

# BTPS

## Responsible Investment & Stewardship Report 2020-2021

[btps.co.uk](https://btps.co.uk)



# Chair & CEO foreword

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

We are acutely aware that how and where we invest matters, and this is a responsibility we have always taken very seriously.

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

We firmly believe investing responsibly supports long-term value, reduces risk and contributes towards better outcomes. We also know from the surveys we conduct with our members that they expect us to use our investments to make a positive impact.

Sound corporate governance and companies that are mindful of their impact on society and the environment in which they operate have a better chance of sustaining long-term economic success.

This commitment is central to how the Scheme thinks about its investments and this is mirrored in our responsible investment mission statement: **"The Scheme's investments should be managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full"**.

As part of our investment strategy, which has sustainability at its core, we consider the potential impact on the Scheme of long-term structural risks, including, for example, climate change and resource scarcity.

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

Despite our scale, we know that no single pension fund or investment manager is sufficiently large or influential enough to drive change at the scale that is required. We therefore value collaboration, working closely with other schemes, asset managers and organisations, such as the Principles for Responsible Investment (PRI), Net Zero Asset Owners Alliance (NZAOA), the Institutional Investors Group on Climate Change (IIGCC) and Transition Pathways Initiative (TPI).

In 2020, the Scheme set a 2035 Net Zero greenhouse gas emissions target. Getting to net zero will involve both reducing emissions from the Scheme's portfolio and investing in assets that will support the transition towards a low carbon economy. It is an ambitious goal that we cannot achieve alone - data on emissions needs to improve and companies, governments and consumers must act.

While we've made great strides, we know we still have much to do and we hope this report provides an overview of our work over the past 12 months and our priorities for the future.

**Otto Thoresen**  
Chair, BTPS



**Morten Nilsson**  
CEO, BTPSM



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# 8,500

Members responded to an annual BTPS member survey

# 97%

of BTPS asset managers are PRI signatories

Weighted average carbon intensity of the Scheme's investment grade credit allocation is

# 28% lower

than Global Investment Grade Credit Index

# A+

2020 PRI Strategy & Governance Score

# 3 yrs

compliance with TCFD reporting

# 59%

equity, corporate credit and infrastructure engagements were in relation to climate change

# 759

companies were engaged across our equity, corporate credit and infrastructure investments

# 66%

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

# 3973

company annual general meeting (AGM) resolutions voted for our segregated active equity investments

Weighted average carbon intensity of the Scheme's listed equity portfolio is

# 19% lower

than MSCI World Index

# 74%

Members\* want BTPS to continue taking into consideration ESG issues in its investments

(\*of 8,500 BTPS annual survey respondents)

# Introduction

This document is our first annual Responsible Investment and Stewardship Report. It aims to explain our Responsible Investment (RI) Policy in more detail, showcase how we conduct stewardship directly and via our asset managers and agents, demonstrate how we evaluate ourselves and what our plans are for the future, as at 31st March 2021.

As the UK's largest private sector pension scheme and a long-term investor, we have an obligation to act as a responsible steward of the companies and assets in which we invest. Our approach encompasses not only our investment portfolio but also how we set policies on running our own business, such as internal training.

Stewardship is built into the fabric of BTPS. We founded and continue to indirectly part-own Equity Ownership Services (EOS)<sup>1</sup> at Federated Hermes<sup>2</sup>, now the pre-eminent global engagement and stewardship provider for institutional investors. As part of our mission to be a good steward of capital for our beneficiaries, we aim to follow the same transparency standards that we require of our partners and investee companies, adhering to the UK Stewardship Code.

BT Pension Scheme Management (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 (investment advisors, funding and fiduciary management services, covenant oversight, member services, operational and secretariat services) to BTPS.

The focus for BTPSM is to provide high quality, cost effective services to BTPS' members and Trustees. Their services are deliberately tailored to the Scheme's needs and specific challenges and they take pride in working for the Scheme and its members, which gives all of them a strong sense of purpose.

BTPS works closely with BT Plc as the Scheme's sponsor ensuring there is consistency in serving BT's current and former employees. This report details the stewardship of BTPS, of which the stewardship activities and processes are largely undertaken by BTPSM or service providers engaged by BTPSM on behalf of the Scheme.

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

<sup>2</sup>Through our remaining stake in the international business of Federated Hermes, Hermes Fund Managers Limited.



# About us

BTPS is a defined benefit pension scheme for employees, former employees and dependents of BT plc and some of its associated companies. It has c.280,000 members and c.£57.5bn of assets and pays out c.£2.5bn in benefits each year. The Scheme was closed to new entrants on 31 March 2001 and was closed to future accrual for most members on 30 June 2018.

## At a glance



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



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



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



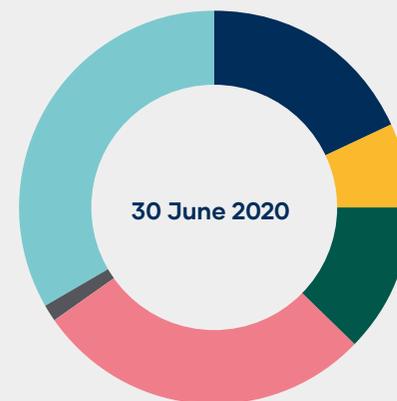
The Scheme's net assets were invested **37.5%** in growth assets and **62.5%** in liability hedging assets as at 30 June 2020.



The Scheme's funding position was **88%** on a technical provisions basis as at 30 June 2020.



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



## 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%

The Scheme's Trustees are known as BT Pension Scheme Trustees Limited, which has ultimate fiduciary responsibility for the Scheme and its members. BTPSM is the appointed investment advisor and primary service provider to the Scheme, and BTPS is its sole client. It also provides member administration services through a wholly-owned subsidiary BT Pension Scheme Administration (BTPSA). To learn more about the Trustees, please visit [btps.co.uk](https://www.btps.co.uk)

# Our purpose & values

The Scheme's purpose is to ensure that there are sufficient assets to pay benefits to members and their beneficiaries, and that they receive the benefits to which they are entitled, in a high-quality and cost-effective manner.

To deliver this, the Scheme's Trustees have established a set of investment beliefs that provide a framework for consistent and effective investment decision making. This includes the need to consider the liabilities when setting investment strategy, understanding the Scheme's competitive advantages and disadvantages, and the importance of being a responsible investor. The Trustees, supported by its Investment Committee (IC) and BTPSM, regularly review the investment beliefs against the investment outcomes being delivered by the Scheme to ensure they are still fit for purpose.

To align with the Scheme's purpose, BTPSM's own purpose is:

## "Working together for a better future."

**'Working together'** is used to create a sense of teamwork and collaboration. It picks up the concept of being supportive (which is also one of our core values).

**'better'** reflects our drive to improve things – whether it is the service we provide to members, our internal processes or the way we invest. It speaks to our need to innovate.

**'for'** emphasises the idea that we are here to work on behalf of others – whether that is members, their dependents or wider society.

**'future'** puts important emphasis on being forward looking. It highlights that long-term thinking sits behind the decisions we make.



# BTPSM's Organisational Values

To support this purpose, over the past year, BTPSM has developed new organisational values, based on insights gathered via focus groups with colleagues, surveys, interviews and workshops. The values are agreed by the Trustees.

These values, **responsible**, **impactful**, **supportive** and **expert**, are essential in ensuring BTPSM is committing to core ethics and principles; inspiring colleagues' best efforts; setting appropriate workplace behaviour; and building a culture we are proud of.



**R** 

### Responsible

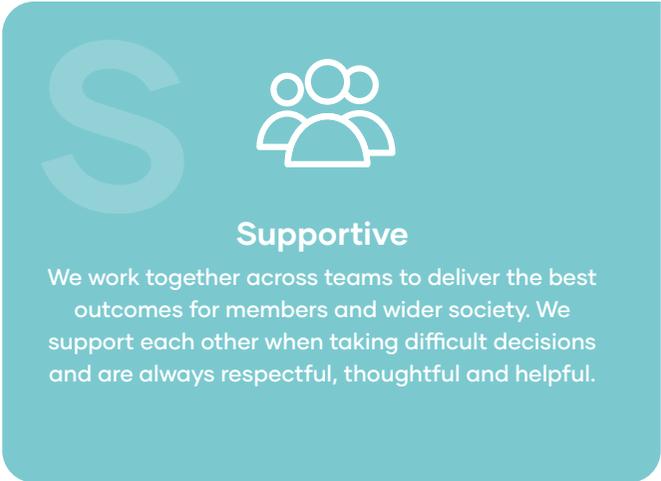
We take individual responsibility for making things happen. We take ownership of the decisions we make. We never walk past a problem. We are both open and brave - supporting and challenging each other to resolve issues.



**I** 

### Impactful

We are driven to do all that we can to create a better future for our members. We recognise that the way we invest can benefit wider society. We constantly strive to make a difference.



**S** 

### Supportive

We work together across teams to deliver the best outcomes for members and wider society. We support each other when taking difficult decisions and are always respectful, thoughtful and helpful.



**E** 

### Expert

We set very high standards, constantly looking at how we can be better and bolder - whether serving members, improving how we work or invest. We are constantly innovating - challenging ourselves to find new ideas. We use our commercial acumen to deliver value for members and wider society.

The values guide BTPSM's behaviour, help set operational strategy, build a solid foundation for employment policies and are supported by a "Behavioural Framework". They are integrated into BTPSM's performance development review process and all colleagues share a purpose 'To live our values in all we do'.

BTPSM's Behavioural Framework is supported by five pillars: **Resilience, Value for Money, Innovation, Trust and People**. They are aligned with the Trustee's core purpose, agreed upon annually and monitored against a set of KPIs to ensure BTPSM is meeting its goals. BTPSM's objectives are therefore aligned with those of BTPS.



## Five Pillars

### Resilience



We will assess the primary risks and issues that could disrupt our business and identify ways in which management can prepare and deal with any such risks that materialise

### Value for money



We will ensure that the addressable cost base is optimised and delivers maximum value-add with year-on-year total addressable cost reductions

### Innovation



We will help the business to explore and incubate opportunities and leverage technology to reduce enterprise wide risk and see cost benefits

### Trust



We will seek to enhance the trust placed in us by members, Trustees and the Sponsor by meeting all operational and regulatory obligations and reducing exposure arising from errors and breaches

### People



We will develop our culture and ways of working to unlock potential and take the organisation forward. We strive for a top performing team with strong leadership and market leading expertise

# Our approach to stewardship & responsible investment

The importance placed on doing the best for our members over the long term is inextricably linked to responsible investment and stewardship. As a result, BTPS has a long history of being a responsible investor. We were a founding signatory of the **UN Principles for Responsible Investment (PRI)** in 2006 and RI is central to how the Scheme fulfils its fiduciary duty.

The Trustees recognise that emerging, long-term risks including, for example, climate change and technology disruption, may have a material adverse impact on the Scheme. As a result, our RI mission reflects the Scheme's need for sustainable investment returns so that it can pay members' pensions, but also the importance for our members to have a healthy world into which they can retire. The statement is underpinned by three beliefs which run through the Scheme's strategy, governance, and investment activities:

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

– BTPS’ RI Mission statement

**Long-term investment horizon**

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

**ESG integration**

We believe that integrating financially material environmental, social and particularly governance (ESG) factors into asset manager and security selection processes will help the Scheme and its agents make more informed and better investment decisions.

