BRITISH COAL STAFF SUPERANNUATION SCHEME

Minutes of the Seventieth Annual General Meeting of Members held in Crowne Plaza, Liverpool City Centre, Princes Dock, Pier Head, Liverpool, L3 1QW, at 2pm on Thursday 5th October 2017

Present

Dame K Barker (Chairman)
Mr JB Grant
Mr BW Hancock
Mr S Jukes
Mr GJ Shearer
Mr WJ Sheldon
Mr AK Whalley

Apologies

Mr RA Barfield

In Attendance

Mr J Heathfield – Scheme Secretary, Coal Pension Trustees Services Ltd
Mr G Lane - Coal Pension Trustees Services Ltd
Mr A Gibbons - Coal Pension Trustees Services Ltd
Mrs H Willcox - Coal Pension Trustees Services Ltd
Mrs L Morris - Coal Pension Trustees Services Ltd
Mr D Whincup - Coal Pension Trustees Services Ltd
Mr R Coleman – Capita Employee Benefits
Mr G Unwin - Capita Employee Benefits
Ms G Jordan - Coal Industry Social Welfare Organisation
Mr D Brookes - Coal Industry Social Welfare Organisation

There were 70 members of the Scheme present

AGM PRESENTATION

1. Dame Kate welcomed those present to the 70th 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 our 70th 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 but we have received some 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 Liverpool again, our first visit since 2011 and it is great to see such a good turnout.

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 Man Group. 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. I was hoping to be joined on stage today by Dick Barfield, our Chairman of the Scheme's Investment Sub-committee, who was appointed as a Trustee eight years ago. Unfortunately Dick cannot be with us today due to illness. Appointed Trustees can serve for a maximum of nine years, so I'm also sad to announce that Dick will be retiring as a Scheme Trustee next year. We will be starting the process to find Dick's successor in the next few weeks.

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:

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, serving on the Committee of Management for 22 years.

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 21 years.

12. John Sheldon. John is the Pensioner Representative for the East Midlands, Southern England and Overseas constituency, joining the Committee of Management three years ago.

13. James Bryne Grant. James is the new Pensioner Representative for the Scotland and North East England constituency, only joining the Committee of Management four days ago! James replaced Allen Clark, who retired after being a member of the Committee of Management for 14 years. Allen was a significant force at Trustee meetings and was very passionate about

ensuring members' concerns were constantly at the forefront of our minds. We would like to thank Allen for his valuable contribution to the Trustee board over his tenure, and wish him a long and happy retirement.

14. The other appointed members are: Alan Whalley. Alan was appointed by the Committee of Management two and a half years ago and is Chairman of the Risk and Assurance Sub-Committee.

15. Jim Shearer. Jim was appointed by the Committee of Management a year and a half ago. Jim is the Chairman of both the Administration and Benefits Sub-Committee and the Discretions and Appeals Sub-Committee.

16. 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.

17. By way of background for those of you who haven't been to an AGM recently, 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 constitution). 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 2017, we had 28 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 myself at the front from the staff of Coal Pension Trustees is Gerry Lane, one of the Co-CEOs and Jon Heathfield, the Scheme's Secretary. Gerry will provide you with an update on the Scheme's investments in Dick's absence.

21. Coal Pension Trustees employs 36 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. As this year marks the Scheme's 70th anniversary I thought I would do something a little different and take a quick look at some facts and figures from over the years. I will then give an update on the Scheme's administration arrangements, which you will all be aware changed from 1st August. Finally I will talk about the work we have 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.

I shall then hand over to Gerry Lane, 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 from the Report and Accounts and provide answers to the written questions received in advance.

24. Finally, I will 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 new Scheme Administrators (Capita Employee Benefits) 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. So, as this year marks the Scheme's 70th anniversary I thought you might be interested in some facts and figures about the Scheme over this period of time. The BCSSS was established on 1 January 1947 and although membership was voluntary 67,000 employees initially joined the Scheme.

