions.

The formal recovery plan ends on 31 December 2035, but in practice the Scheme is expected to reach full funding by 30 June 2030, as a result of the following:

- The deficiency contributions set out in the Schedule of Contributions that are due before 30 June 2030.
- Use of the £1,660 million contribution paid in May 2021 to invest in an asset backed funding arrangement that will make payments of £180 million a year to the Scheme. That asset will expire by 2034 and the payments may end before that time if the Scheme deficit is removed earlier than expected. This asset is secured against equity in the EE business.
- From 1 July 2023 to 30 June 2030, BT will pay £600 million a year either directly to the Scheme or to a new co-investment vehicle. If these contributions are paid to this co-investment vehicle their value will be recorded as an asset in the Scheme accounts and, to the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the Scheme. Any remaining funds in the co-investment vehicle would be returned to BT if they are not deemed to be needed by the Scheme when assessed by the Trustee over the period 2034 to 2036.

In addition, BT have agreed to pay up to a further £200 million a year to the Scheme if needed to meet any future emerging funding deficit in excess of £1 billion. The need for these contributions will be assessed every year. This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding by clarifying how future increased deficits would be funded.

In addition to these deficit contributions, BT agreed to pay contributions in respect of the small number of members who continue to accrue benefits in the Scheme.

BT has also agreed that it will pay additional contributions to the Scheme in certain other circumstances. Full details of these arrangements are set out in the Schedule of Contributions and in a funding agreement between the Trustee and BT.

A copy of the certificate to the most recently agreed Schedule of Contributions is included following this statement. In the unlikely event that the employer ceased paying contributions to the Scheme ("discontinuance"), the Trustee could seek to meet benefit payments by continuing it as a closed fund. Given the large size of the Scheme and the present capacity of the insurance market it is unlikely to be practicable for the Trustee to secure members' accrued rights by the purchase of appropriate annuities in the event of the Scheme being discontinued.

The terms currently available from life assurance companies are in any event such that the premiums charged to secure accrued rights in full would significantly exceed the realisable value of the Scheme's present assets.

An interim assessment of the Scheme was prepared as at 30 June 2022 which revealed that the past service deficiency had decreased to £4,376 million. The main reasons for the reduction in the deficit are the deficit contributions paid by BT and a higher than assumed return on the Scheme's 'growth' (i.e. equity and equity-like) assets. Based on these calculations, the additional contributions of up to £200m a year referred to above were not required this year. The solvency funding position was a deficit of £13,130 million; this assumes a low-risk, closely matched investment strategy with additional margins for risk included and would be considered in the event the Trustee could not place reliance on the BT covenant. The Scheme's financial position and the level of BT's contributions will formally be reviewed in full as part of an actuarial valuation due no later than 30 June 2023.

Graham McLean FIA
Towers Watson Limited (a WTW Company)
6 October 2022.

Actuary's statement and report on actuarial liabilities

Form of Actuary's certification of Schedule of Contributions

Name of scheme: BT Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 30 June 2020 to be met by the end of the period specified in the recovery plan.

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 12 May 2021.

3. I also certify that any rates of contributions forming part of this schedule which the scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Date: 12 May 2021
Name: Michael Pardoe
Qualification: Fellow of the Institute and Faculty of Actuaries
Address: Watson House, London Road, Reigate, Surrey RH2 9PQ
Name of employer: Towers Watson Limited

Technical provisions statement

Actuarial certification for the purposes of Regulation 7(4)a of the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

Name of scheme: BT Pension Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 30 June 2020 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 12 May 2021.

Michael Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company

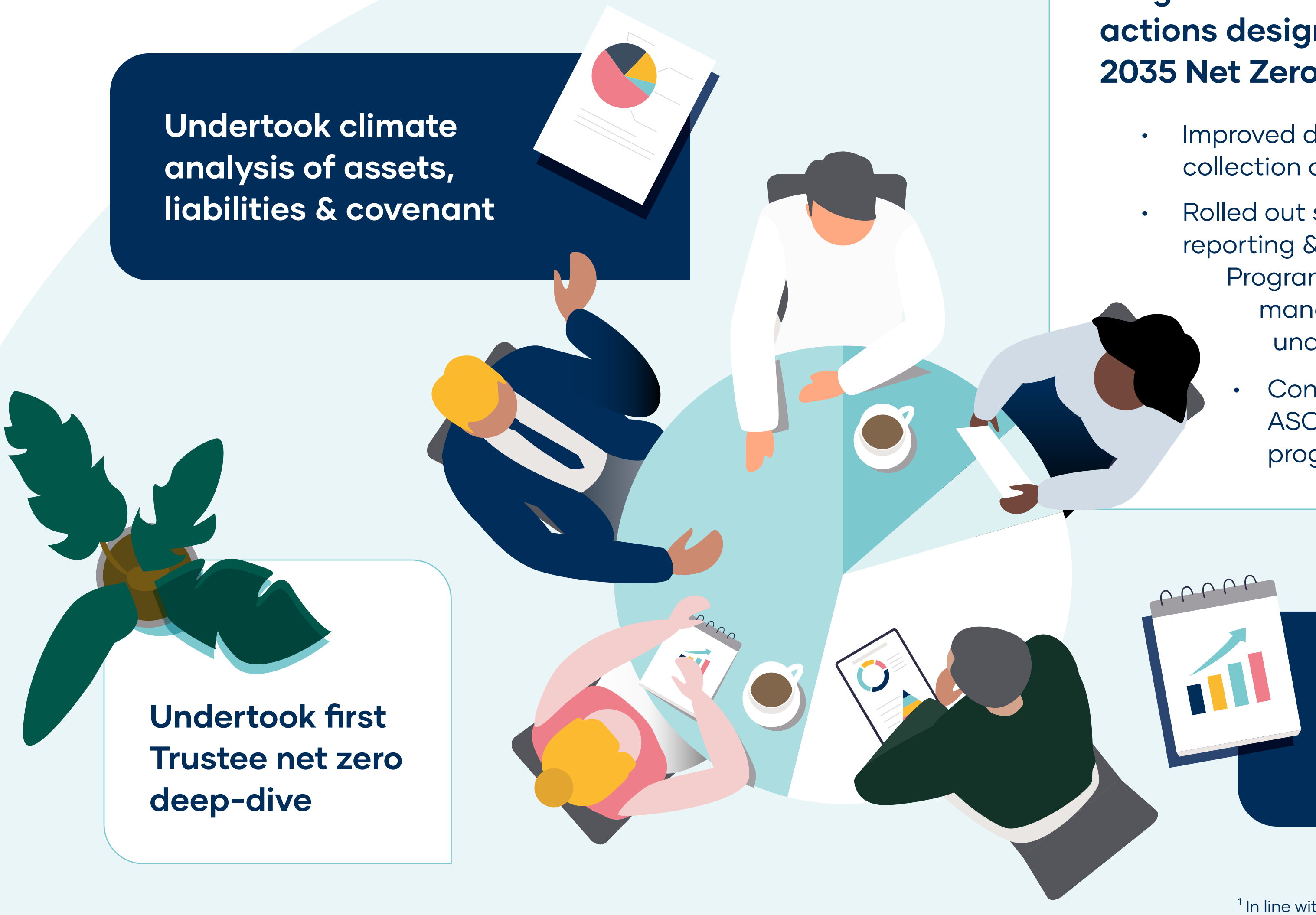
12 May 2021

Watson House
London Road
Reigate
Surrey
RH2 9PQ

Appendix one:
Net Zero 2035 & TCFD report

Contents

Key Net Zero 2035 & TCFD highlights



Undertook climate analysis of assets, liabilities & covenant

Progress across the 20 climate actions designed to achieve our 2035 Net Zero goal, including:

- Improved data integration and collection across portfolio
- Rolled out standardised carbon reporting & Net Zero Stewardship Programme across managers managing 70% of BTPS' assets under management
- Continued chairing the ASCOR project & published progress report

Undertook first Trustee net zero deep-dive

Set five-year goals to reduce portfolio emissions[1]

[1] In line with Net Zero Asset Owner Alliance and the Net Zero Investment Framework guidelines

Foreword

Over the past 12 months the world has changed significantly. The Russian invasion of Ukraine and global inflation have had unprecedented implications for us all.

Concerns over energy security have driven coal imports up as nations race to secure fossil fuel suppliers[2] and there have been sharp increases in energy and food prices causing politicians to focus on national challenges. In return, vital resources and discussion time has been taken away from addressing climate change.

The invasion of Ukraine has highlighted the need for an orderly transition to deal with climate change, as we have seen a brief snapshot of what a tightening of oil and gas has done to the global energy system. This will require ongoing monitoring of geopolitical risks, investment into viable, cost-effective substitutes and a managed decline of fossil fuels. We have already seen the reduction in cost of renewables, paving the way for a more sustainable energy future.

Over the past year, the physical effects of climate change have also increased, with record temperatures being felt this summer and record low rainfall even across the UK. This has impacted wheat and general crop growth which have had a compounding and negative effect on food prices, as well as rising energy costs. As countries continue to experience the impacts of climate change, addressing mitigation and adaptation efforts to protect food supply chains, and considering the impacts on natural and scare resources will be critical.

This is why the Trustee set the Net Zero 2035 goal in 2020. We believe that we are now better prepared to address climate change, and the dual focus of reducing emissions and investing in transition opportunities is already highlighting new investment themes, such as technological change.

How investors approach climate change is important, which is why we support the increased transparency instigated by the Department of Work and Pensions, requiring asset owners to report in line with the Taskforce on Climate-related Financial Disclosures (TCFD).

We hope that this report better shares our progress with members and gives them confidence that we continue to prioritise their pensions, through managing climate-related risks and investing to create a more sustainable future.

Otto Thoresen
Chair, BTPS

Morten Nilsson
CEO, BTPSM

[2] Here's why the Ukraine crisis is bad news for the climate | World Economic Forum (weforum.org)

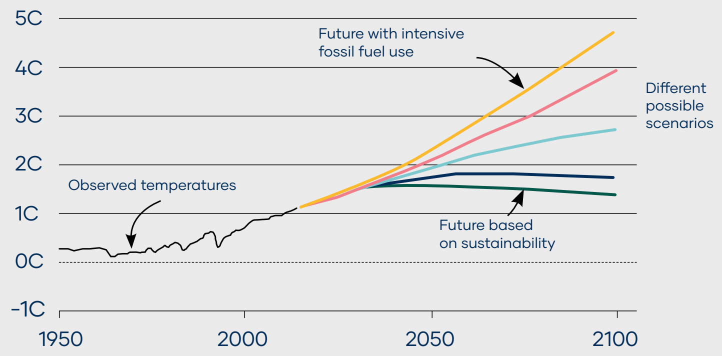
Introduction

BT Pension Scheme & climate change

There continues to be overwhelming scientific evidence that climate change is rapidly accelerating. The world has already experienced around 1.0°C of average warming above preindustrial levels and continued increases will have an irreversible and catastrophic impact on the environment and our way of life. The implications of climate change are systemic and apparent, with extraordinary weather events including flooding, drought, storms and wildfires increasing in frequency, with significant financial and human consequences. In the UK we have seen numerous implications of climate change this year with record breaking summer temperatures, lack of rainfall and wildfires.

How much hotter could it get?

Change in average global temperature relative to 1850-1900, showing observed temperatures and future simulations



Note: Each line shows the average temperature rise for a scenario. Source: IPCC, 2021: Summary for policymakers

Climate change could financially impact the Scheme in three different ways:

BTPS

BTPS' investment returns (assets)
Climate change has the potential to have a material negative impact on the value of the Scheme's investments, for example through the impact of stranded assets, or higher costs due to carbon pricing.

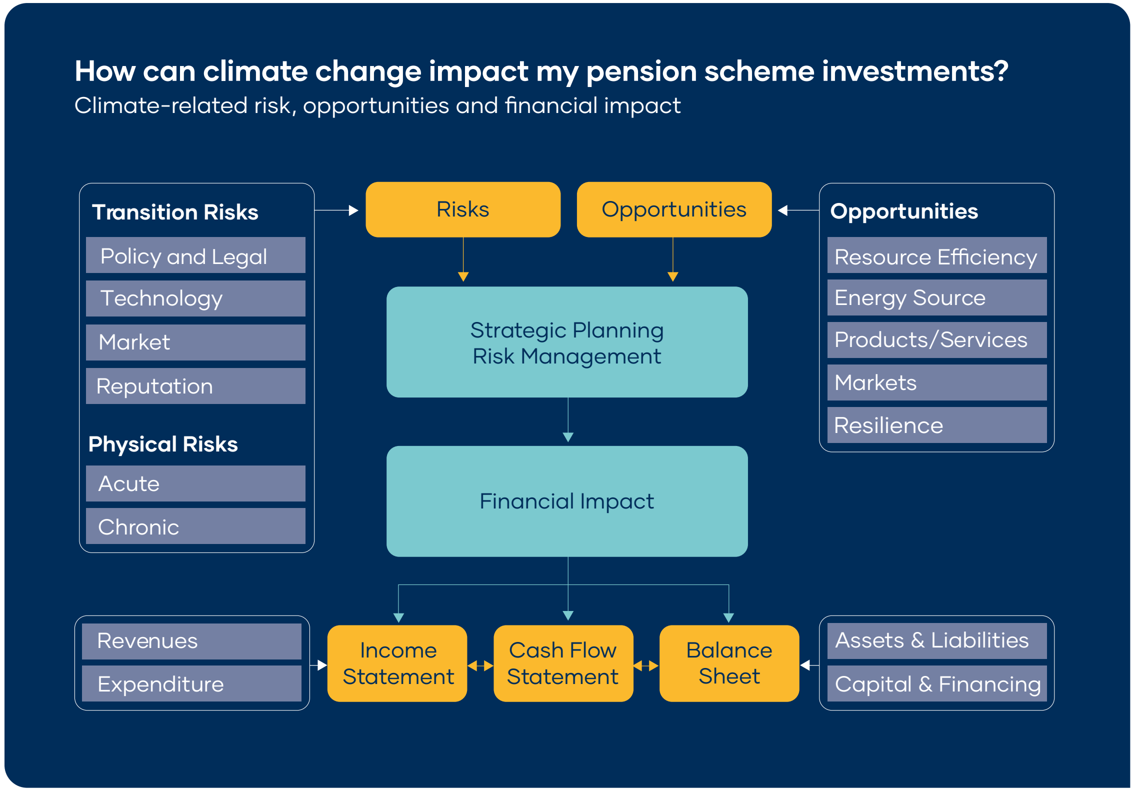
Whilst a range of outcomes are possible, depending on the extent of actual temperature increases, without policy action and/or technology advances the outcome could materially impair the economies and markets we rely on to generate investment returns.

BTPS' liabilities (liabilities)
Liabilities are the amount of funding a scheme needs to pay peoples' pensions over time. If climate change impacts life expectancies, this will make budgeting for future pensions payments more difficult.

BT Plc (covenant)
BT Pension Scheme depends on ongoing pension contributions from BT Group. However, if BT Group is negatively exposed to or impacted by climate change, this could threaten its ability to contribute to the Scheme's funding. This places more pressure on funding activities.

Introduction continued

In more detail, climate change can negatively or positively impact pensions through costs from disasters such as drought, wildfires and flooding, as well as providing opportunities through shifting from fossil fuels to renewable energy, increasing resource efficiency, and opening new markets through product and services innovations. It is therefore important that these risks and opportunities are identified and mitigated.



Introduction continued

What are we doing about it?

In 2020, BTPS committed to an ambitious goal to achieve net zero greenhouse gas emissions (absolute scope 1-3) by 2035 across its investment portfolio. In setting this goal, the Scheme will reduce the risks posed by climate change and align its investments with efforts to limit global warming to 1.5°C above preindustrial levels. Getting to net zero will involve both reducing emissions from the Scheme's portfolio and investing in assets that will support the transition towards a low carbon economy. To see our Chair, Otto Thoresen, talk more about the Trustee's decision to set the net zero goal, click **here**.

BTPS believes that reducing exposure to carbon emissions over time will improve investment outcomes for the Scheme and help reduce the impact of future climate risks.

Investments are potentially exposed to the physical risks of climate change and to the risk that the transition to a low carbon economy will make certain businesses, such as fossil fuel companies, unviable if they fail to change. Additionally, making investments that will aid the low carbon transition will deliver more sustainable returns to enable the Scheme to meet its financial obligations.

NET ZERO 2035

BTPS has set a goal to be net zero greenhouse gas emissions (absolute scope 1-3) by 2035 and, in doing so, to be aligned with the Paris Agreement's goal of net zero by 2050.

We will seek, over time, to decarbonise the portfolio and investment value chain and make investments that will reduce or remove carbon emissions from the atmosphere.

Our goal is supported by four pillars:

1. Portfolio construction

2. Mandates and managers

3. Stewardship

4. Advocacy

Beneath these pillars are 20 climate actions that we are committing to.

The 15-year goal will be overseen by the Trustee Board and will be made up of five-year targets, fully reassessed every three years and tracked and publicly reported annually through our TCFD reporting.

What does net zero mean?

Net zero emissions means achieving a balance between 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 (CO_2). For BTPS this will mean reducing the portfolio's emissions through changing investments and investing in technologies which reduce emissions.

Climate change & TCFD disclosure

From 1 October 2021, the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021, as directed by the Department of Work and Pensions (DWP), introduced new requirements that trustees of schemes with over £5bn in assets were to report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations[3]. This was to improve both the quality of governance and the level of action by trustees in identifying, assessing and managing climate risk.

While BT Pension Scheme has been voluntarily publishing a TCFD report since 2018, this report aims to fulfil the new DWP TCFD Regulations. As the regulator has already identified, carbon accounting and measurement methodologies are still evolving. As a result, many of the numbers used in the climate scenario analysis and carbon footprinting in this report are estimates, and may be subject to change as more information becomes available, or approaches become more sophisticated.

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 by the TCFD, which aim 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:

1. **Governance:** How is the organisation's board and management assessing, managing, and providing oversight of climate related risks and opportunities
2. **Strategy:** How these risks impact the organisation's business model
3. **Risk:** What and how have risks been identified and managed
4. **Metrics & Targets:** How are the risks being monitored and have the appropriate metrics and targets been selected

[3] https://www.gov.uk/government/publications/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes/governance-and-reporting-of-climate-change-risk-guidance-for-trustees-of-occupational-schemes

Governance

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

The Trustee Board has the ultimate authority for all aspects of the management and investment strategy of the Scheme.

Climate change in BTPS' Investment Principles

The main objective of the Trustee is 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. Further to this, as part of the Scheme's **Statement of Investment Principles**, climate change is specifically highlighted 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.

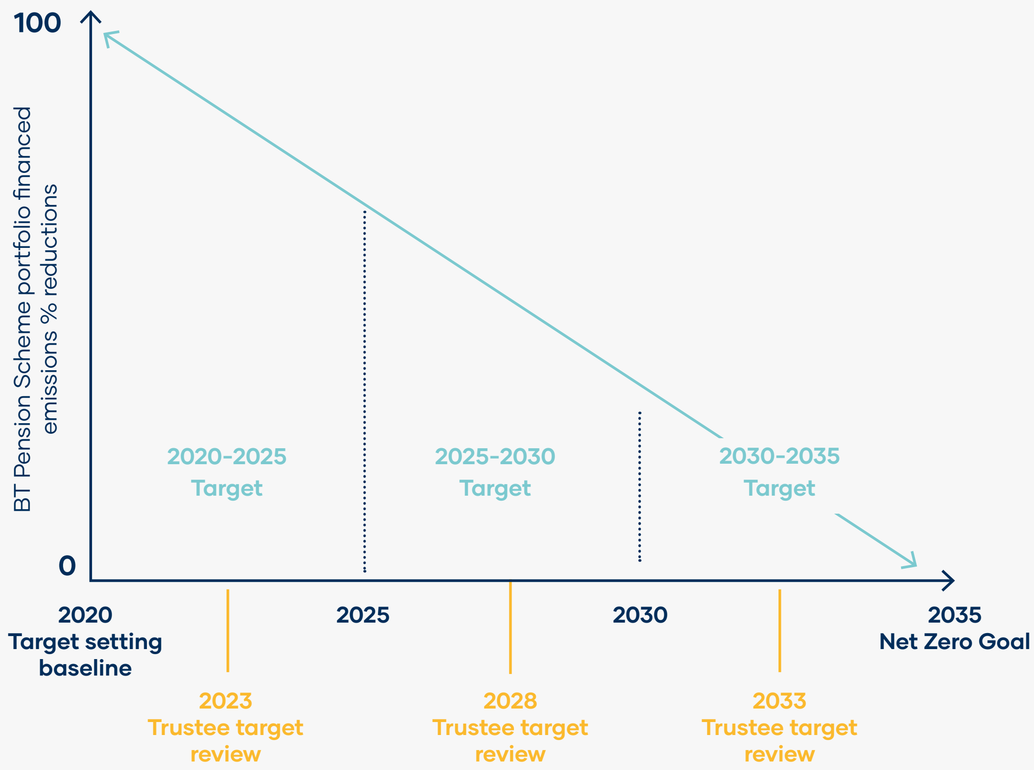
Governance continued

Roles & responsibilities

BTPS Investment Committee

The implementation of the Net Zero 2035 goal is managed by BTPSM, however the BTPS Investment Committee (IC) has ultimate responsibility for the oversight and monitoring of the goal and legislative compliance. The NZ 2035 goal is made up of five-year targets, which the IC fully reassesses tri-annually, and the IC ensures net zero and TCFD related activities are publicly reported annually through TCFD reporting. The BTPS IC reviews and assesses BTPSM's implementation of the goal via annual "net zero deep-dives" and performance against the Scheme's net zero metrics. When appropriate, the IC will review the most recent climate scenario analysis, integrate the findings into investment strategy discussions and determine whether it is appropriate to undertake new analysis. The IC identifies and assesses the main climate-related risks and opportunities, and considers climate in the Scheme's investment beliefs, investment policies, risk register, contingency planning, and monitoring framework. The entire board, including the IC, receives regular training to ensure that it is appropriately informed on key climate change topics and can challenge BTPSM on its activities.

Net Zero 2035 target setting and review schedule



Governance continued

BTPSM Chief Executive Officer (CEO) & Chief Investment Officer (CIO)

The Trustee is responsible for the setting the Net Zero strategy and risk appetite parameters. The BTPSM CEO and CIO are responsible not only for implementing BTPS' Net Zero goal, but also understanding, identifying, measuring, monitoring, controlling and reporting on the risks from climate change. This is in line with the risk strategy and risk appetite parameters set out by the BTPS Trustee board. Both officers sit on the Sustainable Investment Working Group (SIWG) where they receive detailed information on activities, and then provide monthly reporting to the IC on relevant matters.

BTPS & BTPSM Net Zero Governance Model

BT Pension Scheme

Governance
BTPS IC

Annual activities -
Net Zero 2035 governance & oversight, Net Zero 2035 deep dive performance assessment against targets & metrics, Scheme climate scenario analysis, BTPS risk register

BT Pension Scheme Management

Strategy & risk management
BTPSM CEO & BTPSM CIO

Regular activities -
Strategic implementation of Net Zero 2035, investment strategy analysis, external advisor information, trustee reporting

Strategy & risk management
Sustainable Investment Working Group (SIWG)

Group membership -
CEO, CIO, funding & covenant, investment & solutions, investment research, sustainable investment & communications

Quarterly activities -
Horizon scanning, monitoring climate related legislation, scenario analysis

Strategy & metrics & targets
Net Zero Working Group (NZWG)

Group membership -
Investment & solutions, manager selection, investment research, market liability investments & sustainable investment

Fortnightly activities -
Climate change investment research, progressing 20 climate actions, target setting, participating in climate change initiatives e.g. Net Zero Asset Owner Alliance (NZAOA)

Strategy & metrics & targets
Sustainable Investment (SI) team

Daily activities -
Manager net zero stewardship activity monitoring, Trustee training

Risk management
Investment risk oversight team

Annual activities -
Assessing climate risks through Enterprise Risk Management (ERM) framework

External advisors

Tri-annual activities -
Climate change scenario analysis

Governance continued

Sustainable Investment Working Group (SIWG)

The SIWG comprises of key strategic decision makers from across BTPSM, including the CEO, CIO, funding and covenant team, investment, research and solutions team, sustainable investment team and communications. The group meets quarterly to discuss key sustainability topics impacting BTPS. Climate change is a standing agenda item, and the group undertakes horizon scanning of industry themes, climate related legislation, discusses covenant materiality and digests scenario analysis information to report to the IC. The SIWG also has members from the NZWG, which ensures alignment between the detail of internal Net Zero implementation and external investment market analysis.

Net Zero Working Group (NZWG)

The NZWG coordinates BTPS' efforts to address climate change. It focuses on the day-to-day Net Zero goal implementation. Members are operational leads within the investment team and meet fortnightly to discuss investment research, continue progress against BTPS' 20 climate actions, and represent BTPS at the initiatives it is a member of such as the Net Zero Asset Owner Alliance (NZAOA) and the Paris Aligned Investment Initiative (PAII). The group is also key in establishing the Scheme's short, medium, and long-term climate targets.

Sustainable Investment (SI) Team

The SI team supports the implementation of the Net Zero strategy. It works in collaboration with the wider investment team to integrate climate change and other environmental, social and governance (ESG) risks into investment decision making. As almost all of the Scheme's assets are managed externally, the SI team leads fund manager engagement to push for stewardship which better manages climate-related risks, using engagement and voting as leverage for change, improving corporate climate change plans and obtaining better climate change data. The team coordinates the annual Net Zero and Stewardship survey, which managers are required to fill in, and gathers a range of ESG information including strategic, mandate and issuer related climate change data. With this information, the team provides managers with a sustainability score which covers climate change and tailored feedback for improvement. The SI team also coordinates regular training for the Trustee on climate change matters, from internal and external experts, to ensure diversity of thought.

Investment Risk Oversight Team

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

External Advisors

The IC takes advice from external advisors where appropriate. In the context of climate change, it uses BTPS' actuarial and covenant advisers to undertake tri-annual 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 SIWG and IC.

Governance continued

Climate change education

Trustee climate training

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

BTPSM climate training

To ensure that BTPSM'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.

Governance continued

Key 2022 governance progress

- In December 2021, the IC undertook its first Net Zero deep-dive. BTPSM presented a comprehensive update on theNet Zero strategy and the Scheme's carbon footprint. The Trustee agreed on eight key internal climate metrics to assess the progress of the NZ 2035 goal, with one being integrated into the Scheme's Asset Management Parameters (AMP). The AMP sets out the parameters within which the Scheme's investments are to be managed by BTPSM and are designed to be consistent with the Scheme's long-term strategy as reflected in the SIP.

  Discussions with BTPSM also focused on the challenges and limitations of data availability.
- As part of Trustee training ahead of the Net Zero deep-dive, three sessions were delivered by external experts on climate related and green policy, Trustee regulatory requirements, and climate change data and metrics. These sessions were recorded and made available to all BTPSM employees.
- For BTPSM's investment team, key fund managers were asked to present their views on the macro-economic, investment return, and portfolio construction implications arising from the transition to Net Zero. Carbon Tracker were also invited to present their views of the implications of a Net Zero transition on the oil and gas sector.

Key 2023 focus

- We will continue to undertake deep-dives on the Scheme's Net Zero activities and prepare for the tri-annual review of the Net Zero goal in 2023.
- We will continue climate change education to ensure that we remain up to speed with technical and regulatory changes.
- We will seek to understand from our managers their views on the macro-economic outlook and potential investment implications arising from climate change.

Strategy

This section explains BTPS' Net Zero 2035 goal, our plan to address climate change risks and opportunities, climate change scenario analysis and associated implications for our investment strategy.

As mentioned previously, climate change poses physical, transitional and reputational risks for the Scheme and its assets. To address this, the Trustee has determined that it will integrate action, awareness and monitoring of climate change into its strategy through the Net Zero 2035 goal.

