Chairman Approved

BRITISH COAL STAFF SUPERANNUATION SCHEME

Minutes of the Seventy-third Annual General Meeting of Members held at Nottingham Conference Centre, 30 Burton St, Nottingham NG1 4BU, at 2.00 pm on Thursday 30 September 2021

Present

Dame K Barker (Chairman)
Mr JB Grant
Mr BW Hancock
Mr GJ Shearer
Mr WJ Sheldon
Mr AK Whalley (via YouTube livestream)
Mr A Rubenstein (via YouTube livestream)

Apologies

Mr S Jukes

In Attendance

Mr J Heathfield – Scheme Secretary, Coal Pension Trustees Services Ltd
Mr A Gibbons - Coal Pension Trustees Services Ltd
Mr G Lane - Coal Pension Trustees Services Ltd
Mr G Mellor - Coal Pension Trustees Services Ltd
Mr M Walker - Coal Pension Trustees Services Ltd
Mr D Whincup - Coal Pension Trustees Services Ltd
Mrs H Willcox - Coal Pension Trustees Services Ltd
Mrs T Austin– Capita Employee Benefits
Mrs D Stephenson - Capita Employee Benefits

There were 30 members of the Scheme present in person and 28 members of the Scheme attended via YouTube live stream

AGM PRESENTATION

1. Dame Kate welcomed those present to the 73rd Annual General Meeting of the Scheme. A presentation was made to the Annual General Meeting, a transcript of which is attached at Appendix 1 to these Minutes.

OPEN FORUM

2. A transcript of the oral questions and answers is attached at Appendix 2 to these Minutes.

Signed …………………………………… (Chairman) Date ………………………

APPENDIX 1

AGM PRESENTATION

1. I'd like to welcome everyone, both here in Nottingham and those joining us live online, to our 73rd Annual General Meeting of Scheme members. I hope those of you joining us online will be able to have a reasonably similar experience to being here in the room.

2. Let me introduce myself – I'm Kate Barker and have been the Chairman of the Committee of Management of BCSSS since 2014.

3. As you probably know, we should have been here in Nottingham for the AGM last year, but we had to cancel the meeting as a result of the Covid-19 pandemic; so it's particularly nice finally to be here with you all today. The AGM provides our members with the opportunity to hear presentations on the financial position of the Scheme, on the key challenges we manage on your behalf and also to raise any questions you may have directly with the Trustees. We think that this is important for our members. We hold the AGM in different mining locations around the country, to give as many members as possible the opportunity to attend a meeting in their local area. However, as a result of the pandemic, or perhaps other reasons, some members are unable to travel. So in order to make the event as accessible as possible we are also live streaming the meeting on our private YouTube channel.

4. Let me introduce the other members of the Committee of Management of your Scheme (often referred to as the Trustees) and explain to you a little bit about what we do.

5. The members of the Committee are sitting to the side. I'll start with the Pensioner Representative members – please would you stand when I introduce you:

6. John Sheldon. John is the Pensioner Representative for this constituency (the East Midlands, Southern England and Overseas constituency). John joined seven years ago. He is an accountant and held senior financial and administration posts in a number of coalfields and at national headquarters, lastly as Finance Director of the Pensions and Insurance Centre in Sheffield.

7. Bleddyn Hancock. Bleddyn is the Pensioner Representative for the North West England, West Midlands, Wales and Northern Ireland constituency and is the longest standing Pensioner Representative member, having served on the Committee of Management for 26 years. Bleddyn was a deputy and became a fulltime union official. I'd also like to congratulate Bleddyn as he's just been re-elected for a further three-year term from 1 October.

8. Stuart Jukes. Unfortunately, Stuart is unwell and unable to be with us in person today. Stuart is the Pensioner Representative for the Yorkshire and North Lincolnshire constituency and has been a member of the Committee of Management for 25 years. He was Superannuation Officer for Yorkshire for 25 years.

9. James Grant. James is the Pensioner Representative for the Scotland and North East England constituency and joined the Committee of Management four years ago. James started in Bedlay Colliery at age 16 and later became a full-time Mines Rescue Brigadesman. I'd also like to congratulate James, who has also just been re-elected for a further four-year term from 1 October.

10. Along with myself, the other Trustees, who are appointed by the Committee, are:

11. Alan Whalley. Alan is also unable to be with us in person today but is joining us via YouTube. Alan was appointed by the Committee of Management six and a half years ago and is Chairman of the Risk and Assurance Sub-Committee. He is a qualified actuary and has very considerable experience in pensions, including being chairman of the Management Board of the Institute and Faculty of Actuaries and a member of the Pensions Management Institute council.

12. Jim Shearer. Jim was appointed by the Committee of Management five and a half years ago. Jim is the Chairman of both the Administration and Benefits Sub-Committee and the Discretions and Appeals Sub-Committee. Jim was Commercial Services Director in British Coal having previously worked in several coalfields, as a Deputy Area Director and Staff Manager.

13. Alan Rubenstein. Alan is self-isolating and is not unwell but very irritated to be unable to attend in person. He has also joined the meeting on YouTube. Alan is the Investment Sub-committee Chairman, having joined the Trustee Board almost four years ago. Alan originally qualified as an actuary before spending the majority of his career in Asset Management, Banking and the Public Sector, where he served as the Chief Executive of the Pension Protection Fund.

14. The Committee of Management is made up of individuals with varying lengths of Scheme experience, and also highly relevant backgrounds. We have been able to achieve a nice balance between retention of knowledge and the challenge of new ideas and ways of working.

15. By way of background for those of you who haven't been to an AGM before, the Committee of Management works as a team and our collective focus is very clear – it's on paying you the benefits due under the Scheme Rules and providing the best possible service for you, our members. It's worth mentioning that our duties and powers are set out under the Scheme Rules and Trust law – we must abide by these Rules and are not allowed to act outside of them.

