BTPS

Stewardship Report 2024

www.btps.co.uk

Foreword

Stewardship has always been central to the Scheme's investment approach as we seek to act as a responsible and engaged owner of the companies and assets in which we invest. As one of the UK's largest corporate pension schemes, we have a responsibility to act as a long-term custodian of the assets in which we invest, whilst considering the impact on the environment and society. In doing so, we believe we will deliver sustainable long-term value.

Sustainable investment is a core part of the BT Pension Scheme's (BTPS's) ethos. We are aware that how and where we invest matters as we seek to support members by providing for their retirement whist considering the impact on the world in to which they retire.

BTPS became a signatory to the 2020 UK Stewardship Code when it launched in 2021 and is pleased to have retained signatory status since.

The Code sets high stewardship standards for asset owners and asset managers, and for the service providers that support them. This report is part of our ongoing commitment to the Code and it incorporates feedback previously given by the Financial Reporting Council (FRC).

The report also explains the BTPS's approach to stewardship; the role of Brightwell, which manages the Scheme on behalf of the Trustee, in implementing this approach; and the importance in the stewardship process of the investment managers selected by Brightwell to manage the Scheme's assets.

The BTPS 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."

We manage risk to the Scheme's assets by considering the interconnectedness of physical, social, environmental and economic factors. We believe that this approach improves long-term outcomes for the Scheme.

> "We recognise the importance of stewardship for BTPS and are pleased with the outcomes we have seen over the past year in collaboration with the Scheme's asset managers. We look forward to continually improving our approach and supporting the Scheme in delivering members' promised pensions."

Jill Mackenzie
Chair, BTPS

Contents

Stewardship highlights

Assurance

Internal and external audits of stewardship report & internal stewardship activities.

Diversity, Equity & Inclusion (DE&I)

Co-leading the Asset Owner Diversity Charter (AODC). Held second AODC hybrid event to share the second-year findings.

Member visit to Paradise Circus, Birmingham, an urban regeneration development.

Manager oversight

Continued development & engagement with our Manager Net Zero & Stewardship scorecard & Sustainability Best Practice Expectations document.

Climate

Monitored the portfolio against our 5-year goals to reduce portfolio emissions[1]. See the climate section for more highlights and our TCFD report on the BTPS website for more detail.

Systemic risk analysis

Exploring further the interconnectedness between systemic risks e.g. nature, climate and inequality. Undertook analysis to understand the nature risks the portfolio is exposed to.

Member engagement

Annual member survey.

72% of members* want BTPS to continue taking into consideration ESG issues in its investments.

**Survey of over 13,000 BTPS members online in January 2024*

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 2023 Annual Report
EOS Engagement Objectives & Plan 2023-2025

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

Introduction

> As one of the UK's largest private sector defined benefit pension schemes, 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.

> 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.

In line with the FRC's updated guidance on stewardship reporting against the UK Stewardship Code, this report showcases BTPS's stewardship outcomes and activities over the past 12 months to 30 June 2024, both directly through Brightwell and via our asset managers and other agents. We focus on progress against the 12 Principles and any updates to the Scheme's sustainable investment processes or policies, and have referenced other documents with additional relevant information where appropriate.

As part of the Scheme's mission to be a good steward of capital for its 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.

The Trustee is responsible for overall governance of BTPS and ensuring members' benefit payments are paid in full as they fall due. The Trustee delegates day-to-day responsibility for the management of the Scheme to Brightwell and oversees service provision. Brightwell implements the Scheme's investment strategy through a combination of in-house management, and the selection and ongoing monitoring of external investment managers. Brightwell's services are tailored to the Scheme's beliefs, needs and specific challenges. This report details the stewardship of BTPS, of which the stewardship activities and processes are largely undertaken by Brightwell or the Scheme's asset managers, and EOS at Federated Hermes.

BTPS's Board-level scrutiny ensures the Scheme's sustainable investment approach is embedded throughout the investment activities as we continue to address evolving challenges in this fast-paced area. Brightwell's approach is periodically audited and benchmarked by external consultants. It is also integrated throughout the Brightwell values.

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

About BTPS

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

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

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

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

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

At a glance

258,588

As at 30 June 2024, there were 258,588 members.

£2.8bn

Total benefits paid were £2.8bn in the year to 30 June 2024

£35.7bn

The Scheme's net assets were valued at £35.7bn as at 30 June 2024.

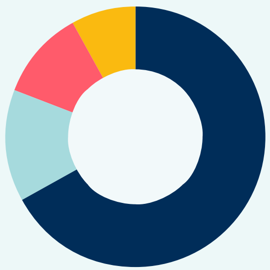
71 years old

The average age of BTPS members is 71 years old weighted by pension amount as at 30 June 2024.

The distribution of investments

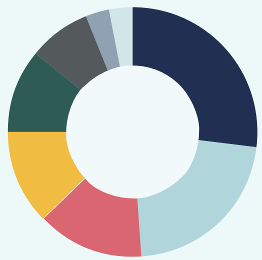
As at 30 June 2024, the Scheme's assets were £35.7bn. In the below charts we show the geography, asset class and sector breakdowns.

Geography



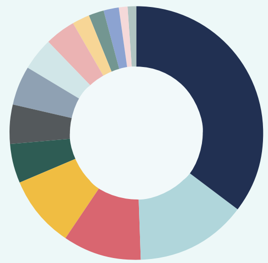
UK	67%
United States	14%
Europe	11%
Other	8%

Asset class



Corporate bonds	27%
Government bonds, cash and other net assets	22%
Secure income	14%
Non-core credit	12%
Equities	11%
Property	8%
Absolute returns	3%
Infrastructure	3%

Sector



Sovereign/Quasi	35%
Real estate	14%
Financials	10%
Communication services	9%
Utilities	5%
Unclassified	5%
Industrials	5%
Consumer discretionary	4%
Information technology	4%
Securitized products	2%
Health care	2%
Cash	2%
Consumer staples	1%
Energy	1%
Materials	0%

Sectors classified according to MSCI Global Industry Classification Standard (GICS). Unclassified exposure includes portfolios with no look-through and other unclassified exposure.

Note: Due to rounding, figures may not add up to 100%.

Sustainable investment approach

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, inequality, and natural capital, may have a material adverse impact on the Scheme.

The day-to-day implementation of the sustainable investment strategy across all asset classes has been delegated to Brightwell, with activity focused on the following three core areas:

1. Understanding the risks and opportunities that the Scheme may face 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.

BTPS's 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.

Full details of the BTPS sustainable investment approach can be found on pages 8-12 of the **BTPS 2023 Stewardship Report** and on the BTPS Scheme website **here**.

Sustainable investment approach continued

Time horizons

The Trustee considers the potential effects of sustainability-related risks over a range of different time horizons for the Scheme using 31 December 2022 as the baseline.

Short term – 1 year

A one year period over which the Scheme may be impacted by sustainability-related shocks.

Medium term – 12 years

The period to 2034 in which the Scheme is expected to de-risk linearly to its long-term portfolio. The impact of sustainability-related risks over this time horizon may be a result of government intervention (e.g. regulation, policy changes, tax changes, public investment, reporting requirements), geopolitics, public sentiment, significant controversies, technological advancements, climate-driven shocks, and slower/fast than anticipated actions taken to mitigate or respond to sustainability-related risks. Regarding climate, transition risks are likely to dominate 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. Sustainability-related risks over the long term, in addition to what we could expect to see over the short and medium term, may include more regulatory changes, technological advancements, depletion of natural resources or social inequality. Regarding climate, physical risks are likely to dominate over this time period.

Climate approach and climate action

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 ambition.

BTPS 2020 - 2025 Net Zero Stewardship Programme

The Scheme follows its four-pillar approach, along with 20 climate actions, in line with its climate policy over the past year.

Brightwell has continued to meet with the Scheme's asset managers to understand how they are using stewardship as a lever to deliver on the Scheme's Net Zero 2035 ambition. They have a Net Zero Stewardship Programme for the Scheme, based on the Paris Aligned Investment Initiative (PAII) Net Zero Stewardship Toolkit, and managers were provided with a framework to achieve three goals: drive emission reductions over 15 years, establish materiality-based and goal-orientated engagement plans which would be trackable and refreshed regularly, and to support industry collaborative engagements where appropriate.

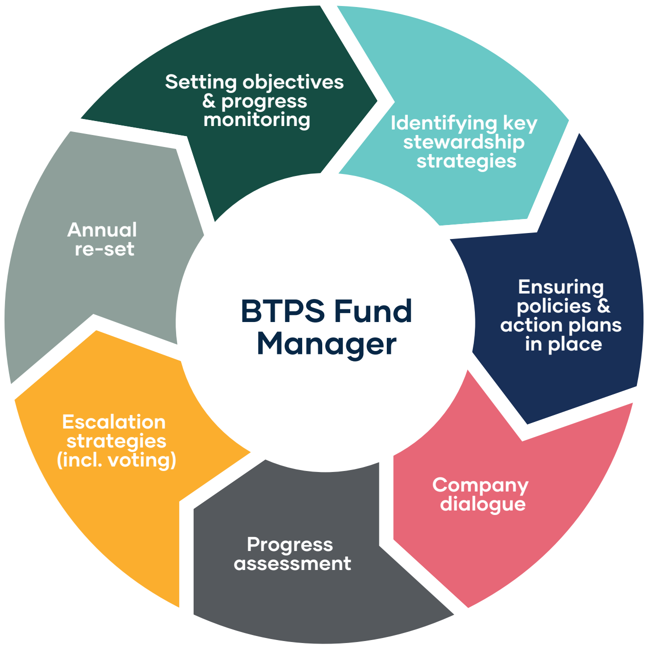
To achieve this, managers have four objectives:

1. **5-year portfolio coverage target** - Implement a 5-year engagement plan with stewardship strategies, policies and action plans in place to align investments with Net Zero
2. **Focus on the top 70% biggest emitters** - Managers must focus on the top 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 5 years no progress is made, divestment of that investment is expected
4. **Reporting** - Managers are expected to report progress against milestones to Brightwell quarterly.

Climate approach and climate action continued

Annual Net Zero stewardship process expectations

Alignment to the Scheme's Net Zero ambition is enforced through the Scheme's investment manager agreements. Regular progress meetings take place to share learning and understand any barriers. The Scheme acknowledges that a year-on-year carbon reduction will become more challenging over time, particularly if government action is not as strong as anticipated.



Similarly, climate action plans take time to put in place and effect change. Therefore, measuring milestones is 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 that we discuss with them on an annual basis:

i. Not aligned
ii. Committed to aligning
iii. Aligning towards a net zero pathway
iv. Aligned to a net zero pathway
v. Net zero

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

Read more

Read more about the work on integrating the Scheme's net zero ambition in the **2023 Sustainable Investment summary report.**

Detailed information on the Scheme's climate approach and actions can be found in the BTPS TCFD report **BTPS Portal - Regulatory reporting.**

Examples of how BTPS managers implement the Scheme's climate approach

Engagement examples over reporting period 1 July 2023 - 30 June 2024.

Credit manager’s climate approach

Climate is one of M&G’s top-down engagement programmes for investee companies, alongside coal, diversity and natural capital. Climate engagements focus on strategy, disclosure, goals and targets to achieve decarbonisation.

Stewardship is one of the key levers. M&G has established and launched their internal ‘Hot 100’ Climate Engagement Programme to support and accelerate decarbonisation. They map holdings to develop a focus engagement list covering the 100 companies that account for the majority of investee entities’ financed carbon emissions, and set an engagement threshold target to engage or assess at least 70% of the financed carbon emissions.

Engagement centres around various KPIs such as net zero alignment and science-based targets with credible transition plans. The focus list is periodically updated, and the engagement programme continues.

Encouraging consideration of climate change risks

Private equity manager engagement via Federated Hermes

Issue: Federated Hermes engaged with a European private equity manager to improve their climate change risk practices.

