

# **British Steel Pension Fund**

## **Consultative Meeting**

2nd October 2019

Investment and De-risking Update



CIO OF THE YEAR 2019



Best Use of Real Estate 2019



CIO OF THE YEAR 2018



Best Use of Real Estate 2016

# Scheme Metrics at 31/3/19 for DB Section

**Average assets under management: £11bn**

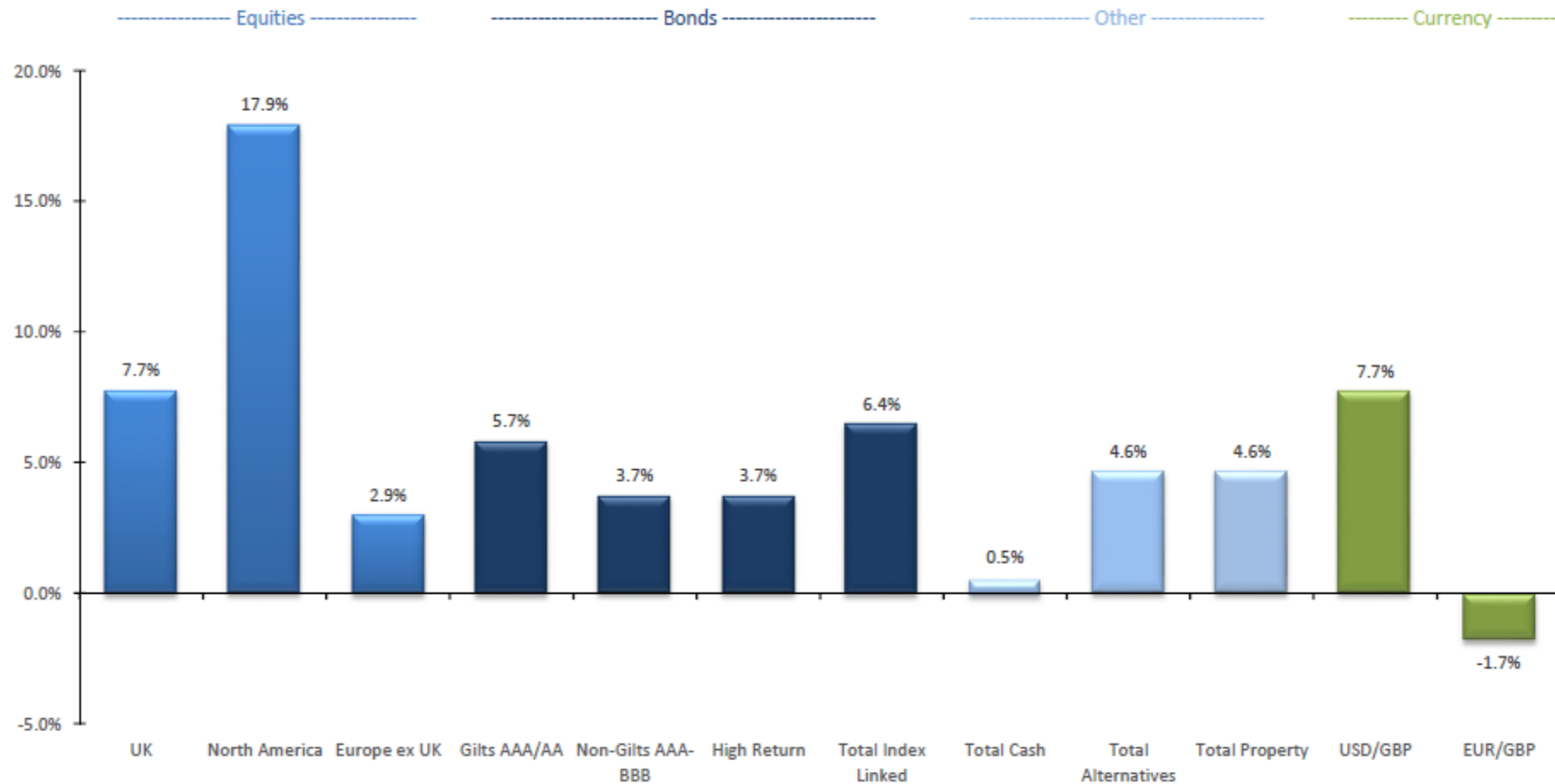
