BTPS

Annual Report and Accounts 2020

www.btpensions.net

Contents

About BTPS

The BT Pension Scheme (BTPS or the Scheme) is the largest company pension scheme in the UK and one of the largest pension funds in Europe. A defined benefit pension scheme for employees, former employees and dependants of BT Group 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 32**

The Trustee Board has delegated responsibility for day-to-day management of the Scheme to **BT Pension Scheme Management Limited** (BTPSM, a wholly owned subsidiary of the Scheme), the primary service provider to BTPS, subject to ongoing Trustee Board oversight. BTPSM is also the principal investment advisor to the Scheme.

More information on BTPSM and its Executive can be found on **page 12**

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 15** and the Member Services report can be found on **page 28**

At a glance

The Scheme's net assets were valued at **£57.5bn** as at 30 June 2020.

The overall investment return on the Scheme's assets was **9.9%** for the year to 30 June 2020.

The Scheme's funding position was **88%** on a technical provisions basis as at 30 June 2019.

As at 30 June 2020, there were **280,004** members.

The Scheme's net assets were invested **37.5%** in growth assets and **62.5%** in liability hedging assets as at 30 June 2020.

Total benefits paid were **£2.5bn** in the year to 30 June 2020.

Chair's statement

As I write this, the UK continues to face a period of uncertainty through the societal and economic impacts of the COVID-19 pandemic.

As Trustees, our priority is to ensure that our members receive their benefits as they fall due. Consistent with this, our focus during the pandemic has been to seek assurances from our primary service provider, BT Pension Scheme Management (BTPSM), that it is able to continue to deliver the full range of services on which we rely. I am pleased to report that BTPSM continues to operate with no interruption to the services provided to our members. We have also managed to advance our shared transformation agenda which will deliver improvements in terms of member experience and operational risk reduction in the coming months. This year, I have asked Morten Nilsson (BTPSM CEO) to provide a report which focuses on the key activities within BTPSM during the year.

Throughout the year, we monitored BTPSM's delivery and operational effectiveness by reference to service performance measures which cover the three service lines (Member Services, Funding and Fiduciary Services, and Trust and Business Services). The backdrop to establishing these metrics included the valuable feedback that we received from our new Members Panel. I would like to thank the 8,500 members who participated in our recent survey, of whom 1,500 agreed to participate on the Members Panel to provide us with further insights which will inform our member communications, particularly regarding the development of digital services. It was also clear from the survey that our commitment to responsible investment resonates positively with members.

Member Services

The July 2019 decision to insource the member contact centre generated excellent feedback from members. It was also good to see the operational resilience demonstrated when we moved to remote working in March 2020. We will build on this as we move to a new administration platform in 2021 which aims to further enhance member experience.

Investment performance

In a year that has seen significant market volatility, the Scheme produced an investment return of 9.9%, made up of a return of 1.3% on growth assets and 17.3% on matching assets. This brought the annualised Scheme return over the past three years to 7.6% per year. More detail on the Scheme's investment performance is included within the Funding and Investment section of the Trustee Report.

In a year that has seen significant market volatility, the Scheme produced an investment return of 9.9%

Otto Thoresen
Chair of Trustee Board

Chair's statement continued

The Trustee remains committed to being a responsible investor and articulates this commitment through its responsible investment mission statement (which was updated in January 2020): "*The Scheme's investments should be managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full*". We have also updated our Statement of Investment Principles (available at **www.btpensions.net/information/investment**) to provide more information on our approach to stewardship and the mandates we give to investment managers.

In relation to climate change, the Trustee believes that reducing exposure to carbon emissions over time will improve investment outcomes and reduce the impact of potential adverse outcomes associated with future climate risk. Consistent with our leadership in this area over the years, the Trustee has established a challenging goal for the Scheme's investment portfolio to achieve net zero carbon emissions by 2035.

Funding Valuation

Our key task for the year ahead is the funding valuation as at 30 June 2020. It is a requirement that an actuarial valuation of the Scheme is carried out at least once every three years. With BTPSM's advice and support, and the support of our other advisers, work is underway. The statutory deadline for completing the valuation exercise is 30 September 2021.

The valuation reviews the financial position of the Scheme and helps to establish an appropriate level of contributions payable to the Scheme in future and other actions that should be taken by the Trustee and BT. As part of this process, certain assumptions need to be made (e.g. future pension increases, investment returns and life expectancy). The funding level has remained broadly 'on track' since the 2017 valuation and the strategic investment decisions taken over the past five years, particularly the adoption of hedging (interest rate, inflation rates and equity) targets, have helped to protect the Scheme's funding position. However, there is currently a great deal of market and economic uncertainty. In addition to the Trustee understanding how the funding position might develop under different economic scenarios and how these might flow through to the Scheme's financial position and impact on the employer's covenant, there are other factors to consider (e.g. the government's proposed reform of RPI, a topic on which we have engaged with the government to urge for an approach which is fair and equitable for members and asset owners). The outcome of the formal valuation will be published next year. In the years between formal valuations, the Scheme Actuary provides an annual update on the funding position. Ahead of the finalisation of the 2020 valuation, the results of the most recent update (as at 30 June 2019) can be found on page 72.

Our key priority for the year ahead is the funding valuation as at 30 June 2020

Good governance matters

As Chair, I have a particular focus on governance and, although we intend to commission an externally facilitated review of our Trustee performance in 2021, in the interim, we undertook an internal assessment to obtain assurance that the governance framework operates effectively and that, as a collective, we have skills and experience which cover all aspects of trusteeship. This exercise has informed how we structure training sessions, succession planning at Board level and the appointments made to the Board when Emily Clark, David Viles, Nigel Cotgrove and Chris Cheetham replaced Jim McInally, John Wroe, Billy McClory and David Felder as Trustee Directors.

I'd like to take this opportunity to thank Jim, John, Billy and David for their many years of service to the Scheme, and their support to me during my first year as Chair.

Chair's statement continued

The new Trustee Directors are participating in a comprehensive pre-appointment induction programme. Together with their Trustee Director colleagues, the new Trustee Directors have also taken part in ongoing training which, this year, has had a particular focus on funding (including the regulatory context) and investment.

Our own governance processes were tested by the pandemic. In practice, discipline around meeting frequency, delegations to committees, agenda planning and focussed reporting has meant that the transition to virtual meetings is working smoothly.

The combination of the continuing impact of COVID-19 and the as yet unclear impact of Brexit creates an uncertain period ahead. The Trustee, working with its advisers, particularly BTPSM, is focusing on seeking to anticipate potential impacts on the Scheme and mitigate these as far as possible. We believe that our approach is effective.

In closing, I would like to extend my thanks to BTPSM and to Trustee Directors past and present for the expertise and commitment they have shown during this extraordinary period.

"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."

Otto Thoresen
30 September 2020

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 the Money Advice Service. Otto became Chair of NEST Corporation on 1 February 2015. He is also Chair of the board of Aviva International Insurance, and the board of Aberdeen Asset Management's Life subsidiary

David Felder (C) has over thirty years of experience working with pension funds in both the public and private sectors, first at Morgan Grenfell as a fixed income fund manager and then at Kleinwort Benson where he was head of fixed income between 1992 and 1998. He is a fellow of the Chartered Institute for Securities and Investment.

David resigned from the Trustee Board on 16 September 2020.

Nigel Cotgrove (B) was a National Officer of the Communication Workers Union for 31 years until July 2020. In that role he was the national lead for occupational pensions in telecoms, IT and financial service companies for two decades. This included negotiating on all BT pension issues such as changes to the BTPS; improvements to the defined contribution pension; and the creation of the hybrid pension. He was part of the Airwave Solutions DC Pension Governance Committee between 2007 and 2020.

Nigel has served on the Members' Panel at the National Employment Savings Trust (NEST) since 2016, and is also a Trustee of the CWU 2000 Defined Benefit Pension.

Nigel is a member of the CWU and the National Federation of Occupational Pensioners.

Andrew Kerr (B) was employed by BT from 1975 to 2008. He served on the National Executive Committee of the 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 is a former Trustee of the BT Retirement Plan, a Governance Committee member of the BT Retirement Saving Scheme and a Trustee of the NCU Staff Superannuation Scheme. He has a pension from the BT Pension Scheme and is a member of the NFOP.

Ben Marshall (B) has been a trustee of a number of pension schemes continuously for over thirty years, and until his recent retirement 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 Scheme since its creation in 2010. He has also been a trustee of the BT Retirement Plan (now the BTRSS and now a Group Personal Pension Plan), and the Accenture AHRS DC Scheme.

Emily Clark (C) has been the Chief Economist of BT Group since 2016. Emily has created a function which provides economic thinking and analysis to further key commercial, regulatory, policy and strategy goals, wherever it is required in BT. Prior to her current role, Emily was 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

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 a Fellow of the Association of Corporate Treasurers.

Chris Cheetham (C) was appointed to the Board on 16 September 2020. Chris has over 40 years' experience in the investment management industry and is Chair of the Mineworkers Pension Scheme, which has c.£12 billion 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 member of The People's Pension Investment Steering Group 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 at AXA Sun Life Asset Management. In May 2003 he joined HSBC as Global Chief Investment Officer.

David Viles (C) joined BT as Director of Risk, Compliance and Assurance in 2018. David 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 then joined Deloitte and later BP plc, holding various senior risk-related roles. David re-joined Deloitte in 2015 as a senior advisor in its risk management practice.

Beryl Shepherd (B) was employed by BT 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 deferred member of the Scheme and a member of the NFOP.

(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.

CEO update

The past year has been one of significant change at BTPSM. On behalf of BTPS, we've embarked on a bold transformation programme which will deliver real improvements to the service we provide to members.

We've brought our member services contact centre in-house, invested in technology across the business, created new functions and strengthened key teams.

COVID-19 response

In mid-March 2020 our resilience and business continuity plans were tested when we implemented remote working procedures to safeguard colleagues during the pandemic.

We had anticipated and planned for a need to move to remote working and were well prepared. As a result, the transition was remarkably smooth and, despite the difficult circumstances, we remained fully operational throughout the crisis.

This continuity of service is testament to the expertise and dedication of our colleagues, working diligently on our members' behalf. We've also benefited hugely from the support and guidance of the Trustee Board and the continued professionalism of our partners.

Member experience

When we are evaluating the member experience, there are a number of areas we examine: speed, clarity, ease and helpfulness.

In the two years since we brought our administration in-house, all member satisfaction benchmarks have improved and this trend has continued following the decision to open our own contact centre, based in Chesterfield, in July 2019. This new facility has achieved member satisfaction scores of over 95% and enabled much stronger working relationships between the contact centre and our administration team.

But, there are still improvements that need to be made particularly in relation to our online services and communications.

As part of our commitment to providing first class member service, we will be implementing the IntelliPen system for the Scheme's member administration services in 2021.

Acquisition of Procentia

In December last year the Trustee Board agreed to BTPSM's acquisition of Procentia, the leading pensions administration software platform provider and creator of Intellipen. We came across Procentia when we were looking for a new pension administration platform and believe they offer something unique to the market. We believe that with support from BTPSM they will be able to further build out their market leading pension administration software, grow globally and become a fantastic investment for the Scheme. Since the acquisition we have worked with the founders and management to further professionalise and grow the business and we are pleased with the progress made during this short period.

Investment management

Our forward planning and risk management positioned us to reduce the impact on the Scheme's funding position created by pandemic-driven market volatility. Our objective is to produce positive absolute returns over the long term, rather than outperforming benchmark indices. Whilst this approach does not make us immune from market turbulence, we do expect to outperform indices when markets fall sharply.

Morten Nilsson
BTPSM Chief Executive Officer

CEO update continued

During the course of the year, we began the implementation of a new investment technology platform, which will help to reduce operational risk and improve resilience with fewer manual processes, and straight-through processing across all investment activities.

BTPSM has adopted an integrated risk management framework in its approach to managing overall risk within the Scheme. Under this approach, risks associated with funding, investment, and the employer covenant are considered on an integrated basis. Our approach brings together the identified risks faced by both the Scheme and BT in order to understand the relationship between these. This helps to prioritise risk areas and to assess their materiality, with the output of this approach helping to inform decision making in relation to the overall strategy for the Scheme.

Sustainable investment

In February 2020, we undertook a wide-ranging member survey on topics including attitudes towards responsible investment. Over 8,500 members responded, making it clear they expect BTPS to continue taking into consideration the environmental and social impact of its investments. Members also want us to use our investments to make a positive impact on the environment and society. This member feedback was reflected when the Trustee Board updated its core responsible investment statement earlier this year.

The Scheme has always taken a leading position on responsible investment. We were a founding signatory of the Principles for Responsible Investment (PRI) in 2006. As a signatory, each year we have to report on our responsible investment activities. PRI then assess our performance and give a rating from E to A+. Last year we scored an A but in July 2020 we've been rated A+ which is testament to the fantastic work of the team.

This year, for the third year running, we have reported in line with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations and we welcome proposals for mandatory TCFD disclosure on the basis that if you can measure it, you can better manage it.

Delivering value

We regularly benchmark our cost-effectiveness against our peers across investment management, member services, or other services we provide to the Scheme. This includes regular reviews of key BTPS services to ensure these deliver value for members, and as a result of this work we have improved cost efficiency across several key activities, including investment administration, custody, and actuarial services.

