BCSSS

Summary of the open forum session of the 9 September 2014 AGM

The then Scheme Chairman, Philip Read, Chairman of the Investment Sub-committee, Dick Barfield, and the Chief Executive of CPT, Geoff Mellor, made presentations to the AGM. These were followed by questions and answers received in advance of the meeting, presented by the Scheme Secretary, Jon Heathfield.

Philip Read then invited questions from the floor – following a request made at the AGM, below is a précis of the open forum session, to enable members who were not able to attend the meeting to get a flavour of the questions asked and responses provided. These reflect the position at the date of the meeting. Copies of the presentations, written questions and answers and a full transcript of the meeting are available on the publications section of the Scheme's website or on request from the Scheme Secretary.

Scheme Expenses/Costs

Q: A Scheme member asked about the increase in costs relating to the running of the Scheme, and about the impact of CPT's office move to Ventana House on those costs. Concern was expressed that according to the accounts, CPT's costs had increased significantly since 2010. In particular in the period to 31 March 2013 the administration costs had increased by 20%.

A: *Jon Heathfield explained that for the purposes of the accounts, figures are rounded to the nearest million pounds. The actual administration costs for 2013 were £5.596 million, but this was rounded up to £6 million so there was not actually a 20% increase in costs.*

Geoff Mellor explained that the move to Ventana House involved taking less office space than the previous office and that the move actually resulted in a reduced rental cost.

The reason for the increased costs for CPT was the change to insourced Strategic Investment Management instead of paying external investment consultants. The Scheme had built an investment team (CPTI), which was based in London, and there were costs around establishing an office, recruiting and then paying that team. The overall costs to the Scheme had not increased in real terms as a result of this change, it was just an expenditure that had moved from the Investment Management column to the Administration column in the accounts.

Philip Read concluded, the investment performance had been excellent over the last three and five years and the decision to build the investment team was considered to be an important factor in that strong performance.

Q: Another Scheme member questioned why Trustee remuneration had increased so significantly since 2005/6.

A: *Philip Read made the general point that the level of remuneration for Trustees needs to be competitive. Rates of remuneration were agreed by Government following a benchmarking exercise in 2011 and have increased in line with inflation thereafter. The rates were set to ensure that the Trustees are paid an appropriate market rate. This year, the Trustees decided collectively that, instead of increasing the rates in line with inflation they would limit the increase in their fees to 2%, in harmony with the 2% that was granted to members. [Note: Subsequently, in 2015, all the Trustees have agreed to limit their increase to the lower of 2% and the increase in RPI.]*

Q: A member asked about whether CPT's costs being split 50/50 between the Scheme and MPS were a fair allocation in light of the MPS having more members and more Trustees than the BCSSS.

A: *Geoff Mellor explained that any costs that were directly attributable to a Scheme were recharged to that Scheme. The costs relating to the number of Scheme members tend to be those related to the work undertaken by each Schemes' administrator, and are also charged directly to each Scheme. It was estimated that CPT's time spent on the core functions for each Scheme was currently broadly 50/50. However, this split was kept under review and would be changed if this deviated. CPT's costs are assessed and overseen by the Board of Coal Pension Trustees Services Ltd, which includes an equal number of BCSSS and MPS Trustees.*

Scheme Funding/ Investment Issues

Q: A member asked for an explanation of why the MPS Scheme recorded a surplus of over £1 billion in their 2013 Actuarial Valuation, while the BCSSS remains in deficit – given that both are advised by CPTI Ltd.

A: *Philip Read answered that he could not comment on the funding position of the MPS as he was not involved with that Scheme. However, he explained that the demographics of the two Schemes were different, with BCSSS being more mature and members being older on average. As a result, the size of the regular benefit payments, as a proportion of the Scheme's assets, would be somewhat higher for BCSSS, making its funding position more sensitive to changes in asset values.*

Q: A Scheme member asked for an explanation of how the benchmark returns were determined as the actual returns appeared to shadow them to a large extent, perhaps due to some retrospective element in them?

A: *Dick Barfield explained that they were not retrospective, but determined in advance based on the asset allocation agreed by the Trustees. The figures measured how well the managers and the CPTI team had done in managing relative to those benchmark returns.*

Q: A Scheme member suggested that the current benchmarks should be reset to ensure the Scheme targets higher returns to return the Scheme to surplus.

A: *Dick Barfield explained that the Trustees considered the potential returns and risks from investing in many different asset classes. At present, with equities having risen a lot and bond yields very low, it was actually quite difficult to put together a portfolio in the current climate with a high expected future return. The recent moves of more into property and the new investments in loans were attempts to take advantage of assets where future expected returns are good, but opportunities of this nature are proving more difficult to find in the current environment.*

Scheme Constitution

Q: A member raised a point relating to why Sub-committees were never chaired by any of the elected Trustees?

A: *Philip Read explained that The Memorandum and Articles of Association of the Trustee Company provide that the Chairmen of the Committee and of all Sub-committees must be Appointed Trustees.*

Q: A Scheme member asked the Trustees to assure all BCSSS members that the Guarantee would not be compromised by the Government or any future Government and how any such compromise could happen.

A: *Philip Reed confirmed that the Guarantee was passed by an Act of Parliament and included in the Scheme documentation. Without the approval of the Trustees, the Government of the day would need to pass an Act of Parliament to make any changes to the Guarantee.*

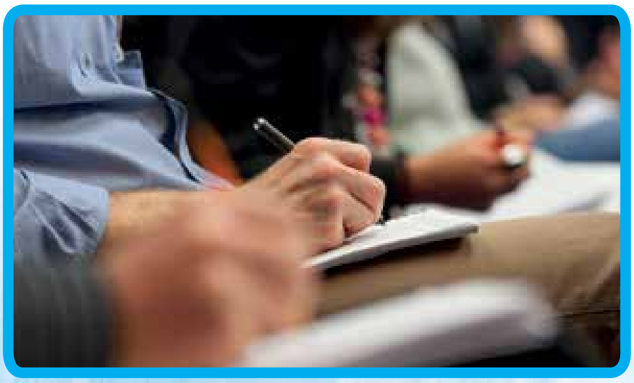
Miscellaneous

Q: A member asked about the impact Scottish Independence would have on the Scheme in the event of a 'yes' vote.

A: *Philip Read explained that there were a lot of unknowns, however, the Scheme was established in England and would presumably remain an English Scheme. Various issues, such as with which Government the Guarantee liability would lie, and also to which Government the Investment Reserve would be repaid, would need to be addressed. From a members' perspective, Scottish members would most likely be treated in the same way as any other overseas member.*

Q: A member asked about the apportionment of members' share of surplus going forward, asking the Trustees to consider awarding, for example, a £5.00 increase to all, rather than a percentage of benefit.

A: *Geoff Mellor answered that the law requires Trustees to consider all relevant factors, and this is one option that the Trustees had previously considered, and would continue to consider in the future.*



Write

BCSSS Scheme Secretary, Coal Pension Trustees Services Limited,
Ventana House, Concourse Way, Sheaf Street, Sheffield S1 2BJ