

BT (CDL) Section of the Deloitte Pensions Master Plan

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 (CDL) Section of the Deloitte Pensions Master Plan (the “Section”) to demonstrate how the Trustee has acted on certain policies within its Statement of Investment Principles (“SIP”).

Each year, the Trustee must produce an Implementation Statement that demonstrates how it has followed certain policies within the Section’s SIP over the year. This Implementation Statement covers the year from 1 April 2021 to 31 March 2022.

This Implementation Statement has been prepared in accordance with the Occupational Pension Schemes (Investment and Disclosure) Regulations 2005 Amendments and is in respect of the Defined Benefit investments held by the Section.

Trustees of pension schemes are required to provide details of how, and the extent to which, their SIP policies on engagement with investee companies have been followed over the year, including (where applicable) a description of their voting behaviour, the most significant votes cast and any use of proxy voting on their behalf over the year.

SIP Policies

This 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 its governance structure and objectives.

The Section’s SIP was last updated in September 2020, with additions outlining the Trustee’s approach to monitoring and reviewing investment managers with regards to areas such as remuneration, ESG related factors and engagement that the investment managers carry out with respect to underlying investments. Over the Section year, the Section’s overall investment strategy remained unchanged.

The Section’s SIP includes policies on:-

- How “financially material considerations” including environmental, social and governance (“ESG”) considerations 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 policy, including details on monitoring and engaging with the investee companies in which they invest (and other relevant stakeholders) on relevant matters (including performance, strategy, capital structure, the management of actual or potential conflicts of interest, risks, corporate governance, and governance, social and environmental issues concerning the Trustee’s investments)
- A policy on monitoring the Section’s asset managers, particularly concerning financial arrangements and ESG factors.
- A policy covering the duration of arrangements with the Section’s investment manager.

This Statement reviews the engagement activities covering the 12-month period to 31 March 2022 and the extent to which the Trustee believes the policies within the SIP have been followed.

The Section was invested in pooled funds managed by Legal & General Investment Management (“LGIM”) (the “Investment Manager”) over the year under review to 31 March 2022.

It is therefore LGIM that is 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 any 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 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.

Description of Equity Voting Behaviour

The Section invests in pooled funds, which means that the responsibility for exercising the voting rights of the shares held by the Section sit primarily with LGIM as the Investment Manager. The Section's voting behaviour over the Section year is summarised below.

The pooled fund investment held by the Section which carried voting rights during the year was the Buy and Maintain Credit Fund (c. £9.8m or 62.7% of Section assets as at 31 March 2022).

LGIM manage over £1.4 trillion in assets, and use their resulting influence as investors, focussing their votes and engagement with organisations on climate change, income equality, diversity, and ESG integration.

The table below shows LGIM's voting summary covering the Section's investment in the Buy and Maintain Credit Fund over the year to 31 March 2022.

LGIM Buy and Maintain Credit Fund	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%

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 Services' ('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'). To ensure LGIM's proxy provider votes in accordance with their position on ESG, LGIM have put in place a custom voting policy with specific voting instructions.

Significant votes

LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. Over the Section year to 31 March 2022, LGIM stated that were no significant votes made for the LGIM Buy and Maintain Credit Fund.

Engagement with Investee Companies

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and is not entirely applicable for the Section's fixed income investments held with LGIM in the Buy and Maintain Credit Fund (c. £9.8m or 62.7% of Section assets as at 31 March 2022). However, the Trustee expects LGIM to engage on its behalf to influence the underlying investee companies in respect of the ESG and stewardship matters outlined above.

LGIM actively engages with investee companies via meetings with management and engagements via email to influence positive ESG practice. There is substantial overlap between the companies in which LGIM holds debt and equity and so, while the corporate bond mandate does not hold voting rights, LGIM's position as the equity holder elsewhere will likely result in them having voting rights to increase 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 policies are reviewed annually and take into account client feedback.

While engagements are not yet available at a fund level, they are published at a firm level each quarter. LGIM is working to be able to provide engagement information at a fund specific 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.

More detail on LGIM's engagement on specific topics is shown below. The Trustee will monitor LGIM's reporting to see if more detail at a fund level can be provided in the future for monitoring purposes.

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 only available for the Buy and Maintain Credit Fund to 31 December 2021, with LGIM yet to publish data to 31 March 2022.

	Total Engagements	No. Unique Companies Engaged	Environmental Topics	Social Topics	Governance Topics	Other Topics
Buy and Maintain Credit Fund	178	95	92	63	96	34

The remainder of the Section's assets (c. £5.8m of assets as at 31 March 2022) are invested in leveraged nominal government bonds and inflation swap funds with the purpose of reducing risk by hedging the exposure to interest rate and inflation inherent in the Section's liabilities and a cash fund for liquidity purposes. LGIM has governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

How Engagement Policies Have Been Followed

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

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

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

Voting and Engagement topic	Policy followed in the opinion of Trustees?	Comments
Performance of debt or equity issuer	✓	LGIM 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>LGIM believes that board independence, diversity and remuneration can have a financially material impact on the assets it invests within, with the Board ultimately responsible for the strategy for any company that LGIM invests in or holds as a counterparty. LGIM have clear voting and engagement policies covering each of these topics and have acted on them throughout the Section year on behalf of the Trustees.</p> <p>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>LGIM have clear voting and engagement 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.</p> <p>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 engaged with companies that have poor climate scores relative to their size and for those that don't meet minimum standards and if these minimum standards are not met over time, LGIM may look to divest until progress is shown.</p> <p>LGIM have also introduced a policy to vote against the chair of the board of UK companies which fall short on LGIM's ethnic diversity expectations. In relation with this policy, LGIM have engaged with Amazon five times over the past year to discuss the company's human rights policies. LGIM supported Amazon shareholders at the 2021 AGM asking for an audit report of civil rights, equity, diversity and inclusion within the company.</p>
Corporate governance	✓	<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 Trustees also believe that the appropriate governance structures need to be in place. These include the separation of duties between the board and the CEO.</p> <p>LGIM's policy from 2020 is to vote against all elections which combine the roles of CEO and Chair. LGIM voted against electing directors of Microsoft Corporation, JPMorgan Chase & Co., and Johnson & Johnson, alongside several others, in line with this policy.</p> <p>LGIM has reinforced their position on leadership structures across their stewardship activities such as via individual corporate engagements and director conferences.</p>
Conflicts of interest	✓	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

		<p>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>
Capital structure	✓	<p>LGIM 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, LGIM have a policy that newly issued shares should not expose minority shareholders to excessive dilution.</p> <p>LGIM also has policies that protect minority shareholder rights including "one share, one vote" to avoid weakening of corporate governance as investors ability to influence and hold directors accountable would be reduced. As such LGIM decided against participating in the IPO of Deliveroo and The HUT Group of 2021.</p>

Extent to which Trustee Policies Have Been Followed

Having reviewed the actions taken by LGIM over the 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 and press for improved engagement information and ESG reporting metrics from LGIM on a fund specific level.

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

August 2022

For and behalf of the Trustee of the BT (CDL) Section of the Deloitte Pensions Master Plan