16. The Committee of Management has delegated some of its powers to four Sub-committees. Each of these Sub-committees comprises two appointed and two Pensioner Representative Trustee members and is Chaired by an appointed Trustee (these are requirements under the Trustee Company's constitution). The Committee of Management meets on a quarterly basis, or more often if required. As well as receiving reports from the various Sub-committees, the Committee of Management sets the strategic objectives and risk constraints, and monitors progress towards these objectives.

17. Being a member of the Committee of Management is a significant commitment. Over the year to March 2021, we had 23 Committee of Management and Sub-committee meetings. Papers for each meeting are issued in advance and the amount of preparation required for each meeting should not be underestimated. Like everybody else, we have had to adapt to the Covid-19 environment and embraced, or at least tolerated, the technology to have mostly virtual meetings. This has ensured that we have been able to continue to oversee the day-to-day operation of the Scheme effectively and maintain our focus on future strategy. In addition, all of us have continued to refresh and improve our knowledge and understanding, through attendance at external courses and seminars, and through formal and informal training, again mostly held virtually.

18. Joining myself at the front from the staff of Coal Pension Trustees are Geoff Mellor, Co-CEO and Jon Heathfield, the Scheme's Secretary.

19. Coal Pension Trustees employs 44 staff, who provide Executive Management, secretarial, actuarial, benefits management, finance and accounting, investment and risk management services. The team supports not only the BCSSS but also the Mineworkers' Pension Scheme.

20. The programme for this afternoon's meeting is shown on the slide. In a moment I will summarise the areas we have been focusing on this past year. I will then hand over to Geoff, who will give you an update on the Scheme's funding position and investment strategy.

21. Jon will then summarise some of the key statistics and provide answers to the written questions received in advance.

22. Finally, I will open up the meeting for any questions. If you are attending online you can send in questions at any time during the meeting using either the comments box or email and we will pick them up at this point.

23. For those of you attending the meeting in person, there will be time at the end of the meeting for further refreshments – and I hope you will take the opportunity to chat with the Trustees and Scheme Officials before you head home today.

24. The last 18 months have been challenging and the pandemic has affected us all in different ways. Everyone will know someone that has been ill or sadly died and many of our Scheme members will have been affected. We all offer sincere sympathies to everyone that has suffered a loss over this period.

25. The pandemic has also had an impact on every aspect of the Scheme's business and everyone associated with the Scheme has had to adapt to ensure we could continue to manage the Scheme effectively. All the staff within CPT, Capita, all our investment managers and elsewhere had to move with immediate effect from working in an office to working from home. That presented challenges around IT capabilities, data and financial security, and required people to make big changes to the way they worked. We have been pleased and reassured by how well everyone dealt with these changes. The pensions continued to be paid on time, member services were broadly maintained and we were able to manage our assets effectively.

26. This week is the first time we, as a Trustee Board, have been able to meet at least partially in the same room for over 18 months. We have all had to learn how to hold effective meetings in this environment.

27. In March 2020, we also had to navigate challenging investment markets. The ability to sell assets and access cash was, for a time, constrained and the prices of assets fluctuated wildly for a period, until the central banks stepped in to support the banking system. It's good to be able to tell you that the plans we had in place for adapting to challenging markets of this nature worked well. We did not have to sell any assets during this period of market volatility.

28. Overall, everyone involved with the Scheme has adapted and managed well through this incredibly difficult period.

29. The Committee's primary funding aim is to ensure that all future benefits can be paid to members as they fall due, without requiring funding from the Guarantor. To achieve that goal, we require a high return on the Scheme's assets over the future. Geoff will explain in more detail how we invest the assets to achieve this goal. However, we have been pleased with the investment returns over a number of years, which reflect strong investment markets.

30. We do, however, remain cautious about the outlook. The impact on investment markets over the longer-term of the high levels of support provided by central banks is uncertain. We are currently considering the possibility and potential impact of a sustained increase in inflation globally. Another challenge might be economic shocks caused by further waves of Covid. The markets certainly feel unusual at the moment, despite recent strong returns.

31. I also want to talk about our Responsible Investment activities. Responsible Investment, often termed Environmental, Social and Governance (or ESG), covers a range of areas relating to environment and climate, social factors and the governance of companies. Many of these areas are becoming high profile, with the UK Government putting pressure on all investors, including pension schemes, to take these ESG factors into account and demonstrate that they are doing so. In fact, some new legislation on measuring and reporting climate risk in portfolios comes into force tomorrow for large pension schemes. The Trustees are very clear that the focus of our investment strategy is to seek the best financial outcomes. Within that context, of course we have taken account of ESG factors for some time. There is little doubt that, in some areas, increased levels of regulation (on climate emissions, for example), or consumer behaviour (moves away from single use plastic is an example) have affected the financial results of companies and investments. These are very real issues that we must take account of when investing the assets.

32. We are also increasingly reporting specifically on some of these areas. We have included an Implementation Statement on page 23 of the Report and Accounts, covering how we engage with the companies we invest in. We will also be publishing a climate statement, which will set out the climate-related risks and opportunities of the BCSSS portfolio, from next year. Both from a return and risk perspective, and from a regulatory standpoint, Responsible Investment is becoming increasingly important.

33. Importantly, the Government Actuary is currently carrying out his Actuarial Valuation of the Scheme as at 31 March 2021. Since we made the changes to the Scheme in 2015, the results of the three-yearly valuation do not affect the benefits payable to members. But it is still an important exercise, as it gives an up-to-date assessment of how well we are progressing against our funding objectives, to help us understand whether our funding or investment strategy should change. We expect to be able to let you know the outcome of the valuation, and any consequent changes in investment strategy, in next year's Report and Accounts and at the 2022 AGM.

