



Pensions Update

For members of the Site Licence Company (SLC) Section of the Magnox Group of the Electricity Supply Pension Scheme

CHAIRMAN'S INTRODUCTION

Welcome to the Autumn 2018 edition of Pensions Update, which includes details of some of the financial activity for the year ending 31st March 2018. Overall, the financial position has remained relatively constant, with a combination of contributions and investment returns being more than sufficient to cover the benefits paid during the year.

Last year the trustee board started a program of reviewing how we operate as a Trustee Board, with focus on working as an effective team and gaining maximum advantage from individuals' strengths. During the year we implemented some changes, including the selection process for member representative trustees. We reported the outcome of the trustee selection process in the last Pensions Update. Generally we are happy that the new process worked well and we will run a similar process for future member Trustees' vacancies.

We continued to monitor the employer's covenant strength, which essentially means assessing their ability to pay future contributions to the Group. This is seen as an important function of the Trustee Board and I am pleased to report that our reviews provided assurance that there had been no change in the employer's ability to pay.

We also completed, with help from our advisers, a comprehensive review of our investment strategies and are working to make further reductions to risk and volatility in our portfolios whilst maintaining appropriate levels of returns.

The next actuarial valuation, which is the process that determines the future level of contributions needed, is due at 31st March 19. We will start preparing for that process towards the end of 2018 and will communicate the results in a future update, once the outcome is known.

We have also been working on the development of a new website to increase and improve the ways we communicate, which we hope to launch in the first half of next year.

Susan Jee

Chairman of Trustees

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ANNUAL REPORTS AND ACCOUNTS

Each year the trustee is required to produce a set of audited accounts which feature as part of an annual report. This is a formal and very detailed document but we have shown a high level summary of the accounts for the year ending 31st March 2018 below. The full report is available to any member of the scheme on request, or can be viewed on the pensions website at the following address <http://megtpensions.com/finance-reports/report/>



Summary of the accounts for the year ending 31st March 2018

Value of net assets at the start of the year	£3,168.9M	
Plus total contributions/ incoming payments during the year	£34.2M	
Less total benefits paid out during the year		(£131.6M)
Total	£3,071.5M	
Plus net return on investments	£100.3M	
Closing value of assets at 31st March 2018	£3,171.8M	

The above values include Additional Voluntary Contributions paid by members.



Investments

The funding position has improved steadily over the last year with the assets growing at a faster pace than the value placed on the liabilities. The portfolio of equities has performed particularly well in recent years, with the portfolio mirroring the strong returns experienced from stock markets generally since the global financial crisis.

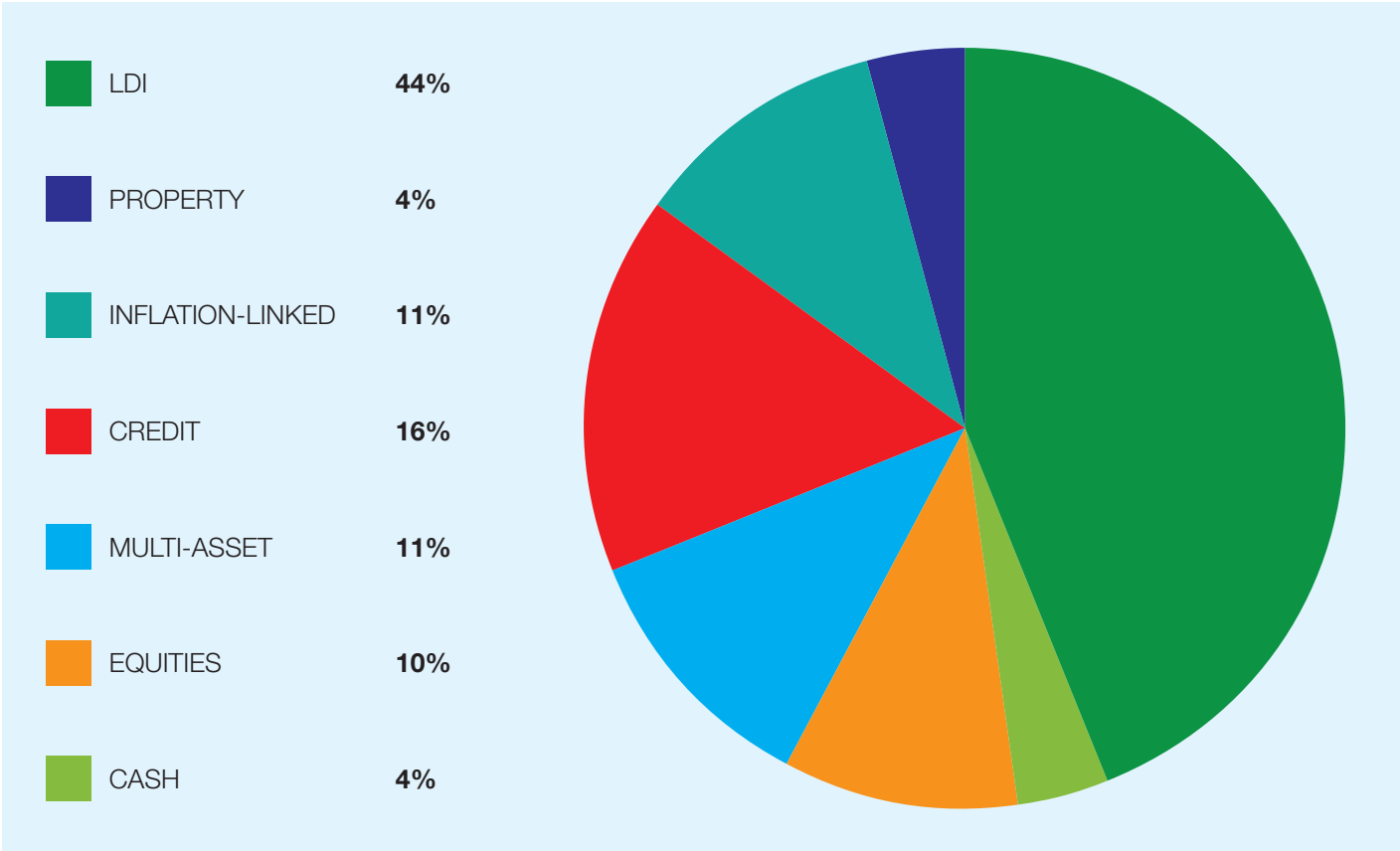
Following the improvement in the funding position and the large capital gains made from the equity portfolio, the Group Trustee has taken the decision to reduce the allocation to equities and reduce risk in the Section. The funds arising from these sales will be used to invest in more secure alternative assets. These assets include further investment in infrastructure, private loans to companies secured on commercial property and long-term commercial property leases, as well as new investments in private loans to medium-sized businesses and private residential property to help address the supply-demand imbalance in the UK rental market.

