

HERMES GROUP PENSION SCHEME

Report and Financial Statements for the year ended 30 June 2021

Scheme Registration No: 10243702



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XPS Administration is a trading name of XPS Administration Limited
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB.

Part of XPS Pensions Group

HERMES GROUP PENSION SCHEME

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HERMES GROUP PENSION SCHEME

TRUSTEE AND ITS ADVISERS

Trustee :	Hermes Pension Trustees Limited
Directors of the Trustee Company :	PTL Governance Limited ("PTL") (represented by A Bostock) I A Kirby – Employer Nominated M A Simms – Employer Nominated A Ormrod – Member Nominated P Coe – Member Nominated
Chair of the Trustee :	Alison Bostock
Secretary to the Trustee :	Zedra Inside Pensions Limited (previously known as Inside Pensions Limited)
Principal Employer :	BT Pension Scheme Trustees Limited
Actuary :	Mr A Stanley XPS Pensions Limited
Auditor :	KPMG LLP
Legal Advisers :	Sackers & Partners LLP
Bankers :	Bank of Scotland Plc
Investment Managers :	Aegon Investment Management B.V. Barings GPC GP S.a.r.l Legal & General Investment Management Limited M&G Investment Management Limited Standard Life Investments
AVC Provider :	Prudential Assurance Company Limited (Disinvested in October 2020)
Investment Adviser :	Lane Clark & Peacock LLP
Consultants & Administrators :	XPS Administration Limited

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CHAIR'S STATEMENT

This report gives you an update on how the Scheme has progressed during the year ended 30 June 2021.

The total value of the Scheme's assets over the year moved from £279.5m at 30 June 2020 to £267.9m at 30 June 2021. The return on the Scheme's investment assets over the year was -3.2%.

The Trustee does not consider the performance of the assets in isolation, but instead sets its investment strategy and measures performance by reference to both the value of Scheme assets and the value of Scheme liabilities, i.e. the value of benefits due to be paid to members under the Scheme's rules.

The latest full actuarial valuation of the Scheme was undertaken as at 30 June 2020 and agreed with the sponsoring employer in May 2021. The results of the valuation confirm that the Scheme assets remain sufficient to meet the liabilities, with a funding level of 108% calculated on a 'technical provisions' basis. This is a statutory basis which gives a prudent, i.e. higher than best-estimate, value for the liabilities.

A summary report on actuarial liabilities is included on pages 15 and 16.

The Trustee will continue to review its investment strategy and implement changes to incorporate further de-risking of the assets. The Statement of Investment Principles is updated as required to reflect any changes made to the strategy.

Alison Bostock

Client Director, PTL

Date: **2 December 2021**

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TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2021

The Trustee present to the members its annual report and financial statements for the year ended 30 June 2021.

Trustee's Mission Statement

The Trustee's mission is to manage the Hermes Group Pension Scheme efficiently in the interests of the members, to provide the expected benefits, and to ensure that an excellent quality of service is given to those members.

Scheme Information

The Scheme is a defined benefit pension scheme and its purpose is to provide retirement benefits for Scheme members and, in the event of a member's death, to provide benefits to their spouse and dependants as prescribed in the rules.

The Scheme was originally set up by two principal employers – Hermes Pensions Management Limited, subsequently called Hermes Fund Managers Limited ("Hermes"), and the Trustees of the BT Pension Scheme (now BT Pension Scheme Trustees Limited) ("BTPSTL") – by a Deed made on 16 September 1998.

With effect from 15 December 2017, BTPSTL became the sole employer of the Scheme.

The Scheme is a registered pension scheme under the Finance Act 2004. This means that members, their employer and the Scheme benefit from favourable tax treatment.

The Trustee

The Trustee is a trustee company limited by guarantee which acts as Trustee for the Scheme and is independent of the principal employer. Details of the provisions relating to the power to appoint and remove Directors and on the normal term of office are included in the Appendix to this report. A list of the Trustee Directors at 30 June 2021 is shown on page 2 of this report.

Two of the Directors, Ingrid Kirby and Matthew Simms, are nominated by the principal employer. At the year end two of the Directors were nominated by the Scheme membership. The chair is an independent appointment.

Irrespective of who appoints them, the Directors act collegiately in the best interests of all of the members of the Scheme.

The Trustee Directors receive training appropriate to their needs, and they continue to assess whether they have the right set of skills both individually and collectively with regular reviews.

Scheme Governance

The Trustee conducts itself in accordance with the Myners principles (as updated in 2008) and Regulatory guidance from The Pensions Regulator.

The Trustee can establish sub-committees from time to time when appropriate. The Trustee Board meets at least quarterly and all investment decisions are considered by the entire Board although implementation of those decisions may be delegated to an Investment Implementation Committee.

The Trustee has a business plan, which it reviews at each meeting, and which enables it to carry out its duties and monitor the performance of all aspects of the Scheme.

The Scheme administrator's performance is measured against a number of service level targets and the Trustee Board monitors performance regularly.

In the year ended 30 June 2021, the Trustee met a total of four times for regular Trustee Board meetings. The normal number of regular Trustee Board meetings in a twelve-month period is four.

The Trustee Board, and all sub-committees are supported by a professional secretariat firm, Zedra Inside Pensions (previously known as Inside Pensions), for whom contact details are included on page 8 of this Annual Report. The Trustee Board monitors the performance of Zedra Inside Pensions regularly.

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TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2021 (continued)

Contributions

As a result of the Scheme being in surplus on a Technical Provisions basis, at both 30 June 2020 and 31 December 2017 following the formal valuations, with an allowance for expenses incorporated into the calculation of the liabilities, no contributions were payable by BTPSTL after 30 November 2018.

Therefore there were no Contributions paid or payable during the Scheme year ended 30 June 2021.

Financial Development of the Scheme

Changes in the Scheme's net assets during the year were as follows:

	£'000s
Net assets at 30 June 2020	279,536
Net withdrawals from dealings with members	(5,893)
Net returns on investments	<u>(5,706)</u>
Net assets at 30 June 2021	<u><u>267,937</u></u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Membership

The change in membership during the Scheme year ended 30 June 2021 was as follows:

	Employed deferred members*	Deferred	Pensioners	Totals
At 30 June 2020	35	358	194	587
Adjustments	(1)	(1)	1	(1)
Left employment	(1)	1	-	-
Transfers out	-	(3)	-	(3)
New retirement pensions	-	(9)	9	-
New dependants	-	-	3	3
Deaths	-	-	(4)	(4)
At 30 June 2021	<u>33</u>	<u>346</u>	<u>203</u>	<u>582</u>

* When the Scheme closed to future benefit accrual on 31 October 2011 the active members became 'employed deferred members'.

At 30 June 2021, included within total 'Deferred' members above are 8 members (2020: 8 members) who have passed their normal retirement date and who have not yet taken benefits from the Scheme.

Included in the 'Adjustments' line above are backdated retirements from Employed deferred members (1) and Deferred members (1), this corresponds to 2 retirements in Pensioners. There is also one backdated pensioner death (1).

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TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2021 (continued)

Benefits

For active members who joined HGPS from 1 April 1999 onwards, benefits for pensionable service from 1 January 2009 were based on career average revalued earnings. Benefits for these members accrued before 1 January 2009 are based on final salary. All benefits for members who joined prior to 1 April 1999, i.e. former members of the Hermes Pension Scheme, are based on final salary.

Lump sum death benefits payable from HGPS on the death of Employed Deferred Members if they die before taking their benefits is 1.25 times pensionable salary. This is not insured.

Added Years and Additional Voluntary Contributions

Until 31 October 2011 active members of the Scheme were able to purchase increased benefits in two ways:

- i) by buying added years of pensionable service in the Scheme by paying an additional percentage of salary during their active membership; and
- ii) by making additional voluntary contributions (AVCs) to a with-profits fund managed by Prudential Assurance Company Limited.

From 1 November 2011 these options ceased.

Members can no longer pay AVCs or any contributions to HGPS. The members who paid AVCs to Prudential, the Scheme's AVC investment manager, retain their investment in the fund which can be used to provide additional benefits when they retire. The added years benefit a member purchased up to 31 October 2011 is included in their main HGPS benefits.

