

## Agenda

1. Introduction by Chairman
2. Governance update
3. Actuarial Valuation Update – 31 December 2014
4. Developments since last AGM
5. The New Pensions SORP
6. Investment Strategy
7. 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 18 September 2014

**Governance – Advisers**

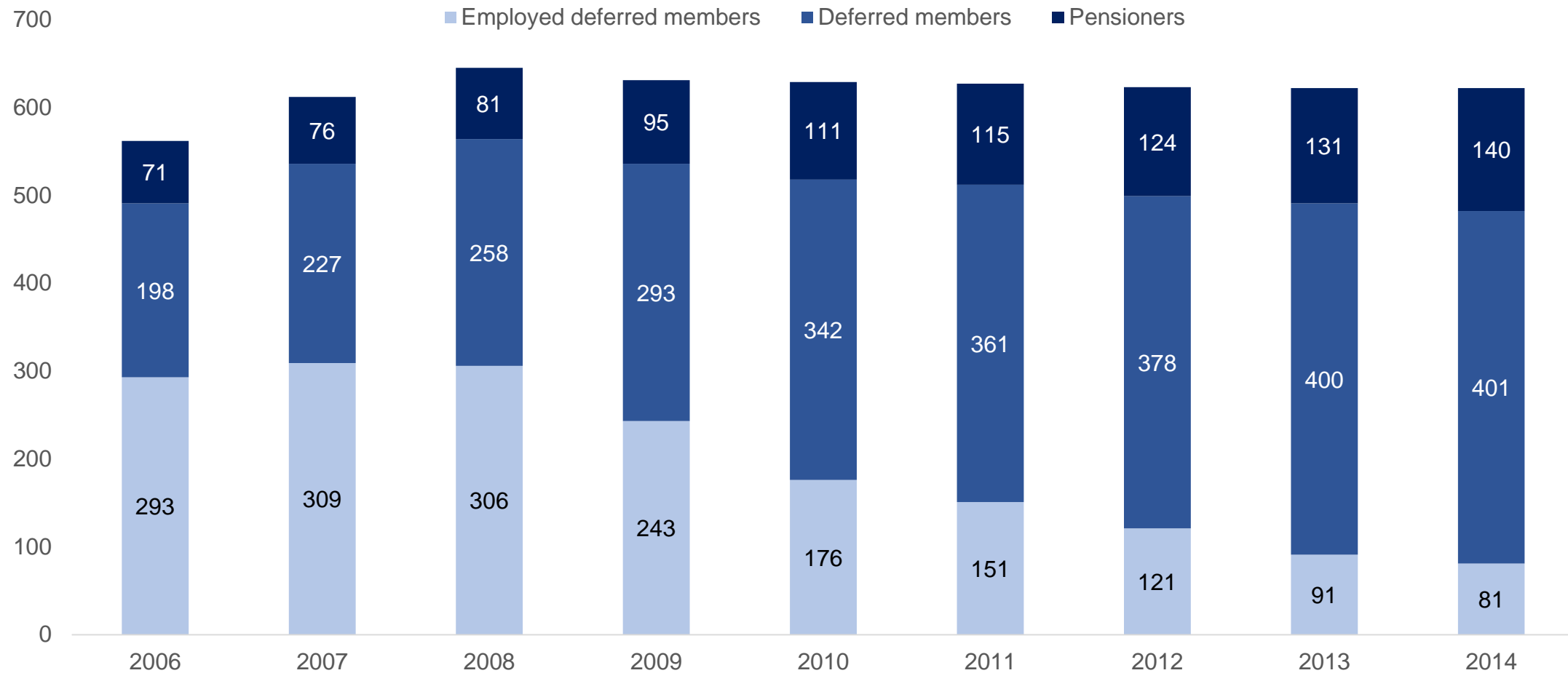
<b>Role</b>	<b>Company</b>	<b>Individual</b>
Secretary	Inside Pensions Ltd	Represented by Rachael Fortescue and Fiona McDonagh
Investment Adviser	Hymans Robertson LLP	Represented by Mark Baker and Nikhil Radia
Scheme Actuary	Towers Watson Ltd	Represented by Emma Palfreyman
Auditor	Deloitte LLP	Represented by Bob Cooper
Lawyers	Sackers & Partners LLP	Represented by Janet Brown and Pauline Sibbit
Pensions Administrator/payroll/accounting	Capita Employee Benefits Ltd	N/A

### **Trustee activity over the year**

- Implementing the new investment strategy with Hymans Robertson
- Established service level reporting with Capita Accounting and Payroll
- Approved a Communications Strategy and Plan
- Commenced the triennial valuation process as at 31 December 2014
- Commenced initial discussions on journey planning

# Hermes Group Pension Scheme – Annual General Meeting

## Membership Statistics



## **Actuarial Valuation – 31 December 2014**

Presented by Emma Palfreyman, Scheme Actuary – Towers Watson

## Hermes Group Pension Scheme – Annual General Meeting

### Funding Position – Overview of the Year

- Last full valuation of the Scheme: as at 31 December 2011
- The Trustee is currently working on a further full valuation as at 31 December 2014
- Intervaluation updates required in intermediate years