Action: Federated Hermes engaged twice in 2024 with the manager. In January 2024, the importance of measuring the greenhouse gas (GHG) emissions of emissions of portfolio companies was highlighted. Then, in June 2024, Federated Hermes also expressed their desire for the manager to assess climate change risks and discussed various industry approaches to creating a decarbonisation roadmap.

Outcome: The manager scaled up its programme to measure GHG emissions across the portfolio. In general, the points discussed were taken on board by the manager and they will consider implementing changes in their investment processes. As a result, the company is preparing a climate change policy, which Federated Hermes will review and provide feedback on.

Reducing company exposure due to lack of climate action

Corporate credit engagement via Wellington Management

Issue: Wellington was dissatisfied with a French-based utility company’s carbon reduction targets, which they felt were lagging relative to peers. The company operates largely in the water and waste management sector and was one of the larger contributors to portfolio-weighted average carbon intensity. Furthermore, Wellington felt that the issuer had not taken appropriate steps to properly address emissions in its waste-to-energy business. While they sympathise with the challenges around waste, peers have begun to develop exposure-alternative solutions such as carbon capture.

Action: Wellington engaged with the issuer and sought an update on their carbon reduction strategy. During this engagement, the issuer acknowledged that their waste-to-energy enterprise will be more difficult to decarbonise than other business segments. They discussed the challenges within this segment and the potential benefits of investing in dedicated technology and carbon capture solutions.

Outcome: Overall, Wellington left with reduced conviction in the issuer’s sustainability strategy and decided to reduce their exposure. The investment decision was not driven exclusively by their reduced conviction in the issuer's ESG credentials, but it did feed into the mosaic of information considered in investment decision-making. Wellington requested that they meet again for further discussion later in 2024 and plan to continue to engage with the issuer to learn about their plans to address environmental risks. This is an example of how Wellington escalated the issue and it led to a reduction in exposure due to an unsatisfactory outcome.

Engaging on climate transition plans across asset classes

Engagement examples over reporting period 1 July 2023 - 30 June 2024.

Corporate credit

Understanding a company's climate transition management

Issue: Wellington wanted to better understand an American energy company's management of climate transition risk. Based in Jackson, Michigan, the company's principal business is consumer energy, a public utility that provides electricity and natural gas to more than 6 million of Michigan's 10 million residents.

Action: Wellington engaged with the company to learn how the issuer plans to decarbonise both its electricity production and its overall business operations, and ultimately meet its net zero goal. Its decarbonisation efforts are crucial for meeting environmental targets and maintaining financial robustness, ensuring the company's resilience and competitiveness in a transitioning energy market.

Outcome: The engagement aligns with Wellington's approach, seeking to engage with issuers and encourage behaviour change where they believe the issuer may be exposed to a risk that could influence asset prices. The issuer was one of the larger contributors to portfolio-weighted average carbon intensity, and so was a high priority engagement candidate. Wellington was pleased to learn that the issuer was taking active steps towards management of its climate transition risk, including third-party verification of its science-based targets.

Sovereign debt

Accelerating a Latin American Sovereign's climate transition strategy

Issue: Based on Wellington's research, they viewed the climate transition strategy of a Latin American Sovereign to be insufficient to prepare the country for the phasing out of fossil fuels by 2050.

Action: Wellington engaged with the Sovereign to better understand their notable environmental challenges including elevated emissions intensity. Fossil fuels comprise 30-50% of exports and 5-10% of annual fiscal revenues.

Wellington shared concerns over the lack of timeframe and specifics of the country's energy transition plan, as well as the need to regularly publish climate targets, monitoring and evaluation reports that outline main policies-and track progress towards the targets.

Outcome: The engagement reaffirmed Wellington's negative environmental trend for the issuer, and they will focus future engagement on clarifying their energy transition agenda, progress on climate target monitoring and evaluation reports. In the interim, Wellington will monitor progress on specific projects to gauge the feasibility of achieving medium-term targets.

Opportunistic credit

Manufacturer setting decarbonisation plan

Issue: A leading manufacturer of clay roof tiles and roofing components in France and the Iberian Peninsula was looking to increase its focus on climate due to regulatory requirements as well as customer requests. Fuel price volatility over the past 24 months also made energy efficiency critical to managing costs for the business's.

Actions: Lone Star engaged with the manufacturer to discuss their climate approach and how they're improving the business' climate resilience.

Outcome: With the support of the Board and management team, external consultants helped to set the initial direction by defining a high-level decarbonisation plan in 2022. Since then, the program has developed to focus on four principles:

1. Optimising production facilities with a focus on managing facilities in ways that reduce energy consumption. Data analysis plays a crucial role here, enabling the manufacturer to identify ongoing improvements.
2. Sharing innovations by testing first and then scaling emerging technologies across its 17 industrial sites in Europe.
3. Research and innovation with a view to developing industrial processes that could significantly reduce the company's energy footprint. The acquisition of a specialist kiln manufacturer in June 2023 will enable the manufacturer to build on these advances.
4. Replacing fossil fuels, and identifying and implementing alternative energy sources, such as bio gas, bio energy, biomass and hydrogen, where appropriate.

Enhancing climate action through the Scheme's managers

Engagement examples over reporting period 1 July 2023 - 30 June 2024.

Infrastructure engagements via Federated Hermes Infrastructure

Accelerating carbon capture and storage technology to decarbonise the waste sector

Issue: The UK's leading recycling, resource and waste management company, Viridor, is currently the highest emitter of GHG emissions in the portfolio, but Federated Hermes felt that it could achieve alignment to a 1.5C scenario through emissions reduction and the use of carbon capture technology.

Action: Federated Hermes engaged with the company to ensure it is preparing and investing to deliver the successful implementation of carbon capture and storage across its portfolio, and in line with the UK's proposed timings for emissions reductions in the sector. Viridor now has a commitment to reach net zero emissions by 2040 and net negative emissions by 2045.

Outcome: The company's world leading carbon capture and storage project is the most well-developed of those in the portfolio and at the end of March 2024, Viridor committed to investing £20m in the project following an agreement of a statement of principles with the UK Department for Energy Security and Net Zero. The project is on track to be one of the first facilities to receive funding under the UK Government's Track 1 funding for carbon capture projects and would capture approximately 900,000 tonnes of CO2 per year.

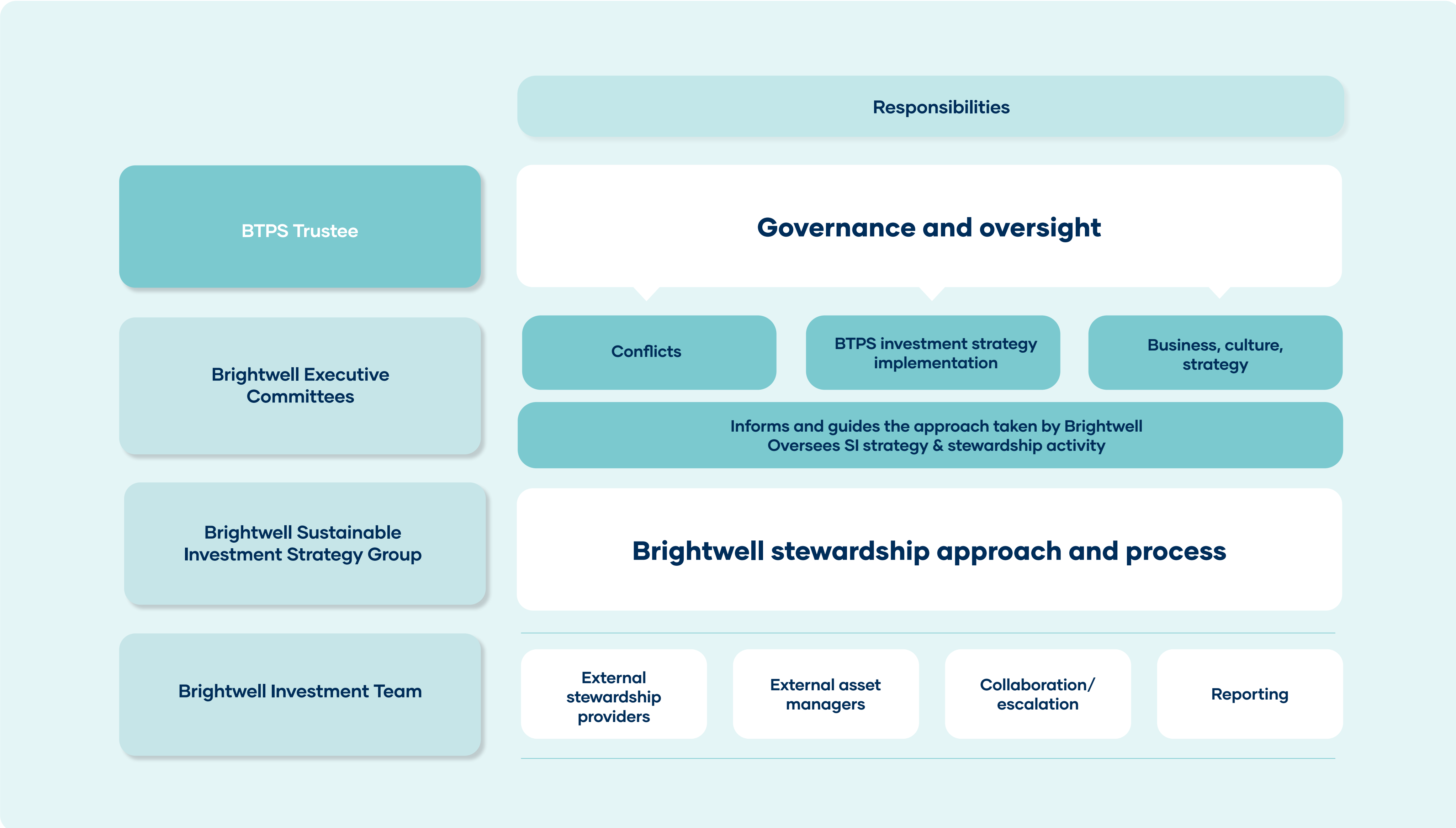
High speed rail service enhancing its green credentials

Issue: Federated Hermes has been invested in Eurostar since 2015. Eurostar had never set emission reduction targets, nor was sustainability elevated to the Board through a formal committee. Through our annual strategic reviews, Federated Hermes identified the opportunity for Eurostar to leverage its green credentials as a low carbon international travel operator to meet both their commercial and sustainability objectives.

Action: Federated Hermes has consistently engaged with management and co-shareholders on the topic of climate change and transition plans. Eurostar International Limited underwent a merger with Thalys (a European rail operator) in 2022. The intensive discussions during this period, and the establishment of the combined entity Eurostar Group, provided the opportunity to intensify the engagement on climate and promote appropriate attention and resource to delivering a transition plan. The engagement included one-to-one meetings with the newly appointed CEO of the combined company, Gwendoline Cazenave.

Outcome: In 2023, Eurostar established a three-person sustainability team, tasked with professionalising the approach to sustainability within the business. A Sustainability Steering Committee was established and has now met four times. Federated Hermes has a shareholder representative on the Committee. The Committee, and subsequently the Board, approved Eurostar's first emission reduction targets and committed to SBTi validation. Eurostar's first public sustainability report for 2023 was issued in Q1 2024.

Stewardship through BTPS & Brightwell



Brightwell’s governance structure

BTPS relies on Brightwell to undertake sustainable investment on its behalf. The CIO is responsible for the Scheme’s sustainable investment strategy and its effective implementation across the investment team including investment strategy, manager selection, and dedicated sustainability and stewardship-related activities. Brightwell 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.