Pension increases

Former Hermes Pension Scheme Members Who Joined Pre-1 April 1999

Pensions in payment and deferred pensions are increased in April each year in line with the Government's pension increase orders, in the same way that public sector pensions are increased. In practice these increases are currently based on Consumer Prices Index (CPI) inflation for the twelve months ended the previous September, and there is no cap on the increases. As a result, pensions in payment and deferred pensions were increased by 0.5% from April 2021.

Members Who Joined Post-1 April 1999

Pensions in payment are increased each April in line with Retail Prices Index (RPI) inflation for the twelve months ended the previous September, up to a maximum of 5% each year. Pensions in payment increased by 1.1% from April 2021.

Deferred pensions are revalued up to retirement in line with government legislation. In practice these increases in deferment are currently based on CPI inflation for the twelve months ended the previous September. The increases are capped at 5% per annum for benefits earned before 6 April 2009 and at 2.5% per annum for benefits earned on or after 6 April 2009. The cap is applied cumulatively across the whole period of deferment not in respect of each individual year. The CPI increased 0.5% in the year to September 2020.

There were no discretionary increases awarded during the year.

Transfer Values

It is the responsibility of the Trustee to decide the basis on which cash equivalent transfer values (CETVs) are calculated. Transfer values represent fair value in relation to the alternative benefits payable. No allowance is made for any discretionary increases to pensions. When the Scheme closed to future benefit accrual on 31 October 2011 the Trustee ceased to accept transfers-in of benefits from other pension schemes. However, the Trustee and the employer did agree that Employed Deferred Members may transfer in benefits from the Hermes Group Stakeholder Pension Plan if they take their pension when they retire, if employed by Hermes at that time. The transfer amount from the stakeholder plan can then be used to increase the defined benefit pension and / or cash payable from HGPS on terms determined by the Trustee in agreement with the employer.

Transfer values are calculated and verified as required under the provisions of the Pensions Act 1993.

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TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2021 (continued)

Benefit/Scheme Changes

There were no changes made to benefits during the year.

COVID-19

From March 2020, COVID-19 caused significant disruption to economic activity which has been reflected in global stock market fluctuations and, in turn, in the valuation of pension scheme assets. The Trustee manages the risks associated with movements in investment market prices by constructing a diverse portfolio of investments across various asset classes and markets. It also employs hedging strategies specifically to manage interest risk, inflation risk and currency risk. Furthermore, the Trustee remains in frequent dialogue with their investment adviser to ensure that remedial action is taken if required.

The Trustee continues to monitor the impact of COVID-19 and discuss developments at each Trustee meeting. Furthermore, the Trustee invites a representative from the Employer to each meeting. The Trustee, as part of its ongoing governance, has considered the business continuity plans of its advisers and are comfortable that procedures and policies are in place to ensure that member queries are addressed in a timely manner and benefits continue to be processed in accordance with the Scheme's rules.

Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

Registration under the applicable Data Protection Legislation and European Union (EU) General Data Protection Regulations (GDPR)

The European Union's General Data Protection Regulation ('GDPR') became effective in the UK on 25 May 2018. Its purpose is to create a data protection regime that is fit for the 21st Century and update the current regime that was introduced in 1995.

The GDPR introduced changes to how personal data is used and protected, and the rights that members have in respect of their data. Although the overall framework of the law is similar to previous UK requirements, the way in which the Trustee has to demonstrate compliance has changed. The Trustee holds personal data about members in its capacity as a 'data controller', which it uses to contact members, calculate and pay benefits, and administer the Scheme generally. As data controller, the Trustee has obligations under the GDPR which relate to how data is stored, how and why it is used and how it is shared with third parties. In certain circumstances the Scheme Actuary will be a data controller in relation to Scheme data. The previous and new Scheme Actuary has provided details to the Trustee on how they use data and keep it safe.

The Trustee has taken advice from its legal advisers on what it needed to do to be compliant with the new regime, which included assessing the arrangements it has with its service providers that use the Scheme's data (such as the Scheme's administrators, actuaries, lawyers and investment advisers) and ensuring that appropriate technical and organisational security measures are in place to keep the Scheme's personal data secure.

The Trustee has in place a Privacy Notice which it issued to all members at the end of May 2018. This included more details on rights members have in relation to their data as well as more information on how data is held, who it is used by and for what purpose, and what safeguards are in place to ensure that data is protected. The Trustee will keep this notice updated from time to time.

More information on the GDPR can be found on the Information Commissioner's Office website, <https://ico.org.uk>.

HERMES GROUP PENSION SCHEME

TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2021 (continued)

Enquiries

Further information on the Scheme is available on the Scheme's website:

<https://www.hermesgrouppensionscheme.co.uk/>

Members who have a general query about this report or the Scheme in general, should contact Inside Pensions at the following address:

The Secretary of the Hermes Group Pension Scheme
Zedra Inside Pensions
First Floor, Trident House
42-48 Victoria Street
St Albans AL1 3HZ

Tel: 01727 733150

Email: hermes@zedra.com

All individual member enquiries and individual benefit entitlements should contact the administrator:

Hermes Group Pension Scheme
c/o XPS Administration Limited
3rd Floor, West Wing
40 Torphichen Street
Edinburgh EH3 8JB

Tel: 0131 370 2601

Email: HGPS@xpsgroup.com

Internal Dispute Resolution Procedure

The Trustee has found that most queries or requests for information about the Scheme are capable of being answered satisfactorily by the Administrator or the Scheme Secretary.

Nevertheless the Trustee has a procedure to resolve disputes, which gives a member the means of having a grievance considered at the highest level.

The Internal Dispute Resolution Procedure (IDRP) is in two stages. At stage 1, the dispute/complaint is considered by the Secretary to the Trustee. A member not satisfied with the decision can ask at stage 2 for the matter to be reconsidered by the Trustee Board.

A member of the Scheme who has a query or complaint which is likely to prove difficult to resolve is given a copy of the IDRP. A copy of the procedure can be obtained from the Secretary to the Scheme at the address shown on page 8 of this report.

MoneyHelper

MoneyHelper provides pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MoneyHelper can be contacted at:

MoneyHelper
Holborn Centre
120 Holborn
London EC1N 2TD

Tel: 0800 011 3797

Email: pensions.enquiries@moneyhelper.org.uk

Website: www.moneyhelper.org.uk

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TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2021 (continued)

Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme. The Pensions Ombudsman can be contacted at:

Pensions Ombudsman
10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487

Early resolution email: helpline@pensions-ombudsman.org.uk

Email: enquiries@pensions-ombudsman.org.uk

Website: www.pensions-ombudsman.org.uk

The Pensions Regulator (tPR)

The Pensions Regulator can intervene if they consider that a Scheme's Trustee, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton BN1 4DW

Tel: 0345 600 0707

Email: customersupport@tpr.gov.uk

Website: www.thepensionsregulator.gov.uk

The Pension Scheme Registry

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10243702. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton WV98 1LU

Tel: 0800 731 0193

Website: www.gov.uk/find-lost-pension

INVESTMENT MANAGEMENT REPORT

Overview

The Trustee, with the assistance of its appointed investment adviser, determines the overall investment strategy for the Scheme and sets out the broad policy to be adopted by each of the appointed fund managers.

Investment Managers

Over the year under review, the investments of the Hermes Group Pension Scheme (the "Scheme") were managed by Barings U.K Limited ("Barings"), M&G Investments ("M&G"), Aegon Asset Management ("Aegon"), Standard Life Investments Limited ("Standard Life") and Legal & General Investment Management ("Legal & General").

The Trustee has delegated the day-to-day management of investment to its appointed fund managers. A written agreement between the Trustee and each manager sets out the terms on which the manager will act.

Investment Principles

Trustee's policies in relation to voting rights

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers or select funds where there are strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice. Furthermore, each of the Scheme's assets managers is a signatory of the United Nations Principles for Responsible Investment.

Trustee's policies on environmental, social and governance ("ESG") and ethical factors

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be considered in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its active investment managers to take account of financially material considerations (including climate change and other ESG considerations) in the selection of investments. The Trustee seeks to appoint managers or select funds where there are appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

INVESTMENT MANAGEMENT REPORT (continued)

Investment Principles (continued)

Trustee's policy on the implementation of asset manager arrangements

Before investing in any manner, the Trustee obtains and considers written advice from its investment adviser on the question of whether the investment is satisfactory, having regard to the need for suitable and appropriately diversified investments.

