

Annual General Meeting – 24 July 2014

Agenda

1. Introduction by Chairman
2. Governance update
3. Funding position
4. Developments since last AGM
5. Investment Strategy
6. Questions from members

Governance – Trustee Board

Hermes Pension Trustees Ltd - Trustee Directors:

Carol Woodley	Independent Chairman	Re-appointed 21 December 2012, then as Chairman 1 January 2013
David Bridges	Member Nominated	Re-appointed 18 September 2012
Ingrid Kirby	Company Nominated	Appointed 1 September 2012
Matt Simms	Company Nominated	Appointed 1 September 2013
Douglas Bradford	Member Nominated	Elected 11 July 2014 Appointed 9 September 2014

- Maria Brackley retired as a Trustee Director in August 2013.
- Hamish Galpin retired as a Trustee Director in September 2013.
- Maria and Hamish were replaced by Matthew Sims and Kathryn Graham in September 2013
- Kathryn Graham subsequently resigned from the position in February 2014

Governance – Advisers

Role	Company	Individual
Secretary*	Inside Pensions	Represented by Rachael Fortescue and Fiona McDonagh
Investment Adviser	Hymans Robertson LLP	Represented by Mark Baker
Scheme Actuary**	Towers Watson	Emma Palfreyman
Auditors	Deloitte LLP	Represented by Bob Cooper
Lawyers	Sackers & Partners LLP	Represented by Janet Brown
Pensions Administrator/payroll/accounting***	Capita Employee Benefits	N/A
Covenant advice	Grant Thornton	N/A

* From January 2014 secretariat support was outsourced to Inside Pensions Ltd

** Judith Dingle resigned as Scheme Actuary on 8 November 2013 and was replaced by Emma Palfreyman on 3 December 2013

*** In April 2013 the Trustee appointed Capita Employee Benefits to provide accounting and pension payroll services, previously provided by Hermes.

Governance – Member Nominated Trustee Director Process

- Letter sent to all members seeking nominations – 30 May 2014
- 6 nominations received
- 1 excluded - worked for a competitor
- Election papers issued 20 June 2014
- Election closed 11 July 2014
- Results announced by 18 July 2014
- Douglas Bradford elected as new Trustee Director

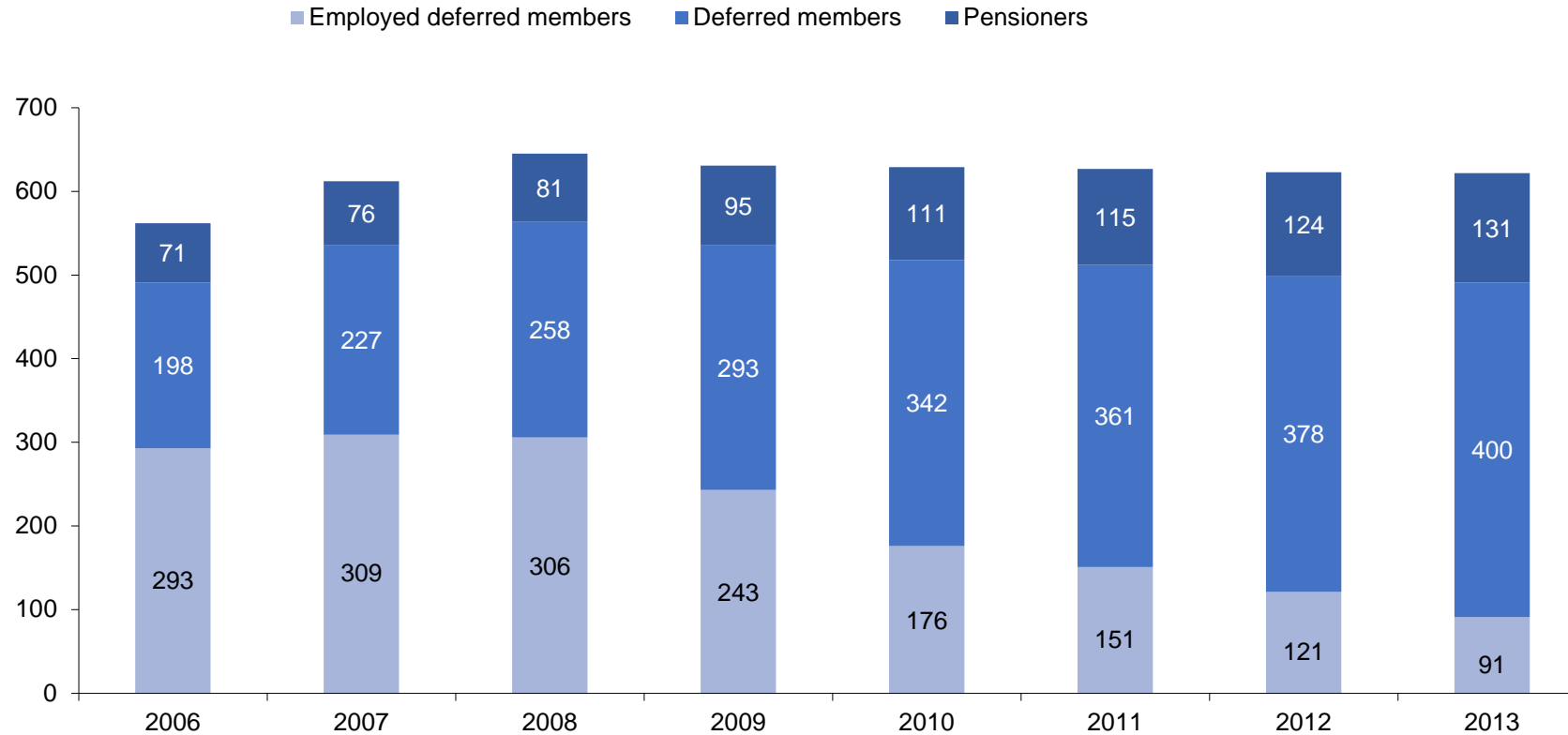
Governance – Member Nominated Trustee Director Process

