



HERMÈS

GROUP PENSION SCHEME

**ANNUAL REPORT AND FINANCIAL
STATEMENTS
2014**

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HERMES GROUP PENSION SCHEME

TRUSTEE, SPONSORING EMPLOYER & ADVISERS

Trustee: Hermes Pension Trustees Limited

Directors of the Trustee

Company:

C L Woodley (Chairman)

D C Bridges

I A Kirby

M A Simms

D P Bradford (appointed 18 September 2014)

K Graham (resigned 25 February 2014)

Secretary: Inside Pensions Limited

Sponsoring Employer:

Hermes Fund Managers Limited

BT Pension Scheme Trustees Limited

Independent Advisers

Scheme Actuary:

Ms E Palfreyman

Towers Watson Limited

MidCity Place

71 High Holborn

London

WC1V 6TP

Administrator:

Capita Employee Benefits Limited

PO Box 323

Whitstable

CT5 9BY

Legal Adviser:

Sackers & Partners LLP

20 Gresham Street

London

EC2V 7JE

Investment Adviser:

Hymans Robertson LLP

One London Wall

London

EC2Y 5EA

Auditor:

Deloitte LLP

Hill House

1 Little New Street

London

EC4A 3TR

HERMES GROUP PENSION SCHEME

TRUSTEE, SPONSORING EMPLOYER & ADVISERS

Investment Managers:	Legal & General Investment Management Limited One Coleman Street London EC2R 5AA
	Hermes Investment Management Limited Hermes Alternative Investment Management Limited Hermes BPK Limited ¹ Lloyds Chambers 1 Portsoken Street London E1 8HZ
	BlackRock Investment Management (UK) Limited 12 Throgmorton Avenue London EC2N 2DL
	Standard Life Investments Limited 1 George Street Edinburgh EH2 2LL
	Babson Capital Global Investment Funds plc ² 61 Aldwych London WC2B 4AE
	M&G Investment Management Limited ³ Governor's House Laurence Pountney Hill London EC4R 0HH
	Wellington Management International Limited ⁴ Cardinal Place 80 Victoria Street London SW1E 5JL

¹ A full redemption from the Hermes BPK Absolute Return Fund took place on 30 September 2014. This fund was not in place at the year end.

² On 30 September 2014 units were purchased in the Babson Global High Yield Credit Strategies Fund.

³ On 1 October 2014 units were purchased in the M&G Illiquid Credit Opportunities Fund.

⁴ On 24 September 2014 a full redemption was made from the Wellington Global Credit Plus Fund. This fund was not in place at the year end.

HERMES GROUP PENSION SCHEME

TRUSTEE, SPONSORING EMPLOYER & ADVISERS

K2 Advisors L.L.C. (Investor Relations Group)⁵
300 Atlantic Street
12th Floor
Stamford CT 06901

Custodian: Northern Trust Limited
50 Bank Street
Canary Wharf
London E14 5NT

AVC Investment Managers: Santander
Jardine Lloyd Thompson
Post Handling Centre BR
St James's House
7 Charlotte Street
Manchester M1 4DZ

Prudential Assurance Company Limited
AVC Department
Craigforth
Stirling FK9 4UE

Bankers: National Westminster Bank plc
42 High Street
Sheffield
South Yorkshire S1 1QG

⁵ A full redemption notice from K2 Advisors Overseas Investors I Limited Fund was put in place for trade date 31 March 2015.

HERMES GROUP PENSION SCHEME TRUSTEE'S MISSION STATEMENT

The Trustee's mission is to manage the Hermes Group Pension Scheme efficiently in the interests of the members, to provide the expected benefits, and to ensure that an excellent quality of service is given to those members.

HERMES GROUP PENSION SCHEME

CHAIRMAN'S STATEMENT

It is a great pleasure to write my third report and to give you an update on how the Scheme has progressed during the last year.

The total value of the Scheme's assets rose from £118.5 million at 31 December 2013 to £138.6 million at 31 December 2014. The return on the Scheme's assets in 2014 was 12.6%.

In accordance with the current Recovery Plan £6.9 million of deficit contributions were paid into the Scheme in 2014.

The Scheme has started its triennial valuation process as at 31 December 2014. The Trustee Board expects to be busy with this process during the first half of 2015, agreeing financial and demographic assumptions and a new Recovery Plan with the joint employers. I hope to be able to provide an update on this later in the year.

The Trustee has continued to work with Hymans Robertson during the year to develop and simplify the investment strategy. Most of this work has now been completed, and it is expected that the few remaining actions will be completed by May.

The Government's Budget 2014 announcement, which will lead to more flexibility and choice from April 2015, was given consideration by the Trustee, who decided it wanted to provide members with the right information and processes to access the full range of flexibility, without encouraging them to take an option that might not be appropriate for them. We will be closely monitoring the options taken by members and their feedback during 2015.

Finally, I would like to welcome Douglas Bradford to the Trustee Board. Douglas joined us on 18 September 2014 and replaced Kathryn Graham.

CAROL WOODLEY

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

The Trustee (Hermes Pension Trustees Limited) is pleased to present the report and audited financial statements of the Hermes Group Pension Scheme ("HGPS" or "the Scheme") for the year ended 31 December 2014.

The Scheme was set up by the Principal Employers - Hermes Pensions Management Limited, which is now Hermes Fund Managers Limited (Hermes), and the Trustees of the BT Pension Scheme (now BT Pension Scheme Trustees Limited) - by a Deed made on 16 September 1998. However, the only employer of members at present is Hermes Fund Managers Limited (the "Employer").

Members of HGPS were contracted out of the State Second Pension (S2P) while they contributed to HGPS. The Scheme is a Registered Pension Scheme under the Finance Act 2004 for taxation purposes.

The Scheme is a defined benefit pension scheme.

THE TRUSTEE

The Trustee is a trustee company limited by guarantee which acts as Trustee for the Scheme, and is independent of the Principal Employers. A list of the Trustee Directors at 31 December 2014 is shown at the beginning of the report.

The independent Chairman during 2014 was Carol Woodley. Two of the Trustee Directors, David Bridges and Douglas Bradford, were elected by the members. Two of the Trustee Directors, Ingrid Kirby and Matthew Simms, were nominated by the Principal Employers. Irrespective of who appoints them, the Directors act collegially in the best interests of all of the members of the Scheme.

Douglas Bradford replaced Kathryn Graham and was appointed on 18 September 2014.

In 2014 the Board met a total of seven times. The Board has a calendar of business which enables it to carry out its duties and monitor the performance of all aspects of the Scheme.

The Trustee board is supported by a secretariat function which was outsourced from Hermes to Inside Pensions in January 2014. Inside Pensions contact details are:

Inside Pensions, Third Floor, 54-56 Victoria Street, St Albans, Hertfordshire, AL1 3HZ.

TRUST DEED AMENDMENTS

During 2014 there were no amendments to the Scheme's trust documents.

OVERVIEW OF THE YEAR

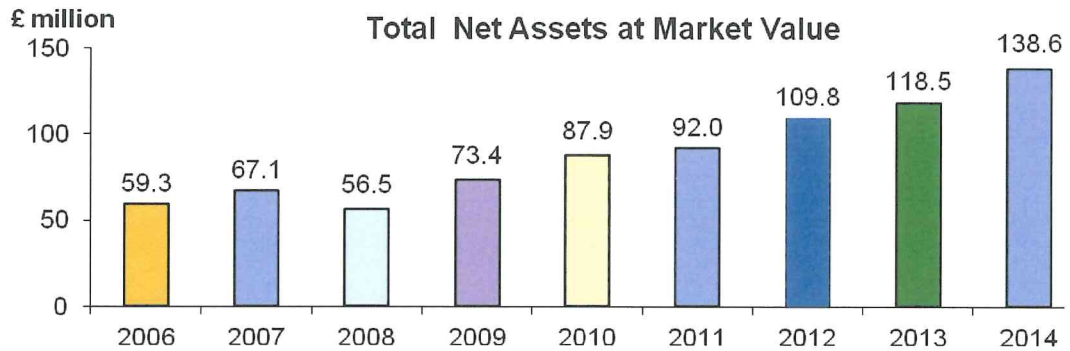
The total value of the Scheme's assets rose from £118.5 million at 31 December 2013 to £138.6 million at 31 December 2014. The market value of investments (excluding net new investment) rose by £5.2 million during the year. The contributions received, less benefits and administration expenses, added £4.9 million to the Scheme.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

OVERVIEW OF THE YEAR (continued)

The Scheme's investment return was 12.6% in the year to 31 December 2014.



SCHEME ADMINISTRATION

Capita Employee Benefits Limited maintains the membership records of the Scheme, calculates benefits, and deals with other administrative matters. Capita also provides accounting and pension payroll services.

