BTPS

Annual Report and Accounts 2023

www.btps.co.uk

Contents

About BTPS

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

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

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

More information on the Trustee Board and Scheme governance can be found on **page 7 and page 30**

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

More information on Brightwell and its Executive can be found on **page 11**

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

The report on Funding and Investment can be found on **page 13** and the Member Services report can be found on **page 25**

At a glance

The Scheme's funding position improved to 91% at 30 June 2023, compared to 88% at 30 June 2020.

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

Total benefits paid were £2.6bn in the year to 30 June 2023.

The Scheme's net assets were valued at £37.3bn as at 30 June 2023.

The Scheme's net assets were invested 29% in equity and equity-like[1] assets and 71% in cashflow-aware[2] assets as at 30 June 2023.

[1] Equity and equity-like includes equities, property, absolute return and infrastructure assets.

[2] Cashflow-aware includes investment grade credit, sub-investment grade credit, and government bonds and cash.

Chair's statement

On behalf of the BTPS Trustee, I am delighted to introduce the Scheme's annual report and financial statements for the financial year to 30 June 2023.

2023 Funding Valuation
The Board is pleased to have reached an agreement with BT, the Scheme's sponsoring employer, on the outcome of the 2023 Funding Valuation.

The funding deficit as at 30 June 2023 is £3.70bn, which is in line with the projected position from 30 June 2020, when the deficit was £7.98bn. The value of the Scheme's assets and liabilities both fell over the period due to higher long-term interest rate expectations, and the impact of £7.6bn being paid out from the Scheme in respect of benefits that were due to members. Over this period, the Scheme's hedging programme helped to protect our funding position against the impact of changes in interest rates and inflation. Careful management of these risks enabled the Scheme's funding deficit to perform broadly in line with expectations, and based on the 2023 valuation outcome, the Scheme is expected to achieve full funding by 30 June 2030.

Throughout the valuation process, the team at BTPSM (now trading as Brightwell, as explained in more detail below) worked closely with BT, with oversight from the Trustee, to develop and agree a triennial valuation which supports BTPS in delivering its journey plan, and allows BT to continue to implement its business strategy and provide a good covenant for the Scheme. The agreement, together with the ongoing de-risking of the investment strategy, builds on the previous valuation outcome, giving us greater confidence that we will achieve our objectives.

As required by legislation, the valuation documentation will be submitted to The Pensions Regulator (TPR). BT and the Trustee will continue to monitor the funding position of the Scheme, with the next formal review expected to be undertaken in the normal way at the 2026 valuation. As there are many facets to the valuation, additional commentary is provided in the 'Funding and Investment' (Scheme funding and Self-investment) section, and in the financial statements (SPV disclosure and Related parties disclosure).

2023 Annual Report and Accounts
The audited financial statements in this annual report show the financial position of the Scheme on 30 June 2023, and the money which has gone in and out of the Scheme since 30 June 2022. In contrast, the funding valuation described above is a detailed financial health check of the Scheme, which is carried out every three years, and looks at whether the Scheme is likely to be able to pay the benefits that are due in the longer term.

As shown in the financial statements on the following pages, BT made deficit funding contributions of £0.9bn in the year to 30 June 2023. In addition, distributions of £180 million were received in respect of the Asset Backed Funding arrangement. None of the additional contribution provisions, agreed with BT as part of the 30 June 2020 valuation (and retained in the 30 June 2023 valuation), were triggered over the period.

Our liability hedging programme is designed to protect the Scheme's funding position against the impact of changes to interest rates and inflation. These investments are designed to rise in value when changes to interest rates or inflation cause the Scheme's liabilities to rise, and vice versa.

Otto Thoresen
Chair of Trustee Board

Chair's statement continued

As interest rates and inflation have increased over the last two years, the value of both our liabilities and assets have fallen as expected, with the result that our deficit recovery plan remains on track.

Throughout the year, the pensions sector has attracted considerable media attention on a number of fronts. We seek to proactively engage with regulators, the Bank of England and the government on issues of importance to the Scheme and its members to build understanding. There has been much media coverage of the importance of attracting long term investment in the UK economy. The Scheme remains a significant investor in the UK with 67% of its total assets invested in UK gilts, corporate bonds, property, public equities, infrastructure and private equity. This figure has increased over the past 12 months and is at the highest level in over a decade. Since all the Scheme's liabilities are in pounds, our exposure to UK assets is likely to continue to increase.

Headlines and highlights

The year to 30 June 2023 has proved significant both to the Scheme, and the pensions industry as a whole. The autumn of 2022 saw unprecedented volatility in gilt markets, creating a short-term liquidity challenge for many UK defined benefit (DB) schemes, and bringing the sector as a whole into focus. Throughout the year, inflation has remained stubbornly high, prompting consecutive interest rate rises by the Bank of England, and contributing to very challenging living standards. Macro level events, such as the long term impact of the COVID pandemic and the increasingly entrenched conflict in Ukraine, are likely to have a continued impact on investment market volatility.

Maintaining resilience and reducing volatility in our funding position is central to us achieving our main priority as a Trustee Board, which is to ensure BTPS pays promised benefits to members as they fall due. Reflecting on the issues that have dominated the Board's agenda during this year, I'd like to draw your attention to the following key highlights:

Member services quality and value

The Trustee has supported Brightwell in making investments in people, technology and improved processes, and this continues to bear fruit from both a service and cost perspective. I'm also pleased to report that the external benchmarking for Member Services illustrated that BTPS is now top in its peer group in terms of service quality.

Protecting the Scheme from longevity risk

Longevity risk is one of the biggest risks facing the Scheme and during the year Brightwell supported the Trustee with a longevity insurance and reinsurance arrangement covering £5bn of BTPS pensioner liabilities. This follows the £16bn of liabilities covered by a similar arrangement entered by BTPS in 2014. This transaction, which was completed after the BTPS year end in July 2023, provides greater certainty for the Scheme, sponsor and members.

Net Zero 2035

It has been 3 years since we announced our ambition to achieve Net Zero carbon emissions in our portfolio by 2035. We are pleased to report that we have achieved the 2023 emissions reduction goal. The impact of climate change on long term investors like BTPS should not be underestimated. As a Trustee Board, we continue to believe that managing our investments to create long term sustainable value will optimise investment returns. Our Task Force on Climate-Related Financial Disclosures (TCFD) report includes more detail on the Scheme's activity in this area, and can be found on our website.

Corporate event planning

BTPS is a very substantial stakeholder in BT, with a funding deficit of £3.70bn and a solvency deficit of £9.16bn. The funding deficit has a significant level of reliance on the strength of the BT employer covenant – that is, the BT Group's ongoing legal obligation and financial ability to support the Scheme now, and in the future. Therefore the Scheme takes a strong interest in all matters relating to the ownership and corporate structure of BT Group. Any change of control impacting the corporate and capital structure of the Group would lead the Trustee to reassess the strength of the covenant going forwards, and determine appropriate funding and investment plans based on that revised covenant and the associated level of risk that would then be appropriate. The Trustee response would depend on the extent to which the covenant would be weakened and on any mitigants that would be provided. The Scheme is well prepared to react should there be any change of control which could impact the corporate and capital structure of the BT Group. Further detail is included in the funding and investment section on page 15.

Regulatory change

At the time of writing, we are awaiting the release of The Pensions Regulator's Defined Benefit Funding Code of Practice which will consolidate and update a number of the existing regulations. The DWP continue to consult on new regulations for the sector which may affect the Code and we continue to monitor developments closely.

Chair's statement continued

As one of the largest defined benefit schemes in the UK, we put considerable focus on our risk & compliance governance and expect to be well positioned to respond to the new regulations when they come into force.

We also continue to actively engage with government on public policy matters which impact the Scheme through participation in relevant forums and consultations. We remain committed to playing our part in contributing to the ongoing policy conversation in this area.

Launch of Brightwell
In April this year BTPSM (the Scheme's primary service provider) re-branded as Brightwell, making its services available to like-minded pension schemes. BTPS is maturing as a scheme. Opening Brightwell's services to the wider market helps us address the challenge of securing access to the depth of resource the Scheme needs to maintain a quality service for our members and safeguard their long-term interests. I have asked Morten Nilsson (Brightwell CEO) to provide more commentary on this later in the annual report.

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 I'm glad to report that the Scheme is considered to be well run across all areas.

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.

Changes to the Trustee Board

After six years of service, Keith Nichols stepped down from the Trustee Board in May at the end of his second term. On behalf of the Board, I would like to thank Keith for his valuable support and keen insight during a period of significant change for the Scheme. Keith is succeeded by Jill Mackenzie, who brings a wealth of experience in both executive, non-executive and trustee roles. I welcome Jill to the Trustee Board.

Lastly, I announced earlier this year I would stand down from the Trustee Board on the conclusion of the 2023 funding valuation, and will be succeeded in the Chair's role by Jill Mackenzie. I would like to place on record my thanks to colleagues on the Board, both past and present, for the excellent support they have provided both to me and the Scheme during my time as Chair.

Closing remark

In closing, I would like to thank my fellow Trustees for their continued hard work and commitment to the Scheme and its members throughout another busy year. As part of our role in safeguarding the Scheme's assets, we monitored Brightwell's delivery and operational effectiveness by reference to service assurance measures which cover the three service lines: Member Services, Funding and Fiduciary Services, and Executive Services. The Board commends the Brightwell team for their hard work, trusted advice and support over the year.

Otto Thoresen | 13 November 2023
Board Chair

Incoming Chair's statement

I am delighted to be joining the BTPS Trustee Board as the incoming Chair. In these first months since my appointment, I have witnessed the dedication with which the Trustees discharge their duties to the Scheme and its members. The way in which the Scheme weathered the market volatility during the year is a testament to this dedication together with the high standards of member services and the positive relationship with the Scheme sponsor. Otto is handing over a robust governance framework and a collaborative and supportive boardroom culture both of which stand us in good stead for the future.

Both my fellow Trustees and I offer our gratitude and thanks to Otto for his excellent leadership over the last few years. It is clear that the Scheme has been well led and I look forward to working with the Trustee in overseeing the continuation of this high-quality support for the benefit of our members.

Jill Mackenzie | 13 November 2023
Chair Designate

Trustee Board

The following are the Trustee Directors:

Otto Thoresen (A) has extensive experience in pensions, financial services and consumer issues across a range of private and public sector organisations. Before starting his portfolio career he was Director General of the Association of British Insurers from 2011 to 2015. Previously he was Chief Executive of AEGON UK from 2005 to 2011. He was the independent reviewer of the Treasury Review of Generic Financial Advice – the Thoresen Review – published in 2008 which led to the creation of what is now called the Money and Pensions Service.

Otto was Chair of the National Employment Savings Trust (NEST) from 2015 to 2022. He is also Chair of the board of Aviva International Insurance. He is a member of the Court of the University of Aberdeen.

Jill Mackenzie (C) was appointed to the Trustee Board on 15 May 2023. Jill has experience across a number of executive and non-executive roles and is a seasoned trustee board chair. She served as a board member and senior independent director with NEST (National Employment Savings Trust) for seven years between 2015 and 2022 and she currently sits on the board of the Fidelity Master Trust. Jill brings extensive experience of defined benefit pension schemes as both employer and trustee.

Nigel Cotgrove (B) is a former union officer with over 20 years of experience dealing with pensions.

He was a National Officer of the Communication Workers' Union (CWU) for 31 years until July 2020. In that role, Nigel was the national lead for occupational pensions in telecoms, IT and financial services sectors for two decades. This included negotiating with BT on all pension issues.

Nigel has served on the Members' Panel at the National Employment Savings Trust (NEST) since 2016. Previously he was a member of the Airwave Solutions DC Pension Governance Committee and a Trustee of the CWU 2000 Pension. Nigel was appointed to the Prison Service Pay Review Body in 2023 and is a member of the CWU and the National Federation of Occupational Pensioners.

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

Emily Clark (C) is currently Chief Financial Officer of BT's Networks organisation. Prior to this, Emily was BT's Chief Economist, providing economic thinking and analysis to further key commercial, regulatory and strategy goals, wherever required in the BT Group. Emily has previously been a director at a City law firm and, before that, an economic consultant, working for clients in a range of sectors including energy, financial services and communications.

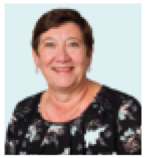
In all her roles, Emily has been involved in launching and embedding a range of gender diversity initiatives.

Trustee Board continued

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

Ben Marshall (B) has been a trustee of a number of pension schemes continuously for over thirty years and, until his retirement in 2017, was both chair of the General Federation of Trade Unions Pension Scheme and a member of the board of governance of the Steria Defined Contribution (DC) Scheme since its creation in 2010. He has also been a trustee of the BT Retirement Plan (now replaced by the BTRSS and a Group Personal Pension Plan), and the Accenture AHRS DC Scheme.

Keith Nichols (C) was formerly Chief Financial Officer and member of the board of management at AkzoNobel N.V., where he played a key role in the sale of Organon BioSciences to Schering Plough, and in the acquisition of ICI and its related pension liabilities. Prior to joining AkzoNobel N.V. in 2005, he held various senior finance positions across a number of industrial sectors for companies such as Corus Group, TPG N.V., WPP and BET. He is also an Independent Member of the King's College London Finance Committee and a Fellow of the Association of Corporate Treasurers. Keith stood down from his position as Trustee Director on 15 May 2023, having reached the end of his appointment term.



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

David Viles (C) retired from his position as Director of Risk, Compliance & Assurance at BT in early 2023. He began his professional career at Arthur Andersen in 1988, firstly as an auditor and then building a number of consulting businesses, mostly related to risk. David subsequently worked at Deloitte and BP plc, holding various senior risk-related roles before joining BT in 2018.