We analyse and benchmark our investment costs in several different ways in order to assess how the Scheme's costs have evolved over time. Since 2011 we have worked with CEM Benchmarking (CEM) who provide independent comparisons on cost and performance for many of the world's leading pension schemes. Our investment costs are compared with a global peer group of similar size schemes on an asset mix adjusted basis and our performance with a wider domestic and global universe. Our costs are assessed by CEM to be low compared with peers, and in the most recent review our costs were 16 basis points below CEM's benchmark. Our strategic decision to undertake more of our investment activities in-house has been significant in delivering this cost effective investment management.

In addition to the annual CEM analysis, last year we commissioned an independent consultant to review fee levels on some of our growth investment mandates.

... The Scheme has always taken a leading position on responsible investment.

CEO update continued

This study found that for the asset classes under review, our fees were either below or in line with the median market fee level observed in 2019, and that over the period from 2016 to 2019 we achieved a greater reduction in fees than the market average.

Following the insourcing of Scheme administration in 2018, we are now working with CEM to benchmark our member services costs and service levels to ensure we are able to deliver a high quality member experience in the most cost effective way. In the short time we have worked with CEM on this, we have seen improvements in both the service levels and costs per member when compared against CEM's benchmark, although we are targeting further cost efficiencies and service improvements as we transition to the Intellipen platform and develop our partnership with Procentia.

Brexit

We continue to monitor the implications Brexit may have on the Scheme, including operational considerations, regulatory change, the impact on funding and investments, and agreements with third parties. More information on the potential impact on the Scheme's investments is included on page 17.

The year ahead

Despite the challenges presented by the pandemic, we're looking forward to the year ahead.

With the introduction of Procentia's Intellipen system, we'll be relaunching both the Scheme website and our online member services, providing members with more immediate access to a range of information about their pension, as well as helpful tools and calculators to help support important decisions.

We're also pleased to be working with the Pensions Dashboard Programme that is responsible for leading the development of the new government-led Pensions Dashboard.

The idea behind the Dashboard is simple, it will allow people to access all their pensions information in one place online. We have long supported this initiative as it will not only be beneficial for our members, but for all pension savers across the country.

Over the coming months we'll be updating our investment plans and the way in which we manage the Scheme's assets. We have historically distinguished between our "growth" assets (higher investment returns over the long-term) and "matching" assets (inflation linked government bonds and investment grade corporate bonds). In recent years the proportion of growth assets in the Scheme has reduced as liabilities mature. Consequently, we plan to evolve towards a single portfolio approach. In practice this is a modest and natural evolution, however it will change how we report on Scheme asset performance in future years.

When we look at the risks facing the Scheme's ability to meet its commitments, climate change causes the greatest concern. As the global economy begins its post-lockdown recovery, asset-owners have an important role in demanding change which supports carbon reduction.

In June, we co-signed letters to the UK government and European Union which promoted a more sustainable, greener recovery from the COVID-19 crisis: there's a valuable opportunity to build back better and greener and, as one of the UK's largest asset owners, we want to play our part in supporting this and have ambitious plans in this area.

A duty of care

My colleagues and I are here to support the Scheme in delivering members' promised pensions every step of the way to, and through, their retirement. This provides an invaluable sense of purpose. The care we take in administering the scheme is evident in the pages of this report, in the diligent way we have responded to the COVID-19 crisis and in the way we have continued to achieve good outcomes in very challenging circumstances. We will continue to use our expertise, working together with the Board, and the Scheme sponsor BT, for the benefit of members in the years to come.

About BTPSM

About BTPSM

BTPSM is a wholly-owned subsidiary of the Scheme. It is a regulated entity and authorised by the Financial Conduct Authority (FCA). BTPSM is led by a board of directors that are authorised by the FCA.

BTPSM is the primary service provider (fiduciary management services, member services, operational and secretariat services) to BTPS.

The BTPSM Executive Board is responsible for reporting and providing assurance to the Trustee that the business 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 including the effective delivery and oversight of Scheme administration, operations, financial performance and the delivery and oversight of the implementation of the Scheme's investment strategy.

The operational responsibilities and liabilities borne by BTPSM Directors and senior management are distinct from Trustee's fiduciary responsibilities. Accordingly, the BTPSM Board consists entirely of Executive Directors.

Internal control and risk management

BTPSM has dedicated Legal, Risk and Compliance functions which report to the Chief Legal, Risk and Compliance Officer with responsibility for the delivery of all legal, regulatory and compliance matters for BTPSM and BTPS. The Risk function also has responsibility for operational risk management and mitigation for both BTPSM and BTPS and the provision of an effective second line of defence across the business operations. This is in relation to both the investment advisory and pension administration services provided by BTPSM to the Scheme.

The Legal, Risk and Compliance functions are responsible for providing advice on all relevant regulations including those from the FCA and TPR. BTPSM has approved compliance monitoring plans which set out the key regulatory risks and the testing which will take place during the year.

The operational risk function provides challenge and advice on all aspects of the internal controls environment. It oversees and facilitates a rolling programme of risk and control self-assessments carried out by the business for reviewing the effectiveness of the internal controls environment. Risk & Compliance also reviews audited internal controls reports such as the ISAE 3402, SSAE 16 and SOC 1 reports, on the Scheme's investment managers and administrators.

Disaster recovery

BTPSM, The Northern Trust Company and JP Morgan Chase (as Scheme master custodian and secondary custodian respectively) have documented plans for recovering from a disaster. This includes the use of alternative disaster recovery sites to which key staff can be relocated. All the main suppliers of services to the Scheme have disaster recovery plans that are regularly reviewed and tested.

About BTPSM

Morten Nilsson*, CEO, joined BTPSM 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, 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 DC providers in the UK.

Frank Naylor*, CIO, joined BTPSM in January 2004 and is responsible for advising the Trustee on investment strategy and subsequently implementing investment strategy within an agreed delegated authority.

Prior to joining BTPSM, Frank managed a multi-strategy hedge fund while at WestLB Asset Management. In addition, Frank was CIO for Global Equities and Global Balanced portfolios for WestLB. In the mid-1990s WestLB bought Quorum Capital Management where Frank headed a team managing UK and European equities for institutional clients.

Other Executive Committee members:
Wyn Francis*, Deputy Chief Investment Officer
Gillian Haselden*, Chief Legal, Risk and Compliance Officer
Simon Langworthy*, Chief Administration Officer
Martin Tully*, Chief Operating Officer
Julia Friend, Chief People Officer
Kevin Samborn, Chief Technology 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 2017. 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 81.4%. The corresponding funding deficit was £11,295 million.

The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions which are expected to return the Scheme to a fully funded position by 31 March 2030.

Under this recovery plan, BT paid deficit contributions of £850 million and £2,000 million in March 2018 and June 2018 respectively, with further contributions of £1,250 million in June 2019 and £400m in June 2020. BT will make a series of further contributions of £700 million in 2021 and 2022, and then £907 million per annum through to 2030 when the final payment is made.

The calculation of the funding deficit for the 2017 valuation assumed that the Scheme will continue, and no allowance was made for the cessation of benefit accrual for most members of the Scheme with effect from 30 June 2018. The financial effect of the cessation of benefit accrual was considered as part of the funding update at 30 June 2018, and did not have a material impact on the funding position of the Scheme.

No account was taken of the Crown Guarantee in the actuarial valuation. A full actuarial valuation of the Scheme will be undertaken as at 30 June 2020.

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 matching between assets and liabilities as the proportion of retired members increases. By no later than 2034, we currently intend that we will hold sufficient assets such that, when invested in a portfolio consisting predominantly of appropriate bond and bond like investments, it would be reasonable and prudent to expect the assets to provide adequate income plus capital repayments each year to enable benefit payments to be met in full as they fall due.

We take an integrated approach to the management of risk and return in the Scheme. The 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 BTPSM on an ongoing basis and reviewed regularly by the Trustee. This is based on sensitivity analyses of the Scheme to a wide range of factors including inflation, interest rates,

Funding and investment continued

currency, equity, credit and longevity in order to assess the potential impact on funding and the risks associated with different asset allocations. The government's proposal to align RPI with CPIH presents a new, temporary risk to the Scheme. If the reform goes ahead this may increase the funding deficit, all other things being equal, depending on the specific terms. 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 received ongoing reports on these. Delegation to BTPSM 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, BTPSM has continued to monitor the potential impact on the Scheme's investments and funding position in relation to the UK's exit from the European Union. BTPSM 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 BTPSM 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 during the year was updated in September 2019. The latest Statement of Investment Principles, last revised in September 2020, is available at the following link **www.btpensions.net/information/investment**

Details on how the Trustee has implemented the SIP in relation to its stewardship activities are included in the responsible investment report beginning on page 21.

Measuring investment performance

The Trustee monitors investment performance against the Scheme's strategic investment objectives. Reports are provided regularly by BTPSM 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 are provided below:

	2020	2019	2018
Actual	9.9%	9.6%	3.3%
Real[1] – Adjusted RPI[2]	8.8%	6.7%	(0.1)%
Real[1] – Adjusted CPI[2]	9.3%	7.6%	0.9%

	3 years	5 years	10 years	15 years
Actual	7.6%	9.1%	8.3%	7.1%
Real[1] – Adjusted RPI[2]	5.1%	6.7%	5.5%	4.3%
Real[1] – Adjusted CPI[2]	5.9%	7.5%	6.3%	4.9%

[1] Scheme real adjusted equals Scheme actual less RPI and CPI respectively.
[2] Retail Prices Index (RPI) and Consumer Prices Index (CPI) are measures of UK inflation.

Investment review as at 30 June 2020

Market review

While it was already clear that the global economy was in the later stages of the economic cycle through 2019, nobody could have predicted at the start of this year that large parts of the global economy would be brought to an abrupt halt by the COVID-19 pandemic. Consequently, the debate moved from whether there will be a recession this year, to how deep and long it will be.

The spread of COVID-19 profoundly affected global markets in the first quarter of 2020. Equities suffered steep declines, falling over 20%, and government bond yields fell to all-time lows. Sterling also fell markedly in the 'risk-off' environment as investors rushed to safe-haven currencies such as the Japanese yen and US dollar.

This unprecedented shock triggered an unprecedented policy response. In the UK, the government committed to pay a significant portion of worker's wages during the shutdown to enable companies not to lay off staff despite the dramatic hit to sales. Substantial fiscal stimulus packages were agreed in key economies, including a $2 trillion package in the US, worth approximately 10% of GDP.

Central bankers also responded promptly, cutting interest rates and restarting and expanding asset purchase programmes. The US Federal Reserve's commitment to purchase as many government bonds as necessary should enable it to keep bond yields lower for longer. Moreover, the Federal Reserve's corporate credit programme should prove significant support to investment grade corporate bonds.

The lockdown measures successfully brought down the number of COVID-19 cases in major economies. Consequently, the three months to 30 June 2020 enjoyed a strong rebound in risky assets, including equities, on the back of enormous amounts of stimulus and the reopening of economies. The policy response also helped avoid the COVID-19 crisis developing into a liquidity crunch.

Funding and investment continued

As economies started to reopen, economic data has shown signs of a rebound. Leading indicators started to track higher and retail sales rose markedly in the US and UK, although these remain negative on a year-on-year basis. The ability to reopen economies has reduced fears of a prolonged recessionary spiral but the policy response remains critical going forward.

The depth and duration of this recession will in a large part depend on the extent to which governments continue to support individuals and companies, and continued support from central banks, to ensure that unemployment is prevented from spiralling higher and bankruptcies of otherwise sound businesses are prevented. In this vein, the Bank of England increased its quantitative easing programme by a further £100 billion, helping keep UK 10-year gilt yields at around 0.2% and put in place substantial lending programmes for small businesses.

However, the virus has not been fully contained, and a vaccine remains elusive. The number of new infections is rising again in the US, while several emerging markets, including India and much of Latin America struggle to reduce infection rates. Elsewhere, political risks remain, with the US election fast approaching, alongside escalating tensions between China and the rest of the world.

Having approved a Withdrawal Agreement, the UK formally left the EU on 31 January 2020 and immediately entered an 11-month transition period. During this period, the UK will maintain its trading relationship with the EU but no longer forms part of the EU's political institutions. Talks over the terms of the future UK-EU relationship have started and will intensify over the coming months, with a new free trade agreement being the priority.

For the year ending 30 June 2020 global equities were broadly flat despite the volatility through the period with MSCI World returning a modest 2.8%. However, UK equities remain down 13% over the period.

Oil was amongst the worst hit assets this year, declining 30%, as the sudden economic stop halted demand. In turn, this drove inflation lower, with UK headline inflation dropping to 0.6% year-on-year by the end of June 2020. UK 10-year bond yields declined 65 basis points to 0.8% given the ongoing recession and accommodative central bank policy. Sterling recovered some losses to end the period marginally weaker against the US dollar and euro.

Scheme investment performance

The objective of investing in risky or 'growth' assets, such as equities and property, is to produce an investment return that is expected to improve the funding position of the Scheme over time. At each triennial actuarial valuation of the Scheme, the Trustee works with the Scheme's advisors to estimate the long-term returns that can be expected from investments in growth assets (the expected return).

The objective of the liability hedging portfolio, which includes investment grade corporate bonds, index- linked gilts as well as inflation and interest rate derivatives, is to produce an investment return that offsets a proportion of the effect on the value of the Scheme's liabilities due to changes in the level of interest rates and inflation. We call this proportion the "hedge ratio". For example, if inflation expectations rise, so too does the value of index-linked gilts. This helps to offset the increase in the value today of the Scheme's liabilities. In addition, a measure of the degree to which pension payments are matched by asset cash flows, including coupon payments and principal repayments (the cash flow coverage ratio), is regularly monitored.

