

Magnox
Electric Group
Trustees

Electricity Supply Pension Scheme

Magnox Electric Group of the ESPS

Annual Meeting
Thursday 24 November 2016
Hamfields Leisure, Berkeley.

Magnox Electric Group of the ESPS

Introduction

Martin Grafton

Deputy Chairman of Trustee Board

24 November 2016

Introduction

- New member of Trustee Board
- Busy year
 - Triennial valuation
- Covenant Review by PWC and AON
 - Magnox
 - Energy Solutions / WS Atkins
 - Cavendish Nuclear
 - NNL
- Trustee Training
 - Babcock Pension Schemes Training Days
 - Internal training

Magnox Electric Group of the ESPS

2016 Investment Update

Andrew Clare

Chair of Investment Committee

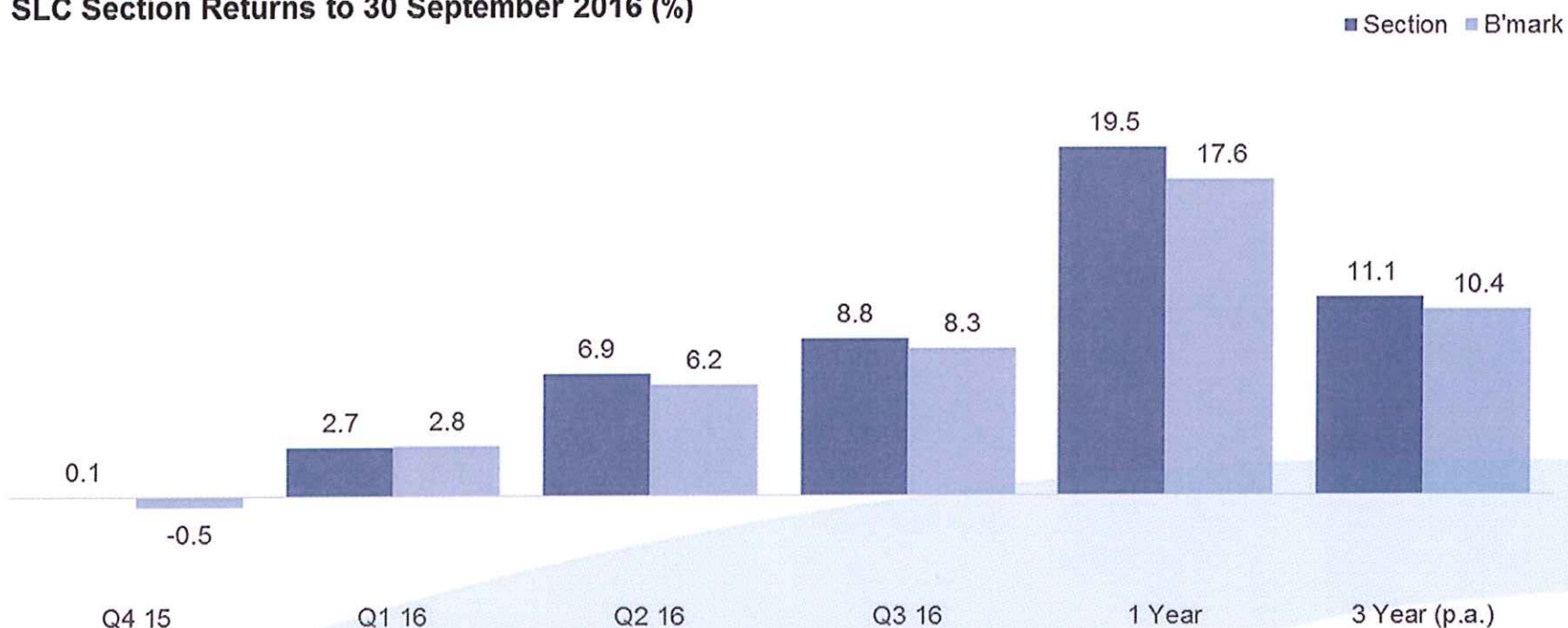
24 November 2016

Investment Philosophy – a reminder

- Benchmark is the liabilities – Liability Driven Investment
- Exercise in risk management – *maximise the probability of meeting all liabilities on time and in full*
- Take rewarded risks, hedge unrewarded risks
- Diversification – across asset classes and managers

Our managers have continued to perform well

SLC Section Returns to 30 September 2016 (%)



