



HERMES

Group Pension Scheme

June 2016

Dear Member,

Hermes Group Pension Scheme: Annual Newsletter

Welcome to the first newsletter of the Hermes Group Pension Scheme. It is intended as an annual update on progress in the Scheme and as a place to find the latest key facts. More detail can of course be found in the Trustees' Annual Report and Accounts which, as always, are available on request from the Scheme Secretary (contact details provided at the end of the newsletter).

This issue of the newsletter will cover the following information:

General Updates:

- Change to Scheme Factors
- The Scheme Actuary as Data Controller
- Trustee-Director: David Bridges – Term of Office
- Tax and Pensions
- Report and Accounts – 31 December 2015

Information usually supplied at the Annual General Meeting (AGM):

- Governance Update
- Summary of Trustee Activity over the Year
- Actuarial Valuation – 31 December 2014
- Investment Update
- FAQs and Contact Information

The majority of information provided within this communication is as at 31 December 2015.

The Trustee is happy to receive any feedback you may have on the new newsletter and encourages any comments or suggestions to be forwarded to the Scheme Secretary.

The Trustee of the Hermes Group Pension Scheme



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Change to Scheme Factors

Following a review, the Trustee Board has agreed to increase the commutation factors which are used to calculate tax free cash at retirement by 15%. The increase was implemented at the end of 2015. Changes were also agreed to the early retirement, augmentation and transfer value factors in order to ensure they remained in line with the assumptions used in the Actuarial Valuation as at 31 December 2014. For more information, please contact Capita Employee Benefits, the Scheme Administrators (contact details provided at the end of this newsletter).

The Scheme Actuary as Data Controller

Historically, the data controllers for a pension scheme were the trustees. However, guidance produced by the Information Commissioner's Office (ICO, which has responsibility for this legislation) indicated that certain professionals, including the Scheme Actuary, should also be considered to be a data controller. This is because they use Scheme data in order to advise the Trustee on Scheme funding. Willis Towers Watson, the Scheme Actuary has, therefore, been registered with the ICO as data controllers, along with the Trustee for HGPS.

The Trustee will ensure that any personal data provided to the Actuary and handled in the running of the Scheme is not excessive compared with what is required to do the job and it will not be kept for longer than necessary.

Trustee-Director: David Bridges – Term of Office

David Bridges' term of office as a Member-Nominated Director (MND) is due to expire in September 2016. The Trustee Board, along with the Sponsoring Employer, has agreed to extend Mr Bridges' term for one year beyond the normal four year term of an MND. The extension has arisen as a result of project work being carried out in relation to the Scheme.

Tax and Pensions

When we last wrote to you we explained in the covering letter how you could apply for Fixed Protection 2014. Since then the government has announced further changes to both the Lifetime and Annual Allowance.

The changes are complex and any Scheme members who think they may be affected should take appropriate advice. For general information on the tax treatment of pensions, please refer to the HMRC web-site on <http://www.hmrc.gov.uk/tools/pension-allowance/> . Meanwhile if you need any details on your pension benefits or have changed your personal circumstances, please contact Capita Employee Benefits, the Scheme Administrator (contact details are provided within this communication).



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Report and Accounts – 31 December 2015

The Trustee Report and Accounts for the year ending 31 December 2015 will be made available on the HGPS member website¹ from 13 June 2016. You can access the website via the following address:

www.hermes-investment.com/hgps

If you would like to have a printed copy of the Report and Accounts please contact the Scheme Secretary at the address listed at the end of this newsletter.

Governance

Over the course of the year no changes were made to the Trustee Board, or the appointed advisors.

Trustee Board		
Carol Woodley	Independent Chairman	Re-appointed 21 December 2012, then as Chairman 1 January 2013
David Bridges	Member Nominated	Re-appointed 18 September 2012
Ingrid Kirby	Company Nominated	Appointed 1 September 2012
Matt Simms	Company Nominated	Appointed 1 September 2013
Douglas Bradford	Member Nominated	Appointed 18 September 2014

Advisers		
Secretary	Inside Pensions Limited	Rachael Fortescue Fiona McDonagh
Investment Adviser	Hymans Robertson LLP	Mark Baker/Nikhil Radia David Yao
Actuary	Willis Towers Watson Limited	Emma Palfreyman
Audit	Deloitte LLP	Bob Cooper
Lawyers	Sackers & Partners LLP	Pauline Sibbit
Pension Administrator / Payroll / Accounting	Capita Employee Benefits Limited	Michelle Russell Warren Swales

¹ Please note the website is under construction during the week commencing 6 June 2016 for routine maintenance. Although all changes should be made by 13 June 2016, if you are unable to access the website, please contact the Scheme Secretary who will be able to assist you.



