

BT Pension Scheme



BT Pension Scheme
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Corporate Governance and Stewardship
Financial Reporting Council
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Sent by email: stewardshipcode@frc.org.uk

28 March 2019

Dear Sir / Madam,

We write in response to the consultation on the proposed revision to the UK Stewardship Code on behalf of the Trustee of the BT Pension Scheme (BTPS or Scheme). Before commenting on the Code, we felt it would be helpful to provide some background to the Scheme and its approach to responsible investment.

Background to BTPS and its approach to responsible investment

The BTPS is the largest private sector pension scheme in the UK with close to 300,000 members and approximately £50bn of assets. It is a defined benefit scheme managed by an independent Trustee on behalf of its members. 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.

The Scheme has a long history of being a responsible investor and engaged owner. It was a founding signatory of the Principles for Responsible Investment (PRI) in 2006 and is a Tier 1 signatory to the UK Stewardship Code. This commitment is articulated in the Scheme's Responsible Investment Policy (publicly available at www.btpensions.net) by the mission statement which explains that "as a responsible investor we will manage the Scheme's assets by seeking the optimal long-term risk-adjusted return while limiting outcomes which may harm our beneficiaries' shared interests." To do this effectively, the Trustee has integrated financially material environmental, social and governance (ESG) considerations throughout the investment process and promotes active stewardship of the portfolio companies and assets owned by the Scheme.

The Trustee oversees the Scheme's responsible investment strategy, which also includes the consideration of emerging, long-term structural risks, including climate change and technological disruption. The implementation of the responsible investment strategy is undertaken by BTPSM, with activity focused on the following core areas:

- i. Understanding the risks and opportunities that may face the Scheme because of its long-term investment horizon;
- ii. Integrating financially material ESG factors throughout the investment process, including in the design of investment mandates, new manager searches and ongoing monitoring of managers;
- iii. Ensuring the Scheme is delivering long-term value through responsible ownership. The majority of the Scheme's stewardship activities are undertaken by Hermes EOS, a leading provider of engagement resources.

Comments on the proposed revisions to the code

We are supportive of the proposed revision to the Code and the objective of setting substantially higher expectations for investor stewardship policy and practice. We believe the main changes to the Code (i.e. recognising the importance of purpose, objectives and governance, the inclusion of ESG factors, broadening of the scope beyond listed equities, setting clear expectations across the investment chain, and alignment with the structure of the UK Corporate Governance Code) are all well merited and will serve to strengthen the Code.

We are also supportive of the annual reporting requirement. However, we believe the stated purpose of the reporting (specifically the desire for it to provide an evidence base to regulators and governments on what stewardship activities are taking place and their effectiveness) will lead to an imbalance in the value that will be added from additional disclosure and the burden it will place on signatories. The reporting requirements may be particularly burdensome for smaller pension schemes with fewer resources, especially those that also report to other organisations such as the PRI.

We believe that the main purpose of reporting should be to provide sufficient comfort to interested parties that signatories are fulfilling their obligations under the Code and that reporting should therefore primarily focus on policies and process together with a clear explanation of how these are reviewed and assured. We would suggest that the value to be added from providing details of specific activities and/or assessment of individual service providers will be far outweighed by the burden of doing so. In addition, asking signatories to provide selected examples of stewardship activities may give rise to cherry-picking by signatories and may not therefore provide a true or complete picture of the state of stewardship.

While we support the intention for the FRC to provide more detailed analysis on the implementation of the Code, we worry that unrealistic expectations are being set with regards to the ability of the FRC to assess the stewardship quality of signatories. While reporting and disclosure plays an important role in our evaluation of the quality of stewardship provided by the Scheme's service providers (for both investment managers and Hermes EOS), having a regular face-to-face dialogue with each party is a critical part of the process. Without the ability to have a similar dialogue with signatories, it would seem very challenging for the FRC to effectively evaluate the quality of signatories' stewardship. We therefore think it would be better to set realistic expectations in this regard, rather than encourage over-reporting by signatories as a substitute.

In respect of Provision 22 (the requirement for signatories to describe how they take account of beneficiaries' needs) we feel it would be helpful for the guidance to draw the distinction between defined benefit (DB) and defined contribution (DC) schemes. The guidance should recognise that for a DB scheme funding risk is borne by the employer, rather than members, and that different levels of engagement with members may therefore be appropriate. The guidance should also note the important role of the employer and make it clear that whilst trustees may take account of members' views, they have primacy in investment decisions and are never obliged to act on members' views.

We appreciate the opportunity to respond to the consultation and hope that our comments are helpful. If you would like to discuss our views in further detail please do not hesitate to contact us.

Yours sincerely,

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