The administrator's full address is:

Capita Employee Benefits Limited
PO Box 323
Whitstable
CT5 9BY
Telephone number: 01227 771445
Fax number: 01227 771466
Email: hermes.pensions@capita.co.uk

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

MEMBERS AND BENEFICIARIES

The following table shows the changes in HGPS membership in 2014.

PENSIONERS	
Number of pensioners at 31 December 2013	131
Death	-
New Pensioners	9
Number of pensioners at 31 December 2014	140
DEFERRED MEMBERS	
Number of deferred pensioners at 31 December 2013	400
Retirements	(8)
Transfer out	-
New deferred pensions	9
Number of deferred pensioners at 31 December 2014	401
EMPLOYED DEFERRED MEMBERS*	
Number of employed deferred members at 31 December 2013	91
Members leaving service	(9)
Retirements	(1)
Number of employed deferred members* at 31 December 2014	81

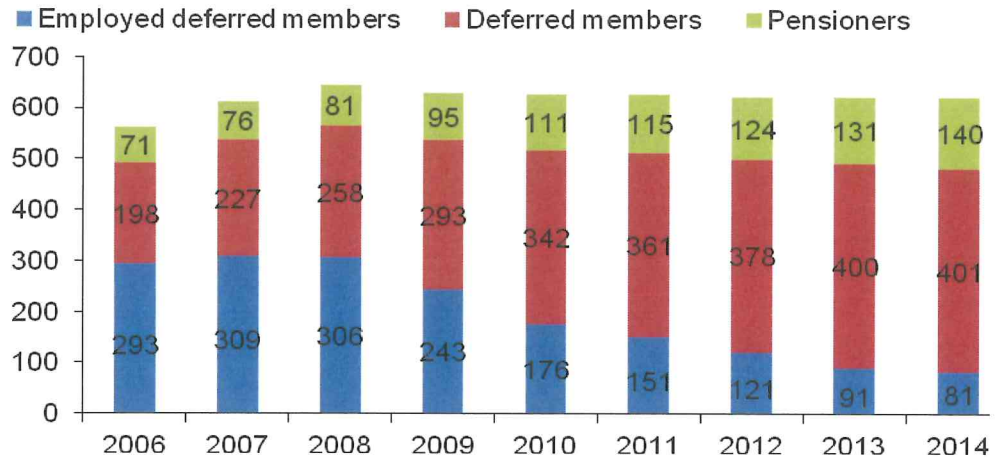
* When the Scheme closed to future benefit accrual on 31 October 2011 the active members became "employed deferred members".

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

MEMBERS AND BENEFICIARIES (continued)

The graph below shows the development of the membership since 2006:



FUNDING POSITION

This section is based on the funding position as at the last valuation which took place with an effective date of 31 December 2011. The next valuation is due as at 31 December 2014, but the figures will not be available until after the date of signing the accounts but before the statutory deadline of 31 March 2016.

Until the Scheme closed to future benefit accrual on 31 October 2011, members paid a contribution to the Scheme of 5% of their basic annual pensionable salary. The Employer pays the balance of the costs of the Scheme. After the Scheme Actuary carried out a full valuation of the Scheme as at 31 December 2011, she issued her final report to the Trustee on 9 July 2012 and a Schedule of Contributions was signed by the Trustee and Principal Employers on 11 July 2012.

The outcome of the valuation was that, on an ongoing basis, there was a deficit of assets compared with the amount needed to cover the cost of the benefits earned up to 31 December 2011, of £32.8 million. The funding level was 74% on this basis.

The Employer had been paying a series of monthly cash payments to extinguish the Scheme's deficit as calculated at the 31 December 2008 valuation, and they continued up to 30 June 2012. It also paid a lump sum deficit contribution of £10 million in June 2012. This lump sum was in lieu of the monthly payments that would have otherwise been paid between 1 July 2012 and 30 September 2013. The Employer also agreed with the Trustee that it will pay a further series of monthly cash payments from October 2013 to May 2017 to extinguish the deficit. The detailed payment plan is in the Schedule of Contributions on page 28.

The Employer has agreed to meet any funding strain arising in respect of enhanced benefits on redundancy or early retirement other than ill-health retirement. In addition, the Employer has been meeting separately the cost of the annual Pension Protection Fund levy.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

FUNDING POSITION (continued)

Under the Schedule of Contributions the Employer is also paying £600,000 per annum to HGPS in respect of administrative and professional expenses incurred in managing the Scheme, excluding PPF levies. After the end of each Scheme Year, if the expenses of the Scheme have been less than £600,000, the following year's contributions for expenses will be reduced by the difference between the actual expenses and £600,000. Conversely, if the expenses have been higher than £600,000, the following year's contributions will be increased by the amount of such excess.

In 2014 the total expenses were £1,043,000. At 1 January 2014 the Employer was a creditor for £188,000 in prepaid expenses. During the year the Employer paid the required £600,000 plus an additional amount of £130,000. This left £125,000 outstanding as a debtor due to HGPS at 31 December 2014.

The Scheme is closed to future benefit accrual, and so no contributions are required to meet future benefit accrual.

Despite the deficit, members should take comfort. The contributions Hermes has agreed to pay after each actuarial valuation, combined with the strong joint covenant of Hermes and BT Pension Scheme Trustees Limited, satisfied the HGPS Trustee that HGPS is well protected and that the funding deficit will be removed.

On a discontinuance basis, if the Scheme had been wound up on 31 December 2011 and the benefits had been secured with an insurance company, the Actuary estimated that the Scheme's assets would have been sufficient to cover about 38% of the members' benefits and there would have been a deficit of £151 million on this basis. Inclusion of this information does not imply that the Principal Employers are thinking of winding-up the Scheme. This is simply one of the measures of Scheme liabilities that are required to be produced at each actuarial valuation and funding update for the Trustee's and the Pension Regulator's information.

The Trustee is required to inform members if any payments are made from the Scheme to the Employer, and we can confirm that there have been none. Employer related investments with respect to late contributions are outlined below.

Members have been sent information on the updated funding position in annual summary funding statements. Copies of the Actuary's reports and other documents relating to the actuarial valuations are available from the Scheme Secretary at the address on page 25 or from the Scheme's website (www.hermes.co.uk/hgps).

The Trustee is currently working on a further full actuarial valuation as at 31 December 2014.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

SALARY INCREASE SHORTFALL CONTRIBUTIONS

A late payment of £70,900 was made on 1 May 2014 in relation to the salary uplift effective at 1 April 2013. This was covered in the 2013 report in detail. There were no salary increase shortfall contributions due in relation to the salary uplift effective as at 1 April 2014.

BENEFITS AND TRANSFERS

For active members who joined HGPS from 1 April 1999 onwards, benefits for pensionable service from 1 January 2009 were based on career average revalued earnings. Benefits for these members accrued before 1 January 2009 are based on final salary. All benefits for members who joined prior to 1 April 1999, i.e. former members of the Hermes Pension Scheme, are based on final salary.

As from 1 October 2008, it is the responsibility of the Trustee to take the decisions on which the calculation of cash equivalent transfer values (CETVs) is based. Previously, the calculation had to be certified by the scheme's actuary as consistent with a professional technical standard. Transfer values represent fair value in relation to the alternative benefits payable. No allowance is made for any discretionary increases to pensions. When the Scheme closed to future benefit accrual on 31 October 2011 the Trustee ceased to accept transfers in of benefits from other pension schemes. However, the Trustee and the Employer did agree that an Employed Deferred Member may transfer in benefits from the Hermes Group Stakeholder Pension Plan if they take their pension when they retire, if employed by Hermes at that time. The transfer amount from the stakeholder plan can then be used to increase the defined benefit pension and / or cash payable from HGPS on terms determined by the Trustee in agreement with the Employer.

Lump sum death benefits payable from HGPS on the death of Employed Deferred Members if they die before taking their benefits is 1.25 times pensionable salary. This is not insured. Hermes also provides a lump sum death benefit for all employees of eight times pensionable salary that is not related to HGPS, and which is insured.

PENSION INCREASES

Former Hermes Pension Scheme Members Who Joined Pre-1 April 1999

- Pensions in payment and deferred pensions are increased in April each year in line with the Government's pension increase orders, in the same way that public sector pensions are increased.
- In practice these increases are currently based on Consumer Prices Index (CPI) inflation for the twelve months ending the previous September, and there is no cap on the increases.
- Pensions in payment and deferred pensions increased by 2.7% from April 2014.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

PENSION INCREASES (continued)

Members Who Joined Post-1 April 1999

- Pensions in payment are increased each April in line with Retail Prices Index (RPI) inflation for the twelve months ending the previous September, up to a maximum of 5% each year.
- Pensions in payment increased by 3.2% from April 2014.
- Deferred pensions are revalued up to retirement in line with government legislation. In practice these increases in deferment are currently based on CPI inflation for the twelve months ending the previous September. The increases are capped at 5% per annum for benefits earned before 6 April 2009 and at 2.5% per annum for benefits earned on or after 6 April 2009. The cap is applied cumulatively across the whole period of deferment not in respect of each individual year.
- The CPI increased 2.7% in the year from September 2013 to September 2014.