27. The figures on the slide show the Scheme's membership, annual pension and lump sum payments and the Fund values at various times over the last 70 years. As you can see, by 1952 the Scheme had grown to 68,800 members, the Fund value was just under £25 million and it paid out annual benefits of just £456,349.

28. Leap forward thirty five years to 1987 and the membership, annual payroll and the Fund value had all increased significantly.

29. With members getting older, the decline of the industry and privatisation in 1995 the number of members reduced over the next 20 years to 2007. However, the Fund value and annual payroll continued to increase to just under £12 billion and £635 million respectively.

30. To bring us right up to date you can see that over the last 10 years the membership has continued to fall and the Fund value has fallen by £2.6 billion, although you would expect that having paid out over £6.3 billion in benefit payments alone over the last 10 years. The annual benefit payments still remain very high at £638 million.

31. Based on actuarial assumptions our best estimate is that the future total pension payments from the Fund will be in the region of £18 billion, nearly twice the current Fund value.

32. So, this remains our challenge, to make sure that the Fund can continue to generate sufficient investment returns in order to continue to meet these very high levels of benefit payments both now and in the future. Gerry will talk more about what we are doing to try and achieve this in his speech later.

33. I feel like I say this every year, but this has been another busy year for the Trustees and I thought I would give you just a flavour of some of the weighty matters that we have been considering and overseeing.

34. We moved the Scheme's administration provision from Aon Hewitt to Capita Employee Benefits on 1st August. I am sure that you will all be aware of the move from Scheme correspondence over the last year.

35. As you would expect, our fundamental duty as 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 member questions and queries. As the Scheme's administrator has such a substantial operational responsibility and is also the primary day to day contact with you, our members, it is hugely important that we get this key appointment right.

36. The decision to move the administration contract from Aon was not taken lightly. Aon had administered the Scheme since 1996 and provided high levels of service to members over that time. So why did we decide to move now? The Scheme's five-year administration contract with Aon expired at the end of 2016 and the Trustees had concerns about Aon's long-term commitment to the pension administration sector and also about costs. Those concerns were borne out when earlier this year Aon announced their intention to withdraw from pension 'administration only' services to concentrate on their 'core' consulting business.

37. The Trustees decided it was appropriate to undertake a market tendering exercise to ensure we were paying a fair price for the right level of administration service to our members. Aon did participate in the exercise but their proposed charges were significantly higher than other firms. They also proposed to move a large proportion of the administration services to one of their offshore centres, a move that the Trustees were uncomfortable with.

38. The proposal received from Capita Employee Benefits included significantly lower costs than Aon's and following a period of extensive due diligence on their operations in Sheffield the Trustees were satisfied that they would offer a good service to our members and represent the best value for money. I am pleased to report that the transition to Capita Employee Benefits went very smoothly and hopefully most of you will have noticed very little difference.

39. We have received communications from a few members concerned about Capita's ability to administer the Scheme. It might be helpful if I explain that Capita Group is a large diverse services organisation which handles a wide range of outsourced activities across both the public and private sectors. Our administration services are provided by Capita Employee Benefits, which is just one part of the Capita group. It is a large, well-established pensions administrator that handles the administration of a large number of schemes. However, because the wider Capita Group works on large and often high-profile contracts, the wider group has sometimes been subject to press comment and external criticism. We are very aware that there has been some recent adverse press coverage relating primarily to other parts of Capita's business but we are satisfied that these issues are unlikely to be ones that impact BCSSS.

40. Another positive factor for the Trustees was that Capita Employee Benefits proposed running the Scheme's administration from its Sheffield office. As a result, a number of the experienced administration staff from Aon were able to transfer across to continue to work on the Scheme.

41. As I mentioned last year, as part of the administration services review and seeking to reduce administration costs, we also decided to stop sending monthly payslips at the time of the move to the new administrator. We have received a few questions about this change from members and I promised to address these in my speech today.

42. Pensioners will still be sent three payslips a year with other payroll communication (in January for pension increases, in March with your P60, and in April to confirm any tax code change).

For most people, the information on the payslip only changes at these three times each year, so members will still have the relevant information available.

