



## Responsible Investment Policy

### 1. About the Scheme

BT Pension Scheme ('BTPS' or 'Scheme') is one of the UK's largest defined benefit ("DB") pension schemes with assets of £51.5 billion (30 June 2018) and approximately 290,000 current and future pensioners.

The Scheme is a founder signatory to the United Nations supported Principles for Responsible Investment (PRI) and its six Principles<sup>1</sup> form the foundations of this Responsible Investment ('RI') policy ('Policy').

### 2. Purpose

This 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, fiduciary and best practice obligations including those arising as a signatory to the Financial Reporting Council's UK Stewardship Code<sup>2</sup> and the PRI. These principles are signposted in left-hand margin of this Policy.

### 3. Strategy

The Trustee's RI strategy comprises an RI Mission Statement underpinned by three RI beliefs.

**RI Mission Statement**

As a responsible investor we will manage the Scheme's assets by seeking the optimal long-term risk-adjusted return while limiting outcomes which may harm our beneficiaries' shared interests.

RI beliefs	
<b>Long-term horizon</b>	The Scheme's long term investment horizon gives us both a responsibility and an advantage which we believe will produce better investment outcomes.
<b>ESG integration</b>	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.
<b>Stewardship</b>	Exercising ownership rights, collaborative engagement with its agents and portfolio companies, as well as active management of physical assets can improve long-term risk adjusted returns.

PRI principle 1

PRI principle 2 &  
FRC Stewardship  
Code principle 3

### 4. Governance

The Policy is approved and owned by the Trustee Investment Committee. The Investment Committee has chosen to delegate certain responsible investment matters to a sub-committee of Trustee directors, the Responsible Investment Oversight Committee (RIOC).

The RIOC has delegated authority to oversee the Scheme's RI strategy, which includes ensuring that the Scheme's activities comply with and fulfil its fiduciary and regulatory obligations. The Committee is also responsible for consideration of emerging, long term structural risks 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.

### 5. Implementation

PRI principle 5

BTPSM is responsible for the implementation of the Scheme's RI strategy through the appointment and oversight of external managers and providers of stewardship services, and collaborating with other asset owners and managers to inform best practice and improve the effectiveness of the Scheme's activities.



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PRI principle 3 & 4

As part of the process, external managers are expected to provide evidence and ongoing reporting on the RI integration process across, for example, fundamental analysis, asset valuation and portfolio construction.

FRC Stewardship Code principle 1 &

The majority of the Scheme's stewardship activities are undertaken by Hermes EOS, one of the world's foremost providers of collaborative stewardship services. 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.

The Scheme's stewardship service providers may engage with a company both individually and collaboratively with other investors where they are concerned about company practices and performance. In determining whether and how engagement is taken forward, stewardship service providers are expected to have due regard to the likelihood of success in bringing about change and the level of company exposure. Providers are expected to report the effectiveness of their intervention activities and where appropriate explain how engagement informs investment decisions.

FRC Stewardship Code principle 4

To achieve change service providers 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 chair or other board members, discussions with other shareholders of the company and submitting resolutions and speaking at General Meetings<sup>3</sup>.

FRC Stewardship Code principle 6

Hermes EOS and, where applicable, investment 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 agents are afforded a measure of discretion and flexibility.<sup>4</sup>

Agents may adapt their stewardship practices to accepted local market conventions and regional best practice including for example the U.K. Corporate Governance Code<sup>5</sup> and Hermes EOS' U.S. corporate governance principles<sup>6</sup>.

BTPSM monitors material stewardship activity, including where agents take different voting actions at the same company.

### 6. External reporting

PRI principle 6

Scheme members and other stakeholders are provided information on the Scheme's stewardship activities via the public BTPS website<sup>7</sup> and as set out in the Scheme's annual PRI transparency and assessment report<sup>8</sup>.

FRC Stewardship Code principle 7

Reporting contains a record of the number of company meetings voted and the number of resolutions voted against as well as a breakdown of issues where we voted against. Engagement reports include the number of companies engaged with split by different ESG issues for different regions.

### 7. Conflicts of interest

FRC Stewardship Code principle 2

In implementing this Policy, agents are expected to act in the best interests of the Scheme and are not permitted to lend securities. The Scheme expects its agents to have in place robust and up to date policies on managing conflicts of interest in relation to their stewardship activity which should be publicly disclosed.

Agents may be made insiders only on an exceptional basis following careful due diligence and appropriate controls are in place.

### 8. Contact Information

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**28<sup>th</sup> January 2019**

## End Notes

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<sup>1</sup> <https://www.unpri.org/about/the-six-principles>

<sup>2</sup> <https://www.frc.org.uk/investors/uk-stewardship-code>

<sup>3</sup> A full list of engagement activity we might reasonably expect our agents to undertake is set out under the guidance section of Principle 4 of the FRC UK Stewardship Code.

<sup>4</sup> <https://www.icgn.org/policy>

<sup>5</sup> <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

<sup>6</sup> <https://www.hermes-investment.com/ukw/wp-content/uploads/2019/02/hermes-eos-corporate-governance-principles-usa-dec-2018.pdf>

<sup>7</sup> <https://www.btpensions.net/information/investment>

<sup>8</sup> <https://www.unpri.org/signatories/bt-pension-scheme/982.article>