

British Steel Pension Scheme

Information Debriefing following November 2021 Trustee Board Meeting:

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. The projected timeframe to reach 103% funding had reduced by around 3 years over the quarter, due to an improvement in the funding level and an increase in the expected return from the portfolio. There were no material changes in the risks of the Scheme’s funding position relative to expectations

Covenant Review

- Although the BPS is intended to meet its liabilities on a self-sufficiency / low risk basis without further contributions being needed, there is 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
- The Trustee’s independent expert advisers, Penfida Ltd, presented an updated covenant assessment report on the financial position and performance of the Scheme’s sponsor. This covenant assessment supports the assumptions proposed for the actuarial valuation as at 31 March 2021

Tata Steel Update

- The Trustee and its advisers received a helpful and balanced update from the Tata Steel UK Ltd Chairman on the most recent financial performance of Tata Steel UK and the separation of Tata Steel’s European operations
- Although there remained significant long-term challenges facing Tata Steel UK, the Trustee board welcomed the current favourable market conditions

Investment Strategy

- The Trustee approved actions to further de-risk the Scheme
- 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 approved a plan of the investment actions for 2022 and longer term to further refine the Scheme’s investment arrangements
- As part of the investment strategy review being undertaken with appropriate input from the sponsor, Tata Steel UK, the Trustee progressed actions 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 approved updates to the metrics by which the Scheme measures its investment performance, both in relation to the credit optimisation exercise and the overall Scheme Specific Benchmark

Investment Operations

- 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 over the quarter to 30 September 2021
- The value of Scheme assets was £10.384 billion as at 30 September 2021
- The Trustee received an update on recent activity in respect of the Scheme’s Growth property and Global duration portfolios
- Certification in respect of recent property valuation summaries was confirmed to the board and the relevant valuations were approved

Actuarial Update

- The Scheme Actuary presented his summary advice note on the actuarial valuation of the Scheme as at 31 March 2021, together with drafts of the key valuation documentation

- The draft documentation will now be shared with the Company for its comments, and it is anticipated that the valuation will be finalised in early 2022 and the results published thereafter
- Under the Scheme's governing documentation, restoration payments may be due to eligible members and dependants who have some (or all) pre-6 April 1997 pension if the 2021 valuation resulted in an "unexpected surplus"
- The Scheme Actuary advised that, having obtained the necessary verification from the Company, he could confirm that the conditions for a modest restoration payment had been met though the actual details would not be finalised until after the 2021 actuarial valuation was completed. The Trustee board welcomed this development which reflected the good performance of the Scheme since the last actuarial valuation
- The Trustee had previously approved the creation of a Working Group to explore the options for making restoration payments. The Working Group will bring recommendations to the Trustee in early 2022. Restoration payments have to be made within twelve months of the finalisation of the 2021 valuation.

Technical Update

- The Trustee noted recent developments in pensions law and regulation which could impact on the Scheme
- The Trustee was updated on recent changes to the regulations regarding transfers out from defined benefit pension schemes such as the BPS which were likely to lengthen the time it would take to process such transfers. The Trustee approved the creation of an explanatory leaflet which would be issued to deferred pensioners considering transferring their Scheme benefits

Performance Management Arrangements

- Pensions Regulator guidance requires trustees to regularly assess the performance of key advisers and to take steps to address any performance issues which are identified
- Additionally, trustees are required to set strategic objectives for their investment consultants and to review performance against these objectives
- The Trustee considered the results of a review of the Scheme's main professional advisers and a review of the performance of the Scheme's investment consultants against their strategic objectives
- Trustee directors are generally satisfied with the standards of service provided and the Scheme advisers were reappointed accordingly
- The Trustee noted recent developments and agreed to consider whether the existing high-level strategic objectives for their investment consultants remained appropriate

Trusteeship

- The Pensions Act 2004 requires pension schemes to have a process where at least one third of trustees are nominated by all active members and pensioner members, or by organisations that adequately represent them. The existing arrangements for the nomination and selection of Member Nominated Trustee Directors (**MNDs**) have been in force since their approval by the Trustee in August 2018
- In 2021, the Trustee had determined to postpone the 2021 MND selection process, in light of the restrictions arising from the pandemic, and to extend Shaun Corten's appointment until 31 March 2022 at which time a selection process would be run for both MND vacancies
- MNDs are appointed for a three-year term. To encourage participation, the Trustee agreed that future appointees would generally be limited to two consecutive terms
- Candidates from the 2021 exercise will automatically be carried forward to the March 2022 exercise and the November 2021 newsletter will invite other eligible candidates with an interest in the role of MND to nominate themselves

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 Trustee on the outcomes of its meeting held in November
- A number of aspects of the Scheme's governance regime had been reviewed and updated by the ARC and their adoption recommended to the Trustee. The Trustee approved revisions to the Scheme's Conflicts of Interest Protocol and Privacy Policy and noted progress on the implementation of recommendations made following a review of the Internal Controls regime in place at the London investment office

- The ARC had also reviewed expenditure against budget for the six months to 30 September 2021, the Cyber Security Policy for the Glasgow office and a proposal from Scheme Officers to carry out a review of banking services for the Glasgow office
- The ARC has been considering the Scheme's Environmental, Social and Governance (**ESG**) obligations over the course of the year and presented a summary of the new climate related reporting requirements which will apply to the Scheme. The Trustee will consider the issue again before finalising its approach to meeting the new requirements

Data Working Group Update

- The Data Working Group (**DWG**) oversees issues on behalf of the board relating to the equalisation of Scheme benefits and the reconciliation and rectification of Guaranteed Minimum Pensions (**GMPs**) and benefit analyses arising from de-risking or other activities
- The board was briefed on the outcomes of the DWG's most recent meeting

Remuneration Committee Update

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

Administration Report

- The Trustee board was briefed on a range of operational, administration matters
- As at 30 September 2021, Scheme membership was 70,412 comprising 13,533 deferred pensioners and 56,879 members whose benefits were currently in payment
- The Trustee was updated on recent interactions with The Pensions Ombudsman including confirmation that a further 5 individual complaints brought in conjunction with cases previously determined by the Ombudsman, had not been upheld
- The Trustee noted progress to date on the Member Portal on the Scheme's website and noted further developments to be rolled out to members during phase 2 of the project, early in 2022. The Member Portal is expected to make it easier for members to interact with the Scheme
- Pension payment dates for 2022/23 were confirmed as was the intention to align the CESPS payroll dates with those of the BSPS payroll from June 2022. Details can be found of the Scheme website
- The Trustee considered the new, extended range of administration service standards during the period 1 July to 30 September 2021. No complaints had been received under the Scheme's service standard complaints procedure

Scheme Governing Documentation

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

Dates and Locations of Scheduled Meetings

- The Trustee board noted the dates for the next scheduled meetings as being 24 February 2022, 26 May 2022, 25 August 2022, and 24 November 2022
- No Consultative Meeting will take place during 2021 and instead, to allow greater participation, an on-line meeting will be held in early 2022. Further information is available in the Autumn 2021 newsletter