43. However, if a monthly pension amount changes by £5.00 or more, a payslip will also be sent.

44. Pensioners will still be able to access monthly payslips and P60 information online through the safe and secure member section of the Scheme website.

45. Hopefully many of you will have noticed the improvement we have made to various member communications. This includes a newly built website with improved navigation to help members more easily find their way around the site, improved colours to make it easier to read and increased content about the Scheme.

46. We have also refreshed Pension News using the same re-branded colours and logo and with the aim of delivering information about the Scheme to you in a clearer way.

47. As part of the administration move we have also re-visited the suite of letters that are sent to members at various times to try to ensure that they are as clear and straightforward as possible.

48. I would also like to talk a little about the Trustees' funding objectives and how we set investment targets and manage risks. Gerry will then talk about how we invest the assets to try to achieve those targets and manage the risks, using our newly developed risk management framework.

49. During the last year, we have reviewed our funding objectives. The review took into account the effects of the changes to the Scheme's structure in 2015, which we spoke about in some detail at last year's AGM, and the increasing maturity of the Scheme. To recap, prior to 2015, the benefits payable to members depended on the returns achieved on the Scheme's assets and the funding position of the Scheme from time to time. If returns were strong, bonus pensions could be awarded from the surplus. However, if returns were less strong, these bonuses could be lost. Recognising the challenging conditions facing BCSSS and many other pension schemes, we agreed changes to the Scheme with the Guarantor which provide certainty of future pensions.

50. Following these changes, we reviewed the ongoing funding challenges facing the Trustees. The benefits are now clearly established and do not depend on the levels of surplus and deficit is the Scheme. As a result, we have greater clarity on the level of benefits payable each year into the future. As Jon will explain later, we currently pay out about £650 million in benefits each year. We can project this forward, to estimate the total benefits payable throughout the future. These are only projections – the actual amounts will depend on actual inflation and on when people die. Our current estimate is that we will pay out about £18 billion in benefits over the future. Our assets are currently valued at just over £9 billion, so we need to achieve considerable growth of those assets.

51. The high annual amount of pension payments is also important. At present, we pay out nearly 7% of our assets each year in benefits. Some of those pensions can be paid from income and dividends from the assets. However, our total income is much less than £650 million so in addition we have to sell assets. That's not a problem if we can get a good price for the asset, which has been the case recently following strong market performance. However, we do not want to be forced to sell assets after a significant market fall. For this reason, we focus closely on cash flow needs and have a clear plan around where the cash would come from in different market environments.

52. More information about our investment risk and objectives can be found on page 32 of the Report and Accounts.

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

Gerry Lane

54. Thanks Kate. Good afternoon everyone.

55. Firstly, I'd like to start by telling you about the development of a new risk management framework. Then I would like to move onto the asset allocation and tell you a bit about our rationale for holding various assets, further changes we are making to the portfolio and why we are making them. Finally, I will move onto the Fund's investment performance over the last year.

56. As Kate has already highlighted, the Trustees have reassessed their funding and investment objectives following changes to the Scheme structure in 2015. Our primary funding objective is now to pay all future pensions from the current assets. We have reviewed our investment strategy and the portfolio to ensure it is best placed to achieve this objective.

57. We have also reviewed our key risks. As Kate explained, we need to achieve significant asset growth over the future, whilst at the same time ensuring that cash is available to meet our benefit and other commitments when required. Our key risks are therefore the risk that the assets don't grow sufficiently over the future; and the risk that we have to sell assets at too low a price to meet cash obligations.

58. We consider lots of different analysis to monitor these risks and to help ensure our investment portfolio is best placed to achieve the primary objective. We project expected future returns on different assets, how these returns might change in different economic environments, how much income assets produce, and the possible volatility in market prices. We have developed an investment risk management framework to help us monitor this analysis and manage the portfolio. Whenever we consider possible changes to our asset allocation we look at the effect of those changes on our key measures.

59. The slide shows the asset allocation as at 31 March 2017, as well as the target allocation at that date. I will explain why we hold some of the different assets to meet our investment objectives.

