Willis Towers Watson

Hermes Group Pension Scheme

Actuarial valuation as at 31 December 2017

November 2018

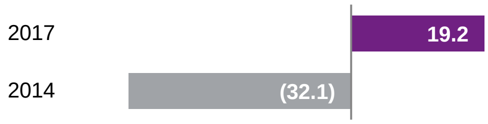
willistowerswatson.com

Summary

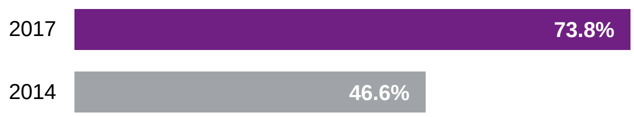
The main results of the Scheme's actuarial valuation are as follows:

- Technical provisions funding level as at 31 December 2017 has increased to 108.9% (2014: 81.2%)

- Deficit of assets relative to technical provisions at 2014 of £32.1 million has changed to a surplus at 2017 of £19.2 million



- The Scheme Actuary's statutory estimate of solvency as at 31 December 2017 has increased to 73.8% (2014: 46.6%)



Contents

Throughout this report the following terms are used:

Scheme
Hermes Group Pension Scheme

Trustee
Hermes Pension Trustees Limited

Employer
BT Pension Scheme Trustees Limited

Trust Deed & Rules
The Scheme's Trust Deed and Rules dated 1 November 2011

Introduction

Scope

This report is the actuarial valuation of the Hermes Group Pension Scheme as at 31 December 2017 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial valuation is required under the terms of Rule 25.2 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004; a copy of this report must be provided to the Employer within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the Scheme at 31 December 2017 using several different measures of its liabilities and how it has changed since the previous valuation at 31 December 2014. It also describes the strategy that has been agreed between the Trustee and Employer for financing the Scheme in future and provides projections of the funding position at the expected date of the next valuation.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation within a reasonable period. Members may also request a copy of this report.

The financial position of the Scheme and the level of Employer contributions to be paid will be reviewed at the next actuarial valuation, which will be carried out at a date no later than 31 December 2020.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 December 2018, must be completed by 31 December 2019.

E J Palfreyman

Emma Palfreyman
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
29 November 2018

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Authorised and regulated by the Financial Conduct Authority

http://eutct.internal.towerswatson.com/clients/618129/HGPSTTRVal31Dec17/Documents/Hermes%20Valuation%20Report%20DRAFT.docx

Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Employer who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements.

The Trustee is currently completing a reconciliation of GMP records with HMRC. This may lead to changes in liability if member records are updated as a result of this exercise. No reserve has been included in the technical provisions at this stage.

The administrator has indicated that the pension amounts at date of leaving provided in the data for this valuation are all based on Final Pensionable Salary at Date of Leaving rather than incorporating the deferred revaluation underpin at that stage, so I have compared this against the pension at closure with deferred revaluation in order to determine whether the deferred revaluation underpin applies for these members. This is a change from the method used for the previous valuation, where this data was provided by the administrator. The deferred revaluation underpin test being done at Normal Retirement Date rather than Date of Leaving is a point of detail that has been clarified since the 31 December 2014 valuation.

I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. Other than in relation to the GMP reconciliation exercise as noted above, these checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Scheme, including for paying out the right benefits, is known as ‘personal data’. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as ‘data controllers’ under the Data Protection Act). Data controllers would include the Trustee of the Scheme and may also include the Scheme Actuary and Towers Watson Limited, so we have provided further details on the way we may use this data on our website at http://www.willistowerswatson.com/personal-data.

Assumptions

The choice of long-term assumptions, as set out in the Scheme's Statement of Funding Principles dated November 2018, is the responsibility of the Trustee, in agreement with the Employer, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Scheme's experience from time to time to be better or worse than that assumed. The Trustee and the Employer must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Scheme is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has be made for climate-related risks.

Funding

Statutory funding objective

The Trustee's only formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service up to the date of Scheme closure to future accrual (31 October 2011) are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable salary increases for employed-deferred members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Scheme over the next 90 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 December 2017 have been agreed between the Trustee and Employer and are documented in the Statement of Funding Principles dated November 2018.