Board of Directors

Remuneration Committee

Risk, Audit & Compliance Committee

Wyn Francis
CIO
36 years’ investment experience
SI Strategy Group

Douglas Clark
Head of Research & Investment Solutions
22 years’ investment experience
SI Strategy Group

Sustainable Investment Team

Emma Douglas, CFA
Senior Stewardship Analyst
9 years’ investment experience
SI strategy Group
DE&I Committee

Arek Zawada, CFA
Head of Investment Solutions
16 years’ investment experience
SI Strategy Group

Terence Nahar
Head of Research
23 years’ investment experience

Solutions Team

3 full-time employees
3 to 12 years of investment experience

Research Team

3 full-time employees
15 to 18 years of investment experience

The Investment Solutions and Research teams integrate sustainability holistically across all areas affecting the Scheme’s portfolio. The team 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 Sustainable Investment (SI) Strategy 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

Brightwell Sustainable Investment Strategy Group	**Membership**	• Chief Executive Officer (CEO), Chief Investment Officer (CIO), Head of Research and Investment Solutions, Head of Investment Solutions, Head of Communications, Senior Stewardship Analyst and Executive Board Advisor
	Objectives	Meet monthly to discuss and address: • Risks and opportunities that may face the Scheme due to its long-term investment horizon including climate change • 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 • Engaging with other asset owners, policy makers, industry bodies, data providers and regulators on sustainability topics • Continuous work required to achieve Net Zero 2035 ambition • Monitoring against 5-year interim decarbonisation targets • Ongoing manager monitoring towards net zero ambition and key challenges managers are facing in transitioning their portfolios • Membership of Net Zero Asset Owner Alliance (NZAOA) and Paris Aligned Investment Initiative (PAII)
	Key achievements over year to 30 June 2024	• Undertook industry sustainable investment best practice analysis to determine areas for organisational and strategic improvement • Finalisation of an ESG dashboard and working with a leading ESG reporting solutions software provider for improved data collection and analysis • Collaborations - co-leading the Asset Owner Diversity Charter, contributing to the IIGCC Bondholder Stewardship, NZAOA Manager Engagement, NZAOA Policy and Asset Owner Council working groups • Monitoring against 5-year decarbonisation goals in line with AOA and NZIF requirements • Annual emissions reporting • Data collection and analysis improvements including the automation of climate data

Stewardship in the investment hierarchy

Brightwell 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 Brightwell is responsible for ensuring that Brightwell has the necessary people, resources and skills to fulfil its responsibilities in this area.

BTPS Trustee Board	**Governance & oversight** **Members:** 8 | **2023-24 meetings:** 6 **Key discussions:** TCFD Report, net zero ambitions review, risk management framework review
Investment Committee (IC)	**Governance & oversight – Oversees SI strategy & stewardship activity** **Members:** 6 | **2023-24 meetings:** 7 **Key discussions:** Net zero deep dive, alignment of sustainability and Trustee's fiduciary duty
Brightwell Executive Committee	**Implementation – Implements SI Strategy** **Members:** 8 | **2023-24 meetings:** 11 **Key discussions:** Risk management framework, Diversity, Equity and Inclusion strategy
Sustainable Investment Strategy Group	**Stewardship approach – Enhances & challenges SI strategy** **Members:** 7 (CEO, CIO, Head of Research & Investment Solutions, Head of Communication, Head of Investment Solutions, Senior Stewardship Analyst, Executive Advisor) | **2023-24 meetings:** 12 **Key discussions:** Stewardship Code, engagement activities, Net Zero 2035 ambition and member engagement
Investment Team	**Stewardship approach – Oversees and engages with asset managers and stewardship service provider** **Members:** Head of Research & Investment Solutions, Investment Solutions Team, Research Team, Senior Stewardship Analyst **Key discussions:** Regular 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. Oil & gas policy. 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:** 16 asset managers, 1 stewardship provider | **2023-24 meetings:** 45 **Key discussions:** Net zero ambition, oil & gas policy, engagement activities, data requests, voting, climate & stewardship questionnaire, D,E&I discussion
Investments	Equities, bonds, property, infrastructure, private equity, private credit. Overseen by Investment team

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

The Scheme invests in a variety of assets - companies (equities), bonds (company and government), property, infrastructure, private credit and private equity. We show the full breakdown on page 7 of this report.

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.

Stewardship in the investment hierarchy continued

Brightwell Sustainable Investment Strategy Group

The group is comprised of key strategic decision-makers from across Brightwell, including the CEO, CIO, investment team and communications. The group meets monthly 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.

This group also coordinates the day-to-day net zero ambition implementation and continued progress against BTPS's twenty climate actions. They also represent BTPS at the initiatives it is a member of, such as the Net Zero Asset Owner Alliance (NZAOA), the Institutional Investors Group on Climate Change (IIGCC) and the Paris Aligned Investment Initiative (PAII). The group is also key in establishing and monitoring the Scheme's short, medium, and long-term climate targets.

Brightwell Investment Team

Brightwell takes an integrated approach to incorporating sustainable investment considerations. Brightwell's Investment team incorporates 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 dedicated stewardship professional leads fund manager engagement. This includes pushing for good 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 climate and stewardship questionnaire, which managers are required to fill in, and gathers a range of ESG information including strategic, mandate and issuer-related sustainability data. With this information, the team provides managers with a sustainability score card which provides tailored feedback for improvement.

They also coordinate regular training for the Trustee on sustainability topics, from internal and external experts, to ensure diversity of thought.

In accordance with the FRC's updated guidance, we confirm that there have been no material changes to our stewardship processes, systems or research during the reporting period. Our previous approaches and processes, as detailed in the Scheme's **2023 Stewardship Report**, remain current and effective.

Brightwell Investment Risk Oversight Team

Brightwell's 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 maintaining the Scheme's risk register which assesses climate change risks and their mitigants, as well as developing their use of climate data to monitor key climate metrics.

External advisors

The IC takes advice from external advisors, where appropriate. In the context of climate change, it uses BTPS's 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 SI Strategy Group and IC.

Brightwell's culture and value alignment with BTPS

Supporting BTPS

Brightwell supports the BTPS Trustee Board in integrating material environmental, social and governance (ESG) factors into its investment decisions. The Scheme's sustainable investment strategy and stewardship approach remains core to the Scheme's investment philosophy, and Brightwell looks at the potential impact that long-term structural risks could have on the Scheme's investment outcomes. Sustainability is one of a number of material investment risks Brightwell considers alongside other factors.

This is done to mitigate financial risk, capitalise on the opportunities that the transition to a low carbon economy will present, and generate the best outcomes for clients and Scheme members.

Brightwell fundamentally believes that well run companies that take due consideration of sustainability issues are more likely to be successful over the long-term. As such, they apply the same considerations to their own operations as to BTPS's investment portfolio.

Working together for a better future

Brightwell is committed to developing and maintaining an inclusive culture, ensuring that behaviours, working practices and policies promote fair treatment and access to development opportunities for every colleague. Brightwell values the benefits a diverse workforce can bring and want Brightwell to be a place where all colleagues can thrive, feel that they belong, are valued and contribute to our success. This is underpinned by Brightwell's corporate values: Responsible, Impactful, Supportive & Expert.

Over the past year, driven by Brightwell's DEI Steering Group, the company has been focused on the importance of inclusion as without it, achieving lasting diversity and equity is impossible.

Brightwell is a member of the Diversity Project, a cross-company initiative championing a diverse and inclusive UK investment and savings industry, and several representatives are on a broad range of its workstreams.

More information on Brightwell's DEI approach and people-related initiatives can be found in their **TCFD report**, pages 16 – 20.

Responsible

We take individual responsibility for making things happen. We take ownership of the decisions we make. We never walk past a problem. We are both open and brave, supporting and challenging each other to resolve issues.

Impactful

We are driven to do all that we can to create a better future for our members. We recognise that the way we invest can benefit wider society. We constantly strive to make a difference.

Supportive

We work together across teams to deliver the best outcomes for members and wider society. We support each other when taking difficult decisions and are always respectful, thoughtful and helpful.

Expert

We set very high standards, constantly looking at how we can be better and bolder, whether serving members, or improving how we work or invest. We are constantly innovating; challenging ourselves to find new ideas. We use our commercial acumen to deliver value for members and wider society.

Brightwell

Asset manager oversight & engagement

We believe that all financially material considerations, including sustainability factors, must be integrated throughout the investment process. Outside of the government bond and liability-driven investment strategy which is managed by Brightwell, the Scheme outsources investment management to externally appointed asset managers.

The relationship with the Scheme's asset managers is expected to reflect its long-term investment horizon. 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 drive better long-term sustainable outcomes.

Sustainable investment and stewardship considerations are integrated into multiple internal processes. Ahead of appointing a new fund manager, sustainability questions are asked as part of the formal Due Diligence questionnaire process. The responses are reviewed by the investment team to understand their quality and, if required, meetings are held with the manager to better understand their approach.

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.

Once appointed, asset managers are expected to consider both the risks and opportunities that arise from sustainability factors in the selection, retention and realisation of investments. This applies to both internally and externally managed investments.

Managers are asked to:

- integrate ESG into their investment process
- 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.

Brightwell holds regular manager meetings for better oversight of managers' stewardship activities and requests responses to our Net Zero & Stewardship questionnaire, as well as the Asset Owner Diversity Charter questionnaire on an annual basis. Brightwell also challenges them regularly on underlying holdings and portfolio-level attributes.

LDI counterparty ESG review

Over the past year, the Scheme's LDI manager, Brightwell, has formalised its ESG counterparty assessment framework. It undertakes a counterparty ESG review on an annual basis.

The process is summarised as follows:

1. Quantitative assessment of each counterparty using independent third party ESG data which ensures an objective assessment of each counterparty without considerations as to counterparty size, or the Scheme's reliance on the counterparty for liquidity or relationship

2. Each counterparty is scored, and where flags are raised, a more detailed qualitative review is required to scrutinise the counterparty's ESG policy and processes

3. In the case that this review is unsatisfactory, it would lead to Brightwell engaging directly with the counterparty and escalating the matter. If it cannot be resolved satisfactorily, Brightwell would take the counterparty off their trading partner list.

Over the past year, no escalation actions were required.

Asset manager oversight & engagement continued

Each year, through the Scheme's sustainability best practice manager expectations document, Brightwell sets out, on behalf of the Scheme, what it believes represents current best practice principles in relation to sustainable investment across all asset classes and geographies. Brightwell looks for evidence and quality across the following areas:

- Public commitments & initiatives
- Training & expertise
- Policies
- Application to funds managed, including our mandates

This document provides indicators of good practice across each of the areas as a guide rather than an exhaustive list.

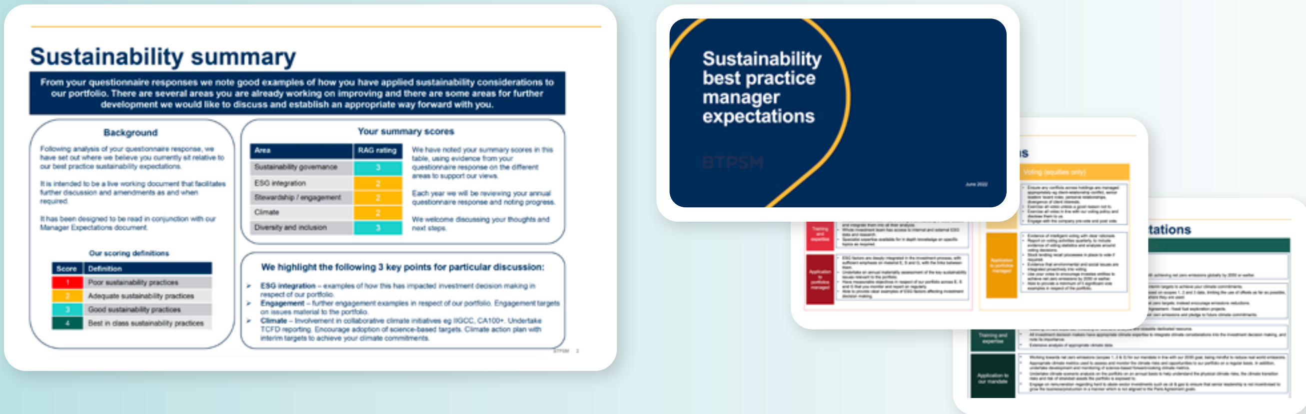
Expectations on managers to:

- Have an awareness of the sustainability risks in our mandates and opportunities via direct knowledge or relevant ESG data
- Have an understanding of the materiality of such risk and plan/approach to deal with such risks and opportunities.
- Have an integrated ESG investment approach, with an investment team that takes accountability for what is owned in the mandate/fund
- Use stewardship, including single and/or collaborative engagement, and proxy voting (where applicable)
- To keep management accountable and push for positive change
- Be able to provide relevant sustainability information and effective reporting in a timely and reasonable manner.