A key characteristic of all these new assets is the generation of contractual income – for example, generated by tenants paying rent on the residential property owned by the Section, or the receipt of interest on the amount loaned to businesses – which can then be used to pay members' pensions. Over time it is expected that the equity portfolio will be fully sold to fund these new assets as opportunities are sourced.

The Group Trustee continues to monitor the investment strategy very closely and looks for opportunities to reduce risk wherever affordable to make the benefits of members more secure.

A summary of the investments is set out on the following page.

SLC Section as at 31/3/2018 - Percentages of Fund



THE TRUSTEE BOARD

Magnox Electric Group Pension Trustee Co Ltd is the trustee and it has 11 directors, including the Chairman. 6 of those are member representatives whose appointment will be made in future by a selection process. The remaining 5, including the Chairman, are appointed by Magnox Limited.

Employer Nominated Directors



Susan Jee

Chairman

Susan is the Chair of the trustee board and is a Non-Executive Director of Magnox Limited



Andrew Clare

Andrew is an Independent Trustee and is the Chair of the Investment Committee



Paul Edwards

Paul is a current employee of Cavendish Nuclear Ltd who is seconded to Magnox and is the Company's Finance Director. He is Chair of the Governance and Audit Committee



Martin Veasey

Martin is an Independent Trustee and is a member of the Investment Committee



Karen Walkden

Karen is a Magnox employee currently seconded to the NDA Magnox Transition Team. She is a member of the Governance and Audit Committee.

Member Representative Directors



Jim Boyd

Jim is a member of the Investment Committee.

He is in receipt of a pension from the SLC Section of the Scheme



Paul Bridgeman

Paul is a member of the Governance and Audit Committee. He is in receipt of a pension from the SLC Section of the Scheme. Paul was appointed on 1st January 2018 and replaced David Openshaw who retired on 31st December 2017



Ceri Davies

Ceri is an active member of the Scheme and until recently was a member of the Governance and Audit Committee



Nick Gore

Nick is a member of the Investment Committee.

He is in receipt of a pension from the Atkins Section of the Scheme



Fergus Hall

Fergus is a member of the Governance and Audit Committee.

He is in receipt of a pension from the SLC Section of the Scheme



John Jones

John is an active member of the Scheme who works at Wylfa Power Station

Transfer Values

We have included articles in previous newsletters about the existence of scams which defraud members of company pension schemes by encouraging them to transfer to fraudulent individual policies. Unfortunately, despite a campaign by the Pensions Regulator to increase awareness of such scams, many people have continued to fall victim to them, with some of them sadly losing their lifetime's savings. You might have seen recent press headlines giving details of the amounts lost and a further advertising campaign on television highlighting the risks.

