

# BTPS

## Stewardship Report 2023

[www.btps.co.uk](http://www.btps.co.uk)



# Foreword

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

Sustainable investment is a core part of the BT Pension Scheme's (BTPS') ethos. We are acutely aware that how and where we invest matters, and this is a responsibility we have always taken very seriously. We seek to support members by providing for their retirement and the world they retire into and aim to be leaders in this area. We review our activities annually to further progress and provide accountability.

The past year has been dominated by the effects of large systemic events. We've seen global economic and geopolitical uncertainty, with high inflation and interest rates rises. The result has been considerable market volatility.

At the same time, we have seen record high temperatures and very significant physical weather events. Over the summer 2023, Southern Europe experienced sustained heatwaves, leading to the largest wildfire evacuation Greece has seen. And this is just one of many events we could reference, all with devastating impacts on local populations and with increasingly adverse economic consequences.

Good stewardship means we can better plan and prepare against the future impact of these events on BTPS' assets.

We consider the interconnectedness of physical, social, environmental and economic aspects impacting our assets and companies, as well as good risk management to inform our investment decision-making.

Our sustainable investment strategy and stewardship approach remains core to the Scheme's investment philosophy, and we look at the potential impact that long-term structural risks could have on the Scheme's investment outcomes.

#### **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"**

BTPS proudly 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 service providers that support them. This report is part of our ongoing commitment to the Code and it incorporates feedback given by the Financial Reporting Council (FRC).

We are pleased with the progress we've made over the past year; from increased industry collaboration, improved member engagement and engagement successes with our investee entities.

Brightwell, which is responsible for managing services to BTPS on behalf of the Trustee are investing in people, processes and technology to develop its expertise further, and we're pleased to see the results of this coming through over the past 12 months. Brightwell is committed to continually improving the stewardship work they do on behalf of the Trustee for the members.

**"Everyone at Brightwell takes great pride in supporting the Scheme and the Trustee in delivering members' promised pensions every step of the way"**

**Otto Thoresen**  
Chair, BTPS

**Morten Nilsson**  
CEO, Brightwell



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# Key stewardship highlights

## Audit

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



## Diversity, Equity & Inclusion (DE&I)

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



## Member visit to waste recycling plant, Viridor, Avonmouth, UK



## Manager oversight

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



## Climate

Monitored the portfolio against our five-year goals to reduce portfolio emissions<sup>1</sup>. See the climate section for more highlights and our TCFD report on the BTPS website for more detail.



## The ASCOR Project launched its first progress report

Supporting investors in assessing sovereign climate-related opportunities and risks.



## Member engagement

Annual member survey.

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

*\*Survey of over 15,000 BTPS members online in January 2023*



## 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 2022 Annual Report](#)
- [EOS Engagement Objectives & Plan 2023 – 2025](#)

<sup>1</sup> 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)<sup>1</sup> at Federated Hermes, now the pre-eminent global engagement and stewardship provider for institutional investors.

<sup>1</sup> EOS is a limited company wholly owned by the international business of Federated Hermes (which is majority owned by Federated Hermes Inc.).

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

BTPS works closely with BT Group as the Scheme's sponsor. 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' Board-level scrutiny ensures our sustainable investment approach is embedded throughout investment activities at for the Scheme 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.

This report showcases BTPS' stewardship approach and activities over the past 12 months to 30 June 2023. We aim to explain our Sustainable Investment (SI) approach in more detail, highlight how we conduct stewardship directly and via our asset managers and agents, how we evaluate ourselves, and our plans for the future.



# 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 employees, former employees and dependants of BT Group (BT) and some of its associated companies, the Scheme closed to new members in 2001 and to future accrual for most members in June 2018.

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

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

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), 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.

<sup>1</sup>Equity and equity-like includes equities, property, absolute return and infrastructure assets.

<sup>2</sup>Cashflow-aware includes investment grade credit, sub-investment grade credit, and government bonds and cash.

# At a glance



As at 30 June 2023, there were **263,447** members.



The Scheme's net assets were valued at around **£37.5bn** as at 30 June 2023.



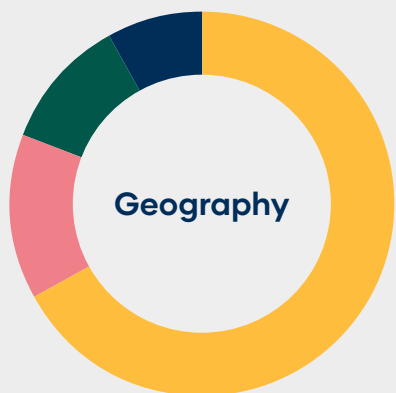
The Scheme's net assets were invested around **30%** in equity and equity-like<sup>1</sup> assets and around **70%** in cashflow-aware<sup>2</sup> assets as at 30 June 2023.



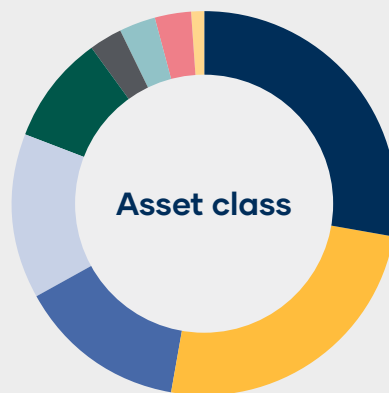
The average age of BTPS members is **70 years old** weighted by pension amount as at 30 June 2023.

# The distribution of investments

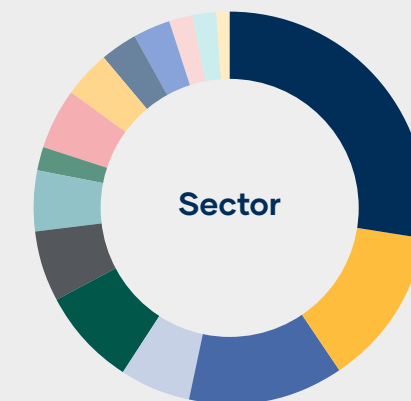
As at 30 June 2023, the Scheme's assets were £37.3bn. We show in the below charts the geography, asset class and sector breakdowns.



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



Government bonds, cash and other net assets	28%
Corporate bonds	25%
Secure income	14%
Equities	14%
Property	9%
Absolute return	3%
Infrastructure	3%
High yield corporate bonds	3%
Emerging market debt	1%



Sovereign/quasi	28%
Financials	13%
Real estate	13%
Communication Service	6%
Cash	8%
Utilities	6%
Securitised products	5%
Energy	2%
Industrials	5%
Unclassified	4%
Information technology	3%
Consumer discretionary	3%
Health care	2%
Consumer staples	2%
Materials	1%

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%.

# Our 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, geopolitical instability, and natural and scarce resources, may have a material adverse impact on the Scheme.

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

## Understanding Sustainable Investment terminology

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

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

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

**Stewardship** – "The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the society." (UK Stewardship Code, 2020)



## 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.



# Our sustainable investment approach continued

## Governance

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

## Responsible Investment Policy

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

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

The day-to-day implementation of the sustainable investment strategy 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.

# Our sustainable investment approach continued

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



## Portfolio sustainability research & analysis

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



## External partnerships, collaborations & public policy engagement

Undertaken by Brightwell with other investors and industry bodies, or with policy makers regarding key sustainability topics. For example, discussing national governments' climate-related commitments, policy frameworks and actions.



## Presentations, training, articles & thought pieces

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



## Asset manager & stewardship provider meetings

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



## Member reporting, annual BTPS Stewardship Report & TCFD Report


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

# Our climate approach

This section explains BTPS' Net Zero 2035 goal, our plan to address climate change risks and opportunities, climate change scenario analysis and associated implications for our investment strategy. Climate change poses physical, transitional and reputational risks for the Scheme and its assets. To address this, the Trustee has determined that it will integrate action, awareness and monitoring of climate change into its strategy through the Net Zero 2035 goal.



Detailed information on the Scheme's climate approach and actions can be found in the BTPS TCFD report [BTPS Portal - Regulatory reporting](#).

 To hear more about the work Brightwell have been doing on integrating the Scheme's Net Zero goal, watch this [video](#).

# Our climate approach continued

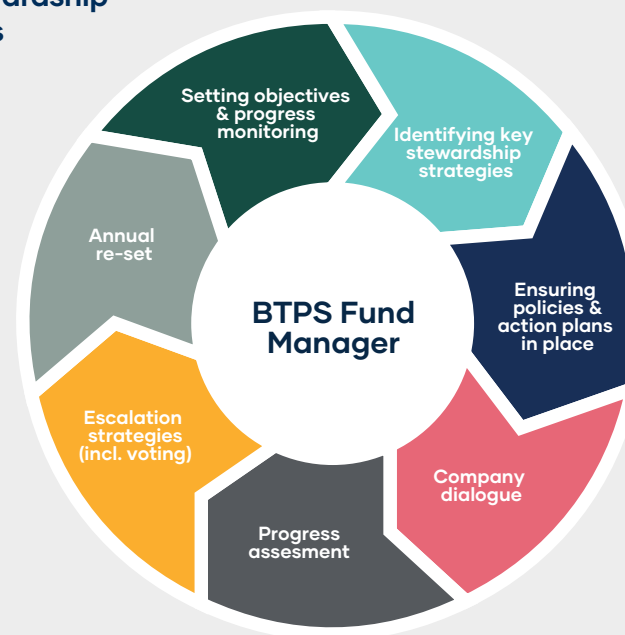
## BTPS 2020 – 2025 Net Zero Stewardship Programme

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 goal. Last year, Brightwell created 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. Five-year portfolio coverage target – Implement a five-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 five years no progress is made, divestment of that investment is expected.
4. Reporting – Managers are expected to report progress against milestones to Brightwell quarterly.

## Annual Net Zero stewardship process expectations

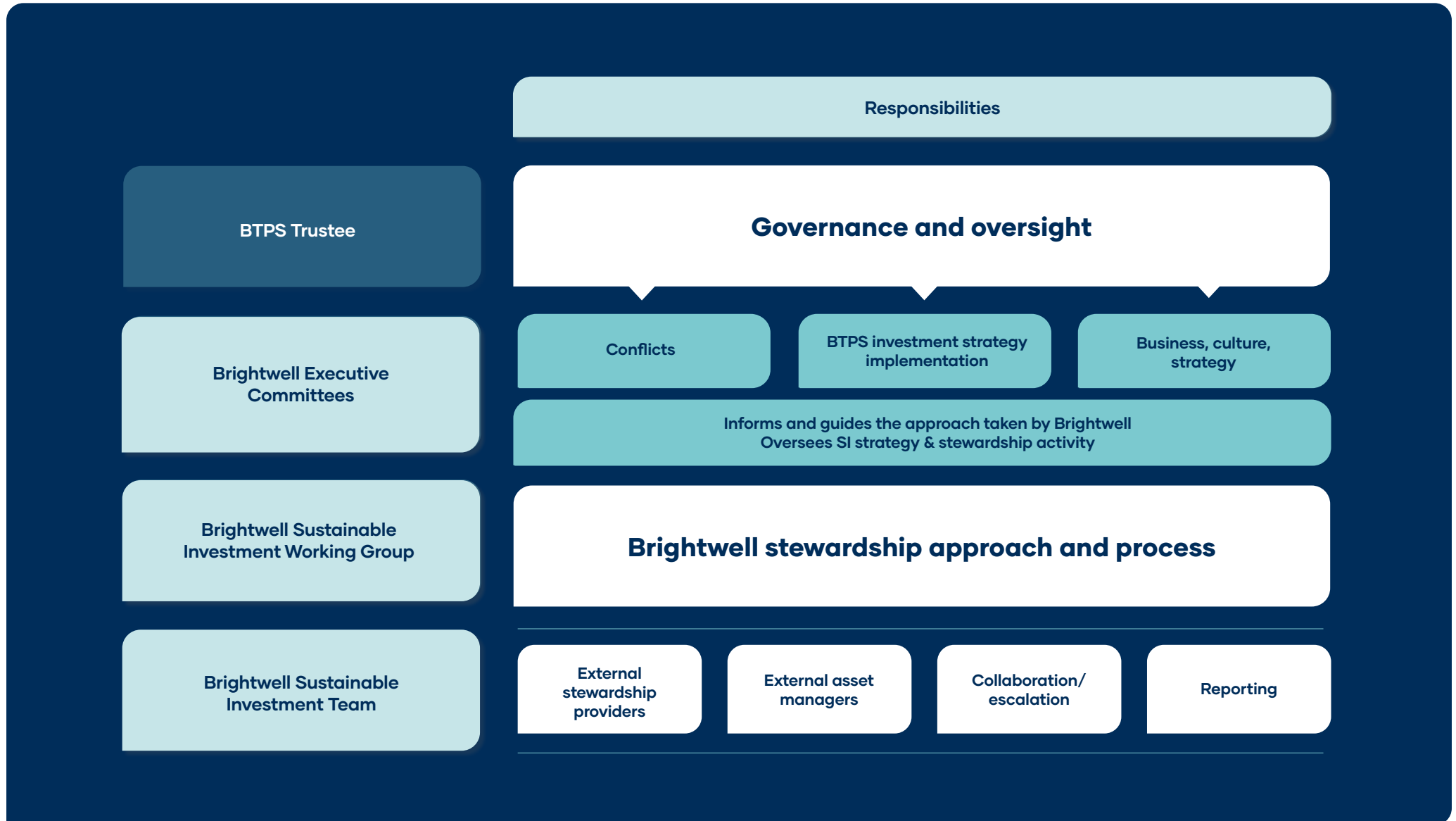


Climate action plans take time to put in place and effect change. Therefore measuring milestones is key to monitoring progress. In line with the Net Zero Stewardship Toolkit, we have asked managers to monitor the progress of their investments against five milestones that we discuss with them on an annual 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 subsequently discussed it with our private equity manager. Education on alignment to a net zero pathway is only just starting 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.

# Stewardship through BTPS & Brightwell



# Brightwell's governance structure

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



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

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

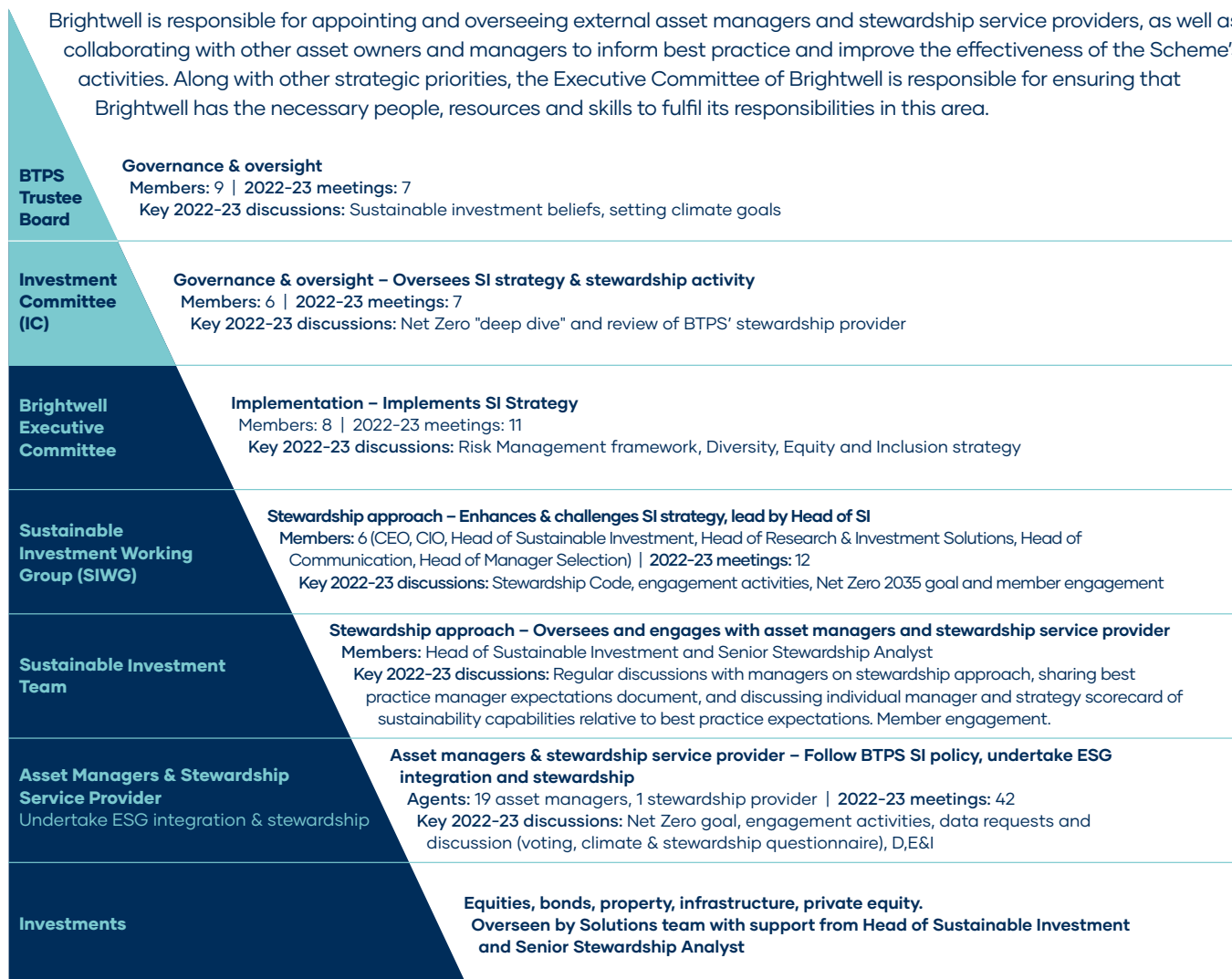
All members of the investment team have explicit responsibility for implementing the Scheme's sustainability principles within their respective roles, and this is linked to their performance targets and remuneration.

