



## INTRODUCTION TO TRUSTEESHIP

### Foreword

This booklet is an introductory guide to being a Trustee Director and is intended for individuals who are thinking about becoming directors of Shell Pensions Trust Limited (“SPT”). SPT is the corporate trustee of the Shell Contributory Pension Fund (SCPF).

Many occupational pension plans in the UK, including the SCPF, are set up as Trusts. This provides security for the members’ benefits by ensuring the assets of the plan are kept separate from those of the Company. It also means the plan can take advantage of certain tax allowances.

The role of a Trustee Director is an important and responsible one. Members of the SCPF depend on the Board of SPT to ensure that their benefits will be paid and that the SCPF is administered efficiently, honestly and in accordance with its governing documents and the law.

Trustee Directors are not expected to be legal or financial experts, but they do need to be able to understand the advice given by their professional advisers and to question and challenge that advice. Trustee Directors are given preliminary training before or shortly after their appointment to the Board of SPT and training will continue throughout their directorship.

This booklet describes:

- what the trustee arrangements for the SCPF are;
- what the duties of a Trustee Director are; and
- how much time is involved in being a Trustee Director.

Details of how the new Trustee Directors will be selected are set out in the separate document “2017 Rules for the Nomination and Selection of Members for Appointment as Member Nominated Directors of the Trustee Company”.

The Pensions Regulator also provides guidance to Trustee Directors on their duties and responsibilities. A booklet entitled “Trustees Guidance” is available on the Pensions Regulator’s website at [www.thepensionregulator.gov.uk](http://www.thepensionregulator.gov.uk). The website also includes interactive training modules for trustees. If you become a Trustee Director of SPT you will be encouraged to complete the Pensions Regulator’s on-line training for trustees of defined benefit schemes. If you are considering becoming a Trustee Director of SPT you may find it helpful to look at some of the modules to give you an idea of what can be involved.

All prospective candidates are strongly encouraged to arrange a meeting with a current Trustee Director or a senior manager from the Trustee Services Unit in order to gain a greater insight into the role. These meetings can be arranged through the Trustee Services Unit - please email [SCPFtrustee@shell.com](mailto:SCPFtrustee@shell.com) to arrange a call.

## What are the Trustee arrangements for the SCPF?

The Trustee of the SCPF is a trustee company – SPT which is a subsidiary of The Shell Petroleum Company Limited (“SPCO”). As from January 2018, the Board of SPT will consist of eight directors, with four directors appointed by SPCO and four directors chosen by the membership.

The Pensions Act 2004 requires pension scheme trustees to put in place and implement arrangements to secure that at least one-third of the total number of directors on the Trustee Board are member-nominated Trustee Directors (“MNDs”). The arrangements put in place by SPT provide that four directors (half of the members of the Board) are selected by the membership. These are the MNDs of the SCPF. MNDs have the same powers and duties as those of the directors appointed by SPCO. The MNDs come from three separate constituencies, each of which holds an election to choose their MNDs, who are then appointed to the Board of SPT.

- The Active Members elect one director.
- The Pensioner Members (including deferred members and dependent pensioners) elect three directors.

The shareholder of SPT is SPCO and as shareholder it has the power of appointment and removal of the Chair of the Board. If a Board decision requires a vote, then the Chair does not have a casting vote.

Trustee Directors unable to attend any meetings are able to appoint a proxy from among other Trustee Directors.

The SPT has set up two committees. These operate mainly in an advisory capacity, i.e. in most cases they give advice to the Board of SPT and the full Board makes the decision. The committees are an Investment Committee and a Technical and Communications Committee, dealing with actuarial, risk, audit and communication matters. Each Trustee Director is expected to serve on either the Investment Committee or the Technical and Communications Committee. Working groups of Board members may be set up for specific projects.

In consideration of the commitment of time and effort for Board and Committee meetings, the Board pays pensioner Trustee Directors a market-based annual fee.

The law entitles individuals to take paid time off during working hours to fulfil trustee duties. Trustee Directors will receive feedback from the Chair of the SPT Board on their contribution to the Board which (for Active Members) is included in their Goals and Performance Appraisal (GPA).