**Stewardship**

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

These building blocks are the foundation of our RI policy across asset classes, which covers key aspects of the Scheme's RI approach to strategy, governance, implementation, advocacy, external reporting and conflicts of interest. These beliefs direct the RI strategy and the stewardship activities carried out on behalf of the Scheme:



### **Portfolio ESG research & analysis**

Undertaken by BTPSM and our asset managers to understand ESG risks and opportunities. For example, obtaining the ESG score of a portfolio.



### **External partnerships, collaborations & public policy engagement**

Undertaken by BTPSM with other investors and industry bodies, or with policy makers regarding key ESG topics. For example, discussing green bonds with national governments.



### **Presentations, training, articles & thought pieces**

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



### **Asset manager & stewardship provider meetings**

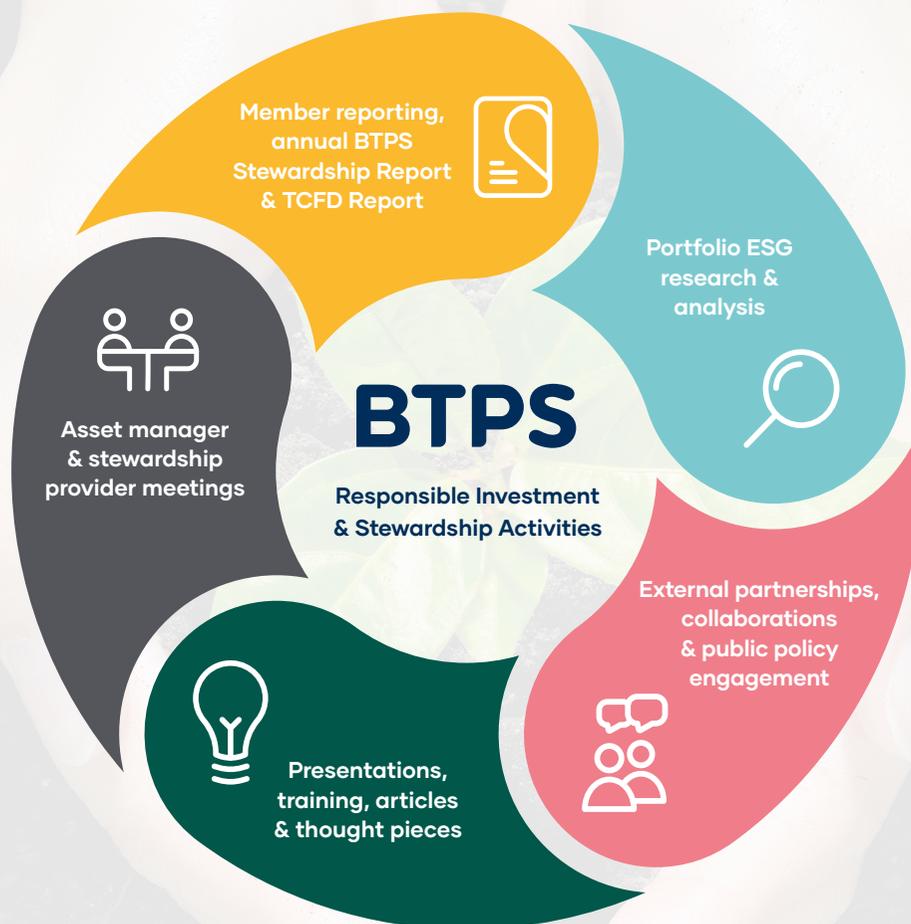
Undertaken by BTPSM with asset managers and EOS to understand their stewardship activities and hold them accountable to our RI policy. For example, exploring poor ESG scores in quarterly investment meetings.



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

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

# BTPS Responsible Investment & Stewardship Activities



## Understanding RI terminology

### Sustainable investment

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

### Responsible investment

Incorporating environmental, social and governance (ESG) factors into investment decision making to help investors identify future risks and opportunities

### Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

### Environmental, social and governance factors (ESG)

Using ESG or sustainability information to identify companies with good practices and superior business models.

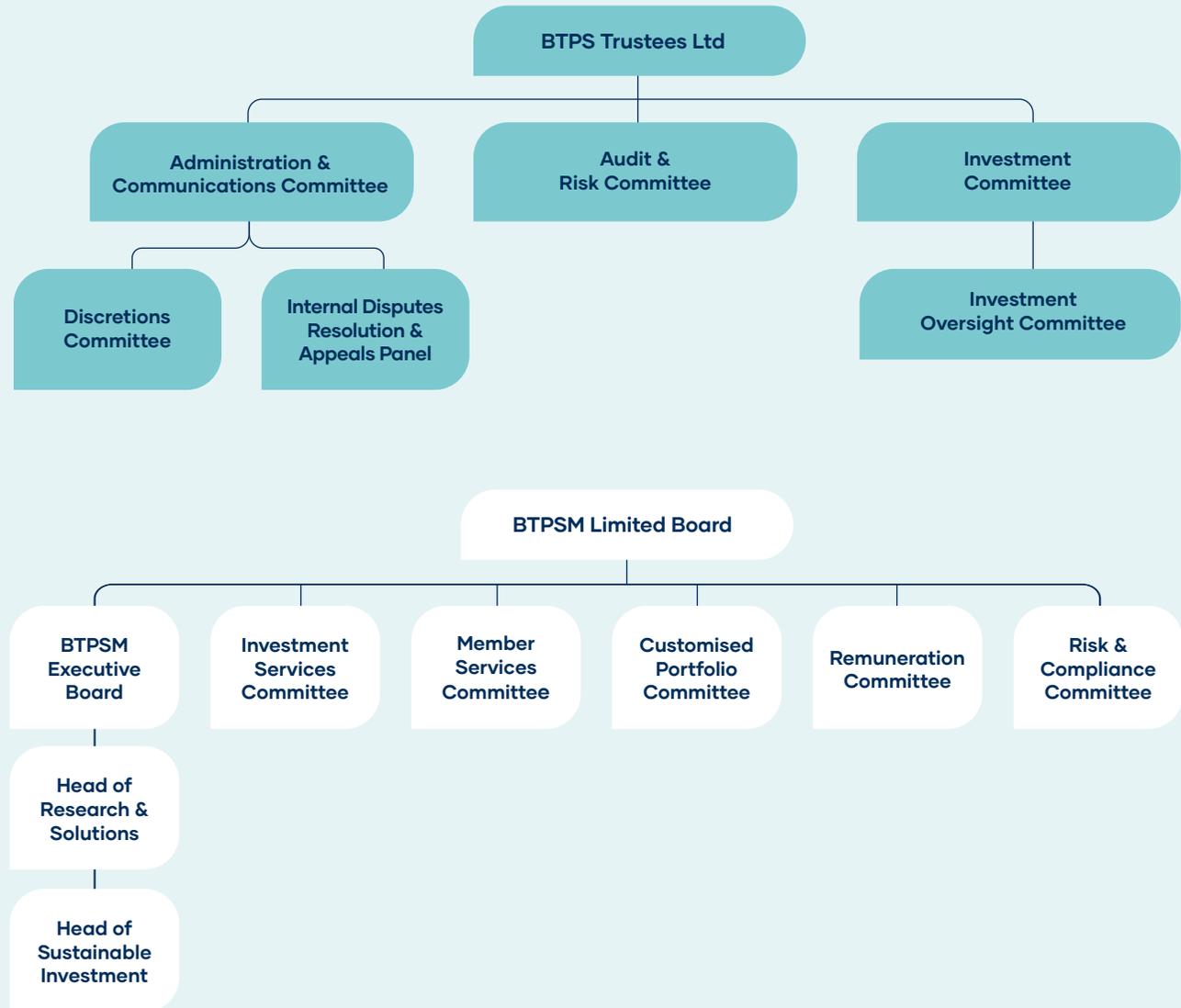


## What is ESG integration?

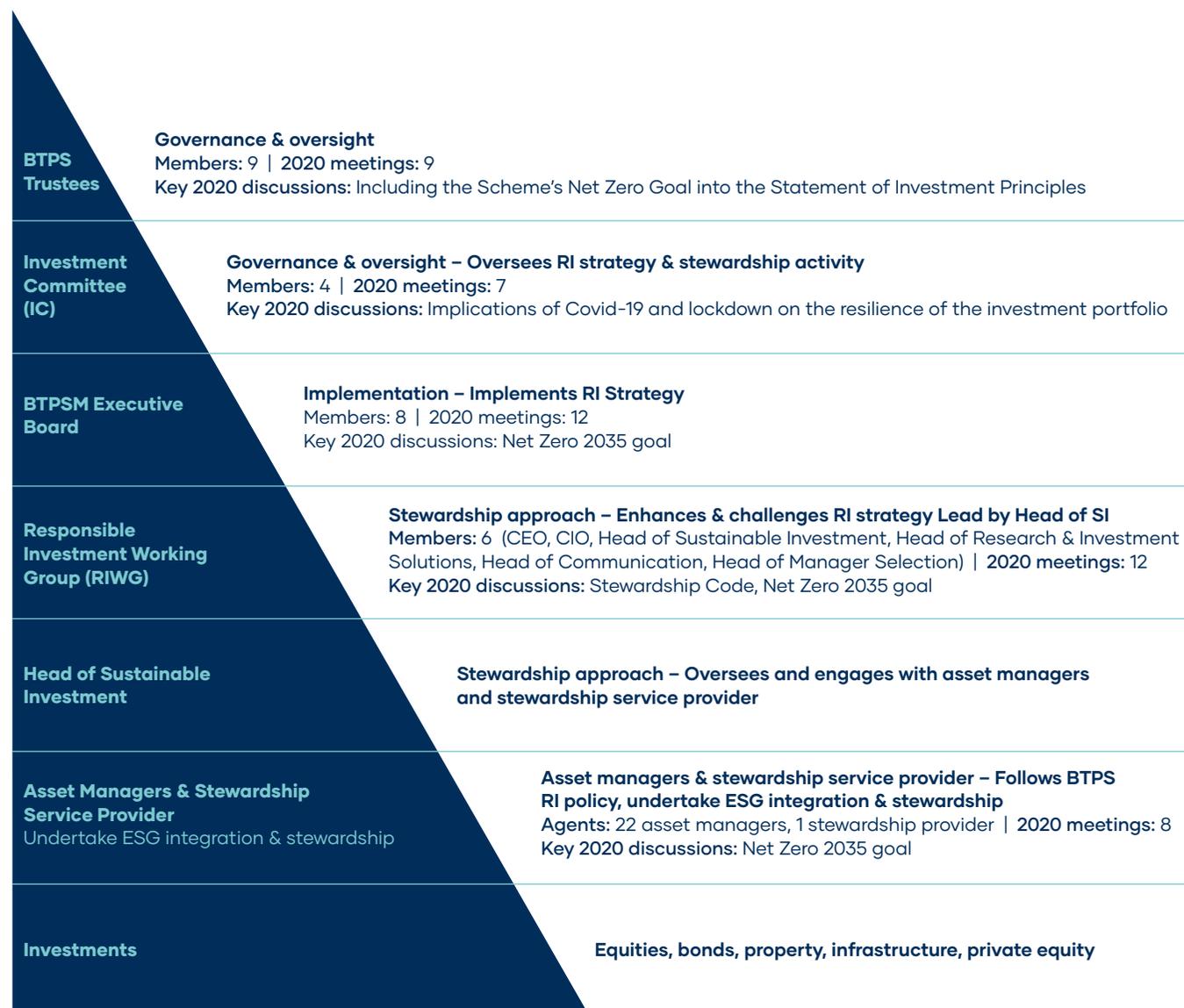
Integrating ESG factors into investment analysis to determine if an investment's risks are outweighed by potential investment returns. This can provide investors with a deeper insight into the quality of a company's management, culture, risk profile and other characteristics, before they invest. With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

# BT Pension Scheme & BTPSM's Governance Structure

BTPS' RI policy is approved by the full Trustee board but is overseen, monitored and reviewed by the Scheme's Investment Committee (IC), which is also responsible for monitoring emerging, long-term structural risks, including climate change, that may impact the Scheme's ability to pay members' pensions. The implementation of the strategy has been delegated to BTPSM.