➤ Long term performance of the assets to 30 September 2016 has been good

But bond yields continued to fall over the year



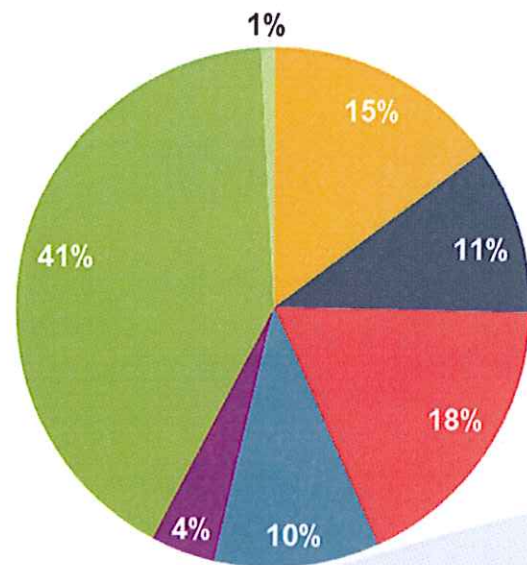
Investment Activity in 2015/16

- A continuation of strategy ...
 - Redemption of active BlackRock corporate bond mandate (c. £125m)
 - M&G Inflation Opportunities investment topped up by £25m
 - Innisfree F2c infrastructure investment topped up by c. £11.4m
 - Further capital drawdown from the property debt mandates (c. £35m)

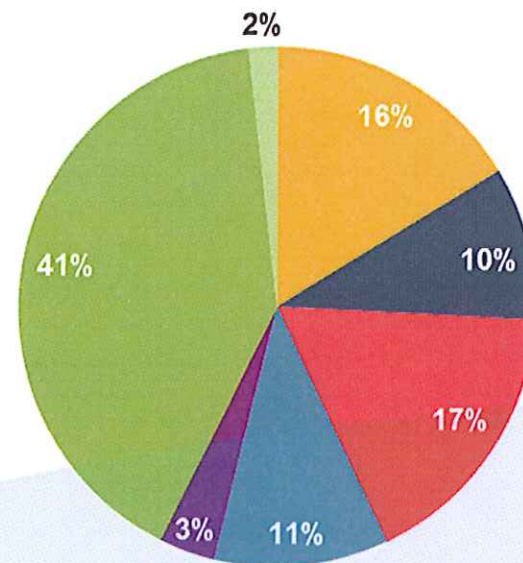
- Other activities ...
 - Governance review
 - Triannual review of Statement of Investment Principles
 - Audit of manager fees

Strategy evolution – spot the difference!

30 September 2015



30 September 2016



- Equities
- Multi-Asset
- Credit
- Inflation-Linked
- Property
- LDI/Bonds
- Cash



