

February 2019

Dear Member

Hermes Group Pension Scheme: Newsletter

This is the fourth newsletter of the Hermes Group Pension Scheme. The previous three Newsletters have been issued in the summers of 2016, 2017 and 2018. The Trustee felt that, as there have been a number of developments recently, the fourth Newsletter should be issued in winter 2018/19.

This issue of the newsletter covers the following areas:

- Trustee Board and Directors
- Triennial actuarial valuation as at 31 December 2017
- Summary Funding Statement as at 31 December 2017
- Relationship with the sponsor
- Appointment of KPMG
- Report and Accounts as at 30 June 2018
- Appointment of LCP
- Investment Strategy
- Investment Performance
- Member website
- Membership Update
- Trustee Advisers
- 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.

The Trustee of the Hermes Group Pension Scheme

Trustee Board and Directors

The profile of the Trustee Board is as follows:

Trustee Board				
	Directorship type	Professional trustee?	Ex Hermes employee?	Scheme pensioner?
Alison Bostock representing PTL	Independent Chairman	Yes	-	-
Douglas Bradford	Member Nominated	-	Yes	Yes
Alan Ormrod	Member Nominated	-	Yes	Yes
Ingrid Kirby	Employer Nominated	Yes	Yes	Yes
Matt Simms	Employer Nominated	Yes	Yes	-

Triennial actuarial valuation as at 31 December 2017

The results of the last formal triennial Actuarial Valuation as at 31 December 2017 are shown below. Between formal triennial formal valuations, the Scheme Actuary rolls forward calculations each year in 'Annual Funding Updates' and the results of these calculations are also shown below. Formal valuation documents were signed in December 2018.

	31/12/2014 Formal valuation	31/12/2015 Update	31/12/2016 Update	31/12/2017 Formal valuation
Liabilities	£170.7m	£175.3m	£203.8m	£215.3m
Assets	£138.6m	£144.0m	£181.1m	£234.5m
Deficit / surplus	-£32.1m	-£31.3m	-£22.7m	£19.2m
Funding Level	81%	82%	89%	108.9%

The position has considerably improved over the three years to 31/12/2018. This has been as a result of payment deficit contributions, positive investment experience, and the mitigation payment made as part of agreement to the Flexible Apportionment Arrangement.

The basis used to value the liabilities has been strengthened, ie the value placed on the liabilities is higher than it would have been on the 2014 valuation basis. The Trustee considers the assets and liabilities of the Scheme in tandem. The strengthened basis reflects the expectation of lower returns on assets as the Scheme derisks its assets portfolio.

Summary Funding Statement as at 31 December 2017

An annual Summary Funding Statement is enclosed with this Newsletter.

Relationship with the sponsor

The formal triennial valuation process requires the Trustee to liaise with the sponsor to agree the assumptions to be used to value the Scheme liabilities. For the triennial valuation as at 31 December 2017, the Trustee liaised for the first time with BTPSTL as the sole sponsor, and there was a relatively smooth process to finalising the valuation.

Appointment of KPMG

The Trustee appointed KPMG, replacing Deloitte, as auditor to the Scheme over the summer of 2018. The appointment followed a request by BTPSTL, who saw efficiencies in using KPMG, who are also the auditors for BTPS.

The Trustee considered carefully whether it was appropriate to make this change, and concluded that it was, for various reasons. Separate audit partners and teams would be used. It is not uncommon for the sponsor and the pension scheme to have the same auditor. It was a move from one “Big Four” firm to another with similar capability and fee levels. The Trustee also noted that Deloitte had been appointed for approaching 20 years and therefore there was the benefit of a fresh pair of eyes. The Trustee did not therefore run a tender process.

BTPSTL also requested a change in the reporting date, to a 30 June year end, to align with the BTPS reporting date.

Report and Accounts as at 30 June 2018

The Trustee Report and Accounts for the 6-month period ending 30/06/2018 were finalised and signed in December 2018. Ongoing, the accounting period will be 30 June each year. The next formal actuarial valuation of the Scheme, due on or before 31/12/2020, is likely to be as at 30/06/2019, to tie in with the accounting period.

The Accounts show that the value of Scheme assets at the start of the accounting period, 31/12/2017 was £234.5m. During the year, income to the Scheme, for example from contributions and investment income, plus changes in asset values, almost exactly equated to outgo from the Scheme, for example benefit payments to members, fees and expenses. This resulted in a value of Scheme assets at the end of the period, 30/06/2018, of £ 234.3m.

Appointment of LCP

The Trustee appointed LCP (Lane Clark and Peacock) as investment advisers to the Scheme over the summer of 2018. LCP replaced Hymans Robertson.

The Trustee reviews its advisers regularly. Seven advisers were invited to tender, six did so, and the Trustee shortlisted three to give presentations, before selecting LCP.

Investment Strategy

The Scheme Statement of Investment Principles (SIP) was updated and signed in May 2018. The SIP, along with other information on the Scheme's assets, is on the member website.