34. Lastly, we have had to prepare for the implementation of GMP equalisation and manage the final steps in GMP rectification. These are complex topics, and there is a question about GMP equalisation which Jon will answer in a few minutes. However, I mention GMP here as this has taken a lot of staff time and care, for which we are all grateful.

35. Before I talk about administration, I must highlight one development that may affect benefits payable to members, albeit not before 2030. In January I wrote to you all to let you know about the proposed changes to how the Retail Prices Index will be calculated from 2030 onwards. The proposals mean that RPI would be calculated in the same way as the Consumer Prices Index including owner occupiers' housing costs, known catchily as CPIH. This change would be expected to result in RPI inflation being lower, which would mean lower increases to members' pensions from 2030 onwards. The proposal is now subject to a judicial review and we are waiting to see the outcome of this review. Until then, there is little we can do. However, if this change goes ahead, the Committee will discuss, rather forcibly, with the Guarantor possible measures to mitigate the impact on our members.

36. Turning now to the administration, I am pleased to say our benefits administrator, Capita Pensions Solutions, has continued to perform well in serving members over the past year, especially on the high priority areas of ensuring that pensions continue to be paid when due, deferred members are put into payment promptly when taking their pensions for the first time, and in handling notification of member deaths.

37. Some of the planned improvements in member communications were delayed due to Covid-19. However, we have already introduced some of these improvements in 2021, including the new secure member website which has recently gone live. We sent some extra communications to members as reassurance during the pandemic. We continue to review our various member communications and your feedback is always welcome. We are, in fact, intending to send a survey to members either later this year or early next year about Scheme communications, so if you do receive a survey I would be grateful if you could take five minutes to complete it.

38. I would now like to hand over to Geoff who will outline the funding and investment strategy of the committee. Geoff.

Geoff Mellor

39. Good afternoon everyone. I will summarise how much we need to pay benefits and the Guarantor over the future, how we invest the assets to meet these payments and how well our assets have performed.

40. As Dame Kate has already highlighted, our primary funding objective remains to pay all future pensions as they fall due, without requiring new money from the Guarantor in future.

41. We expect to pay about £11.3 billion in total benefits to Scheme members over the future. In 2033, we are also due to pay the Adjusted Reserve (previously called the Investment Reserve) to the Government. We estimate that this will have grown to about £2.4 billion at that time. So our total aggregate future cash payments from the Scheme will be nearly £13.7 billion.

42. At 31 March 2021, our assets were valued at £9.6 billion. We will need to grow these assets significantly to meet these future payments totalling £13.7 billion. In fact, we need to earn returns on our assets of over 3% per year over the future lifetime of the Scheme. This is significantly more than we can earn on safe assets such as cash or Government bonds, which means we have to take some investment risk to achieve our funding objective.

43. We also have to be aware of some shorter-term challenges. Over the year to March 2021, we received £229 million in income from the assets. We paid out over £588 million in benefits over the same period, so we’re over £350 million a year short. We had to find this £350m from the sale of assets.

44. So, in order to achieve our primary funding objective, we need both to grow the assets over the future and to collect income and sell assets each month to pay pensions. Ideally, we therefore need to have a portfolio that generates regular income and high overall returns.

45. Let’s start with the cash requirements. The first thing that we do is look for assets that provide income – we get income from various sources: property rents, infrastructure income, shipping charters, interest from fixed income securities and equity dividends. The table on page 31 of the Report & Accounts (which can be seen on this slide) shows where the income came from over the last Scheme year.

46. As I've already mentioned, we don't expect to receive enough income to be able to meet all of the pension payments each month, so we need to sell assets regularly to make up the shortfall. Some of our best income-generating assets are also 'illiquid', which means that we can't quickly and easily go into the market and sell them. Property, infrastructure, ships and private credit fall into this category – they all take time to sell. So, let's look at the other assets. Firstly, public equities. These are generally liquid and are expected to deliver good returns over longer time periods. However, their price can go up and down quite markedly, especially over the short-term. We don't want to be forced to sell equities just after their price has gone down. That leaves sales and redemptions of government bonds and investment grade credit. These are also generally liquid and their price tends to be less volatile than that of equities. We expect to pay for this greater reliability of price in lower returns, but it gives us the assurance that we can meet our pension obligations over time without being forced to sell our equities at depressed prices.

47. Moving on to the growth requirements, as I mentioned earlier, our required return is over 3% per year. Public and private equities, property and infrastructure are all assets in the portfolio that we expect to deliver good returns over the longer-term. We hold a mixture of assets in order to diversify the risks in the portfolio. For example, we look to hold some assets that should do well in a strong economic environment (such as equities) but also assets that might do better in a recession (bonds) or in periods of high inflation (property and infrastructure) and make sure that we have a balance across the portfolio.

48. So, let's look at how we've done. The absolute levels of return on the assets are the most important measure of progress towards achieving the objectives and we focus more on the longer-term returns – 3 to 5 years. If you look at the returns table on page 21 of your Report and Accounts, you'll see that the returns over the Scheme year were 16.6% and over the last five years have averaged 9.1% per year. This is very encouraging and shows that our investment strategy has been successful. The returns have been driven by strong equity markets around the world, particularly in the United States.

49. We also monitor the relative performance against the benchmarks set for managers. This relative performance helps us measure the success of the implementation of the strategy and the performance of the investment managers. You can see that the total returns were broadly in line with the strategic benchmark for last year, but marginally below over the longer-term. There are a number of reasons for this underperformance – perhaps the main one is that we have had less invested in US stocks, including highly priced US technology stocks, than the benchmark would suggest. The returns on these assets have been very high indeed in recent years.

50. This performance measure is the aggregate performance, against the targets set, of all the different managers in the many different asset classes. When monitoring performance, it is essential that we look at individual managers and asset classes and seek to understand the reasons for each one's specific performance. This analysis provides us with much more useful information than simply judging performance on a single aggregate figure. We continue to review whether the benchmarks and targets we are using for measuring performance are the most appropriate measures of success, especially over the short-term. We are in particular reviewing the measures we use for some private assets, including private debt, property and shipping, where in recent years the targets we have set for the managers have been quite different from what was actually achievable in those markets.