The goal is supported by four pillars:

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

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

BTPS Net Zero 2035 Goal

1	2	3	4
Portfolio construction	Mandates & managers	Stewardship	Advocacy

To hear more about the work BTPSM have been doing on integrating the Scheme's Net Zero goal, watch this **video**.

Strategy continued

Key 2022 Strategy Progress

Portfolio construction

Integrating climate risk and opportunities into BTPS' investment strategy and capital allocation will be an important activity. This is where Pillar 1, Portfolio Construction, plays a key role. Over the next 13 years, there will be a major change in the investments held by BTPS as by 2035, almost all the Scheme's members will be retired. As a result, the Scheme's investment strategy will need more investments focused on safe, predictable income such as bonds and secure income assets, to meet members' monthly pension payments. This creates a unique 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 which has four climate actions to ensure delivery.

1 Portfolio construction

	Climate action	2022 progress	2023 focus
1	**Invest to reduce emissions and finance the transition to low carbon economy, whilst ensuring we meet our fiduciary responsibilities**	• Established portfolio emissions baseline to measure performance. • Identified existing transition investment opportunities in portfolio & researched new transition investment themes aligned with Scheme risk parameters.	• Ensuring climate change is integrated into the investment strategy review as part of the 2023 actuarial valuation. • Exploring transition investment prospects & engaging with policy makers.
2	**Climate change scenario analysis and stress testing**	• Undertook climate scenario analysis of assets, liabilities & covenant. • Undertook sectoral pathways emission reduction analysis & integrated findings into sector emissions reduction targets.	• Integrating annual updates into covenant analysis.
3	**Assess how climate change will impact future investment returns**	• Provided Net Zero deep dive to IC, highlighting climate risks & opportunities posed to different asset classes.	• Undertaking further analysis into investment grade credit & secured income portfolios.
4	**Actively manage the portfolio to achieve net zero**	• Identified top 70% heaviest emitting companies in equity, credit & infrastructure portfolios. • Established eight key internal metrics to assess goal's progress annually. • Established Net Zero data integration plan for BTPSM investment platform.	• Monitoring & managing key Net Zero metrics. See Metrics & targets section for more information. • Advancing data integration plan with BTPSM data team.

Strategy continued

Mandates & managers

One of the key strategies 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 goal, 'Mandates and managers', BTPSM will align mandate objectives given to new and existing investment managers with its decarbonisation goal. Mandate objectives will vary by asset class and the strategy of the manager. For example, the objectives set for property investment managers will have differences to investment managers investing in the shares of companies. BTPSM will select and retain managers that it believes can help achieve its Net Zero goal. Managers are required to report annually against a Net Zero & Stewardship questionnaire. The questionnaire will be reviewed to assess managers' progress in helping the Scheme achieve its goal and, if necessary, manager changes will be made. 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.

2 Mandates & managers

	Climate action	2022 progress	2023 focus
5	**Evolve the objectives and guidelines of new and existing manager mandates to align with our Net Zero goal**	• Integration of Net Zero progressed in some key credit investment mandates, but not all.	• Continuing Net Zero goal integration into all credit & equity mandates.
6	**Select and retain managers that we believe can support our net zero goal, remove those that cannot**	• All managers currently supporting Net Zero goal.	• Monitoring manager Net Zero support.
7	**Require managers to report on their progress**	• Managers sent new Net Zero & Stewardship questionnaire, requesting carbon footprinting, forward looking climate metrics, stewardship, advocacy activities, internal climate change knowledge, & transition investments.	• Working with managers & evaluating their Net Zero progress.
8	**Annually evaluate and challenge our fund managers on their progress towards our goal**	• All tier 1 managers reviewed against scorecard & given tailored feedback on areas to improve.	• Working with managers to evaluate their Net Zero progress.
9	**Encourage fund managers and counterparties to align their businesses with Net Zero**	• Managers encouraged to promote Net Zero in financial system. • Progress lagged with counterparties.	• Working with managers to promote Net Zero. • Increasing engagement with counterparties.

Strategy continued

Investments in climate solutions

Viridor

Viridor is the leading UK waste-to-energy, recycling and waste management company. It is also one of the UK's largest independent power generators, through Energy Recovery Facilities, anaerobic digestion, solar and landfill. In 2021, their facilities produced 2,315GWh electricity – that's enough to power the equivalent of 634,250 homes. BTPS indirectly owns an £85m stake through the Federated Hermes Infrastructure Fund.

Fallago Rig

In 2013, BTPS invested in Fallago Rig, a windfarm in the Scottish borders, alongside energy company, EDF. The investment, with a value of c.£250m, is now one of the largest in the UK and its 48 turbines generate 144MW of clean electricity – enough to power 86,000 homes. It also avoids more than 100,000 tonnes of carbon dioxide (CO_2) annually. Additionally, as part of their Net Zero 2041 goal, BT Group purchased 50% of the windfarm's electricity through a Purchase Power Agreement (PPA). To learn more about the rig, please click **here**.

Strategy continued

Stewardship

Stewardship plays an important role in how the Scheme pushes its investments to act on climate change. As such, it is the third pillar of the Net Zero goal. BTPS will require managers to vote and engage on 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. Failure to engage or make sufficient efforts to curb emissions after a period of engagement is likely to result in divestment by the manager.

3 Stewardship

	Climate action	2022 progress	2023 focus
10	**Require our equity managers to follow a set climate voting policy**	• Focus placed on supporting managers with establishing Net Zero stewardship practices. No climate voting policies were requested. • Helped coordinate **IIGCC's Investor Position Statement on Net Zero Transition Plans**, to call companies to disclose Net Zero transition plan, identify & establish director responsibility & provide annual voting on plans.	• Exploring appropriate voting policies. • Working with managers to promote suitable Net Zero stewardship practices.
11	**Require fund managers to engage with companies to set Net Zero targets**	• Managers engaged with on Net Zero goal expectations, including BTPS' Net Zero Stewardship Programme. • Managers provided with **IIGCC's Net Zero Stewardship Toolkit** as template & must report annually against framework.	• Working with managers to promote suitable Net Zero targets with investments.
12	**Expect our fund managers to ultimately divest after a period of unsuccessful engagement**	• Managers were informed that if no Net Zero goals are set after five years engagement with heavy emitters, divestment is expected. This deadline may be subject to change.	• Working with managers to promote suitable Net Zero targets with investments.
13	**Encourage our managers to actively participate with industry groups on climate change**	• Managers heavily encouraged to join industry groups on climate change, including **Net Zero Asset Manager Initiative** and **CA100+**.	• Working with managers to join relevant industry groups.
14	**Encourage managers to influence other stakeholders in the financial system**	• Managers strongly encouraged to influence financial system.	• Working with managers to influence financial system.

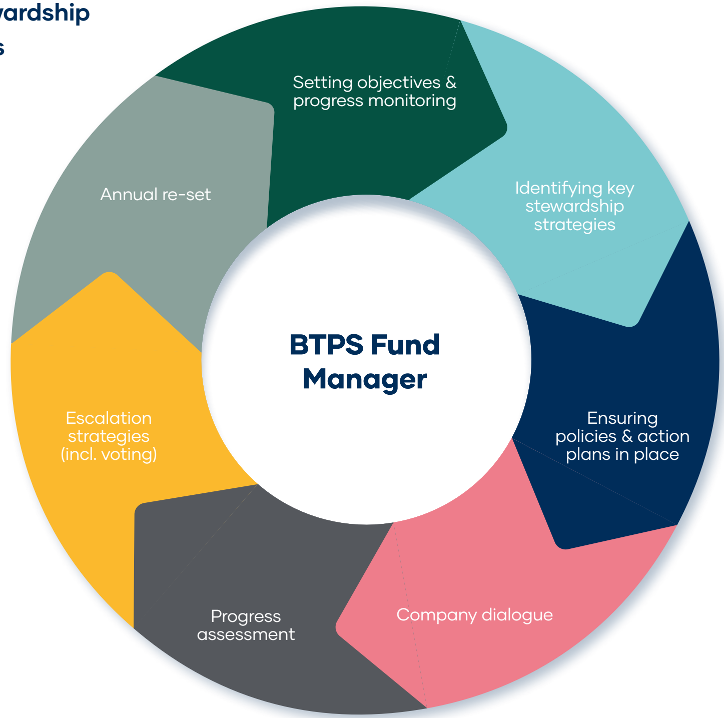
Strategy continued

BTPS 2020 - 2025 Net Zero Stewardship Programme

In December 2021, BTPSM met with the Scheme's key, long term asset managers to dig deeper into how they could use stewardship as a lever to deliver on its Net Zero 2035 goal. 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. **Five-year portfolio coverage target** - Implement a five-year[4] engagement plan with stewardship strategies, policies and action plans in place to align investments with Net Zero.
2. **Focus on 70% biggest emitters** - Managers must focus on the 70% 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 five years no progress is made, divestment of that investment is expected.
4. **Reporting** - Managers are expected to report progress against milestones to BTPSM quarterly.

Annual Net Zero stewardship process expectations



As companies do not change immediately 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.

[4] This target may be revised over time.

Strategy continued

Net Zero Stewardship in practice

Decarbonising the steel industry

Equity engagement via GQG

GQG, one of our global equity managers, has been engaging with a multinational steel manufacturing company which is one of the largest contributors to the portfolio's carbon emissions. GQG has engaged to understand the types of investments it is making and how it is progressing towards Net Zero carbon emissions. The company has set a goal for its European operations to reduce CO2 emissions by 30% by 2030 and be carbon neutral in the region by 2050.

GQG believes that steel is a critical commodity for the global energy transition and encouraging greener production contributes to wider climate goals to decarbonise the industry.

The company is adapting existing blast furnaces with proprietary technology to replace the coal in the process with alternative sources of carbon. This includes fuel sources such as waste wood or waste plastics, capturing the CO2 emissions, storing them underground, and turning them into other usable products, such as jet fuel. GQG believes the company is among a handful of companies leading transformational change in the steelmaking sector. The company is committing risk capital that should accelerate the development and commercialisation of technology to reduce the carbon intensity of steel production.

GQG plans to re-engage with the company in late 2022 and will seek a progress update on the execution of its decarbonisation strategy against its target to reduce CO2 emissions.

Encouraging comprehensive climate emissions data reporting

Corporate credit engagement via M&G

Over the past year, M&G, one of our bond investment managers, has met with a large mining company numerous times as part of the ongoing work to support the company in developing its decarbonisation strategy and disclosure. This has been undertaken both individually and through **CA100+**, an investor led climate initiative.

One of the main focuses in these discussions has been around Scope 3 greenhouse gas emissions measurement and reporting, as part of an ambition to reduce emissions and eventually get to Net Zero. Scope 3 emissions arise from the activities of assets, products or activities not owned or controlled by the reporting organisation, but that the organisation indirectly impacts in its value chain.

When engaging with the company, M&G has been encouraging management to highlight the efforts they are making to reduce Scope 1 and 2 emissions and disclose as much information as possible on their Scope 3 emissions, stating what actions they're taking to help develop their reporting further. Since engagement with the company began, the company has increased its Scope 1 and 2 emissions reduction targets from 15% to 50% by 2030 and disclosed a Net Zero 2050 Scope 1 and 2 target.

M&G will look to engage with the company again this year, ahead of their year-end. M&G will push for a Net Zero 2050 Scope 3 target and better disclosure on the pathway to get there.

Reducing carbon emissions in a multinational investment bank

Corporate credit engagement via PIMCO

PIMCO, one of the Scheme's bond investment managers, alongside other investors, engaged with a multinational investment bank on environmental issues such as tighter policies for carbon-intensive industries, coal phase-out plans, and formal goals to align the portfolio with the Paris Agreement on climate change. Discussions have been centred around current policies and practices on climate disclosure and exposure.

PIMCO was pleased that the bank has since set a Net Zero commitment and is expected to communicate a carbon reduction target by the end of 2022. Further, the bank is integrating climate risk within its risk management framework and risk/sector appetite setting. It is also performing in-depth due diligence on its carbon intensive clients.

PIMCO supports the phasing out of coal-related activities and will be engaging further with the issuer to incorporate supply chain traceability in their due diligence and expand their zero deforestation expectations throughout the value chain.

Strategy continued

Net Zero Stewardship in practice continued

Ferry company's zero emission freight ferry

Infrastructure engagement via Federated Hermes Infrastructure

Federated Hermes, who manage the Scheme's infrastructure investments, has been engaging with a ferry company on how it is reducing its carbon emissions. Between 2008 and 2021, the company invested significantly in green technology (including hybrid vessels) to reduce its environmental footprint, achieving a significant reduction in CO_2 emissions.

In the autumn of 2021, Federated Hermes agreed to support an €80m investment in a new zero emission freight ferry alongside its co-shareholders. This allowed the ferry company to expand its cargo capacity whilst retiring two older vessels from the fleet. Deployment of the new vessel from 2024 is expected to reduce emissions by around 170,000 tons of CO_2 between 2024 and 2035, which is the equivalent of one full year of operations pre-COVID-19. The company is also putting together detailed plans to retrofit additional batteries to four of its vessels to make them 80% electric.

Next steps involve encouraging the company to set SBTi approved climate targets, an assessment on natural capital in their supply chain, and a Diversity and Inclusion strategy. .

Ensuring green bond proceeds are aligned to Paris Agreement greenhouse gas emissions reduction targets

Corporate credit engagement via PIMCO

PIMCO engaged with a Korean electric utility company regarding the proceeds of its latest green bond issuance which will finance renewable energy (solar and wind) as well as e-mobility investments (purchase of electric vehicles and charging stations). PIMCO's assessment identified a relative lack of alignment between the green bond's environmental objectives and its firm-wide climate strategy, including how quickly it will transition from coal to low-carbon sources of energy in line with the Paris Agreement.

PIMCO engaged with the issuer to highlight the importance of setting Paris Agreement-aligned greenhouse gas emissions reduction targets as well as to disclose forward looking carbon and energy data. The issuer did not provide a sufficient response to PIMCO's engagement questions and has not set concrete targets for reducing coal generation or GHG emissions.

As a result, PIMCO did not participate in the company's green bonds but will continue to monitor the issuer's progress against expectations for any future bond issuances.

Strategy continued

Advocacy

BTPS recognises the importance of third-party cooperation in achieving its goals and will advocate for index and data providers, ratings agencies, financial industry groups, and consultants to urgently improve climate change data and disclosures. This is Pillar 4 of the Net Zero goal. It will use its influence to advocate for Net Zero aligned policy and regulation with policy makers, governments, the investment industry, and other stakeholders. It will encourage the creation of government programmes to mobilise investments in clean and resilient growth. In alignment with BTPS, BTPSM will also incentivise staff to achieve Net Zero and offset its own operational emissions.

4 Advocacy

	Climate action	2022 progress	2023 focus
15	**Call for improved climate data from key stakeholders in the financial system**	• Fed into **PLSA/IA/ABI Carbon Emissions Template**, to standardise climate data reporting in industry. • Collaborated with Brunel Pension Partnership, USS, the Church of England Pensions Board & RPMI Railpen to **develop practical tool** to help asset owners better manage responsible investment, climate change & stewardship reporting requirements.	• Collaborating with peers to push industry for improved climate data.
16	**Advocate for Net Zero aligned policies with policy makers, governments, and the investment industry**	• Signed TPI response to TCFD consultation on forward-looking financial sector metrics, urging more cautious approach to adopting portfolio alignment metrics. • Signed **2021 Global Investor Statement to Governments on the Climate Crisis**, calling for governments to raise their climate ambition & implement robust Net Zero policies.	• Advocating for stronger & clearer Net Zero policies in UK & globally. • Calling on regulators to set mandatory emission reporting requirements for all segments of investment industry.
17	**Encourage government programmes to mobilise investment in clean growth**	• Engaged with policy makers regarding green & climate transition UK investment opportunities, however progress has been slow. • Joined leading UK pension funds **signing statement** in supporting climate transition in emerging markets.	• Advocating for more government programmes to catalyse green technology & climate transition investment opportunities.
18	**Collaborate with industry groups and peers to promote Net Zero**	• Actively participated in NZAOA, IIGCC/PAII & OPSC investor group meetings & discussions. • Continued chairing investor led **Assessing Sovereign Climate Opportunities and Risk (ASCOR)** to create framework to assess current & future climate change governance & performance of sovereign debt issuers & released project update.	• Playing active role in nNet Zero investor groups. • Continuing to chair ASCOR.
19	**Include Net Zero in BTPSM's corporate objectives**	• Integrated Net Zero goal into BTPSM CEO & CIO personal objectives & BTPSM corporate objectives. • BTPSM & BTPSA undertook carbon footprint assessments & created net zero strategy to reduce operational emissions.	• Encouraging BTPSM in implementing Net Zero strategy plan, establishing supplier management approach & annual targets.
20	**Continue to offset BTPSM's operational emissions**	• BTPSM offset operational emissions with **Climate Impact Partners**.	• Encouraging BTPSM Net Zero strategy to reduce offset purchases.

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.

What is climate scenario analysis?

Scenario analysis is a useful tool to begin understanding the implications of climate change for a business, and to prompt longer term strategic thinking about risks and opportunities. As the world transitions to a low carbon economy, trends are emerging which present real risks and opportunities for businesses. Technology trends, such as the continuing growth of electric vehicles and the declining costs of renewable energy, should understood by business leaders and factored into their supply chains. Also, as climate change accelerates, there are increasingly frequent or severe physical impacts which will have implications for all companies with physical assets and those whose value and supply chains are dependent on vulnerable resources or regions. Climate scenario analysis can therefore help investors analyse the potential financial and strategic implications of climate change on their investments.

Our approach to climate scenario analysis

The Trustee has a responsibility to manage climate change 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 Mercer to help determine the impact of different global warming scenarios on its assets. In line with regulatory requirements, in 2022 we ran a new set of scenarios in partnership with Willis Towers Watson (WTW) on our assets and liabilities, and Penfida our covenant advisor, in partnership with BT Group, on the covenant arrangements.

Transition & Physical risks

As part of the analysis, 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. Risks arising could include regulatory or societal changes rendering parts of the business of invested companies worthless. For example, fossil fuels 'in the ground' which become economically unviable to extract due to a lack of a suitable market or due to regulations preventing their extraction. Opportunities include early investment in assets which are likely to benefit from climate change adaptations, such as green energy providers.
- **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. These could have varying effects on the funding and investment strategy of the Scheme, but the direction and size of the effects is unlikely to be clear for a considerable period.

Climate scenario analysis continued

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 2021 as the baseline.

- **Short term** – 1 year– A one year period over which the Scheme may be impacted by climate driven shocks.
- **Medium term** – 13 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.

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:

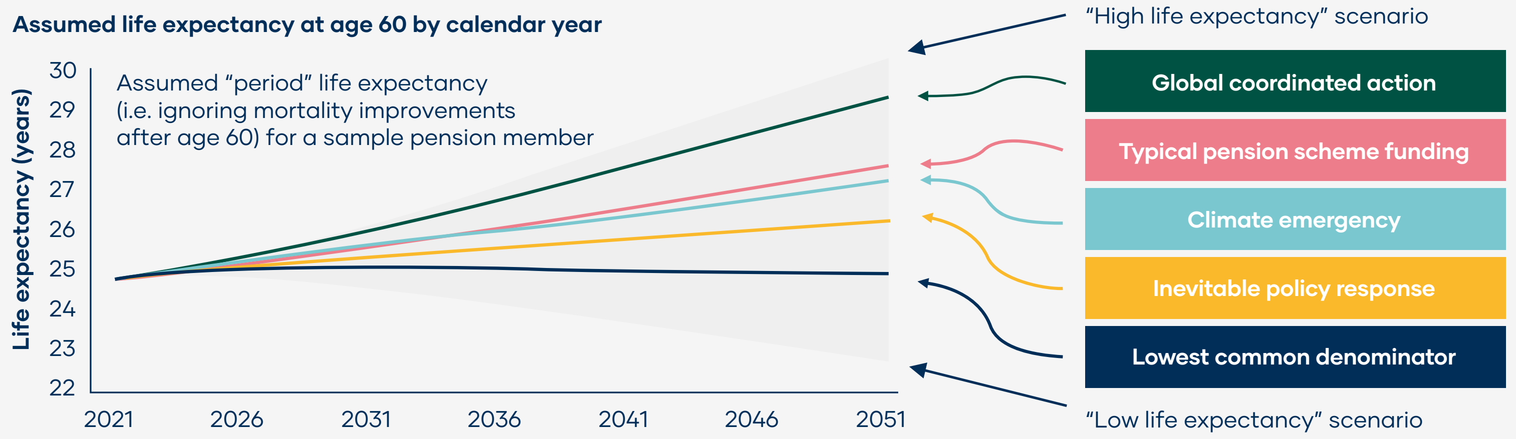
Reduction in mortality rates	Increase in mortality rates
Warmer winter (so a reduction in excess winter deaths)	Increased summer heatwaves (so an increase in excess summer deaths)
	Weather-related disruption and larger swings in temperature

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

As part of scenario analysis, our actuarial advisor, WTW, created the diagram below to illustrate how life expectancy for a 60-year-old could be impacted by different scenarios.



A range of these assumptions have been used to calculate the climate impact on the Scheme's liabilities.

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 – Medium	Low
Transition risk level (shorter term)	Low	High	Low – Medium	Medium
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. For transition risks this was done by assessing the impact of increased carbon prices, whilst the physical risk impacts are derived using MSCI assessment of individual asset impacts. The approach is useful for considering climate related impacts on assets as part of the wider risk management process, however it has certain limitations. The focus on corporate cashflows means the analysis is best applied to corporate assets (such as equities and corporate credit). For other return-seeking asset classes impacts are more approximate. It also means sovereign credit, such as gilts, are assumed to have no impact with no scenario specific path for risk free rates and inflation modelled. Arguments could be made for interest rates and inflation implications resulting from the different scenarios, but ultimately the Scheme is well hedged against these risks regardless. The focus on carbon pricing as a means for assessing transition risks also underplays the potential impact of region on transition, which may be meaningful as the Scheme moves increasingly into UK-based assets through de-risking. Along with the limitations mentioned, scenario analysis also does not take into account tipping points,i.e. critical thresholds that, when crossed, lead to large and often irreversible changes in the climate. These are shocks that may have an impact on the Scheme's funding abilities but we are unable to measure them at present.

The asset class impacts have been translated into annual year-by-year impacts based on qualitative views regarding the pace at which costs will be incurred. This qualitative approach is necessarily judgement based, but the Scheme considered the impact of the timing question in assessing the results of the scenario analysis.

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 2021. 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 2028.

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 and return seeking equities (the latter 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

	Lowest common denominator	Inevitable policy response	Global coordinated action	Climate emergency
Expected year of full funding - Asset and liability impacts (i.e. number of additional years to achieve full funding) – figures in brackets relative to base case	1 year earlier	No change	1 year later	2 years later
Change in funding level based on immediate climate shock	-0.9%	-11.6%	-9.5%	-11.0%

The table above summarises the results of the analysis. There are two different perspectives in which the impact on the Scheme is analysed: firstly, if the impact materialises as an immediate climate shock and is immediately priced into markets resulting in a change to the current funding levels; and secondly, if the impact materialises through time. The impact of a shock is likely to be more material to the Scheme, as the earlier negative outcomes are priced in, the more impactful they are to a shorter-term path-dependent investor like the Scheme, whilst the investment portfolio is also expected to de-risk through time. Additionally, it has assumed that in a shock event markets would overprice the risk (as has been seen historically) which means a bigger initial impact before some of this impact unwinds in later years as markets recover. The analysis of expected years to full funding demonstrates that the Scheme's existing strategy is very robust to costs materialising through time, with only marginal changes to the time period projected to achieve full funding levels.

Transition risks are likely to be more costly than physical costs due to the short time horizon of the Scheme and the fact that the Scheme will be materially de-risked by the time physical risks begin to bite. There are potentially sizeable drags on returns from transition in both the Climate emergency scenario and the Inevitable policy response scenario, with the physical costs from 10 years onwards less significant. Due to the improvements in life expectancies assumed under the Global coordinated action scenario, this scenario can also be seen to have a relatively material impact on the funding level in a shock scenario. Similar to other risk analysis considered by the Trustee, the size of these potential shocks is measured by a 95% Value at Risk (which is a model-derived figure of the potential increase in deficit the Scheme could experience due to adverse investment performance that would be expected to occur once every 20 years). The results of the scenario shocks suggest that whilst the climate risk is material, it is not disproportionate to the level of investment risk the Scheme is exposed to as part of the overall investment strategy.

Climate scenario analysis **continued**

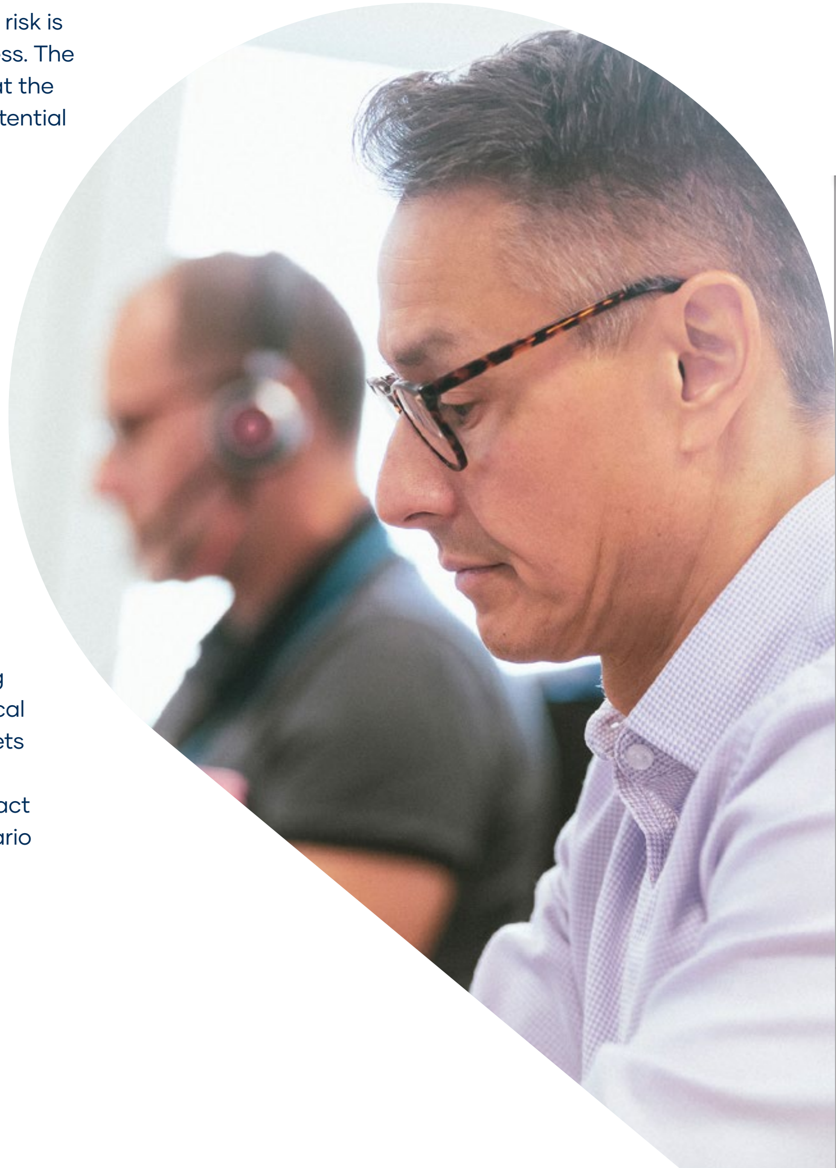
Conclusions

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. The Scheme is still expected to reach full funding by the end of the decade in the scenarios considered however, illustrating that the funding plan is robust to potential climate impacts.
- **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 robust to the potential impact of climate change, but that there are still benefits to considering climate risk when setting allocations and in the implementation of the strategy. 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.