- Process specifically excludes nominees if they work for a competitor
- Eligibility policy is to be reviewed to give trustees more discretion to exclude applicants on wider grounds

Trustee activity over the year

- Developed investment strategy with Hymans Robertson
- Put in place service level reporting with Capita Accounting and payroll
- Appointed new Secretary to support the Trustee with Scheme management
- Reviewed service agreement with HFML
- Reviewed and updated Conflicts Policy
- Approved Trustee Training Policy
- Reviewed and updated Risk Register

Membership Statistics



Funding Position

Presented by Emma Palfreyman – Towers Watson

Appointed as Scheme Actuary on 3 December 2013
Replacing Judith Dingle who resigned on 8 November 2013

Funding Position – Overview of the Year

- Last full valuation of the Scheme: as at 31 December 2011
- Next full valuation of the Scheme: as at 31 December 2014 (plans are in place for this)
- Intervaluation updates required in intermediate years

31 December	2011	2012	2013
Assets of the Scheme (£000s)	91,900	109,800	118,500
Funding liabilities (£000s)	124,700	134,800	136,900
Deficit (£000s)	(32,800)	(25,000)	(18,400)
Funding position (%)	74%	81%	87%

- The funding level has improved over the year to 31 December 2013 due to:
 - Contributions paid by the Company (£1.6m)
 - Positive asset return experience over the year (around 9%).
 - The improvement in economic conditions over the year
- The funding position at 31 December 2013 is around £3m better than that expected under the Scheme's Recovery Plan

Developments since last AGM

1. Salary shortfall contributions (Scheme-specific)

- Under the current funding agreement, additional contributions are paid by the Company if actual salary increases are higher than was assumed in the 31 December 2011 valuation
- Salary increases at 1 April 2012 and 1 April 2013 were both higher than expected
- The Company has paid additional contributions of £0.2m as a result
 - Extensive discussions with the Auditors regarding qualification of the accounts due to a delay in the provision of the necessary data (and hence in the payment of these contributions)
- Salary increases at 1 April 2014 were lower than expected

2. Budget 2014 implications (potentially impacts all pension schemes)

- Outcome of the Government's consultation published 21 July
- Changes to rules for Defined Contribution (DC) pensions from April 2015 e.g.
 - Removing the requirement to purchase an annuity at retirement
 - Requiring the provision of "guidance" at retirement
- Members of Defined Benefit (DB) schemes who wish to transfer benefits to DC arrangements may continue to do so, but must take independent financial advice
- Increased flexibility for members with "small" pots

"... the most fundamental change to how people can access their pension in nearly a century."