<b>31 December</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Assets of the Scheme (£000s)	91,900	109,800	118,500	138,600
Funding liabilities (£000s)	124,700	134,800	136,900	<b>179,100</b>
Deficit (£000s)	(32,800)	(25,000)	(18,400)	<b>(40,500)</b>
Funding position (%)	74%	81%	87%	<b>77%</b>

*\*The approach for the full valuation of the Scheme as at 31 December 2014 has not yet been agreed. As such, the 2014 position above is illustrated using the same approach as the 2011 valuation, updated for membership and market conditions at 31 December 2014, and also updated for some further adjustments which the Trustee believe are necessary due to changes since the previous valuation. Other than these necessary adjustments, this is a formulaic update from the 2011 valuation, and the results are likely to change once the approach for the 31 December 2014 valuation has been formally agreed with Hermes Fund Managers Ltd.*

- The funding level (on the 2011 approach with necessary adjustments) has fallen over the year to 31 December 2014 which was a result of an increase in liability due to changes in economic conditions and the necessary adjustments to the approach
- This has been partially offset by:
  - Deficit recovery contributions paid by the Company (£6.9m)
  - Positive asset return experience over the year (around 13%)
- The full valuation at 31 December 2014 is expected to be agreed between the Trustee and Hermes Fund Managers Ltd later this year

## Developments since last AGM

### Budget 2014 – Freedom and Choice

- Main aim of budget changes: to provide more freedom and choice.
- Majority of these changes became effective from April 2015.
- Members have the right to transfer their HGPS pension into a DC arrangement.
- The changes mean that members will have more options for taking retirement income and fewer restrictions on the amount they can withdraw.

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

George Osborne – March 2014

### Signposting transfer values

- A transfer option is being flagged in the retirement pack.
- It includes a notification about the option and how to obtain a quote.

### Advice Requirement

- As required by legislation, before transfers of over £30k can be taken from the Scheme, Capita will ensure the member has taken independent financial advice.
- The advice will be checked (i.e. that it is from a legitimate FCA registered IFA)



## **The New Pensions SORP 2014 – Impact on HGPS**

Presented by Bob Cooper – Deloitte

## The New Pensions SORP 2014 – Impact on HGPS

- Effective for all accounting periods commencing on or after 1 January 2015
- Overall – no impact on basis of accounting except for annuities in the name of the Scheme

**Two** main changes to disclosures on investments:

1. Fair value hierarchy of investment valuations
2. Investment risk disclosures

## The New Pensions SORP 2014 – Fair value hierarchy of investment valuations

The fair value hierarchy defined by FRS 102 requires the use of the following hierarchy to estimate the fair value of investments:

SORP	Category a	Category b	Category c(i)	Category c(ii)
	Quoted daily price	Recent price	Valuation technique “Observable inputs”	Valuation technique “Non-observable”
Examples	Equities Exchange traded	Weekly priced PIVs	OTC derivatives Investment property	Private Equity Insurance policies