The table below summarises the main assumptions used to calculate the Scheme's technical provisions for this and the previous actuarial valuation.

The financial assumptions at 31 December 2017 are curve-based assumptions. Approximate single equivalent rates at 31 December 2017 are shown in brackets in the table below.

Financial assumptions	**31 December 2017** **% pa**	31 December 2014 % pa
Discount rate	**Gilts + 0.75% pa (2.41%)**	Pre-retirement 4.60% Post-retirement 3.05%
RPI inflation	**RPI curve (3.37%)**	3.30%
CPI inflation	**RPI curve - 1% pa (2.37%)**	2.30%
Pensionable salary increases	**CPI curve (2.37%)**	2.50% for first year then CPI (2.30%)
Revaluation for career average benefits	**RPI curve capped at 5% pa with fixed volatility of 2.4% (3.16%)**	3.00%
Revaluation for deferred pensioners		
- Former HPS members (Pension Increase Review Orders)	**CPI curve (2.37%)**	2.30%
- Other members (Statutory revaluation)	**CPI curve (2.37%)**	2.30%
Pension increases in payment		
- Former HPS members (Pension Increase Review Orders)	**CPI curve uncapped (floor of 0%) with fixed volatility of 1.9% pa (2.61%)**	2.30%
- Other members (RPI max 5%)	**RPI curve capped at 5% pa with fixed volatility of 2.4% (3.07%)**	3.00%
- Post 88 GMP (CPI max 3%)	**CPI curve capped at 3% pa with fixed volatility of 1.9% (2.05%)**	1.90%

Demographic assumptions	31 December 2017	31 December 2014
Mortality base tables	**95% of S2NMA_L for males 85% of S2NFA for females**	95% of S2NMA_L for males 90% of S2NFA for females
Future improvements in longevity	**CMI 2017 projections with a long term rate of 1.50% pa from 2007**	CMI 2014 projections with a long term rate of 1.50% pa from 2007
Allowance for commutation	**15% (based on commutation factors calculated on a discount rate of gilts + 1.5% pa and a long-term best estimate basis for the other assumptions)**	20% (based on commutation factors calculated on 85% of a long-term best estimate basis)
Expenses	**A reserve of 5 years of £3 million has been included in the technical provisions (5 years' allowance with expenses assumed to be £600k pa)**	None
GMP Equalisation	**£1m**	£1m