No discretionary pension increases were paid in 2013.

AUDIT COMMITTEE

To aid the Trustee's oversight of financial controls, it has an Audit Committee. For 2014 the Committee comprised three Trustee Directors: David Bridges, Ingrid Kirby and Carol Woodley, who is the Chairman.

The Committee generally meets twice each year. The Committee considers the Annual Report and Financial Statements before it is finally approved by the Trustee Board, and meets with the external auditor and scheme administrator. The Committee regularly considers a number of areas of the Scheme's operations including financial control, risk assessment, and the effectiveness of the audit process, and makes recommendations to the full Trustee Board where necessary. At every meeting the Committee discusses a risk assessment report for HGPS.

When considering the risks to the Scheme, the Audit Committee takes into account both financial and reputational risks and what can be done to reduce them through additional controls. The Committee employs the use of a traffic light system to represent the combination of Impact and Likelihood, for example red indicates risks where both the Impact and Likelihood are high. The latest risk assessment resulted in all the risks being considered "amber" or "green". Although the Trustee Board would wish all the risks to be "green", there are some that will never be "green" because any control the Trustee puts in place will not reduce the risk altogether.

STATEMENT OF INVESTMENT PRINCIPLES

In compliance with Section 35 of the Pensions Act 1995, the Trustee maintains a Statement of Investment Principles (SIP), which sets out its policy for investing the assets of the Scheme. As the Scheme is undergoing a change to its investment strategy, the current SIP does not reflect the asset allocation as at 31 December 2014. Once the new strategy is fully implemented in 2015, the SIP will be reviewed and updated.

Any member of the Scheme who would like a copy of the current SIP should contact the Scheme Secretary, at the address on page 25. A copy is also available on the HGPS website at www.hermes.co.uk/hgps/investment.htm

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

THE MANAGEMENT OF INVESTMENTS

Most of the Scheme's assets are held in pooled investment vehicles to improve diversification.

While it is correct for accounting purposes to treat the pooled investment vehicles in the financial statements as a single line, the Trustee nevertheless considers that for asset-mix purposes the values of the underlying funds should be used to determine sector exposure and the following tables and charts have been drawn up on that basis.

A significant proportion of the exposure is obtained via a Legal & General unitised insurance policy whose value is determined by the performance of the underlying funds. At the end of 2014 HGPS had investments in the following funds managed by Legal and General Investment Management Limited:

- World Developed Equity Index
- World Emerging Equity Index
- FTSE RAFI All World 3000 Equity
- UK Equity Index
- Active Corporate Bond – Over 10 Year Fund
- A mixture of leveraged gilt funds and leveraged index-linked gilt funds (together, the “Liability Driven Investment” (LDI) funds)

The value of the Legal & General funds held on behalf of the Scheme at 31 December 2014 was £86.2 million.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

THE MANAGEMENT OF INVESTMENTS (continued)

Other fund vehicles which were employed during 2014 were as follows:

Index linked Gilts	The Hermes Index-Linked Gilts Fund
Commodities	The Hermes Commodities Index Plus Fund, which invests in commodities swaps (referencing a basket of underlying commodities futures).
Property	The Hermes Property Unit Trust (HPUT), the BlackRock UK Property Fund and the Standard Life Long Lease Property Fund, which are balanced funds providing exposure to all sectors of the commercial property market. This is an efficient means of investing indirectly in property for small pension schemes.
Absolute Return (hedge) funds	The Hermes BPK Fund and the K2 Overseas Investors Fund.
Global Credit	Wellington Management Portfolios Plc Global Credit Plus Portfolio

By the end of 2014, the Scheme's investments in the Hermes Index-Linked Gilts Fund, the Hermes Commodities Index Plus Fund, the Hermes BPK Fund and the Wellington Management Portfolios Plc Global Credit Plus Portfolio were fully divested, with the proceeds used to invest in new mandates in order to reach the Scheme's long term strategic asset mix (further details provided below).

Following the divestments over 2014, the Hermes Group of companies remain involved in managing one HGPS portfolio at 31 December 2014, with HPUT being managed by Hermes Alternative Investment Management Limited. Hermes Investment Management Limited also manages a cash mandate.

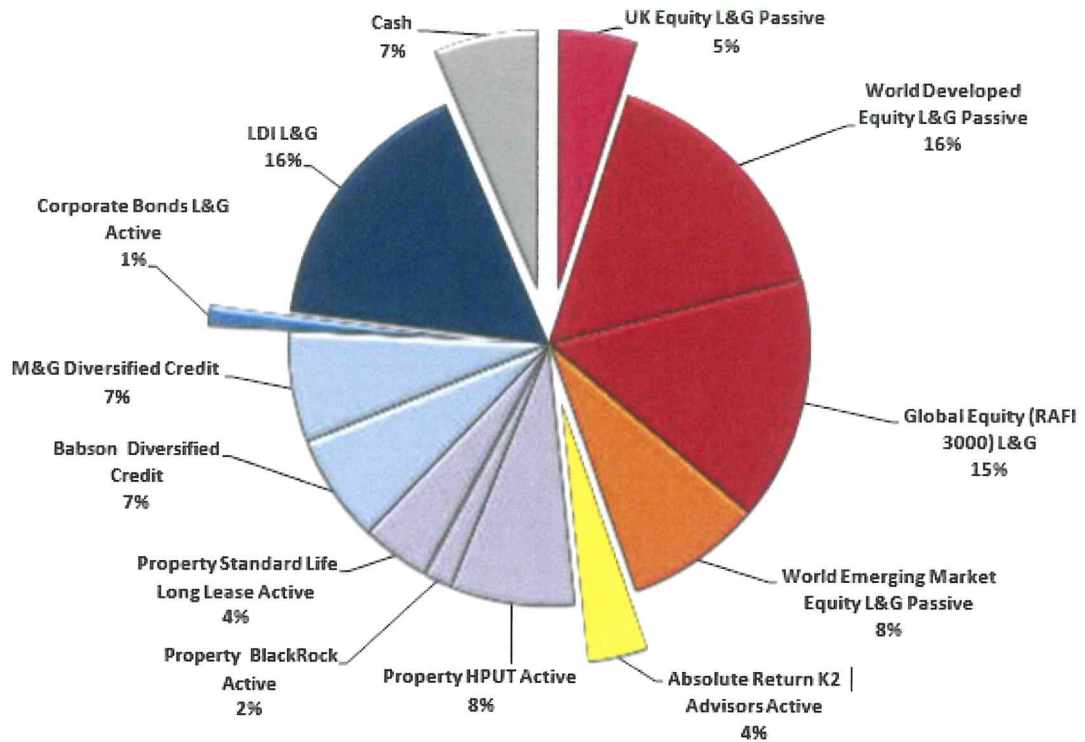
The Trustee reviews the performance of all the investment managers and funds regularly.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

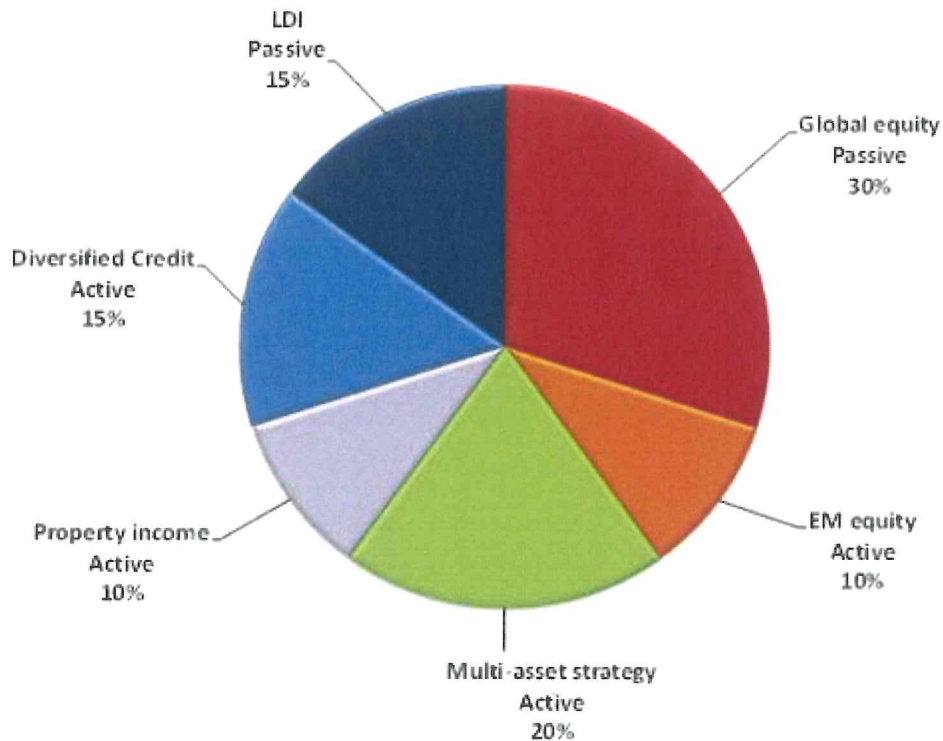
ASSET MIX

Asset Allocation as at 31 December 2014:



The asset mix at year end reflects a state of transition towards the new, simplified long term strategic asset mix shown below, with the initial reorganisation of the equity portfolio and introduction of LDI and diversified credit mandates having been completed. Work is currently underway to implement the active Emerging Markets and Multi-Asset strategy during 2015.