Funding and investment continued

The Trustee categorises the Scheme assets as being part of either the growth asset portfolio or the liability hedging portfolio. The Trustee would consider the Scheme's investment performance to be acceptable if growth asset performance is in line with, or better than, the expected return and the liability hedging portfolio has provided an effective match (or hedge) to the Scheme's liabilities.

Over the last 12 months, the Scheme's growth assets produced a return of 1.3%, which was below the expected return by 3.3%. Over the last 3 years the growth asset return was 4.8% per annum, which was ahead of expectations by 0.2% per annum.

Over the last 12 months, the liability hedging 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 83% and 75% respectively, to mitigate the effect of changes in interest rates and inflation expectations. This means that approximately 83% of any change to the Scheme's technical provisions due to changes in interest rates and approximately 75% 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 liability hedging 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 matching assets, including investment grade corporate and government bonds, is currently at 42% and is expected to increase over time as the Scheme matures.

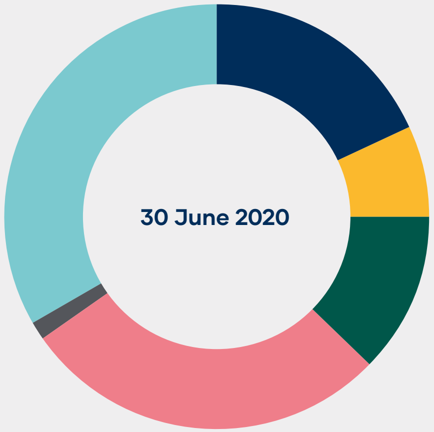
The Scheme has entered into a longevity insurance contract to protect the Scheme against costs associated with increased life expectancy of members. All else being equal, if members do not live for as long as expected, this will reduce the value of both the longevity insurance contract and the Scheme's liabilities, and this reduction in liabilities will more than offset the increased investment loss on the longevity insurance contract.
Conversely, if members live for longer than expected, this will increase the value of both the longevity insurance contract and the Scheme's liabilities, and this increase in liabilities will be only partially offset by the gain on the longevity insurance contract. In effect, the insurance contract reduces the range of outcomes in relation to life expectancy.

During the course of the year to 30 June 2020, the fair value of the longevity insurance contract has fallen by £108 million, to an investment liability of £1,034 million as at 30 June 2020. The change in value was primarily due to members not living for as long as expected.

The total Scheme return, combining the growth asset portfolio and the liability hedging portfolio, over the period since June 2017 was 7.6% per annum. This is ahead of the prudent investment return assumption adopted for the purposes of Scheme funding over the corresponding period. The relatively high Scheme return was in the main due to the strong investment returns generated over the period by the majority of financial markets. Despite this relatively high return, long-term interest rates fell over this period, increasing the value today of the Scheme's liabilities.
Over the past 12 months, the total Scheme return was 9.9%. The return over both the past year and over the last 3 years are well within the expected range taking into account the degree of investment risk within the Scheme's investment strategy.

Funding and investment continued

The distribution of investments



Equities	18.3%
Property	6.8%
Other growth assets	12.4%
Investment grade credit	27.9%
Secure income	1.4%
Government bonds and cash	33.2%

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 as at 30 June 2020 is shown in the chart 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 37.

The purpose of investing in growth assets is to produce an investment return that is expected to improve the funding position of the Scheme over time. The allocation to growth assets includes investments in equities, property and other growth assets.

The Trustee invests in the liability hedging portfolio to provide a hedge against changes in the value of pension liabilities resulting from changes in interest and inflation rates. Assets include investment grade corporate bonds, other less liquid assets providing a secure income and government bonds.

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.

BTPSM 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 subsidiary undertakings 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 2020, the total amount of employer-related investments held by the Scheme was £10 million (2019: £10 million), representing 0.02% (2019: 0.02%) of the Scheme's net assets. There were no properties occupied by BT owned by the Scheme at 30 June 2020 and 30 June 2019.

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. In its guidance, the Pensions Regulator recognises that innovative funding mechanisms of this kind may help employers meet their obligations to schemes. As the bonds are owned by Britel Scotland II LP, they do not amount to employer-related investments for the purposes of the relevant regulations. At 30 June 2020, the value of the BT bonds held by Britel Scotland II LP was £2,136 million (2019:£2,169 million) representing 3.7% of the Scheme's net assets (2019: 3.9%).

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 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 BTPSM, 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.

Responsible investment

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 Trustee has articulated its commitment to this with the following 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*". The implications of this statement in terms of governance, investment strategy, portfolio management and reporting are set out in the Responsible Investment Policy, which can be found at **https://www.btpensions.net/information/investment/responsible-investment**

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

The following report, including Appendix 1 'Climate change and TCDF Disclosure', includes details of how the Trustee has implemented policies in relation to stewardship as set out in the Statement of Investment Principles in force during the year, including a summary of voting activity and significant votes cast on behalf of the Trustee.

The day-to-day implementation of the responsible investment strategy has been delegated to BTPSM, with activity focused on the following three core areas:

1. Understanding the risks and opportunities that may face the Scheme 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 ensure companies consider long-term risks and opportunities, including those relating to environmental, social and governance matters, that contribute to long-term, sustainable value.

The Scheme also exercises its voting rights at annual meetings on key governance matters such as executive pay. More details are included in the equity voting section on the following page.

The Scheme has in place a number of mechanisms that provide a link between the Trustee and members. This includes having member nominated Trustee directors, an annual presentation by the Trustee Board and its

Funding and investment continued

advisers to BT's recognised trade unions and the National Federation of Occupational Pensioners (NFOP), and inviting feedback from members through regular newsletters.
In addition, in February 2020, the results of our member survey demonstrated that members expect BTPS to continue taking into consideration the ESG impact of its investments, and to use our investments to make a positive impact on the environment and society. This feedback was reflected when the Trustee Board updated its responsible investment mission statement earlier this year.

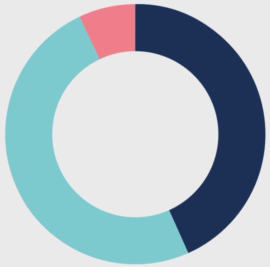
Stewardship highlights

During this year, we were pleased to see our fund managers engaging with companies and sovereign debt providers on a variety of different ESG topics.

Equity voting

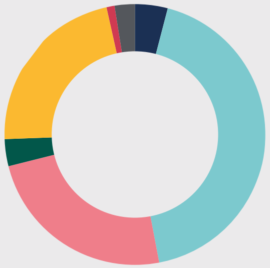
In respect of our listed equity investments, our four public equity investment managers make voting recommendations on our behalf. Management proposals to elect directors to the board and capital structure were the most voted against. Often, management proposals to elect board members can be opposed by investors due to concerns around board independence and quality, diversity, or conflicts of interest. Investors can also disagree with proposed capital structures, wishing to see the issuance of shares done more prudently to protect their shareholding. As shareholders can use their right to submit their own resolutions to encourage companies to take action on areas of concern, several key shareholder resolutions were filed on our behalf regarding other topics including climate change.

Page 78 discusses a key vote at a major oil company's AGM regarding climate change disclosure, whilst voting activity undertaken by our public equity investment managers on behalf of the Trustee during the year is detailed as follows:



'Investment manager 1' voted at **388** meetings over the last year

- Total meetings in favour **43.5%**
- Meetings against (or against AND abstain) **49.5%**
- Meetings with management by exemption **7.0%**



% of resolutions voted against management or abstained:

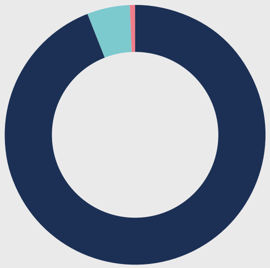
- Capital structure and dividends **4.0%**
- Board structure **43.1%**
- Remuneration **24.0%**
- Audit and accounts **3.3%**
- Shareholder resolution **21.9%**
- Amended articles **1.0%**
- Other **2.7%**

Topic: Remuneration and shareholder resolution voting, US clothing company
Engagement via: Hermes Fund Manager Limited

We supported 10 of the 11 directors standing for election and the auditor ratification. We opposed the advisory vote to ratify named executive officers' compensation. The company pays for two highly compensated executives, the executive chair and the CEO, without adequate disclosure of the long-term shareholder benefits of this above-market compensation practice. Effectively, the company is paying for two CEOs without disclosing why one is not sufficient.

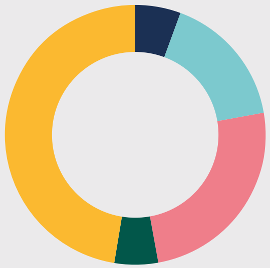
We also supported a shareholder resolution for a report on prison labour in the supply chain and another shareholder proposal for a report on human rights risk in operations and the supply chain. Both shareholder proposals would provide increased and valuable insight into the operation and supply chain risk without being unduly burdensome. We opposed a shareholder proposal for a report on gender, race or ethnicity pay equality, as we agreed with the company's rationale for opposing this proposal given its existing disclosures.

Funding and investment continued



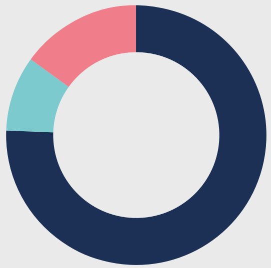
'Investment manager 2' voted at **609** meetings over the last year

- Total meetings in favour **94.1%**
- Meetings against (or against AND abstain) **5.3%**
- Meetings with management by exemption **0.6%**



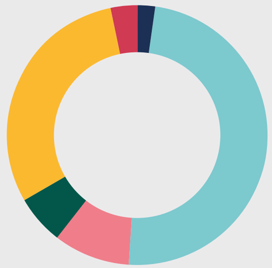
% of resolutions voted against management or abstained:

- Capital structure and dividends **5.6%**
- Board structure **16.7%**
- Remuneration **25.0%**
- Audit and accounts **5.6%**
- Shareholder resolution **47.1%**



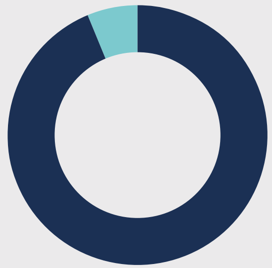
'Investment manager 3' voted at **381** meetings over the last year

- Total meetings in favour **75.6%**
- Meetings against **9.4%**
- Meetings abstained **15.0%**



% of resolutions voted against management or abstained:

- Capital structure and dividends **2.2%**
- Board structure **48.3%**
- Remuneration **9.7%**
- Audit and accounts **6.5%**
- Shareholder resolution **30.1%**
- Amended articles **3.2%**



'Investment manager 4' voted at **250** meetings over the last year

- Total meetings in favour **94.0%**
- Meetings against **6.0%**
- Meetings abstained **0.0%**

% of resolutions voted against management or abstained:

- Capital structure and dividends **0.0%**
- Board structure **0.0%**
- Remuneration **0.0%**
- Audit and accounts **0.0%**
- Shareholder resolution **100.0%**
- Amended articles **0.0%**

Funding and investment continued

Topic: Improving executive pay, US financial services company
Engagement via: Magellan Asset Management

Since 2015, Magellan has voted against the company's 'say-on-pay' due to the extensive use of stock options employed in the company's executive compensation framework. Each year, Magellan's Governance & Advisory team has sent a letter to the Chair of the Compensation Committee and has had multiple conference calls over the years with company representatives including the Chair of the Compensation Committee. The company noted that it considered stock options appropriate given the company's position as a growth company and that other shareholders had provided positive feedback on the use of these incentives. In 2019, the Governance & Advisory team recommended to the Lead Portfolio Manager to vote against all members of the Compensation Committee, as the extent of stock options remained the same, and sent a letter to the company outlining its intentions to vote against the say-on-pay and the members of the Compensation Committee. In 2020, the company amended its compensation framework to reduce the extent of stock options used. Its remuneration structure now sits within Magellan's threshold and the fund manager was able to support the company's 2020 say-on-pay.

Engagement

Significant engagement is undertaken in relation to our equity holdings across environmental, social, governance and strategic topics. However, our engagement activities are not limited to our equity holdings; we also use our investor influence in order to engage and drive change across our credit, property and infrastructure investments.

Topic: Improving human capital development in industrial technology, Dutch manufacturing company
Engagement via: EOS at Federated Hermes

We set an objective linked to the UN Sustainable Development Goals 5 and 8, encouraging the Company to evidence its reported focus on human capital development by establishing and disclosing group-level key performance indicators around internal promotions, as well as around employee turnover, gender diversity and investments in training and development. Over the twelve-month period we reached completion of milestone three through a positive call with the company's head of sustainability. Compared to two years ago when we first spoke, the company has a much better grasp on its human capital performance across the group. As a result, the group is now publishing KPIs on health and safety and absenteeism, as well as performance on diversity levels, within its annual report. We continue to engage on this topic and the company acknowledged there is more to do and a balance to keep striking between devolved responsibility and group centre policy.

Case studies

Funding and investment continued

Credit engagement activities

Although our credit fund managers do not have the ability to vote at company AGMs, engagement is still a key tool in driving change. The following case studies detail two examples of the engagement activities undertaken on our behalf by our credit investment managers.

