

April 2020

Dear Member

Hermes Group Pension Scheme: Newsletter

This is the sixth newsletter of the Hermes Group Pension Scheme ('HGPS' or 'the Scheme').

The previous five newsletters are on the member website:
www.hermesgrouppensionscheme.co.uk/scheme-overview

This issue of the newsletter covers the following areas:

- Coronavirus
- Trustee Board and Directors
- Trustee Report and Accounts as at 30 June 2019
- Actuarial report as at 30 June 2019
- Summary Funding Statement as at 30 June 2019
- Actuarial valuation as at 30 June 2020
- Investment strategy
- Investment performance
- Membership update
- Trustee Advisers
- FAQs and Contact information

The Trustee is happy to receive any feedback you may have on the newsletter and encourages any comments or suggestions to be forwarded to the Scheme Secretary.

The Trustee of the Hermes Group Pension Scheme

Coronavirus

The Trustee recognises that COVID-19 has brought unprecedented challenges to the lives of Scheme members. The Trustee is monitoring the situation closely. In general, however, the Trustee has few concerns about the Scheme.

Pension payments will continue as usual through the period of the Coronavirus pandemic regardless of changes in asset values and the funding level of the Scheme.

The financial position of the Scheme is robust. The Scheme was assessed to be in surplus on a Technical Provisions basis as at the date of the last annual actuarial update, and remains in surplus at the date of writing. Scheme equity holdings have fallen in value, but the asset allocation to equities is small and is partially hedged against currency movements. There are also holdings in corporate bonds, credit and property which have fallen in value. Falls in these asset values are, however, compensated for to a large extent by falls in the value of Scheme liabilities, as the Scheme is highly hedged against exposure to movements in interest rates and inflation, so that the funding level of the Scheme is protected.

There are no concerns about the ability of service providers to function during the pandemic. The key service provider is XPS as administrator and actuary to the Scheme. XPS is providing ongoing detailed information on its Business Continuity Planning. You may experience a longer waiting time for your enquiry to be answered but no types of enquiry have been suspended.

However, the situation continues to develop and change. The Trustee and its advisers are continuing to meet remotely during the current lockdown, to monitor all issues relating to the management and operations of the Scheme.

Trustee Board and Directors

The profile of the Trustee Board as at 31 December 2019 was as follows:

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

Biographies of the Trustee Directors are on the member website. Penni Coe was appointed as a Trustee Director on 5 December 2019.

Trustee Report and Accounts as at 30 June 2019

This was finalised in January 2020 and is on the member website. Total assets as at 30 June 2019 were £252m.

Actuarial report as at 30 June 2019

This report provides an update of the funding position of the Scheme as at 30 June 2019 and is the second update report following the full 31 December 2017 actuarial valuation. The report is on the member website. The value of Scheme liabilities was £229m, which was £23m less than the value of the assets, a funding level of 110%.

Summary Funding Statement as at 30 June 2019

An annual Summary Funding Statement is enclosed with this Newsletter. It will also be posted to the member website.

Actuarial valuation as at 30 June 2020

The last full actuarial valuation of the Scheme was as at 31 December 2017. With the change to the Scheme accounting period to 30 June each year, the next full actuarial valuation of the Scheme will be as at 30 June 2020. The valuation is expected to conclude in the first half of 2021.

Investment Performance

The Scheme's performance for the 12 months to 30 June 2019 is shown in the table below:

Annual Rate of Return %	Year to 30.6.2019
HGPS	9.4
Benchmark	9.8
HGPS out/(under) performance of benchmark	(0.4)

These performance figures are taken from the most recent audited accounts.

Investment Strategy

The last full actuarial valuation of the Scheme, as at 31 December 2017, was signed off in November 2018. Following this, the Trustee and the sponsor agreed an update to the investment strategy of the Scheme, and this was largely implemented in the first half of 2019. The Trustee Report and Accounts as at 30 June 2019 details the position. The Statement of Investment Principles (SIP) was updated to reflect the new strategy and signed in September 2019. The SIP is on the member website.