60. Firstly global government bonds. This involves lending to governments around the world. The interest received on the loans tends to be low in the current environment, but these bonds act as a diversifier to equities – 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.

61. Now Global Multi-Asset credit. This is a relatively liquid source of fixed income exposure where the returns tend to be higher than those on government bonds, although the risk that the borrower can't repay the loan is also higher. We introduced this allocation during the Scheme year, to take advantage of the high cash yields.

62. Private debt and special situations debt involve lending to less strong companies. The interest payable on these loans is generally substantially higher than that payable on government bonds but the risk that the borrower cannot pay the interest or repay the loan is also higher. Also, these

loans cannot be traded easily in the market, so we can't simply sell them to pay benefits or buy other assets. These assets provide good levels of income but need very careful monitoring to ensure we minimise the risk of any losses.

63. Next, we have equities, or shares in global 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 strong returns over the long-term (and the high returns for the last Scheme year were primarily due to the increase in the global equity market coupled with the devaluation of sterling). But their prices do go down as well as up, sometimes quite significantly. So we need to be confident that we have other assets that can be sold during the difficult times. As a result of this volatility, we have reduced our equity allocation to some degree over the past few years.

64. Property: We own a wide range of different property assets; offices, shops, warehouses, hotels, student accommodation and residential accommodation. We are looking for high rental income and some growth in values. Following the recent Grenfell tower fire, I'd like to reassure you that the safety of tenants in buildings owned by the Scheme is of paramount importance to us. LaSalle Investment Management, the firm responsible for day to day management of our properties, ensure that all of the properties in the portfolio comply fully with building regulations and that all safety checks are made frequently.

65. And finally shipping – we made reference to shipping in last year's Report and Accounts but had not purchased any ships at that time. Shipping works in a similar way to property, where you purchase the ship and are paid an income (similar to rent) by those who wish to charter (hire) it. The levels of charter income can be very high, although the risk of not being able to charter the ship is also high in some economic conditions.

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

67. To achieve our primary funding objective (to pay all future pensions from the current assets) we need to continue to both grow the assets over the future and find cash each month to pay pensions. Ideally we therefore need to find assets that generate regular income and also high overall returns. Since 31 March 2017 we have continued to diversify the portfolio away from equities by adding new investments such as UK Infrastructure and Investment Grade Credit – the changes highlighted in red on the slide. The reason for this is to reduce our reliance on equities to generate returns and make the cash receipts from the portfolio more stable over time.

68. The expected returns of this portfolio still remain high, reflecting the need to grow the assets over the longer-term. But the improved cash-flows generated from the portfolio are also attractive and necessary.

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

70. 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. So let's look at how they have done.

71. The Trustees measure performance in two ways. Firstly, we assess how well the strategy has done by looking at the actual returns on the whole portfolio in absolute terms. The benchmark is not important for this purpose – I will come to that in the next slide.

72. You can see that over the year to March 2017, the return was 16.15%. As I mentioned earlier, this return reflects the strong returns from global equity markets and the devaluation in sterling following the referendum vote to leave the EU (as the majority of the Scheme's equity assets are invested overseas). Perhaps more relevant is the three-year return. As you can see this is also high, with returns of 11.24% per annum over the last three years. These strong returns also reflect the increases across global investment markets over that three year period.

73. 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 asset class, or 'relative' returns. Relative performance is a useful measure to help us assess how well the portfolio is being managed.

74. You can see that, over one year the Scheme return has underperformed the benchmark and this is primarily due to equities, private equity and shipping. However, over the longer term, three and five years, the relative performance has been strong and is ahead of the benchmark. This strong performance has come from across the portfolio, with which we are very pleased.

75. Before I move on, I would like to explain why the return on shipping looks very poor against the benchmark, with a benchmark of +10% and returns of -12.84%. The figures on page 15 of the accounts are as at 31 March 2017, and reflect the fact that valuations of the ships have been reduced from when they were first purchased, resulting in accounting losses, reducing the performance in the year. However, as we are not looking to sell the ships this is a matter of timing and the ships are currently generating income in line with expectations.