# Working groups contributing to effective stewardship

<b>Brightwell Sustainable Investment Working Group</b>	<b>Membership</b>	<ul style="list-style-type: none"> <li>• Led by the Head of Sustainable Investment</li> <li>• Chief Executive Officer (CEO), Chief Investment Officer (CIO), Head of Research and Investment Solutions, Head of Manager Selection, Head of Funding and Covenant, Head of Communication, Economic Research Analyst, Senior Stewardship Analyst and Executive Board Advisor</li> </ul>
	<b>Objectives</b>	<p>Meet quarterly to discuss and address:</p> <ul style="list-style-type: none"> <li>• Risks and opportunities that may face the Scheme due to its long-term investment horizon</li> <li>• Integrate financially material sustainability issues throughout the investment process, including the design of investment mandates, new manager searches and ongoing monitoring of managers</li> <li>• Ensure the Scheme is delivering long-term value through sustainable ownership</li> </ul>
	<b>Key achievements over year to 30 June 2023</b>	<ul style="list-style-type: none"> <li>• Undertook industry stewardship best practice analysis to determine areas for organisational improvement</li> <li>• Collaborations - Co-leading the ASCOR project and the Asset Owner Diversity Charter, contributing to the IIGCC Bondholder Stewardship, NZAOA Manager Engagement, NZAOA Policy, and OPSC working groups</li> <li>• Creation of an ESG dashboard and onboarding of a leading ESG reporting solutions software provider</li> <li>• In-depth review of our sustainable investment reporting through Alpha FMC</li> </ul>
<b>Brightwell Net Zero Working Group</b>	<b>Membership</b>	<ul style="list-style-type: none"> <li>• Led by the Head of Sustainable Investment</li> <li>• Head of Research and Investment Solutions, Head of Manager Selection, Portfolio Manager, Research Associate and Senior Stewardship Analyst</li> </ul>
	<b>Objectives</b>	<p>Meet fortnightly to discuss and address:</p> <ul style="list-style-type: none"> <li>• Continuous work required to achieve Net Zero 2035 goal</li> <li>• Monitoring against five-year interim decarbonisation targets</li> <li>• Ongoing manager monitoring towards Net Zero goal and key challenges managers are facing in transitioning their portfolios</li> <li>• Membership of Net Zero Asset Owner Alliance (NZAOA) and Paris Aligned Investment Initiative (PAII)</li> <li>• Engaging with other asset owners, policy makers, industry bodies, data providers, and regulators on climate change</li> </ul>
	<b>Key achievements over year to 30 June 2023</b>	<ul style="list-style-type: none"> <li>• Monitoring against five-year decarbonisation goals in line with AOA and NZIF requirements</li> <li>• Annual emissions reporting</li> <li>• Data collection and analysis improvements including the automation of climate data</li> </ul>

# 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.



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

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

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



# Stewardship in the investment hierarchy continued

## **Sustainable Investment Working Group (SIWG)**

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

## **Net Zero Working Group (NZWG)**

The NZWG coordinates BTPS' efforts to address climate change. It focuses on the day-to-day Net Zero goal implementation. Members are operational leads across various functions within the investment team and meet fortnightly to discuss investment research, continue progress against BTPS' 20 climate actions, and represent BTPS at the initiatives it is a member of such as the Net Zero Asset Owner Alliance (NZAOA), 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

## **Sustainable Investment (SI) Team**

The SI team supports the implementation of the Net Zero strategy. The SI team is an integral part of the Investment Research & Solutions team who all work together to integrate climate change and other environmental, social and governance (ESG) risks into investment decision making. As almost all of the Scheme's assets are managed externally, the dedicated sustainable investment professionals lead fund manager engagement to push for stewardship which better manages climate-related risks, using engagement and voting as leverage for change, improving corporate climate change plans and obtaining better climate change data. The team coordinates the annual Climate and Stewardship questionnaire, which managers are required to fill in, and gathers a range of ESG information including strategic, mandate and issuer related climate change data. With this information, the team provides managers with a sustainability score which provides tailored feedback for improvement. They also coordinates regular training for the Trustee on sustainability topics, from internal and external experts, to ensure diversity of thought.

## **Investment Risk Oversight Team**

The Investment Risk Oversight Team acts as an independent second line of defence with the aim of providing assurances that investment activities are performed in a robust risk-controlled environment. They oversee the application of the Enterprise Risk Management framework and its related policies and procedures, report and escalate risk events and provide an independent validation of investment decisions and models. In relation to climate risk, this includes 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' actuarial and covenant advisers to undertake tri-annual climate scenario analysis on its asset, liabilities, and covenant. In line with the requirements of the regulations, this work is included in the advisors' investment advice to the Scheme and all findings are presented to the SIWG and IC.



# Asset manager oversight & engagement

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

Asset managers are selected to align with our beliefs, policies and objectives. This is a fundamental part of the appointment process of a new manager and the ongoing oversight of our managers' activities.

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

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

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

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

We expect them to:

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

## What is ESG integration?

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



# Asset manager oversight & engagement continued

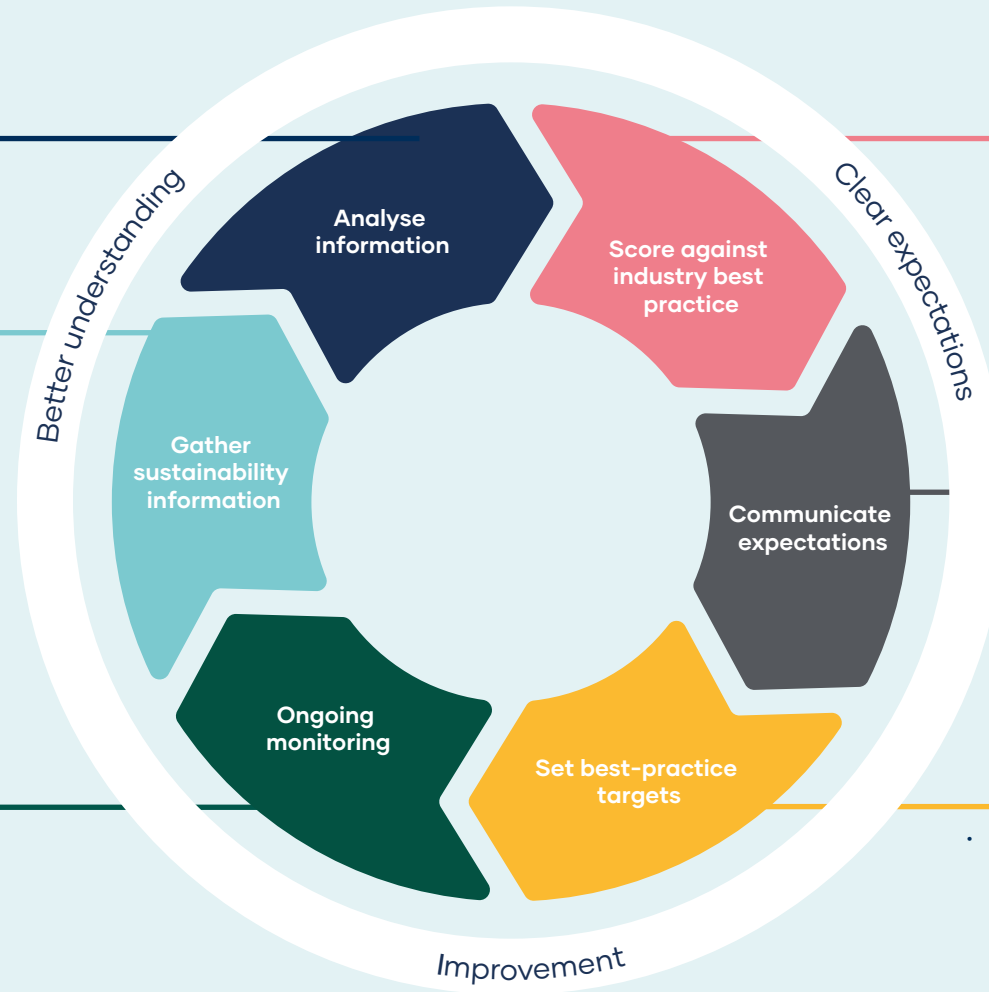
Our process is as follows:

- Detailed analysis of questionnaire responses and regular sustainability meetings

Questionnaire based on:

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

- Ongoing quarterly conversations with managers on improvements



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

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

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

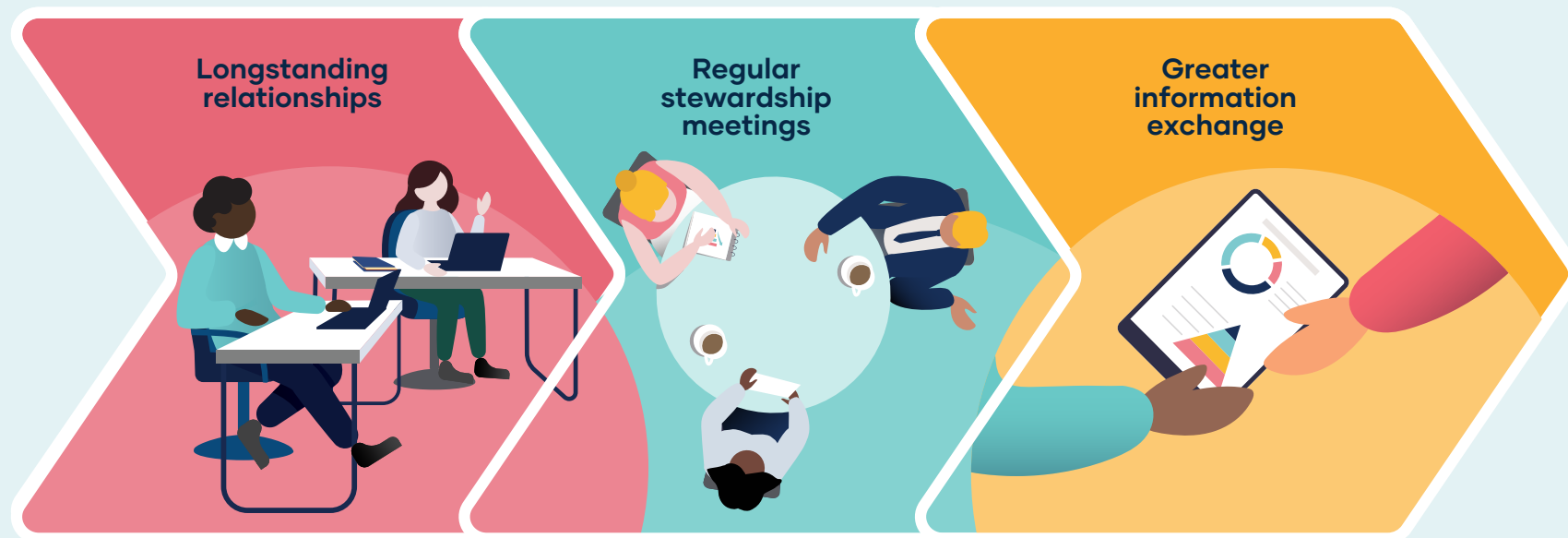
# Asset manager oversight & engagement continued

## How is stewardship integrated into investment processes?

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

Later in the process, and as part of the final investment mandate approval procedure, the Head of Sustainable Investment is formally involved in approving a new fund manager before an investment mandate is agreed. Following appointment, Brightwell holds regular manager meetings for better oversight of their stewardship activities and requests responses to our annual Net Zero & Stewardship questionnaire, as well as the Asset Owner Diversity Charter questionnaire.

Together, these cover manager governance, diversity and inclusion, engagement, climate and voting topics to gather appropriate information from our managers and understand their different approaches.



# Best practice manager expectations document

In our sustainability best practice manager expectations document, we set out what we believe represents current best practice principles in relation to sustainable investment across all asset classes and geographies. We look for evidence and quality across the following areas:

- Public commitments & initiatives
- Policies
- Training, expertise
- 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 us with relevant sustainability information and effective reporting in a timely and reasonable manner.

This document is shared with all of our 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 with a separate score card of where we believe they currently are relative to our best practice sustainability expectations. There is then an engagement meeting with each manager to discuss the findings and establish next steps together to drive progress.

The support of our managers is critical in helping us deliver our sustainability goals, including our Net Zero 2035 goal, and funding objectives. We believe that by documenting and sharing our manager expectations on sustainability, we can help ensure that the managers we are partnering with are supporting BTPS in achieving its ambitious sustainable investment goals, driving real world change, and helping us respond to the ever increasing regulatory and reporting obligations.

## Sustainability summary

From your questionnaire responses we note good examples of how you have applied sustainability considerations to our portfolio. There are several areas you are already working on improving and there are some areas for further development we would like to discuss and establish an appropriate way forward with you.

### Background

Following analysis of your questionnaire response, we have set out where we believe you currently sit relative to our best practice sustainability expectations.

It is intended to be a live working document that facilitates further discussion and amendments as and when required.

It has been designed to be read in conjunction with our Manager Expectations document.

### Our scoring definitions

Score	Definition
1	Poor sustainability practices
2	Adequate sustainability practices
3	Good sustainability practices
4	Best in class sustainability practices

### Your summary scores

Area	RAG rating	We have noted your summary scores in this table, using evidence from your questionnaire response on the different areas to support our views.
Sustainability governance	3	
ESG integration	2	
Stewardship / engagement	2	Each year we will be reviewing your annual questionnaire response and noting progress.
Climate	2	
Diversity and inclusion	3	We welcome discussing your thoughts and next steps.

We highlight the following 3 key points for particular discussion:

- **ESG integration** – examples of how this has impacted investment decision making in respect of our portfolio.
- **Engagement** – further engagement examples in respect of our portfolio. Engagement targets on issues material to the portfolio.
- **Climate** – involvement in collaborative climate initiatives eg IROCC, CA100+ Undertake TCFD reporting. Encourage adoption of science-based targets. Climate action plan with interim targets to achieve your climate commitments.

## Sustainability best practice manager expectations

BTPSM

June 2022

### ESG integration

Criteria	Expectations
Provision	<ul style="list-style-type: none"> <li>Systematic and thorough process for integrating ESG issues</li> <li>ESG issues are considered in all investment decisions</li> <li>ESG issues are considered in all investment decisions</li> <li>ESG issues are considered in all investment decisions</li> </ul>
Training and expertise	<ul style="list-style-type: none"> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> </ul>
Application to portfolio management	<ul style="list-style-type: none"> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> </ul>

### Voting (equities only)

Criteria	Expectations
Provision	<ul style="list-style-type: none"> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> </ul>
Application to portfolio management	<ul style="list-style-type: none"> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> <li>ESG issues are already integrated in the investment process, with sufficient expertise on relevant E, S and G, with the first between</li> </ul>

## Best practice manager expectations

### Climate

Criteria	Expectations
Provision	<ul style="list-style-type: none"> <li>Member of IROCC and CA100+</li> <li>Signatories to Net Zero Asset Managers Initiative (NZMI)</li> <li>Understand TCFD reporting</li> <li>Working towards all assets under management being consistent with achieving net zero emissions globally by 2050 or earlier.</li> </ul>
Provision	<ul style="list-style-type: none"> <li>Share, publish internally and adhere to a climate action plan with interim targets to achieve your climate commitments.</li> <li>Net zero emissions strategy and targets for your own operations based on scopes 1, 2 and 3 data, limiting the use of offsets as far as possible, and using high quality, recognised principles for carbon offsetting where that are used.</li> <li>Encourage limited use of offsets in any portfolio companies, with net zero targets, instead encourage emissions reductions.</li> <li>Don't fund new investments which are incompatible with the Paris Agreement. Avoid fossil fuel expansion projects.</li> <li>Through engagement, seek to encourage companies to reduce their own emissions and pledge to future climate commitments.</li> </ul>
Training and expertise	<ul style="list-style-type: none"> <li>Leading climate expertise, including an scenario analysis and credible dedicated resources.</li> <li>All investment decision teams have appropriate climate expertise to integrate climate considerations into the investment decision-making, and make its implementation.</li> <li>Robust analysis of appropriate climate data.</li> </ul>

# 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.

**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.**

Brightwell's investment process uses a combination of quantitative and qualitative inputs to achieve effective asset allocation and investment decision making.

