

BT Section of the BT Hybrid Scheme Chair's Statement

For the period 1st April 2021 to 31st March 2022

1. Introduction

This Chair's Statement has been prepared for the BT Section of the BT Hybrid Scheme (the "Section") in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, as amended by subsequent legislation.

This Annual Chair's Statement for the BT Section of the BT Hybrid Scheme ("BTHS") covers the period from 1st April 2021 to 31st March 2022. It has been prepared and signed by the Section Trustee (the "Trustee"). The Section is a hybrid pension scheme and this Chair's Statement relates to Defined Contribution (DC) benefits only.

This Chair's Statement explains how the Section is meeting governance standards that apply to occupational pension plans that provide money purchase benefits. The Trustee has a legal duty to act in the best interests of members and is committed to ensuring that the Section meets high standards. The Trustee meets formally four times a year, with additional meetings if deemed necessary.

This Chair's Statement covers governance of the Section's default investment strategy, the processing of core financial transactions, charges and how these represent value for members, and how the Trustee maintains required levels of knowledge and understanding.

Certain DC schemes with a scheme year end falling after 31 December 2021 must carry out a more detailed Value for Members ("VfM") assessment and include the findings in the annual Chair's Statement and submit these findings as part of the Annual Scheme Return. The Section meets the criteria for requiring a VfM assessment to be performed. This assessment is also included in this document.

2. Default Arrangement Investment Strategy

Statement of Investment Principles

In accordance with the Regulations, the Trustee is required to append the latest version of the Statement of Investment Principles (the “SIP”) prepared for the Section. A copy of the Section’s SIP dated June 2021 is attached as an appendix to this Chair’s Statement.

BTHS Default Investment Option

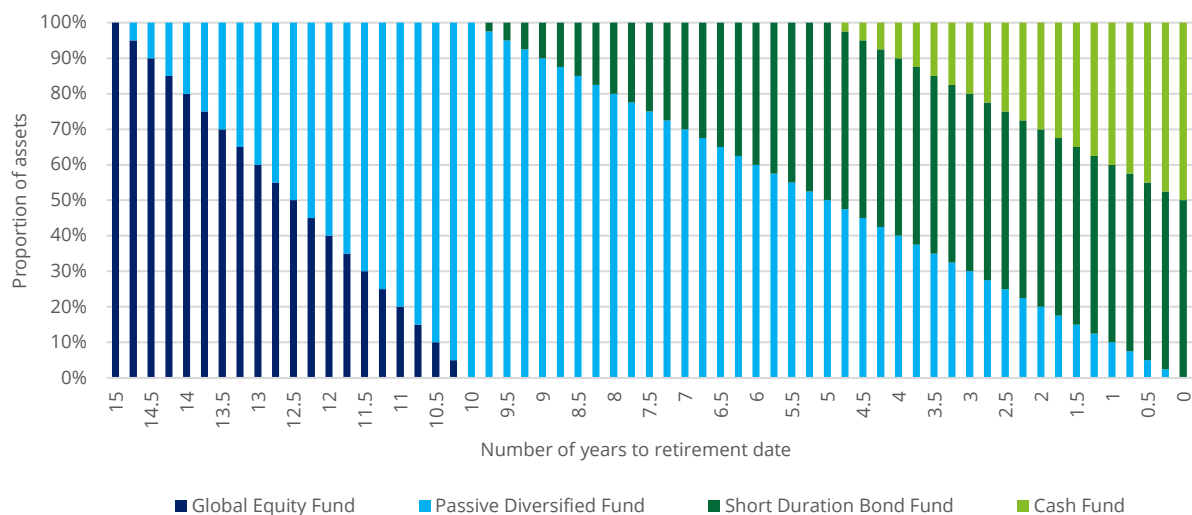
The Trustee is responsible for the design of the BTHS Default Lifestyle Option and for choosing which funds to make available to members.

The Section’s BTHS Default Lifestyle Option invests entirely in global equities on a passive basis until the member is around 15 years from retirement. Investment risk is then gradually reduced through increasing allocations to lower risk assets such as bonds and cash. At retirement, a member’s pot will be invested in a combination of cash and short duration bonds, in the expectation that members will want to take a large proportion (or all of) their DC benefits as cash upon retirement. This reflects the fact that as members of a hybrid scheme, members are more likely to take their DC benefits as cash at retirement than might be the case in a purely DC plan.

Over the period, the Trustee identified that lifestyle switching in the default arrangement was occurring on an annual basis and that rebalancing was occurring on a quarterly basis for most funds, but a monthly basis for the BTHS Global Equity Fund. The Trustee’s intention was to undertake both lifestyling switches and rebalancing on a quarterly basis. The intention of a quarterly approach to switching and rebalancing is to reduce the risk associated with relatively few switching periods being used, while keeping transaction costs to a reasonable level. By switching slightly more frequently, the aim is to smooth out the volatility so that members experience with only a small reduction in expected return. Changing rebalancing from monthly to quarterly means there will be fewer trades and therefore lower frictional costs for members.

The change from annual to quarterly switching took place as a profile switch on Standard Life’s systems in April 2021. Standard Life did not place formal trades with any of the Fund Managers.

Lifestyling takes place over a period of 15 years. The chart below illustrates the lifestyle strategy:



Self-select funds

The Trustee offers 14 self-select funds to members, incorporating a range of asset classes including regional and global equities, fixed and index-linked government bonds and corporate bonds. An Ethical Equity Fund and a Sharia Fund are also included to allow members to invest in line with their ethical/religious beliefs.

A full list of funds is detailed below:

White labelled name	Underlying Fund
Cash Fund	SL Money Market Fund
UK Government Fixed Interest Bond Fund	SL iShares UK Gilts All Stocks Index Pension Fund
UK Government Inflation-linked Bond Fund	SL Vanguard UK Inflation Linked Gilt Index Pension Fund
Short Duration Bond Fund	SL Vanguard Short Duration Bond Pension Fund
UK Corporate Bond Fund	SL iShares Corporate Bond Index Pension Fund
Pension Match Fund	Standard Life Annuity Purchase Fund
UK Equity Fund	SL iShares UK Equity Index Pension Fund
Global (excluding UK) Equity Fund	SL Vanguard FTSE Developed World ex UK Pension Fund
Emerging Markets Equity Fund	SL iShares Emerging Markets Equity Index Pension Fund
Active Global Equity Fund	Baillie Gifford UK and Worldwide Equity Fund
Passive Diversified Fund	Standard Life Passive Plus III
Global Equity Fund	Standard Life 30:60:10 Global and Emerging Markets Equity Tracker (Vanguard) Pension Fund
Global Ethical Equity Fund	SL Vanguard SRI Global Stock Pension Fund
Shariah Equity Fund	SL HSBC Islamic Global Equity Index Pension Fund

Aims and objectives

The default arrangement and self-select funds have been designed to achieve the following aims and objectives:

- Provide a suitable default investment option that is likely to be suitable for both contributing and deferred members within the Section who do not make an active investment choice;
- Offer an appropriate range of alternative investment options so that members who wish to make their own investment choices have the freedom to do so, recognising that members may have different needs and objectives;
- Achieve positive member outcomes net of fees and subject to acceptable levels of risk; and
- Manage the expected volatility of the returns through appropriate diversification of the use of asset types to control the level of volatility and risk in the value of members' pension pots.

