

BT Section of the BT Hybrid Scheme

Implementation Statement

For the year ended 31 March 2022

Introduction

This Implementation Statement (the “Statement”) has been prepared by the Section Trustee (the “Trustee”) of the BT Section (the “Section”) of the BT Hybrid Scheme (the “Scheme”). The purpose of this Statement is to set out how, and the extent to which, the Trustee believes the Statement of Investment Principles (“SIP”) has been followed during the Section year from 1 April 2021 to 31 March 2022. It sets out the changes made to the SIP during the Section year and demonstrates how the Trustee has acted on certain policies within the SIP.

This Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments. The Section has both a Defined Benefit (“DB”) section and a Defined Contribution (“DC”) section. This Statement has therefore been divided into two sections. Section 1 considers the Section’s DB assets and Section 2 considers the Section’s DC investments.

Trustees of occupational pension schemes which provide DC benefits are required to provide details of how, and the extent to which, their SIP policies have been followed over the scheme year, including details of any formal review of the SIP or changes made to the SIP with the reasons behind these. In relation to their SIP policy on voting and engagement with investee companies, trustees are also required to include a description of their voting behaviour, the most significant votes cast and any use of a proxy voter over the year.

Section 1 - Defined Benefit Assets

Trustee review of the SIP DB section over the year

This Implementation Statement should be read in conjunction with the Section’s SIP covering the year under review, which provides details of the Section’s investment policies along with details of the Section’s governance structure and objectives.

Over the year to 31 March 2022 the Section’s SIP for the DB section included policies on:

- How ‘financially material considerations’ including Environmental, Social and Governance (‘ESG’) factors are taken into account when making investment decisions for the Section.
- The extent to which non-financial matters are taken into account in the investment decision-making process.
- Stewardship and voting – including details on monitoring and engaging with the companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, strategy, risks, corporate governance and ESG). Engagement with investee companies by the investment managers is also expected on the matters of capital structure and the management of actual or potential conflicts of interest.
- Monitoring the Section’s investment managers, particularly concerning financial arrangements, performance, ESG factors and engagement.
- The duration of the Section’s arrangement with the investment managers.

During the year to 31 March 2022, the SIP was updated to reflect the changes to the DB investment strategy. The revised investment strategy added a new 15% allocation to private markets through the Partners Group Generations Fund and also switched the Section’s equity allocation from the LGIM All World Equity Index Fund – GBP Currency Hedged to the LGIM Future World Global Equity Index Fund – GBP Currency Hedged.

This Implementation Statement reviews the voting and engagement activities covering the 12-month period to the Section year-end and the extent to which the Trustee believes the policies within the SIP have been followed.

The Section’s defined benefit assets were invested in pooled funds managed by Legal & General Investment Management (“LGIM”) over the Section year under review to 31 March 2022. The Section also held assets managed by Partners Group (UK) Limited (“Partners Group”) over the period from 9 June 2021 to 31 March 2022.

It is therefore LGIM and Partners Group (“the Investment Managers”) that are responsible for the policy on taking ESG considerations into account in the selection, retention and realisation of investments within the pooled investment

vehicles and for the exercise of rights (including voting rights) attaching to these investments. The Trustee’s policy in relation to any rights (including voting rights) attaching to its investments is to exercise those rights to protect the value of the Section’s interests in the investments.

The Trustee expects LGIM and Partners Group to engage with investee companies (and other relevant persons including, but not limited to, investment managers, and issuers/other holders of debt and equity and other stakeholders) on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee’s investments. The Trustee believes that such engagement will protect and enhance the long-term value of its investments.

How the policies in the SIP have been followed over the Section year

In the opinion of the Trustee, the SIP has been followed throughout the year to 31 March 2022 for the DB Section.

The Trustee’s policies on investment objectives

Under the DB section, the Trustee’s primary investment objectives are:

Policy	Assessment
“Growth” objective – to be invested in assets which are expected to achieve a return consistent with the discount rate used to value the Section’s Technical Provisions Liabilities	<p>The Trustee reviews the investment strategy regularly with its investment advisor. As noted in the section above, investment strategy changes were implemented throughout the Section year. When deciding on an appropriate investment strategy, the Trustee will consider the Section’s liabilities and the covenant strength of the Company.</p> <p>The investment strategy of the Section is intended to deliver a return, over the long term, that will allow sufficient asset growth such that, in combination with the agreed schedule of contributions from the Company, the Technical Provisions can be met.</p>
“Stability” objective – to have due regard to the Company’s ability in meeting its contribution payments given its size and incidence, and to have due regard to the volatility of measures of funding and security	<p>There is no reason to suggest that the Company’s financial strength and commitment to the Section has changed, and therefore the Trustee retains the belief that the long-term strategy of the Section is appropriate.</p> <p>The Trustee’s objectives relating to funding level volatility are covered by the “Hedging” objective below.</p>
“Hedging” objective – for the assets to hedge a portion of the interest rate and inflation risk associated with the Section’s liabilities on a Technical Provisions basis	<p>As at 31 March 2022, we estimate that both the interest rate and inflation hedging levels were c. 80% respectively.</p> <p>The hedging levels were increased post Section year end as part of the investment of Company contributions.</p>