**Number of members: 77k**

**Investment expenses: 8bp (£117/member pa)**

**Administrative expenses: 9bp (£132/member pa)**

# **INVESTMENT PERFORMANCE**

## British Steel Pension Fund - Market Returns, Twelve Months to 31 Mar 2019

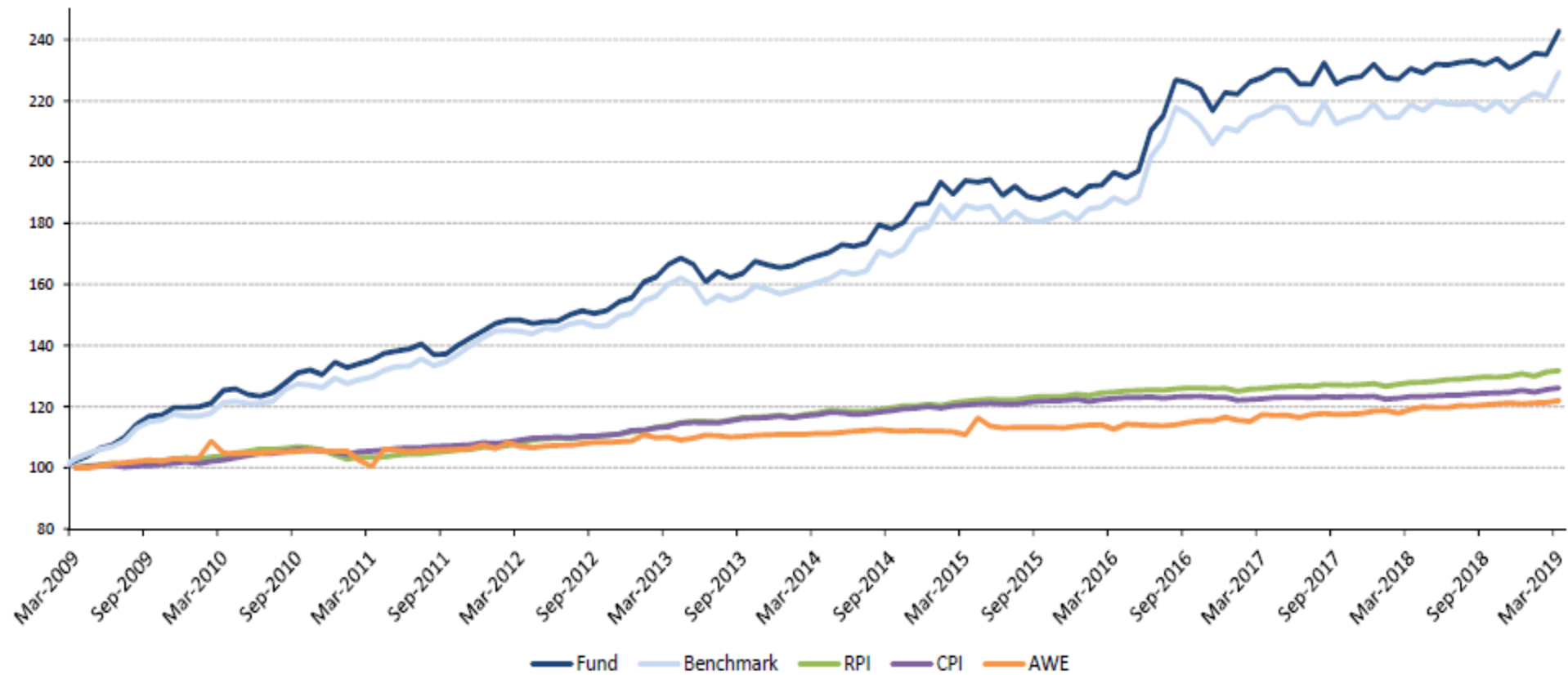


The above market returns represent the benchmarks set against each asset category (see page 3 for details).