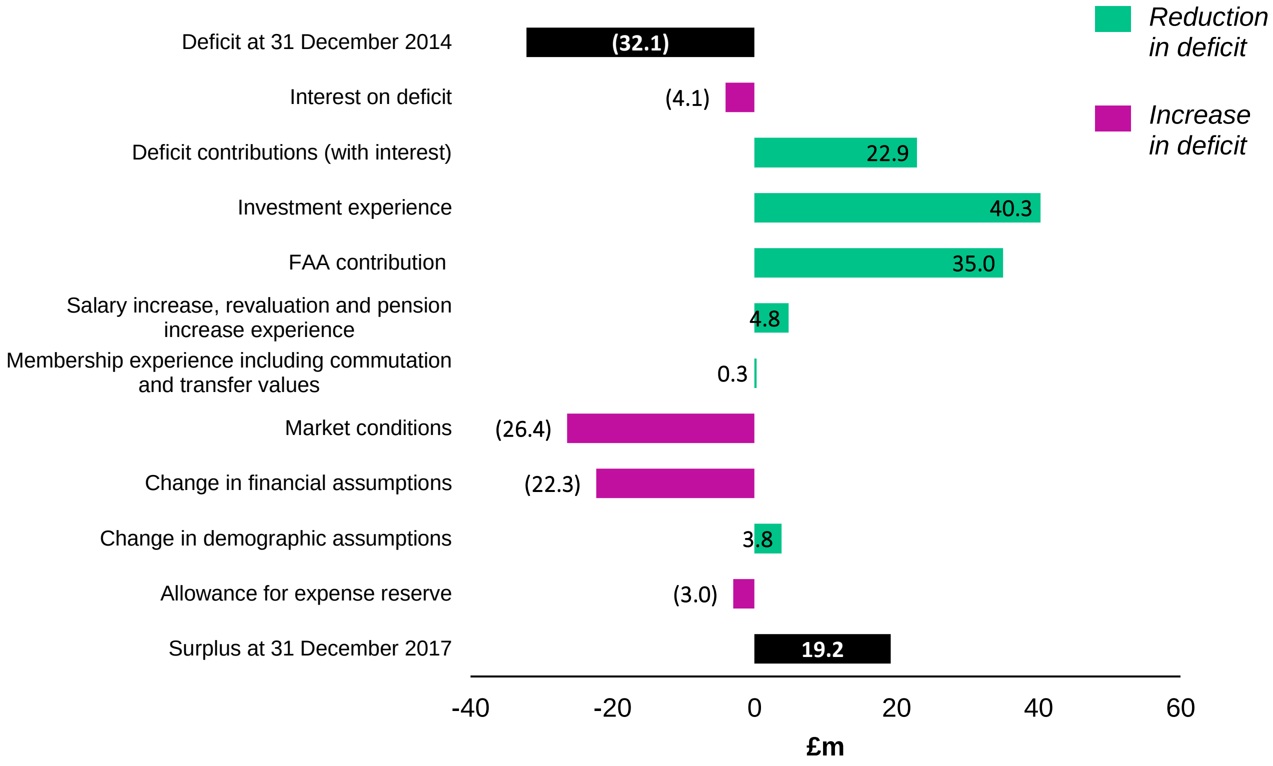
The table below compares the Scheme's technical provisions as at the date of the actuarial valuation (31 December 2017) with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 December 2017 £m	31 December 2014 £m
Amount required to provide for the Scheme's liabilities in respect of:		
Employed-deferred members	**22.2**	27.9
Deferred pensioners	**110.3**	81.6
Pensioners and dependants	**78.8**	60.2
GMP equalisation	**1.0**	1.0
Expenses	**3.0**	-
Technical provisions	**215.3**	170.7
Market value of assets	**234.5**	138.6
Past service (deficit)/surplus (technical provisions less assets)	**19.2**	(32.1)
Funding level (assets ÷ technical provisions)	**108.9%**	81.2%

Developments since the previous valuation

The funding level has increased to 108.9% from 81.2% at the previous valuation.

The main factors contributing to this increase are shown below.



Over the period since the last valuation, Hermes Fund Managers Limited were removed as a Participating Employer from the Scheme, and now the Scheme's only Employer is BT Pension Scheme Trustees Limited. The Trustee agreed to a Flexible Apportionment Arrangement (FAA) and the Scheme received a payment of £35 million.

