BRITISH COAL STAFF SUPERANNUATION SCHEME

Minutes of the Sixty-Ninth Annual General Meeting of Members held in The Holiday Inn Royal Victoria, Victoria Station Road, Sheffield, S1 2AU, at 2pm on Thursday 6th October 2016

Present

Dame K Barker (Chairman)
Mr RA Barfield
Mr DA Clark
Mr BW Hancock
Mr S Jukes
Mr GJ Shearer
Mr WJ Sheldon
Mr AK Whalley

In Attendance

Mr G Mellor – Chief Executive, Coal Pension Trustees Services Ltd
Mr J Heathfield – Scheme Secretary, Coal Pension Trustees Services Ltd
Mr G Lane - Coal Pension Trustees Services Ltd
Mrs H Willcox - Coal Pension Trustees Services Ltd
Mrs C Hanson - Coal Pension Trustees Services Ltd
Mr D Whincup - Coal Pension Trustees Services Ltd
Mr S Reddish - Coal Pension Trustees Services Ltd
Mrs J Unsworth Deckerova - Coal Pension Trustees Services Ltd
Mr J Woodall - Aon Hewitt
Mr D Tebbett - Aon Hewitt
Ms G Jordan - Coal Industry Social Welfare Organisation
Mr D Brookes - Coal Industry Social Welfare Organisation
Mrs D Larnder – Ernst & Young

There were 62 members of the Scheme present.

AGM PRESENTATION

1. Dame Kate welcomed those present to the 69th Annual General Meeting of the Scheme. A presentation was made to the Annual General Meeting, a transcript of which is attached at Appendix 1 to these Minutes.

OPEN FORUM

2. A transcript of the oral questions and answers is attached at Appendix 2 to these Minutes.

Signed …………………………………… (Chairman) Date ………………………

APPENDIX 1

AGM PRESENTATION

1. Good afternoon, everyone. Welcome to the 69th Annual General Meeting of Scheme members.

2. My name is Kate Barker and I am the Chairman of the Committee of Management of BCSSS.

3. The AGM provides you, our members, with the opportunity to hear presentations on the financial position of the Scheme and on some of the key issues we face. After the presentations, you will have an opportunity to ask questions.

4. We also consider any resolutions put to the Committee of Management – we have not received any resolutions; and for the first time we have not received any questions in advance.

5. As some of you will know, each year the AGM is held in a different venue within the UK, to give as many members as possible the opportunity to attend a meeting in their locality. This year we are pleased that the AGM is in Sheffield again, our first visit since 2010.

6. I'd like to start by telling you a bit about myself – I describe myself as a business economist and am currently a non-executive director of Taylor Wimpey Plc and Yorkshire Building Society. However I also have a history of working on public policy – setting interest rates as a long-serving member of the Bank of England's Monetary Policy Committee, and producing reviews on housing and planning policy for the Labour Government.

7. Let me introduce the rest of the Committee of Management of your Scheme (often referred to as the Trustees) and explain to you a little bit about what we do.

8. Sitting with me is Dick Barfield. Dick was appointed by the Committee of Management seven years ago and is the Chairman of the Scheme's Investment Sub-committee.

9. The other members of the Committee are sitting in the front row. I'll start with the Pensioner Representative members – could you please stand up and make yourself known to the meeting when I introduce you: Allen Clark. Allen is the Pensioner Representative for the Scotland and North East England constituency and has been a member of the Committee of Management for 13 years.

10. Bleddyn Hancock. Bleddyn is the Pensioner Representative for the North West England, West Midlands, Wales and Northern Ireland constituency and is the longest standing Pensioner Representative member, being on the Committee of Management for 21 years. I'd like to congratulate Bleddyn, who has just been re-elected for a further four-year term from 1 October.

11. Stuart Jukes. Stuart is the Pensioner Representative for the Yorkshire and North Lincolnshire constituency and has been a member of the Committee of Management for 20 years.

12. John Sheldon. John is the Pensioner Representative for the East Midlands, Southern England and Overseas constituency and is our newest elected Trustee, joining the Committee of Management two years ago.

13. The other appointed members are: Alan Whalley. Alan was appointed by the Committee of Management last year and was the Chairman of the Administration and Benefits Sub-committee. We decided yesterday that Alan should chair the Risk and Assurance Sub-Committee.