Over the 12 months ending 31 March 2019, all markets have shown positive returns when reported in GBP terms. The best returns were achieved by North America equities, whilst the lowest returns were posted in Europe ex UK equities and Cash. The value of GBP appreciated against the Euro, detracting from the local returns achieved in the European markets, when converted to GBP. Over the same period, GBP depreciated against the US Dollar, which was beneficial when the returns from the US markets are converted to GBP.

# British Steel Pension Fund - Cumulative Return over the lastest 10 Year period

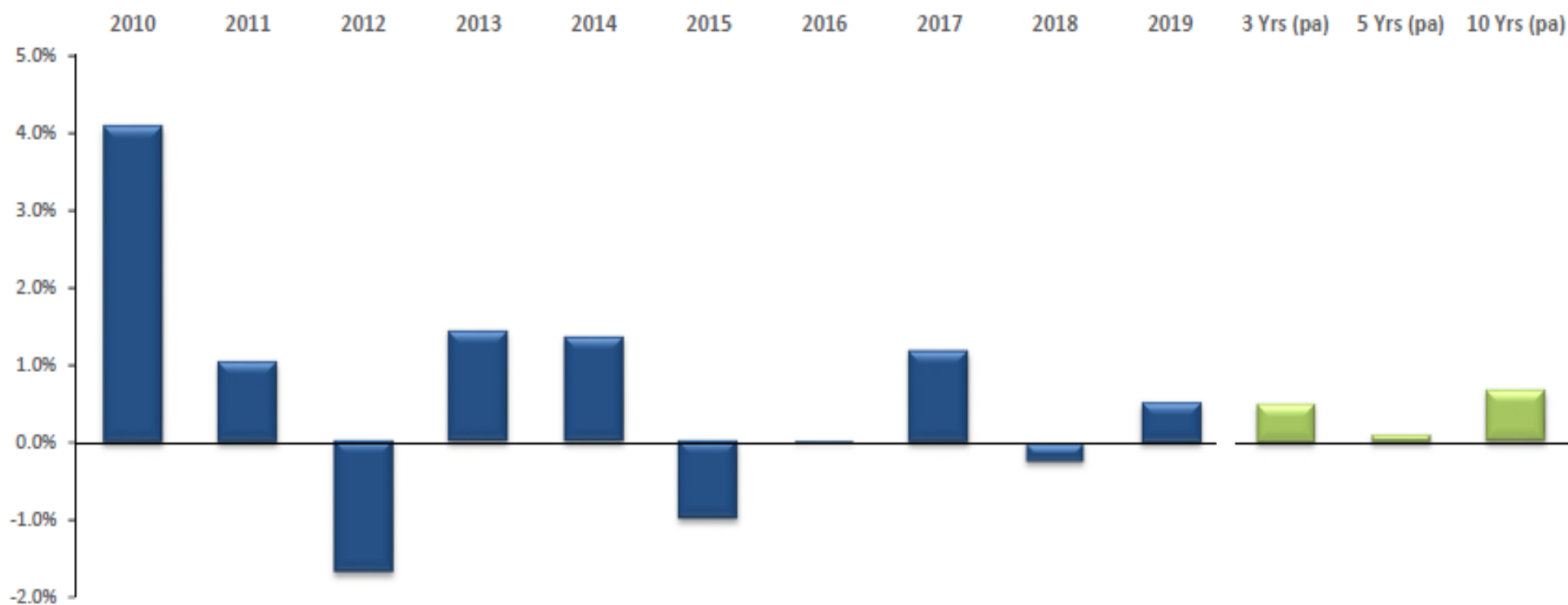
Cumulative Returns - Fund v Benchmark Rolling Monthly Returns, Progression Over Time



The chart above shows the cumulative return, or growth, of the Fund alongside the benchmark, starting from 31 March 2009. Both the Fund and benchmark are following a very similar trend, with the Fund outperforming the benchmark over the long term and on a consistent basis.