Long term strategic asset allocation:



HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

ASSET MIX (continued)

The Trustee rationale behind the simplification is to offer more efficient diversification, via the implementation of multi-asset funds, and better hedging of liability risk, through the use of liability driven investments (LDI).

While the actuarial valuation as at 31 December 2011 was being conducted, the Trustee consulted with the Employer and the conclusion was that the strategic allocation to return-seeking assets would be maintained at 75.5%, and that around 2017 the Trustee will consider amending the asset allocation to reduce risk gradually over the longer term. The Trustee will revisit this plan as part of the considerations for the actuarial valuation at 31 December 2014.

The Scheme's strategic allocation to return-seeking assets, such as equities, is supported by the strong covenant from the sponsors and, because the Scheme is only expected to mature fairly slowly (i.e. the ratio of pensioners to other members who are not yet entitled to their benefits will increase slowly), the Trustee has been able to take a long term view.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

ASSET MIX (continued)

During 2014, the strategic and actual asset mix was restructured. The table below shows the new strategic asset mix and changes in the actual asset mix from 31 December 2013 to 31 December 2014.

	Long Term Strategic Asset Mix	Actual Asset Mix 31 Dec 14	Actual Asset Mix 31 Dec 2013	Notes
Global developed and emerging market equity	40.0	44.0	48.3	1
Absolute Return	-	4.0	7.9	2
Multi Asset Strategy (active)	20.0	-	-	3
Property (Active)	10.0	14.0	16.0	
Diversified Credit	15.0	15.0	10.6	4
LDI (passive)	15.0	16.0	13.6	5
Cash	-	7.0	0.8	2
Commodities	-	-	2.8	6
	100.0	100.0	100.0	

Notes:

1. The long term strategic asset allocation to equities is split as follows: 30% Global Equity (Passive) and 10% Emerging Markets (Active). The 10% target allocation to an active EM manager is in progress and will be completed in Q2 2015.
2. The allocations to absolute return and cash were reallocated to a multi asset strategy in the first quarter of 2015.
3. The Scheme made its first investment in the Insight Multi Asset Strategy in February 2015. Hymans Robertson has confirmed that the multi asset strategy should be assigned a target allocation of 20% although no actual assets were invested in it at the end of 2014.
4. The Scheme appointed 2 diversified credit managers (each with a 7% allocation) in 2014. The 15% allocation as at 31 December 2014 also includes a 1% allocation to corporate bonds. The 2013 comparative numbers show the Scheme's allocation to corporate bonds and global credit.
5. The Scheme appointed an LDI manager in 2014 with a 15% target allocation. The 2013 comparatives show the Scheme's allocation to index linked gilts.
6. The Scheme disinvested from commodities in 2013. The proceeds, which have been held in the global equity portfolio, will be allocated to the multi asset strategy in 2015.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

NET INVESTMENT DURING THE YEAR

Net Investment

	£ million
UK Equities	(12.7)
Global Equities	11.8
Fixed Interest Securities	(3.9)
Government Bonds (including LDI)	0.3
Global Credit	(7.1)
Diversified Credit	19.0
Property	(2.0)
Commodities	(2.8)
Absolute Return	(4.9)
	(2.3)
	(2.3)

INVESTMENT PORTFOLIO AT 31 DECEMBER 2014

The breakdown of the investment portfolio at 31 December 2014 is shown in the following table.

	£ million
Equities – Legal & General Investment Management	61.6
LDI – Legal & General Investment Management	22.8
Babson Capital Global High Yield Credit	9.3
UK Property Unit Trusts ⁶	19.0
M&G Illiquid Credit Opportunities Fund	9.5
LGIM Active Corporate Bond Fund	1.8
K2 Overseas Investors Fund	5.2
Deposits, AVC Funds & other investment assets	9.2
	138.4
	138.4

⁶ This includes Hermes Property Unit Trust, BlackRock UK Property and Standard Life UK Property.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

INVESTMENT PORTFOLIO AT 31 DECEMBER 2014 (continued)

The amount invested in equities at 31 December 2014 was as follows:

	£ million	% of total investments
UK Equities	6.7	4.9
FTSE RAFI All World	21.0	15.2
World Developed	22.2	16.0
Emerging Markets	11.7	8.5
	<u>61.6</u>	<u>44.6</u>

Other than the late employer's salary increase shortfall contributions referred to on page 11 relating to the previous financial year, there have been no employer related investments during the year.

INVESTMENT REPORT FOR THE YEAR

Economic news over 2014 was mixed. The figures for the US and the UK were the strongest of the developed economies, speeding ahead of a struggling Eurozone. Japan continued to struggle in the wake of a hike in consumption tax in April, while China's economy decelerated, albeit from a very high rate. Oil prices also fell significantly. While this may have thrown large oil exporting nations such as Russia into disarray, the International Monetary Fund (IMF) suggested that a prolonged price slump could boost global economic growth in 2015 by between 0.3% and 0.7%.

In general, equities rose over the year, with US equities experiencing the largest gains. Short term interest rates in the UK and US were unchanged over the year. In the US, expectations of a rate rise in the immediate future were curbed by the Federal Reserve, which indicated it can remain patient over any decision to raise rates. In the UK, the general consensus was that there will be no increase in short-term interest rates until the second half of 2015 at the very earliest. In contrast, the European Central Bank (ECB) reduced interest rates twice, first from 0.25% to 0.15% in June and then a further reduction to 0.05% in September. Coupled with the reduction in interest rates, The ECB also initiated an asset purchase programme to stimulate the region's flagging economy and fend off deflationary pressures.

INVESTMENT PERFORMANCE

The Trustee continues to monitor investment performance against Scheme benchmarks. The overall benchmark return is obtained by combining the strategic asset allocation of the Scheme with the asset class returns of appropriate market indices.

Over the year the overall investment return for HGPS was 12.6% against the benchmark return of 13.2%.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

INVESTMENT PERFORMANCE (continued)

The table below⁷ shows the Scheme's overall rate of return for the year to 31 December 2014 and the benchmark return, and also compares the Scheme's returns for the major asset classes with the Scheme's benchmark returns for those asset classes:

	12 months to 31.12.14	
	Rate of Return %	
	HGPS	Benchmark
Overall HGPS Return	12.6	13.2
HGPS Asset Classes:-		
Equities	5.8	6.2
UK Corporate Bonds	18.7	18.1
Absolute Return	10.6	9.1
Property	16.3	17.2

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

COMPARISON WITH BENCHMARK 2010-2014						
Annual Rate of Return (%)	2010	2011	2012	2013	2014	2010 to 2014 Annualised
HGPS	12.3	-0.8	7.8	9.7	12.6	8.1
Benchmark	13.2	-0.5	7.5	7.9	13.2	8.1
HGPS out/(under)performance of benchmark*	-0.9	-0.3	0.3	1.8	-0.6	0.0

*The differences in this table are based on an arithmetic approach

⁷ All figures reported have been taken from the Northern Trust report as at 31 December 2014 with the exception of the 2010-2014 Annualised benchmark returns which were calculated by Hymans Robertson. Given the transition which took place over 2014, the 12 month performance returns shown are only for the mandates that were active over the whole year. This means the LDI and Diversified Credit investments made during 2014 are not included in the table.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

INVESTMENT PERFORMANCE (continued)

The overall Scheme return for 2014 was 12.6%, underperforming the benchmark by 0.6%. Some of this apparent underperformance is due to transitional timing effects as the benchmark composition only changed at month ends. The index-tracking equity mandates for instance continued to track their benchmarks in underlying terms.