14. Jim Shearer. Jim was appointed by the Committee of Management from 1 May this year. Jim was formerly Deputy Area Director for North East, North Yorkshire and South Yorkshire Areas and Commercial Services director at British Coal. He is a former trustee and Chair of the Investment and Audit Sub-committee of the Coal Industry Social Welfare Organisation. Jim will chair the Administration and Benefits Sub-Committee and the Discretions and Appeals Sub-Committee. I am delighted that we have been able to add Jim to the trustee team.

15. So, as you can see, the Committee of Management is made up of individuals with varying lengths of Scheme experience. I think we've a good balance between retention of knowledge and the challenge of new ideas and ways of working.

16. I'd just like to say a few words about Ray Proctor, who stood down as a Trustee in April after 14 years and who I'm delighted to see is at the meeting. Ray was well known to many members, both as a Trustee and previously as a Senior Manager at British Coal. He was a very effective Trustee, and his counsel and experience will be missed. The Committee of Management agreed that Ray's successor should be a Scheme member, subject to finding the right candidate. We publicised the position in Pensions News and were greatly impressed by the number of high calibre candidates who put themselves forward for consideration, and, as I have already said, we were pleased to appoint Jim Shearer as a Trustee.

17. The Committee of Management works as a team and our collective focus is on paying you the benefits you are due under the Scheme Rules and providing the best service for you, our members. Our duties and powers are set out under the Scheme Rules and Trust law – we must abide by these Rules and are not allowed to act outside of them.

18. The Committee of Management has delegated some of its powers to four Sub-committees. Each of these Sub-committee comprises two appointed and two Pensioner Representative Trustee members and each Sub-committee is Chaired by an appointed Trustee (a requirement under the Trustee Company's Memorandum and Articles of Association). The Committee of Management meets on a quarterly basis, or more often if required. As well as receiving reports from the various Sub-committees, the Committee of Management sets the strategic objectives and risk constraints, and monitors progress towards these objectives.

19. I would like to take this opportunity to highlight the commitment each member of the Committee of Management has shown in looking after the interests of the members. Over the year to March 2016, we had 27 Committee of Management and Sub-committee meetings, together with a number of working group meetings. Papers for each meeting are issued in advance and the amount of preparation required for each meeting should not be underestimated. In addition, each Trustee has continued to improve their knowledge and understanding, through attendance at external courses and seminars, and through formal and informal training.

20. Joining Dick and myself at the front from the staff of Coal Pension Trustees is Geoff Mellor, the Chief Executive, and Jon Heathfield, the Scheme's Secretary.

21. Coal Pension Trustees employs 33 staff, who provide Executive Management, secretarial, actuarial, benefits management, finance and accounting, investment and risk management services. They support not only the BCSSS but also the Mineworkers' Pension Scheme.

22. The programme for this afternoon's meeting is shown on the slide. I shall begin by giving an update on the Scheme's administration arrangements, which are about to change. I'll then talk about the work we've being doing this year on reviewing the funding objectives and risks – how we try to ensure that we have enough money to pay benefits throughout the future without

requiring new money from the Guarantor. I shall then hand over to Dick Barfield, who will give you an update on the Scheme's investment strategy and performance.

23. Jon Heathfield will then summarise some of the key financial information.

24. I shall then invite questions from the floor, which we will endeavour to answer, before I draw the formal proceedings to a close.

25. There will be time at the end of the meeting for further refreshments – and I hope you will take the opportunity to chat with the Trustees and Scheme Officials before you head home today. Representatives from the Scheme Administrators (Aon Hewitt) and the Coal Industry Social Welfare Organisation are also with us this afternoon, so if you have not had the chance yet to visit their stands, you may wish to do so at the end of the formal proceedings.

26. Two of the most important roles of a Trustee are to invest the assets and to pay the benefits. Dick Barfield will talk about how we invest the assets later but I want to spend a little bit of time talking about administration.

27. A fundamental duty of Trustees is to ensure that the right benefits are paid to the right people at the right time, every time, in accordance with the Scheme Rules. This involves running monthly payrolls and deducting tax, dealing with changes to benefits when people retire or die, making sure annual inflation increases are correctly applied and dealing with individual or ad hoc questions and queries. The Scheme's administrator has a substantial operational responsibility and is also the primary contact with the Scheme's members. Therefore this is a key appointment and one the Trustees must get right.