This document is shared with all BTPS managers across all asset classes and funds, with appropriate signalling of suitability to the fund e.g. voting only where applicable.

Brightwell provides feedback to managers on behalf of the Scheme with a separate score card of where they currently are relative to the best practice sustainability expectations. There is then an engagement meeting with each manager to discuss the findings and establish together the next steps that will drive progress.

The support of the Scheme's managers is critical in delivering the Scheme's sustainability goals, including it's Net Zero 2035 ambition and funding objectives. By documenting and sharing the Scheme's manager expectations on sustainability, Brightwell can help ensure that the managers we are partnering with are supporting the Scheme in achieving its ambitious sustainable investment goals, driving real world change, and helping respond to the ever increasing regulatory and reporting obligations.



Asset manager oversight & engagement continued

Progress

On behalf of the Scheme, Brightwell has reviewed the Scheme's managers across all asset classes and geographies, using their new online reporting platform which aids collection and analysis. It's been pleasing to note managers' stewardship progress over the year and how they have met our expectations, as demonstrated by the various case studies and reporting they have provided us with. We are sharing a selection of their stewardship activities in this report.

We have been pleased with the levels of stewardship activity by our managers and EOS over the year. Brightwell has engaged and pushed for greater disclosure and information where needed, and managers have responded well to this. Brightwell has not needed to escalate matters further; instead they have sought to share and develop our thoughts on leading stewardship practices.

Regarding information gathering from our managers, Brightwell aims to keep the questionnaire broadly consistent year-on-year to help the managers anticipate our reporting requirements, and to help comparison and time series analysis. Managers are generally able to respond to more of the questionnaire each year. It is deliberately both comprehensive and challenging to encourage improvement over time. We note that certain asset classes, notably the private assets, have more difficulty around some of the disclosures. However, on the other hand, these same managers were able to provide some very compelling case studies, demonstrating the success of their engagements over time, by the nature of their long-term investment relationships.

When reviewing manager responses and capabilities, it is done so in the context of understanding the specific fund and its objectives.

Regarding EOS, the Scheme's stewardship service provider, Brightwell has evaluated their voting and stewardship activities over the year through reviewing and scrutinising the reporting they provide us with, and having several engagement meetings with them to discuss progress and key engagements or topics of interest. This includes evaluating whether their activity is consistent with the Scheme's stewardship approach and expectations. Additionally, Brightwell evaluates the success of their engagement and voting, whether they achieve their ex-ante objectives and whether this aligns with their investment strategy more broadly. Pages 41-43 demonstrate this in more detail.

Future developments

In this year's stewardship questionnaire, Brightwell incorporated questions on natural capital and inequality to understand managers' approaches to these more nascent topics. By fostering early engagement, they hope to get ahead with developing a sensible approach to addressing systemic issues such as these.

Formal feedback will be provided to managers shortly. However, Brightwell has already had initial conversations with the Scheme's managers on these important areas, and have been encouraged by their thinking and willingness to engage and develop.

Examples of BTPS managers encouraging good governance

Engagement examples over reporting period 1 July 2023 - 30 June 2024.

Encouraging adherence to the United Nations Global Compact (UNGC) principles

Corporate credit engagement via Wellington Management

Issue: Wellington engaged with a Latin American energy company on remedying their prior ESG controversies.

Action: Wellington engaged with the issuer to understand how they are progressing towards achieving adherence to UNGC principles, specifically with respect to controversies under review. The company implemented changes within their infrastructure to reduce fuel thefts, a source of prior controversy. Wellington learned that safety is a near-term priority for improvement for the issuer.

Outcome: The company has taken on support from a consultant to improve their ESG profile and will be engaging with investors on a more regular basis to report progress and seek feedback. The company is expected to release a broader sustainability plan towards the end of the year and, Wellington will continue to engage on topics of safety, climate planning and governance.

Encouraging improvements to governance structures

Infrastructure engagement via Federated Hermes Infrastructure

Issue: Federated Hermes Infrastructure was frustrated with the governance structure at the board-level of Eurostar Group and so supported a governance review proposed by one of the minority shareholders.

Action: An expert third party was appointed for an independent review, analysing how the company's governance compared to best practice and highlighting areas for improvement. Federated Hermes supported the governance review, and actively contributed by participating in interviews and providing feedback to the independent expert third party. Federated Hermes was supportive of the recommendations provided and advocated for their adoption at the board, as well as contributing to their implementation where possible.

Outcome: The review identified a number of areas for improvement. These included:

- Reducing the Board's size
- Creating greater Board cohesion in advising and directing management
- Improving the independence and diversity of expertise on the Board
- Increasing the frequency of Board meetings.

Shareholders considered the conclusions and recommendations carefully. Positively, some changes have already been made as a result:

- Through the rotation of two directors, new experience and skills will be brought onto the Board
- Executive Committee attendance has been reduced with members now only being invited to present on specific topics and initiatives
- Improvements to the Board agenda to include more site visits, deep dives and emergency drill reviews, as required
- Increased meeting frequency from 2025 onwards.

However, the actions taken to date do not go as far as Federated Hermes would like due to the lack of full support from the largest shareholder. They will continue to engage for further improvements.

Examples of BTPS managers encouraging good governance continued

Engagement examples over reporting period 1 July 2023 - 30 June 2024.

Encouraging company to create a formal Board

Private equity engagement via Federated Hermes

Issue: Ahead of Federated Hermes' investment, a software development company was operating without a formal Board.

Action: Federated Hermes engaged with the company and the lead investor to include at least one independent Board member to enhance Board governance and to guide the management team. As part of the investment round, a formal Board was created.

Outcome: A Non-Executive Director with a very relevant background and significant market expertise was added to the Board shortly after the investment. Federated Hermes expects he will be able to constructively guide the management team. They will keep monitoring the effectiveness of the Board and suggest changes if necessary.

Encouraging better disclosure practices

Corporate credit engagement via Wellington Management

Issue: Wellington had concerns around the governance and disclosure practices of a telecom company in Latin America.

Action: Wellington engaged with the company around these concerns, including disclosure specifically, which they have persistently done throughout their history of engagement with the company. Increased focus was placed on the topic of governance when the company formed a joint venture with another telecom operator in the region which had led to a reduced level of disclosure that the company provided.

Wellington actively engaged with management from both companies involved in the joint venture and highlighted the need to disclose additional details on the new corporate structure, including governance, and commercial strategy, given the impact of it on the existing bonds.

Outcome: Wellington believes that due to their continued engagement on the topic, coupled with similar engagement from other stakeholders, the company provided a disclosure report to the market during the quarter which was a positive marker of progress. This is a first step towards improved governance, and Wellington continues to push for improved access to management for stakeholders and an increased level of communication with investors.

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.

The Scheme'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 guide the asset allocation decisions for the Scheme.

Brightwell 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. This collaborative process enables proactive identification and evaluation of new and evolving risks that could impact the Scheme.

In an uncertain environment with fast moving technology trends, macro-economic challenges and geopolitical threats, it's important to be continually vigilant and adjust our scenario analysis to the ever-changing landscape. In this way, Brightwell can appropriately monitor the implications for the Scheme and adjust the investment strategy accordingly.

Brightwell conducts monthly meetings where the research team presents the latest risk assessments and offers forward-looking insights. These discussions are closely integrated into the investment team's decision-making on how different macroeconomic events might affect the Scheme's funding position and if any changes should be made to the Scheme's asset allocation.

In addition, Brightwell continuously monitors market dynamics and stress tests the Scheme's allocation with potential tail-risks at different stages of the economic cycle. Recent scenario analyses have examined the effects of different inflationary pressures, which have been regularly updated over the past year. Additionally, they have incorporated new ESG-specific scenarios into the Scheme's assessments.

These scenarios consider traditional tail risk events, such as the possibility of stagflation, where economic growth in the UK stagnates while inflation and bond yields remain high. On the ESG front, they consider changes to regulatory requirements that could significantly alter transition timelines and introduce substantial cost-related risks. This could have a material impact on the investment strategy if the Scheme is not adequately prepared. In each scenario, we evaluate the potential impact on the funding and discuss the best course of action.

"Market-wide and systemic risks pose a real threat to the Scheme's investments making it essential for us to continuously assess their potential impacts and be prepared with appropriate strategies to safeguard the Scheme's overall stability."

Prasad Kamath,
Research and Solutions, Brightwell

Market-wide & systemic risks continued

Dealing with market-wide risks in practice – Mandatory clearing for UK Pension Schemes

Issue: Since 2016, there has been a gradual implementation of mandatory clearing of Over the Counter (OTC) derivatives, first driven by the European Market Infrastructure Regulation in the EU and subsequently adopted by the UK post-Brexit. Pension schemes in the UK have so far benefited from a temporary, rolling exemption, most recently extended to June 2025. In November 2023, HM Treasury launched a consultation to seek views on the long-term future of this exemption. Brightwell holds a strong view that the pension scheme exemption should be permanent. This is because they believe that mandatory clearing:

1. **Imposes higher costs on pension schemes**
2. **Increases systemic risks for pension schemes in stressed market conditions**
3. **Leads to higher cash holdings, which in turn reduces the amount of assets held in less liquid strategies and decreases schemes' investment returns.**

Since these factors negatively affect pension schemes, and therefore ultimately the members, we believe it is important to engage with the government and the relevant regulators to make a case for a permanent pension scheme exemption.

Action: Brightwell responded to the consultation, outlining the case for a permanent pension scheme exemption, and explaining the negative impact of mandatory central clearing on defined benefit pension schemes and their members. Brightwell also provided context on how relevant investment decisions are made by LDI Portfolio Managers, including whether to centrally clear OTC derivatives. They also discussed the impact of this regulation in stress scenarios. Finally, they commented on how the clearing framework could be evolved to reduce negative impact on pension schemes. They also addressed follow-up questions from HM Treasury.

Brightwell's markets team, responsible for LDI and overlays management, led the drafting of the response. We believe it is important for our portfolio managers to own this engagement, as they have the necessary expertise to discuss the topic with the government.

Outcome: The consultation closed in January 2024 and HM Treasury has yet to publish its response. With the current exemption set to expire in June 2025, Brightwell remains committed to advocating for a permanent pension scheme exemption, aligning with the best interests of pension scheme members and the broader industry.

Market-wide & systemic risks continued

Promoting systemic change in private equity

Improving the quality of sustainability reporting

Issue: Federated Hermes is aiming to improve the quality of sustainability reporting across the portfolio and push for systematic change. They engage with all entities prior to investment to include ESG reporting and their negotiated information rights. In particular, they ask for the provision of the ESG Data Convergence Initiative (EDCI) KPIs on an annual basis.

Action: Federated Hermes has engaged with various entities to include the provision of the EDCI KPIs on an annual basis in their side letter agreement. This was discussed with the lead investor at the partner level and their legal team.

Outcome: Regarding one investment, the lead investor accepted to provide EDCI KPIs and respond to the sustainability questionnaire on an annual basis. Federated Hermes will analyse the data annually and engage with the lead investor should any of the ESG KPIs indicate sustainability performance issues.

However, with another investment, the lead investor declined to include sustainability reporting obligations in the side letter agreement. In this instance, Federated Hermes accepted it on the basis that the lead investor had a very small team with resource constraints, but that they would be able and willing to provide some data in the 2024 ESG data gathering cycle.

Policy advocacy

Encouraging Sovereigns to do more on climate policy

Sovereign debt remains a challenging asset class for investors decarbonising their portfolios. The data is inconsistent and opportunities to engage with governments on climate change can be limited but managers are having some success through long-term engagement with Sovereigns.