The Trustee’s policies on investment risk

In determining the Section’s investment strategy, the Trustee has considered a number of risks including funding risk, mismatching risk, underperformance risk, concentration risk, organisational risk, sponsor risk, liquidity risk, currency risk, credit and market risks, ESG factor risks and non-financial risks.

The Trustee, in consultation with its investment advisor, has considered the above risks throughout the design of the investment strategy and on an ongoing basis via regular monitoring. In designing the Section’s asset allocation strategy, the Trustee considered written advice from its investment advisor which included the need to consider a full range of asset classes, the risks and rewards of a range of alternative asset allocation strategies, the suitability of each asset class and the need for appropriate diversification.

The Trustee also reviews an Investment Risk Disclosures report each year for the Section’s report and accounts as required under FRS 102 and the 2018 Pensions SORP, highlighting the key risk exposures at each 31 March year end.

The Trustee's policies on day-to-day fund management

The Section's assets are invested in pooled investment vehicles. As such, fund management responsibilities for each of the Section's underlying investments has been delegated to the Investment Managers.

The day-to-day fund management of the assets is performed by professional fund managers who are authorised and regulated by the relevant authorities. The Trustee has carried out due diligence prior to investing in each pooled fund, taking advice from the investment advisor and legal advisor where relevant. The Trustee is satisfied that the appointed fund manager has sufficient expertise and experience to carry out their role and is satisfied with the day-to-day discretionary management of assets by the respective asset managers over the year to 31 March 2022.

The Trustee's policies on monitoring investments

The Trustee received four quarterly investment performance monitoring reports over the year to 31 March 2022. Each report covered, over each respective three-month period:

- Performance of each of the Section's investments versus their respective benchmarks
- The Section's asset allocation relative to the agreed strategic benchmark
- Total Section performance compared with that of the Section's strategic benchmark
- Updated funding position, comparing the Section's total asset valuation with an estimated value of the Section's liabilities as at the same date
- Interest rate and inflation hedge ratios
- Details of any transitions and additional investments
- Market commentary
- Any developments with the appointed Investment Managers
- The fees charged by the Section's Investment Managers (including a summary of the costs incurred and the cumulative effect of costs and charges on return over the 12-month period to 31 December 2021).

The Trustee's policies on the duration of investment arrangements

The Trustee is satisfied that the current and strategic allocation to open-ended arrangements is intended and remains appropriate, providing a sufficient level of liquidity, diversification and expected return.

The Trustee's policies on manager arrangements, ESG considerations and stewardship

The Section's assets are invested entirely in pooled investment funds alongside other investors and the Trustee does not directly invest in underlying companies or have the ability to engage directly with these companies. It is therefore the Investment Managers that are responsible for implementing the Trustee's policy on taking financially material considerations into account in the selection, retention and realisation of investments within the pooled investment vehicles and for the exercise of rights (including voting rights) attaching to these investments.

During the year to 31 March 2022, the Trustee reviewed the processes in place with LGIM and Partners Group to ensure that ESG factors were being considered when selecting and monitoring the underlying investments and that, where relevant, the Investment Managers had an active engagement policy to influence in respect of the relevant matters defined in the SIP. The Trustee expects the Investment Managers to actively engage on the relevant matters including ESG factors in order to protect and enhance the long-term value of the Section's investments. The Trustee will continue to receive regular monitoring, on at least an annual basis, on how the Investment Managers are integrating ESG into the management of the investment portfolios, including case studies and relevant metrics.

Description of Equity Voting Behaviour

This section summarises the voting activity undertaken by the Investment Managers on behalf of the Trustee covering the Section year to 31 March 2022 and the extent to which the Trustee believes the policies within their SIP have been followed.

Voting by LGIM

The Section's holdings in the LGIM All World Equity Index Fund – GBP Currency Hedged from 1 April 2021 to 9 June 2021 and in the LGIM Future World Global Equity Index Fund – GBP Currency Hedged from 9 June 2021 to 31 March 2022 were the main pooled fund investments held by the Section that carried voting rights over the Section year to 31 March 2022. The LGIM Buy and Maintain Credit Fund carried voting rights at one meeting over the year to 31 March 2022 and therefore the voting statistics for this Fund are also shown below.