Topic: Addressing physical climate change risks in national integrated energy
Engagement via: Wellington Management International

As part of a longstanding engagement practice, Wellington Management's Emerging Markets Debt (EMD) Team recently met with an integrated energy company in Argentina. This was to expressly discuss their progress toward their 2023 10% emission reduction goal, to address physical risks related to floods and drought, and to better understand recent management changes for the CEO, CFO, and the reporting line for the head of the sustainability programme. The team were encouraged by the company's progress toward the 2023 goal and that they are also considering proactively setting a 2025 goal as well, which will be monitored. The EMD Team also believes the company runs the risk of slipping behind their peers in the sector on factors such as scope 3 emissions and their energy transition strategy, so will monitor progress here closely as well. The company is committed to doing more on disclosure, which the Wellington team take as a positive sign.

Property engagement activities

Depending on where and how buildings are constructed, and who they serve, they can have significant impacts on local communities. Through Hermes Real Estate, our property investments target positive social and environmental outcomes alongside strong financial returns. Investments are focused on three impactful investment themes: meaningful placemaking; climate and resource efficiency; and health and wellbeing. In real life terms, this means assessing potential investments against a variety of factors including employment opportunities, labour-skills development or resource efficiency.

Topic: Improving energy efficiency while keeping service charges down, One Croydon
Engagement via: Hermes Real Estate

We installed a Collaborative Asset Performance Programme (CAPP) at the property, in collaboration with Carbon Credentials, in order to improve the central running systems and processes of the building. This programme has led to an 11% decrease in consumption year-on-year since Q1 2017. The team now have ongoing visibility over the opportunities for efficiencies and ongoing operational trends in building performance. The visibility has led to the implementation of several projects since the start of 2017 including lift control changes, toilet refurbishments, LED installation, Versatemp replacement and alteration to boiler sequencing. More projects are currently being planned to continue to drive reductions. Since its implementation, verified energy savings of 857,666 kWh have been achieved by the programme.

Case studies

Funding and investment continued

Infrastructure Engagement Activities

The public service nature of many infrastructure companies requires that the highest standards of ESG are adhered to. The increased scrutiny of private ownership in the sector and resulting legitimacy challenges have reinforced the focus on ESG factors. Privately owned infrastructure businesses delivering essential services must both honour their obligations under the "Social Contract" and positively engage with the reality that expectations under the Social Contract are continuously evolving.

More detail on the Scheme's engagement and proxy voting activity through Hermes EOS, including a record of voting decisions, can be found at **https://www.btpensions.net/assets/uploads/documents/Voting-and-engagement-reports/BT-Pension-Scheme-Voting-statistics-2020-Q2.pdf**

Topic: Pushing for greater sustainability reporting in gas networks, UK gas distribution network
Engagement via: Hermes Infrastructure

Hermes infrastructure actively engaged with the UK gas distributions network on their sustainable strategy and favoured participation in GRESB, an organisation that assesses and benchmarks the ESG performance of real assets.

Since acquisition, Hermes has actively engaged with the company on its approach to sustainability, including participation by our appointed non executive director on the company's Safety and Sustainability Committee, which has overseen an ambitious new strategy, including the publication of the company's first publicly available sustainability report in 2019. Through our engagement activities we promoted the company's participation in GRESB in 2019. The results have assisted in refining key areas of improvement to focus on and we look forward to engaging with the company to support the achievement of its objectives.

Emerging long-term risks

The Trustee monitors emerging long-term risks, including climate change, technology disruption, changing demographics and scarce resources. It is now widely acknowledged that climate change is a material investment risk. The Paris Agreement, which became effective on 4 November 2016, has set a goal of limiting global temperature increases to below 2°C, while pursuing efforts to limit the increase to 1.5°C. The Trustee recognises that climate change may have material adverse impacts on the Scheme, both due to physical risks and from risks arising from the global transition to a low-carbon economy. The Scheme has a climate and carbon risk management process in place and climate change is one of the principal risks monitored by the Trustee through both the Investment Committee and Scheme risk register.

The Scheme's approach to managing climate-related risks has evolved since it was first considered by the Trustee in 2007. The Scheme has benefited from its involvement with the PRI and the Institutional Investors Group on Climate Change (IIGCC) and the general improvement in the industry's understanding of the subject. The Scheme has also benefited from participating in studies undertaken by Mercer in 2011, 2015 and 2019 investigating the potential impact of climate change on investment returns[1]. Work also continues through ongoing engagements on the topic with Hermes EOS and the Scheme's fund managers, and the Scheme's sponsoring employer, BT, which has a goal of becoming a net zero carbon business by 2045 (**https://www.bt.com/about/digital-impact-and-sustainability/tackling-climate-change/the-road-to-net-zero**).

Footnotes
[1] Investing in a Time of Climate Change – The Sequel' (2019), https://www.mercer.com/our-thinking/wealth/climate-change-the-sequel.html

Funding and investment continued

Climate change and TCFD Disclosure

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 in order to improve understanding of the risks and opportunities of climate change.

Further details on our governance framework, strategy, and risk management approach in relation to climate-related risks are included in Appendix 1.

Other environmental, social and governance factors

Beyond climate change, the Scheme actively considers other factors affecting long-term value, as part of its commitments to responsible investment and stewardship. As noted, BTPSM ensures, where appropriate, that new and existing managers are properly integrating responsible investment into their investment processes. This means consideration is given to both risks and opportunities relating to ESG factors in most of the Scheme's active and passive mandates.

The Scheme influences the content of Hermes EOS' annually-refreshed Engagement Plan, which guides its engagement with companies on a wide range of topics, such as natural resource use, waste and packaging, human rights, bribery and corruption, business strategy and purpose and executive pay. In 2019, Hermes EOS engaged with 250 companies to promote positive change on these issues and many more.

Topic: Managing prison and forced labour risks in consumer goods supply chains, US retail company
Engagement via: EOS at Federated Hermes

We have engaged with a major US retailer on its approach to managing prison and forced labour risks in the lower tiers of its supply chain. The company has taken a number of steps to strengthen its policies on forced labour, including partnering with the Responsible Business Alliance, and currently has no prison labour in its supply chains on the basis of its audit findings. Any suppliers using it would be immediately escalated in its risk rating and investigated.

Looking forward

Responsible investment has always been at the heart of the Scheme's investment approach and, today, the importance of stewardship in investment has never been greater. Going forwards, the Scheme will continue to develop and deepen its activities in this area, expand on its vision for sustainable investment, use its position to influence for better policy and regulation, and continue to play its part in addressing climate change.

Report by the Trustee: **Member services**

Member services

BTPS Portal

Following the launch of our extended BTPS Portal in March 2019 a further 10,000 members registered in 2019/20.

Enhancing our online offering for members continues to be a key objective of ours, and some major improvements to our portal and website are due in 2021 as part of our move to a new administration platform.

Launch of the contact centre

In June 2019 we announced that, having brought the Member Services function in-house in May 2018, and as a direct response to member feedback, the BTPS Member Services team was centralised in one location with the contact centre moving from India to our Chesterfield office. The new contact centre went live on 1 July 2019 and feedback from our members shows that the move has been received very positively.

Member satisfaction survey

In February 2020 we carried out the second of our now annual member satisfaction surveys. The results showed a significant increase in member satisfaction over the year which we believe reflects the improvements we have made in our services to members since taking the administration in-house in 2018 and in particular our focus on improving member experience. We do recognise, however, that there are still further improvements we can make, and we hope that moving to our new administration system and continuing to focus on how we can better support and communicate with our members will bring further improvements in member satisfaction in future.

Data cleanse activities

Data quality has long been a focus of BTPS, and in the year to 30 June 2020 we made significant progress with our programme of data cleanse activity. We now believe we have the high-quality data needed to support our enhanced on-line self-service functionality and are also well placed to support the government's Pension Dashboard initiative in due course.

Looking forward

Transition to Intellipen

As part of the Scheme's commitment to providing first-class member service we will be implementing Procentia's IntelliPen system for the Scheme's member administration services in 2021.

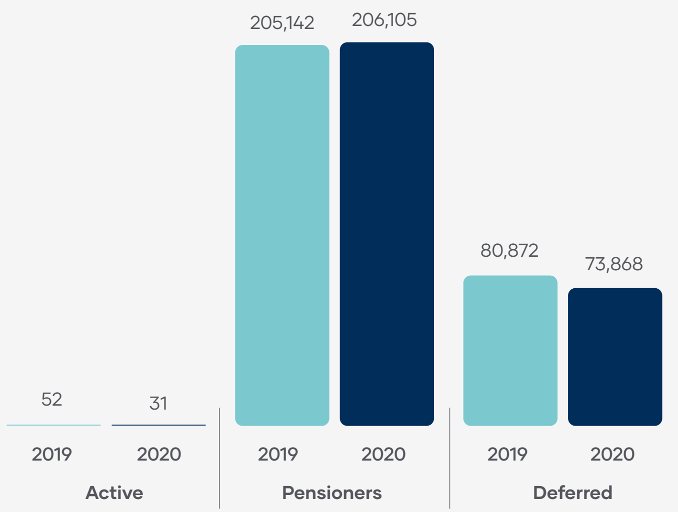
Member services continued

Membership

On 31 March 2001 the Scheme was closed to new entrants. On 30 June 2018 the Scheme was closed to future accrual for most members.

In the year to 30 June 2020, the number of active members fell from 52 to 31. The number of pensions being paid rose from 205,142 to 206,105. The number of members with deferred rights fell from 80,872 to 73,868.

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



* The Scheme closed to future accrual on 30 June 2018 for most members. All impacted members became deferred members, leaving an active population of 52 as at 30 June 2019.

Changes to membership

	30 June 2020	30 June 2019	30 June 2018
Membership			
Active members:	31	52*	28,670
Deferred members:	73,868	80,872	59,666
Current pensioners of whom:	206,105	205,142	203,542
Retired employees	170,701	169,628	167,977
Widows / widowers	33,419	33,516	33,487
Children/dependents	1,985	1,998	2,078
	Year ended 30 June 2020	**Year ended 30 June 2019**	**Year ended 30 June 2018**
Changes to membership			
Normal age retirements from active status	3	2	45
Ill health early retirements	53	47	60
Early retirement	3,707	3,713	3,629
Deferred benefits set up	16	28,613*	809
Normal age retirements from deferred status	2,192	2,284	2,256
Benefits transferred out and trivially commuted	666	588	547
Optants out	0	0	27
Death in service	0	1	44
Death in retirement	7,278	6,600	6,985
Death in deferment	96	115	62
Late retirement	33	32	32
Child leavers	16	71	23
New records set up			
Section B rejoiners	0	0	10
Widows, spouse, widowers, and dependents	1,913	1,869	1,815
Children	25	56	45
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 2020, the increase for Sections A and B pensions in payment was 1.7% and the increase for Section C pensions was 2.2%. 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 the regulation. Discretionary benefits are not included in the calculation of transfer values.

Other developments
In 2018, BT brought proceedings in the High Court challenging a decision taken by HM Treasury (HMT) relating to the method used to make increases to the GMP part of pensions in payment for certain public sector workers. The method chosen by HMT also meant that certain Section B members' pensions were also impacted. The High Court determined that the decision made by HMT was valid. The Court of Appeal granted BT permission to appeal this decision and the hearing took place in December 2019. The Court of Appeal dismissed BT's appeal in favour of HMT. As the Trustee has been paying these Section B members in line with the legislation since it was first introduced, this ruling means pension payments to Section B members will remain unchanged.

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 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 the Board met 8 times. 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 2.

Trustee policies

The Trustee understands that it needs to have policies and arrangements which ensure compliance with applicable laws and 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 Trustee's 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.

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

Governance of the Scheme
continued

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

Consistent with The Pensions Regulator's (TPR's) 'best practice' guidelines, a Trustee skills assessment exercise was undertaken in August 2019. The outcome of the assessment is that the BTPS Board and Committees have the right blend of skills and experience to fulfil their duties. In addition, further to an assessment of the Board as a collective, adjustments to meeting protocols have been adopted.

Trustee Knowledge and Understanding (TKU)

All of the Trustee Directors have the relevant skills and knowledge necessary to carry out their roles effectively. The Trustee Directors are required within six months of their appointment 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 regulator

The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes. BTPSM has worked closely 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. Although TPR suspended its one-to-one supervision activities due to COVID-19, we have kept TPR up-to-date with the steps we have taken to mitigate the risks posed by the COVID-19 pandemic to Scheme governance, member services, investment and risk management.

Internal control and risk management

The Trustee Board is responsible for the Scheme's internal controls and risk management. The responsibility for monitoring risks has been delegated to the relevant Committees, and BTPSM who, in turn, provides escalation and assurance on the management of risks to the respective Committees and the Board. Further information on BTPSM's risk management framework is included in the section 'About BTPSM' on page 12.

For the Trustee,

Otto Thoresen
30 September 2020

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 2020. 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 2020 can be observed.

		Reclassification					
Asset class	**Value per consolidated balance sheet £m**	**PIVs £m**	**Note**	**Other £m**	**Note**	**Managed value £m**	**Managed allocation %**
Equities	10,239	-		(10,239)	7	-	0.0%
Actively managed	-	582	1, 5	5,305	4,7,9	5,887	10.2%
Passively managed	-	87	1, 5	2,993	4,7,9	3,080	5.4%
Private equity	-	1,401	1, 5	153	9	1,554	2.7%
Equities	**10,239**	**2,070**		**(1,788)**		**10,521**	**18.3%**
Bonds	31,809	-		(31,809)	8	-	0.0%
Investment grade credit	-	977	1, 5	15,069	3,8,9	16,046	27.9%
Secure income	-	552	1, 5	245	3,8,9	797	1.4%
Government bonds and cash	-	1,530	1, 5	17,548	3,6,8,9	19,078	33.2%
Bonds, cash & secure income	**31,809**	**3,059**		**1,053**		**35,921**	**62.5%**
Property	**1,390**	**2,305**	**1, 5**	**202**	**5,9**	**3,897**	**6.8%**
Absolute return	-	1,271	1, 5	1	9	1,272	2.2%
Mature infrastructure	-	686	1, 5	622	9	1,308	2.3%
Non-core credit	-	3,020	1, 5	1,554	9	4,574	7.9%
Other growth assets	**-**	**4,977**		**2,177**		**7,154**	**12.4%**
Other categories							
PIVs	12,411	(12,411)	1, 5	-	9	-	0%
Loans	197	-		(197)	3	-	0%
Other net assets	1,447	-		(1,447)	2,9	-	0%
	57,493	**-**		**-**		**57,493**	**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, 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 have been reclassified between those that are actively and passively managed.
[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 2020 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 as set out on pages 44 to 71.