The default investment strategy was also designed to ensure that the charges for the default were broadly similar to the BT Retirement Savings Scheme ("BTRSS"), a scheme in which members were enrolled before they opted to join the Section.

Review of default investment strategy

The Trustee conducted a formal investment review in December 2018, before the Section commenced on 1 April 2020. The Trustee then conducted another formal review of the default investment strategy in November 2021, however as at 31 March 2022 the updated default strategy was yet to be implemented.

This review concluded that due to the hybrid nature of the Section, members are able to tolerate a greater degree of investment volatility than has previously been the case. There was therefore reason to increase levels of equity exposure near retirement as well as to reduce the lifestyling period for members. The updated default strategy also incorporates the Trustee's desire to address climate change.

The updated default strategy will be implemented over 2022 and reflected in full in the Chair's Statement for year ended 31 March 2023.

The default strategy will be reviewed again three years following implementation of this updated strategy.

Fund performance

The Trustee monitors the performance of the investment funds (including those in the default investment strategy) against agreed benchmarks and considers whether the performance is consistent with the Trustee's investment strategy. The investment performance of the default strategy (net of charges) is set out in the Value for Members section below.

The Trustee's investment advisers at Deloitte provide the Trustee with a quarterly report, which outlines the performance of the underlying funds, describes market conditions and the resulting outlook for the medium-term attractiveness of various asset classes looking forward. The investment advisers also proactively report any concerns in regard to the investment strategy or the underlying fund managers.

If there were any concerns in relation to the deviation from the benchmark, the Trustee would meet with investment managers to understand the reason for the underperformance and consider any changes to be made.

For the period 1st April 2021 to 31st March 2022 the Trustee has had no material concerns in relation to the performance of the investment funds. The Trustee considers that the performance of the default investment arrangements is consistent with the objectives of the Trustee's investment strategy.

These reviews are conducted in addition to any formal review of the default investment options.

Website and Communications

A full explanation of the default investment strategy and the Statement of Investment Principles (SIP) are available at thebths.com. Members are provided with links to information about the default investment strategy and SIP in their Annual Benefit Statement.

There is also a process for publishing the Chair's Statement and all other relevant investment data online at thebths.com.

Processing Core Financial Transactions

Section Administrator

Core financial transactions include the investment of contributions, transfers of members' assets to or from the Section, switches between investment funds in the Section and payments out of the Section to members or their beneficiaries.

The Trustee has appointed Standard Life to carry out the core administration of the Section, including processing core financial transactions, on the Trustee's behalf. Standard Life administers the Section through a dedicated centre in Edinburgh and the team is made up of more than 2,000 members of staff, many of them with relevant professional qualifications. Standard Life can employ extra people from time to time as needed to ensure Service Level Agreements ("SLA"s) are achieved.

There are agreed SLAs in the contracts with Section Administrators that cover the accuracy and timeliness of all core financial transactions. The following table shows the target number of days to get tasks completed by Standard Life:

Demand	'1 st target' number of days to get tasks completed	'2 nd target' number of days to get tasks completed
Contributions Allocated (excluding online payments)	5	10
Update Scheme/member records	3	6
Provide scheme/member information	5	10
Transfer In	5	10
Death	20	40
Retirement	5	10
Transfer Out	5	10
Complaints	5	-
Fund switch/ Redirection	2	4
Leaver (excluding online)	5	10

The following table shows the performance against these SLAs for the period 1st April 2021 to 31st March 2022. These figures do not include tasks completed on a straight-through processing basis, which were all completed within SLA targets.

Demand	Total Cases	Cases Completed within target	% of cases completed within target
Contributions Allocated (excluding online payments)	7	7	100%
Update Scheme/member records	562	559	99%
Provide scheme/member information	26	26	100%
Transfer In	19	18	95%
Death	5	2	40%
Retirement	38	37	97%
Transfer Out	20	18	90%
Complaints	No complaints received		
Fund switch/ Re-direction	All cases completed via straight through processing within SLA		
Leaver (excluding online)	All cases completed via straight through processing within SLA		

The table above records SLA performance against the '1st target'; Standard Life completed 100% of all cases within its '2nd target'.

Standard Life has created standard operating procedures for all key administration tasks which allow it to aim to ensure that all time limits under the SLA are achieved. Standard Life has dedicated individuals who are responsible for monitoring the bank accounts ensuring all transfers received to the Section are reconciled and applied to member's accounts within the timescales specified in the SLAs.

The Trustee regularly monitors core financial transactions of the Section via the Administrator's quarterly reports. These include the investment of contributions, fund switches, transfers in and out and payments out of the Section. These allow the Trustee to assess how quickly and effectively core scheme financial transactions are completed. Any errors or delays are investigated thoroughly, and action is taken to investigate the error and remediate issues as quickly as possible. Any times that SLAs are missed, the Trustee will ask Standard Life for an explanation as to why SLAs were missed and the explanation is discussed at a follow up meeting. If the Trustee is not satisfied with an explanation, further analysis and/or actions will be undertaken to resolve the outstanding issue. The Trustee is satisfied that there have been no material failings under any of the agreed SLAs from the period 1st April 2021 to 31st March 2022 and that core financial transactions have been processed promptly and accurately. However, the Trustee notes each occasion when SLA targets have been missed and the Trustee asks Standard Life for an explanation of why targets have been missed. Standard Life will either provide a written explanation or join the following Scheme Management Committee Meeting to provide an explanation. The Trustee and/or Scheme Management Committee will confirm whether they accept the explanation and decide whether a plan for improvement is required. Members are also able to make any complaints or comments directly to Standard Life and these are reviewed as

part of the quarterly Trustee meetings. There are currently no plans in place to tackle any outstanding unresolved issues in relation to SLAs.