The main drivers of this underperformance were the Standard Life Long Lease Property Fund, which trailed the Scheme's overall property benchmark by 7.4% over the year, and the two new diversified credit funds (the Babson Global High Yield Credit Strategies Fund and the M&G Illiquid Credit Opportunities Fund), which underperformed their benchmarks by 3.5% and 1.3% respectively since their inception. As the diversified credit mandates have an absolute return benchmark of 3 month LIBOR +5% per annum, relative returns can be volatile over the short term.

Over the five year period from 2010 to 2014, the Scheme returned 8.1% per annum. For background, during the year to 31 December 2014, the Consumer Prices Index increased by 0.5%.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

ADVISERS

The Trustee usually meets each of its advisers at least once each year, and a formal review usually occurs triennially. Earlier reviews will be arranged if problems arise or an adviser resigns. At the triennial reviews the Trustee decides if it is necessary to arrange for a tendering process, or if the incumbent adviser is to be retained.

The Trustee has a contract with Hermes Equity Ownership Services Limited (HEOS) for the provision of share voting services on behalf of HGPS. The Scheme pays HEOS a fee for this service.

The Auditor, Deloitte LLP, does not provide any non-audit work for the Scheme. However, they do undertake audit and non-audit work for the Principal Employers, Hermes Fund Managers Limited and BT Pension Scheme Trustees Limited. The Trustee is satisfied with the independence of the Auditor.

SCHEME GOVERNANCE

The Trustee conducts itself in accordance with the Myners principles (as updated in 2008) and Regulatory guidance from The Pensions Regulator.

The Trustee Board meets at least quarterly and investment decisions are considered by the entire Board. The Trustee has an Audit Committee and other ad hoc committees have been established from time to time when necessary.

The Trustee Directors receive training appropriate to their needs, and they continue to assess whether they have the right set of skills both individually and collectively with regular reviews.

The Trustee has a three year business plan, which includes rolling reviews of the investment manager, all advisers and all other aspects of the Scheme's operations. The plan is updated annually.

In 2014 the Trustee developed a Communications Strategy and Plan, which will be reviewed annually. A Communications Sub-Group has been established in order to manage and review all communications to members.

The pensions administrator for HGPS is Capita Employee Benefits Limited. Its performance is measured against a number of service level targets and the Trustee Board monitors performance regularly.

The Trustee Board and Audit Committee are supported by a professional secretariat firm, Inside Pensions. The Trustee Board monitors the performance of Inside Pensions regularly.

CUSTODY OF THE SCHEME'S ASSETS

The Trustee considers that it is important to keep the investment management of its assets separate from their custody, to minimise the risk of the assets being misused.

For pooled funds it is the responsibility of the fund manager to appoint and monitor custodians. Northern Trust has acted as custodian for non-pooled arrangements during the year and this is being reviewed as part of the investment strategy review. The Trustee maintains bank accounts in its name to make and receive payments for the Scheme.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

ADDED YEARS AND ADDITIONAL VOLUNTARY CONTRIBUTIONS

Until 31 October 2011 active members of the Scheme were able to purchase increased benefits in two ways:

- i) by buying added years of pensionable service in the Scheme by paying an additional percentage of salary during their active membership; and
- ii) by making additional voluntary contributions (AVCs) to a with-profits fund managed by Prudential Assurance Company Limited.

From 1 November 2011 these options ceased.

There was also an earlier option to pay AVCs to a Santander deposit account. Members can no longer pay AVCs or any contributions to HGPS. The members who paid AVCs to Prudential or Santander retain their investment in the fund which can be used to provide additional benefits when they retire. The added years benefit a member purchased up to 31 October 2011 is included in their main HGPS benefits.

INTERNAL DISPUTE RESOLUTION PROCEDURE

The Trustee has found that virtually any query or request for information about the Scheme is capable of being answered satisfactorily by Capita Employee Benefits Limited or the Scheme Secretary.

Nevertheless the Trustee has a procedure to resolve disputes, which gives a member the means of having a grievance considered at the highest level.

The Internal Dispute Resolution Procedure (IDRP) is in two stages. At stage 1, the dispute/complaint is considered by the Secretary to the Trustee. A member not satisfied with his decision can ask at stage 2 for the matter to be reconsidered by the Trustee Board. No formal complaints under the IDRP have been received for ten years.

A member of the Scheme who has a query or complaint which is likely to prove difficult to resolve is given a copy of the IDRP. A copy of the procedure can be obtained from the Secretary to the Scheme at the address below.

HERMES GROUP PENSION SCHEME WEBSITE

The Scheme has its own website, which is hosted by Hermes Fund Managers Ltd:
www.hermes.co.uk/hgps

The website is aimed at everyone with an interest in the Scheme – employed deferred members, pensioners and former Hermes staff with preserved benefits. There is comprehensive information about the Scheme, although there is no personal information held within the site.

Members seeking information about their own benefits are referred to the Scheme's Administrators, Capita Employee Benefits Limited. Their address can be found on page 7.

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

OTHER INFORMATION FOR MEMBERS

i) The Pensions Advisory Service ("TPAS")

TPAS is an independent voluntary organisation with local advisors who are experts in pensions matter. TPAS can be contacted either through any local Citizens Advice Bureau or at the following address:

TPAS Headquarters
11 Belgrave Road
London
SW1V 1RB

ii) Pensions Ombudsman

If TPAS cannot resolve a complaint or dispute then the Pensions Ombudsman may be contacted at the same address as TPAS, shown above.

iii) The Pensions Regulator

Pension schemes are regulated by The Pensions Regulator, which has power to impose civil penalties and to bring criminal prosecutions for serious breaches of the pensions Act 1995's requirements. The Pensions Regulator can be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Square
Brighton
East Sussex
BN1 4DW

iv) Pension Tracing Service

Information about the Scheme (including a contact address) has been provided to the Pension Tracing Service as required by law. Because the Pension Tracing Service holds the same information for other pension schemes it offers a service which enables members to trace benefits from previous employers' schemes. The Pension Tracing Service can be contacted through TPAS or at the following address:

Pension Tracing Service
The Pensions Service
Whitley Road
NE98 1BA

HERMES GROUP PENSION SCHEME

TRUSTEE'S REPORT

THE REPORT AND FINANCIAL STATEMENTS

The Trustee considers that this report contains all the information which is required to be disclosed to members under current legislation.

The financial statements have been prepared and audited in accordance with the regulations made under sections 41(1) and (6) of the Pensions Act 1995.

Copies of the full report and financial statements are being made available via the HGPS website site to all members of the Scheme, who may also obtain a hard copy on request. All members will be advised accordingly.

Members who have a general query about the report or their benefit entitlements in HGPS, should contact Rachael Fortescue, the Scheme Secretary, Inside Pensions, 54-56 Victoria Street, St Albans, AL1 3HZ. The telephone number is 01727 733150. Further information on HGPS is available on the Scheme's website www.hermes.co.uk/hgps

All members are invited to attend the Scheme's Annual General Meeting held at Hermes' offices on 8 July 2015. The meeting will run from 16:00 to 18:00 with a buffet and networking opportunity provided between 18:00 and 19:00. A notification of this event with further details will be sent to members.


Carol Woodley

C L WOODLEY
Chairman
Hermes Pension Trustees Limited

Date: 03 JUNE 2015

HERMES GROUP PENSION SCHEME

ACTUARIAL STATEMENT AND CERTIFICATE

ACTUARIAL STATEMENT

Ms Judith Dingle resigned as Scheme Actuary with effect from 8 November 2013 having made the following statement: "I confirm that I am not aware of any circumstances connected with my resignation which, in my opinion, significantly affect the interests of members or prospective members of, or beneficiaries under, the Scheme."

I was subsequently appointed as Scheme Actuary with effect from 3 December 2013.

The most recent actuarial valuation of the Scheme, carried out by Ms Judith Dingle, was made as at 31 December 2011. The Scheme closed for future benefit accrual for active members shortly before the valuation date, on 31 October 2011, and this valuation allows for the fact that no further benefits will accrue. An actuarial valuation of a closed scheme has two main purposes:

- to determine whether or not the assets already held by the Scheme are sufficient to finance the prospective benefit entitlements of current and former members, and
- to assess the future level of contributions required to meet any past service shortfall revealed by the valuation.

The valuation of the Hermes Group Pension Scheme as a continuing Scheme revealed a past service deficit as at 31 December 2011 of £32.8 million. To eliminate this deficit, the Employer is making a series of additional contributions, as set out in the Schedule of Contributions, which are targeted to eliminate the deficit by 31 May 2017.

Taken in conjunction with the assumed rate of investment return on the invested assets, Ms Dingle certified that she expected the target of full funding against the ongoing valuation assumptions to be achieved on payment of the above contributions.

The Employer has also agreed to make further special contributions, if applicable, to meet the strains which arise on account of redundancies or early retirements of active deferred members in good health and also to meet any strains arising if salary increases for active deferred members overall are higher than assumed.