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 2020 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 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the trustees' 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. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

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 36, 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.

Independent auditor's report

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 fuller 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's Trustee, for our audit work, for this report, or for the opinions we have formed.

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

30 September 2020

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 Schedule of Contributions to the BT Pension Scheme (the "Scheme") in respect of the Scheme year ended 30 June 2020 which is set out on page 41.

In our opinion contributions for the Scheme year ended 30 June 2020 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 actuary on 9 May 2018.

Scope of work on statement about contributions

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 36, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions 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.

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

30 September 2020

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 prepared, maintained and from time-to-time revised a 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 below 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 2020. The Scheme's auditor reports on contributions payable under the Schedule, as shown in the "2020 per Schedule" column to the right, in their statement about contributions.

	2020 per Schedule £m	2020 additional £m	2020 total £m
Employers normal contributions	1	-	1
Employees' normal contributions	-	-	-
Employers' deficit funding contributions	400	-	400
Employers' other contributions	57	-	57
Employees' additional voluntary contributions	-	-	-
	458	**-**	**458**

Approved on behalf of the Trustee Board,

Otto Thoresen
Chair
30 September 2020

Consolidated fund account

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Contributions and benefits			
Employers' contributions	3	458	1,310
Employees' contributions	3	0	0
Total contributions		**458**	**1,310**
Benefits paid or payable	4	(2,524)	(2,479)
Payments to and on account of leavers	5	(215)	(129)
Administration expenses	6	(60)	(67)
Net withdrawals from dealing with members		**(2,341)**	**(1,365)**
Return on investments			
Investment income	8	998	1,080
Change in market value of investments	9	4,173	3,613
Investment management expenses	10	(95)	(89)
Interest payable		(7)	(4)
Taxation	11	11	12
Net returns on investments		**5,080**	**4,612**
Net increase in the Scheme during the year		**2,739**	**3,247**
Net assets of the Scheme			
At 1 July		54,754	51,507
At 30 June		**57,493**	**54,754**

The notes on pages 44 to 71 form part of these financial statements.

Consolidated statement of net assets
(Available for benefits)

As at 30 June 2020

	Notes	30 June 2020 £m	30 June 2019 £m
Investment assets			
Equities		10,239	11,428
Bonds		31,809	28,697
Property		1,390	1,608
Pooled investment vehicles	12	12,411	11,950
Loans		197	230
Derivatives	13	4,587	1,981
AVC investments	14	175	187
Deposits and short-term investments		1,600	113
Other investment assets	15	573	704
Total investment assets		**62,981**	**56,898**
Investment liabilities			
Derivatives	13	(1,795)	(1,004)
Longevity insurance contract	16	(1,034)	(926)
Other investment liabilities	17	(2,590)	(170)
Total investment liabilities		**(5,419)**	**(2,100)**
Total net investments		**57,562**	**54,798**
Current assets	20	137	104
Current liabilities	21	(206)	(148)
Net assets of the Scheme at 30 June		**57,493**	**54,754**

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 71 form part of these financial statements.

These financial statements were approved by the Trustee Board on 30 September 2020 and signed on their behalf by:

Otto Thoresen
Chair

Ben Marshall
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 risks include investment risks as described in the Report by the Trustee and note 19 of the financial statements, as well as operational risks.

The impact of the COVID-19 pandemic has been an increase in market uncertainty, along with an increase in the risk of disruption to the operational activities of the Scheme, its suppliers, and its counterparties. The impact of the pandemic has been considered when preparing this going concern assessment, including reviewing the cash flow forecasts of the Scheme, and the potential impact of increased market volatility on the Scheme's funding position, for a period of at least 12 months from the date of signing these financial statements. The Scheme has remained operationally resilient following the invocation of business continuity plans by BTPSM, its suppliers, and its counterparties. Consequently, the financial statements have been prepared on the going concern basis.

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, that consolidate subsidiaries which were set up for the operation of the Scheme or subsidiaries that are not held exclusively with a view to resale, in line with the requirements of FRS 102 and the Pensions SORP. Subsidiaries that are held exclusively with a view to resale, such as those held as part of the Scheme's investment portfolio, have not been consolidated and are held at fair value in the Consolidated statement of net assets.

Notes to the financial statements

Investments in subsidiary undertakings
A subsidiary undertaking is defined as an entity controlled by another entity. Control is defined as the power to govern the operating and financial policies of an entity to obtain benefits from its activities.

Under FRS 102, a subsidiary undertaking shall be excluded from consolidation and included at fair value where the investment is held exclusively with a view to subsequent resale. FRS 102's definition of "held exclusively with a view to subsequent resale" includes an interest which is held as part of an investment portfolio. An interest held as part of an investment portfolio is one where its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as a vehicle through which the investor carries out business.

A summary of subsidiary undertakings that are consolidated is included in the note 25 "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 set off 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 published or 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 Royal Institution of Chartered Surveyors ("RICS") Valuation – Global Standards 2017 including the International Valuation Standards and RICS Valuation – professional standards UK January 2014 (Revised April 2015) (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.

Futures 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.

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.

Notes to the financial statements

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 18 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.

In particular, the outbreak of COVID-19, declared by the World Health Organization as a 'global pandemic' in March 2020 has impacted global financial markets and the global economy. The unknown future impact that COVID-19 might have on the real estate market led to approximately 93% of the Scheme's property valuations to be reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty should be attached to the valuation than would normally be the case. The Scheme's property investment manager has implemented a portfolio strategy with the aim to mitigate the above stated real estate risk. By diversifying in regions, risk categories and tenants, it is expected to lower the risk profile of the portfolio. Further detail is provided in note 19 'Investment Risks'.

Notes to the financial statements

3. Contributions

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Employers' normal contributions	1	2
Employers' deficit funding contributions[1]	400	1,250
Employers' other contributions[2,3] (refer to note 6)	57	58
Employers' contributions	**458**	**1,310**
Employees' normal contributions	0	0
Employees' additional voluntary contributions	0	0
Employees' purchase of added years	0	0
Employees' contributions	**0**	**0**
Total contributions	**458**	**1,310**

[1] Deficit funding contributions are being paid by the employer into the Scheme for a period of twelve years in accordance with a recovery plan, in order to improve the Scheme's funding position. The amounts to be paid are disclosed in the Report by the Trustee.

[2] Employers' other contributions include reimbursement of the Pension Protection Fund levy ("PPF levy") in accordance with the Schedule of Contributions certified on 9 May 2018.

[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 2020 £m	Year ended 30 June 2019 £m
Pensions[4]	2,115	2,055
Commutations of pensions and lump sum retirement benefits	400	418
Lump sum death benefits	8	4
Taxation where lifetime or annual allowance exceeded[5]	1	2
	2,524	**2,479**

[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 £12 million on the arrangement during the year (2019: Realised loss of £10 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 £8 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 twenty six cases in respect of lifetime allowances amounting to £0.670 million (2019: thirty nine cases amounting to £1.605 million), and six cases in respect of annual allowances amounting to £0.091 million (2019: twelve cases amounting to £0.181 million).

Notes to the financial statements

5. Payments to and on account of leavers

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Individual transfers in	38	2
Group transfers in	2	-
Individual transfers out	(255)	(131)
	(215)	**(129)**

6. Administration expenses

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Net PPF levy and associated costs (refer to note 3)	28	26
Administration expenses[6]	32	41
	60	**67**

[6] Administration expenses include pensions administration expenses, actuary fees, custody fees, legal fees, other professional fees, and includes £0.6 million of expenses in respect to related party transactions (2019: £0.6 million). Refer to note 23 "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 2020 £k	Year ended 30 June 2019 £k
Fees payable to the Scheme auditor for audit of the Scheme financial statements	343	290
Fees payable to the Scheme auditor for audit of the Scheme subsidiaries pursuant to legislation	1,061	998
Total audit fees	**1,404**	**1,288**
Audit related assurance services	-	-
Taxation compliance services	-	-
Other assurance services	-	-
All other services	-	-
Total non-audit fees	**-**	**-**
Fees payable to the Scheme's auditor in respect of associated pension scheme	21	16
	1,425	**1,304**

Remuneration payable to other audit firms

Remuneration paid to other audit firms relates to the audit and non-audit fees payable by the Scheme and it's subsidiaries to audit firms other than KPMG LLP.

	Year ended 30 June 2020 £k	Year ended 30 June 2019 £k
Audit fees	1,126	958
Non-audit fees	4,025	6,557
	5,151	**7,515**

Notes to the financial statements

8. Investment income

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Dividends from equities	202	251
Income from bonds[8]	562	556
Net rental income from properties[9]	61	55
Income from pooled investment vehicles	55	105
Derivatives	125	103
Longevity insurance contract	(30)	(30)
Interest on deposits and short-term investments	23	40
	998	**1,080**

[8] Refer to note 23 "Related party transactions" for further information.

[9] Net rental income from properties is stated after deducting £20 million of property related expenses (2019: £22 million).

9. Reconciliation of investments

	Market value at 30 June 2019, £m	Net investment / (disinvestment), £m	Change in market value, £m	Market value at 30 June 2020, £m
Investment assets/(liabilities)				
Equities	11,428	(1,687)	498	10,239
Bonds	28,697	421	2,691	31,809
Property	1,608	(155)	(63)	1,390
Pooled investment vehicles	11,950	562	(101)	12,411
Loans	230	(21)	(12)	197
Derivatives[10]	977	480	1,335	2,792
AVC investments	187	(3)	(9)	175
Longevity insurance contract	(926)	–	(108)	(1,034)
	54,151	**(403)**	**4,231**	**57,979**
Deposits and short-term investments	113		39	1,600
Other investment assets/(liabilities)	534		(97)	(2,017)
	54,798		**4,173**	**57,562**

[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	7,005	(8,692)	(1,687)
Bonds	8,841	(8,420)	421
Property	58	(213)	(155)
Pooled investment vehicles	1,026	(464)	562
Loans	–	(21)	(21)
Derivatives[10]	5,181	(4,701)	480
AVC investments	–	(3)	(3)
Longevity insurance contract	–	–	–
	22,111	**(22,514)**	**(403)**

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 £10 million and includes fees, commissions and taxes (2019: £12 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 2020	Transaction costs				
	Fees £m	Commissions £m	Taxes £m	Other £m	Total £m
Investment assets / liabilities					
Equities	–	4	4	–	8
Bonds	–	–	–	–	–
Property	–	1	–	–	1
Pooled investment vehicles	–	–	–	–	–
Derivatives	–	1	–	–	1
	–	**6**	**4**	**–**	**10**

Notes to the financial statements

Year ended 30 June 2019	Transaction costs Fees £m	Commissions £m	Taxes £m	Other £m	Total £m
Investment assets / liabilities					
Equities	–	4	3	–	7
Bonds	–	–	–	–	–
Property	–	1	–	–	1
Pooled investment vehicles	1	2	–	–	3
Derivatives	–	1	–	–	1
	1	**8**	**3**	**-**	**12**

10. Investment management expenses

	Year ended 30 June 2020 £m	Year ended 30 June 2019 £m
Investment management expenses[11]	95	89
	95	**89**

[11] Investment management expenses include £28 million of expenses to operate BT Pension Scheme Management Limited (2019: £22 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 and therefore does not fall under the specific exemption and will be assessed to 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 2020 £m	30 June 2019 £m
Equities	116	126
Bonds	977	434
Hedge funds	5,438	4,566
Liquidity funds	1,530	2,306
Mature infrastructure	686	605
Private equity	1,359	1,399
Property	2,305	2,514
	12,411	**11,950**

Included within pooled investment vehicles are certain investments where legal or contractual restrictions can limit the timing of redemptions. This is a characteristic of the investments which is considered as part of the initial investment decision making process, and these restrictions are actively monitored on an ongoing basis.

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 2020 £m	30 June 2019 £m
Futures	2	6
Options	154	78
Swaps	4,299	1,808
Forward foreign exchange	132	89
	4,587	**1,981**

Liabilities	30 June 2020 £m	30 June 2019 £m
Futures	(27)	(68)
Options	(14)	(3)
Swaps	(1,531)	(713)
Forward foreign exchange	(223)	(220)
	(1,795)	**(1,004)**

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 (2019: all contracts settle in less than one year). As at 30 June 2020 the Scheme provided cash collateral of £174 million on futures contracts (2019: Scheme held cash collateral of £71 million on futures contracts).

Futures	30 June 2020				30 June 2019			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Equities	-	(1,742)	1	(4)	-	(1,085)	-	(25)
Fixed interest	266	(1,125)	1	(6)	487	(1,311)	6	(16)
	266	**(2,867)**	**2**	**(10)**	**487**	**(2,396)**	**6**	**(41)**
Over the counter								
Fixed interest	-	(13)	-	(17)	-	(31)	-	(27)
	-	**(13)**	-	**(17)**	-	(31)	-	**(27)**
	266	**(2,880)**	**2**	**(27)**	**487**	**(2,427)**	**6**	**(68)**

Notional amount of outstanding contracts represents the value of underlying securities protected by the purchased options. All of the contracts settle within sixteen years (2019: all of the contracts settle within thirty years).