The triennial actuarial valuation as at 31/12/2018, shows the Scheme to be in surplus. The valuation was signed off in December 2018. Immediately following this, the Trustee held a strategy meeting, attended by representatives of the sponsor, to discuss the long-term goal for the Scheme, and the nature of investments that might form part of the Scheme portfolio in order to reach that goal. Work on this will continue through 2019.

The asset allocation of the Scheme as at 30 June 2018 is summarised as follows.

	Investment Objective/ Portfolio style	Long Term Strategic Asset Allocation as at 31/12/2017	Actual Asset Allocation as at 30/06/2018
Global developed market equity	Return seeking, index matching	16.0%	16.8%
Emerging market equity	Return seeking, active	4.0%	4.3%
Multi Asset	Return seeking, active	15.0%	15.3%
Property	Liability matching, active	10.0%	9.3%
Diversified Credit	Liability matching, active	15.0%	14.3%
LDI in QIAIF	Liability matching	40.0%	40.0%
		100.0%	100.0%

A more detailed breakdown of asset allocations by manager and fund is given in the Trustee Report & Accounts as at 30 June 2018, on page 31.

Investment Performance

The Scheme's performance in recent years is shown in the table below:

Annual Rate of Return %	2014	2015	2016	2017	2018 H1	2014 – 2018 annualised
HGPS	12.6	3.0	24.3	11.0	-0.3	11.1
Benchmark	13.2	4.5	23.2	8.3	1.0	11.0
HGPS out/(under) performance of benchmark	-0.6	-1.5	1.1	2.7	-1.3	0.1

2018 H1 saw negative absolute performance over the Scheme's assets as a whole. There were falls in emerging markets which negatively impacted the Scheme performance. The equity mandates fell in value in Q1 before partially bouncing back in Q2. Multi-asset was down overall. Credit saw modest rises over the six-month period. Property performed relatively strongly in both quarters.

Regarding underperformance against benchmark, the Insight multi-asset Broad Opportunities Fund was the major reason for the relative underperformance over 2018 H1, with the Scheme's Emerging Markets mandate also performing negatively against benchmark in 2018 Q2.

Member website

The member website had been hosted by Hermes. The Trustee was mindful that, following the Flexible Apportionment Arrangement, Hermes is no longer a sponsoring employer of the Scheme. The Trustee has therefore considered other options, and was looking for a solution where there is more direct control over the ability to update content on the website. The website has therefore been relaunched and will be maintained by the Scheme Secretary. The new address is:

<http://www.hermesgrouppensionscheme.co.uk>

Please note that the old website hosted by Hermes is due to be closed by the end of February 2019.

Membership Update

The figures below show the recent history of membership.

	31.12.2008	31.12.2011	31.12.2014	31.12.2017	30.06.2018
Employed deferred	306	151	80	52	48
Deferred	258	361	400	369	369
Pensioner	81	115	140	180	182
Total	645	627	620	601	599

Advisers

Advisers		
Secretary	Inside Pensions	Rachael Fortescue John Dutton
Lawyer	Sackers & Partners	Pauline Sibbit
Covenant Adviser	Lincoln	Alex Hutton-Mills
Investment Adviser	LCP	James Trask
Actuary	Willis Towers Watson	Emma Palfreyman
Administrator	Capita Employee Benefits	Phil Hunter Adam Luscombe
Finance	Capita Employee Benefits	Randa Jelbert
Auditor	KPMG	Fang Fang Zhou

The Trustee continues to closely liaise with Capita through its transformation plan. Capita attend quarterly Trustee meetings to present their Administration Report for the most recent quarter. The Trustee continues to monitor the position carefully and has an item on its Business Plan for 2019 to consider a visit to the Capita Administration offices in Whitstable.

General pensions news

Clarifying and strengthening trustees' investment duties

There was a response by the DWP in September 2018 to the consultation "Clarifying and strengthening trustees' investment duties", and the response said:

"to require trustees to, by 1 October 2019: where they are required to produce a Statement of Investment Principles (SIP), update or prepare it to set out:

- how they take account of financially material considerations, including (but not limited to) those arising from Environmental, Social and Governance considerations, including climate change;
- their policies in relation to the stewardship of investments, including engagement with investee firms and the exercise of the voting rights associated with the investment"

The Trustee will review the position as part of its investment strategy discussions with LCP and the sponsor during 2019.

GMP Equalisation

The High Court has provided its ruling on GMP equalisation. The judgment only applies to a certain tranche of 'Guaranteed Minimum Pension' benefits built up between 17 May 1990 and 6 April 1997. Pension schemes now look set to be required to equalise this tranche of benefit between men and women. Equalisation means that the benefits of some members may increase, and benefits will not reduce. The Trustee will work with its advisers in 2019 to establish if and how individual members are affected.

In the meantime, if you are considering transferring out of the Scheme, please liaise with Capita to establish the latest position as to how GMP equalisation may impact your decision.

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



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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



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