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

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

(C) Employer-nominated Trustee Director.

Brightwell CEO update

This year, I'm pleased to be introducing my update as CEO of Brightwell. Although our name has changed, the service we provide to the Scheme has not.

As a management team, we're very proud of everything we've delivered for the Scheme and its members over the years, and we're delighted to now be extending that service to a small number of other like-minded defined benefit (DB) schemes. We firmly believe that evolving in this way will help us to better meet the future challenges facing the Scheme by securing the resources we need, maintaining our service levels and managing our costs.

At Brightwell, we have a deep understanding of the challenges faced by DB pension schemes developed from working closely with the BTPS Trustees and BT Group to solve the complex challenges facing the Scheme over many years. We understand every aspect of DB pension management, offering an integrated pension management model across assets, liabilities, executive services, valuation support, funding solutions and member services. This utilises economies of scale, is outcome-based and delivers value.

Good progress in challenging conditions

Looking back at the support we've provided to the Scheme over the past 12 months, we've made good progress in challenging economic conditions.

The past year has been dominated by global economic and geopolitical uncertainty and environmental concerns. High inflation, interest rates rises and the ongoing war in Ukraine have all resulted in considerable market volatility. This has been coupled with record high temperatures and growing concerns about rising temperatures causing increased uncertainty and risk for investors.

Throughout, we have retained our focus on delivering a high-quality service to the Scheme's members, ensuring the recovery plan remains on track and the Scheme's investment strategy stays resilient.

Almost all UK DB schemes hedge their interest rate and inflation risk using a combination of financial instruments including gilts and interest rate and inflation swaps. During the extreme volatility in the UK gilt markets in autumn 2022, our hedges performed as expected, and whilst the value of the Scheme's assets has fallen over this period, our liabilities have fallen in step. As a result, there has been no worsening in the Scheme's overall funding position.

Brightwell

Morten Nilsson
Brightwell Chief Executive Officer

Brightwell CEO update continued

Supporting the 2023 valuation
As at the date of this report, BT and the BTPS Trustee have agreed the 2023 funding valuation. Throughout the valuation process, we supported the Trustee in delivering a good outcome to the 2023 valuation and, based on all the work we did with BT at the previous valuation, we have been able to conclude this valuation much faster than in previous years, which reinforces the strength of the valuation framework put in place in 2020.

Longevity hedging
Brightwell was pleased once again to successfully support BTPS with it's longevity hedging strategy, executing the transaction through the insurance platform that Brightwell helped to create in 2014. This new transaction can be delivered even more efficiently following the development of our in-house asset and liability modelling capabilities.

Member services quality and value
Investment in people, technology and improved processes continues to bear fruit on both a service and cost perspective. This year Brightwell brought its contact centre operation completely in-house – with all member calls and emails being handled by our own in-house Contact Hub. This is the final step in creating a fully in-house operation, allowing Brightwell to deliver great member services cost effectively, and giving us much more control and insight into member journeys and experience. These investments in the member administration platform will drive further efficiencies as well as service improvements, and continue to reduce member administration costs in the future. We continue to see member satisfaction increase year-on-year which is our main goal.

Everyone at Brightwell takes great pride in supporting the Scheme and the Trustee in delivering members' promised pensions every step of the way to, and through, their retirement. We are committed to continually improving the service we offer and I hope that this is evident in the pages of this report.

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

About Brightwell

The Brightwell group is the primary service provider (investment advisors, funding and fiduciary management services, covenant oversight, member services, operational and secretariat services) to BTPS.

The Brightwell group is made up of BT Pension Scheme Management Limited (BTPSM) and BT Pension Scheme Administration Limited (BTPSA), both trading as Brightwell, and Procentia Limited. BTPSM is a wholly owned subsidiary of the Scheme and is regulated and authorised by the Financial Conduct Authority (FCA).

The Trustee works to ensure that Brightwell provides high quality services to BTPS' members and Trustee cost-effectively. The services are deliberately tailored to the Scheme's needs and specific challenges.

Brightwell works closely with BT as the Scheme's sponsor ensuring there is consistency in serving BT's current and former employees.

The Brightwell group is led by a board of directors that are authorised by the FCA. The Board is responsible for reporting and providing assurance to the Trustee that the Scheme is well managed and aligned to the Trustee's objectives. It also has the legal responsibility to ensure that it has adequate resources and governance arrangements to operate the business as a going concern. The Brightwell Executive Committee oversees the delivery and oversight of the implementation of the Scheme's investment strategy.

For more information on Brightwell visit **brightwellpensions.com**

About Brightwell continued

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

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

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

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

Executive Committee members:
Gillian Haselden*, Chief Legal Officer
Simon Langworthy*, Chief Commercial Officer
Martin Tully*, Chief Risk Officer and Chief Financial Officer
Peter James, Chief Investment Administration Officer
Kevin Samborn, Chief Technology Officer
Gira Davda, Chief of Staff and Chief People Officer

* Director of BT Pension Scheme Management Limited

Report by the Trustee: Funding and investment

Funding and investment

Funding

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

The most recently completed full actuarial valuation was carried out at 30 June 2023. The valuation concluded the funding level of the Scheme (i.e. the ratio of assets to the estimate of accrued liabilities at the date of the valuation) was 91%. The corresponding funding deficit was £3.70bn.

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

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

- The deficiency contributions set out in the Schedule of Contributions that are due before 30 June 2030.
- From 2023 to 2030, BT will pay £10 million a year directly into the Scheme. In addition, BT will pay £690 million by 30 April 2024, followed by £590 million by 30 April each year from 2025 to 2029 and £490 million by 30 April 2030 either directly to the Scheme or to the Scheme's co-investment vehicle. If these contributions are paid to the co-investment vehicle their value will be recorded as an asset in the Scheme accounts and, to the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the Scheme (subject to certain criteria).

In addition, BT has agreed to pay up to a further £300 million per year to the Scheme if needed to meet any future emerging funding deficit in excess of £1 billion up to 30 June 2026, or in excess of £500m between 1 July 2026 and 30 June 2033. The need for these contributions will be assessed every six months. This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding.

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

Funding and investment continued

Good progress has been made since the date of the 2020 valuation. The funding deficit as at 30 June 2023 has been agreed at £3.70bn, which is broadly in line with the projected position from 30 June 2020, when the deficit was £7.98bn.

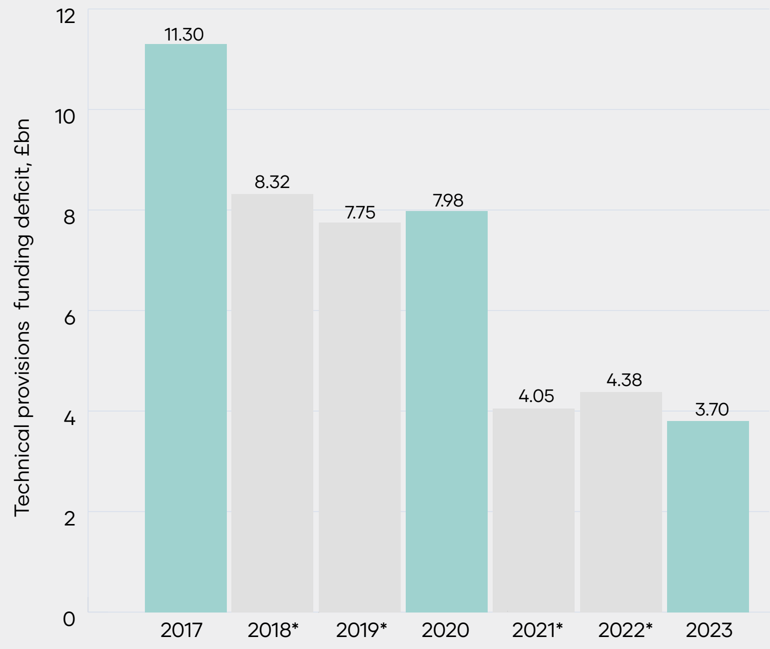
The key driver for the reduction in the deficit over the period was the £4.4bn of deficit contributions paid into the Scheme. Based on these results, none of the additional contribution provisions, agreed with BT as part of the 30 June 2020 valuation (and retained as part of the 30 June 2023 valuation), have been required.

The reduction in the deficit since the last formal valuation has been achieved despite a reduction in the value of the Scheme's assets. This is because whilst the value of the Scheme's assets has fallen since 30 June 2020, the value of the pension liabilities has fallen by a greater amount. The value of the Scheme's assets and liabilities both fell over the period due to the impact of higher long term interest rate expectations, and the impact of £7.6bn being paid out from the Scheme in respect of benefits that were due to members. Over this period, the Scheme's hedging programme helped to protect the Scheme's funding position against the impact of changes in interest rates and inflation. Careful management of these risks enabled the Scheme's funding deficit to perform broadly in-line with expectations, and based on the 2023 valuation outcome, the Scheme is expected to achieve full funding by 30 June 2030.

The evolution of the funding deficit since the 2017 valuation is illustrated in the chart to the right.

Since 30 June 2017, the funding deficit has reduced by over £7bn. During this time, the Scheme has made benefits payments of over £15bn.

Progression of funding position



*Interim funding valuation year

The 30 June 2023 valuation was completed on an ongoing technical provision basis. The solvency deficit as at 30 June 2023 was £9.16bn. This measure assumes a low-risk, closely matched investment strategy with additional margins for risk included and would be considered in the event the Trustee could not place reliance on the BT covenant.

The Scheme's financial position and the level of BT's contributions will formally be reviewed again in full as part of an actuarial valuation with an effective date of no later than 30 June 2026.

Funding and investment continued

Investment strategy

The Scheme's main objective is to ensure there are sufficient assets to pay benefits to members and their beneficiaries as they fall due, and that all members and beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme. In considering the approach to meeting this objective we take into account the expected progression of the Scheme's annual benefit payments relative to the projected level of Scheme assets as the Scheme matures. We have set an objective to reduce the level of investment risk gradually over time and to increase the level of cashflow aware assets as the proportion of retired members increases. The funding deficit has reduced from £11.30bn at the 2017 valuation, to £7.98bn at the 2020 valuation, and to £3.70bn at the 2023 valuation. The funding plan agreed as part of the 2023 valuation, alongside our hedging programme and the continued de-risking of the Scheme's investment strategy towards a cashflow-aware approach, means that the Scheme remains on track to eliminate the funding deficit by 30 June 2030.

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

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

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

Over the year, Brightwell has responded to the significant gilt-market volatility occurring in the autumn of 2022, carefully managing the Scheme's liquidity and rebalancing the BTPS portfolio. Brightwell continues to monitor the impact of this, alongside the potential impact of geopolitical risk, including the ongoing conflict between Russia and Ukraine. Brightwell has considered the likely impact on equity prices, interest and inflation rates, foreign currency exchange rates, and real estate valuations, and has explored the possible investment responses.

Statement of Investment Principles

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

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

Funding and investment continued

Investment review as at 30 June 2023

Market review

After a challenging 2022, the first half of 2023 was kinder to markets. The return on stocks has been helped by developed world employment remaining strong and optimism that inflation might moderate without the need for a notable rise in unemployment. However, leading indicators suggest growth is likely to slow later in the year, with a mild recession expected in major economies.

The UK's fiscal policy attracted all the market attention last autumn as the government announced a substantial unfunded package that would significantly increase government borrowing. Subsequently, a newly appointed Prime Minister and Chancellor reversed many of the tax cuts and delivered a much more restrained budget in November.

Whilst headline inflation fell globally over the period, core inflation remained elevated. In the US, headline inflation fell from a peak of 9% last year to 3% by June, largely due to favourable base effects from oil prices. In the UK, inflation proved more persistent, moderating to 8.7% in June, having peaked at 11% last October. Core inflation unexpectedly accelerated to a 31-year high of 7.1% in June.

In response to inflationary pressures, central banks became more hawkish and embarked on a hiking cycle, projecting further tightening to combat inflation. The Bank of England aggressively tightened its policy rate to 5% by June 2023 and is expected to continue raising rates in subsequent months despite a slowing economy.

For the year ending 30 June 2023, MSCI World rose 15%. UK equities rose 5% in Sterling terms. Sterling rallied by 5% against the US dollar over the same period. The repricing of higher inflation warranting a more aggressive monetary policy saw UK 10-year bond yields rise by 210 basis points to 4.4%. Oil gave back previous gains, falling 30% year-on-year, as supply disruptions waned over the winter and a slowing global economy reduced demand for the commodity.

Measuring investment performance

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

Year	Return on Scheme investments	Change in solvency liabilities	Change in technical provisions liabilities
2023	(17.02%)	(18.51%)	(15.12%)
2022	(15.69%)	(18.65%)	(13.07%)
2021	(0.15%)	(2.69%)	(1.61%)
2020	9.91%	4.71%	9.42%
2019	9.60%	7.39%	9.50%
2018	3.30%	0.54%	1.99%
3 year annualised	(11.27%)	(13.59%)	(10.12%)
6 year annualised	(2.31%)	(5.12%)	(1.97%)

The negative total investment return since the 2017 funding valuation has been largely driven by the performance of the liability-hedging investments within the cashflow-aware portfolio. These investments are specifically intended to hedge or offset changes in the value of Scheme liabilities due to changes in the level of interest rates and inflation.

The value of these investments will rise when the value of the Scheme's liabilities rise, and vice versa. Since the date of the 2017 formal valuation, the value of the Scheme's liabilities has fallen by more than the value of the Scheme's assets, leading to a reduction in the size of the funding deficit as at 30 June 2023.

