BTPS

Fact Sheet

About the Scheme

BT Pension Scheme, ("BTPS" or the "Scheme") is one of the largest private sector pension schemes in the UK.

It is a closed defined benefit (DB) pension scheme for employees, former employees and dependents of BT Group, with **over 260,000 members** and **c.£37bn** of assets as at 30 June **2023**.

OVER
260,000
MEMBERS

£37bn
OF ASSETS

Of this, over two thirds is invested in UK assets including gilts, corporate bonds (inc. secure income), property, infrastructure and private equity.

The Scheme closed to new members in 2001 and to future accrual in 2018. Each year, it pays out **c.£2.6bn** in benefits to **c.210,000** retired members and their beneficiaries.

History

1969 | 1979 | 1983 | 1984 | 2001 | 2006 | 2018 | 2020

1969

The Scheme's origins date back to 1969 when the Post Office Staff Superannuation Scheme was established, (as telecom services had historically been supplied by the Post Office.)

1981

The telecoms business separated from the rest of the Post Office and became an independent public corporation (British Telecom)

1983

The British Telecommunications Staff Superannuation Scheme was set up, (renamed the BT Pension Scheme in 1993)

1984

BT was privatised and the Government granted BTPS a Crown Guarantee, which provides that if BT Group is wound up, most ongoing contribution obligations of BT Group to the Scheme would continue to be met by the Government

2001

Scheme was closed to new members

2006

Scheme was a founding signatory of the Principles of Responsible Investment (PRI)

2018

Scheme closed to future accrual for almost all members

2020

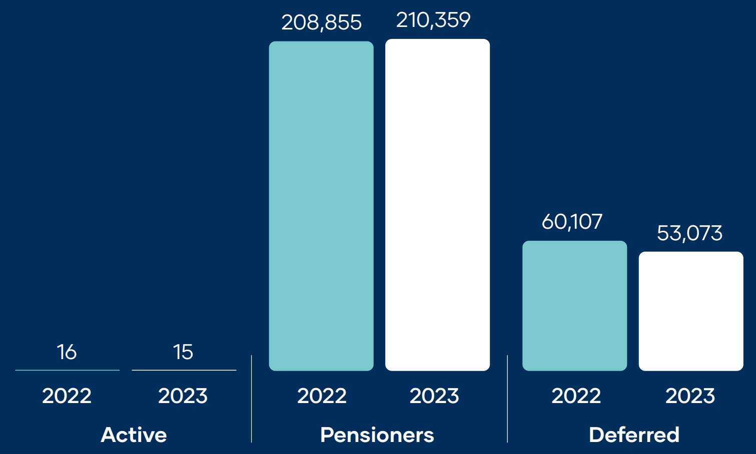
Scheme sets 2035 Net Zero goal for its investment portfolio

The Scheme's funding position has improved from 88% in June 2020 to 91% in June 2023, representing a reduction in the funding shortfall (deficit) from £7.98bn in June 2020 to £3.70bn in June 2023 following £4.36bn of deficit contributions.

The Scheme will continue to de-risk its investment strategy through to 2034, providing more certainty over outcomes, and is on track to be fully funded by 2030.