LGIM manage over £1 trillion in assets, and use their resulting influence, focussing their votes on climate change, income equality, diversity, and ESG integration.

The tables below show LGIM's voting summary covering the Section's investment in the LGIM All World Equity Index Fund – GBP Currency Hedged, the LGIM Future World Global Equity Index Fund – GBP Currency Hedged and the LGIM Buy and Maintain Credit Fund over the year to 31 March 2022. LGIM is developing its reporting but is currently only able to provide voting statistics for 12-month periods to standard quarter-ends, rather than the actual periods invested. Therefore, we have included voting information covering the most relevant 12-month period from 1 April 2021 to 31 March 2022.

LGIM All World Equity Index Fund – GBP Currency Hedged (Fully disinvested on 9 June 2021)	1 April 2021– 31 March 2022
Number of meetings LGIM was eligible to vote at over the year	6,519
Number of resolutions LGIM was eligible to vote on over the year	64,607
Of the eligible resolutions, percentage that LGIM voted on.	99.8%
Of the resolutions voted, percentage that LGIM voted with management.	80.7%
Of the resolutions voted, percentage that LGIM voted against management.	18.1%
Of the resolutions voted, percentage where LGIM abstained .	1.3%
Percentage of eligible meetings where LGIM voted at least once against management.	60.0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	9.6%

Note: Totals may not sum due to rounding.

LGIM Future World Global Equity Index Fund – GBP Currency Hedged (c. £7.5m or 43% of total Section assets as at 31 March 2022)	1 April 2021– 31 March 2022
Number of meetings LGIM was eligible to vote at over the year	4,465
Number of resolutions LGIM was eligible to vote on over the year	47,851
Of the eligible resolutions, percentage that LGIM voted on.	99.9%
Of the resolutions voted, percentage that LGIM voted with management.	81.7%
Of the resolutions voted, percentage that LGIM voted against management.	17.4%
Of the resolutions voted, percentage where LGIM abstained .	0.8%
Percentage of eligible meetings where LGIM voted at least once against management.	61.9%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	10.7%

Note: Totals may not sum due to rounding.

LGIM Buy and Maintain Credit Fund (c. £3.7m or 21% of total Section assets as at 31 March 2022)	1 April 2021 – 31 March 2022
Number of meetings LGIM was eligible to vote at over the year	1
Number of resolutions LGIM was eligible to vote on over the year	2
Of the eligible resolutions, percentage that LGIM voted on.	100.0%
Of the resolutions voted, percentage that LGIM voted with management.	100.0%
Of the resolutions voted, percentage that LGIM voted against management.	0.0%
Of the resolutions voted, percentage where LGIM abstained .	0.0%
Percentage of eligible meetings where LGIM voted at least once against management.	0.0%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	0.0%

Note: Totals may not sum due to rounding.

Voting by Partners Group

The Section invested in the Partners Group Generations Fund in June 2021. This fund typically has less than 10% exposure to listed equities. As with LGIM, Partners Group is developing its reporting and voting statistics are only currently provided for 12-month periods, rather than the actual periods invested. We have therefore included voting information covering the 12-month period from 1 January 2021 to 31 December 2021.

Partners Group Generation Fund (c. £3.0m or 17% of total Section assets as at 31 March 2022)	1 January 2021 – 31 December 2021
Number of meetings Partners Group was eligible to vote at over the year	63
Number of resolutions Partners Group was eligible to vote on over the year	811
Of the eligible resolutions, percentage that Partners Group voted on.	91.7%
Of the resolutions voted, percentage that Partners Group voted with management.	90.6%
Of the resolutions voted, percentage that Partners Group voted against management.	5.4%
Of the resolutions voted, percentage where Partners Group abstained .	4.0%
Percentage of eligible meetings where Partners Group voted at least once against management.	31.7%
Percentage of voted resolutions where Partners Group voted contrary to the recommendation of their proxy adviser.	2.3%

Note: Totals may not sum due to rounding.

Proxy Voting

The Trustee did not employ a proxy-voting service during the Section year to 31 March 2022.

LGIM votes by proxy as given the scale of its holdings, the manager cannot be present at all shareholder meetings to cast votes. LGIM votes by proxy through the Institutional Shareholder Service's ('ISS') electronic voting platform. It should be noted that all voting decisions are made by LGIM using its individual market specific voting policies, with LGIM's own research only supplemented by ISS recommendations and research reports produced by the Institutional Voting Information Service ('IVIS').

Partners Group uses Glass Lewis as its proxy voting service who have been instructed to vote in line with Partners Group's Proxy Voting Directive.

How Voting and Engagement Policies Have Been Followed

The Trustee intends to review a summary of the voting and engagement activity taken on its behalf on a regular basis. The information published by LGIM and Partners Group on its voting policies has provided the Trustee with comfort that the Section's voting and engagement policies have been followed during the Section year to 31 March 2022.

