

BT (CDL) Section of the Pensions Master Plan

Implementation Statement

For the year ended 31 March 2023

Introduction

This Implementation Statement (the "Statement") has been prepared by the Section Trustee (the "Trustee") of the BT (CDL) Section of the 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 2022 to 31 March 2023.

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 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 was changed to facilitate the purchase of the insurance policy with Phoenix Life Group to secure member benefits. This included the disinvestment of the Section's buy and maintain credit holding and leveraged LDI assets, purchase of single-stock gilts and index-linked gilts in line with a price-lock portfolio for the insurance policy and the eventual surrender of all holdings with LGIM on 17 March 2023 to fund the purchase of the premium with Phoenix Life Group. At year-end the remaining assets of the Section were held in the Trustee Bank Account. It is expected that a new SIP covering the investment strategy of the remaining assets will be completed by the next year end, with a SIP reflecting the Section's current holdings updated in September 2023.

As such the Section's SIP, that was in place for the majority of the year, 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 2023 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 17 March 2023. As noted, post 17 March 2023, the remaining Section assets were invested in the Trustee Bank Account and therefore undertook no voting or engagement activity.

It was therefore LGIM that were 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) whilst the Section’s assets were invested until 17 March 2023.

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 expected 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 Behaviour

The Section invested in pooled funds, which means that the responsibility for exercising the voting rights of the shares held by the Section sat 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 over the year did not carry any material amount of voting.

LGIM manage over £1.2 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.

Proxy voting

The Trustee did not employ a proxy-voting service during the Section year to 31 March 2023.

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 2023, LGIM stated that there were no significant votes made for any of the pooled funds invested in.

Engagement with Investee Companies

Exercising equity voting rights is not the only method of influencing behaviours of investee companies and was not entirely applicable to the Section’s non-equity fixed income investments that were held with LGIM until 17 March 2023. However, the Trustee expected LGIM to have engaged 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 2023, LGIM undertook 1,088 engagements with 950 companies. Some engagements cover multiple topics and LGIM has provided the following summary:

- 571 on environmental topics;
- 327 on social topics;
- 433 on governance issues; and
- 123 on other topics including finance and strategy.

The top five engagement topics included climate change, remuneration, board composition, energy and climate impact pledges.

The table below summarises the engagements undertaken on a fund-by-fund basis. Buy and Maintain Credit Fund over the year to 31 March 2023, which as before the Trustee note the Section disinvested from before this date on 17 March 2023 with LGIM unable to provide data at ad-hoc dates.

	Total Engagements	No. Unique Companies Engaged	Environmental Topics	Social Topics	Governance Topics	Other Topics
Buy and Maintain Credit Fund	161	86	76	59	76	26

The remainder of the Section's assets were 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 until 1 March 2023. Following this, the Section invested in nominal and inflation linked government bonds also with LGIM until 17 March 2023 to match the movements in the price of the insurance premium offered by Phoenix Life Group. LGIM have 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 2023.

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	✓	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>LGIM have clear voting policies covering each of these topics and has acted on them throughout the Section year on behalf of the Trustee. In 2023, LGIM further enhanced its global policy expectations that at least one-third of the directors on non-controlled company boards are women. In addition, LGIM expanded its expectations to cover smaller companies, voting against boards where female directors do not make up at least 25% of the total.</p>
Risks	✓	<p>LGIM have clear voting and engagement policies on ensuring that companies manage risk effectively and have robust internal controls. 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 identify that cybersecurity is one of the fastest growing and most critical risks facing institutions, especially with the growth of remote working, which has created new opportunities for cyber-attacks. To understand more about this risk, LGIM contacted 400 companies to complete a survey addressing their key concerns including cyber insurance and the effectiveness of cyber-strategy.</p> <p>Finally, LGIM identified a systematic reporting risk within the UK and have engaged with the government to enhance sustainable financial policy and regulation to ensure that social topics are not overlooked.</p> <p>LGIM is engaging with the development of the Sustainability Disclosure Regime (SDR) and the updating of Green Finance Strategy in order to attempt mitigate this risk.</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>As part of this Climate Impact Pledge, in 2022 LGIM expanded to around 1,000 companies with exclusions applied to over £157.6 billion of their assets. In 2022, LGIM voted on 48 companies 'Say on Climate' proposals including climate-transition plans by management, with 67% of the votes being against.</p>
Corporate governance	✓	<p>Since 2021, LGIM has adopted a policy to vote against all elections which combine the roles of CEO and Chair. As some examples of this in practice, LGIM has subsequently voted against electing directors of Microsoft Corporation, JPMorgan Chase & Co., and Johnson & Johnson, alongside several others, in line with this policy.</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 fully align remuneration with company performance.</p> <p>LGIM voted against 127 remuneration reports (21%) proposed at UK companies, including for those that don't align remuneration for executives with long-term decision making and achievements as a result of the business strategy. LGIM set minimum expectations on pay practices globally and hold companies to account when voting.</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 policies that newly issued shares should not expose minority shareholders to excessive dilution</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.

If the Investment Manager of the Section's assets deviates substantially from the Trustee's stated policies, the Trustee will initially engage and discuss this with 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.

September 2023

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