# Stewardship in the investment hierarchy



## BTPSM

BTPSM is responsible for appointing and overseeing external asset managers and stewardship service providers, as well as collaborating with other asset owners and managers to inform best practice and improve the effectiveness of the Scheme's activities. Along with other strategic priorities, the Executive Committee of BTPSM is responsible for ensuring that BTPSM has the necessary people, resources, and skills to fulfil its responsibilities in this area.

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

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

The Head of Sustainable Investment (SI) for BTPSM reports to the Head of Research & Solutions, and oversees the Scheme's responsible investment strategy and its effective implementation throughout BTPSM and external asset managers and stewardship services providers. The Head of SI reports responsible investment matters to the Trustee via quarterly IC meetings and is also responsible for engaging with other asset owners and third-parties to inform best practice and improve the effectiveness of the Scheme's RI activities.

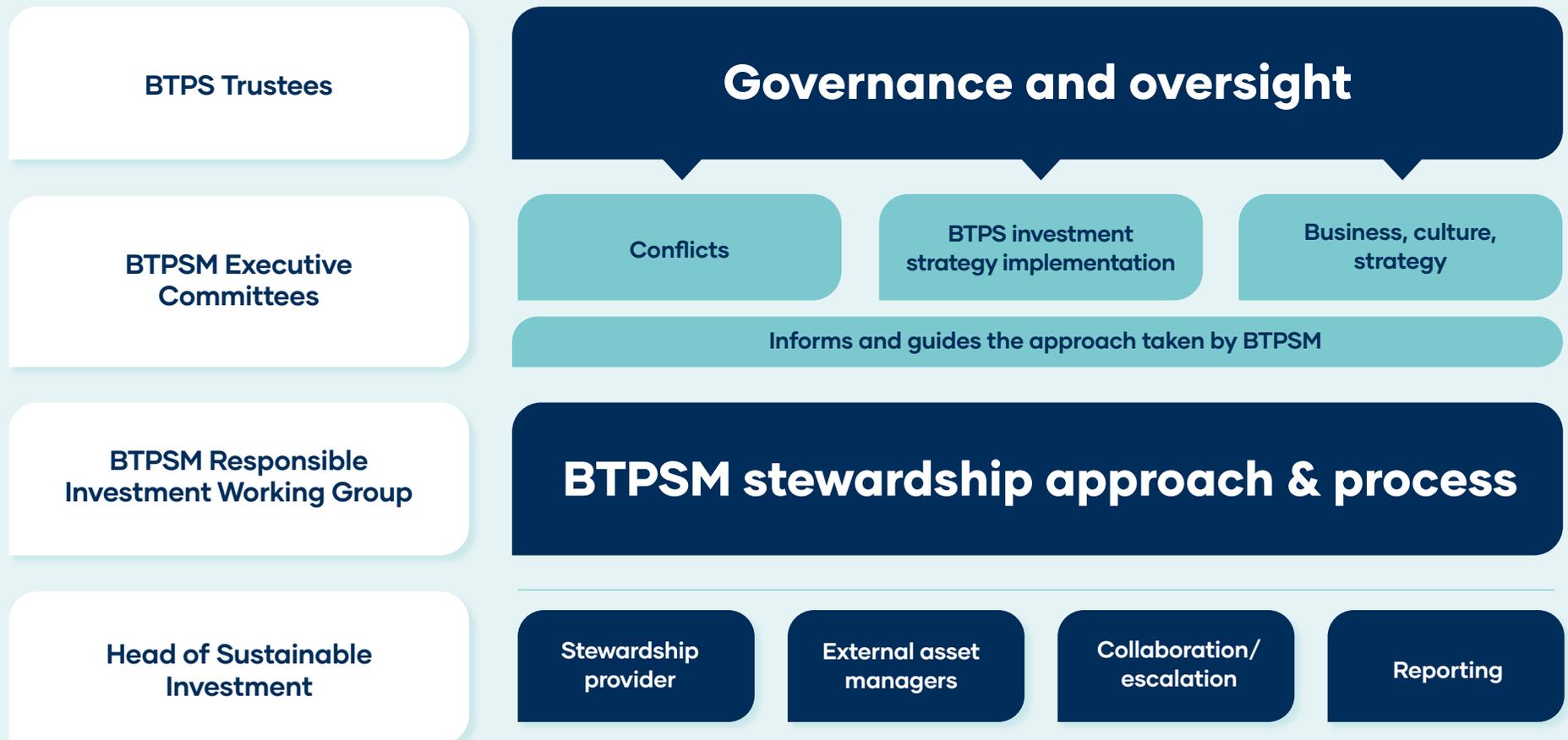
A Responsible Investment Working Group (RIWG), led by the Head of SI and whose membership includes the CEO, Chief Investment Officer (CIO), Head of Research and Investment Solutions, Head of Manager Selection and Head of Communication, meets quarterly to discuss the following key areas:

- 1** Understanding the risks and opportunities that may face the Scheme because of its long-term investment horizon
- 2** Integrating financially material ESG factors throughout the investment process, including in the design of investment mandates, new manager searches and ongoing monitoring of managers
- 3** Ensuring the Scheme is delivering long-term value through responsible ownership.

When necessary, the RIWG also provides further research or training for both the Trustee board and wider BTPSM and BTPSA organisations.



# Stewardship through BTPS & BTPSM



# Asset manager oversight

We believe that all financially material considerations, including ESG factors, must be integrated throughout the investment process. Outside our government bond and liability driven investment strategy, which is managed by BTPSM, BTPS outsources investment management to externally-appointed asset managers. Asset managers are selected to align with our beliefs, policies, and objectives. This is a fundamental part of the appointment process of a new manager and the ongoing oversight of our managers' activities.

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

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

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

Once appointed, we expect our asset managers to consider both the risks and opportunities that arise from ESG factors in the selection, retention, and realisation of investments. We expect them to: undertake ESG integration, actively engage with investments, undertake proxy voting where appropriate, exercise advocacy related to stewardship and provide ongoing reporting regarding their RI integration process and activities. BTPSM challenges them regularly on underlying holdings and portfolio level attributes. BTPSM also requests asset managers reflect the ESG information they have considered in their investment process if investment decisions have been changed as a result, and expects them to apply best international practice stewardship approaches or adapt to accepted local market conventions and regional best practice.

## ESG integration in practice Private equity via Hermes GPE

Hermes GPE was offered the opportunity to invest in a fast-growing money transfer business in North America. Early in the investment process the investment team identified the risk of the company not being able to correctly address money laundering due to the nature of the business model, which involved mainly cash transfers. The investment team addressed this concern with market experts, including Hermes EOS, and conducted independent desk-based research. These activities confirmed the materiality of the risk and the limited scope for mitigation. After these findings, the team decided not to invest in the opportunity.



# Our action on climate change

BTPS has a long track record of considering climate change risks as part of our investment strategy. We have benefitted from involvement with the Institutional Investors Group on Climate Change (IIGCC) and participated in studies undertaken by Mercer in 2011, 2015 and 2019 investigating the potential impact of climate change on investment returns.

In early 2020, we amended our core investment principle from “finance first” to “sustainable long-term value creation”. One of the primary drivers of this change has been the acceptance that climate change is now a clear and present risk to the Scheme, not a future risk. With the Intergovernmental Panel on Climate Change’s (IPCC) fifth assessment report<sup>3</sup> categorically identifying human activity as the main cause of climate change, there has been increasing action to develop mitigation and adaptation strategies to tackle global warming, manage the risks of climate change, and encourage a just transition to a sustainable low-carbon economy.

The Scheme recognises that climate change could have a material impact on our investments, both due to physical risks to the investments we own and because of risks from the global transition to a low-carbon economy. We also recognise that there will be significant investment opportunities created by the low-carbon transition that the Scheme can benefit from. We believe that if humanity fails to change course now, we risk passing the point of no return on climate change, with disastrous consequences for the ecosystems that sustain us, the world’s people and the global economy.



## What is the Low Carbon Transition?

From how we heat our homes to the clothes we wear, the way we live is based on using high carbon energy. This means we emit huge and unsustainable amounts of greenhouse gas emissions (GHGs), which is resulting in climate change. The term “low carbon transition” refers to the process global society will have to go through to shift from being a high carbon society to a low carbon one which emits minimal GHGs into the atmosphere. This will mean significantly altering the way we use fossil fuels, consume natural resources and food and use land, travel and transport goods. It will also mean ensuring all communities, and particularly those that will be most impacted by the transition, are considered and supported.

<sup>3</sup> IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp.

With these risks in mind, over several months we undertook an in-depth analysis of our current portfolio, considered the evolution of our investment strategy, worked with several external experts and spoke with our asset managers on how we can set a goal to help manage climate risk. On 30th September 2020, the Trustees of the Scheme agreed on a long-term climate change goal, Net Zero 2035, to align our investments with efforts to limit global warming to 1.5°C above pre-industrial levels to address risks posed to the Scheme by climate change and for the Scheme to play a role in financing the journey to a net zero global emissions world. Given the importance of the goal, we also integrated it into our **Statement of Investment Principles**, which details the policies which control how a pension scheme invests.

## NET ZERO 2035

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

We will seek, over time, to decarbonise the portfolio and investment value chain and make investments that will reduce or remove carbon emissions from the atmosphere. Our goal is supported by four pillars:

1. Portfolio construction
2. Mandates and managers
3. Stewardship
4. Advocacy



Beneath these pillars are 20 climate actions that we are committing to. The 15-year goal will be overseen by the Board of Trustees and will be made up of five-year targets, fully reassessed every three years and tracked and publicly reported annually through our TCFD reporting.

The ambitious goal is to achieve net zero greenhouse gas emissions (absolute scope 1-3) by 2035 across our c£57.5 billion portfolio.