Qualitative macro-economic analysis leads to an investment hypothesis, whilst the quantitative approach helps 'sense check' the conviction of that hypothesis.

It offers a repeatable and consistent approach that we apply time and time again. Using this approach, each asset class, e.g. corporate bonds, is listed in terms of their attractiveness, with a 12-18 month investment horizon in mind. The output is discussed on a monthly basis with the whole investment team to help form the asset allocation decisions for the Scheme.

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. Working with these groups helps us "horizon-scan" and continually evaluate new or evolving risks that might impact the Scheme. In an uncertain environment with fast moving technology trends, macro-economic challenges and geopolitical threats, it's important to be continually

vigilant and adjust our scenario analysis to the ever-changing landscape. In this way, we can appropriately monitor the implications for BTPS and adjust the investment strategy accordingly.

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

In addition, 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 analysis explored the impact of differing inflationary scenarios which have been regularly updated over the past 12 months.

## Systemic risks

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

These include a stagflation scenario, as UK growth is close to zero whilst inflation remains elevated. In addition, a stagflation and elevated UK Gilt debt risk scenario, where over and above a prolonged stagflationary backdrop in the UK, investor confidence results in elevated Gilt yields (along with declining Foreign Direct Investment). Other previous scenario analysis included scenarios measuring the impact, and relevant investment responses to geopolitically induced energy supply disruptions and their longer-term effects. In each of these scenarios, we consider the likely impact on Scheme funding and discuss the ways in which we could respond.



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

**Abbas Owainati**  
Macro-Economist, Brightwell

# Market-wide & systemic risks continued

## Dealing with market-wide risks in practice

**Issue:** The resilience of the investment strategy was tested last year during the extreme volatility in the UK gilt markets which saw yields rise sharply. Almost all UK DB schemes hedge their interest rate and inflation risk using a combination of gilts, interest rate and inflation swaps – financial instruments that we use to protect the Scheme from changes in interest rates. During this time, our hedges performed as expected, and whilst the value of the Scheme’s assets fell over this period, our liabilities fell in step. As a result, there was no worsening in the Scheme’s overall funding position.

**Action:** During this period of unprecedented market volatility, Brightwell held daily meetings between the CIO, Head of Markets, Head of Research & Solutions, Head of Operations and relevant members within those teams.

The Investment Risk Oversight team provided additional daily metrics including early stress indicators and risk exposure, such as but not limited to:

- Collateral adequacy measure, along with scenario analysis
- Monitoring of interest rate and inflation hedge ratios
- Counterparty Risk Monitoring informing on exposures by counterparty, instrument and corresponding collateral
- Asset and Currency Allocations report informed on adherence to agreed limits
- Cash flow forecast regularly updated to reflect excess cash in light of redemptions and expected outflows

The Trustee and BT were constantly kept updated throughout the period.

We were also in regular communications with peers grappling with the same issues and speaking with regulators, the Bank of England and others to better understand the situation and how to ensure the continuation of a well-functioning market.

We also asked an investment bank to stress test our approach to hedging to identify if there were other aspects of the programme which might be impacted by systemic risks.

**Outcome:** Looking ahead, whilst lessons can certainly be learned, these were highly unusual circumstances and despite the volatility, hedges performed as expected and the strategy held firm. We have become more cautious in how we manage the Scheme’s liquidity and have increased the collateral buffer to which we operate in line with regulatory guidance. This will position the Scheme to better weather any further volatility in the gilt market.

It is imperative that schemes have sufficient buffers to withstand market turbulence and procedures in place to help them respond to changing circumstances, make decisions and implement them where the need arises. However, there is only so much liquid collateral (cash, gilts) that schemes can hold without it being inefficient.



“We were pleased with how the Scheme’s liquidity ladder operated in this unprecedented time of extreme volatility. Being the sole LDI manager of BTPS, supported by a dedicated in-house operational resource, the team was able to coordinate portfolio activity and react quickly to manage the market volatility which led to a good outcome for the Scheme.”

**Doug Clark**  
Head of Research and Solutions, Brightwell

# Market-wide & systemic risks continued

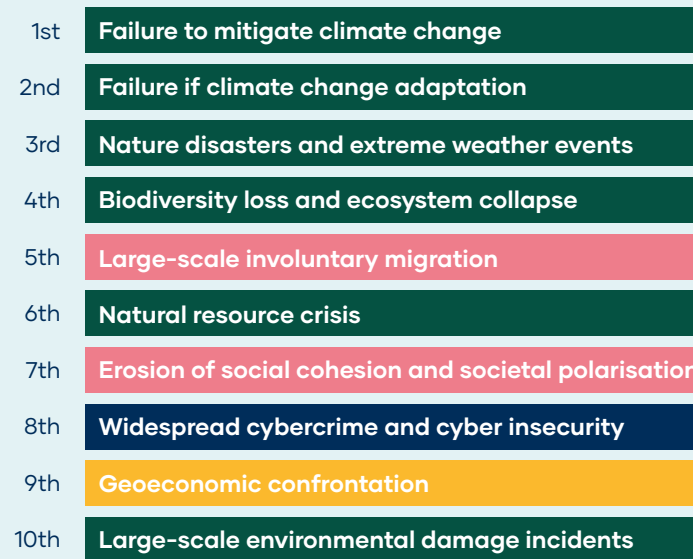
## Policy advocacy

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

As a result, we are members of several industry initiatives that work to promote better frameworks for long-term, sustainable investment. In addition, EOS at Federated Hermes undertakes significant advocacy activities on our behalf – we set out some examples on the next page, and to learn more, visit [www.btps.co.uk](http://www.btps.co.uk)

## Top 10 Global Risks by Severity

Over the next 10 years



■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological

Source: [World Economic Forum Global Risks Report 2023](#)

Systemic risks come in many forms and not all are obviously financial. Research conducted by the World Economic Forum highlights just how important sustainability considerations are to the overall health of the world economy. Environmental and social risks make up 8 of the 10 top global risks by severity to the global economy. Not only is macro-economic analysis important in managing these risks, but so is effective stewardship and advocacy.



# Market-wide & systemic risks continued

## Policy advocacy – promoting good stewardship

Brightwell co-signed a letter to the FCA to express concerns that proposed changes to the UK listings rules would undo the stewardship progress achieved and diminish the UK's reputation as the world's 'quality' market. In particular, we think that the current proposals to roll back existing investor protections around equal voting rights would make it harder for schemes to act as effective stewards of their assets and achieve good outcomes for their members.

Brightwell discussed the proposals with several investment managers and found that they had similar concerns that the proposed changes would not have the desired outcome of a thriving UK capital market.

They requested a broad and evidence-based policy discussion following the FCA's consultation on listing reforms. We look forward to engaging further on this matter.

We are also concerned by the UK Climate Change Committee's [latest report](#) stating that UK policy development continues to be too slow and confidence in the UK meeting its medium-term targets has decreased in the past year. This is particularly concerning for the Scheme which as it de-risks over time, will become more and more reliant on the UK government's climate policy and actions to achieve our Net Zero 2035 goal.

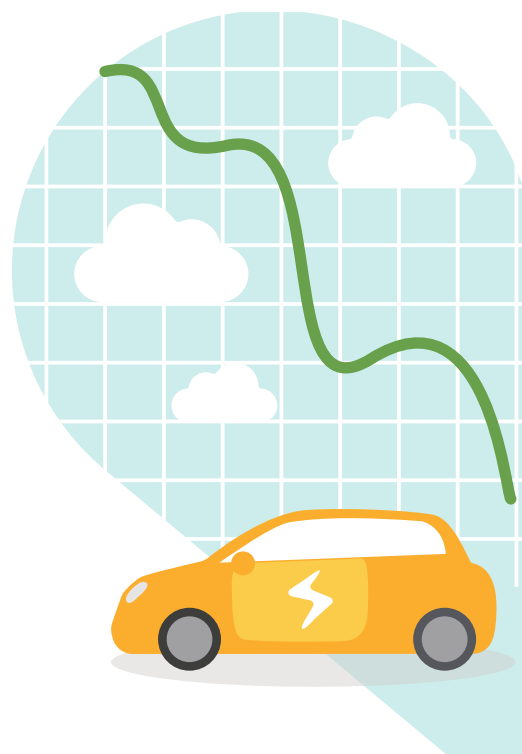
BTPS recently wrote to the UK government with other UK asset owners to express our concern. We will continue to engage with the UK government to encourage continued support of climate-related initiatives and ambition.

## Policy advocacy – automotive industry

Around 12% of global greenhouse gas emissions are from the road transportation sector which makes engagement with the automotive sector a key priority.

Many automotive companies have set emissions reduction targets focusing on a shift to electric vehicles, but to implement this effectively, a supportive policy environment is essential, and companies influence this policy environment by undertaking direct and indirect lobbying through industry trade associations. They can have significant influence over policy and regulation

The key focus therefore is to ensure that automotive companies are lobbying for regulation that is aligned with the Paris Agreement and science-based targets.



## Hedge fund manager Bridgewater undertaking thematic engagement on the auto sector



**Issue:** Bridgewater has engaged with auto manufacturers to better understand the sector and the sustainability issues it's facing, and to drive change – from the transition of internal combustion engine cars to electric vehicles, as well as sustainability progress in their operations including responsible sourcing.



**Action:** Bridgewater's engagements over the past year included conversations with six different auto manufacturers, many of which were continuations of engagement activities in 2021. Across conversations, the focus was on three main themes:

- Electric vehicle transition targets, focusing on granular details regarding plans by car type and geography in line with emerging government regulations.
- Transition enablement plans, including plans for capex and battery procurement.
- Responsible sourcing, including practices in mining key metals and hidden labour issues.



**Outcome:** The engagements are ongoing and Bridgewater continues to monitor the companies' transparency and progress regarding their EV transition targets, capex and sourcing plans, and efforts in responsible sourcing. They will use the results of this engagement to inform assessments of the companies' ability to navigate transition-related risks and which in turn will lead to investment decision making. Overall, Bridgewater has seen progress in the granularity of targets, capex plans, and transparency on responsible sourcing.

# Mitigating market – wide & systemic risks through collaboration

## The ASCOR Project

*Assessing sovereign climate-related opportunities and risks*

Brightwell's Head of Sustainable Investment, Victoria Barron, is Co-Chair of the ASCOR Project, alongside the Church of England Pensions Board. It is an international collaboration of investor networks, asset owners and asset managers, representing over \$5 trillion in assets under management.

ASCOR will enable investors to assess governments' climate-related commitments, their policy frameworks (including carbon pricing, energy subsidies, the phase-out of combustion vehicles, deforestation and land use policies) and the actions they are taking to ensure that the benefits of the low carbon transition, and of adaptation, are shared fairly.

ASCOR will not be scoring countries, nor giving investment advice or direction – it is a tool to enhance investors' decision-making capabilities and to support investors working towards Net Zero goals.

Significant progress has been made since its launch in June 2021, as highlighted in the **ASCOR July 2023 progress note**. We launched the ASCOR Consultation Report in February 2023 requesting feedback on the framework – this included 800+ attendees at global webinars, 200+ responses to the online consultation survey, 140+ attendees at regional roundtables and 15+ bilateral meetings with countries and organisations. 25 pilot countries are being assessed and the issuer feedback process got underway in Q3 2023. The aim is to publish the ASCOR tool before the end of 2023.

## The Asset Owner Diversity Charter (AODC)

BTPS is a signatory to the Asset Owner Diversity Charter (AODC) and Emma Douglas, Senior Stewardship Analyst, Brightwell, is Co-Chair of the working group alongside the Church of England Pensions Board.

BTPS is committed to holding asset managers to account on diversity and inclusion to improve the asset management industry's performance on this important issue.

Diversity, equity and inclusion (DE&I) forms part of Brightwell's manager selection and the Scheme will monitor its managers' efforts on an ongoing basis to encourage positive broader industry change.

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.



"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 are limited. We need a publicly available tool and database on sovereigns' climate action and alignment. This is the aim of the Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) project."

**Victoria Barron**  
ASCOR Co-Chair and Head of Sustainable Investment, Brightwell



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

# Mitigating market – wide & systemic risks through collaboration continued

## The Asset Owner Diversity Charter (AODC) - 2022/3 progress

In December 2022, the AODC working group held their first hybrid event. The working group was joined by other asset owners, asset managers and consultants to discuss what effect the charter was having, explore best practice and share the findings from the first year's questionnaire. We had 89 manager responses to the questionnaire over the 2022 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 23% of managers stated that they published a gender pay gap in the past year and only 3% published their ethnicity pay gap. More ambition and transparency is needed to close the gender and ethnicity pay gaps.

81% of managers have a diversity strategy or policy. Smaller managers had previously taken a less formal approach, but this is changing with 67% now having a diversity policy.

48% of managers have set diversity targets with 28% setting KPIs linked to senior management remuneration

Less than 50% of firms are tracking and measuring promotions through a diversity lens.

63% of managers indicated they were providing mentoring and 42% were providing sponsorship to under-represented groups. However, not a single manager was tracking take up of these initiatives. In order to ensure the right initiatives, policies and programmes are effective and targeting the right areas, managers should consider collating this data.

10% of firms publish their family leave policies.

The majority of firms are not using diversity quotas during the recruitment process, even at the interview stage.

An aggregate report will be published and it will explore these high level findings further, along with best practice case studies to help support engaging conversation in ongoing manager monitoring.

### Focus for 2024

Over 2023, we have worked hard to improve the response and disclosure rate from managers, and setting out our expectations. We will continue to build our signatory base with a focus on expanding out of the UK to take the initiative global. Towards the latter half of 2023, we will conduct a review of the questionnaire with a focus on incorporating the findings from the socio-economic diversity task-force.

# Developing our knowledge of systemic risks – biodiversity

Over the past year biodiversity has become a key area we have sought to develop our understanding. We have engaged with managers to establish how we can 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 our Net Zero 2035 goal.

We established a learning and engagement programme with our fund managers to better understand how they are thinking about biodiversity with respect to the BTPS portfolios. Our 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. We view the collaboration between academia and the investment industry as particularly necessary. We want to ensure that what we do in this area is meaningful, and monitoring the right metrics is going to be key.

## Our key actions to date

### 1. Developed our understanding of biodiversity and deforestation

- Undertook a research project with MBA students from the Cambridge Judge Business School on biodiversity to better understand its impact on the Scheme's portfolio. An article summarising our learnings can be found on the Brightwell website [here](#). As part of this project, we engaged with leading investment managers in this space to understand their approaches as well as the current limitations and challenges they are facing. The team presented to a Brightwell group, including the CEO and CIO and at a lunch and learn open to all Brightwell colleagues.
- Research and knowledge building through desktop research, attendance at conferences and webinars on biodiversity and deforestation, and discussions with other asset owners and asset managers on their approaches.

### 2. Engagement with managers

- We are starting to engage with our managers on biodiversity and deforestation policies, encourage them to join collaborative initiatives, where there don't already have them in place and are not already doing so.
- Started discussions with other financial institutions and multi-stakeholder groups on biodiversity and deforestation, exploring collaboration opportunities.

## Our key actions to date – continued

### 3. Investment manager progress on deforestation

- Our 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 our 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 policymakers 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 has committed to the actions in relation to biodiversity by 2024 at the latest: collaboration and knowledge sharing; engaging with companies; assessing impact; setting targets; and reporting publicly. They have convened many Finance for Biodiversity policy advocacy strategy and working group sessions.



**Outcome:** Federated Hermes has contributed to the TNFD consultation response, attended the Biodiversity COP15 in Montreal where they engaged with regulators and policymakers, progressing industry discussions on Finance for Biodiversity, and is working on a plan to increase collaborative engagement with companies and policymakers on biodiversity.

# Developing our knowledge of systemic risks continued

## Sovereign debt engagement exploring financial mechanisms to protect natural areas



**Issue:** Wellington engaged with a senior government authority with the Ministry of Environment in a Latin American country to discuss concerns around biodiversity and conservation efforts. The goal was to learn more about the Ministry's water and forests conservation efforts and to identify financial mechanisms that could help the country protect its natural areas.