Member profile

Member profile as at June 2023



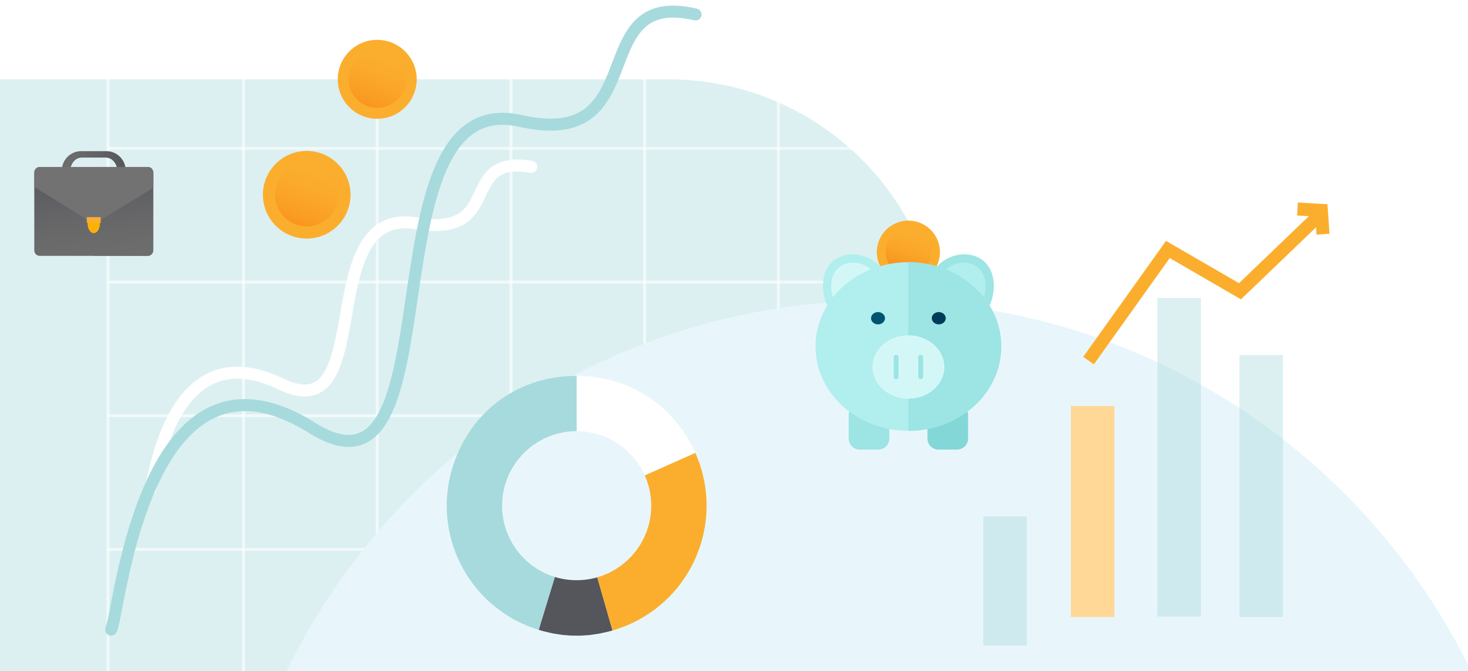
Investment strategy

The Scheme's main objective is to ensure there are sufficient assets to pay the benefits in full at the right time to members and their beneficiaries under the Rules of the Scheme.

As more of the Scheme's members reach retirement, the matching of assets and liabilities will be increased with the investment portfolio transitioning towards bond and bond-like investments. We have set an objective to reduce the level of investment risk gradually over time and to increase the level of cashflow aware assets, as the proportion of retired members increases. The income from those cashflow aware assets will help us reduce the range of investment outcomes and ensure funding stability. By 2034 (when virtually all Scheme members will be retired) the Scheme intends for its assets to provide adequate income plus capital repayments to meet members' benefit payments as they fall due.

The Scheme is exposed to five main risk factors:

- **Changes in long term UK interest rates**
- **Liquidity and cash flow risk**
- **Changes in UK inflation**
- **Changes in longevity**
- **Asset risk**

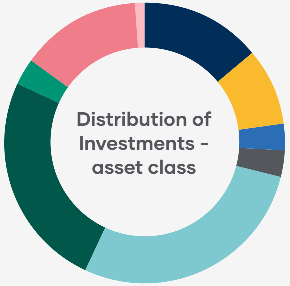


Liability driven investment
Recognising these risks, the Trustee embarked on a programme to increase the Scheme's hedge ratio for interest rates and inflation in 2012 and sought to reduce the level of investment risk gradually over time, with the intention of moving to a substantially lower risk investment strategy by 2034.