It is aligned with the IIGCC's Net Zero Investment Framework, and achieving it will involve reducing emissions from the Scheme's portfolio and making investments aligned with the transition towards a low carbon economy. We have also joined the Net Zero Asset Owner Alliance (NZAOA) and became public supporters of the Transition Pathways Initiative (TPI) and the Taskforce for Climate Related Financial Disclosures (TCFD). We believe these initiatives will enable us to work with other investors and push for better practices globally, particularly as we are so dependent upon improved emissions data and strong policy action from governments, regulators, and industries to address climate change by reducing emissions.

This goal will influence the Scheme's de-risking strategy and allow us to invest in opportunities that are sustainable and support the transition to global net zero emissions. It marks a step change in the action we are taking and demonstrates our commitment to playing our part in the transition to a low-carbon economy.

For more information see our **climate change policy**.

### Low carbon investment – Fallago Rig

In 2013 we invested in Fallago Rig, alongside energy company EDF, and now own c£250 million. The windfarm is now one of the largest in the UK and its 48 turbines generate 144MW of clean electricity – enough to power 86,000 homes. It also avoids more than 100,000 tonnes of carbon dioxide (CO<sub>2</sub>) annually. Additionally, as part of their Net Zero 2045 goal, BT Plc purchase 50% of the windfarm's electricity through a Purchase Power Agreement (PPA).

### Low carbon investment - Orsted

Orsted is the world leader in offshore wind supplying green power for more than 15 million people. BTPS owns bonds worth £44 million issued by the company in its credit portfolio.



# Corporate engagement

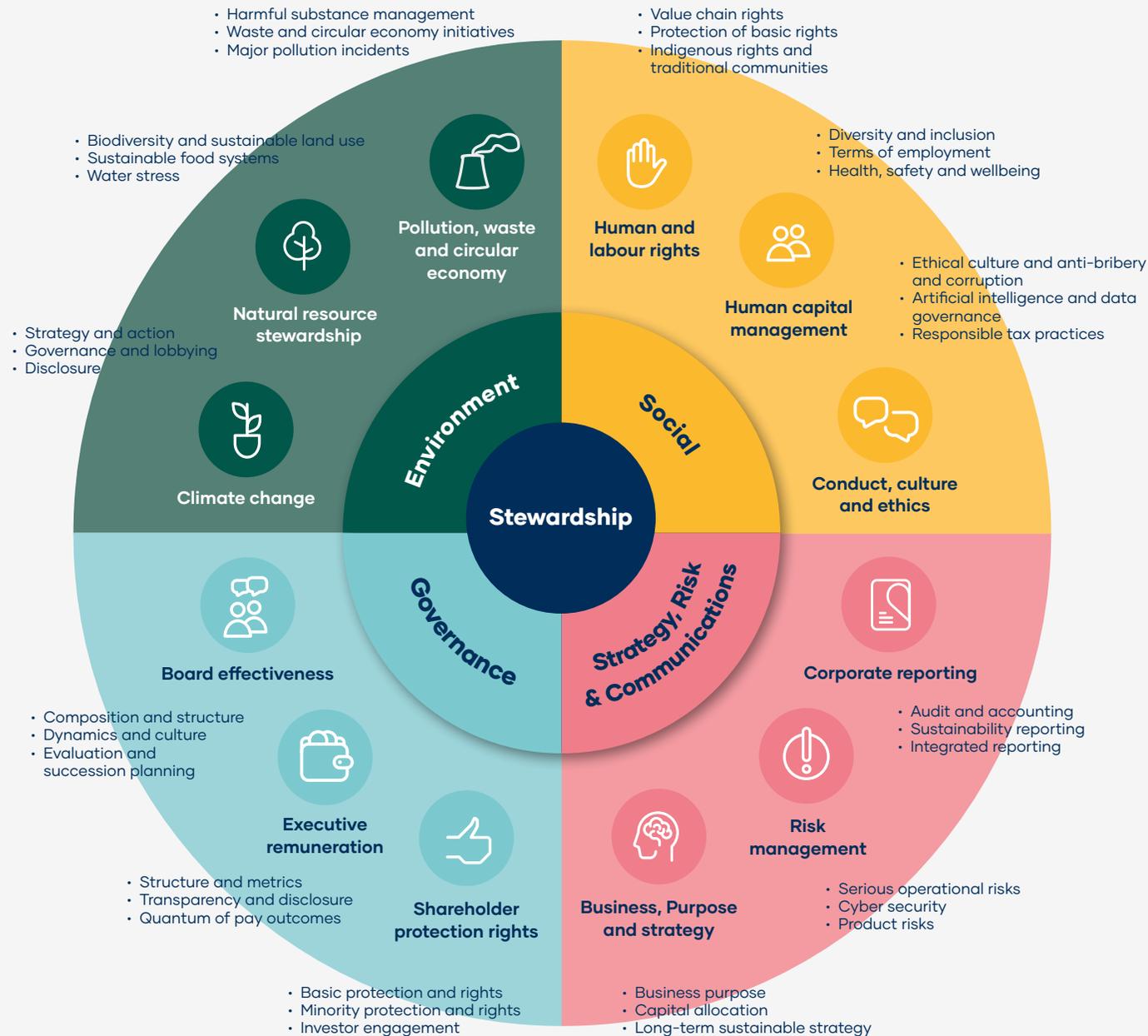
Corporate engagement is the practice of shareholders entering into discussions with company management to change or influence the way in which that company is run. Engagement can be successful across many different asset classes, including equities, bonds, property, private equity and infrastructure. Engagement can be done via letters, calls, site visits, one-to-one or group meetings. It can be pro-active, attempting to anticipate future issues which may damage the long-term profitability of an investment, or reactive, to express concern in the wake of a problem or following unfavourable media coverage. ESG engagement can focus on a variety of different areas, from the remuneration of senior management to investigating whether operations are having a negative impact on local biodiversity. In bonds it can also encourage changes to bond prospectuses or indentures.

The Scheme believes that companies that consider the long-term risks and opportunities, including those relating to ESG matters, have the right attributes to deliver the long-term sustainable value it is seeking. We also think that good stewardship, engagement, and active voting improve investment outcomes. Our view is that we must hold management teams to account and the best way to alter company behaviour is through meaningful, structured engagement with companies' management teams and boards. Corporate engagement is done on BTPS' behalf in two ways- through our asset managers, but predominantly through EOS acting as agents of the Scheme.

BTPS founded EOS in 2004 through our ownership of the then, Hermes Investment Management. The intention was to establish an organisation that allowed us to have a greater impact on ESG issues, as well as the potential to enhance our knowledge through collaboration and being part of a larger network of like-minded asset owners and managers. Today EOS is one of the world's largest stewardship and engagement services, with a track record in contributing to best practice ESG industry standards and \$1.3tn in assets under advice. Its engagement plan identifies 12 key themes and 36 related sub-themes which help focus EOS focus engagement activities on the most material topics impacting investments.



## Engagement themes for 2021-23



To ensure meaningful impact and to measure and report effectively, EOS engagement is guided by a client Engagement Plan. We contribute to it annually and it guides engagement with companies on a wide range of topics, such as natural resource use, waste and packaging, human rights, bribery and corruption, business strategy and purpose and executive pay.

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

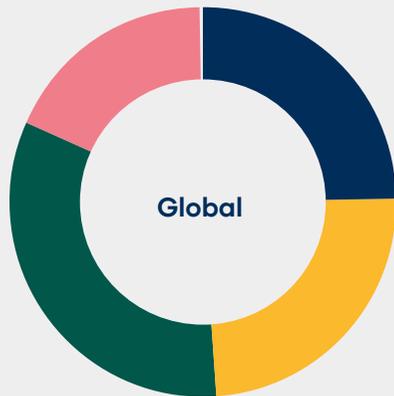
## Engagement statistics

In 2020, EOS engaged with 177 companies on 661 environmental, social, governance, strategy, risk and communication issues and objectives, to promote positive change on the following issues and many more.

## Engagement by ESG theme

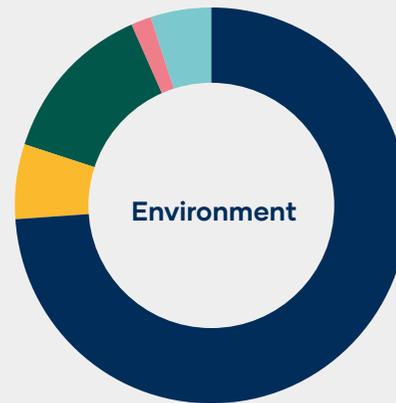
To ensure they achieve positive outcomes, EOS sets clear and specific objectives within all company engagements. Each objective is tracked using milestones and regularly reviewed until they are completed or when the company has demonstrably implemented the change requested or when the activity is discontinued. An example objective is: "development of a strategy consistent with the goals of the Paris Agreement, including setting science-based emissions reduction targets for operating emissions (Scopes 1 and 2 emissions)."

We engaged with 177 companies over the last year



Environmental	25.0%
Social and ethical	24.2%
Governance	32.7%
Strategy, Risk, Communication	18.2%

Environmental topics featured in 25.0% of our engagements over the last year



Climate change	73.9%
Forestry and Land Use	6.1%
Pollution and Waste Management	13.3%
Supply Chain Management	1.8%
Water	4.8%

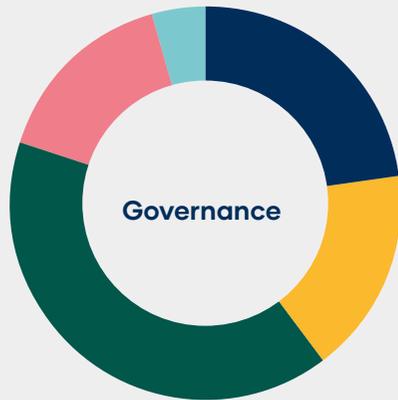
Social and Ethical topics featured in 24.2% of our engagements over the last year



Bribery and Corruption	2.5%
Conduct and culture	14.4%
Diversity	18.8%
Human Capital Management	28.1%
Human rights	27.5%
Labour rights	5.0%
Tax	3.8%