Details of the investment managers are set out in the Scheme's IPID.

The Trustee has considered the terms governing respective pooled funds before investing and, in the case of the LDI portfolio, agreed a bespoke set of parameters governing the investment. The investment managers' primary role is the day-to-day investment management of the Scheme's investments. The managers are authorised under the Financial Services and Markets Act 2000 (as amended) to carry out such activities.

The Trustee and investment managers to whom discretion has been delegated exercise their powers to giving effect to the principles in this Statement of Investment Principles, so far as is reasonably practicable.

The Trustee has limited influence over managers' investment practices because all the Scheme's assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee's view is that the fees paid to the investment managers, and the possibility of their mandate being terminated, ensure they are incentivised to provide a high quality service that meets the stated objectives, guidelines and restrictions of the fund. However, in practice managers cannot fully align their strategy and decisions to the (potentially conflicting) policies of all their pooled fund investors in relation to strategy, long-term performance of debt/equity issuers, engagement and portfolio turnover.

It is the Trustee's responsibility to ensure that the managers' investment approaches are consistent with its policies before any new appointment, and to monitor and to consider terminating any existing arrangements that appear to be investing contrary to those policies. The Trustee expects investment managers, where appropriate, to make decisions based on assessments of the longer term financial and non-financial performance of debt/equity issuers, and to engage with issuers to improve their performance. It assesses this when selecting and monitoring managers.

The Trustee evaluates investment manager performance by considering performance over both shorter and longer-term periods as available. Except in closed-ended funds where the duration of the investment is determined by the fund's terms, the duration of a manager's appointment will depend on strategic considerations and the outlook for future performance. Generally, the Trustee would be unlikely to terminate a mandate on short-term performance grounds alone.

The Trustee's policy is to evaluate each of its investment managers by reference to the manager's individual performance as well as the role it plays in helping the Scheme meet its overall long-term objectives, taking account of risk, the need for diversification and liquidity. Each manager's remuneration, and the value for money it provides, is assessed in light of these considerations.

The Trustee recognises that portfolio turnover and associated transaction costs are a necessary part of investment management and that the impact of portfolio turnover costs is reflected in performance figures provided by the investment managers. The Trustee expects its investment consultant to incorporate portfolio turnover and resulting transaction costs as appropriate in its advice on the Scheme's investment mandates.

INVESTMENT MANAGEMENT REPORT (continued)

Statement of Investment Principles (“SIP”)

In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles (“SIP”) has been produced by the Trustee following consultation with the Employer. The SIP was reviewed and updated in September 2020. The Trustee reviews the SIP at least once every three years, and after any significant change in investment strategy. The Employer, the appointed Investment Consultant, and the appointed Scheme Actuary are consulted during the review.

Any member of the Scheme who would like a copy of the current SIP should contact the Scheme Secretary, at the address on page 8. A copy is also available on the HGPS website at <https://www.hermesgrouppensionscheme.co.uk/scheme-overview>

Employer Related Investment

As at 30 June 2021 there was less than 0.1% of total assets invested in Employer-related investments in the Scheme, within the meaning of Section 40(2) of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.

Custodial Arrangements

The Trustee considers that it is important to keep the investment management of its assets separate from their custody, to minimise the risk of the assets being misused. For pooled funds it is the responsibility of the fund manager to appoint and monitor custodians.

The underlying assets are held by a number of custodians who have agreements with the investment manager of the assets, these are:

Aegon	Citi Depository Services (Ireland) Limited
Barings	Brown Brothers Harriman
Legal & General	UK assets are held with HSBC and all other assets are held with Citibank
M&G	State Street Fund Services (Ireland) Limited
Standard Life	Citibank NA London Branch

There is no direct relationship between the custodians and the Trustee.

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INVESTMENT MANAGEMENT REPORT (continued)

Investment Strategy

All of the Scheme's assets are held in pooled investment vehicles to improve diversification.

The following tables detail the asset distribution at the financial year end by fund and strategic allocation as set out in the Statement of Investment Principles:

Asset class	Allocation as at 30 June 2021 (%)	Strategic allocation (%)
Global equity (passive)	10.6	10.0
Property (active)	8.4	7.5
Diversified credit	13.8	15.0
Buy & maintain credit	16.6	17.5
LDI (passive)	50.6	50.0
Cash	0.0	0.0
Total	100.0	100.0

Fund	Asset class	Allocation as at 30 June 2021 (£'000)	Allocation as at 30 June 2020 (£'000)
Barings Capital – Euro Private Loan Fund II	Diversified credit	9,488	6,977
M&G – Illiquid Credit	Diversified credit	6,141	8,369
Aegon – European ABS	Diversified credit	21,238	20,504
Standard Life – Long Lease Property	Property (active)	22,402	22,254
Legal & General – FTSE RAFI	Global equity (passive)	3,498	2,836
Legal & General – FTSE RAFI Hedged	Global equity (passive)	10,466	8,918
Legal & General – LDI portfolio	LDI (passive)	134,763	150,536
Legal & General – Buy & Maintain Credit	Buy & maintain credit 2020-2024	13,651	14,814
Legal & General – Buy & Maintain Credit	Buy & maintain credit 2025-2029	30,687	31,086
Legal & General – World Developed Equity	Global equity (passive)	3,558	3,018
Legal & General – World Developed Equity Hedged	Global equity (passive)	10,657	8,952
Total		266,549	278,264

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INVESTMENT MANAGEMENT REPORT (continued)

Investment Strategy (continued)

The broad investment objectives are agreed by the Trustee, having consulted with the Employer. Within the context of these risk and return objectives, the Trustee, taking advice from the Scheme's investment consultants, decides on the overall allocation of assets between the various asset classes, and selects the appropriate managers within each asset class.

The Trustee has agreed that the Scheme should hedge 90% of the interest rate risk and 80% of the inflation risk inherent in the Scheme's liabilities (as measured on a gilts flat liability basis).

The last full review strategy that resulted in a significant change to the Scheme's investment strategy took place in 2018/19. The strategic allocation was also slightly changed in April 2020, when the Buy & maintain corporate bonds allocation was increased 2.5% and the allocation to property was correspondingly reduced.

The strategy was reviewed again in June 2020 and the Trustee agreed that no immediate changes to strategic allocation were required.

The Trustee reviews the performance of all the Scheme's investment managers and funds regularly.

There is no formal rebalancing policy; however the Trustee monitors the asset allocation on at least a quarterly basis. If material deviations from the strategic allocation occur as a result of market movements, the Trustee will consider with its advisers whether it is appropriate to rebalance the assets considering factors such as market conditions and anticipated future cash flows. It should be noted that the need to maintain the liability hedging strategy can mean that the asset mix is not always rebalanced back to the percentages shown above.

There were no material changes to the investments during the year ended 30 June 2021.

Investment Performance

The performance of the investment managers is reviewed periodically at the Trustee's meetings. The following table shows the performance of the Scheme over the one and three year periods to 30 June 2021, based on the performance of the investment managers after the deduction of fees for all managers, except Legal & General.

	One year (%)	Three years (% pa)
Scheme	-1.8%	6.3%
Benchmark	-2.9%	5.7%

Source: LCP calculations.

HERMES GROUP PENSION SCHEME

REPORT ON ACTUARIAL LIABILITIES

As required by the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 30 June 2020. This showed that on that date:

The value of the Technical Provisions was: £260.0 million

The value of the assets at that date was: £279.5 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate:

Bank of England Gilt curve plus 1.0% p.a. in 2020 reducing linearly to 0.6% p.a. from 2030.

Following discussions between the Trustee and the Employer, it was agreed that some allowance for additional returns (above those available on gilts) would be anticipated on the Scheme's assets. To allow for the intended de-risking of the Scheme's investment strategy, the allowance for additional out-performance in the discount rate reduces linearly from 1% p.a. initially above the return on the Bank of England Gilt curve to 0.6% p.a. above the return on the Bank of England Gilt curve from 2030 onwards.

Future Retail Price inflation (RPI):

Bank of England implied RPI Curve.