As set out in the SIP, the Trustee expect the Investment Managers to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments.

Details of specific voting and engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustee?	Comments
Performance of debt or equity issuer	✓	Partners Group and LGIM's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.
Strategy	✓	<p>The Trustee believes that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustee also believes that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO, as well as policies covering independence, diversity and remuneration.</p> <p>Partners Group and LGIM have clear voting policies covering each of these topics and has acted on them throughout the Section year on behalf of the Trustee. For example, this year LGIM voted against the election of male chairmen due to a lack of gender diversity at a number of companies, including Atlas Copco AB, NVIDIA Corporation, and The Boeing Company.</p>
Risks	✓	<p>Partners Group and LGIM have clear voting policies on ensuring that companies manage risk effectively and have robust internal controls.</p> <p>As an example of reducing risk, LGIM encourages all audit committee chairs globally to have a financial background and be entirely comprised of independent non-executive directors. LGIM also believes that increased transparency and disclosure can allow for financially material risks to be identified. In 2021, LGIM engaged with Moderna over increasing publicly available information on the how much government financial support it had received in developing and manufacturing Covid-19 vaccines and whether this had affected decision making on products including setting prices. Following in-depth engagement, Moderna released a press note covering this topic, which allowed LGIM to assess the viability of continued investment in the company.</p>
Social and Environmental impact	✓	<p>LGIM has acted against over 100 companies in 2021 under their Climate Impact Pledge in order to hold directors to account for their management of climate risk. LGIM have also developed a toolkit, LGIM's Destination@Risk, to model energy transition scenarios and translate these into company, sector and portfolio level implications.</p> <p>As a direct lead investor, Partners Group is able to exert its control at a board level to integrate a range of ESG policies and initiatives. For instance, a climate change initiative was carried out at Techem, with an external advisor providing a detailed greenhouse gas inventory of scope 1, scope 2 and scope 3 emissions with reduction opportunities identified, which will form part of the carbon neutrality target.</p>
Corporate Governance	✓	LGIM's policy from 2021 is to vote against all elections which combine the roles of CEO and Chair. LGIM voted against electing directors of Microsoft

		<p>Corporation, JPMorgan Chase & Co., and Johnson & Johnson, alongside several others, in line with this policy.</p> <p>To ensure that each board is operating at an appropriate level, a 'board maturity' assessment is used to assess effectiveness covering areas such as performance and company strategy. Additionally, Partners Group aim to appoint a board member or executive at the leadership level to become responsible for developing a meaningful ESG journey plan within 100 days of investment.</p>
Conflicts of Interest	✓	<p>Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management). Over the period under review, LGIM voted against incentive awards which did not have performance conditions, as these awards would not align remuneration with company performance.</p> <p>For example, LGIM voted against AT&T ratifying named executive officers' compensation. There were concerns around a lack of performance criteria and the magnitude of awards and payments suggested.</p> <p>Partners Group supports board remuneration where equity-based compensation is in the form of restricted shares, which are vested over a number of years, to ensure alignment between the board and long-term shareholders' interests.</p>
Capital Structure	✓	<p>Partners Group and LGIM have policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance. For example, Partners Group and LGIM have policies that newly issued shares should not expose minority shareholders to excessive dilution.</p>

Significant Votes

LGIM publicly communicates its voting instructions on its website with the rationale for all votes against management. LGIM has provided examples of what it believes to be the most significant votes cast on the Trustees behalf during the period.

A number of the most significant votes over the Section year related to the separation of CEO and board chair roles. LGIM has a long-standing policy advocating for the separation and independence of the roles of CEO and chair, due to the different nature of these positions. Dividing these responsibilities ensures a single individual does not hold unbalanced powers of decision and creates equal authority on the board. From 2020 LGIM took a stronger stance on combined roles and will vote against individuals being elected or re-elected into both positions. During the Section's investment in the LGIM All World Equity Index Fund – GBP Hedged, the manager participated in a number of related votes, including withholding from a vote electing Mark Zuckerberg as Director of Facebook, Inc. due to his role as Chair and CEO of the company, and also against electing Jeffrey P. Bezos as Chair of Amazon.com, Inc. due to his previous role as CEO.

While the Section was invested in the LGIM Future World Equity Index– GBP Hedged Fund in March 2022, LGIM voted in favour of Apple Inc. to produce a Civil Rights Audit Report given the increased scrutiny of human rights and freedom of association in the US. LGIM supports proposals related to diversity and inclusion policies as it considers these issues to be a material risk to a company. This was a high-profile vote with some stakeholder scrutiny and as such LGIM engaged with Apple Inc. prior to the AGM to communicate its policies and how it was likely to vote.