## Engagement by ESG theme

Governance topics featured in **32.7%** of our engagements over the last year

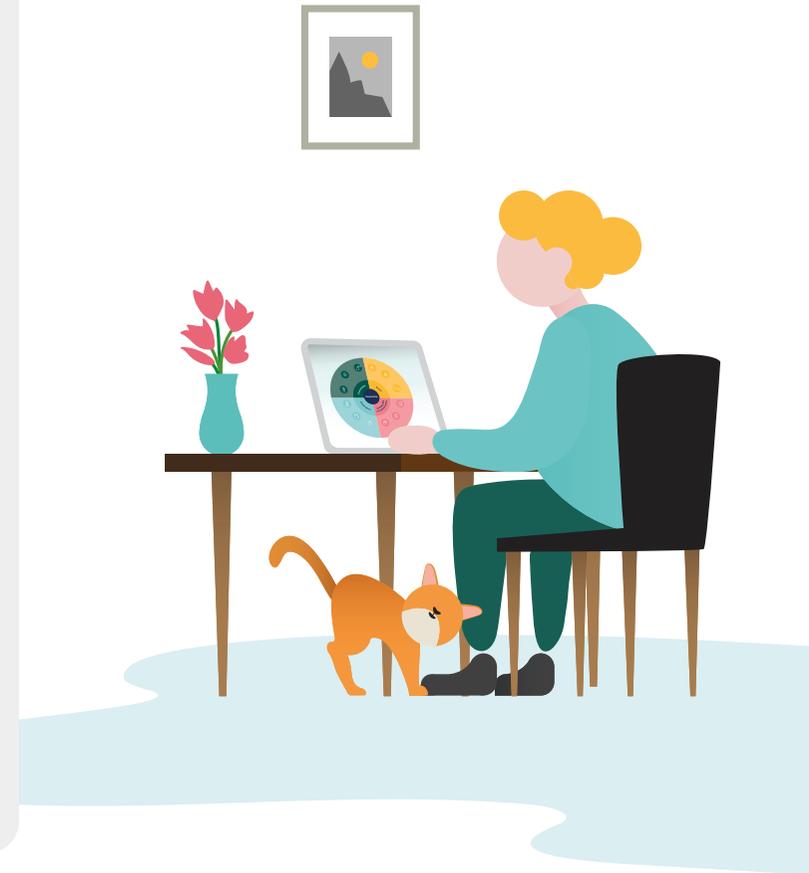


● Board Diversity, Skills and Experience	23.1%
● Board Independence	16.7%
● Executive Remuneration	40.3%
● Shareholder protection and Rights	15.7%
● Succession Planning	4.2%

Strategy, Risk and Communication topics featured in **18.2%** of our engagements over the last year



● Audit and Accounting	7.5%
● Business Strategy	36.7%
● Cyber security	6.7%
● Integrated Reporting and Other disclosure	20.0%
● Risk management	29.2%



# Engagement activities

## Environmental

### Climate change Equity Engagement via EOS

Reducing emissions in a US food retailer supply chain

In the US, a food retailer had set a symbolic target of reducing emissions by one gigaton – approximately double the emissions of the UK – throughout its operations and supply chain. However, EOS questioned whether even this was sufficiently aligned to the achievement of the Paris goals. In 2020 it committed to reaching net-zero emissions for Scopes 1, 2 and 3 emissions by 2040 as part of its ambition to become a regenerative business.



### Climate change Corporate credit engagement via Insight Asset Management

Setting net zero carbon emissions in UK oil & gas company

In the last 12 months, Insight engaged with the company three times to discuss their net zero ambition (net zero carbon emissions) across their entire operations on an absolute basis and believe this company is now one of the best in class from an ESG perspective. The company has published a comprehensive ESG strategy which targets net zero emissions by 2050. Following the introduction of this strategy, Insight became more positive on the bonds as they had previously underperformed and were trading at attractive valuations. As part of this strategy, the company also flagged its intention to examine and potentially reduce its exploration portfolio. The company plans to no longer develop frontier basins and instead focus on already developed geographies.

### Environmental performance Real estate engagement via Hermes Real Estate

Improving energy efficiency standards in a UK building

Hermes Real Estate installed a Collaborative Asset Performance Programme (CAPP) at the property, in collaboration with Carbon Credentials, to improve the central running systems and processes of the building. This programme has led to an 11% decrease in energy consumption year-on-year since Q1 2017. The team now has 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.

## Social

### Human Rights Equity engagement via EOS

Addressing human rights abuses in Xinjiang, China

EOS wrote to some of the companies mentioned in an Australian Strategic Policy Institute report issued in March 2020 that alleged human rights abuses of the Uyghurs and other ethnic minority citizens from the far west region of Xinjiang, in China. EOS asked if the companies had found any evidence of this and what action had been taken, given the relative lack of opportunity for leverage or provision of remedy in the region. EOS also recommended that companies use the UN Guiding Principles reporting framework and consider responsible disassociation or using alternative providers where necessary. One of the most progressive responses came from a fashion retailer, which confirmed that it had no Tier 1 or 2 production in Xinjiang and had stopped sourcing cotton from Xinjiang after the Better Cotton Initiative suspended its licensing of cotton from the region in April 2020. The company also contacted all its suppliers in China, highlighting that labour programmes where ethnic minority workers were taken to work in factories in China were regarded as forced labour. Subsequently, the company concluded that there was a heightened risk and therefore it ended its business relationship with a mill in another province, which was owned by a yarn producer mentioned in the report.

### Mental health Equity engagement via GQG Partners

Investor collaboration to improve mental health support for content reviewers at a US technology company

GQG and other like-minded asset managers wrote a letter to an American technology company because it had allegedly exposed content moderators in the US to traumatic work and inadequate wages. Reportedly, most of the company's content reviewers are employed by third-party firms, and their tasks include filtering sensitive content posted on its social media platforms, such as suicide, terrorism, rape, hate speech, murder and child pornography. As a consequence of the emotionally intense work, some workers had developed post-traumatic stress disorder (PTSD), anxiety and depression. On-site mental health support is reportedly inadequate and not provided to former workers, some of whom filed a class action lawsuit against the company alleging its failure to provide a safe working environment. In response, the company stated that it requires its partners to offer 24/7 on-site support with trained practitioners, an on-call service, and access to private healthcare from the first day of employment. Despite the company's assurances, the recurring allegations remain a source of concern.

### Human Rights Infrastructure engagement via Hermes Infrastructure

Strengthening human and worker rights policies at a UK windfarm

At a Scottish windfarm, extensive engagement with co-shareholder led to a comprehensive review of the wind farm's ESG policy with a focus on managing risk. The policy was updated and expanded to include the consideration of several social matters, primarily on supply chain risks in relation to health, safety and wellbeing and forced, compulsory and child labour. The policy enhancements and implementation thereof contributed to an improved GRESB score from 66 in 2019 to 83 in 2020, ranking 3rd out of 6 in its peer group and obtaining 5 GRESB stars.



## Governance

### Remuneration

#### Private equity engagement via Hermes GPE



Ensuring bonuses for all employees in a positive investment exit

During the due diligence process for a retail company, Hermes GPE, alongside another investor, identified a potential remuneration misalignment between the portfolio company's general management and non-management employees. The management team were entitled to economic incentives for a future exit whilst non-management employees were not. Therefore, Hermes GPE felt this could create potential misalignment between management and the rest of the employee base. Both investors' teams reached an arrangement whereby up to 10% of the general carried interest would be allocated to non-management employees, depending on the outcome of the investment. The arrangement was reached when deal terms were discussed and will mean all employees will receive bonuses if a positive investment exit is achieved.

### Diversity & inclusion

#### Sovereign debt engagement via Wellington Asset Management



Engaging on social issues with an Argentine quasi-sovereign oil & gas company

During a joint meeting between Wellington's EM sovereign analyst, ESG analyst, and the CFO of the Argentine quasi-sovereign in the oil and gas company, the executives discussed their forward-thinking Diversity & Inclusion policies, including a gender parity agenda led by top leadership. Their gender pay gap is much lower than the national average. The company also provided solid disclosure on health and safety in their sustainability reporting, with improvement in metrics over time. On the sovereign side, the twin shocks of COVID crisis and OPEC+ agreement collapse led to heightened risks for Ecuador's population. We joined an ad hoc bondholder group which was in part to help ease financial pressures and enable the country to address the social costs of the crisis. These conversations helped with the debt restructuring and thus aiding with the social unrest.

### Accounting

#### Corporate credit engagement via M&G Investment Management



Changing asset accounting assumptions at a UK oil & gas company

M&G co-signed a letter with other major shareholders to support the changes to the company's accounting assumptions, which saw the oil and gas company write down the value of assets based on a lower future expected oil price. The letter was the culmination of a large amount of lobbying behind the scenes to get exploration and production companies to be realistic about demand and pricing assumptions under a Paris Agreement-aligned world. While there was not necessarily a direct causal link between this pressure and the company's changes, it is worth noting how proactive these views have been and that the changes, which are now becoming standardised across the industry, support better information for investors. This is also likely to help companies make investment decisions that are more aligned with climate targets.



# Proxy voting

When an investor owns shares in a company, they become a part-owner of that business. Having a share also gives them the right to vote at the company's annual general meeting (AGM), which is where companies submit resolutions for shareholders to approve, such as executive remuneration or appointing an auditor. Shareholders can file resolutions to allow other shareholders to vote on matters that are not raised by management. As very few investors now attend AGMs in person, votes are cast as "proxy votes" via phone, online or email. Often the items to be voted on could impact a company's long-term performance, making proxy voting an important way for active investors to influence corporate behaviour on ESG issues.

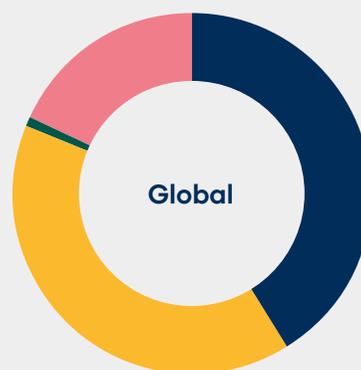
We believe that making full use of our voting rights is part of our fiduciary duty and require EOS and, where applicable, asset managers to execute all votes for the Scheme's directly held public securities. We believe that proxy voting activity should not be conducted in isolation but rather as part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

We seek to mitigate "empty voting" and, as a result, do not lend securities because we want to retain the right to vote and minimise the risk of conflicts of interest.

## Voting activities

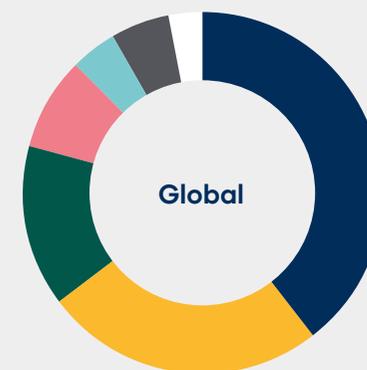
In 2020, management proposals to elect directors to the board or to continue with a certain board structure were the most voted against. Often, management proposals to elect board members can be opposed by investors due to concerns around board independence and quality, diversity, or conflicts of interest.

We made voting recommendations at **245 meetings (2,923 resolutions)** over the last year



● Total meetings in favour	41.2%
● Meetings against (or against AND abstain)	40.0%
● Meetings abstained	0.8%
● Meetings and management by exception	18.0%

We recommended voting against or abstaining on **285 resolutions** over the last year



● Board structure	2.5%
● Remuneration	14.4%
● Shareholder resolution	18.8%
● Capital structure and dividends	28.1%
● Amend articles	4.2%
● Audit and accounts	5.3%
● Other	2.8%

## Remuneration Via Magellan Asset Management



Improving executive pay, US financial services company

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 remuneration proposals.

## Diversity & Inclusion Voting via EOS



Improving gender diversity, Japanese software and service company

EOS recommended a vote against the president of a Japanese software and services company at the 2019 shareholder meeting, following engagement on gender diversity on its board since 2016 and board independence since 2017. After further engagement to accelerate change in board composition, the company announced that it is establishing a nomination advisory committee in January 2020 – three out of the five directors on this committee are outside directors. In May 2020, the company also announced that it will appoint a woman to the board for the first time. EOS were pleased with the appointment and the company was encouraged to improve disclosure of the nomination process and to publish the Terms of Reference of the nomination advisory committee so that investors can better understand the company's working objectives and accountability towards selecting board members, given that it has traditionally relied on the president to nominate candidates. We continue to engage as our expectations for diversity of a board go beyond these changes.