RPI price inflation affects the assumptions for increases to pensions in payment for some members as well as revaluation for career average benefits and revaluation of GMP in deferment. RPI price inflation has been derived from market expectations, using the Bank of England Gilt RPI Curve.

Future Consumer Price inflation (CPI):

CPI price inflation affects the assumptions for pension increases in deferment for benefits in excess of GMP, increases to pensions in payment for former HPS members and increases in payment to GMP accrued post 5 April 1988. CPI price inflation at the valuation date has been derived based on the RPI curve less a deduction of 1.0% p.a. up to 2030 and a deduction of 0.4% p.a. from 2030. For valuation updates after November 2020, the post 2030 CPI assumption used is RPI less a deduction of 0.1% p.a.

Pension increases: The pension increase assumptions have been derived by applying the Black Scholes model to the appropriate inflation assumption, with a volatility of 1.3% p.a.

Pay increases: in line with consumer price inflation curve.

HERMES GROUP PENSION SCHEME

REPORT ON ACTUARIAL LIABILITIES (continued)

Mortality: The base tables adopted for the post retirement mortality assumptions are 86% of the SAPS Series 3 ("S3PA") tables for males and 93% of the S3PA tables for females.

The Trustee and the Employer have agreed a prudent allowance for future improvements in longevity in line with the CMI 2019 core projections with the default smoothing parameter of 7 and an initial addition of 0.7% and with a long term rate of improvement of 1.5% p.a. for both males and females.

The AC00 tables have been used for the pre retirement mortality assumptions.

Recovery Plan

The valuation of the Hermes Group Pension Scheme as a continuing Scheme was signed in May 2021 and revealed a surplus as at 30 June 2020 of £19.5 million. Therefore as there were sufficient assets to cover the Scheme's Technical Provisions at the valuation date, a recovery plan was not required.

The employer has also agreed to make further special contributions, if applicable, to meet the strains which arise on account of redundancies or early retirements of employed-deferred members.

In the unlikely event that the employer ceased paying contributions to the Scheme ("discontinuance"), the Trustee could seek to meet benefits payments either by winding up the Scheme or by continuing it as a closed fund. The terms available from insurance companies at 30 June 2020 were such that, based on the Scheme's assets and liabilities at that date, the premiums charged to secure accrued rights in full would have exceeded the value of the Scheme's assets.

Actuarial Valuation

The next actuarial valuation of the Scheme will have an effective date of 30 June 2023. It is anticipated that the results will be available in 2024.

Funding Update

Following the last formal triennial actuarial valuation reported above as at 30 June 2020, the Scheme's overall funding position on a Technical Provisions basis will be rolled forward in an actuarial annual update report as at 30 June 2021, the results of this will be made available to members in a summary funding statement anticipated to be issued in the second half of 2021.

HERMES GROUP PENSION SCHEME

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is fair and impartial.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Trustee's Responsibilities in Respect of Contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the schedule.

Approval

The Trustee's Report, which includes the Investment Management Report, the Report on Actuarial Liabilities and the Statement of Trustee's Responsibilities, was approved by the Trustee on:

2 December 2021

..... date

.....
Trustee Director

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME

Opinion

We have audited the financial statements of Hermes Group Pension Scheme ("the Scheme") for the year ended 30 June 2021 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 30 June 2021 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME (continued)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether it has knowledge of any actual, suspected or alleged fraud.
- Reading Trustee minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Trustee's (or its delegates including the Scheme's administrators) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of Level 3 pooled investment vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and its delegates (as required by auditing standards), and from inspection of the Scheme's regulatory and legal correspondence and discussed with the Trustee and its delegates the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation), and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME (continued)

Fraud and breaches of laws and regulations – ability to detect (continued)

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and its delegates and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the Schedules of contributions in our statement about contributions on page 39 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities, the Implementation Statement and the summary of contributions) the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in its statement set out on page 17, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Gemma Broom
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London E14 5GL

Date 3 December 2021

HERMES GROUP PENSION SCHEME

FUND ACCOUNT

For the year ended 30 June 2021

	Note	2021 £'000s	2020 £'000s
CONTRIBUTIONS AND BENEFITS			
Transfers in	4	-	256
Other income		-	1
		<u>-</u>	<u>257</u>
Benefits paid or payable	5	(4,209)	(4,169)
Payments to and on account of leavers	6	(1,200)	(1,879)
Administrative expenses	7	(484)	(483)
		<u>(5,893)</u>	<u>(6,531)</u>
NET (WITHDRAWALS) FROM DEALINGS WITH MEMBERS		<u>(5,893)</u>	<u>(6,274)</u>
RETURNS ON INVESTMENTS			
Investment income	8	3,381	4,823
Change in market value of investments	10	(8,794)	29,532
Investment management expenses	9	(293)	(291)
NET RETURNS ON INVESTMENTS		<u>(5,706)</u>	<u>34,064</u>
NET (DECREASE)/INCREASE IN THE FUND FOR THE YEAR		(11,599)	27,790
OPENING NET ASSETS		<u>279,536</u>	<u>251,746</u>
CLOSING NET ASSETS		<u><u>267,937</u></u>	<u><u>279,536</u></u>

The notes on pages 24 to 38 form part of these financial statements.

HERMES GROUP PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 30 June 2021

	Note	2021 £'000s	2020 £'000s
INVESTMENT ASSETS	10		
Pooled investment vehicles	11	266,549	278,264
AVC investments	13	<u>-</u>	<u>9</u>
		266,549	278,273
CURRENT ASSETS	18	1,681	1,438
CURRENT LIABILITIES	19	(293)	(175)
		<u> </u>	<u> </u>
CLOSING NET ASSETS		<u><u>267,937</u></u>	<u><u>279,536</u></u>

The accompanying notes on pages 24 to 38 are an integral part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on pages 15 and 16 of the Annual Report and these financial statements should be read in conjunction with this report.

2 December 2021

**These financial statements were approved by the Trustee on 2021
and signed on its behalf by:**

.....

Trustee Director

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2021

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to meet obligations as they fall due for at least the next twelve months from the approval of these financial statements. In reaching this conclusion, the Trustee considered the impact of the COVID-19 outbreak on the Scheme and on the Principal Employer, BT Pension Scheme Trustees Limited. Under the rules of the BT Pension Scheme, BT Pension Scheme Trustees Limited are entitled to take from the assets of the BT Pension Scheme all liabilities and expenses incurred by them in their capacity as Principal Employer of the Scheme. Consequently, the funding obligations of the BT Pension Trustees as Principal Employer of the Scheme is effectively underwritten by the assets of the BT Pension Scheme which are currently £57,320 million. Based on its assessment the Trustee is confident that the Scheme will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements and therefore, have prepared the financial statements on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address of the principal employer for the Scheme, BT Pension Scheme Trustees Limited, is: One America Square, 17 Crosswall, London EC3N 2LB England.

The address for general enquiries to the Scheme is: The Secretary of the Hermes Group Pension Scheme, Zedra Inside Pensions, 42-48 Victoria Street, St Albans, AL1 3HZ.

The address for member enquiries to the Scheme is: Hermes Group Pension Scheme, c/o XPS Administration Limited, 3rd Floor, West Wing, 40 Torphichen Street, Edinburgh, EH3 8JB.

The Scheme is a defined benefit pension scheme which closed to future accrual on 31 October 2011. The Scheme's purpose is to provide retirement benefits for Scheme members and, in the event of a member's death, to provide benefits to their spouse and dependants as prescribed in the rules.

3. ACCOUNTING POLICIES

The principal accounting policies of the Scheme, which have been applied consistently in the current and preceding year, are as follows:

(a) **Accounting Convention**

The financial statements are prepared on an accruals basis.

(b) **Contributions**

Employer deficit funding contributions and other employer contributions payable in respect of Scheme expenses are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the employer and Trustee.

Employer additional contributions are accounted for when received, or when a formal agreement is made, whichever is earlier.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

3. ACCOUNTING POLICIES (continued)

(c) *Payments to Members*

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retiring, leaving or death.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits this is shown separately within benefits.

(d) *Expenses*

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration, with the exception of the Scheme Levies which are paid directly by the Employer.

(e) *Investment Income*

Income from pooled investment vehicles, which distribute income, is accounted for when declared by the fund manager.