## **HGPS Investment Report**

**Mark Baker**

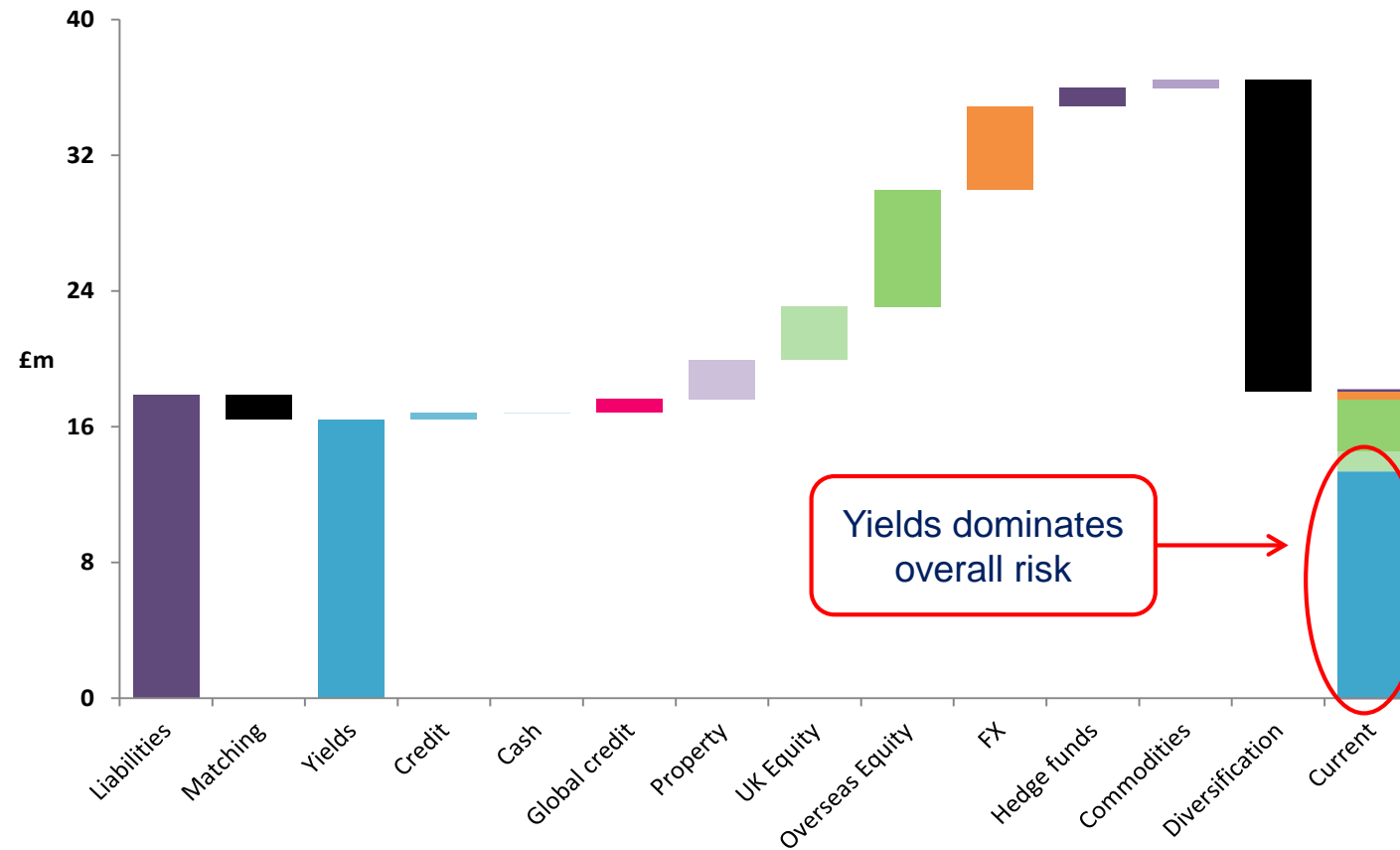
**Hymans Robertson LLP**

1. Investment objectives
2. Investment strategy review
3. 2014 performance
4. Annual returns
5. 2015 year-to-date performance

## Investment Objectives

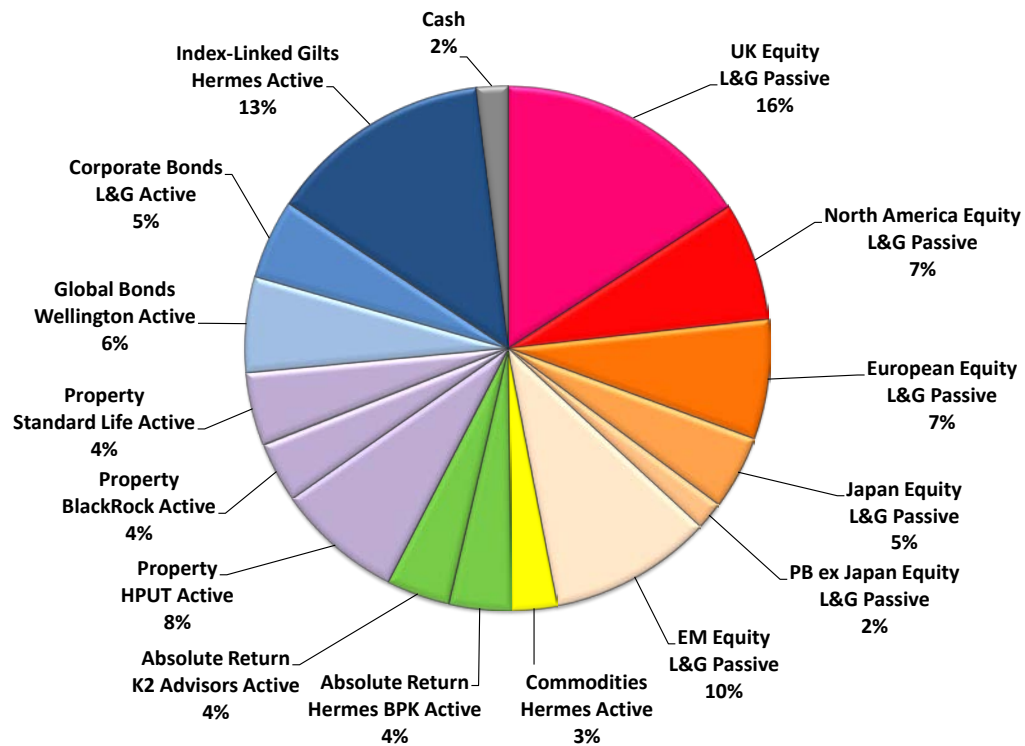
- The Trustee and the Principal Employers have agreed to target a “self-sufficiency” funding level for the Scheme; the informal target date for achieving it is by 2035.
- This target is to be achieved through a combination of Sponsor contributions and investment returns.
- The investment objectives are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