51. As Kate mentioned, one area that has appeared high on all investors' agendas recently is Environmental, Social and Governance, or ESG, investing. Kate talked about the recent

regulatory changes in this area. So, I'll just mention how we take account of these ESG factors in our investment strategy.

52. The Trustees have a Responsible Investment policy and take all aspects of Responsible Investing very seriously. We hold a number of "green" investments, including renewable energy and low carbon equities. We also engage actively with the managements of the companies that we own. The Trustees' policy is very clear that our focus remains on the financial outcomes: the move towards a low carbon economy will have implications for the companies in which we invest and there is lots of evidence to suggest that well governed companies deliver better outcomes to their investors.

53. Let me give a couple of simple examples. We have owned a stake in Tesla Motors for a number of years, dating right back to when it was a private company. In that time, the company has rarely made a profit, yet the value of our investment has increased massively. This largely reflects the speed at which the move from petrol and diesel to hybrid and electric vehicles has happened recently.

54. A very different example is our holding in Cadent Gas Networks, the company that looks after the pipework to ensure we receive gas to our homes. There is a longer-term Government commitment to phase out domestic gas boilers, although there isn't really yet a feasible plan to achieve it and it will take time. So, we expect Cadent to be able to make profits and pay us good dividends for a number of years, but we need to ensure that the management of this company is managing the risks to their long-term business, as these risks will be reflected in the price of the shares.

55. So, as you can see, many of these ESG factors are very relevant for our ongoing investing and we focus very clearly on the financial implications.

56. I will now hand over the Scheme Secretary, Jon Heathfield, who will summarise the key statistics in the Scheme accounts and read and answer the written question received in advance.

Jon Heathfield

57. As in previous years, I'd like to take you through some of the key statistics from this year's Report and Accounts, these are on pages nine and ten - you should all have received a copy of the Scheme's Report and Accounts with your AGM ticket.

58. In terms of membership, at 31 March 2021 the Scheme had 44,744 pensioners (which includes 12,391 widows and 124 children) and 1,886 deferred members (including 18 deferred members with small EPB pensions). This was a reduction of 2,206 members over the year from 31 March 2020.

59. During the Scheme year we paid a total of £588 million to members in benefits and transfers out and, combined with the £3 million of administration expenses, the total withdrawals from the Scheme were £591 million. This is just over 6% of the value of the Fund.

60. Investment income received into the Scheme was £229 million and the value of the Scheme's assets at the year-end increased by £1 billion 232 million. After the deduction of investment costs of £33 million, the Scheme's 'net return on investments' was £1 billion 428 million.

61. So, despite paying out a total of £624 million (I'm including administrative and investment management expenses with the member payments), the Fund value actually increased from £8 billion 760 million last year to £9 billion 597 million.

62. Whilst the increase in income is positive it's important to note that this is far lower than the benefit payments and expenses of £624 million, so the Scheme still has to sell assets to meet its liabilities.

63. I will now address the written questions we have received and give the Committee's response.

64. The first question is from Mr John L Dutton.

Question:

65. Are the Trustees satisfied that the RPI increase applied to the Scheme's pensions did actually cover the actual price increases encountered by the Scheme members? Furthermore, could the Trustees consider making representations to the Government for there to be established a more accurate method of assessing the true increases in the costs of the items that make up the RPI and to reassess the items that are actually included in the RPI?

Answer:

66. The inflation measure we must use is set out in the Scheme Rules. The Committee has no power to change this measure. The basket of items that make up the RPI are decided by the Office for National Statistics and not the Government. It is therefore unlikely that representations to the Government would have any effect.

67. Most pension schemes, including most public sector schemes, use CPI for pension increases. Historically CPI has been around 1% lower than RPI on average, meaning that members of other schemes will enjoy lower pension increases than those of BCSSS. In this context, it is difficult to argue that BCSSS is at a disadvantage relative to other public sector pensioners.

68. The second two questions are from Mr CJ Bailey.

Question 1:

69. My first question relates to the Chairman's introduction (pg 7). Dame Kate Barker refers to the changes in RPI which are likely to take effect from 2030 pointing out that this decision is currently subject to judicial review. I have read that the judicial review has been sought by the Trustees of the BT, Ford, and M & S pension schemes; I should like to know if the Trustees of BCSSS considered joining this legal action and their reasons for not doing so.

Answer:

70. The Trustees did consider joining the judicial review and had some discussions with these other schemes. We decided not to join the action for a number of reasons. Perhaps the most relevant point for us was that the issues facing those other schemes are a little different from those facing BCSSS. Some of those schemes already pay pension increases based on CPI, so the proposed changes to RPI will not have a direct impact on the members. Rather, the effect of the RPI changes will be to reduce the value of some of the assets, such as index-linked gilts, and therefore increase the funding requirements for the sponsoring company. The BCSSS Trustees are fully focussed on the effect of the proposed RPI changes on the members. We believe that, rather than joining the public action, we should work with our own Guarantor to seek to mitigate the impacts of the change for our members.

Question 2:

71. My second question refers to the Investment Report. The Report reveals on Pg 21 that the Scheme has marginally underperformed its strategic benchmarks over three and five years and blames a variety of assets including private debt, property and shipping. The Report adds that the Investment Sub-Committee will review the benchmarks used but gives no indication of when this review will take place or its likely outcome. I should like to know when this review will take place and a general indication of how these benchmarks might change.

Answer:

72. The review will take place in the coming months and the outcome of the review will be clearly communicated in next year's Report & Accounts. It is worth noting that, as Geoff explained, the Committee focusses primarily on the absolute returns on the assets, and these have been very high in recent years.

