



Summary of Questions – Hermes Group Pension Scheme AGM – 24 July 2014

Question

What eligibility rules will the Trustees put in place for future Member Nominated Trustee Director election process and how can members be sure that there is no abuse of power?

Answer

At the time of the election process in June 2014, apart from the process specifically excluding nominees if they worked for a competitor, no eligibility criteria had been put in place. The Trustees reviewed the eligibility criteria at their meeting on 18 September 2014 and agreed that for future elections:

- Candidates will be excluded if they live outside of the UK
- Candidates will be excluded if they have any obvious conflicts or confidentiality issues

Question

Will the change in Eligibility Policy be reported in the Report and Accounts?

Answer

The Trustee will consider whether or not this is appropriate when it is starting to review the Report and Accounts in early 2015.

Question

Can the Risk Register be published in the Report and Accounts?

Answer

Yes highlights of the register will be included and the Trustee will be considering which key risks are the most appropriate to include as part of the production process.

Question (Security of the Fund & Application of the Crown Guarantee)

Can a communication informing members of the security of the Scheme and application of the Crown Guarantee be published?

Answer

The information below sets out the Trustee's understanding of the position:

Security

HGPS is relatively unusual in that it has two co-sponsors – HFML and BT Pension Scheme Trustees Limited (the “BTPS Trustee”), both of whom are ‘Principal Employers’. This means that although HFML bears the cost of funding HGPS from day to day, BT Pension Scheme Trustees Limited is jointly and severally responsible for meeting HGPS liabilities. In the event of an insolvency of HFML such that it could not meet its liabilities as principal employer of HGPS, then the BTPS Trustee instead would have to meet those liabilities from the assets of the BT Pension Scheme.

Crown guarantee

The UK government provided a crown guarantee in relation to BT's pension obligations when it was privatised. The guarantee has been confirmed by the courts – although it is not clear if there will be any further court action to confirm the amount being guaranteed. Ultimately from the viewpoint of HGPS, the guarantee (whatever its level) gives comfort as it ensures the Government would provide funding to the BT Pensions Scheme in the event of BT's insolvency which in turn backs up the obligations of the BTPS Trustees referred to above..

Question

Can the Report and Accounts include changes in legislation that have happened and any likely changes which would affect the Scheme?

Answer

Yes – a brief summary will be included in future Reports.

Question

Can the Questions and Answers raised at the AGM be published on the Member Website for reference?

Answer

Yes

Question

What are Diversified Growth Funds (DGF's)?

Answer

DGF's are multi-asset funds that aim to produce long term returns similar to equities but with lower volatility. They are pooled funds that invest in a wide variety of asset classes in order to achieve equity-like returns over the long term with lower risk. Typical asset classes included are global equities, emerging markets equities, private equity, investment grade corporate bonds, high yield bonds, cash and property.

Advantages of DGF's are:

- They provide access to asset classes that are not otherwise practical for smaller schemes
- They provide greater diversification and, potentially, a better risk/reward trade-off
- As they are pooled funds investing in a wide variety of assets, pension schemes are less reliant on one source of return such as equities to achieve long-term growth.



Question

What is Liability Driven Investment (LDI)?

Answer

LDI is an investment strategy based on cash flows needed to fund future liabilities. Rather than looking at potential asset returns alone, it seeks to protect the Scheme's funding position by hedging some of its interest rate and inflation exposure. The main goals are to improve a pension scheme's risk management framework and have sufficient assets to meet all liabilities, both current and future. In practice, this usually means using a range of assets such as swaps and bonds to construct an investment strategy that closely matches the behaviour of a proportion of liabilities.