To provide an additional layer of governance oversight and to consider the interests and concerns of members, BT has established a BTHS Management Committee. Part of the role of the Management Committee is to monitor the quality of the administration of the Scheme to check whether the provider is administering the Scheme:

- In a professional manner;
- In line with good market practice; and
- In line with the SLAs as agreed between the Trustee and the Provider.

The BTHS Management Committee meets at least quarterly and is made up of representatives from BT and the Communication Workers Union. The BTHS Management Committee receive and review details of activity and service levels and raise any issues with the Trustee.

The Trustee is confident that there are robust processes and controls in place with Standard Life and sufficient monitoring by the Trustee to ensure core financial transactions are processed correctly and efficiently. SLAs will continue to be monitored closely.

Calculating Member Borne Charges and Transaction Costs

The following section explains the charges and transaction costs (the costs of buying and selling investments) which are paid by members of the Section.

The default arrangement charges depend on the mix of investment funds being used at any time. Broadly the charges of the default arrangement change over time as follows:

Years to selected retirement age	Blended Fund TER
25-15	0.28%
14	0.27%
13-12	0.26%
11	0.25%
10-9	0.24%
8-0	0.25%

The Total Expense Ratio (“TER”) includes all annual fund management charges, plus any additional fund expenses, but excludes transaction costs.

Transaction costs are incurred when the Section’s investment managers buy and sell assets within the funds but are exclusive of any costs incurred when members invest in and switch between funds. These charges are deducted from member’s pension savings in the Section.

The charges and transaction costs shown in the tables below have been provided by the Section Administrators Standard Life. The transaction costs below are for the period 1st April 2021 to 31 March 2022.

Blended Fund Name	Blended Fund TER	Transaction costs *
Cash Fund	0.23%	0.00%
UK Government Fixed Interest Bond Fund	0.26%	-0.05%
UK Government Inflation-linked Bond Fund	0.27%	0.17%
Short Duration Bond Fund	0.27%	0.10%
UK Corporate Bond Fund	0.27%	0.35%
Pension Match Fund	0.26%	0.53%
UK Equity Fund	0.26%	0.19%
Global (excluding UK) Equity Fund	0.27%	0.35%

Emerging Markets Equity Fund	0.42%	0.07%
Active Global Equity Fund	0.57%	0.20%
Passive Diversified Fund	0.24%	0.09%
Global Equity Fund	0.28%	0.12%
Global Ethical Equity Fund	0.27%	0.10%
Shariah Equity Fund	0.55%	0.02%

*Transaction costs are displayed as the aggregation of transaction costs over the average fund value for the period 1st April 2021 to 31st March 2022 and are rounded to the nearest 0.01%.

The method used to calculate transaction costs over the period can result in negative values. Negative transaction costs are shown where an overall beneficial pricing environment has occurred at the point of trading underlying assets over the period, which has more than offset the costs of the trades.

Illustration of charges and disclosure costs

The following table sets out an illustration of the impact of charges on the projection of an example member's pension savings for a member invested in the default arrangement. The figures shown are rounded to the nearest £100.

End of year	Before charges	After all charges deducted
1	£8,900	£8,900
5	£22,100	£21,800
10	£40,400	£39,300
15	£62,700	£60,200
20	£86,500	£82,100
25	£106,700	£100,200
30	£120,900	£112,600

The Trustee has had regard to statutory guidance (Reporting of costs charges and other information) when preparing the default illustration:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- An average Pensionable Salary of £40,000 and a member age of 35 has been assumed. This assumes a Pensionable Salary above threshold of £22,108
- The contributions into the DC section on Pensionable Salary above threshold are assumed to be 12% employer contributions for 6 years, then 10% employer contributions thereafter.
- The transaction costs are the actual transaction costs of the underlying funds at each year until retirement.
- The starting pot size is assumed to be £6,000
- Inflation and salary increases are assumed to be 2.5% each year.
- Investment returns are based on best-estimate risk & return assumptions as at 31 March 2022 for different asset classes (see Assumed Investment returns table below).
- TER is assumed to be 0.28% pa. for 15+ years to retirement, 0.27% pa from 14 years to retirement, 0.26% from 13-12 years to retirement, 0.25% pa from 11 years to retirement, 0.24% from 10-9 years to retirement and 0.25% pa from 8-0 years to retirement.
- Values shown are estimates and are not guaranteed.

The following tables set out illustrations of the cumulative impact of charges on the projection of an example member's pension savings for a member invested in the alternative arrangements. The figures shown are rounded to the nearest £100.

End of Year	Cash Fund		UK Government Fixed Interest Bond Fund		UK Government Inflation-linked Bond Fund		Short Duration Bond Fund		UK Corporate Bond Fund	
	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges
1	£8,500	£8,500	£8,600	£8,500	£8,600	£8,500	£8,600	£8,600	£8,600	£8,600
5	£18,500	£18,400	£18,600	£18,500	£18,600	£18,300	£19,300	£19,000	£19,300	£18,900
10	£28,700	£28,300	£29,000	£28,600	£29,000	£28,300	£31,000	£30,300	£31,000	£29,800
15	£37,900	£37,200	£38,600	£37,900	£38,600	£37,200	£42,400	£41,100	£42,400	£40,200
20	£46,800	£45,600	£47,800	£46,700	£47,800	£45,500	£54,000	£51,800	£54,000	£50,300
25	£55,200	£53,500	£56,700	£55,000	£56,700	£53,400	£65,800	£62,500	£65,800	£60,300
30	£63,200	£61,000	£65,200	£63,000	£65,200	£60,800	£77,800	£73,100	£77,800	£70,100

End of Year	Active Global Equity Fund		Passive Diversified Fund		Global Equity Fund		Global Ethical Equity Fund		Shariah Equity Fund	
	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges
1	£8,900	£8,900	£8,800	£8,800	£8,900	£8,900	£8,900	£8,900	£8,900	£8,900
5	£22,000	£21,400	£20,600	£20,400	£22,000	£21,700	£22,000	£21,700	£22,000	£21,600
10	£40,000	£38,000	£35,200	£34,400	£40,000	£38,900	£40,000	£39,000	£40,000	£38,500
15	£61,700	£57,200	£51,000	£49,500	£61,700	£59,300	£61,700	£59,500	£61,700	£58,300
20	£88,600	£80,100	£68,800	£66,100	£88,600	£84,100	£88,600	£84,400	£88,600	£82,200
25	£122,000	£107,300	£88,800	£84,500	£122,000	£114,300	£122,000	£114,800	£122,000	£111,000
30	£163,400	£139,900	£111,300	£104,700	£163,400	£150,900	£163,400	£151,700	£163,400	£145,700