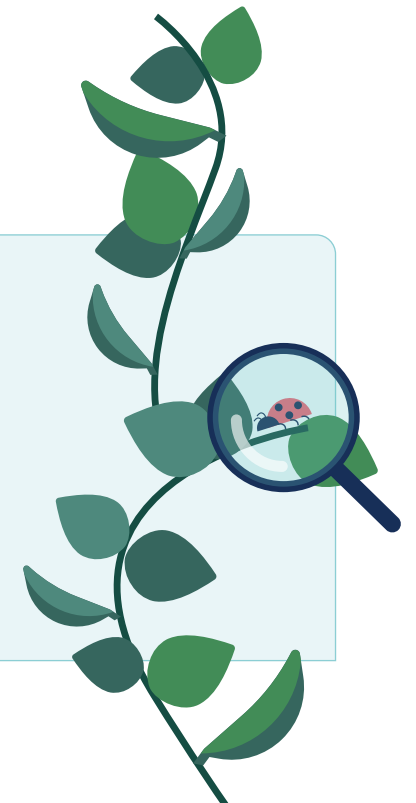
**Action:** The Ministry highlighted recent efforts to create new natural reserves given the importance of the ocean and forest for country's economic prosperity. In addition, they highlighted the need to complement the conservation efforts with a decarbonisation strategy and are monitoring for signs of progress in this respect. Wellington further raised the interest of the financial markets in biodiversity-linked financial instruments that could potentially attract private sector investment in the country.



**Outcome:** Wellington is monitoring further developments in conservation, decarbonisation, and the potential use of alternative sources of funding towards biodiversity progress.

### Next steps

- 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 a qualitative assessment of the nature-related impacts and dependencies across the portfolio.



# Proxy voting

## What does it mean to vote?

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

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

BTPS believes that making full use of its voting rights is part of our fiduciary duty and requires EOS at Federated Hermes EOS and, where applicable, asset managers to execute all votes for the Scheme's directly held public securities. We believe that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. The Scheme's investment managers and EOS are given a measure of discretion and flexibility, and can follow their own voting policy on most voting topics. Brightwell monitors the investment managers' and EOS' voting activities and requests they highlight key voting decisions on a quarterly basis, alongside thorough review of all their votes cast on an annual basis.

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

BTPS also publishes EOS' quarterly voting statistics and activities on the Scheme website - see here for more information: [www.btps.co.uk/sustainableInvestment](http://www.btps.co.uk/sustainableInvestment)

**To see our voting activities in further detail, please see our implementation statement in the BTPS report & accounts. [BTPS Portal - Regulatory reporting](#)**

## Significant votes

We pay particularly close attention to votes that we deem 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.

### We categorise significant votes as:

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



# Proxy voting continued

## Escalation

Voting is an essential part of being active owners of our 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. We expect our managers 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' best interest.

## Escalation example to enhance engagement where we are a bond holder

**Company:** Volkswagen

**Escalation activity:** Shareholder resolution seeking improved disclosure on the company's climate lobbying.



**Issue:** Federated Hermes EOS has been actively engaging with Volkswagen on behalf of BTPS on the issue of climate policy since early 2019, asking the company to align to investor expectations set out in the IIGCC investor expectations on climate lobbying (2018) and the new Global Standard on Corporate Climate Lobbying (2022). Many automotive companies have set emissions reductions targets focused on a shift to electromobility – but to implement this effectively, a supportive policy environment is essential. Volkswagen lacked comprehensive disclosure on how its lobbying goals and activities align with its climate goals.



**Action:** Due to the company's reluctance to provide transparency of its climate-related lobbying activities, EOS escalated their engagement in 2022 and made a supporting statement to a shareholder resolution filed by seven European investors urging the company to explain how its lobbying activities help to address climate risks. Since the start of the engagement with Volkswagen, nearly half of the European companies in scope for the Climate Action 100+ initiative had published at least one climate lobbying review, and the majority had committed to repeating this disclosure annually. However, the company declined a formal request for a shareholder resolution to put forward at its annual shareholder meeting. Volkswagen rejected the proposal on the basis that they deemed it beyond the competence of the general meeting.



**Outcome:** Whilst Volkswagen rejected the motion to put climate lobbying on the agenda at their AGM, the shareholders subsequently filed a lawsuit against Volkswagen to force the item onto the agenda for the 2023 AGM as investors want the company to be more transparent. EOS continues to press Volkswagen for lobbying transparency. The outcome of this lawsuit is particularly important because if successful, it would set a precedent with more shareholders encouraged to improve company governance.



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



**Manager:**

Caledonia Investments

**Fund type:**

Pooled active equity fund

**Significant vote**

**Company:** Flutter Entertainment Plc

**Vote topic:** New Articles of Association in connection with the additional US Listing of Flutter (resolution 14)

**Voting instruction:** For

**Rationale:** Unlocking the significant value in Flutter's US subsidiary FanDuel is very important. Flutter is a large holding in our portfolio and unlocking the value of FanDuel is key to our long-term investment case and by having an additional US listing this will be critical for Flutter and its investor base going forward.

**Approximate size of holding as at the date of the vote (as % of portfolio):** 15%

**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 99.9% approval. The impact of this vote and the listing is yet to be seen, but Caledonia will be engaging further with Flutter to understand progress.

**Manager:**

GQG Investment Management

**Fund type:**

Segregated active equity fund

**Significant vote**

**Company:** ServiceNow Inc

**Vote topic:** Executive Compensation

**Voting instruction:** Against

**Rationale:** Following a failed say-on-pay vote last year, the committee has demonstrated only a limited degree of responsiveness by responding to a primary shareholder concern regarding one-time awards, but the committee did not make meaningful structural improvements to the regular pay program to address shareholders' secondary feedback points. It is positive that the Short-Term Incentive Plan (STIP) was based primarily on financial metrics and the goals utilised were reasonable, even after a mid-year goal modification. However, there are continuing pay structure concerns that underscore a pay-for-performance misalignment. In light of these concerns, a vote AGAINST this proposal is warranted

**Approximate size of holding as at the date of the vote (as % of portfolio):** 2.4%

**Why a significant vote?:** Potential impact on financial outcomes and stewardship outcomes

**Outcome of vote:** Fail (41% For versus 59% Against). No impact on the investment decision given the vote was aligned with our voting stance. Given a similar result at last year's shareholder meeting, we would expect greater responsiveness from the company to these concerns. Going forwards GQG will continue to monitor how the executive pay structure is improved and engage with the company further.

**Manager:**

TCI Investment  
Management

**Fund type:**

Pooled active equity fund

**Significant vote**

**Company:** Aena S.M.E SA

**Vote topic:** 2022 Updated Report on Climate Action Plan

**Voting instruction:** For

**Rationale:** A vote FOR this proposal is warranted, as TCI was supportive of their Climate Action Plan

**Approximate size of holding as at the date of the vote (as % of portfolio):** 3.2%

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

**Outcome of vote:** The Climate Action Plan was approved with 94% of the votes in favour. The company now understands that having a Climate Action Plan is essential, and it is imperative to execute on the plan and communicate transparently to receive the benefits of being a best-in-class ESG company.

**Manager:**

Federated Hermes EOS

**Fund type:**

Multiple segregated  
equity funds

**Significant vote**

**Company:** Berkshire Hathaway

**Vote topic:** Board diversity

**Voting instruction:** Against

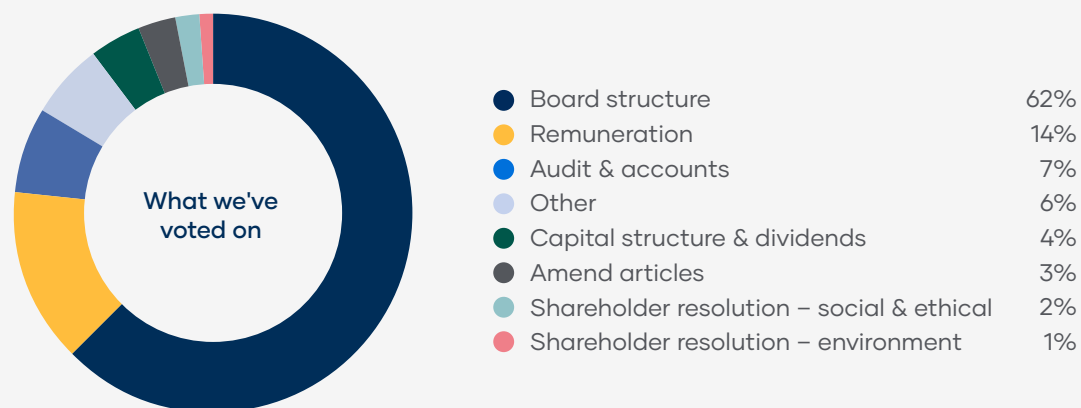
**Rationale:** EOS had concerns over Berkshire Hathaway's lack of Board diversity which was not meeting EOS' minimum expectations and gender and ethnic diversity on boards. As a result, they recommended voting against the chair and all members of the governance committee, with the exception of the new nominee director Murphy.

**Why a significant vote?:** Potential impact on financial outcomes and stewardship outcomes

**Outcome of vote:** Pass. Over 95% of votes were in favour of the Board. EOS will engage with the company on this matter later this year.

# Proxy voting continued

Voting activity by manager	EOS	GQG	TCI	Caledonia
Fund type	Multiple equity funds	Segregated active equity fund	Pooled activity equity fund	Pooled activity equity fund
Number of meetings which the manager was eligible to vote	65	44	13	17
Number of resolutions on which the manager was eligible to vote	773	705	236	172
Percentage of eligible votes cast	100%	100%	100%	100%
In what % of meetings, for which you did vote, did you vote at least once against management.	57%	64%	0%	0%
Resolutions with management	35%	82%	100%	100%
Resolutions against management	57%	18%	0%	0%
Resolutions abstained from	2%	0%	0%	0%
Meeting with management by exception	6%	0%	0%	0%



# Engagement

Corporate engagement is the practice of shareholders entering into discussions with company management to change or influence the way in which that company is run.

Engagement can be successful across many different asset classes, including equities, bonds, property, private equity and infrastructure. Engagement can be done via letters, calls, site visits, one-to-one or group meetings. It can be proactive, attempting to anticipate future issues which may damage the long-term profitability of an investment, or reactive, to express concern in the wake of a problem or following unfavourable media coverage.

The Scheme's engagement efforts focus on a variety of different areas, from the remuneration of senior management to investigating whether operations are having a negative impact on local biodiversity. In bonds, it can also encourage changes to bond prospectuses or indentures, and more or less favourable loan terms depending on certain sustainability criteria.

Regarding engagement with our managers, we have had a particular focus on climate and how our managers are helping us towards our Net Zero 2035 goal. For this reason, we strongly encourage all our managers 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 to 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 our engagement activities. 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. We also think that good stewardship, engagement and active voting improve investment outcomes.

The Scheme's investments are structured such that we have relatively large portfolios with fewer managers. This means we have more influence when we engage with our investment managers and when they in turn engage with the investee entities.

Our view is that we must hold management teams to account and the best way to alter company behaviour is through meaningful, structured engagement with companies' management teams and boards. Corporate engagement is done on BTPS' behalf in two ways: through our asset managers and through EOS at Federated Hermes acting as agents of the Scheme. We expect our managers to engage on a whole host of engagement topics. This is evidenced by the statistics over the next few pages, as well as the engagement examples and our voting records.

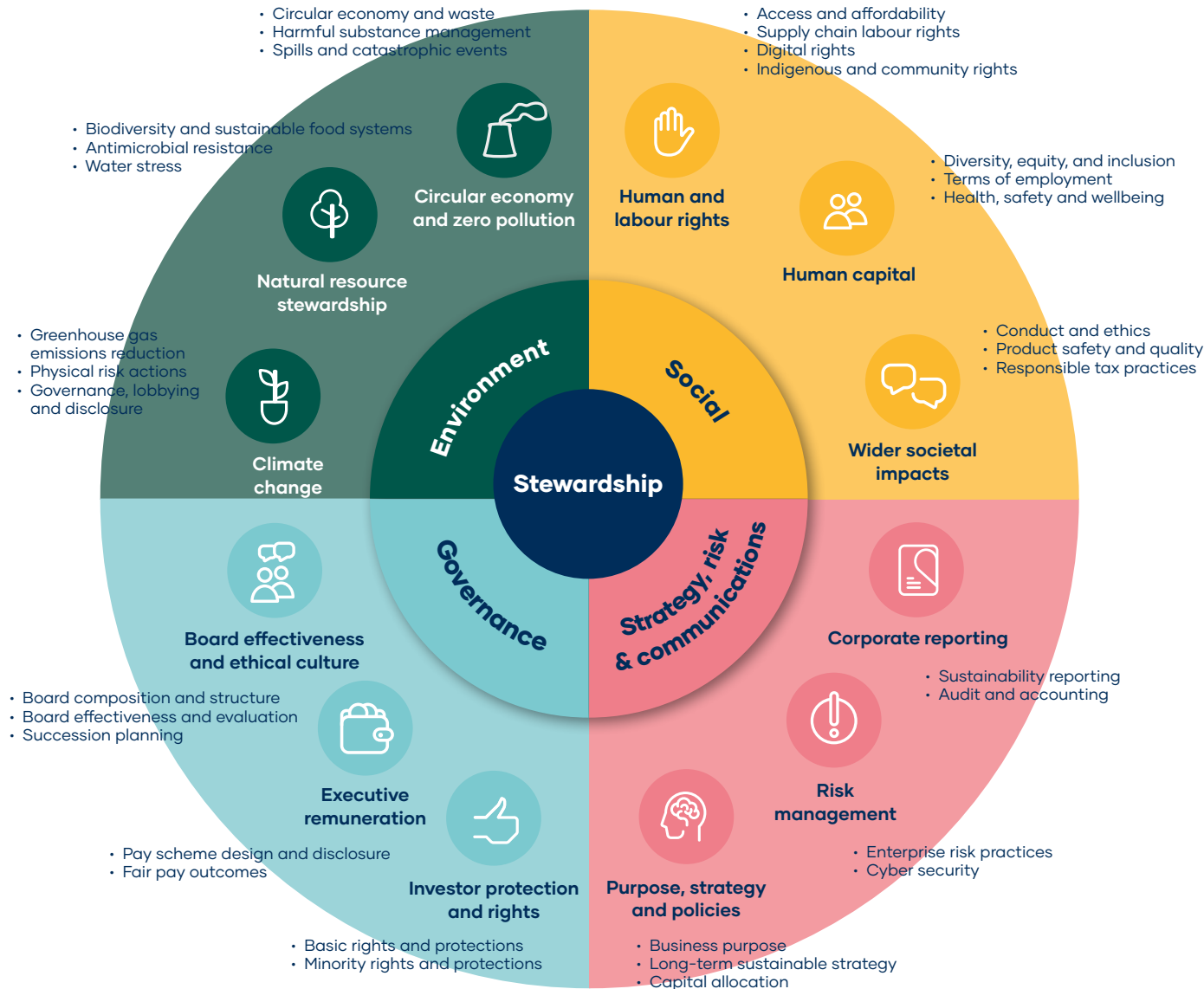
BTPS founded EOS in 2004 through our ownership of the then, Hermes Investment Management. The intention was to establish an organisation that allowed us to have a greater impact on sustainability issues, as well as the potential to enhance our knowledge through collaboration and being part of a larger network of like-minded asset owners and managers. Today, EOS is one of the world's largest stewardship and engagement services, with a track record in contributing to best practice sustainability industry standards and around \$1.3tn in assets under advice as at 31 December 2022.

Its engagement plan identifies 12 key themes and 32 related sub-themes which help focus EOS' engagement activities on the most material topics impacting investments. EOS's stewardship expertise and resources provide us with wide coverage of different assets and access to specialised expertise across different engagement themes, from biodiversity to fast fashion, for example. EOS has strong and long-term relationships with company boards through multi-year engagements, cultural understanding and relevant language skills, and broader connections which all contribute and aid our stewardship efforts.

During the year, we undertook a competitive tender process for the Scheme's stewardship service provider. It's important we do this periodically to ensure we're getting the best value and service for our members. Our research concluded that EOS still provided the best offering for the Scheme's requirements.



# Engagement themes for 2023-25



EOS at Federated Hermes undertakes engagement over three-year cycles. To ensure meaningful impact and to measure and report effectively, EOS engagement is guided by a client engagement plan. We delegate the prioritisation of issues to EOS, however we contribute to their engagement themes annually which guides engagement with companies on a wide range of topics such as natural resource use, waste and packaging, human rights, bribery and corruption, business strategy and purpose, and executive pay.