The equity-like and cashflow-aware portfolio is designed to contribute to the reduction in the funding deficit over the long term. An expected return for this part of the portfolio is therefore determined as part of agreeing the triennial funding valuation and recovery plan. Over the last 3 years asset performance, excluding the impact of liability hedging assets is 3.1%, which is slightly ahead of the prudent expected return of 2.5%.

This table illustrates how since 2017 the Scheme's liability matching investments have hedged, or offset, changes in the value of the Scheme's liabilities. These investments are designed to increase (or decrease) in value to offset changes in the Scheme's liabilities. This can be seen through the returns on the investment portfolio, shown in the first column, corresponding to changes in the value of the Scheme's liabilities, shown in the second and third columns.

Funding and investment continued

Scheme investment performance

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

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

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

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

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

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

Over the past year, the cashflow-aware portfolio has performed in-line with expectations, providing an effective match to the change in the value of the Scheme's liabilities in the anticipated proportions. During the last few years, the interest rate and inflation hedge ratios have been increased to approximately 92% and 92% respectively, 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, and approximately 92% of any change to the Scheme's technical provisions due to changes in inflation expectations is expected to be offset by the change in value of the cashflow-aware portfolio. This hedge has been implemented incrementally over several years. A measured implementation approach has been required because of the large size of the Scheme and the desire not to have an adverse impact on market pricing.

The Scheme's cash flow coverage ratio, which measures the proportion of future pension payments covered by cashflow-aware assets, including investment grade corporate and government bonds, is currently at 59% and is expected to increase over time as the Scheme matures.

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

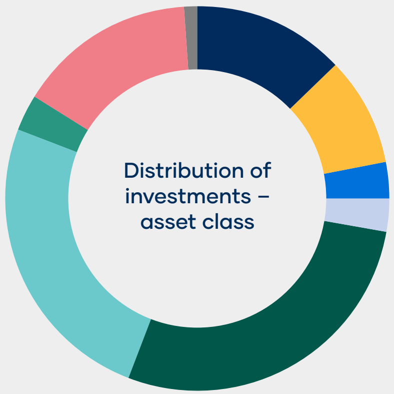
Conversely, if members live for longer than expected, this will increase the value of both the longevity insurance contracts and the Scheme's liabilities, and this increase in liabilities will be only partially offset by the gain on the longevity insurance contracts.

In effect, the insurance contracts reduce the range of outcomes in relation to life expectancy.

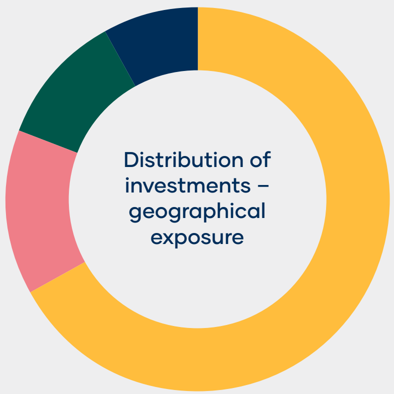
As at 30 June 2023, the investment liability in respect of longevity insurance contracts is £863 million (2022: investment liability of £1,044 million).

Funding and investment continued

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%



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

Distribution of investments

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

The distribution of investments and regional breakdown as at 30 June 2023 is shown in the charts to the left. Pooled investment vehicles, loans, derivatives and cash have been re-allocated to the appropriate asset classes to reflect the underlying exposures. Further explanation of these re-allocations is given in Understanding the financial statements, on page 36.

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

- Equity and equity-like, which includes equities, property, absolute return and infrastructure assets
- Cashflow-aware, which includes investment grade credit, sub-investment grade credit, and government bonds and cash.

Derivatives and other financial instruments

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

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

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

Funding and investment continued

Self investment

Regulations require that the Scheme's investments in employer-related investments should not be more than 5% of the Scheme's net assets. At 30 June 2023, the total amount of employer-related investments held by the Scheme was £10 million (2022: £10 million), representing 0.03% (2022: 0.02%) of the Scheme's net assets. There were no properties occupied by BT owned by the Scheme at 30 June 2023 and 30 June 2022.

On 25 June 2018, Britel Scotland II LP subscribed for £2,000 million of bonds issued by BT. Britel Scotland II LP is a Scottish limited partnership in which the Scheme is invested. As the bonds are owned by Britel Scotland II LP, a Scottish Limited Partnership, they do not amount to employer-related investments for the purposes of the relevant regulations. Since the initial subscription, BTPS has sold £224 million of the bond nominal value, and as at 30 June 2023, the value of the BT bonds held by Britel Scotland II LP was £1,421 million (2022: £1,582 million) representing 3.8% of the Scheme's net assets (2022: 3.4%).

The Scheme has entered into an asset backed funding arrangement, which is undertaken through the entity BT Falcon 1 LP. This entity holds a loan note with an initial nominal value of £1,925 million issued by EE Group Investments Limited, a subsidiary of the BT plc. As the loan note is held by BT Falcon 1 LP and this entity is a Scottish Limited Partnership with separate legal personality, it does not amount to an employer-related investment for the purposes of the relevant regulations. As at 30 June 2023, following receipt of the third £180 million payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,062 million (2022: £1,210 million), representing 2.8% (2022: 2.6%) of the Scheme's net assets, whilst the principal amount outstanding on the EE loan note held by BT Falcon 1 LP was £1,547 million (2022: £1,676 million).

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

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

Security of assets

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

£540 million

Total distributions from the asset-backed funding arrangement since inception.

Funding and investment continued

Sustainable investment

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

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

As part of the Scheme's investment strategy, which has sustainability at its core, consideration is given to the potential impact on the Scheme of long-term structural risks including, for example, climate change, and scarce and impaired natural resources.

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

Funding and investment continued

The Scheme has a long history of being a responsible investor and was a founding signatory of the Principles for Responsible Investment (PRI) in 2006. The importance placed on doing the best for our members over the long-term is inextricably linked to sustainable investment and stewardship. It is a key part of how the Scheme fulfils its fiduciary duty.

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

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

Long-term investment horizon

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

ESG integration

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

Stewardship

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

Funding and investment continued

Governance

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

Responsible Investment Policy

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

The day-to-day implementation of the sustainable investment strategy has been delegated to 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.

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

Funding and investment continued

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

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

Net Zero 2035 & TCFD report
The Scheme supports the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), which aim to promote better disclosure of climate-related financial risks to improve understanding of the risks and opportunities of climate change. This report provides further details on our governance framework, strategy, and risk management approach in relation to climate-related risks, as well as climate change activities. The Scheme's most recent TCFD can be found at **www.btps.co.uk/RegulatoryReporting**.

Stewardship Code response
To promote stewardship excellence in the UK, the Financial Reporting Council (FRC) enhanced the UK's Stewardship Code 2020 (the Code) to set high stewardship standards for asset owners and asset managers, and for service providers that support them. The Scheme proudly retained it's signatory status in 2022 and, in our Stewardship code response, you will learn more about Brightwell's activities on behalf of BTPS, engagement and voting. Our Stewardship code response can be found at **www.btps.co.uk/RegulatoryReporting**.

Report by the Trustee: Member services

Member services

Administration platform and member portal

In 2021 we launched Procentia's IntelliPen pension administration system, the new Scheme website and member portal, www.btps.co.uk. These investments enable BTPS members to access advanced functionality previously only available to administrators. For example, members approaching retirement are able to model their benefits at different retirement dates and across all of the options available to them in a personalised pension calculator.

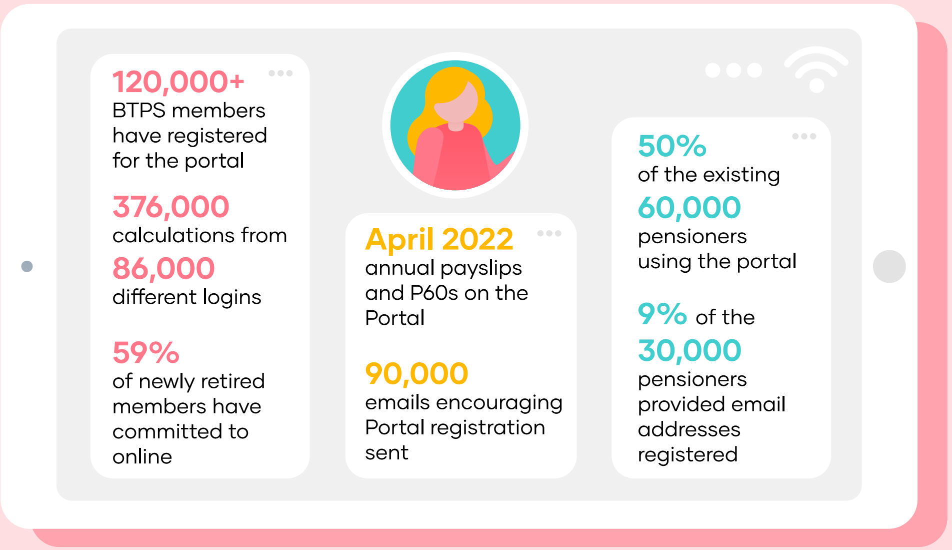
The portal also enables members to update personal information quickly, download their pension payslips and P60s, and see the value of their pension each month and their payment dates.

Since launch, over 120,000 BTPS members have registered for the portal. Over the last 12 months, 376,000 calculations have been run from 86,000 distinct logins, and 59% of newly retired members have committed to confirming their retirement choice online.

We have paid close attention to feedback provided on the Portal and made a significant number of improvements to how to register and login to the Portal, further improving the Portal registration experience with additional improvements to usability and functionality planned.

Additionally, in April 2023, we published annual payslips and P60s online via the Portal, with an email campaign of 90,000 emails sent during March and April, to encourage Portal registration and early access.

This was very successful with early access for more than 50% of the existing 60,000 pensioners using the Portal and registration for 9% of the 30,000 pensioners who provided us with email addresses but are not registered to use the Portal. This meant an overall improvement to the experience and a significant reduction in paper letters being sent, supporting our Net Zero goals.



Brightwell's Member Services team **support over 260,000 Scheme members,** administering over **£2.6bn of pension payments** in the year to 30 June 2023.

Member services continued

Listening to our members

In January 2023, we carried out our fifth annual member satisfaction survey, which was sent to 140,000 members, with responses from 15,000 members. This is significantly higher than the industry average. We're very grateful to our members for their feedback on our services. The results showed another year-on-year improvement in member satisfaction. All categories improved and how easy BTPS is to deal with and the Member Portal saw significant improvements.

We usually request feedback after every call, email or query raised on the Portal. Once we complete some work for a member, for instance if we provide a member with a retirement quote, we also request feedback on how we did. This regular feedback is very important to us and we are singularly focused on improving the member experience. Over the last 12 months, members have informed us that their satisfaction is 87% from around 50,000 completed surveys following a request for feedback on how we did.

GMP equalisation

A project to equalise guaranteed minimum pensions (GMPs) between men and women is in progress and updates have been made to the system to ensure that for all future retirements, payments are on an equalised basis. We have made good progress in contacting members who are in the Scheme already receiving payments, with any top-up payments to be made throughout 2023.

We have contacted all legacy members who we have contact details for, where they are due a top-up payment but transferred out historically, and we carried out an address tracing exercise to trace legacy members who have lost contact with the Scheme. All members who responded have had their payments, and provisions to make future payments have been made for any legacy member who contacts us in the future.

Looking forward

Pensions Dashboard

Over the year we have continued to engage with the government on the Pensions Dashboard Programme. Working together with Procentia, we continue to prepare to implement the Dashboard through our pension administration platform, Intellipen. Following the government's changes to the overall deadline of the Pension Dashboard Programme for pension schemes to connect by late 2026, we remain well placed to connect to the central infrastructure. This is due to the extensive work we have carried out to ensure data accuracy and the significant investments we have made in the administration platform.

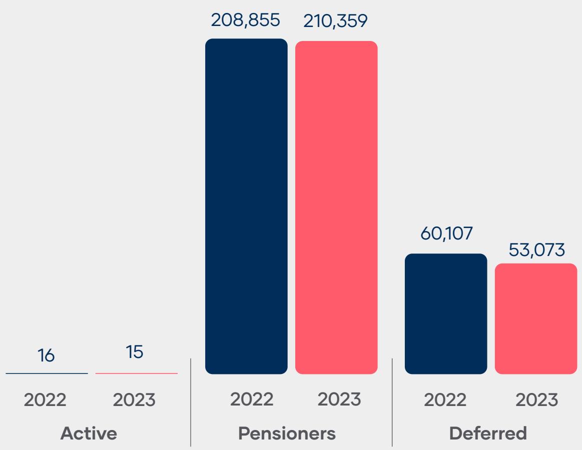
Member services continued

Membership

On 31 March 2001, the Scheme was closed to new entrants.

In the year to 30 June 2023, the number of active members fell from 16 to 15. The number of pensions being paid rose from 208,855 to 210,359. The number of members with deferred rights fell from 60,107 to 53,073.

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



Changes to membership

	30 June 2023	30 June 2022	30 June 2021
Membership			
Active members:	15	16	23
Deferred members:	53,073	60,107	66,953
Current pensioners of whom:	210,359	208,855	207,316
Retired employees	174,489	173,167	171,817
Widows / widowers	33,988	33,784	33,583
Children/dependents	1,882	1,904	1,916
	Year ended 30 June 2023	**Year ended 30 June 2022**	**Year ended 30 June 2021**
Changes to membership			
Normal age retirements from active status	0	0	0
Late retirements from active status	1	0	0
Ill health early retirements	29	23	26
Early retirement	3,400	3,187	3,574
Deferred benefits set up	0	1	0
Normal age retirements from deferred status	2,599	2,465	2,250
Benefits transferred out and trivially commuted	192	485	553
Optants out	0	0	0
Death in service	0	0	1
Death in retirement	7,094	6,703	6,926
Death in deferment	96	79	126
Late retirement	102	72	50
Child leavers	34	44	38
New records set up			
Section B rejoiners	0	0	0
Widows, spouse, widowers, and dependents	2,032	1,919	1,896
Children	23	26	47
Benefits transferred in	0	0	0

Member services continued

Pension increases

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

In April 2023, the increase for Sections A and B pensions in payment was 10.1% and the increase for Section C pensions was 5.0%. The Trustee does not have the power to pay pension increases above the level required by the Scheme Rules without the agreement of BT.

