BT (CDL) Section of the
Deloitte Pensions Master Plan

Statement of Investment Principles

as Required by the Pensions Act 1995 and the Pension Act 2004

September 2020

The Trustee confirms that the following matters have been taken into account when preparing this Statement of Investment Principles:

The Trustee has considered written advice from the Investment Advisor prior to the preparation of this Statement and has consulted British Telecommunications plc, the Principal Employer, before agreeing this Statement and the investment strategy outlined in this document.

All day to day investment management decisions have been delegated to the Investment Manager, where the Investment Manager is authorised and regulated by the Financial Conduct Authority.

The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of types of investments, the need to diversify, the custodianship of assets and any self-investment.

The Investment Manager will continue to prepare quarterly reports on its activities and the Trustee will meet with representatives of the Investment Manager as required.

This Statement of Investment Principles will be reviewed at least every three years, or whenever changes to the principles or strategy are necessary. Any changes to this Statement will be undertaken having taken advice, as appropriate, and following consultation with the Principal Employer.

1. General

This statement sets out the principles governing decisions about the investment of the assets of the BT (CDL) Section of the Deloitte Pensions Master Plan (the "Section"). It has been prepared on behalf of the Section trustee (the "Trustee") to comply with section 35 of the Pensions Act 1995 (the "Act") as amended by the Pensions Act 2004 and the Occupational Pension Schemes (Investment) Regulations 2005.

The Trustee reviews the Section's investment strategy every three years, following each formal actuarial valuation of the Section (or more frequently should the circumstances of the Section change in a material way).

2. Consulted Parties

As required under the Act, the Trustee has consulted a suitably qualified person in obtaining written advice from Deloitte Total Reward and Benefits Limited ("DTRB" or the "Investment Advisor") on the suitability of the investments, the need for diversification and the principles contained in this Statement. DTRB is authorised and regulated by the Financial Conduct Authority ("FCA").

The Trustee, in preparing this Statement, has also consulted BT plc, the Principal Employer (the "Company"), in particular on the Trustee's objectives and investment strategy.

3. Investment Powers

The Trustee recognises that the assets must be invested in the best interests of members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of members and beneficiaries. The Trustee has overall responsibility for the prudent management of the Section's assets. The strategic management of the Section assets is fundamentally the responsibility of the Trustee, acting on advice from DTRB, and is driven by its investment objectives as set out in Point 4 below.

The remaining elements of policy are part of the day-to-day management of the assets that is delegated to the professional investment manager, Legal & General Assurance (Pensions Management) Limited where the management of the assets is undertaken by Legal & General Investment Management ("LGIM" or the "Investment Manager"), who is authorised and regulated by the FCA.

4. Investment Objectives

The Trustee's primary objectives for setting the investment strategy of the Section are set out below:

- "funding objective" – for the Section to be fully funded on a low risk basis, taking account of the strength of the Company covenant;
- "stability objective" – to have regard to the Company's ability in meeting its contribution payments and to have regard to the volatility of funding and security measures; and
- "hedging objective" – for the assets to hedge a significant portion of the interest rate and inflation risk associated with the Section's liabilities on a Technical Provisions basis.

The investment arrangements outlined in Points 7 & 8 have been designed with these considerations in mind.

5. Choosing investments

The Trustee recognises that the investment strategy should reflect the characteristics of the Section's liabilities, specifically:

- Firstly, the actuarial calculation of the Section's liabilities uses a discount rate linked to gilt yields. Therefore investments in gilts of a similar profile ("matching assets") would result in asset values moving in a comparable pattern; and

- Secondly, a proportion of the Section's liabilities are increased annually for inflation. Thus these individual liabilities have a direct link to inflation i.e. they are "real" liabilities as opposed to "nominal" liabilities.

Therefore it is considered that the best "matching assets" for the liabilities are a mixture of nominal and index-linked gilts of appropriate durations to match the Section's liabilities. Such a portfolio of assets could be considered a "minimum risk" Liability Driven Investment (LDI) portfolio. In addition to using physical bonds, the Section could use interest rate, inflation and total return swaps along with gilt/index-linked gilt repurchase agreements ('repo') to gain leveraged exposure to interest rate and inflation.

The Trustee feels that is appropriate to deviate from a "minimum risk" position and invest some of the Section's assets in corporate bonds and other assets in an effort to improve the ongoing technical provisions and solvency funding positions and to reduce the reliance on the Company's contributions to fund liabilities. However, both the Trustee and the Company recognise that holding such assets will bring increased volatility of sponsor contribution requirements in anticipation of reduced costs in the long term. The Trustee works with the Scheme Actuary and the Investment Advisor to decide what degree of risky assets are appropriate at each given point in time.