73. The final question is from Mr A Harding.

Question:

74. I wondered if it would be possible for one of the presenters to elaborate a little more on GMP Equalisation as it's mentioned a number of times in the Report.

Answer:

75. There used to be two State pensions. The main one and an extra one called the State Earnings Related Pension Scheme (or SERPS). If an employer, such as British Coal, agreed to provide a minimum amount of pension that was at least as good as SERPS it could opt out of SERPS and pay lower National Insurance contributions. This minimum amount of pension is known as the Guaranteed Minimum Pension (or GMP). If you were employed by British Coal after 1978 it is likely that part of your BCSSS pension will be GMP. Because GMPs were designed to replace part of a member's State Pension, they reflected the fact that the State Pension was calculated differently for men and women. This means that a BCSSS pension paid to a male and female member will be different because the GMP is calculated differently for male and female members.

76. However, in the last few years a law was passed that requires all pension schemes that have a GMP element in their pension, such as BCSSS, to review the benefits members have built up after 17 May 1990 and correct them where necessary so men and women are treated the same. This process is known as "GMP equalisation". In practice, this means that the BCSSS will have to calculate, for all members who built up benefits in the BCSSS after 17 May 1990, the male and female versions of their pension and then put into payment the pension which is assessed to be the higher of the two amounts. It is not yet possible to say exactly who will be affected, but we will be writing to all those members who are affected in due course. However, GMP equalisation is a complex subject and it is likely to take some time to complete. Any changes to members' pensions as a result of GMP equalisation are expected to be relatively small and many members will probably not be affected at all, for example if your employment with British Coal stopped before 17 May 1990.

77. Thank you to all members who submitted written questions. I'd now like to hand back to Kate.

Kate Barker

78. Thank you Jon. Just to let you know that Jon will be retiring at the end of the year so this will be his last AGM as your Scheme Secretary, although hopefully we will see him at future AGMs as he is a Scheme member. Jon has been with CPT for 26 years, and previously worked for British Coal for 12 years. On behalf of everyone I'd like to wish him a long and happy

retirement and thank him for his tireless and good-humoured support of COM and of the BCSSS members over many years.

APPENDIX 2

OPEN FORUM SESSION

Kate Barker

1. We're now going to turn to questions. So, I'll remind you that this is a time for questions about the Scheme generally. If you've got some individual benefit queries please take them to the Scheme’s admin office at Capita , and there are staff from the admin office here today. After the meeting, they will be happy to spend time with you if you do have individual benefit queries, and of course for those of you watching remotely, please direct them to Capita in the usual way, email, telephone or letter.

2. If you're attending the meeting online you can submit the questions that you want to ask using either the comments facility, or the email and I am hoping that somebody at the back will then tell me about any questions that have come up. Thank you Helen. So that would be good. We have a number of visitors here today who are not members of the Scheme, and they're very welcome, and may ask questions.

3. Can I just ask if you are going to ask a question, could you say who you are before asking it and please people in this room, of course, raise your hand. Can you use the microphone, this is particularly important this year because people at home, if you just asked the question in the room, they will have no idea what the question was, although that will of course enable them to guess the question from the answer I give but I'm not sure that would be the most appropriate way of communicating! So it's the open forum: are there any questions that people would like to raise about the Scheme?

4. **Adrian Harding** - Again Jon about GMP equalisation, can you just confirm that it’s going to be levelling up and there's no levelling down.

5. **Kate Barker -** I can do that. There's no levelling down, it's only levelling up.

6. **Stephen Wyatt -** Thank you for your presentations today. I've got a number of points; I'll get them all out in one go. So, in the report, it says the basis of accounting in the accounts include the assets and liabilities, excluding obligations to pay pensions and benefits after the end of the Scheme year. So, thank you Geoff for pointing out that the forthcoming liabilities are set to be £14 billion. That figure doesn't appear anywhere in this document as far as I can see is that not a requirement, or what have you, do you want to answer that one first?

7. **Kate Barker -** I think no, it isn't a requirement to say what the liabilities are in the future, partly because this is the sort of estimate we make as we go along. When the actuarial valuation is completed, we will be able to give more details of that because that's a much fuller and more detailed estimate of where the Scheme stands with regard to assets and liabilities.

8. **Stephen Wyatt -**_Right, okay, and sustainability of the Scheme. Clearly there's not new members coming in and at some point in the future the Scheme will terminate, presumably in about 40 years’ time. So, we currently have a Government Guarantee and that's only a guarantee whilst it's there and we've got this Government and another Government might change and all

the rest of it. So, I'd like to hear how we can see that the Scheme is sustainable over the years, because I guess, some of us would like to think we might still be living in 30 years' time.

9. **Kate Barker** - I think there's sort of two questions in one there, the first is a question about the Scheme's funding position. Is it a well-funded Scheme in the way in which you would normally talk about a funded Scheme? I should say that if we were making the assessment of this pension Scheme in the normal way, we would say that it was actually somewhat underfunded as things stand today, but we do have the benefit of the Government Guarantee which enables us to invest, as Geoff laid out, in slightly riskier assets than many pension funds would. This is something Trustees look at, in fact we spent a long time yesterday afternoon talking about it. What do we think is the probability of being able to meet everything due without having to ask the Guarantor for any money, and the probability of that is very high. So, the Trustees are not anxious, as far as they can reasonably foresee, about the risk of the Scheme running out of money.

10. Your second question is will the Government honour the Guarantee? Now, legally, they are bound to honour the Guarantee, but Governments are Governments. So, our preference is that we don't have to look them in the eye and find out the answer to that question. As I've just said, the overwhelming probability is that we will not have to do so, but you've asked a question about a long 40-year future, so I can't look you in the eye and say I'm absolutely certain. I hope that helps.