The portfolio of assets aims to reduce the volatility of the funding level, i.e. the volatility of the value of the assets relative to the value of the liabilities. Progression of the funding level, to the Scheme being fully funded on a prudent self-sufficiency basis by 2030, is still on track at the date of writing.

The Trustee has adopted a robust investment strategy for both equity and credit mandates to aim to reduce the volatility of the funding level. The strategy that has been implemented has enabled the Trustee to ensure that the Scheme has not been materially impacted by the recent market movements, which will also have no impact on the provision of benefit payments. The Trustee continues to closely monitor the funding position and to consider whether any action is needed in relation to the asset allocation.

The revised target asset allocation is now: 10% Global Equity (index tracking), 10% Property, 15% Diversified Credit, 15% Buy & Maintain Corporate Bonds, 50% Liability Hedging (a Liability Driven Investment (LDI) mandate within a Qualifying Investor Alternative Investment Fund (QIAIF)). The actual asset allocation was close to the target asset allocation as at 30 June 2019 – details are in the enclosed Summary Funding Statement.

During January 2020 the Trustee took the decision to increase the hedge to interest rate exposure from 80% to 90% (of the value of the liabilities on a 'gilts-flat' basis). The Trustee also took the decision to change the shape of the hedge to inflation rate exposure, to 90% until 2030 and 70% thereafter, reflecting the potential alignment of RPI with a CPI measure. These changes were implemented in February 2020.

The Scheme utilises leverage in the QIAIF. Leverage in this context is the ratio of hedging exposure to the amount of collateral held in the QIAIF. Leverage may result in mark-to-market losses that exceed the amount of capital invested. Leverage is used to achieve the objective of aiming to match the Scheme's liabilities due to movements in interest rates and inflation (up to an agreed level). The Trustee expects ongoing leverage to be around two times. The leverage is kept under regular review by the Trustee, within the objectives of the portfolio. The Trustee also has an expectation that the manager of the QIAIF has robust processes in place to monitor and manage collateral adequacy to support the underlying derivative positions as part of the ongoing management of the QIAIF.

Membership Update

The figures below show the recent history of membership.

	31.12.2017	31.12.2018	31.01.2020
Employed deferred	52	42	35
Deferred	369	366	361
Pensioner	180	185	193
Total	601	593	589

Advisers

The current advisers to the Scheme are:

Secretary	Inside Pensions	Anthony Groves
Lawyer	Sackers	Pauline Sibbit
Covenant Adviser	Lincoln	Alex Hutton-Mills
Investment Adviser	LCP	James Trask
Actuary	XPS	Adam Stanley
Administrator	XPS	Sandra Smith
Finance	XPS	Amy Webb
Auditor	KPMG	Fang Fang Zhou

Following the appointment of XPS to undertake the Actuary, Administrator and Finance roles, Inside Pensions, the Trustee and advisers have been working closely to manage the transition. Actuarial transition was completed in October 2019, Administration transition in December 2019, Pensioner Payroll in January 2020, and Finance in February 2020.

Details of all advisers are on the member website.

Expression of Wish form

There are various death benefits available to members in a number of different circumstances. If you have not yet taken any pension benefit, then a lump sum is payable on your death. If you have been in receipt of a pension for less than five years, then a lump sum will be payable on your death. In both circumstances the Trustee has discretion as to who will receive the lump sum death benefit. You may therefore wish to indicate to the Trustee who you would like to nominate to receive the benefit. For this purpose, an Expression of Wish form (also known as a Nomination Form) is available on the member website. You are encouraged to send an updated Expression of Wish form on a regular basis to the administrators of the Scheme, particularly if your circumstances change in any way.

FAQs and Contact Information

There is a lot of information on the member website:

<https://www.hermesgroup pensionscheme.co.uk/>

The Trustee would like to provide you with the opportunity to ask any questions you may have in relation to the Scheme. If you have any queries on the content provided within this newsletter, please contact the Scheme Secretary via any of the following:



hermes@insidepensions.com



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Should you need any details on your pension benefits, or if your personal circumstances have changed, please contact XPS, the Scheme Administrators, via any of the following:



HGPS@xpsgroup.com



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