Advancing a Central European Sovereign's climate transition

Sovereign debt engagement via Wellington Management

Issue: Wellington highlighted that climate transition was a notable environmental challenge for a Central European Sovereign issuer. The issuer has an ambitious climate policy agenda but faces two climate transition-related challenges that Wellington believe could impact on future probability of default:

1. **Heavy reliance on imported gas coupled with insufficient deployment of renewable energy**
2. **Limited decarbonisation of the transportation sector that accounts for more than 20% of the GHG emissions.**

Action: Wellington met with the State Secretary for Energy and Climate and the Debt Management Office to discuss the country's energy transition agenda. They applauded the issuer's climate policy agenda while noting their desire for them to publish their ongoing progress through a climate target monitoring report. The issuer suggested that they could publish an annual climate policy report alongside their annual green bonds impact reports. Wellington supported the idea and believes it will increase the credibility of the country's green bonds issuance.

Outcome: The issuer is in the process of updating its National Energy and Climate Plan. Wellington will re-engage on the new targets and policies once the new plan has been published. They also plan to monitor progress in three areas:

1. **Integration of renewable energy into the grid and reduction of dependence on imported gas**
2. **Updates on the new nuclear plant**
3. **EV infrastructure**

Mitigating market – wide & systemic risks through collaboration

Diversity, equity and inclusion

The Asset Owner Diversity Charter (AODC)

The Charter is co-chaired by Emma Douglas, Senior Stewardship Analyst, Brightwell, alongside Helen Price from the Church of England Pensions Board. The AODC is an asset owner-led initiative to help improve diversity and inclusion across the investment industry and to encourage positive broader industry change.

BTPS became a signatory in March 2022. Through this, BTPS has committed to hold its asset managers to account on diversity and inclusion to improve the asset management industry's performance on this important issue. This means including DE&I in its regular monitoring of managers, requesting DE&I data from managers on an annual basis and having DE&I as an input into the 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.

Since becoming a signatory to 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. **diversityproject.com/assetownerdiversitycharter**

"We're pleased to see managers' progress on DE&I at the firm-wide level. It's also encouraging to see how they are applying learnings to their investment portfolios through their engagement activities - sharing best practice, both with peers and investee entities, and ultimately driving industry-wide change."

Emma Douglas
AODC Co-Chair and
Senior Stewardship Analyst, Brightwell

Engagement example over reporting period 1 July 2023 - 30 June 2024.

Corporate credit engagement via M&G

Issue: M&G engaged with a UK REIT to improve diversity and inclusion practices throughout the organisation.

Action: M&G met with the CEO, COO and Company Secretary. The engagement focused on increasing Board gender diversity, and setting and disclosing diversity targets throughout the workforce.

Outcome: The company is small and this makes setting targets more challenging as they are not frequently employing new people. While they are not currently planning to expand their Board, they expressed that when they do, diversity will be a consideration. The firm also produced a gender pay gap report and enhanced their parental leave entitlement. M&G were pleased with the progress and continue to engage on the topic.

Mitigating market – wide & systemic risks through collaboration continued

The Asset Owner Diversity Charter (AODC) - 2023/4 progress

In April 2024, the AODC hosted its second hybrid event. Asset owners, asset managers and consultants all came together to discuss what effect the Charter was having, explore best practice and share the findings from the questionnaire. There were 127 manager responses to the questionnaire over the 2023 reporting year.

Key findings include:

- Gender data was the most readily available with ethnicity disclosure improving. The least available data was social economic background.
- Only 24% of managers stated that they published a gender pay gap in the past year and only 5% published their ethnicity pay gap. More ambition and transparency is needed to close the gender and ethnicity pay gaps.
- 80% of managers have a diversity strategy or policy and 52% had set diversity targets, with 27% setting KPIs linked to senior management remuneration.
- 63% of firms are tracking and measuring promotions through a diversity lens but only 38% are undertaking an independent review of the promotion process.
- 54% of managers indicated they were providing mentoring and 44% were providing sponsorship to under-represented groups. Of those who disclosed, firms had take-up rates of 45% for coaching, 43% for mentoring and 31% for sponsorship.
- The majority of firms are not using diversity quotas during the recruitment process, even at the interview stage.

The group conducted a review of the AODC questionnaire over the year. One of the notable additions was to incorporate the findings from the socio-economic diversity task force.

Focus for 2024/5

Over 2024, the AODC set up an Advisory Board of senior financial services leaders, committed to improving DEI across the investment industry, which we hope will help drive the AODC to new heights. The Charter will continue to build its signatory base with a focus on expanding more globally, and encourage more asset managers to respond to the questionnaire. The AODC will be publishing an aggregate report, exploring these high-level findings further, and sharing best practice case studies to help support engaging conversation in ongoing manager monitoring.

Enhancing the Scheme's knowledge of systemic risks – biodiversity

On behalf of the Scheme, Brightwell continues develop its understanding of nature capital. Brightwell has engaged with managers to establish how to better tackle biodiversity loss within the BTPS portfolio, and the corresponding systemic risk to the ecosystem, people and ultimately, the global economy that could harm the future value of the portfolio.

We are mindful that preserving natural ecosystems is our strongest natural defence against climate change and therefore imperative to help achieve the Scheme's Net Zero 2035 ambition.

Brightwell established a learning and engagement programme with the Scheme's fund managers to better understand how they are thinking about biodiversity with respect to the BTPS portfolios. Overall current findings from the initial engagements are that this is a particularly nuanced area, but more can and must be done.

There remain many challenges around data and which metrics to monitor but some clarity is emerging through several conversations with academics and other leading pension schemes. The collaboration between academia and the investment industry is particularly necessary. It is important that what the Scheme does in this area is meaningful, and monitoring the right metrics is going to be key.

At this stage, learning about the intricacies of nature-related risk, and understanding the impacts and dependencies the Scheme has on nature, is the priority. It is still early days for this topic to be integrated into investment portfolios systematically. We are mindful that nature is a particularly complex area, and we don't want to create negative unintended consequences. We expect to take different approaches across asset classes and portfolios, noting the importance of asset location when analysing nature-related risks and opportunities.

Key actions to date

1. Continued development of the Scheme's understanding of biodiversity and deforestation

- Building on the research project Brightwell did last year with MBA students from the Cambridge Judge Business School on biodiversity, to better understand its impact on the Scheme's portfolio, Brightwell engaged with several asset managers on how they are thinking about natural capital across a variety of asset classes.
- Brightwell encouraged BTPS managers to join collaborative initiatives, where they are not already doing so.
- Brightwell has undertaken more desktop research, attended many conferences and webinars on biodiversity and deforestation, and had discussions with academics, other asset owners and asset managers on their research and approaches on behalf of the Scheme.

2. Natural capital analysis on the portfolio

- Brightwell worked with an asset manager who undertook analysis through their biodiversity impact model to identify key natural capital risks in relation to the Scheme's corporate credit and equity portfolios.
- It provided an assessment of the impacts and dependencies on nature e.g. regulation risks and physical risks due to loss of ecosystem services.
- The analysis highlighted key sectors and regions that were most at risk, as well as how the portfolio could be affected by the degradation and depletion of natural resources and ecosystems e.g. climate change, water stress, land use, acidification and eutrophication (increase in the concentration of nutrients in a body of water leading to increased growth of plants and algae, and depleted oxygen in the water).

Enhancing the Scheme's knowledge of systemic risks – biodiversity continued

Key actions to date

3. Investment manager progress on deforestation

- The Scheme's stewardship service provider, EOS at Federated Hermes, continues to undertake research and engagement on deforestation. EOS engages on our behalf with relevant companies including palm oil producers, processors, traders, consumer goods and retail companies, and banks providing financing, expecting companies to take responsibility for deforestation in their supply chains.
- Several of the Scheme's managers are signatories to the **Financial Sector Commitment Letter on Eliminating Commodity-Driven Deforestation**, launched at COP26 in Glasgow, November 2021. Some are signatories to the PRI's Sustainable Commodities Practitioners Group, which explores how the finance sector can address deforestation by sharing best practice.
- Many managers are using the **Deforestation-Free Finance Sector Roadmap** as a guide to their activities.
- One manager is contributing to the Global Canopy Aligned Accountability project, which seeks to bring together existing data sets on deforestation and package this in a more usable way for financial market participants. The aim is to develop a comprehensive, collaborative and open database on company performance on deforestation, aligned with the Accountability Framework, which will provide standardised data. They are supporting this project to refine the development of the database and ensure its relevance for end users.
- Managers who are already actively engaging on biodiversity are prioritising conversations with companies that have material exposure to biodiversity-related financial risks, such as those with heavy operational or supply-chain reliance on ecosystem services.

Engaging with corporates on biodiversity

Issue: The loss of biodiversity has reached unprecedented levels. Up to one million species are at risk of extinction and average species population sizes fell by 68% between 1970 and 2016. Ecosystem collapse poses systemic risks to the global economy and to society. Investors have an important role to play in reversing this decline by engaging with companies and policymakers.

Action: Through signing the Finance for Biodiversity Pledge, Federated Hermes continues to collaborate and share knowledge with peers on halting and reversing biodiversity loss.

They are also a founding member of the newly launched Nature Action 100 collaborative engagement initiative, and EOS has been appointed to the PRI Nature Stewardship Advisory Committee.

Outcome: A recent focus has been on the circular economy and zero pollution. Encouraging corporates to reduce their consumption of raw materials through smart product design and innovation, as well as using substitute materials that are commonly recycled, reused or have lower environmental impact. They are also encouraging companies to sign up to the Ellen MacArthur Foundation New Plastics Economy Global Commitment.

Next steps for BTPS on natural capital

- Further develop understanding of nature-related concepts, and the related investment risks and opportunities they pose.
- Understand the existing and upcoming regulation in this area.
- Leverage scientific research, as well as engagements with policymakers, peers and investment managers.
- Work towards providing a qualitative assessment of the nature-related impacts and dependencies across the portfolio.
- Research further different quantitative metrics the Scheme could monitor over time.

Developing knowledge of systemic risks continued

Direct lending engagement exploring financial mechanisms to protect the environment

Incorporating sustainability clauses in loan documentation to mitigate risks

Issue: The Federated Hermes Direct Lending team was presented with an opportunity to support a transformational acquisition to expand the borrower's geographic footprint, product specialisms, customer base and manufacturing capabilities. Whilst the fundamentals looked good, and the loan would offer diversification benefits for the fund, during the due diligence process, environmental reports were commissioned that identified some deficiencies with respect to ESG practices of the target business leading to environmental and social harm.

Action: Due to this identification, specific undertakings were built into the loan documentation to mitigate the associated environmental and social risks, ensuring compliance with an agreed plan that is measurable and timebound. Failure to deliver the plan would trigger an event of default and mandatory prepayment of the loan.

Outcome: The company agreed an investment into the improvement of environmental reporting standards as well as in health & safety equipment, and the introduction of health & safety practices and programs for workers.

Proxy voting

What does it mean to vote?

BTPS believes that making full use of its voting rights is part of our fiduciary duty and requires its asset managers, and EOS at Federated Hermes where applicable, to execute all votes for the Scheme's directly held public securities. The Scheme 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 EOS are given a measure of discretion and flexibility, and can follow their own voting policy on most voting topics. Brightwell monitors the investment managers' and EOS's voting activities, discussing key voting decisions at regular meetings, alongside a 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. 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 the potential for conflicts in engagement.

To see the Scheme's voting activities in further detail, please see our implementation statement in the BTPS report & accounts. BTPS Portal - Regulatory reporting

Significant votes

The Scheme pays particularly close attention to votes that are deemed to be significant, as determined by Brightwell on behalf of the Trustee in collaboration with its investment managers. When determining which votes are considered significant, we assess several criteria including those outlined by the PLSA in its vote-reporting template.

Significant votes 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
- votes with a potential impact on stewardship outcomes
- votes on 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 or a downgrading of voting rights
- votes in relation to companies that represent a significant size of holding in the mandate
- votes which are high profile or controversial
- votes where there is a significant level of opposition from investors to the company resolution
- votes where there is a significant level of support for an investor resolution
- votes where there is a high level of reputational risk for an investee entity, and
- votes where there is a high level of political or regulatory interest, a high level of industry debate, or any vote in non-listed equity asset classes e.g. in private equity, infrastructure or other asset classes.