## Reminder – Investment Strategy Review: Understanding The Risks

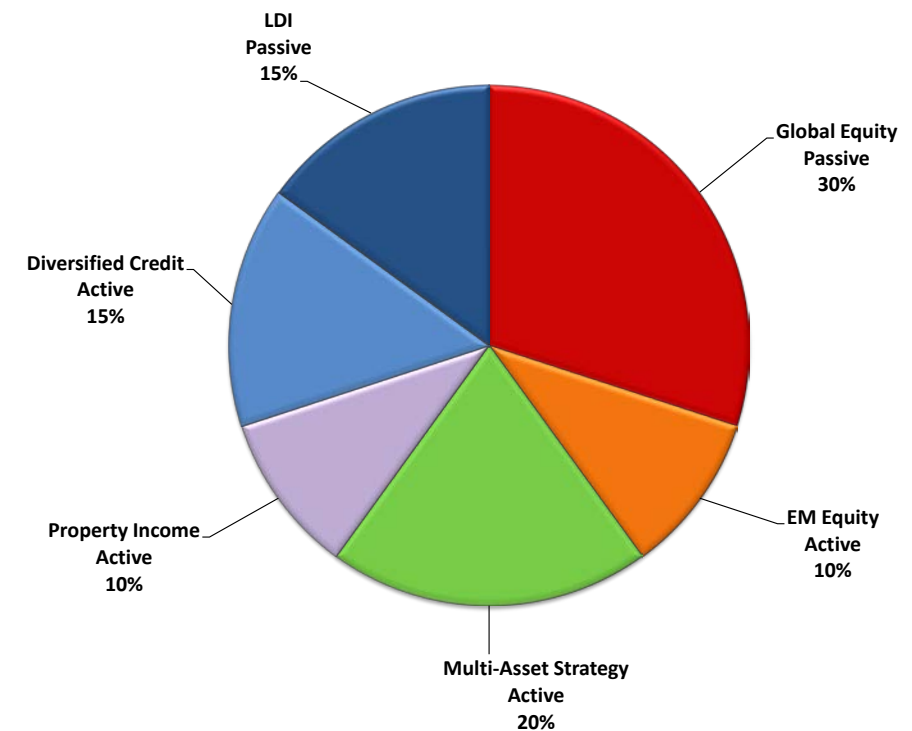


## Reminder – Investment Strategy Review: Long Term Plan

Allocation as at 31 March 2014



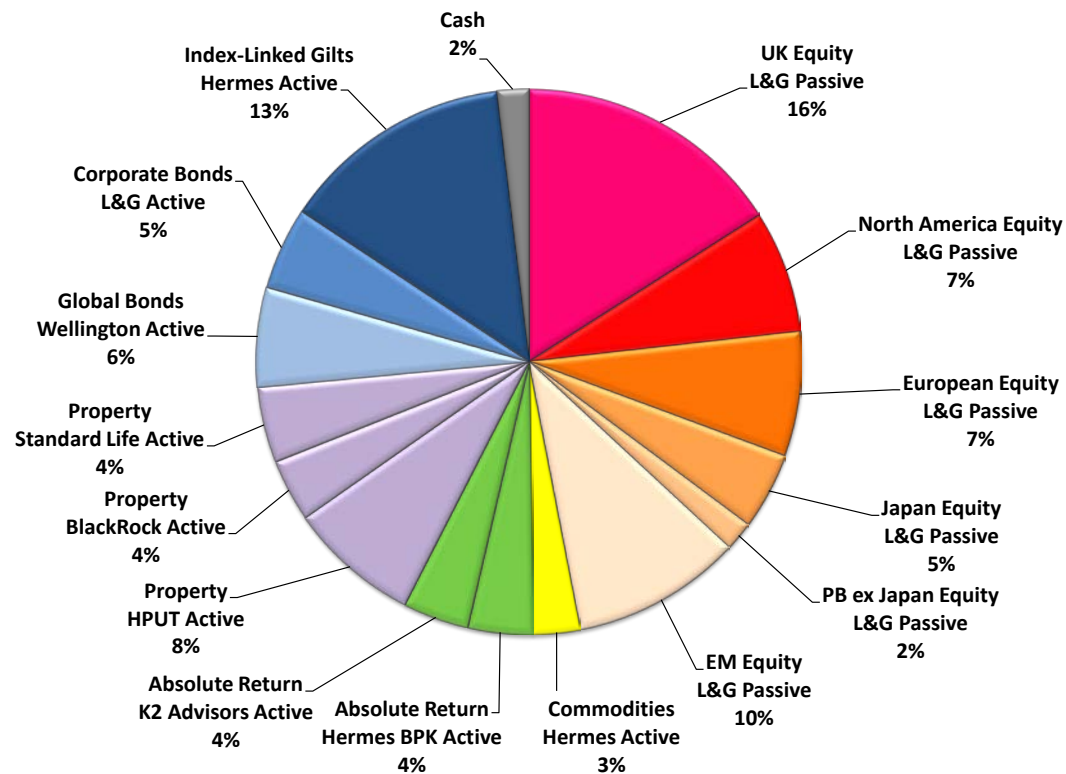
Long Term Strategic Asset Allocation