The option to transfer benefits out only applies to members who have left the scheme but have not yet started to receive their pension – known as “deferred pensioners”. If you are already receiving your pension you do not have the option to transfer and so it is highly unlikely that you could become a victim. During the year however, we have seen a significant increase in request for transfer quotations from those who have already left, or who are thinking of leaving the scheme. Any transfer quote which is issued will include reference to the Pensions Regulator's guidance and we strongly urge anyone who is considering transferring to read that guidance. You can find the leaflet containing the Regulator's tips on how to help protect yourself from scams at; <http://www.thepensionsregulator.gov.uk/individuals.aspx>

There are also legal safeguards in place to help protect your pension benefits. If you are considering transferring to a defined contribution arrangement and your transfer value is more than £30,000 you will be required to get advice from a regulated adviser. You will have to pay for the advice and provide a certificate from your adviser to the trustees that you have received advice, before a payment can be made.

Partly because of the information which needs to be exchanged and the checks which have to be completed before a transfer can take place, it can take several months for a transfer to be paid and you should factor this in to any decisions which you make.

Use of personal data

The Data Protection Act governs how the Trustees, the Scheme Actuary and our advisers, including Aon Hewitt, use and store personal data. To run the pension scheme properly, the trustee require access to personal data about members and their dependants. In providing actuarial services to the Trustees, including preparing this Summary Funding Statement, the Trustees, their adviser Aon Hewitt and the Scheme Actuary also require access to personal data about members and their dependants. Members can find out more information about how their personal information is used in the provision of actuarial services at www.aonhewitt.co.uk/privacy-statement. The trustee's privacy notice can be found at <https://megtpensions.com/resource-library/> and selecting the Privacy Notice. Should you have further questions regarding the processing of your personal information, please contact the Trustees in the first instance through Rachel Hewlett at the address shown under further information. General guidance is also available from the Information Commissioner's website at www.ico.org.uk



ANNUAL MEETINGS

Magnox Electric Group Trustee

A meeting will be held on Monday 10th December 2018 at Hamfields Leisure, Berkeley, commencing at 2 p.m.

This meeting provides the opportunity for members of all sections to meet with representatives of the Trustee Board and ask questions.

Electricity Supply Pension Scheme

The Scheme's Annual Meeting will take place on Monday 26 November 2018 at the offices of Mayer Brown International LLP, 201 Bishopsgate, London EC2M 3AF starting at 1pm.

The purpose of this meeting is to receive the Scheme Annual Report and Financial Statements and the Auditors' Report, receive the report of the Scheme Trustee, and conduct any general business, including the consideration of any resolutions proposed by members.

Details of the agenda, resolutions and notices may be obtained from mid-November by contacting a member of Magnox group pensions at info@megtensions.com or call **01454 422608**.



SLC SECTION OF THE MAGNOX ELECTRIC GROUP OF THE ELECTRICITY SUPPLY PENSION SCHEME 2018 SUMMARY FUNDING STATEMENT

The trustee supplies a range of information each year to members, including a “Summary Funding Statement”. The information which must be included in the Statement is set out in legislation. Some of the information does not change from year to year but set out below is the information we must include this year, including up to date funding and investment information.

How The Scheme Operates

The section is a final salary scheme, or defined benefit scheme, which means that each member's retirement benefits are determined broadly by the amount of their pensionable salary and length of service as a member of the Group when they retire or leave. Contributions which are paid into the section are paid into one common fund which is used to pay for all members benefits. They are not paid into individual accounts which are earmarked to each member.

The trustee obtains regular valuations from an actuary. These calculations place a value on the benefits which the section is obliged to pay, which is then used to agree the rate of contribution needed with the employer.

Actuarial Valuation

An actuarial valuation of the scheme was completed as at 31st March 2016. The results of this valuation showed that (assuming that the section continues into the future) on that date, the funding position was as follows:

Assets of the SLC Section	£2,706.2M
Technical provisions (Amount needed to provide benefits)	£2,707.7M
Funding deficit	£1.5M
Funding Level	100%

The trustee agreed with the employer that as the deficit shown above, in relative terms, was trivial it could be assumed that it would be repaired by investment returns on the fund.

As part of the valuation calculations, the actuary also estimated what the position would have been if the trustee had wound the scheme up and secured all members', including pensioners' benefits at that time through individual policies with an insurance company. The calculations revealed that at 31st March 2016 there was a shortfall of £1,524.9M, which represents that 64% of the section's liabilities could have been secured in this way. Please note that it is a legal requirement to provide this information – the Company has no intentions of winding up the section. It is also worth noting that a solvent employer can only wind up a scheme if 100% of the benefits can be secured with an insurance company. In addition, further protection for members may be provided by legislation, including the Electricity Act 1989 and the Energy Act 2004.