End of Year	Pension Match Fund		UK Equity Fund		Global (excluding UK) Equity Fund		Emerging Markets Equity Fund	
	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges	Before Charges	After Charges
1	£8,600	£8,500	£8,900	£8,900	£8,900	£8,900	£9,000	£9,000
5	£18,600	£18,100	£22,000	£21,700	£22,000	£21,600	£22,800	£22,400
10	£29,000	£27,700	£40,000	£38,800	£40,000	£38,400	£42,700	£41,400
15	£38,600	£36,100	£61,700	£59,000	£61,700	£58,100	£68,200	£64,900
20	£47,800	£43,800	£88,600	£83,400	£88,600	£81,800	£101,500	£94,900
25	£56,700	£51,000	£122,000	£113,100	£122,000	£110,300	£144,900	£133,100
30	£65,200	£57,700	£163,400	£149,000	£163,400	£144,500	£201,500	£181,700

The Trustee has had regard to statutory guidance (Reporting of costs charges and other information) when preparing the alternative illustrations for the self-select funds:

- Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
- An average Pensionable Salary of £40,000 and a member age of 35 has been assumed. This assumes a Pensionable Salary above threshold of £22,108
- The contributions into the DC section on Pensionable Salary above threshold are assumed to be 12% employer contributions for 6 years, then 10% employer contributions thereafter.
- The transaction costs are the transaction costs for each fund for the period 1st April 2020 to 31 March 2022.
- The starting pot size is assumed to be £6,000.
- Inflation and salary increases are assumed to be 2.5% each year.
- Investment returns are based on best-estimate risk & return assumptions as at 31 March 2022 for different asset classes (see table below).
- Values shown are estimates and are not guaranteed.

The following tables shows the assumed investment returns (post inflation) for alternative investment fund, based on their asset class.

Self-select funds	Comparator Asset Class	Assumed Investment Return
Cash Fund	Interest rate Swaps with a 20 year duration	1.50%
UK Government Fixed Interest Bond Fund	Index Linked Gilts	1.70%
UK Government Inflation-linked Bond Fund	Index Linked Gilts	1.70%
Short Duration Bond Fund	Corporate Bonds	2.80%
UK Corporate Bond Fund	Corporate Bonds	2.80%
Pension Match Fund	Index Linked Gilts	1.70%
UK Equity Fund	UK Equities	7.00%
Global (excluding UK) Equity Fund	Overseas Equities	7.00%
Emerging Markets Equity Fund	Emerging Market Equities	8.10%
Active Global Equity Fund	Overseas Equities / UK Equities	7.00%
Passive Diversified Fund	Diversified Growth Fund	4.90%
Global Equity Fund	Overseas Equities / UK Equities	7.00%
Global Ethical Equity Fund	Overseas Equities / UK Equities	7.00%
Shariah Equity Fund	Overseas Equities / UK Equities	7.00%

Website and Communications

Members are provided with details of illustrations of charges and costs on thebths.com. Members are provided with links to this information on their Annual Benefit Statement.

Trustee Knowledge and Training

The Trustee is required to attain and maintain appropriate levels of trustee knowledge and understanding in relation to:

- Knowledge and understanding of the Section’s Trust Deed and Rules
- Knowledge and understanding of the SIP
- Knowledge and understanding of the Trustee’s policy documents
- Knowledge and understanding of laws relating to pensions and trusts
- Knowledge and understanding relating to funding and investment of occupational schemes

The requirements under the Pensions Act 2004 (requirement for knowledge and understanding) have been met by the Trustee during the period from 1st April 2021 to 31st March 2022.

The Trustee is a professional independent trustee, PAN Trustees UK LLP (“PAN”), which comprises a team of leading UK pension professionals with extensive experience of acting as professional independent trustees to DC schemes. Two PAN members are primarily responsible for the Section. PAN ensures that each of its members has detailed knowledge of DC and DB pensions, pension trust law, knowledge of funding, governance, investment, DC and DB administration systems/processes and keep up to date with any changes in pensions legislation. Both PAN members who are acting as Trustee of the Section have attended many seminars and training sessions throughout the year, covering DC and DB pensions. These seminars and training sessions have been recorded in the PAN Trustees Continuous Professional Development Register and includes sessions such as the DC and Financial Wellbeing Conference 2021, DC Transitions training and Climate Change and UK Pension Schemes. On 7th April 2021, PAN Trustee representative of the Section Mike Roberts took and passed the PMI Award in Pension Trusteeship and passed the PMI level CPT Unit 2 Certificate in Pension Trusteeship on 2nd June 2021. In addition, Mike Roberts passed the Association of Professional Pension Trustees accreditation as a Professional Pension Trustee on 11th November 2021. PAN Trustee representative of the Section Charles Goddard took and passed the PMI level CPT Unit 2 exam Trustee “soft skills”, receiving accreditation from the PMI as a Professional Trustee on 10th July 2020.

Both representatives of PAN are non-affiliated and have been approved as Fit and Proper Individuals by the Pensions Regulator under the DC Master Trust authorisation regime and have experience sitting on the Trustee Boards of authorised Master Trusts, in which roles they would undertake significant training on DC scheme matters. Each Trustee confirms that there are no conflicts of interest prior to each Trustee meeting.

The Trustee has put in place arrangements for ensuring each member takes responsibility for keeping up to date with relevant developments and consider their training requirements. The Trustee maintains a Continuous Professional Development (CPD) log and additional training is provided regularly by the Trustee’s professional advisers during quarterly meetings on a bespoke basis, tailored to issues that arise on the Trustee business plan. As the Trustee is a professional independent trustee, each representative has ensured they are conversant with the Trust Deed and Rules and would receive additional training with any key Section documents if it was identified that additional training and development was required.

In the event that a new member of PAN became responsible for the Section (or there were any other change of Trustee), the new Trustee/Trustee director would receive training on key Section documents, including the Trust Deed and Rules, the Statement of Investment Principles, and other policy documents. This training would usually be provided by the Section’s legal advisers, who ensure the Trustee’s knowledge on the laws relating to pensions and trusts is up to date. The new member of PAN would be selected based on their specific DC experience and an open and transparent process would be in place to ensure the Trustee/Trustee director was non-affiliated.