11. **Stephen Wyatt** - Thank you. So final bit. Page 46 section 25 related undertakings with British Coal Staff Superannuation Scheme. It's a great long list of entities a number of which appear to be 100% held by the Scheme, and I note that there's a number of shipping concerns under the Isle of Man. So, first point with that is, what is the oversight and governance on those on those entities which are 100% held by the Scheme? And pushing on a bit further from that, I note that the shipping assets are £120 million, although page 46 doesn't actually sort of detail those valuations. I'm assuming the £120 million is a consolidation of all the shipping entities on this page which are all apparently at the same address? So, it's a general question about all the entities, but then there's more specific on the shipping element. It's not quite transparent to me, and nor, perhaps, it should it be in this report, but it's, it's really a question on oversight and governance.

12. **Kate Barker** - I'm going to ask Geoff, if he wants to answer that question, including the question the bit about oversight.

13. **Geoff Mellor** - I'll have a go, but I might look to my Co-CEO at some stage. There are a number of different entities there and these are really the companies that the Scheme owns or partly owns, and these are a range of different things, for example you've got Coal Pension Trustees, which is the organisation that I work for and Coal Pension Trustees Investment, so the Scheme is just the parent company of those. Most of these investment companies are a way we hold the assets. So, we hold them in these companies, primarily for ease of getting the income through without paying taxes and then having to try to reclaim it, so it's a tax efficient way to hold the assets. Pension Schemes are tax exempt generally anyway so it's not tax evasion, but it's a way of structuring the company so that you can get the income through gross, generally speaking. Each of those shipping companies is an individual vessel, that's been written as a limited company and the property companies, both Greengate and Exchange Square, are buildings that are actually residential property and are owned partly by the Scheme and partly by the

Mineworkers' Pension Scheme. The reason this Scheme owns 45% is because the Mineworkers' Pension Scheme is a slightly bigger Scheme, so they own 55% it's as simple as that.

14. We have in place oversight for all of these companies. Each company will have a board, each will have annual accounts etc. The shipping companies will probably have one meeting a year because it's very much an administrative function, whereas Coal Pension Trustees, which is the Trustees overseeing what we do, will meet two or three times a year and give us a good old grilling, which is absolutely right.

15. So, we use these companies in slightly different ways and we govern them in slightly different ways, but they're all properly governed, they've all got a Board of Directors who've got legal responsibility, they all publish accounts, albeit often those accounts are very very simple, and don't need to be audited. Does that answer the question?

16. **Stephen Wyatt** - Not entirely. The question is from the point of view of the Trustees. So how are the Trustees satisfied that those entities are properly governed, that's really the nub of the issue.

17. **Kate Barker -** Yes, it's a good question, how are we? Well of course we talk a lot to the people who do the management on our behalf and indeed of course to our property consultants LaSalle. One of the questions you might be asking, I don't know whether you are or not, is if we are concerned at all about the conditions of the people who work in the ships, which is something we're concerned about or indeed the environmental standards in the ships. We do ask that kind of question, and in terms of reassurance, I don't, I'm afraid, go to look at the ships, but we do get reassurances from the team that they do have a proper eye to the environmental and other obligations of running those companies. We have, just as a matter of fact, visited some of the properties and seeing the way in which the rental properties are managed so you know we do take a lively interest beyond what's just written in the report and accounts, but I wouldn't say that we check up on every company, if I told you we checked up on every company, every year, I wouldn't be telling you the truth. But we certainly take an oversight of the activities as the Scheme.

18. **Geoff Mellor -** Just one final point. These accounts are audited, and the auditors, Deloitte, have reviewed what's written here and checked it for accuracy and also check that the Governance is in place. So, there is a proper legal process, as I mentioned some of these companies are actually very simple shell organisations in which to hold the asset, what the Trustees spend most time doing is making sure that the assets in the right place, that the assets are properly managed and the CPTI team in London oversee that. The fact that you've got audited accounts here lets you know that Deloitte have checked this - I think that's where the assurance really comes from.

19. **Kate Barker -** Before I move on to any more questions from the room, can I just check if we've had any questions online? We have, shall we have a question from the online audience and then we'll come back to the questions in the room?

20. **Andy Gibbons -** We've got a question from Terence Hill. As the BCSSS gets the benefit of a Government Guarantee, to what extent is this protection embraced in the Investment Policy and the return expected?

21. **Kate Barker -** Geoff just talked about the fact that we need a reasonably high return. Quite a number of the Trustees are trustees of other pension schemes, as indeed I am, and the level of investment risk in running this Scheme is considerably higher than those other schemes. This is because we have the Government Guarantee, so we're not obliged to have a very risk averse investment policy. I should say if we did have a risk averse policy, we would find ourselves in a more difficult situation. So, unquestionably, the way in which we invest our money benefits from the Government Guarantee. Thank you very much for asking that question.

22. **Graham Johnson -** I've got a question about the Scheme bonus. At the moment the bonus is fixed, doesn't increase year on year with inflation, therefore, is eroded by inflation. What is the likelihood of the bonus being revised so it is subject to increase through inflation, where ideally it would be merged into everybody's pension and everything would increase year on year? At the moment it's just fixed and eventually will just become worthless. That's a long time in the future, that is not an ideal situation.

23. **Kate Barker -** Well the straightforward answer to that is that I think the chances of being able to inflation-link the bonuses, although it is something we talked about, are not necessarily high because it would require us to strike a different deal with the Government from the one in 2014. If you remember, in 2014, the situation the Scheme faced then was one in which bonuses would have to be reduced. So that you'd actually have less money now in money terms, not just in real terms. We took a deal that would keep bonuses flat, but they wouldn't be subject to reductions which they were previously. But you're quite right, it does mean that the bonuses are becoming less valuable over time. This is something that Trustees are concerned about. It's one of the things we look at. Now we can't just reopen the 2014 valuation ourselves, the Government would have to agree to reopen it, but it is the kind of thing that in future when we are doing a valuation and the Scheme itself is strong, we could talk to the Government about such improvements.

