



HERMES
Group Pension Scheme

June 2017

Dear Member,

Hermes Group Pension Scheme: Annual Newsletter

Welcome to the second newsletter of the Hermes Group Pension Scheme. This issue of the newsletter covers:

- Member Nominated Trustee Director process
- Summary Funding Statement
- Report and Accounts – 31 December 2016
- Actuarial Update
- Investment Performance
- Governance Update
- Membership Update
- General pensions news
- FAQs and Contact Information

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



HERMES

Group Pension Scheme

The Trustee of the Hermes Group Pension Scheme

Member Nominated Trustee Director Process

David Bridges' term of office as a Member-Nominated Trustee Director (MNTD) is due to expire in September 2017. Therefore, the Trustee Board, along with the Sponsoring Employer, is asking for nominations from Scheme members to fill this vacancy. More information on the role of a Trustee Director and the nomination process is included in the separate letter which covers this.

Summary Funding Statement

This year's Summary Funding Statement is attached.

Report and Accounts – 31 December 2016

The Trustee Report and Accounts for the year ending 31 December 2016 is available on the HGPS member website.

You can access the website via the following address:

<https://www.hermes-investment.com/hgps/>

If you would like to have a printed copy of the Report and Accounts, you can print them directly from the Scheme website; otherwise please contact the Scheme Secretary at the address listed at the end of this newsletter.

Actuarial Update

The results of the last Actuarial Valuation as at 31 December 2014 are shown below:

31 December 2014	
Liabilities	£170.7m
Assets	£138.6m
Deficit	£32.1m
Funding Level	81%

The next full actuarial valuation is planned for 31st December 2017.



HERMES

Group Pension Scheme

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 second annual funding update since the last valuation (31 December 2014). The table below summarises the relationship between the Scheme's assets and liabilities (the present value of future expected outgoings) over time.

31 December	2011	2012	2013	2014	2015	2016
Liabilities	£124.7m	£134.8m	£136.9m	£170.7m	£175.3m	£203.8m
Assets	£91.9m	£109.8m	£118.5m	£138.6m	£144.0m	£181.1m
Deficit	£32.8m	£25.0m	£18.4m	£32.1m	£31.3m	£22.7m
Funding Level	74%	81%	87%	81%	82%	89%

The table shows that the funding of the Scheme has improved since the 31 December 2014 valuation. This is as a result of:

- The deficit contributions paid by the employer
- The positive asset return experienced since 31 December 2014 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 period to 31 December 2016. They have actually returned around 28% over the period (approximately equivalent to 13% p.a.).

However this has been partially offset by:

- Increases in Scheme liabilities from a reduction in gilt yields, a consequently lower discount rate and higher inflation expectations.

The latest results are not based on 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 2016.