The Trustee receives advice from professional advisers and the relevant skills and experience of those advisers is a key criterion when evaluating adviser performance or selecting advisers. Demonstrable capability in DC advice is a critical element of the evaluation process.

The Trustee receives ‘current issues in pensions’ updates from its advisers on various topics at each quarterly trustee meeting, covering both DC and DB pensions. During the period 1st April 2021 to 31 March 2022, the topics included updates on:

- New data guidance from PASA on Dashboards and Data Management Plans
- TPR consultation on new single Code of Practice
- Climate-related risks and ESG investment
- TPR annual funding statement
- New regulations on assessing DC value of money

Both PAN members who are acting as Trustee of the Section maintain regular CPD records which are filed on a quarterly basis with PAN’s Committee of Governance and are also passed to the various Institutes to maintain membership. If any knowledge gaps against TPR’s requirements are identified, the Trustee will include additional training into its Trustee Training Log.

As the Trustee is a professional Trustee company, each member takes personal responsibility for keeping themselves up to date with relevant developments and training needs.

As a result of the detailed induction process, the experience of the Trustee, the formal training received and any ad-hoc advice and market updates, the Trustee is confident that it has met the legislative requirements for knowledge and understanding and this enables the Trustee to competently exercise the duties of a Trustee.

3. Value for Members Assessment

Certain DC schemes with a scheme year end falling after 31 December 2021 must carry out a more detailed Value for Members assessment and include the findings in the annual Chair's Statement and submit these findings as part of the Annual Scheme Return.

The requirements for this assessment are set out in 'Completing the annual Value for Members assessment and Reporting of Net Investment Returns: Guidance for trustees of relevant occupational defined contribution pension schemes' (the 'Guidance').

Schemes that meet the following criteria are required to perform a detailed Value for Members assessment:

1. Less than £100 million total assets according to the most recent audited accounts (for hybrid schemes total assets includes the defined benefit (DB) element);
2. Operated for at least three years; and
3. a scheme year-end that falls after 31 December 2021.

The VfM assessment involves self-assessing the quality of the administration and governance with reference to seven key metrics and comparing the scheme's costs and charges, and net returns against at least three other Comparator Schemes ('Comparators'). Schemes used for the comparison conducted as part of the VfM exercise should be:

- An occupational pension scheme which on the relevant date held total assets equal to or greater than £100 million; or
- A personal pension scheme, which is not an investment-regulated pension scheme;
- A scheme that is different in structure to the scheme being assessed; or
- Where a hybrid scheme is being assessed, Comparators should include either a scheme which provides only DC benefits, or a larger hybrid scheme where the total assets held to provide DC benefits are £100m or more.

Comparator Schemes

The three schemes which have been chosen to provide comparison against are NEST, the Standard Life Master Trust, and the BT Retirement Savings Scheme ('BTRSS'). The reasons the Trustee has chosen the Comparator Schemes are:

NEST

The National Employment Savings Trust (NEST) is a not-for-profit Defined Contribution (DC) workplace pension scheme in the United Kingdom. NEST is legally classified as a "Master Trust", namely a trust-based pension scheme that is used by multiple non-associated employers and run by a single trustee (NEST Corporation). NEST was selected as a Comparator because:

- It has an obligation to accept all employers, so the DC assets could move into NEST in the event of a wind-up.
- Its investment performance is publicly available.
- In scheme drawdown is possible.

Standard Life Master Trust

The Standard Life Master Trust is an authorised Master Trust which has similar funds available as the BTHS. The Standard Life Master Trust was selected as a Comparator because:

- Given the wider BT / Standard Life relationship, it might be the preferred destination if the BTHS was to wind up. Standard Life confirmed that it would consider taking on the BTHS assets in a wind-up event.

- It has a similar fund range to the BTHS.
- In scheme drawdown is possible.

BT Retirement Savings Scheme ('BTRSS')

BTRSS has been considered as a comparator scheme because:

- It is a natural comparator as the BTRSS is the pension plan BTHS members would be in had they not opted to join the BTHS.
- It is structured as a contract-based DC plan, which is different to the BTHS.
- It has a similar fund range to the BTHS, with a different default fund.
- In scheme drawdown is possible.

Sources of comparison data

The follow data has been used to perform the assessment of investment returns:

- BTHS data has been provided by Standard Life on behalf of the BTHS.
- BTRSS data has been provided by Standard Life on behalf of the BTRSS.
- NEST data has been accessed from NEST's online data archives; and
- Standard Life Master Trust data has been provided by Standard Life, and other publicly available information has been found in the Standard Life Chair's Statement.

Key characteristics of the BTHS to consider

Based on the specific characteristics of the BTHS, there are a number of observations:

- The assets currently held by the BTHS are c. £78m, and based on current forecasts, the total assets held may exceed the £100m threshold by next year. Under current guidance, this would then mean a VfM assessment would no longer be required if assets exceed £100m.
- It is unlikely to be viable to transfer the DC assets to another vehicle in isolation due to the hybrid nature of the BTHS. If the BTHS were to split into its constituent DB and DC parts, neither part on their own is likely to be auto-enrolment compliant. In any event, this would be a decision for the employers, rather than Trustee.
- Members in the BTHS were given the choice between remaining as members of the purely DC BTRSS and joining the hybrid BTHS. Each member acted to choose membership of the BTHS. It is therefore difficult to argue that switching to a full DC scheme (i.e. moving away from the hybrid BTHS) would give members increased value as they have already clearly indicated that they see greater value in the BTHS.

Cost and Charges

The next area of focus in completing the VfM assessment is Costs and Charges. Trust based schemes are already required to provide charges and transaction costs in their Chairs' Statements.

Comparisons to be made

When assessing Costs and Charges as part of the VfM assessment, trustees should consider the most up to date charges / transaction costs incurred through their own funds with those of Comparators.

Default arrangements should be compared (despite potentially different investment strategies across Comparators), and the scheme's most popular self-select funds should be compared against the nearest comparable funds from Comparators.

What constitutes good VfM Costs and Charges

The Guidance defines performance in the context of costs and charges in the following ways:

- Good Value for Members in relation to the costs and charges is achieved, if when comparing the costs and charges, those levied by the Scheme are closely comparable with, or lower than the average for comparator pension schemes.

- Where higher costs and charges can be justified by substantially higher investment returns, then the Scheme again would achieve good Value for Members.
- Poor Value for Members in relation to the costs and charges is achieved when for the majority of funds being compared, costs and charges are higher than those levied by the Comparators, and no justifications are given.