Finally, when choosing investments the Trustee has considered risks, including Environmental, Social and Governance factors, which they believe to be financially material to the Section's investments over the period needed to fund its liabilities.

6. Investment Manager

The Trustee, with guidance from its Investment Advisor, has chosen LGIM to be the Section's Investment Manager. LGIM is authorised and regulated by the Financial Conduct Authority.

The fee arrangement agreed with LGIM is summarised in section 14 of this document. These fees are based on assets under management and are not subject to any performance conditions. In addition, the Investment Manager pays commissions to third parties on trades they undertake in the management of the assets. The Trustee reviews the fees charged by the Investment Manager on a regular basis as part of its monitoring framework to ensure fees remain reasonable in the context of the Section's size and complexity.

The Trustee also reviews additional investment manager costs and charges (including portfolio turnover costs) on a regular basis, and on the selection of any mandate, to ensure that they are appropriate and competitive for the service being provided. The Trustee monitors the portfolio turnover in the context of what the Trustee believes to be reasonable given the nature of each mandate. By also monitoring performance and associated costs, the Investment Manager is incentivised to consider the impact of portfolio turnover on investment performance.

The Trustee believes that along with the Investment Manager's stewardship policies, which are detailed in Point 11 of this document, the objectives of the funds are aligned with the medium and long term views of the Trustee.

If the Trustee believes that the Section's Investment Manager is no longer acting in accordance with the Trustee's policies regarding ESG and engagement with investee organisations, to assess and improve their medium to long-term financial and non-financial performance, the Trustee will take the following steps:

- engage with the Investment Manager in the first instance, in an attempt to influence its policies on ESG and stewardship; and
- if necessary, look to appoint a replacement Investment Manager or managers which are more closely aligned with the Trustee's policies and views.

The remuneration of the investment manager is not directly linked to performance, given the absence of performance related fees, or to ESG practices. However, the Trustee will review and replace the investment manager if medium and long term net of fees investment performance and ESG practices are not in line with the Trustee's expectations and views.

The Trustee believes that these steps will incentivise the investment manager to align its actions with the Trustee's policies and also for it to act responsibly.

The Trustee, with guidance from its Investment Advisor, has chosen to invest in open-ended pooled funds. For these funds, the Trustee's policy is to enter arrangements with no fixed end date. However, the Trustee will seek to enter arrangements where it has the power to terminate these in line with the liquidity of the underlying assets and as agreed in the mandate. The Section's open ended investments are daily and weekly dealt. The Trustee will determine whether to terminate such arrangements on an ongoing basis through its regular monitoring of the Investment Manager's performance against objectives. The Trustee may also elect to terminate the arrangement with the Investment Manager when performing ongoing reviews of the suitability of the Section's asset allocation over time.

7. Strategic Investment Benchmark

The Trustee has put in place the following strategic investment strategy for the Section. All of the Section's assets are invested with LGIM.

Asset Class	Fund	%
Corporate Bonds	Buy and Maintain Credit Fund	60.0
Liability Driven Investment (LDI)	Fixed LDI fund range	12.0
Liability Driven Investments (LDI)	Real LDI fund range	19.5
Cash	Sterling Liquidity Fund	8.5
Total		**100.0**

The objective of the LDI allocation is to hedge a significant proportion of the interest rate risk and inflation risk associated with the Section's liabilities, through the allocation to a range of LGIM funds. To achieve this, the assets invested in these LDI funds may vary from the benchmark allocation over time.

The allocation to Buy and Maintain Credit is designed to provide growth assets which also provide some interest rate hedging of the Section's liabilities. Due to the nature of the Buy and Maintain portfolio, it is also designed to reduce the volatility of the Section's funding level.

8. Performance Benchmarks

The Trustee expects the performance of the Funds to match the benchmarks as detailed below:

Fund	Benchmark Index
Buy and Maintain Credit Fund	None provided by LGIM, so iBoxx All Stock Sterling Non-Gilt Index used as a comparator.
Fixed LDI fund range	Custom Benchmark
Real LDI fund range	Custom Benchmark

The LGIM Buy and Maintain Credit Fund aims to produce a positive return from capital growth and income, by investing in predominantly fixed but also floating rate securities and holding these for the long term. Due to the nature of the fund, there is no explicit performance benchmark. For performance monitoring purposes, the iBoxx All Stock Sterling Non-Gilt Index is used as a comparator.

The Fixed and Real LDI Funds, in combination with the Buy and Maintain Credit Fund, aim to hedge c.90% of the Section's interest rate and inflation liabilities as measured on a Technical Provisions basis.

