

British Steel Pension Scheme Information Debriefing following May 2021 Trustee Board Meeting:

The May 2021 meeting of the Trustee board was held remotely in line with current Government restrictions on travel and face-to-face meetings.

Tata Steel Update

- The Trustee and its covenant advisers received a helpful and balanced update from the TSE Chief Financial Officer on the 12-month financial performance of Tata Steel UK Ltd for 2021 and the annual plan projections for 2021/22
- Although there remained significant long-term challenges facing Tata Steel UK, the Trustee board welcomed the recent improvement in market conditions
- The BSPS is intended to meet its liabilities on a self-sufficiency / low risk basis without further contributions being needed. There is however still a regulatory requirement on the Trustee to assess the strength of the Company covenant (i.e., the sponsor's financial position, prospects and willingness to continue to support the Scheme) at the time of each actuarial valuation and to monitor developments in the covenant during the inter-valuation period. This recognises the importance of the Scheme having a solvent sponsor. Arrangements are in place for the Trustee to receive the necessary information to undertake its covenant assessment as part of the 2021 actuarial valuation process

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 of the Scheme's funding position relative to expectations

Investment Strategy

- The investment strategy for the Scheme is set out in the Statement of Investment Principles (**SIP**). It is expected to bring the Scheme to full funding on a buyout basis in due course
- The Trustee was updated on recent progress in evaluating potential de-risking options for the Scheme
- As part of the investment strategy review being undertaken with appropriate input from the sponsor, Tata Steel UK, the Trustee considered proposals which might increase the overall expected return from the Scheme's assets, at an acceptable level of risk, with the objective of reducing the expected timeframe to reaching full funding
- The Trustee progressed the development of a “*dynamic risk management framework*” which would set out when actions could be taken to reduce investment risk and lock in gains as the Scheme's funding position improved on the path towards reaching full funding on the agreed basis
- As a result of recent regulatory changes, the Scheme is required to prepare annually an Implementation Statement to be included in the Report and Accounts setting out how and the extent to which it has complied with the policies in the SIP related to voting and engagement activity. The Trustee considered a draft of the Implementation Statement

Chief Investment Officer's Report

- The Chief Investment Officer presented a detailed update on general investment matters highlighting developments since the last meeting
- The Fund benchmarks the performance of its assets against movements in Scheme liabilities. The CIO reported performance against appropriate benchmarks and noted that over the quarter to 31 March 2021, the total Fund had outperformed its benchmark. Over a longer three-year period, the Fund had also outperformed its applicable benchmarks
- The value of Scheme assets was £10.303 billion as at 31 March 2021
- The Trustee received a detailed presentation on the performance of, and prospects for, 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

- The next full actuarial valuation of the Scheme will take place as at 31 March 2021. The results are expected to be finalised in early 2022
- The Scheme Actuary presented a report setting out proposed assumptions to be used for initial 2021 valuation calculations on financial matters, such as the level of expected future pension increases and the discount rate to be used to convert projected benefit payments to a present value. This included highlighting the adverse impact on the Scheme's funding position arising from the outcome of the government's recent RPI/CPI consultation
- The Trustee approved the financial assumptions for the initial calculations to be carried out for the 2021 valuation. These assumptions will be subject to consultation with the Company later in the year
- Under the Scheme's governing documentation, restoration payments may be due to members and dependants who have some (or all) pre-6 April 1997 pension in payment on 31 March 2021 and the Trustee was updated on the Scheme's funding relative to the 2021 restoration trigger
- Whether or not a restoration payment is due will not be known with certainty until after the 2021 valuation is completed; however, the Scheme Actuary has estimated (based on provisional information available in May 2021) that the conditions for a modest payment to eligible members are likely to have been met

Scheme Governing Documentation

- The Board was updated on progress towards consolidating the Scheme's governing documentation

Technical Update

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

Trusteeship

- As part of the review of Trustee effectiveness, it had been identified that the balance of responsibilities between the executive, Scheme advisers, the Chairman and the board should be reviewed. A detailed Chairman's Job description was considered and approved by the Trustee
- The Chairman's current term of appointment is due to end on 30 June 2022. The Trustee board welcomed the Chairman's early indication of his willingness to continue in the role beyond that date
- The Trustee was updated on the conclusions from its recently completed training needs analysis and briefed on the Scheme training programme for 2021

Audit and Risk Committee Update

- The Audit and Risk Committee (**ARC**) oversees the Scheme's statutory annual audit as well as other aspects of the Scheme's governance regime
- The Chairman of the ARC briefed the board on recent activities of the ARC

Report of the Remuneration Committee

- The Chairman briefed the Trustee on the work of the Remuneration Committee

Administration Report

- As at 31 March 2021, Scheme membership was 71,518 comprising 13,968 deferred pensioners and 57,550 members whose benefits were currently in payment
- The Trustee was updated on recent interactions with The Pensions Ombudsman including confirmation that 21 individual complaints brought in conjunction with cases previously determined by the Ombudsman, had not been upheld
- The Trustee noted the good progress being made on the introduction of a Member Portal on the Scheme's website. The Portal allows members to interact more efficiently with the Scheme. Further information on the Portal is available in the May Newsletter
- The Trustee approved a strengthened assessment methodology and additional service standards intended to provide a basis on which the Trustee can effectively gauge the Pensions Office's performance across its main responsibilities
- The Trustee was briefed on a proposal to use biometric validation to simplify and improve the Scheme's 2021 audit of members living outside the UK
- The Trustee considered administration service standards during the period 1 January to 31 March 2021. No complaints had been received under the Scheme's service standard complaints procedure
- The Trustee noted the potential benefits of merging the Scheme's two Profund pensions administration platforms into one as set out by Scheme Officers

Dates and Locations of Scheduled Meetings

- The Trustee board noted the dates for the next scheduled meetings as being 26 August 2021, 25 November 2021, 24 February 2022, and 26 May 2022
- Due to the ongoing Covid-19 restrictions, arrangements for future meetings were being kept under review but it was hoped that the next meeting in August could be held face to face
- As a result of the on-going uncertainties, no Consultative Meeting will take place during 2021 and instead, to allow greater participation, consideration is being given to an on-line meeting in early 2022 when the results of the Actuarial Valuation and possibility of restoration is known