BTPS

Sustainable Investment Summary 2022

www.btps.co.uk

Contents

Introduction

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

The Scheme's investment strategy, which has sustainability at its core, considers the potential impact on the Scheme of long-term structural risks such as geopolitical risk, climate change, and scarce and impaired natural resources. These risks are inextricably linked and require systemic changes in the way companies operate, pension funds invest and in how we steward our assets.

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

Concerns over energy security have driven coal imports up as nations race to secure fossil fuel suppliers[1] and there have been sharp increases in energy and food prices causing politicians to focus on national challenges. In return, vital resources and discussion time has been taken away from addressing climate change. The invasion of Ukraine has highlighted the need for an orderly transition to deal with climate change, as we have seen a brief snapshot of what a tightening of oil and gas has done to the global energy system. This will require ongoing monitoring of geopolitical risks, investment into viable, cost-effective substitutes and a managed decline of fossil fuels. We have already seen the reduction in cost of renewables, paving the way for a more sustainable energy future.

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

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

We continue to find better ways of sharing what BTPS is doing on sustainable investment. This report highlights some of the key activities over the past year, however if would like further detail, please visit our annual report **here**.

Stewardship spotlight

UK STEWARDSHIP CODE

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. We were delighted to achieve signatory status to the UK Stewardship Code during 2022. As one of the UK's largest corporate pension scheme, we have a responsibility to act as a long-term custodian of the assets we invest in, to meet both the retirement incomes of our members, as well as the needs of the environment and wider society.

asset owner diversity charter

In 2022, BTPSM became a signatory to the Asset Owner Diversity Charter, committing to holding our investment managers to account on diversity and inclusion and to drive change within the asset management industry on this important issue.

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

An award-winning pension scheme

Over the past 12 months, BTPS won three leading industry awards:

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

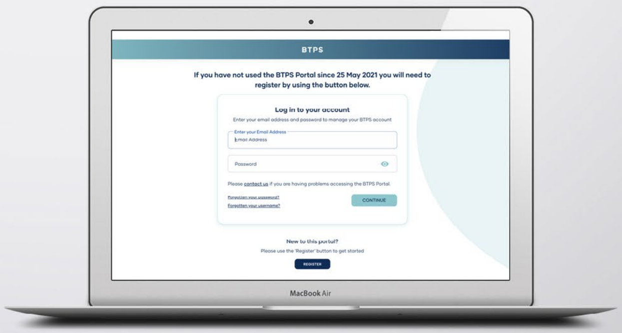
European Pensions awards
Pension Scheme Administrator of the Year

Pensions Age awards
DB Scheme of the Year

IPE awards
UK Country Award

Otto Thoresen
Chair, BTPS

Morten Nilsson
CEO, BTPSM



Login to the BTPS member portal **www.btps.co.uk** where you can see the value of your pension, update any personal information, download pension payslips and much more. The new technology we've used allows a personalised view for each member, data changes update directly onto the main database, in real time, and provides a pensions calculator for members approaching retirement to model their benefits.

At a glance

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

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

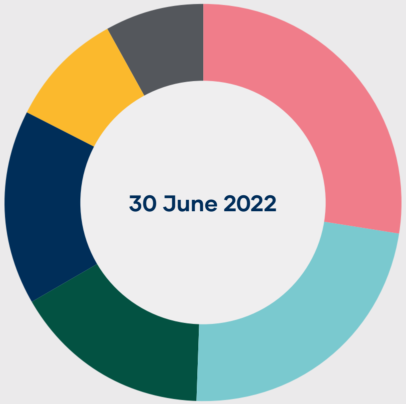
Total benefits paid were **£2.5bn** in the year to 30 June 2022.