9. Realising investments and rebalancing

In general, the Investment Manager has discretion in the timing of realising investments and in considerations relating to the liquidity of those investments.

As the Section is currently cashflow negative, there is generally a need to realise investments for cashflow purposes. Where possible, the Section's allocation to cash will be used as the primary source of cashflows. If this is not sufficient, the Trustee will disinvest assets from the Section, after taking advice from its Investment Advisor.

The Trustee will consider requesting specific advice from its Investment Advisor before undertaking any rebalancing.

When rebalancing using cashflows or to move back towards the strategic benchmark, the LDI funds will generally not be rebalanced as this would alter the level of hedging that the Section is exposed to. The level of investment in the LDI portfolio will be considered as part of larger strategic reviews of the Section's investment strategy.

10. Risks

In determining its investment policy, the Trustee has considered the following risks:

- *funding and asset and liability mismatch risk* – the Trustee addresses this through the asset allocation strategy, including the fact that the matching assets are spread across different maturities, and through regular actuarial and investment reviews;
- *underperformance risk* – this is addressed through monitoring the performance of the Investment Manager and taking necessary action when this is not satisfactory;
- *risk of inadequate diversification or inappropriate investment* – the Trustee addresses this by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock or sector;
- *sponsor risk* – the Trustee seeks to maximise overall investment returns subject to an acceptable level of risk and, as far as possible, are mindful of the impact of any volatility on the rate of contribution; and
- *liquidity risk* – the Trustee may need to pay pension and lump sum benefits in the short-term and, therefore, address this risk by investing an appropriate amount in assets that are realisable at relatively short notice. In practice, all of the funds invested in by the Section provide at least weekly liquidity.
- *credit and market risks* – the Trustee accepts a degree of each of these risks in the expectation of being rewarded by excess returns. The value of securities, including interest bearing assets, can go down as well as up. The Section may not get back the amount invested. However, the Trustee realises that this risk is implicit in trying to generate returns above that earned by cash and accept this, by investing in assets other than cash
- *leverage and collateral adequacy risk* - The Section's liability driven investments are leveraged, which will multiply the exposure of these funds to certain assets. These funds may incur transaction costs associated with re-balancing the level of collateral held within the funds. There is a risk that the Section will be required to pay additional collateral into these funds in order to maintain the level of interest rate and inflation hedging. Should such an event arise then the Trustee has instructed LGIM to take these additional assets from the Section's cash holding in the LGIM Sterling Liquidity Fund. Should this still be insufficient to meet the required top up amount, the Section's level of hedging will be reduced
- *environmental, social and governance (ESG) factors* – the Trustee acknowledges that ESG factors, including climate change, can have a financially material impact on the future returns on its investments and the Trustee’s actions to mitigate these is detailed in the following section.
- *non-financial risks* – the Trustee has not taken these into account when deciding the choice of the Section’s investments.

The Trustee will monitor these risks from time to time, particularly those deemed to have high likelihood or significant adverse impact, and will look to introduce further control measures as appropriate to contain the overall level and distribution of risks to within acceptable limits.

11. Environmental, social and governance (ESG) policies and stewardship

The Investment Manager is responsible for managing the Section's investments in accordance with the management agreements in place with the Trustee. The Trustee has delegated the responsibility for the exercise of all rights (including voting rights) attaching to the investments to the Investment Manager.

The Trustee is responsible for setting the Section's investment strategy and implementing that strategy through appointing investment managers and selecting investment funds. When setting investment strategy and selecting investments, the Trustee's first priority is the financial interests of their members. The Trustee regularly reviews the return objectives, risk characteristics, investment approach and investment guidelines of each of the Section's current investment mandates. The Trustee is satisfied that all existing mandates fulfil the needs of their target investment strategy and by extension, that the Section's Investment Manager is managing the Section's assets in a manner which is consistent with members' financial interests.

The Trustee acknowledges that certain ESG factors, including climate change, are financially material and may therefore influence the risk and return characteristics of the Section's investments and the likelihood that the Section's objectives will be achieved.

The Trustee recognises the importance of ESG factors on long term investment performance and both immediate and future downside risks. The Trustee has set an appropriate monitoring framework to ensure the Section's Investment Manager is 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 Manager to assess and improve the medium to long-term performance of investee companies, both financial and non-financial. To confirm, no consideration has been given to non-financial considerations, nor has the Section's membership been consulted on such issues.

The Trustee also recognises the importance of regular monitoring of the Investment Manager's performance, remuneration and compliance against its ESG policy to ensure that the Section's assets are being managed appropriately. The Trustee believes that regular monitoring ensures that key risks to longer term performance, including those relating to ESG factors, are quickly identified and concerns communicated with the relevant investment manager.