In the unlikely event that the Employer ceased paying contributions to the Scheme ("discontinuance"), the Trustee could seek to meet benefits payments either by winding up the Scheme or by continuing it as a closed fund. The Trustee could secure members' accrued rights by the purchase of appropriate annuities in the event of the Scheme being discontinued. The terms available from insurance companies at 31 December 2011 were such that, based on the Scheme's assets and liabilities at that date, the premiums charged to secure accrued rights in full would have exceeded the value of the Scheme's assets.

The next actuarial valuation of the Scheme is currently being carried out by me with an effective date of 31 December 2014. It is anticipated that the results will be available later in 2015.

Emma Palfreyman
Towers Watson Limited
1 April 2015

HERMES GROUP PENSION SCHEME

ACTUARIAL STATEMENT AND CERTIFICATE

Actuary's certification of schedule of contributions

Name of scheme Hermes Group Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 31 December 2011 to be met by the end of the period specified in the recovery plan.
2. I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the statement of funding principles and any recovery plan.

Adherence to statement of funding principles

3. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 22 June 2012.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Judith Dingle

**Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited**

**21 Tothill Street
London
SW1H 9LL**

16 July 2012

HERMES GROUP PENSION SCHEME

SCHEDULE OF CONTRIBUTIONS

HERMES GROUP PENSION SCHEME

SCHEDULE OF CONTRIBUTIONS FOR THE PERIOD FROM 1 JULY 2012 TO 30 JUNE 2017

This Schedule of Contributions has been prepared by Hermes Pension Trustees Limited, the Trustee of the Hermes Group Pension Scheme (the "Scheme"), after obtaining the advice of Judith Dingle, the Scheme Actuary. This schedule satisfies the requirements of Section 227 of the Pensions Act 2004.

Contributions to be paid to the Scheme from 1 July 2012.

By the employer:

Administrative and professional expenses

The Employer will pay £600,000 pa in respect of administrative and professional expenses incurred in managing the Scheme, excluding PPF levies. These contributions are to be paid at the rate of £100,000 per month from 1 July 2012 to 31 December 2012 and £50,000 per month thereafter.

After the end of each Scheme Year, if the expenses of the Scheme have been less than £600,000, the following year's contributions to expenses will be reduced by the difference between the actual expenses and £600,000. Conversely, if the expenses have been higher than £600,000, the following year's contributions will be increased by the amount of such excess.

PPF levies

The Employer will also pay within the time periods required by the PPF all levies payable to the Pension Protection Fund as they fall due.

Enhanced benefits on redundancy or early retirement

In respect of enhanced benefits granted on redundancy or early retirement (other than ill-health retirement) under the Rules, the Employer will pay an amount equal to the funding strain on each redundancy or early retirement (other than ill-health retirement) as calculated by the Scheme Actuary using the method and assumptions set out in the Statement of Funding Principles dated 22 June 2012. The funding strain is the difference, at the date of retirement, in the value of the member's past service liabilities as an active-deferred member and the value of the member's retirement benefits. These contributions will be paid to the Scheme within one month of certification by the Actuary of the amount due, unless the Employer and Trustee agree a later date.

Additional contributions payable in respect of Salary increases above the level assumed

Explanatory note:

The intention of this section is to specify the additional calculations that will be payable by the Employer if Salary increases are higher than assumed in the valuation. The calculation at the 2012 Salary review date will look just at that year. The calculation at the 2013 Salary review date will look at the combined position of the 2012 review (allowing for previously agreed payment schedules, if any) and the 2013 review and the calculation at the 2014 will look at the combined position of all

HERMES GROUP PENSION SCHEME

SCHEDULE OF CONTRIBUTIONS

three years. If, at either the 2013 or 2014 Salary review date, there are some outstanding contributions in respect of earlier years which have not yet been paid by the Employer, these contributions due will either be increased, reduced or eliminated in full, as appropriate to reflect the combined position as a result of actual Salary increases compared to valuation assumptions for the 2 or 3 year period.

The mechanism for combining the position for two consecutive years will depend on whether the position at the first year is negative (i.e. actual salary increases lower than the assumptions) or positive (actual salary increases higher than the assumptions). If the first year is negative, interest for one year will be added to this and it will then be added to the figure calculated at the second date to give the combined figure. If the first year is positive, a series of contributions over an agreed payment period no later than 31 December 2014 will have been agreed by the Employer. In order to allow for any contribution payment schedules already agreed, all the outstanding payments due after the second salary review date will be discounted back to that date at the same rate of interest and be added to the figure calculated at the second date to give the combined figure. Note that if no payments are made between the first and second years, this approach will be the same as taking the positive figure calculated in the first year and adding interest for one year and then combining this with the figure calculated at the second date to give the combined figure.

At each salary review date in 2012, 2013 and 2014 the Scheme Actuary will calculate the **Salary increase shortfall** as the difference between:

- 1 The past service liabilities using the actual Salaries for active-deferred members; and
- 2 The past service liabilities assuming that the Salaries from the previous salary review had increased by 2.5% for the active-deferred members.

The past service liabilities which relate to career average benefits will be excluded from this calculation.

Members with Salary equal to the Scheme-specific earnings cap prior to the salary review date will be excluded from the calculations.

The assumptions to be used for the past service liability calculations at each salary review date are those set out in the Statement of Funding Principles dated 22 June 2012.

The **Salary increase shortfall** calculated by the Scheme Actuary at each salary review date will be combined with any negative amount carried forward from the previous year plus interest at 5.7% pa or any outstanding contributions which relate to a positive amount in a previous year, discounted to the salary review date at 5.7% pa. This figure will be called the **Combined amount**. For the 2012 review the **Combined amount** will be equal to the **Salary increase shortfall**.

If the **Combined amount** is a negative figure any outstanding payments due in respect of previous years will be cancelled and this negative amount will be carried forward to the next review, apart from for the 2014 review when it will be disregarded if negative. There will be no refund of contributions already received.

If the **Combined amount** is a positive figure but less than any value of the outstanding payments at the salary review date then the outstanding payments will be reduced as appropriate and the amount carried forward to the next year will be zero.

HERMES GROUP PENSION SCHEME

SCHEDULE OF CONTRIBUTIONS

If the **Combined amount** is a positive figure and greater than the amount required to meet any outstanding payments at the salary review date, the Employer will make a payment equal to the amount in excess of that required to meet the payments already agreed, plus interest, by the end of the calendar year in which the salary review date falls. Alternatively, at the election of the Employer, payments could be made in monthly instalments, payable from the date when the calculations have been agreed in respect of the relevant salary review date to a date no later than 31 December 2014. Interest will be added to the amount calculated at the rate of 5.7% pa compound from the salary review date to the payment date.

Other employer contributions

In addition to the contributions shown above, the Employer shall pay the following:

- a In respect of any augmentations granted at the request of the Principal Employers, the Employer will pay any additional contributions that the Trustee considers appropriate, on the advice of the Actuary. These shall be paid into the Scheme at dates to be agreed between the Principal Employers and the Trustee.
- b Such other contributions as may from time to time be agreed by the Trustee and the Employer, at dates to be agreed between the Principal Employers and the Trustee.

In accordance with the Recovery Plan dated July 2012, in addition the Employer shall make the following contributions:

Period	Total additional contributions payable £m	Payment schedule
1 October 2013 to 31 December 2013	1.390	£190,831 payable in October £599,583 payable in November and December
1 January 2014 to 31 December 2014	6.925	£577,083 payable each month
1 January 2015 to 31 December 2015	7.138	£594,833 payable each month
1 January 2016 to 31 December 2016	7.357	£613,083 payable each month
1 January 2017 to 31 May 2017	2.932	£586,400 payable each month

These amounts are in addition to the monthly contributions totalling £2.32m and the lump sum of £10m which the Employer paid before 30 June 2012. The £10m lump sum was in lieu of the monthly payments that would have otherwise been paid between 1 July 2012 and 30 September 2013.

If the Employer pays any additional lump sum payments they will be treated as an advance payment of contributions under the Recovery Plan and future monthly payments will be amended accordingly.

The parties wish to avoid a surplus building up in the Scheme. To this end, the following would apply after the valuation as at 31 December 2014: If the Actuary certifies that in his/her opinion the remaining payments due under the Recovery Plan, if made, would be expected to result in a surplus being created, those payments

HERMES GROUP PENSION SCHEME

SCHEDULE OF CONTRIBUTIONS

would be reduced to such extent (but by no more than half) and the length of the recovery period would be reduced if necessary so that the Actuary can certify that, based on the assumptions used in the valuation, the deficit is expected to be removed and no surplus is expected to be created at the end the period. This could, of course, become redundant if a different Recovery Plan were agreed following this valuation.