To achieve change, our asset managers and EOS may undertake a series of escalating engagement actions. Depending on the nature of the challenge and the initial reaction of the company's board to engagement, it can include meeting with the chairman or other board members, discussions with other shareholders of the company, submitting resolutions and speaking at Annual General Meetings. They can also collaborate with other investors where they are concerned about company practices and performance.

# Monitoring engagement progress in practice

## EOS milestones

EOS uses a proprietary milestone system which allows them to track progress of engagements relative to the objectives set at the beginning of the company interactions. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective.

**Milestone 1** - Concern raised with the company at the appropriate level

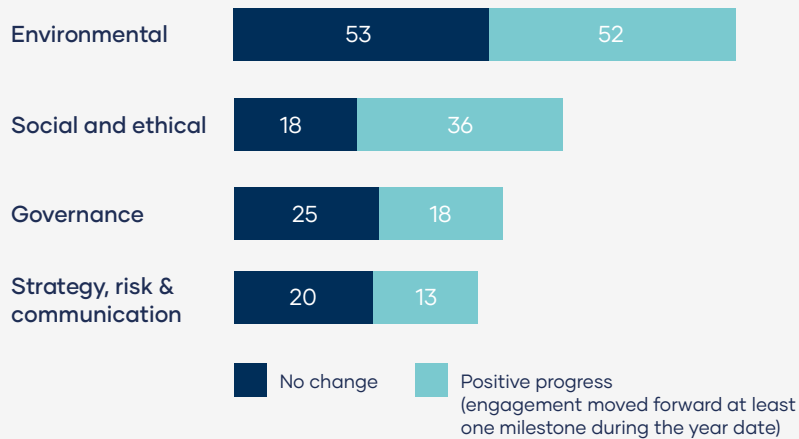
**Milestone 2** - The company acknowledges the issue as a serious investor concern

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

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

Milestones were hit with at least one moving forward for c46% of the objectives over the year. The following chart describes how much progress has been made in achieving the milestones set relative to each engagement. Where sufficient progress is not made by a company towards the next milestone over the 12 month period, escalation activities will follow as appropriate.

### Progress against milestones



**134**  
companies  
engaged with



On  
**683**  
issues



With  
**235**  
engagement  
objectives



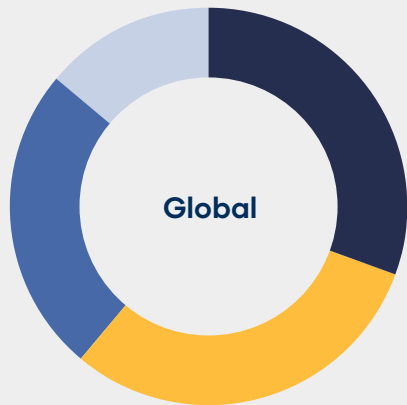
## Engagement statistics

Over 2022, EOS engaged with 134 companies on 683 environmental, social, governance, strategy, risk and communication issues and objectives, to promote positive change on the following issues and many more.

## Engagement by theme

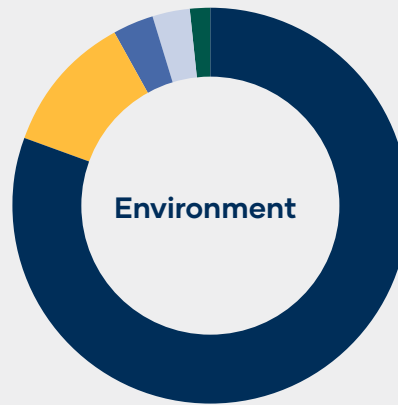
To ensure they achieve positive outcomes, EOS sets clear and specific objectives within all company engagements. Each objective is tracked using milestones and are regularly reviewed until they are completed, or when the company has demonstrably implemented the change requested, or when the activity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

We engaged with 134 companies over the last year



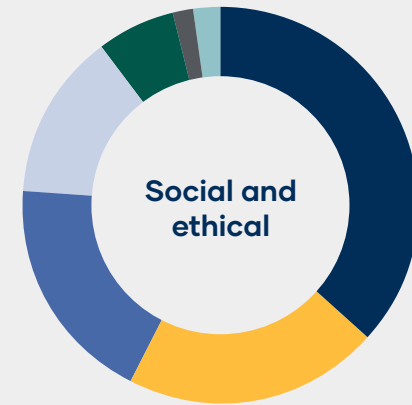
Environmental	30.7%
Governance	30.5%
Social and ethical	25.0%
Strategy, risk, and communication	13.8%

Environmental topics featured in 30.7% of our engagements over the last year.



Climate change	80.5%
Pollution and waste management	11.4%
Forestry and land use	3.3%
Supply chain management	3.3%
Water	1.4%

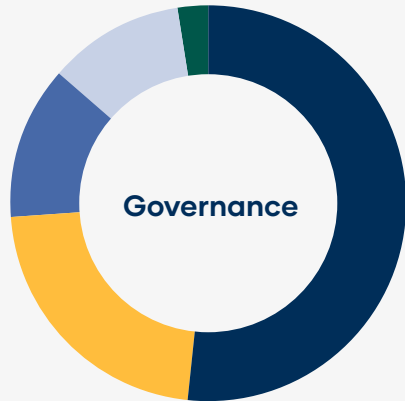
Social and ethical topics featured in 25.0% of our engagements over the last year



Human rights	36.8%
Human capital management	21.1%
Diversity	18.7%
Conduct and culture	13.5%
Labour rights	6.4%
Tax	1.8%
Bribery and corruption	1.8%

## Engagement by theme – continued

Governance topics featured in 30.5% of our engagements over the last year



● Executive remuneration	51.9%
● Board diversity, skills and experience	22.1%
● Board independence	12.5%
● Shareholder protection and rights	11.1%
● Succession planning	2.4%

Strategy, risk and communication topics featured in 13.8% of our engagements over the last year



● Risk management	31.9%
● Business strategy	29.8%
● Integrated reporting and other disclosure	26.6%
● Auditing and accounting	9.6%
● Cyber security	2.1%





# Engagement in practice

Engagement examples over reporting period 1 July 2022 - 30 June 2023.

## Environmental

### Private equity engagement via Federated Hermes

#### Setting expectations around water treatment at a pharmaceutical company

**Issue:** When undertaking due diligence on a pharmaceutical company, Federated Hermes identified some areas for improvement on its water treatment – particularly around groundwater licenses and the need to improve the wastewater treatment.

**Action:** Prior to investment, expectations were set for the company to address these issues as a priority. Over the year, the issue was routinely covered in quarterly meetings or individual updates. The engagement was led by the portfolio manager with support from the private equity ESG specialist. By the end of 2022 and in preparation for the Federated Hermes ESG portfolio review committee, a written update on the project was requested to ensure progress was aligned with the original investment thesis.

**Outcome:** The team was pleased that the General Partner, responsible for managing the private equity fund, and the company had addressed the concerns by receiving all the relevant licenses and building the required wastewater treatment plant.

### Real estate engagement via Federated Hermes

#### Business Park reducing energy consumption and carbon emissions

**Issue:** A Business Park located in Poole, is one of the most significant assets of its type in Southern England and is home to many recognised retail names alongside local businesses. It is managed by Federated Hermes in accordance with the Responsible Property Investment ESG programme, which seeks to deliver holistic outcomes by generating positive societal and environmental impacts in addition to meeting financial return targets. Federated Hermes is engaging with the property manager to deliver on this.

**Action:** Working collaboratively with CBRE, its property management partner, Federated Hermes has sought to reduce energy consumption and carbon emissions and promote a more sustainable basis to service provision on site.

**Outcome:** The Business Park has had the following success in its sustainability outcomes - the landlord's electricity is 100% renewable, BREEAM (the world's leading science-based validation and certification systems for real estate and infrastructure) In Use Excellent rating for existing office accommodation, no communal waste is sent to landfill, LED estate lighting – energy consumption reduction of 90%, passive infrared (PIR) sensor lighting in building communal places, external biodiversity and tree-planting programmes, green travel plan for occupiers, access to bike share scheme and more.

For more environmental engagement examples see the Scheme's climate report:  
**BTPS Portal - Regulatory reporting**

# Engagement in practice continued

Engagement examples over reporting period 1 July 2022 - 30 June 2023.

## Environmental

### Infrastructure engagement via Federated Hermes Infrastructure

#### Ferry company's carbon reduction journey

**Issue:** Federated Hermes continues to engage with a ferry company on how it is reducing its carbon emissions through its investments in green technology (including hybrid vessels) to reduce its environmental footprint.

**Action:** Over the past year, two particular areas of engagement are as follows:

1. As Safety and Sustainability Committee SSC Chair, Federated Hermes set the agenda for the company to review its approach to the Science-Based Targets initiative (SBTi) in 2022, with a view to the business participating, which they have encouraged
2. Undertaken work to understand the impact of carbon pricing (both direct and indirect) across the portfolio. This analysis is part of a project appraisal for the retrofitting of additional batteries onto existing ferries.

**Outcome:** This final SBTi assessment was presented to the SSC in February 2023. It set out a roadmap to commit to SBTi in 2024, once further work had been undertaken to validate its scope 3 emissions inventory in 2023 (work Federated Hermes has also encouraged at the committee). This was approved by the committee and reported to the main company Board.

### Corporate credit engagement via Wellington Management

#### Monitoring progress against science-based targets with a fossil fuel company

**Issue:** Wellington engaged with one of the largest producers of fossil fuels which has a higher-than-average weighted average carbon intensity. It was necessary to engage and discuss the company's strategic outlook, their emissions reductions targets, provide feedback on their client perspective, and speak to their Net Zero Asset Manager's involvement.

**Action:** The engagements focused on how the company planned to meet its science-based target of a reduction in carbon emissions by 70% from a 2017 base. Wellington noted that the company was differentiated by its willingness to share data and specific plans for closing coal plants and reducing emissions over time. Nevertheless, Wellington remained aware of the details regarding plan closures and plans for transitioning to a green future.

**Outcome:** Engagement has continued over the year, and the company was able to provide further detail about the coal plant closures over the next five years, along with details on how it is working with its suppliers to manage their Scope 3 carbon emissions. Wellington believes the company is a leader in the industry in terms of thinking about the Scope 3 transition, which will accelerate in the coming year.

### Opportunistic credit engagement via Golden Tree

#### Steel manufacturer climate transition to cleaner energy source

**Issue:** Canadian steel manufacturer Algoma has been operating since 1901, long before modern environmental standards were in effect and, as such, its land was contaminated due to the company's operational practices at that time.

**Action:** Golden Tree assisted in the negotiation of an environmental action plan, as well as restructuring activities. It involved working extensively with the company to assess the benefits and feasibility of replacing its current blast furnace infrastructure with an electric arc furnace. Replacement of the furnace will contribute to significant emissions reductions (75% decrease per net tonne). They also undertook analysis of the climate risks associated with the current furnace, as well as comparison of emission analyses of the different technologies and of cost and potential sources of capital for the investment.

**Outcome:** The company entered into a merger agreement transaction that provided the company with investment capital to support the transformation from a blast furnace to an electric arc furnace (EAF) steelmaker. The EAF transformation unlocks both important investment and environmental value. It can improve Algoma's cost position, provide more consistent earnings profile and EAF steel production will emit substantially less CO<sub>2</sub>, reducing emissions by 75%. This reduction alone would account for 11% of the Canadian Federal Government's 2030 Paris Agreement target and 100% of the Province of Ontario's 2030 target and make Algoma the cleanest steel producer in all of Canada."

# Engagement in practice continued

Engagement examples over reporting period 1 July 2022 - 30 June 2023.

## Social

### Sovereign debt engagement via Wellington Management

#### Advancing a Sovereign's social objectives

**Issue:** Around 25% of a Middle East sovereign's budget is dedicated to advancing social objectives including labour protections, healthcare services, housing programs and jobs support, but there still remain concerns over their practices.

**Action:** During an onsite country visit to the Middle East, Wellington engaged with a variety of government officials around social factors. One key issue under discussion was the Sovereign's commitment to social well-being.

**Outcome:** Concerns around personal freedom and freedom of expression remain despite progress on issues such as gender equality. However, importantly, following a meeting with the Middle East sovereign's Debt Management Office they sought our feedback on articulating their ESG efforts in order to provide more transparent information going forward which is a positive signal.

### Corporate credit engagement via M&G

#### Improving bioethics within a US medical technology business

**Issue:** M&G engaged with a US medical technology and analytical equipment business to ensure it had effective policies and procedures in place to help avoid the misuse of its equipment. In recent times, there were reports regarding human rights violations with speculation that the company's DNA products were being potentially used in a manner inconsistent with human rights principles.

**Action:** M&G engaged with the company at the time and continues to do so to encourage better governance around bioethics issues. The company has adopted and implemented a Code of Business Conduct and Ethics. It has also implemented a multi-level purchasing process designed to prevent the ordering and resale of human identification products to help ensure that no products or services are sold that could potentially be used in unintended ways to violate human rights. The company has an approved network of authorised distributors that agree to comply with this purchasing process under the terms of their contract.

**Outcome:** M&G is satisfied with the progress and improvements that have been made to the company's policies and procedures over the past few years. It now has in place a cross-functional Bioethics Committee that regularly assesses the ethical and social implications of scientific developments in biotechnology. M&G will further engage with the company on matters of bioethics.

### Concerns over drug affordability

#### Equity engagement via GQG with an American pharmaceutical company

**Issue:** GQG engaged with an American pharmaceutical company to discuss its concerns over drug affordability.

**Action:** GQG pressed the company on insulin pricing issues which are a financially material risk factor for the company. The company pointed out that the average prices of insulin have been dropping dramatically for many years with the average cost now \$21 – below the \$35 price cap mandated by the September 2022 Affordable Insulin Act Now Act.

**Outcome:** GQG will continue to monitor the company's progress towards its target of cutting insulin prices by 70% and cap costs at \$35 per month.

# Engagement in practice continued

Engagement examples over reporting period 1 July 2022 - 30 June 2023.

## Governance

### Corporate credit engagement via Insight

#### Improving a brewery company's digital ethics

**Issue:** Insight engaged with a brewery company on its corporate governance. It had a detailed discussion on how ethics and transparency is a key priority for the company, both applying a code of conduct for local laws and regulations as well as having strict internal standards.

**Action:** Insight highlighted the issue of digital ethics - how information is collected and analysed - that the company should only collect necessary data, use and keep it as required, with a strong focus on privacy.

**Outcome:** Insight was happy with the company's response to this important issue and satisfied that it is taking on board recommendations for improvement. Insight will continue to engage with them and monitor progress.

### Infrastructure engagement via Federated Hermes Infrastructure

#### Encouraging robust governance and integrated sustainability strategy at a British port operations company

**Issue:** Federated Hermes has governance rights for a rotational seat on the board of a British port operations company. It had success in promoting robust governance, with the establishment of a strong flow of information between the firm and the board, with key decisions being considered and presented with wider stakeholders taken into consideration. Building on this governance foundation, Federated Hermes felt more could be done to develop and integrate evidence based sustainability targets into the long term business plan.

**Action:** Federated Hermes have engaged on the development of an integrated sustainability strategy with the board and with the executive committee over a number of years. In 2022 the company committed to developing a strategy which included emissions reduction targets. Federated Hermes engaged on the development of this strategy through a series of working groups with company management and co-shareholders. The strategy was then approved by the Board in November 2022 and launched publicly in early 2023.

**Outcome:** The strategy includes a commitment to reach Net Zero from the company's operations (Scopes 1 and 2) by 2040 and there is an ambition to commit to SBTi in 2024. The forecast capital investment required to deliver large parts of its decarbonisation of plant and equipment has been integrated into the company business plan. The strategy also includes wider targets to improve biodiversity, air quality, waste and water management. Furthermore, ESG KPIs were included as part of the company-wide bonus incentive scheme for the first time in 2022.

### Corporate credit engagement via Insight

#### Encouraging a more diverse Board at a Mexican telecommunications company

**Issue:** Insight engaged with a Mexican telecommunications company to discuss the controlling ownership of the firm due to the multiple-equity class structure where the company's major shareholder, and family, hold over 80% of the voting rights. Insight had concerns over this as well as the Board's limited diversity, independence, and skills.

**Action:** Insight encouraged progress on diversity to bring the board's female representation to 30%. In addition, Insight recommended establishing additional quantitative targets for the overall workforce or at the leadership level, like global industry leaders have done.

**Outcome:** Following these discussions, Insight was pleased that the company had established a new target to increase board diversity to three female directors, representing 21% of the board, which it achieved by appointing a female as a new director. This board-level diversity target is integrated into the company's strategy as it was added as a target within the company's Sustainability Linked Loan structure. The company also refreshed their Board Diversity Policy, which includes the ambition to "set measurable objectives to achieve gender diversity with the ultimate goal of having a composition of the Board where each gender represents at least thirty percent (30%)".

