

British Steel Pension Scheme Information Debriefing following May 2019 Trustee Board Meeting:

Agenda Items

Integrated Risk Management (IRM) Framework Update

- The Trustee uses a quarterly IRM “dashboard” to provide ongoing monitoring of the key investment, funding and covenant risks facing the Scheme and to track progress against the Scheme’s journey plan and targets set by the Trustee. The aim of this ongoing assessment is to enable the Trustee to take appropriate action promptly if required
- The quarterly dashboard was considered at the meeting. There were no material changes in the risks or the Scheme’s funding position relative to expectations
- The Trustee noted the decision of Tata Steel Ltd and thyssenkrupp AG to suspend discussions around their planned joint venture. The Trustee’s advisers will keep the situation under review
- The Trustee was updated on recent progress in evaluating potential de-risking options for the Scheme

Investment Strategy

- The investment strategy for the Scheme is set out in the Statement of Investment Principles. It is expected to bring the Scheme to full funding on a “buy-out” basis in due course
- The Trustee approved the adoption of a revised benchmark framework aimed at better matching the interest rate and inflation sensitivity of the Scheme’s assets to those of its liabilities. This will help determine which assets to hold and how the matching assets have performed
- The Scheme’s assets are currently managed internally by the London Investment Office
- The Trustee requires to satisfy itself that this approach does not expose the Scheme to additional risks compared to using external managers
- Following an evaluation, the Trustee is satisfied that the internal manager continues to build up its capabilities in this regard, on which basis there is no compelling evidence that the Scheme’s approach exposes it to unacceptable additional risks

Chief Investment Officer’s Report

- The Chief Investment Officer provided a detailed update on general investment matters noting the actions taken since the last meeting to manage the Scheme’s interest rate and inflation risk
- The Trustee considered the Scheme’s investment performance and noted that the HSBC’s annual independent Performance Report showed that assets had outperformed the Scheme Specific Benchmark over 1,3,5 & 10 year periods
- The value of Scheme assets was £10.474 billion as at 16 May 2019
- The Trustee received a detailed presentation on the Scheme’s property portfolio
- Certification in respect of recent property valuation summaries was confirmed to the board and the relevant valuations were approved

Actuarial Update

- An update was given on the conclusion of the Scheme’s actuarial valuation as at 31 March 2018. The results had been communicated to Scheme members via the Scheme’s newsletter and a copy of the Actuary’s report added to the Scheme website
- To protect the Scheme against unexpected improvements in life expectancy, pensions coming into payment are subject to a “Longevity Adjustment Factor” (**LAF**) in respect of service from April 2012. The LAF is reviewed following each triennial valuation. The Actuary confirmed that the LAF should remain unchanged at 1.0.
- Following completion of the actuarial Valuation it was appropriate for the Scheme’s actuarial factors to be reviewed to take account of changes affecting the demographic and economic assumptions used to determine those factors. Specifically, the Company is responsible for reviewing the Scheme’s cash commutation factors as part of the valuation process but must consult with the Trustee. On this occasion the Company has not proposed that any changes are made. After consideration of the views of the Scheme Actuary, the Trustee acknowledged that no amendments were required to the cash commutation factors
- A key requirement in setting up the new Scheme was that members should continue to be eligible for protection by the Pension Protection Fund (**PPF**). The Trustee noted actions being taken by Scheme Officers and advisers aimed at reducing the Scheme’s annual PPF levy

- The Scheme Actuary outlined the timetable for completion of the 2019 funding update process
- The Trustee board viewed a demonstration of WTW's Asset Liability Suite which will assist the Trustee monitor the Scheme's funding position between actuarial valuations

Investment Manager Governance

- An independent review of investment governance processes at the Scheme's investment manager, Pension Services Limited was considered by the Trustee
- The review noted the many positive processes and procedures in place as well as a number of potential areas for improvement
- Fund Officers will consider and respond to the recommendations of the report

Report of the Audit and Risk Committee

- The Trustee board had previously approved the creation of an Audit and Risk Committee (**ARC**) to oversee the Scheme's statutory annual audit as well as other aspects of the Scheme's governance regime
- The Chairman of the ARC briefed the Trustee of the outcomes of the initial meeting of the ARC held in April

Trusteeship

- The Pensions Regulator expects those responsible for managing pension schemes to undertake regular effectiveness reviews to evaluate how well they are performing. The Trustee recently completed a "self-assessment" exercise which indicated that most areas of governance were considered to be operating effectively however there were some areas for improvement. The Trustee considered a draft action plan to address those areas.
- Keith Greenfield's current term of appointment as an Independent Trustee Director expires on 30 June 2019. Mr Greenfield has been reappointed for a term of three years from 1 July 2019.
- The expiry of the terms of appointment for Shaun Corten and Barrie Evans as Member Nominated Trustee Directors were also confirmed as 31 March 2021 and 31 March 2022 respectively.
- The Trustee reviewed the composition of its Remuneration Committee

Member survey

- The Trustee was updated on actions to conduct a Scheme Member survey to gauge the effectiveness of the Scheme's communications, due to be issued at the end of May 2019
- Recipients will be drawn proportionately from across the Scheme membership including deferred pensioners, pensioners and dependants.

Administration Report

- As at 31 March 2019, Scheme membership was 76,578 comprising 15,699 deferred pensioners and 60,879 members whose benefits were currently in payment
- The board was briefed on updated Business Continuity arrangements for the Glasgow and London offices
- The Trustee noted decisions made in five cases by Scheme Officers under stage 1 of the Scheme's internal Dispute Resolution Procedure (**IDRP**), and a further two determinations made under stage 2 of the IDRP by the Determinations and Disputes Panel
- One complaint was received under the Scheme's service standard complaints procedure and an appropriate response issued by Scheme Officers
- The changes in the transfer basis and trivial commutation factors approved by the Trustee at its meeting in February 2019 have been implemented with effect from 1 April 2019
- The Trustee noted the pension payment dates for 2019/20¹ and was updated on progress in the GMP reconciliation exercise
- Annual statements to deferred pensioners are now being issued. The vast majority of members will have already received their statement. The remainder require information from HM Revenue & Customs and will be issued once this is received
- Nomination forms were provided in April 2019 to over 6,300 former employee Pensioners and 1,678 had been completed and returned to the Pensions Office. Nomination forms had also been provided to Deferred Pensioners alongside the annual statements issued in May 2019

¹ Details of the payment dates can be found at www.bspspensions.com/pensioners/payment-dates/

Technical Update

- The Trustee noted recent developments in pensions law and regulation which could impact on the Scheme

Dates and Locations of Scheduled Meetings

- The Trustee board noted the dates for the 2019/20 scheduled meetings as 22 August 2019, 20 November 2019, 13 February 2020, and 20 May 2020
- The 2019 Consultative Meeting is to be held at Ashorne Hill Management College on 2 October 2019