The SPT accounts for its stewardship of the Fund using different channels, including the SCPF newsletter called "The Source", the Shell Pensions in the UK website [www.pensions.shell.co.uk](http://www.pensions.shell.co.uk) and the trustee webcast. The Technical and Communications Committee advises the Board of SPT on these activities.

## Who can be a Trustee?

The Pensions Act 1995 (as amended by the Pensions Act 2004) lays down strict rules on the fitness of individuals to act as pension plan trustees or Trustee Directors. A person may not become a Trustee Director if he or she:

- Has an unspent conviction involving dishonesty or deception
- Is an undischarged bankrupt
- Has been disqualified from acting as a company director
- Is the plan's auditor or Actuary.

Furthermore, the Pensions Regulator has the power to disqualify any individual who is shown to be unfit to be involved in pension fund governance.

## A rewarding and important role

Individual Trustee Directors bring different personal qualities and experience to the role, contributing to the work of the Trustee in their own way. They all have one thing in common: a desire to see that the Plan is well run and to ensure that members' interests are protected.

Trustee Directors are responsible for the proper running of the SCPF. This is a highly responsible role which can be taken on by anyone who is dedicated to looking after the interests of Plan members and who is willing and able to learn what is necessary to discharge the responsibilities of the role.

## What are the duties of the trustee?

When carrying out their duties, Trustee Directors must take account of the fundamental principles of trust law. These are set out below.

### *Duty to act in accordance with the Trust Deed and Regulations and within the framework of the law*

The SCPF has a set of legal documents which establish the trust and the provisions of the SCPF. The Trustee Directors can only be sure that they are acting in accordance with the SCPF documents when those documents have been read and understood. When required, SPT can ask for legal advice on the interpretation of the documents.

Trustee Directors also need to be aware of, and comply with, trust and pensions legislation.

For example, the duties and powers of the Trustee of the SCPF include:

- The duty to pay benefits according to the Trust Deed and Regulations and collect contributions in respect of the SCPF.
- The duty to invest SCPF assets and contributions.
- The duty to pay cost of living increases up to the annual movement of the Retail Prices Index (RPI), or up to 7% (5% for members of the 2009 section) if this is less than the RPI movement.
- The power to set up and monitor the AVC Arrangements.

- The discretion to pay lump sums on death in certain circumstances.
- The power to make amendments to the Trust Deed and Regulations with the approval of a majority of the Employing Companies and subject to certain constraints.
- The power to delegate duties, powers and discretions. SPT delegates investment management to Shell Asset Management Company Limited (SAMCo) and pension fund administration to the Trustee Services Unit in Shell International Limited.

However, the Trustee does not have the power to:

- initiate benefit improvements;
- initiate cost of living increases beyond the terms of the increase provisions set out in the governing documents;
- initiate discretionary pensions, e.g., on incapacity or to an adult dependant;
- determine what is included in the definition of pensionable salary;
- determine who can be a member.

These are all the responsibility of the Employing Companies.

*Duty to act prudently, conscientiously and honestly*

The Board has a protocol for managing conflicts of interest. This includes a Register of Interests kept by the Plan Secretary. Timely disclosure of conflicts is a key factor in their successful management.

The duty of prudence is particularly important for the SPT when dealing with the SCPF's investments. It means acting with the same vigilance and care as the Trustee Directors would use in managing the affairs of a person for whom they are morally bound to provide. This includes considering the risks involved in investment and obtaining appropriate professional advice.

*Duty to act in the best interests of the beneficiaries and to strike a fair balance between the interests of different classes of beneficiary*

SPT's first duty is to the SCPF's beneficiaries. A beneficiary is anyone who is entitled to receive a benefit from the Plan. Beneficiaries include:

- Active members - current employees who belong to the SCPF and are still accruing benefits in respect of current pensionable service.
- Pensioner members - people who have retired from the SCPF and are currently receiving a pension from the Fund.
- Deferred members - people who no longer are active members of the SCPF and are not yet taking a pension, but who still have pension benefits in the Fund (for example, because they have not transferred their benefits to another pension arrangement).
- Widows/widowers or civil partners of deceased members; dependants of deceased members.
- The Employing Companies, who may receive any residual surplus if the SCPF is wound up.