76. Hopefully, you can see that the Trustees have continued to focus on ensuring that we have the right investment objectives and the most appropriate investment portfolio to deliver those objectives. We have developed a robust risk management framework and put processes in place in which to measure, monitor and manage any significant deviations from the expected outcomes.

77. Your Trustees, the investment team at CPT and the various investment managers have continued to work hard over the year to deliver these results and we will all continue to work just as hard in the future.

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

Jon Heathfield

79. Thank you Gerry, good afternoon everyone.

80. 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 Statement of Net Assets that appear at pages 17 and 18 of the Report and Accounts.

81. Payments from the Scheme amounted to £644 million which is almost 7% of the value of the Fund. The pensions paid to members and dependants, at £638 million, accounted for just over 99% of this expenditure, with administration costs making up the remainder.

82. The total return on the Scheme's investments over the year was £1 billion, 353 million, made up of investment income (less investment management expenses) of £201 million and an increase in the market value of the investments of £1 billion, 152 million.

83. The net effect of these movements is an increase in the overall Fund value of £709 million over the year, giving a total closing value of the Scheme's assets at 31st March 2017 of £9 billion, 356 million.

84. At recent AGM's we have highlighted some additional information about Scheme costs. The figures in the Report and 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 have done in previous years 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.

85. As in previous years, the investment management expenses are by far the largest Scheme costs. The figure shown in the Report and Accounts is £34 million. This reflects fees which have been invoiced separately by managers but it does not include other fees that have been deducted directly by the managers from the funds being managed. As a result, the figure in the accounts understates the true level of costs charged by external investment managers, which we estimate to be £55.6 million, which is broadly in line with last year's fees.

86. Now let's turn to administration expenses. These costs include those paid to the Scheme administrators and also the Scheme's share of CPT costs (excluding the CPT investment team which are included in the investment expenses line above). The slide shows an increase of just under £1 million in these costs compared to 2016. The increase is mostly due to two large "one-off" pension administration projects. Firstly, the initial costs of changing the administrator from Aon Hewitt to Capita Employee Benefits. Secondly, following a change in HM Revenue and Customs practices, all UK pension schemes that were contracted out, like BCSSS, have to reconcile their records against those of HMRC. Both of these are very significant and time consuming projects that will also lead to some further costs in the next Scheme year as well. However, going forwards there will be some significant savings as a result of the change in administration.

87. I will now read members' written questions and give the Committee's responses.

88. We have received four written questions. The first two were submitted by Mr CT Massey.

89. **Question 1**: I would like to compliment the Trustees for undertaking the benchmarking exercise to achieve the best financial deal, going forward, for the administration of the Scheme, which appears successful.

90. With the continual reduction of members in the Scheme, it will be essential to make further savings in the administration costs. What plans have the Trustees made to achieve this?

91. **Answer:** The Trustees regularly review the administration costs of the Scheme to ensure that our members are receiving value for money from the administration service. The Trustees will not compromise high administration service standards at the expense of cost, but at the same

time have a duty to ensure costs are managed effectively. As you note in your question, the benchmarking review ahead of the expiry of the contract with the previous administrator identified that the Scheme could significantly reduce costs in this area as a result of the move to Capita and by no longer sending monthly payslips. That project has just been successfully completed and, as noted above, the savings should appear once all the project costs have gone through in this current Scheme year. The contract does allow for reduction in fees as the membership numbers decline although that will be a steady decline over many years.

92. **Question 2:** What actions have the Trustees taken to ensure that the return on investments is improved over the 2.73% achieved in the last financial year?

93. **Answer:** The Scheme's investment return over the year to 31 March 2017 was 16.15%. This return was primarily driven by strong performance of global equity markets, as well as the fall in sterling, as the majority of the Scheme's equity assets are invested outside the UK. The Investment Report on page 12 of your Report and Accounts explains this in more detail.