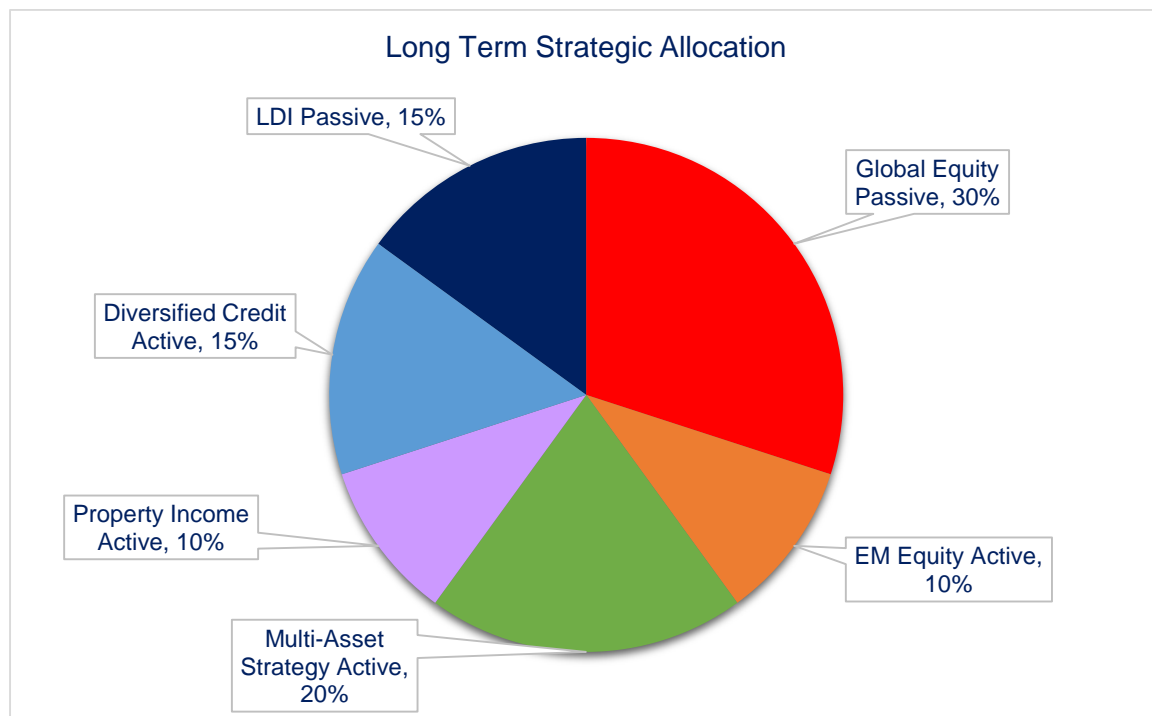
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Summary of Trustee Activity over the Year

New Investment Strategy with Hymans Robertson

The majority of the Scheme's new investment strategy was implemented during 2015. The only outstanding transition is expected to conclude in June 2016. Due to the change in strategy, the Trustee updated the Statement of Investment Principles (SIP). The revised SIP has been made available on the HGPS member website.



Triennial Valuation Process

The Trustee continued work, throughout the year, on the actuarial valuation as at 31 March 2014. The process was finalised in March 2016. Further details of the results can be found under the 'Actuarial Valuation' section of this newsletter and the valuation documentation has been made available on the HGPS member website.

Journey Planning

Over the course of the year, the Trustee Board held two meetings in relation to Journey Planning. Given that the Journey Planning work was reliant on the results of the Actuarial Valuation, discussions were put on hold until the valuation concluded. The Trustee expects to take the matter further over the course of 2016 in conjunction with the employers.