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

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

Cash equivalent transfer values

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

Report by the Trustee: Governance of the Scheme

Governance of the Scheme

The Scheme's trustee is BT Pension Scheme Trustees Limited, a corporate trustee with ultimate fiduciary responsibility for the Scheme and its members. The Trustee's key responsibility is to ensure that BTPS pays benefits as they fall due.

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

The Trustee Board

The Trustee Board's key responsibility is to ensure that BTPS pays benefits as they fall due. The Board discharges its responsibilities through an annual programme of meetings. During the year, there were 5 Board meetings. In addition to these formal meetings, the Board held 3 informal sessions focused on the Scheme's strategy. The Board has a forward agenda in place, for a rolling period of twelve months, to ensure that it meets its statutory obligations, and has adequate time to prepare and plan for milestones in the management and operation of the Scheme.

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

Trustee Board committees

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

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

Trustee policies

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

Appointment and removal of Trustee Directors

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

Appointment of the Chair

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

Employer-nominated Trustee Directors

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

Member-nominated Trustee Directors

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

Governance of the Scheme continued

Trustee Directors' term of appointment

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

Time requirement

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

Performance and effectiveness

Consistent with The Pensions Regulator's (TPR's) 'best practice' guidelines, a Trustee skills assessment exercise was undertaken in May 2022. The outcome of the assessment is that the BTPS Board and Committees have the right blend of skills and experience to fulfil their duties. Additionally, as a result of the new legal requirements in environmental, social and governance (ESG) that came into force in October 2021, Trustees now have increased responsibilities in this area. Reflecting the Trustee's commitment to good governance, the Board undertook an externally facilitated effectiveness review, as described in the Chair's statement.

Trustee Knowledge and Understanding (TKU)

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

Working with our regulators

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. Brightwell continued to support the Trustee in its interactions with TPR during the year and provided assurance to them on a broad range of matters including internal controls and managing risks, reporting, record keeping and communicating to members. As reported in the Chair's statement, TPR completed its one-to-one supervisory review of the Scheme throughout 2022 with no substantial findings. The Scheme is considered to be well run across all areas.

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

Governance of the Scheme continued

Internal control and risk management

The Trustee Board is responsible for the Scheme's internal controls and risk management. Brightwell supports the Trustee Board in day-to-day risk management activities, including the implementation of policies, procedures, controls and risk mitigation actions. Brightwell provides escalation and assurance on the management of risks to the Trustee Board and its respective Committees.

Working with Brightwell, the Trustee has identified the principal risks facing the Scheme which could impact upon their ability to meet the Scheme's strategic objectives and affect the Scheme's reputation.

Listed below are the key risk categories which are monitored and reported to the Trustee Board and its respective Committees.

Execution risk

The risk that poor implementation of the agreed investment strategy impacts the Scheme's ability to deliver the pension benefits due to members. Also, the risk that the Scheme's agents (including Brightwell, external investment managers and providers of stewardship services), are not effective in delivering the expected outcome to the Scheme. The Trustee has specific responsibility for determining the investment parameters, agreeing key suppliers, and ensuring the Scheme meets its regulatory and legal obligations.

Brightwell works alongside the Scheme's Trustee to manage these risks through the careful implementation of an agreed investment strategy aligned to the actuarial valuations, close monitoring of the sponsor's covenant and oversight of the Scheme's agents.

Governance risk

The risk of failing to operate within the Trust Deeds and Rules, or in accordance with fiduciary duties, and the Committees acting outside of their respective delegated authority captured in the respective Terms of Reference.

This risk is mitigated by having a robust governance framework for both the Scheme and Brightwell, including reserved matters for the Trustee and Brightwell Boards, and ensuring clear Terms of Reference are in place for Committees of these boards.

Legal & regulatory risk

The risk that the Scheme rules are breached, failure to comply with UK law and/or failure to meet the regulatory obligations set by The Pensions Regulator.

To manage these risks, the Trustee receives ongoing advice on relevant changes to the legal and regulatory landscape from both Brightwell and other external advisers. To maintain awareness of future obligations regular horizon scanning activities are completed.

Member services execution risk

The risk that the Scheme's rules and requirements are not complied with and the failure to provide members with a high standard of service.

To manage these risks, Member Services performance is closely monitored with management information provided to the relevant Committee and Trustee Board.

Operational risk

The Scheme may be exposed to the risk of loss (direct or indirect) arising from inadequate or failed internal processes, or from personnel and systems, or from external events such as third-party failure, information security, cyber risk, regulatory change, criminal activity, pandemics and natural disasters.

Operational risks are mitigated by a robust control environment which is regularly monitored, and reported to the Audit and Risk Committee and the Trustee Board.

Strategy & funding risk

The risk that investment returns fail to meet expectation leading to the Scheme funding ratios being below acceptable levels. To manage this risk, the Trustee oversees Brightwell's implementation of a structured investment process managed by experienced investment professionals. This is supplemented by independent investment risk monitoring.

This also includes the risk of material financial impact from climate change. This is either due to inappropriate actions taken in pursuit of the Scheme's Net Zero objective or by asset values becoming impaired due to extreme climate-related developments. This risk is mitigated by applying ESG factors to the BTPS investment process.

For the Trustee,
Otto Thoresen | 13 November 2023

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

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

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

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

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

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

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

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

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

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

Understanding the financial statements

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

Investments in PIVs and derivatives are shown separately at fair value in the Consolidated statement of net assets. The presentation of these investments, as guided by the Pensions SORP, differs to the asset allocation of the Scheme as managed by the Trustee as at 30 June 2023. The table to the right reclassifies assets such as PIVs, derivatives and loans into their appropriate asset classes so the asset allocation as at 30 June 2023 can be observed.

Asset class	Value per consolidated statement of net assets £m	PIVs £m	Note	Other £m	Note	Managed allocation £m	Managed allocation %
Equity and equity-like							
Equities	1,654	4,163	1, 4, 5, 6	(673)	4, 5, 6, 9	5,144	14%
Real estate equity	1,661	2,508	1, 5	(898)	5, 9	3,271	9%
Absolute return	–	976	1	–	9	976	3%
Infrastructure	–	769	1	352	9	1,121	3%
Cash-flow aware							
Bonds	22,176	–	5. 8	(22,176)	5, 8, 9	–	–
Government bonds, cash and other net assets	–	3,261	1, 6, 8	7,118	6, 8, 9	10,379	28%
Corporate bonds	–	28	1, 8	9,479	8, 9	9,507	25%
High yield corporate bonds	–	1,000	1, 8	20	8, 9	1,020	3%
Secure income	–	3,352	1, 8	2,052	8, 9	5,404	14%
Emerging market debt	–	–		512	9	512	1%
Other categories							
PIVs	16,057	(16,057)	1, 5	–	5, 9	–	0%
Loans	58	–	3, 5	(58)	5, 9	–	0%
Other net assets	(4,272)	–	2, 5	4,272	5, 9	–	0%
	37,334	**–**		**–**		**37,334**	**100%**

Footnotes

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

Independent auditor's report

To the Trustee of the BT Pension Scheme

Opinion

We have audited the financial statements of BT Pension Scheme ("the Scheme") for the year ended 30 June 2023 which comprise the Consolidated fund account, the Consolidated statement of net assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 30 June 2023, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

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

Going concern

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

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

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee or their delegates (including the Scheme administrator and the Scheme management) may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as the valuation of directly held property, the valuation of the longevity contract, the valuation of the Scheme's interest in a special purpose vehicle, and the valuation of Level 3 pooled investment vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

Independent auditor's report

We did not identify any additional fraud risks.

We performed procedures including:

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

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

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

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

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

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

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

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

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

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

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

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

Independent auditor's report

Other information

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

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

Trustee's responsibilities

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

Auditor's responsibilities

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

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

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

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

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

13 November 2023

Independent auditor's statement about contributions

To the Trustee of the BT Pension Scheme

Statement about contributions

We have examined the summary of contributions payable under the payment schedule to the BT Pension Scheme in respect of the Scheme year ended 30 June 2023 which is set out on page 41.

In our opinion, contributions for the Scheme year ended 30 June 2023, as reported in the Summary of Contributions and payable under the Schedule of Contributions have, in all material respects, been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 12 May 2021.

Scope of work

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

Respective responsibilities of Trustee and auditor

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

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

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

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

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

13 November 2023

Summary of contributions

Statement of Trustee's responsibilities in respect of contributions

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

The following summary has been prepared on behalf of, and is the responsibility of, the Trustee. It sets out the employers' and employees' contributions payable to the Scheme under the Schedule of Contributions for the year ended 30 June 2023. The Scheme's auditor reports on contributions payable under the Schedule, as shown in the '2023 per Schedule' column to the right, in their statement about contributions.

	2023 per Schedule £m	2023 additional £m	2023 total £m
Employers' normal contributions	0	0	0
Employees' normal contributions	0	0	0
Employers' deficit funding contributions	900	0	900
Employers' other contributions	40	0	40
Employees' additional voluntary contributions	0	0	0
	940	**0**	**940**

Approved on behalf of the Trustee Board,

Otto Thoresen
Chair
13 November 2023

Consolidated fund account

For the year ended 30 June 2023

	Notes	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Contributions and benefits			
Employers' contributions	3	940	948
Employees' contributions	3	0	0
Total contributions		**940**	**948**
Benefits paid or payable	4	(2,647)	(2,526)
Payments to and on account of leavers	5	(71)	(237)
Administration expenses	6	(33)	(40)
Net withdrawals from dealing with members		**(1,811)**	**(1,855)**
Return on investments			
Investment income	8	857	1,175
Change in market value of investments	9	(8,543)	(9,620)
Investment management expenses	10	(68)	(87)
Interest payable		(2)	(3)
Taxation	11	1	10
Net returns on investments		**(7,755)**	**(8,525)**
Net decrease in the Scheme during the year		**(9,566)**	**(10,380)**
Net assets of the Scheme			
At 1 July		46,900	57,280
At 30 June		**37,334**	**46,900**

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

Consolidated statement of net assets (Available for benefits)

As at 30 June 2023

	Notes	30 June 2023 £m	30 June 2022 £m
Investment assets			
Equities		1,654	5,906
Bonds		22,176	26,122
Property		1,661	1,646
Pooled investment vehicles	12	16,057	14,507
Loans		58	100
Derivatives	13	4,626	3,154
AVC investments	14	113	129
Deposits and short-term investments		776	977
Special purpose vehicles	16	1,062	1,210
Other investment assets	15	405	467
Total investment assets		**48,588**	**54,218**
Investment liabilities			
Derivatives	13	(9,725)	(5,950)
Longevity insurance contract	17	(863)	(1,044)
Other investment liabilities	18	(575)	(233)
Total investment liabilities		**(11,163)**	**(7,227)**
Total net investments		**37,425**	**46,991**
Current assets	21	111	108
Current liabilities	22	(202)	(199)
Net assets of the Scheme at 30 June		**37,334**	**46,900**

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

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

These financial statements were approved by the Trustee Board on 13 November 2023 and signed on their behalf by:

Otto Thoresen
Chair

David Viles
Trustee Director

Notes to the **financial statements**

Notes to the financial statements

1. Basis of preparation

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

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

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

2. Accounting policies

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

Functional and presentational currency

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

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

Contributions

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

Benefits

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

Transfers

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

Administration and other expenses

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

Basis of consolidation

Under FRS 102, the Pensions SORP and the Pensions Act, it is not a requirement for the Scheme to consolidate subsidiary undertakings and joint ventures. The Trustee has elected to prepare consolidated financial statements for the Scheme. As required by FRS 102, investments in subsidiaries are reported at their fair values.

Notes to the financial statements

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

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

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

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

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

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

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

Notes to the financial statements

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

Derivatives are fair valued using the following valuation techniques:

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

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

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

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

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

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

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

Notes to the financial statements

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

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

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

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

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

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

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

Notes to the financial statements

3. Contributions

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Employers' normal contributions	0	0
Employers' deficit funding contributions[1]	900	900
Employers' other contributions[2,3] (refer to note 6)	40	48
Employers' contributions	**940**	**948**
Employees' normal contributions	0	0
Employees' additional voluntary contributions	0	0
Employees' purchase of added years	0	0
Employees' contributions	**0**	**0**
Total contributions	**940**	**948**

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

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

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

4. Benefits paid or payable

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Pensions[4]	2,268	2,176
Commutations of pensions and lump sum retirement benefits	375	341
Lump sum death benefits	3	8
Taxation where lifetime or annual allowance exceeded[5]	1	1
	2,647	**2,526**

[4] In July 2014, a longevity insurance arrangement was entered into to protect the Scheme against costs associated with potential increases in life expectancy. This arrangement covers approximately 20% of the Scheme's longevity risk. Pensions benefits include a realised loss of £25 million on the arrangement during the year (2022: Realised loss of £21 million).

In 2019, the High Court clarified that trustees will need to equalise benefits to allow for inequalities that arise from the calculation and payment terms for gross minimum pensions (GMP). As a result, some members will receive higher pensions, and will be eligible for back pay of historical pension entitlements. The latest available estimate of the amount of historical entitlements to be settled by the Scheme is £2 million.