HERMES

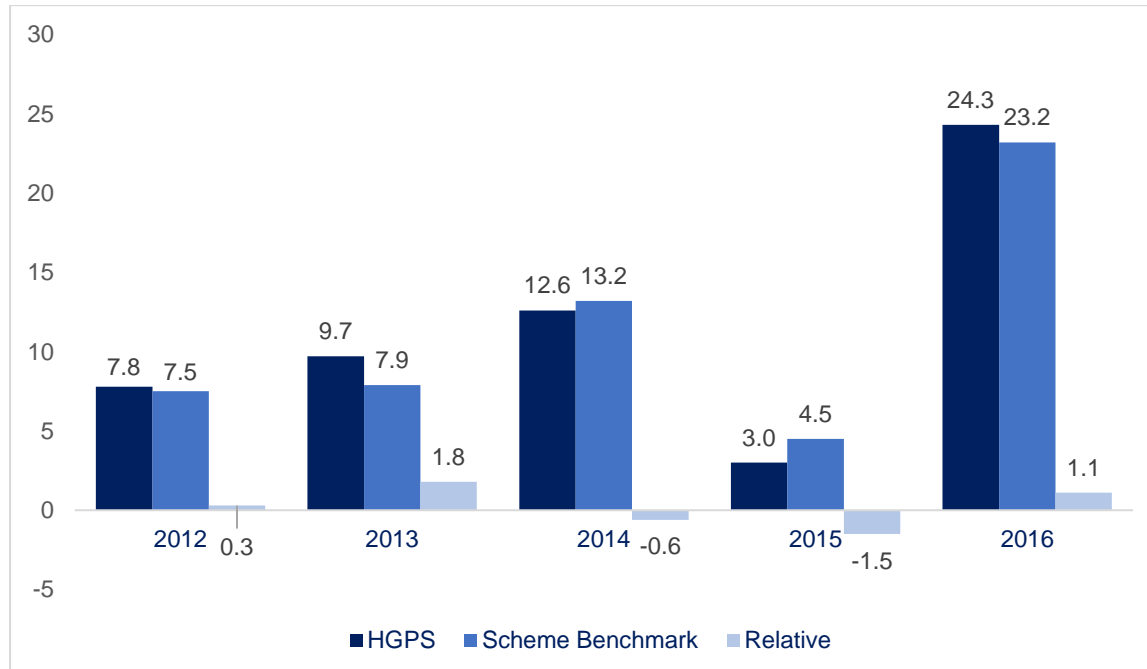
Group Pension Scheme

Investment Performance – year ending 31 December 2016

Over the year the overall investment return for HGPS was 24.3% against the benchmark return of 23.2%. The Scheme's performance in the last five years is shown in the table below:

Comparison with benchmark 2012 – 2016						
Annual Rate of Return %	2012	2013	2014	2015	2016	2012 to 2016 Annualised
HGPS	7.8	9.7	12.6	3.0	24.3	11.3
Benchmark	7.5	7.9	13.2	4.5	23.2	11.1
HGPS out/(under) performance of benchmark*	0.3	1.8	-0.6	-1.5	1.1	0.2

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



Over the five-year period from 2012 to 2016, the Scheme returned 11.3% per annum, outperforming its benchmark return over the period. For background, over the year to 31 December 2016, the Consumer Prices Index rose by a modest amount (1.5%).



HERMES

Group Pension Scheme

How is the Scheme Benchmark calculated?

For most of the conventional assets, such as equities and corporate bonds, the benchmark used is a relevant market index. For other asset classes, such as multi-asset and diversified credit, the benchmark is measured against a cash return plus a margin. Performance against these kinds of benchmarks can be quite volatile over the short term as the managers do not actively track them. The benchmark used for the Liability Driven Investment (LDI) portfolio is taken to be the return on the Scheme's LDI funds, which are invested in leveraged gilts and leveraged index-linked gilts.

The Scheme Benchmark is a weighted average of the individual benchmarks explained above. 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).

Governance Update

Over the course of the year there have been no changes made to the Trustee Board.

The Chairman's term of office will expire at the end of 2017. The Chair is an Employer appointment and the Employers are currently considering the position.

There have been two changes to the appointed advisors: John Dutton being added to the Inside Pensions Secretariat team; and John Walbaum and David Yao replacing Mark Baker and Nikhil Radia at Hymans Robertson.

Trustee Board		
Carol Woodley	Independent Chairman	Re-appointed 21 December 2015, Chairman from 1 January 2013
Douglas Bradford	Member Nominated	Appointed 18 September 2014
David Bridges	Member Nominated	Re-appointed 18 September 2016
Ingrid Kirby	Employer Nominated	Re-appointed 1 September 2016
Matt Simms	Employer Nominated	Re-appointed 23 July 2015

Advisers		
Secretary	Inside Pensions Limited	Rachael Fortescue Fiona McDonagh John Dutton
Investment Adviser	Hymans Robertson LLP	John Walbaum David Yao
Actuary	Willis Towers Watson Limited	Emma Palfreyman
Auditor	Deloitte LLP	Bob Cooper



HERMES

Group Pension Scheme

Lawyer	Sackers & Partners LLP	Pauline Sibbit
Administrator / Pensioner Payroll / Accounting	Capita Employee Benefits Limited	Michelle Russell Warren Swales

Summary of Trustee Activity over the Year

During the year, the Trustee Board and Audit Committee carried out some key activities.

The Trustee Board continued to liaise closely with Capita as administrators in order to strengthen administration processes and monitor activity.