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

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

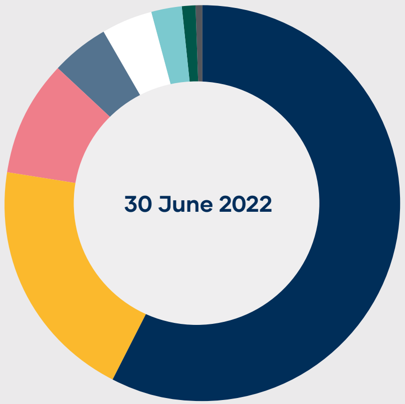
Scheme summary

The distribution of investments



Investment grade credit	27.5%
Government bonds and cash	23.3%
Other growth assets	16.0%
Equities	15.8%
Property	9.4%
Secure income	8.0%

Regional breakdown

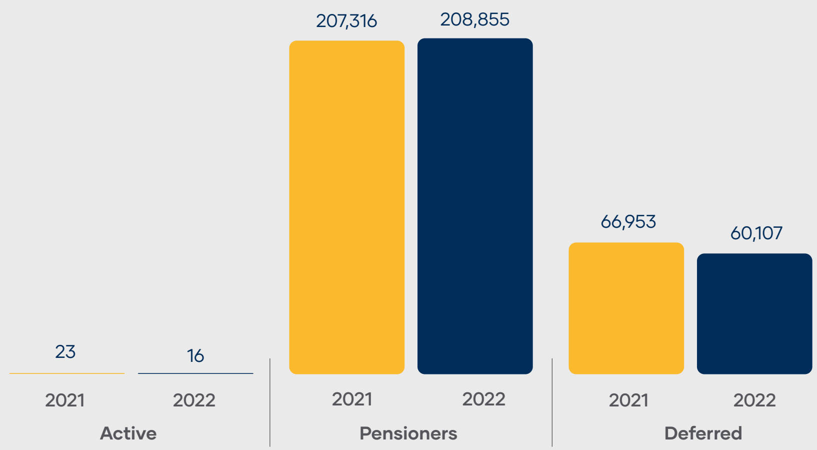


United Kingdom	57.6%
United States	20.0%
Europe	9.6%
Rest of world	4.6%
Emerging markets	4.3%
Asia Pacific ex Japan	2.4%
Canada	1.0%
Japan	0.5%

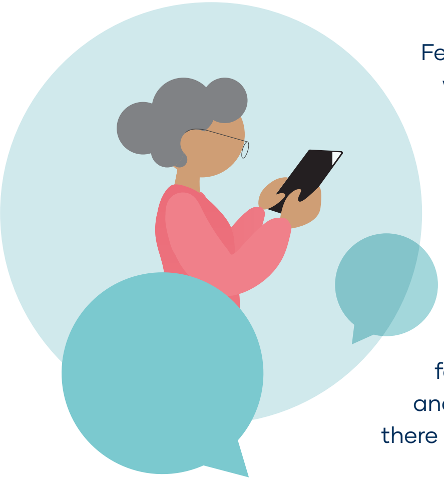
The Trustee Board take an integrated approach to the management of risk in the Scheme, setting an investment strategy that is consistent with funding a defined level of benefits within an acceptable level of risk while having regard to the quality of the covenant and the affordability to BT Group. The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

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

Membership summary:



Member views are important to us



Feedback from members on our communication is really important to ensure we're sharing what's most helpful.

We highly value feedback we receive from members through our annual member surveys and our 'member panel' who volunteer to take part in more in-depth research with the Scheme.

In April 2022, we invited members from our member panel to share their views on our sustainable investment reporting to help influence how we can best communicate our sustainability work with members and hear their views on how it could be more accessible. It was pleasing that 38% of respondents found our 2021 responsible investment and stewardship report very informative, and 54% found it somewhat informative. However, these numbers signal that there is room for improvement to further meet members' needs.

What you asked for	What we're delivering
"Different documents aimed at the variety of your audience"	We've created this short report containing highlights from the BTPS annual report for members. Look out for short video summaries on the BTPS website **www.btps.co.uk** showcasing our key stewardship, climate change and voting activities, as well as different sustainability topics you may find of interest.
"Simplify some of the information to make it accessible to all"	We integrated the Scheme's detailed stewardship, climate change and voting information into the latest **annual report**. We have simplified the information as much as possible whilst still seeking to meet our regulatory and reporting requirements. This document picks out key highlights of our annual report.

BTPS member visit to Kings Cross

In the summer of 2022, we invited five BTPS members from the member panel who had provided their thoughts on our sustainability reporting to visit one of the Scheme's flagship investments, the King's Cross Development, London.

Hear from the Chair of BTPS, BTPSM's Head of Sustainable Investment and BTPS members on the Scheme's commitment to sustainable investment and key highlights from the visit.