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

[5] Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime allowance or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability. This included thirteen cases in respect of lifetime allowances amounting to £0.563 million (2022: twenty five cases amounting to £1.025 million), and zero cases in respect of annual allowances (2022: one case amounting to £0.022 million).

Notes to the financial statements

5. Payments to and on account of leavers

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Individual transfers in	-	-
Group transfers in	-	-
Individual transfers out	(71)	(237)
	(71)	**(237)**

6. Administration expenses

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Net PPF levy and associated costs (refer to note 3)	10	16
Administration expenses[6]	23	24
	33	**40**

[6] Administration expenses include pensions administration expenses, actuary fees, custody fees, legal fees, other professional fees, and includes £0.4 million of expenses in respect to related party transactions (2022: £0.4 million). Refer to note 24 'Related party transactions' for further information.

Notes to the financial statements

7. Auditors' remuneration

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

	Year ended 30 June 2023 £k	Year ended 30 June 2022 £k
Fees payable to the Scheme auditor for audit of the Scheme financial statements	427	365
Fees payable to the Scheme auditor for audit of the Scheme subsidiaries pursuant to legislation	1,459	1,336
Total audit fees	**1,886**	**1,701**
Audit-related assurance services	15	14
Taxation compliance services	-	-
Other assurance services	-	-
All other services	-	-
Total non-audit fees	**15**	**14**
Fees payable to the Scheme's auditor in respect of associated pension scheme	21	18
	1,922	**1,733**

Notes to the financial statements

8. Investment income

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Dividends from equities	85	201
Income from bonds and repurchase agreements[8]	669	521
Net rental income from properties[9]	48	59
Income from pooled investment vehicles	181	40
Derivatives	(179)	261
Longevity insurance contract	(29)	(29)
Special purpose vehicles	52	56
Interest on deposits and short-term investments	30	66
	857	**1,175**

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

[9] Net rental income from properties is stated after deducting £22 million of property related expenses (2022: £26 million).

9. Reconciliation of investments

	Market value at 30 June 2022, £m	Net investment / (disinvestment), £m	Change in market value, £m	Market value at 30 June 2023, £m
Investment assets/(liabilities)				
Equities	5,906	(3,987)	(265)	1,654
Bonds	26,122	171	(4,117)	22,176
Property	1,646	309	(294)	1,661
Pooled investment vehicles	14,507	1,687	(137)	16,057
Loans	100	(43)	1	58
Derivatives[10]	(2,796)	1,646	(3,949)	(5,099)
AVC investments	129	(23)	7	113
Special purpose vehicles	1,210	(180)	32	1,062
Longevity insurance contract	(1,044)	–	181	(863)
	45,780	**(420)**	**(8,541)**	**36,819**
Deposits and short-term investments	977		(7)	776
Other investment assets/(liabilities)	234		5	(170)
	46,991		**(8,543)**	**37,425**

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

Notes to the financial statements

	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Net investment / (disinvestment) £m
Investment assets / (liabilities)			
Equities	2,725	(6,712)	(3,987)
Bonds	8,545	(8,374)	171
Property	309	–	309
Pooled investment vehicles	3,736	(2,049)	1,687
Loans	–	(43)	(43)
Derivatives[10]	4,424	(2,778)	1,646
AVC investments	–	(23)	(23)
Special purpose vehicles	–	(180)	(180)
Longevity insurance contract	–	–	–
	19,739	**(20,159)**	**(420)**

Transaction costs are incremental costs directly attributable to the acquisition or disposal of an investment, and are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs incurred during the year amounted to £7 million and includes fees, commissions and taxes (2022: £13 million). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments and costs charged within pooled investment vehicles, however they are not separately provided to the Scheme.

Year ended 30 June 2023	Transaction costs				
	Fees £m	Commissions £m	Taxes £m	Other £m	Total £m
Investment assets / (liabilities)					
Equities	–	2	1	–	3
Bonds	–	–	–	–	–
Property	–	1	3	–	4
Pooled investment vehicles	–	–	–	–	–
Derivatives	–	–	–	–	–
	–	**3**	**4**	**–**	**7**

Notes to the financial statements

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

10. Investment management expenses

	Year ended 30 June 2023 £m	Year ended 30 June 2022 £m
Investment management expenses[11]	68	87
	68	**87**

[11] Investment management expenses include £36 million of expenses to operate BT Pension Scheme Management Limited (2022: £32 million).

Notes to the financial statements

11. Taxation

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

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

12. Pooled investment vehicles

	30 June 2023 £m	30 June 2022 £m
Equities	1,122	891
Bonds	1,768	1,547
Hedge funds	5,561	5,520
Liquidity funds	3,261	1,943
Mature infrastructure	770	715
Private equity	1,168	1,298
Property	2,407	2,593
	16,057	**14,507**

Notes to the financial statements

13. Derivatives

Objectives

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

Futures contracts

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

Options contracts

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

Swap contracts

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

Foreign exchange forward contracts

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

Assets	30 June 2023 £m	30 June 2022 £m
Futures	4	12
Options	5	54
Swaps	4,506	3,060
Forward foreign exchange	111	28
	4,626	**3,154**

Liabilities	30 June 2023 £m	30 June 2022 £m
Futures	(22)	(18)
Options	(54)	(312)
Swaps	(9,532)	(5,063)
Forward foreign exchange	(117)	(557)
	(9,725)	**(5,950)**

Notes to the financial statements

13. Derivatives

The economic exposure represents the notional value of securities purchased or sold under the futures contracts. All of the contracts settle in less than one year (2022: all contracts settle in less than one year). As at 30 June 2023, the Scheme held cash collateral of £29 million on futures contracts (2022: the Scheme held cash collateral of £21 million on futures contracts).

Futures	30 June 2023				30 June 2022			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Equities	-	(572)	-	(10)	-	(267)	-	(4)
Fixed interest	231	(422)	4	(3)	94	(1,420)	12	(1)
	231	**(994)**	**4**	**(13)**	**94**	**(1,687)**	**12**	**(5)**
Over the counter								
Fixed interest	-	(13)	-	(9)	-	(15)	-	(13)
	-	**(13)**	-	**(9)**	-	**(15)**	-	**(13)**
	231	**(1,007)**	**4**	**(22)**	**94**	**(1,702)**	**12**	**(18)**

Notional amount of outstanding contracts represents the value of underlying securities protected by the purchased options. All of the contracts settle within 13 years (2022: all of the contracts settle within five years).

Options	30 June 2023			30 June 2022		
Type of contract	Notional £m	Asset £m	Liability £m	Notional £m	Asset £m	Liability £m
Exchange traded						
Equities	1,833	5	-	2,723	54	-
	1,833	**5**	**-**	**2,723**	**54**	**-**
Over the counter						
Currency options - put	1,159	-	(3)	1,443	-	(28)
Currency options - call	1,603	-	(11)	2,119	-	(18)
Interest rate swaptions – fixed versus floating	500	-	(40)	13,865	-	(266)
Credit swaptions – CDS index	35	-	-	-	-	-
	3,297	**-**	**(54)**	**17,427**	**-**	**(312)**
	5,130	**5**	**(54)**	**20,150**	**54**	**(312)**

Notes to the financial statements

Swaps		30 June 2023			
Type of contract	**Expiration**	**Nature of swap**	**Notional £m**	**Asset £m**	**Liability £m**
Equity total return	<5 years	Index	2,986	-	(53)
Bond total return	<3 years	Government bonds	1,072	1	(331)
Interest rate	<47 years	Fixed versus floating	39,528	1,590	(8,469)
Inflation	<51 years	Fixed versus RPI or CPI	25,403	2,915	(678)
Credit default	<6 years	CDS index	14	-	(1)
			69,003	**4,506**	**(9,532)**

Swaps		30 June 2022			
Type of contract	**Expiration**	**Nature of swap**	**Notional £m**	**Asset £m**	**Liability £m**
Equity total return	<5 years	Index	7,246	62	(11)
Bond total return	<3 years	Government bonds	1,690	1	(354)
Interest rate	<49 years	Fixed versus floating	34,166	968	(4,296)
Inflation	<47 years	Fixed versus RPI or CPI	21,956	2,024	(399)
Credit default	<5 years	CDS index	316	5	(3)
			65,374	**3,060**	**(5,063)**

The Scheme held cash collateral of £0 million, received pledged bond collateral of £55 million, and it pledged bond collateral of £6,628 million on swap contracts, repurchase agreements, and the longevity insurance contract (2022: the Scheme held cash collateral of £6 million, received pledged bond collateral of £72 million, and it pledged bond collateral of £3,205 million on swap contracts and the longevity insurance contract). Collateral amounts reflect the net amount of collateral received or pledged from, or pledged to, each counterparty. Security arrangements in relation to the special purpose vehicle are detailed in note 16.

Notes to the financial statements

Forward foreign exchange							
Currency		30 June 2023			30 June 2022		
Bought	Sold	Notional £m	Asset £m	Liability £m	Notional £m	Asset £m	Liability £m
GBP	USD	8,641	101	(6)	14,205	-	(408)
GBP	Other	397	4	-	1,272	1	(30)
USD	Other	1,384	-	(8)	3,244	26	-
Other	Other	2,701	6	(103)	2,694	1	(119)
		13,123	**111**	**(117)**	**21,415**	**28**	**(557)**

All of the contracts settle in less than one year (2022: all of the contracts settle in less than one year).

14. Additional voluntary contributions

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

	30 June 2023 £m	30 June 2022 £m
At start of year	129	158
Net withdrawals by members	(23)	(30)
Change in market value of investments	7	1
At end of year	**113**	**129**

Notes to the financial statements

15. Other investment assets

	30 June 2023 £m	30 June 2022 £m
Accrued investment income	174	181
Amounts due from brokers	167	161
Margin deposits - initial	36	20
Margin deposits - variation	-	2
Repurchase agreements	-	49
Other[12]	28	54
	405	**467**

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

16. Special purpose vehicles

	30 June 2023 £m	30 June 2022 £m
Special purpose vehicles	1,062	1,210
	1,062	1,210

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

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

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

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

The Trustee commissioned Willis Towers Watson to perform a valuation for financial statements purposes of the Scheme's limited partnership interest in BT Falcon 1 LP at inception and at each year end. The valuation is based on the net present value of the coupon receipts, discounted as for securities of similar standing, and uses a stochastic model to estimate the likelihood of becoming fully funded on a technical provisions basis before the term of the partnership is completed. As at 30 June 2023, following receipt of the third £180m payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,062 million, representing 2.8% of the Scheme's net assets; whilst the principal amount outstanding of the EE loan note held by BT Falcon 1 LP was £1,547 million.

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

Notes to the financial statements

17. Longevity insurance contract

	30 June 2023 £m	30 June 2022 £m
Longevity insurance contract[13]	863	1,044
	863	**1,044**

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

18. Other investment liabilities

	30 June 2023 £m	30 June 2022 £m
Amounts due to brokers	61	215
Deferred income	15	12
Repurchase arrangements	492	-
Margin deposits - initial	-	-
Margin deposits - variation	7	6
	575	**233**

Notes to the financial statements

19. Fair valuation hierarchy

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

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

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

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

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

30 June 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	1,359	–	295	1,654
Bonds	12,650	8,782	744	22,176
Property	–	–	1,661	1,661
Pooled investment vehicles	–	7,120	8,937	16,057
Loans	–	58	–	58
Derivatives	(4)	(5,095)	–	(5,099)
AVC investments	–	113	–	113
Longevity insurance contract	–	–	(863)	(863)
Deposits and short term investments	776	–	–	776
Special purpose vehicles	–	–	1,062	1,062
Other investment assets/(liabilities)	294	(492)	28	(170)
	15,075	**10,486**	**11,864**	**37,425**

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

Notes to the financial statements

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

Level 2	30 June 2023 £m	30 June 2022 £m	Valuation technique	Significant assumptions
Bonds	8,782	12,191	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Pooled investment vehicles	7,120	5,554	Published net asset values	Redemption discount
Loans	58	100	Amortised cost	Discount rate, credit risk
Derivatives	(5,095)	(2,858)	Forward rates, yield curves	Cost of carry, yield curves
AVC investments	113	129	Published net asset values	Redemption discount
Other investment liabilities /assets	(492)	49	Amortised cost	Repo rate, credit risk
	10,486	**15,165**		

Level 3	30 June 2023 £m	30 June 2022 £m	Valuation technique	Significant assumptions
Equities	295	688	IPEVC guidelines	Discount rate, earnings assumptions
Bonds	744	937	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Property	1,661	1,646	RICS guidelines	Rental yields, occupancy rates
Pooled investment vehicles	8,937	8,953	Published net asset values	Redemption discount
Longevity insurance contract	(863)	(1,044)	Discounted cashflow	Discount rate, cashflow profile, actuarial assumptions
Special purpose vehicles	1,062	1,210	Discounted cashflow, stochastic analysis	Discount rate, cashflow profile, actuarial assumptions
Other investment assets	28	54	Projected unit method	Discount rate, inflation rate, salary increases, mortality assumptions
	11,864	**12,444**		

Notes to the financial statements

20. Investment risks

Investment objective

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

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

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

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

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

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

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

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

Liquidity risk

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

Notes to the financial statements

20. Investment risks

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

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

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

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

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

	Market risk				
	Interest rate risk	Currency risk	Other price risk	30 June 2023, £m	30 June 2022, £m
Equities	○	◐	●	1,654	5,906
Bonds	●	◐	○	22,176	26,122
Property	○	◐	●	1,661	1,646
Pooled investment vehicles	◐	◐	●	16,057	14,507
Loans	●	◐	○	58	100
Derivatives	●	◐	◐	(5,099)	(2,796)
AVC investments	◐	◐	●	113	129
Longevity insurance contract	◐	○	●	(863)	(1,044)
Special purpose vehicles	●	○	●	1,062	1,210
Deposits and short term investments	●	◐	○	776	977
Other investment assets/(liabilities)	◐	◐	◐	(170)	234
Total investment assets				**37,425**	**46,991**

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

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

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

Notes to the financial statements

20. Investment risks

Credit risk

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

30 June 2023	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	18,694	421	3,061	**22,176**
Pooled investment vehicles	-	-	16,057	**16,057**
Loans	-	-	58	**58**
OTC derivatives	(5,095)	-	-	**(5,095)**
Special purpose vehicles	-	-	1,062	**1,062**
Deposits and short term investments	776	-	-	**776**
Gross exposure	**14,375**	**421**	**20,238**	**35,034**
Credit derivatives (notional amount of contracts)	(14)	-	-	**(14)**
Net exposure	**14,361**	**421**	**20,238**	**35,020**
Indirect exposure				
Bonds	12	224	114	**350**
Pooled investment vehicles	-	-	842	**842**
Loans	8	85	1,796	**1,889**
OTC derivatives	7	-	-	**7**
Special purpose vehicles	-	-	-	**-**
Deposits and short term investments	10	-	-	**10**
Gross exposure	**37**	**309**	**2,752**	**3,098**
Credit derivatives (notional amount of contracts)	(32)	-	-	**(32)**
Net exposure	**5**	**309**	**2,752**	**3,066**

Notes to the financial statements

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

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

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

Notes to the financial statements

21. Current assets

	30 June 2023 £m	30 June 2022 £m
Employers' contributions due	-	-
Employees' contributions due	-	-
Other debtors	102	102
Bank balances	9	6
	111	**108**

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

22. Current liabilities

	30 June 2023 £m	30 June 2022 £m
Accrued benefits	118	99
Other creditors	84	100
	202	**199**

23. Securities lending

No securities were on loan as at 30 June 2023 (30 June 2022: none).