George Osborne – March 2014

HGPS Investment Report

Mark Baker

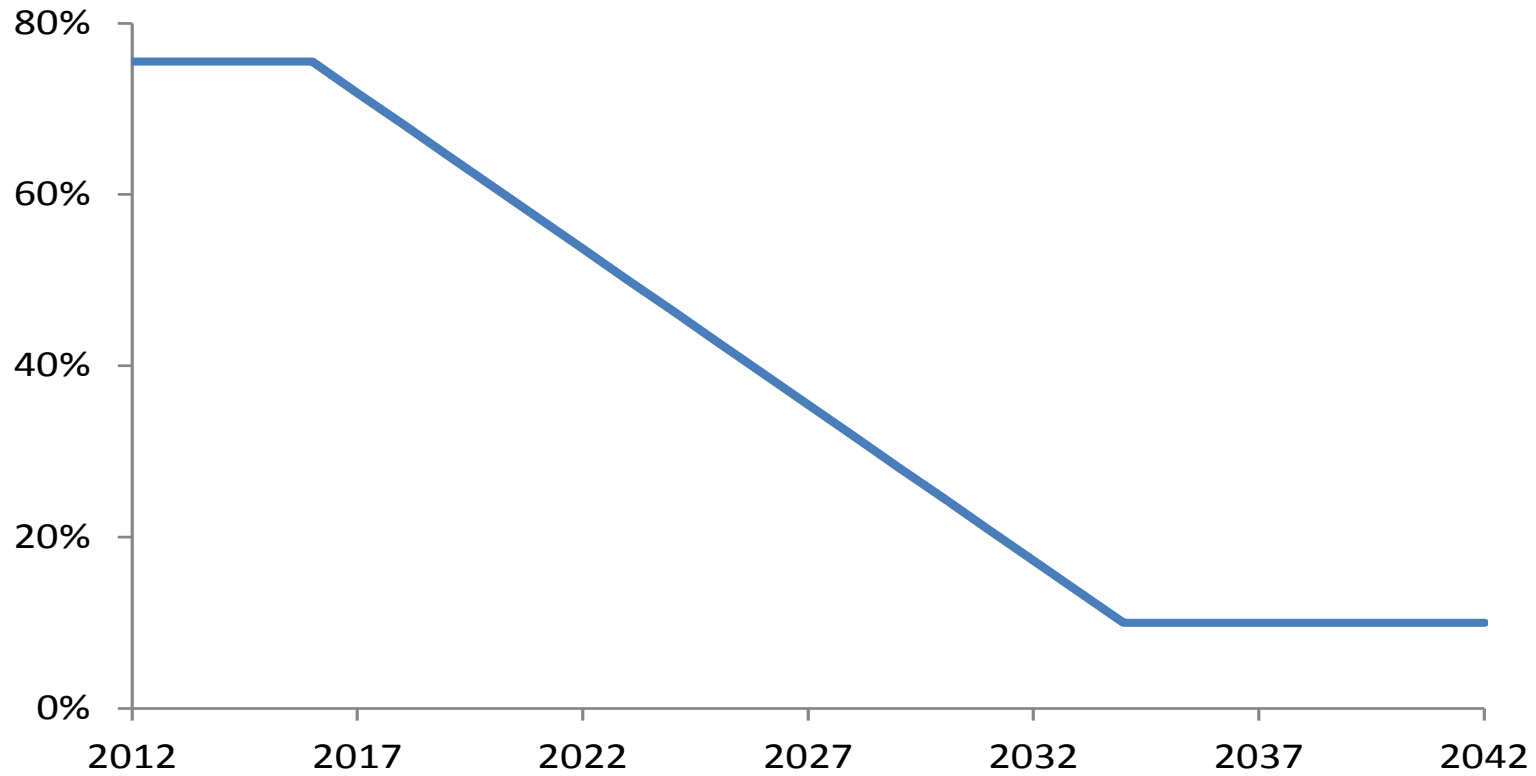
Hymans Robertson LLP

1. Investment objectives
2. Investment strategy review
3. 2013 performance
4. Annual returns
5. 2014 year-to-date performance