28. The Scheme's current administration contract with Aon Hewitt is due to expire at the end of this year. We have carried out a benchmarking exercise to compare Aon's service and price with that of other potential providers. Following the benchmarking exercise, the Committee of Management took the decision to transfer the administration to Capita Employee Benefits. Capita is a well established and highly regarded pensions administrator and the BCSSS administration will be undertaken entirely from Capita's Sheffield office, just across the road from this hotel [point to it]. We have started the process of moving the services, which is complex and time-consuming. The transition is expected to be fully complete by 1 August 2017. We have been working very hard with Capita and Aon to ensure that the transfer goes as smoothly as possible and to ensure that there is no disruption to the service.

29. This was a very difficult decision. Aon have administered the Scheme since 1995 and have worked very closely with the Trustees throughout that period. However, we have a duty to ensure that the service to members remains efficient and the Trustees were satisfied that Capita was best placed to provide that service in future.

30. The Trustees would like to thank all of the staff Aon for the high level of service that they have provided to our Scheme members over the years.

31. We are using this change as an opportunity to assess and improve the way in which we communicate with you, our members. For example, you'll see the positive changes to the Scheme's website and Pensions News over the next few months, as we try to ensure that they are as useful, informative and clear as possible.

32. We've also used this review as an opportunity to consider the costs associated with administering the Scheme. One significant cost is the provision of monthly payslips. The

Trustees have decided that, from 1 August 2017, we will stop providing monthly payslips. This will save the Scheme nearly £400,000 a year. We will still send pensioners three payslips a year (in January, for pension increases, in March, as a P60, and in April to confirm any tax code change). In fact, for most people, the information on the payslips only changes at these three times, so members will still have the relevant information available. Pensioners will still be able to access monthly payslips online through the "mypensiononline" section of the Scheme website and the administration office will be able to send a letter containing payslip details on request.

33. Further information on all these changes will be included in the next edition of Pensions News.

34. I'd like to talk a little now about the Trustees' funding objectives and how we set investment targets and risks. Dick will then talk about how we invest the assets to try to achieve those targets and manage the risks.

35. Following the changes to the Scheme in 2015, we've been reviewing our funding targets and our appetite for risk, to take account of the changes to the Scheme's structure and to reflect the external environment.

36. Our key focus is on ensuring that the assets remain sufficient to pay all promised pensions throughout the future. We estimate that the total future pension payments from the Scheme throughout the whole of its future lifetime will total about £18bn. This figure takes account of our best estimate of future inflation increases, and projections of mortality rates, or when we think people are going to die. As you will realise, we need to grow the assets substantially from the £8.6bn as at the end of March to meet all of these payments.

37. In his actuarial valuation as at March 2015, the Government Actuary estimated that the assets would need to earn consistent returns of about 1.8% above inflation each year throughout the future lifetime of the Scheme in order to be sufficient to meet these payments. This is a stretching target in the current conditions, when as I'm sure you are all painfully aware, returns to savings are low.

38. As you can see from the slide, we currently pay out over £600m each year in pensions. As you will see when we look at the accounts, the assets last year provided about £136m of income, which means we still have to find another £450m or so each year to pay the promised pensions. We find that by selling assets. Having assets that we can sell when we need the money, and sell at a high enough price, is essential if we are to pay the pensions without recourse to the Government.

39. I would now like to hand over to Dick, who will discuss the investment strategy and performance of the Scheme. Dick.

Dick Barfield

40. I'd like to talk first about the investment objectives of the Scheme and how we have developed an investment strategy best placed to meet these objectives.

41. The investment strategy and asset allocation – how we invest the Scheme's funds - are by far the most important investment decisions that Trustees make. I'd like to explain how the Trustees have developed the investment strategy and how it has changed following the recent changes to the Scheme structure.

42. After a word about the performance of the Scheme's assets, I will then talk about the effect of the EU referendum on our investments.

43. As Kate explained, the Trustees' primary funding objective is to pay all future pensions from the current assets. To do this we need to grow the assets over the future and we need to find cash each month to pay pensions. We are therefore ideally looking for assets that provide plenty of income, perhaps through bond interest, equity dividends or property rents. But total returns from these assets also need to be high. As Kate explained, the income produced by the Scheme's assets remains well short of the levels of pension we have to pay – last year the net income was about £130m and pensions were over £600m – so we also need to sell assets regularly as well. It is important that we don't have to sell assets after a big fall in value, as this will adversely affect our ability to meet our objectives.