Income from pooled investment vehicles which is reinvested within the funds and arising on the underlying investments of accumulation funds (which is therefore not directly paid to the Scheme) is reflected within the change in market value.

Income from cash and short-term deposits are accounted for on an accruals basis.

(f) *Investments*

Investments are included at fair value as follows:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The change in market value of investments during a year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

(g) *Presentation Currency*

The Scheme's functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

(h) *Critical accounting estimates and judgements*

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements.

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

4. TRANSFERS IN	2021 £'000s	2020 £'000s
Individual transfers in from other schemes	-	256
The transfer in benefits in the prior year above relate to transfers in from the Hermes Group Stakeholder Pension Plan. More information on this can be seen on page 6 under Transfer Values.		
5. BENEFITS PAID OR PAYABLE	2021 £'000s	2020 £'000s
Pensions	3,821	3,645
Commutation of pensions and lump sum retirement benefits	284	523
Lump sum death benefits	44	-
Taxation where lifetime or annual allowance exceeded	60	1
	<u>4,209</u>	<u>4,169</u>
6. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2021 £'000s	2020 £'000s
Individual transfers out to other schemes	1,200	1,861
State Scheme Premiums	-	18
	<u>1,200</u>	<u>1,879</u>
7. ADMINISTRATIVE EXPENSES	2021 £'000s	2020 £'000s
Administration	76	92
Actuarial fees	87	72
Legal fees	12	2
Trustee Director fees & expenses	65	60
Secretarial fees	71	83
Investment advice	131	130
Liability insurance	25	22
Audit fees	17	22
	<u>484</u>	<u>483</u>

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

7. ADMINISTRATIVE EXPENSES (continued)

Trustee Director's fees, excluding VAT, were payable as follows:

	2021 £'000s	2020 £'000s
I A Kirby	8	8
A Ormrod	8	8
M Simms	8	8
P Coe	8	4
D P Bradford	-	1
PTL Governance Limited	33	31
	<u>65</u>	<u>60</u>

8. INVESTMENT INCOME

	2021 £'000s	2020 £'000s
Income from pooled investment vehicles	3,381	4,808
Interest on cash deposits	-	15
	<u>3,381</u>	<u>4,823</u>

9. INVESTMENT MANAGEMENT EXPENSES

	2021 £'000s	2020 £'000s
Administration, management & custody	301	269
Brokerage fees	-	28
Fee & unit rebates	(8)	(6)
	<u>293</u>	<u>291</u>

10. RECONCILIATION OF INVESTMENTS

	Value at 30.06.2020 £'000s	Purchases at cost £'000s	Sales proceeds £'000s	Change in market value £'000s	Value at 30.06.2021 £'000s
Pooled investment vehicles	278,264	6,125	(9,038)	(8,802)	266,549
AVC investments	9	-	(17)	8	-
	<u>278,273</u>	<u>6,125</u>	<u>(9,055)</u>	<u>(8,794)</u>	<u>266,549</u>

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. Direct transaction costs include costs charged to the scheme such as fees, commissions and stamp duty. There are no separately identifiable direct costs incurred.

Indirect costs incurred on the underlying securities held within the Legal & General QIAIF were 0% of the average holding value during the year (2020: 0%).

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

11. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year end comprised:

	2021 £'000	2020 £'000
Equity	28,179	23,724
Property	22,402	22,254
Illiquid credit	6,141	8,369
LDI	134,763	150,536
Buy and maintain credit	44,338	45,900
Private loans	9,488	6,977
Asset backed securities	21,238	20,504
	<u>266,549</u>	<u>278,264</u>

The LDI holding relates to a Qualifying Instruction Alternative Investment Fund (QIAIF) pooled fund held with Legal & General, where the Scheme is the sole investor in the fund. Further details are provided in note 12.

12. SOLE INVESTOR FUND

The Scheme is the sole investor in the Legal & General QIAIF Fund. At the year end the underlying assets of this fund were valued as follows:

	2020 £'000	2019 £'000
Bonds	195,991	220,589
Repurchase agreements	(66,524)	(78,217)
Swaps	(526)	(1,288)
Cash deposits	5,843	9,500
	<u>134,784</u>	<u>150,584</u>

The valuation of the underlying assets above of £134,784,276 differs from the unitised valuation of £134,763,287 reported in note 11, due to the unitised valuation reflecting trade settlements up to and including the weekly unitised valuation date of 1 July 2021.

LGIM's Independent Investment Risk Team calculate optimal and critical levels of collateral and cash for all mandates which include derivatives (listed and OTC). These optimal and critical levels of collateral are set using a Value-at-Risk (VaR) based metric which is market standard and similar to that is used by the clearing houses.

- The optimal and critical levels of cash are included where the mandate includes derivatives which can only be collateralised on an ongoing basis using cash

- The optimal and critical levels of cash are components of the optimal and critical level of collateral, which in general for LDI mandates include cash and government bonds

At 30 June 2021, the optimal required collateral balance for derivatives was £20,740,000 (2020: £19,380,000) and the eligible and available collateral was £119,366,404 (2020: £131,460,785).

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

13. AVC INVESTMENTS

Members' additional voluntary contributions, when received, are invested separately from the main Scheme fund in the form of insurance policies and deposits securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 December confirming the amounts held in their account and the movements in the year. The remaining member disinvested their funds during the Scheme year. Therefore, the aggregate amounts of money purchase AVC investments are as follows:

	2021 £'000	2020 £'000
Prudential Assurance Company Limited – with profits	-	9

14. FAIR VALUE DETERMINATION OF INVESTMENTS

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	At 30 June 2021			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
AEGON – European ABS	-	21,238	-	21,238
Barings Capital – Euro Private Loan Fund	-	-	9,488	9,488
Legal & General – FTSE RAFI	-	3,498	-	3,498
Legal & General – FTSE RAFI Hedged	-	10,466	-	10,466
Legal & General – QIAIF	-	134,763	-	134,763
Legal & General – Buy & Maintain Credit	-	44,338	-	44,338
Legal & General – World Developed Equity	-	3,558	-	3,558
Legal & General – World Developed Equity Hedged	-	10,657	-	10,657
M&G – Illiquid Credit	-	-	6,141	6,141
Standard Life – Long Lease Property	-	-	22,402	22,402
Total Pooled Investment Vehicles	-	228,518	38,031	266,549

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

14. FAIR VALUE DETERMINATION OF INVESTMENTS (continued)

	At 30 June 2020			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
AEGON – European ABS	-	20,504	-	20,504
Barings Capital – Euro Private Loan Fund	-	-	6,977	6,977
Legal & General – FTSE RAFI	-	2,836	-	2,836
Legal & General – FTSE RAFI Hedged	-	8,918	-	8,918
Legal & General – QIAIF	-	150,536	-	150,536
Legal & General – Buy & Maintain Credit	-	45,900	-	45,900
Legal & General – World Developed Equity	-	3,018	-	3,018
Legal & General – World Developed Equity Hedged	-	8,952	-	8,952
M&G – Illiquid Credit	-	-	8,369	8,369
Standard Life – Long Lease Property	-	-	22,254	22,254
Total Pooled Investment Vehicles	-	240,664	37,600	278,264
AVC Investments	-	-	9	9
	-	240,664	37,609	278,273

15. INVESTMENT RISK DISCLOSURES

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy as detailed below. The Trustee manages investment risks, including credit risk and market risk, using monitoring reports produced by its investment adviser and taking into account the Scheme's strategic investment objectives. Investment objectives and risks are also managed through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management is set out below.

In respect of the Scheme's QIAIF holding, its investment risks, on a look-through basis, are disclosed separately in note 16.

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

15. INVESTMENT RISK DISCLOSURES (continued)

Investment Strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Scheme payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the strength of the employer covenant, the long term liabilities of the Scheme and the funding agreed with the employer. The investment strategy is set out in the Statement of Investment Principles.