Funding Update

The actuary recently provided the trustee with a report setting out details of an approximate update of the funding position as at 31 March 2018. The results of the update are as follows:

Assets (excluding AVCs)	£3,154.9M
Technical provisions	£3,099.6M
Funding surplus	£55.3M
Funding level	102%

The calculations were completed by rolling forward the results of the 31 March 2016 valuation and making allowances for changes in investment market conditions since the date of that valuation. Although this is not as thorough as a formal valuation because, for example, it does not reflect changes to membership numbers, it still provides a useful guide to changes in the funding level.

Since the date of the 2016 valuation:

- the assets have increased largely as a result of positive investment returns;
- the liabilities have increased, mainly because of the significant fall in index-linked yields. This increase in liabilities has been slightly less than the increase in the assets and the net impact is that the Section has moved into a small surplus position and the funding level has risen.

Compared to the last annual update as at 31 March 2017, the liabilities have decreased slightly and the assets are broadly unchanged. This has resulted in an increase in both the funding surplus and the funding level over the period.

What Is The Scheme Invested In

The trustee's policy is to invest in a broad range of assets which are designed to ensure that the investment objectives of the scheme are met. A summary of the asset allocation at 31st March 2018 is given below:

MANAGER	%	£m
Babson Capital	5.9	186.4
BlackRock Investment Management (UK) Limited	1.2	36.7
BMO Global Asset Management	27.5	864.8
CBRE Global Investors	3.5	110.8
Genesis Asset Managers	2.3	71.3
Green Oak	0.8	25.7
ICG Longbow	1.9	61.1
Infrared Capital Partners	1.5	46.2
Innisfree Ltd	3.1	96.2
JP Morgan Asset Management Ltd	2.9	91.7
Legal & General Investment Management Limited	12.4	391.4
Lindsell Train Ltd	3.9	122.5
M&G Asset Management	6.2	195.5
PIMCO Europe Ltd	7.2	225.7
Renshaw Bay	1.2	38.3
Ruffer LLP	3.4	107.7
Schroder Investment Management Limited	3.3	105.8
SSgA	11.8	371.7
Total	100.0	3,149.3

ADDITIONAL DOCUMENTS

Provided automatically:

- An annual benefit statement for current employees.
- The guide to the main provisions of the Magnox Group of the Electricity Supply Pension Scheme (provided on joining the scheme)

Available on request:

- The Annual Report and Accounts of the Magnox Group of the Electricity Supply Pension Scheme, which provides details of the income and expenditure of the scheme over the year to 31st March 2018.
- The full report on the Actuarial Valuation which was completed at 31st March 2016.
- The Annual Actuarial Report which was completed at 31 March 2018.
- The Schedule of Contributions, which shows how much money, is being paid in to the scheme.
- The Statement of Investment Principles, which gives details of how the trustees invest the money which is paid in to the scheme.

PENSION PROTECTION FUND (PPF)

As has been described in the section headed “Actuarial Valuation”, if the scheme was to be wound up, there may not be enough money in the fund to secure all member’s benefits with an insurance company. It has also been explained that solvent employers cannot wind up schemes unless they ensure that enough money is paid to the insurer to provide 100% of all members’ benefits. If however the scheme was to be wound up because the employer had become insolvent the PPF, which has been established by the Government, may be able to take over the scheme and pay compensation to members. This compensation is subject to a cap.

Information on the PPF can be found on its website at www.pensionprotectionfund.org.uk. Alternatively you can write to the Pension Protection Fund, 12 Dingwall Road, Croydon, Surrey, CRO 2NA.

Given that pension costs are met by Government it is extremely unlikely that the employer will ever become insolvent and the benefits subsequently transferred to the PPF. This information has been included it is a legal requirement to do so.

OTHER LEGAL REQUIREMENTS

The Pensions Act 2004 requires the trustee to provide members with the following information. This information would be of particular importance on schemes where The Pensions Regulator has intervened on the running of the scheme, which they might do if they have concerns about the security of members’ benefits. No such intervention has occurred under the Magnox Group of the Electricity Supply Pension Scheme.

- The Pensions Regulator has not acted to change the way benefits are earned in future.
- The Pensions Regulator has not given any directions as to how the amount needed to provide benefits (known as technical provisions) should be calculated, or the length of time over which the funding deficit must be repaired.
- The Pensions Regulator has not imposed a Schedule of Contributions
- There have not been any payments from the scheme to either Magnox Limited or any other participating employer of the scheme during the last twelve months.

FURTHER INFORMATION

If you would like details of, or have any queries concerning, your benefits, options or pension in payment please contact RPMI EPAL who deal with the administration of the scheme:

RPMI EPAL,

2 Rye Hill Office Park,
Birmingham Road,
Coventry,
CV5 9AB.

+44 (0) 24 7647 2582
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