Due to the Partners Group Generations Fund primarily investing in private markets opportunities, voting is only relevant for a small proportion of the portfolio. As such, Partners Group did not provide any examples of significant votes over the year to 31 December 2021 but noted that, due to their control of the Board, they were able to implement a range of ESG policies and initiatives including carbon emission monitoring at Civica and Hearthside Food Solutions and commitments to improved diversity of workforce at Foncia.

Engagement with Investee Companies (Non-Equity Investments)

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and is not directly applicable for the Section's fixed income investments through the LGIM Buy and Maintain Credit Fund (c. £3.7m of Section assets as at 31 March 2022) and the Partners Group Generations Fund (c. £3.0m of Section assets as at 31 March

2022). However, the Trustee expect the Investment Managers to engage on its behalf to aim to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

LGIM actively engages with the investee companies via direct messages and meetings with management and engagements via email to influence positive ESG practice. It is also noted that there is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bonds mandate does not hold voting rights, LGIM’s position as the equity holder elsewhere will likely result in them having voting rights to compound the impact and influence that LGIM has on each company’s practices.

LGIM’s voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for clients. LGIM’s voting policies are reviewed annually and take into account client feedback.

At the firm level, over the 12 months to 31 March 2022, LGIM undertook 696 engagements with 593 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 340 on environmental topics;
- 271 on social topics;
- 332 on governance issues; and
- 97 on other topics including finance and strategy.

Over the year, LGIM began to release fund specific engagement statistics, with the following table summarising the engagements undertaken on a fund-by-fund basis. Data was available for the Future World Global Equity Fund – GBP Hedged Fund and the All World Global Equity Fund – GBP Hedged for the year to 31 March 2022, however data related to the Buy and Maintain Credit Fund relates to the year to 31 December 2021 as LGIM are yet to publish the updated report.

	Total Engagements	No. Unique Companies Engaged	% of eligible fund value engaged	Environmental Topics	Social Topics	Governance Topics	Other Topics
Future World Global Equity Fund – GBP Hedged	528	343	34%	241	179	278	83
All World Global Equity Fund – GBP Hedged	535	351	33%	284	193	240	85
Buy and Maintain Credit Fund	178	95	25%	92	63	96	34

An example of an engagement carried out by Partners Group is with Ammega. Partners Group worked with Ammega to finalise its 2025 ESG & Sustainability vision, which includes steps towards reducing its environmental impact, improving employee engagement and further developing controls on sustainability data.

The remainder of the Section’s assets (c. £3.3m as at 31 March 2021) are invested in leveraged nominal and index-linked government bonds and interest rate and inflation swaps through the LGIM Matching Core Funds and cash through the LGIM Sterling Liquidity Fund with the purpose of reducing risk by hedging the exposure to interest rate and inflation inherent in the Section’s liabilities. LGIM has governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

Extent to which Trustee’s policies have been followed during the year

Having reviewed the actions taken by LGIM and Partners Group over the Section year, the Trustee believes that their policies on stewardship and engagement have been implemented appropriately over the year and in line with its views. The Trustee will continue to monitor the actions taken on its behalf each year and press for improved engagement information and ESG reporting metrics at the fund specific level.

If LGIM or Partners Group deviate substantially from the Trustee's stated policies, the Trustee will initially engage and discuss this with the relevant investment manager and if the Trustee still believes the difference between its policies and the investment manager's actions are material, the Trustee will consider terminating and replacing the mandate if necessary.

Section 2 - Defined Contribution assets

Trustee review of the SIP DC Section over the year

This section of the Implementation Statement should be read in conjunction with the Section's SIP for Defined Contribution assets covering the year under review, which provides details of the Section's investment policies along with details of the Section's governance structure and objectives.

How the policies in the SIP have been followed over the Section year

In the opinion of the Trustee, the SIP has been followed throughout the year to 31 March 2022 for the DC Section.

The Trustee's policies on investment objectives

Under the DC Section, the Trustee's primary investment objectives are:

Policy	Assessment
To provide a suitable default investment option that is likely to be suitable for contributing and deferred members within the Section who do not make an active investment choice.	A default investment option is in place for members who don't make an active choice on their investments. The default investment option includes a Lifestyling element that reduces the proportion held in growth assets in favour of bonds and cash as the member nears retirement age.
To offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives.	An appropriate range of alternative self-select investment options is offered for members that wish to make their own investment choices.
To achieve positive member outcomes net of fees and subject to acceptable levels of risk.	Members are responsible for their own choice of investment options. The self-select offering includes a range of passive low-cost index tracker funds. The default investment option invests across a range of asset classes to achieve diversification.
Manage the expected volatility of the returns through appropriate diversification of the use of asset types in order to control the level of volatility and risk in the value of members' pension pots.	The self-select offering includes a range of funds to allow members to achieve a suitable level of diversification and the default option includes allocations to equity, fixed income and property assets, all diversified by region. As noted above, the default investment option includes a Lifestyling element that reduces the proportion held in growth assets in favour of bonds and cash as the member nears retirement age. This is intended to reduce the volatility of a members' pot relative to annuity pricing and the risk of a significant reduction in the value of their pension pot near retirement.