Investment Objectives

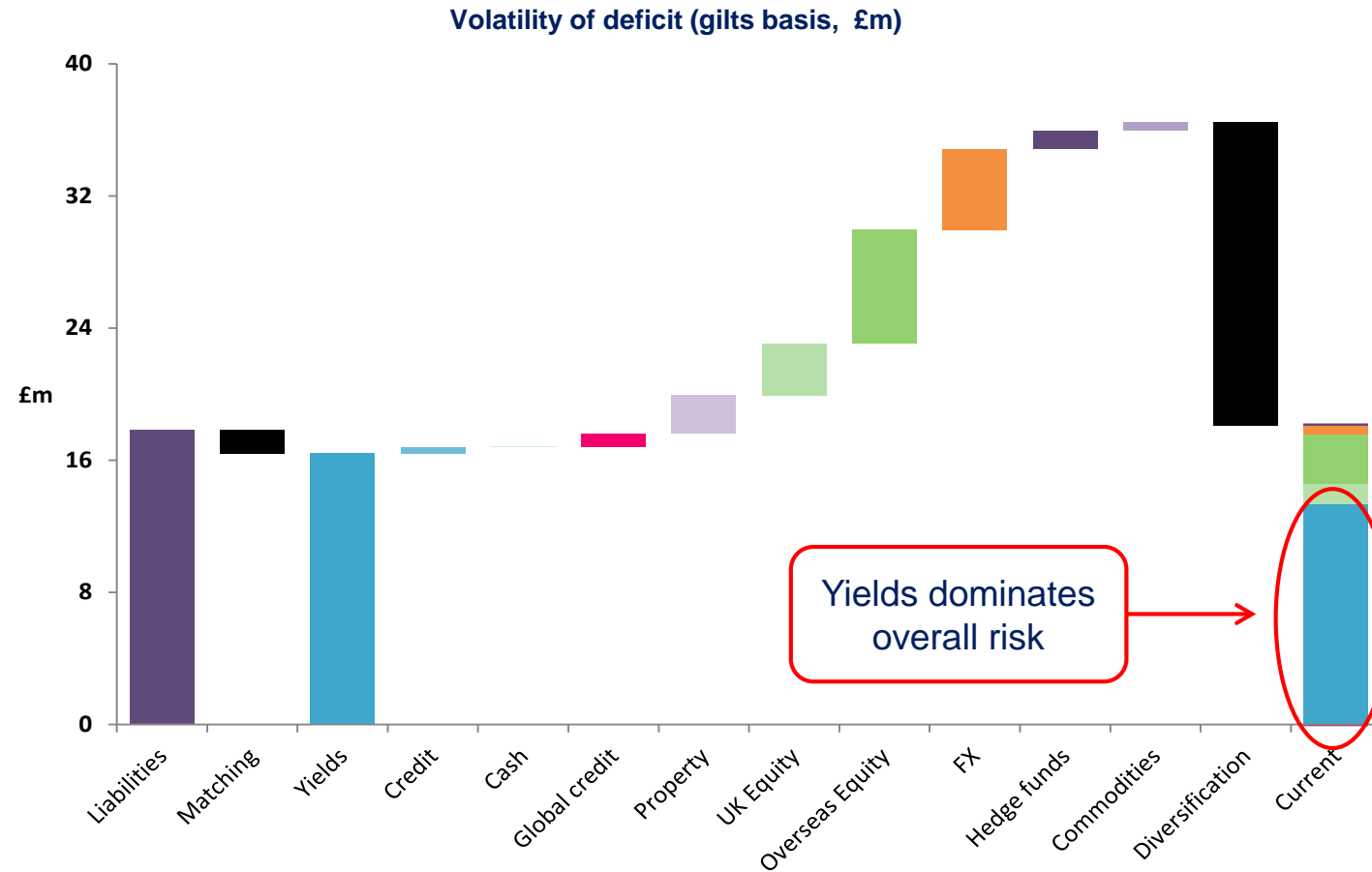
- The Trustee and the Principal Employers have agreed to target a “self-sufficiency” funding level for the Scheme; the informal target date for achieving is by 2035.
- This target is to be achieved through a combination of Sponsor contributions and investment returns.
- The investment objectives are to:
 - i. Ensure sufficient funds are available to pay benefits as and when they are due.
 - ii. Achieve at least the required level of return to meet the funding target.
 - iii. Avoid unnecessary risks.
 - iv. Avoid unnecessary complication and cost.