44. The slide shows the asset allocation as at 31 March 2016, as well as the target allocation at that date. I'll explain why we hold some of these assets to meet the objectives.

45. Firstly government bonds and credit. This involves lending to governments round the world or to major companies. The interest received on the loans tends to be low in the current environment, but these bonds act as a diversifier – they tend to hold their value when other asset prices fall and mean that we don't have to sell equities at these times to pay the pensions.

46. Next, we'll look at equities, or shares in companies. These have been our main growth assets over many years and they remain an important part of the portfolio. We expect equities to deliver the required returns over the long term. But their prices do go up and down, sometimes quite significantly. So we need to be confident that we have other assets that we can sell during the difficult times.

47. Private debt and special situations debt involve lending to less strong companies. The interest payable on these loans is generally substantially higher than that on government debt but, of course, the risk that the borrower cannot pay the interest or repay the loan is also higher. These assets provide excellent levels of income but need very careful monitoring to ensure we minimise the risk of losses.

48. Finally, property. We own a wide range of properties; offices, shops, warehouses, hotels, student accommodation and residential accommodation. We are looking for high rental income and some growth in values.

49. So you can see how we are always looking to construct a balanced portfolio that achieves the objectives; equities and properties as growth assets to meet long term return needs; private debt and property to provide high levels of income; and government bonds as a stable asset that can be sold to meet pension payments if other assets' prices are depressed.

50. The Trustees changed the asset allocation over the course of the year reflecting economic conditions and also to take full account of the changes to the Scheme's structure. We have reduced the level of equities and purchased more Government Bonds, private debt and special situations debt. This increases the cash available to fund benefits and provides the diversification I referred to earlier. The expected returns of this portfolio remain high, reflecting the need to grow the assets over the longer term. But the improved short term cash from the portfolio is attractive.

51. Having established the asset allocation we then select the managers within each of the different asset classes.

52. The Trustees monitor the performance of the investment managers and are keen to ensure that they continue to generate the required levels of return after taking account of fees and other costs.

53. So let’s look at how we’ve done. The Trustees measure performance in two ways.

54. Firstly, we assess how well the strategy has done by looking at the actual returns on the whole portfolio. The benchmark is not important for this purpose – I’ll come to that in a minute.

55. You’ll see that, over the year to March 2016, the return was 2.73%. This return reflects the pretty flat performance across all major asset classes over the year. Perhaps more relevant is the three-year return. As you can see, the assets have returned 8.16% per annum over the last three years. These are strong returns, reflecting the increases in global markets over the period.

56. Our second measure of performance is how well the strategy has been implemented, and how well the various managers have done. For this purpose, we measure the performance against the benchmarks set for each manager, or relative returns. Relative performance is an important measure to help us assess how well the portfolio is being managed.

57. You can see that, over the last one, three and five years, the relative performance has been strong. This strong performance has come from across the portfolio, with which we’re very pleased.

58. I would like to assure you that we spend a lot of time and effort making our investment policy as effective and successful as possible. We’ve reviewed all aspects of the policy, and remain fully focussed on ensuring that the assets are all working hard to help achieve the objectives.

59. Your Trustees, the investment team at CPT and the various investment managers have worked really hard to get the best results for members. We will continue to work just as hard in the future.

60. I should mention the actions we’ve taken since the year end, reflecting the uncertainty around the EU referendum in June. The Trustees were concerned that the referendum result, especially if it was a vote to leave the EU, could lead to some turmoil in financial markets, especially in the short term. There was no real way to judge how markets would react and we certainly did not have a strong view that the vote would go the way it did. However, we felt it prudent to sell some equities shortly before the vote, to ensure we had enough cash to cover a few months’ pension payments.

61. As it turned out, some of the biggest turmoil was in currency markets, with sterling weakening substantially against many other currencies. That, together with strong equity market performance, gave us the opportunity to sell some more overseas equities and some emerging market debt in July, with the proceeds, when converted to sterling, being attractive. We now, therefore, have sufficient cash in the portfolio to cover pension payments well into next year.

