BT Pension Scheme

BT Pension Scheme
Trustees Limited
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16 July 2018

Dear Mses. Donnelly and Bird

We write in response to the Consultation on clarifying and strengthening trustees' investment duties published on 18 June 2018.

Before responding to your specific questions, we felt it would be helpful to briefly provide some background to the Scheme. The BT Pension Scheme (Scheme) is the largest private sector pension scheme in the UK with approximately 300,000 members and assets of approximately £50bn. It is a defined benefit (DB) scheme which is managed by the Trustee of BT Pension Scheme (Trustee) on behalf of its members. The Trustee is a corporate trustee with nine trustee directors. The Scheme was closed to new members in 2001 and closed to future accrual on 30 June 2018.

BT Pension Scheme Management Ltd (BTPSM), a team of approximately 50 staff, acts as the executive arm of the Trustee and is the Scheme's principal investment advisor. The Scheme's assets are managed by external investment management companies across a diversified range of asset classes including equities, corporate and government bonds, property and alternatives. Hermes EOS, one of the world's leading providers of corporate engagement services, has been acting for a number of years as the Scheme's primary provider of stewardship services.

In responding to the Consultation we have chosen to respond only to those questions we consider could potentially have a direct impact on the Scheme. Given that the Scheme is a DB scheme that does not provide money purchase benefits other than those attributable to additional voluntary contributions, we understand the proposals relating to relevant schemes will not be applicable[1].

Q1. We propose that the draft Regulations come into force approximately 1 year after laying, with the exception of the implementation report, which would come into force 2 years after laying.

[1] "Relevant schemes" as defined in the Occupational Pension Schemes (Scheme Administration) Regulations.

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Subject to the timely publication of all relevant guidance, allowing a year between laying the Regulations and the Regulations coming into force should provide trustees, and other stakeholders, sufficient time to familiarise themselves with the changes and to update the Statement of Investment Principles (SIP) accordingly.

The requirement to produce an implementation report will not apply to the Scheme and we therefore have no comment on this point.

Q2. We propose to require all trustees of all schemes which are obliged to produce a SIP to state their policy in relation to financially material considerations including, but not limited to, those resulting from environmental, social and governance considerations, including climate change.

We note that current guidance from The Pensions Regulator (TPR) sets out the recommendations made by the Law Commission and makes it clear that trustees are required to take into account factors that are financially material to investment performance. Notwithstanding this, we agree with the policy proposal. Replacing the "social, environmental or ethical considerations" wording in the current legislation with "financially material considerations" will prove helpful in removing some of the confusion that may still remain in respect of financial and non-financial factors. We note that this will also align the Regulations with the recommendations of the Law Commission and TPR guidance and will, as such, provide consistency.

The Trustee believes that integrating financially material environmental, social and governance (ESG) factors into the Scheme's investment processes (including asset, manager and security selection) will help the Scheme and its agents make more informed and better investment decisions. This has been a long held position of the Trustee that dates back to before the Scheme became a founding signatory of the Principles for Responsible Investment (PRI) in 2006. The Trustee has also identified climate change as a material risk facing the Scheme and has a process in place for monitoring and managing climate and carbon risks. We are therefore supportive that the proposed definition of "financially material considerations" includes, but is not limited to, ESG considerations including climate change.

Q3. *When trustees prepare or revise a SIP, we propose that they should be required to prepare a statement, setting out how they will take account of scheme members' views.*

We agree that a "members' statement" may be a helpful way for DB schemes to clarify to beneficiaries, and other interested stakeholders, how, if at all, the trustee will take into account the views of members. We also agree with the Consultation that it is important to be clear that trustees retain control of investment decisions and are never obliged to take account of, or act on, members' views.

The Scheme has in place a number of mechanisms that provide a link between the Trustee and members. This includes having four (out of a total of nine) member nominated trustees (MNTs), an annual presentation by the Trustee Board and its advisers to the recognised trade unions (CWU and Prospect) and the National Federation of Occupational Pensioners (NFOP), and inviting feedback from members through regular newsletters. We believe this is an appropriate and proportionate way for a defined benefit scheme with close to 300,000 members to engage with, and gain an understanding of, its members and their concerns.

A collective understanding of member views has helped inform the Trustee's approach to ESG and stewardship, both of which are integrated into the Scheme's investment processes. This means that, where it is appropriate to do so, the investment managers appointed by the Trustee consider both the risks and opportunities that arise from ESG factors in the selection, retention and realisation of the

investments they manage on behalf of the Scheme. As a universal owner (i.e. a long-term investor with a portfolio that is well diversified and broadly exposed to global capital markets) the Trustee believes that it is better to engage with companies to bring about positive change than to divest. In its role as the Scheme's primary provider of stewardship services, Hermes EOS engages with companies and policymakers on a wide range of issues, including ESG, strategy and risk.

The Consultation recognises that there is an important distinction to be made between defined contribution and defined benefit schemes, with the proposals being predominately clarifying measures for the latter. In particular, in a defined benefit scheme, members are promised a defined level of income in retirement. It is therefore the employer, and not beneficiaries, that ultimately underwrites the investment risks and funding risk held within a DB scheme. However, the draft legislation in respect of the "members' statement" makes no distinction between the two. We suggest that TPR provides clarifying guidance in this area for DB schemes. The guidance should recognise that funding risk is borne by the employer, rather than by members, and provide flexibility for trustees to identify the most appropriate and proportionate approach to engage with members. This flexibility should recognise the importance of tapping into the trustees' and employer's existing knowledge about members. We think it would also be important for guidance to reiterate that whilst trustees should set out how they will take account of members' views, they have primacy in investment decisions and are never obliged to act on members' views.

In addition to providing guidance, we suggest consideration is given to incorporating "if at all" into the draft legislation in relation to the member statement (which is a term used in relation to this matter in Chapter 1, paragraph 20 of the Consultation) to help avoid giving the misleading impression that trustees are obliged to take account of members' views.

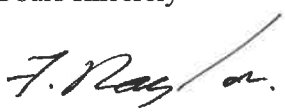
Q4. Do you agree with our proposal not to require trustees to state a policy in relation to social impact investment?

We agree with the proposal not to require a policy. Doing so could introduce further confusion around the distinction between financial and non-financial considerations.

Q5. We propose that trustees should be required to include their policy in relation to stewardship of the investments (including monitoring, engagement and voting) in the SIP.

The Trustee believes that stewardship is much more than just voting and in keeping with this the Scheme's Responsible Investment Policy is aligned with best practice, including the principles of both the UK Stewardship Code and the Principles for Responsible Investment (PRI). We are therefore supportive of this proposal.

Yours sincerely



Frank Naylor
Chief Investment Officer of BT Pension Scheme Management Ltd
On behalf of the Trustee of the BT Pension Scheme