All types of member must be treated fairly and equally. It is not the role of a Trustee Director to represent the interests of any particular group or individual, such as the Employer, a trade union or particular group of members.

The duty to act in a person's "best interests" in the context of pension plans generally means the best financial interests of beneficiaries. SPT considers that companies which are run in the long-term interest of their shareholders need to behave ethically, to operate with due regard for the environment and to manage effectively their relationships with stakeholders. SPT has put in place a Responsible Ownership policy which provides a framework within which consideration of environmental, social and governance matters can be factored into the management of the Fund's investment.

*Duty to take advice on technical matters and any other matters which trustees do not understand*

Trustee Directors are not professional trustees and, by law, will often need to take advice on matters where they need expert help. In particular, the Pensions Act 1995 requires trustees to appoint certain professional advisers and sets out a procedure for appointing and removing them. The duties of these advisers are to SPT and not to the employer. Trustee Directors, however, retain the responsibility for the decisions they make after having taken appropriate advice.

The professional advisers appointed by SPT are:

- Auditor Ernst and Young
- Actuary Michael Webb, Aon Hewitt Limited
- Investment Manager Shell Asset Management Company B.V.
- Investment Adviser Aon Hewitt Limited
- Internal Legal Advisers Legal department, Shell International Limited
- External Legal Advisers Hogan Lovells LLP
- Administration Trustee Services Unit, a department of Shell International Limited.

Each of these advisers holds a letter of appointment from SPT.

The Employing Companies are responsible for certain communications on SCPF benefits such as explanatory booklets.

## **A big responsibility**

SPT itself and the members of the Board are indemnified out of the Fund as far as the law allows, in respect of certain liabilities which they may incur as Trustee Directors. This does not, however, cover fraud, wilful negligence or a breach of trust committed in bad faith.

Trustees and potentially Trustee Directors can be held personally liable for any loss which they cause the Plan as a result of a 'breach of trust'. They can be held liable for actions taken while they were a Trustee Director even after they have stepped down from the role. A 'breach of trust' happens when:

- you carry out an act as a Trustee Director which you are not authorised to do under the Trust Deed and Regulations – unless agreed by the court or directed by the Pensions Regulator
- you fail to do something you should have done under the Trust Deed and Regulations

- you do not perform one or more of the duties you have under the trust law or pensions legislation

Trustees may be in breach of trust unintentionally because of an administrative error or breach caused through negligence or through fraudulent or dishonest behaviour. That is why it is important to have procedures in place for checking that those involved in running the Plan are doing their jobs properly.

### **How much time is involved in being a Trustee Director?**

The Pensions Act 2004 has introduced a specific requirement that pension plan trustees should be familiar with their own plan documents and have an appropriate knowledge and understanding of trust and pensions law and the principles of funding and investment.

Newly appointed Trustee Directors are required to undertake training to acquire knowledge of the issues involved in running a pension plan and get familiar with the Trust Deed and Regulations and other SCPF documents. Training is provided both internally (by the Trustee Services Unit) and externally through organisations such as the Pensions and Lifetime Savings Association. All Trustee Directors are encouraged to complete the Pensions Regulator's on-line training for trustees of defined benefit schemes. Additionally, ad-hoc training is given during the term of office and each Trustee Director is expected to keep his/her knowledge up to date.

There are four scheduled Trustee Board meetings a year. Occasionally, ad-hoc Board meetings and Board workshops (training sessions) are also expected to take place. Each Board meeting usually lasts all day and may include a training update session.

Board committees meet at least quarterly ahead of each Board meeting, sometimes more often. These meetings last up to a day.

Nearly all meetings are held in London. Trustee Directors are sent an agenda book in advance of each meeting. This contains material to be studied and digested before the meeting. The time this takes depends on the content of the agenda and, to some extent, the experience of the individual Trustee Director. The preparation time can range from, say, two hours up to six or seven hours.

Overall, a time commitment of approximately 20 days a year is required.