Return-Seeking Allocation Over Time



Source: Towers Watson

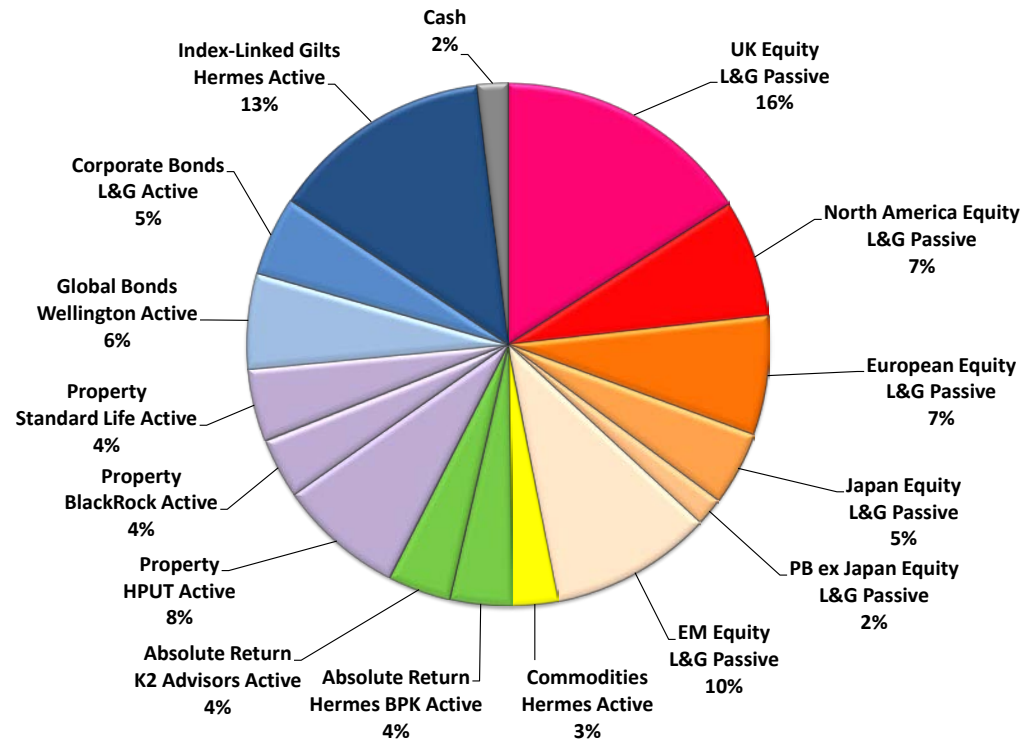
Investment Strategy Review – Understanding The Risks



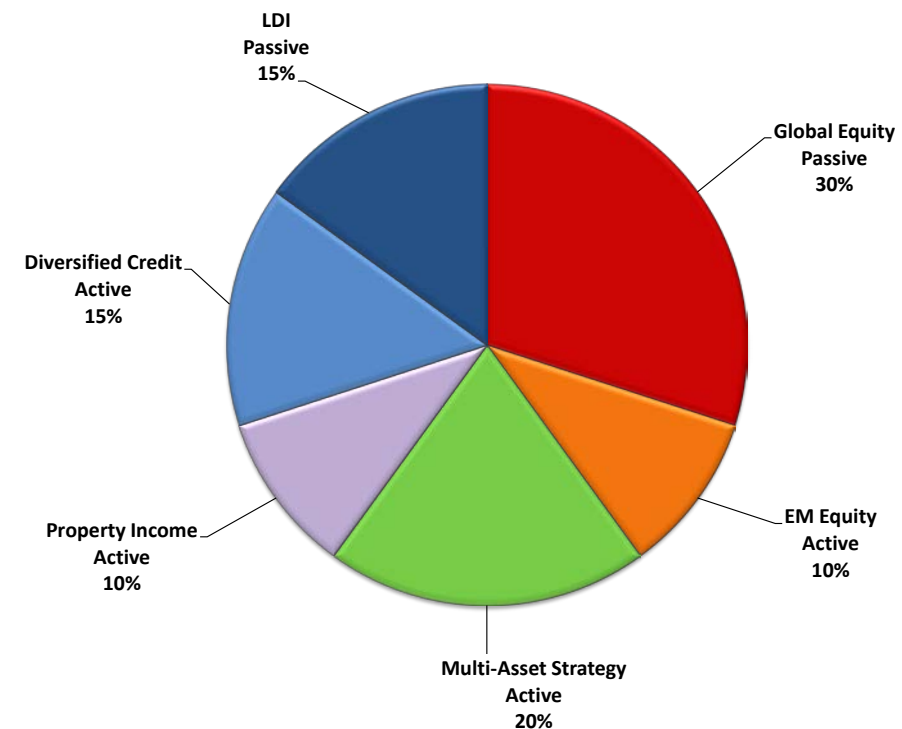
Analysis calibrated using market data as at 30 June 2013. Liabilities valued on a gilts basis. Fixed/real splits of the liabilities provided by the Scheme Actuary (Towers Watson).