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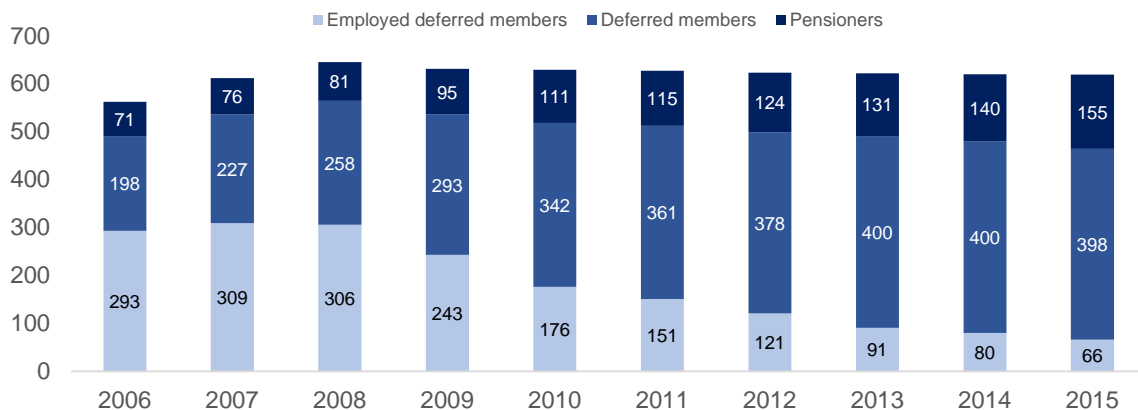
Online Member Questionnaire

In June 2015, members were provided with the facility to feedback comments on the service provided by the Scheme Secretary and the Administrators. This was communicated to members in the Report and Accounts notification letter last year. 6 members responded to the exercise and provided no negative feedback. The only comments made were in relation to sending all member communications out via email, which is something the Trustee will look to consider during the course of the year. Members are encouraged to contact the Scheme Secretary should they wish to provide comments on any area of the Scheme's management.

Custodial Agreement

The Trustee has previously used Northern Trust as custodian of the non-pooled investments held in the Scheme. As a result of the strategy review all the investments are now held on a pooled basis so the custodian arrangement has been terminated. Northern Trust also carried out some other functions for the Scheme and these will now be carried out by Capita (who operate the Trustee Bank Account) to make and receive payments for the Scheme.

Membership Statistics





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Actuarial Valuation Update

The Actuarial Valuation as at 31 December 2014 was finalised in March 2016. The results are shown below:

31 December 2014	
Liabilities	£170.0m
Assets	£138.6m
Deficit	£32.1m
Funding Level	81%

Given that the Scheme is in deficit on this basis, a Recovery Plan has been agreed with the Principal Employers in order to eliminate the funding shortfall. The funding shortfall is expected to be eliminated in 5 years and 10 months from 31 December 2014, which is by 31 October 2020.

The next full actuarial valuation will have an effective date no later than 31 December 2017.

Funding Position – Overview of the Year

An annual funding update is required under the Pensions Act 2004 in the years that a full actuarial valuation is not undertaken. This is also included within your Summary Funding Statement and Annual Update included with this newsletter.

This is the first annual funding update since the last valuation (31 December 2014).

31 December	2011	2012	2013	2014	2015
Liabilities	£91.9m	£109.8m	£118.5m	£170.0m	£175.3m
Assets	£124.7m	£134.8m	£136.9m	£138.6m	£144.0m
Deficit	£32.8m	£25.0m	£18.4m	£32.1m	£31.3m
Funding Level	74%	81%	87%	81%	82%

The results show the funding of the Scheme has improved slightly since the 31 December 2014 valuation. This is as a result of the deficit contributions paid by the employer but has been offset by:

- The negative asset return experienced over the year relative to that assumed in the valuation. The 2014 valuation assumed that the Scheme's assets would return around 4.0% p.a. over the year to 31 December 2015. They have actually returned around 3.0%.
- The deterioration in economic conditions over the year, resulting in a lower discount rate and a reduction in gilt yields.