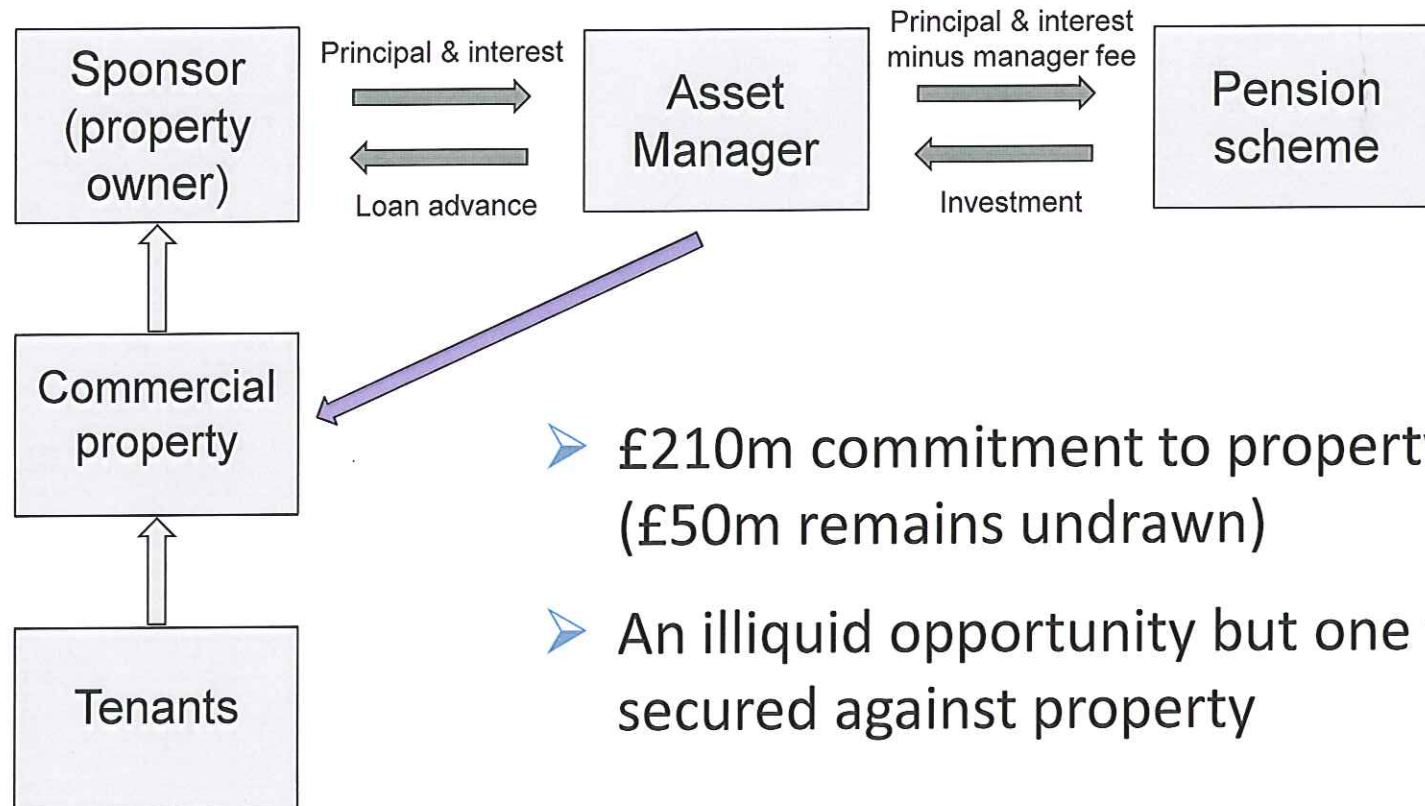
Investment strategy broadly unchanged

Investment activity – 2016/2017

- Coming investment activity ...
 - The merger of the ESPS UK Property portfolio with CBRE UK Property Fund
 - Further top up of the M&G Inflation Opportunities investment (£25m)
 - Commitment to further UK infrastructure assets subject to successful bid
 - Further drawdown from the property debt mandates

- Other activities ...
 - Investment strategy review following 2016 valuation results
 - Review of long term cashflow requirements
 - Finalisation of the Statement of Investment Principles
 - Changes agreed – to be implemented over Q4 2016/Q1 2017

Property debt



- £210m commitment to property debt (£50m remains undrawn)
- An illiquid opportunity but one that is secured against property

Infrastructure investments

- Bid for additional UK infrastructure assets
- The long-dated and index-linked cashflows are attractive to pension funds
- Projects often benefit from some kind of government support
- We prefer infrastructure which is not “demand-based” – schools, hospitals, prisons etc , to those that are or can be – bridges, tunnels



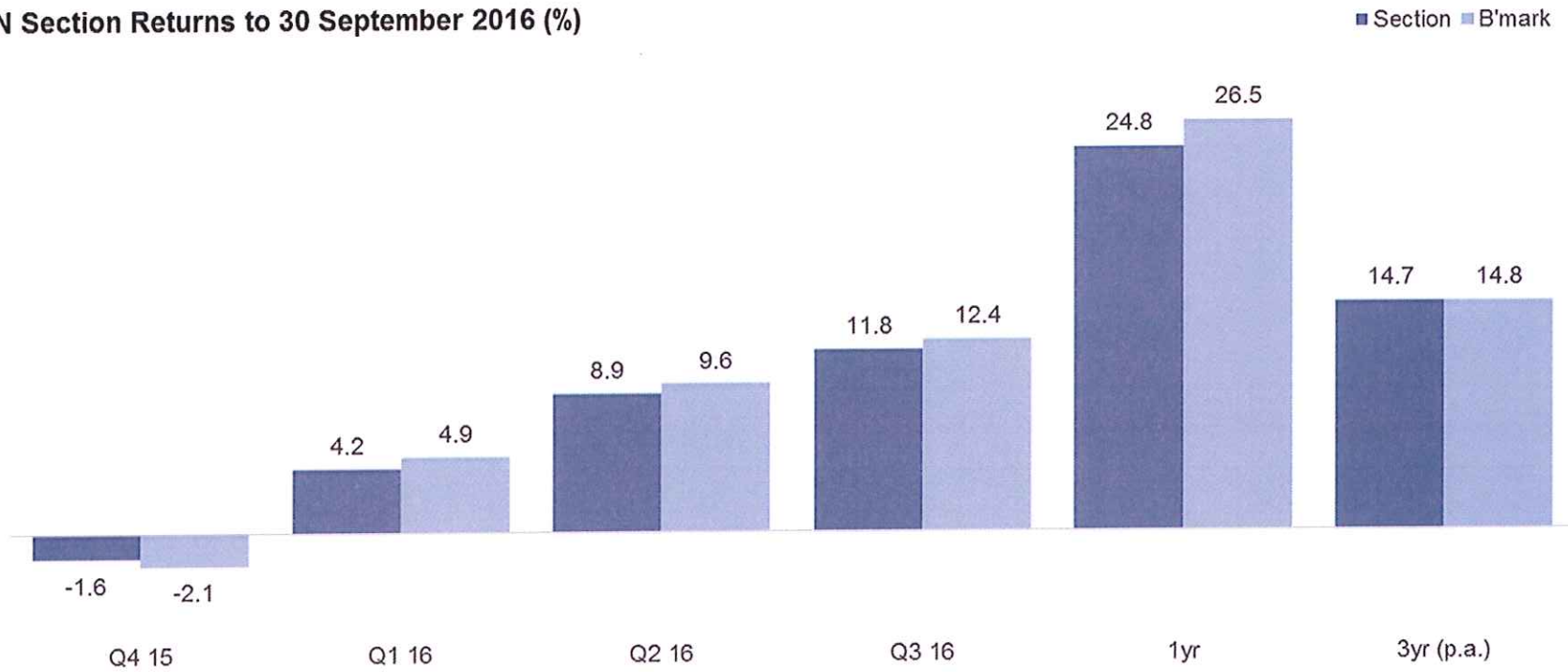
M&G Inflation opportunities

- M&G Inflation Opportunities investment topped up by £25m (further commitment of £25m)
- This fund seeks out debt asset classes that have an inflation linkage
 - Long lease property
 - Inflation-linked corporate bonds
 - Social housing
 - Infrastructure debt
 - Ground rents
 - Other