We recognise the value in undertaking climate scenario analysis as part of our wider evaluation of potential long term outcomes for the Scheme. In this context, scenario analysis offers one approach for assessing the progression of the Scheme's funding position, but should not be seen as the definitive answer. The indirect impacts of climate change, including the interaction with other risks (such as geopolitical risk), are difficult to accurately model. How markets interpret climate risks over time is also inherently uncertain, and this could have a more direct impact on the Scheme's funding position. The way scenario analysis is constructed continues to adapt and improve, and we will continue to keep up to date with the latest approaches.



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, has 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 carbon emissions in the ICT[5] sector expected to drop by as much as 40% by 2030[6] due to actions being taken to improve energy efficiency across mobile networks, fixed networks and data centres.
- 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.
- BT is currently targeting Net Zero emissions for its own business by March 2031, and Net Zero emissions for its suppliers and customers by March 2041, which puts it in a reasonable position to address climate change related risks.
- BT's positioning in relation to climate change means that climate change is having is relatively limited impact, with the scale of the covenant supporting the Scheme and its ability to meet deficit repair contributions remaining sufficient.
- The impact of climate change on the Scheme's funding level may be more material however, Penfida's overall conclusion is that it would expect the covenant provided by BT to the Scheme to remain resilient under the climate change scenarios considered by WTW (as detailed in the section above) based on the information currently available.

Key 2023 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 the extent to which its strategy would need to change.

[5] ICT stands for Information and Communication Technology. The telecommunications sector is a smaller sub-set within the ICT sector
[6] Source: "Harnessing data to empower a sustainable future" – Technology and emissions report by Accenture

Climate scenario analysis continued

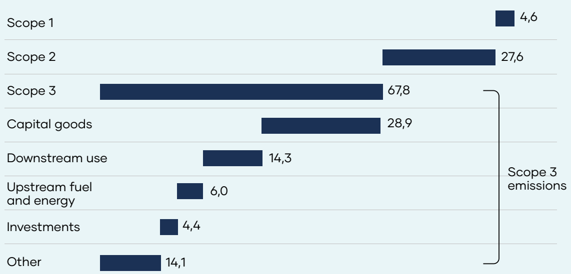
Transitioning BT's Vehicle Fleet – From BT Group

The telecommunications sector in a time of climate change

Relative to other heavy emitting industries, the telecommunications sector is not considered an emissions-intensive sector and is responsible for 1.6% of total global CO2 emissions. Ninety percent of emissions come from most companies' upstream supply chain of goods and services, their use of energy to run networks and IT, and the downstream use of electricity as customers use their services.

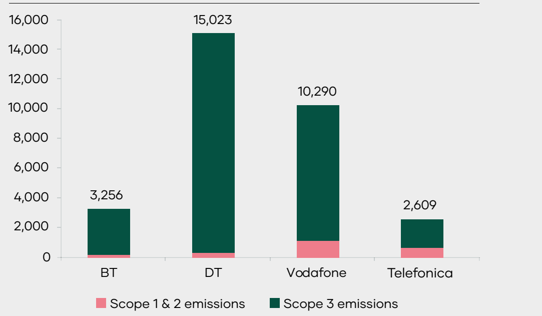
Telecom Operators Emissions Breakdown

CDP Data, Basket of 19 telecom operators with revenues of 717m€, 2019 data, 100%=128MT CO2e



Source: Oliver Wyman analysis, CDP

BT's CO2 emissions vs. peers (mt)



Note: on a CO2 emissions (mt) per € of revenue basis (using latest revenue figure), BT emits 0.13mt of CO2 per € of revenue; DT: 0.14mt; Vodafone: 0.23mt and Telefonica: 0.07mt
Source: Company reports

At BT Group, the vehicle fleet makes up nearly two-thirds of operational emissions, and it's traditionally been all diesel. Therefore, switching to electric or low-emission vehicles is an important milestone on the journey to Net Zero. BT are aiming to transition the majority of their vehicles to electric or zero carbon emissions by 2030.

This year, BT added 700 more electric vehicles to our commercial fleet (now over 1,000 in total). They have increased the number of charging points at their sites and worked with electricity providers to install off-street chargers at over 600 engineers' homes. To date, BT's electric fleet has travelled around 3.5 million miles, avoiding 1,500 tonnes of CO2e.

BT Group and Openreach have continued to work with others to push for policy measures to support the transition to electric vehicles. At the end of 2021, the Government introduced changes to its plug-in grant scheme, reducing subsidies for plug-in small and large vans and introducing a cap of 1,000 vehicles per annum per company. As a founding member of the UK EV Fleet Accelerator (EVFA), BT are working with Government to address the impact of these subsidy changes on UK companies. The EVFA aims to positively influence the economics of EVs to increase wide-scale adoption.

To learn more about BT Group's climate change activities see **here**, and their TCFD disclosure **here**.

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.

There are 3 core aspects to climate risk and its effective management within the Scheme:

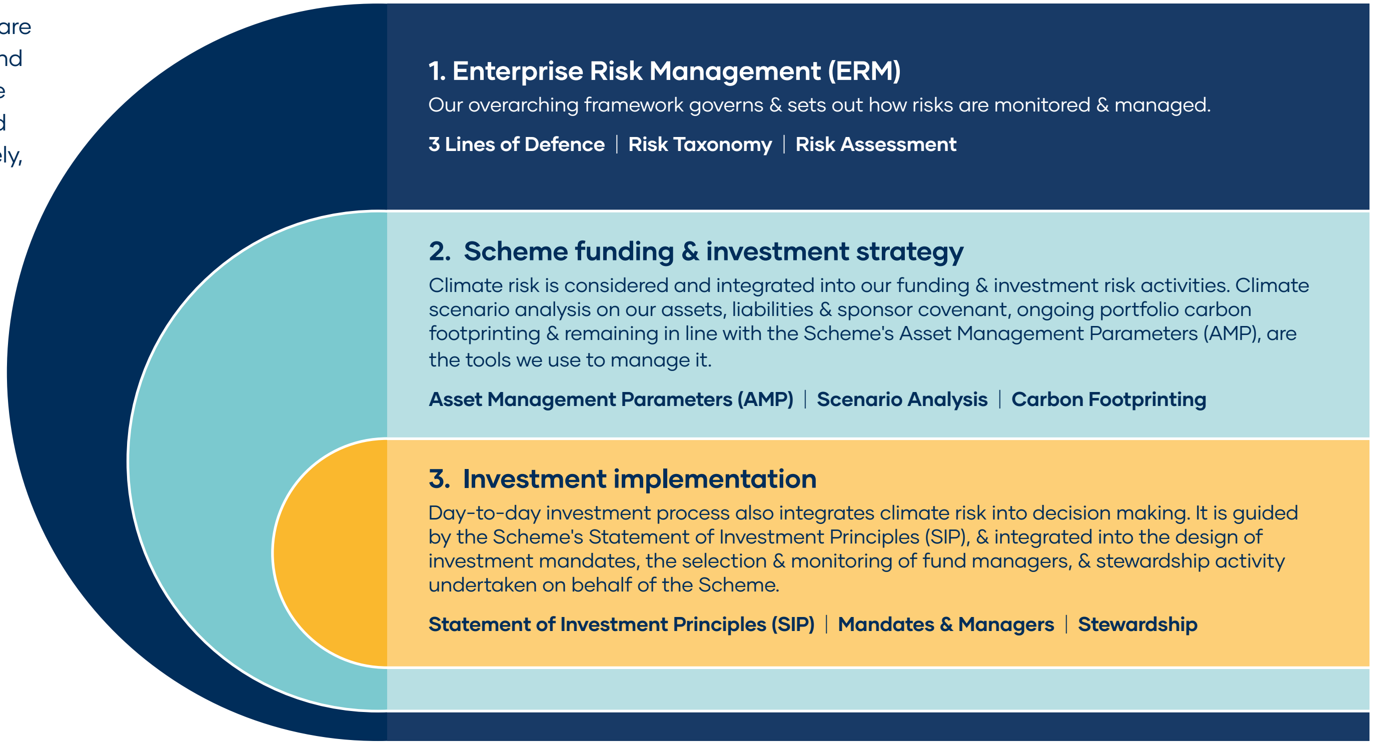
1. **Enterprise Risk Management (ERM)**
This is the overarching framework governing and setting out how risks are monitored and managed, including climate risk.

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 BTPSM, including the monitoring and managing of the associated risks. The Enterprise Risk Management Framework (ERMF) is designed to ensure that these risks are managed effectively, proportionately and in line with the Trustee Board's expectations.

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

2. **Scheme funding & investment strategy**
Climate risk forms a key 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.

3. **Investment implementation**
Our day-to-day investment process also integrates climate 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.



Risk management continued

Enterprise Risk Management Framework (ERMF)

The Scheme's goal is to be Net Zero by 2035, and interim targets are set and reported on annually. The purpose of the ERMF is to support the achievement of BTPSM's and the Scheme's objectives by providing an integrated approach when considering and managing risk across the business. Processes for identifying, assessing and managing environmental, social and governance (ESG) and climate change risks, including scenario analysis, are being developed.

BTPSM 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 the continuous improvement of the management of risk in the business.

- The first line of defence leads and oversees the business while owning the risks, managing them on a day-to-day basis. The first line risk owners are also responsible for identifying, measuring, assessing and monitoring the risks. The CIO owns the investment risks and is responsible for investment teams who specifically identify and manage climate related risks.
- 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.
- 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 ERMF 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), social, or governance event, or condition arising".

As the ERMF 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 ERMF, 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 ERMF 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 developed, high-risk exposures and incidents are reported to the Investment Committee. BTPSM 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

Inclusive of the ERM approach, 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 3 main axes of our funding status- liabilities, assets and the sponsor covenant

Carbon Footprinting

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

Asset Management Parameters

The AMP or Asset Management Parameters 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 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 in order to achieve this goal.

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 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 seek 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 goal in 2020.

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

For this analysis BTPS utilises the expertise of external advisors, notably WTW in the case of asset and liability climate risk modelling, and Penfida, for covenant risk modelling. Please turn to page 101 for further information on the analysis and key Trustee considerations.

Risk management continued

Carbon Footprinting

Portfolio carbon footprinting plays an important role in monitoring and managing 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 goal, as well as interim carbon reduction targets that are set to ensure the journey towards the long-term goal, 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 goal. Please see page 115 for more information on our metric and target setting processes.

Footprinting also helps us identify our highest emitting investments, which in turn gives direction to our Net Zero stewardship activities. Please see page 97 for information on our stewardship activities.

Risk management continued

Investment implementation

The Scheme's day-to-day investment process also integrates climate 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 goal is centred on 4 key pillars. Of these, there are a subset that are important in appropriately managing climate risk associated with implementation. In particular:

- **Design of investment mandates** – Ensuring the investment mandates given to fund managers seek to embed carbon reduction objectives and reporting requirements. Over time an increasing number of investment mandates will include climate objectives and constraints, helping manage overall Scheme climate risk.
- **Selection of fund managers** – Ensuring the fund managers responsible for managing BTPS assets consider and integrate climate risk as part of their investment process. It is expected that the fund managers employed by BTPS help mitigate climate 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 our investments to address climate change. We view stewardship as such a key tool that it is one of four pillars of our Net Zero goal in helping manage climate risks. We believe in being active owners of our assets and expect our equity fund managers to use their voting powers to support appropriate climate change-related shareholder resolutions, and all our managers to regularly engage with company executives and boards on climate change. As part of our 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 TCFD report.

Key focus 2023

The Trustee will continue to assess how we can better integrate climate risk into the investment decision making process and how BTPSM can advance its investment systems to better integrate climate data.

Metrics & targets

In this final section, we discuss the metrics and targets we have set to assess and progress our Net Zero goal and climate-related risks and opportunities. We look at our performance since 2020 and explore the limitations and challenges with climate 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 tri-annually.

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

2021 Scheme-wide climate metrics & targets

Metric	Description	Rationale for inclusion	2025 Target
Absolute emissions, also known as total carbon emissions (tCO2e, scope 1&2)	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/$m invested, scope 1&2)	The amount of tCO2e emitted per million dollars of BTPS' investments.	Statutory guidance. Helps compare portfolios & perform attribution analyses.	At least 25% reduction in equity & corporate credit investments.
Weighted average carbon intensity (WACI, tCO2e/$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 for equity & corporate credit investments.
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.
Portfolio GHG data coverage (%)	Percentage of equity & credit portfolio with emissions data available.	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.	-
Company reported data (%)	Percentage of portfolio with company reported emissions.	Highlights what proportion of emissions are reported by companies vs. estimated by data providers. We are reliant on fund managers & data providers to improve this but can push policy makers to require better disclosure.	-

Metrics & targets continued

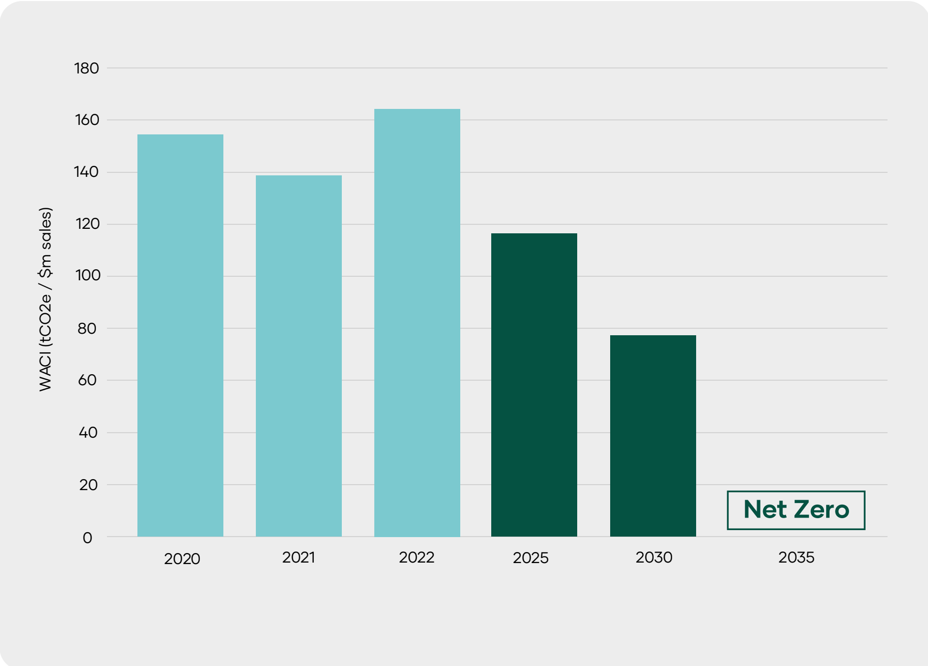
2021-2022 Equity & corporate credit emissions data (scopes 1 & 2)

As at 30th June 2022	Absolute emissions (tCO2e, scaled to 100% coverage)	Carbon footprint (tCO2e/$m invested)	WACI (tCO2e/$m revenues)	Portfolio alignment (%)	Portfolio GHG data coverage (%)	Company reported data (%)
Listed equities	517,631	69.9	180.2	77.8%	100.0%	40.4%
Comparator benchmark- MSCI ACWI	442,854	59.8	164.7	-	99.8%	-
Listed investment grade credit	1,097,151	79.2	156.9	28.3%	78.5%	16.4%
Comparator benchmark- BBG Global Agg Corporate	928,694	67.1	233.8	-	86.5%	-
BTPS total equity & corporate credit portfolio	1,614,782	76	165	45.5%	86.0%	24.8%

Metrics & targets continued

Key Findings

Overall portfolio WACI performance vs. Net Zero targets



Since the 2020 baseline year, BTPS' carbon intensity, measured using the Weighted Average Carbon Intensity (WACI, as detailed above) has slightly risen, by 6.8%. This is in contrast to our absolute emissions reducing by 23.7%. Nevertheless, it is important to recognise year-on-year changes in emissions can be quite volatile and achieving the long-term ambition of Net Zero is the key focus.

There are a few factors that have contributed to the change in WACI, most notably the change in global carbon emissions following the COVID-19 related curtailment of economic activity. Global emissions in 2020 and 2021 were depressed due to lockdown measures and economic restrictions resulting from government efforts to minimise the impact of COVID-19. Since mid-2021, economic activity has rebounded strongly, resulting in higher global emissions which has fed through into a higher WACI for the companies and investments in the BTPS portfolio.

Additionally, the Scheme has seen an increase in exposure to oil and gas companies, stemming from our listed share portfolio. This is partly a result of the value of companies in the sector rising in value due to increases in the price of energy related commodities, as well as one of our fund managers increasing their exposure to the sectors. Consequently, the energy sector is a key area of focus for our stewardship activity. Further detail on out Net Zero Stewardship Programme is included on page 97.

The fall in absolute emissions since 2020 is pleasing and results from lower emissions from both from our corporate bond portfolio, despite it increasing in size over the period, and also from our listed shares, largely as a result of the Scheme having less exposure to the asset class. Absolute emissions are the primary focus of the Net Zero goal and reflect the overall investment portfolio emissions. WACI is an intensity measure that normalises for changes in the value or exposure to assets in the Scheme. As such, it's a useful secondary metric that is monitored to help understand the portfolio's emission complexion.

Metrics & 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 quite 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' Net Zero goal has two aims: to reduce emissions in the portfolio and to invest in transition investment opportunities. Decarbonising BTPS' 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.

In addition, monitoring the Scheme's exposure to investments that aid the global transition is key.

Finally, 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 goal 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.

Key 2023 focus

Over the next 12 months, BTPS will continue to push a number of initiatives to achieve our 2025 emission targets, to remain on track for the 2035 goal.
These include:

- Improving our emission data and attribution of year-on-year changes.
- Creating change through our Net Zero stewardship programme, and strongly focusing on our managers pushing investments to set Net Zero targets, particularly in our corporate credit mandates.
- Focussing fund manager discussions on the quality of companies held, both in our equity and long-term credit mandates.
- Continuing to work with our infrastructure, real estate, and private market managers to improve the consistency and comparability of data.
- Calling for strong policy maker action to require companies and different asset classes to disclose more data.
- Continuing to proactively contribute to the improvement in accounting methodologies through continuing our chair role within the ASCOR project, our participation in the Net Zero Asset Owner Alliance (AOA), Paris Aligned Investment Initiative (PAII), the Transition Pathway Initiative (TPI), and supporting the ESG Data Convergence Initiative via our managers and broader market engagement.

Addendum

Data quality and limitations

The metrics described in this report cover the Scheme's investments in public equities and corporate credit. 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 50% of our portfolio therefore, to compensate for this limited coverage, we are beginning to ask our asset managers to provide further data they may have access to. 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 in the industry is still needed.

For this year we have only used data obtained from our third-party climate change data provider and believe it to be as accurate as can be expected. However, we along with the rest of the industry face challenges around climate data.

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 our best efforts 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 and 2 GHG emissions from across the portfolio. Unfortunately, obtaining scope 3 emissions is far harder due to poor data quality, weak reporting, changing estimation methodologies and the potential for double-counting. This is why we have not reported on scope 3 emissions in this report.
4. **Real estate** – While it is possible to obtain some buildings emissions data, investors are finding significant challenges in obtaining tenant electricity and gas consumption information. These emissions form a significant part of a building's overall data. Increased tenant engagement may help bridge this gap, however it is a significant undertaking and takes time. Moreover, this information can lead to double counting with exposure to the same tenants through our listed share or corporate bond portfolios.
5. **Infrastructure** – We have strong emissions data for our infrastructure investments, however the differing companies' reporting deadlines mean we currently cannot show emissions data at 30 June 2022, only 30 June 2021.
6. **Private markets** – In private markets, 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 require these different markets to better report climate data.
7. **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 have not reported on this asset class. Instead, we continue to support industry efforts to align sovereign debt accounting methodology via NZAOA and our chair position of the ASCOR project.

Methodologies

Methodologies[7]

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 EVIC calculation is sourced from a company's accounting year-end annual filings.

EVIC = Market capitalization at fiscal year-end date + Preferred Stock + Minority Interest + 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 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. Trustees are recommended to report this number by DWP regulation.

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

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 analyses 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 prevent the worst impacts of climate change and future-proof 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.

How portfolio alignment is calculated may however change over time as methodologies and data improve, particularly in relation to how we can calculate alignment as per guidance in the NZIF Net Zero stewardship toolkit. Trustees are recommended to report this number by DWP regulation.

[7] As established by MSCI ESG Research LLC

Strategy & governance
Financial statements & regulatory reports
Net Zero 2035 & TCFD report
SIP implementation statement
Stewardship code response
Trustee board committees
Management and advisers
Glossary

Appendix two: SIP Implementation Statement

SIP Implementation Statement

The Trustee's expectations of stewardship, engagement & voting

The Trustee reviews each year how, and the extent to which, the Scheme's policies on stewardship have been followed during the Scheme year. It involves analysing the voting behaviour by, or on behalf of, the Trustee (including a selection of significant votes, determined by the Trustee or in collaboration with the Scheme's investment managers, and cast by the Trustee or on its behalf) during the year, stating any use of the services of a proxy voter. In relation to stewardship activities, the Scheme's Statement of Investment Principles (SIP) sets out policies across the following areas:

ESG integration Integrating all financially material considerations, including environmental, social and governance (ESG) factors, throughout the investment process	**Emerging long-term risks** Monitoring emerging long-term risks, such as climate change and technology disruption, that may have a material adverse effect on the Scheme	**Reducing emissions & Net Zero 2035** Reducing exposure to greenhouse gas emissions, and establishing a goal for the Scheme's investment portfolio to achieve Net Zero greenhouse gas emissions by 2035	**Members views** Considering the views of members to help inform the Trustee's approach to ESG considerations and stewardship
Investment managers are expected to consider both the risks and opportunities that arise from ESG factors where appropriate in the selection, retention and realisation of the investments they manage on behalf of the Scheme. As relevant to the asset class and strategy, they are expected to provide evidence and ongoing reporting on the ESG integration process across, for example, fundamental analysis, asset valuation and portfolio construction, as well as engagement and voting activities. Where relevant, the Trustee delegates the exercise of voting rights and engagement activities to Federated Hermes EOS, one of the world's foremost providers of collaborative stewardship services, and where they can demonstrate sufficient capabilities, its investment managers.	Given the time horizon of the Scheme, the Trustee recognises that emerging, long-term risks including, for example, climate and technology disruption, may have a material adverse impact on the Scheme. These risks are monitored by the Trustee as part of their regular review of the Scheme's risk register. Day-to-day implementation and monitoring of the controls in place to manage these risks is delegated to BTPSM.	The Trustee believes that reducing exposure to greenhouse gas emissions over time will improve investment outcomes and reduce the impact of potential adverse outcomes associated with future climate risk. Consequently, the Trustee has established a goal for the Scheme's investment portfolio to achieve Net Zero greenhouse gas emissions by 2035.	The Trustee believes in engaging with members to understand their views on different topics. There are several mechanisms in place that provide this link including through : • BT's recognised Trade Unions (CWU and Prospect) and the National Federation of Occupational Pensioners (NFOP) nominate Trustee directors. • Providing an annual presentation by the Trustee Board, BT Pension Scheme Management (BTPSM) and its advisers to BT's recognised Trade Unions and NFOP . • Updating members on the Scheme's stewardship, engagement and voting activities via quarterly updates on the BTPS website, the Scheme's report and accounts, including TCFD disclosures, and the Scheme's annual PRI transparency and assessment report. • Inviting feedback from members through the annual member newsletter and annual member surveys, and supporting a 'member panel' who volunteer to take part in more in-depth research with the Scheme.

SIP Implementation Statement

SIP Implementation Statement background

The following information is the Trustee's statement prepared in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the voting and engagement policies detailed in the Scheme's Statement of Investment Principles (SIP).

What is the Statement of Investment Principles (SIP)?

Regulatory changes in 2018 and 2019 required trustees of UK defined benefit pension schemes to disclose further information in relation to how they undertake stewardship - exercising voting rights and engaging with their investments - in their SIP, and introduced the concept of an annual Implementation Statement. The legislation states that the Implementation Statement must be included in the annual report and accounts, and that it must also be made publicly available online. To reflect new regulatory requirements, the SIP was reviewed and approved on 30 September 2020. Following this, a revised SIP was approved on 30 September 2021. There have been no changes to the Scheme's SIP since 30 September 2021. The SIP sets out the investment principles and practices that the Trustee follows when governing the Scheme's investments. It describes the rationale for selecting the investment strategy, and explains the risks and expected returns of the Scheme, and the Trustee's approach to sustainable investing (which includes climate change). This Implementation Statement is in respect of the Scheme's SIPs that were in place from 1 July 2021 to 30 June 2022.

The purpose is to:

- Set out the extent to which, in the opinion of the Trustee, the stewardship activities detailed in the Scheme's SIP, required under section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004 and regulations made under it), have been followed during the year;
- Describe the voting behaviour by, or on behalf of, the Trustee over the year (including most significant votes), and state any use of services of a proxy voter during that year. A copy of this implementation statement will be made available on the BTPS website alongside the Scheme's SIP: **https://www.btps.co.uk/RegulatoryReporting**

Implementation Statement conclusion

Overall, the Trustee is satisfied that over the relevant period the Scheme's investments and stewardship activities, specifically voting and engagement, have been managed in accordance with the SIP at that time.

SIP Implementation Statement

How are the Scheme's investments governed?

The main objective of the Trustee is 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. In considering their approach to meeting this objective, the Trustee considers the expected progression of the Scheme's total annual benefit payments relative to the projected level of Scheme assets as the proportion of retired members increases over time. The Trustee takes an integrated approach to the management of risk in the Scheme. The Trustee therefore invests the assets of the Scheme consistent with funding a defined level of benefits within an acceptable level of risk, having appropriate regard to the affordability of both the immediate and longer-term cash cost to BT, and the funding obligations which BT Group (and other entities where relevant) may have from time to time to the Scheme. The Trustee recognises the importance of establishing and maintaining stability in the Scheme's funding position and understands that continued investment in risky assets might, over the short to medium term, influence the volatility of the funding level of the Scheme, and hence may influence the level of future contributions that may be required from BT.

The Trustee has established a core set of investment beliefs that provide a framework for consistent and effective investment decision making. This includes beliefs that are related to the nature and characteristics of the Scheme, such as the importance of having an appropriate governance structure, the need to take into account the liabilities when setting investment strategy, and having an understanding of both the competitive advantages and disadvantages facing the Scheme. The investment beliefs recognise the importance of being a responsible investor and include 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. The Trustee, supported by its Investment Committee and BTPSM, regularly reviews its investment beliefs against the investment outcomes being delivered by the Scheme.

In early 2020, the Trustee agreed a new investment belief on managing the Scheme's investments to create long term sustainable value . Building on this, in October 2020, the Trustee formalised via the Statement of Investment Principles a goal to reach Net Zero greenhouse gas emissions by 2035.

The Scheme's investments should be managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full.

SIP Implementation Statement

What does it mean to vote?

When an investor owns shares in a company, they become a part-owner of that business. Having a share also gives them the right to vote at the company's annual general meeting (AGM), which is where companies submit resolutions for shareholders to approve, such as executive remuneration or appointing an auditor.

Shareholders can file resolutions to allow other shareholders to vote on matters that are not raised by management. As very few investors now attend AGMs in person, votes are cast as "proxy votes" via phone, online or email. Often the items to be voted on could impact a company's long-term performance, making proxy voting an important way for active investors to influence corporate behaviour on sustainability issues.

BTPS believes that making full use of its voting rights is part of its fiduciary duty and requires Federated Hermes EOS and, where applicable, asset managers to execute all votes for the Scheme's directly held public securities. It believes that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. The Scheme's investment managers and Federated Hermes EOS are given a measure of discretion and flexibility, and can follow their own voting policy on most voting activities to support their wider engagement with the company, and to align with their overall financial rationale for investment in the company.