Options	30 June 2020				30 June 2019			
	Exposure				Exposure			
Type of contract	Long £m	Short £m	Asset £m	Liability £m	Long £m	Short £m	Asset £m	Liability £m
Exchange traded								
Currency	-	-	-	-	86	-	2	-
Equities	2,217	(806)	62	(10)	1,999	(19)	23	-
	2,217	**(806)**	**62**	**(10)**	**2,085**	**(19)**	**25**	**-**
Over the counter								
Currency	1,150	-	-	(4)	691	-	-	(3)
Interest rate swaptions	5,480	(1,440)	92	-	7,134	(2,225)	53	-
	6,630	**(1,440)**	**92**	**(4)**	**7,825**	**(2,225)**	**53**	**(3)**
	8,847	**(2,246)**	**154**	**(14)**	**9,910**	**(2,244)**	**78**	**(3)**

Notes to the financial statements

Swaps	30 June 2020					
Type of contract	Expiration	Nature of swap	Notional Long £m	Notional Short £m	Asset £m	Liability £m
Equity total return	<3 years	Common stock	7,255	–	3	(107)
Interest rate	<50 years	Fixed for floating & floating for fixed	30,041	(4,870)	3,790	(2)
Inflation	<49 years	Coupon for floating	13,559	(152)	1	(1,421)
Bond total return	<4 years	UK Government bonds	1,757	(96)	496	–
Credit default	<10 years	Itraxx Europe	263	(72)	9	(1)
			52,875	**(5,190)**	**4,299**	**(1,531)**

Swaps	30 June 2019					
Type of contract	Expiration	Nature of swap	Notional Long £m	Notional Short £m	Asset £m	Liability £m
Equity total return	<1 year	Common stock	11,564	–	4	(91)
Interest rate	<50 years	Fixed for floating & floating for fixed	32,839	(286)	1,577	(15)
Inflation	<50 years	Coupon for floating	9,108	–	1	(604)
Bond total return	<4 years	UK Government bonds	1,699	–	219	–
Credit default	<3 years	Itraxx Europe	305	(99)	7	(3)
			55,515	**(385)**	**1,808**	**(713)**

The Scheme held cash collateral of £2,349 million, received pledged bond collateral of £512 million, and it pledged bond collateral of £2,161 million on swap contracts and the longevity insurance contract (2019: the Scheme provided cash collateral of £1,098 million, received pledged bond collateral of £114 million and it pledged bond collateral of £1,667 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.

Notes to the financial statements

Forward foreign exchange							
Currency		30 June 2020			30 June 2019		
Bought	Sold	Notional £m	Asset £m	Liability £m	Notional £m	Asset £m	Liability £m
GBP	USD	16,049	99	(151)	13,497	43	(126)
GBP	EUR	1,133	-	(31)	1,227	-	(39)
GBP	Other	630	3	(12)	1,125	1	(33)
USD	Other	2,174	9	(10)	3,819	2	(20)
Other	Other	1,651	21	(19)	3,461	43	(2)
		21,637	**132**	**(223)**	**23,129**	**89**	**(220)**

All of the contracts settle in less than one year (2019: 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 Utmost Life and Pensions, Standard Life Assurance Company, BlackRock Investment Management (UK) Limited and Legal & General Investment Management Limited. 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 2020 £m	30 June 2019 £m
At start of year	187	225
Net withdrawals by members	(3)	(36)
Change in market value of investments	(9)	(2)
At end of year	**175**	**187**

Notes to the financial statements

15. Other investment assets

	30 June 2020 £m	30 June 2019 £m
Accrued investment income	165	184
Amounts due from brokers	118	389
Margin deposits - initial	159	40
Margin deposits - variation	15	31
Repurchase agreements	58	-
Other[12]	58	60
	573	**704**

The Scheme pledged bond collateral of £87 million in respect to repurchase agreements, and received pledged bond collateral of £29 million in respect to reverse repurchase arrangements.

[12] Relates to pension surplus on the Hermes Group Pension Scheme valued in accordance with FRS 102. Refer to note 23 '"Related party transactions" for further information.

16. Longevity insurance contract

	30 June 2020 £m	30 June 2019 £m
Longevity insurance contract[13]	1,034	926
	1,034	**926**

[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.

17. Other investment liabilities

	30 June 2020 £m	30 June 2019 £m
Amounts due to brokers	227	155
Deferred income	14	15
Margin deposits - initial	-	-
Margin deposits - variation	2,349	-
	2,590	**170**

Notes to the financial statements

18. 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.

For certain types of investments, the market uncertainty arising as a result of the COVID-19 pandemic increases the level of judgement required in the measurement of fair value. These typically include investments where the valuation approach is based on modeling expected future cashflows to be received from the investment, and are categorised as Level 3 under the fair valuation hierarchy. The valuation policy for each type of Scheme investment is disclosed in Note 2 of the financial statements. As at 30 June 2020, there is additional risk to the measurement of the fair value of the Scheme's property investments due to the market uncertainty arising as a result of the COVID-19 pandemic. This risk comprises potential variation in the yields that the market attributes to the real estate investments and the market income that may be earned.

30 June 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	9,469	-	770	10,239
Bonds	17,376	13,247	1,186	31,809
Property	-	-	1,390	1,390
Pooled investment vehicles	-	4,322	8,089	12,411
Loans	-	197	-	197
Derivatives[10]	44	2,748	-	2,792
AVC investments	-	175	-	175
Longevity insurance contract	-	-	(1,034)	(1,034)
Deposits and short term investments	1,600	-	-	1,600
Other investment assets/(liabilities)	(2,075)		58	(2,017)
	26,414	**20,689**	**10,459**	**57,562**

30 June 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Equities	10,671	13	744	11,428
Bonds	14,188	13,196	1,313	28,697
Property	-	-	1,608	1,608
Pooled investment vehicles	-	4,188	7,762	11,950
Loans	-	230	-	230
Derivatives[10]	(10)	987	-	977
AVC investments	160	27	-	187
Longevity insurance contract	-	-	(926)	(926)
Deposits and short term investments	113	-	-	113
Other investment assets/(liabilities)	474	-	60	534
	25,596	**18,641**	**10,561**	**54,798**

Notes to the financial statements

Further detail on the sensitivity of the Scheme's property investments to variations in these yields is included in note 19 'Investment Risks'.

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

	Fair valuation, £m			
Level 2	30 June 2020 £m	30 June 2019 £m	Valuation technique	Significant assumptions
Equities	–	13	IPEVC guidelines	Discount rate, earnings assumptions
Bonds	13,247	13,196	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Pooled investment vehicles	4,322	4,188	Published net asset values	Redemption discount
Loans	197	230	Amortised cost	Discount rate, credit risk
Derivatives	2,748	987	Forward rates, yield curves	Cost of carry, yield curves
AVC investments	175	27	Published net asset values	Redemption discount
	20,689	**18,641**		

	Fair valuation			
Level 3	30 June 2020 £m	30 June 2019 £m	Valuation technique	Significant assumptions
Equities	770	744	IPEVC guidelines	Discount rate, earnings assumptions
Bonds	1,186	1,313	Evaluated pricing models, broker quotes	Credit risk, market risk, yield curves
Property	1,390	1,608	RICS guidelines	Rental yields, occupancy rates
Pooled investment vehicles	8,089	7,762	Published net asset values	Redemption discount
Longevity insurance contract	(1,034)	(926)	Discounted cashflow	Discount rate, cashflow profile, actuarial assumptions
Other investment assets	58	60	Projected unit method	Discount rate, inflation rate, salary increases, mortality assumptions
	10,459	**10,561**		

Notes to the financial statements

19. 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 BTPSM 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.

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 projected cash requirements of the Scheme. Expected liquidity requirements have been reviewed and updated in the year to reflect the increased market volatility arising as a result of the COVID-19 pandemic.

Notes to the financial statements

19. 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 2020, £m**	**30 June 2019, £m**
Equities	○	◐	●	10,239	11,428
Bonds	●	◐	○	31,809	28,697
Property	○	◐	●	1,390	1,608
Pooled investment vehicles	◐	◐	●	12,411	11,950
Loans	●	◐	○	197	230
Derivatives	●	◐	◐	2,792	977
AVC investments	◐	◐	●	175	187
Longevity insurance contract	◐	○	●	(1,034)	(926)
Deposits and short term investments	●	◐	○	1,600	113
Other investment assets/(liabilities)	◐	◐	◐	(2,017)	534
				57,562	**54,798**

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

19. Investment risks

As described in note 2, the Scheme's property portfolio is subject to additional uncertainty as at 30 June 2020, as a result of the impact of COVID-19 on the real estate market.

Therefore, the following sensitivity analysis has been prepared for investment properties, illustrating the impact of a reasonable range of changes to significant unobservable inputs on the valuation calculation. These inputs, net initial yield (NIY) and estimated rental value (ERV), reflect the estimated future rental income receivable on property investments. NIY reflects the rental income earned by a property as a percentage of the property valuation. Therefore, all else being equal, property values are expected to increase as NIY decreases. ERV reflects the open market rental income a property is reasonably expected to earn. Therefore, all else being equal, property values are expected to decrease as ERV decreases.

	-0.50% NIY	-0.25% NIY	+0.25% NIY	+0.50% NIY	-5.00% ERV	+5.00% ERV
Increase / (decrease) in the value of property investments as at 30 June 2020, £m	188	84	(86)	(155)	(59)	49

Credit risk

The Scheme is subject to direct credit risk as it invests in bonds, pooled investment vehicles, loans, over-the-counter derivatives, 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 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 2020	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	28,002	998	2,809	31,809
Pooled investment vehicles	-	-	12,411	12,411
Loans	-	-	197	197
OTC Derivatives	2,748	-	-	2,748
Deposits and short term investments	1,600	-	-	1,600
Gross exposure	**32,350**	**998**	**15,417**	**48,765**
Credit derivatives (notional amount of contracts)	(191)	-	-	(191)
Net exposure	**32,159**	**998**	**15,417**	**48,574**
Indirect exposure				
Bonds	19	139	57	215
Pooled investment vehicles	-	-	1,271	1,271
Loans	7	175	1,386	1,568
OTC Derivatives	(15)	-	-	(15)
Deposits and short term investments	-	-	-	-
Gross exposure	**11**	**314**	**2,714**	**3,039**
Credit derivatives (notional amount of contracts)	(62)	-	-	(62)
Net exposure	**(51)**	**314**	**2,714**	**2,977**

Notes to the financial statements

30 June 2019	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Direct exposure				
Bonds	24,800	1,136	2,761	28,697
Pooled investment vehicles	-	-	11,950	11,950
Loans	-	-	230	230
OTC Derivatives	987	-	-	987
Deposits and short term investments	113	-	-	113
Gross exposure	**25,900**	**1,136**	**14,941**	**41,977**
Credit derivatives (notional amount of contracts)	(206)	-	-	(206)
Net exposure	**25,694**	**1,136**	**14,941**	**41,771**
Indirect exposure				
Bonds	(13)	134	133	254
Pooled investment vehicles	-	-	1,221	1,221
Loans	3	109	1,110	1,222
OTC Derivatives	(12)	-	-	(12)
Deposits and short term investments	-	-	-	-
Gross exposure	**(22)**	**243**	**2,464**	**2,685**
Credit derivatives (notional amount of contracts)	(60)	-	-	(60)
Net exposure	**(82)**	**243**	**2,464**	**2,625**

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

20. Current assets

	30 June 2020 £m	30 June 2019 £m
Employers' contributions due	-	-
Employees' contributions due	-	-
Other debtors	134	99
Bank balances	3	5
	137	**104**

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.

21. Current liabilities

	30 June 2020 £m	30 June 2019 £m
Accrued benefits	62	52
Other creditors	144	96
	206	**148**

22. Securities lending

No securities were on loan as at 30 June 2020 (30 June 2019: none).

23. 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. The compensation of key management personnel is detailed in the table overleaf.

Notes to the financial statements

23. Related party transactions and balances continued

Further to the amounts disclosed opposite, the following Trustee Directors received additional compensation from other group entities: in the year to 30 June 2019, the Law Debenture Pension Trust Corporation plc (represented by David Felder) served as a non-executive director of BTPSM and received £7,813. Emily Cark and David Viles received no fees as they are employed by BT.

Two Trustee Directors were members of the Scheme at 30 June 2020 (2019: three).

Employer-related transactions
Hermes GPE FRWL Holdco Limited ("Holdco") 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, the 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.