The Trustee's policies on investment risk

Risk in a DC scheme lies with the members themselves. In determining suitable investment choices to members, the Trustee has considered a number of risks, including inflation risk, conversion risk, retirement income risk, concentration risk, currency risk, loss of investment risk, credit risk and market risk.

The Trustee's policies on monitoring investments

The Trustee received four quarterly investment performance monitoring reports over the year to 31 March 2022. Each report covered, over each respective three-month period:

- Performance of each of the funds available to members versus their respective benchmarks
- The asset value and number of members invested in each fund

- Market commentary
- Any developments with the underlying Investment Managers
- The estimated fees incurred by members

The Trustee’s policies on manager arrangements, ESG considerations and stewardship

Members’ pension pots in the DC Section are invested in white-labelled Standard Life funds and the Trustee does not therefore directly invest in underlying companies or have the ability to engage directly with these companies.

The Trustee has set an appropriate monitoring framework to ensure the Section’s Investment Managers are regularly reviewed. This is to promote greater transparency in understanding the reasons behind performance trends and key risk exposures and also engagement activity and compliance with the Trustee’s stated ESG policy. Regular monitoring, with specific reference to ESG factors should incentivise the Section’s Investment Managers to assess and improve the medium to long-term performance of investee companies, both financial and non-financial.

The DC Section offers investment options to members which include exposure to equity markets. The Trustee does not directly exercise voting rights as these investments are through the white-labelled funds managed by Standard Life. Voting rights are exercised by the underlying equity managers, Vanguard and BlackRock who disclose their voting records publicly each year, including summaries of their positions for significant shareholder votes.

Further detail on the approach taken by Vanguard and BlackRock to exercise voting rights is set out below.

Description of Equity Voting Behaviour

The default lifestyle option for members consists of four white-labelled funds, two of which carried voting rights over the Section year through the underlying funds. The responsibility for exercising the voting rights of the shares held by the Section therefore sat primarily with Vanguard and BlackRock as the underlying investment managers of these funds.

The BTHS Global Equity Fund (c. £4.4m of Section assets as at 31 March 2022) is a blended equity fund consisting of holdings in the Standard Life (“SL”) Vanguard Emerging Markets Stock Index Pension Fund and the SL Vanguard FTSE UK All Share Index Pension Fund, whose underlying funds are both managed by Vanguard. It also has a holding in the SL Overseas Tracker Pension Fund, which consists of 5 underlying regional equity funds.

The BTHS Diversified Fund (c. £6.6m of Section assets as at 31 March 2022) is a blended multi-asset fund consisting of equity holdings in the Vanguard Pacific ex-Japan Stock Index Pension Fund, the Vanguard Emerging Markets Stock Index Pension Fund, the Vanguard Japan Stock Index Pension Fund, the Vanguard FTSE Developed Europe ex-UK Common Contractual Fund, the Vanguard US Equity Index Common Contractual Fund, and the Vanguard FTSE UK All Share Index Fund all managed by Vanguard.

The voting summary for the Vanguard holdings over the Section year is included in the table below.

1 April 2021 – 31 March 2022	Vanguard Emerging Markets Stock Index Fund	Vanguard FTSE UK All Share Index Fund	Vanguard US Equity Index Common Contractual Fund	Vanguard FTSE Developed Europe ex-UK Common Contractual Fund	Vanguard Japan Stock Index Fund	Vanguard Pacific ex Japan Stock Index Fund
Number of meetings Vanguard was eligible to vote at over the year	3,042	741	513	501	293	150
Number of resolutions Vanguard was eligible to vote on over the year	26,203	10,618	6,684	9,063	3,552	1,108
Of the eligible resolutions, percentage that Vanguard voted on.	99%	99%	99%	89%	100%	100%
Of the resolutions voted, percentage that Vanguard voted with management.	93%	98%	97%	92%	99%	96%
Of the resolutions voted, percentage that Vanguard voted against management.	6%	1%	2%	7%	0%	3%

Of the resolutions voted, percentage where Vanguard abstained .	2%	0%	0%	0%	0%	0%
Percentage of eligible meetings where Vanguard voted at least once against management.	26%	9%	18%	45%	5%	14%
Percentage of voted resolutions where Vanguard voted contrary to the recommendation of their proxy adviser.	0%	0%	0%	0%	0%	0%

*Vanguard commented that with, against and abstained may not sum to 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differently, or a vote of abstain is also considered a vote against management.