BTPSM monitors the investment managers' and Federated Hermes EOS' voting activities and requests they highlight key voting decisions on a quarterly basis, alongside a thorough review of all their votes cast on an annual basis.

The investment managers and Federated Hermes EOS are also regularly asked about their approach to conflicts of interest, however there were no concerns raised during the year. The Scheme does not engage in stock lending.

BTPS also publishes Federated Hermes EOS' quarterly voting statistics and activities on the Scheme website – see here for more information: **https://www.btps.co.uk/SustainableInvestment**

While the Scheme is invested in a diverse range of asset classes, the next few pages focus on the equity investments which have voting rights attached. The Scheme's equity holdings, as at 30 June 2022, are held in both segregated and pooled investment funds and are managed on an active basis. The Scheme's equity holdings are invested with five investment managers, who undertake voting and engagement. Federated Hermes EOS also conducts additional voting and engagement activities on behalf of the Scheme.

Significant votes

Significant votes, as determined by the Trustee in collaboration with its investment managers, are categorised as:

- a vote which can have a potential impact on financial outcomes;
- votes which might have a material impact on future company performance, for example, approval of a merger or a requirement to publish a business strategy that is aligned with the Paris Agreement on climate change;
- potential impact on stewardship outcomes;
- any decision which may reduce the investor voice (e.g. around shareholder rights), such as a debt for equity swap, management buyout of a significant share of equity, a downgrading of voting rights;
- it is a significant size of holding in the mandate;
- it is a high-profile or controversial vote;
- a significant level of opposition from investors to the company resolution;
- a significant level of support for an investor resolution;
- level of media interest;
- level of political or regulatory interest;
- level of industry debate; or
- any vote in non-listed equity asset classes e.g. in private equity, infrastructure or other asset classes.

SIP Implementation Statement

Manager voting information

Manager:
Federated Hermes
Investment Management

Fund type:
Multiple segregated active equity funds

Use of proxy advisor services:
Federated Hermes EOS uses the proxy advisor ISS to provide research and voting recommendations. Federated Hermes EOS votes its proxies through ISS. Voting recommendations are based on ISS' research using Federated Hermes EOS' voting guidelines, overlaid with their voting approach, and uses Federated Hermes EOS engagers to focus on key topics and/or companies with significant holdings and/or contentious issues or ongoing engagement objectives.

Voting activity:

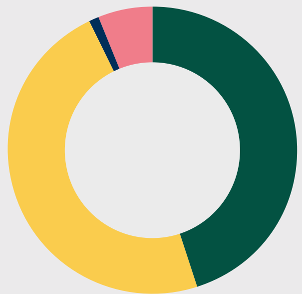
Number of meetings at which the manager was eligible to vote: 206

Number of resolutions on which the manager was eligible to vote: 1,953

Percentage of eligible votes cast: 100%

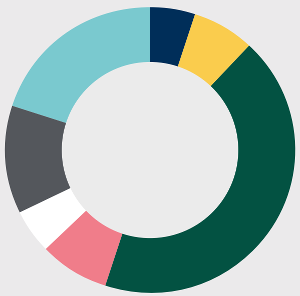
Resolutions voted

With management	45%
Against management	48%
Abstained	1%
Meeting with management by exception	6%



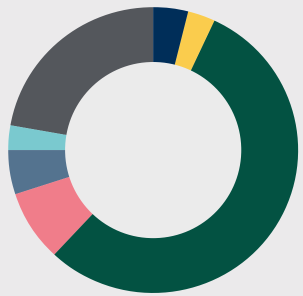
What we've voted on

Amend articles	5%
Audit & accounts	7%
Board structure	43%
Capital structure & dividends	8%
Investment/M&A	5%
Remuneration	12%
Other	20%



Votes against management resolutions

Amend articles	4%
Audit & accounts	3%
Board structure	55%
Capital structure & dividends	8%
Shareholder resolution	5%
Other	3%
Remuneration	22%



SIP Implementation Statement

Manager voting information

Manager:
Federated Hermes
Investment Management

Fund type:
Multiple segregated active equity funds

Significant vote

Company: Berkshire Hathaway Energy

Vote topic: Board to publish an annual assessment addressing how the company manages physical and transitional climate-related risks and opportunities.

Voting instruction: For

Rationale: Berkshire Hathaway Energy is now the largest US power company without a Net Zero goal. While the company has performed well historically, asking shareholders to "trust" the company on its capital deployment decisions without climate risk being adequately disclosed is concerning.

Why a significant vote?: Potential impact on financial outcomes and stewardship outcomes, particularly given the size of the holding in the Scheme's mandate.

SIP Implementation Statement

Manager voting information

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

Use of proxy advisor services: GQG votes its proxies through the proxy advisor ISS and uses bespoke voting policies based on sustainability themes.

Number of meetings at which the manager was eligible to vote: 48

Number of resolutions on which the manager was eligible to vote: 760

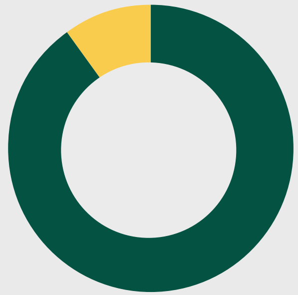
Percentage of eligible votes cast: 99%

In what % of meetings, for which you did vote, did you vote at least once against management? 54%

** In accordance with ISS' Sustainability Policy, 39 abstain votes and 4 withhold votes were cast for this mandate. These votes can be classified as either for or against management and represent 5% of the resolutions voted. For the purposes of the resolutions voted chart to the right, we have not double counted these resolutions.*

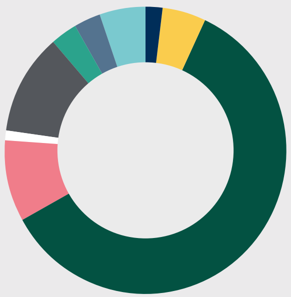
Resolutions voted

With management	90%
Against management	10%
Abstained	0%



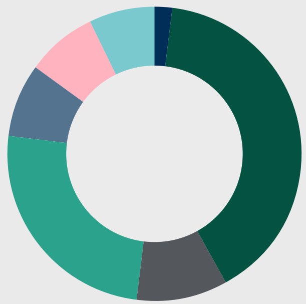
What we've voted on

Amend articles	2%
Audit & accounts	5%
Board structure	61%
Capital structure & dividends	9%
Investment/M&A	1%
Remuneration	11%
Shareholder resolution environment	3%
Shareholder resolution governance	3%
Other	5%



Votes against management resolutions

Amend articles	2%
Board structure	40%
Remuneration	10%
Shareholder resolution environment	25%
Shareholder resolution governance	8%
Shareholder resolution social & ethical	8%
Other	7%



SIP Implementation Statement

Manager voting information

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

Significant vote

Company: Exxon Mobil Corporation

Vote topic: Approve company reporting on climate scenario analysis consistent with International Energy Agency's Net Zero by 2050

Voting instruction: For

Rationale: As one of the largest oil & gas companies in the world, climate change could pose significant risks to the business. Shareholders would benefit from greater disclosure about the company's risk of stranded assets, i.e. assets which could become worthless in light of policy changes or strong carbon taxes, given its planned spending on existing and new operations and business strategy.

Why a significant vote?: Potential impact on financial outcomes and stewardship outcomes, particularly given the size of the holding in the Scheme's mandate.

SIP Implementation Statement

Manager voting information

Manager:
TCI Fund Management

Fund type:
Pooled active equity fund

No proxy advisory service used

Voting activity:

Number of meetings at which the manager was eligible to vote: 17

Number of resolutions on which the manager was eligible to vote: 267

Percentage of eligible votes cast: 100%

In what % of meetings, for which you did vote, did you vote at least once against management? 12%

Resolutions voted

With management	98%
Against management	2%
Abstained	0%

Significant vote

Company: Aena SA

Vote topic: Management Climate-Related Proposal

Voting instruction: For

Rationale: This year was the second year Aena's plan was put to a shareholder vote. TCI monitored the progress made by the Company on several fronts (electrification of their fleet, construction of renewable plants for their own uses, reduction of CO2 emissions, etc.) and decided to vote FOR because TCI was supportive of their plan.

Despite not being on Aena's board anymore, TCI continue to engage with the Company on several fronts, including ESG related issues.

Why a significant vote?: As former board members, this was a significant vote for TCI because it has been heavily involved in Aena's ESG plan. TCI had several meetings discussing the key targets, as well as KPIs that needed to be included.

SIP Implementation Statement

Manager voting information

Manager:
Magellan Investment Management

Fund type:
Segregated active equity fund

Use of proxy advisor services:
Magellan votes its proxies through Glass Lewis' ViewPoint online voting platform. As a result, Magellan has access to Glass Lewis research, but the final voting action taken is based on Magellan's own voting decisions.

Voting activity:

Number of meetings at which the manager was eligible to vote: 25

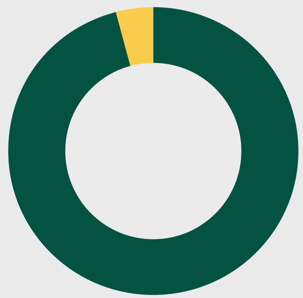
Number of resolutions on which the manager was eligible to vote: 422

Percentage of eligible votes cast: 88%

In what % of meetings, for which you did vote, did you vote at least once against management? 28%

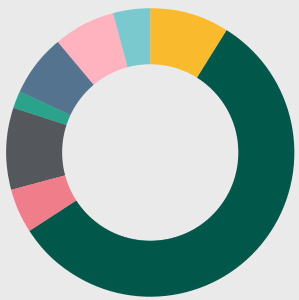
Resolutions voted

With management	96%
Against management	4%
Abstained	0%



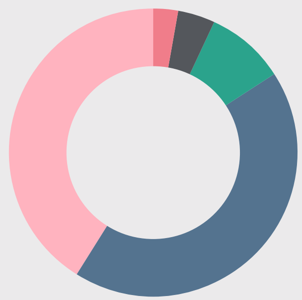
What we've voted on

Audit & accounts	9%
Board structure	57%
Capital structure & dividends	5%
Remuneration	9%
Shareholder resolution environment	2%
Shareholder resolution governance	7%
Shareholder resolution social & ethical	7%
Other	4%



Votes against management resolutions

Capital structure & dividends	3%
Remuneration	4%
Shareholder resolution environment	9%
Shareholder resolution governance	43%
Shareholder resolution social & ethical	41%



SIP Implementation Statement

Manager voting information

Manager:
Magellan Investment Management

Fund type:
Segregated active equity fund

'Say-on-pay' – the right of shareholders to vote on the compensation of the firm's executives

Significant vote

Company: McDonalds

Vote topic: Executive remuneration

Voting instruction: Against

Rationale: Magellan continued voting against McDonald's Compensation Committee members (Lloyd H. Dean, Richard H. Lenny, John W. Rogers Jr and Paul S. Walsh) due to McDonald's continued excessive use of stock options. Magellan believes escalation by voting against committee members was warranted given their consistent vote against say-on-pay over a number of years and engagement with the company on this issue. Magellan discussed its views with management in advance of the vote and wrote a letter detailing their rationale. Magellan voted against McDonald's say-on-pay for the sixth year in a row. Magellan will continue to engage with McDonald's on their executive compensation structure.

Why a significant vote?: Executive remuneration can have a material impact on future company performance, therefore it is essential remuneration is aligned with the shareholder experience.

Constructive executive remuneration engagement and voting outcome

Engagement & voting topic: Improving executive pay

Voting instruction: For

Rationale: Magellan views that executive pay should include a significant portion at-risk to management, as well as moderate use of stock options, a popular form of compensation in North America which can sometimes be overly advantageous to executives. Magellan has been engaging with the Coffeehouse Company on its use of stock options since 2018 to encourage alignment with Magellan's compensation framework principles. Following engagement over several years, the company's remuneration structure is now aligned with Magellan's principles, and so at the next vote Magellan was able to support the company's 2021 remuneration proposals. Magellan will continue to engage with the company on remuneration including the integration of ESG metrics in remuneration and on performance metrics.

Why a significant vote?: Executive remuneration can have a material impact on future company performance, therefore it is essential remuneration is aligned with the shareholder experience.

SIP Implementation Statement

Manager voting information

Manager:
Wellington Asset Management

Fund type:
Segregated active equity fund

Use of proxy advisor services:
Wellington has policies and procedures designed to ensure that they collect and analyse all relevant information for each meeting, apply Wellington's proxy voting guidelines accurately, and execute the votes in a timely manner. These policies and guidelines are written to support the best economic interests of the client, in accordance with regulatory and fiduciary requirements. These policies and procedures are contained in the firm's Global Proxy Policy and Procedures, and Global Proxy Voting Guidelines.

Voting activity:

Number of meetings at which the manager was eligible to vote: 167

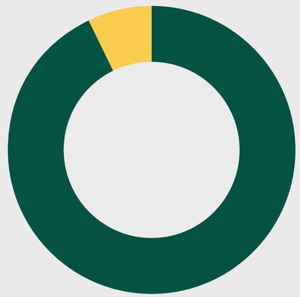
Number of resolutions on which the manager was eligible to vote: 2,620

Percentage of eligible votes cast: 87%

In what % of meetings, for which you did vote, did you vote at least once against management? 53%

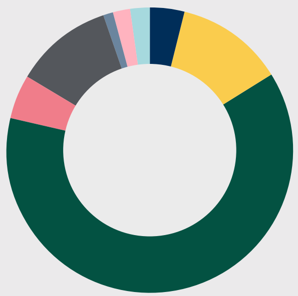
Resolutions voted

With management	93%
Against management	7%
Abstained	0%



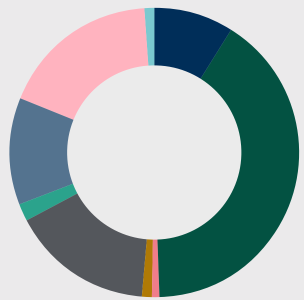
What we've voted on

Amend articles	4%
Audit & accounts	12%
Board structure	63%
Capital structure & dividends	5%
Remuneration	11%
Shareholder resolution governance	1%
Shareholder resolution social & ethical	2%
Other	2%



Votes against management resolutions

Amend articles	4%
Board structure	41%
Capital structure & dividends	5%
Poison pill/ anti-takeover device	1%
Remuneration	16%
Shareholder resolution environment	2%
Shareholder resolution governance	12%
Shareholder resolution social & ethical	18%
Other	1%



SIP Implementation Statement

Manager voting information

Manager:
Wellington Asset Management

Fund type:
Segregated active equity fund

Significant vote

Company: Costco Wholesale Corp

Vote topic: Adoption of targets to achieve Net Zero emissions by 2050

Voting instruction: For

Rationale: As a multi-national consumer goods company with a significant footprint and complex supply chains, corporate climate target setting is required to help companies understand the risks and opportunities posed to their business and achieve climate goals.

Why a significant vote? Wellington believes climate risk management will have a material impact on the company's future performance.

Significant vote

Company: Johnson & Johnson

Vote topic: Shareholder proposal for the company to commission an independent assessment of its effects on racial matters.

Voting instruction: For

Rationale: To examine the external impact the company has on minority communities. Wellington believes there is potential reputational damage and reduction in market share if racial issues occur and go unaddressed.

Why a significant vote? Significant size of the investment holding.

SIP Implementation Statement

Manager voting information

Manager:
Caledonia Investments

Fund type:
Pooled active equity fund

Use of proxy advisor services: Caledonia uses Broadridge to organise their proxy votes, but vote independently of their recommendations. Caledonia is continuing to improve on tracking its voting activities, including reporting on significant votes.

Voting activity:

Number of meetings at which the manager was eligible to vote: 54

Number of resolutions on which the manager was eligible to vote: 653

Percentage of eligible votes cast: 80%

In what % of meetings, for which you did vote, did you vote at least once against management? 0%

Resolutions voted

With management	100%
Against management	0%
Abstained	0%

For more information on corporate engagements carried out on the Scheme's behalf, please turn to page 157 within the stewardship section of the annual report.

Appendix three:
Stewardship code response

Foreword

Stewardship has always been central to our investment approach as we seek to act as a responsible and engaged owner of the companies and assets in which we invest. As the UK's largest corporate pension scheme, we have a responsibility to act as a long-term custodian of the assets we invest in, to meet both the retirement incomes of our members, as well as the needs of the environment and wider society.

We are acutely aware that how and where we invest matters, and this is a responsibility we have always taken very seriously.

We firmly believe investing responsibly supports long-term value, reduces risk and contributes towards better investment outcomes. As a long-term investor, these qualities are critical to enabling us to pay our members' pensions.

We strive to integrate financially-material environmental, social and governance (ESG) factors throughout the investment process, including within the overall investment strategy and asset allocation, the design of our investment mandates and the selection and ongoing monitoring of our asset managers.

Sound corporate governance, and companies that are mindful of their impact on society and the environment in which they operate, have a better chance of sustaining long-term economic success.

This commitment is central to how the Scheme thinks about its investments and this is mirrored in our responsible investment mission statement:
"The Scheme's investments should be managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full".

As part of our investment strategy, which has sustainability at its core, we consider the potential impact on the Scheme of long-term structural risks, including, for example, climate change and scarce and impaired natural resources.

These risks are inextricably linked and require systemic changes in the way companies operate, pension funds invest and in how we steward our assets.

Despite our scale, we know that no single pension fund or investment manager is sufficiently large or influential enough to drive change at the scale that is required. We therefore value collaboration, working closely with other schemes, asset managers and organisations, such as the Principles for Responsible Investment (PRI), Net Zero Asset Owners Alliance (NZAOA), the Institutional Investors Group on Climate Change (IIGCC) and Transition Pathways Initiative (TPI).

In 2021, BT Pension Scheme proudly became a signatory to the 2020 UK Stewardship Code, which sets high stewardship standards for asset owners and asset managers, and for service providers that support them. This report is part of our ongoing commitment to the Code and it incorporates feedback given by the Financial Reporting Council (FRC). We hope that it provides readers with even greater insight into the sustainable investment and stewardship work we do on behalf of our members.

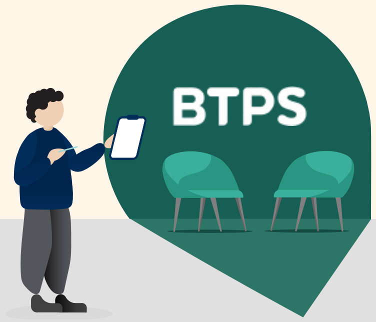
Otto Thoresen
Chair, BTPS

Morten Nilsson
CEO, BTPSM

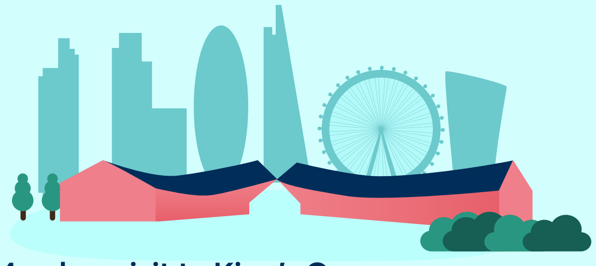
Contents

Key stewardship highlights

Audit
Internal audit of stewardship report & internal stewardship activities.



Diversity, Equity & Inclusion (DE&I)
Signed the Asset Owner Diversity Charter.



Member visit to King's Cross development, London, UK

Manager oversight
Development & roll out of Manager Net Zero & Stewardship Scorecard & Sustainability Best Practice Expectations document.

Real estate
70% of real estate investments have BREEAM or Fitwell One Start green certification which recognise higher quality environmental performance.

Climate
"Set five-year goals to reduce portfolio emissions[1]" See the **TCFD** section for more highlights.

Founding member of The ASCOR Project
Supporting investors in assessing sovereign climate-related opportunities and risks.

Improving reporting for asset owners
Alongside the Universities Superannuation Scheme (USS), Brunel Pension Partnership, RPMI Railpen, the Church of England Pensions Board & Chronos Sustainability, we developed a tool to help us & the wider asset owner community to better manage responsible investment & stewardship reporting requirements.

Member engagement
Member survey on stewardship reporting & site visit to King's Cross Development

76% of members* want BTPS to continue taking into consideration ESG issues in its investments.

**of 12,000 BTPS annual survey respondents*

Useful links
- BTPS Sustainable Investment page
- BTPS Responsible Investment Policy
- BTPS Climate Change Policy
- BTPS Net Zero 2035
- PRI 2020 Assessment Report for BTPS
- BTPS – EOS Stewardship 2021 Annual Report
- EOS Engagement Objectives & Plan 2022 - 2024

[1] *In line with the Net Zero Asset Owner Alliance and the Net Zero Investment Framework guidelines*

Introduction

As the UK's largest private sector pension scheme and a long-term investor, we have an obligation to act as a responsible steward of the companies and assets in which we invest. Our approach encompasses not only our investment portfolio but also how we set policies on running our own business, such as internal training.

As part of our mission to be a good steward of capital for our beneficiaries, we aim to follow the same transparency standards that we require of our partners and investee companies, adhering to the UK Stewardship Code.

BTPS works closely with BT Group as the Scheme's sponsor ensuring there is consistency in serving BT's current and former employees. This report details the stewardship of BTPS, of which the stewardship activities and processes are largely undertaken by BTPSM or the Scheme's asset managers and EOS at Federated Hermes.

The next few pages showcase our stewardship approach and activities over the past 12 months to 30 June 2022. We aim to explain our Sustainable Investment (SI) approach in more detail, highlight how we conduct stewardship directly and via our asset managers and agents, how we evaluate ourselves, and our plans for the future.

Stewardship is built into the fabric of BTPS. We founded Equity Ownership Services (EOS)[1] at Federated Hermes, now the pre-eminent global engagement and stewardship provider for institutional investors.

[1] EOS is a limited company wholly owned by the international business of Federated Hermes (which is majority owned by Federated Hermes Inc.).

Our sustainable investment approach

Earlier in the report we outlined the Scheme's approach to sustainable investment. The building blocks below support our sustainable investment approach across all asset classes, which covers key aspects of the Scheme's sustainable investment approach to strategy, governance, implementation, advocacy, external reporting and conflicts of interest. These beliefs direct the sustainable investment strategy and the stewardship activities carried out on behalf of the Scheme:

Portfolio sustainability research & analysis

Undertaken by BTPSM and our asset managers to understand sustainability-related investment risks and opportunities. For example, obtaining the carbon footprint of a portfolio.

External partnerships, collaborations & public policy engagement

Undertaken by BTPSM with other investors and industry bodies, or with policy makers regarding key sustainability topics. For example, discussing green bonds with national governments.

Presentations, training, articles & thought pieces

Created by BTPSM to communicate the organisation's view on a certain topic or raise awareness amongst the Trustee and colleagues. For example, training on climate change science.

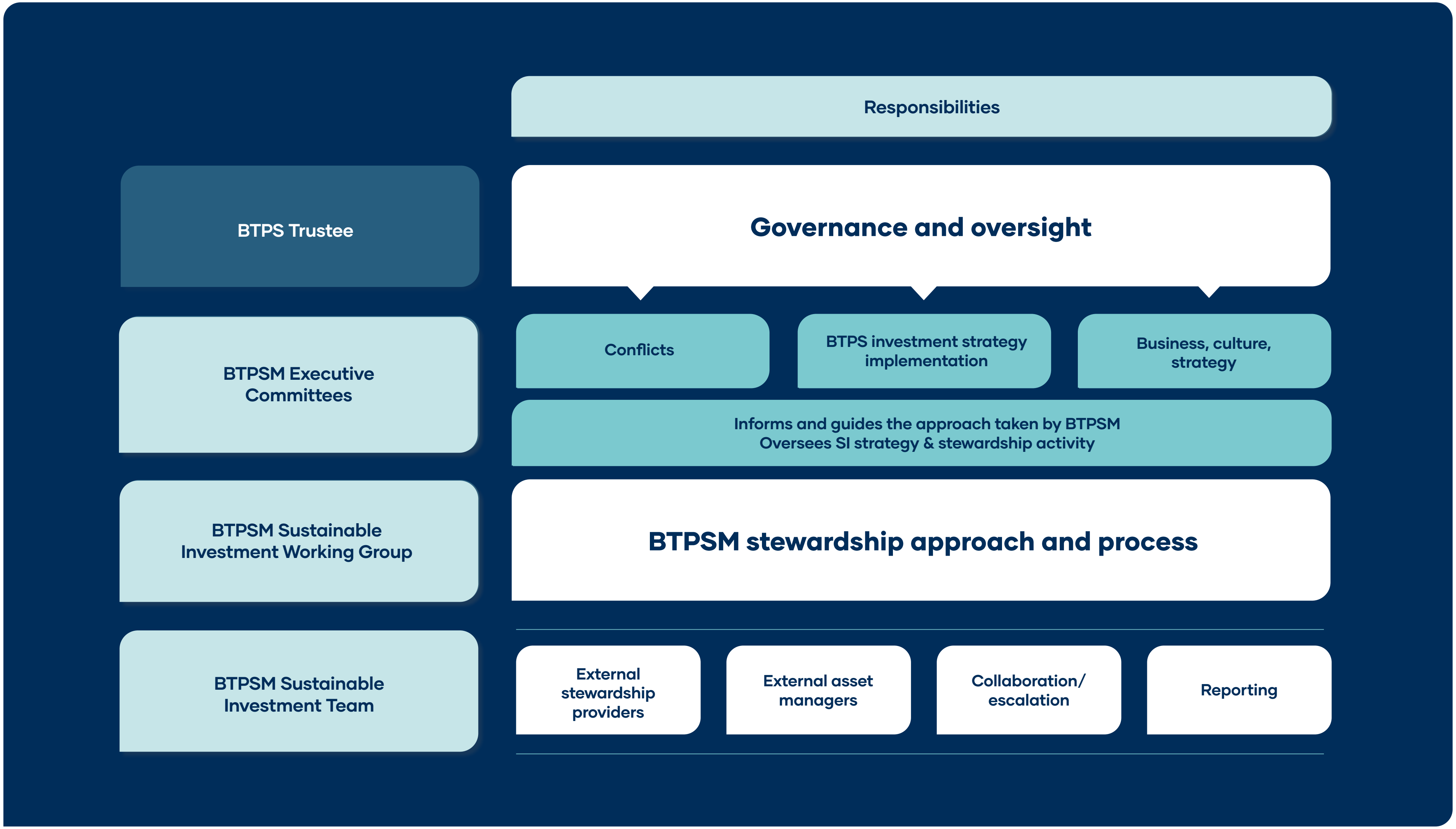
Asset manager & stewardship provider meetings

Undertaken by BTPSM with asset managers and Federated Hermes EOS to understand their stewardship activities and hold them accountable to our sustainable investment policy. For example, discussing their current engagement focus in quarterly investment meetings, from diversity & inclusion to climate change.

Member reporting, annual BTPS Stewardship Report & TCFD Report

Created by BTPSM to share stewardship activities undertaken by and on behalf of the Scheme. For example, making public quarterly engagement reports available on the BTPS website.

Stewardship through BTPS & BTPSM



BTPSM's governance structure

BTPS relies on BTPSM to undertake sustainable investment on its behalf. To understand BTPSM's governance for this, the Head of Sustainable Investment (SI) for BTPSM reports to the Head of Research & Solutions, and oversees the Scheme's sustainable investment strategy and its effective implementation throughout BTPSM, external asset managers and stewardship services providers. The Head of SI reports on sustainable investment matters to the Trustee via regular Investment Committee meetings, and is responsible for engaging with other asset owners and third-parties to inform best practice and improve the effectiveness of the Scheme's sustainable investment activities.