24. Related party transactions and balances

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

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

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

Trustee related party transactions

Members of the Trustee Board represent key management personnel of the Scheme. Total compensation payable to members of the Trustee Board during the year was £0.4 million (2022: £0.4million).

Notes to the financial statements

24. Related party transactions and balances continued

As an employee of BT, Emily Clark received no fees.

Two Trustee Directors were members of the Scheme at 30 June 2023 (2022: two).

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

	Year ended 30 June 2023 £k	Year ended 30 June 2022 £k
Otto Thoresen	150	150
Jill Mackenzie (appointed 15 May 2023)	11	0
Chris Cheetham	50	44
Emily Clark	0	0
Nigel Cotgrove	32	32
Andrew Kerr	44	44
Ben Marshall	36	36
Keith Nichols (stepped down 15 May 2023)	68	82
Beryl Shepherd	35	35
David Viles	12	0
	438	**423**

Employer-related transactions

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

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

Notes to the financial statements

24. Related party transactions and balances continued

Self-investments designated as employer-related investments
As at 30 June 2023 the Scheme held £0 million in BT ordinary shares (2022: £0 million) and £10 million in BT index-linked investments (2022: £10 million). The total amount of employer-related investments represent 0.03% of the net assets of the Scheme (2022: 0.02%). As at 30 June 2022 there were no properties occupied by BT owned by the Scheme (2022: none).

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

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

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

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

As at 30 June 2023, the notional amount of these bonds held was £1,777 million (2022: £1,777 million), and these investments were valued at £1,421 million (2022: £1,582 million) and represent 3.8% of the net assets of the Scheme (2022: 3.4%). These bonds are held by Britel Scotland II LP, a Scottish limited partnership, and therefore are not employer-related investments for the purposes of the relevant regulations.

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

As at 30 June 2023, following receipt of the third £180 million payment of capital and interest, the value of the Scheme's limited partnership interest in BT Falcon 1 LP was £1,062 million, representing 2.8% of the Scheme's net assets; whilst the principal amount outstanding on the EE loan note held by BT Falcon 1 LP was £1,547 million.

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

The pension surplus of HGPS at 30 June 2023 amounted to £28 million (2022: £54 million), calculated on an FRS 102 basis by the scheme's actuary. The pension surplus is included in Other investment assets, with any gains and losses on revaluation included in Change in market value of investments.

Notes to the financial statements

24. Related party transactions and balances continued

Hermes Group Pension Scheme	30 June 2023 £m	30 June 2022 £m
Scheme assets	163	212
Scheme liabilities	(135)	(158)
	28	**54**

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

25. Commitments and contingent liabilities

	30 June 2023 £m	30 June 2022 £m
Property	528	474
Calls on partly paid shares and underwriting commitments	2,589	3,038
	3,117	**3,512**

Notes to the financial statements

26. Subsidiary undertakings

Subsidiary undertaking	Principal activity	Holding	Ownership % 30 June 2023	Ownership % 30 June 2022
Subsidiary undertakings presented on a consolidated basis				
BT Pension Scheme Management Limited[14]	Primary service provider to BTPS	Ordinary shares	100	100
Britel Scotland II L.P[16]	Investment management	Partnership capital	100	100
SMLP Bristol L.P[14]	Property investment and development	Partnership capital	100	100
Carraway Belfast Investments Unit Trust[17]	Property investment and development	Units	0	100
Carraway Tunbridge Wells Investments Unit Trust[17]	Property investment and development	Units	100	100
NOMA L.P [16]	Property investment and development	Partnership capital	100	100
Hestia UK Residential Investment 1 Limited Partnership[17]	Property investment and development	Partnership capital	100	100
Retail Value L.P[14]	Property investment and development	Partnership capital	100	100
Skypark Unit Trust[17]	Property investment and development	Units	0	100
Hermes One Centenary Way L.P[14]	Property investment and development	Partnership capital	50	100
Hermes Three Chamberlain Square L.P[14]	Property investment and development	Partnership capital	100	100
Subsidiary undertakings not presented on a consolidated basis				
Ares European Credit Strategies Fund II (B) L.P[18]	Investment management	Partnership capital	100	100
Argent Group Ltd[14]	Property investment and development	Ordinary shares	100	100
Britel Real Estate Investments (Australia) Trust[22]	Property investment and development	Units	100	100
BTPS Insurance ICC Limited[15]	Longevity insurance	Ordinary shares	100	100
BTPS (No.1) IC Limited[15]	Longevity insurance	Ordinary shares	100	100
Hermes National Segregated Account I L.P[19]	Property investment and development	Partnership capital	99	99
HCN L.P[18]	Investment management	Partnership capital	100	100
Hermes Group Pension Scheme[14]	Pension scheme	Trustee	100	100
Hermes Direct Lending Fund L.P[14]	Investment management	Partnership capital	100	100
Hermes GPE FRWL Holdco Limited[14]	Investment in private equity	Ordinary shares	0	93
Hermes GPE Horizon II L.P[16]	Investment in private equity	Partnership capital	100	100
Hermes GPE Horizon III L.P[16]	Investment in private equity	Partnership capital	100	100
Hermes One America Square Long Leasehold LP	Property investment and development	Partnership capital	100	0
Hermes Real Estate Senior Debt Holdings S.a.r.l[21]	Property investment and development	Partnership capital	100	100
Lionstone-Hermes Real Estate Venture L.P[19]	Property investment and development	Partnership capital	99	99
MEPC Fund Unit Trust.[14]	Property investment and development	Units	100	100
Hexagon Real Estate Investments Sarl.[20]	Property investment and development	Ordinary shares	75	75
Orthogonal Partners I L.P[16]	Investment management	Partnership capital	0	100
Strategic Investment Portfolio L.P[17]	Investment management	Partnership capital	100	100

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

The fair value of subsidiary undertakings that are included in the Scheme's net assets as unconsolidated PIVs amounted to £4,701 million (2022: £4,598 million). This comprised of £7,689 million of assets and £2,988 million of liabilities (2022: £8,098 million of assets and £3,500 million of liabilities).

27. Subsequent events

In July 2023, BTPS entered into it's second longevity insurance contract, covering £5bn of pension liabilities. There were no other subsequent events requiring disclosure in the Scheme's financial statements.

Actuary's statement and report on actuarial liabilities

Actuary’s statement and report on actuarial liabilities

The most recent actuarial valuation of the Scheme was carried out as at 30 June 2023.

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

An actuarial valuation requires assumptions to be made about future financial and demographic conditions. A summary of the results of the actuarial valuation at 30 June 2023 is in the table to the right, together with the assumptions used.

BT Pension Scheme	30 June 2023
Assets - £million	37,334
Liabilities (Technical Provisions) - £million	41,035
Deficit - £million	3,701
Funding level	91%
Average nominal discount rate (per annum)	5.3%
Average RPI inflation (per annum)	3.6%
Average CPI inflation (per annum)	3.2%
Life expectancy (age at death)	
Average male pensioner age 65	86.5
Average female pensioner age 65	88.1
Average male pensioner at 65 (age 45 now)	88.1
Average female pensioner at 65 (age 45 now)	89.9

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

Actuary's statement and report on actuarial liabilities

As set out above, the valuation of the Scheme as a continuing scheme revealed a deficiency of £3,701 million. The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions in the expectation of returning the Scheme to a fully funded position by 30 June 2030.

Details of the other deficit contributions due are documented in the Schedule of Contributions.

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

- The deficiency contributions set out in the Schedule of Contributions that are due before 30 June 2030.
- From 2023 to 2030, BT will pay £10 million a year directly into the Scheme, and £690 million by 30 April 2024, followed by £590 million by 30 April each year from 2025 to 2029 and £490 million by 30 April 2030 either directly to the Scheme or to the Scheme's co-investment vehicle. If these contributions are paid to this co-investment vehicle their value will be recorded as an asset in the Scheme accounts and, to the extent there is a funding deficit at 30 June 2034, the co-investment vehicle will pay funds to the Scheme (subject to certain criteria).

In addition, BT has agreed to pay up to a further £300 million per year to the Scheme if needed to meet any future emerging funding deficit in excess of £1 billion up to 30 June 2026, or in excess of £500m between 1 July 2026 and 30 June 2033. The need for these contributions will be assessed every 6 months. This aspect of the agreement provides more certainty that the Scheme will achieve its path to full funding by clarifying how future increased deficits would be funded.

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

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

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

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

The solvency funding position was a deficit of £9,162 million; this assumes a low-risk, closely-matched investment strategy with additional margins for risk included and would be considered in the event the Trustee could not place reliance on the BT covenant. The Scheme's financial position and the level of BT's contributions will formally be reviewed again in full as part of an actuarial valuation due as at no later than 30 June 2026.

Graham McLean FIA
Towers Watson Limited (a WTW Company)
13 November 2023

Actuary's statement and report on actuarial liabilities

Form of Actuary's certification of Schedule of Contributions

Name of scheme: BT Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 30 June 2023 to be met by the end of the period specified in the recovery plan.

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 13 November 2023.

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

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

Date: 13 November 2023
Name: Graham McLean
Qualification: Fellow of the Institute and Faculty of Actuaries
Address: Watson House, London Road, Reigate, Surrey RH2 9PQ
Name of employer: Towers Watson Limited

Technical provisions statement

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

Name of scheme: BT Pension Scheme

Calculation of Technical Provisions

I certify that, in my opinion, the calculation of the Scheme's Technical Provisions as at 30 June 2023 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 13 November 2023.

Graham McLean
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a WTW Company

13 November 2023

Watson House
London Road
Reigate
Surrey
RH2 9PQ

Appendix one: SIP Implementation Statement

SIP Implementation Statement

The Trustee's expectations of stewardship, engagement & voting

The Trustee reviews each year how, and the extent to which, the Scheme's policies on stewardship have been followed during the Scheme year 1 July 2022 to 30 June 2023. It involves analysing the voting behaviour by, or on behalf of, the Trustee (including a selection of significant votes, determined by the Trustee or in collaboration with the Scheme's investment managers, and cast by the Trustee or on its behalf) during the year, stating any use of the services of a proxy voter. In relation to stewardship activities, the Scheme's Statement of Investment Principles (SIP) sets out policies across the following areas:

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

SIP Implementation Statement

SIP Implementation Statement background

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

What is the Statement of Investment Principles (SIP)?

Regulatory changes in 2018 and 2019 required trustees of UK defined benefit pension schemes to disclose further information in relation to how they undertake stewardship - exercising voting rights and engaging with their investments - in their SIP, and introduced the concept of an annual Implementation Statement. The legislation states that the Implementation Statement must be included in the annual report and accounts, and that it must also be made publicly available online. To reflect new regulatory requirements, the SIP was reviewed and approved on 30 September 2020. Following this, a revised SIP was approved on 30 September 2021. There have been no changes to the Scheme's SIP since 30 September 2021. The SIP sets out the investment principles and practices that the Trustee follows when governing the Scheme's investments. It describes the rationale for selecting the investment strategy, and explains the risks and expected returns of the Scheme, and the Trustee's approach to sustainable investing (which includes climate change). This Implementation Statement is in respect of the Scheme's SIP that was in place from 1 July 2022 to 30 June 2023.

The purpose is to:

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

Implementation Statement conclusion

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

Please see the Scheme's stewardship report for more detail on the Scheme's stewardship activities over the year which can be found at: **btps.co.uk/SustainableInvestment**.

SIP Implementation Statement

How are the Scheme's investments governed?