# Advocacy

We believe that being a good steward of capital also involves engaging with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and investors can operate more sustainably. As a result, we are members of several industry initiatives that work to promote better frameworks for long-term, sustainable investment. In addition, EOS undertakes significant advocacy activities on our behalf – to learn more, visit [btps.co.uk](https://www.btps.co.uk)

During 2020 we also engaged directly with policy makers and UK MPs on climate change and the issuance of 'green' government bonds, where we pushed the government to make clearer the benchmarks they were using to determine whether a government bond was sufficiently "green". We also co-signed letters to the UK government and European Union which promoted a more sustainable, greener recovery from the COVID-19 crisis. We believe that there is 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.

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# Collaboration

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



## Signatory Principles for Responsible Investment

The Principles for Responsible Investment ('PRI') is the world's leading advocate for Responsible Investment ('RI'), with over 2,300 signatories worldwide. It enables investors to publicly demonstrate commitment to RI by supporting the six principles for incorporating ESG issues into investment practice. BTPS became a signatory to the PRI in 2006 and in our last annual assessment received a top score of A+. PRI is an important partner, providing excellent guidance on responsible investment, and we plan to continue working closely with it in the future.

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



## Signatory The Institutional Investor Group on Climate Change

The Institutional Investor Group on Climate Change (IIGCC) provides a collaborative forum for pension funds and other institutional investors to engage with policymakers, regulators and companies to address the long-term risks and opportunities associated with climate change. IIGCC has more than 230 members across 15 countries and operates several work plans covering policy, investor practices, property and supporting members in their active ownership approach. It also plays a key role in investor initiatives and collaborations globally, including Climate Action 100+, The Investor Agenda and the Global Investor Coalition on Climate Change. In May 2020, it launched the Paris Aligned Investment Initiative (PAII) looking at how investors can most effectively align portfolios with the goals of the Paris Agreement. Membership enables BTPS to deliver our advocacy goals on climate change, and in 2020 we used the PAII's net zero framework as the foundation for our own Net Zero goal.

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



TASK FORCE ON  
CLIMATE-RELATED  
FINANCIAL  
DISCLOSURES

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

The TCFD is a voluntary framework for companies and investors to provide climate-related information in their annual reports around governance, strategy, risk management and metrics. Greater disclosure is key to obtaining reliable and consistent data, which improves investors' ability to assess climate-related risks and opportunities across investments. As a public supporter of TCFD, we encourage investee companies to improve disclosure and report in line with the recommendations. We released our third TCFD report in our 2020 annual report and alongside our Climate Change Policy which can be found on [btps.co.uk](https://www.btps.co.uk) – both documents set out our approach to managing climate-related risks and opportunities.

[fsb-tcfid.org](https://www.fsb-tcfid.org)



### **Public supporter** **The Transition Pathway Initiative**

The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. It is a free-to-use online tool that assesses how prepared companies are for the low-carbon transition. It uses a framework to evaluate how well companies manage the GHG emissions associated within their business. It also assesses companies' planned or expected future carbon performance and how this compares to international targets and national pledges made as part of the Paris Agreement. BTPS became a supporter of the TPI in October 2020 and we plan to further integrate its data into our investment systems.

[transitionpathwayinitiative.org](https://www.transitionpathwayinitiative.org)

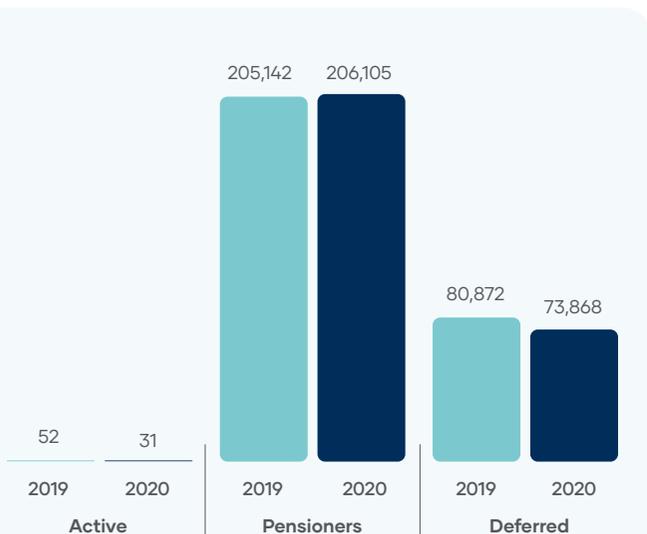


### **Signatory** **Net Zero Asset Owner Alliance (NZAOA)**

The NZAOA is an asset owner alliance committing to transitioning investment portfolios to net-zero GHG emissions by 2050, playing a key role in helping the world deliver on a 1.5°C target and addressing Article 2.1c of the Paris Agreement. We became members of the Alliance in October 2020, and our membership means we are committed to transitioning our investment portfolios to net zero CHG emissions by 2050 or sooner. We are active members of all the working groups and are contributing heavily to the "asset class", "engagement", "communication" and "financing the transition" working groups.

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

# Our members



BTPS is a mature pension scheme, with c.280,000 members. Each year, it pays out c.£2.5bn in benefits to c.200,000 retired members and their beneficiaries. The average age of members of the Scheme is 68 years old and by 2035 almost all the Scheme's members will be retired. For more details regarding our members, information can be found in our annual report and accounts which can be found on our website.

The Trustees believe in engaging with members to understand their views on a range of different topics. There are several mechanisms in place that provide this link including:

- Enabling members through Trade Unions (CWU and Prospect) and the National Federation of Occupational Pensioners (NFOP) to nominate Trustees
- Providing an annual presentation by the Trustee Board, BTPSM and its advisers to BT's recognised Trade Unions and NFOP.
- Updating members on the Scheme's stewardship, engagement and voting activities via quarterly updates on the BTPS website, the Scheme's report and accounts, including TCFD disclosures, and the Scheme's annual PRI transparency and assessment report, which is available at [btps.co.uk](https://btps.co.uk)

- Inviting feedback from members through the annual member newsletter and member surveys
- Supporting a "member panel" who volunteer to take part in more in-depth research with the Scheme.

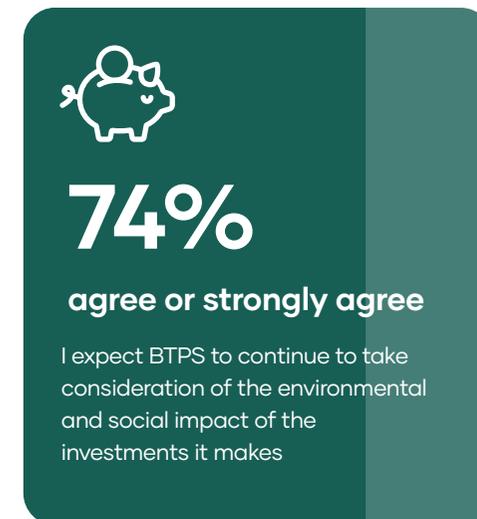
We believe that a collective understanding of member views helps inform the Scheme's approach to ESG considerations and stewardship. Each year the annual member survey asks members a range of questions, including those regarding member attitudes towards sustainable investment and stewardship.

Findings from the survey are shared with both the BTPSM Executive Committee and the Trustee Board. Where appropriate and possible, the Trustees integrate members' feedback into their thinking. In 2020, we understood that nearly three quarters (74%) of responders said they expect BTPS to continue to take consideration of the environmental and social impact of the investments it makes. Subsequently, the Trustees updated the Responsible Investment Mission statement in 2020 from "finance first" to "creating sustainable long-term value". Members' views were also taken into consideration when setting the 2035 net zero goal for the Scheme.

Not only do these findings help us understand members' priorities but they also provide a benchmark for us to work to improve, including how we can best report on our stewardship activities. Overall, the Trustees believe this is an appropriate and proportionate way for us to engage with and gain an understanding of members and their views.



In 2020, to better assess the effectiveness of our stewardship reporting, we asked members a range of questions in relation to responsible investment and stewardship. The findings from the February 2020 survey with 8,500 members surveyed online were as follows:



### Delivering the right outcomes for beneficiaries

To ensure that we deliver the best outcomes, the Scheme participates in annual benchmarking exercises to assess its performance. To ensure we have an unbiased view, these reviews are conducted by an independent third party, CEM Benchmarking, and reviews our performance versus our peers on the following: Investment Costs, Pension Administration Costs, and Overall Member Service.

In addition, the Investment Committee receives an annual review of the Scheme's longer-term performance over a multi-year period, including a review of the following: investment strategy outcomes; a comparison of outcomes with the core investment beliefs; strategy implementation; flexibility of the mandate; and any lessons learnt. The purpose of this annual review is to examine over the longer-term whether the investment strategy, supported by the investment beliefs including responsible investment, remain valid. The review helps identify any short-term patterns that should be monitored or addressed. It also challenges BTPSM's implementation of the investment strategy and identifies areas from which we can learn and apply to the future management of the Scheme's investments.

# Our people & training

Responsible investment training forms part of a Trustee's induction process when they join BTPS. The Trustees of the Scheme have policies and arrangements in place that ensure compliance with applicable laws and regulations and best practice governance, including policies that relate to personal conduct (e.g. Conflicts of Interest) and those that have a wider application in relation to the operation of the Scheme (e.g. Responsible Investment). One recent example of Trustee training saw EOS provide a teach-in on current governance and environmental topics. The Trustees act in accordance with policies related to Confidentiality, Conflicts of Interest, Anti-Bribery, Gifts and Hospitality, Data Protection and Whistleblowing.

Since 2006, BTPSM has ensured stewardship activities have been well-resourced to help shape and drive stewardship on the Scheme's behalf. The Scheme's responsible investment strategy and activities have been supported by individuals ranging from Trustees to the CEO and the investment team, to colleagues in our Facilities team. Today, our Head of SI heads BTPSM's focus.

As well as having colleagues across the organisation who are directly involved in ESG integration, there are significant works underway to organise regular internal training on ESG topics for both BTPSM and BTPSA. One recent training example was in relation to the Scheme's Net Zero 2035 goal where both organisations received training on climate change and the objectives behind our Net Zero 2035 goal.



# Our future priorities

Over the next five years, the Scheme will continue to explore the sustainability risks and opportunities posed and our exposures to these risks and opportunities. This will include developing a better understanding of the impacts of the Scheme's investments on people and the environment. Via BTPSM we will engage with our asset managers and work with them to enhance our understanding and to improve outcomes.

Good governance is also a key focus for the Trustees, and an externally facilitated review of Trustee performance will be commissioned in 2021. In the interim, we have undertaken an internal assessment to ensure that the governance framework operates effectively and that, as a collective, the Trustees have the skills and experience to cover all aspects of trusteeship. This exercise has informed how we structure training sessions and manage succession planning at Board level, as well as supporting the addition of four new Trustee appointments to the Board. Throughout 2021, the Trustees will receive a schedule of training sessions on current ESG themes, and while BTPSM does not currently formally track diversity information, it will implement a voluntary tool in 2021 to track this information and undertake more internal training.

