

At Invesco Perpetual, we manage £30 billion in UK equities on behalf of our clients. We take long term positions based on our judgement of the risk adjusted returns of the companies in which we invest. Currently we have over £1 billion of our clients' pensions and savings money invested in BT. We also own over 10% of TalkTalk shares.

Despite some challenging periods for BT we have been supportive of its strategy and have continuously held shares over the last decade. Particularly, we would note the period of fibre roll out, through which the business took on a huge risk at great cost to shareholders, for which we are only now being rewarded. Openreach was only able to invest as part of a combined strategy with BT Consumer. The financial success of fibre for BT was by no means certain when initiated and is in sharp contrast to the poor experience of investors in the roll-out of cable TV.

The Ofcom proposal to separate Openreach from BT has created major uncertainty. It has contributed to the near 20% fall in the BT share price since February, accounting for £9 billion in equity value. The higher perceived risk surrounding the business has already weakened BT's ability to raise finance, even before your consultation has been concluded. This share price decline illustrates the falsehood in Ofcom claims in paragraph 5.46 of the consultation document "that the impact on BT's ... ability to raise finance would be limited". Moreover, as described in footnote 46, we believe your proposal would result in a significant reduction in control, which will have a greater impact on the cost of financing for both Openreach and BT.

We note your repeated concerns that Openreach should not be in a position to discriminate against BT's competition (eg. paragraph 1.10, 1.14, 3.12, 3.21) and that Openreach's decisions should be taken in the interests of all its customers. A weaker BT is certainly in the interests of its competition and your proposals would certainly deliver that to the other customers of Openreach.

However, there are two key shareholder considerations over the longer term: cost and control. First, we agree with the points you raised in the DCR that structural separation would cause huge disruption and cost to BT and the industry. We also agree that a separate Openreach may not be as incentivised to invest, and further, suggest that there would be a higher risk to significant investment without the explicit support from a BT Consumer business as part of the same legal entity.

There are significant economies of scale at BT. For example, the ability to attract and retain the best talent within research and development would be reduced if Openreach were to be separate. The strength of the covenant which supports the pension is also dependant on the scale at BT, while the "Increased resources" Ofcom proposes for Openreach will lead to a substantial new cost burden and put pressure on the ability for Openreach to innovate and invest.

Second, the key concern we have is with the governance of a legally separate Openreach with

a discreet "purpose" (paragraph 1.24). Accountability of management to shareholders is critical, but clearly inconsistent with paragraph 1.24 (iv) "There must be no direct lines of reporting from Openreach executives to BT Group executives". An extra layer of complexity around the corporate strategy and objectives at BT, not to mention Openreach having a different purpose mandated on it, would make BT a riskier investment.

It is specifically the risk of this proposal which has negatively impacted the BT shares and hampered Openreach's ability to finance future spending programmes.

In conclusion, I strongly believe that Openreach is better able to invest in long term infrastructure projects through its current model of functional separation. It has produced a leading network which scores very highly next to other European countries as illustrated in the Ofcom International Communications Markets Report 2015.

There does not appear to be evidence that Ofcom can present which shows that Openreach is benefiting BT Consumer at the expense of its other customers, only that Ofcom is concerned that it could if it chose to. It does not appear to me that legal separation is proportionate with the outcomes observed from the current status quo. On the other hand, the suggestions laid out by BT in paragraph 1.33 that "equal treatment of customers" be written into the Openreach Articles of Association appears to be a much more proportionate alternative.