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

The Trustee has established a core set of investment beliefs that provide a framework for consistent and effective investment decision-making. This includes beliefs that are related to the nature and characteristics of the Scheme, such as the importance of having an appropriate governance structure, the need to take into account the liabilities when setting investment strategy, and having an understanding of both the competitive advantages and disadvantages facing the Scheme. The investment beliefs recognise the importance of being a responsible investor and include market-related beliefs, such as those concerning the relationship between risk and return, the importance of diversification, and the belief that markets can be inefficient. The Trustee, supported by its Investment Committee and Brightwell, regularly reviews its investment beliefs against the investment outcomes being delivered by the Scheme. In early 2020, the Trustee agreed a new investment belief on managing the Scheme's investments to create long-term sustainable value. Building on this, in October 2020, the Trustee formalised via the Statement of Investment Principles, a goal to reach Net Zero greenhouse gas emissions by 2035. The Trustee believes it has an active role to play in using our influence as an asset owner to encourage sustainable long-term investing through our managers' stewardship activities

In general, the Trustee prefers engagement over exclusion or divestment as a way of improving long-term behaviour, aligning our stewardship activities with the UK Stewardship Code principles, and driving real world change.

Our asset manager oversight and engagement activities are set out on page 83. The key focus areas we monitor across our managers include:

- Whether our managers have formal processes in place for identifying, prioritising, and tracking engagements and statistics in relation to engagements for change;
- Collaborations with other entities and participation in stewardship initiatives; and
- Engagement case studies that demonstrate the outcomes of the engagements and their effectiveness (we have highlighted some examples on page 92).

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

SIP Implementation Statement

What does it mean to vote?

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

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

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

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

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

BTPS also publishes Federated Hermes EOS' quarterly voting statistics and activities on the Scheme website which can be found at: **btps.co.uk/SustainableInvestment**.

While the Scheme is invested in a diverse range of asset classes, the next few pages focus on the equity investments which have voting rights attached. The Scheme's equity holdings, as at 30 June 2023, are held in both segregated and pooled investment funds, and are managed on an active basis. The Scheme's equity holdings are invested with five investment managers, who undertake voting and engagement. Federated Hermes EOS also conducts additional voting and engagement activities on behalf of the Scheme.

Significant votes

We pay particularly close attention to votes that we deem to be significant, as determined by the Trustee in collaboration with its investment managers. When determining which votes are considered significant, we assess several criteria including those outlined by the Pensions and Lifetime Savings Association (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 or 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; and
- level of political or regulatory interest; level of industry debate; or any vote in non-listed equity asset classes e.g. in private equity, infrastructure or other asset classes.

SIP Implementation Statement

Asset manager oversight and 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 on behalf of BTPS, 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:

- Undertake ESG integration and 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; and
- 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.

Overall, we observed satisfactory progress made by our managers over the year on their ESG integration and stewardship activities. We will continue to monitor and discuss progress with our managers on evolving stewardship best practice.

SIP Implementation Statement

How is stewardship integrated into investment processes?

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

We expect high stewardship standards from our managers and encourage alignment to the UK Stewardship Code, or international equivalent as applicable.

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

Over the past year, we have continued with regular manager meetings for better oversight of their stewardship activities and requested responses to our annual Net Zero & Stewardship questionnaire, which covers manager governance, diversity and inclusion, engagement, climate and voting topics to gather appropriate information from our managers and understand their different approaches.

It is important that we collate more in-depth sustainability information from our managers, but also that we communicate our expectations clearly to help drive the change we would like to see.

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

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

We provide indicators of good practice across each of the areas as a guide rather than an exhaustive list.

We provide feedback to managers with a separate score card of where we believe they currently are relative to our best practice sustainability expectations.

Through all of this, we are developing stronger collaborative relationships with our managers, allowing us to positively influence stewardship practices where we have seen potential to do so.

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 documenting and sharing our manager expectations on sustainability will help ensure that the managers we are partnering with are supporting us in becoming industry-leading asset owners, achieving our ambitious sustainable investment goals, driving real world change, and helping us respond to the ever increasing regulatory and reporting obligations.

SIP Implementation Statement

Stewardship provider voting information

Stewardship provider:
Federated Hermes EOS

Fund type:
Multiple equity funds

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

Voting activity:

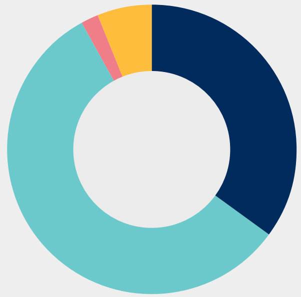
Number of meetings at which the manager was eligible to vote: 65

Number of resolutions on which the manager was eligible to vote: 773

Percentage of eligible votes cast: 100%

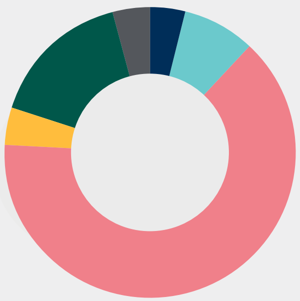
Resolutions voted

With management	35%
Against management	57%
Abstained	2%
Meeting with management by exception	6%



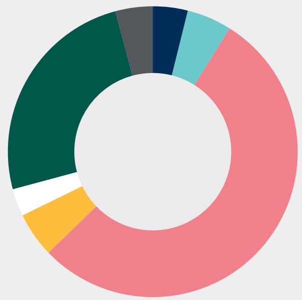
What we've voted on

Amend articles	4%
Audit & accounts	8%
Board structure	64%
Capital structure & dividends	4%
Investment/M&A	0%
Remuneration	16%
Other	4%



Votes against management resolutions

Amend articles	4%
Audit & accounts	5%
Board structure	54%
Capital structure & dividends	5%
Shareholder resolution	3%
Remuneration	25%
Other	4%



SIP Implementation Statement

Stewardship provider voting information

Stewardship provider:
Federated Hermes EOS

Fund type:
Multiple equity funds

Significant vote

Company: Berkshire Hathaway

Vote topic: Board diversity

Date of vote: 6 May 2023

Voting instruction: Against

Rationale: EOS had concerns over Berkshire Hathaway's lack of Board diversity, which was not meeting their minimum expectations on 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.

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.

SIP Implementation Statement

Manager voting information

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

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

Voting Activity:

Number of meetings at which the manager was eligible to vote: 44

Number of resolutions on which the manager was eligible to vote: 705

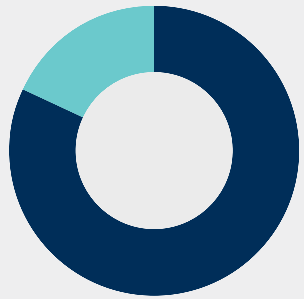
Percentage of eligible votes cast: 100%

In what % of meetings, for which you did vote, did you vote at least once against management? 64%

* In accordance with ISS' Sustainability Policy, 38 abstain votes and 4 withhold votes were cast for this mandate. These votes can be classified as either for or against management. For the purposes of the resolutions voted chart to the right, we have not double counted these resolutions.

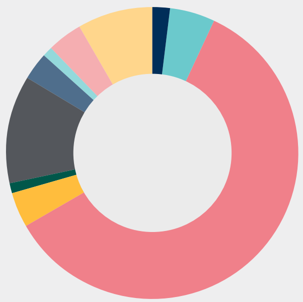
Resolutions voted

With management	82%
Against management	18%
Abstained	0%



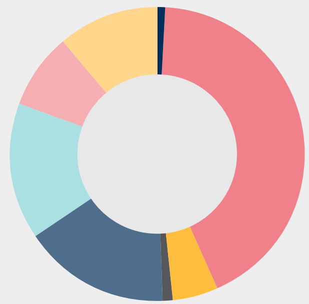
What we've voted on

Amend articles	2%
Audit & accounts	5%
Board structure	60%
Capital structure & dividends	4%
Investment/M&A	1%
Remuneration	12%
Shareholder resolution environment	3%
Shareholder resolution governance	1%
Shareholder resolution social & ethical	4%
Other	8%



Votes against management resolutions

Amend articles	1%
Board structure	43%
Capital structure & dividends	5%
Remuneration	1%
Shareholder resolution environment	16%
Shareholder resolution governance	15%
Shareholder resolution social & ethical	8%
Other	11%



SIP Implementation Statement

Manager voting information

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

Significant vote

Company: ServiceNow Inc

Date of vote: 1 June 2023

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 vs 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.

Significant vote

Company: Exxon Mobil Corporation

Date of vote: 31 May 2023

Vote topic: Methane Emission Disclosure

Voting instruction: For

Rationale: A vote FOR this proposal is warranted, as ensuring the accuracy of the board's methane emissions disclosure will permit the company and shareholders alike to appropriately assess risks related to methane emissions. GQG engaged with ExxonMobil in advance of the vote to help inform their voting decision.

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

Why a significant vote?: Controversial vote with potential impact on financial outcomes and stewardship outcomes.

Outcome of vote: Fail (36.4% For vs 63.6% Against). Exxon's board recommended shareholders vote against this resolution, arguing that it has made significant progress to reduce methane emissions and its already provided disclosures are robust. The company has not yet publicly commented on the voting result. In GQG's view, the shareholder resolution communicates to the company the ongoing investor scrutiny about methane emissions. The result of the vote indicates that a majority of shareholders consider Exxon's current level of methane disclosure to be satisfactory. However, GQG will continue to monitor the issue and take appropriate steps, which may include engaging with the company to communicate views further and gather insights about methane emissions.

SIP Implementation Statement

Manager voting information

Manager:
GQG Investment Management

Fund type:
Segregated active equity fund

Significant vote

Company: Petroleo Brasileiro SA

Date of vote: 27 April 2023

Vote topic: Board Chair Election

Voting instruction: Against

Rationale: A vote AGAINST this request is warranted because chair nominee Pietro Adamo Sampaio Mendes was considered not eligible to be appointed to the board due to his relationship with the controlling shareholder, the Brazilian federal government.

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

Why a significant vote?: Controversial vote with potential impact on financial outcomes and stewardship outcomes

Outcome of vote: Pass (53.5% For vs 27.8% Against & 18.7% Abstain). On 12 April 2023 the company announced in securities filings that it had received an official letter from the Superintendence of Corporate Relations (SEP), from the Securities and Exchange Commission (CVM) that concluded that the candidates were ineligible for the election of members of the Board of Directors. Opposition from other shareholders reflected this concern. GQG will continue to monitor the issue and take appropriate steps, which may include engaging with the company to communicate views further and gather insights about corporate governance.

Significant vote

Company: UnitedHealth Group Incorporated

Date of vote: 5 June 2023

Vote topic: Political spending alignment with company values and priorities

Voting instruction: For

Rationale: A vote FOR this proposal is warranted, as a report on the company's value alignment with political expenditures would enable shareholders to have a greater understanding of how the company oversees and manages risks related to its political affiliations.

Approximate size of holding as at the date of the vote (as % of portfolio): 6.2%

Why a significant vote?: Controversial vote with potential impact on financial outcomes and stewardship outcomes.

Outcome of vote: Fail (27.6% For vs 70.4% Against). The company's board opposed the resolution. It argued that the US government is considered an important partner and the company is regulated by multiple government entities at the local, state and federal level. As such, it is essential to engage with policymakers on a bipartisan basis. The company does not agree with every policy decision taken by each contribution recipient. It has also taken steps to enhance disclosure of political giving and trade association membership. GQG will continue to monitor the issue and take appropriate steps, which may include engaging with the company to communicate views further and gather insights about political spending.

SIP Implementation Statement

Manager voting information

Manager:
TCI Fund Management

Fund type:
Pooled active equity fund

No proxy advisory service used

Voting activity:

Number of meetings at which the manager was eligible to vote: 13

Number of resolutions on which the manager was eligible to vote: 236

Percentage of eligible votes cast: 100%

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

Resolutions voted

With management	100%
Against management	0%
Abstained	0%

Significant vote

Company: Aena S.M.E SA

Date of vote: 20 April 2023

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.

SIP Implementation Statement

Manager voting information

Manager:
Caledonia Investments

Fund type: Pooled active equity fund

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

Voting activity:

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

Number of resolutions on which the manager was eligible to vote: 172

Percentage of eligible votes cast: 100%

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

Resolutions voted

With management	100%
Against management	0%
Abstained	0%

Significant vote

Company: Flutter Entertainment Plc

Date of vote: 27 March 2023

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): 15.0%

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

Outcome of vote: Pass with 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.

SIP Implementation Statement

Environmental

Encouraging better ESG reporting

Corporate credit engagement via Wellington Management

Issue: Wellington engaged with a Turkish renewable energy producer on their carbon reduction plans given limited proactive reporting by the company on the topic.

Action: Through the engagement, Wellington learned that the company is involved in multiple environmental research and development projects, some in partnership with the EU, aimed at making geothermal energy more carbon-neutral. The result of the research being done by the company has the potential to result in not only a carbon emissions reduction to their own power plants, but also at other geothermal power plants through technology licensing.

Outcome: Wellington views this development as a material ESG positive for the company and has recommended that management improve its ESG reporting, specifically around research & development projects, as the investor community is currently underinformed around the company's ESG strengths and progress on key milestones. Wellington will continue to engage with the company around their environmental research projects and developed ESG reporting to drive improvements.

Social

Concerns over drug affordability

Equity engagement via GQG

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 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.

Governance

Encouraging a more diverse Board

Corporate credit engagement via Insight Asset Management

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 30%".