Market review

After an exceptional 2021, 2022 brought its own challenges. The first half of 2022 was difficult for markets with concerns over the economic implications of the Russian invasion of Ukraine. Europe is reliant upon importing oil and natural gas from Russia. There was also the potential need for a faster pace of interest rate hikes to combat higher inflation which weighed on both equities and bonds.

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

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

Then in September 2022, we saw extreme volatility in the gilt market, with yields rising sharply prior to the Bank of England's gilt-market intervention. Almost all UK defined benefit pension schemes hedge their interest rate and inflation risk using a combination of these gilts and interest rate and inflation swaps – financial instruments that we use to protect the Scheme from changes in interest rates. During this time, our hedges performed as expected, and whilst the value of the Scheme's assets fell over this period, there was no worsening in our estimated funding position.

Systemic risks

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

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.

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

Abbas Owainati, Macro-Economist, BTPSM

ESG Integration and market-wide risks in practice

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

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

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

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

Doug Clark, Head of Research and Solutions, BTPSM

Net Zero 2035 & climate highlights

NET ZERO 2035

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

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

Our goal is supported by four pillars:

1. Portfolio construction

2. Mandates and managers

3. Stewardship

4. Advocacy

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

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

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

What does net zero mean?

Net zero emissions means achieving a balance between greenhouse gas (GHG) emissions produced and the amount removed from the atmosphere, consistent with limiting global warming to 1.5°C and neutralising the impact of any residual emissions by permanently removing an equivalent amount of carbon dioxide (CO_2). For BTPS this will mean reducing the portfolio's emissions through changing investments and investing in technologies which reduce emissions.

BTPS' collaborative climate-related initiatives

IIGCC The Institutional Investors Group on Climate Change

THE NET-ZERO ASSET OWNER ALLIANCE

ASCOR

Transition Pathway Initiative

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Net Zero 2035 & climate highlights (continued)

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

The Scheme set a 2035 net zero goal in October 2020 driven by an acceptance that climate change is now a clear and present risk to the Scheme meeting its long-term financial commitments, not a future risk. During 2022, several key activities occurred:

Undertook climate analysis of assets, liabilities & covenant

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

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

Undertook first Trustee net zero deep-dive

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

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

BTPS' net zero progress

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

Decarbonising BTPS' portfolio is an important priority, however, it will not necessarily aid the overall global transition. Instead, using our influence to push companies will likely prove more powerful than divesting heavy emitters to reach an emissions goal.

Monitoring the Scheme's exposure to investments that aid the global transition is key.

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

Current BTPS investments in climate solutions

Viridor

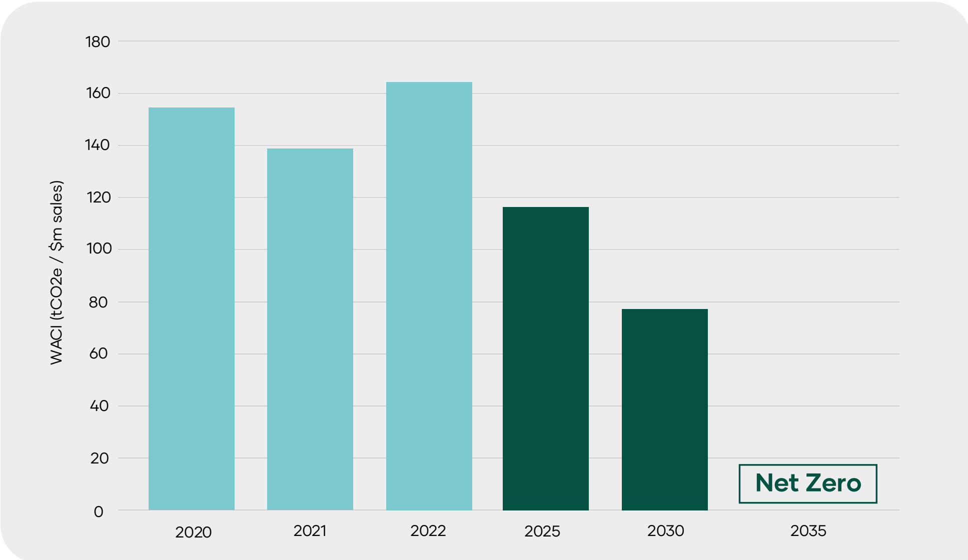
Viridor is the leading UK waste-to-energy, recycling and waste management company. It is also one of the UK's largest independent power generators, through Energy Recovery Facilities, anaerobic digestion, solar and landfill. In 2021, their facilities produced 2,315GWh electricity – that's enough to power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