62. We still don’t know what the longer term effects of Brexit will have on economic activity and asset prices. Economic data to date has been more resilient than some expected, but there is a long way to go before the longer term impacts are fully know. Returns up to the end of August have been very positive at 8.3% since the end of the financial year. However, we’ve seen

property market activity slow a little in some parts of the country and various commentators suggested that we may see a slowdown in economic activity in the future. We continue to monitor the signs and feel that the portfolio is as well placed as it can be in the current environment.

63. I will now hand over the Scheme Secretary, Jon Heathfield, who will summarise the key numbers in the Scheme accounts.

Jon Heathfield

64. Thank you Dick, good afternoon everyone.

65. Let's look at some of the numbers in the Scheme's accounts - you should all have received a copy of the Scheme's Report and Accounts with your AGM ticket. The slide is a summary of the Fund Account and Net Assets Statement that appear at pages 16 and 17 of the Report and Accounts.

66. Payments from the Scheme amounted to £1,152 million, or just over 13% of the value of the Fund. These payments from the Scheme were higher than in previous years due to the £500 million paid to the Guarantor. This payment of £500m to the Guarantor relates to the changes to the Scheme structure implemented in 2015. £500m from the Investment Reserve was paid to the Guarantor in April 2015. The remainder of the Investment Reserve, about £1.7bn, will remain in the Scheme until 2033.

67. The remaining payments from the Scheme amounted to £652 million which is over 7.5% of the value of the Fund. The pensions paid to members and dependants, at £648 million, accounted for just over 99% of this expenditure, with administration costs making up the remainder.

68. The net return on the Scheme's investments over the year was £228 million, made up of investment income (less investment management expenses) of £136 million and capital appreciation of £92 million.

69. The net effect of these movements is a decrease in the overall Fund value of £924 million, giving a total value of the Scheme's assets of £8.647 billion.

70. At recent AGM's, there have been a number of questions about Scheme costs and the actions taken by the Trustees to control those costs. The figures in the report & accounts are prepared in line with prescribed accounting standards, are rounded to the nearest million and, as a consequence, do not always provide easily explainable information to members. As we did last year I have set out the expenses in a slightly different format, to show them in the way that we present them to the Trustees on a quarterly basis for our internal reporting.

71. The investment management expenses are by far the largest Scheme costs. The figure shown in the report and accounts is £36m. This reflects costs which have been invoiced separately by managers but not those from managers who deduct their fees directly from the investment. This understates the true level of costs charged by external investment managers, which we estimate to be £55.5m.

72. This is an increase of nearly £3m over the previous year and as Dick explained in his earlier slide, the Trustees have changed their asset allocation over the year. The increase in higher returning assets such as private debt, special situations debt and shipping are also more

expensive to manage than the equity investments they have replaced and are the main reason for the increase.

73. Now let's turn to administration expenses. These costs include those paid to the Scheme administrators, Aon Hewitt and also the Scheme's share of CPT costs (excluding the investment team which are now reflected in the investment expenses line above). The slide shows a fall of nearly £900k in these costs compared to 2015, a 21% decrease. However, the previous year included costs of £391k that related to 2014 and inflated the costs for 2015. So excluding these the decrease in Administration costs in 2016 was £507k, with savings in both the Administrator and CPT costs.

74. This year we have no written questions submitted prior to the meeting, so I'd now like to hand back to Kate to start the open forum session.

APPENDIX 2

OPEN FORUM SESSION

Kate Barker

1. Before I open the meeting to questions, I would remind you that the session is just that, a time for questions. The correct forum to express personal views and to deal with individual benefit queries is through the Scheme's administration office at Aon Hewitt. Staff from the Administration Office are here today, and after the meeting, they will be happy to spend time with you to answer any individual benefit queries.

2. We do have a number of visitors who are not members of the Scheme with us today. They are welcome and may ask questions.

3. Please will every speaker give his or her name? If you are not a member, please state the organisation you represent. Please use the microphone, to ensure that you can be heard by everybody here and so it is picked up on the recording for the transcript.

4. So, are there any questions about the operations of the Scheme over the past year?

5. **Greg Simmons**, Scheme member - I was interested in the changes to the Scheme that you talked about and also the fact that you have made the best out of the economic situation with the strong performance within the last year. You mentioned Capita will be taking over from Aon Hewitt, can I ask why that change has been made if the performance was good with Aon Hewitt?