Proxy voting continued

Escalation

Voting is an essential part of being active owners of the Scheme's investments. It can be used as an escalation method of engagement activity, to express both support or opposition for an activity or strategy, and to ensure suitable governance is in place. The Scheme's investment managers are expected to have an escalation strategy in place for non-improvers over time. In cases where engagement fails to meet expectations over the expected timeframe (typically five years, as appropriate) and relates to critical issues for the specific investment case or the general investability of a company, escalation of the issue through other stewardship activities such as voting, and ultimately the consideration of divestment will follow.

Brightwell engages with managers and EOS around the rationale for certain significant votes prior to execution to understand how they are aligned with BTPS's best interests.

Over the 12 month period, no specific divestments in the BTPS portfolio were made due to escalation activities, but we share an example of a reduction in exposure to a company due to lack of climate action on page 12 of this report, and an escalation example in infrastructure on page 44.

Voting and engagement are closely linked activities

To achieve change, the Scheme's 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. This can then lead to voting outcomes, where appropriate.

> EOS and the Scheme's managers also engage on behalf of the Scheme with companies where we are a bond holder. Whilst in those instances the Scheme is unable to vote, the outcome of certain votes could indirectly impact the Scheme's assets and so engagement is very important.

Concerns around over-boarding leading to a vote against the re-election of a Board member where the Scheme is a bondholder

Issue: Wellington raised concerns with the over-boarding of an American aerospace, buildings, fire systems, security and safety technology business, whereby an individual Board member holds seats on more than three different Boards.

Action: Wellington engaged with the issuer to share their view of governance best practice. This included the recommendation for Board members to maintain no more than three Board seats. In their view, holding more than three could compromise the member's ability to have time and energy to fully commit to the company and to effectively perform their Board duties and responsibilities.

During the engagement, the company stated that they had no concerns regarding the member's capacity to devote sufficient time and attention to the Board. Specifically, they highlighted that the individual in question had attended every Board and Audit Committee meeting during the year and is seen as a well-prepared and valued contributor to Board discussions.

Outcome: The issuer undertook extensive due diligence to assess the Board member's capacity, which Wellington was pleased with. However, Wellington continues to believe that best practice dictates an issuer should maintain seats on no more than three different Boards. As a result, Wellington's equity holders voted against the re-election of the Board member. This was an escalation activity. Wellington continues to monitor Board composition and engages with issuers to promote best governance practices.

Proxy voting continued

Manager:
Caledonia Investments

Fund type:
Pooled active equity fund

Significant vote

Company: Flutter Entertainment Plc

Date of vote: 1 May 2024

Vote topic: Approval of move of primary listing to the New York Stock Exchange.

Voting instruction: For

Rationale: A greater proportion of Flutter's future profits are expected to be generated in the US and given FanDuel's number one position in this market, Flutter believes that a primary listing in the US is the natural home for the Group and its investors. Caledonia voted for, as they see it as in the best long-term interests of the company.

Approximate size of holding as at the date of the vote (as % of portfolio): 25.0%

Why a significant vote?: Due to the large holding of the stock in the fund and the material impact on future company performance by unlocking the value of FanDuel being Flutter's US subsidiary.

Outcome of vote: Pass with 98.2% approval. On 31 May 2024, Flutter moved its primary listing to the New York Stock Exchange.

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

Significant vote

Company: Petroleo Brasileiro SA

Date of vote: 30 November 2023

Vote topic: Amend articles and consolidate bylaws

Voting instruction: Against

Rationale: A vote AGAINST this request was warranted because a) the company has bundled unrelated bylaw amendments under a single agenda item, thus preventing shareholders from voting on each proposed change individually; b) there are material governance concerns regarding the proposed changes to the eligibility rules for administrators as well as the creation of a new statutory reserve; and c) independent Board members elected by minority shareholders raised concerns regarding the proposed changes.

Approximate size of holding as at the date of the vote (as % of portfolio): 2.5%

Why a significant vote?: Size of holding, vote against management, potential impact on stewardship outcome.

Outcome of vote: Pass, GQG will continue to engage on this issue and escalate as necessary.

Proxy voting continued

Manager:
TCI Investment Management

Fund type:
Pooled active equity fund

Significant vote

Company: General Electric Company

Date of vote: 7 May 2024

Vote topic: Report on risks arising from voluntary carbon reduction commitments

Voting instruction: Against

Rationale: A vote AGAINST this proposal is warranted, as the proposal was driven by a climate change sceptical organisation that does not support efforts to reduce carbon emissions and the proposal was an attempt to get General Electric to drop its commitment to achieve Net Zero by 2050.

Approximate size of holding as at the date of the vote (as % of portfolio): 13.3%

Why a significant vote?: Position size.

Outcome of vote: The resolution failed, with only 1.05% voting FOR, 85.5% voting AGAINST and the balance abstaining/not voting.

TCI engagement leading to a vote outcome – encouraging a construction company to be a climate leader

Issue: TCI thought that a French concessions and construction company that operates toll-roads and airports had a role to play as a climate change leader but could be doing more by setting an ESG plan.

Action: In France, investors cannot submit a request for an ESG plan to be put as a shareholder vote at a French company's AGM, due to the principle of 'encroachment"' i.e. interference in the responsibilities of the company's Board and Executive. Instead, TCI focused on convincing the Board and management team by using the power of the arguments, namely:

- The tangible benefits of being an ESG leader – lower cost of financing, lower cost of equity
- The intangible benefits of being an ESG leader – employee satisfaction and retaining talent etc.

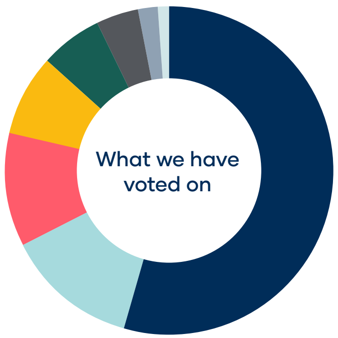
Outcome: The company agreed to put its ESG plan to a shareholder vote. The plan passed with near unanimous approval (98.14%). Following this, another French company in the same line of business decided to put its ESG plan to a shareholder vote on its AGM agenda, demonstrating the power of corporate influence within a sector and setting a strong precedent.

Proxy voting continued

Voting activity by manager			
Fund type	Segregated active equity fund	Pooled active equity fund	Pooled active equity fund
Number of meetings which the manager was eligible to vote	50	16	16
Number of resolutions on which the manager was eligible to vote	701	267	219
Percentage of eligible votes cast	100%	100%	85%*
In what % of meetings, for which you did vote, did you vote at least once against management.	2%	6%	0%
Resolutions with management	98%	99%	100%
Resolutions against management	2%	1%	0%
Resolutions abstained from	0%	0%	0%
Meeting with management by exception	0%	0%	0%

*We have engaged with Caledonia on their percentage of votes cast, highlighting our expectation that they vote all eligible votes on behalf of the Scheme as they have done in previous years.

Caledonia have taken this feedback on board and have assured us that they do view voting as a tool to effect change at the companies in which they invest.



Board structure	54%
Other	13%
Remuneration	11%
Capital structure & dividends	8%
Audit & accounts	6%
Shareholder resolution - social & ethical	4%
Shareholder resolution environment	2%
Shareholder resolution - governance	1%

More voting information can be found in the Scheme's **Implementation Statement in the Annual Report.**

Engagement

Corporate engagement is done on BTPS's behalf in two ways: through the Scheme's asset managers and through EOS at Federated Hermes acting as agents of the Scheme. Managers are expected to engage on a whole host of engagement topics and across all asset classes. This is evidenced by the statistics over the next few pages, as well as the engagement examples and the Scheme's voting records.

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.

Regarding engagement with the Scheme's managers over the past year, the Scheme continues to focus on climate and how managers are helping towards the Scheme's Net Zero 2035 ambition. For this reason, managers are strongly encouraged to be part of climate-related initiatives to be up-to-speed and contributing to the industry's latest thinking in this area, whether through IIGCC, CA100+ or others. Brightwell monitors their engagements on climate-related topics and how their votes are aligning with this action and latest standards. For instance, paying particular attention to alignment in science-based targets (SBTs) and expecting managers to be encouraging investee entities to set SBTs where appropriate.

However, climate is not the sole focus of the Scheme's engagement activities. Sustainability risks are very interconnected, from climate to natural capital and inequality. The Scheme believes companies that 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. Ultimately, good stewardship, engagement and active voting improve investment outcomes.

The Scheme's investments are structured in such a way that it has relatively large portfolios with few managers. This means the Scheme has more influence when engaging with investment managers and when they in turn engage with the investee entities.

The Scheme 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.

For more detail on the Scheme's engagement approach, see **BTPS Stewardship Report.pdf**

Engagement themes for 2024–26

EOS's engagement plan identifies twelve key themes and related sub-themes which help focus EOS's engagement activities on the most material topics impacting investments. The Scheme delegates the prioritisation of issues to EOS, however Brightwell contributes to their engagement themes annually. EOS at Federated Hermes undertakes engagement over three-year cycles. EOS's engagement themes very much align to the Scheme's prioritisation of sustainability topics and they also align with the Scheme's managers as well.

EOS's stewardship expertise and resources provide the Scheme 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. For instance, Brightwell recently engaged with EOS on the topic of inequality to understand what they are prioritising and how they are engaging with companies on this important issue.

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

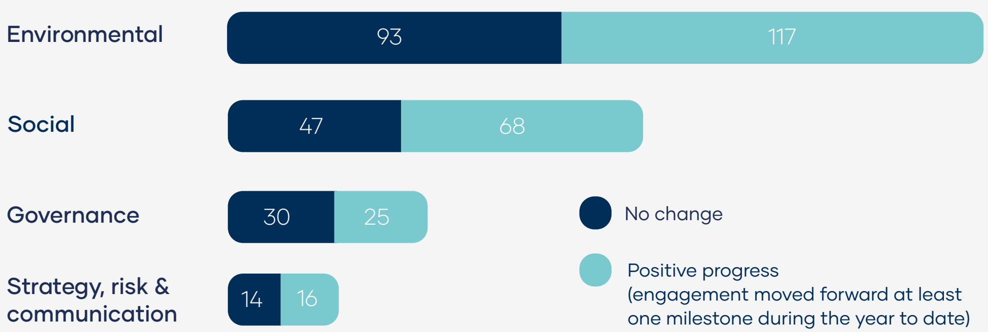
Milestone 3 - Development of a credible strategy/stretching targets set to address the concern

Milestone 4 - Implementation of a strategy or measures to address the concern

Progress against these objectives is assessed regularly and evaluated against the original engagement proposal. 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. Where sufficient progress is not made by a company towards the next milestone over the 12-month period, escalation activities will follow as appropriate.

Overall we are pleased with the progress EOS has made towards its milestones. Where there has been no change against the milestones, there is appropriate rationale given by EOS and we are satisfied with the outcomes.

Progress against milestones



188
companies engaged with

On
1,101
issues

With
712
engagement objectives

Monitoring engagement progress in practice continued

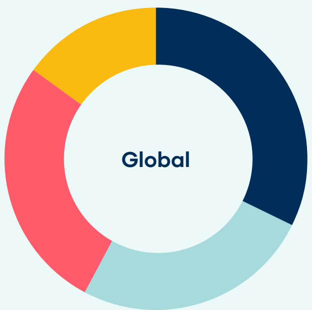
Engagement statistics

Over 2023, EOS engaged with 188 companies on 1,101 environmental, social, governance, strategy, risk and communication issues and objectives, to promote positive change on the following issues and many more.

