HERMES
INVESTMENT MANAGEMENT

Questions and Answers from the HGPS Annual General Meeting (AGM) 8 July 2015

Member Question:
How is the benchmark calculated for individual assets and the Scheme?

Answer:
For most of the conventional assets, such as equities and corporate bonds, the benchmark used is a suitable market index. However, for other asset classes such as multi-asset, absolute return and diversified credit the benchmark can be an absolute percentage return or “cash plus” percentage return. 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).

Member Question:
If LDI is the method for reducing the volatility of the deficit, why is it limited to 15%, how liquid is it, and is there any counter-party risk?

Answer:
As the Scheme still needs to generate excess returns in order to be fully funded on a self-sufficiency basis, it needs to hold return seeking assets and, therefore, cannot be fully matched. As the LDI is in leveraged funds, the 15% allocation hedges around 30% of the Scheme’s interest rate and inflation risk. The 15% is allocated to a range of LDI funds with different maturity dates to reflect the shape of the Scheme’s liabilities. The current allocation to LDI of 15% is regularly reviewed and may be increased in the future. The funds are weekly dealing and although there is counterparty risk, the daily collateralisation process mitigates this.

Member Question:
If the Scheme was fully funded and the Scheme was able to match its liabilities with its assets, would the liabilities continue to differ from the assets?

Answer:
It is necessary to make assumptions about financial and demographic factors when undertaking the actuarial valuation. Inevitably, what happens in practice does not always correlate to the assumptions. Even if all of the interest rate and inflation risks were hedged, demographic factors (for example longevity risk, dates of retirement, amount of cash taken, proportions married) may still lead to volatility in the funding level.

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Member Question:
What are the Legal & General LDI funds?

Answer:
The Legal & General LDI funds are pooled funds invested in gilt repos with an underlying exposure to gilts. Under the new pensions SORP, the Legal & General funds are expected to be classified under 'Category B'. Category B is used for assets which do not have quoted prices available, when the most recent can be used. The Legal & General funds fall into this category as they are weekly priced.

Member Question:
Who should 'Hermes 32'/'Pre-99 joiners speak to with regard to their pensions?

Answers:
All member queries should be directed to Capita Employee Benefits, the administrators of the Scheme.

Member Question:
How are the Trustee Director fees determined?

Answer:
The Trustee Director fees are determined by the Employer who has a policy on the fee arrangements.

Member Question:
What is the minimum amount of cash that should be held?

Answer:
The strategy is to not hold a significant amount of cash. The cash amount of 7% shown in the AGM Presentation 'Current vs. Target' slide reflects an anomaly in the Northern Trust figures as the majority of this cash had already been used to fund the purchase of additional units with Insight and was held pending settlement.

Member Question:
Is the Trustee happy with Capita's performance?

Answer:
Capita report their performance against the Service Level Agreement that is in place to the Board. There have been a few individual problem cases but their overall service is mainly good. For further feedback on Capita, members are reminded to contact Inside Pensions or to complete the member survey available on the HGPS member website.
Members (in attendance at the AGM) feedback on Capita: *Brilliant / Perfect.*

Questions and Answers from the HGPS Annual General Meeting (AGM) 8 July 2015

Member Question:
Are the statements produced by Capita sent out at specific times of the year?

Answer:
They are supposed to be but have historically been variable. This will be rectified for next year's communications.

Member Question:
A member expressed disappointment in the timing of the Report & Accounts and asked for them to be made available at least 3 weeks prior to next year's AGM and for a fixed date for their availability to be set.

Answer:
The original date for this year's AGM was 22 July 2015 but due to a problem with advisor availability, it had to be moved to the 8 July 2015, which allowed less time between the Report & Accounts becoming available and the actual meeting date. A further challenge this year arose from the number of changes in the investment strategy which required additional personal time from the Trustee in determining the best way to show the changes in an informative way for the members. Both factors led to the Report being issued on a tighter timescale than usual in relation the meeting. Members were advised that the Report & Accounts would be available by 30 June 2015 in a communication and they were actually made available by the earlier date of 18 June 2015, 3 weeks prior to the event. Given that next year's Report & Accounts will be the first in which the new SORP is adopted and that the accounts must undergo a very specific course of production, a specific date will not be able to be set but the Trustee will aim to ensure the Report & Accounts are made available at least 3 weeks prior to the AGM.

Member Question:
Should the AGM be moved?

Answer:
The AGM should continue to be held in late July.