# Collaboration

As one of the UK's largest corporate pension schemes, we believe in using our voice to address market-wide and systemic risks, and particularly in promoting well-functioning markets to support a sustainable future and provide sustainable investment opportunities. As such, we also believe in the power of investor collaboration, and have joined several initiatives to push for better sustainability standards, data collection and reporting, and policy action.

## Manager collaboration

We also expect the service providers and investment managers we work with 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 constraint.

On an annual basis, we ask each of our managers which collaborations they are part of and we encourage 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.



# Collaboration continued



## **Signatory** **Principles for Responsible Investment (PRI)**

The Principles for Responsible Investment ('PRI') is the world's leading advocate for Responsible Investment ('RI'), with over 5,300 signatories worldwide. It enables investors to publicly demonstrate commitment to RI by supporting the six principles for incorporating sustainability issues into investment practice. BTPS became a signatory to the PRI in 2006 and in our last annual assessment received a top score of A+. PRI is an important partner, providing excellent guidance on responsible investment.

[unpri.org](https://unpri.org)

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95% of the investment managers we work with are signatories to the PRI. Those who are not, look to apply the principles and we continue to engage with them on this.



The Institutional Investors  
Group on Climate Change

## **Signatory** **The Institutional Investor Group on Climate Change (IIGCC)**

The Institutional Investor Group on Climate Change (IIGCC) provides a collaborative forum for pension funds and other institutional investors to engage with policymakers, regulators and companies to address the long-term risks and opportunities associated with climate change. IIGCC has more than 400 members across 27 countries and operates several work plans covering policy, investor practices, property and supporting members in their active ownership approach. It also plays a key role in investor initiatives and collaborations globally, including Climate Action 100+, The Investor Agenda and the Global Investor Coalition on Climate Change.

The IIGCC provides investors with lots of helpful resources and opportunities for collaboration. Membership enables BTPS to deliver our advocacy goals on climate change and stewardship. For instance, we used the Net Zero Investment Framework (NZIF) as the foundation for our own Net Zero goal.

[iigcc.org](https://iigcc.org)

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We engaged with the Scheme's managers on the [Stewardship Toolkit](#), for them to implement the toolkit as part of our programme on Net Zero stewardship.

We also contributed to the [Asset Owner Stewardship Questionnaire](#), launched in June 2023 and the [Bondholder Stewardship working group climate guidance document](#). We are using this document in engagement meetings with our fixed income managers to set out expectations to enhance their climate stewardship practices. This includes further discussions and development on how we can incorporate sustainability KPIs, including our net zero goal, into IMAs.

# Collaboration continued



## 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 166 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 examples

Engagement with oil and gas major on its climate plan and ambition



**Issue:** There were concerns that the company's decarbonisation plans fell short of limiting global warming to 1.5°C, and that the recent results update appeared to indicate prolonging the company's conventional oil and gas business and not accelerating ambitions in clean energy.



**Action:** Through Climate Action 100+, a letter was co-signed requesting a meeting with the CEO to discuss four priority areas: contribution to the Paris Agreement goals, providing clarity on future oil and gas production, disclosing targets for renewable energy generation, and disclosing in line with the Institutional Investors Group on Climate Change (IIGCC) net zero standard.



**Outcome:** The letter was successful, and a meeting was arranged for the investor group and the company's CEO. During the meeting, Federated Hermes was pleased to hear from the CEO that the firm's commitment to energy transition remained. This message was tempered, however, with a recognition of the need to support consumers with affordable and secure energy. The group requested that the company discloses more about what it is doing at a sector level to support customer decarbonisation, with metrics that can track actual progress. The CEO was supportive of this approach. Federated Hermes will continue to engage with the company both directly and through CA100+ to monitor progress on this.

Improving scope 3 carbon emissions disclosure with a chemicals company



**Issue:** In collaboration with the other CA100+ co-leads, M&G engaged with a chemicals company to encourage them to incorporate scope 3 into their existing scope 1 and 2 carbon emission reduction targets and commit to decarbonising its raw material supply by 2050.



**Action:** The company explained that it is making good progress with its 45,000 suppliers in terms of upstream scope 3 emissions but there still is a gap for downstream scope 3 emissions due to the lack of a methodology and a lack of end-of-life data for the thousands of applications in which the company's products are used. The company is now part of the Science-Based Targets initiative (SBTi) expert group working on a sector-specific methodology for the chemical industry and hopes to be in a position to get good enough data to set a scope 3 target by the end of 2023.



**Outcome:** No promise was made on decarbonising its raw material supply. However, in future, carbon from CCU (carbon capture and utilisation), recycling or bio-based raw materials such as biomethane will increasingly replace fossil-based raw materials. M&G was satisfied with this initial result from the engagement but will be continuing dialogue to push the company further on this issue.

# Collaboration continued



## *Public supporter*

### **The Task Force on Climate-related Financial Disclosures (TCFD)**

The TCFD is a voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics. Greater disclosure is key to obtaining reliable and consistent data, which improves investors' ability to assess climate-related risks and opportunities across investments. As a public supporter of TCFD, we encourage investee companies to improve disclosure and report in line with the recommendations. You can find our fifth annual TCFD report on our website along with our Climate Change Policy which sets out our approach to managing climate-related risks and opportunities.

[www.btps.co.uk/SustainableInvestment](http://www.btps.co.uk/SustainableInvestment)

[fsb-tcfd.org](http://fsb-tcfd.org)

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**We encourage good climate-related disclosures from all our investment managers. Many of our investment managers already undertake TCFD reporting, and those who don't currently, are developing their capabilities. Investment managers are also encouraging investee entities to undertake TCFD reporting which we view very positively.**



## *Public supporter*

### **The Transition Pathway Initiative (TPI)**

The TPI is a global initiative led by asset owners and supported by asset managers. It is a free-to-use online tool that assesses how prepared companies are for the low-carbon transition. It uses a framework to evaluate how well companies manage the GHG emissions associated within their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. BTPS has been a supporter of the TPI since October 2020. In 2021, we integrated their data into our Net Zero performance metrics and continue to do this.

[transitionpathwayinitiative.org](http://transitionpathwayinitiative.org)

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**We engage with our investment managers on the different ways in which they are assessing the climate transition pathway of our investments. Several of our managers are supporters of the Transition Pathway Initiative.**

## **THE NET-ZERO ASSET OWNER ALLIANCE**

## *Signatory*

### **Net Zero Asset Owner Alliance (NZAOA)**

The NZAOA is an asset owner alliance committing to transitioning investment portfolios to Net Zero GHG emissions by 2050, playing a key role in helping the world deliver on a 1.5°C target and addressing Article 2.1c of the Paris Agreement. We became members of the Alliance in October 2020, and our membership means we are committed to transitioning our investment portfolios to Net Zero GHG emissions by 2050 or sooner. We are active members of the initiative and have had a particular focus on the "sovereign debt", "financing the transition" and "manager engagement" sub-working groups. Most recently we have been contributing to an engagement best practice expectations document for investment managers.

[unepfi.org/net-zero-alliance](http://unepfi.org/net-zero-alliance)

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**We encourage our investment managers to sign up to the Net Zero Asset Manager Initiative. If they are not already signatories, we ask them to explain why not and state if they have any plans to become a signatory. We engage with our managers on this on an annual basis. Where they are not signatories, we expect similar target setting and ambition at our portfolio level in order to help us achieve our Net Zero 2035 goal.**



# Collaboration continued



## ***Founding member*** **The ASCOR Project**

### **Assessing sovereign climate-related opportunities and risks**

In 2021, we helped establish the ASCOR project, which will create a tool giving investors a common understanding of sovereign exposure to climate risk and of how governments plan to transition to a low-carbon economy. The project is an international collaboration of investor networks, asset owners and asset managers, representing over \$5 trillion AUM and chaired by Brightwell and the Church of England Pensions Board.

See page 26 for more details.

**ASCOR Project**



## ***Signatory*** **Asset Owner Diversity Charter (AODC)**

The Charter is co-chaired by the BT Pension Scheme and the Church of England Pensions Board. We believe that diversity in organisations leads to better decisions being made. The AODC is an asset owner led initiative to help improve diversity and inclusion across the investment industry. BTPS became a signatory in March 2022. Through this, BTPS has committed to include DE&I in its regular monitoring of managers, request DE&I data from managers on an annual basis and have 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.

See page 26 for more details.

**[diversityproject.com/assetownerdiversitycharter](https://diversityproject.com/assetownerdiversitycharter)**



## ***Signatory*** **Occupational Pensions Stewardship Council**

In 2021, we joined the Occupational Pensions Stewardship Council which promotes and facilitates high standards of stewardship of pensions assets. The council also provides schemes with a forum for sharing experience, best practice and research, and practical support. The council helps develop a stronger overall voice of trustees within the market, especially in relation to service providers. It also enables opportunities for schemes to collaborate on stewardship activities such as shareholder resolutions, climate change, corporate governance and other topics.

**Occupational Pensions Stewardship Council - GOV.UK ([www.gov.uk](https://www.gov.uk))**

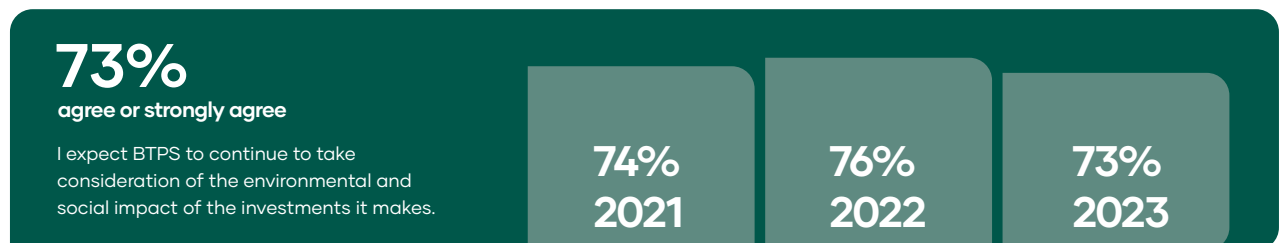
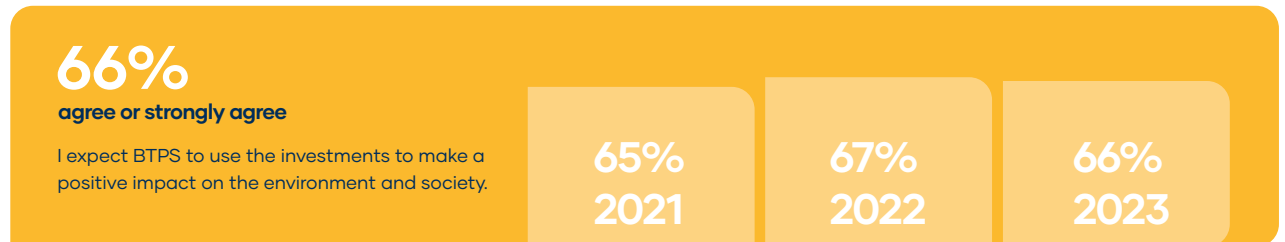
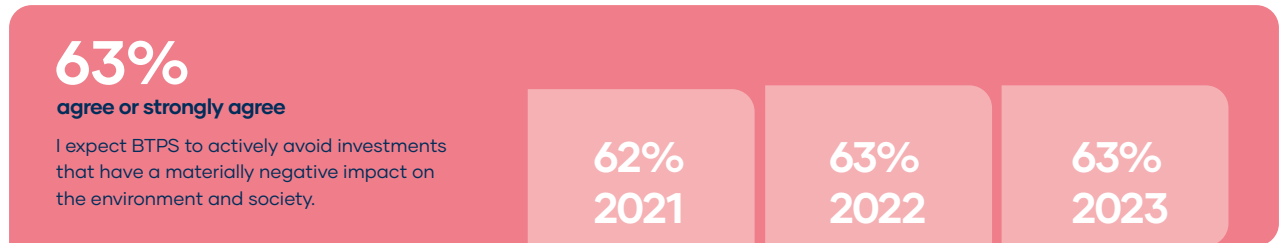
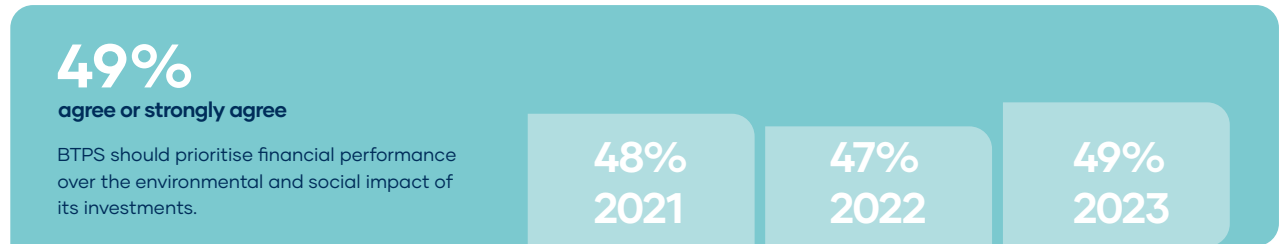
# Our members

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 annual PRI transparency and assessment report, which is available at [BTPS Portal - Sustainable investment](#).
- Inviting feedback from members through the annual member newsletter and member surveys.
- Supporting a "member panel" who volunteer to take part in more in-depth research with the Scheme.

We believe that a collective understanding of member views helps inform the Scheme's approach to ESG considerations and stewardship. Each year the annual member survey asks members a range of questions, so we can understand their attitudes towards sustainable investment and stewardship, and our approach.

Findings from the survey are shared with both the 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 2023 showed around three quarters (76%) of the 15,000 respondents 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.

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.

## Member panel views

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

We invite feedback from members through our annual member newsletter and annual member surveys. We also have a 'member panel' who volunteer to take part in more in-depth research with the Scheme.

## We have listened to members' views:

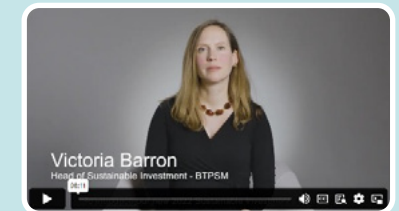
**"Different documents aimed at the variety of your audience"**



We produced a short member focused summary report of the key stewardship, climate change and voting information over 2022. We will produce a similar report again for 2023.

[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.

We produced a 2022 summary video speaking about our sustainable investment highlights from that year.

[Video link](#)

# BTPS Member visit to Viridor

In June 2023, we invited nine BTPS members from the member panel to visit one of the Scheme's UK infrastructure investments, Viridor, a leading waste-to-energy and recycling business, in Avonmouth, Bristol.

Members were welcomed by Jill Mackenzie and Chris Cheetham, BTPS Trustees, before hearing from Brightwell colleagues Doug Clark, Head of Research and Solutions and Emma Douglas, Senior Stewardship Analyst, about our Net Zero 2035 goal 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.

Later, they had a tour of the Viridor site and a presentation from the Viridor ESG team to fully understand the site and its environmental impact.



Hear from Brightwell's CEO and Head of Research and Solutions, 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 infrastructure investments, Viridor. [Watch the video](#)



# BTPS Member visit to Viridor continued

Viridor's purpose is "Building a world where nothing goes to waste". It is a leading resource recovery and recycling business focused on energy recovery and plastics recycling and reprocessing. Annually, the Avonmouth site diverts 320,000 tonnes of non-recyclable household waste from landfill and uses it to generate over 300 GWh of electricity. That's enough electricity to power 84,000 homes. The plastics reprocessing facility is powered by the electricity created from the waste-to-energy process, to repurpose 80,000 tonnes – more than 1.6 billion bottles, tubs and trays a year – creating recycled raw material to return to the economy.

Making new plastics products out of recycled plastics uses 126,000 tonnes less carbon than creating new plastic. That's the equivalent of taking over 67,000 cars off the road every year. Viridor's ESG strategy is focussed on both carbon and circularity. It has a Net Zero 2040 target and aims to be a negative carbon emitter by 2045.

**Viridor is a great example of BTPS investing in a way that is both sustainable, creating long-term jobs, providing community engagement, improving environmental outcomes, and has an appropriate risk and return profile for the Scheme.**



More information on the sustainability aspects of Viridor can be found in their ESG report



"It was great to meet with members and learn more about how the Scheme is thinking about sustainability considerations. The Viridor site and tour was fascinating, fueled by great questions and enthusiasm from the 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**  
Incoming 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 goal. Over 2022/3 we also did an in-depth session on climate scenario analysis and discussion on our stewardship activities.