6. **Kate Barker** - Aon Hewitt have provided a good service in the past, however, there have been some changes at Aon which made us less sure about the service we will receive from them in the future. In addition, we conducted a benchmarking exercise in which we asked a number of organisations to come back to us with their costs for administering the Scheme. That exercise revealed that we could get better value for you from Capita with an equally good service. But it wasn't an overriding commercial reason on which the decision was made; if we thought that the service would be worse we would not have made that decision, as the service our members receive is important to us. I have to say it wasn't an easy decision.

7. **Chris Bailey**, Scheme member - I want to ask a question about communications. In your opening address you mentioned Pensions News is going to be refreshed (I think that is overdue). I missed the second or summer edition we used to get and I was surprised to see in the last Pensions News you have decided to discontinue this. I very much hope that part of your refreshment strategy you include another edition of Pensions News.

8. **Kate Barker** – We don't want to waste time and money sending out an edition of Pensions News if there is nothing useful to tell you. If there is something useful things to say, we will send out a second edition. We will take that comment away and think about it.

9. **Adrian Harding**, Scheme member - It's already been mentioned that the Guarantor's share of the surplus is going to be left in the Fund. In the Special Edition of Pensions News it explained that rather than being increased in line with investment returns, it's now going to have CPI increases added to it. If the Scheme can afford it, would the Scheme consider a CPI increase on the amount of bonus we will be left with in 2020?

10. **Kate Barker** - It's not the Guarantor's share of surplus that's left in the Scheme, it's the Investment Reserve, and that will now increase in line with CPI. In order to increase bonuses by CPI we would have to go back to the Guarantor and demonstrate that we could afford it. Clearly we always keep under review how well we are funded, and discuss that with the Guarantor. The last settlement was not easy to strike, Ray Proctor engineered a very good settlement with support of the staff. So, it wouldn't be easy to go back to the Guarantor now, given the size of the Fund and the scale of the money we have to pay out. It would be grand if I could say that at some future date we could go back to the Guarantor and ask for something better, but as things stand today, I think that would be very unlikely.

11. **John Battey**, Scheme member - After last year's debacle when you decided to give the Government all the proceeds, I hope you are not going to come back in a year or two's time to say that RPI is now dead?

12. **Kate Barker** - I'm very surprised that you should call it a debacle, I thought it was a very successful negotiation. If we hadn't conducted that negotiation then today you would be facing a long period in which your pensions, in money terms, didn't change at all, whereas we were successfully able to avoid that and keep the RPI link. The Trustees were completely united in the importance of keeping that RPI link because we know how important it is to you. So we have no intention whatsoever in coming back to you to tell you that. Whatever my feelings as an economist may be about the RPI, I recognise it as an important part of your pension promise.

13. **John Battey**, Scheme member - What I'm saying is that you don't come in two years' time to say we've now renegotiated with the Government and you are now on CPI, as most pension funds are moving to CPI.

14. **Kate Barker** - We would not wish to have that negotiation, however, equally if we have a short fall in the Scheme then the Government will have to pick it up. If we found the Scheme was not performing satisfactorily we would have to have a conversation with the Government at some future date, and I can't be sure what the outcome would be. I agree with what you have just said, most pension funds are moving to CPI, that's why we were all very pleased that we were able to negotiate the agreement that we did. I signed it and the Government signed it, it can't be changed without us both agreeing to it.

15. **Richard Thomas**, Scheme member - Are there any sub-funds now or is it in one big pot?

16. **Kate Barker** - It is a simpler structure now. There is still an Investment Reserve which we have to pay back to the Guarantor in 2033, but there aren't the sub-funds relating to bonuses in the way that they were before.

17. **Adrian Harding**, Scheme member - Accepting that the three year actuarial valuation will still continue, what will happen to any surplus as a result of those valuations?

18. **Kate Barker** - Because of the change in the structure of the Fund we're not approaching the actuarial valuation in the same way. So, as it sets out in the accounts, what come comes out of the actuarial valuation are two calculations, the first is the calculation of the future rate of return that we need to earn in order to pay the pensions promises to members and the second is the rate of return we need to achieve to be able to repay the Investment Reserve in 2033. So we won't be in a position to talk about surpluses in the future.

19. **David Hammond**, Scheme member - I'm also a member of the West Yorkshire County Council pension scheme. In their last newsletter they said that their administration are joining forces

with a northern group of administrators that are taking over the local authorities pensions with a view of trying to keep costs down. Would the Trustees do a similar thing with the BCSSS Scheme?