Contribution requirements

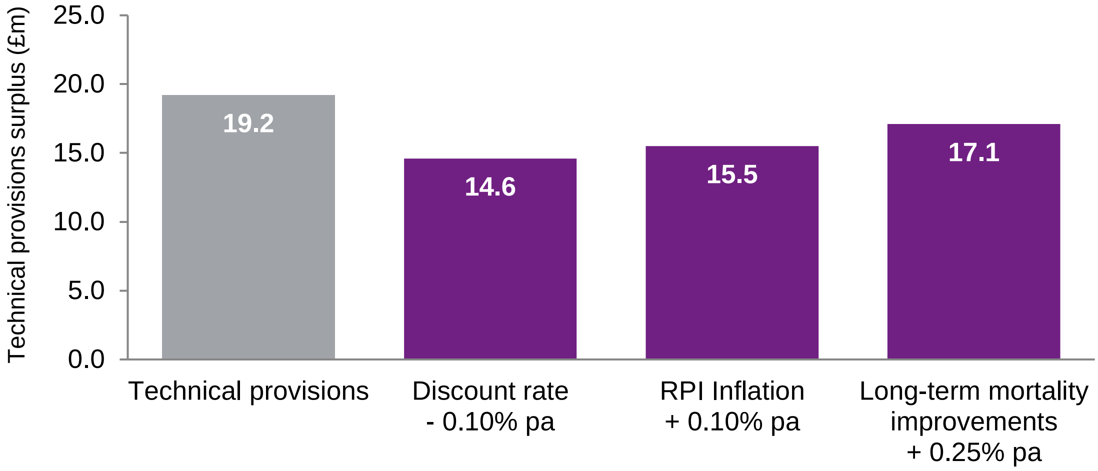
Recovery plan

As there were sufficient assets to cover the Scheme's technical provisions at the valuation date, a recovery plan is not required.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 December 2017, the funding level is expected to remain broadly stable (since the Scheme has a technical provisions surplus at the valuation date).

The chart below illustrates the sensitivity of the technical provisions as at 31 December 2017 to variations of individual assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Solvency

Discontinuance

In the event that the Scheme is discontinued, the benefits of employed-deferred members would crystallise and become deferred pensions in the Scheme.

If the Scheme's discontinuance is not the result of the Employer's insolvency, the Employer would ultimately be required to pay to the Scheme any deficit between the Scheme Actuary's estimate of the full cost of securing Scheme benefits with an insurance company (including expenses) and the value of the Scheme's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustee may decide to run the Scheme as a closed fund for a period of years before buying such policies if it is confident that doing so is likely to produce higher benefits for members or if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Scheme's discontinuance is a result of the Employer's insolvency, the "employer debt" would be determined as above and the Scheme would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Employer) were not sufficient to secure benefits equal to the PPF compensation then the Scheme would be admitted to and members compensated by the PPF. Otherwise the Scheme would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Scheme at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Scheme at the valuation date. For this purpose I have assumed that no further payments are received from the Employer.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Willis Towers Watson at around the valuation date. I have assumed the cost of implementing the winding-up to be 1.3% of the estimated value of the solvency liabilities (leading to assumed winding-up costs of £4.1).

The table below summarises how the main assumptions used to estimate the Scheme's solvency position at this and the previous actuarial valuation differ from the assumptions used to calculate the technical provisions liabilities.

The financial assumptions at 31 December 2017 are curve-based assumptions. Approximate single equivalent rates at 31 December 2017 are shown in brackets in the table below.

Financial assumptions	**31 December 2017** **% pa**	31 December 2014 % pa
Pensioner discount rate	**Gilts + 0.2% pa (1.86%)**	Gilts - 0.1% pa (2.42%)
Non-pensioner discount rate	**Gilts - 0.4% pa (1.26%)**	Gilts - 0.5% pa (2.02%)
CPI inflation	**RPI curve - 0.7% pa (2.73%)**	3.30%
Deferred pension revaluation		
- Former HPS members (Pension Increase Review Orders)	**RPI curve (3.41%)**	3.30%
- Other members (Statutory revaluation)	**Solvency CPI curve (2.73%)**	3.30%
Pension increases		

- Former HPS members (Pension Increase Review Orders)	**RPI curve (3.41%)**	3.30%
- Other members (RPI max 5% pa)	**RPI curve (3.41%)**	3.00%
- Post-1988 GMPs (CPI max 3% pa)	**Solvency CPI curve capped at 3% pa (2.81%)**	2.30%

Demographic assumptions	31 December 2017	31 December 2014
Mortality base tables	**99% of S2NMA_L for males 88% of S2NFA for females**	95% of S2NMA_L for males 90% of S2NFA for females
Future improvements in longevity	**CMI 2016 projections with a long term rate of 1.50% pa from 2007**	CMI 2014 projections with a long term rate of 1.50% pa from 2007
Allowance for commutation	**No allowance**	No allowance
Expenses	**Estimate of winding up expenses, similar to PPF guidance**	Estimate of winding up expenses, in line with PPF guidance

Other relevant assumptions are set out in the Statement of Funding Principles dated November 2018.