The strategy at 30 June 2021 was to hold:

- 67.5% in investments that move broadly in line with the long-term liabilities of the Scheme. This is referred to as Liability Driven Investment (LDI) and the purpose is to mitigate the impact of changes in interest rates and inflation on long-term liabilities. In 2019, the Trustee appointed Legal & General to run a buy and maintain corporate bond portfolio alongside the Scheme's LDI mandate (17.5% of Scheme assets). This allocation provides interest rate hedging against the Scheme's shorter-term liabilities (up to ten years) whilst also providing income for the Scheme (as the bonds mature/pay coupons).
- 32.5% in investments comprising of global equities, property, direct lending and asset-backed securities (the latter two asset classes are together referred to as diversified credit). The purpose of these investments is to deliver income and capital growth to assist in meeting the Scheme's objectives.

Risk Exposures

Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the Scheme's investment managers. The Trustee monitors the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions, on a regular basis.

The table below summarises the Scheme's investments that have significant exposure to indirect credit and market risks.

Strategic asset class groupings	Credit risk		Market risk					
	Direct	Indirect	Currency risk		Interest rate risk		Other price risk	
			Direct	Indirect	Direct	Indirect	Direct	Indirect
Liability Driven Investments	•	•	○	○	○	•	○	○
Equity	•	○	○	•	○	○	○	•
Diversified Credit	•	•	○	•	○	P	○	•
Buy & Maintain Credit	•	•	○	○	○	•	○	•
Property	•	P	○	○	○	○	○	•

Key: The risk noted affects the fund significantly (•), partially (P) or hardly / not at all (○).

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

15. INVESTMENT RISK DISCLOSURES (continued)

Risk Exposures (continued)

The table below summarises the Scheme's investments that have significant exposure to indirect credit and market risks.

Fund	Credit risk	Currency risk	Interest rate risk	Other price risk	30 Jun 2021 (£k)	30 Jun 2020 (£k)
Barings Capital European Private Loan Fund II	●	○	○	○	9,488	6,977
M&G Illiquid Credit	●	○	○	○	6,141	8,369
Aegon European ABS	●	○	○	●	21,238	20,504
Standard Life Long Lease Property	●	○	○	●	22,402	22,254
Legal & General All World Equity	○	●	○	●	3,558	3,018
Legal & General All World Equity Hedged	○	○	○	●	10,657	8,952
Legal & General FTSE RAFI	○	●	○	●	3,498	2,836
Legal & General FTSE RAFI Hedged	○	○	○	●	10,466	8,918
Legal & General Buy & Maintain Credit 2020-2024	●	○	●	○	13,651	14,814
Legal & General Buy & Maintain Credit 2025-2029	●	○	●	○	30,687	31,086
Legal & General LDI Portfolio	●	○	●	○	134,763	150,536
Total					266,549	278,264

Key: The risk noted affects the fund significantly (●) or hardly / not at all (○).

The Legal & General LDI Portfolio is a sole investor pooled fund. We have provided more information on this in a later section.

Further information on these risks and the Trustee's approach to risk management is set out below. This does not include the AVC investments, as these are not considered significant in relation to the overall investments of the Scheme.

Credit Risk

The Scheme is subject to credit risk through its investments in pooled investment vehicles and sole investor arrangements. It is directly exposed to credit risk in relation to the solvency of the custodians of those funds.

As at 30 June 2021 around 89% (2020: 91%) of the Scheme's assets were invested in funds or securities that are significantly exposed to credit risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

15. INVESTMENT RISK DISCLOSURES (continued)

Credit Risk (continued)

The role of a custodian is to ensure the safe-keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. The pooled investment vehicle's governing body is responsible for appointing its own custodian for the safe-keeping, monitoring and reconciliation of documentation relating to these securities.

The Scheme's holdings in pooled investment vehicles are 'unrated' from a credit perspective. Direct credit risk arising from pooled investment vehicles is mitigated by: the underlying assets of the pooled arrangements being ring-fenced from the assets of the custodian and the investment manager; the regulatory environments in which the pooled fund managers operate; and diversification of the Scheme's investments across a number of pooled funds. The Trustee carries out due diligence checks on investments into new pooled funds and on an ongoing basis monitors any changes to the operating environment of those pooled funds. The Trustee also carries out due diligence checks on new appointments of investment managers and custodians for sole investor arrangements and on an ongoing basis monitors any changes to the operating environment of these entities.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, for example where they invest in bonds. The indirect exposure to credit risk arises from the Scheme's investments in the Barings Capital European Private Loan Fund II, M&G Illiquid Credit, Aegon European ABS, Standard Life Long Lease Property, Legal & General Buy & Maintain Credit and Legal & General LDI portfolio. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The managers of the pooled funds that invest in fixed income manage credit risk by having a diversified exposure to issuers, conducting thorough research on the probability of default of those issuers, and having only a limited exposure to securities rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific securities.

Within the LDI portfolio, there is exposure to credit risk as the LDI portfolio manager uses derivative instruments to match the Scheme's liabilities. The derivative positions are collateralised daily so as to aim to limit credit risk to one day's market movements.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2021	2020
	£'000	£'000
Irish Collective Asset Management Vehicle	21,238	20,504
Qualifying Investor Alternative Investment Fund	9,488	6,977
Unit-linked insurance funds	229,682	242,414
Irish Qualifying Investor Alternative Investment Fund	6,141	8,369
Total	266,549	278,264

Currency risk

As the Scheme's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents additional currency risk.

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge some or all of their currency exposure, or implement separate currency hedging arrangements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

15. INVESTMENT RISK DISCLOSURES (continued)

Currency risk (continued)

As at 30 June 2021 around 3% (2020: 2%) of the Scheme's assets were invested in funds or securities that are significantly exposed to currency risk.

All of the Scheme's pooled funds are accessed via a Sterling share class. Therefore the Scheme is not subject to direct currency risk. The Scheme's assets that are exposed to indirect currency risk are the Legal & General All World Equity and Legal & General FTSE RAFI, which invest in non-Sterling investments that are not currency hedged. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The diversified credit managers hedge currency risk in their mandates.

Interest Rate and Inflation Rate Risk

Interest rate risk and inflation risk is a material risk for the Scheme given that movements in interest rates and inflation are a material influence on the value of the liabilities assessed in present day terms. Some of the Scheme's assets are subject to interest rate risk (both nominal and real interest rates). However, the overall interest rate exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and therefore the Trustee believes that it is appropriate to have exposure to interest rate risk in this manner.

The only assets the Scheme invests in with material exposure to changes in interest rates are the Legal & General Buy & Maintain Credit and the Legal & General LDI portfolio. The amount invested in each of these mandates is shown in the Statement of Net Assets.

As at 30 June 2021 around 67% (2020: 71%) of the Scheme's assets were invested in funds or securities that are significantly exposed to interest rate and/or inflation risk.

Other Price Risk

The Scheme's assets are exposed to risks of market prices other than currencies and interest rates, such as the pooled funds that hold equities being subject to movements in equity prices.

As at 30 June 2021 around 27% (2020: 24%) of the Scheme's assets were invested in funds or securities that are significantly exposed to other price risk.

The Trustee monitors this risk on a regular basis, looking at the performance of the Scheme as a whole as well as each individual portfolio. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset class to manage this risk.

16. INVESTMENT RISK DISCLOSURES – SOLE INVESTOR FUND

Pooled investment vehicles include the Scheme's LDI portfolio, which is an investment in a Qualifying Investor Alternative Investment Fund ("QIAIF") held via a unit-linked insurance fund wrapper, with Legal & General.

The Scheme is the sole investor in the QIAIF and accounting regulations require that the risk disclosures required by FRS 102 are made on a 'look through' basis as if the Scheme held the investments directly.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

16. INVESTMENT RISK DISCLOSURES – SOLE INVESTOR FUND (continued)

The following table summarises the extent to which the underlying investments of the QIAIF are affected by financial risks:

QIAIF	Credit and market risk				Allocation as at 30 Jun 2021 (£k)
	Credit	Currency	Interest rate	Other price	
Fixed-interest government bonds	●	○	●	○	42,716
Fixed-interest government bond repurchase agreements	●	○	●	○	(11,346)
Index-linked government bonds	●	○	●	○	153,275
Index-linked government bond repurchase agreements	●	○	●	○	(55,178)
Liquidity Fund	○	○	○	○	5,274
Inflation and Interest Rate Swaps	●	○	●	○	(526)
Cash & accruals	○	○	○	○	569

In the table above, the risk noted affects the asset class [●] significantly, or [○] hardly/not at all.