During the last few years, the interest rate and inflation hedge ratios have both been increased to approximately **92%**, to mitigate the effect of changes in interest rates and inflation expectations. This means that approximately **92%** of any change to the Scheme's technical provisions due to changes in interest rates or changes in inflation expectations are expected to be offset by the change in value of the cashflow aware portfolio. This hedge has been implemented incrementally over several years. A measured implementation approach has been required because of the large size of the Scheme and the desire not to have an adverse impact on market pricing.

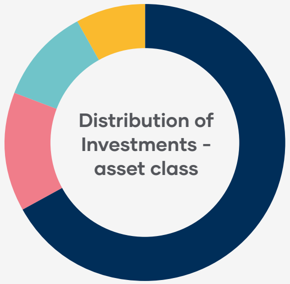
Where we invest as at June 2023

The distribution of investments



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

Regional Breakdown



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

Property investments

Around 9% or **£3.3bn** of Scheme assets are invested in property, comprising of a diversified mix of offices, industrial property, retail and residential assets.

These investments provide the Scheme with income and over the long term, the value of commercial property has been shown as an asset class that keeps pace with inflation.

Investment grade credit

The Scheme owns approximately **£10bn** of corporate bonds which form part of our cash flow matching portfolio.

The purpose of the cashflow matching portfolio is to efficiently exploit the natural liquidity of bond and bond-like assets to further improve confidence that benefit payments can be met as they fall due. On June **2023** approximately **48%** of the Scheme's exposure to investment grade corporate bonds was allocated to UK corporate bonds and the remaining **52%** was invested globally.

Infrastructure

The Scheme has been investing in UK infrastructure since 2011. Current investments are valued at approximately **£1.1bn**.

Government bonds and cash

The Scheme owns and Brightwell manages approximately **£10bn** of conventional and index-linked government debt to hedge part of its inflation and interest rate risk.

Sustainable investment and climate change

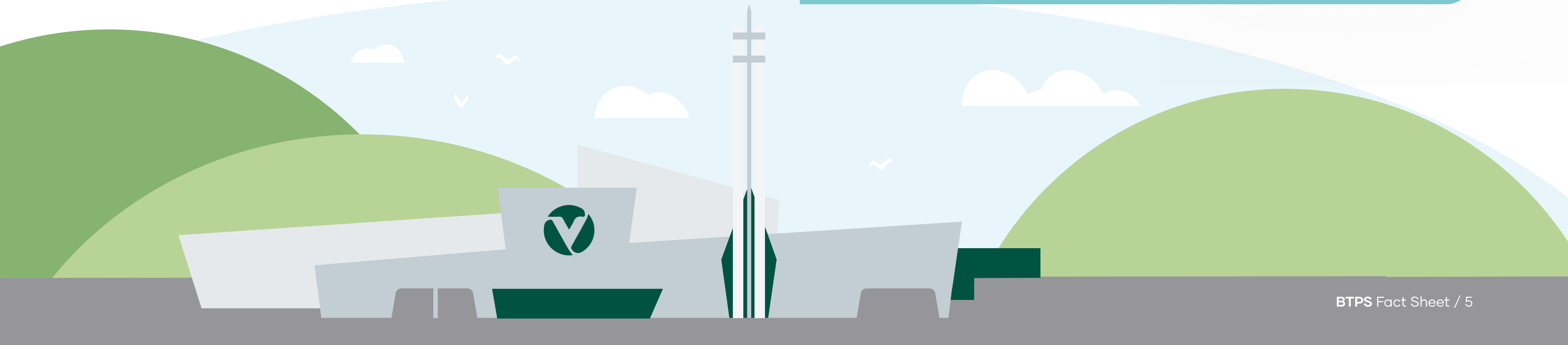
The Scheme has a long history of being an engaged and responsible investor.

This commitment is central to how the Scheme thinks about its investments and this is mirrored in 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".

Climate change is one of the biggest risks posed to the Scheme achieving its member funding obligations. As a result, in October 2020, the Scheme set an ambitious goal to achieve net zero greenhouse gas emissions (absolute scope 1-3) by 2035 across the portfolio.

Click **here** to watch a video of btps **members visiting Viridor ERF, one of the Scheme's sustainable UK infrastructure investments**.



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