When performing the VfM assessment, total charges / transaction costs for the default arrangement should be given greater weight than those for self-select funds in which fewer members are invested.

BTHS comparisons

The results of the costs and charges comparisons are as follows:

Default fund Charges and Transaction Costs

	AMC	Transaction costs	Total
25			
BTHS	0.28%	0.12%	0.40%
BTRSS	0.20%	0.16%	0.36%
NEST	0.48%	0.03%	0.51%
SLMT	0.10%	0.16%	0.26%
35			
BTHS	0.28%	0.12%	0.40%
BTRSS	0.20%	0.16%	0.36%
NEST	0.48%	0.03%	0.51%
SLMT	0.10%	0.16%	0.26%
45			
BTHS	0.28%	0.12%	0.40%
BTRSS	0.20%	0.16%	0.36%
NEST	0.48%	0.03%	0.51%
SLMT	0.10%	0.16%	0.26%
55			
BTHS	0.24%	0.09%	0.33%
BTRSS	0.20%	0.16%	0.36%
NEST	0.48%	0.03%	0.51%
SLMT	0.10%	0.16%	0.26%

*AMC has been calculated by NEST as a weighted average of an AMC of 0.30% and a contribution charge of 1.80%, based on a current pot size of £9,000, and annual contributions of £1,000.

**Transaction costs range from 0.00% - 0.062%; 0.03% has been taken for the purposes of this comparison.

Self-select funds Charges and Transaction costs: BTHS Diversified Fund

	AMC	Transaction costs	Total
BTHS			
BTHS Diversified Fund	0.24%	0.09%	0.33%
BTRSS			
BTRSS Diversified Fund	0.24%	0.09%	0.33%
NEST			
Lower Growth Fund	0.48%*	0.02%**	0.50%
SLMT			
SL abrdn Life Multi-Asset Pension Fund +	0.60%	0.15%	0.75%

*AMC has been calculated by NEST as a weighted average of an AMC of 0.30% and a contribution charge of 1.80%, based on a current pot of £9,000, and annual contributions of £1,000.

**Transaction costs range from 0.00% - 0.046%; 0.02% has been taken for the purposes of this comparison.

Self-select funds Charges and Transaction costs: BTHS Global Equity Fund

	AMC	Transaction costs	Total
BTHS			
BTHS Global Equity Fund	0.28%	0.12%	0.40%
BTRSS			
BTRSS Global Equity Fund	0.28%	0.12%	0.40%
NEST			
Higher Risk Fund	0.48%*	0.02%**	0.50%
SLMT			
SL Passive 60/40 Global Equity Pension Fund	0.14%	0.26%	0.40%

*AMC has been calculated by NEST as a weighted average of an AMC of 0.30% and a contribution charge of 1.80%, based on a current pot of £9,000, and annual contributions of £1,000.

**Transaction costs range from 0.00% - 0.046%; 0.02% has been taken for the purposes of this comparison.

Self-select funds Charges and Transaction costs: BTHS Short Duration Bond Fund

	AMC	Transaction costs	Total
BTHS BTHS Short Duration Bond Fund	0.27%	0.10%	0.37%
BTRSS BTRSS Short Duration Bond Fund	0.27%	0.10%	0.37%
NEST Lower Growth Fund	0.48%*	0.02%**	0.50%
SLMT SL UK Corporate Bond Pension Fund	0.18%	0.12%	0.40%

*AMC has been calculated by NEST as a weighted average of an AMC of 0.30% and a contribution charge of 1.80%, based on a current pot of £9,000, and annual contributions of £1,000.

**Transaction costs range from 0.00% - 0.046%; 0.02% has been taken for the purposes of this comparison.

Conclusion

When assessing the BTHS in terms of Costs and Charges, the BTHS is deemed to provide good Value for Members.

BTHS' default fund charges are mid-range when looked at next to Comparators, which is expected when compared to the Assets Under Management of the Comparator Schemes. The 3 self-select funds have AMCs and Transaction costs lower than those offered by Comparators.

We note that the BTHS charges and costs are linked to the BTRSS and other BT scheme charges, and as such, the BTHS benefits from economies of scale of the wider BT portfolio.

Investment Returns

As part of the detailed VfM assessment, the Trustee is required to compare the investment returns of funds offered through the BTHS with funds offered through the Comparators. More weighting should be placed on investment returns than on costs and charges.

It is accepted that past investment performance is not a guaranteed indicator of future performance, however Guidance notes that '... sustained long-term underperformance of investment returns should signal poor value for members.'. Guidance recommends that Trustees should therefore consider net investment returns both in the short-term (1 year period) and a longer, more-sustained period for which broadly comparable Comparator performance data can be found (5, 10 and 15 year periods are suggested). As the Section commenced on 1 April 2020, investment returns prior to this period are unavailable.

Investment returns achieved by default funds should be given more weight when comparing than those achieved by self-select funds, and Trustees should place no weight upon fund returns in which only a small proportion of members are invested.

Comparisons to be made

As specified in the VfM Guidance, Trustees should compare the returns of their default arrangements against Comparator default arrangements. For these comparisons it is not necessary for each default to have similar asset allocations.

Trustees should also compare the returns of their most popular self-select funds with the nearest comparable funds from the Comparators.

What constitutes good VFM performance

The Guidance defines performance in the context of investment returns in the following ways:

- Good Value for Members in respect of a single fund is achieved if the majority of net return figures for the fund in which the scheme members are frequently invested are closely comparable with / better than the average for Comparator funds.
- Good Value for Members in respect of the scheme as a whole is achieved if this is repeated across a majority of other funds offered by the scheme in which members are frequently invested (whilst giving greater weight to default funds).
- Poor Value for Members in respect of a single fund is achieved if a clear majority of net performance figures for a given fund are worse than the average for Comparator funds.

- Poor Value for Members in respect of the scheme as a whole is achieved if this is repeated across a majority of other funds offered by the scheme in which members are frequently invested (whilst giving greater weight to default funds).

BTHS comparisons

The results of the investment performance comparisons are as follows.