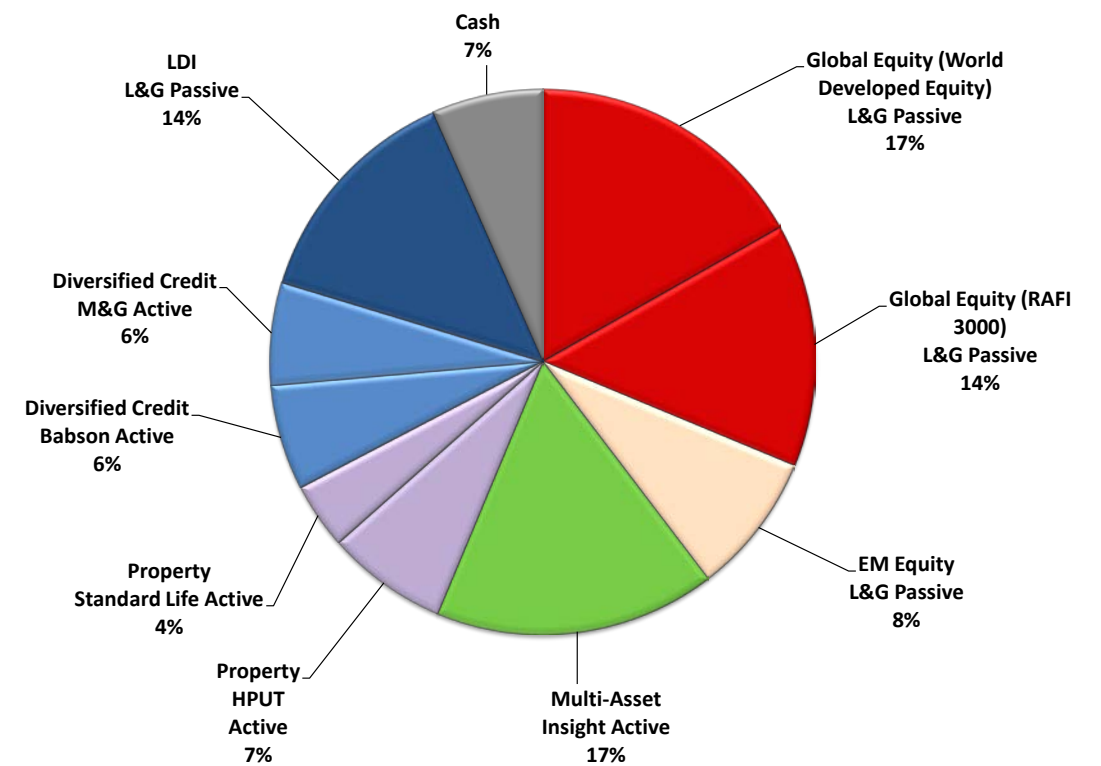
Source: Northern Trust / Hymans Robertson.

## Investment Strategy Review: Progress Over The Year

Allocation as at 31 March 2014



Allocation as at 30 April 2015

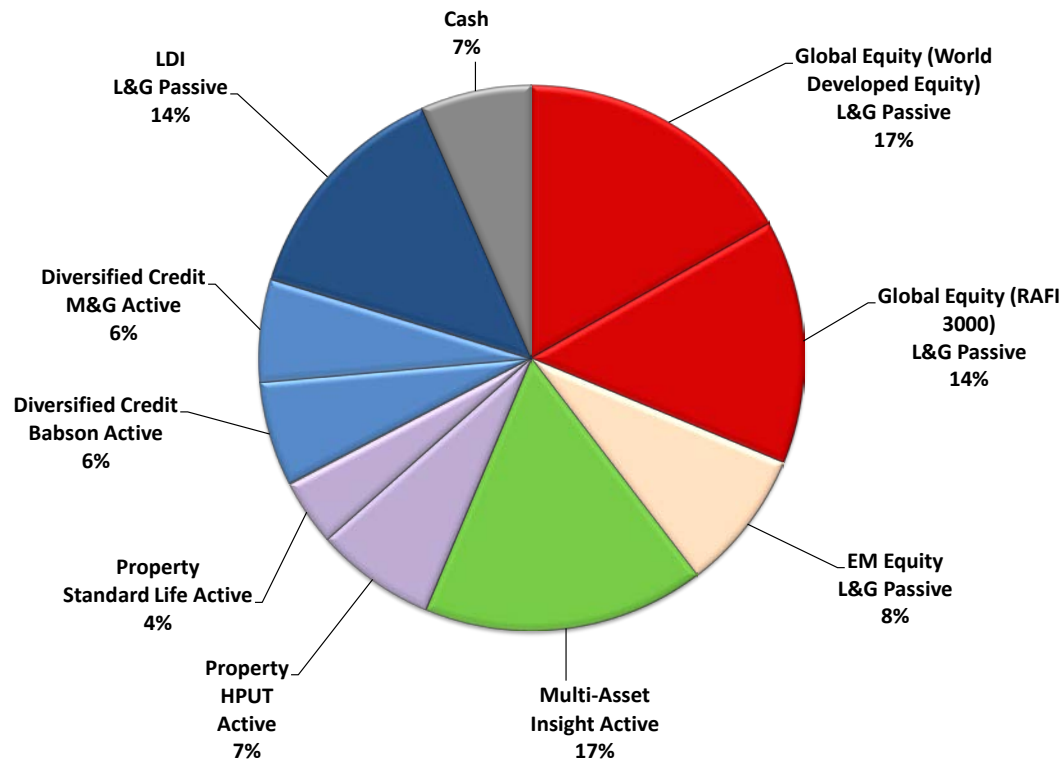


Source: Northern Trust (preliminary data as at 30 April 2015).