Investment Strategy Review – Long Term Plan

Current allocation (31 March 2014)



Proposed



Investment Strategy Review – Progress To Date

- Simplification

 - State Street Common Trust Fund and RWC UK Specialist Focus Fund disinvested over 2013

 - Redemption notice has been submitted to Hermes BPK

- Maturing liabilities

 - Working with the Scheme Actuary

 - Increase hedging provided by matching assets using Liability Driven Investment (LDI)

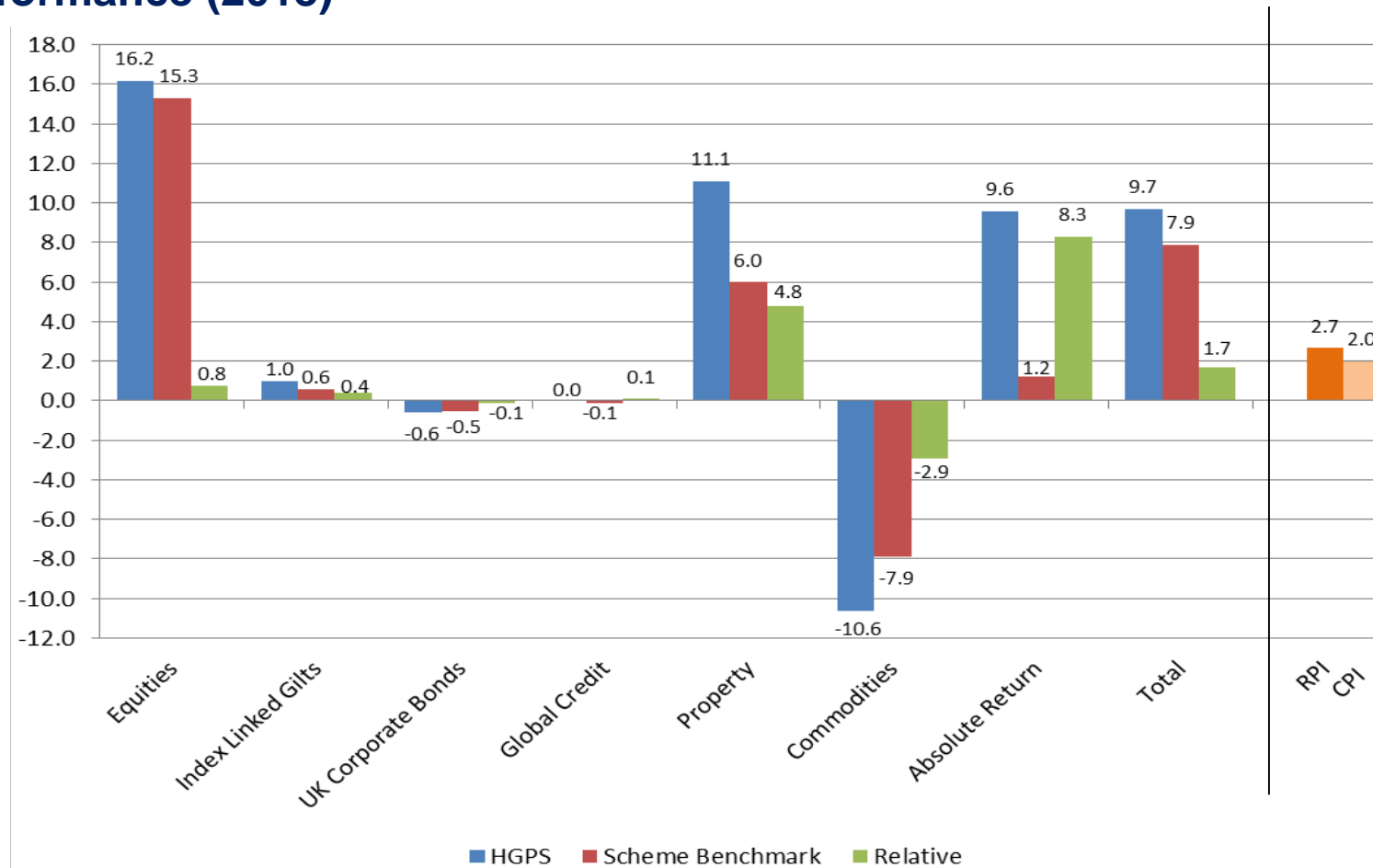
- Role for active management

 - Concentrate on areas where it is likely to add most value, e.g. Emerging Markets