Cavendish Nuclear Section performance

CN Section Returns to 30 September 2016 (%)

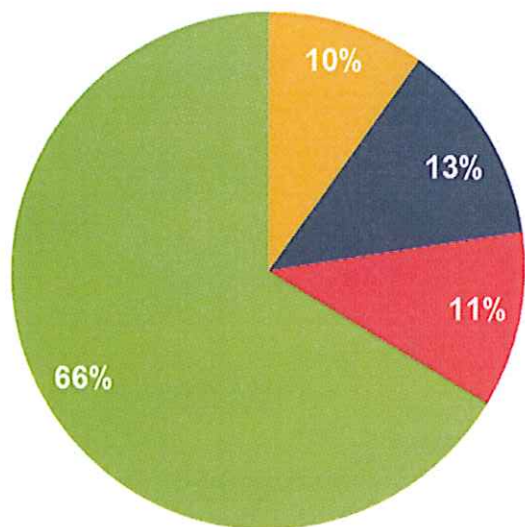


Investment Activity (CN)

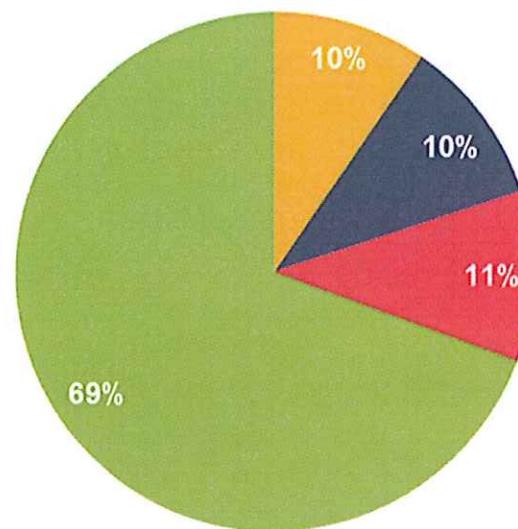
- No changes to the strategy were made over 2015/2016
- Investment strategy review due next year

Investment Activity in 2015/16 (CN)

