



PENSION  
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## telent pension scheme Powers to revert to the telent trustee board

16 April 2008

### G.E.C. 1972 Pension Scheme Trustee Board

Pension Corporation is delighted with the announcement by The Pensions Regulator ("TPR") on 11th April, 2008 that the powers to govern the G.E.C. 1972 pension scheme will revert to the telent trustee board (the former operating trustee body of the G.E.C. 1972 pension scheme) from 18th April, 2008.

Pension Corporation has fought to ensure a balanced model of governance for the future of the pension scheme comprising three Company nominated trustees, three Member nominated trustees and three Independent trustees.

Pension Corporation welcomes the restitution of a 3/3/3 split trustee board and the appointment of two new independent trustees.

### Determinations Panel Hearing and its Reasons

Some of the former trustees of the telent trustee board put forward very serious arguments against Pension Corporation to the Determinations Panel ("DP"), claiming that there was an "immediate threat" to the assets of the scheme if Pension Corporation succeeded in its offer for telent.

This resulted in the appointment of three trustees by the Determinations Panel of TPR.

A number of those arguments were misleading and factually incorrect:

1. The necessity "to extract value from the Escrow to make the Offer economically worthwhile" – no firm evidence was put forward to support this argument. Pension Corporation will not, and as a matter of fact could not, "raid the Escrow".
  - However, prior to the acquisition of the company by Pension Corporation, telent had quite appropriately reviewed with KPMG the feasibility of an enhanced transfer value exercise which would legitimately require the use of £30m of Escrow funds to effect. Pension Corporation had noted this in its due diligence: that fact should never have been used to argue that Pension Corporation was planning some form of 'raid' of the Escrow.
2. Adopting "*a higher risk investment strategy*" – Pension Corporation actually advocates a "risk reduction" programme as part of its business model, as exemplified by its continuing work with the trustees of the telent, Thorn and Thresher pension schemes.
  - Pension Corporation was very disappointed that the DP's Reasons "*preferred the view of Mr Mitchell of Watson Wyatt*" on the basis of Mr Mitchell's assumptions even although he had not had access to the financial analysis of Pension Corporation.
  - Pension Corporation has had various meetings with the DP appointed trustees advocating further risk reduction of the GEC 1972 plan and has expressed its concerns at the remaining level of risk in the plan.
3. The telent bid structure was "*likely to leave telent servicing a very substantial debt burden*" and thereby weakening the telent covenant.
  - No leveraging of the telent operating assets was used in the telent acquisition, as clearly set out in the Offer Document dated 2nd October, 2007, and no real evidence was submitted to the DP to support this argument. Again, this argument against Pension Corporation was factually incorrect.



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The undertaking and other arrangements put in place between Pension Corporation and TPR mean that it is now not necessary for Pension Corporation to continue with its appeal against the Reasons of the DP at this time, but its right to do so in other contexts in the future has been reserved.

**Conflicts of Interest**

Pension Corporation has noted the concerns of TPR regarding the management of conflicts of interest and has agreed steps to allay those concerns and to avoid and improve the management of such conflicts. Pension Corporation can confirm that it has undertaken to TPR that it will not appoint anyone from Pension Corporation or associated entities as trustees to the telent trustee board, and other trustee boards of sponsor companies it controls for the foreseeable future.

Pension Corporation has shared its model conflicts protocol with TPR and hopes that TPR's subsequent consultation document (dated February 2008 in relation to conflicts of interest) will result in clear and workable operating procedures being implemented for all UK trustee boards in the near future.

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**Notes to Editors**

***The Pension Corporation Business Model***

*Pension Corporation provides the following services to pension schemes:*

- *Corporate Sponsorship;*
- *Insurance; and/or*
- *Asset Liability Management*

*In this way, Pension Corporation helps to strengthen pension schemes and stabilise their financial position.*

*Pension Corporation believes that the Corporate Sponsorship model which utilises the covenant of the business plus the assets of the pension plan (managed on an insurance industry based model), can be a more capital efficient way of securing member's benefits without increasing risk to the plan.*

*In Corporate Sponsorship transactions such as the telent acquisition, financial returns to Pension Corporation will be drawn down after pension scheme member benefits are secured, over the long-run, in much the same manner as an insurance company.*

*Although the two pension schemes where Pension Corporation has become corporate sponsor were responsibly managed under previous ownership, Pension Corporation has advocated a reduction in the risk level of the pension scheme assets. This emphasises Pension Corporation's conservatism in regard to risk and prioritisation of pensioner security.*

*Pension Corporation has also been active in developing the telent business, in particular by making available its business skills to assist in the recent acquisition of TSEU Group and is ready to support further business expansion.*