BTPSM Limited Board

- **BTPSM Executive Board**
- **Investment Services Committee**
- **Member Services Committee**
- **Customised Portfolio Committee**
- **Remuneration Committee**
- **Risk & Compliance Committee**

Wyn Francis
CIO
34 years' investment experience

Douglas Clark
Head of Research & Solutions
20 years' investment experience
Net Zero Working Group

Victoria Barron
Head of Sustainable Investment
14 years' investment experience
Net Zero Working Group

Arek Zawada, CFA
Head of Investment Solutions
15 years' investment experience
Net Zero Working Group

Terence Nahar
Head of Research
21 years' investment experience

Sustainable Investment team

Emma Douglas, CFA
7 years' investment experience
Net Zero Working Group
DE&I Committee

Solutions team

Paul Evans, CFA
9 years' investment experience

Olivier Vongphasouk, CFA
10 years' investment experience

Research team

James Burgess, CFA
14 years' investment experience
Net Zero Working Group

Abbas Owainati
16 years' investment experience

Marios Singh
13 years' investment experience

Prasad Kamath
16 years' investment experience

The Sustainable Investment (SI) team works very closely with the Investment Solutions and Research teams to ensure a holistic approach across all areas affecting the Scheme's portfolio. The teams meet formally each week to share ideas and areas of focus with additional meetings as required.

Certain colleagues also sit on more focused groups, such as the Net Zero Working Group, or the Diversity, Equity & Inclusion (DE&I) Committee.

All members of the investment team have explicit responsibility for implementing the Scheme's sustainability principles within their respective roles, and this is linked to their performance targets and remuneration.

Working groups contributing to effective stewardship

BTPSM Sustainable Investment Working Group	**Membership**	• Led by the Head of Sustainable Investment • Chief Executive Officer (CEO), Chief Investment Officer (CIO), Head of Research and Investment Solutions, Head of Manager Selection, Head of Funding and Covenant, Head of Communication, Economic Research Analyst, Senior Stewardship Analyst and Executive Board Advisor
	Objectives	Meet quarterly to discuss and address: • Risks and opportunities that may face the Scheme due to its long-term investment horizon • Integrate financially material sustainability issues throughout the investment process, including the design of investment mandates, new manager searches and ongoing monitoring of managers • Ensure the Scheme is delivering long-term value through sustainable ownership.
	Key achievements over year to 30 June 2022	• Undertook industry stewardship best practice analysis to determine areas for organisational improvement • Signed the **Asset Owner Diversity Charter** • Systemic risk analysis and resulting changes made to risk register
BTPSM Net Zero Working Group	**Membership**	• Led by the Head of Sustainable Investment • Head of Research and Investment Solutions, Head of Manager Selection, Portfolio Manager, Research Associate and Senior Stewardship Analyst

	Objectives	Meet fortnightly to discuss and address:
		• Continuous work required to achieve Net Zero 2035 goal
		  ◦ Setting five-year interim decarbonisation targets
		  ◦ Ongoing manager monitoring towards Net Zero goal
		  ◦ Membership of Net Zero Asset Owner Alliance (NZAOA) and Paris Aligned Investment Initiative (PAII)
		  ◦ Engaging with other asset owners, policy makers, industry bodies, data providers, and regulators on climate change.

	Key achievements over year to 30 June 2022	• Set five-year decarbonisation goals in line with AOA and NZIF requirements • Annual emissions reporting

Stewardship in the investment hierarchy

BTPSM is responsible for appointing and overseeing external asset managers and stewardship service providers, as well as collaborating with other asset owners and managers to inform best practice and improve the effectiveness of the Scheme's activities. Along with other strategic priorities, the Executive Committee of BTPSM is responsible for ensuring that BTPSM has the necessary people, resources and skills to fulfil its responsibilities in this area.

BTPS Trustee Board

Governance & oversight
Members: 9 | **2021-22 meetings:** 8
Key 2021-22 discussions: Sustainable investment beliefs, setting climate goals

Investment Committee (IC)

Governance & oversight – Oversees SI strategy & stewardship activity
Members: 6 | **2021-22 meetings:** 7
Key 2021-22 discussions: Net Zero "deep dive" and five-year carbon reduction targets

BTPSM Board

Implementation – Implements SI Strategy
Members: 5 | 2021-22 meetings: 10
Key 2021-22 discussions: New Enterprise Risk Management model

Sustainable Investment Working Group (SIWG)

Stewardship approach – Enhances & challenges SI strategy, lead by Head of SI
Members: 6 (CEO, CIO, Head of Sustainable Investment, Head of Research & Investment Solutions, Head of Communication, Head of Manager Selection) | **2021-22 meetings:** 12
Key 2021-22 discussions: Stewardship Code, Net Zero 2035 goal and member engagement

Sustainable Investment Team

Stewardship approach – Oversees and engages with asset managers and stewardship service provider
Members: Head of Sustainable Investment and Senior Stewardship Analyst
Key 2021-22 discussions: Quarterly discussions with managers on stewardship approach, sharing best practice manager expectations document, and discussing individual manager and strategy scorecard of sustainability capabilities relative to best practice expectations. Member engagement.

Asset Managers & Stewardship Service Provider
Undertake ESG integration & stewardship

Asset managers & stewardship service provider – Follow BTPS SI policy, undertake ESG integration and stewardship
Agents: 22 asset managers, 1 stewardship provider | **2021-22 meetings:** 40
Key 2021-22 discussions: Net Zero goal, data requirements (voting, climate & stewardship questionnaire), D,E&I

Investments

Equities, bonds, property, infrastructure, private equity.
Overseen by Solutions team with support from Head of Sustainable Investment and Senior Stewardship Analyst

What is the difference between an asset owner and an asset manager, and how is this related to stewardship?

An asset owner is an organisation or institution appointed to own investments, typically on behalf of a group of beneficiaries or clients. In BT Pension Scheme's case, it is to manage assets on behalf of employees, former employees and dependents of BT Group and some of its associated companies. These funds are invested in different types of asset classes, such as companies (equities), bonds (credit and government bonds), property, infrastructure and private equity. While the asset managers may buy and hold shares in a company, BTPS retains the ultimate ownership of the investment.

Therefore, being a good steward and fiduciary of capital is important, as it means that BTPS is acting responsibly with the pensions it has been entrusted with.

Asset manager oversight & engagement

We believe that all financially material considerations, including sustainability factors, must be integrated throughout the investment process. Outside our government bond and liability driven investment strategy, which is managed by BTPSM, BTPS outsources investment management to externally-appointed asset managers. Asset managers are selected to align with our beliefs, policies and objectives. This is a fundamental part of the appointment process of a new manager and the ongoing oversight of our managers' activities.

Before appointing an asset manager, BTPSM seeks to understand their philosophy and approach, to determine if they are suitable for the Scheme. This includes an assessment of the alignment between our beliefs and goals, the investment time horizon, approach to sustainable investment, and engagement with underlying companies. Assessment of our asset managers' stewardship capabilities forms part of a wider focus on their approach to integrating sustainability considerations. Over the past few years, BTPSM has developed and improved its approach in this area. The initial manager selection process focuses on three key factors:

1. How is sustainability **integrated** into their investment strategy and approach
2. If their sustainability approach is **consistent** with their overall investment strategy, and
3. How this work is **evidenced** in the manager's investment papers and reporting.

These questions are asked to understand how an asset manager is taking sustainability into account in their investment process, and how they will be active stewards of our capital through voting and engagement.

Once appointed, we expect our asset managers to consider both the risks and opportunities that arise from sustainability factors in the selection, retention and realisation of investments.

We expect them to:

- undertake ESG integration
- actively engage with investments
- undertake proxy voting and where appropriate exercise advocacy related to stewardship
- provide ongoing reporting regarding their sustainable investment integration process and activities
- reflect the sustainability information they have considered in their investment process and if investment decisions have been changed as a result
- apply best international practice stewardship approaches or adapt to accepted local market conventions and regional best practice.

BTPSM challenges them regularly on underlying holdings and portfolio level attributes.

What is ESG integration?

Integrating environmental, social and governance (ESG) factors into investment analysis to determine if an investment's risks are outweighed by potential investment returns. This can provide investors with a deeper insight into the quality of a company's management, culture, risk profile and other characteristics, before they invest. With information on ESG factors, an investor can ask themselves, for example, is a company's existing executive remuneration driving the right behaviour in relation to the risks the company faces from climate change?

Asset manager oversight & engagement continued

Longstanding relationships

Quarterly stewardship meetings

Greater information exchange

How is stewardship integrated into investment processes?

Sustainable investment and stewardship considerations have been integrated into multiple internal processes. For example, ahead of appointing a new fund manager, sustainability questions are asked as part of the formal Due Diligence Questionnaire process. The responses are reviewed in tandem between both the Manager Selection team and the Sustainable Investment team to understand their quality and, if required, meetings are held with the manager to better understand their approach.

Later in the process, and as part of the final investment mandate approval procedure, the Head of Sustainable Investment is formally involved in approving a new fund manager before an investment mandate is agreed.

Over the past year, we have set out to make our manager engagement on sustainability more systematic with quarterly manager meetings for better oversight of their stewardship activities. We also sent out a revised Net Zero & Stewardship questionnaire, which covered manager governance, diversity and inclusion, engagement, climate and voting topics to gather appropriate information from our managers and understand their different approaches. This data gathering exercise will take place on an annual basis. It is important that we collate more in-depth sustainability information from our managers, but also that we communicate our expectations clearly to help drive the change we would like to see.

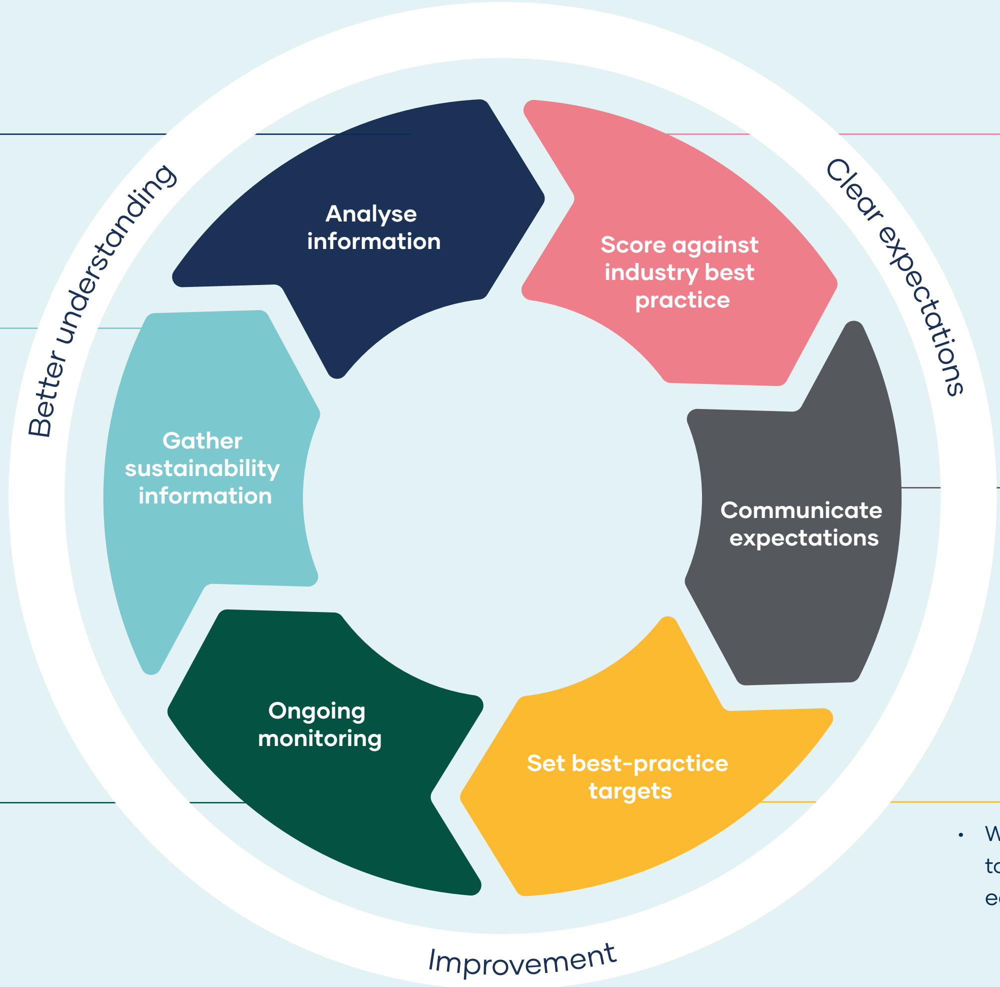
Asset manager oversight & engagement continued

Our process is as follows:

- Detailed analysis of questionnaire responses and quarterly sustainability meetings

Questionnaire based on:
- Scheme needs
- Best practice industry knowledge
- Pensions and Lifetime Savings Association (PLSA) voting template
- Investment Consultants Sustainability Working Group (ICSWG) Engagement Reporting Guide
- Asset Owner Diversity Charter (AODC) Questionnaire
- PLSA/ABI/IA Working Group Carbon Emissions Template (CET)
- Institutional Investors Group (IIGCC) Net Zero Stewardship Toolkit

- Ongoing quarterly conversations with managers on improvements



- Manager responses and performance scored against industry best practice and asset class type
- Scoring done in collaboration with Manager Selection team

- Share best practice sustainability document with managers.
- Provide feedback on managers' approaches via tailored scorecard

- Where appropriate discuss setting targets with managers e.g. diversity, equity and inclusion (DE&I) reporting

Sustainability integration in practice

In conversation with Arek Zawada, BTPSM's Head of Investment Solutions, on BTPS's latest private equity investment mandate

We are pleased to share that in March 2022, BTPS committed $1bn to a new private equity programme which has a global thematic investment strategy, focused on four sustainability related megatrends. The mandate, named Horizon III, is the third fund to be launched under the Horizon private equity programme which was co-founded by the Scheme with our long-standing investment partner, Hermes GPE.

How has Horizon III built upon Horizon I and Horizon II's investment strategies?

The Horizon III strategy will be a continuation of the Horizon I and Horizon II strategies previously launched but with some notable developments. The megatrends are new for Horizon III, of which the Net Zero economy megatrend is building upon an emerging opportunity established in Horizon II. It will explore opportunities which are arising from the technological progress and the increase in demand for new climate solutions to reduce the impact of human activity on the planet. It's great to be at the forefront of this intersection.

Stewardship and ESG integration in the investment process has evolved with greater emphasis on how Hermes GPE is managing the fund, as well as enhanced portfolio company engagement to further our sustainability goals. For example, we are seeking better measurement and reporting of sustainability data as well as seeking to reduce emissions of the portfolio over time.

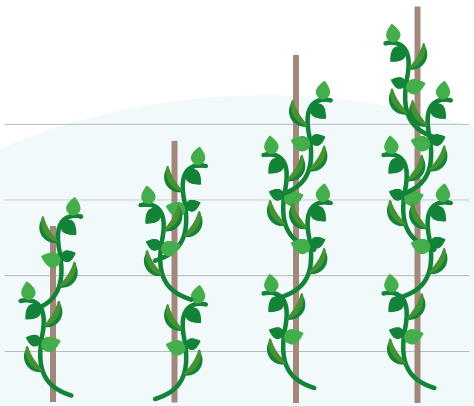
How did you integrate sustainability into the portfolio's construction?

Sustainability and supporting our Net Zero 2035 goal was one of the key considerations when thinking about this new fund. Sustainability is integrated throughout as part of the strategy's investment process for all investments, and through ongoing engagement and good stewardship practices.

Horizon III's megatrends

- Net Zero economy
- Demographic and societal change
- Accelerating technological innovation
- Global centre of gravity shift

Prior Horizon funds have also helped further sustainability progress – they have backed over £100m of companies which help address climate change with their product offering and invested in their growth and productivity expansion until they reach commercial maturity.



Sustainability integration in practice continued

What examples of sustainability issues will Horizon III help tackle?

We recognise that climate change is a complex issue, requiring an approach that encompasses more than just the energy transition. As such, we are targeting opportunities with attractive risk-adjusted returns to invest behind the transformation required to build the 'Net Zero Economy' in areas such as AgriTech (new alternative foods), circular economy (recycle, reuse or repurpose of existing resources), and ESG technology and measurement (software and sensors which facilitate visibility, insight, management and reporting of sustainability metrics).

In fact, the Horizon programme has long recognised that sustainability is much broader than just climate change and has backed enterprises which deliver on several social-linked objectives, from solving human-development challenges in sectors such as healthcare through to technological inclusion.

How will Horizon III help the Scheme achieve its funding aims and Net Zero goal?

Horizon III falls within the Scheme's equity allocation and is expected to deliver returns in line with, or in excess of, public markets owing to its focus on investing in higher growth companies. Furthermore, Horizon III is expected to provide much needed investment in companies that are seeking to scale up existing technologies to support different sustainability areas and the Net Zero economy.

"The Horizon mandates have delivered consistent, sustainable returns for the Scheme throughout market cycles. Horizon III demonstrates our continued commitment to this asset class with investments that meet our long-term sustainability goals."

Morten Nilsson
CEO BTPSM

Market-wide & systemic risks

Market-wide risks

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include, but are not limited to, changes in interest rates, geopolitical issues and currency rates.

Systemic risks

Systemic risks are those that may cause the collapse of an industry, financial market or economy, such as climate change.

As a global, long-term investor, it is important that we are able to identify market-wide and systemic risks which could impact the Scheme's investment returns and, therefore, the funding position.

BTPSM's investment process uses a combination of quantitative and qualitative inputs to achieve effective asset allocation and investment decision making. Qualitative macro-economic analysis leads to an investment hypothesis, whilst the quantitative approach helps 'sense check' the conviction of that hypothesis. It offers a repeatable and consistent approach that we apply time and time again. Using this approach, each asset class, e.g. corporate bonds, is listed in terms of their attractiveness, with a 12-18 month investment horizon in mind. The output is discussed on a monthly basis with the whole investment team to help form the asset allocation decisions for the Scheme.

BTPSM has access to leading macro-economic research from independent third parties, in addition to research provided by our asset managers through regular meetings, relevant articles and research papers they produce, webinars and conferences. Working with these groups helps us "horizon-scan" and continually evaluate new or evolving risks that might impact the Scheme. In an uncertain environment with fast moving technology trends, macro-economic challenges and geopolitical threats, its important to be continually vigilant and adjust our scenario analysis to the ever-changing landscape. In this way, we can appropriately monitor the implications for BTPS and adjust the investment strategy accordingly.

Each month, BTPSM holds a 'Macro Monthly' investment meeting in which their macro-economist discusses the latest in markets and presents his forward-looking views. He works closely with senior members of the investment team, and feeds into bi-monthly discussions on how the Scheme's funding position could be affected by different macro scenarios and if any changes should be made to the Scheme's asset allocation.

In addition, BTPSM continuously monitors market dynamics and stress tests the Scheme's allocation with potential tail-risks at different stages of the economic cycle. Recent scenario analysis explored the impact of differing inflationary scenarios. This included a stagflation scenario, whereby geopolitically induced energy supply disruptions lead to prolonged periods of elevated inflation, impacting household incomes, and subsequently slowing economic activity. Other previous scenario analysis included scenarios measuring the impact, and relevant investment responses to differing Brexit outcomes and their longer-term effects, and differing pandemic recoveries. In each of these scenarios, we consider the likely impact on Scheme funding and discuss the ways in which we could respond.

"Market-wide and systemic risks pose a real threat to the Scheme's investments so it's crucial we continue to analyse their possible impacts and be ready with suitable responses to ensure the overall good health of the Scheme."

Abbas Owainati
Macro-Economist, BTPSM

Market-wide & systemic risks continued

ESG Integration and market-wide risks in practice

Early in 2022, we were shocked and appalled to see the Russian invasion of Ukraine. We immediately placed a freeze on new positions in Russia across all our managers and assessed our exposure to the country. As part of the analysis, we identified that ESG integration had helped protect the Scheme from this market-wide risk, as it had identified serious governance concerns.

We engaged with our managers to understand the evolution of their views and exposure to Russia. Due to our investment approach, exposure was relatively modest to start with at 0.3% of the Scheme's assets at the beginning of 2022 given the governance concerns around Russia. This figure has since declined to around 0.1% which we were unable to dispose of as the Russian market shut down. We have had ongoing conversations with our managers to better understand their ESG perspective on Russia and how companies with significant operations, assets or revenues from Russia or Ukraine might be affected now and in the future.

In addition, the Scheme has no exposure to other sanctioned jurisdictions or companies, as would be expected. Our managers are obligated not to invest in sanctioned assets, and we monitor their compliance on an ongoing basis.

"The Scheme's low exposure to Russian and Ukrainian assets is a clear example of why ESG integration is key to helping manage macro-economic risks posed to the Scheme. Governance concerns had been factored into investment decision making by our managers and our exposure was reduced."

Doug Clark
Head of Investment Solutions, BTPSM

Private equity manager example on how we engage on market wide risks

Hermes GPE engaged with a payments company, digitising and lowering the cost of payments. It has a global footprint with relevant exposure to Central and Eastern Europe and the Commonwealth of Independent States regions, including Russia (at the time of investment).

The Russian invasion of Ukraine exacerbated the risk of money laundering and conflict financing. The investment team engaged with the company and the general partner immediately in Q1 2022 to address the company's response to the situation. The company was then flagged further in Hermes GPE's internal committees for ESG and quarterly performance.

Management of the company reacted swiftly to the crisis and was able to rapidly introduce enhanced anti-money laundering policies to address the rapidly changing landscape and expanded its sanctions list reviews. Their already strongly tech-enabled model switched to a 24/7 updated compliance product scanning of each transaction in line with daily updating sanctions. In addition, it was also decided to forego the fees of any money transfers into and out of Ukraine to support the local population, which had led to increased volumes in the region. Lastly, all transfers from and to Russia were turned off and the company has divested their Russian subsidiaries.

The team had daily engagement and monitoring meetings at the outset of the conflict, which turned into weekly and monthly meetings as it became clear that all risks were being effectively managed by the company and no breaches were reported. Since then, the company has moved to more strategic growth initiatives, focusing on Latin America and the United States, and expanding their strong technical partnership with other payments companies.

Market-wide & systemic risks continued

Policy advocacy

Advocacy can involve engaging and working collaboratively with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate more sustainably, managing both the risks and opportunities. We seek to go beyond the minimum standards set by regulators and to demonstrate and share best practice.

As a result, we are members of several industry initiatives that work to promote better frameworks for long-term, sustainable investment. In addition, EOS at Federated Hermes undertakes significant advocacy activities on our behalf – to learn more, visit **www.btps.co.uk**

During 2021, we engaged directly with policy makers and UK MPs on helping the UK "Build Back Better" in a sustainable and fair way, and how to increase investment opportunities in infrastructure.

We also co-signed letters to the UK government and European Union which promoted a more sustainable, greener recovery from the COVID-19 crisis.

As part of the organisation's ongoing horizon scanning, the Trustee discussed the development of risks already being monitored which have become more imminent risks to the Scheme: scarce and impaired natural resources, and geopolitical instability. Work will now focus on how to integrate these further into the Scheme's investment approach.

Top 10 Global Risks by Severity

Over the next 10 years

1st	Climate action failure
2nd	Extreme weather
3rd	Biodiversity loss
4th	Social cohesion erosion
5th	Livelihood crises
6th	Infectious diseases
7th	Human environmental damage
8th	Natural resource crises
9th	Debt crises
10th	Geoeconomic confrontation

Economic Environmental Geopolitical Societal Technological

Source: World Economic Forum Global Risks Report 2022

Systemic risks come in many forms and not all are obviously financial. Research conducted by the World Economic Forum highlights just how important sustainability considerations are to the overall health of the world economy. Environmental and social risks make up 8 of the 10 top global risks by severity to the global economy. Not only is macro-economic analysis important in managing these risks, but so is effective stewardship and advocacy.

Mitigating market-wide & systemic risks through collaboration

The ASCOR Project

Assessing sovereign climate-related opportunities and risks

BTPSM's Head of Sustainable Investment, Victoria Barron, is Chair of the ASCOR Project. It is an international collaboration of investor networks, asset owners and asset managers, representing over $5 trillion in assets under management.

ASCOR will allow investors to assess governments' climate-related commitments, their policy frameworks (including carbon pricing, energy subsidies, the phase-out of combustion vehicles, deforestation and land use policies) and the actions they are taking to ensure that the benefits of the low carbon transition, and of adaptation, are shared fairly.

ASCOR will not be scoring countries, nor giving investment advice or direction – it is a tool to enhance investors' decision-making capabilities and to support investors working towards Net Zero goals.

Since its launch in June 2021, the project team has made significant progress in developing the overall framework for the ASCOR tool and has started to identify the indicators that might form part of the framework. To date, the project has completed its first two stages: project participant interviews and establishing investor expectations.

Stage 3 of the project is expected to be completed by Q4 2022, at which point the project will have identified an initial set of metrics and indicators that can be used. This work is being taken forward in three areas: emissions pathways alignment, climate mitigation and adaptation policies, and funding needs for mitigation and adaptation.

"While significant progress has been made in many areas, one asset class which remains a blind spot in relation to climate change is sovereign debt which, for many institutional investors, can form a large part of their portfolios.

The ASCOR project will, for the first time, create a way for investors to assess their sovereign debt exposure to these risks and opportunities, and support engagement with international policy makers to drive Net Zero action."

Victoria Barron

ASCOR Chair and Head of Sustainable Investment, BTPSM

The Asset Owner Diversity Charter

In March 2022, BTPSM signed the **Asset Owner Diversity Charter** (AODC) and Emma Douglas, Senior Stewardship Analyst, joined the working group.

BTPSM is committed to holding asset managers to account on diversity and inclusion to improve the asset management industry's performance on this important issue.

Diversity, equity and inclusion (DE&I) will form part of BTPSM's manager selection and the Scheme will monitor its managers' efforts on an ongoing basis to encourage positive broader industry change.

Since signing the Charter, managers have responded to the AODC questionnaire and we have analysed their responses. Whilst there is of course room for improvement, we are encouraged by the constructive conversations we have had with managers on this important topic. In particular, their willingness to engage and their efforts to drive real change across the industry whether, for example, through joining initiatives such as the Diversity Project, or setting targets to improve senior female and ethnic minority representation.

We look forward to reporting the year-on-year progress over time.

Mitigating market-wide & systemic risks through collaboration continued

"The investment industry has much to do in improving diversity and inclusion to better reflect both the society we live in and the members we serve. The Charter is more than a social obligation: it's an investment imperative.

We look forward to playing an active role as part of the working group and collaborating with others on this important topic to drive industry improvement. We believe that the increased focus on diversity and inclusion should drive real change and lead to better outcomes for all, and we encourage other asset owners to become signatories."

Wyn Francis
Chief Investment Officer, BTPSM

Proxy voting

What does it mean to vote?

When an investor owns shares in a company, they become a part-owner of that business. Having a share also gives them the right to vote at the company's annual general meeting (AGM), which is where companies submit resolutions for shareholders to approve, such as executive remuneration or appointing an auditor.

Shareholders can file resolutions to allow other shareholders to vote on matters that are not raised by management. As very few investors now attend AGMs in person, votes are cast as "proxy votes" via phone, online or email. Often, the items to be voted on could impact a company's long-term performance, making proxy voting an important way for active investors to influence corporate behaviour on sustainability issues.

BTPS believes that making full use of its voting rights is part of our fiduciary duty and requires EOS at Federated Hermes EOS and, where applicable, asset managers to execute all votes for the Scheme's directly held public securities. We believe that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. The Scheme's investment managers and EOS are given a measure of discretion and flexibility, and can follow their own voting policy on most voting topics. BTPSM monitors the investment managers' and EOS' voting activities and requests they highlight key voting decisions on a quarterly basis, alongside thorough review of all their votes cast on an annual basis.

The investment managers and EOS are also regularly asked about their approach to conflicts of interest however, there were no concerns raised during the year. The Scheme does not engage in stock lending.

BTPS also publishes EOS' quarterly voting statistics and activities on the Scheme website - see here for more information:
https://www.btps.co.uk/sustainableInvestment

To see our voting activities in further detail, please turn to our implementation statement in appendix two.