To ensure we make it as easy as possible for members to understand their BTPS pension, we will soon be moving to a new administration system, launching a new online portal and website.

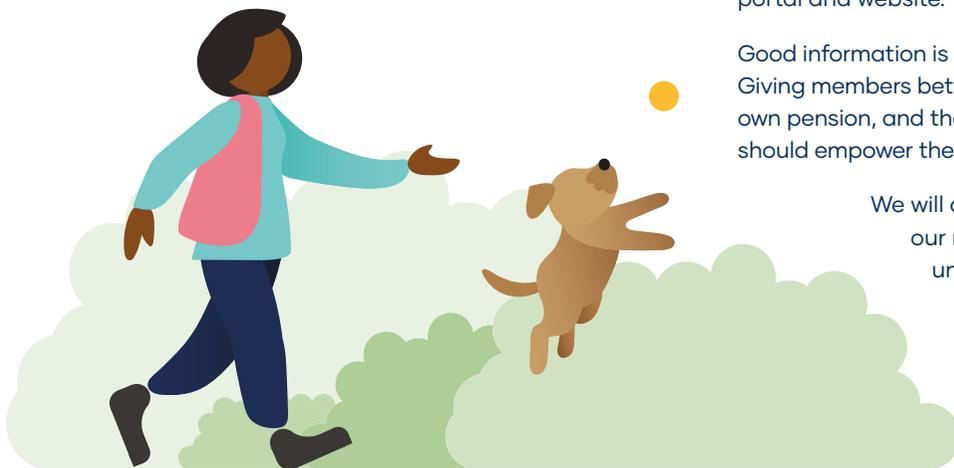
Good information is at the heart of good decision making. Giving members better access to information about their own pension, and the options available to them online, should empower them to make better decisions.

We will continue to focus on ensuring our reporting is fair, balanced and understandable.

In 2021, BTPSM will continue strengthening ESG integration into its investment processes and further embed being a good steward of capital into its corporate objectives. They will continue working with our asset managers to improve their approach to stewardship and will explore how to further integrate ESG data into their investment and risk systems. In addition, Net Zero 2035 scorecards will be developed with our asset managers so they can report their activities on climate change and we will establish a climate change voting policy for our segregated active mandates. Implementing a specific approach means our investee companies receive the same message: BTPS wants to invest in companies that take climate change seriously and have net zero targets - and will use its voting rights to communicate this commitment to the company and market.

We will monitor over time how this approach has worked and how we can continuously improve our approach to stewardship. The sustainable investment team will be strengthened to support this strategy.

Amongst other areas where stewardship will influence BTPSM's corporate values will be an emphasis placed on sourcing sustainable and environmentally responsible resources for BTPSM itself. This includes reviewing our office energy provider to reduce our operational emissions, as ways to bring our Net Zero target into every aspect of our organisation. BTPSM will also scrutinise our partnerships with organisations and service providers to ensure their practices and ethos are reflective of our own beliefs.



# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 1

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

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

The Trustee has implemented an RI policy and strategy in relation to stewardship as set out in the Scheme's Statement of Investment Principles which can be found online at [btps.co.uk](https://www.btps.co.uk)

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

**About us** – page 6

**Asset manager oversight** – page 18

**Our future priorities** – page 36



# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 2

Signatories' governance, resources and incentives support stewardship

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

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

BTPSM's CEO and members of the RIWG have formal RI objectives which contribute to continuing BTPSM's ESG integration process and stewardship activities. As BTPSM's commitment to achieving net zero emissions is a corporate objective, all executives' remuneration will be responsible for reducing operational emissions. In addition, meeting BTPS' Net Zero 2035 emission reduction target within the Scheme's asset portfolio is one of the key KPIs of BTPSM's CIO and the broader investment team.

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

**Our approach to stewardship and responsible investment** – pages 10-17

**Our people & training** – page 35

**Our future priorities** – page 36

# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 3

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

BTPSM has in place an Executive Services Agreement (ESA) and an Investment Management Agreement (IMA) with the BT Pension Scheme Trustee, BTPSM's sole client. The Trustee and BTPSM maintain separate conflicts of interest (COI) policies to assist all relevant persons in identifying, managing, and monitoring any conflicts of interest, including personal conduct, which may arise. COI risks are a standing item at all Trustee and BTPSM director meetings, and all new Trustees and BTPSM employees must undertake COI training, provided by an external third party.

Each Trustee must complete a declaration of their COI, including disclosing any relationship with BTPSM major suppliers, and these are recorded in a COI register, which is reviewed and approved at least annually by the Trustee board Audit & Risk Committee. Each BTPSM director and relevant person covered by the BTPSM policy must also declare any COIs which are recorded on a COI register which is reviewed at least annually. An annual attestation process reminds individuals of their obligations and formally captures individual agreement to adhere to policy requirements.

The COI policy is complemented at BTPSM by associated policies covering PA Dealing, Gifts and Hospitality, Confidential Information and Chinese Walls, Information Security and Data Protection.

Examples of potential conflicts include:

#### BTPS Trustee

- a Trustee director's own personal interests conflict with those of the Scheme, e.g. a Trustee has a relevant relationship with an asset manager being considered for appointment
- a Trustee director's duties to another party conflict with the duty to the Scheme
- there is a conflict in the Trustee Director's legal duties to a third party.

#### BTPSM

- investment decisions made misalign BTPS' stewardship approach and that of our appointed asset managers
- other business interests, such as working for or being involved with another company or organisation other than BTPS (whether compensation is received) which has the potential to give rise to a personal conflict.

In addition to the COI policy, management of conflicts is embedded in BTPSM's governance processes. At all formal governance meetings members are asked for declarations of any conflicts with agenda items. Where a conflict does arise, the Company Secretary provides advice on conflict management, and the organisation aims to always act professionally and independently with the Scheme's best interests in mind.

# Appendices

## Appendix 1: UK Stewardship Code 2020

It will take all reasonable steps to:

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

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

Below are two examples of stewardship conflicts that we actively monitor and manage in order to ensure the best interests of our beneficiaries:

**1.** BTPS is a minority owner of Hermes Investment Management, a UK based asset manager. Hermes also manage assets and provide stewardship services to BTPS via EOS. As a result, there is an inherent conflict in BTPS being both an owner and client of Hermes. To manage this conflict, we have in place separate and distinct governance and internal processes that distinguish clearly between (a) BTPS's equity investment in Hermes and (b) BTPS's investment management relationship with Hermes.

The team who selects and monitor Hermes as an asset manager evaluate Hermes in the same way they evaluate all other asset managers who manage Scheme assets. They focus solely on the investment mandates, with no consideration of the equity investment the Scheme has in the asset manager and make their investment recommendations directly to the Scheme's CIO. The oversight and management of the Scheme's equity investment in Hermes is undertaken separately by different individuals who report to a separate committee. This distinct governance and decision-making process is designed to appropriately manage potential conflicts of interest.

**2.** Another example of management of stewardship conflicts is in relation to the Scheme's agents (asset managers and stewardship provider) potentially making different voting actions in relation to the same company.

Following a detailed review in 2019, we concluded that it was appropriate to allow differences in voting between our agents, without our intervention. This was based on the fact that, having satisfied ourselves that our agents are suitably qualified to undertake stewardship and voting, they should have the flexibility and discretion to vote in the manner they deem appropriate, based on the objectives and guidelines we have set them. We see this as being consistent with the Trustee's core investment belief regarding the importance of diversification in constructing an efficient portfolio. Moreover, whilst we refer to differences in voting activity between as 'voting conflicts', this is not meant to imply that a difference in voting is necessarily a bad outcome.

# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 4

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

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

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

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

**Our action on climate change** – pages 19–20

**Collaboration** – page 31

**Advocacy** – page 30

### Key Risks in 2020

The Trustees and BTPSM have continued to monitor the potential impact on the Scheme's investments and funding position in relation to the Covid-19 pandemic and the UK's exit from the European Union. The Trustees reviewed scenarios modelling of the potential impact on the Scheme's investment portfolio and funding position of Covid-19. This detailed analysis drilled down into the investment portfolio to assess the resilience of the portfolio to the ongoing impact of lockdown.

The Trustees discussed a series of Brexit Impact analyses which were carried out to assess the potential impact on BTPS, including an initial analysis looking at the impact of a 'No deal', while the subsequent analysis looked at the impact of the new deal.

Climate risk is monitored as part of the regular review of the Investment Committee risk register. Historically, controls have included monitoring climate and carbon risk, 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. However, in 2020, the decision was made to recognise climate change as a risk for today, rather than a future risk which resulted in the Scheme establishing the Net Zero 2035 plan to address this risk.



# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 5

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



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

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

As an example of an outcome of such reviews, BTPSM's internal auditor carried out a Risk & Control audit, and several recommendations were made to ensure a more robust and effective risk management regime. As a result, BTPSM commissioned a maturity assessment survey on the current regime. The results of this led to the recommendation that an Enterprise Risk Management Framework should be implemented. This development work is underway and will include RI risks and topics.

Reviewing BTPSM agents' (asset managers and EOS), their stewardship processes and activities is a key part of

BTPSM's RI work. This is done primarily in 3 ways:

- 1.** through due diligence of stewardship policies and processes as part of initial agent selection as a service provider to the Scheme. BTPSM reviews the policies and processes, and assess examples of their activities, including stewardship and engagement successes (and less successful activity). Ultimately, BTPSM wants to ensure that the approach the agent takes to stewardship is consistent and aligned with that of BTPS. This is an important factor in our holistic assessment and selection of the agent.
- 2.** through ongoing monitoring and management of agent policies and processes. On a quarterly basis we ask all our asset managers to report any changes to their internal policies, including their stewardship policy. Any changes are reviewed and analysed relative to our expectations and the Scheme's own stewardship approach to ensure continued alignment.
- 3.** BTPSM evaluates the on-going voting and stewardship activity undertaken by the agent. This includes evaluating whether their activity is consistent with the Scheme's stewardship approach and our expectations, based on the understanding of their approach from our due diligence process. Additionally, BTPSM evaluates the success of the agent's engagement and voting, whether they achieve their ex-ante objectives and whether this aligns with their investment strategy more broadly. Regular reporting of their voting is a critical aspect of this, allowing BTPSM to scrutinise and appropriately challenge their activity.

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

**Asset manager oversight** – page 18

# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 6

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

On 31 March 2001 the Scheme was closed to new entrants. On 30 June 2018 the Scheme was closed to future accrual for most members. 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 our website [btps.co.uk](https://www.btps.co.uk).

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

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

In February 2020 we carried out our second annual member satisfaction survey. 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.

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

**About us** – page 6

**Our members** – page 33

# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 7

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

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

Before appointing an investment manager, BTPSM seeks to understand the manager's philosophy and approach to determine if they are suitable to work for the Scheme. They wish to understand if the asset manager is aligned with our beliefs and goals, what their investment time horizon is, their approach to responsible investment and engagement with underlying companies. This is done through interviews and a comprehensive due diligence questionnaire (DDQ) process. The DDQ includes nine detailed RI questions covering governance, integration, monitoring, engagement, voting, reporting and climate change, which must be answered in full. These questions have an equal weighting with the other questions posed in the DDQ. As part of manager due diligence meetings, the investment team assesses whether the approach outlined in the DDQ and other materials is integrated into the investment process, consistent with the investment philosophy and evidenced throughout the investment process. ESG factors play an important part of manager scoring which leads to shortlisting and ultimately to manager appointment. As part of the manager onboarding process, a manager checklist is completed for new mandates and the Head of SI affirms the consistency of the new manager's approach with the Scheme's RI policy.