20. **Kate Barker** - Local Government schemes are different to our Scheme. I'm not sure that joining forces with another scheme would necessarily yield any further costs savings beyond those negotiated by the move to Capita. I don't think that would be a way forward for this Scheme.

21. **Geoff Mellor** - My understanding of the local Government schemes is that the grouping concern not the administration but the management of the investments. The Chancellor has asked the local Government schemes to pool together pots of money of around £20-25 billion, and that's exactly what we do here. In terms of the Scheme's investment management, the resources are shared with the Mineworkers' Pension Scheme, so together we have a pot of money of about £20 billion, similar to the size of the West Yorkshire County Council and the others. It's to try to get pots of £20-25 billion in size with a single group of people overseeing the management, but still reporting to the individual councils in the same way that CPT reports to the individual Trustees. In a way the Councils have come along with the same model as ours to an extent. I don't think the physical administration has fallen in to those groupings yet. My understanding is based on the South Yorkshire Local authority scheme where my wife is a member, and that is still administered in house within South Yorkshire, so I think it is the asset side where schemes are joining forces and it's similar to what we already do.

22. **John Battey**, Scheme member - You said you have got to achieve 1.8% over the next 10 years or so, and it's been well over that in the past.

23. **Kate Barker** - We know that we've entered in to a very long period of reducing interest rates which have pushed up asset values, it's very unlikely that we will enter into another period like that. Many other funds are not as optimistic about the prospects for being able to earn the money. It is also important that we are not forced to sell assets when they are cheap, so it isn't just whether we earn the returns but also about when we sell assets. For example, if we have a bad year and have to sell assets at a low value, that can make it permanently more difficult for us to earn the returns we need, so achieving returns of 1.8% sounds a little bit easier than it actually is.

24. **Dick Barfield** - We are in an era of very low interest rates, certainly if you go back 10 years or so you could have bought bonds which would have yielded 7 to 8% without much risk, we now can only buy bonds yielding 0.5 – 1% without much risk. That shows that the general expectation is that interest rates over the next 10 years are going to be very much lower than they have been over the last 10 years, certainly in bonds. In equities you've got markets at pretty high levels and if you look at the markets, and especially if you look at the States, things are certainly more expensive than they were 10 years ago. I think the general expectation in the investment industry is that returns are going to be very much lower over the next 10 years than they have been over the last 10 years. We clearly hope to achieve 1.8% real, but it's not certain that we will be able to do so. If we assume inflation will be 2 or 3% then that's still heading for 5% actual nominal returns. In this sort of environment that sounds do-able.

25. **Christopher Pennell**, Scheme member - On page 26 of the Report & Accounts you talk about the fair value hierarchy of liabilities and assets. I have noted how much of it's in level 3, can you comment if this is a risk?

26. **Kate Barker** – It might help if I explain the point about levels 1,2 and 3 - level 1 are assets you can value in a market, and level 3 are where the value of the assets are a little less certain. If you think about our property portfolio, you are never quite sure of what you are going to get for your house until you put it on the market, so level 3 means that it's harder to establish what the value is at a certain point in time. We set out at some length in the Report & Accounts exactly how valuations are done with the valuers who work on the property portfolio. I think it's not right to equate "it's difficult to value on the day" with the asset being more risky because equities are easy to value on the day but they are not riskless. We need to ensure we earn returns but also have some worries about the potential volatility of the equities. As a result, we have started to move into some new investment areas, for example shipping and private debt. These new areas are more difficult to value, but we hope they would give us a stream of income and diversify our risks, so you shouldn't necessarily think of them as more risky - they may be less liquid ie. harder to sell, but not necessarily more risky.

27. **Christopher Pennell**, Scheme member - On page 12 of the Report & Accounts, it says of the £8.6 billion Fund value over £1.8 million is being managed by Blackrock. Why do we have lots of confidence in Blackrock?

28. **Dick Barfield** - Most of the investment that Blackrock does for us is in what you would call passive funds ie. they are indexed funds and the risk is extremely low that the performance will vary from the performance of that index. Yes, it does look like a risk on paper, but in practise it's not like having that amount of money with an active equity manager or with an active bond manager for example. It's really running indexed funds, and it's really very much just a computer exercise, we don't need to worry about their judgement as they don't put any judgement in to it. There is hardly any decision making required.