Engagement

Corporate engagement is the practice of shareholders entering into discussions with company management to change or influence the way in which that company is run.

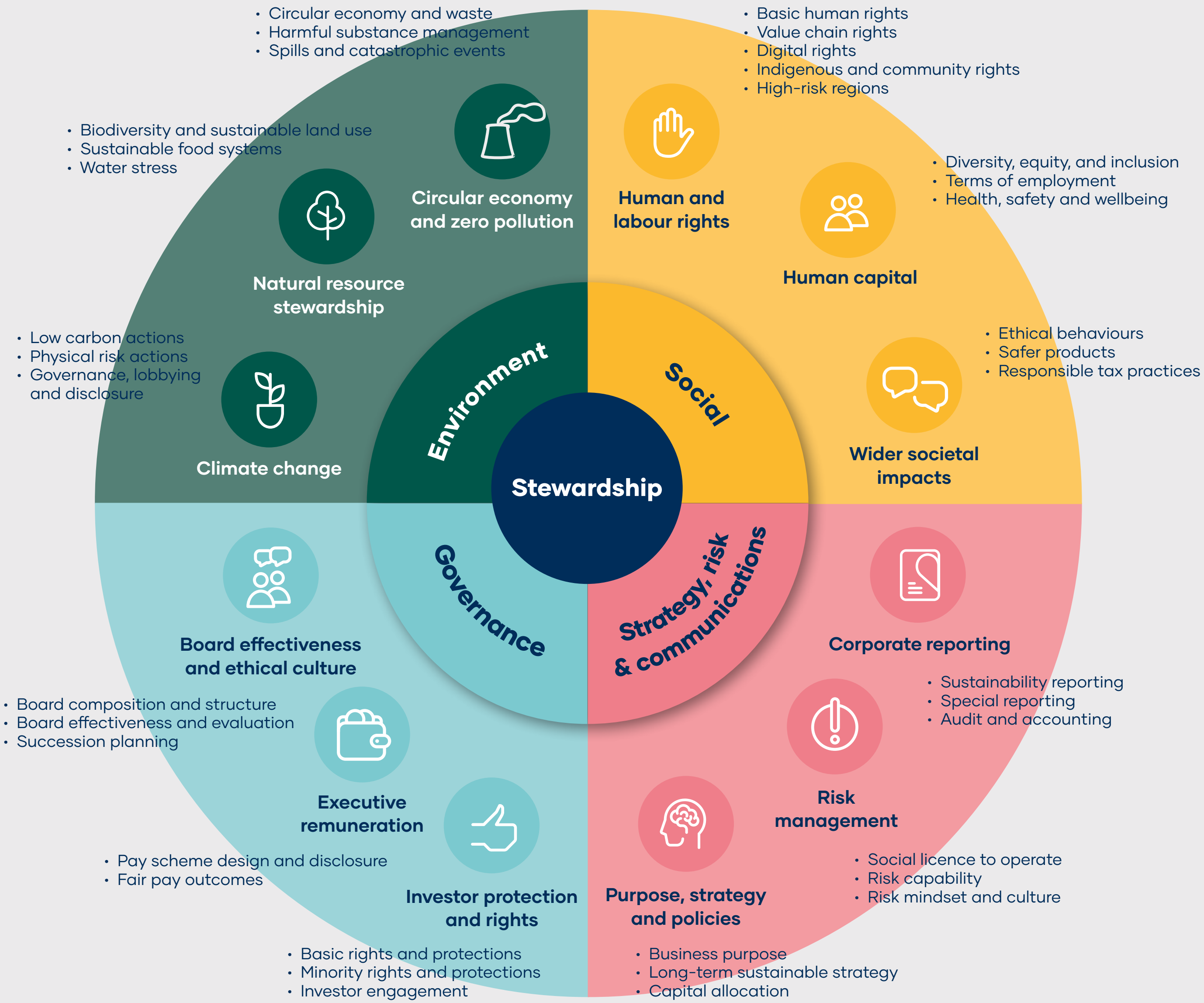
Engagement can be successful across many different asset classes, including equities, bonds, property, private equity and infrastructure. Engagement can be done via letters, calls, site visits, one-to-one or group meetings. It can be proactive, attempting to anticipate future issues which may damage the long-term profitability of an investment, or reactive, to express concern in the wake of a problem or following unfavourable media coverage. The Scheme's engagement efforts focus on a variety of different areas, from the remuneration of senior management to investigating whether operations are having a negative impact on local biodiversity. In bonds it can also encourage changes to bond prospectuses or indentures, and more or less favourable loan terms depending on certain sustainability criteria.

The Scheme believes that companies which consider the long-term risks and opportunities, including those relating to sustainability matters, have the right attributes to deliver the long-term sustainable value it is seeking. We also think that good stewardship, engagement and active voting improve investment outcomes. Our view is that we must hold management teams to account and the best way to alter company behaviour is through meaningful, structured engagement with companies' management teams and boards. Corporate engagement is done on BTPS' behalf in two ways: through our asset managers but predominantly through EOS at Federated Hermes acting as agents of the Scheme.

BTPS founded EOS in 2004 through our ownership of the then, Hermes Investment Management. The intention was to establish an organisation that allowed us to have a greater impact on sustainability issues, as well as the potential to enhance our knowledge through collaboration and being part of a larger network of like-minded asset owners and managers. Today, EOS is one of the world's largest stewardship and engagement services, with a track record in contributing to best practice sustainability industry standards and around $1.64tn in assets under advice as at 31 December 2021. Its engagement plan identifies 12 key themes and 37 related sub-themes which help focus EOS' engagement activities on the most material topics impacting investments.

EOS's stewardship expertise and resources provide us with wide coverage of different assets and access to specialised expertise across different engagement themes, from biodiversity to fast fashion, for example. EOS has strong and long-term relationships with company boards through multi-year engagements, cultural understanding and relevant language skills, and broader connections which all contribute and aid our stewardship efforts.

Engagement themes for 2022-24



EOS at Federated Hermes undertakes engagement over three-year cycles. To ensure meaningful impact and to measure and report effectively, EOS engagement is guided by a client Engagement Plan. We contribute to this annually and it guides engagement with companies on a wide range of topics such as natural resource use, waste and packaging, human rights, bribery and corruption, business strategy and purpose, and executive pay.

To achieve change, our asset managers and EOS may undertake a series of escalating engagement actions. Depending on the nature of the challenge and the initial reaction of the company's board to engagement, it can include meeting with the chairman or other board members, discussions with other shareholders of the company, submitting resolutions and speaking at Annual General Meetings. They can also collaborate with other investors where they are concerned about company practices and performance.

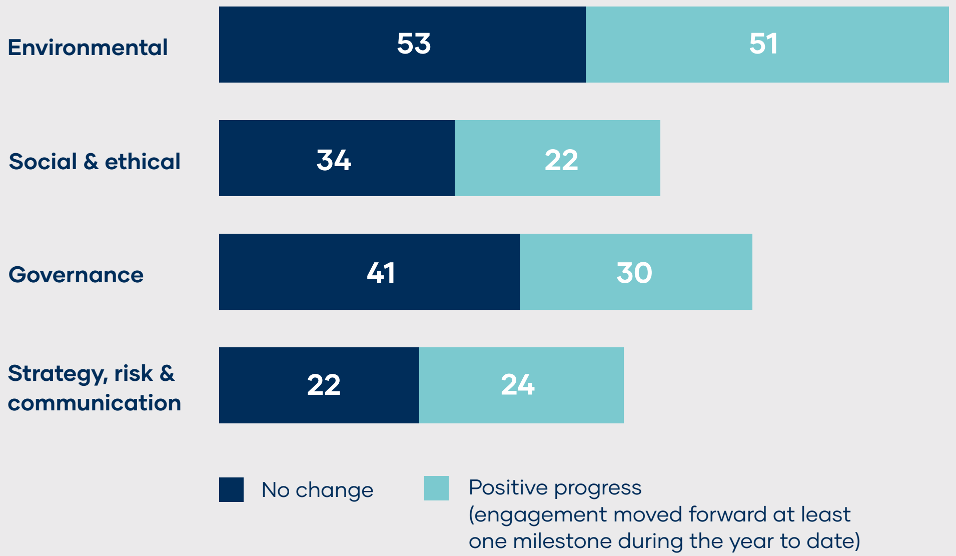
Monitoring engagement progress in practice

EOS milestones

EOS uses a proprietary milestone system which allows them to track progress of engagements relative to the objectives set at the beginning of the company interactions. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective.

- **Milestone 1** – Concern raised with the company at the appropriate level
- **Milestone 2** – The company acknowledges the issue as a serious investor concern
- **Milestone 3** – Development of a credible strategy/stretching targets set to address the concern
- **Milestone 4** – Implementation of a strategy or measures to address the concern

Milestones were hit with at least one moving forward for c46% of the objectives over the year. The following chart describes how much progress has been made in achieving the milestones set relative to each engagement.



144 companies engaged with

On **658** issues

With **277** engagement objectives

Engagement continued

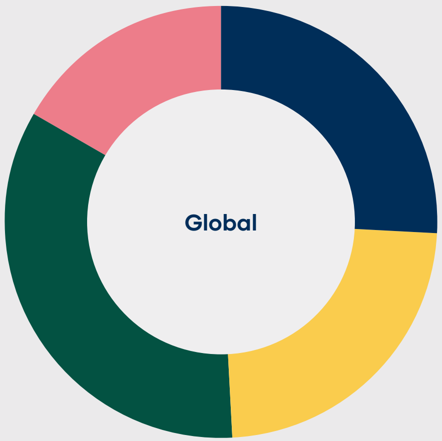
Engagement statistics

Over 2021, EOS engaged with 144 companies on 658 environmental, social, governance, strategy, risk and communication issues and objectives, to promote positive change on the following issues and many more.

Engagement by theme

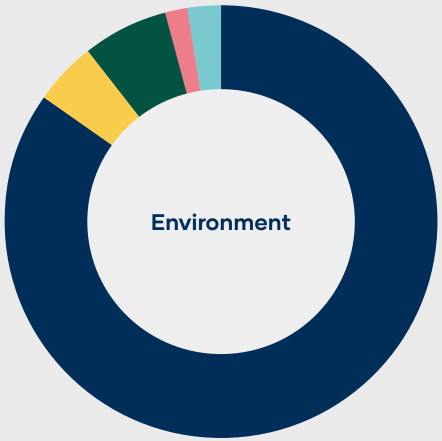
To ensure they achieve positive outcomes, EOS sets clear and specific objectives within all company engagements. Each objective is tracked using milestones and are regularly reviewed until they are completed, or when the company has demonstrably implemented the change requested, or when the activity is discontinued. An example objective is: *development of a strategy consistent with the goals of the Paris Agreement, including setting science-based emissions reduction targets for operating emissions (Scopes 1 and 2 emissions).*

We engaged with 144 companies over the last year



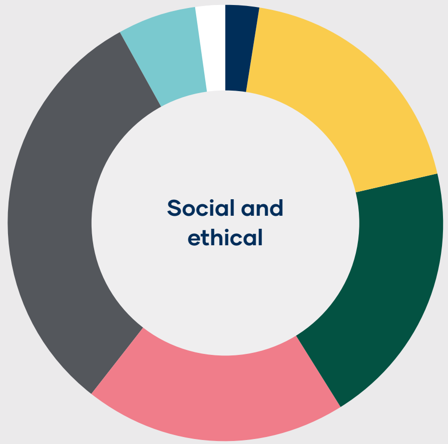
Environmental	26.0%
Social and ethical	23.3%
Governance	34.2%
Strategy, risk, communication	16.6%

Environmental topics featured in 26.0% of our engagements over the last year



Climate change	84.8%
Forestry and land use	4.7%
Pollution and waste management	6.4%
Supply chain management	1.8%
Water	2.3%

Social and ethical topics featured in 23.3% of our engagements over the last year



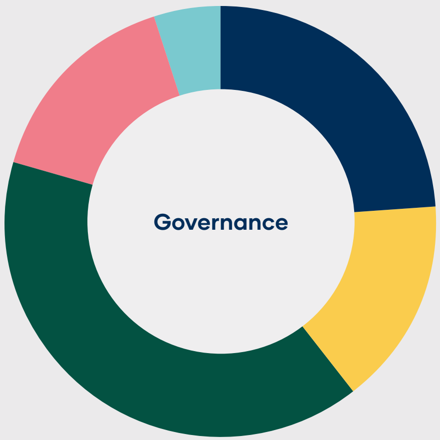
Bribery and corruption	2.6%
Conduct and culture	19.0%
Diversity	19.6%
Human capital management	19.6%
Human rights	31.4%
Labour rights	5.9%
Tax	2.0%

** Figures may not sum to 100% due to rounding.*

Engagement continued

Engagement by theme

Governance topics featured in 34.2% of our engagements over the last year



Board diversity, skills and experience	24.0%
Board independence	15.6%
Executive remuneration	40.0%
Shareholder protection and rights	15.6%
Succession planning	4.9%

Strategy, risk and communication topics featured in 16.6% of our engagements over the last year

Auditing and accounting	8.3%
Business strategy	31.2%
Cyber security	4.6%
Integrated reporting and other disclosure	21.1%
Risk management	34.9%

Engagement in practice

Engagement examples over reporting period 1 July 2021 - 30 June 2022.

Environmental

Monitoring companies' ESG risks

Sovereign debt engagement via Wellington Asset Management

Wellington met with senior management of a quasi-sovereign company that they viewed as a higher ESG risk to discuss ongoing ESG efforts and lack of tangible progress.

Wellington urged the company to provide more transparency about its ESG goals and to join industry-wide organisations to help develop best ESG practices. There was progress following the ongoing engagement efforts. However, the company lags behind its peers regarding its climate action, with a current target of cutting its greenhouse gas emissions by 2030 lower than the percentage others are working towards.

Overall, Wellington was reassured that the company's management was open in sharing that they could do more regarding ESG topics. To reduce risks posed to the business, Wellington would like to see the addressing of ESG risks pushed to the top of the company's agenda and for the company to achieve government buy-in to create a comprehensive ESG plan, including stronger climate action. Wellington will continue to engage.

Encouraging better sustainability through incentives

Direct lending engagement via Ares Asset Management

Ares launched its first sustainability linked loan, which was also the largest private credit-backed sustainability linked financing at the time (August 2021). If the business achieves certain sustainability targets, which are broadly focused on carbon intensity reduction and continual improvement to health and safety management and ethics, it will be rewarded with interest savings on their loan from Ares.

At least 50% of any saving from meeting these targets must be redeployed into the company's sustainably initiatives, thus encouraging further sustainability improvements. This engagement has the potential to generate risk reduction on both sides.

Shopping centre applies circular economy principles to its waste management

Real estate engagement via Federated Hermes Real Estate

Federated Hermes has been actively managing a shopping centre in Sheffield, which welcomes over 11 million visitors per year, empowering the team to minimise its negative impact on the environment through improved waste management solutions and sharing best practice principles. The aim is to achieve 100% waste diversion from landfill.

The shopping centre team have been engaging with the supply chain to identify ways to minimise waste pollution. Specifically, they have worked closely with the waste management contractor to increase the volume of waste that is being recycled.

While the property was already achieving zero waste to landfill both by recycling materials and by diverting general waste to an "energy from waste" facility, the next goal was to minimise the general waste and increase the volume of waste recycled from 40% to 60%. Through engaging with the contractor, general waste was reduced significantly through correct recyclable and non-recyclable separation. This in turn increased the amount of recyclable and reusable materials on site.

Within 12 months, the recycling rate increased from 33% to 89%, exceeding the initial target of 60%, which is very positive. However, more can be done to apply the circular economy principles (which seek to reduce the consumption of raw materials, optimise their use, and recover waste by recycling or giving it a second life as a new product) on operations and reduce the shopping centre's impact on the environment even further. Federated Hermes Real Estate will continue to support the team at the centre to find solutions on hard-to-recycle materials such as coat hangers and plastic bottles.

Engagement in practice continued

Environmental

Ensuring a robust decarbonisation strategy to achieve Net Zero emissions

Corporate credit engagement via Insight Asset Management

Insight engaged with an electric utilities company which is one of the top carbon emitters of the Scheme's portfolio. The company uses nuclear power, coal, gas and renewables. The purpose of the engagement was to understand the company's approach to decarbonisation given the size of its Scope 1 and 2 greenhouse gas (GHG) emissions.

The company has a well set out process to meet its Net Zero goal. They have an approved science-based target (by **SBTI**) to reduce absolute Scope 1 and 2 GHG emissions 50% by 2030 from a 2017 base year. The company commits to reducing absolute Scope 3 GHG emissions from use of sold products - 28% by 2030 from a 2019 base year. It has also formally committed to getting its Net Zero target certified by SBTi. Having the target certified by STBi provides further comfort for investors as it is a multi-stage process that ensures robust target-setting with a strong intent, clear target, communication to stakeholders and annual disclosure to track progress against the target.

To support the decarbonisation process, the company will be completely coal free in Europe by 2026 and across the rest of the world by 2030. Only 0.6% of generation is from coal, currently.

From the assessment, Insight is pleased to report the company is on its stated low carbon trajectory, driven by its low carbon intensity and plan to increase renewables going forward. SBTi has also certified the company's near-term target to being 'well below' 2 degrees.

Insight will continue to regularly monitor the company's decarbonisation trajectory relative to the targets set to ensure good progress continues.

Federated Hermes' commitment to Net Zero leading to divestment of oil production assets

Private equity engagement via Hermes GPE

Hermes GPE has been engaging with an independent US oil producer they have invested in since 2013 which undertakes both oil production and exploration.

Relevant events since the investment include the Paris Agreement and the publication in 2021 of the International Energy Agency's (IEA) **Net Zero Emissions Pathway**, which assumes no new oil and gas fields are approved for development, and Federated Hermes, commitment to Net Zero (announced in 2021). These developments have resulted in the company not being compliant with Hermes GPE's ESG strategy, with divestment becoming a priority.

Given the nature of the co-investment, it is the lead investor who is responsible to lead on the sale of the company. Hermes GPE continues to engage with the investor multiple times per quarter and has continued to highlight our desire to exit the investment. The largest co-investor in the deal is actively divesting all their oil production assets following a change in their climate change strategy, and is also pushing the general partner (GP) for a sale. An M&A advisor has been appointed, however no liquidity has yet been achieved since the engagement process began due to depressed activity in the M&A market for oil producing businesses.

Hermes GPE will continue to engage with the company until divestment.

For more environmental engagement examples see page 97 of the TCFD report section.

Engagement in practice continued

Social

Engaging on talent and culture

Equity engagement via Wellington Asset Management

Wellington engages with portfolio companies on talent and culture to ensure they own companies with good worker practices. Wellington engaged with a professional services company via a series of meetings to better understand various aspects regarding their human capital practices. The company's turnover has increased recently, compared to prior years, so it was important to understand why.

The focus on human capital management generally has increased following the aftershocks of COVID-19 and resulting tight labour market. The belief is that companies with a strong talent culture, a clear corporate purpose, and strong tone from the top are better able to attract and retain talent which in turn should help foster a stronger, more productive, and innovative workforce to help the businesses remain competitive for years to come.

Mindful of this, the company has been using engagement surveys to measure whether people experience culture the way it is defined. It has allowed staff more flexibility to meet their demands, and continues to provide training and opportunities for employees to grow and progress their careers.

Wellington came away from the engagements impressed by the leadership and thoughtfulness on how they are tackling the issue of human capital with such a large employee head count. Wellington will continue to engage with the company on human capital management as it grows and continues to add new hires.

Engagement stalled by grocery company's lack of responsiveness

Corporate credit engagement via Insight Asset Management

Not all companies are as willing to engage as others. A large US grocery store has ongoing wage and employee relations issues, and has concentrated ownership compared to its peers.

Insight has tried to engage with this company to challenge them to implement initiatives to address these issues, but it remains unresponsive to requests to discuss this important topic.

The company has however provided enhanced disclosure in their annual ESG update report this year, indicating engagement activities are having some effect.

Insight will continue to attempt engagement with the company and continue monitoring performance relative to peers to understand if a continued lack of engagement and insufficient progress in this area may lead to a change in investment decision.

Improving access for less advantaged communities to electronic payment network

Equity engagement via Magellan

Magellan engaged with an electronic payment network company to prioritise diversity, equity and inclusion around access to the company's services to ensure less advantaged communities were also benefiting. They had a particular focus to digitise small and medium sized businesses in emerging countries to increase their access to finance. They did this through 'street teams', where they visited businesses door to door. They identified and prioritised 90 cities and reached over 200,000 businesses this way. The company believes it is important for them to provide education, accessibility and ongoing communication to enhance these businesses' payments capabilities.

Magellan continues to engage annually with the company on this topic and discussions continue to evolve. Magellan sees it as a way for the company to strengthen its offering to entrepreneurs in a way that other networks cannot, giving it a competitive advantage and improving access to finance. Magellan is also encouraging broader industry-wide collaborations and initiatives to deliver an even greater positive impact on disadvantaged communities.

Engagement in practice continued

Governance

Improving a multinational investment bank's corporate governance

Corporate credit engagement via Insight Asset Management

Insight has been engaging with a multinational investment bank to improve their corporate governance. The company has experienced various governance-related controversies to date, so Insight probed them on these and asked about the controls in place to avoid a repeat of them in the future. Insight was satisfied with the increased measures taken such as a complete overhaul on the controls framework in relation to tax.

Insight also challenged them on their senior management diversity, as only 25% of management are currently female. The company has since released a target of 30% females in senior management which Insight will monitor and encourage to increase over time.

Remuneration concerns of a multinational investment bank

Corporate credit engagement via Wellington Asset Management

Wellington engaged with the bank on the disconnect between compensation and performance for the company's executives. They noted that there were directors on the Board with multiple affiliations; some of whom sit on key committees. As a result, Wellington felt the company had elevated governance risk relative to its peers and did not believe its valuation compensated for this risk.

As a result of this information, along with worsening economic conditions and a reluctance by management for change, Wellington decided to reduce its position in the company. Wellington will continue to engage with them on this topic and if sufficient progress is seen, may increase its position in the future.

Improving board diversity and effectiveness

Equity engagement via EOS at Federated Hermes

EOS at Federated Hermes engaged with a large E-commerce company regarding its lack of diversity on a male-dominated Board, lack of shareholder rights and limited ESG disclosures.

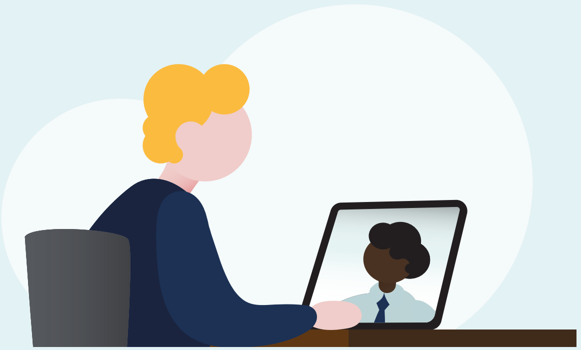
To address these concerns, EOS recommended the company set a plan and clear process to identify the right combination of skills and experience for board directors, provided an explanation of how human capital management, diversity and inclusion are linked to its core values and culture, along with quantitative and qualitative disclosure on diversity and inclusion.

In addition, EOS urged the company to issue a standalone ESG report and hold an annual shareholder meeting.

Following these engagements, the company published its first ESG report in April 2021 and confirmed it would hold its first annual general meeting on 23 June 2021. The company also appointed their first female director in 2021.

Collaboration

As the UK's largest corporate pension scheme, we believe in using our voice to address market-wide and systemic risks, and particularly in promoting well-functioning markets to support a sustainable future and provide sustainable investment opportunities. As such, we also believe in the power of investor collaboration, and have joined several initiatives to push for better sustainability standards, data collection and reporting, and policy action.



PRI Principles for Responsible Investment

Signatory
Principles for Responsible Investment (PRI)

The Principles for Responsible Investment ('PRI') is the world's leading advocate for Responsible Investment ('RI'), with over 5,010 signatories worldwide. It enables investors to publicly demonstrate commitment to RI by supporting the six principles for incorporating sustainability issues into investment practice. BTPS became a signatory to the PRI in 2006 and in our last annual assessment received a top score of A+. PRI is an important partner, providing excellent guidance on responsible investment, and we plan to continue working closely with it in the future.

unpri.org

IIGCC The Institutional Investors Group on Climate Change

Signatory
The Institutional Investor Group on Climate Change (IIGCC)

The Institutional Investor Group on Climate Change (IIGCC) provides a collaborative forum for pension funds and other institutional investors to engage with policymakers, regulators and companies to address the long-term risks and opportunities associated with climate change. IIGCC has more than 370 members across 23 countries and operates several work plans covering policy, investor practices, property and supporting members in their active ownership approach. It also plays a key role in investor initiatives and collaborations globally, including Climate Action 100+, The Investor Agenda and the Global Investor Coalition on Climate Change.

The IIGCC provides investors with lots of helpful resources and opportunities for collaboration. Membership enables BTPS to deliver our advocacy goals on climate change and stewardship. For instance, we used the Net Zero Investment Framework (NZIF) as the foundation for our own Net Zero goal. More recently, in April 2022, it launched the **Net Zero Stewardship Toolkit**, providing investors with a process to enhance their stewardship practices. We are asking all our managers to implement the toolkit as part of our programme on Net Zero stewardship.

iigcc.org

Strategy & governance
Financial statements & regulatory reports
Net Zero 2035 & TCFD report
SIP implementation statement
Stewardship code response
Trustee board committees
Management and advisers
Glossary

Collaboration continued

Public supporter
The Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD is a voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics. Greater disclosure is key to obtaining reliable and consistent data, which improves investors' ability to assess climate-related risks and opportunities across investments. As a public supporter of TCFD, we encourage investee companies to improve disclosure and report in line with the recommendations. You can find our fourth annual TCFD report on page 78, and our **Climate Change Policy** which sets out our approach to managing climate-related risks and opportunities.

fsb-tcfd.org

Public supporter
The Transition Pathway Initiative (TPI)

The TPI is a global initiative led by asset owners and supported by asset managers. It is a free-to-use online tool that assesses how prepared companies are for the low-carbon transition. It uses a framework to evaluate how well companies manage the GHG emissions associated within their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. BTPS has been a supporter of the TPI since October 2020. In 2021, we integrated their data into our Net Zero performance metrics.

transitionpathwayinitiative.org

Signatory
Net Zero Asset Owner Alliance (NZAOA)

The NZAOA is an asset owner alliance committing to transitioning 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. We became members of the Alliance in October 2020, and our membership means we are committed to transitioning our investment portfolios to Net Zero GHG emissions by 2050 or sooner. We are active members of the initiative and have had a particular focus on the "sovereign debt" and "financing the transition" sub-working groups.

unepfi.org/net-zero-alliance

Collaboration continued

Signatory
Asset Owner Diversity Charter (AODC)

We believe that diversity in organisations leads to better decisions being made. The AODC is an asset owner led initiative to help improve diversity and inclusion across the investment industry. We became a signatory in March 2022, committing to include DE&I in our regular monitoring of managers, request DE&I data from our managers on an annual basis and have DE&I as an input into our manager selection process. It goes beyond asking about the strategic approach, identifying how managers look at diversity and inclusion across five key areas: industry perception, recruitment, culture, promotion and leadership.

diversityproject.com/assetownerdiversitycharter

Signatory
Occupational Pensions Stewardship Council

In 2021, we joined the Occupational Pensions Stewardship Council which promotes and facilitates high standards of stewardship of pensions assets. The council also provides schemes with a forum for sharing experience, best practice and research, and practical support. The council helps develop a stronger overall voice of trustees within the market, especially in relation to service providers. It also enables opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change, corporate governance and other topics.