The tables below show the voting summary covering the Section's investment in the underlying BlackRock iShares Global Property Securities Equity Index Fund within the BTHS Diversified Fund and the iShares S&P/TSX Index ET Fund within the BTHS Global Equity Fund, over the year to 31 March 2022.

iShares Global Property Securities Equity Index Fund	1 April 2021 – 31 March 2022
Number of meetings BlackRock was eligible to vote at over the year	390
Number of resolutions BlackRock was eligible to vote on over the year	3,705
Of the eligible resolutions, percentage that BlackRock voted on.	99%
Of the resolutions voted, percentage that BlackRock voted with management.	94%
Of the resolutions voted, percentage that BlackRock voted against management.	5%
Of the resolutions voted, percentage where BlackRock abstained .	0%
Percentage of eligible meetings where BlackRock voted at least once against management.	20%
Percentage of voted resolutions where BlackRock voted contrary to the recommendation of their proxy adviser.	0%

Note: Totals may not sum due to rounding.

the iShares S&P/TSX Index ET Fund	1 April 2021 – 31 March 2022
Number of meetings BlackRock was eligible to vote at over the year	61
Number of resolutions BlackRock was eligible to vote on over the year	770
Of the eligible resolutions, percentage that BlackRock voted on.	100%
Of the resolutions voted, percentage that BlackRock voted with management.	95%
Of the resolutions voted, percentage that BlackRock voted against management.	4%
Of the resolutions voted, percentage where BlackRock abstained .	0%
Percentage of eligible meetings where BlackRock voted at least once against management.	32%
Percentage of voted resolutions where BlackRock voted contrary to the recommendation of their proxy adviser.	0%

Note: Totals may not sum due to rounding.

Proxy Voting

The Trustee did not employ a proxy-voting service during the Section year to 31 March 2022.

Vanguard votes by proxy via dedicated voting providers. It should be noted that all voting decisions are made by the manager using their individual market specific voting policies and research.

BlackRock's proxy voting process is led by the internal BlackRock Investment Stewardship team. Analysts within each team determine how to vote at the meetings of the companies they cover, with input from a range of investment colleagues and in accordance with BlackRock's Global Principles and market-specific voting guidelines.

How Voting and Engagement Policies Have Been Followed

The information published by Vanguard and BlackRock on their voting policies has provided the Trustee with comfort that the Section's voting and engagement policies have been followed during the Section year to 31 March 2022.

As set out in the SIP, the Trustee expects the Investment Managers to engage with investee companies on aspects such as performance, strategy, capital structure, management of actual or potential conflicts of interest, risks, corporate governance, social and environmental issues concerning the Trustee's investments.

Details of specific voting and engagement topics are shown in the following table.

Voting and Engagement topic	Policy followed in the opinion of Trustee?	Comments
Performance of debt or equity issuer	✓	<p>BlackRock's voting and engagement policies do not cover the past financial performance of investee companies. However, the voting and engagement which has been undertaken aims to improve the long-term future performance of the investee companies.</p> <p>Vanguard conduct topic-driven engagement with companies that have a record of underperformance and are held to discuss matters that Vanguard believe can materially affect a company's long-term value.</p>
Strategy	✓	<p>The Trustee believes that the board's duty is to decide the appropriate company strategy, with the CEO in turn responsible for executing the strategy. For this structure to work effectively, the Trustee also believes that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO, as well as policies covering independence, diversity and remuneration.</p> <p>BlackRock and Vanguard both has clear voting policies covering each of these topics and have acted on them throughout the Section year on behalf of the Trustee. For example, in cases where the role of company CEO and chair of the board is combined, BlackRock would expect the board to implement mechanisms to offset a potential concentration of power, including a majority of independent board directors or the appointment of a senior lead independent director.</p>
Risks	✓	<p>BlackRock and Vanguard have clear voting policies on ensuring that companies manage risk effectively and have robust internal controls.</p> <p>Vanguard engages with boards regarding the oversight of material risks that have the potential to affect shareholder value over the long term—from business and operational risks to environmental and social risks. Vanguard believes that Companies should disclose material risks to shareholders, explain why those risks are material to their business, and disclose their approach to risk oversight.</p> <p>In order to mitigate risks, BlackRock focuses on five engagement priorities to assess companies. It expects companies it invests in to be able to demonstrate how they manage the following five exposures: Board quality and effectiveness; Strategy, purpose and financial resilience; Incentives aligned with value creation; Climate and natural capital; and Company impacts on people. BlackRock routinely reviews their engagement priorities to focus engagement on the issues they consider most important to long-term value creation.</p>