24. However, I can’t look you in the eye and say that I think the chances of success with the Government at the moment are particularly high. Nevertheless, the Trustees will certainly do their best in the context of this valuation, to protect members where they can, and paying inflation on bonuses is one of the things we discuss. I can't really say any more than that at the moment.

25. **Graham Johnson-** Second question is, what were the implications if any, of the result of the litigation brought by the Mineworkers’ Pension Scheme against the Government concerning the Guarantee, presumably affects them in the same way that affects us?

26. **Kate Barker -** Firstly, I don't really think it's for me to say anything about the Mineworkers’ Pension Scheme. The Mineworkers’ Pension Scheme had an inquiry, run by the Select Committee from the Business Energy and Industrial Strategy department, and that Committee made a number of requests for the Government to make changes and improvements in the Mineworkers’ Pension Scheme as they saw it. The Government wrote back to them and didn't give in and declined to give them such improvements.

27. **Graham Johnson -** So not at all.

28. **Kate Barker -** So, it's not a helpful background. I could say that more strongly if you like but I won't.

29. **Gerald Gregson -** First of all, I sent an email on 20 September, but I don't know what happened to it. Can I pass it to Jon to have a look at?

30. My question today - you talk about selling the assets to cover the shortfall, when does the Government make up this shortfall? When we've sold all the assets or at what stage?

31. **Kate Barker-** We have to sell some assets because the investment income we get, which is just income, is less than we need to pay out pensions, so we need to sell some of the assets to cover the shortfall. However, the assets themselves also can grow in value, so if you're thinking about the Scheme in a different way, which is, how is the value of the assets moving relative to liabilities, it's perfectly possible for that to improve and indeed with our investment plan, we expect it to improve.

32. **Gerald Gregson-** Yes, but at what stage will the Government step in to make up a shortfall?

33. **Kate Barker** - I very much hope they will never have to step in. As I said in answer to a previous question, we think the overwhelming likelihood is that the Government will not have to make up a shortfall in this Scheme.

34. **Gerald Gregson -** But will we have to sell all the assets before they step in?

35. **Kate Barker** - No I don't think we would have to sell them all because if it became clear at one of the successive valuations that the investment team would have to earn not the number that Geoff talked about, which is 3% a year, but 6% or 7% a year in real terms over time, which is not feasible, then the Government would step in earlier. They would not wait till we'd sold all the assets, they would step in earlier, they would be obliged by the actuary. The actuary would suggest to them that they put money into the Scheme in order that we could continue paying the pensions, you certainly wouldn't wait till you sold all the assets. The Government would step in when the financing of the Scheme was clearly so weak that it was unlikely to be recovered.

36. **Richard Thomas** from Staffordshire, I was just intrigued reading the report when it came to investments in shipping, which, as far as I know has been very lucrative over the years and has been a beneficial investment. Why then is the intention to scale back or pull out of that given the growth in world trade? I just want a little more detail as to why that decision was made.

37. **Kate Barker -** Well, it would be good after this if you're really interested to talk to Mark Walker at the back, who's our Chief Investment Officer, and he'll give you a longer and more expert answer than I'm going to give, but one of the reasons is environmental changes. Although shipping at the moment, as you rightly say, is doing well and these have been reasonably successful investments, there's quite a lot of cost in order to really equip the ships for the future, and so looking across the portfolio, we're also trying to simplify our portfolio a little bit as we go through time. So, we've decided strategically to make a move back out of shipping. I should say shipping has been a pretty unusual investment for a pension scheme to be in and sometimes when I've told people we've invested in shipping, they've looked at me as if I was mad. I can tell them we haven't been mad to do it, but I think actually at the moment, because as you say world trade is quite strong, it's probably not a bad time to sell the assets.

38. **David Brewer -** You're saying that it's most unlikely, or less than likely, that there will be a shortfall of assets that require the Government, the Guarantor to step in. If that is so, and it's even more unlikely that assets after returns will precisely match liabilities, it follows that it is perhaps more than likely that ultimately there will be a surplus. What I'm not sure about is whether following the agreement in 2014, the rules on the distribution of that surplus remained the same as they were before that, in other words who owns that surplus? Who wins that surplus if there is one?

39. **Kate Barker -** Geoff you'll correct me if I'm wrong, I think the point is, we no longer have surplus sharing in the Scheme Rules. If when we get to the end of the Scheme's life and we've paid out the last pension, there is some money left it will go back to the Government.

40. **David Brewer -** Does that mean there could be no surplus then for the members?

41. **Kate Barker** No, the only way in which we would be able to improve benefits for members, I talked about this a little bit earlier in the answer question about RPI, would be through negotiations with the Government, as the Scheme Rule stands which was negotiated in 2014. So, what we negotiated was a world in which the basic pension rose by RPI, the bonuses would never be reduced in money terms and that there would not be surplus sharing, in order to try to ensure the Scheme would be able to stand on its own feet. The Government left the Investment Reserve in the Scheme, which actually over the past few years has played very well because we only have to revalue that at CPI and our investments earned much more than that. So that's helped a lot in leading me to be able to say to you, 'I think it is very unlikely that the Government will have to put money into the Scheme'. But you know the situation you're talking about is 40+ years away and at that point there will be very few pensioners, it is certainly not going to wind up exactly, but we probably aren't going to be talking about a very large sum of money.

42. **Geoff Mellor -** There is just a middle ground where the Government doesn't have to put money into the Scheme but there isn't a surplus, which is we cannot pay all of the Adjusted Reserve (the Investment Reserve) back – there's quite a significant likelihood of that, so we don't pay the Government everything that they are owed from the Scheme, but there is still enough money to pay the members. So, there are three scenarios here, one is the surplus as you describe it, one is the middle ground, where the Government doesn't get all this money back and the third one is almost a disaster scenario, where we relied on the Guarantee and the Guarantee holding. The second and the third are not insignificant probabilities, I think the third (the Government putting in) is a small probability, but them not getting all their money back is not insignificant.