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

**Asset manager oversight** – page 18



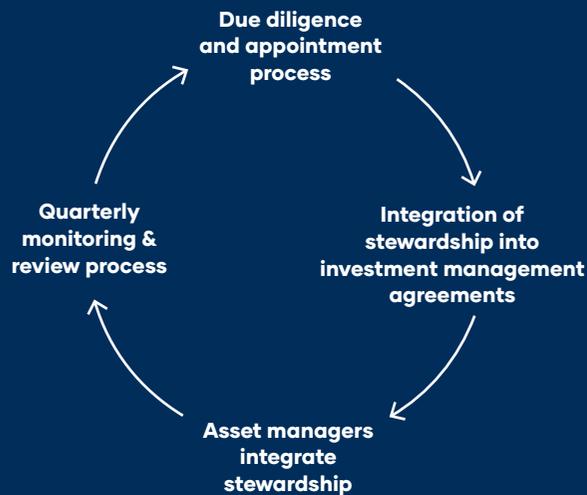
# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 8

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

#### BTPSM Asset Manager Monitoring Process



Asset managers must act on our instruction as set out in an Investment Management Agreement (IMA). BTPSM actively monitors and engages with asset managers to ensure their ongoing resilience, adherence to mandate expectations, alignment with BTPS' objectives and application of their responsible investment approach. The relationship with the asset manager is expected to reflect the long-term investment horizon of the Scheme. This long-term approach also allows investment managers to take a similarly long-term view with the underlying investments they make on behalf of the Scheme and to engage with companies to drive better long-term sustainable outcomes.

BTPSM's Head of Manager Solutions and Head of SI work closely together to monitor how asset managers are integrating RI into their investment processes and activities, and clearly reporting on their activities. They ensure that, where relevant, asset managers embed RI considerations, including ESG factors, into their investment processes. As part of the process, asset managers are expected to provide evidence and ongoing reporting on the RI integration process across, for example, fundamental analysis, asset valuation and portfolio construction.

As part of asset manager oversight, BTPSM also reviews the ESG ratings of its portfolio through ESG data providers, including MSCI, Trucost, Bloomberg and UBS Delta. These reviews include an ongoing evaluation of

the ESG characteristics of the portfolio, the manager's ESG integration approach, ESG and stewardship activities, and quality of reporting. Should the monitoring process reveal deficiencies or concerns which cannot be remediated, the mandate will be terminated. An example of this in practice occurred in 2018, when we took the decision to divest from an equity value strategy, driven in part by the high-carbon intensity the portfolio exhibited relative to the rest of our public equity portfolios.

We have placed particular importance on improving the reporting and data relating to ESG factors that we receive from our investment managers. While it is continuous work in progress, we have seen some considerable improvement – enabling, for example, reporting of carbon intensity data across all the major asset classes in which the Scheme invests in our Report and Accounts from 2019.

BTPSM also actively monitors material stewardship activity, including where agents take different voting actions at the same company. It also reviews EOS' engagement and voting activities through quarterly calls, regular reports and the EOS client portal. These activities are updated quarterly on our website [btps.co.uk](https://btps.co.uk).

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

**Asset manager oversight** – page 18

# Appendices

## Appendix 1: UK Stewardship Code 2020

### Principle 9

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

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

In determining whether and how engagement is taken forward, asset managers and EOS are expected to have due regard to the likelihood of success in bringing about change and the level of company exposure. Asset managers and EOS are expected to report on the key ESG issue of the engagement, the materiality of the

issue, the outcomes/desired change that they expected from the engagement, the people involved internally, a summary of the discussion and resulting actions. We also seek an appropriate explanation about how engagement informs investment decisions.

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

**Asset manager oversight** – page 18

**Corporate engagement** – pages 21-27

### Principle 10

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

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

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

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

**Corporate engagement** – pages 21-27

**Collaboration** – pages 31-32

# Appendices

## Appendix 1: UK Stewardship Code 2020

### **Principle 11**

Signatories, where necessary, escalate stewardship activities to influence issuers

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

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

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

**Corporate engagement** – pages 21-27



# Appendices

## Appendix 1: UK Stewardship Code 2020

### **Principle 12** – Signatories actively exercise their rights and responsibilities

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

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

To learn more about EOS' voting policy, visit <https://www.hermes-investment.com/ukw/wp-content/uploads/2021/03/ifh-corporate-global-voting-policy-and-guidelines-03-2021.pdf>

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

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

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

**Proxy voting** – page 28

# Glossary

## 2°C Scenario

An internationally agreed threshold to limit the rise in global temperatures to below 2°C from pre-industrial levels.

## A

### Active ownership

The active exercising of shareholder rights to improve the long-term value of a company.

### Asset classes

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

## B

### Bond (or corporate credit)

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

### BREEAM

A third party certification of the assessment of a real asset's environmental, social and economic sustainability performance. [breeam.com](https://www.breeam.com)

## C

### CA 100+

CA100+ is a coalition of over 400 global investors with nearly \$40 trillion in AUM focused on engagement with largest emitters for enhanced governance, strategy, actions, and disclosure around climate change. [climateaction100.org](https://climateaction100.org)

### Carbon footprint

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

### Climate change

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

### Corporate governance

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

### Custodian

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

## E

### Engagement

The practice of shareholders entering into dialogue with management of companies to change or influence the way in which that company is run.

### Equity

A method of raising fresh capital by selling shares of the company to public, institutional investors, or financial institutions. The people who buy shares are referred to as shareholders of the company because they have received ownership interest in the company

### ESG

Environmental, Social and Governance issues that constitute the three pillars of Responsible Investments. E, S, and G are the three central factors in measuring the sustainability qualities of an investment.

### ESG integration

The incorporation of ESG factors and analysis into investment decisions.

### ESG mainstreaming and integration

The incorporation of ESG factors and analysis into investment decisions.

# Glossary

## E

### Exposure

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

## F

### Financial Conduct Authority (FCA)

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

[fca.org.uk](https://www.fca.org.uk)

### Fiduciary Duty

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

## G

### Government bond

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

### Green bonds

A bond that is issued to raise capital for the development of environmentally friendly projects or assets.

### Greenhouse gas emissions (GHG)

The main GHGs in the Earth's atmosphere are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O) and ozone. These gases absorb and re-emit heat, thereby keeping the planet's atmosphere warmer than it otherwise would be. Human activities, such as the burning of fossil fuels, are increasing the levels of GHG's in the atmosphere, causing global warming and climate change. The gases are categorised into three scopes. Scope 1 covers direct emissions from the reporting company's owned or controlled sources. Scope 2 covers indirect emissions from purchased electricity, steam energy, heating and cooling, and Scope 3 includes all other indirect emissions that occur in the company's value chain.

### GRESB

Assesses and benchmarks the Environmental, Social and Governance (ESG) and other related performance of infrastructure and buildings, providing standardised and validated data to the capital markets.

[gresb.com/about/](https://www.gresb.com/about/)

## I

### Indenture (or debenture)

A legal and binding agreement, contract, or document between bond issuers and bondholders detailing provisions and clauses associated with a credit offering.

### Infrastructure

Investments in "real assets," which contain physical assets such as bridges, roads, highways, sewage systems or energy.

### Institutional Investor Group on Climate Change (IIGCC)

A forum for collaboration by institutional investors on the investor implications of climate change.

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

# Glossary

## I

### **Investment Management Agreement (IMA)**

A formal document that governs the arrangement between a company/individual (investment manager) providing investment management services and the investor (client)

### **Intergovernmental Panel on Climate Change (IPCC)**

The United Nations intergovernmental body for assessing the science of climate change. The IPCC's assessment reports supported the creation of the Paris Agreement.

[ipcc.ch](http://ipcc.ch)

## L

### **Liability matching**

An investment strategy that matches future asset sales and income streams against the timing of expected future expenses. For a pension fund it is a form of risk management where it seeks to mitigate or hedge the risk of failing to meet

### **Low-carbon economy**

An economy based on low-carbon power sources with minimal carbon emissions into the environment. It also implies a world where the temperature increase is contained well below 2°C or 1.5°C.

## N

### **Net Zero**

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

### **Net Zero Asset Owners Alliance**

An asset owner alliance committing to transitioning their investment portfolios to net-zero GHG emissions by 2050 and playing a key role in helping the world deliver on a 1.5°C target and addressing Article 2.1c of the Paris Agreement.

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

## P

### **Paris Agreement**

The Paris Agreement was reached at COP21 in 2015. Its aim is to ensure global warming in the 21st century remains well below 2°C above the average level recorded for the period 1850 to 1900 and to support efforts to limit global warming to 1.5°C.

[unfccc.int](http://unfccc.int)

### **Private Equity**

Investments in companies that are not publicly traded.

### **Proxy voting**

A proxy vote is a ballot cast by one person on behalf of another. One of the benefits of being a shareholder is the right to vote on certain corporate matters. Since most shareholders cannot attend the annual and special meetings at which the voting occurs, corporations provide shareholders with the option to cast a proxy vote. Shareholders may vote at the Annual or Extraordinary General Meetings (AGM/EGMs) of the companies in which they invest.

### **Purchase Power Agreement (PPA)**

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

## R

### **Real estate**

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

### **Responsible investment**

Incorporating corporate environmental, social and governance (ESG) factors into investment decision making to help investors identify future risks and opportunities.

# Glossary

## S

### Securities lending

Loaning shares of stock, commodities, derivative contracts, or other securities to other investors or firms.

### Share

A unit of ownership in a company or financial asset.

### Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

### Sustainable investment

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

## T

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

Will develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

[fsb-tcfd.org/](https://www.fsb-tcfd.org/)

### The Transition Pathway Initiative (TPI)

Co-founded in 2016 by the Environment Agency Pension Fund and the Church of England National Investing Bodies. The initiative assesses how companies are preparing for the transition to a low-carbon economy and will form the basis for engagement with companies. [transitionpathwayinitiative.org/](https://transitionpathwayinitiative.org/)

## U

### UK Stewardship Code

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

[https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code\\_Final2.pdf](https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship-Code_Final2.pdf)

### United Nations Principles for Responsible Investment (PRI)

A United Nations (UN) supported and investor-led global coalition promoting the incorporation of environmental, social and governance factors.

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

## Useful links

[BTPS Annual Report](#)

[BTPS Responsible Investment Policy](#)

[BTPS Climate Change Policy](#)

[BTPS: Net Zero 2035](#)

[PRI 2020 Assessment Report for BT Pension Scheme](#)

[BT Pension Scheme Public Policy Report Q4 2020](#)

[BT Pension Scheme - EOS Stewardship Annual Review](#)

[Hermes EOS Engagement Objectives & Plan 2021 - 2023](#)

**BTPS**

**[btps.co.uk](https://btps.co.uk)**