Investment Strategy Review – Decisions Taken

Asset class	Decisions taken
LDI	<ul style="list-style-type: none"> - To hedge c30% of interest rate and inflation risk via investment in leveraged fixed and index-linked gilt funds - Mandate to be managed by L&G
Diversified Credit	<ul style="list-style-type: none"> - Allocation to be split equally between Babson Capital and M&G
Global Equity	<ul style="list-style-type: none"> - Trustee to initially invest half of the target weight in the RAFI 3000 Index Fund with L&G - Remainder to be switched to a single passive fund with L&G
Emerging Market Equity	<ul style="list-style-type: none"> - To remain with L&G until an active manager has been selected - Beauty parade planned for later in the year
Property	<ul style="list-style-type: none"> - Investment with BlackRock to be sold (on the secondary market, subject to acceptable price)
Multi-Asset Strategy	<ul style="list-style-type: none"> - Trustee received training on multi-asset strategies - Beauty parade planned for later in the year

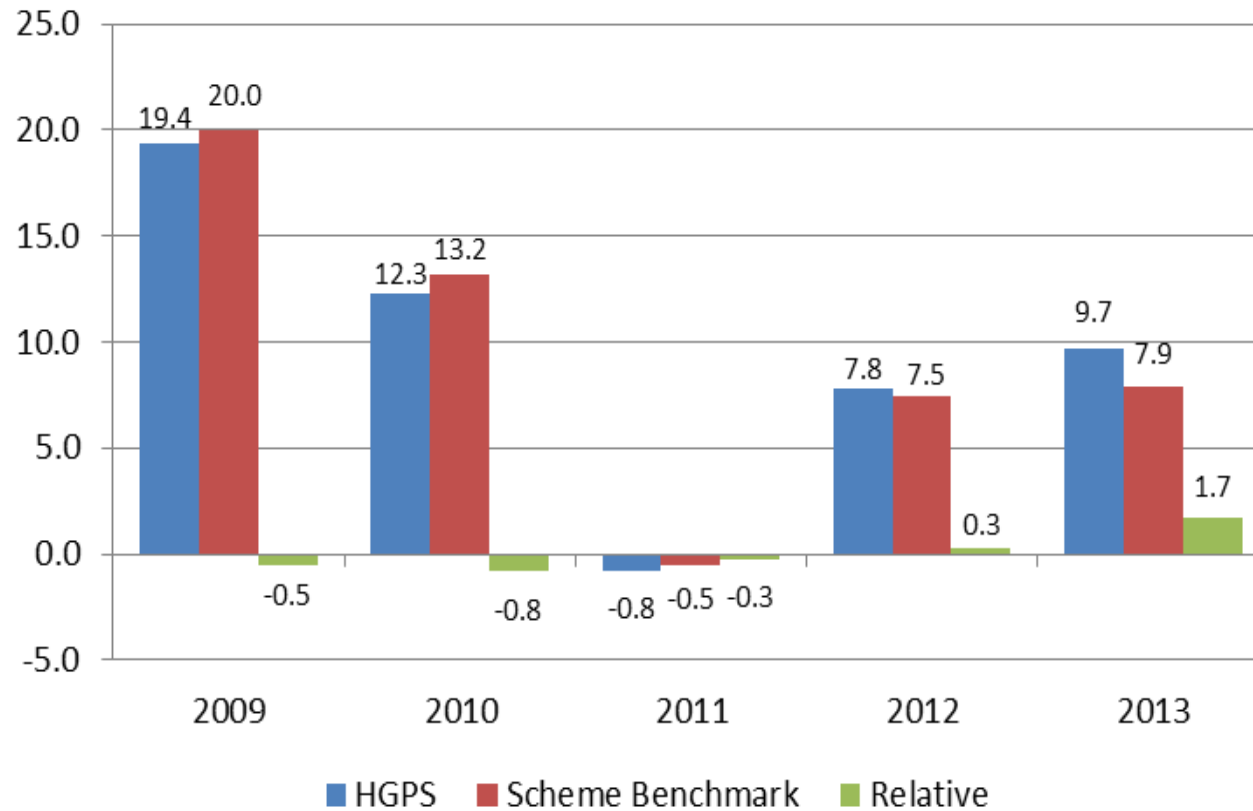
Investment Performance (2013)