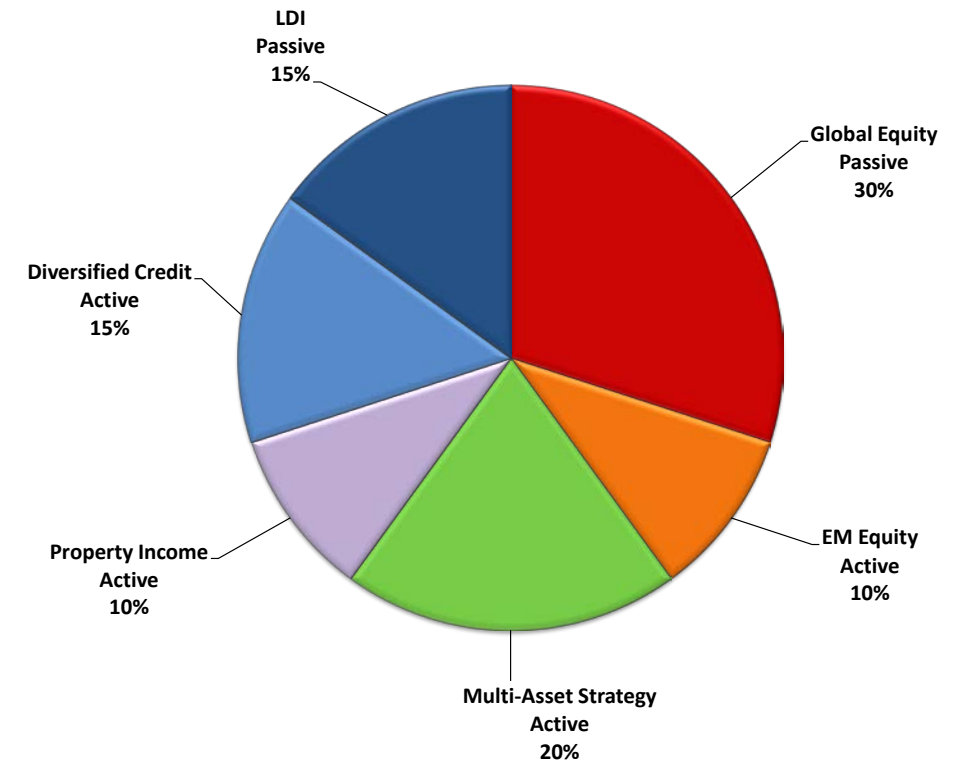


## Investment Strategy Review: Current vs. Target

Allocation as at 30 April 2015



Long Term Strategic Asset Allocation

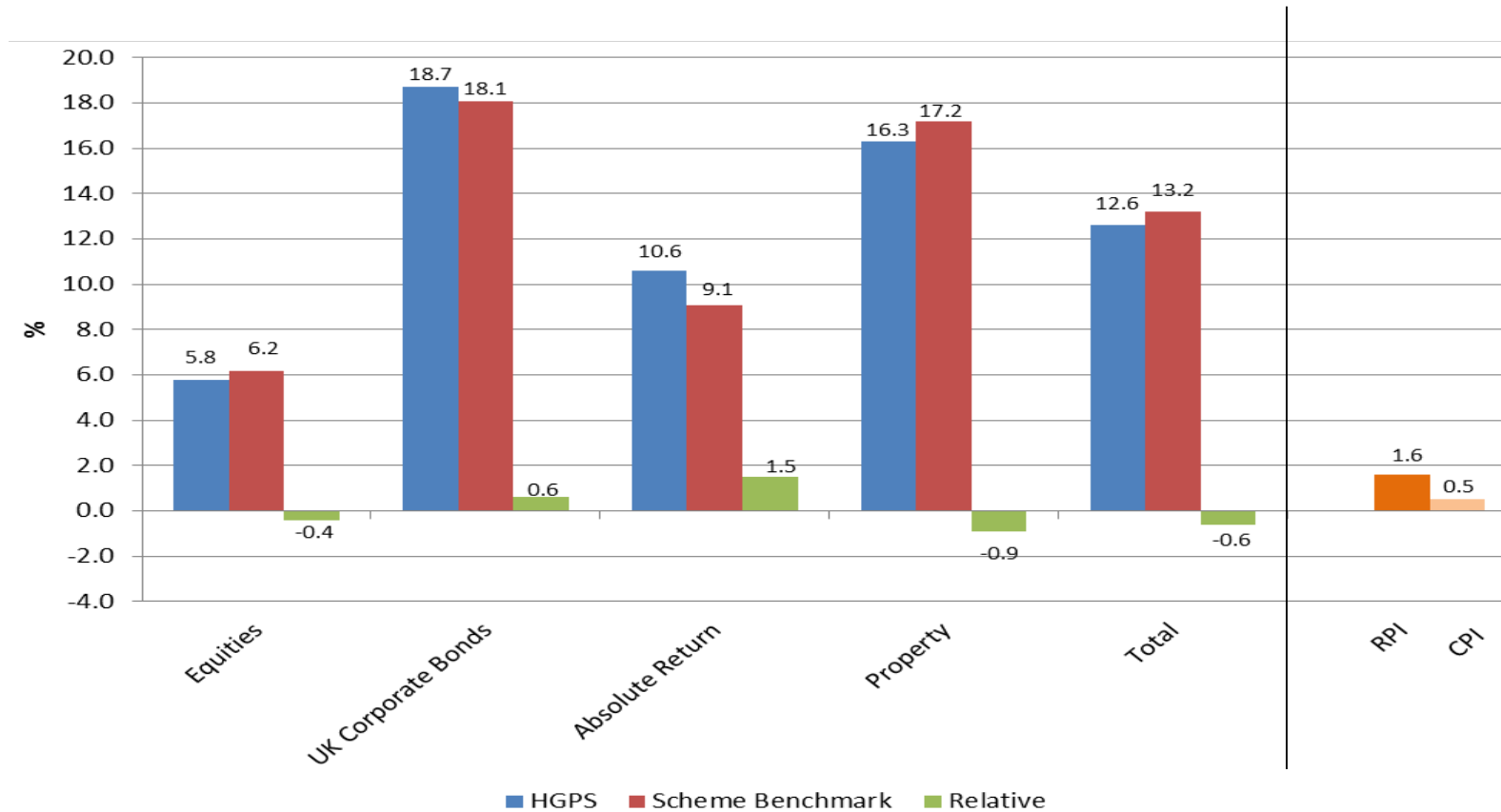


Source: Northern Trust (preliminary data as at 30 April 2015) / Hymans Robertson.

## Investment Strategy Review: Further Details

- Long term structure broadly in place
  - Disinvestments: Hermes Index-Linked Gilts, Hermes Commodities, Hermes BPK, Wellington Corporate Bonds, LGIM UK Equity, LGIM Corporate Bonds, BlackRock Property
  - New investments: LGIM LDI, Insight Multi-Asset, Babson Diversified Credit, M&G Diversified Credit, LGIM World Developed Equity, LGIM RAFI 3000, Hermes Emerging Market Equity
  - Redemption notice submitted for K2 Overseas Investors Fund (90% of expected proceeds already received, remainder due in June 2016)
- Maturing liabilities
  - Interest rate and inflation risk reduced using Liability Driven Investment (LDI)
- Planning for the future
  - Trustee is considering journey planning