Occupational Pensions Stewardship Council - GOV.UK (www.gov.uk)

Founding member
The ASCOR Project

Assessing sovereign climate-related opportunities and risks

In 2021, we helped establish the ASCOR project, which will create a tool giving investors a common understanding of sovereign exposure to climate risk and of how governments plan to transition to a low-carbon economy. The project is an international collaboration of investor networks, asset owners and asset managers, representing over $5 trillion AUM and chaired by BT Pension Scheme (BTPS) and the Church of England Pensions Board.

ASCOR Project

Our members

The Trustee believes in engaging with members to understand their views on a range of topics. There are several mechanisms in place that provide this link including:

- Enabling members, through Trade Unions (CWU and Prospect) and the National Federation of Occupational Pensioners (NFOP), to nominate Trustee directors.
- Providing an annual presentation by the Trustee Board, BTPSM and its advisers to BT's recognised Trade Unions and NFOP.
- Updating members on the Scheme's stewardship, engagement and voting activities via quarterly updates on the BTPS website, the Scheme's report and accounts, including TCFD disclosures, and the Scheme's annual PRI transparency and assessment report, which is available at **BTPS Portal - Sustainable investment**.
- Inviting feedback from members through the annual member newsletter and member surveys.
- Supporting a "member panel" who volunteer to take part in more in-depth research with the Scheme.

We believe that a collective understanding of member views helps inform the Scheme's approach to ESG considerations and stewardship. Each year the annual member survey asks members a range of questions, so we can understand their attitudes towards sustainable investment and stewardship, and our approach.

Findings from the survey are shared with both the BTPSM Executive Committee and the Trustee Board. Where appropriate and possible, the Trustee integrates members' feedback into their thinking. Results from our latest member survey in January 2022 showed around three quarters (76%) of respondents expect BTPS to continue to take consideration of the environmental and social impact of the investments it makes.

46% ↓

(down from 48% in 2021)

agree or strongly agree

BTPS should prioritise financial performance over the environmental and social impact of its investments

63% ↑

(up from 62% in 2021)

agree or strongly agree

I expect BTPS to actively avoid investments that have a materially negative impact on the environment and society

67% ↑

(up from 65% in 2021)

agree or strongly agree

I expect BTPS to use the investments to make a positive impact on the environment and society

76% ↑

(up from 74% in 2021)

agree or strongly agree

I expect BTPS to continue to take consideration of the environmental and social impact of the investments it makes

Delivering the right outcomes

To ensure that we deliver the best outcomes, the Scheme participates in annual benchmarking exercises to assess its performance. For an unbiased view, these reviews are conducted by an independent third party, CEM Benchmarking, and reviews our performance versus our peers on the following: investment costs, pension administration costs, and overall member service.

In addition, the Investment Committee receives an annual review of the Scheme's longer-term performance over a multi-year period, including a review of the following: investment strategy outcomes; a comparison of outcomes with the core investment beliefs; strategy implementation; flexibility of the mandate; and any lessons learned. The purpose of this annual review is to examine over the longer-term whether the investment strategy, supported by the investment beliefs, including sustainable investment, remain valid. The review helps identify any short-term patterns that should be monitored or addressed. It also challenges BTPSM's implementation of the investment strategy and identifies areas from which we can learn and apply to the future management of the Scheme's investments.

Member engagement

Member panel views

Feedback from members on our communication is important to ensure we are providing them with useful and understandable information.

We invite feedback from members through our annual member newsletter and annual member surveys. We also have a 'member panel' who volunteer to take part in more in-depth research with the Scheme.

In April 2022, we invited members from our member panel to share their views on our sustainable investment reporting to help influence how we can best communicate our sustainability work with members and hear their views on how it could be more accessible.

It was pleasing that 38% of respondents found our 2021 responsible investment and stewardship report very informative, and 54% found it somewhat informative. However, these numbers signal that there is room for improvement to further meet members' needs.

We have listened to members' views:

"Different documents aimed at the variety of your audience"

We will be producing a short member focused summary of the key stewardship, climate change and voting information included in this annual report specifically for members.

We have combined our stewardship, climate change and voting information into this annual report to make the information easier to find and to avoid duplication.

We have simplified the information as much as possible whilst still seeking to meet our regulatory and reporting requirements.

"Simplify some of the information to make it accessible to all.

"I think an animation version would hit the spot"

We have recently produced several videos (see page 173) and will look to produce other forms of communication on different sustainability topics going forwards, to share with members our knowledge and thinking on different areas.

Member engagement continued

Member webinar on climate change in partnership with Make My Money Matter

On 8 December 2021, we hosted a live webcast for BTPS members to raise their awareness around the impact of climate change and BTPS' Net Zero goal and climate activities.

We were joined by co-founder of Make My Money Matter, film writer and director, Richard Curtis, who is raising awareness of the '**hidden superpower of pensions' in tackling climate change and 'building a world fit for retirement**'.

Responsible for some of the nation's best loved films, including Four Weddings and a Funeral, Notting Hill and Love Actually, Richard joined BTPSM's CEO, Morten Nilsson, and Head of Sustainable Investment, Victoria Barron, to issue his call for people and organisations to '**make their pensions green**'.

Victoria talked members through the steps BTPS is taking towards the Scheme's Net Zero 2035 goal, and our progress so far.

Joining live from Los Angeles, Richard took questions from BTPS members – both about his views on what we can all do in our own lives to combat climate change and about his 'day job' in the world of movie making.

Members can watch the recording using this link:
In conversation with Richard Curtis

Member visit to King's Cross

In June 2022, we invited five BTPS members from the member panel who had provided their thoughts on our sustainability reporting to visit one of the Scheme's flagship investments, the King's Cross Development.

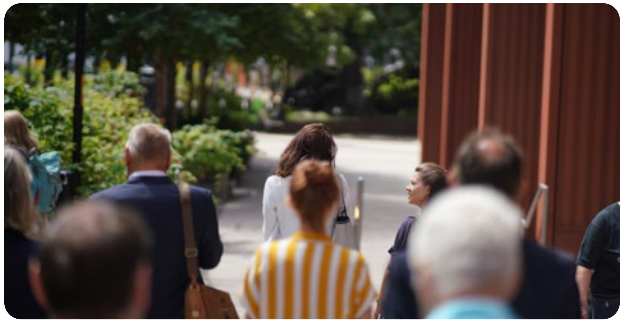
Members were welcomed by Otto Thoresen, Chair of the Trustee, before being given a tour of the King's Cross Estate by Rob Miller, Head of Sustainability for Argent, the company responsible for developing and managing the site.

Later, they heard from BTPSM's Head of Sustainable Investment, Victoria Barron, about our Net Zero 2035 goal and sustainable investment approach and had the chance to give their honest feedback about the Scheme's activities and reporting.

BTPS member visit to King's Cross

Hear from the Chair of BTPS, BTPSM's Head of Sustainable Investment and BTPS members on the Scheme's commitment to sustainable investment and key highlights from a visit to one of the Scheme's flagship investments, the King's Cross Development.

The King's Cross Development achieved carbon neutrality in November 2021, supplied 100% by renewable energy and is the largest cluster of BREEAM Outstanding buildings in the world. More information on the sustainability of the site can be found here: **https://www.kingscross.co.uk/sustainability**



"I thoroughly enjoyed having the opportunity to meet with members and showcase one of our flagship investments, the King's Cross Development. It has delivered exceptional investment returns, aided by the focus on sustainability, such as community engagement and strong environmental credentials of the buildings. It's an investment we can all be particularly proud of."

Otto Thoresen
Chair of the BTPS Trustee Board

Member visit to King's Cross continued

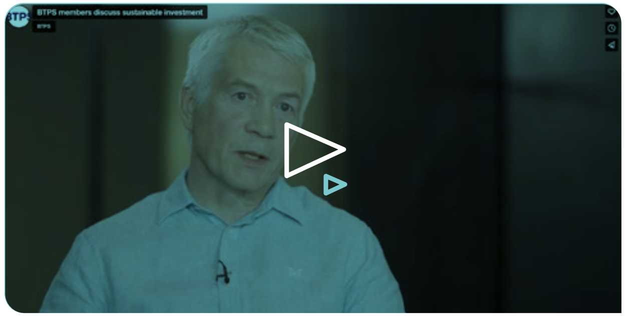
BTPS Chair, Otto Thoresen, discusses the Scheme's approach to sustainable investment

Otto discusses the importance of investing sustainably, how the Scheme has been thinking about climate change risk and the actions it is taking to mitigate against climate change risk.

BTPSM's Head of Sustainable Investment, Victoria Barron, discusses the Scheme's Net Zero goal

Victoria discusses the Scheme's Net Zero 2035 goal, dealing with data and measurement challenges, emissions reduction targets, discussions with investment managers to ensure our mandates are aligned with our goals, and the importance of collaboration for greater collective influence.

BTPS members discuss the Scheme's commitment to sustainable investment



BTPS members share their thoughts on the Scheme's commitment to sustainable investment – their understanding of the Scheme's Net Zero 2035 goal and measurement against it, the close investment manager relationships, and how the Scheme has achieved good investment returns from incorporating sustainable investment considerations into the investment decision making.

Our people & training

Sustainable investment training forms part of a Trustee's induction process when they join BTPS. The Trustee of the Scheme has policies and arrangements in place that ensure compliance with applicable laws and regulations, and best practice governance including policies that relate to personal conduct (e.g. Conflicts of Interest) and those that have a wider application in relation to the operation of the Scheme (e.g. Sustainable Investment).

Each year the Trustee directors have an in-depth review and discussion on the Scheme's Net Zero goal. In advance of this, in 2021, they undertook three virtual training sessions on Trustee legal obligations in relation to climate change, green and climate change regulation, carbon footprinting and climate metrics. This was to equip them with the necessary knowledge to have the in-depth discussion on the Net Zero goal and TCFD reporting. The training sessions were recorded for the Trustee learning centre and are accessible to all BTPSM employees.

Since 2006, BTPSM has ensured stewardship activities have been well-resourced to help shape and drive stewardship on the Scheme's behalf. The Scheme's sustainable investment strategy and activities have been supported by individuals ranging from the Trustee to the CEO and the investment team, to colleagues in our Facilities team.

Our Head of Sustainable Investment leads BTPSM's investment focus. In January 2022, a Senior Stewardship Analyst joined the BTPSM Sustainable Investment team to help enhance the team's stewardship capabilities and capacity.

As well as having colleagues across the organisation who are directly involved in integrating sustainability considerations throughout the Scheme's investments, we have been undertaking various internal training sessions on sustainable investment. This included further training in relation to the Scheme's Net Zero 2035 goal and progress against targets, an industry wide review of best practice stewardship activities, and analysis of BTPS managers' stewardship capabilities.

In May 2022, BTPSM's Head of Sustainable Investment and Senior Stewardship Analyst went to the BTPSA call centre offices in Chesterfield. The aim of the visit was to have a two-way dialogue with our call centre colleagues on how we can better communicate our sustainability efforts to members, what members typically ask about, and how the information could be better accessed by them. It was a very useful and successful day as we learnt a lot about our members and the important advice and support our BTPSA colleagues provide them.

Regular internal training on ESG topics continues for both BTPSM and BTPSA. One example from the year was a lunch and learn regarding the Scheme's signatory status to the Asset Owner Diversity Charter and how it will be integrating diversity and inclusion into the investment process (see page 168 for more details).

Audit & assurance

BTPS takes the quality and effectiveness of its stewardship very seriously, seeking to achieve best practice stewardship for the Scheme. As a result, we sought external assurance from audit specialists, BDO in Q4 2021, to undertake an independent review of the BTPS 2020 UK Stewardship Code report against BTPSM's stewardship processes.

Their review covered the following areas:

- Stewardship governance
- Remuneration and incentivisation related to stewardship
- Stewardship conflicts of interest management
- Manager selection, on-going monitoring and ESG integration
- Engagement activity and reporting
- Voting
- Supplier and service provider ESG integration

Overall, the findings were very pleasing.

The review noted the following areas of good practice:

- BTPS' stewardship report met the requirements of the FRC's UK Stewardship Code 2020.
- Appropriate governance structure is in place relating to stewardship, including a dedicated governing forum in place for stewardship and sustainable investment.
- Training delivered to staff on climate change and the Net Zero ambitions.
- Appropriate compliance monitoring and third line assurance in place to review policies and processes, and assure effectiveness over stewardship processes and controls.
- Dedicated Sustainable Investment team within BTPSM.
- Evidence that environmental matters and considerations have been embedded into IMAs with managers.
- Sufficient policies and procedures around climate change and sustainable/responsible investment.

BDO found our stewardship reporting to be **fair, balanced** and **understandable**. Over the reporting period we have continued to develop our capabilities, and examples include the following:

- **Establishing more systematic asset manager engagement process**– we have set up quarterly meetings with our managers to understand their sustainability and stewardship activities. Over Q2/Q3 2022, we shared our sustainability best practice considerations with them alongside tailored feedback on their responses to our Net Zero & Stewardship questionnaire and the Asset Owner Diversity Charter questionnaire.
- **Requesting updated voting, engagement & climate information from asset managers** – we are now requesting this information on an annual basis for a full, in-depth view, with quarterly updates where necessary.
- **Requesting DE&I information from asset managers** – using the Asset Owner Diversity Charter questionnaire, we are requesting this information on an annual basis to understand their DE&I efforts and track progress.
- **Further integrating stewardship into investment team** - see page 144 for a breakdown of different working groups contributing to effective stewardship of the Scheme. We have also better documented when the Head of Sustainable Investment is involved in monitoring and selection of asset managers (see page 147).
- **Refreshing BTPS & BTPSM Conflicts of Interest policy** - to further reference specific stewardship and sustainability related conflicts on page 176.
- **Enhanced link between incentivisation & stewardship** - we have further developed and documented incentivisation to address broader stewardship related matters beyond the Net Zero 2035 goal. Those involved in the Scheme's portfolio construction and monitoring, which includes the Research, Solutions and Sustainable Investment teams as well as BTPSM's CIO, all have objectives linked to stewardship and sustainability which feed into their performance reviews and remuneration. Examples include:
  - Improving the consistency of stewardship across all BTPS' managers and EOS.
  - Enhancing ESG integration into the investment process and reporting in the private equity allocations, in particular.
  - Continuing evolution of the Scheme's Net Zero approach reporting framework and updating mandate documentation to reflect this.
  - Leading and contributing to workstreams in initiatives, e.g. Net Zero Asset Owner Alliance.

Managing conflicts of interest

Over the past year, we have refreshed our conflicts of interest policy to reference specific stewardship and sustainability related conflicts in line with stewardship best practice. Below are excerpts from the BTPS and BTPSM conflicts of interest policies.

BTPS conflict of interest policy in relation to stewardship

When identifying actual or potential conflicts of their advisers and other agents, Trustees must ensure that the relevant party manages the conflict appropriately. This will be achieved by:

- Considering conflicts as part of the appointment process. Examples of potential conflicts include:
  - A Trustee director's own personal interests conflict with those of the Scheme, e.g. a Trustee has a relevant relationship with an asset manager being considered for appointment
  - A Trustee director's duties to another party conflict with the duty to the Scheme
  - There is a conflict in the Trustee Director's legal duties to a third party
- Requiring the party to inform them about any processes in place for identifying and managing any conflicts of interest that may arise.
- Requiring the party to inform them immediately of any conflicts which arise and what action is being taken to manage the conflict (including any actions being taken to modify the processes in place for ensuring that future conflicts do not arise).
- Considering whether such action taken by the party is adequate and appropriate.

Incidents of stewardship conflict are identified and managed by the relevant external investment management company. Material incidents are covered as part of BTPSM's portfolio monitoring process and raised at the Trustee Investment Committee as appropriate.

BTPSM conflict of interest policy in relation to stewardship

BTPSM operates controls to mitigate the risk of stewardship-related conflicts of interest. The key potential, or actual, conflict is that investment decisions made by third-party asset managers do not align with the stewardship approach of BTPSM's clients. To mitigate the risk of this conflict occurring, BTPSM operates the following controls:

- Prior to appointment as a manager for BTPSM's clients, all third-party asset managers must undergo a due diligence questionnaire, which requests information on their approach and controls for sustainable investing and stewardship.
- Once appointed, all third-party asset managers are required to complete an annual Net Zero & Stewardship questionnaire detailing their approach to sustainable investing and stewardship.
- All third-party managers are assessed based on the information provided in the questionnaire and throughout the year, in quarterly sustainable investment meetings, regarding their commitments and activities in relation to Net Zero and stewardship. This information is compared against BTPSM's Sustainability best practice manager expectations and scored accordingly.

Where BTPSM identifies that a third-party asset manager's stewardship approach is misaligned, they will work with them to resolve the issue or put in place an appropriate strategy to manage it.

Addressing conflicts in practice

Over the last twelve months, the Trustee Board has considered the following possible conflicts of interest and whether any action was required:

- A conflict declared by a Trustee receiving a pension from another Scheme. It was deemed that no action was required.
- A company nominated Trustee highlighted their new executive role at BT Group. It was deemed that no action was required.
- An older example of a conflict that had arisen in relation to a Trustee's political affiliations and was actioned, was during 2019. The Board agreed that a Trustee recuse themselves from an agenda item involving discussion on Labour's announcements on nationalisation as they were on Labour's National Executive Committee.

Our future priorities

We continue to develop our thinking on sustainable investment which is a rapidly evolving and fast-moving area.

Over the next five years, the Scheme will continue to explore the sustainable investment risks and opportunities posed and our exposures to them. This will include how to address new systemic risks identified by the Trustee. Via BTPSM we will engage with our asset managers and work with them to enhance our understanding and to improve outcomes.

Work closely with our managers

We will continue to work with our managers to encourage best practice stewardship in line with our manager expectations document, monitoring their progress over the year through our quarterly meetings and information provided by them. We believe transparency on both sides is crucial for achieving our ambitions.

Active members of industry initiatives and collaborations

We will also continue to be active members of various industry initiatives and collaborations. These are particularly helpful in sharing best practice on various sustainable investment related topics, including helping to advance our thinking on achieving our Net Zero 2035 goal, policy advocacy work such as the **ASCOR Project**, and DE&I through the **Asset Owner Diversity Charter**.

Strengthen ESG integration

It is important that BTPSM continues to strengthen ESG integration into its investment processes and further embed being a good steward of capital into its corporate objectives. A significant part of this is exploring how to further integrate ESG data into their investment and risk systems. This will help enhance portfolio analysis and provide a more accurate picture of the BTPS' alignment relative to its Net Zero 2035 goal.

Trustee training

Over the next year, the Trustee will receive a schedule of training sessions on current and relevant sustainable investment themes to the Scheme, which will include Net Zero and DE&I.

Take on board member feedback

To ensure we make it as easy as possible for members to understand their BTPS pension, and having taken on board member feedback from our recent surveys, we will be creating a series of informative videos on a variety of investment and sustainability related topics. These will sit on the new online portal and website.

Monitoring progress

We will continue to focus on ensuring our reporting is fair, balanced and understandable and we will monitor our stewardship approach over time to see how effective it has been relative to our desired outcomes.

Supplementary information

Annex 1: UK Stewardship Code 2020

Principle 1
Signatories purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, environment and society.

The Scheme's main purpose is to ensure 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. Our investment strategy is therefore designed around the benefits that we pay to members. In considering the approach to meeting this objective we consider the expected progression of the Scheme's annual benefit payments relative to the projected level of Scheme assets as the Scheme matures. We have set an objective to reduce the level of investment risk gradually over time and to increase the level of matching between assets and liabilities as the proportion of retired members increases. By no later than 2034, we currently intend to hold sufficient assets such that, it would be reasonable and prudent to expect the assets to provide adequate income plus capital repayments each year to enable benefit payments to be met in full as they fall due. We take an integrated approach to the management of risk and return in the Scheme.

The Trustee has implemented an SI policy and strategy in relation to stewardship, as set out in the Scheme's Statement of Investment Principles which can be found online at **BTPS Portal - Sustainable investment**.

To learn more about this topic, further information is detailed in the following sections:

BT Pension Scheme's purpose & values page 22

Asset manager oversight & engagement page 146

Our future priorities page 177

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 2
Signatories' governance, resources and incentives support stewardship.

The Trustee's Sustainable Investment (SI) strategy comprises a Responsible Investment Policy and SI Mission Statement which is underpinned by three SI beliefs. The Policy covers key aspects of the Scheme's SI approach including strategy, governance, implementation and external reporting. It applies across investment activities, depending on the degree of financial materiality, and fulfils the Scheme's regulatory and fiduciary obligations, including those arising as a signatory to the Financial Reporting Council's UK Stewardship Code and the PRI.

The SI Policy is approved and owned by the Trustee Investment Committee (IC). The IC oversees the Scheme's SI strategy and implementation of the Net Zero 2035 goal. The Committee is also responsible for consideration of emerging long-term structural risks, including climate change, that may impact the delivery of the Scheme's funding strategy, and acts as a sounding board for BT Pension Scheme Management (BTPSM), which is responsible for implementation of the SI strategy.

BTPSM's CEO and members of the SI working group have formal SI objectives which contribute to continuing BTPS' ESG integration process and stewardship activities. As BTPSM's commitment to achieving Net Zero emissions is a corporate objective, all executives' remuneration will be responsible for reducing operational emissions. In addition, meeting BTPS' Net Zero 2035 emission reduction target within the Scheme's asset portfolio is one of the key KPIs of BTPSM's CIO and the broader investment team.

To learn more about this topic, further information is detailed in the following sections:

BT Pension Scheme's purpose & values	page 22
Our sustainable investment approach	page 141
Our people & training	page 174
Our future priorities	page 177

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 3
Signatories manage conflicts of interest to put the best interests of the beneficiaries first.

BTPS Conflict of Interest Policy
BTPSM has in place an Executive Services Agreement (ESA) and an Investment Management Agreement (IMA) with the BT Pension Scheme Trustee, BTPSM's sole client. The Trustee and BTPSM maintain separate conflicts of interest (COI) policies to assist all relevant persons in identifying, managing and monitoring any conflicts of interest, including personal conduct, which may arise.

COI risks are a standing item at all Trustee meetings (Board and Committees) and Trustee Directors declare any new potential conflicts at the beginning of, or during each meeting. All new Trustee Directors are provided with COI training as part of their induction. Each Trustee must complete a declaration of their COI, including disclosing any relationship with BTPSM major suppliers, and these are recorded in a COI register, which is reviewed and approved at least annually by the Trustee Board.

When identifying actual or potential conflicts of their advisers and other agents, Trustee director's must ensure that the relevant party manages the conflict appropriately. This will be achieved by:

- Considering conflicts as part of the appointment process. Examples of potential conflicts include:
  - A Trustee Director's own personal interests conflict with those of the Scheme, e.g. a Trustee has a relevant relationship with an asset manager being considered for appointment.
  - A Trustee Director's duties to another party conflict with the duty to the Scheme.
  - There is a conflict in the Trustee Director's legal duties to a third party.
- Requiring the party to inform them about any processes in place for identifying and managing any conflicts of interest that may arise.
- Requiring the party to inform them immediately of any conflicts which arise and what action is being taken to manage the conflict (including any actions being taken to modify the processes in place for ensuring that future conflicts do not arise)
- Considering whether such action taken by the party is adequate and appropriate.

Incidents of stewardship conflict are identified and managed by the relevant external investment management company. Material incidents are covered as part of BTPSM's portfolio monitoring process and raised at the Trustee Investment Committee, as appropriate.

To ensure there are no conflicts in relation to securities and stewardship and voting abilities, asset managers and EOS are expected to act in the best interest of the Scheme and are not permitted to lend equity securities. The Scheme also expects them to have, in a public place, robust and up to date policies to manage conflicts of interest in relation to their stewardship activities. Agents may be made insiders only on an exceptional basis, following careful due diligence and when appropriate controls are in place.

BTPS will take all reasonable steps to:

- Identify circumstances that may give rise to conflicts of interest entailing a material risk of damage to the Scheme's interests.
- Establish appropriate mechanisms and systems to monitor and manage those conflicts.

Finally, the BTPS COI policy is complemented at BTPSM by associated policies covering PA Dealing, Gifts and Hospitality, Confidential Information and Chinese Walls, Information Security, and Data Protection.

Supplementary information continued

BTPSM Conflict of Interest Policy

BTPSM has a Conflicts of Interest (COI) Policy in place that details the process for identifying, managing and monitoring conflicts of interest. It is embedded in BTPSM's governance processes. The policy states that when BTPSM employees become aware of a new potential, or actual, conflict of interest they must report it to their manager as well as Risk and Compliance.

Each BTPSM director and relevant person covered by the BTPSM policy must also declare any COIs which are recorded on a COI register which is reviewed at least annually. An annual attestation process reminds individuals of their obligations and formally captures individual agreement to adhere to policy requirements. At all formal governance meetings members are asked for declarations of any conflicts with agenda items. Where a conflict does arise, the Company Secretary provides advice on conflict management, and the organisation aims to always act professionally and independently with the client's best interests in mind.

Any conflicts that have arisen are evaluated by the Risk and Compliance functions, who will work with the relevant employees to determine the most appropriate method for managing the conflict. Once this method has been determined, the relevant business area will be responsible for ensuring that the conflict is managed in line with the method specified. This may include disclosure of the conflict to clients.

BTPSM has in place organisational and administrative arrangements designed to ensure that potential, or actual, conflicts of interest are managed effectively, and that clients' interests are not adversely affected. This means that the conflict should be managed in such a way that all clients are treated fairly and BTPSM conducts its business with integrity and high ethical standards.

The arrangements include:

- Policies and associated requirements
- Confidential information controls
- Employee disclosures
- Restricted list
- Termination / avoidance
- Conflicts of interest register
- Monitoring
- Disclosure of conflicts
- Training

Potential conflicts of interest may be identified in, but are not limited to, the following areas:

- Trading and investment decision making
- Provision of investment advice
- Staff remuneration
- Personal Account dealing ('PA dealing')
- Gifts and other inducements
- Outside business interests
- Directorships (either executive or non-executive) on the boards of other companies
- Handling of confidential or inside information
- Stewardship e.g. when investment decisions made misalign the client's stewardship approach and that of clients' appointed asset managers.

Supplementary information continued

Annex 1: UK Stewardship Code 2020

BTPSM operates controls to mitigate the risk of stewardship-related conflicts of interest. The key potential, or actual, conflict is that investment decisions made by third-party asset managers do not align with the stewardship approach of BTPSM's clients. To mitigate the risk of this conflict occurring, BTPSM operates the following controls:

- Prior to appointment as a manager for BTPSM's clients, all third-party asset managers must undergo a due diligence questionnaire, which requests information on their approach and controls for sustainable investing and stewardship.
- Undergo a due diligence questionnaire, which requests information on their approach and controls for sustainable investing and stewardship.
- Once appointed, all third-party asset managers are required to complete an annual Net Zero & Stewardship questionnaire detailing their approach to sustainable investing and stewardship.
- All third-party managers are assessed based on the information provided in the questionnaire and throughout the year, in quarterly sustainable investment meetings, regarding their commitments and activities in relation to Net Zero and stewardship. This information is compared against BTPSM's Sustainability best practice manager expectations and scored accordingly.

Where BTPSM identifies that a third-party asset manager's stewardship approach is misaligned, they will work with them to resolve the issue or put in place an appropriate strategy to manage it.

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 4
Signatories identify and respond to market wide and systemic risks to promote a well-functioning financial system.

Given the time horizon of the Scheme, the Trustee recognises that emerging long-term risks including, for example, climate change, scarce resources and technology disruption, may have a material adverse impact on the Scheme. These risks are monitored by the Trustee as part of the regular review of the Scheme's risk register. Day-to-day implementation and monitoring of the controls in place to manage these risks is delegated to BTPSM.