Notes:

- 1 For the avoidance of doubt, Salary for the purposes of the Schedule continues to be what the member's Salary would have been if the member had not made a salary sacrifice under the child care voucher scheme.
- 2 The monthly contributions payable under the Schedule of Contributions including those to meet administration and professional expenses shall be paid to the Scheme no later than in the month to which they relate.
- 3 The rate of Employer's contributions are subject to review at future actuarial valuations.

Signed on behalf of Hermes Pension Trustees Limited

Name: Hamish Galpin
Position: Authorised signatory
Date: 11 July 2012

Signed on behalf of Hermes Fund Managers Limited

Name: John Mould
Position: Authorised signatory
Date: 11 July 2012

Signed on behalf of BT Pension Scheme Trustees Limited

Name: William McClory
Position: Authorised signatory
Date: 11 July 2012

Date of Schedule of Contributions (for Reference purposes) 11 July 2012

HERMES GROUP PENSION SCHEME

TECHNICAL PROVISIONS STATEMENT

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: Hermes Group Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2011 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 22 June 2012.

Judith Dingle
Fellow of the Institute and Faculty of Actuaries

9 July 2012

Towers Watson Limited
21 Tothill Street
Westminster
London
SW1H 9LL

HERMES GROUP PENSION SCHEME

TRUSTEE'S SUMMARY OF CONTRIBUTIONS

During the year ended 31 December 2014 the contributions payable to the Scheme under the Schedule of Contributions were as follows:

	2014 £000's
Employer's deficit funding contributions	6,925
Employer's other contributions – expenses	1,043
Employer augmentation	838
	<hr/>
Contributions payable per Schedule of Contributions and per financial statements, as reported on by the Scheme Auditor	8,806
	<hr/> <hr/>

Approved by the Trustee on 03 JUNE 2015

and signed on its behalf by:



C L Woodley
Chairman

HERMES GROUP PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS

TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME

We have examined the summary of contributions to the Hermes Group Pension Scheme for the Scheme year ended 31 December 2014 on page 33.

This statement is made solely to the Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

Respective responsibilities of the Trustee and the auditor

As explained more fully in the Trustee's Statement of Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule of Contributions and to report our opinion to you.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the attached summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Statement about contributions payable under the Schedule of Contributions

In our opinion, contributions for the Scheme year ended 31 December 2014 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 16 July 2012.

Deloitte LLP 

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Date: 3 June 2015

HERMES GROUP PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT

TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME

We have audited the financial statements of Hermes Group Pension Scheme for the year ended 31 December 2014 which comprise the fund account, the net assets statement and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee, as a body, in accordance with regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustee and the auditor

As explained more fully in the Trustee's Statement of Responsibilities, the Scheme's Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2014, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Deloitte LLP 

Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

Date: 3 June 2015

HERMES GROUP PENSION SCHEME

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year that:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme period, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and
- contains the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised May 2007).

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the active members of the Scheme and the Employer and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept, and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

**HERMES GROUP PENSION SCHEME
FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2014**



GROUP PENSION SCHEME

FINANCIAL STATEMENTS

31 DECEMBER 2014

HERMES GROUP PENSION SCHEME

FUND ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £000's	2013 £000's
Contributions and benefits			
Contributions	2	8,806	2,183
Individual transfers in	3	66	-
		8,872	2,183
Benefits	4	(3,098)	(2,960)
Leavers	5	-	(29)
Administrative expenses	7	(820)	(411)
		(3,918)	(3,400)
Net additions/(withdrawals) from dealings with members		4,954	(1,217)
Returns on investments			
Investment income	6	922	970
Change in market value of investments	9	14,486	9,143
Investment management expenses	8	(223)	(189)
Net returns on investments		15,185	9,924
Net increase in the fund during the year		20,139	8,707
Net assets of the Scheme			
At start of year		118,503	109,796
At end of year		138,642	118,503

The notes on pages 40 to 48 form an integral part of the financial statements.

HERMES GROUP PENSION SCHEME

NET ASSETS STATEMENT

AT 31 DECEMBER 2014

	Notes	2014 £000's	2013 £000's
Investment assets	9	138,359	118,434
Current assets	10	649	436
Current liabilities	11	(366)	(367)
Net assets of the Scheme at year end		138,642	118,503

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take into account obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take into account such obligations, is dealt with in the Report by the Trustee and actuarial certificates included in the Annual Report on pages 26 to 32 and these financial statements should be read in conjunction with them.

The notes on pages 40 to 48 form an integral part of the financial statements.

The financial statements were approved by the Trustee on 03 JUNE 2015

C L WOODLEY
Chairman

I A KIRBY
Trustee Director

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the guidelines set out in the Statement of Recommended Practice (Revised May 2007), Financial Reports of Pension Schemes (Revised SORP).

The financial statements have been prepared for the year ended 31 December 2014.

The following accounting policies have been applied consistently in the current and prior year.

- a) **Contributions.** All Employer's contributions are recognised in the financial statements in accordance with the Schedule of Contributions.
- b) **Benefits.** Benefits payable include all valid benefit claims notified to the Trustee during the Scheme year.
- c) **Transfers.** Individual transfers are accounted for on a cash basis.
- d) **Investment income.** Income from pooled investment vehicles, index linked securities and bank deposits is accounted for on an accruals basis. Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend.
- e) **Realised gains and losses on sales of investments.** Realised gains and losses on sales of listed securities are calculated by reference to the average cost of holdings at the date of sale, and are included within change in market value of investments.
- f) **Foreign currencies.** Assets and liabilities in foreign currencies are translated into sterling at the rates ruling at the year-end. Income is converted into sterling when received. Profits and losses on foreign exchange are included within change in market value of investments.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities, involve the same currency as the hedge item, and reduce foreign currency exchange movements. Gains and losses arising on these transactions are offset against the foreign exchange gains and losses on the related financial assets or liabilities.

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

- g) **Market value of securities.** Securities listed on order-driven exchanges are valued at closing prices at the year end. Other securities listed on recognised stock exchanges are valued at bid prices. For fixed interest and index linked securities this valuation is reduced by the accrued interest therein. Such interest is included in accrued investment income.
- h) **Pooled Investment Vehicles.** Holdings in pooled investment vehicles are included at the closing bid price if both bid and offer prices are published or, if single priced, at the closing single price, as advised by the investment manager.

2 Contributions

	2014	2013
	£000's	£000's
Employer's deficit funding contributions	6,925	1,390
Employer's other contributions – expenses	1,043	600
Employer's augmentation	838	-
Employer's salary increase shortfall contributions	-	193
	8,806	2,183

An actuarial valuation of the Scheme was carried out by the Scheme Actuary as at 31 December 2011. As part of the agreed recovery plan signed on 11 July 2012, the Employer made deficit contributions of £6.925 million during the year.

The deficit contributions for 2012 included an advance deficit contribution of £10.0 million paid on 29 June 2012, in lieu of the monthly payments that would otherwise have been paid between 1 July 2012 and 30 September 2013. As a consequence of this the 2013 deficit contributions, as shown above, were reduced to £1.39 million.

Under the recovery plan, dated 11 July 2012 deficit contributions are payable at the following rates from 1 October 2013 to 31 May 2017 in order to eliminate the Scheme's funding deficit:

Period	Payment schedule
1 October 2013 to 31 December 2013	£190,831 payable in October: £599,583 payable in November and December
1 January 2014 to 31 December 2014	£577,083 payable each month
1 January 2015 to 31 December 2015	£594,833 payable each month
1 January 2016 to 31 December 2016	£613,083 payable each month
1 January 2017 to 31 May 2017	£586,400 payable each month

Employer's augmentation is in respect of redundancy and early leaver payments.

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

3	Transfers in	2014	2013
		£000's	£000's
	Individual Transfers in	66	-
		66	-

4	Benefits	2014	2013
		£000's	£000's
	Pensions	2,563	2,443
	Commutation and lump sum retirement benefits	535	517
		3,098	2,960
		3,098	2,960

5	Payments to and on account of leavers	2014	2013
		£000's	£000's
	Individual transfers to other schemes	-	29
		-	29
		-	29

6	Investment income	2014	2013
		£000's	£000's
	Pooled investment vehicles	835	763
	Index linked investments	76	154
	Fixed interest investments	2	2
	Deposits and bank balances	9	51
		922	970
		922	970

In addition, certain of the Scheme's pooled investment vehicles automatically reinvest income into the funds and this is represented through the change in market value of investments.

7	Administrative expenses	2014	2013
		£000's	£000's
	Trustee Directors' fees	82	81
	Actuary's fees	141	114
	Other administration expenses	597	216
		820	411
		820	411

In accordance with the Trust Deed the expenses of administering the Scheme are borne by the Scheme.

Administration expenses include fees for audit services of £22,507 (2013: £18,540).