Social and Environmental impact	✓	<p>In relation to social impact, Vanguard have established a formal procedure to identify and monitor companies whose direct involvement in crimes against humanity or patterns of abuses of human rights would warrant engagement or potential disinvestment.</p> <p>In relation to environmental impact, BlackRock expects companies to use the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) to disclose their approach to ensuring they have a sustainable business model. BlackRock also ask companies to disclose how their business model is aligned to a scenario in which global warming is limited to below 2°C, and moving towards global net zero emissions by 2050.</p>
Corporate Governance	✓	<p>Vanguard aims to identify governance risks and focus engagement on achieving a well-composed, independent and capable board, with a governance structure that empowers shareholders and sensible compensation that incentivises long-term performance.</p> <p>BlackRock looks for companies to communicate the boards' approach to director responsibilities and commitments, turnover, succession planning and diversity to ensure they understand how effectively the board oversees and advises management.</p>
Conflicts of Interest	✓	<p>Remuneration of personnel can lead to conflicts of interest between the principal (shareholder) and agent (management).</p> <p>BlackRock considers that pay should be closely linked to performance and expects each company to have clear explanation for the policies used. Vanguard expect companies to have a clear remuneration structure with metrics aligned with corporate strategy and incentive plans with at least three-year measurement and holding periods.</p>
Capital Structure	✓	<p>Vanguard and BlackRock have policies on voting in respect of resolutions regarding changes to company capital structure such as share repurchase proposals and new share issuance.</p> <p>For example, Vanguard voted against a proposal by Hermes International to delegate powers to the management board to issue shares as this is misaligned with Vanguard's voting policy.</p>

Significant Votes

Vanguard has provided information on what they considered as most significant votes cast on the Trustee's behalf across the range of funds the Section invested in over the Section year. For example, Vanguard voted for a shareholder proposal for Nike to report on their efforts of diversity and inclusion. Vanguard supported this proposal as they believe the report will help to address the gap in disclosure, without being a burden to the company.

Vanguard voted against an updated Remuneration Policy for Executive Directors of KONE Oyj. Vanguard had concerns with the excessive amount of pay being proposed.

BlackRock has also provided information on what they considered the most significant votes cast on the Trustee's behalf during the period. For example, BlackRock voted in favour of Canadian Pacific Railway Limited conducting a semi-annual advisory vote on climate change as they are supportive of the company's efforts in addressing material climate issues.

Engagement with Investee Companies (Non-Equity Investments)

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and is not directly applicable for the Section's fixed income, property and money market investments held through other funds underlying the default investment option. However, the Trustee expects BlackRock and Vanguard to engage on its behalf to aim to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

Vanguard actively engages with the investee companies via direct messages and meetings with management and engagements via email to influence positive ESG practice. While engagements are not yet available at a fund level, they are published at a firm level within Vanguard's investment stewardship annual report.

Over the year to December 2021, Vanguard undertook engagements with 1,074 companies. Some engagements cover multiple topics and Vanguard have provided the following statistics:

- Discussed board diversity in 556 engagements
- Supported 47% of climate-related proposals
- Supported 46% of workforce diversity proposals, up from 19% the previous year.

Similar to Vanguard, BlackRock actively engages with investee companies in order to enhance and preserve the value of clients' investments. BlackRock are continuing to develop reporting of firm wide engagements and currently produce quarterly Investment Stewardship Statistics reports.

Over the year to December 2021, Blackrock conducted 3,642 engagements with 2,354 unique companies. These engagements can be summarised by the following statistics:

- Board quality and effectiveness was covered in 2,142 meetings
- Strategy, purpose and financial resilience was covered in 2,038 meetings
- Incentives aligned with value creation was discussed in 1,213 meetings
- Climate and natural capital was covered in 2,293 meetings
- Company impacts on people was discussed in 1,247 meetings.

The Trustee will monitor Vanguard's and BlackRock's reporting to see if more detail at a fund level can be provided in the future for monitoring purposes. The Trustee will also monitor the aggregate firm-level engagement data to report on activity exclusively over the Section year in future.

Extent to which Trustee's policies have been followed during the year

Having reviewed the actions taken by Vanguard and BlackRock over the Section year, the Trustee believes that its policies on stewardship and engagement have been implemented appropriately over the year and in line with its views as stated in the Section's SIP. The Trustee will continue to monitor the actions taken on its behalf each year.

If the Investment Managers deviate substantially from the Trustee's stated policies, the Trustee will initially engage and discuss this with the relevant manager. If the Trustee still believes the difference between its policies and the Investment Manager's actions are material, the Trustee will consider terminating and replacing the mandate if necessary.