In addition to performance measures, the Trustee will review the engagement activity of the Investment Manager to ensure that active engagement is taking place where possible to influence positive change in relation to ESG factors within investee companies. The Trustee also monitors the voting activity of the investment manager to ensure votes are being used and are aligned to its views on ESG.

As part of the selection, retention and realisation of the Section's investments, the Trustee, in consultation with its Investment Advisor, has reviewed the ESG and stewardship policies of the Investment Manager and are comfortable that these policies are consistent with its views. In particular, the Trustee notes the following:

- The Investment Manager has clear views on ESG factors and stewardship which are clearly articulated in formal policies on these issues.
- 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, having regard to appropriate advice. The Trustee expects the investment manager to engage with investee

companies (and other relevant persons including, but not limited to, investment managers, 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.

- The Investment Manager regularly publishes detailed results of how its stewardship policies are enacted in practice and the Trustee expects the Investment Manager to provide regular updates on how they exercise those rights and actively engages with companies in which it invests, including how often the Investment Manager votes against company proposals. The Trustee will review this on a regular basis in line with its monitoring policy mentioned above.
- Regarding the Section's LDI assets, the nature of these assets dictate that the ESG factors are less likely to be financially material. The Trustee does however have confidence that the Investment Manager has adequate governance practices in place to capture key regulatory developments which might influence the future management/ performance of these assets.

The Trustee will keep its investments under review, and should they feel that the Investment Manager no longer acts in accordance with its views on ESG, the Trustee will take the following steps:

- Engage with the Investment Manager in the first instance, in an attempt to influence their policies on ESG and stewardship; and
- If necessary, look to appoint a replacement investment manager or managers that are more closely aligned with the Trustee's policies and views.

These statements are made noting that the Section's assets are invested in pooled funds and as such, the Trustee is restricted in its ability to directly influence its Investment Manager on the ESG policies and practices of the companies in which the pooled funds invest.

12. Governance

The Trustee of the Section is responsible for the investment of the Section's assets. The Trustee takes some decisions and delegate others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether the Trustee has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision-making structure:

<table>
<tr><td>Trustee
Select and monitor planned asset allocation strategy;
Select and monitor investment advisors and investment managers;
Select and monitor any direct investments;
Responsible for all aspects of the investments of the Section's assets, including ESG considerations and implementation.</td></tr>
<tr><td>Investment Advisor
Advises on this statement;
Advises the Trustee on areas of strategy, manager selection, ESG and implementation as required;
Provides required training when engaged on a separate basis by the Trustee.</td></tr>
<tr><td>Investment Manager
Operates in line with the agreement with the Trustee, which the Trustee believes is consist with the terms of the SIP;
Manages in accordance with the agreement, including decisions around the selection and retention of underlying investments;
Is responsible for the stewardship of underlying investments.</td></tr>
</table>

When deciding whether or not to make any new direct investments the Trustee will obtain written advice and consider whether future decisions about those investments should be delegated to the fund manager. The written advice will consider the suitability of the investments, the need for diversification and the principles contained in this statement. DTRB was appointed to provide investment advisory services including the provision of this advice.

The Trustee recognises that, as the Section is invested in a range of pooled funds, there is limited scope to influence the controls and restrictions used in the management of the underlying assets and acknowledge that derivatives may be used by the manager within the funds.

The Investment Manager's objective is to invest so as to replicate the benchmark indices and their performance.

The Trustee has delegated all day-to-day decisions about the investments that fall within the mandate to the Investment Manager through a written contract. These duties include:

- Realisation of investments;
- Taking into account ESG factors;
- Voting and corporate governance in relation to the Section's assets.

The Trustee expects the Investment Manager to manage the assets delegated to them under the terms of their contract and to give effect to the principles in this statement so far as is reasonably practicable.

13. Custodian

The Section's investments are accessed via insurance policies. The investments in pooled pension funds are a share (measured in units) of larger pools of investments managed by the Investment Manager. The custodianship arrangements are those operated by LGIM for all clients investing in the relevant pooled funds.

14. Fees

The Investment Manager levies the following annual management charges.

Fund	Annual Management Charge (p.a.)
Buy and Maintain Credit Fund	0.14% of assets
Matching Core fund range and Real LDI inflation funds	0.18% of assets
Single stock gilt funds	0.03% of assets
Sterling Liquidity Fund	First £5m: 0.125% Next £5m: 0.10% Next £20m: 0.075% Balance over £30m: 0.05%

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