My estimate of the solvency position of the Scheme as at 31 December 2017 is that the assets of the Scheme would have met 73.8% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 December 2017 £m	31 December 2014 £m
Estimated cost of buying insurance policies to cover:		
Employed-deferred members	**34.7**	51.8
Deferred pensioners	**182.8**	164.7
Pensioners and dependants	**95.2**	75.9
GMP equalisation	**1.0**	-
Expenses	**4.1**	5.0
Total estimated cost	**317.8**	297.4
Market value of assets	**234.5**	138.6
Solvency (deficit)/surplus (total estimated cost less assets)	**(83.3)**	(158.8)
Solvency level (assets ÷ total estimated cost)	**73.8%**	46.6%

The change in the solvency level from 46.6% to 73.8% is due mainly to the investment performance of the Scheme's assets being better than assumed, the payment of the FAA contribution and the observed decrease in insurance company prices relative to gilts.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997 (of which I understand there are none for the Scheme);
- category 2 – the cost to the Scheme of securing the compensation that would otherwise be payable by the PPF if the Employer became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above ;
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

As the Scheme assets covered the Section 179 liabilities as at 31 December 2017 but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry to the PPF had the Employer become insolvent at 31 December 2017, in which case members would have received more than the PPF compensation but only 73.4%, on average, of the entitlements described above.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £317.8 million is £102.5 million higher than the Scheme's technical provisions of £215.3 million.

The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Employer being able to support the Scheme in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Scheme without having recourse to future contributions from the Employer.

If the statutory funding objective had been exactly met on 31 December 2017 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 67.7%. This compares with 57.4% at the 31 December 2014 actuarial valuation.

Projections and sensitivities

The solvency level is projected to broadly increase over the period to the next valuation as a result of members retiring and therefore being valued on more favourable buyout terms, although this would be countered by interest growth on the existing solvency deficit. Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 December 2017, the solvency level is projected to increase by a slightly greater extent than the technical provisions funding level.

The table below illustrates the sensitivity of the solvency position as at 31 December 2017 to variations of individual key assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)

Additional Information

Risks

The table below summarises the main risks to the financial position of the Scheme and the actions taken to manage them:

Risk	Approach taken to risk
Employer unable to pay contributions or make good deficits in the future	At each valuation the Trustee considers the ability of the Employer to pay contributions to the Scheme and, in particular, to make good any shortfall that may arise if the experience of the Scheme is adverse. The Trustee's view of the Employer's covenant is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions. Between valuations the Trustee monitors the Employer's financial strength as appropriate.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Scheme's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustee is able to agree further contributions with the Employer at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Scheme's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Scheme partially hedges its exposure to changes in interest rates.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds. The Scheme partially hedges its exposure to inflation risk.
Falls in asset values might not be matched by similar falls in the value of the Scheme's liabilities	The Trustee considers this risk when determining the Scheme's investment strategy. It consults with the Employer in order to understand the Employer's appetite for bearing this risk and takes advice on the Employer's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits at future valuations, the Employer would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Scheme members live longer than assumed	For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Scheme's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Scheme's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Employer, where relevant.

Economic risk | Demographic risk | Legal risk

Benefits summary

The Scheme is a registered pension scheme under the Finance Act 2004. The Scheme closed to future accrual on 31 October 2011, therefore the description below relates to benefits payable to employed-deferred members (i.e. those still in service).

The main provisions of the Scheme are summarised as follows:

Normal Retirement Age (NRA)	60
Closure Date	31 October 2011
Pensionable Salary	The greater of highest Salary in any of the last three years of Service or the best average of Salary over three consecutive tax years in the last 10 years of Service.
Salary	Basic annual pay. The Employer may however from time to time agree with a member that some or all of the member"s basic annual pay shall not be treated as Salary. If so, the member's Salary shall be treated as amended to the extent of the agreement with the member.
Revalued Salary	Salary earned during a year, plus revaluation in accordance with Scheme Rules whilst member remains in Service.
Pension at NRA	For former HPS member, 1/60 of Pensionable Salary for each year of pensionable service (maximum 45 years). For other members, 1/60 of Pensionable Salary for each year of pre 1 January 2009 pensionable service PLUS 1/60 of RS for each year where RS is the Revalued Salary for that year, for each year of service from 1 January 2009. Overall service is subject to a maximum of 45 years. For all members the pension at NRA will not be less than the deferred pension at Closure date increased as for members leaving service before NRA. A member may commute part of his pension at retirement for a tax-free lump sum.
Ill-health early retirement	Pension benefits based on prospective service to normal retirement age for members permanently unable to work in any capacity. Pension benefits based on completed pensionable service plus a proportion of prospective service as set out in the Scheme Rules for members unable to work in their own capacity. This is only payable in the case where the value of the described benefit is greater than the value of benefits payable from the Hermes Group Stakeholder Pension Plan.
Early retirement in good health	Pensions benefits based on Pensionable Service to Closure date and Pensionable Salary at date of retirement, reduced under certain circumstances to reflect early payment.