29. **John Morley**, Scheme member - In this year's accounts I can see that we have gone into shipping, and I understand you have bought three tankers. I wondered, with the price of oil and tankers being docked out at sea, as to whether it has been a good investment or a possible future investment?

30. **Kate Barker** - We deal with a very reputable company, Tufton, who do all of the work in researching the ships, and it's certainly not the case that our ships just move oil, they move a range of materials. There is always a worry, and certainly one of my concerns when we started to go into shipping was about trade - world trade is not growing in line with economic growth in the way it used to. I am pleased to say that the ships we bought remain pretty busy and we will continue to monitor them closely, and they do of course produce a stream of income.

31. **Dick Barfield -**There are three different areas of shipping we have been looking at, chemical tankers, container ships and bulk carriers. The bulk carriers are in a difficult situation, we might well be buying some but we have left that for a while. Really what we are looking for are ships which have a certain level of income earning ability for the next few years and that are on charter for a reasonable period of time. They will need to be refurbished every so often and that's taken account of in our expectations. But at the moment when you buy one of these, because the prices have fallen more than the charter rates, we are earning a very good yield. It can be in the order of 12 or 13%, now that clearly is only for a few years, and we will have to then think about the situation in a few years' time. It is a new investment area, and we did have some worries about it, but I think they are picking the ships very carefully and so far things have been going well.

32. **Christopher Pennell**, Scheme member - At last year's AGM a chart was shown which suggested that there will be 32,000 members and beneficiaries in the Scheme in 2035, and I

read in the annual report that those figures seemed to be based on the 2012 data from the ONS. Since then there has been further data from the turn of the year from the ONS suggesting that the numbers of 65 year olds surviving has been increasing at a dramatic rate, this of course is very good news, but how are the Trustees viewing this rapid increase in longevity and does it have implications for the future funding arrangements?

33. **Kate Barker** - The very latest figures have suggested a slightly higher rate of mortality than we previously had. I wouldn't want to over react to short-term twists in the figures on mortality, the Government Actuary will, of course, look at mortality for us again soon and will update the figures for us then. As the work was done in 2015, I wouldn't think the predictions would be very different. I wouldn't think there is any reason we are not using reasonable numbers at this stage.

34. **Geoff Mellor** - If members of the Scheme live considerably longer than we have estimated then that will have an impact on the funding by definition. What matters to the Scheme is the longevity of the members of this Scheme. As well as using the population analysis, we have enough Scheme experience of the members, including the industrial background and the places where they lived, to enable us to use very specific data. The experience we found over the period is that mortality projections have been good and we've not had any sizeable movements as a result of getting those projections wrong, plus we do update them every three years. We should take any external reported analysis with a pinch of salt until we have gone through that process as Kate said. I don't think that mortality experience will be the biggest risk to this Scheme over the coming years. The ability to earn investment returns at the right rate and sell the assets at the right time is going to be more significant.

35. **Adrian Harding**, Scheme member – Can we opt out of receiving a paper copy of Pensions News and just get it electronically?

36. **Kate Barker** – We don't have the facility to do this yet, so we will continue to send out Pensions News in the post. However, it is also available on the Scheme's website and it could be something that we look at in the future.

Kate Barker

37. Thank you for your questions. I would now like to spend just a few moments bringing this AGM to a close.

38. As we mentioned earlier in our presentations, we are continuing to work very hard to ensure that the governance structure of the Scheme is robust and fit for purpose and that your Scheme remains appropriately funded throughout the future and to provide you with the best possible service.

39. We anticipated that the issues raised today would prompt a good deal of interest from members at this Annual General Meeting. As usual, we have not been disappointed, and I thank you for your questions. I hope you have found the meeting both interesting and informative. We shall be here for a little while yet and you are welcome to join us for further refreshments and informal discussion.

40. I would like to thank all those at CPT, as well as the staff from Aon Hewitt and the Coal Industry Social Welfare Organisation, who have worked to put together today's event. The Trustees, and the CPT Team, work hard throughout the year for all the members of the Scheme and I thank them on your behalf.

41. The AGM next year will be held on 5 October 2017 at the Crown Plaza hotel in Liverpool; details will be included in the next edition of Pensions News.