43. **Kate Barker -** Are there any more online questions? No. Any other questions in the room?

44. **Chris Bailey -** , I've got a question about risk. We've heard a lot this afternoon about how the Scheme is able to be risky and needs to be risky indeed but early last month the Prime Minister and Chancellor wrote to pension funds, investment trusts and others, urging them to invest in middle ranking, high growth businesses, as a source of patriotic duty. Does this mean post Brexit that our Scheme is going to be investing more in these sorts of companies?

45. **Kate Barker -** Whether we invest more in these sorts of companies or not will depend on the advice I get from our Chief Investment Officer. It is not my intention to invest in high-risk companies in the UK just because the Government has asked us to.

46. We do have a lot of collective investment so we probably do have some such investments and indeed, Geoff talked about Tesla which probably when we first went into it looked like it might be quite a risky investment, so we do invest in risky companies, but we invest in them globally and if you look at the distribution of the Scheme's assets, we only hold some in the UK. You shouldn't worry too much that this is some legislative change that we are forced to suddenly put all our money into, although by the way, I think it is desirable that there is investment in those companies. I think the Prime Minister is absolutely correct to say that, what I don't think he should do is to say that we should put 3% of your money into it just because he thinks it's a good idea. So, we will only invest where we think we can make the right return for the members.

47. **Adrian Harding** on the topic of investments, should the Government give the go ahead for the proposed coal mine in Cumbria, would the Scheme be prepared to invest in it?

48. **Kate Barker –** My, that's a heck of a question! I assume that our investment staff would look at it on the same basis that they would look at any investment - will it bring the right results for the members. Now I talked about responsible investment and the need to think about the social aspects. I should say that although we have started to talk about this as a Scheme, I don't think we've got very far with it, it is certainly possible that one of the things you might think of as a social investment would be to invest in something which brought employment to a deprived area, but that's pretty difficult because you still have to meet your fiduciary duty of getting the right return. That's the kind of issue I find very difficult as a pension fund Trustee. You've raised a particularly sharp example of it, so, thank you for facing me with that difficult decision. As I said, the first way in which we would approach it is, is this a good investment for the members?

Jon Heathfield passes a question to Kate Barker from Mr Gregson.

Kate Barker – If I could just read out the gentleman's question. "*It says in the chairman's statement she clearly states the risk the Scheme is taking and has taken to improve our assets 16% gives us a good return. Compared to a risk-free return close to zero for 2021. The statement also highlights the amount of risk that the Scheme has taken. In 2022 other factors could well dictate future Scheme policy, such as: 1) spiking COVID: 2) Climate change policy: 3) Afghanistan and associated regional events. Any of the above, could cause a stock market downturn of say 10% (accounting for nearly 50% of the yearly gain) and a knock on to the non-liquid assets of the same amount, so cause the Scheme to see a reduction of close to 20%. In addition ESG is only casually referred to, at present it is the major topic of international fund managers, will our managers look into this more closely?*

49. Yes, I completely agree with that, it's one of the risks I referred to in passing in the Scheme's climate change policy. Again, Geoff and I both talked about climate change and the need to take account of that, about worries about assets that will turn out not to be worth as much later on and you know our investments in green investments, we think about that. "Afghanistan associated regional events". I think those risks are certainly a worry, we invest a lot globally and we certainly worry about the political stability and attitudes of the regimes where we invest. There's been a lot of discussion in the newspapers recently about investments in China and which investments in China look to be more at risk of political interference.

50. You're quite correct to say that any of the above, as you go on to say, "could cause a stock market downturn of 10%, 50% of the yearly gain the knock on to non-liquid assets causing the Scheme to see a reduction of close to 20%". I think that's true; we do always run the risk that

we will see a reduction in asset values over a short period. I talked about thinking asset values at the moment looked a bit unusual. And because I'm a depressed economist it's easier for me to see a downside than an upside. So, one of the things we think about, and Geoff talked about, was that we worry that if equity markets fall we are in such a position in the Scheme that we had to sell assets when their values are beaten up, in contrast to perhaps selling our shipping assets when the values are strong, and it's for that reason that we have cash-flow line of sight holdings, assets that are liquid which we could use in the event of a market downturn, so we don't have to sell the beaten up assets.

51. Now of course if the markets fell and kept falling and we have a perfect storm then we're in the position where we wouldn't feel so comfortable about the long-term, but we cannot protect against every risk, but we can, and in fact do, protect against the risks of the markets staying low for two or three years. You say at the end we "only casually refer to ESG". We do talk about it in the implementation statement in the report and Accounts, you'll also see a lot more on ESG from us over the next year and it is something the Trustees are now discussing at every meeting, not necessarily easy discussions I'll be straight with you, we are not all of one mind, so we are having some quite deep discussions, but it is very much on our mind as indeed is the climate.

52. Any more questions or comments?

53. In that case it just remains for me to thank you all very much for coming. I want to thank the CPT staff for being here today, and the people from Capita and indeed from the Coal Industry Social Welfare Organisation, the conference centre staff and indeed our technology team. I'm sure the people who have been online will report back as to whether the technology has been good, bad, or indifferent. If it has been bad or indifferent, I can only apologise. The Trustees and the team work hard throughout the year and I want to thank them on your behalf.

54. We are going to hold the AGM next year in Edinburgh, again on the 29 September, circumstances permitting. There will be details of this in the next edition of Pensions News which will come out to you in December and also on the Scheme's website.

55. I think now we are going to close for those of you online, so they don't have to hear me inviting everyone else to have refreshments and wishing them a safe journey home because that is just annoying all of the people online. Thank you all very much for coming.