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

7 Administrative expenses (continued)

Trustee Directors' fees

The following fees were paid to the directors of Hermes Pension Trustees Limited.

	2014 £000's	2013 £000's
Mr D P Bradford	2	-
Mr D C Bridges	8	8
Mr H Galpin	-	2
Ms K Graham	2	-
Mrs I A Kirby	8	8
Mrs M Brackley	-	-
Mr M Simms	-	-
Mrs C L Woodley (Chairman)	62	63
	82	81

Mr D Bradford was appointed director on 18 September 2014. Mr H Galpin resigned as director on 30 September 2013. Ms K Graham was appointed director on 1 October 2013 and resigned as director on 25 February 2014. Mrs M Brackley was appointed director on 1 January 2013 and resigned as director on 31 August 2013.

8 Investment management expenses

Investment management fees are in respect of the funds managed by Legal & General Investment Management Limited (LGIM), BlackRock Investment Management (UK) Limited, and Hermes Alternative Investment Management Limited. There are no direct fees payable to other funds. All other investment management services provided by the Hermes Group have not been apportioned to the Scheme (note 12).

Investment expenses include fees paid to Hermes Equity Ownership Services Limited of £11,281 (2013: £4,190 (included in other administrative expenses)). All other services provided by the Hermes Group are not charged to the Scheme (see note 12).

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

9 Investment assets

Analysis of change in market value of investments:

	Market value 01.01.14 £000's	Net investment £000's	Change in market value £000's	Market value 31.12.14 £000's
Investment assets				
Pooled investment vehicles	100,979	15,249	12,972	129,200
UK index linked investments	15,433	(16,879)	1,446	-
Fixed interest investments	643	(654)	11	-
AVC funds	11	-	-	11
	117,066	(2,284)	14,429	129,211
Cash balances – sterling	1,163		57	9,033
Other investment assets	205		-	115
Net investment assets	118,434		14,486	138,359

The change in market value column comprises profits and losses on investments sold and increases and decreases in the market value of investments held at any time during the year ended 31 December 2014.

Net investment is made up as follows:

	Purchases at cost £000's	Sales proceeds £000's	Net investment £000's
Investment assets			
Pooled investment vehicles	132,453	(117,204)	15,249
Index linked investments	5,956	(22,835)	(16,879)
Fixed interest investments	288	(942)	(654)
AVC funds	-	-	-
	138,697	(140,981)	(2,284)

Transaction costs are the incremental costs that are directly attributable to the acquisition or disposal of an investment and are included in purchases and sale proceeds. There were no such transaction costs during the period (2013: £nil).

Indirect costs can be incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

Wellington Management International limited and Babson Capital Management are domiciled overseas, all other investment managers are domiciled in the United Kingdom.

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

9 Investment assets (continued)

Pooled investment vehicles	2014 £000's	2013 £000's
Managed funds – UK	105,058	70,709
Managed funds – Overseas	5,204	11,635
Managed funds – Property UK	8,332	9,697
Property unit trusts - UK	10,606	8,938
	129,200	100,979

The total LGIM investment included within pooled investment vehicles, represent 62.3% of the net assets of the Scheme (2013: 53.0%). The table above divides managed funds and unit trusts between UK and Overseas, which represents both the exposure of the investment and the domicile of the investment manager operating the investment. The domicile of the investment manager operating the LGIM pooled funds, which include some overseas exposures, is UK.

Index linked and fixed interest investments	2014 £000's	2013 £000's
Index linked investments		
UK – public sector	-	14,933
UK - corporate	-	365
Overseas – public sector	-	135
	-	15,433
Fixed interest investments		
UK – public sector	-	643

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

9 Investment assets (continued)

AVC funds

Members' additional voluntary contributions are invested separately from the main Scheme fund in the form of insurance policies and deposits securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 December confirming the amounts held in their account and the movements in the year. The aggregate amounts of money purchase AVC investments are as follows:

	2014 £000's	2013 £000's
Santander	1	1
Prudential Assurance Company Limited	10	10
	11	11

Employer Related Investments

Other than the late contributions referred to on page 11, which under applicable regulations constituted employer related investments for the period under which they remained unpaid past due, there have been no employer related investments during the year.

Other investment assets	2014 £000's	2013 £000's
Accrued investment income	33	80
Tax recoverable	82	189
Net pending transactions	-	(64)
	115	205

An investment in EH Nominees Limited held by the Scheme and valued at £100 (2013: £100) has not been disclosed separately in the table above due to materiality.

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

9 Investment assets (continued)

Concentration of Investments

There were six holdings which represented more than 5% of the net assets of the Scheme as at 31 December 2014:

	Market value £000's	% of net assets
Hermes Property Unit Trust	10,606	7.7
Legal & General Assurance (Pensions Management) Limited		
World Developed Equity Index	22,207	16.0
FTSE RAFI All World 3000 Index	20,994	15.1
World Emerging Markets Equity Index Fund	11,674	8.4
Babson Capital Management		
Global High Yield Credit Strategies Fund	9,331	6.7
M&G Illiquid Credit Opportunities Fund	9,500	6.9

There were seven holdings which represented more than 5% of the net assets of the Scheme as at 31 December 2013:

	Market value £000's	% of net assets
Hermes Property Unit Trust	8,133	7.4
Legal & General Assurance (Pensions Management) Limited		
North America Equity Index Fund	6,933	6.3
UK Equity Index Fund	16,705	15.2
Europe Ex-UK Equity Index Fund	7,146	6.5
World Emerging Markets Equity Index Fund	11,769	10.7
Active Corporate Bond – Over 10 Year Fund	5,672	5.2
Wellington Management Portfolios Plc		
Global Credit Plus Portfolio	6,888	6.3

HERMES GROUP PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

10 Current assets

	2014 £000's	2013 £000's
Bank balance	520	361
Employer's additional contributions - expenses	125	-
Employer's salary increase shortfall contributions	-	75
Prepayments	4	-
	649	436

Employer's salary increase shortfall contributions were received on 1 May 2014 in relation to shortfall adjustments from April 2013.

'Employer's additional contributions – expenses' represents the shortfall of employer other contributions towards the expenses paid over the total expenses incurred by the Scheme in the year. In accordance with the Schedule of Contributions as outlined on page 28, these will be paid the following year.

11 Current liabilities

	2014 £000's	2013 £000's
Accrued expenses	218	132
PAYE liability	51	47
Lump sums payable on retirement	97	-
Deferred employer other contributions - expenses	-	188
	366	367

The 'Deferred employer other contributions - expenses' represents the excess of employer other contributions towards the expenses paid over the total expenses incurred by the Scheme in the year. Under the Schedule of Contributions, this excess can be deferred to meet future Scheme expenses.

12 Related party transactions

Certain activities of the Scheme are carried out by the Hermes group. Most of the costs associated with these activities have not been apportioned for accounting purposes between those attributable to the Scheme and those attributable to the Hermes Group as functions maintained for both entities cannot be divided meaningfully between them (see notes 7 and 8). Three Trustee directors were members of the Scheme at 31 December 2014 (2013: three). Their membership is in line with the Scheme Rules. Further details of the Trustee expenses have been disclosed in note 7.

HERMES GROUP PENSION SCHEME

TRUSTEES ARRANGEMENTS

1. The main provisions relating to the appointment and retirement of Trustee Directors are as follows:
 - there is a minimum of five Trustee Directors, but a sixth Director may be appointed from time to time;
 - two of the Directors are nominated by the Principal Employers, who can also remove them from office;
 - two of the Directors are member-nominated Directors, elected by the active members, deferred pensioners and pensioners;
 - they can be removed from office by the Principal Employers, at the request of the members;
 - in addition there is a Chairman who is appointed by the Principal Employers after consultation with and the agreement of the member-nominated Directors;
 - the Principal Employers fix the Chairman's period of office;
 - the Chairman can be removed from office as Trustee Director and Chairman by the Principal Employers and has to be so removed by the Principal Employers at the request of the member-nominated Directors; and
 - the Principal Employers may from time to time appoint a sixth Trustee Director, who will be "independent", with the consent of the other five Directors. The sixth Director will not be a member of the Scheme, or an employee or ex-employee of any of the Employers participating in the Scheme.

2. A Trustee Director's normal term of office is four years:
 - a Trustee Director can be appointed for a second term giving a normal maximum period of eight years, unless the Principal Employers and the other Trustee Directors agree to a third term;
 - a member-nominated Director who has completed a term of office will be required to seek re-election if he/she wishes to serve for a second or third term;
 - the Chairman's term of office is normally three years with a normal maximum of two terms (i.e. six years), unless the Principal Employers and the other Trustees agree to a third term; and
 - for a Trustee Director who subsequently becomes Chairman, the term is limited to a normal maximum of eleven years unless the Principal Employers and other Trustee Directors agree to an extension.