Default funds annualised performance

	1 year	3 year
Member aged 25 in 2022		
BTHS	4.38%	11.58%
BTRSS	4.60%	4.42%
NEST	2.44%	5.88%
SLMT	10.00%	7.88%
Member aged 35 in 2022		
BTHS	4.38%	11.58%
BTRSS	4.60%	4.42%
NEST	3.03%	7.53%
SLMT	10.00%	7.88%
Member aged 45 in 2022		
BTHS	4.38%	11.58%
BTRSS	4.60%	4.42%
NEST	3.03%	7.53%
SLMT	10.00%	7.88%
Member aged 55 in 2022		
BTHS	1.81%	5.44%
BTRSS	4.60%	4.42%
NEST	3.03%	7.53%
SLMT	10.00%	7.88%

Self-select Fund 1 annualised performance: BTHS Diversified Fund

	1 year	3 year
BTHS		
BTHS Diversified Fund	5.29%	5.20%
BTRSS		
BTRSS Diversified Fund	5.29%	5.20%
NEST		
Lower Growth Fund	-1.70%	0.29%
SLMT		
SL abrdn Life Multi-Asset Pension Fund +	4.00%	7.34%

Self-select Fund 2 annualised performance: BTHS Global Equity Fund

	1 year	3 year
BTHS		
BTHS Global Equity Fund	13.50%	11.34%
BTRSS		
BTRSS Global Equity Fund	13.50%	11.34%
NEST		
Higher Risk Fund	9.75%	10.35%
SLMT		
SL Passive 60/40 Global Equity Pension Fund	13.30%	8.57%

Self-select Fund 3 annualised performance: BTHS Short Duration Bond Fund

	1 year	3 year
BTHS		
BTHS Short Duration Bond Fund	-3.93%	-0.16%
BTRSS		
BTRSS Short Duration Bond Fund	-3.93%	-0.16%
NEST		
Lower Growth Fund	-1.70%	0.29%
SLMT		
SL UK Corporate Bond Pension Fund	-14.20%	-3.07%

Conclusion

When assessing the BTHS in terms of Investment Returns, the BTHS is deemed to provide good Value for Members.

Whilst BTHS' default fund has achieved slight underperformance compared to the Comparators over the past year, its 3 year annualised return is considerably stronger. 2 of the 3 self-self funds (the BTHS Diversified Fund and the BTHS Global Equity Fund) have outperformed their Comparators, whilst the third ranks mid-range when compared.

We note that due to the relatively recent inception of the BTHS, and therefore its default, returns information is only available for a commensurately short period of time.

Governance and Administration

As part of the VfM assessment, the Administration and Governance of the scheme must be considered. It is expected that where functions / tasks / responsibilities have been outsourced, ultimate responsibility remains with the Trustee of the scheme; performance of any involved third parties should be closely and regularly monitored.

Seven key metrics of Administration and Governance

For the VfM assessment, there are seven key metrics of Administration and Governance that must be considered and assessed:

- Promptness and accuracy of core financial transactions;
- Quality of Record Keeping;
- Appropriateness of the default investment strategy;
- Quality of Investment Governance;
- Level of trustee knowledge, understanding and skills to operate the pension scheme effectively;
- Quality of communication with scheme members; and
- Effectiveness of management of conflicts of interest.

For a scheme to demonstrate satisfactory Value for Members, all seven of the assessment criteria should be satisfied; and a final conclusion should be drawn by considering all seven sub conclusions in aggregate.

Assessment against metrics of Administration and Governance

Promptness and accuracy of core financial transactions

There are effective processes in place that allow risks of delays / inaccuracies in processing financial transactions to be mitigated. These processes are reviewed regularly.

Core financial transactions are conducted both promptly and accurately, and all tasks with associated maximum timescales (as prescribed by legislation) are completed in accordance with requirements. There is strong historical SLA performance against the four core financial transactions as specified in the Guidance (payment in and investment of member and employer contributions, transfers between schemes, transfers, and switches between investments within a scheme, and payments out of the scheme to beneficiaries). In the period 1st April 2021 to 31st March 2022, all tasks completed on a straight-through processing basis, were completed within SLA targets, and the other core tasks being completed with an average performance of 96% against 1st target SLAs, and 100% against 2nd target. More generally, transfers into the Section are rare as BTHS can only accept transfers from BTRSS. Transfers out are also infrequent because of the DB element of the BTHS.

Contributions have all been invested in a timely manner following receipt by Standard Life, and as part of the regular review of Standard Life's Service Level Agreement statistics, these processes are regularly reviewed. The BTHS also conducts a review of the 'Common' and 'Conditional' data every year and the latest review showed >99% accuracy of both.

The Trustee reviews any member / beneficiary complaints and in doing finds no suggestion of anything but good value for members from an administration and governance perspective.

When assessing *Promptness and accuracy of core financial transactions* the BTHS is deemed to provide Value for Members.

Quality of Record Keeping

- **Security of Data:** There are controls in place that ensure members' data is kept, stored, and processed in accordance with requirements as set out in the Data Protection Act 2018. Data security is considered to be a key focus of the Trustee's governance responsibilities and as such features prominently in both the BTHS' risk register and risk planning activities that take place throughout the year.
- **Accuracy and scope of records / data kept:** Accurate scheme data and member records are kept, and all data required to be held (by law) is held. In terms of the quality of data – data is up to date, complete, there are systems in place to monitor and update data, and, where any errors are identified, they are corrected as quickly as reasonably possible, and processes are subsequently amended to prevent further errors occurring.
- **Review of Data:** BTHS data is validated, data related responsibilities are known and reviewed, contributions and investment data is reconciled monthly, and data review exercises are conducted at least annually. As mentioned above, the Trustee reviews both 'Common' and 'Conditional' data every year; the latest review showed >99% accuracy of both. A Common data review is currently in progress.

When assessing *Quality of Record Keeping* the BTHS is deemed to provide Value for Members.

Appropriateness of the default investment strategy

As required by legislation, a copy of the most recent Statement of Investment Principles for the default arrangement is included in the Annual Chair's Statement, and details of default performance over the period is provided.

The BTHS satisfies the 4 criteria as set out in the Guidance:

- The investment strategy is clear, is appropriate for each state of the member journey, and is consistently followed in accordance with strategy objectives. This is evidenced by the switching matrix for the default strategy in the SIP dated September 2021 that outlines the lifestyling used to provide appropriate investments for members depending on their time to retirement.
- The value added from portfolio construction, asset allocation and manager selection is assessed when the investment strategy is reviewed. Prior to the launch of the Section on 1st April 2019, the Trustee conducted an exercise to compare the services and charges offered by Standard Life with the wider market. This was assessed again in the DC Default Strategy Review in November 2021 and will be included in future reviews.
- The risk and return in the investment strategy is properly considered and is suitable for the objectives of the scheme and the demographic profile of the members. This is achieved through regular monitoring of the performance of the various funds which are available to members including consideration of actual short and long term performance with reference to the underlying fund's stated investment objective. Additionally, the Trustee monitors the investment manager's overall suitability for each mandate through quarterly investment performance reports.
- The policies on ESG and climate change risks and opportunities in the Statement of Investment Principles are not generic, but are tailored to the investment strategy. Specifically, the Trustee recognises the importance of ESG issues and delegates the exercise of all rights (including voting rights) attaching to the investments to the Investment Managers. The Trustee regularly reviews the return objectives, risk characteristics, investment approach and investment guidelines of the current investment mandates.