As sole investor, the Scheme is subject to the following risks arising on the underlying investments held at the year end within the QIAIF:

Credit risk

Credit risk arising on bonds is mitigated by investing in UK government bonds where the credit risk is minimal.

Credit risk on repurchase agreements and swaps is mitigated through collateral arrangements. In addition, the risk is also mitigated by transacting with counterparties which are at least investment grade credit rated.

Direct credit risk on the Liquidity Fund is mitigated by the underlying assets being ring-fenced from Legal & General's wider business and the regulatory environment in which Legal & General operate.

The QIAIF is also subject to indirect credit risk in relation to the instruments held within the Legal & General Liquidity Fund. This is mitigated by ensuring cash is held with a diversified range of institutions which are at least investment grade credit rated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

16. INVESTMENT RISK DISCLOSURES – SOLE INVESTOR FUND (continued)

Currency Risk

The QIAIF's underlying assets were not subject to currency risk as at 30 June 2021 as none were held in overseas markets.

Interest Rate Risk

The underlying assets of the QIAIF are subject to interest rate risk because a proportion of the investments are held in bonds and bond-like instruments (fixed interest gilts, index linked gilts, repurchase agreements, swaps and cash).

If interest rates rise, the value of these investments will fall, but this risk is deliberate as it will be offset by a fall in the actuarial value of the Scheme's liabilities as a result of a rise in the discount rate. These offsetting risks result in a reduction in funding level volatility.

Other Price Risk

There is no other price risk as there is no equity or other return seeking assets in the QIAIF.

Leverage Risk and collateral monitoring

The Scheme utilises leverage in the QIAIF. Leverage in this context is the ratio of hedging exposure to the amount of collateral held in the QIAIF. Leverage may result in mark-to-market losses that exceed the amount of capital invested. Leverage is used to achieve the objective of aiming to match the Scheme's liabilities due to movements in interest rates and inflation (up to an agreed level). The leverage of the QIAIF was around 1.8 times as at 30 June 2021.

The Trustee's aim, during the Scheme Year, was to hedge 90% of interest rate risk and 80% of inflation risk (as measured on a gilts flat liability basis) with 50% of total Scheme assets. When this target has been reached, the Trustee expects ongoing leverage to be around two times.

The leverage is kept under regular review by the Trustee, within the objectives of the portfolio. The Trustee also has an expectation that the manager of the QIAIF has robust processes in place to monitor and manage collateral adequacy to support the underlying derivative positions as part of the ongoing management of the QIAIF.

17. CONCENTRATION OF INVESTMENTS

The following investments, with the exception of UK government securities, represented over 5% of the net assets of the Scheme:

	2021		2020	
	£'000	%	£'000	%
Legal & General QIAIF*	134,763	50.3%	150,536	53.9%
Legal & General Buy & Maintain Credit 2025-29	30,687	11.5%	31,086	11.1%
Standard Life Long Lease Property S1	22,402	8.4%	22,254	8.0%
AEGON European ABS	21,238	7.9%	20,504	7.3%
Legal & General Buy & Maintain Credit 2020-24	13,651	5.1%	14,814	5.3%

*Within the Legal & General QIAIF there were no holdings which represented more than 5% of the net assets of the Scheme.

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

18. CURRENT ASSETS	2021 £'000s	2020 £'000s
Bank balance	1,665	1,420
Vat recoverable	<u>16</u>	<u>18</u>
	<u><u>1,681</u></u>	<u><u>1,438</u></u>

Following the implementation of the 2018 SORP, the Vat recoverable is deducted off the administrative expenses accordingly and the balance receivable is shown in current assets above.

19. CURRENT LIABILITIES	2021 £'000s	2020 £'000s
Unpaid benefits	36	-
Accrued expenses	190	102
Tax payable - PAYE	61	67
Due to employer	<u>6</u>	<u>6</u>
	<u><u>293</u></u>	<u><u>175</u></u>

The amounts due to the employer above are due to BT Pension Scheme Management Limited for Trustee Director Fees.

20. RELATED PARTIES

PTL Governance Limited, represented by Alison Bostock in the role of Independent Chair, earned fees, exclusive of VAT, of £32,685 (2020: £31,287) for services to the Scheme as disclosed in note 7. There were no amounts payable at the year end (2020: Nil).

The Trustee Director fees were recharged to the Scheme by BT Pension Scheme Management Limited (BTPSM) and fees of £24,120 (2020: £21,162) were recharged during the year. Of this amount, £6,030 (2020: £6,030) was payable at the year end date, as disclosed in note 19, and was settled by the Scheme in July 2021. This recharging arrangement was in operation for three of the Trustee Directors as at year end. One other Trustee Director invoices the Scheme directly, their fees during the year were £8,000 (2020: £8,000), of this amount £2,000 (2020: £2,000) was payable at the year end.

BT Pension Scheme Management Limited and Hermes Alternative Investment Management Limited are related to the Scheme as all form part of the same corporate group as the principal employer.

21. TAXATION STATUS

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

22. EMPLOYER RELATED INVESTMENTS

There have been no employer related investments during the year.

23. CONTINGENT LIABILITIES

At 30 June 2021 in the opinion of the Trustee, the Scheme had no contingent liabilities other than to pay future pensions as they fall due.

24. CAPITAL COMMITMENTS

At 30 June 2021, there was a capital commitment of £1,650,000 (2020: £3,850,000) to be called for the Barings European Private Loan Fund of the total £11,000,000 commitment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2021

25. GMP EQUALISATION

On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. The latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is currently evaluating this issue and the impact to the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. Based on an initial assessment the backdated payments and related interest are not expected to be material and have not been recognised in these financial statements. The payments will be accounted for in the year of payment.

HERMES GROUP PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME

Statement about contributions

We have examined the summary of contributions payable under the Schedules of Contributions to the Hermes Group Pension Scheme in respect of the Scheme year ended 30 June 2021 which is set out on page 40.

In our opinion contributions for the Scheme year ended 30 June 2021, as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid from 1 July 2020 until 20 May 2021 at least in accordance with the Schedule of Contributions certified by the actuary on 29 November 2018 and subsequently at least in accordance with the Schedule of Contributions certified by the actuary on 21 May 2021.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the Schedules of Contributions.

Respective Responsibilities of the Trustee and the Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 17 the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

Gemma Broom
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

Date 3 December 2021

HERMES GROUP PENSION SCHEME

SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR

During the year, the contributions payable to the Scheme by the employer under the Schedules of Contributions as reported on by the Scheme auditor and reported in the financial statements were as follows:

	£'000s
Employer contributions	—

As a result of the Scheme being in surplus on a Technical Provisions basis, at 30 June 2020 and 31 December 2017 following the formal valuations, with an allowance for expenses incorporated into the calculation of the liabilities, no further contributions were payable by BTPSTL after 30 November 2018. In addition, the contribution payment (or “top-up”) in respect of Scheme expenses incurred, over a £600,000 reference level, no longer applied.

Therefore there were no contributions payable in the period 1 July 2020 to 30 June 2021.

This summary was approved by the Trustee on 2 December 2021

Signed on behalf of the Trustee

.....
Trustee Director

Actuary's certification of schedule of contributions

Hermes Group Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected on 30 June 2020 to continue to be met for the period for which the schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 17 May 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature



Date

21 May 2021

Name

Adam Stanley

Qualification

Fellow of the Institute
and Faculty of Actuaries

Address

Tempus Court
Onslow Street
Guildford
GU1 4SS

Employer

XPS Pensions

IMPLEMENTATION STATEMENT

Implementation Statement, covering the Scheme Year from 1 July 2020 to 30 June 2021

The Trustee of the Hermes Group Pension Scheme (the "Scheme") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles ("SIP") during the Scheme Year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the Scheme Year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

1. Introduction

No changes were made to the voting and engagement policies in the SIP during the Scheme Year.

The Trustee has, in its opinion, followed the Scheme's voting and engagement policies during the Scheme Year, by continuing to delegate to its investment managers the exercise of rights and engagement activities in relation to investments, as well as seeking to appoint managers that have strong stewardship policies and processes.

As well as the SIP, the Trustee maintains a separate document outlining its investment beliefs. This was reviewed in March 2021 to reflect the Trustee's latest views on responsible investment.