Engagement by theme

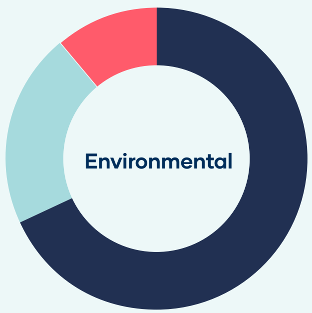
To ensure they achieve positive outcomes, EOS sets clear and specific objectives within all company engagements. Each objective is tracked using milestones and are regularly reviewed until they are completed, or when the company has demonstrably implemented the change requested, or when the activity is discontinued. An example objective is the 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).

EOS engaged with 188 companies over the last year



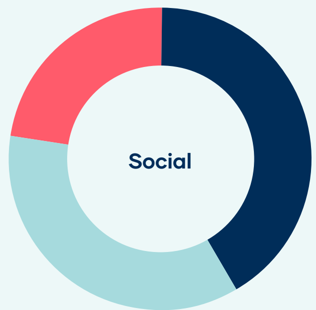
Environmental	32.3%
Governance	25.6%
Social	27.2%
Strategy, risk, and communication	14.8%

Environmental topics featured in 32.3% of our engagements over the last year



Climate change	68.3%
Natural resource stewardship	20.8%
Circular economy & zero pollution	11.0%

Social topics featured in 27.2% of our engagements over the last year

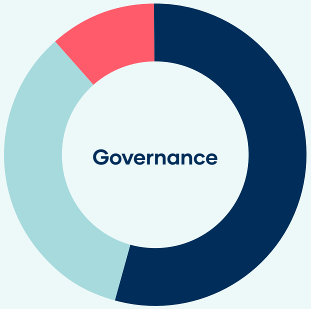


Human capital	41.3%
Human & labour rights	36.0%
Wider societal impacts	22.7%

Monitoring engagement progress in practice continued

Engagement by theme continued

Governance topics featured in 25.6% of our engagements over the last year



Executive remuneration	54.3%
Board effectiveness	34.4%
Investor protection & rights	20.8%

Strategy, risk and communication topics featured in 14.8% of our engagements over the last year

Human capital	50.3%
Wider social impacts	26.4%
Human & labour rights	23.3%

Engagement in practice – social issues

Engagement examples over reporting period 1 July 2023 - 30 June 2024.

Improving labour relations and sales practices leading to better business outcomes

Opportunistic credit engagement via Bardin Hill

Issue: Bardin Hill had concerns about the metrics a telecommunications company was using and its impact on sales practices as sales pressures had been raised by employees.

Action: Bardin Hill conducted their own research, spoke to third party experts and addressed the issue with the management team.

Outcome: Following their meeting with the management team, Bardin Hill was comfortable with progress due to the following:

- Ongoing training to improve selling techniques and drive customer retention
- Lower and declining staff turnover relative to peers
- Revision to the retention strategy and developed multiple tailored solutions to reduce attrition

As a result of this, there has been superior customer satisfaction shown by outstanding customer loyalty scores, the management team continues to provide quarterly updates on their labour relations and sales practices at Board meetings, and the company has not faced any new claims or issues on labour relations and sales practices. Bardin Hill is pleased with the progress but will continue to monitor this issue with the company.

Improving health and safety with a Danish ferry business

Infrastructure engagement via Federated Hermes Infrastructure

Issue: Whilst Danish ferry business, Scandlines, has many good and proactive health and safety initiatives in place, many of which have been overseen by the Safety and Sustainability Committee (SSC) that Federated Hermes chair, the number of health and safety incidents remained far too high, driven in particular by a high number of relatively less severe incidents. As such, the long-term injury frequency rate was also very high. This is a potentially high-risk area for an infrastructure business, so it was important to escalate the issue and advocate for a new approach.

Action: Federated Hermes escalated the issue and advocated for a third-party expert review and gap analysis of health and safety practices at the company, with the intention of seeing significant improvements in the organisation's approach.

Outcome: A review and gap analysis were undertaken and the report stated a number of recommendations the company is currently working through. One key recommendation is developing a coherent health and safety strategy and policy that resonates with the organisation. As SSC Chair, Federated Hermes' infrastructure proposed the health and safety strategy is brought to the committee later in 2024 for review and challenge. It is pleasing that the long-term injury frequency rate is gradually reducing, and is something they will continue to monitor.

Tenant engagement to ensure long-term satisfaction

Opportunistic real estate engagement via Lone Star

Issue: Lone Star acquired three newly built office assets with approximately 66,000 sqm of gross leasable area in Poland. Two of the properties are in Krakow and one is in Wroclaw. It's important to gather regular feedback through occupier surveys to identify tenants' needs and any areas that need addressing to ensure tenant satisfaction.

Action: The property manager circulated an occupier survey which contained 12 questions relating to ESG and building management. It asked occupiers to:

- Rate their satisfaction with the overall building, landlord services and building management
- Rank the importance and rate their satisfaction of sustainability features, and health and wellbeing features, and
- Identify additional desired amenities and services.

The tenant responses identified areas of good practice and also improvement opportunities. Subsequently, the ESG and Climate Team developed a report detailing the survey results and follow-up measures for the property manager to discuss in its regular meetings with occupiers.

Outcome: Following the analysis, new measures implemented included installing electric vehicle chargers and additional bicycle storage, providing fresh food options and adding exercise classes to the events program.

Collaboration

As one of the UK's largest corporate pension schemes, the Scheme 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, it also believes in the power of investor collaboration, and the Scheme, along with Brightwell on the Scheme's behalf, have joined several initiatives to push for better sustainability standards, data collection and reporting, and policy action.

Manager collaboration

The Scheme expects its service providers and investment managers to collaborate, and have found that they really value the collaborations they are part of to bring about broader industry change that we all benefit from, whether with peers or government bodies for example.

Collaboration typically increases the probability of success, as well as helping with more practical issues such as resource constraints.

On an annual basis, Brightwell asks the BTPS managers which collaborations they are part of and encourages active participation and leadership in this area. We think this is a strategic imperative with regards to systemic risks such as climate change, which one asset manager will not be able to tackle alone. However, Brightwell doesn't specifically ask for or track the number of managers' collaborative engagements, as they believe this creates incentives which are misaligned to achieving the best outcomes for our members. Instead, Brightwell encourages managers to participate where they see value and to be strong contributors in these collaborations.

Pages 45-49 of the **BTPS 2023 Stewardship Report** detail more on the Scheme's and managers' contributions to market-wide and systemic risks.

PRI Principles for Responsible Investment

91% of the investment managers BTPS works with are signatories to the PRI. Those who are not, look to apply the principles and we continue to engage with them on this.

IIGCC The Institutional Investors Group on Climate Change

The Scheme continues to utilise best practice stewardship guidance published by the IIGCC and share it with its managers – e.g. **Stewardship Toolkit** and **net zero bondholder stewardship guidance**.

THE NET-ZERO ASSET OWNER ALLIANCE

Brightwell encourages the Scheme's investment managers to sign up to the Net Zero Asset Manager Initiative. If not already signatories, they engage with the Scheme's managers on this on an annual basis to understand why not and if they have any plans to do so. Where they are not signatories, we expect similar target-setting and ambition at the portfolio level to help achieve the Scheme's Net Zero 2035 ambition.

Climate Action 100+ Global Investors Driving Business Transition

Brightwell encourages the Scheme's managers to participate in collaborative engagements where appropriate. In particular, several managers are involved in CA100+ where they seek to engage with the largest corporate greenhouse gas emitters to encourage them to take necessary action on climate change.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Brightwell encourages good climate-related disclosures from all the Scheme's investment managers and expects that they in turn encourage investee entities to undertake TCFD reporting.

Transition Pathway Initiative

Brightwell engages with the Scheme's investment managers on the different ways in which they are assessing the climate transition pathway of the investments. Several managers are supporters of the Transition Pathway Initiative.

Collaboration

Climate Action 100+

Climate Action 100+ is an investor-led initiative through IIGCC to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

The initiative includes around 170 companies across the global economy that have significant opportunities to drive the clean energy transition and help achieve the goals of the Paris Agreement.

Climate Action 100+ collaborative engagement

Engagement with a global manufacturer to improve environmental, social and governance practices.

Corporate credit engagement via Insight

Issue: Rolls Royce is a leading global manufacturer of aero-engines, gas turbines and reciprocating engines. Concerns were raised around legacy business ethics and bribery cases. Their trade/lobbying group associations and their associated climate objectives were also flagged as a cause for concern.

Action: In collaboration with Climate Action 100+, Insight engaged with Rolls Royce to discuss historic bribery issues and carbon emissions progress as well as new topics around labour management, policy and lobbying.

Outcome: Rolls Royce was able to evidence controls that have since been put in place to guard against historic bribery issues reoccurring. Insight was broadly satisfied with these measures being sufficient to reduce the risk associated with this from a credit quality perspective at present.

Rolls Royce also conducted an extensive review of their trade/lobbying group associations, which they found to be broadly aligned with their climate objectives. Trade body activity can be very opaque and so Insight has encouraged greater disclosure around membership so third-party verification of alignment with climate objectives can be undertaken. They will continue to monitor and advocate for more transparency.

On the climate front, Rolls Royce has also set a long-term net zero target but acknowledges the lack of short-term targets. They do however flag that climate metrics are baked into executive remuneration, where plans include establishing Rolls Royce as a climate enabler and their fleet being compatible with sustainable aviation fuel with increased research and development spent to support this over time.

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, Brightwell 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 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.

The Trustee believes 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 Brightwell 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 2024 showed a significant increase in those who expect BTPS to actively avoid investments that have a materially negative impact on the environment or society – just under three quarters (72%) of the ~13,000 respondents, increasing from 63% in 2023. In addition, 50% of respondents agreed or strongly agreed that BTPS should prioritise financial performance over the environmental and social impact of its investments, whilst 65% expect BTPS to use the investments to make a positive impact on the environment and society, and 72% expect BTPS to continue to take consideration of the environmental and social impact of the investments it makes.

Our members continued

Delivering the best 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.

The Scheme's commitment to excellence was recognised by our peers in the pensions sector this year with BTPS winning Pension Scheme of the Year at the UK Pensions Awards and DB Scheme of the Year at the Pensions Age Awards.

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 Brightwell'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.

Over 2023/24, the Scheme identified other sustainability risks as being potentially material to the Scheme's investments - natural capital and inequality. These themes are very interlinked with the Scheme's Net Zero ambition. Over the next 12 months, further work with the Scheme's managers will explore how to implement and monitor this.

Member panel views

Feedback from members on our communication is important to ensure we are providing them with useful and understandable information.

The Scheme invites feedback from members through its annual member newsletter and annual member surveys. There is also a member panel who volunteer to take part in more in-depth research with the Scheme.

We have listened to members' views:

"Different documents aimed at the variety of your audience."

The Scheme produced a short member focused summary report of the key stewardship, climate change and voting information over 2023. We will produce a similar report again for 2024. **PDF link**

"Simplify some of the information to make it accessible to all."

We continue to simplify our reporting as much as possible whilst still seeking to meet our regulatory and reporting requirements.

BTPS member visit to Paradise Circus, Birmingham

In June 2024, we invited eight BTPS members to visit one of the Scheme's UK real estate investments, Paradise Circus, Birmingham; an urban regeneration development bringing new life to the heart of Birmingham city centre.

Members were welcomed by Jill Mackenzie, BTPS Trustee Chair and Emily Clark, BTPS Trustee, before hearing from Wyn Francis, Brightwell CIO, about the Scheme's Net Zero 2035 ambition and sustainable investment approach. It was also an opportunity for members to provide their honest feedback about the Scheme's activities and reporting, and ask any questions. They also heard from the Developer MEPC who lead the regeneration project to understand how Paradise Circus has transformed the local area.

Later, they had a tour of the site – from office spaces to leisure and restaurant facilities.

Hear from BTPS Trustee, Brightwell's CIO and Stewardship lead, along with BTPS members, on the Scheme's commitment to sustainable investment and key highlights from a visit to one of the Scheme's UK real estate investments, Paradise Circus.

Watch the video

BTPS Member visit to Paradise Circus, Birmingham continued

The Paradise development is a major 15-year project to redevelop Paradise Circus from the old Birmingham central library to a thriving hub of events, workplaces, restaurants, and public spaces.