For reference, the movement of the RPI, CPI and the Average Weekly Earnings (AWE) index are also presented over the same period.

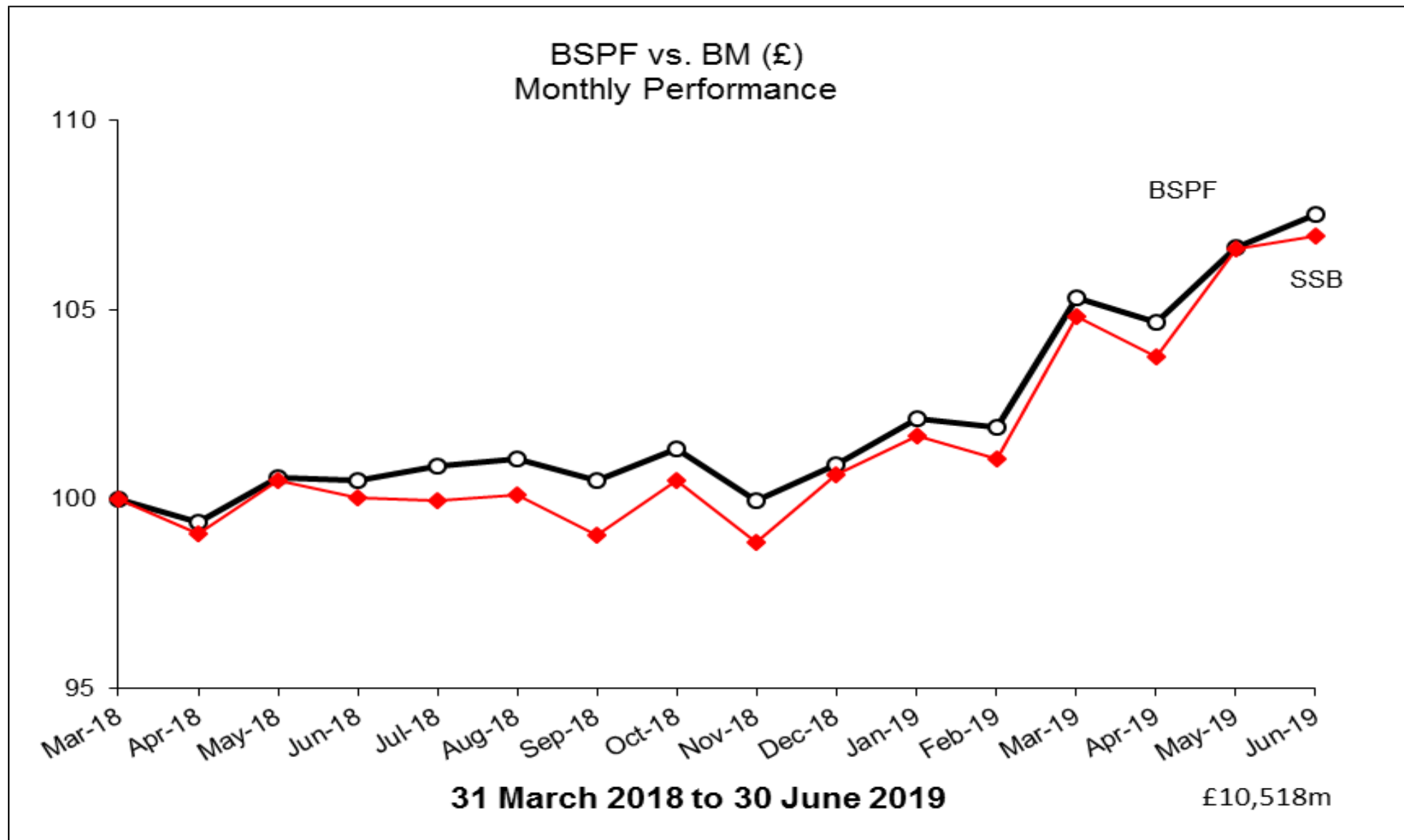
## British Steel Pension Fund - Total Relative Return over the last 10 years