	Year ended 30 June 2020 £k	Year ended 30 June 2019 £k
Otto Thoresen	150	63
Paul Spencer CBE (resigned 14 February 2019)	0	153
Adrian Askew (resigned 28 February 2019)	0	23
Emily Clark (appointed 1 April 2020)	0	0
Nigel Cotgrove (appointed 1 April 2020)	8	0
The Law Debenture Society (represented by David Felder)	75	72
Andrew Kerr	27	9
Ben Marshall	36	31
Billy McClory (resigned 31 March 2020)	30	40
Jim McInally (resigned 31 March 2020)	47	62
Keith Nichols	91	83
Beryl Shepherd	35	32
David Viles (appointed 1 April 2020)	0	0
John Wroe (resigned 31 March 2020)	61	82
	560	**650**

Notes to the financial statements

23. Related party transactions and balances continued

Self-investments designated as employer-related investments
As at 30 June 2020 the Scheme held £0 million in BT ordinary shares (2019: £0 million) and £10 million in BT index-linked investments (2019: £10 million). The total amount of employer-related investments represent 0.02% of the net assets of the Scheme (2019: 0.02%). As at 30 June 2020 there were no properties occupied by BT owned by the Scheme (2019: 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 2020, the notional amount of these bonds held was £1,777 million (2019: £1,977 million), and these investments were valued at £2,136 million (2019: £2,169 million) and represent 3.7% of the net assets of the Scheme (2019: 3.9%). These bonds are held by Britel Scotland II LP, and therefore are not employer-related investments for the purposes of the relevant regulations.

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 2020 amounted to £58 million (2019: £60 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

23. Related party transactions and balances continued

Hermes Group Pension Scheme	30 June 2020 £m	30 June 2019 £m
Scheme assets	279	251
Scheme liabilities	(221)	(191)
	58	**60**

In the year to 30 June 2019, HGPS received £2 million in employer contributions per the Schedule of Contributions. No contributions were paid or due from December 2018.

24. Commitments and contingent liabilities

	30 June 2020 £m	30 June 2019 £m
Property	185	151
Calls on partly paid shares and underwriting commitments	2,444	2,790
	2,629	**2,941**

Notes to the financial statements

25. Subsidiary undertakings

Subsidiary undertaking	Principal activity	Holding	Ownership %	
			30 June 2020	30 June 2019
Subsidiary undertakings presented on a consolidated basis				
BT Pension Scheme Management Limited[14]	Primary service provider to BTPS	Ordinary shares	100	100
BT Pension Scheme Administration Limited[14]	Pension administration	Ordinary shares	100	100
Procentia Limited[14]	Pensions technology	Ordinary shares	75	–
BTPS Insurance ICC Limited[15]	Longevity insurance	Ordinary shares	100	100
BTPS (No.1) IC Limited[15]	Longevity insurance	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	100	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
Vista 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	100	100
Hermes One Centenary Way L.P.	Property investment and development	Partnership capital	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	Property investment and development	Units	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 PEC 1 L.P.[16]	Investment in private equity	Partnership capital	–	100
Hermes GPE FRWL Holdco Limited.[14]	Investment in private equity	Ordinary shares	93	93
Hermes GPE Horizon L.P.[16]	Investment in private equity	Partnership capital	100	100
Hermes GPE Horizon II L.P.[16]	Investment in private equity	Partnership capital	100	100
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	100	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.

The fair value of net assets of subsidiary undertakings that are not consolidated by the Scheme in aggregate amounted to £4,581 million (2019: £6,320 million). This comprised of £4,774 million of assets and £193 million of liabilities (2019: £6,606 million of assets and £286 million of liabilities).

26. Subsequent events

There were no 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 made as at 30 June 2017.

The main purposes of an actuarial valuation include:

- determining whether or not the assets already held by the Trustee are sufficient to finance the prospective benefit entitlements of current and former members, to the extent that they relate to pensionable service completed prior to the valuation date; and
- assessing the future level of contributions required, having regard to both the cost of the benefits which will accrue to members after the valuation date and to any past service surplus or shortfall revealed by the valuation.

An actuarial valuation requires assumptions to be made about future financial and demographic conditions.

A summary of the results of the actuarial valuation as at 30 June 2017 is in the table to the right, together with the assumptions used.

BT Pension Scheme	30 June 2017
Assets - £million	49,344
Liabilities - £million	60,639
Deficit - £million	11,295
Funding level	81.4%
Average discount rate in excess of RPI (per annum)	-0.8%
Average RPI inflation (per annum)	3.4%
CPI inflation (long term) (per annum)	2.4%
Life expectancy (age at death)	
Average male pensioner age 65	87.4
Average female pensioner age 65	88.9
Average male pensioner at 65 (age 45 now)	89.1
Average female pensioner at 65 (age 45 now)	90.8

The above discount rate is a Scheme average; the full assumption allows for a transition from return seeking assets to liability matching 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.

The valuation of the Scheme as a continuing scheme revealed a past service deficiency of £11,295 million. The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions in order to return the Scheme to a fully funded position by 31 March 2030. Deficit contributions of £850 million and £2,000 million were paid in March 2018 and June 2018 respectively, with a further contribution of £1,250 million in June 2019 and £400m in June 2020. Details of the other deficit contributions due are documented in the Schedule of Contributions.

Actuary's statement and report on actuarial liabilities

In addition to these deficit contributions, BT agreed to pay contributions in respect 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 October 2018, the High Court ruled in a case involving the Lloyds Banking Group defined benefit schemes that it is necessary to equalise Guaranteed Minimum Pensions (GMPs) built up between 17 May 1990 and 5 April 1997 between men and women. No allowance for the potential impact of GMP equalisation has been included in the table. It is recognised that GMP equalisation has the potential to increase the liabilities at future valuation dates, and this will be considered further as part of the 2020 actuarial valuation.

The calculation of the past service deficiency for the 2017 valuation assumed that the Scheme will continue and no allowance was made for the cessation of benefit accrued for most members of the Scheme with effect from 30 June 2018. The financial effect of the cessation of benefit accrual was considered as part of the funding update at 30 June 2018, and did not have a material impact on the funding position of the Scheme.

An Actuarial Report was prepared as at 30 June 2019, providing a formal update on the funding position, which revealed that the past service deficiency had decreased to £7,751 million (the impact of GMP equalisation has not been allowed for in the calculation of this figure but is expected to modestly increase the liabilities). The Scheme's financial position and the level of BT's contributions will formally be reviewed in full as part of an actuarial valuation which is due to be completed by no later than 30 September 2021.

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 large size 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.

Michael Pardoe FIA
Towers Watson Limited (a Willis Towers Watson Company)
30 September 2020

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 2017 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 9 May 2018.

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: 9 May 2018
Name: Michael Pardoe
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 2017 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 9 May 2018.

Michael Pardoe
Fellow of the Institute and Faculty of Actuaries, Towers Watson Limited, a Willis Towers Watson Company

9 May 2018

Watson House
London Road
Reigate
Surrey
RH2 9PQ

Appendix one: Climate change and TCFD Disclosure

Climate change and TCFD Disclosure

Climate change is a complex issue with challenges around data and reporting. As such, 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 in order to improve understanding of the risks and opportunities of climate change[1]. The Scheme has reported in line with the TCFD recommendations since 2018.

Governance

The Trustee Board has ultimate authority for all aspects of the management and strategy of the Scheme. The responsibility for monitoring climate-related risks has been delegated to the Investment Committee.

The Trustee undertakes separate annual reviews of the Scheme's Responsible Investment Policy and climate and carbon risk management process, as well as the stewardship and policy activity undertaken on behalf of the Scheme, related to climate change. This is to ensure the climate and carbon risk management process remains fit-for-purpose and to incorporate any developments in best practice.

Day-to-day implementation and monitoring is undertaken by BTPSM. Not only is climate change discussed within the Investment Committee, but also within BTPSM's Legal and Regulatory Change working group, which reports to the BTPSM Board and is responsible for monitoring relevant legal and regulatory changes, including those related to climate change.

Strategy

Addressing climate change is part of the Scheme's broader responsible investment strategy. The Scheme's risk register has identified climate change as a risk that may have a material adverse impact due to transition and physical risks. Transition risks include changes in climate and energy policies, such as a shift to low-carbon technologies and liability issues, potentially leaving heavy emitters unprofitable. Physical risks such as flooding, extreme heat and wild fires can impact water availability, food security, supply chains and employee safety, and, as such, a company or country's financial stability. These risks are considered relevant over all time horizons. Transition risks are likely to be most relevant over short and medium-term horizons. Physical risks are relevant for all time horizons, although their impact is expected to increase over time as climate conditions become increasingly volatile.

Risk management

The Scheme has a climate and carbon risk management process, which includes the following steps:

Risk register

Climate risk is monitored as part of the regular review of the Investment Committee risk register. Controls include ongoing monitoring by BTPSM of climate and carbon risk (with high risk exposures and incidents reported to the Investment Committee), an annual performance review of the Scheme comparing outcomes against expectations and investment beliefs, and regular asset class deep dives that include coverage of responsible investment and climate risk. An assessment of the Scheme's exposures to high and low carbon assets and to physical risks is also conducted.

Scenario analysis

The Scheme continues to develop its quantitative and qualitative scenario tools to help understand the potential implications to the Scheme's assets from shifts in politics, energy, economics and society in response to the risks from climate change. For a number of years, BTPS has worked with Mercer on scenario analysis to help determine the impact of different global warming scenarios on the Scheme's assets. More recently, work with other specialists in climate risk modelling has helped us understand which investments are most exposed to climate change risk, including the transition risk to a low carbon economy, and physical risk associated with changing weather patterns. Moreover, part of this work also highlights opportunities the Scheme can seek to exploit or existing investments that will benefit from the global transition to reduce emissions.

Additionally, work has been undertaken to consider the implications of climate change on the future expected returns of asset classes in which the Scheme invests. Again, this leverages external research undertaken by investment managers which we have relationships with.

Whilst much of the research is at an early stage, it all contributes to forming a more holistic perspective on the potential climate risks and opportunities the Scheme is exposed to. Having a broad mosaic of analysis is important given the wide range of outcomes associated with climate change and huge uncertainty over its future path. We will continue to broaden and deepen our work in this area.

Footnotes

[1] https://www.fsb-tcfd.org

Appendix one: Climate change and TCFD Disclosure

Manage risk and opportunity
As part of its integrated approach to responsible investment, the Scheme undertakes three core strategies to help mitigate the impact of significant long-term risks on Scheme assets:

1. Integrating ESG factors into mandates
BTPSM ensures, where appropriate, that new and existing managers are properly integrating responsible investment into their investment processes. This forms a critical component of our assessment and rating of investment managers. Approaches differ depending on whether the implementation is passive or actively managed. Our passive investments apply ESG filters that either favour higher ESG rated companies or screen out lower ESG rated companies

Over the past few years we have developed and improved how active managers are assessed. The initial selection process focuses on 3 key factors:

(i) How ESG is integrated into their investment strategy and approach,
(ii) If that ESG approach is consistent with their overall investment strategy, and
(iii) How this work is evidenced in the manager's investment papers and reporting.

Regular meetings are undertaken with all the Scheme's investment managers. We monitor the application of each manager's responsible investment approach, challenging them around both underlying holdings and the portfolio level attributes.

2. Engagement with companies
Engagement on environmental matters is a core objective for Hermes EOS and covers a number of issues including climate change risk, natural resource efficiency and pollution. With respect to climate change, engagement is aimed at ensuring companies manage the physical and transitional risks that climate change poses.
This includes advocating for companies to set strategies consistent with the goals of the Paris Agreement to keep global warming below 2°C. It also involves appropriate management structures and clear disclosure, in particular, TCFD-aligned reporting that enables more reliable, consistent data to inform investment decision-making. Engagement is conducted via confidential, board and executive-level meetings and correspondence, supported, where appropriate, by speaking at AGMs, filing shareholder resolutions and proxy voting. In 2020, Hermes EOS engaged with all companies scoring 0 or 1 in the Transition Pathway Initiative assessment, which considers the quality of management of climate risk. Where companies were not taking sufficient action, Hermes EOS recommended voting against the Chair of the Board, or other relevant board representatives, at the AGM.

Topic: Climate Action 100+
Engagement via: EOS at Federated Hermes

The CA 100+ is a collaborative investor engagement initiative focused on the 161 most systemically-significant carbon emitting companies in the world. It is supported by more than 360 investors representing over $34 trillion in assets under management. EOS at Federated Hermes, on behalf of its clients, leads or co-leads engagement with 27 companies and supports engagement on a further 14. For example, supporting a shareholder resolution that we developed in our role as CA100+ lead co-ordinating investor, which called on a major oil company to set out a strategy consistent with the goals of the Paris Agreement. This had co-filing support from investors owning almost 10% of the company – the largest ever secured for a climate change shareholder resolution – and it passed with the support of over 99% of shareholders at the 2019 AGM.

More detail on Hermes EOS' engagement on climate change can be found at **https://www.hermes-investment.com/uki/eos-insight/environment/taking-action-on-climate-change/**

Appendix one: Climate change and TCFD Disclosure

3. Engagement with policymakers
In June 2020, the BTPSM CEO, Morten Nilsson, signed a letter alongside more than 200 leading UK businesses, investors and business networks calling on the Government to deliver a COVID-19 recovery plan that builds back a more inclusive, stronger and more resilient UK economy. The letter called the UK to deliver a clean, just recovery, that creates quality employment and builds a more sustainable, inclusive and resilient UK economy for the future. The letter also called for a plan that drives investment in low carbon innovation, infrastructure and industries, improved resilience to future environmental risks, supports sectors and activities that can best support sustainable growth, and financial support package measures to ensure businesses survive in a future post COVID-19, which will face climate change.

Metrics and targets

As discussed, the Scheme uses a range of methods for assessing and managing climate change risk. At the individual mandate level, our managers have flexibility to assess risk in the manner that is most appropriate for the assets they are managing on behalf of the Scheme.

BT Pension Scheme's carbon footprint

The TCFD recommends that asset owners should measure and report the weighted average carbon intensity of their portfolios. This metric shows the portfolio's exposure to carbon-intensive companies, expressed in tons CO_2e / \$M revenue[2]. There are widely acknowledged challenges and limitations of current carbon foot-printing metrics, including data availability and methodological issues, however disclosing weighted carbon intensity could be an important first step in helping to prompt advancements in the development and provision of decision-useful, climate-related data and risk metrics.

