

# BT (Lynx) 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 (Lynx) 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 Statement covers the year from 1 April 2022 to 31 March 2023.

This 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.

Over the year the Section has continued to follow the strategy as per the Section's September 2021 SIP, similar to the prior year's implementation statement. As such there has been no changes to the policies listed below over the year, including to ESG. Post 31 March 2023, the Section updated its investment strategy and subsequently updated its SIP in June 2023, with any changes to be reflected in the next years implementation statement.

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 voting and 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 LGIM and Partners Group (the "Investment Managers") over the year under review to 31 March 2023.

It is therefore the Investment Managers that are responsible for the policies 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 the Investment Managers 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 the Investment Managers, LGIM and Partners Group. 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 were:

- The LGIM Future World Global Equity Index Fund (GBP Hedged) from 1 April 2022 to 31 March 2023; and
- The Partners Group Generations Fund from 1 January 2022 to 31 December 2022;

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.

The table below shows LGIM's voting summary covering the Section's investment in the LGIM Future Global Equity Index Fund (GBP Hedged) over the year until 31 March 2023.

LGIM Future World Equity Index Fund – GBP Hedged	1 April 2022– 31 March 2023
Number of meetings LGIM was eligible to vote at over the year	5,067
Number of resolutions LGIM was eligible to vote on over the year	54,368
Of the eligible resolutions, percentage that LGIM voted on.	99.9%
Of the resolutions voted, percentage that LGIM voted <b>with</b> management.	80.4%
Of the resolutions voted, percentage that LGIM voted <b>against</b> management.	18.6%
Of the resolutions voted, percentage where LGIM <b>abstained</b> .	1.03%
Percentage of eligible meetings where LGIM voted at least once against management.	63.3%
Percentage of voted resolutions where LGIM voted contrary to the recommendation of their proxy adviser.	10.5%

The table below shows Partners Group's voting summary covering the Section's investment in the Partners Group Generation's Fund, which the Section was invested in from 1 April 2022 to 31 March 2023. Partners Group is developing its reporting but is currently only able to provide voting statistics for 12-month periods to standard half-years, rather than the actual periods invested. Therefore, we have included voting information covering the most relevant 12-month period from 1 January 2022 to 31 December 2022, noting that the Section held investment from the Partners Group Generation Fund from 1 April 2022 to the 31 March 2023 over the Section year.

Partners Group Generation Fund	1 January 2022 – 31 December 2022
Number of meetings Partners Group was eligible to vote at over the year to 31/12/2022	69
Number of resolutions Partners Group was eligible to vote on over the year to 31/12/2022	959
Of the eligible resolutions, percentage that Partners Group voted on.	100.0%
Of the resolutions voted, percentage that Partners Group voted <b>with</b> management.	95.0%
Of the resolutions voted, percentage that Partners Group voted <b>against</b> management.	2.0%
Of the resolutions voted, percentage where Partners Group <b>abstained</b> .	2.0%
Percentage of voted resolutions where Partners Group voted contrary to the recommendation of their proxy adviser.	1.0%

Regarding the Section's property and LDI investments managed by LGIM, these funds did not invest in any investments that carried voting rights.

## 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').

Partners Group also votes by proxy through Glass Lewis, a proxy advising firm who undertake research on each ballot item and recommends votes in line with best practice, including local market standards. Glass Lewis have been instructed to vote in-line with Partners Group's bespoke Proxy Voting Directive, which contains specific ESG and Sustainability corporate governance considerations that arise frequently. In circumstances where Glass Lewis' recommendation is different to that from the Proxy Voting Directive and the company's management, Partners Group will vote manually on the proposal.

## 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 their voting policies has provided the Trustee with comfort that the Section's voting and engagement policies have been followed during the year to 31 March 2023.

As set out in the SIP, the Trustee expects the Investment Managers 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 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. 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>Partners Group and LGIM have clear voting 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. 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> <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 the company now producing an annual corporate sustainability report with a clear focus on achieving climate neutrality by 2045.</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 performance conditions, as these awards would not fully align remuneration with company performance.

		<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. 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>
<b>Corporate Governance</b>	✓	<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 &amp; Co., and Johnson &amp; 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>
<b>Capital Structure</b>	✓	<p>LGIM and Partners Group 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 and Partners Group have policies that newly issued shares should not expose minority shareholders to excessive dilution.</p>

## Significant Votes

LGIM has provided details of its voting actions including a summary of the activity covering the reporting year up to 31 March 2023. The Trustee has adopted the manager's definition of significant votes and has not set stewardship

priorities. LGIM has provided examples of votes it deems to be significant, and the Trustee has shown the votes relating to the greatest exposure within the Section's investment.