30 September 2015



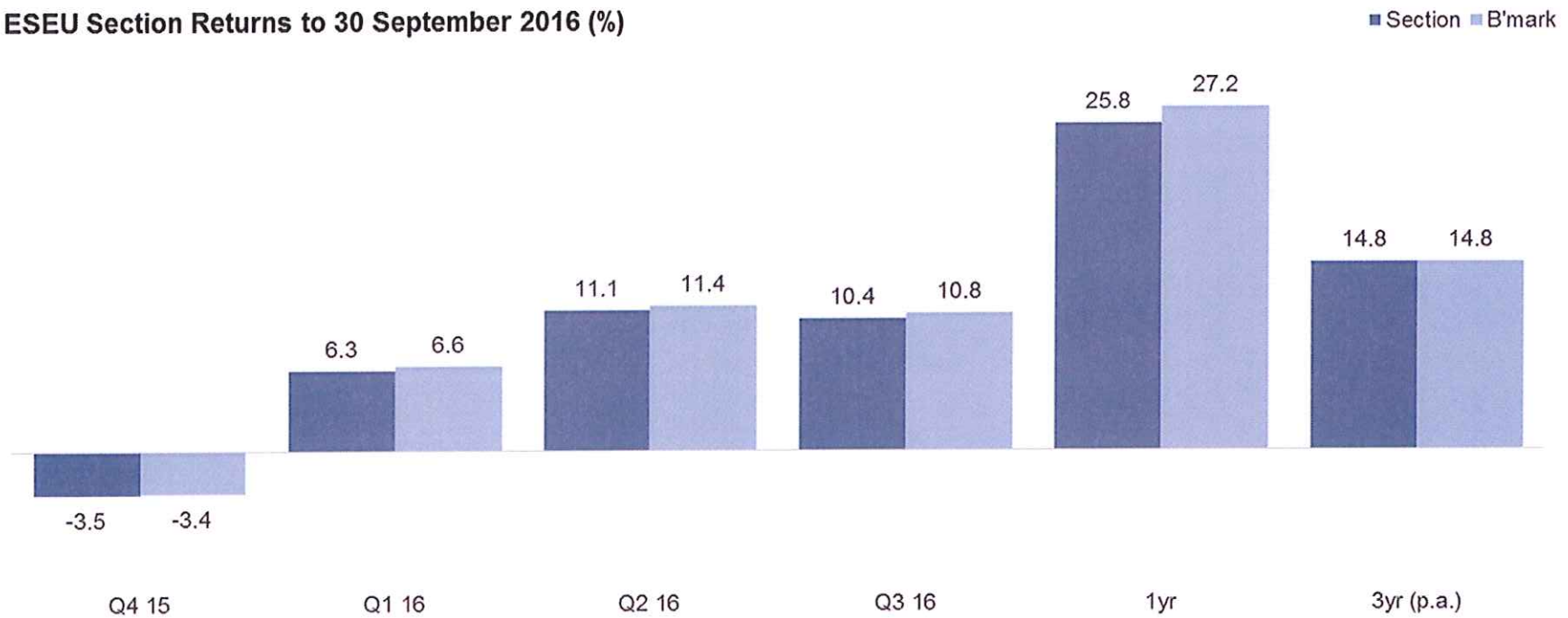
30 September 2016



- Equities
- Multi-Asset
- Credit
- LDI/Cash

ESEU Section performance

ESEU Section Returns to 30 September 2016 (%)



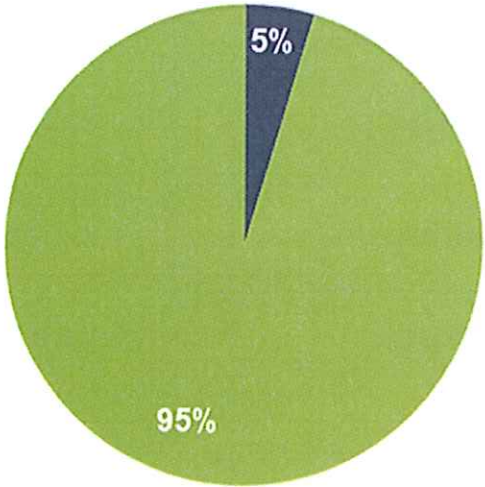
- The benchmark is now the liability return on a gilts only basis.

Investment Activity (ESEU)

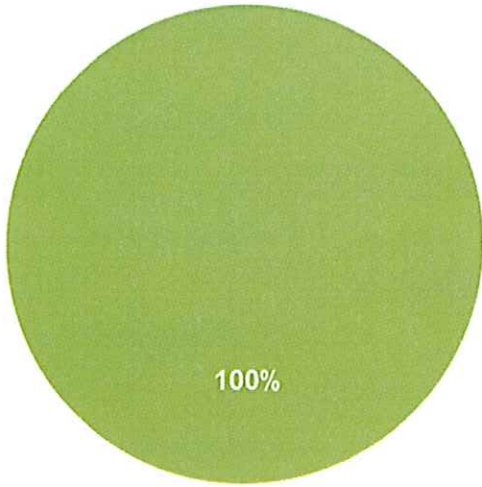
- De-risking plans finalised
 - Sale of growth assets (JP Morgan and Ruffer) in Q4 2015
- Investment strategy review due next year

Investment Activity in 2015/16 (ESEU)