The Scheme does not invest according to a weighted carbon intensity target, however we believe measuring our weighted carbon intensity helps to facilitate dialogue with fund managers on the risks and opportunities of climate change within their portfolios. We set a strong expectation that managers will consider long-term environmental, social and governance risks and opportunities, particularly those relating to climate change, as part of their investment process. The Scheme also seeks various qualitative insights into how its managers put this into practice.

Footnotes
[2] The weighted average carbon intensity of the Scheme's listed equity and investment grade credit portfolios is calculated by summing the carbon intensity of each company according to its proportionate weight in the allocation as at 30 June 2020.

Appendix one: Climate change and TCFD Disclosure

Listed equities

As at 30 June 2020, the weighted average carbon intensity of the Scheme's listed equity portfolio was 136 tonnes of carbon dioxide equivalents per million US dollars of revenue (tCO2e/US$m). As a point of reference, as at the same date, the weighted average carbon intensity of the MSCI World Index, a broad global equity index of developed market companies, was 162 tCO2e/US$m.

While the Scheme does not take a benchmark-driven approach to investment, it is encouraging that the carbon intensity of the listed equity portfolio is approximately 16% lower than the MSCI World Index. This is because it means the Scheme's equity portfolio is less exposed to climate change transition risk than it would be if it was invested in line with the broad equity market.

Topic: Using AGM votes to push for greater action on climate change, US oil company
Engagement via: EOS at Federated Hermes

We recommended votes against the re-election of the members of the board affairs and public issues committees, for an insufficient response to concern over climate risk, and against the chair of the compensation committee. We are recommending a vote against the say-on-pay proposal because we are concerned that the pay arrangements increase climate risk. We also recommended support for shareholder proposals seeking an independent chair, enabling shareholders to convene special meetings more easily, publishing a matrix of board attributes, creating a climate change committee, and a better disclosure of political lobbying activity and donations.

Investment Grade Corporate Bonds

Compared to listed equities, data coverage within the bond universe continues to be limited due to several factors. As a result, at present, data is available for approximately 80% of the Scheme's investment grade corporate credit mandates.

In line with the listed equity allocation, the Scheme does not have an explicit carbon intensity target for the investment grade credit portfolios. However, due to the approach applied by the Scheme's investment managers, carbon intensity is expected to be lower than that of an equivalent bond universe.

As of 30 June 2020, the weighted average carbon intensity of the Scheme's investment grade credit allocation was 198 tonnes of carbon dioxide equivalents per million US dollars of revenue (tCO2e/US$m). As reference, the weighted average carbon intensity of the Global Investment Grade Credit index, was 276 tCO2e/US$m.

Appendix one: Climate change and TCFD Disclosure

Engaging on climate change in credit

Topic: Climate risk assessment, British bank
Engagement via: Pimco Investments

As the UK's largest commercial bank, with a dominant position in retail, the company has limited direct exposure to transition risks and has taken recent positive steps on carbon emissions; setting a target to significantly reduce portfolio carbon emissions by 2030 versus 2020 levels, and further planning to set targets for material sectors by 2020. The firm has started undertaking climate risk scenario analysis as per the TCFD recommendations and has also ramped up its 'green' finance offering in the real estate sector. From a social perspective, the organisation was one of the first FTSE companies to set diversity targets, and proactively engaged employees to enhance its human capital management. Pimco recently held a call with the Company's executives to explore their progress on climate risk assessment, Paris alignment, sectoral policy, human capital support towards digitalization and how ESG is reflected into employee performance assessment. The discussion has led to an update of Pimco's ESG view on the Company, with follow-up discussions on these topics set to continue.

Topic: Advancing climate change risks and opportunities in credit analysis
Engagement via: Insight Investments

Insight Investments first introduced its Climate Risk Index in 2017, and in 2020 revised its model with new inputs on physical risk. The result is one of the most advanced industry investment climate risk ratings. Reliance on third-party signals can create false positives and false negatives; internal scores also reduce the prevalence of opaque risk signals. The Insight framework includes an assessment of both qualitative and quantitative factors, such as the management oversight of climate activities and multi-year improvements in carbon emissions reductions. Through better modelling and outputs Insight expects to use the results to identify the issuers most vulnerable from a low-carbon transition and the appropriate engagement themes to target companies.

Appendix one: Climate change and TCFD Disclosure

The Scheme's investments in property and infrastructure are measured periodically. We focus monitoring and reporting on year-on-year change in the environmental impact of our investments, which includes their carbon footprint.

Property

With buildings accounting for almost a third of the world's energy consumption, greenhouse gas emissions and natural-resource usage, responsible investment is an important factor in property investments, especially as it is the asset class which can have the most tangible benefits from integrating ESG considerations. Not only is investor and tenant demand for well-managed, sustainable buildings a clear value driver, but communities can benefit and climate and resource efficiency, and flood risk can be integrated into property valuation and ongoing asset management. Through Hermes Real Estate, our core property manager, this approach has resulted in reduced carbon intensity and greater energy efficiency throughout the lifecycle of the key assets within the portfolio. Since the baseline year of calculation in 2006 to the end of 2019, our UK Property Portfolio carbon emissions (scope 1 & 2) have declined by 56%.

Topic: Improving air quality,
33 Glasshouse Street, London
Engagement via: Hermes Real Estate

33 Glasshouse Street consists of office space above 100 Regent Street, on the north side of John Nash's iconic curve, just north of Piccadilly Circus. The building underwent a major refurbishment in 2015/16, redeveloping the entire office core, including new central plant. The offices notably sit above an area of continuous high traffic density, in a zone which is often perceived as having an elevated level of local air pollution. This made the site an ideal location to pilot RESET as an engagement tool with building occupiers. In 2018, 33 Glasshouse Street became the first Certified RESET™ Air - Core & Shell project in Europe and the third in the world. This empowers the facilities team to identify ongoing opportunities to improve indoor air quality and certifies it to an international standard. In turn, this helps owners attract occupiers, maintain asset value, and reduce the potential liability associated with underperforming buildings.

Appendix one: Climate change and TCFD Disclosure

Infrastructure

The Scheme's infrastructure allocation is deployed predominantly in mature core UK assets targeting long-term stable and predictable inflation-protected cash flows. The focus on income sustainability means that the selection process for investments includes the consideration of the climate change impact. Whilst no assets are excluded, a number of the assets in the portfolio are either low emissions investments, or investments that avoid emission altogether such as renewables. On a net basis, i.e. including the carbon offset generated by renewables, the overall portfolio avoids more emissions than it generates. As a result, as of 30 June 2020, its carbon intensity offset was 243 tonnes of carbon dioxide equivalents per million US dollars of revenue (tCO2e/US$m) and was broadly unchanged from the prior year.

Engaging on climate change in credit

Topic: Reducing emissions in international rail
Engagement via: Hermes Infrastructure

In February 2018, the company launched its 10-point plan underpinning its 'Tread Lightly' environmental commitments, building on the 32% reduction in carbon emissions and 40% cut in waste it has already achieved between 2010 and 2018. The plan covers three broad areas: energy efficiency, reducing plastic and waste, and commitments to sustainability.

The company's targets are aligned with the 2018 Paris Climate Change Agreement and the Science Based Target Initiative. We regularly engage with the company to monitor progress of its 'Tread Lightly' commitment.

BTPSM's operational emissions

As well as measuring our investments' emissions, we also measure emissions from our offices, energy and transport. In 2019 we offset 160 tonnes of carbon dioxide. However, to help mitigate the impact of our footprint, we work with ClimateCare, a specialist environmental and social impact company to invest in climate and development projects to offset emissions and deliver positive social outcomes in developing communities.

Case studies

Appendix two: Trustee Board Committees

Trustee Board Sub-Committee	Members	Responsibilities	Key activities
Audit Committee	**Ben Marshall – Interim Chair** **David Viles** **Keith Nichols** **Andy Kerr**	• Integrity of the Scheme's annual report and accounts and the discharge of its duties in relation to these • Oversees Scheme governance and the effectiveness of risk management processes, the internal controls framework and 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 – 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	**Keith Nichols - Chair** **David Felder** **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 7 times during the year • Reviewed 'deep dive' reporting into each of the main asset classes including key risk factors, manager allocations and performance
Administration & Communications Committee (A&CC)	**Beryl Shepherd - Chair** **Nigel Cotgrove** **Keith Nichols** **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 a number of administration related projects: – Implementation of the pensions portal – Implementation of a new administration platform Additional Voluntary Contributions strategy, key member services activities updates, including the impact of relevant regulatory changes and communications with members

* The internal audit function, under an outsourcing agreement with BDO UK LLP, conducts a rolling programme of independent control reviews and investigations after agreement with the Audit Committee. It may use external professional firms to provide additional technical support on certain audits.

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** **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)	**David Felder – Chair** **Keith Nichols** **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 BTPSM

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 2020.

Trustee director	Main board	Audit Committee	Investment Committee	A&CC	IDRP stage 2 appeals panel	Discretions Committee	Implementation Oversight Committee
Number of meetings	**8**	**3**	**7**	**4**	**10**	**5**	**2**
Otto Thoresen	8	–	–	–	2	–	–
Emily Clark (appointed 1 April 2020)	3	–	3	–	–	–	–
Nigel Cotgrove (appointed 1 April 2020)	3	–	–	1		1	
The Law Debenture Society (represented by David Felder)	8	–	7	–	–	–	2
Andrew Kerr	8	–	3	–	–	–	–
Ben Marshall	8	3	–	3	9	–	–
Billy McClory (resigned 31 March 2020)	5	–	3	–	7	–	–
Jim McInally (resigned 31 March 2020)	5	–	–	3	8	–	–
Keith Nichols	8	3	7	4	–	4	2
Beryl Shepherd	8	–	–	4	–	5	–
David Viles (appointed 1 April 2020)	3	1	–	–	2	–	–
John Wroe (resigned 31 March 2020)	5	2	3	–	–	–	2

Appendix three: Management and advisers

Scheme registration number
10085003

Trustee
BT Pension Scheme Trustees Limited

Trustee Directors
Otto Thoresen (Chair)
Emily Clark (appointed 1 April 2020)
Chris Cheetham (appointed 16 September 2020)
Nigel Cotgrove (appointed 1 April 2020)
The Law Debenture Pension Trust Corporation plc
(represented by David Felder, resigned 16 September 2020)
Andrew Kerr
Ben Marshall
Billy McClory (resigned 31 March 2020)
Jim McInally (resigned 31 March 2020)
Keith Nichols
Beryl Shepherd
David Viles (appointed 1 April 2020)
John Wroe (resigned 31 March 2020)

Scheme Secretary
BTPSM

Actuary
Michael Pardoe 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
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)

Primary external investment managers
BlackRock Investment Management (UK) Limited
Hermes Fund Managers Limited (Hermes)
Insight Investment Management Limited
M&G Investment Management Limited
Magellan Asset Management Limited
Pacific Investment Management Company LLC
Wellington Management International Limited

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

Principal sponsoring employer
British Telecommunications plc (BT)
81 Newgate Street
London EC1A 7AJ

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.

Actively managed
Investments that are selected by investment managers with the aim of outperforming a particular benchmark index.

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

Asset mix
The proportions in which the Scheme's assets are distributed between different classes of investment.

Corporate governance
The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies.

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

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).

Crown Guarantee
A special protection in the form of a guarantee which provides that, in the unlikely event of a winding up of BT plc, ongoing contribution obligations of BT plc 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.

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.

Equities
Shares directly held in companies.

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.

Index-linked securities
Securities on which the rate of interest and the capital value are linked to the rate of inflation.

Long-term assets
Investments other than those in which funds are held on a temporary basis, e.g. interest-earning deposits and short-dated government securities.

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.

Passively managed
Where investments are held in the same proportions as a selected index (e.g. the FTSE All-Share Index) rather than managers being allowed to choose their own investments.

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.

Appendix four: Glossary of terms

The Pensions Regulator (TPR)

The Pensions Regulator was established under the Pensions Act 2004 with effect from 6 April 2005. Its main statutory objectives are to:

- protect the benefits of members of work based pension arrangements;
- keep calls on the Pension Protection Fund to a minimum; and,
- facilitate good pension administration.

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.

Real rate of return

The difference between the level of return actually earned by investments, including increases in value, and the return necessary in order to keep pace with inflation as measured by the change in the Retail Prices Index (RPI) and the Consumer Prices Index (CPI).

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.

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 after it has been prepared or revised.

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.

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.

The Trustee of the BT Pension Scheme

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

Website: **www.btpensions.net**

Member Support Team

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

Alternatively, please email

member@btps.co.uk
Pensions Portal
www.btpensionsportal.com

The address for correspondence is:
BT Pension Scheme Sunderland SR43 4AD

Contact details

The Pensions Advisory Service (TPAS)

TPAS is an independent voluntary organisation with local advisers who are experts in pension matters. TPAS can be contacted at the following address:

The Pensions Advisory Service
120 Holborn
London, EC1N 2TD
Contact number: 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 at the following address:

Pension Tracing Service
Mail Handling Site A
Wolverhampton, WV98 1LU
Website: **www.gov.uk/find-pension-contact-details**

This Report and Accounts is available on the Scheme's website, **www.btpensions.net**

We also send a short document in hard copy summarising the key developments and performance of the Scheme during the year to each member.

BTPS

www.btpensions.net