94. As you can see, the actual returns from year to year can vary a lot, reflecting movements in global investment markets. As Gerry mentioned, the Trustees have been taking action to seek to reduce the volatility of these returns, whilst still aiming for returns that are sufficiently high to meet the Scheme's future benefit commitments. In this regard, we have increased our exposure to assets such as private debt and special situations debt, both to diversify the portfolio away from equities which have more volatile returns and also because they generate cash-flows that reduce the need to sell equities to pay pensions at perhaps the wrong time in the market. Future returns will still vary from year to year, reflecting broader market conditions. But these actions should help reduce the volatility whilst still generating the required levels of returns.

95. The second two questions were received from Mr AJ Batty.

96. **Question 1:** I gave my opinion on the 2015 Scheme changes at the Doncaster and Sheffield meetings. Such a big change should have been decided by the membership! After receiving news of a bonus of 3.5% from the MPS Scheme it seems to substantiate my position. Is there anything you can do?

97. Could you in future Pensions News editions give periodic reports on 'what is' or 'what could have been' positions.

98. **Answer:** The decision to change the Scheme structure was one for the Trustees. That decision was based on the funding position at the time and the outlook for members' future bonuses. Any attempt to work out what might have been would be hypothetical, as the Trustees would have had a different investment strategy.

99. However, had we retained the previous structure, the first use of any of the Guaranteed Fund surpluses would have been to repay the Investment Reserve debt, which stood at £2.2 billion on 31 March 2015. No surpluses would have been transferred to the Bonus Augmentation Fund to provide new bonuses until that debt had been repaid in full. The effect would have been no pension increases for members in 2016, 2017 and 2018.

100. Given the size of the Investment Reserve debt, it is highly unlikely that the debt would have been repaid in full by the 2018 valuation, meaning no increases in 2019, 2020 and 2021 as well.

101. Pensions News will continue to report the outcome of future valuations, but future valuations aren't expected to report on whether the Scheme is in surplus / deficit. Instead it will report on

the funding position in relation to meeting the objectives of paying benefits and repaying the Investment Reserve to the Guarantor in 2033.

102. We are not able to comment on MPS, as the BCSSS Trustees have no more information on that Scheme than is already in the public domain.

103. **Question 2:** One is also concerned about changing RPI to CPI that you could suddenly throw at us!

104. **Answer:** The BCSSS Rules state that the basis for guaranteed pension increases is RPI, so annual pension increases will continue to be linked to RPI.

105. 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 Capita Employee Benefits. 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. **Mr Cook**, Scheme Member – I believe you are doing an exercise on GMPs. When will that result come through?

6. **Jon Heathfield** - The GMP exercise is underway. We are currently in the process of reconciling the Scheme's GMP figures with those held by HMRC, this is expected to be completed by the end of this year. After that we have to work out what, if any, impact this has had on member's benefits, so it's going to be into next year before we will be writing to members to inform them if there is any overall change to their benefit amount.

7. **Don Brown**, Scheme Member - I'm on a board of another company and we have recently changed over our administration to Capita. We did have some teething troubles on payment of salaries and pensions and people not getting paid, so I hope we don't have any teething troubles here. If there are please sort them out as quickly as you can.

8. **Kate Barker** - I can assure you that we would sort them out as quickly as we can. We all went up towards the first pension payment date with a certain amount of concern and I'm really pleased to say that, with a very few exceptions for overseas pensioners (which was to do with the way in which banks wanted to check that the change in payment was accurate) everybody seems to have had their correct pension on time. That is a real tribute to the work that has been done over the transition period. I'm sure Capita don't get everything right, but in our case I think they have started off well - this has been due to a lot of hard work. The fact that a number of Aon Hewitt staff also moved to Capita with the contract has been helpful, as we have been able to keep people with experience on the Scheme. So we have done all we can to make sure the service continues to be good. I think staying with Aon, particularly with the move of more of the Scheme's administration overseas, could have resulted in a deteriorated service, so I'm confident we have taken the right decision. I can assure you that we will be keeping a very close eye on Capita's service, both in the near future and over the long-term. We want to provide a quality of service that is right for our membership, where members get paid the right amount of money at the right time and are dealt with in the appropriate manner.