For more information on engagements carried out on the Scheme's behalf, please see the Scheme's latest Stewardship report: BTPS Portal - Sustainable investment

Appendix two: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities	Key activities
Audit & Risk Committee	**David Viles – Chair** **Ben Marshall** **Keith Nichols (ceased to be a Trustee Director on 15 May 2023)** **Andy Kerr**	• Integrity of the Scheme's annual report and accounts, and the discharge of its duties in relation to these • Oversees the effectiveness of risk management processes, the internal controls framework, and reviewing and challenging the internal audit function* • Recommends to the Trustee Board the appointment, re-appointment and removal of the external auditor, monitoring auditor independence and objectivity, and approval of remuneration and engagement terms of the auditor	• Met 3 times during the year and subsequently one meeting held up to the annual report approval date • Reviewed the following: – Performance of internal and external auditors – Performance of Scheme suppliers – Operational due diligence reports on third party investment managers – Regular risk and compliance reports – Internal audit reports – The security of Scheme assets – The Scheme's IT security
Investment Committee	**Chris Cheetham – Chair** **Keith Nichols (ceased to be a Trustee Director on 15 May 2023)** **Emily Clark** **Andy Kerr**	• Oversees effectiveness of the Scheme's investment strategy • Oversight of investment performance, including the performance of investment allocations and sub-allocations	• Met 5 times during the year • Reviewed 'deep-dive' reporting into each of the main asset classes including key risk factors, manager allocations and performance • Provided oversight of the responsible investment strategy
Administration & Communications Committee (A&CC)	**Beryl Shepherd – Chair** **Nigel Cotgrove** **Keith Nichols (ceased to be a Trustee Director on 15 May 2023)** **Ben Marshall**	• Oversees administration services provided to the Scheme and its members • Monitors and oversees casework arising from application of Scheme Rules involving discretions • Monitors the development and implementation of an effective communications strategy • Makes sure the Scheme's Trust Deed and Rules are up-to-date, and reflect any changes arising from regulation and legislation	• Met 4 times during the year • Reviewed quarterly reports on Scheme administration • Provided oversight of the pensions portal • Provided oversight of the pension administration platform • Provided oversight of Additional Voluntary Contributions strategy and key member services activities, including the impact of relevant regulatory changes and communications with members • Reviewed activity in relation to GMP Equalisation

* BTPSM (trading as Brightwell) has appointed BDO UK LLP ('BDO'), under an outsourcing agreement, to perform internal audit for Brightwell. BDO conducts a rolling programme of independent control reviews and investigations, and may use external professional firms to provide additional technical support on certain audits. The Trustee directs BDO, and other suitably competent firms, to conduct other internal audits of the management of the Scheme's risks, as appropriate.

Appendix two: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities
Internal Disputes Resolution Procedure (IDRP) Stage 2 Appeals Panel (sub-committee of the A&CC)	**Otto Thoresen – Chair** **Ben Marshall** **David Viles**	• Considers and arrives at determinations in respect of appeals by Scheme members or beneficiaries against a decision under Stage 1 of the IDRP
Discretions Committee (Sub-Committee of the A&CC)	**Beryl Shepherd – Chair** **Keith Nichols (ceased to be a Trustee Director on 15 May 2023)** **Nigel Cotgrove**	• Considers and arrives at determinations where the Trustee is required by the Scheme Rules to exercise discretion (e.g. distribution of a lump sum death benefit, payment of a pension to an adult dependant)
Implementation Oversight Committee (Sub-Committee of the Investment Committee, retired in January 2023)	**Chris Cheetham – Chair** **Keith Nichols (ceased to be a Trustee Director on 15 May 2023)** **Emily Clark**	• Used from time-to-time to oversee the implementation of more complex investment activities • Includes members of the Investment Committee with appropriate expertise in implementation issues • Also attended by senior managers from Brightwell

Appendix two: Trustee Board Committees

The table below shows the attendance by Trustee Directors at Trustee Board and Committee meetings (where they are a member) during the year ended 30 June 2023.

Trustee Director	Main Board*	Audit and Risk Committee	Investment Committee	A&CC	IDRP stage 2 appeals panel	Discretions Committee	Implementation Oversight Committee**
Number of meetings	**5**	**3**	**5**	**4**	**12**	**3**	**1**
Otto Thoresen	5	–	–	–	10	–	–
Jill Mackenzie	1	–	–	–	–	–	–
Chris Cheetham	5	–	5	–	–	–	1
Emily Clark	5	–	5	–	–	–	1
Nigel Cotgrove	5	–	–	4	–	3	–
Andrew Kerr	5	3	5	–	–	–	–
Ben Marshall	5	3	–	4	12	–	–
Keith Nichols (ceased to be a director on 15 May 2023)	4	3	5	4	–	3	1
Beryl Shepherd	5	–	–	4	–	3	–
David Viles	5	3	–	–	12	–	–

*In addition to formal Board meetings, the Board had regular informal meetings to discuss strategic initiatives.

**At its meeting in January 2023, the Investment Committee agreed to retire the Implementation Oversight Committee as its remit had evolved and thus is no longer required. An Investment Working Group now meets when needed.

Appendix three: Management and advisers

Scheme registration number
10085003

Trustee
BT Pension Scheme Trustees Limited

Trustee Directors
Otto Thoresen (Chair)
Jill Mackenzie (appointed 15 May 2023)
Emily Clark
Chris Cheetham
Nigel Cotgrove
Andrew Kerr
Ben Marshall
Keith Nichols (stepped down 15 May 2023)
Beryl Shepherd
David Viles

Scheme Secretary
BT Pension Scheme Management Limited (BTPSM, trading as Brightwell)

Actuary
Graham McLean FIA, Towers Watson Limited
(a Willis Towers Watson Company)

Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Pensions Administrator
BT Pension Scheme Administration Limited (BTPSA, trading as Brightwell)
Venture House
Venture Way
Chesterfield S41 8NR

Bankers
The Northern Trust Company
Royal Bank of Scotland

Primary Service Provider to BTPS (including investment management)
BT Pension Scheme Management Limited (BTPSM, trading as Brightwell)

Primary External Investment Managers
GQG Partners LLC
Hermes Fund Managers Limited (Hermes)
Insight Investment Management Limited
M&G Investment Management Limited
Wellington Management International Limited

Custodians appointed by the Trustee
The Northern Trust Company
JP Morgan Chase

Principal Sponsoring Employer
British Telecommunications plc (BT)
1 Braham Street
London E1 8EE

If you require further information regarding this report, please contact:

Scheme Secretary
BT Pension Scheme Management Limited
One America Square
17 Crosswall
London EC3N 2LB

Appendix four: Glossary of terms

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.

Additional Voluntary Contribution (AVC)
A contribution paid by a member of an occupational pension scheme to secure additional benefits.

Asset classes
Groupings of investments such as equities (stocks), fixed income (bonds), cash and cash equivalents, real estate, commodities, futures, and other financial derivatives.

Bond (or corporate credit)
A type of debt security issued by a company and sold to investors. The company gets capital and in return the investor is paid a pre-established fixed or variable interest rate.

Climate change
The long-term global shift in weather patterns due to man-made greenhouse gas emissions.

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

Credit default swap
A credit default swap is a contract which transfers the credit risk of an issuer from one party to another party.

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

Custodian
A custodian or custodian bank is a financial institution that holds customers' securities for safekeeping to prevent them from being stolen or lost. The custodian may hold stocks or other assets in electronic or physical form.

Crown Guarantee
A special protection in the form of a guarantee which provides that, in the unlikely event of a winding up of BT, most ongoing contribution obligations of BT to the Scheme would be met by the Government. The Crown Guarantee does not cover the benefits of individual members but rather enhances the security of member benefits in the Scheme overall.

Deferred beneficiaries
All those who have a right to be paid benefits by the Scheme at a future date, but are not currently active members of the Scheme (mainly former employees).

Derivative
A financial contract whose price is derived from the movement in an underlying asset, e.g. a single security or basket of securities, interest rates, inflation levels, exchange rates or index movements. Examples of derivative instruments are futures, forwards, options and swaps.

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.

Appendix four: Glossary of terms

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

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

Exposure
The level of risk to a particular asset, asset type, sector, market or government.

Fiduciary duty
The duties (or equivalent obligations) that exist to ensure that those who manage other people's money act in the interests of beneficiaries, rather than serving their own interests.

Financial Conduct Authority (FCA)
The conduct regulator for nearly 60,000 financial services firms and financial markets in the UK, and the prudential supervisor for 49,000 firms, setting specific standards for 19,000 firms. It seeks to promote the safety and soundness of the firms it regulates.

Fixed interest securities
Investments on which a fixed rate of interest is received.

Futures and options contracts
A futures contract is a firm agreement to buy or sell a security or a quantity of securities at a future date. An option confers the right, but no obligation, to complete a similar transaction at a predetermined price.

Gilt
Sterling bond issued by the UK Government.

Government bond
Debt-based investment, where money is loaned to a government in return for an agreed rate of interest. Governments use them to raise funds that can be spent on new projects or infrastructure, and investors can use them to get a set return paid at regular intervals.

Greenhouse gas emissions (GHG)
The main GHGs in the earth's atmosphere are carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and ozone (O_3). 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 GHGs 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. Scope 3 includes all other indirect emissions that occur in the company's value chain.

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.

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).

Appendix four: Glossary of terms

Longevity transaction
A contract which exchanges payments based on expected longevity with payments based on actual longevity of members.

Market value
The best estimate of the price for which assets could be sold at a given date.

Net Zero
Achieving net zero greenhouse gas emissions (absolute scope 1-3) in the investment value chain and investing in transition solutions to reduce or remove them from the atmosphere.

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.

Pension Protection Fund (PPF)
A fund established by the UK Government to pay compensation to members of eligible defined benefit pension schemes, where there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the scheme to cover PPF levels of compensation.

Pensions SORP
The Pensions Statement of Recommended Practice applies to the accounts of occupational pension schemes. It is issued by the Pensions Research Accountants Group (PRAG).

Pooled Investment Vehicles (PIVs)
Investment vehicles such as managed funds, limited partnerships and unit trusts that combine capital of many investors to allocate according to a particular investment strategy.

Private Equity
Investments in companies that are not publicly traded.

Purchase Power Agreement (PPA)
A long-term electricity supply agreement between two parties, usually between a power producer and a customer (an electricity consumer or trader).

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

Realised gains
The net profit on investments sold during the year, calculated by comparing the selling price with the price at which they were purchased, or with the value at which they were transferred to the Scheme at its inception.

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 society." (UK Stewardship Code, 2020).

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

Appendix four: Glossary of terms

Sale and repurchase agreements
A transaction, carried out under an agreement, in which one party sells securities to another and, at the same time and as part of the same transaction, commits to repurchase equivalent securities on a specified future date at a specified price.

A reverse repo is a transaction, carried out under an agreement, in which one party purchases securities from another and, at the same time and as part of the same transaction, commits to resell equivalent securities on a specified future date at a specified price.

Schedule of Contributions
The Schedule of Contributions should set out the rates and due dates of contributions to a pension scheme from the participating employer and the members (including contributions due under a recovery plan and contributions to cover expenses). Normally, Trustees will need to agree the Schedule of Contributions with the Scheme's principal employer.

The Schedule of Contributions must be certified by the Scheme Actuary and revised periodically by the Trustees. The Schedule of Contributions must be submitted to The Pensions Regulator for approval within ten working days of it being prepared or revised.

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,
- facilitate good pension administration,
- in relation to DB pension scheme funding, to minimise any adverse impact on the sustainable growth of an employer.

The Scheme
The BT Pension Scheme.

Transfer value
The capital sum available to purchase benefits from the new employer's scheme, or from an insurance company, when an employee changes employment and decides to transfer the pension benefits which he has earned with his previous employer.

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

UK GAAP
This refers to Generally Accepted Accounting Practice applied in the United Kingdom.

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

Unlisted investments
Stocks and shares not traded on a recognised stock exchange.

Unrealised gains
The net increase during the year in the market value of investments held at year end.

Contact details

The Trustee of the BT Pension Scheme

The Scheme Secretary
BT Pension Scheme
One America Square
17 Crosswall
London, EC3N 2LB

Website: **www.btps.co.uk**

Member Support

The BT Pension Scheme Member Support team can be contacted between 8:30am and 5pm Monday to Friday (excluding Bank Holidays), on **0800 731 1919**.

If calling from overseas, the contact number is **+44 (0) 203 023 3420**.

Alternatively, please email **member@btps.co.uk**

Or send a message through the Pensions Portal at **www.btps.co.uk**

The address for correspondence is:
BTPS, Sunderland, SR43 4AD

MoneyHelper

In June 2021, the Money and Pensions Service brought its three consumer services together under the new name, MoneyHelper. So, the Money Advice Service, The Pensions Advisory Service and Pension Wise now all come under MoneyHelper.

MoneyHelper is here to make money and pension choices clearer. It provides impartial help, is backed by government and is free to use. MoneyHelper can be contacted through **moneyhelper.org.uk** or on the following phone number:

Pensions Helpline: **0800 011 3797**

Pensions Ombudsman

If you have a complaint or dispute concerning your workplace or personal pension arrangement you should contact the Pensions Ombudsman at:

10 South Colonnade
Canary Wharf
London
E14 4PU
Contact number: **0800 917 4487**

The Pensions Regulator

Pension schemes are regulated by The Pensions Regulator which has power to impose civil penalties and to bring criminal prosecutions for serious breaches of the requirements of the legislation. The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

Pension Tracing Service

Information about the Scheme (including a contact address) has been provided to the Pension Tracing Service as required by law. Because the Pension Tracing Service holds the same information for other pension schemes, it offers a service which enables members to trace benefits from previous employers' schemes. The Pension Tracing Service can be contacted on **0800 731 0193** or by submitting a tracing request on **gov.uk/find-pension-contact-details**

Report and Accounts

This Report and Accounts is available on the Scheme's website: **btps.co.uk**

We send each member a short document in hard copy or by email summarising the key developments of the Scheme during the year. Members also receive the Summary Funding Statement each year.

BTPS

www.btps.co.uk