30 September 2015



30 September 2016

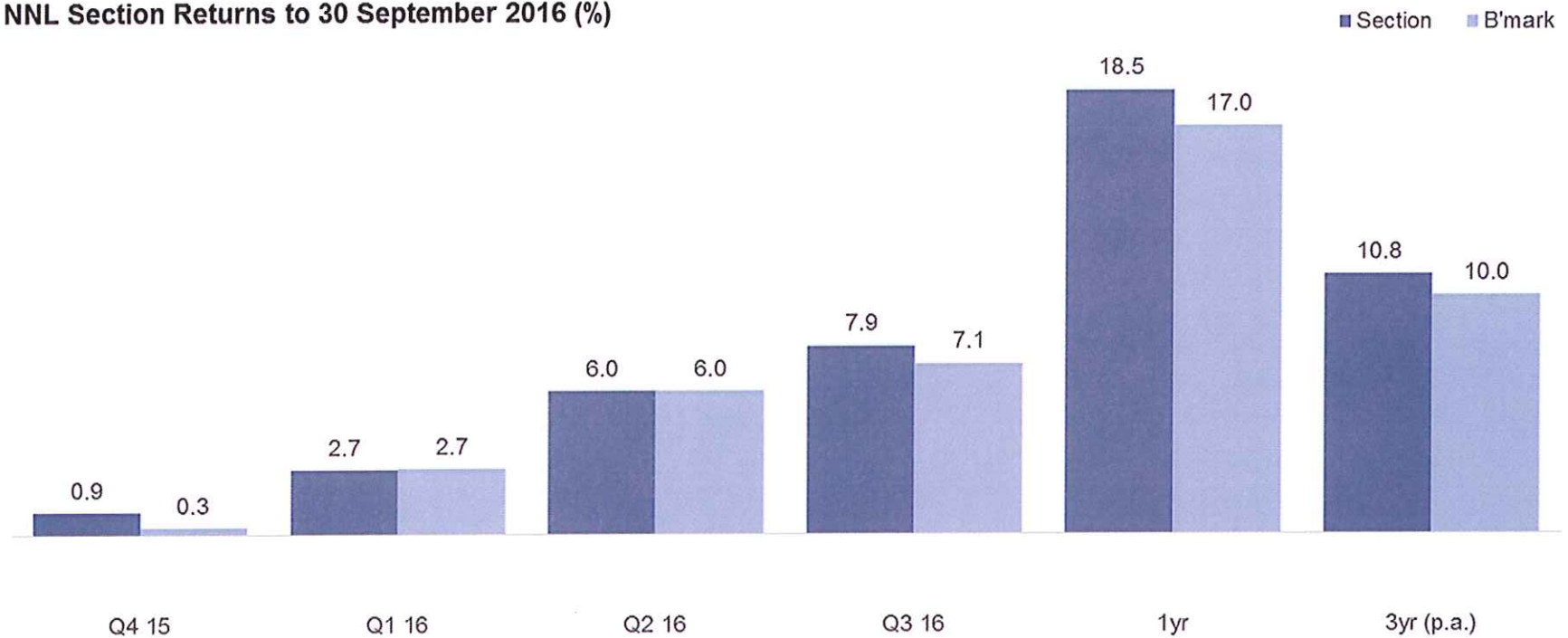


■ Multi-Asset
■ LDI/Cash

➤ Note the multi-asset holdings assets (5%) were sold during Q4 2015.

NNL Section performance

NNL Section Returns to 30 September 2016 (%)

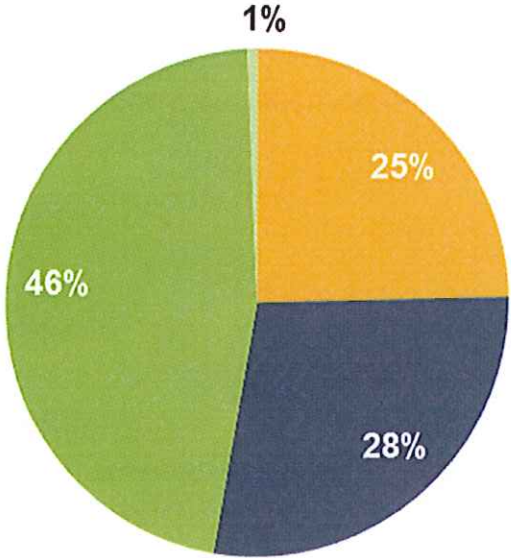


Investment Activity (NNL)

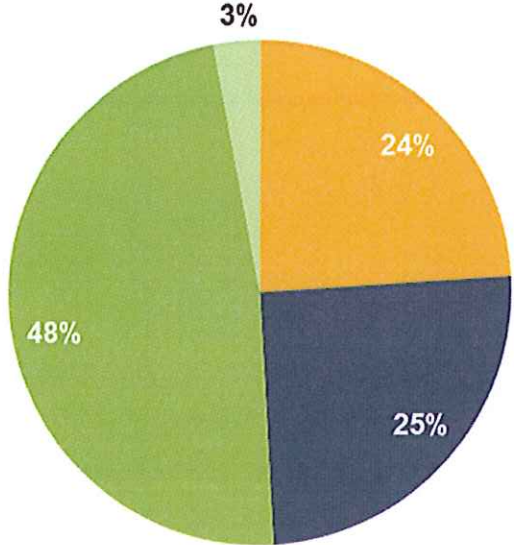
- Switch from the PIMCO Real Return Fund to the LGIM Over 5 Year Index-Linked Gilt Fund following the closure of the Fund.
- Investment strategy review due next year with the possibility of introducing liability hedging

Investment Activity in 2015/16 (NNL)

30 September 2015



30 September 2016



- Equities
- Multi-Asset
- Bonds
- Cash

Magnox Electric Group of the ESPS

Governance and Scheme Overview

Paul Edwards

Chair of Governance and Audit Committee

24 November 2016

Governance & Audit Committee

- Meets quarterly before full trustee board meeting
- Monitoring of company risk register
 - Additional post Brexit review
- Review of administrator report and income/expenditure statements
- Compliance with changes in regulation or legislation
- Monitoring advisor and administrator performance
- Improvement initiatives

A Perspective on BHS

- Action taken was 'too little, too late'
- The employer - trustee relationship appears poor
- The employer covenant was weak
- Question marks over investment choices
- Questions over whether the trustees were using their powers effectively
- Integrated risk management is a key tool for trustees

Our Membership

| | Contributors | Pensioners | Dependants | Deferred pensioners | Total |
|--|--------------|--------------|--------------|---------------------|---------------|
| At 1 April 2015 | 2,145 | 5,302 | 1,358 | 1,355 | 10,160 |
| Increases | | | | | |
| Pensioners/dependants/deferred | - | 307 | 69 | 122 | 498 |
| Pension sharing orders | - | 1 | | 3 | 4 |
| Sub Total | - | 308 | 69 | 125 | 502 |
| Reductions | | | | | |
| Retirements | -229 | - | - | -78 | -307 |
| Deaths | -1 | -122 | -71 | -1 | -195 |
| Leavers with deferred pensions | -122 | - | - | - | -122 |
| Leavers with refunds /transfers/ child benefit ceasing | - | - | -5 | -8 | -13 |
| Sub Total | -352 | -122 | -76 | -87 | -637 |
| At 31 March 2016 | 1,793 | 5,488 | 1,351 | 1,393 | 10,025 |