Fund	22.7%	7.9%	9.7%	12.3%	1.6%	14.6%	1.4%	15.8%	1.3%	5.3%	7.3%	7.5%	9.1%
Benchmark	17.9%	6.8%	11.5%	10.7%	0.3%	15.7%	1.3%	14.5%	1.5%	4.8%	6.8%	7.4%	8.3%
Relative	4.1%	1.0%	-1.7%	1.4%	1.3%	-1.0%	0.0%	1.2%	-0.2%	0.5%	0.5%	0.1%	0.7%

The Fund has outperformed the benchmark in seven of the last ten fiscal years, with the most recent fiscal year seeing the Fund outperform the benchmark by 0.5%. The Fund has consistently outperformed the benchmark on an annualised basis over the three, five and ten year periods. The highest performance was achieved in 2010, when the Fund return was 22.7%, outperforming the benchmark by 4.1%.

Over the period shown, the above results show a pattern of the Fund underperforming the benchmark every third year.



The Total Fund has outperformed its Scheme Specific Benchmark over the above period.



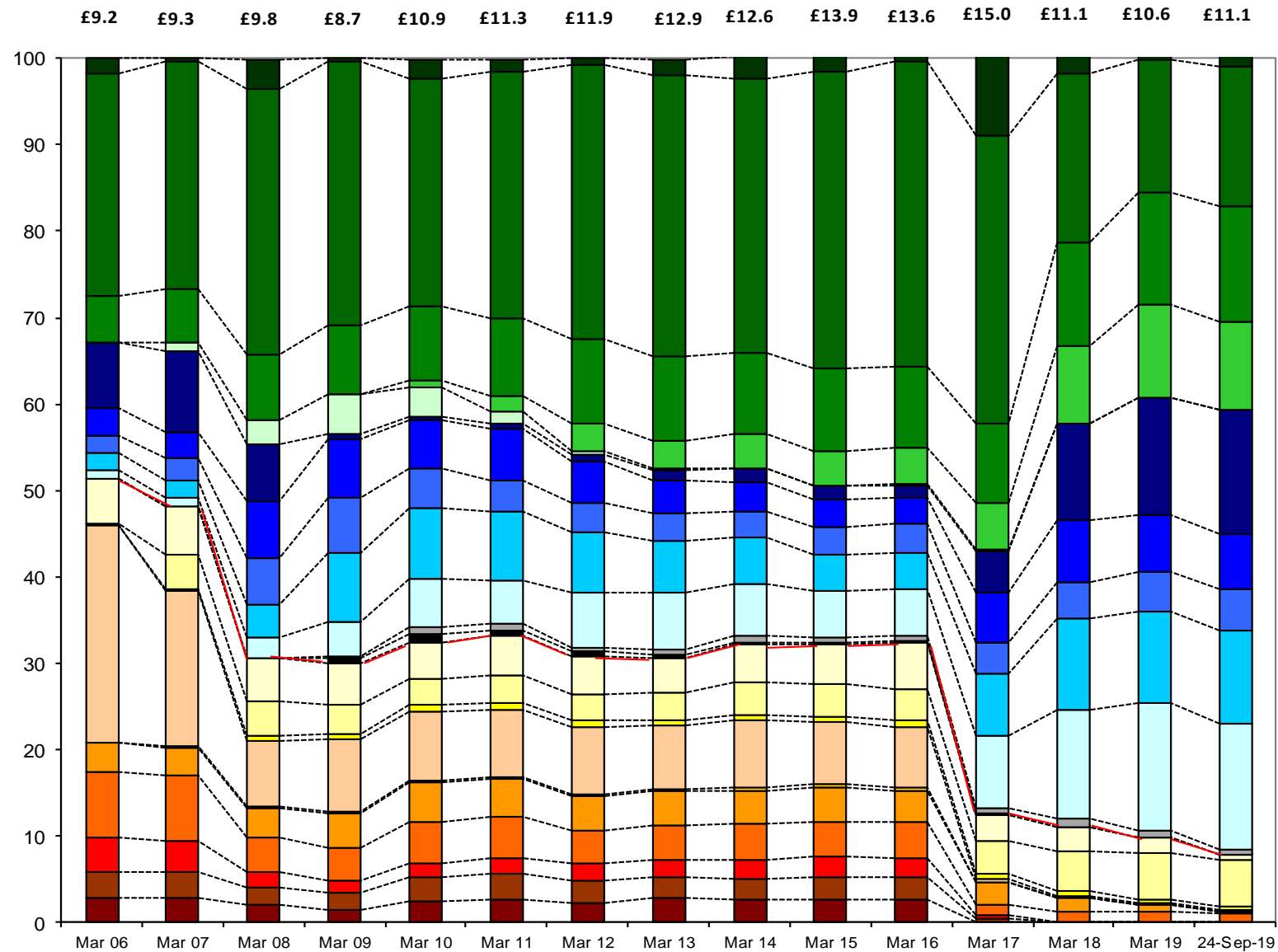
# **ASSET ALLOCATION**

# Asset Allocation

- Investment risk significantly reduced
- Now commensurate with delivering a return of gilts plus 0.85% per annum
- Targeting 103% funding ratio (assets/liabilities) on a buy out basis over time
- Significant reductions in equities and Growth Properties
- Higher proportion of investments which should more closely match liabilities
- New benchmark effective 1<sup>st</sup> July 2019 based on a “replicating portfolio”
- Replicating portfolio is a much closer proxy for liabilities than the old SSB
- Variability of our funding ratio is reduced

# BSPF ASSET ALLOCATION

%