When fully completed in 2028, Paradise will deliver ten brand new buildings combining office, retail, hotel and leisure spaces into Birmingham's existing cityscape. Developer MEPC who lead the project told us that these buildings will provide 1.74 million sq ft of office space and 120,000 sq ft of retail and leisure to keep the area attractive for local residents, visitors and workers alike.

The development represents a £1.2 billion investment into the city. The site is currently in stage two of a three-stage development journey and is already the home of several companies such as PWC, DLA Piper and Knights. To date, Paradise has added £88 million of social and economic value, with over £56 million added to the local supply chain and 2,000 new jobs for Birmingham through the construction phases. (Source: MEPC)

This is all while providing around a 7.2% pa return for the scheme since its inception in 2016 (Source: Federated Hermes).

> Birmingham Paradise is a great example of BTPS investing in a way that is sustainable - adding social and economic value through job creation and using local suppliers, providing community spaces and leading low carbon buildings, along with an appropriate risk and return profile for the Scheme.

"It was great to meet with members and share more about how the Scheme is thinking about sustainability considerations. The regeneration that the Birmingham Paradise development has seen is just remarkable, and it was fantastic to be able to share the experience with such engaged members. I'm looking forward to continuing the great work of the Trustee Board and Brightwell, as we seek to deliver exceptional service to members."

Jill Mackenzie
Chair of the BTPS Trustee Board

Our people and 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 ambition. Over the past year we held a discussion on the Scheme's stewardship activities and how it aligns to Trustee fiduciary duty.

Since 2006, Brightwell has helped 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 Brightwell CEO and investment team, to colleagues in Brightwell's Facilities team.

Brightwell has many colleagues across the organisation who are directly involved in integrating sustainability considerations throughout the Scheme's investments and they have been undertaking various internal training sessions on sustainable investment. This included further training in relation to the Scheme's Net Zero 2035 ambition and how managers are positioning portfolios and monitoring progress against targets, and analysis of BTPS managers' stewardship capabilities.

Another example from the year was a manager meeting with the Brightwell Investment team on biodiversity analysis to understand the nature-related impacts and dependencies on the Scheme's portfolio (see page 31 for more details).

It is also important to hear from external experts on different issues. The Brightwell Investment team have all attended many manager meetings and conferences over the year at which sustainability is often a key topic.

Assurance

BTPS takes the quality and effectiveness of its stewardship very seriously, seeking to achieve best practice stewardship for the Scheme.

This year, the Scheme worked with Brightwell's internal compliance function who undertook an internal assurance approach for our stewardship activities and ESG-related reporting. The aim of the review was to assess whether BTPS reporting was compliant with relevant regulatory requirements, and was a fair and accurate reflection of the Scheme's activities.

The review was completed alongside the drafting of the below documents and feedback was directly incorporated prior to publishing. The review covered:

- BTPS's TCFD report, Statement of Investment Principles and Implementation Statement
- BTPS's external communications (assessed against the FCA's new anti-greenwashing requirements).

The outcome of the review was as follows:

- Enhancements were made to BTPS's TCFD report, Statement of Investment Principles and Implementation Statement prior to them being published to ensure that they were aligned with the DWP's regulatory requirements, FRC feedback from prior years and good practice
- Brightwell now has a framework to ensure that all client communications (internal and external) that make sustainability-related claims are proactively reviewed by the compliance function prior to publishing to ensure that they comply with the FCA's anti-greenwashing requirements. Furthermore, Brightwell maintains a register of all sustainability-related claims that it has made along with the evidence to support them. The framework is also applied to BTPS's communications as best practice (noting that they are not regulated by the FCA).

The Brightwell Executive and the BTPS Trustee have reviewed the Scheme's stewardship activities and are comfortable with the approach and reporting.

The Scheme also had an external review of its stewardship activities and reporting by third party provider, Canbury, who assessed how well the Scheme's reporting meets the FRC's expectations against each principle and identified areas of improvement. Overall, they felt that the Scheme's reporting demonstrated a strong commitment to sustainable investment and stewardship, but also identified some areas they felt required refining. The Scheme has sought to incorporate these suggestions into this year's report to provide a more comprehensive and holistic view of the Schemes stewardship activities and outcomes.

Independent oversight

The Pensions Regulator

TPR has continued its engagement with the Scheme over the past year providing oversight and feedback on various matters. TPR also attended a Trustee Board meeting to discuss its priorities and expectations of trustees. The Scheme participated in TPR's Equality, Diversity & Inclusion survey with no follow-up required; TPR provided very positive feedback on its 2022-2023 TCFD report which noted that the report is 'comprehensive and well-structured, and provides a clear narrative for members around current climate-related activities'. The Scheme will continue to review and refer to the TPR guidance published on their website in the preparation of future reports.

Board effectiveness review

As part of the Scheme's ongoing governance, we carry out regular Board effectiveness reviews facilitated by external third parties. Last year's review by Independent Audit reported a strong commitment by the Board to discharging its fiduciary and legal duties as effectively as possible. It also found the Board has an effective set of skills and that together with the Board Committees, was functioning well.

We aim to ensure our reporting is fair, balanced and understandable

It is important that the Scheme's stewardship reporting is accurate and reflective of our work. We have a robust process in place before the stewardship report is signed off by the Executive Board and the BTPS Trustee. It goes through a rigorous review process by various functions, including risk, legal, compliance, investment, executive team and others, including the governance committees mentioned on page 13. Further development of the report follows after each review.

For further detail about the processes for reviewing policies related to stewardship, please see the **BTPS 2023 Stewardship report** section on page 65 discussing the Scheme's SI policy review. In accordance with the FRC's updated guidance, we confirm that there have been no material changes to our stewardship processes or policies since our last report. Our previous approaches and processes remain current and effective.

Managing conflicts of interest

Our conflicts of interest policy references specific stewardship and sustainability-related conflicts in line with stewardship best practice.

The full polices can be found on the **btps.co.uk** and **brightwellpensions.com** websites respectively.

BTPS Conflicts of Interest Policy

Brightwell Conflicts of Interest Policy

Addressing conflicts in practice

The Scheme operates a framework of policies, underlying procedures and a conflicts of interest register that together make up its conflicts of interest governance framework. Conflicts are actively monitored including discussion at each meeting of the Trustee Board.

Over the last twelve months, no conflicts of interest were raised by the Trustee Board, and no action was required.

For further detail about the Scheme's conflicts of interest policy, please see our 2023 Stewardship report, the section on 'BTPS conflict of interest policy in relation to stewardship' and also 'Brightwell's conflict of interest policy in relation to stewardship' on page 56.

Our future

Continue to develop our thinking on sustainable investment which is a rapidly evolving and fast-moving area

Over the next 5 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 systemic risks identified by the Trustee such as natural capital and inequality. Via Brightwell, the Scheme will engage with its asset managers and work with them to enhance understanding and improve outcomes.

Work closely with our managers

Brightwell will continue to work with the Scheme's managers to encourage best practice stewardship in line with our manager expectations document, monitoring their progress over the year through our regular meetings and the information provided by them. Transparency on both sides is crucial for achieving the Scheme's ambitions.

Active members of industry initiatives and collaborations

The Scheme and Brightwell on the Scheme's behalf, 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 ambition, bondholder stewardship, and DE&I through the **Asset Owner Diversity Charter.** Brightwell will seek to join other collaborative initiatives on the Scheme's behalf where they align to the Scheme's goals.

Strengthen ESG integration

It is important that Brightwell 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 ambition.

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 systemic risks.

Take on board member feedback

To ensure it is as easy as possible for members to understand their BTPS pension, and having taken on board member feedback from our recent surveys, Brightwell will be creating more videos and short-form reports on a variety of investment and sustainability-related topics. These will sit on the online portal and website.

Monitor progress

The Scheme will continue to focus on ensuring its reporting is fair, balanced and understandable, and the Trustee and Brightwell will monitor the Scheme's stewardship approach over time to see how effective it has been relative to desired outcomes.

Appendix one:
Index of UK Stewardship Code Principles

UK Stewardship Code Principle	Evidence from the **2024 BTPS Stewardship Report**	Evidence from the **2023 BTPS Stewardship Report**
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.	• About BTPS – page 6 • Scheme investments – page 7 • Sustainable investment approach – pages 8-9 • Climate approach & climate action – pages 10-14 • Asset manager oversight & engagement – pages 21-24	BT Pension Scheme's purpose & values – pages 5-12 Asset manager oversight & engagement – pages 18-20
Principle 2 Signatories' governance, resources and incentives support stewardship.	• Governance - pages 15-20	• BT Pension Scheme's purpose & values – pages 5-12 • Our sustainable investment approach – pages 8-10 • Our climate approach – pages 11-12 • Stewardship through BTPS and Brightwell – page 13 • Our people & training – page 54
Principle 3 Signatories manage conflicts of interest to put the best interests of the beneficiaries first.	• Assurance and conflicts of interest – pages 52-53	Conflict of interest polices can be found on the **btps.co.uk** and **brightwellpensions.com** websites respectively. • Audit & Assurance – pages 56, 61-63
Principle 4 Signatories identify and respond to market-wide and systemic risks to promote a well functioning financial system.	• Market-wide & systemic risks – pages 26-33 • Collaboration - pages 45-46	• Collaboration – page 45-49 • Market-wide & systemic risks – page 22

Appendix one:
Index of UK Stewardship Code Principles

UK Stewardship Code Principle	Evidence from the **2024 BTPS Stewardship Report**	Evidence from the **2023 BTPS Stewardship Report**
Principle 5 Signatories review their policies, assure their processes and assess the effectiveness of their activities.	• Asset manager oversight & engagement – pages 21-25 • Assurance and conflicts of interest – pages 52-53	• Asset manager oversight – page 18-20 • Audit & assurance – page 55
Principle 6 Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.	• About BTPS – page 6 • Scheme investments – page 7 • Sustainable investment approach – pages 8-9 • Our members – pages 47-50 • Our future – page 54	• About BTPS – page 6
Principle 7 Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	• Climate approach & climate action – pages 10-14 • Asset manager oversight & engagement – pages 21-25	• Asset manager oversight & engagement – pages 18-20 • Appendix – page 67
Principle 8 Signatories monitor and hold to account managers and/or service providers.	• Asset manager oversight & engagement – pages 21-25	• Asset manager oversight & engagement - pages 18-20
Principle 9 Signatories engage with issuers to maintain or enhance the value of assets.	• Asset manager oversight & engagement – pages 21-25 • Engagement – pages 39-44 • Proxy voting – pages 34-38	• Asset manager oversight & engagement – pages 18-20 • Engagement – page 36 • Proxy voting – page 31

Appendix one:
Index of UK Stewardship Code Principles

UK Stewardship Code Principle	Evidence from the **2024 BTPS Stewardship Report**	Evidence from the **2023 BTPS Stewardship Report**
Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers.	• Engagement – pages 39-44 • Collaboration – pages 45-46	• Engagement – page 36 • Collaboration – pages 45-49
Principle 11 Signatories, where necessary, escalate stewardship activities to influence issuers.	• Asset manager oversight & engagement – pages 21-25 • Engagement – pages 39-44 • Proxy voting – pages 34-38	• Asset manager oversight & monitoring – pages 18-20 • Engagement – page 36 • Proxy voting – page 31
Principle 12 Signatories actively exercise their rights and responsibilities.	• Proxy voting – pages 34-38 • SIP Implementation Statement – Report & Accounts 2024 – **BTPS Portal – Regulatory reporting**	• Proxy voting – page 31 • SIP Implementation Statement – Report & Accounts 2024 – **BTPS Portal – Regulatory reporting**

Appendix two: 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.

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.

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

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

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

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

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

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.

Engagement
The practice of shareholders entering into dialogue with the 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.

Appendix two: Glossary of terms

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.

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).

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.

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.

Appendix two: Glossary of terms

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.

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

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

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

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.

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.

Appendix two: Glossary of terms

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.

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

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

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

BTPS

www.btps.co.uk