Death after retirement	A lump sum of the balance of 5 years' pension payments if death occurs within 5 years after retirement. A spouse's pension equal to one-half of the member's actual pension at date of death, as if the member had not commuted any pension for a lump sum. Payable to spouse or a qualifying partner.
Death in service	A lump sum of 1.25 times Pensionable Salary. For former HPS members, a spouse's pension equal to one-half of the member's pension based on Pensionable Service to the Closure Date and Pensionable Salary at date of death, payable to spouse or qualifying partner. For other members the spouse's pension is calculated as for death in deferment.
Death in deferment	A lump sum of 1.25 times Pensionable Salary at date of leaving for non-HPS members. Alternative provisions may apply to former HPS members. A spouse's pension equal to one-half of the member's preserved pension, including revaluation to date of death.
Pension increases	For former members of HPS, in accordance with Pensions Increase (Review) Orders. (Restricted to pension in excess of GMP after the age at which GMP becomes payable, except for post-April 1988 element of GMP which is increased at 3% per annum or Consumer Price Index if less). For members who were not formerly members of HPS, in line with the Retail Price Index up to maximum increase of 5% per annum.
Leaving service	Preserved benefits based on Pensionable Service to Closure Date and Pensionable Salary at date of leaving, subject to a minimum of the deferred pension at Closure Date increased as set out in the Scheme Rules. Preserved benefits for former HPS members are index–linked (to the CPI measure of inflation) during deferment. From the age at which GMP becomes payable, the GMP receives statutory increases and the balance of the pension continues to be index linked. For other deferred pensioners statutory revaluation applies.
Contracting-out	All pension benefits accrued prior to 6 April 1997 are subject to a minimum of the Guaranteed Minimum Pension.

Discretionary benefits

No future discretionary benefits or discretionary increases in benefit have been allowed for in the calculation of the technical provisions and statutory estimate of solvency, other than our understanding of established practices in benefit calculations.

Changes to the benefits

Since the valuation as at 31 December 2014 no changes have been made to the Scheme's benefits. There has been legal clarification on the following:

- Late retirement: there is no provision under the Rules for members to take late retirement

- Deferred revaluation underpin: the test is to be done at the point of retirement to determine whether the member would have been better off had they become deferred at the point of Scheme closure

Uncertainty about the benefits

An allowance of £1.0m has been made in the calculation of the technical provisions and statutory estimate of solvency as an estimate for the possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members. Some estimated calculations were done as part of the 2017 valuation which determined this was not an unreasonable allowance and that the liability reserve held in the technical provisions in this respect is in line with the Trustee's desired level of prudence, noting that the actual cost of this exercise could be higher or lower than the reserve held in the technical provisions.

Membership data

A summary of the data provided for this and the previous valuation is presented below.

