

Dear Member

Hermes Group Pension Scheme: Newsletter

This is the fifth newsletter of the Hermes Group Pension Scheme.

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

This issue of the newsletter covers the following areas:

- Trustee Board and Directors
- Member Nominated Trustee Director vacancy
- Annual funding update as at 31 December 2018
- Summary Funding Statement as at 31 December 2018
- Relationship with the sponsor
- Appointment of XPS
- Investment Strategy
- Investment performance
- Member website
- Membership update
- Trustee Advisers
- Expression of Wish forms
- Calculating your benefits
- 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

Trustee Board and Directors

The profile of the Trustee Board as at 1 August 2019 was as follows:

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

Member Nominated Trustee Director vacancy

Douglas Bradford resigned as a Trustee Director in August. Douglas has been a Trustee Director since 2014 and has helped the Scheme through a very busy time in its history, through the process to agreeing the Flexible Apportionment Arrangement, and the subsequent actuarial valuation which showed a surplus. The Trustee thanks Douglas for his contribution to the governance of the Scheme over the last 5 years and wishes him well for the future.

A process to appoint a replacement Member Nominated Trustee Director is now underway, and a separate letter is enclosed.

Annual funding update as at 31 December 2018

The results of the last formal actuarial valuation as at 31 December 2017 are shown below. Formal valuation documents were signed in December 2018. Between formal triennial formal valuations, the Scheme Actuary rolls forward calculations each year in 'Annual Funding Updates' and the results of these calculations are also shown below.

	31/12/2017 Formal valuation	31/12/2018 Funding Update
Liabilities	£215.3m	£211.5m
Assets	£234.5m	£228.1m
Deficit / surplus	£19.2m	£16.6m
Funding Level	108.9%	107.8%

The positions as at 31 December 2017 and 31 December 2018 are broadly the same. The reduction in funding level is due to lower investment returns over the year than assumed. However, this was offset to a certain extent by contributions paid into the Scheme.

Summary Funding Statement as at 31 December 2018

An annual Summary Funding Statement is enclosed with this Newsletter.

Relationship with the sponsor

The Trustee continues to have a strong relationship with the sponsor.

Appointment of XPS

The Trustee is appointing XPS to be both Administrator and Scheme Actuary to the Scheme, replacing Capita and Willis Towers Watson respectively. The Trustee carried out a comprehensive tender process before arriving at this decision. It is expected that XPS will come on board as Scheme Actuary over the summer of 2019, and XPS will come on board as Administrator towards the end of 2019. Their appointment will provide efficiencies by bundling the two service provisions, with the expectation that there will be both significant cost reduction and service improvement.

Investment Strategy

Following a £35m payment to the Scheme, the Scheme's 31 December 2017 formal actuarial valuation revealed the Scheme to be in surplus – a much improved funding position.

In light of this, the Trustee reviewed the Scheme's investment strategy to reflect the improved funding position, as well as the cessation of cash contributions from the Scheme's sponsor (a consequence of the results of the actuarial valuation showing a surplus). This led to various strategic changes being implemented by the Trustee over the first half of 2019, all with the aim of reducing investment risk whilst maintaining the strong funding position:

- Selling the Barings high yield credit mandate and Insight's Broad Opportunities Fund.
- Halving the Scheme's equity allocation (including removing the small investment in the Hermes Emerging Markets Equity fund) and increasing the level of currency hedging.
- Adding an asset-backed securities mandate and a new corporate bond allocation designed to provide income to the Scheme to meet benefit outgo.
- Increasing the allocation to liability matching assets.

The Statement of Investment Principles will be updated over the summer of 2019 to reflect the new strategy as well as new regulations, regarding the Trustee's policies towards Environmental, Social and Governance factors and stewardship of the Scheme's assets.

The asset allocation of the Scheme is summarised in the following table.

	Strategic Asset Allocation as at 31/12/18	Strategic Asset Allocation as at 30/06/19
Global equity	20%	10%
Multi Asset	15%	-
Property	10%	10%
Diversified Credit	15%	15%
Buy & Maintain corporate bonds	-	15%
Liability Hedging	40%	50%

Investment Performance

The Scheme's 2018 performance is shown in the table below:

Annual Rate of Return %	2018
HGPS	-2.1%
Benchmark*	0.2%
HGPS out/(under) performance of benchmark	-2.3%

* This is a composite market index benchmark, based on the strategy that applied during 2018.

The fourth quarter saw sharp falls in many markets, with particular relative underperformance seen in diversified growth and multi-asset credit mandates which have 'cash plus' benchmarks.

Member website

The member website is now hosted and maintained by the Scheme Secretary, Inside Pensions: www.hermesgrouppensionscheme.co.uk

Membership Update

The figures below show the recent history of membership.

	31.12.2017	30.06.2018	31.12.2018
Employed deferred	52	48	42
Deferred	369	369	366
Pensioner	180	182	185
Total	601	599	593

Advisers

Secretary	Inside Pensions	Rachael Fortescue John Dutton
Lawyer	Sackers & Partners	Pauline Sibbit
Covenant Adviser	Lincoln	Alex Hutton-Mills
Investment Adviser	LCP	James Trask
Actuary	WTW	Emma Palfreyman
Administrator	Capita	Adam Luscombe
Finance	Capita	Warren Swales
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 prepare a project plan to manage the transition. There will be a number of stages that are carried out to complete the transition and members will be updated along the way. The Trustee continues to closely liaise with Capita, Willis Towers Watson and XPS during the transition. The transition is due to be completed by the end of 2019.

Expression of Wish forms

Capita hold Expression of Wish forms for completion by members, to ensure the Scheme and Trustees have access to the most up to date information regarding your nominated beneficiaries and are best placed to make a decision regarding your benefits. If you have not done so already, please make sure you complete and return an Expression of Wish form to Capita, using the contact details below.

Calculating your benefits

It is really important to the Trustee that your benefits are calculated accurately. The calculation of benefits can be quite complex. The administrators hold data and records stretching back many years, and these are used as the basis for calculations.

Recently Capita have undertaken an exercise to verify the records of members receiving a pension, to ensure that the amount of any spouse pension can be calculated readily and correctly in the event of a death of a pensioner. As part of this exercise a small number of pensioners have been contacted in order that the data on their records can be verified.

In addition, all pensioners receive a letter annually informing them of the increase to their pension, and this year, for the first time, following the exercise to verify records, an illustration of the spouse pension has been included in the pension increase letter, and the Trustee hopes that this will give pensioner members some comfort that their records are in good shape, as well as helping with any financial planning.

FAQs and Contact Information

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



01727 733150



Inside Pensions, First Floor, Trident House
42-48 Victoria Street,
St Albans
Hertfordshire
AL1 3HZ

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



hermes.pensions@capita.co.uk



01227 771445



Capita
PO Box 555
Stead House
Darlington
DL1 9YT

A communication will be sent to you when the transition from Capita to XPS is due to take place.