Example 1: LGIM Future World Global Equity Fund – GBP Hedged	
Vote Details	Amazon.com, Inc, 25/05/2022
Approximate size of fund's holding as at date of vote	1.76% of Future World Global Equity Fund – GBP Hedged.
Rationale for significance	LGIM pre-declared its vote intention for this resolution, demonstrating its significance.
Voting decision	LGIM voted against the election of a Director at Amazon.com, Inc as the Director is a long-standing member of the Leadership Development & Compensation Committee which is accountable for human capital management failings.
Voting against management	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. Typically, it is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as engagement is not limited to shareholder meeting topics. However, as noted above, LGIM pre-declared its vote intention for this resolution.
Vote outcome	93.3% in favour
Next Steps	LGIM will continue to engage with the investee company, publicly advocate its position on this issue and monitor company progress.

Example 2: LGIM Future World Global Equity Fund – GBP Hedged	
Vote Details	NVIDIA Corporation, 02/06/2022
Approximate size of fund's holding as at date of vote	1.20% of Future World Global Equity Fund – GBP Hedged.
Rationale for significance	LGIM views diversity as a financially material issue for investors, with implications for the assets managed.
Voting decision	LGIM voted against the election of a Director at NVIDIA Corporation due to board diversity and independence concerns. LGIM expects companies to have at least 25% women on the Board with the expectation of reaching a minimum of 30% of women on the Board by 2023. In addition, LGIM expects a board to be regularly refreshed in order to maintain an appropriate mix of independence, skills, experience and background.
Voting against management	LGIM publicly communicates its vote instructions on its website with the rationale for all votes against management. Typically, it is LGIM's policy not to engage with investee companies in the three weeks prior to an AGM as engagement is not limited to shareholder meeting topics.
Vote outcome	83.8% in favour
Next Steps	LGIM will continue to engage with the investee company, publicly advocate their position on this issue and monitor company progress.

Due to the private market's nature of the Partners Fund, voting is only relevant for a small proportion of the portfolio. As such, Partners Group provided no examples of significant votes over the year to 31 December 2022 but noted that due to their control of the Board it was able to implement a range of ESG policies and initiatives including Techem initiative to

focus on efficient and smart building technology which will aim to reduce energy consumption and CO2 emissions for heat and hot water involving both owners and tenants. .

Furthermore, Farmaca implemented an environmental and social management system, which will allow them to be fully compliant with the Equator Principles and Performance Standards of IFC. Currently, Farmaca is at 65% adoption across its system which is outperforming the target of 50%. Also, Farmaca maintained their progress in Health & Safety with a total incident rate of 0.00% in 2022.

## Engagement with Investee Companies

Exercising equity voting rights (including those related to the Section’s investment in the LGIM Future World Equity Index Fund – GBP Hedged, which had a value of c. £7.4m or 48.8% of Section assets as at 31 March 2023) 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. £3.7m or 24.4% of Section assets as at 31 March 2023), property investments also held with LGIM in the Managed Property Fund (c. £1.8m or 11.9% of Section assets as at 31 March 2023) or Partners Group Generations Fund as these investments do not always carry voting rights (c. £1.1m or 7.3% of Section assets as at 31 March 2023). However, the Trustee expects the Investment Managers 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 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 have 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.

Over the 12 months to 31 March 2023, LGIM undertook 1,088 engagements with 950 companies. Some engagements cover multiple topics and LGIM have provided the following summary:

- 571 on environmental topics;
- 123 on social topics;
- 433 on governance issues; and
- 327 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. Data was available for the Future World Global Equity– GBP Hedged Fund and the Buy and Maintain Credit Fund over the year to 31 March 2023. LGIM was unable to provide individual engagement statistics for the Managed Property Fund over any period.

	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
Future World Global Equity Fund – GBP Hedged	725	462	312	250	305	100

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.

An example of an engagement carried out by Partners Group is with Telepass. Partners Group worked with Telepass to publish their first Sustainability Report in July 2022 which summarises the company's sustainability objectives as well as an annual focus on cybersecurity and improving employee engagement.

The remainder of the Section's assets are invested in leveraged nominal and index-linked government bonds through the LGIM Matching Core Fund Range (c. £1.2m or 7.6% of Section Assets as at 31 March 2023) 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 have governance practices in place to capture key regulatory developments which might influence the future management and performance of these hedging assets.

LGIM LDI fund specific engagement statistics. The following table summarising the engagements undertaken on a fund-by-fund basis with data for the LDI Funds in relation to the year to 31 March 2023.

	Total Engagements	No. Unique Companies Engaged	Environmental Topics	Social Topics	Governance Topics	Other Topics
<b>LGIM LDI Portfolio</b>	33	14	23	1	8	1

## Extent to which Trustee Policies Have Been Followed

Having reviewed the actions taken by the Investment Managers 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 the Investment Managers at a fund specific level.

If the Investment Managers deviate 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 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 (Lynx) Section of the Pensions Master Plan.