11 July 2018

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JLT Employee Benefits

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Sinead Donnelly and Vicky Bird
Department for Work and Pensions
Strategy Policy and Analysis Group
Private Pensions and Arm's Length Bodies Directorate
Ground Floor North
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Dear Sinead and Vicky,

Consultation paper – Clarifying and strengthening trustees' investment duties

JLT Employee Benefits Ltd (JLTBS) is one of the UK's leading employee benefit providers offering a wide range of benefit and pension services, including administration, actuarial and pension consultancy and investment for Trust based defined benefit and defined contributions schemes, Self-Invested Personal Pensions (SIPPs) and Small Self-Administered Schemes (SSASs) administration, flexible benefits, healthcare, benefit communication and financial education. JLTBS employs over 2,200 professionals, has revenues of over £175m in UK & Ireland. We are one of the "big four" employee benefits consultancies in the UK.

Introduction

We welcome the opportunity to respond to this consultation, as we feel that it is very important for trustees to ensure that all financially material matters are considered when undertaking their duties. We believe that trustees should demonstrate how they have considered such factors, and how they take account of Environmental, Social and Governance considerations. We have been, and will continue to be working with our clients to ensure that when they consider their investment strategies they consider all financially material factors, from a risk and opportunity perspective.

We have answered the specific questions below, but we have one concern/ area for clarification that is not specifically addressed within the questions. Pages 13-14 of the document refer to "updating the default strategy to take account of financially material considerations". We are unsure whether this refers to the need to overhaul the default strategy, or simply to review the strategy documents. We are concerned that if it is unclear to us, it may be unclear to others, and we feel that this point needs clarifying within the final Regulations and accompanying guidance.

In terms of the specific questions posed in the consultation our responses are below. As we are not lawyers we have not commented on the efficacy of the draft Regulations which we leave that to others and have restricted our comments to our views on the proposals:

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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 approximately 2 years after laying.

a) Do you agree with our proposals?

As referred to in our introduction, we are supportive of the policy intent within the proposals, and we agree that the timelines proposed should allow enough time for trustees to implement them effectively. We see that ensuring that all financially material factors are considered by trustees when setting strategy to be very important, and are supportive of this intention.

b) Do you agree that the draft Regulations meet the policy intent?

Please see our comment in the introduction.

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.

a) Do you agree with the policy proposal?

Further to previous answers, we believe strongly that the proposal is appropriate, and encourage consideration of all financially material considerations.

b) Do the draft Regulations meet the policy intent?

Please see our comment in the introduction.

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

a) Do you agree with the policy proposal?

In our view consulting with the scheme members on the content of the SIP and demonstrating how these have been considered is sensible. We also agree that it is important to clarify that trustees do not feel that they have to make investments in line with scheme member preferences. The process of consulting with scheme members may present some schemes with governance issues, but we are sure that these can be resolved to allow them to demonstrate that consultation has taken place.

b) Do the draft Regulations meet the policy intent?

Please see our comment in the introduction.

Q4 Do you agree with our proposal not to require trustees to state a policy in relation to social impact investment? If not, what change in legislation would you propose, and how would you address this risk of trustee confusion on this point?

We understand the concern around confusion and accept that this is the reason for not including a requirement for trustees to have a policy in relation to Social Impact Investment. Such a requirement could lead to misinterpretation and we are supportive of the guidance for trustees contained within Paragraph 47 of the consultation, which encourages consideration of Social Impact Investment. We believe that this encouragement to trustees is sufficient, and doesn't require any further legislation.

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.

a) Do you agree with the policy proposal?

We believe that requiring trustees to explain their attitude, and approach to stewardship is a positive thing. We believe that it is important for shareholders to actively engage with the companies in which they invest, and demonstrate that they are holding the investee companies to account. We also recognise that many smaller schemes will be investing through indirect pooled vehicles, and will therefore be one stage removed from the underlying stock holdings. However, the trustees should still expect the fund manager(s) to report on their stewardship activity and should this not be acceptable it may be necessary to replace with a fund manager that is active in this area. We support the requirement, with the above caveat for smaller investors that it may not be possible to be as active with engagement.

b) Do the draft Regulations meet the policy intent?

Please see our comment in the introduction.

Q6 When trustees of relevant schemes produce their annual report, we propose that they should be required to:

- **Prepare a statement setting out how they have implemented the policies in the SIP, and explaining and giving reasons for any change made to the SIP, and**

- **Include this implementation statement and the latest statement outlining how trustees will take account of members' views in the annual report.**

a) Do you agree with the policy proposal?

We agree with the proposal in principle, and support the transparency that it will create. We are however conscious of the overly burdensome requirement on trustees that it could create, and are concerned that it appears to be overly bureaucratic. We would suggest that it may be simpler for schemes to include the required statements within the Annual Chairman's statement. There could a separate section, and in our view would create a richer document that is likely to be read, with all of the information in one place.

b) Do the draft Regulations meet the policy intent?

Please see our comment in the introduction.

Q7 We propose that trustees of relevant schemes should be required to publish the SIP, the implementation report and the statement setting out how they will take account of members' views online and inform members of this in the annual benefits statement.

a) Do you agree with the policy proposal?

This principle seems a sensible one, and ensures transparency around the investments of all schemes. This will bring schemes in line with public sector schemes which have had the requirement to publish the strategies for a number of years.

b) Do the draft Regulations meet the policy intent?

Please see our comment in the introduction.

Q8 Do you have any comments on the business burdens and benefits, and wider non-monetised impacts we have estimated in the draft impact assessment?

We have no real strong views in this area, but the draft impact assessment appears not to be an unreasonable calculation. There will be an inevitable impact, financially, and non-financially to implementing the proposals, and whilst in the short term this might create some cost, over the medium to long term we support the proposals, and believe that the short term costs are a necessary means to an end.

Q9 Do you have any other comments on our policy proposals, or on the draft Regulations which seek to achieve them?

Other than to repeat our support of the proposals in principle, and our belief that in the long term this will ensure sustainability for schemes, and the underlying investments that they are making.

Q10 Do you agree that the revised Statutory Guidance clearly explains what is expected of trustees in meeting their duty to publish the SIP, implementation statement, and statement of members' views?

We believe it does, subject to clarification of the points above.

Q11 What evidence or views do you have of how well the other requirements in the SIP are working? What areas for further consideration and possible future change would you suggest?

We have no comments to make.

Finally we thank you for inviting feedback on the proposals. If anything is unclear in our submission or you require amplification of the points please do not hesitate to contact me, or Nick Buckland (nick_buckland@jltgroup.com) who has assisted me in the preparation of our response.

Yours sincerely,

Phil Wadsworth
Director

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