SLIDE 1 SHOWS BEFORE THE PRESENTATION STARTS

Kate

SLIDE 2

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

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

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.

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.

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.

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.

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.

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.

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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.
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.
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.

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.

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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.

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.

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.

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.

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.

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.

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.

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.

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.

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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.

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

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

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.

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.

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.

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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.

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.

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.

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.

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.

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

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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.

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.

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.

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.

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.

DICK'S SLIDE 8

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

Dick

SLIDE 9

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.

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.

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.

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.

SLIDE 10

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.

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.

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.

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.

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.

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.

SLIDE 11

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.

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

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 we've done. The Trustees measure performance in two ways.

SLIDE 12

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.

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.

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.

SLIDE 13

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.

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.

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.

SLIDE 14

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.

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.

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.

SLIDE 15

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

SLIDE 15

Jon

Thank you Dick, good afternoon everyone.

SLIDE 16

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.

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.

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.

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.

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.

SLIDE 17

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.

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.

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.

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.

Q&As

SLIDE OPEN FORUM 18

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.

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.

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

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.

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

Open Forum

Kate – concluding remarks

Thank you for your questions.

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

SLIDE 19

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.

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.

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.

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.

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