9. **Mr Wolstencroft**, Scheme member - I have a question about the Scheme changes in 2015. The Trustee Committee representing us didn't seem to be given any real choice. It was the only time

during my membership that we were completely ignored, we weren't given a chance to comment about what was going to happen with the bonus payments and I wouldn't like you to be in that position again. You are a good Committee and you have always made the choice of raising our pensions and you should have had more say in that meeting.

10. **Kate Barker** - I don't think it's fair to say the Trustee didn't have a choice, they were very instrumental in trying to come a good conclusion. It was a negotiation with the Guarantor, it's not like the Guarantor came along and said this is what we want to do. I think had we done what they wanted to do then you would have all have been faced with pensions which hadn't increased at all over the past year or any increase at all. In any negotiation you can only start from where you are and this Scheme didn't start from a very strong funding positon. The key anxiety of the Trustees at the time was to ensure that you continued to have pensions that did increase year on year and we succeeded in that. We were also keen to ensure that we kept the link to RPI. We were successful in achieving those aims and the alternative would have been less satisfactory to the large majority of the members. We have to take those decisions on your behalf, it's our responsibility as Trustees.

11. **Mr Wolstencroft**, Scheme member - I have worked out how much money you will have left in the Scheme up to 2035, I reckon if you carry on the way you have been doing and getting our money increased, I think we will have £5 billion left, is this correct?

12. **Dan Whincup** - We do look forward in to the future and predict how much we think we are going to pay out each year and in to the future. We can do that with some certainty on how much benefits we are going to pay out. The hard bit is what returns our investments will make in the future, but we can make a number of assumptions around that as well and actually £5 billion is not a million miles away from where we think we will be in 2035.

13. **Neil Willis**, Scheme member - Are you able to comment on the extent to which the attitude and expectations of the Guarantor affect your investment decisions?

14. **Kate Barker** - The primary objective is to pay you the benefits. We do, however, have a secondary obligation to repay the Investment Reserve in 2033. 2033 is quite a long way away, not perhaps in pension fund terms, but it's certainly a long way in political and civil service terms. We are reasonably confident that, even if things turn out unexpectedly, meeting the benefits payments without repaying the Investment Reserve looks like an achievable objective. If we were really keen to repay the Investment Reserve we would have to take a lot of risk today in order to push the value up. We do try and be straight forward with the Guarantor about to what extent we think about repaying the Investment Reserve when we are paying the benefits. One thing I can say is that when we were writing the Agreement the Guarantor was clear to put payment of the pensions first and repayment of the Investment Reserve to them as the second priority. So one of the things we can assume about the Guarantor is that they don't want to have to put money in to this Scheme - they would prefer us to run a slightly less risky Scheme so we can be very confident about paying you your benefits rather than being completely focussed on getting the Investment Reserve back. So 2033 is a long way away, as you can gather it is on our minds when we are thinking about investment strategy, but I would say that very clearly the first thing that determines our investment strategy is the payment of benefits.

15. **Name inaudible**, Scheme member – I found the demographics graph published previously in Pensions News very useful. Could you please repeat them in in a future edition?

16. **Kate Barker** - Yes, that shouldn't be a problem.

Kate Barker

17. Thank you for your questions.

18. I would now like to spend just a few moments bringing this AGM to a close.

19. Over the past year we have re-assessed and (hopefully you will agree) improved the way in which we communicate with you. I hope that you have also found the information provided here clear, interesting and informative.

20. We are also continuing to work hard to ensure that we can continue to pay all benefits to members, both now and in the future, without requiring any additional funding from the Guarantor.

21. We shall be here for a little while yet and you are welcome to join us for further refreshments and informal discussion.

22. I would like to thank all those at CPT, as well as the staff from Capita 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.

23. The AGM next year will be held on 18 October 2018 at the Radisson Blu hotel in Durham; details will be included in the next edition of Pensions News.