When assessing *Appropriateness of the default investment strategy* the BTHS is deemed to provide good Value for Members.

Quality of Investment Governance

The Trustee satisfy the following eight measures for good investment governance, as set out in the Guidance:

- There are documented and robust investment governance procedures in place which are adhered to as well as documentation detailing the approach to Integrated Risk Management.
- Individuals responsible for tasks and decisions in relation to investment have the required knowledge and expertise to perform their role competently in accordance with Sections 34 and 36 of the Pensions Act 1995 and are being held to account.
- The Trustee actively engages with any fiduciary and investment managers involved in making investment decisions as well as the BTHS' investment adviser.
- The Trustee has the knowledge and competence to oversee investment effectively, ensuring investment objectives and strategies are understood and followed. Where necessary, investment advice is appropriately challenged.

- The Trustee conducts regular reviews of portfolios and how funds are performing against objectives through quarterly investment reports.
- The Trustee is aware of their role in asset allocation, setting of investment strategy and the selection, monitoring and retention of managers.
- The Trustee has risk management and continuity plans in place to deal with economic crises and market volatility. They have clear governance structures in place in relation to long term financial sustainability of investments which include climate change and ESG factors.
- The Trustee has good oversight of the communication strategies in place to keep members informed about their investment options.

When assessing *Quality of Investment Governance* the BTHS is deemed to provide good Value for Members.

Level of trustee knowledge, understanding and skills to operate the pension scheme effectively

The Trustee is a professional independent trustee, PAN Trustees UK LLP (“PAN”), which comprises a team of leading UK pension professionals with extensive experience of acting as professional independent trustees to DC schemes. Two PAN members are primarily responsible for the Section. PAN ensures that each of its members has detailed knowledge of DC and DB pensions, pension trust law, knowledge of funding, governance, investment, DC and DB administration systems/processes and keep up to date with any changes in pensions legislation.

The Trustee’s level of knowledge and understanding meets the legislative requirements set out in Sections 247 and 249 (including the regulations made under those sections) of the Pensions Act 2004. The Trustee describes annually in the Chair’s Statement how the Trustee met the legislative requirements. The Trustee also follows the guidance provided by TPR on trustee knowledge and understanding and scheme management skills.

Examples of how the Trustee meets the legislative requirements and follows the guidance include:

- The Trustee holds meetings quarterly and attends a further four Management Committee meetings each year with representatives from the employers.
- The Trustee represents a variety of different skills and experiences and ensures these skills are continually developed, keeping a record of training undertaken and plans for future training in their Trustee training log or Continuous Professional Development Registers. This ensures they have or will have the necessary knowledge and understanding to carry out their role.
- The Trustee takes individual responsibility in identifying any additional training that is required to fill any gaps identified through review.
- The Trustee has effective leadership skills, as demonstrated by the experience, qualifications achieved, and appointments held. The performance and effectiveness of the board is evaluated annually as part of the Chair’s Statement process.
- The BTHS reviews the performance of investment managers at least quarterly and advisers at least annually. Trustees are in regular contact with the employer and have a constructive relationship.

When assessing Level of trustee knowledge, understanding and skills to operate the BTHS effectively the BTHS is deemed to provide good Value for Members.

Quality of communication with scheme members

Not only are the requirements (as set out in the Disclosure Regulations) satisfied, but the BTHS’ communications also:

- Provide information to its members in an accurate, clear and concise way that is easy to understand; the Trustee recently updated and circulated its Member Booklet which is available online, and which demonstrates the provision of information in accordance with Guidance requirements.
- Acknowledge members’ communication medium preferences, and appropriate technologies are used when appropriate; the Member Booklet and Chair’s Statement are available online, as are Annual Statements which are also sent through the post.
- Include contact details in the Member Booklet as well as the Annual Member Statement to encourage all members to express their views on the Section

- Are available to members through complete online servicing capabilities.
- Ensure both quality (as demonstrated by updated communications) and timeliness in the following:
 - Information and guidance in relation to the rights to transfer to another scheme.
 - The quality of guidance on spotting potential scams.
 - Information to help with decision making on investment options.
 - Information in the retirement wake up pack.
 - General signposting of members to various guidance bodies.
 - Information to help with decision making on pension saving, including, for example, an indication of the value at retirement and the impact of contribution levels on that value.

Communications are regularly reviewed and updated as and when required. Additionally, the Section actively solicits member input through Communication Workers Union representatives on the Management Committee which meets on a quarterly basis.

When assessing *Quality of communication with members* the BTHS is deemed to provide good Value for Members.

Effectiveness of management of conflicts of interest

The Trustee acknowledges that conflicts of interest may arise either amongst Trustees, between Trustees and the employer or provider, or with service providers and advisers. In light of this, the Trustee has in place a Conflicts of Interest Policy that includes:

- A set of written procedures and a robust policy that sets out the identification, management and monitoring approach for conflicts of interest that is reviewed on a quarterly basis.
- A set of controls that are in place to ensure the Trustee is aware of their responsibilities and requirements to declare and subsequently discuss any (potential) conflicts.
- A register that keeps record / declares any conflicts of interest, and that is discussed at every Section Trustee meeting where the Trustee will consider whether it has any potential conflicts arising.
- The process whereby any and all conflicts of interest are declared upon the appointment of trustees and or any other service providers.

When assessing *Effectiveness of management of conflicts of interest*, the BTHS is deemed to provide good Value for Members.

Conclusion

When assessing the BTHS in terms of Administration and Governance, the BTHS is deemed to provide good Value for Members.

Overall assessment of VFM

As evidenced over the 3 sections above, the BTHS is deemed to provide Good Value for Members, in line with the assessment criteria as set out in the Guidance.

Conclusion

The Trustee submits this Chair's Statement in compliance with the Chair's Statement requirements, in the belief that in the reporting period 1st April 2021 to 31 March 2022 the Section was operated and governed appropriately.

Signed:



Date: 28 September 2022

Mike Roberts – Chair of the Section Trustee