Since 2006, Brightwell has ensured stewardship activities have been well-resourced to help shape and drive stewardship on the Scheme's behalf. The Scheme's sustainable investment strategy and activities have been supported by individuals ranging from the Trustee to the CEO and the investment team, to colleagues in our Facilities team.

Our Head of Sustainable Investment leads Brightwell's Sustainable investment focus with support from a Senior Stewardship Analyst to help enhance the team's stewardship capabilities and capacity.

As well as having colleagues across the organisation who are directly involved in integrating sustainability considerations throughout the Scheme's investments, we have been undertaking various internal training sessions on sustainable investment. This included further training in relation to the Scheme's Net Zero 2035 goal and progress against targets, an industry wide review of best practice stewardship activities, how investors are incorporating biodiversity considerations into their portfolios and analysis of BTPS managers' stewardship capabilities.

Regular internal training on ESG topics continues for Brightwell. One example from the year was a lunch and learn to all Brightwell employees regarding a research project with MBA students from the Cambridge Judge Business School on biodiversity to better understand its impact on the Scheme's portfolio (see page 28 for more details).

We also highly value hearing 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.



# Audit & assurance

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

In Q4 2021, we sought external assurance from audit specialists, BDO to undertake an independent review of the BTPS 2020 UK Stewardship Code report against Brightwell's stewardship processes. Following the positive feedback from the audit, we continue to work on aspects highlighted and ensure we strengthen existing processes.

This year, we have undertaken an internal assurance approach for our stewardship activities and reporting to ensure standards are upheld and improving year on year, coupled with a project with external consultants Alpha FMC to evaluate the effectiveness of our ESG reporting and to ensure our reporting approach was in line with peers and aiming for best practice standards.

**The Brightwell Executive and the BTPS Trustee have reviewed our stewardship activities and are comfortable with our approach and reporting.**

The project we undertook with Alpha FMC provided 3 deliverables:

1. Overview of all ESG regulatory and industry codes
2. Insights on peer ESG reporting & market good-practice
3. GAP analysis and recommendations for improvement

Outcomes:

1. Provided an overview of latest UK regulatory reporting requirements, selected globally applicable voluntary codes and emerging trends, as well as EU regulations to provide context on the overall direction for European regulation.
2. Alpha FMC analysed several peers to understand how BTPS and Brightwell compare to them and what, if any, initiatives we should consider signing up for or incorporating into our reporting. They concluded BTPS is in line with peer best practices regarding our ESG-related reporting, signing up to voluntary codes and industry initiatives.
3. Alpha FMC held several discovery meetings with Brightwell colleagues to understand current ESG reporting activities and any challenges faced. They provided recommendations to support BTPS and Brightwell in meeting ESG reporting priorities over the next 18 months such as how to streamline reporting processes to reduce the reporting burden on the Sustainable Investment team.

## Independent Oversight

### The Pensions Regulator

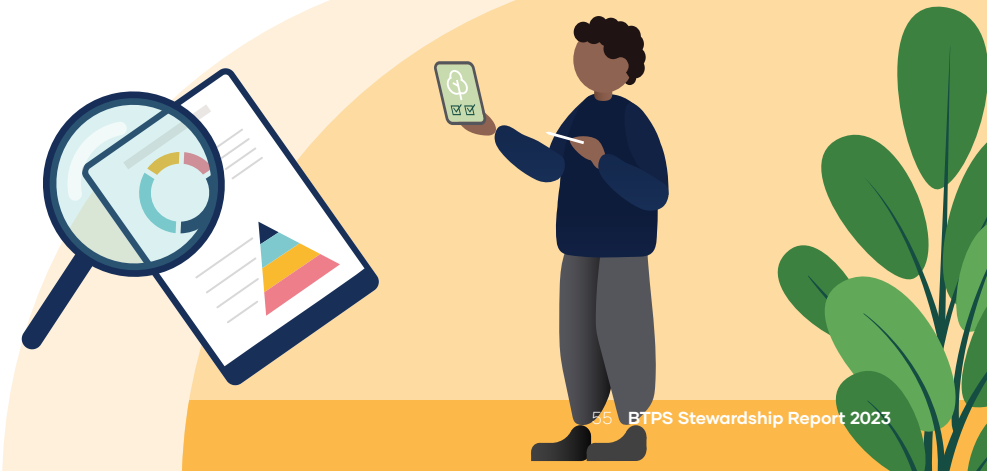
TPR completed its one-to-one supervisory review of the Scheme throughout 2022. The purpose of the review was for TPR to gain an understanding of, and provide comments to the Trustee on, how the Scheme operates and the management and governance controls in place. The process was a constructive and useful one and we are glad to report that the Scheme is considered to be well run across all areas. This included our sustainable investment approach and stewardship activities.

### Board Effectiveness Review

As part of our 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 our 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, Investment, Executive team and others, including the governance committees mentioned on page 16. Further development of the report follows after each review.



# Managing conflicts of interest

Over the past year, we have refreshed our conflicts of interest policy to reference specific stewardship and sustainability related conflicts in line with stewardship best practice. Below are excerpts from the BTPS and Brightwell conflicts of interest policies. The full policies can be found on the [btps.co.uk](https://www.btps.co.uk) and [brightwellpensions.com](https://www.brightwellpensions.com) websites respectively.

## **BTPS conflict of interest policy in relation to stewardship**

When identifying actual or potential conflicts of their advisers and other agents, Trustees must ensure that the relevant party manages the conflict appropriately. This will be achieved by:

- Considering conflicts as part of the appointment process. Examples of potential conflicts include:
  - A Trustee director's own personal interests conflict with those of the Scheme, e.g. a Trustee has a relevant relationship with an asset manager being considered for appointment
  - A Trustee director's duties to another party conflict with the duty to the Scheme
  - There is a conflict in the Trustee Director's legal duties to a third party
- Requiring the party to inform them about any processes in place for identifying and managing any conflicts of interest that may arise.
- Requiring the party to inform them immediately of any conflicts which arise and what action is being taken to manage the conflict (including any actions being taken to modify the processes in place for ensuring that future conflicts do not arise).
- Considering whether such action taken by the party is adequate and appropriate.

Incidents of stewardship conflict are identified and managed by the relevant external investment management company. Material incidents are covered as part of Brightwell's portfolio monitoring process and raised at the Trustee Investment Committee as appropriate.

## **Brightwell conflict of interest policy in relation to stewardship**

Brightwell operates controls to mitigate the risk of stewardship-related conflicts of interest. The key potential, or actual, conflict is that investment decisions made by third-party asset managers do not align with the stewardship approach of Brightwell's clients. To mitigate the risk of this conflict occurring, Brightwell operates the following controls:

- Prior to appointment as a manager for Brightwell's clients, all third-party asset managers must undergo a due diligence questionnaire, which requests information on their approach and controls for sustainable investing and stewardship.
- Once appointed, all third-party asset managers are required to complete an annual Net Zero & Stewardship questionnaire detailing their approach to sustainable investing and stewardship.
- All third-party managers are assessed based on the information provided in the questionnaire and throughout the year, in quarterly sustainable investment meetings, regarding their commitments and activities in relation to Net Zero and stewardship. This information is compared against Brightwell's Sustainability best practice manager expectations and scored accordingly.

Where Brightwell identifies that a third-party asset manager's stewardship approach is misaligned, they will work with them to resolve the issue or put in place an appropriate strategy to manage it.

## **Addressing conflicts in practice**

Over the last twelve months, the Trustee Board has considered the following possible conflicts of interest and whether any action was required:

- A company nominated Trustee highlighted their new executive role at BT Group had ended, however they would perform consultancy work at BT for bespoke projects a few days a month. It was deemed that no action was required.
- A member nominated Trustee highlighted they would be the Pay Review body for the Prison Service. It was deemed that no action was required in relation to these changes.



# Our future

## We continue to develop our thinking on sustainable investment which is a rapidly evolving and fast-moving area.

Over the next five years, the Scheme will continue to explore the sustainable investment risks and opportunities posed and our exposures to them. This will include how to address new systemic risks identified by the Trustee. Via Brightwell we will engage with our asset managers and work with them to enhance our understanding and to improve outcomes.

## Work closely with our managers

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

## Active members of industry initiatives and collaborations

We will also continue to be active members of various industry initiatives and collaborations. These are particularly helpful in sharing best practice on various sustainable investment related topics, including helping to advance our thinking on achieving our Net Zero 2035 goal, policy advocacy work such as the [ASCOR Project](#), and DE&I through the [Asset Owner Diversity Charter](#).

## Strengthen ESG integration

It is important that 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 goal.

## Trustee training

Over the next year, the Trustee will receive a schedule of training sessions on current and relevant sustainable investment themes to the Scheme, which will include Net Zero and biodiversity.

## Take on board member feedback

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

## Monitoring progress

We will continue to focus on ensuring our reporting is fair, balanced and understandable and we will monitor our stewardship approach over time to see how effective it has been relative to our desired outcomes.



# Appendix one: UK Stewardship Code 2020



# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 1

Signatories purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, environment and society.

The Scheme's main purpose is to ensure there are sufficient assets to pay benefits to members and their beneficiaries as they fall due, and that all members and beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme. Our investment strategy is therefore designed around the benefits that we pay to members. In considering the approach to meeting this objective we consider the expected progression of the Scheme's annual benefit payments relative to the projected level of Scheme assets as the Scheme matures. We have set an objective to reduce the level of investment risk gradually over time and to increase the level of matching between assets and liabilities as the proportion of retired members increases. By no later than 2034, we currently intend to hold sufficient assets such that, it would be reasonable and prudent to expect the assets to provide adequate income plus capital repayments each year to enable benefit payments to be met in full as they fall due. We take an integrated approach to the management of risk and return in the Scheme.

The Trustee has implemented an SI policy and strategy in relation to stewardship, as set out in the Scheme's Statement of Investment Principles which can be found online at [BTPS Portal - Sustainable investment](#).

To learn more about this topic, further information is detailed in the following sections:

<b>BT Pension Scheme's purpose &amp; values</b>	pages 5-12
<b>Asset manager oversight &amp; engagement</b>	page 18
<b>Our future priorities</b>	page 57

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### **Principle 2** Signatories' governance, resources and incentives support stewardship.

The Trustee's Sustainable Investment (SI) strategy comprises a Responsible Investment Policy and SI Mission Statement which is underpinned by three SI beliefs. The Policy covers key aspects of the Scheme's SI approach including strategy, governance, implementation and external reporting. It applies across investment activities, depending on the degree of financial materiality, and fulfils the Scheme's regulatory and fiduciary obligations, including those arising as a signatory to the Financial Reporting Council's UK Stewardship Code and the PRI.

The SI Policy is approved and owned by the Trustee Investment Committee (IC). The IC oversees the Scheme's SI strategy and implementation of the Net Zero 2035 goal. The Committee is also responsible for consideration of emerging long-term structural risks, including climate change, that may impact the delivery of the Scheme's funding strategy, and acts as a sounding board for Brightwell, which is responsible for implementation of the SI strategy.

Brightwell's CEO and members of the SI working group have formal SI objectives which contribute to continuing BTPS' ESG integration process and stewardship activities. As Brightwell's commitment to achieving Net Zero emissions is a corporate objective, all executives' remuneration is linked to reducing operational emissions. In addition, meeting BTPS' Net Zero 2035 emission reduction target within the Scheme's asset portfolio is one of the key KPIs of Brightwell's CIO and the broader investment team.

To learn more about this topic, further information is detailed in the following sections:

<b>BT Pension Scheme's purpose &amp; values</b>	pages 5-12
<b>Our sustainable investment approach</b>	page 8
<b>Our climate approach</b>	pages 11-12
<b>Stewardship through BTPS and Brightwell</b>	page 13
<b>Our people &amp; training</b>	page 54
<b>Our future priorities</b>	page 57

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 3

Signatories manage conflicts of interest to put the best interests of the beneficiaries first.

#### BTPS Conflict of Interest Policy

Brightwell has in place an Executive Services Agreement (ESA) and an Investment Management Agreement (IMA) with the BT Pension Scheme Trustee, Brightwell's sole client. The Trustee and Brightwell maintain separate conflicts of interest (COI) policies to assist all relevant persons in identifying, managing and monitoring any conflicts of interest, including personal conduct, which may arise.

COI risks are a standing item at all Trustee meetings (Board and Committees) and Trustee Directors declare any new potential conflicts at the beginning of, or during each meeting. All new Trustee Directors are provided with COI training as part of their induction. Each Trustee must complete a declaration of their COI, including disclosing any relationship with Brightwell major suppliers, and these are recorded in a COI register, which is reviewed and approved at least annually by the Trustee Board.

When identifying actual or potential conflicts of their advisers and other agents, Trustee directors must ensure that the relevant party manages the conflict appropriately. This will be achieved by:

- Considering conflicts as part of the appointment process. Examples of potential conflicts include:
  - A Trustee Director's own personal interests conflict with those of the Scheme, e.g. a Trustee has a relevant relationship with an asset manager being considered for appointment.
  - A Trustee Director's duties to another party conflict with the duty to the Scheme.
  - There is a conflict in the Trustee Director's legal duties to a third party.
- Requiring the party to inform them about any processes in place for identifying and managing any conflicts of interest that may arise.
- Requiring the party to inform them immediately of any conflicts which arise and what action is being taken to manage the conflict (including any actions being taken to modify the processes in place for ensuring that future conflicts do not arise)
- Considering whether such action taken by the party is adequate and appropriate.

Incidents of stewardship conflict are identified and managed by the relevant external investment management company. Material incidents are covered as part of Brightwell's portfolio monitoring process and raised at the Trustee Investment Committee, as appropriate.

To ensure there are no conflicts in relation to securities and stewardship and voting abilities, asset managers and EOS are expected to act in the best interest of the Scheme and are not permitted to lend equity securities. The Scheme also expects them to have, in a public place, robust and up to date policies to manage conflicts of interest in relation to their stewardship activities. Agents may be made insiders only on an exceptional basis, following careful due diligence and when appropriate controls are in place.

BTPS will take all reasonable steps to:

- Identify circumstances that may give rise to conflicts of interest entailing a material risk of damage to the Scheme's interests.
- Establish appropriate mechanisms and systems to monitor and manage those conflicts.

Finally, the BTPS COI policy is complemented at Brightwell by associated policies covering PA Dealing, Gifts and Hospitality, Confidential Information and Chinese Walls, Information Security, and Data Protection.

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Brightwell Conflict of Interest Policy

Brightwell has a Conflicts of Interest (COI) Policy in place that details the process for identifying, managing and monitoring conflicts of interest. It is embedded in Brightwell's governance processes. The policy states that when Brightwell employees become aware of a new potential, or actual, conflict of interest they must report it to their manager as well as Risk and Compliance.

Each Brightwell director and relevant person covered by the Brightwell policy must also declare any COIs which are recorded on a COI register which is reviewed at least annually. An annual attestation process reminds individuals of their obligations and formally captures individual agreement to adhere to policy requirements. At all formal governance meetings members are asked for declarations of any conflicts with agenda items. Where a conflict does arise, the Company Secretary provides advice on conflict management, and the organisation aims to always act professionally and independently with the client's best interests in mind.

Any conflicts that have arisen are evaluated by the Risk and Compliance functions, who will work with the relevant employees to determine the most appropriate method for managing the conflict. Once this method has been determined, the relevant business area will be responsible for ensuring that the conflict is managed in line with the method specified. This may include disclosure of the conflict to clients.

Brightwell has in place organisational and administrative arrangements designed to ensure that potential, or actual, conflicts of interest are managed effectively, and that clients' interests are not adversely affected. This means that the conflict should be managed in such a way that all clients are treated fairly and Brightwell conducts its business with integrity and high ethical standards.

#### The arrangements include:

- Policies and associated requirements
- Confidential information controls
- Employee disclosures
- Restricted list
- Termination / avoidance
- Conflicts of interest register
- Monitoring
- Disclosure of conflicts
- Training

#### Potential conflicts of interest may be identified in, but are not limited to, the following areas:

- Trading and investment decision making
- Provision of investment advice
- Staff remuneration
- Personal Account dealing ('PA dealing')
- Gifts and other inducements
- Outside business interests
- Directorships (either executive or non-executive) on the boards of other companies
- Handling of confidential or inside information
- Stewardship e.g. when investment decisions made misalign the client's stewardship approach and that of clients' appointed asset managers.