Source: Northern Trust / Hermes / ONS

Relative returns are calculated based on a geometric approach and may differ from those shown in the 2013 Annual Report and Financial Statements

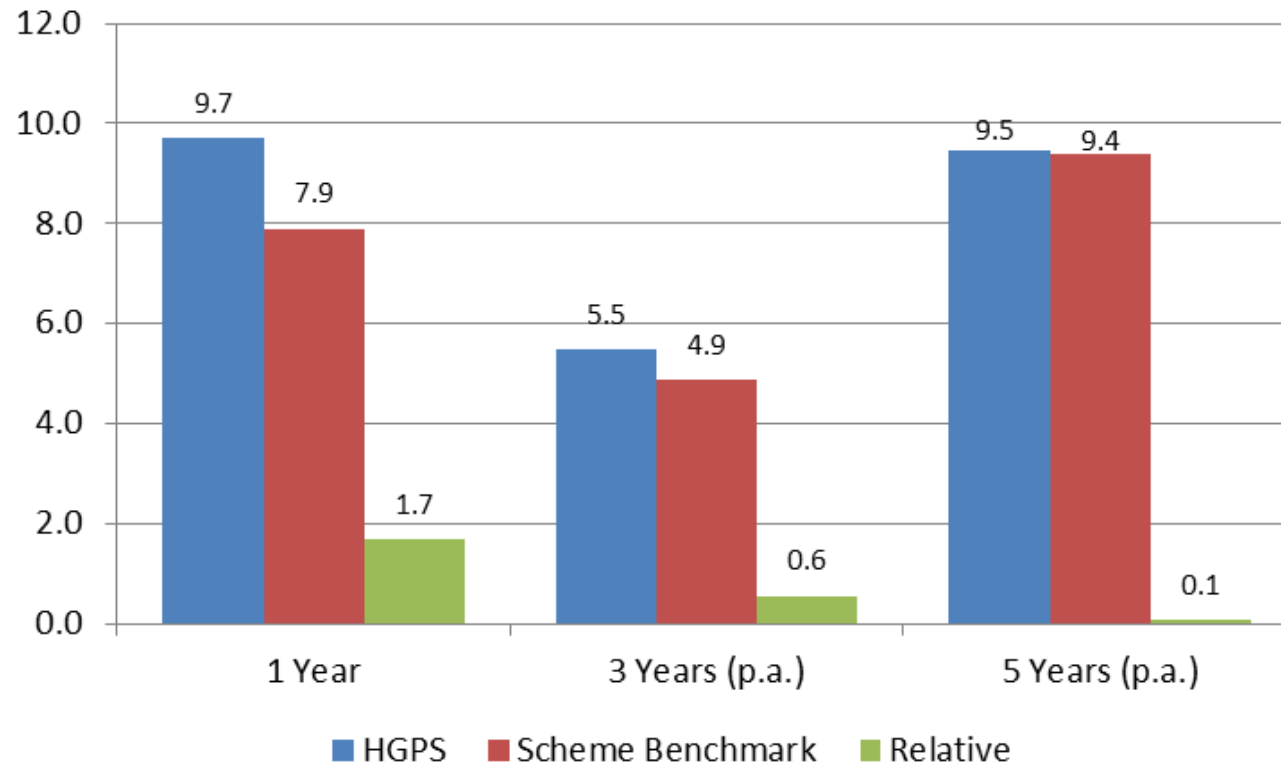
Calendar Year Returns (5 Year History)



Source: Northern Trust / Hermes

Relative returns are calculated based on a geometric approach and may differ from those shown in the 2013 Annual Report and Financial Statements

Annualised Returns (1, 3 and 5 Years)



Source: Northern Trust / Hermes

Relative returns are calculated based on a geometric approach and may differ from those shown in the 2013 Annual Report and Financial Statements. Three year annualised returns calculated by Hymans Robertson

2014 Year-To-Date Performance (To 30 April)

HGPS Total Return	+1.8%
Strategic Benchmark	+1.8%
Relative Performance	0%

Source: Northern Trust

Questions from members...