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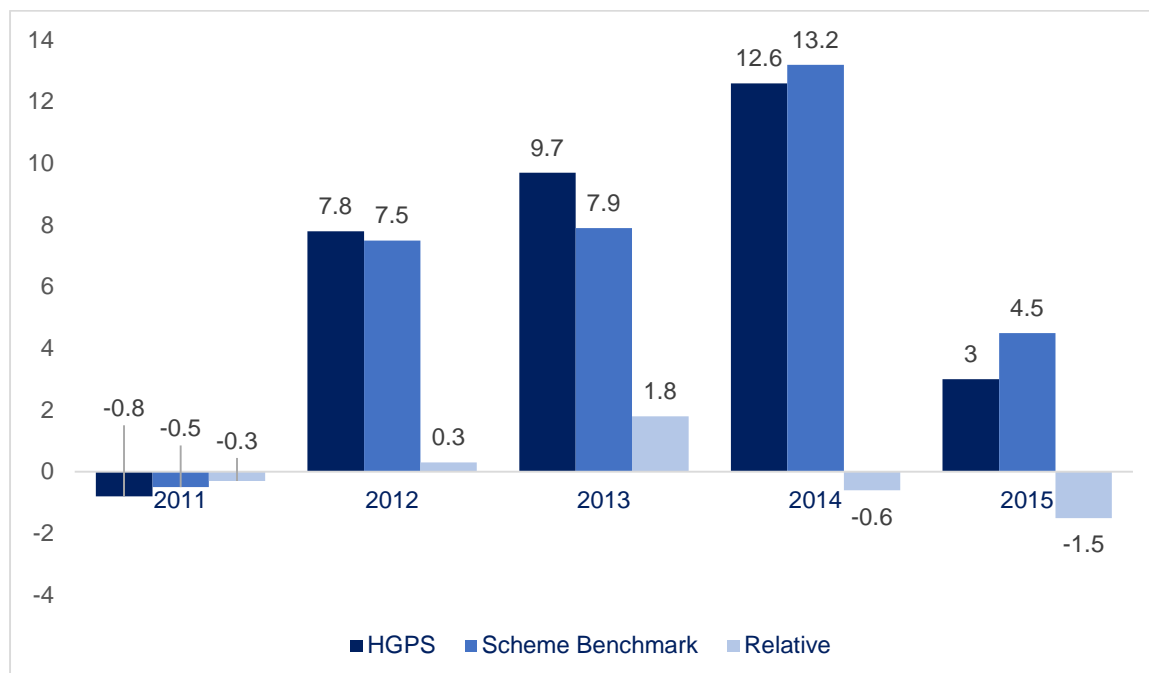
This is not a full actuarial valuation of the Scheme, but an approximate projection of the previous valuation results, allowing for changes in economic conditions and actual investment returns to 31 December 2015.

Investment Performance – year ending 31 December 2015

Over the year the overall investment return for HGPS was 3.0% against the benchmark return of 4.5%. The Scheme's performance in the last five years is shown in the table below:

Comparison with benchmark 2011 – 2015						
Annual Rate of Return %	2011	2012	2013	2014	2015	2011 to 2015 Annualised
HGPS	-0.8	7.8	9.7	12.6	3.0	6.4
Benchmark	-0.5	7.5	7.9	13.2	4.5	6.4
HGPS out/(under) performance of benchmark*	-0.3	0.3	1.8	-0.6	-1.5	0.0

*the differences in this table are based on an arithmetic approach





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Over the five year period from 2011 to 2015, the Scheme returned 6.4% per annum, in line with the benchmark return. For background, over the year to 31 December 2015, the Consumer Prices Index rose by a modest amount (0.2%).

How is the benchmark calculated?

For most of the conventional assets, such as equities and corporate bonds, the benchmark used is a suitable market index. For other asset classes, such as multi-asset, absolute return and diversified credit, the benchmark is a Libor. Performance against Libor can be quite volatile as the managers do not actively track it. The LDI benchmark is the leveraged return on gilts.

The Scheme benchmark is a weighted average of the individual benchmarks. It is not appropriate to compare the Scheme with its peer group due to the individual circumstances that apply to each pension scheme (such as different maturity profiles and de-risking plans).

FAQs and Contact Information

The Trustee would like to provide you with the opportunity to ask any questions you may have in relation to the Scheme. If you have any queries on the content provided within this newsletter, please contact the Scheme Secretary via any of the following:



hermes@insidepensions.com



01727 733150



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All Questions & Answers received in relation to this newsletter will be published on the HGPS member website www.hermes-investment.com/hgps during August 2016.

The Questions & Answers from the AGM 2015 have also been made available on the member website along with other FAQs.



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Should you need any details on your pension benefits or have changed your personal circumstances, please contact Capita Employee Benefits, the Scheme Administrators via any of the following:



hermes.pensions@capita.co.uk



01227 771445



Capita Employee Benefits
PO Box 323
Whitstable
CT5 9BY

The Trustee of the Hermes Group Pension Scheme