Fallago Rig

In 2013, BTPS invested in Fallago Rig, a windfarm in the Scottish borders, alongside energy company, EDF. The investment, with a value of c.£250m, is now one of the largest in the UK and its 48 turbines generate 144MW of clean electricity – enough to power 86,000 homes. It also avoids more than 100,000 tonnes of carbon dioxide (CO2) annually. Additionally, as part of their Net Zero 2041 goal, BT Group purchased 50% of the windfarm's electricity through a Purchase Power Agreement (PPA). To learn more about the rig, please click **here**.

BTPS' net zero progress (continued)

Overall portfolio WACI performance vs. Net Zero target



We measure the Scheme's carbon intensity using various metrics. Two that we track in particular are:

Absolute emissions

Absolute emissions are the primary focus of the Net Zero goal and reflect the overall investment portfolio emissions and the real world impact. The Scheme's absolute emissions reduced by 23.7% over the year.

Weighted Average Carbon Intensity (WACI)

WACI is an intensity measure that normalises for changes in the value or exposure to assets in the Scheme. It measures the exposure to carbon-intensive companies within the overall portfolio. The Scheme's WACI increased by 6.8% over the year.

Year-on-year changes in emissions can be quite volatile (e.g. impacts of COVID-19 and lockdowns lowering global emissions in 2020 and 2021). Achieving the long-term ambition of net zero emissions is the key focus.

Key 2023 focus

Over the next 12 months, BTPS will continue to push a number of initiatives to achieve its 2025 emission targets and remain on track for the 2035 Net Zero goal.

These include:

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

Net zero stewardship in practice

Ferry company's zero emission freight ferry

Infrastructure engagement via Federated Hermes Infrastructure

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

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

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

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

Corporate credit engagement via PIMCO

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

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

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

Decarbonising the steel industry

Equity engagement via GQG

GQG, one of our global equity managers, has been engaging with a multinational steel manufacturing company which is one of the largest contributors to the portfolio's carbon emissions. GQG has engaged to understand the types of investments it is making and how it is progressing towards Net Zero carbon emissions. The company has set a goal for its European operations to reduce CO_2 emissions by 30% by 2030 and be carbon neutral in the region by 2050.

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

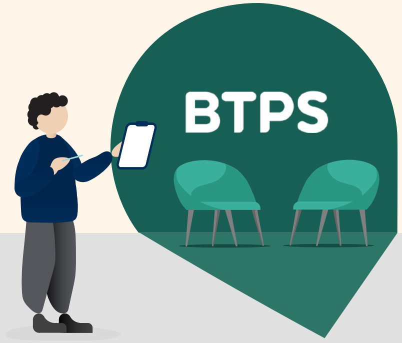
The company is adapting existing blast furnaces with proprietary technology to replace the coal in the process with alternative sources of carbon. This includes fuel sources such as waste wood or waste plastics, capturing the CO_2 emissions, storing them underground, and turning them into other usable products, such as jet fuel. GQG believes the company is among a handful of leading transformational change in the steel making sector. The company is committing risk capital that should accelerate the development and commercialisation of technology to reduce the carbon intensity of steel production.

GQG plans to re-engage with the company in late 2022 and will seek a progress update on the execution of its decarbonisation strategy against its target to reduce CO_2 emissions.

Key stewardship highlights

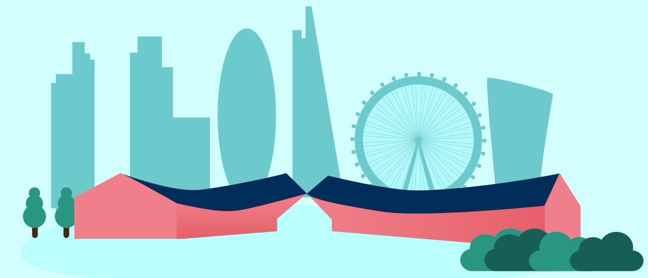
Audit

Internal audit of stewardship report & internal stewardship activities.