Number of members

Number	31 December 2017 Males	31 December 2017 Females	31 December 2017 Total	31 December 2014 Males	31 December 2014 Females	31 December 2014 Total
Employed-deferred members	33	19	52	51	30	81
Deferred pensioners	210	159	369	229	172	401
Pensioners	101	66	167	82	47	129
Dependants	2	10	12	2	7	9
Children	1	-	1	2	-	2
Total	347	254	601	366	256	622

Annual pension

£000s	31 December 2017 Males	31 December 2017 Females	31 December 2017 Total	31 December 2014 Males	31 December 2014 Females	31 December 2014 Total
Employed-deferred pensions	466.6	155.7	622.3	797.3	325.1	1,122.4
Deferred pensions	2,006.7	1,190.7	3,197.4	2,317.9	1,153.1	3,471.0
Pensioners' pensions	2,447.1	605.2	3,052.3	2,037.7	471.2	2,508.9
Dependants' pensions	23.7	129.4	153.1	5.6	119.5	125.1
Children's pensions	-	9.0	9.0	11.3	-	11.3

Average age

Years	31 December 2017 Males	31 December 2017 Females	31 December 2017 All	31 December 2014 Males	31 December 2014 Females	31 December 2014 All
Employed-deferred members	49.2	49.3	49.2	49.6	48.4	49.3
Deferred pensioners	49.3	49.8	49.5	48.2	48.1	48.2
Pensioners	70.1	65.1	69.1	68.7	63.3	67.7
Dependants	56.6	65.5	64.1	58.5	61.8	61.7
Children	-	21.0	21.0	20.1	-	20.1

Notes on data tables:

- Figures in respect of dependants exclude children
- Deferred pension amounts include revaluation to the valuation date.
- Deferred pension amounts include allowance for deferred revaluation underpin. The allowance for the deferred revaluation underpin at 31 December 2017 has been refined to allow for clarification since the last valuation.
- Average ages are weighted by pension amounts at the respective valuation dates.

Summary of significant membership events

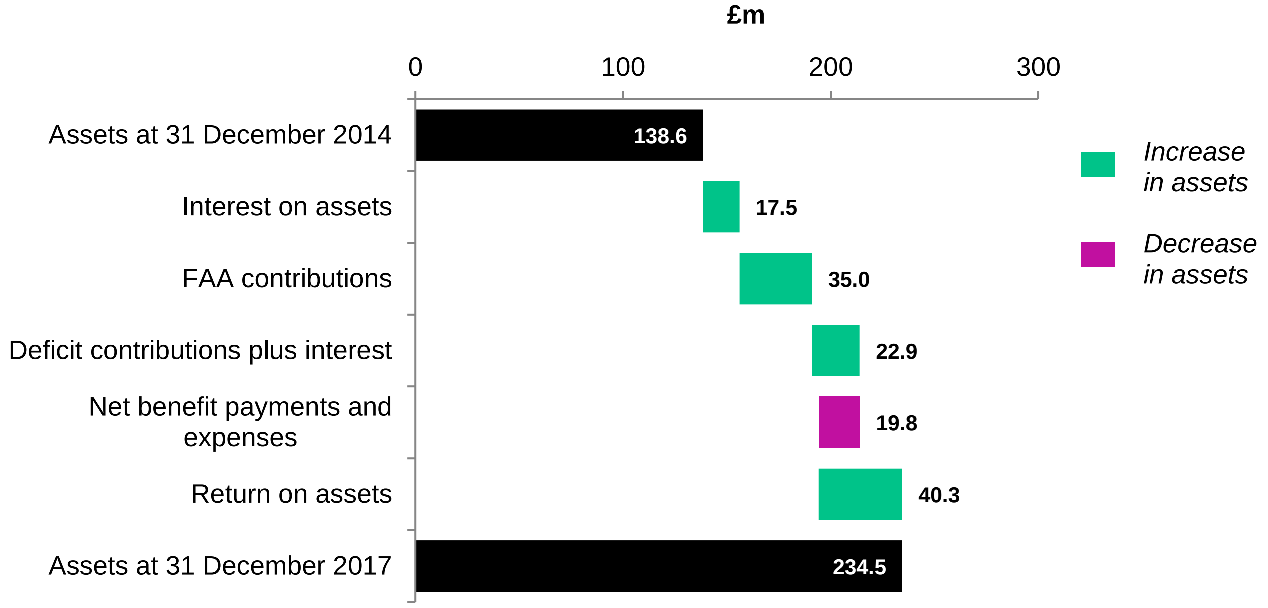
There have been no significant membership events since the last valuation.

