Investment Policy Implementation Document for the Hermes Group Pension Scheme

This document was adopted by the Trustee on 2 December 2021. Note that fees agreed between the Trustee and the investment managers are commercially sensitive and have been removed from this online document. Details are available to members of the Plan on request.

1. Introduction

This Investment Policy Implementation Document ("IPID") for the Hermes Group Pension Scheme (the "Scheme") sets out details of the Scheme's investment arrangements, based on the principles set out in its Statement of Investment Principles ("SIP") dated 2 December 2021.

The IPID should be read in conjunction with the SIP. The IPID has been prepared by Hermes Pension Trustees Limited (the "Trustee"), and the Trustee is responsible for ensuring it reflects the current investment arrangements.

2. Investment strategy

The Scheme's investment strategy, as described in the SIP, along with the investment managers appointed to implement the strategy are set out below.

Asset Class	Strategic Allocation	Manager
Global Low Carbon Equity (index matching)	10%	Legal & General Investment Management ("LGIM")
Property	7.5%	Standard Life Investments Limited ("Standard Life")
Diversified Credit[1]	15%	Aegon Asset Management ("Aegon") Barings Investment Funds PLC ("Barings") M&G Investment Management Limited ("M&G")
Buy & Maintain Corporate Bonds	17.5%	Legal & General Investment Management ("LGIM")
Liability hedging (including Cash)	50%	Legal & General Investment Management ("LGIM")
Total	**100%**	

Details of the investment managers, their objectives, investment guidelines and fees are set out in the following sections.

[1] The Diversified Credit allocation incorporates investments in Private Credit and Asset Backed Securities.

3. Global Low Carbon Equity (Index Matching) – 10% of Total Assets

The Scheme invests in a global equity portfolio managed by Legal & General Investment Management ("LGIM"). The portfolio is implemented via two pooled fund investments.

LGIM manages the equity portfolio in line with the table below. As shown in the table, the Trustee uses both currency hedged and unhedged funds in order to hedge 75% of developed market currency exposure.

Allocation (%)	Fund	Objective
25%	Low Carbon Transition Global Equity Index Fund	To produce a return consistent with the Solactive L&G Low Carbon Transition Global Index. The index aims to provide exposure to developed and emerging equity markets while reducing carbon intensity by 70% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues through exposure to six underlying alternatively weighted indices.
75%	Low Carbon Transition Global Equity Index Fund – GBP Hedged	To produce a return consistent with the Solactive L&G Low Carbon Transition Global Index – GBP Hedged. The index aims to provide exposure to developed and emerging equity markets while reducing carbon intensity by 70% at the outset on a de-carbonisation path to achieve net zero by 2050, whilst also significantly reducing the level of carbon reserves and improving green revenues through exposure to six underlying alternatively weighted indices.

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The fees for each of the underlying funds are outlined in the table below:

Fund	Fee (% pa)
Low Carbon Transition Global Equity Index Fund	
Low Carbon Transition Global Equity Index Fund – GBP Hedged	

4. Property – 7.5% of Total Assets

The Scheme invests in long lease property through a pooled fund with Standard Life Investments Limited ("Standard Life") respectively. The Scheme is invested in the income distributing share class to provide cashflow for the Scheme.

Fund	Objective	Fees (% pa)
Standard Life Long Lease Property Fund	To outperform the return of All Stocks Gilts +2% pa over the long term.	

5. Diversified Credit – 15% of Total Assets

The Trustee has made two Private Credit commitments; one to M&G for £9.5m and one to Barings for £11.0m. The M&G Illiquid Credit Opportunities Fund ("ICOF") has reached the end of its investment period and is gradually returning capital to the Scheme. The Barings European Private Loan Fund II is approaching the end of its investment period which falls in mid-2022.

As the allocation to Private Credit will fluctuate over time, the Trustee also invests in Asset Backed Securities ("ABS") with Aegon Asset Management ("Aegon") to provide the balance of the Scheme's allocation to higher returning credit (referred to in aggregate as Diversified Credit). Any monies committed to Private Credit, but not yet drawn, will be invested in ABS as a high quality, low-risk and liquid holding arrangement.

As the Private Credit investments mature and distribute cash over time, this cash will be invested in ABS and/or Buy & Maintain corporate bonds (investing more capital in Buy & Maintain corporate bonds is necessary to maintain the allocation as these funds also mature and distribute cash over time). This process is expected to de-risk the Scheme over time. As a result of this fluidity, there is no formal allocation split between the funds.

Fund	Objective	Fees (% pa)
Aegon European ABS Fund	Informal objective is to outperform SONIA plus 2% pa (net of fees)	
Barings European Private Loan Fund II	To produce an IRR of 6.5% - 7.5% pa	
M&G Illiquid Credit Opportunities Fund	The investment objective of the Fund is to achieve a total return of SONIA + 5% pa, net of fees.	

6. Buy & Maintain Corporate Bonds – 17.5% of Total Assets

The Trustee invests in Buy & Maintain Corporate Bonds with LGIM. This allocation is implemented via two pooled funds which amortise over time, providing cashflow for the Scheme. The cashflows from this mandate are incorporated into the Scheme's liability hedging.

As noted above, as the Scheme's private credit investments, and the existing Buy & Maintain funds, start to mature the Trustee intends to use surplus cash flow to extend the Buy & Maintain Corporate Bond allocation into longer dated funds in order to increase the extent to which benefit cash flows are matched by this investment. This is also necessary to maintain the strategic allocation to this asset class as the funds mature and distribute cash.

The fee for this mandate is [ ] pa.

7. Liability hedging (including Cash) – 50% of Total Assets

The Scheme's liability hedging mandate is implemented via a bespoke pooled fund where the Scheme is the sole investor. The fund uses leverage. The liability hedging mandate is passive in nature, but LGIM do operate efficient hedge management. LGIM focus on matching the liabilities as a primary goal, but as a secondary goal, aim to keep the hedge as efficient as possible (by conducting duration and curve neutral trading when opportunities arise to enhance yield – for example, swapping an existing gilt for a newly issued one with a higher yield). The Trustee (with LGIM) has designed the hedge to target 90% interest rate hedging and 90% inflation hedging (as measured on a gilts flat liability basis), taking into account the hedging characteristics of the Scheme's other assets.

The fee for this mandate is [ ]% pa on liabilities hedged, subject to a minimum fee of £[ ] pa.

IPID signed for and on behalf of Hermes Pension Trustees Limited:

Signed: ______________________________