Diversity, Equity & Inclusion (DE&I)

Signed the Asset Owner Diversity Charter.



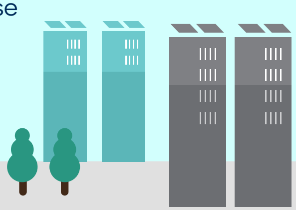
Member visit to King's Cross development, London, UK

Manager oversight

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

Real estate

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



Climate

"Set five-year goals to reduce portfolio emissions[1]" See the TCFD section of our annual report for more highlights.

Founding member of The ASCOR Project

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

Improving reporting for asset owners

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

Member engagement

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

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

of 12,000 BTPS annual survey respondents

Useful links

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

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

Voting activities

Voting is an important activity for BTPS

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

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.

Manager:
Federated Hermes Investment Management

Fund type:
Multiple segregated active equity funds

Significant vote

Company: Berkshire Hathaway Energy

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

Voting instruction: For

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

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

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

See the **SIP Implementation Section** in our annual report.

Engagement - EOS engagement highlights

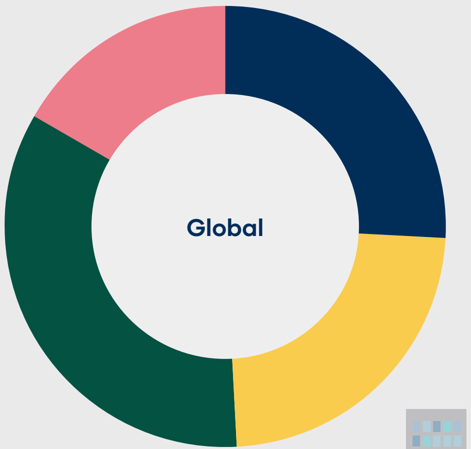
Meaningful engagement with companies' management teams and boards helps hold management to account and drive positive change.

Corporate engagement is done on BTPS' behalf in two ways: through our asset managers and through EOS at Federated Hermes on behalf of the Scheme.

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.

We engaged with 144 companies over the last year on the following ESG and strategy themes

Governance	34.2%
Environmental	26.0%
Social and ethical	23.3%
Strategy, risk, communication	16.6%



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.

144 companies engaged with

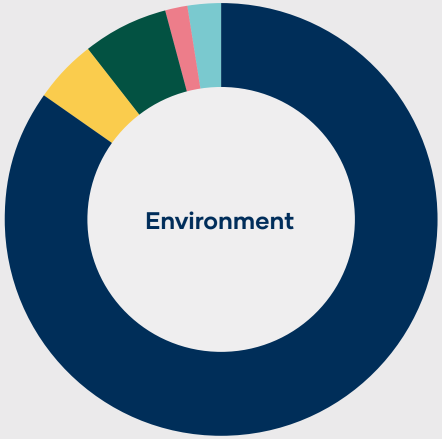
On **658** issues

With **277** engagement objectives

* Figures may not sum to 100% due to rounding.

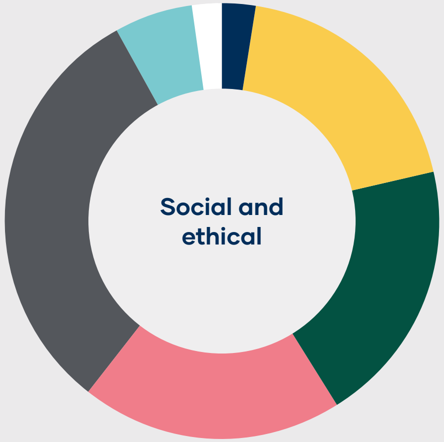
Engagement - EOS engagement themes

Environmental topics featured in 26.0% of our engagements over the last year



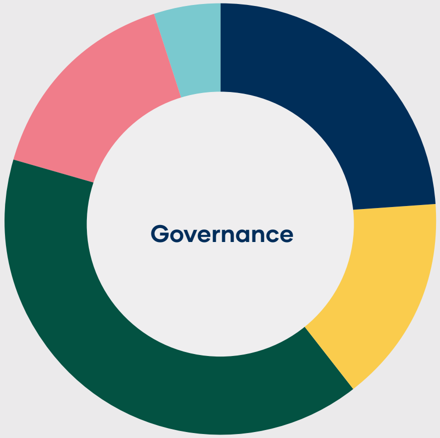
Climate change	84.8%
Pollution and waste management	6.4%
Forestry and land use	4.7%
Water	2.3%
Supply chain management	1.8%