Income & Expenditure

| <i>£ million</i> | SLC | CN | ES | NNL | Total | Total |
|---|----------------|-------------|-------------|------------|----------------|----------------|
| | | | | | 2016 | 2015 |
| Additions from dealings with members | | | | | | |
| Employer contributions | 49.7 | 1.6 | 0.5 | 0.3 | 52.1 | 75.5 |
| Member contributions | 2.4 | 0.1 | 0.1 | - | 2.6 | 2.9 |
| Transfers in | 1.0 | - | - | - | 1.0 | 0.5 |
| | 53.1 | 1.7 | 0.6 | 0.3 | 55.7 | 78.9 |
| Withdrawals from dealings with members | | | | | | |
| Benefits | -127.7 | -0.6 | -0.9 | -0.1 | -129.3 | -120.9 |
| Payments to and on account of leavers | -0.8 | -0.7 | - | - | -1.5 | -1.8 |
| | -128.5 | -1.3 | -0.9 | -0.1 | -130.8 | -122.7 |
| Net (withdrawals) / additions | -75.4 | 0.4 | -0.3 | 0.2 | -75.1 | -43.8 |
| Returns on investments | | | | | | |
| Investment income | 34.0 | - | - | - | 34.0 | 35.5 |
| Change in market value of investments | -15.3 | -0.4 | 0.2 | - | -15.5 | 314.9 |
| Investment management expenses | -2.9 | - | -0.1 | - | -3.0 | -3.2 |
| Taxes on investment income | -0.1 | - | - | - | -0.1 | - |
| Net returns on investments | 15.7 | -0.4 | 0.1 | - | 15.4 | 347.2 |
| Net (decrease) / increase in the fund | -59.7 | - | -0.2 | 0.2 | -59.7 | 303.4 |
| Opening net assets | 2,781.7 | 56.8 | 59.4 | 8.2 | 2,906.1 | 2,602.7 |
| Closing net assets | 2,722.0 | 56.8 | 59.2 | 8.4 | 2,845.4 | 2,906.1 |