## Investment Performance (Year Ending 31 December 2014)

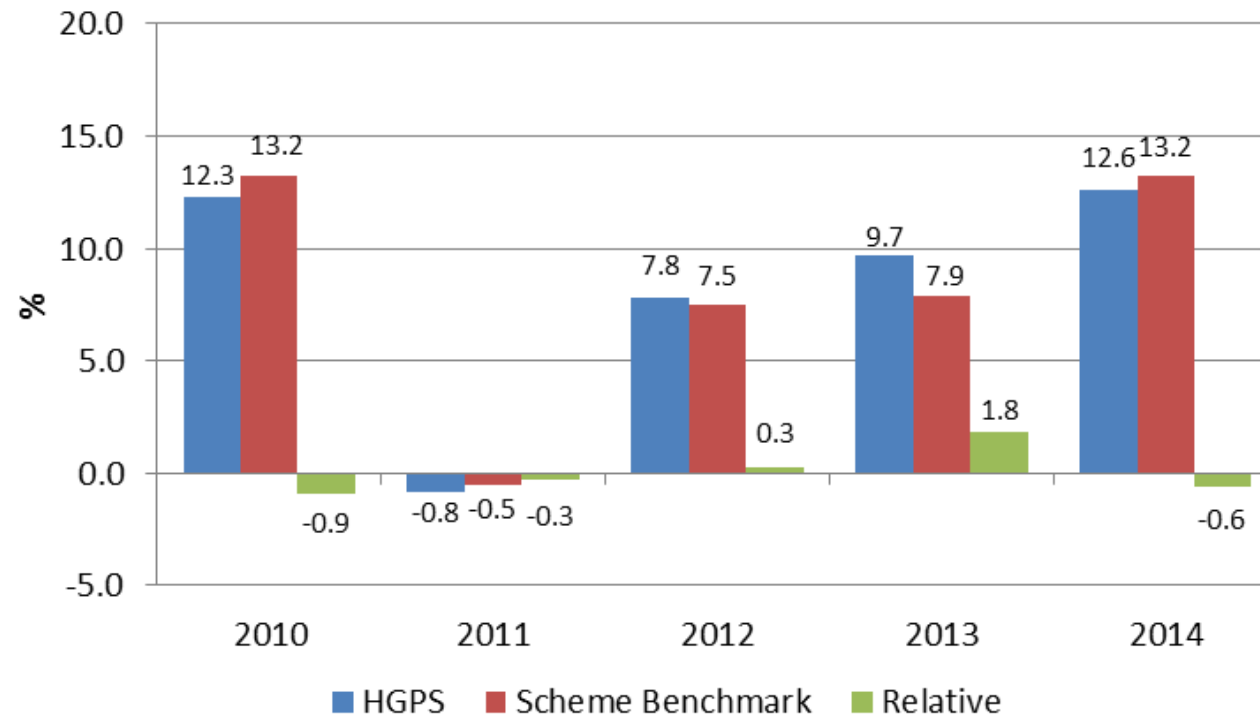


Source: 2014 Annual Report and Financial Statements / ONS

## Investment Performance (Year Ending 31 December 2014)

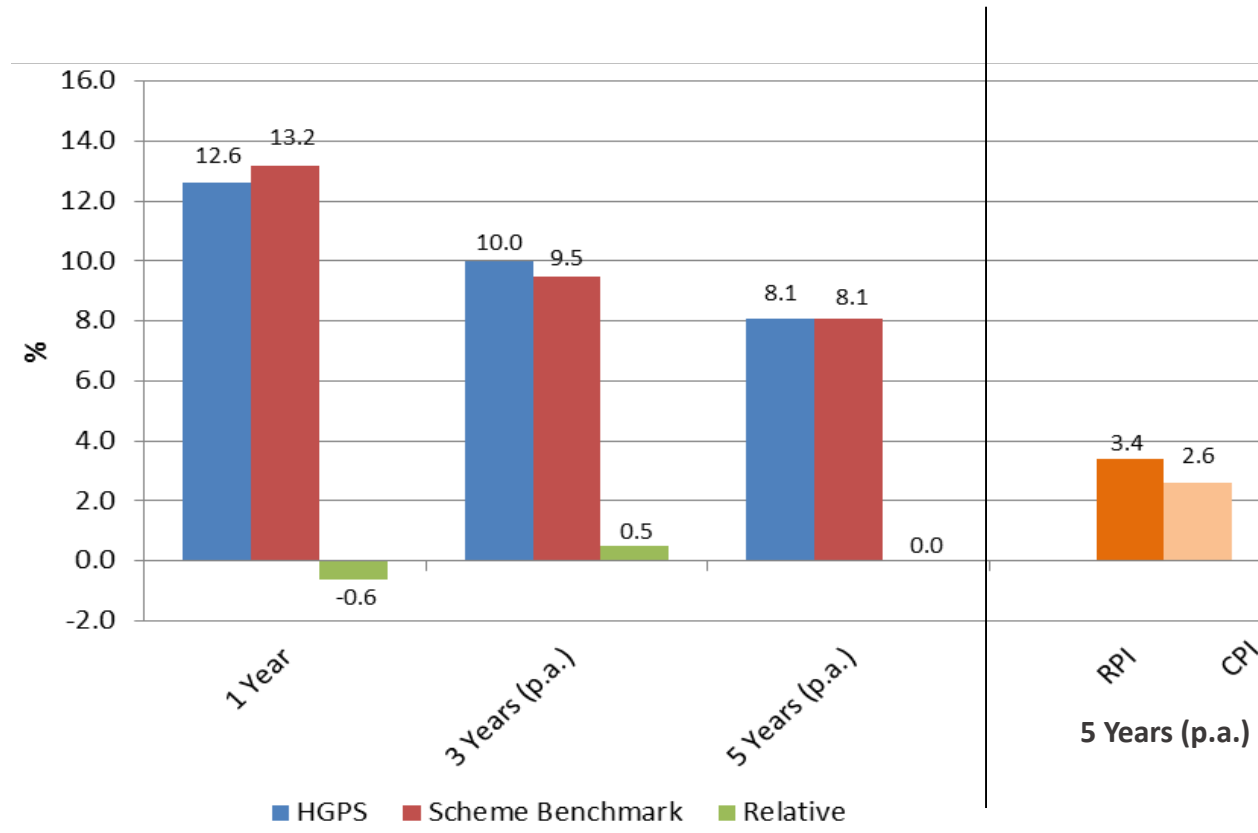
- The overall Scheme return for 2014 was 12.6%, which was 0.6% below the benchmark
- Some of this difference is due to transitional timing effects as the benchmark composition is only changed at month ends
  - For example, the equities are invested in index-tracking funds which continued to track their respective benchmarks
- The Standard Life property fund trailed the Scheme's property benchmark by 7.4% over the year
- The two new diversified credit funds (with Babson and M&G) were behind their benchmarks by 3.5% and 1.3% respectively in the 3 month period since their inception
  - The diversified credit funds have an absolute return benchmark of LIBOR +3% per annum so relative returns are likely to be volatile over the short term

### Calendar Year Returns (5 Year History)



Source: 2014 Annual Report and Financial Statements

### Annualised Returns (1, 3 and 5 Years)



Source: 2014 Annual Report and Financial Statements / ONS  
 Three year annualised returns calculated by Hymans Robertson

**2015 Year-To-Date Performance (To 30 April)**

<b>HGPS Total Return</b>	<b>5.3%</b>
<b>HGPS Benchmark</b>	<b>5.2%</b>
<b>Relative Performance</b>	<b>0.1%</b>

Source: Northern Trust

**Questions from members...**