Social and ethical topics featured in 23.3% of our engagements over the last year



Human rights	31.4%
Diversity	19.6%
Human capital management	19.6%
Conduct and culture	19.0%
Labour rights	5.9%
Bribery and corruption	2.6%
Tax	2.0%

Governance topics featured in 34.2% of our engagements over the last year



Executive remuneration	40.0%
Board diversity, skills and experience	24.0%
Board independence	15.6%
Shareholder protection and rights	15.6%
Succession planning	4.9%

** Figures may not sum to 100% due to rounding.*

Engagement - In practice

Engagement examples over reporting period 1 July 2021 - 30 June 2022

Environmental

Encouraging better sustainability through incentives

Direct lending engagement via Ares Asset Management

Ares launched its first sustainability linked loan, which was also the largest private credit-backed sustainability linked financing at the time (August 2021). If the business achieves certain sustainability targets, which are broadly focused on carbon intensity reduction and continual improvement to health and safety management and ethics, it will be rewarded with interest savings on their loan from Ares.

At least 50% of any saving from meeting these targets must be redeployed into the company's sustainably initiatives, thus encouraging further sustainability improvements. This engagement has the potential to generate risk reduction on both sides.

Social

Engagement stalled by grocery company's lack of responsiveness

Corporate credit engagement via Insight Asset Management

Not all companies are as willing to engage as others. A large US grocery store has ongoing wage and employee relations issues, and has concentrated ownership compared to its peers.

Insight has tried to engage with this company to challenge them to implement initiatives to address these issues, but it remains unresponsive to requests to discuss this important topic.

The company has however provided enhanced disclosure in their annual ESG update report this year, indicating engagement activities are having some effect.

Insight will continue to attempt engagement with the company and continue monitoring performance relative to peers to understand if a continued lack of engagement and insufficient progress in this area may lead to a change in investment decision.

Governance

Remuneration concerns of a multinational investment bank

Corporate credit engagement via Wellington Asset Management

Wellington engaged with the bank on the disconnect between compensation and performance for the company's executives. They noted that there were directors on the Board with multiple affiliations; some of whom sit on key committees. As a result, Wellington felt the company had elevated governance risk relative to its peers and did not believe its valuation compensated for this risk.

With this information, worsening economic conditions and a reluctance by management for change, Wellington decided to reduce its position in the company. Wellington will continue to engage with them on this topic and if sufficient progress is seen, may increase its position in the future.

Future priorities

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

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

Work closely with our managers

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

Active members of industry initiatives and collaborations

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

Strengthen ESG integration

It is important that BTPSM continues to strengthen ESG integration into its investment processes and further embed being a good steward of capital into its corporate objectives. A significant part of this is exploring how to further integrate ESG data into their investment and risk systems. This will help enhance portfolio analysis and provide a more accurate picture of BTPS' alignment to its Net Zero 2035 goal.

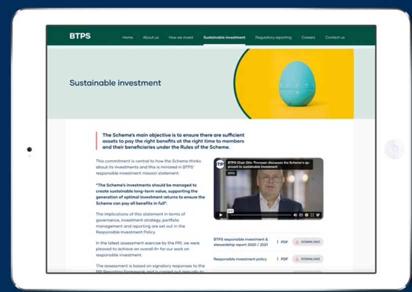
Take on board member feedback

We want to ensure we're providing members with the information they require to fully understand their BTPS pensions. Having taken on board member feedback from our recent surveys, we will be creating a series of informative videos on a variety of investment and sustainability related topics. These will sit on the new online portal and website.

Find out more

Read our **Report & Accounts 2022** for more information on the Scheme's:

- Strategy and governance
- Net Zero 2035 goal
- Stewardship activities



Visit the **BTPS Sustainable Investment** page for the:

- BTPS responsible investment policy
- BTPS climate change policy
- BTPS voting and engagement reports

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