On behalf of the Trustee, BTPSM also considers the likely impact on equity prices, interest and inflation rates, foreign currency exchange rates, and real estate valuations, and explores the possible investment responses. Responsible investment and ESG risks are standing agenda items at every IC meeting, and form part of a regular review of the Scheme's risk register, while the effectiveness of the SI policy is assessed annually. The Trustee and BTPSM remain abreast of changes to new and emerging sustainability risks, through relationships with a range of external experts – for example, EOS client training and research papers and through membership of industry groups, such as the Willis Towers Watson Thinking Ahead Institute. Where BTPS believes it can use its voice to influence change, it joins industry collaborations to improve market-wide and systemic risks.

To learn more about this topic, further information is detailed in the following sections:

Collaboration page 166

Market-wide & systemic risks page 151

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The Scheme's SI policy and related activities are reviewed by the Trustee, the Trustee Investment Committee and BTPSM. The SI activities are also subject to periodic internal audit reviews and monitoring performed by the BTPSM Risk and Compliance functions. BTPSM's dedicated Legal and Compliance functions report to the Chief Legal Officer with responsibility for the delivery of all legal, regulatory and compliance matters. The Risk function also has responsibility for operational risk management and the provision of an effective second line of defence across business operations. This is in relation to both the investment and pension administration services provided to the Scheme.

BTPSM maintains compliance monitoring plans which set out the key regulatory risks, including matters related to stewardship. Associated monitoring activities help provide assurance that regulatory requirements relating to stewardship are adhered to within the business. Regulatory developments are monitored to ensure emerging themes and regulatory expectations are known and met, with the Head of Sustainable Investment, CIO and Head of Solutions playing a key role in assessing BTPSM's existing policies and processes against these developments.

In 2021, BTPSM also requested its internal audit partner BDO to undertake an independent review of the 2020 Stewardship Code report against BTPSM's stewardship processes.

Reviewing BTPSM agents (asset managers and EOS), stewardship processes and activities is a key part of BTPSM's SI work. This is done primarily in 3 ways:

1. Through due diligence of stewardship policies and processes as part of initial agent selection as a service provider to the Scheme. BTPSM reviews the policies and processes, and assesses examples of their activities, including stewardship and engagement successes (and less successful activity). Ultimately, BTPSM wants to ensure that the approach the agent takes to stewardship is consistent and aligned with that of BTPS. This is an important factor in our holistic assessment and selection of the agent.
2. Through ongoing monitoring and management of agent policies and processes. On a quarterly basis we ask all our asset managers to report any changes to their internal policies, including their stewardship policy. Any changes are reviewed and analysed relative to our expectations and the Scheme's own stewardship approach to ensure continued alignment.
3. BTPSM evaluates the ongoing voting and stewardship activity undertaken by the agent. This includes evaluating whether their activity is consistent with the Scheme's stewardship approach and our expectations, based on the understanding of their approach from our due diligence process. Additionally, BTPSM evaluates the success of the agent's engagement and voting, whether they achieve their ex-ante objectives and whether this aligns with their investment strategy more broadly. Regular reporting of their voting is a critical aspect of this, allowing BTPSM to scrutinise and appropriately challenge their activity.

To learn more about how to monitor the effectiveness of our asset managers and EOS' stewardship activities, further information is detailed in the following sections:

Asset manager oversight page 146

Audit & assurance page 175

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 6
Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.

On 31 March 2001 the Scheme was closed to new entrants. On 30 June 2018 the Scheme was closed to future accrual for most members. Membership of the Scheme falls into one of three 'sections': Section A, Section B and Section C. Details of these can be found on our website **btps.co.uk**.

The Scheme has in place a number of mechanisms that provide a link between the Trustee and members. They include having member nominated Trustee directors, an annual presentation by the Trustee Board and its advisers to BT's recognised trade unions (CWU and Prospect) and the National Federation of Occupational Pensioners (NFOP) and inviting feedback from members through regular newsletters and surveys. The Trustee believes this is an appropriate and proportionate way for a defined benefit scheme of its size to engage with, and gain an understanding of, its members and their concerns. A collective understanding of member views, including consideration of non-financial matters, helps inform the Trustee's approach to ESG considerations and stewardship.

Scheme members and other stakeholders are provided with information on the Scheme's stewardship activities via the public BTPS website and as set out in the Scheme's annual PRI transparency and assessment report **btps.co.uk**

In January 2022 we carried out our fourth annual member satisfaction survey. The results showed strong member satisfaction over the year, which we believe is testament to the improvements we have made in our services to members since taking the administration in-house in 2018.

Further, in April 2022, we invited members from our member panel to share their views on our sustainable investment reporting to help influence how we can best communicate our sustainability work with members and hear their views on how it could be more accessible.

It was pleasing that overall, 92% of respondents found our 2021 responsible investment and stewardship report at least somewhat informative, including 38% who found it very informative. However, these numbers signal that there is room for improvement to further meet members' needs.

To learn more about this topic, further information is detailed in the following sections:

BT Pension Scheme's purpose & values page 22

Our members page 169

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 7
Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

We believe that all financially material considerations, including ESG factors, must be integrated throughout the investment process. Managers are selected to align with our beliefs, policies, and objectives. This is a fundamental part of the appointment process of a new manager and of the ongoing oversight of the activity undertaken by managers on behalf of the Scheme. Before appointing an investment manager, BTPSM seeks to understand the manager's philosophy and approach to determine if they are suitable to work for the Scheme. They wish to understand if the asset manager is aligned with our beliefs and goals, what their investment time horizon is, their approach to responsible investment and engagement with underlying companies. This is done through interviews and a comprehensive due diligence questionnaire (DDQ) process. The DDQ includes nine detailed SI questions covering governance, integration, monitoring, engagement, voting, reporting and climate change, which must be answered in full. These questions have an equal weighting with the other questions posed in the DDQ. The responses are reviewed in tandem between both the Manager Selection team and the Sustainable Investment team to understand their quality and if required, meetings are held with the manager to better understand their approach.

Later on in the process, and as part of the final investment mandate approval procedure, the Head of Sustainable Investment is formally involved in approving a new fund manager before an investment mandate is agreed.

As part of manager due diligence meetings, the investment team assesses whether the approach outlined in the DDQ and other materials is integrated into the investment process, consistent with the investment philosophy and evidenced throughout the investment process.

To learn more about this topic, further information is detailed in the following section:

Asset manager oversight & engagement page 146

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 8
Signatories monitor and hold to account managers and/or service providers.

BTPSM Asset Manager Monitoring Process

Asset managers must act on our instruction as set out in an Investment Management Agreement (IMA) or side letter. BTPSM actively monitors and engages with asset managers to ensure their ongoing resilience, adherence to mandate expectations, alignment with BTPS' objectives and application of their responsible investment approach.

The relationship with the asset manager is expected to reflect the long-term investment horizon of the Scheme. This long-term approach also allows asset managers to take a similarly long-term view with the underlying investments they make on behalf of the Scheme and to engage with companies to drive better long-term sustainable outcomes.

BTPSM's Manager Selection team and Sustainable Investment team work closely together to monitor how asset managers are integrating SI into their investment processes and activities, and clearly reporting on their activities.

They ensure that, where relevant, asset managers embed SI considerations, including ESG factors, into their investment processes. As part of the process, an area of focus during 2021-2022 was the development of an enhanced Net Zero & Stewardship questionnaire. All asset managers are expected to respond to an annual Net Zero & Stewardship questionnaire. This seeks evidence and ongoing reporting on the SI integration process across, for example, fundamental analysis, asset valuation and portfolio construction. The responses to these questionnaires are evaluated and managers receive tailored scorecards back, outlining areas of improvement against best practice expectations.

As part of asset manager oversight, BTPSM also reviews the ESG ratings of its portfolio through ESG data providers, including MSCI, Bloomberg and UBS Delta. These reviews include an ongoing evaluation of the ESG characteristics of the portfolio, the manager's ESG integration approach, ESG and stewardship activities, and quality of reporting. Should the monitoring process reveal deficiencies or concerns which cannot be remediated, the mandate will be terminated. An example of this in practice occurred in 2021, when we delved much deeper into an asset manager's stewardship activities, after receiving poor reporting to our Net Zero & Stewardship questionnaire.

We have placed particular importance on improving the reporting and data relating to ESG factors that we receive from our asset managers. While it is continuous work in progress, we have seen some considerable improvement enabling, for example, reporting of carbon intensity data across all the major asset classes in which the Scheme invests in our Report and Accounts from 2019. BTPSM also actively monitors material stewardship activity, including where agents take different voting actions at the same company. It also reviews EOS' engagement and voting activities through quarterly calls, regular reports and the EOS client portal. These activities are updated quarterly on our website **BTPS Portal – Sustainable investment**.

To learn more about this topic, further information is detailed in the following section:

Asset manager oversight & engagement page 146

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 9
Signatories engage with issuers to maintain or enhance the value of assets.

Most of the Scheme's stewardship activities are undertaken by EOS at Federated Hermes. Alternatively, a manager may, where engagement is fundamental to the investment strategy and they can demonstrate sufficient capabilities, be appointed to provide stewardship services for their specific mandate.

In determining whether and how engagement is taken forward, asset managers and EOS are expected to have due regard to the likelihood of success in bringing about change and the level of company exposure. Asset managers and EOS are expected to report on the key ESG issue of the engagement, the materiality of the issue, the outcomes/desired change that they expected from the engagement, the people involved internally, a summary of the discussion and resulting actions. We also seek an appropriate explanation about how engagement informs investment decisions.

To learn more about this topic, further information is detailed in the following sections:

Asset manager oversight & engagement	page 146
Engagement	page 157
Proxy voting	page 156
SIP Implementation Statement	page 121

Principle 10
Signatories, where necessary, participate in collaborative engagement to influence issuers.

BTPS is a large pension scheme and believes in using its voice to address market-wide and systemic risks, and particularly in promoting well functioning markets to support a sustainable future and provide sustainable investment opportunities. As such, the Scheme believes in the power of investor collaboration and has joined several initiatives to push for better ESG and sustainability standards, data and policy. The Scheme's asset managers and EOS may engage with a company both individually and collaboratively with other investors where they are concerned about company practices and performance.

Collaborative engagement done on behalf of the Scheme is made publicly available on the Scheme's website on a quarterly basis and via the annual report.

To learn more about this topic, further information is detailed in the following sections:

Engagement	page 157
Collaboration	page 166

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 11
Signatories, where necessary, escalate stewardship activities to influence issuers.

To achieve change, our asset managers and EOS at Federated Hermes may undertake a series of escalating engagement actions, depending on the nature of the challenge and the initial reaction of the company's board to engagement, including meeting with the chairman or other board members, discussions with other shareholders of the company, submitting resolutions and speaking at general meetings. EOS outlines its approach to escalation in its Engagement Plan.

The asset managers and EOS are expected to report on the effectiveness of their intervention activities and, where relevant, explain how engagement informs investment decisions. Our actively managed, segregated equity asset managers are mandated to execute all votes for the Scheme's directly-held public securities. Proxy voting activity should not be conducted in isolation but as part of a wider engagement strategy. Rather than prescribing specific actions, the Scheme's stewardship agents can use their discretion regarding the actions they take. Agents may adapt their stewardship practices to accepted local market conventions and regional best practice including the UK corporate governance code, for example.

On our behalf, BTPSM monitors escalation activities via the annual Net Zero & Stewardship questionnaire, but also quarterly sustainable investment meetings with the asset managers and EOS. Managers are encouraged to highlight their stewardship activities, whether successful or not.

To learn more about this topic, further information is detailed in the following sections:

Asset manager oversight & monitoring page 146

Engagement page 157

Supplementary information continued

Annex 1: UK Stewardship Code 2020

Principle 12
Signatories actively exercise their rights and responsibilities.

Most of the Scheme's stewardship activities are undertaken by EOS at Federated Hermes. The intention was to establish an organisation that allowed us to exercise our rights and responsibilities more effectively, have a greater impact on ESG issues as well as the potential to enhance our knowledge through collaboration, and be part of a larger network of like-minded asset owners and managers. Voting is supported by our custodian Northern Trust. We receive periodic reporting which confirms votes cast. We review our Power of Attorney agreements (POAs) ahead of voting season and are notified in case any are missing, and if a vote has failed.

We believe that making full use of our voting rights is part of our fiduciary duty and require EOS and, where applicable, asset managers to execute all votes for the Scheme's directly held public securities. We believe that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. Rather than prescribing specific actions, our stewardship agents are afforded a measure of discretion and flexibility, and can follow their own voting policy on most voting topics. We publish EOS' voting activities quarterly on our website:
BTPS Portal - Sustainable investment.

Learn more about EOS' voting policy **here**.

EOS has invested considerable time and effort in improving the transparency, efficiency and integrity of the voting chain, within the reporting period that included surveying custodians and other market participants on their implementation of vote confirmation requirements provided in the Shareholder Rights Directive II. EOS published its first Compliance Statement in respect of the Best Practice Principles (BPP) for Providers of Shareholder Voting Research & Analysis, in support of its aims to establish standards for service providers in the industry.

BTPS does not engage in securities lending across its public equity mandates. This decision has been made both for risk-return and stewardship reasons. In the case of the latter, the requirement to recall "on-loan" holdings ahead of voting and results windows gives rise to an involved process and gives rise to potential engagement conflicts.

To learn more about this topic, further information is detailed in the following sections:

Proxy voting page 156

SIP Implementation Statement page 121

Supplementary information continued

Annex 2: Index of PRI Principles

BTPS has been a signatory to the PRI since 2006. In 2022, the PRI decided to pause its annual reporting programme. Despite this, we have continued to consider and apply the six PRI Principles, and have mapped our stewardship report to the PRI Principles in the table below:

PRI Principle	Mapping in this report
Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes	BT Pension Scheme's purpose & value – page 22 Our sustainable investment approach – page 141 Asset manager oversight & engagement – page 146 Market-wide & systemic risks – page 151
Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and procedures	BT Pension Scheme's purpose & values – page 22 Our sustainable investment approach – page 141 Audit & assurance – page 175 Managing conflicts of interest – page 176
Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest	Proxy voting – page 156 SIP Implementation Statement – page 121 Engagement – page 157 Market-wide & systemic risks – page 151
Principle 4: We will promote acceptance and implementation of the Principles within the investment industry	BT Pension Scheme's purpose & values – page 22 Market-wide & systemic risks – page 151 Collaboration – page 166 Our future priorities - page 177
Principle 5: We will work together to enhance our effectiveness in implementing the Principles	BT Pension Scheme's purpose & values – page 22 Collaboration – page 166 Market-wide & systemic risks – page 151
Principle 6: We will each report on our activities and progress towards implementing the Principles	All sections SIP Implementation Statement – page 121

Appendix four: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities	Key activities
Audit & Risk Committee	**David Viles – Chair** **Ben Marshall** **Keith Nichols** **Andy Kerr**	• Integrity of the Scheme's annual report and accounts and the discharge of its duties in relation to these • Oversees the effectiveness of risk management processes, the internal controls framework, and reviewing and challenging the internal audit function* • Recommends to the Trustee Board the appointment, re-appointment and removal of the external auditor, monitoring auditor independence and objectivity, and approval of remuneration and engagement terms of the auditor	• Met 3 times during the year and subsequently one meeting held up to the annual report approval date • Reviewed the following: – Performance of internal and external auditors – Operational due diligence reports on third party investment managers – Regular risk and compliance reports – Internal audit reports – The security of Scheme assets – The Scheme's IT security.
Investment Committee	**Chris Cheetham – Chair** **Keith Nichols** **Emily Clark** **Andy Kerr**	• Oversees effectiveness of the Scheme's investment strategy • Oversight of investment performance, including the performance of investment allocations and sub-allocations	• Met 6 times during the year • Reviewed 'deep-dive' reporting into each of the main asset classes including key risk factors, manager allocations and performance • Provided oversight of the responsible investment strategy.
Administration & Communications Committee (A&CC)	**Beryl Shepherd – Chair** **Nigel Cotgrove** **Keith Nichols** **Ben Marshall**	• Oversees administration services provided to the Scheme and its members • Monitors and oversees casework arising from application of Scheme Rules involving discretions • Monitors the development and implementation of an effective communications strategy • Makes sure the Scheme's Trust Deed and Rules are up-to-date, and reflect any changes arising from regulation and legislation	• Met 3 times during the year • Reviewed quarterly reports on Scheme administration • Provided oversight of the pensions portal • Provided oversight of the pension administration platform • Provided oversight of Additional Voluntary Contributions strategy, key member services activities updates, including the impact of relevant regulatory changes and communications with members • Reviewed activity in relation to GMP Equalisation.

* BTPSM has appointed BDO UK LLP ('BDO'), under an outsourcing agreement, to perform the internal audit function. BDO conducts a rolling programme of independent control reviews and investigations, and may use external professional firms to provide additional technical support on certain audits.

Appendix four: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities
Internal Disputes Resolution Procedure (IDRP) Stage 2 Appeals Panel (sub-committee of the A&CC)	**Otto Thoresen – Chair** **Ben Marshall** **David Viles**	• Considers and arrives at determinations in respect of appeals by Scheme members or beneficiaries against a decision under Stage 1 of the IDRP
Discretions Committee (Sub-Committee of the A&CC)	**Beryl Shepherd – Chair** **Keith Nichols** **Nigel Cotgrove**	• Considers and arrives at determinations where the Trustee is required by the Scheme Rules to exercise discretion (e.g. distribution of a lump sum death benefit, payment of a pension to an adult dependant)
Implementation Oversight Committee (Sub-Committee of the Investment Committee)	**Chris Cheetham – Chair** **Keith Nichols** **Emily Clark**	• Used from time-to-time to oversee the implementation of more complex investment activities • Includes members of the Investment Committee with appropriate expertise in implementation issues • Also attended by senior managers from BTPSM

Appendix four: Trustee Board Committees

The table below shows the attendance by Trustee Directors at Trustee Board and Committee meetings (where they are a member) during the year ended 30 June 2022.

Trustee Director	Main board	Audit and Risk Committee	Investment Committee	A&CC	IDRP stage 2 appeals panel	Discretions Committee	Implementation Oversight Committee
Number of meetings	**8**	**3**	**6**	**3**	**9**	**6**	**3**
Otto Thoresen	8	–	–	–	8	–	–
Chris Cheetham	8	–	6	–	–	–	3
Emily Clark	8	–	5	–	–	–	2
Nigel Cotgrove	8	–	–	3	–	6	–
Andrew Kerr	7	3	6	–	–	–	–
Ben Marshall	8	3	–	3	9	–	–
Keith Nichols	8	3	6	3	–	6	3
Beryl Shepherd	7	–	–	3	–	4	–
David Viles	8	3	–	–	7	–	–

Appendix five: Management and advisers

Scheme registration number
10085003

Trustee
BT Pension Scheme Trustees Limited

Trustee Directors
Otto Thoresen (Chair)
Emily Clark
Chris Cheetham
Nigel Cotgrove
Andrew Kerr
Ben Marshall
Keith Nichols
Beryl Shepherd
David Viles

Scheme Secretary
BTPSM

Actuary
Graham McLean FIA, Towers Watson Limited
(a Willis Towers Watson Company)

Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Pensions administrator
BT Pension Scheme Administration Limited
Venture House
Venture Way
Chesterfield S41 8NR

Bankers
The Northern Trust Company
Royal Bank of Scotland

Primary service provider to BTPS (including investment management)
BT Pension Scheme Management Limited (BTPSM)

Primary external investment managers
GQG Partners LLC
Hermes Fund Managers Limited (Hermes)
Insight Investment Management Limited
M&G Investment Management Limited
Magellan Asset Management Limited
Pacific Investment Management Company LLC
Wellington Management International Limited

Custodians appointed by the Trustee
The Northern Trust Company
JP Morgan Chase

Principal sponsoring employer
British Telecommunications plc (BT)
81 Newgate Street
London EC1A 7AJ

If you require further information regarding this report, please contact:

Scheme Secretary
BT Pension Scheme Management Limited
One America Square
17 Crosswall
London EC3N 2LB

Appendix six: 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.

Absolute return
This allocation seeks to generate returns irrespective of the direction of markets. Managers within this allocation will typically manage their portfolios without close regard to a specific market benchmark.

Active ownership
The active exercising of shareholder rights to improve the long-term value of a company.

Actively managed
Investments that are selected by investment managers with the aim of outperforming a particular benchmark index.

Additional Voluntary Contribution (AVC)
A contribution paid by a member of an occupational pension scheme to secure additional benefits.

Asset classes
Groupings of investments such as equities (stocks), fixed income (bonds), cash and cash equivalents, real estate, commodities, futures, and other financial derivatives.

Asset mix
The proportions in which the Scheme's assets are distributed between different classes of investment.

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.

BREEAM
A third party certification of the assessment of a real asset's environmental, social and economic sustainability performance.

CA 100+
CA100+ is a coalition of over 400 global investors with nearly $40 trillion in AUM focused on engagement with 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 man-made GHG emissions.

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

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

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

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.

Crown Guarantee
A special protection in the form of a guarantee which provides that, in the unlikely event of a winding up of BT Group, ongoing contribution obligations of BT Group to the Scheme would be met by the Government. The Crown Guarantee does not cover the benefits of individual members but rather enhances the security of member benefits in the Scheme overall.

Deferred beneficiaries
All those who have a right to be paid benefits by the Scheme at a future date, but are not currently active members of the Scheme (mainly former employees).

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.

Appendix six: Glossary of terms

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.

ESG mainstreaming and 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.

Financial Conduct Authority (FCA)
The conduct regulator for nearly 60,000 financial services firms and financial markets in the UK, and the prudential supervisor for 49,000 firms, setting specific standards for 19,000 firms. It seeks to promote the safety and soundness of the firms it regulates.

Fixed interest securities
Investments on which a fixed rate of interest is received.

Futures and options contracts
A futures contract is a firm agreement to buy or sell a security or a quantity of securities at a future date; an option confers the right, but no obligation, to complete a similar transaction at a predetermined price.

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.

Green bonds
A bond that is issued to raise capital for the development of environmentally friendly projects or assets.

Greenhouse gas emissions (GHG)
The main GHGs in the Earth's atmosphere are carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O) and ozone. 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 GHG's 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.

GRESB
Assesses and benchmarks the environmental, social and governance (ESG) and other related performance of infrastructure and buildings, providing standardised and validated data to the capital markets.

Indenture (or debenture)
A legal and binding agreement, contract, or document between bond issuers and bondholders detailing provisions and clauses associated with a credit offering.

Appendix six: Glossary of terms

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.

Investment Management Agreement (IMA)
A formal document that governs the arrangement between a company/individual (investment manager) providing investment management services and the investor (client).

Liability matching
An investment strategy that matches future asset sales and income streams against the timing of expected future expenses. For a pension fund it is a form of risk management where it seeks to mitigate or hedge the risk of failing to meet.

Long-term assets
Investments other than those in which funds are held on a temporary basis, e.g. interest-earning deposits and short-dated government securities.

Longevity transaction
A contract which exchanges payments based on expected longevity with payments based on actual longevity of members.

Low-carbon economy
An economy based on low-carbon power sources with 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.

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 and 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.

Passively managed
Where investments are held in the same proportions as a selected index (e.g. the FTSE All-Share Index) rather than managers being allowed to choose their own investments.

Pension Protection Fund (PPF)
A fund established by the UK Government to pay compensation to members of eligible defined benefit pension schemes, where there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the scheme to cover PPF levels of compensation.

Pensions SORP
The Pensions Statement of Recommended Practice applies to the accounts of occupational pension schemes. It is issued by the Pensions Research Accountants Group (PRAG).

Pooled Investment Vehicles (PIVs)
Investment vehicles such as managed funds, limited partnerships and unit trusts that combine capital of many investors to allocate according to a particular investment strategy.

Private Equity
Investments in companies that are not publicly traded.

Appendix six: Glossary of terms

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.

Purchase Power Agreement (PPA)
A long-term electricity supply agreement between two parties, usually between a power producer and a customer (an electricity consumer or trader).

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

Realised gains
The net profit on investments sold during the year, calculated by comparing the selling price with the price at which they were purchased, or with the value at which they were transferred to the Scheme at its inception.

Real rate of return
The difference between the level of return actually earned by investments, including increases in value, and the return necessary in order to keep pace with inflation as measured by the change in the Retail Prices Index (RPI) and the Consumer Prices Index (CPI).

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

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

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

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 planet.

Sale and repurchase agreements
A transaction, carried out under an agreement, in which one party sells securities to another and, at the same time and as part of the same transaction, commits to repurchase equivalent securities on a specified future date at a specified price.

A reverse repo is a transaction, carried out under an agreement, in which one party purchases securities from another and, at the same time and as part of the same transaction, commits to resell equivalent securities on a specified future date at a specified price.

Schedule of Contributions
The Schedule of Contributions should set out the rates and due dates of contributions to a pension scheme from the participating employer and the members (including contributions due under a recovery plan and contributions to cover expenses). Normally, Trustees will need to agree the Schedule of Contributions with the Scheme's principal employer.

The Schedule of Contributions must be certified by the Scheme Actuary and revised periodically by the Trustees. The Schedule of Contributions must be submitted to The Pensions Regulator for approval within ten working days after it being prepared or revised.

Appendix six: Glossary of terms

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 Pensions Regulator (TPR)
The Pensions Regulator was established under the Pensions Act 2004 with effect from 6 April 2005. Its main statutory objectives are to:
- protect the benefits of members of work-based pension arrangements
- keep calls on the Pension Protection Fund to a minimum, and
- facilitate good pension administration.

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.

Transfer value
The capital sum available to purchase benefits from the new employer's scheme, or from an insurance company, when an employee changes employment and decides to transfer the pension benefits which he has earned with his previous employer.

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 GAAP
This refers to Generally Accepted Accounting Practice applied in the United Kingdom.

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.

Unlisted investments
Stocks and shares not traded on a recognised stock exchange.

Unrealised gains
The net increase during the year in the market value of investments held at year end.

Contact details

The Trustee of the BT Pension Scheme

The Scheme Secretary
BT Pension Scheme
One America Square
17 Crosswall
London, EC3N 2LB

Website: **www.btps.co.uk**

Member Support

The BT Pension Scheme Member Support team can be contacted between 8:30am and 5pm Monday to Friday (excluding Bank Holidays), on **0800 731 1919**.

If calling from overseas, the contact number is **+44 (0) 203 023 3420**.

Alternatively, please email member@btps.co.uk

Or send a message through the Pensions Portal at **www.btps.co.uk**

The address for correspondence is:
BTPS, Sunderland, SR43 4AD

MoneyHelper

In June 2021, the Money and Pensions Service brought its three consumer services together under the new name, MoneyHelper. So, the Money Advice Service, The Pensions Advisory Service and Pension Wise now all come under MoneyHelper.

MoneyHelper is here to make money and pension choices clearer. It provides impartial help, backed by government and free to use. MoneyHelper can be contacted through **moneyhelper.org.uk** or on the following phone number:

Pensions Helpline: **0800 011 3797**

Pensions Ombudsman

If you have a complaint or dispute concerning your workplace or personal pension arrangement you should contact the Pensions Ombudsman at:

10 South Colonnade
Canary Wharf
London, E14 4PU
Contact number: **0800 917 4487**

The Pensions Regulator

Pension schemes are regulated by The Pensions Regulator, which has power to impose civil penalties and to bring criminal prosecutions for serious breaches of the requirements of the legislation. The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House, Trafalgar Place,
Brighton, East Sussex,
BN1 4DW

Pension Tracing Service

Information about the Scheme (including a contact address) has been provided to the Pension Tracing Service as required by law. Because the Pension Tracing Service holds the same information for other pension schemes, it offers a service which enables members to trace benefits from previous employers' schemes. The Pension Tracing Service can be contacted on **0800 731 0193** or by submitting a tracing request on **www.gov.uk/find-pension-contact-details.**

Report and Accounts

This Report and Accounts is available on the Scheme's website: **btps.co.uk**.

We send each member a short document in hard copy or by email summarising the key developments of the Scheme during the year. Members also receive the Summary Funding Statement each year.

BTPS

www.btps.co.uk