Asset information

Movements in the market value of assets

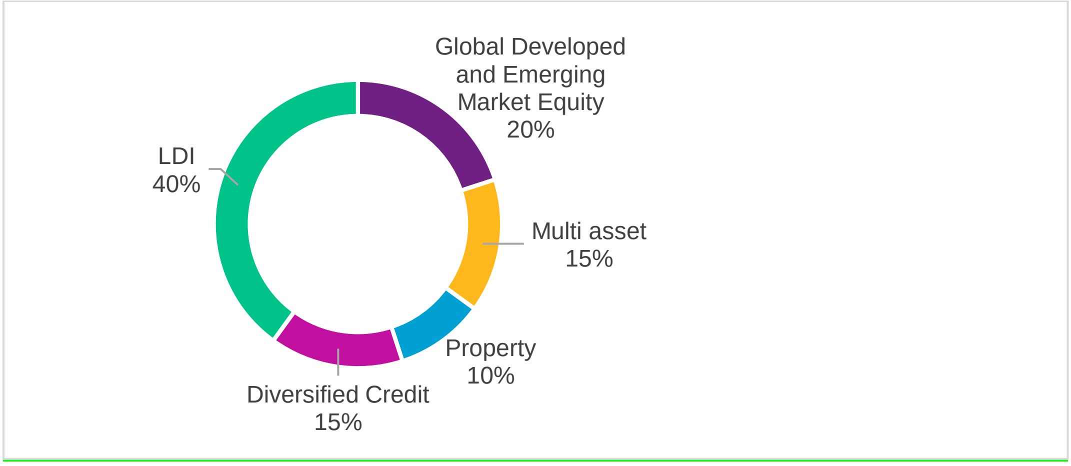
The audited accounts supplied as at 31 December 2017 show that the market value of the Scheme's assets was £234.5 million.

The change in the Scheme's assets from £138.6 million as at 31 December 2014 to £234.5 million as at 31 December 2017 is detailed in the Trustee's Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change (excluding AVCs):



Investment strategy

A summary of the Scheme's strategic investment benchmark at 31 December 2017 is set out below:



The assets, excluding AVCs, were invested as summarised below as at 31 December 2017 and 31 December 2014:

	Current benchmark	Market value as at 31 December 2017		Market value as at 31 December 2014	
	%	£m	%	£m	%
Global Developed and Emerging Market Equity	20.0%	59.6	25.4%	61.6	44.4%
Multi asset	15.0%	36.6	15.6%	-	0.0%
Property	10.0%	21.0	9.0%	19.0	13.7%
Diversified Credit	15.0%	30.3	12.9%	18.8	13.6%
LDI	40.0%	51.3	21.9%	22.8	16.5%
Absolute Return	-	-	0.0%	5.2	3.8%
Corporate bonds	-	-	0.0%	1.8	1.3%
Cash	-	35.7	15.2%	9.4	6.8%
Total	100.0%	234.5	100.0%	138.6	100.0%

Please note that the figures in the table above may not add up to match the totals due to rounding.

Significant events

The Trustee has carried out further asset de-risking since the 2014 valuation.

Over the period since the last valuation, Hermes Fund Managers Limited were removed as a Participating Employer from the Scheme, and now the Scheme's only Employer is BT Pension Scheme Trustees Limited. The Trustee agreed to a Flexible Apportionment Arrangement (FAA) and the Scheme received a payment of £35 million.

The £35 million contribution was held in cash at the valuation date and invested into LDI shortly afterwards.

Statutory Certificate

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 2017 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 November 2018.

E J Palfreyman

Emma Palfreyman
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
29 November 2018

Willis Towers Watson
51 Lime Street
London
EC3M 7DQ

Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a “best estimate” assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the “recovery period”).

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Scheme.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Secondary funding target: The secondary funding target is a stronger target than the statutory funding objective, and one to which the trustees aspire over the longer term. Once 100% funding on the technical provisions basis is reached, the secondary funding target may be expected to be achieved by a combination of investment returns and contributions.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Scheme's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Scheme (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.