## PORTFOLIO

<ul style="list-style-type: none"> <li>■ Cash</li> <li>■ IL Gilts</li> <li>■ NGIL</li> <li>■ Maturity Property</li> <li>□ US TIPS</li> <li>■ FI Gilts</li> <li>■ NGFI AAA</li> <li>■ NGFI AA</li> <li>■ NGFI A</li> <li>□ NGFI BBB</li> <li>□ NGFI &lt;BBB</li> <li>■ High Return</li> </ul>	<b>MATURITY</b>
<ul style="list-style-type: none"> <li>□ Growth Property</li> <li>□ Infrastructure</li> <li>□ Other Alternatives</li> <li>□ FTSE AllShare</li> <li>□ Noncap weighted</li> <li>□ QUEP</li> <li>□ North America</li> <li>□ Europe ex UK</li> <li>□ Japan</li> <li>□ Asia Pac ex Japan</li> <li>□ Emerging</li> </ul>	<b>GROWTH</b>

**INTEREST RATE  
AND  
INFLATION HEDGING**

# Interest Rate and Inflation Hedging

- Scheme was already well hedged against inflation risk
- Decision was taken to increase our interest rate hedge
- Via Insurance Portfolio 2 (“IP2”), reprising an earlier successful programme
- Entails buying fixed gilts with borrowings
- Programme is almost complete and has significantly increased our hedge ratio

# Replicating Portfolio

- Replicating portfolio closely mirrors the economic characteristics of our liabilities (excluding longevity)
- Provides another investment performance benchmark, effective 1/7/19
- Allows interest rate and inflation risk to be more closely managed
- Interest rate sensitivity is represented by PV01
- Inflation rate sensitivity is represented by IE01
- PV01 and IE01 measures are shown in time “buckets”
- Asset and liability PV01s and IE01s are reasonably well matched by bucket
- Specialist systems and human resources upgraded
- Worked in close conjunction with Investment Consultant

# **CASH FLOW**

## Funding of Pension Payments