2. Voting and engagement

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

Over the period, the Trustee reviewed LCP's responsible investment (RI) scores for the Scheme's existing managers and funds, along with LCP's qualitative RI assessments for each fund and red flags for any managers of concern. These scores cover the approach to ESG factors, voting and engagement. The fund scores and assessments are based on LCP's ongoing manager research programme and it is these that directly affect LCP's manager and fund recommendations. The manager scores and red flags are based on LCP's Responsible Investment Survey 2020. The Trustee was satisfied with the results of the review, but nonetheless considered future actions it could take in respect of RI. As such, it was agreed to invite Legal & General Investment Management ("L&G", the asset manager holding the greatest proportion of the Scheme's assets) to the September Trustee 2021 meeting to provide an update on the following topics:

- voting and engagement practices on the Scheme's existing assets; and
- Alternative investment products with a greater focus on RI.

3. Description of voting behaviour during the Scheme Year

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the Scheme Year.

In this section we have sought to include voting data in line with the Pensions and Lifetime Savings Association (PLSA) guidance, on the Scheme's funds that hold equities as follows:

- L&G All World Equity Index Fund
- L&G All World Equity Index Fund (GBP Hedged)
- L&G FTSE RAFI AW 3000 Equity Index Fund
- L&G FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged)

In addition to the above, the Trustee contacted the Scheme's other asset managers that don't hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. These managers confirmed that they did not have any voting opportunities over the period.

IMPLEMENTATION STATEMENT (continued)

3.1 Description of the voting processes for Legal & General equity funds

Legal & General's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas. Legal & General's voting policies are reviewed annually, taking into account feedback from its clients. Every year, Legal & General holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as it develops Legal & General's voting and engagement policies.

All decisions are made by Legal & General's Investment Stewardship team and in accordance with the relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. The Investment Stewardship team uses the Institutional Shareholder Services (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by Legal & General and it does not outsource any part of the strategic decisions. Legal & General uses ISS recommendations but purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that Legal & General receives from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with Legal & General's position on ESG, Legal & General has put in place a custom voting policy with specific voting instructions that apply to all markets globally. Legal & General retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information that allows Legal & General to apply a qualitative overlay to its voting judgement. Legal & General have strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by its service provider.

3.2 Summary of voting behaviour over the Scheme Year

A summary of voting behaviour over the period is provided in the table below. The total size of the Scheme's invested assets as at 30 June 2021 was £266.5m.

	Fund 1	Fund 2	Fund 3	Fund 4
Manager name	Legal & General	Legal & General	Legal & General	Legal & General
Fund name	All World Equity Index Fund	All World Equity Index Fund (GBP Hedged)	FTSE RAFI AW 3000 Equity Index Fund	FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged)
Total size of fund at end of reporting period	£6.3bn	£4.6bn	£6.4bn	£1.6bn
Value of Scheme assets at end of reporting period	£3.6m	£10.7m	£3.5m	£10.5m
Number of equity holdings at end of reporting period	3,730	3,730	2,929	2,929
Number of meetings eligible to vote	6,192	6,192	3,733	3,733
Number of resolutions eligible to vote	64,750	64,750	44,767	44,767
% of resolutions voted	99.9	99.9	99.7	99.7
Of the resolutions on which voted, % voted with management	82.7	82.7	81.2	81.2
Of the resolutions on which voted, % voted against management	16.2	16.2	18.2	18.2
Of the resolutions on which voted, % abstained from voting	1.1	1.1	0.6	0.6
Of the meetings in which the manager voted, % with at	59.0	59.0	72.6	72.6

IMPLEMENTATION STATEMENT (continued)

least one vote against management				
Of the resolutions on which the manager voted, % voted contrary to recommendation of proxy advisor	8.9	8.9	13.2	13.2

3.3 Most significant votes over the Scheme Year

Commentary on the most significant votes over the period, from the Scheme's asset managers who hold listed equities, is set out below. We have interpreted "most significant votes" to mean those provided by the investment managers, following the PLSA guidance provided.

Legal & General Equity Portfolio

The below votes were listed as significant by Legal & General and were taken in relation to the All World Equity, Index Fund, All World Equity Index Fund (GBP Hedged), FTSE RAFI AW 3000 Equity Index Fund and FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged).

- **Textron Inc., USA, April 2021. Vote:** Against. **Outcome of the vote:** Passed.

Summary of resolution: Resolution to elect the joint Chairman and CEO.

Rationale: LGIM voted against the resolution as it has a longstanding policy advocating for the separation of the roles of CEO and Chairman.

Criteria against which this vote has been assessed as "most significant": LGIM considered this vote to be significant as it is in application of an escalation of its vote policy on the topic of the combination of the board chair and CEO.
- **NOK Corp., Japan, June 2021. Vote:** Against. **Outcome of the vote:** Passed.

Summary of resolution: Resolution to elect the Chairman of the Board.

Rationale: In early 2020, LGIM announced that it would vote against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for companies included in the TOPIX100 where there is not at least one female board member. LGIM therefore opposed the election of this director as he is a member of the nomination committee and the most senior member of the board, and this standard is not met.

Criteria against which this vote has been assessed as "most significant": LGIM considered this vote significant as it views gender diversity as a financially material issue for its clients, with implications for the assets it manages on their behalf.
- **Sumitomo Corporation, Japan, June 2021. Vote:** For. **Outcome of the vote:** Did not pass.

Summary of resolution: Shareholder resolution requesting amendment to the articles of incorporation to include the adoption and disclosure of a plan outlining the company's business strategy to align its business with the goals of the Paris Agreement.

Rationale: LGIM voted for this resolution as it had concerns regarding the alignment of interim pathways with a 1.5 degree scenario. LGIM believed that its support for the shareholder resolution would help to signal the importance of the climate emergency as a large investor and its expectations for companies to align urgently with the goals of the Paris Agreement.

Criteria against which this vote has been assessed as "most significant": LGIM considered this vote to be significant as it took the rare step of publicly pre-declaring it before the shareholder meeting.
- **Medtronic plc, USA, December 2020. Vote:** Against. **Outcome of the vote:** Passed.

IMPLEMENTATION STATEMENT (continued)

Summary of resolution: Executive directors were granted one-off stock options to compensate for the lack of a traditional bonus being paid during the financial year.

Rationale: LGIM voted against the one-off payment as they are not supportive of one-off awards in general and in particular when these are awarded to compensate for a payment for which the performance criterion/criteria were not met. Prior to the AGM they engaged with the company and clearly communicated their concerns over one-off payments.

Criteria against which this vote has been assessed as "most significant": LGIM believe it is contrary to best practice in general and their pay principles in particular to award one-off awards, especially if they are to compensate for a forgone payment.

APPENDIX

Trustee Arrangements

1. The main provisions relating to the appointment and retirement of Trustee Directors are as follows:
 - there is a minimum of five Trustee Directors, but a sixth Director may be appointed from time to time;
 - two of the Directors are nominated by the principal employer, who can also remove them from office;
 - two of the Directors are member-nominated Directors, elected by the deferred employed members, deferred pensioners and pensioners;
 - member-nominated Directors can be removed from office by the principal employer, at the request of the members;
 - in addition, there is a Chair who is appointed by the principal employer after consultation with and the agreement of the member-nominated Directors;
 - the principal employer fixes the Chair's period of office;
 - the Chair can be removed from office as Trustee Director and Chair by the principal employer and has to be so removed by the principal employer at the request of the member-nominated Directors; and
 - the employer may from time to time appoint a sixth Trustee Director, who will be "independent", with the consent of the other five Directors. The sixth Director will not be a member of the Scheme, or an employee or ex-employee of any employer participating in the Scheme.

2. A Trustee Director's normal term of office is four years:
 - a Trustee Director can be appointed for a second term giving a normal maximum period of eight years, unless the principal employer and the other Trustee Directors agree to a third term;
 - a member-nominated Director who has completed a term of office will be required to seek re-election if he/she wishes to serve for a second or third term;
 - the Chair's term of office is normally three years with a normal maximum of two terms (i.e. six years), unless the principal employer and the other Trustees agree to a third term;
 - for a Director who subsequently becomes Chair, the term is limited to a normal maximum of eleven years unless the principal employer and other Trustee Directors agree to an extension.