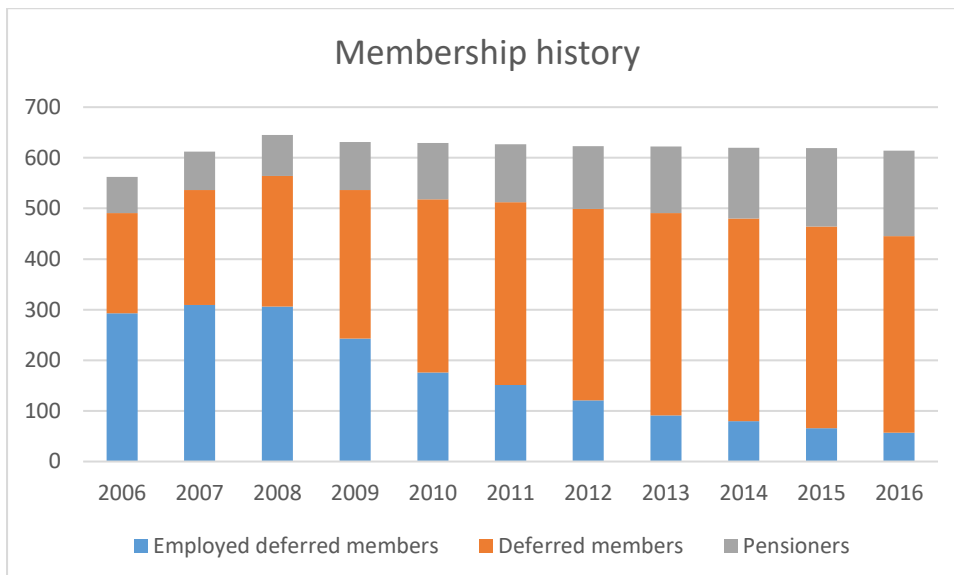
The Audit Committee visited Capita's offices in Sheffield to review accounting, cashflow, administration and payroll operations and controls on-site. An accounting and cashflow document was put in place which details scope and procedures.

The Trustee, in conjunction with the Principal Employers, agreed to de-risk the investment strategy and this work continues. In the meantime, some switches of investments, from equities to LDI, have taken place in the latter half of 2016.

The Trustee also carried out an assessment of its own effectiveness in a number of areas.

Membership Update

The chart below shows the history of membership from 2006.





HERMES

Group Pension Scheme

General pensions news

Brexit

There are no immediate changes or effects on the fund at present due to Brexit. However, should any developments arise the Trustee will update members accordingly.

For the time being, existing and emerging European law still impacts on UK pension schemes until or beyond Brexit. An example of this is the pan-European General Data Protection Regulation, which is set to take effect in the UK from May 2018.

Transfers out

There has recently been a lot of press comment on members taking transfers from pension schemes as the volume of transfer values leaving schemes has increased considerably in recent years, since the new pension freedoms introduced in 2014. This is also driven by values available being higher than in the past, typically due to the increase in gilt yields.

While there may be good reasons to transfer out all members who are considering transferring should consider taking independent advice as this is a very complex area. Indeed, advice from an Independent Financial Adviser is now a requirement where the transfer value is more than £30,000.

There also continues to be a lot of attention on pension scams. The Trustee is guided by The Pensions Regulator and uses the following website as a point of reference. As a Scheme member, you are also referred to this site for information should you ever consider transferring from the scheme, and the site includes a scams booklet for members: <http://www.thepensionsregulator.gov.uk/trustees/pension-scams-trustees.aspx>.

Transfers out overseas require particular care and closer examination of any tax consequences.

Tax on member pensions in payment

All pensions are taxable according to HMRC guidelines: <https://www.gov.uk/tax-on-pension> has details. Should you have any specific queries regarding the tax deductible on your pension please refer to your tax advisers or HMRC.

Moving abroad

Should you move abroad, you will need to consider arrangements for both your State pension and your pension from HGPS. <https://www.gov.uk/state-pension-if-you-retire-abroad> has details regarding your State pension. Please contact Capita regarding arrangements for your HGPS pension rights. In all cases, you should consider your tax position carefully – please refer to your tax advisers or HMRC.

Need an adviser?

You can use the following website to locate one: <https://www.unbiased.co.uk/find-an-adviser> and you can check their details and status on: <https://register.fca.org.uk/>



HERMES

Group Pension Scheme

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



Inside Pensions
Third Floor
54-56 Victoria Street
St Albans
Hertfordshire
AL1 3HZ

All Questions & Answers received in relation to this newsletter will be published on the HGPS member website www.hermes-investment.com/hgps during August 2017.

Should you need any details on your pension benefits, or if your personal circumstances have changed, 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 4990
Sheffield
S1 9GE