Magnox Electric Group of the ESPS

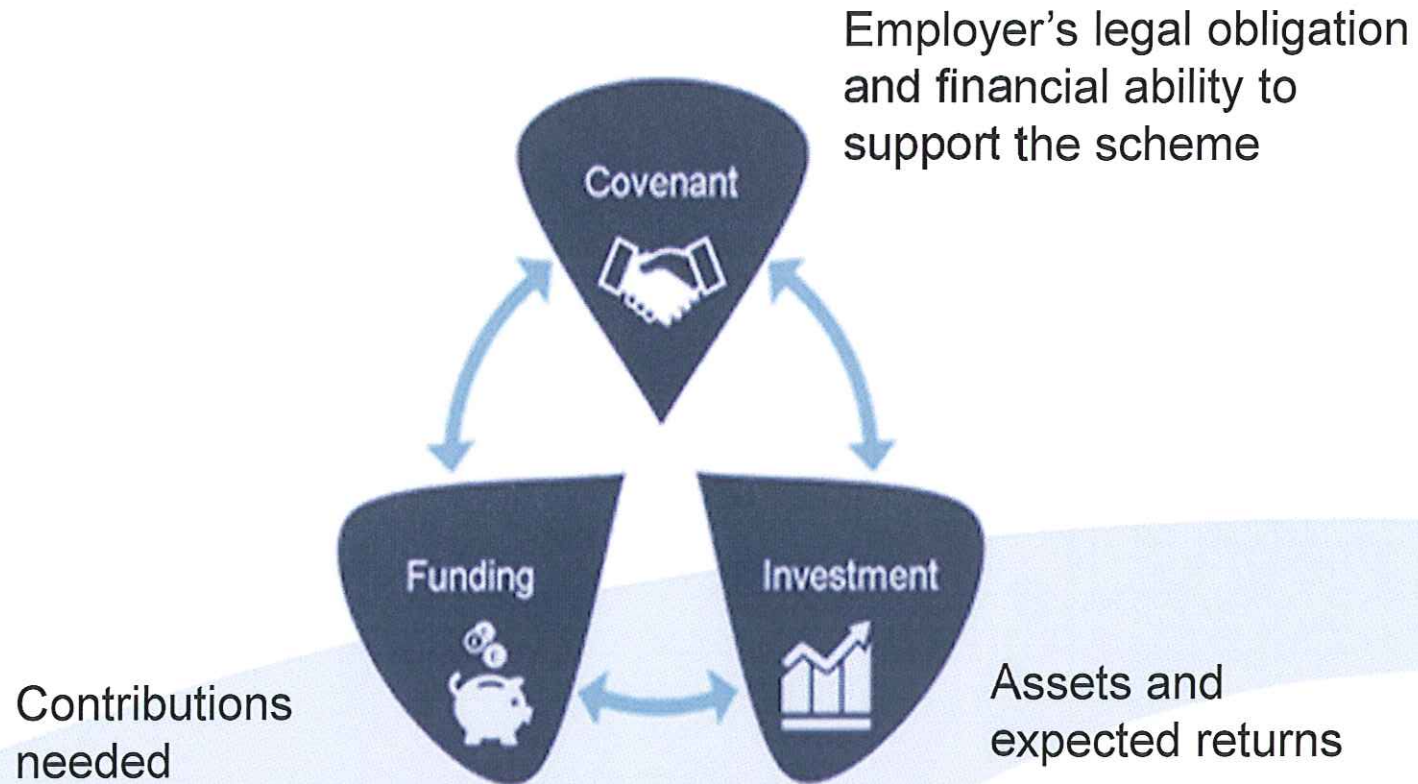
2016 Valuation Update

Chris Vaughan-Williams, Aon Hewitt

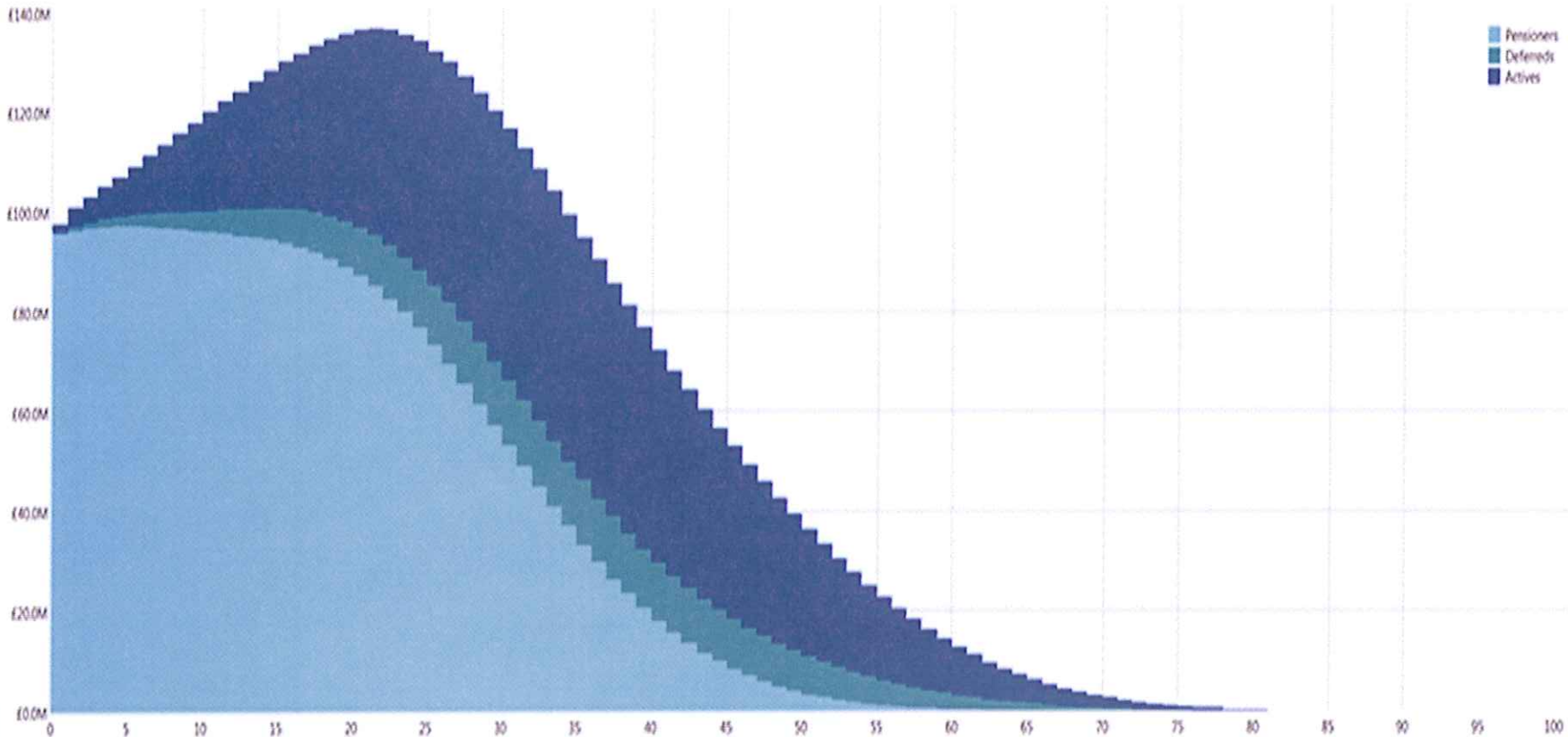
Group Actuary

24 November 2016

2016 valuation process



SLC benefit cashflows



2016 valuation highlights

- Returns since 2013

- Equities
- Bonds

- Future return and inflation expectations

- Life expectancy

- Brexit, Trump

- Pensions Update for final outcome

ANY QUESTIONS?