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

Brightwell operates controls to mitigate the risk of stewardship-related conflicts of interest. The key potential, or actual, conflict is that investment decisions made by third-party asset managers do not align with the stewardship approach of Brightwell's clients. To mitigate the risk of this conflict occurring, Brightwell operates the following controls:

- Prior to appointment as a manager for Brightwell's clients, all third-party asset managers must undergo a due diligence questionnaire, which requests information on their approach and controls for sustainable investing and stewardship.
- Once appointed, all third-party asset managers are required to complete an annual Net Zero & Stewardship questionnaire detailing their approach to sustainable investing and stewardship.
- All third-party managers are assessed based on the information provided in the questionnaire and throughout the year, in quarterly sustainable investment meetings, regarding their commitments and activities in relation to Net Zero and stewardship. This information is compared against Brightwell's Sustainability best practice manager expectations and scored accordingly.

Where Brightwell identifies that a third-party asset manager's stewardship approach is misaligned, they will work with them to resolve the issue or put in place an appropriate strategy to manage it.

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 4

Signatories identify and respond to market wide and systemic risks to promote a well-functioning financial system.

Given the time horizon of the Scheme, the Trustee recognises that emerging long-term risks including, for example, climate change, scarce resources and technology disruption, may have a material adverse impact on the Scheme. These risks are monitored by the Trustee as part of the regular review of the Scheme's risk register. Day-to-day implementation and monitoring of the controls in place to manage these risks is delegated to Brightwell.

On behalf of the Trustee, Brightwell also considers the likely impact on equity prices, interest and inflation rates, foreign currency exchange rates, and real estate valuations, and explores the possible investment responses. Responsible investment and ESG risks are standing agenda items at every IC meeting, and form part of a regular review of the Scheme's risk register, while the effectiveness of the SI policy is assessed annually. The Trustee and Brightwell remain abreast of changes to new and emerging sustainability risks, through relationships with a range of external experts – for example, EOS client training and research papers and through membership of industry groups, such as the Willis Towers Watson Thinking Ahead Institute. Where BTPS believes it can use its voice to influence change, it joins industry collaborations to improve market-wide and systemic risks.

To learn more about this topic, further information is detailed in the following sections:

<b>Collaboration</b>	page 45
<b>Market-wide &amp; systemic risks</b>	page 22



# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

The Scheme's SI policy and related activities are reviewed by the Trustee, the Trustee Investment Committee and Brightwell. The SI activities are also subject to periodic internal audit reviews and monitoring performed by the Brightwell Risk and Compliance functions. Brightwell's dedicated Legal and Compliance functions report to the Chief Legal Officer with responsibility for the delivery of all legal, regulatory and compliance matters. The Risk function also has responsibility for operational risk management and the provision of an effective second line of defence across business operations. This is in relation to both the investment and pension administration services provided to the Scheme.

Brightwell maintains compliance monitoring plans which set out the key regulatory risks, including matters related to stewardship. Associated monitoring activities help provide assurance that regulatory requirements relating to stewardship are adhered to within the business. Regulatory developments are monitored to ensure emerging themes and regulatory expectations are known and met, with the Head of Sustainable Investment, CIO and Head of Solutions playing a key role in assessing Brightwell's existing policies and processes against these developments.

Over the past year, Brightwell has undertaken a project with Alpha FMC, a financial markets consulting firm, to evaluate the effectiveness its ESG reporting on behalf of BTPS, ensuring it is both in line with current and evolving regulatory requirements and contributing to leading market practice.

Reviewing Brightwell agents (asset managers and EOS), stewardship processes and activities is a key part of Brightwell's SI work. This is done primarily in 3 ways:

1. Through due diligence of stewardship policies and processes as part of initial agent selection as a service provider to the Scheme. Brightwell reviews the policies and processes, and assesses examples of their activities, including stewardship and engagement successes (and less successful activity). Ultimately, Brightwell wants to ensure that the approach the agent takes to stewardship is consistent and aligned with that of BTPS. This is an important factor in our holistic assessment and selection of the agent.
2. Through ongoing monitoring and management of agent policies and processes. On a quarterly basis we ask all our asset managers to report any changes to their internal policies, including their stewardship policy. Any changes are reviewed and analysed relative to our expectations and the Scheme's own stewardship approach to ensure continued alignment.

3. Brightwell evaluates the ongoing voting and stewardship activity undertaken by the agent. This includes evaluating whether their activity is consistent with the Scheme's stewardship approach and our expectations, based on the understanding of their approach from our due diligence process. Additionally, Brightwell evaluates the success of the agent's engagement and voting, whether they achieve their ex-ante objectives and whether this aligns with their investment strategy more broadly. Regular reporting of their voting is a critical aspect of this, allowing Brightwell to scrutinise and appropriately challenge their activity.

To learn more about how to monitor the effectiveness of our asset managers and EOS' stewardship activities, further information is detailed in the following sections:

**Asset manager oversight** page 18

**Audit & assurance** page 55

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 6

Signatories take account of client and beneficiary needs, and communicate the activities and outcomes of their stewardship and investment to them.

On 31 March 2001 the Scheme was closed to new entrants. On 30 June 2018 the Scheme was closed to future accrual for most members. Membership of the Scheme falls into one of three 'sections': Section A, Section B and Section C. Details of these can be found on our website [btps.co.uk](https://btps.co.uk).

The Scheme has in place a number of mechanisms that provide a link between the Trustee and members. They include having member nominated Trustee directors, an annual presentation by the Trustee Board and its advisers to BT's recognised trade unions (CWU and Prospect) and the National Federation of Occupational Pensioners (NFOP) and inviting feedback from members through regular newsletters and surveys. The Trustee believes this is an appropriate and proportionate way for a defined benefit scheme of its size to engage with, and gain an understanding of, its members and their concerns. A collective understanding of member views, including consideration of non-financial matters, helps inform the Trustee's approach to ESG considerations and stewardship.

Scheme members and other stakeholders are provided with information on the Scheme's stewardship activities via the public BTPS website and as set out in the Scheme's annual PRI transparency and assessment report [btps.co.uk](https://btps.co.uk)

In January 2023 we carried out our fifth annual member satisfaction survey. The results showed strong member satisfaction over the year, consistent with last year's results, which we believe is testament to the improvements we have made in our services to members since taking the administration in-house in 2018 and continued improvement.

To learn more about this topic, further information is detailed in the following sections:

<b>About BTPS</b>	page 6
<b>Our members</b>	page 50
<b>Member engagement</b>	page 52

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

We believe that all financially material considerations, including ESG factors, must be integrated throughout the investment process. Managers are selected to align with our beliefs, policies, and objectives. This is a fundamental part of the appointment process of a new manager and of the ongoing oversight of the activity undertaken by managers on behalf of the Scheme.

Before appointing an investment manager, Brightwell seeks to understand the manager's philosophy and approach to determine if they are suitable to work for the Scheme. They wish to understand if the asset manager is aligned with our beliefs and goals, what their investment time horizon is, their approach to responsible investment and engagement with underlying companies. In particular, they would need to be able to align with the Scheme's Net Zero 2035 goal.

This is done through interviews and a comprehensive due diligence questionnaire (DDQ) process. The DDQ includes nine detailed SI questions covering governance, integration, monitoring, engagement, voting, reporting and climate change, which must be answered in full. These questions have an equal weighting with the other questions posed in the DDQ. The responses are reviewed in tandem between both the Manager Selection team and the Sustainable Investment team to understand their quality and if required, meetings are held with the manager to better understand their approach.

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

As part of manager due diligence meetings, the investment team assesses whether the approach outlined in the DDQ and other materials is integrated into the investment process, consistent with the investment philosophy and evidenced throughout the investment process.

This process is undertaken across all asset classes and funds BTPS is looking to invest in.

Where we already invest with a manager, we set out our sustainability and stewardship expectations clearly through our manager expectations document that we discuss with them on an annual basis.

We provide examples of our managers' stewardship activities across asset classes and geographies in our engagement examples on pages 41-44. We expect the same principles to be applied across all, but appreciate there are nuances e.g. sovereign vs company engagement.

To learn more about this topic, further information is detailed in the following section:

**Asset manager oversight & engagement** page 18

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 8

Signatories monitor and hold to account managers and/or service providers.

Asset managers must act on our instruction as set out in an Investment Management Agreement (IMA) or side letter. Brightwell actively monitors and engages with asset managers to ensure their ongoing resilience, adherence to mandate expectations, alignment with BTPS' objectives and application of their responsible investment approach.

The relationship with the asset manager is expected to reflect the long-term investment horizon of the Scheme. This long-term approach also allows asset managers to take a similarly long-term view with the underlying investments they make on behalf of the Scheme and to engage with companies to drive better long-term sustainable outcomes.

Brightwell's Manager Selection team and Sustainable Investment team work closely together to monitor how asset managers are integrating SI into their investment processes and activities, and clearly reporting on their activities.

They ensure that, where relevant, asset managers embed SI considerations, including ESG factors, into their investment processes. All asset managers are expected to respond to an annual Net Zero & Stewardship questionnaire. This seeks evidence and ongoing reporting on the SI integration process across, for example, fundamental analysis, asset valuation and portfolio construction. The responses to these questionnaires are evaluated and managers receive tailored scorecards back, outlining areas of improvement against best practice expectations.

As part of asset manager oversight, Brightwell also reviews the ESG ratings of its portfolio through ESG data providers, including MSCI, Bloomberg and UBS Delta. These reviews include an ongoing evaluation of the ESG characteristics of the portfolio, the manager's ESG integration approach, ESG and stewardship activities, and quality of reporting. Should the monitoring process reveal deficiencies or concerns which cannot be remediated, the mandate will be terminated.

We have placed particular importance on improving the reporting and data relating to ESG factors that we receive from our asset managers. While it is continuous work in progress, we have seen some considerable improvement enabling, for example, reporting of carbon intensity data across all the major asset classes in which the Scheme invests in our Report and Accounts from 2019. Brightwell also actively monitors material stewardship activity, including where agents take different voting actions at the same company. It also reviews EOS' engagement and voting activities through quarterly calls, regular reports and the EOS client portal. These activities are updated quarterly on our website [BTPS Portal – Sustainable investment](#).

To learn more about this topic, further information is detailed in the following section:

**Asset manager oversight & engagement** page 18



# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

Most of the Scheme's stewardship activities are undertaken by EOS at Federated Hermes. Alternatively, a manager may, where engagement is fundamental to the investment strategy and they can demonstrate sufficient capabilities, be appointed to provide stewardship services for their specific mandate.

In determining whether and how engagement is taken forward, asset managers and EOS are expected to have due regard to the likelihood of success in bringing about change and the level of company exposure. Asset managers and EOS are expected to report on the key ESG issue of the engagement, the materiality of the issue, the outcomes/desired change that they expected from the engagement, the people involved internally, a summary of the discussion and resulting actions.

We also seek an appropriate explanation about how engagement informs investment decisions. EOS has a milestone system, whereby clear progress needs to be made to advance the engagement progress. If sufficient progress is not made, escalation will follow.

We provide examples of our managers' engagement activities across asset classes and geographies in our engagement examples on pages 41-44.

To learn more about this topic, further information is detailed in the following sections:

<b>Asset manager oversight &amp; engagement</b>	page 18
<b>Engagement</b>	page 36
<b>Proxy voting</b>	page 31

### Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

BTPS is a large pension scheme and believes in using its voice to address market-wide and systemic risks, and particularly in promoting well functioning markets to support a sustainable future and provide sustainable investment opportunities. As such, the Scheme believes in the power of investor collaboration and has joined several initiatives to push for better ESG and sustainability standards, data and policy. The Scheme's asset managers and EOS may engage with a company both individually and collaboratively with other investors where they are concerned about company practices and performance.

Collaborative engagement done on behalf of the Scheme is made publicly available on the Scheme's website on a quarterly basis and via the annual report and stewardship report.

To learn more about this topic, further information is detailed in the following sections:

<b>Engagement</b>	page 36
<b>Collaboration</b>	page 45

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

To achieve change, our asset managers and EOS at Federated Hermes may undertake a series of escalating engagement actions, depending on the nature of the challenge and the initial reaction of the company's board to engagement, including meeting with the chairman or other board members, discussions with other shareholders of the company, submitting resolutions and speaking at general meetings. EOS outlines its approach to escalation in its Engagement Plan.

The asset managers and EOS are expected to report on the effectiveness of their intervention activities and, where relevant, explain how engagement informs investment decisions. Our actively managed, segregated equity asset managers are mandated to execute all votes for the Scheme's directly-held public securities. Proxy voting activity should not be conducted in isolation but as part of a wider engagement strategy. Rather than prescribing specific actions, the Scheme's stewardship agents can use their discretion regarding the actions they take. Agents may adapt their stewardship practices to accepted local market conventions and regional best practice including the UK corporate governance code, for example.

On our behalf, Brightwell monitors escalation activities via the annual Net Zero & Stewardship questionnaire, but also through regular sustainable investment meetings with the asset managers and EOS. Managers are encouraged to highlight their stewardship activities, whether successful or not.

To learn more about this topic, further information is detailed in the following sections:

<b>Asset manager oversight &amp; monitoring</b>	page 18
<b>Engagement</b>	page 36
<b>Proxy voting</b>	page 31

# Supplementary information continued

## Annex 1: UK Stewardship Code 2020

### Principle 12

Signatories actively exercise their rights and responsibilities.

Most of the Scheme's stewardship activities are undertaken by EOS at Federated Hermes. The intention was to establish an organisation that allowed us to exercise our rights and responsibilities more effectively, have a greater impact on ESG issues as well as the potential to enhance our knowledge through collaboration, and be part of a larger network of like-minded asset owners and managers. Voting is supported by our custodian Northern Trust. We receive periodic reporting which confirms votes cast. We review our Power of Attorney agreements (POAs) ahead of voting season and are notified in case any are missing, and if a vote has failed.

We believe that making full use of our voting rights is part of our fiduciary duty and require EOS and, where applicable, asset managers to execute all votes for the Scheme's directly held public securities. We believe that proxy voting activity should not be conducted in isolation but rather as part of a wider engagement strategy. Rather than prescribing specific actions, our stewardship agents are afforded a measure of discretion and flexibility, and can follow their own voting policy on most voting topics. We publish EOS' voting activities quarterly on our website: **BTPS Portal - Sustainable investment.**

Learn more about EOS' voting policy [here](#).

EOS has invested considerable time and effort in improving the transparency, efficiency and integrity of the voting chain, within the reporting period that included surveying custodians and other market participants on their implementation of vote confirmation requirements provided in the Shareholder Rights Directive II. EOS published its first Compliance Statement in respect of the Best Practice Principles (BPP) for Providers of Shareholder Voting Research & Analysis, in support of its aims to establish standards for service providers in the industry.

BTPS does not engage in securities lending across its public equity mandates. This decision has been made both for risk-return and stewardship reasons. In the case of the latter, the requirement to recall "on-loan" holdings ahead of voting and results windows gives rise to an involved process and gives rise to potential engagement conflicts.

To learn more about this topic, further information is detailed in the following sections:

**Proxy voting** page 31

**SIP Implementation Statement** BTPS website

# Appendix 2: Index of PRI Principles

BTPS has been a signatory to the PRI since 2006. In 2022, the PRI decided to pause its annual reporting programme. We have recently submitted our 2023 PRI response.. Throughout this time, we have continued to consider and apply the six PRI Principles, and have mapped our stewardship report to the PRI Principles in the table below:

PRI Principle	Mapping in this report
<b>Principle 1:</b> We will incorporate ESG issues into investment analysis and decision-making processes	About BTPS – page 6 Our sustainable investment approach – page 8 Asset manager oversight & engagement – page 18 Market-wide & systemic risks – page 22
<b>Principle 2:</b> We will be active owners and incorporate ESG issues into our ownership policies and procedures	About BTPS – page 6 Our sustainable investment approach – page 8 Audit & assurance – page 55 Managing conflicts of interest – page 56
<b>Principle 3:</b> We will seek appropriate disclosure on ESG issues by the entities in which we invest	Proxy voting – page 31 SIP Implementation Statement – BTPS website Engagement – page 36 Market-wide & systemic risks – page 22
<b>Principle 4:</b> We will promote acceptance and implementation of the Principles within the investment industry	About BTPS – page 6 Market-wide & systemic risks – page 22 Collaboration – page 45 Our future priorities – page 57
<b>Principle 5:</b> We will work together to enhance our effectiveness in implementing the Principles	About BTPS – page 6 Collaboration – page 45 Market-wide & systemic risks – page 22
<b>Principle 6:</b> We will each report on our activities and progress towards implementing the Principles	All sections SIP Implementation Statement – BTPS website



# Appendix three: 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.

## CA 100+

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

## Carbon footprint

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

## Climate change

The long-term global shift in weather patterns due to man-made GHG emissions.

## Corporate governance

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

## Covenant

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 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 three: 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 (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) 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 three: 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 three: 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](http://www.btps.co.uk)