



Hermes Group Pension Scheme

Actuarial Report as at 30 June 2019

28 January 2020

Contents

01 Introduction	1
02 Approach adopted	2
03 Results	3
04 Formal reassessment of funding	4
Appendix A – Financial assumptions	5

Disclaimers, confidentiality and non-disclosure

This report has been commissioned by and is addressed to Hermes Pension Trustees Limited, the Trustee of the Hermes Group Pension Scheme, and it is for its exclusive use. Its scope and purpose is to provide the Trustee with advice in relation to the funding position of the Scheme. I am providing this report under the terms of our engagement and in my capacity as Scheme Actuary.

A copy of this report must be provided to BT Pension Scheme Trustees Limited (the "Employer") within seven days of its receipt. This report may not be shared with any other party without our prior written consent, except to comply with statutory requirements. No parties other than the Trustee may rely on or make decisions based on this report (whether they receive it with or without our consent). XPS Pensions Group plc and its subsidiaries ("XPS Pensions Group") and any employees of XPS Pensions Group acknowledge no liability to other parties. This advice has no wider applicability. It is not necessarily the advice that would be given to another client or third party whose objectives or requirements may be different. This advice is up to date as at the date of writing and will not be updated unless we confirm otherwise. We retain all copyright and intellectual property rights.

XPS Pensions Consulting Limited, Registered No. 2459442. XPS Investment Limited, Registered No. 6242672. XPS Pensions Limited, Registered No. 3842603. XPS Administration Limited, Registered No. 9428346. XPS Pensions (RL) Limited, Registered No. 5817049. Trigon Professional Services Limited, Registered No. 12085392. All registered at: Phoenix House, 1 Station Hill, Reading, RG1 1NB. XPS Investment Limited is authorised and regulated by the Financial Conduct Authority for investment and general insurance business (FCA Register No. 528774).

01 Introduction

This report provides an update of the funding position of the Hermes Group Pension Scheme as at 30 June 2019 and is the second update report following the 31 December 2017 actuarial valuation

01.01 Background and purpose

This report has been commissioned by and is addressed to Hermes Pension Trustees Limited (the "Trustee"). The intended user of this report is the Trustee and it is for its exclusive use. Its scope and purpose is to provide information on the development of the technical provisions of the Hermes Group Pension Scheme (the "Scheme") over the period since the last formal actuarial valuation as at 31 December 2017 in line with the requirements of Section 224 of the Pensions Act 2004. As such, this report constitutes an 'actuarial report'. This report should not be relied upon for any other purpose without seeking further advice.

This report provides a comparison of how the value of the Scheme's assets compares to the value of its accrued liabilities, using the scheme funding assumptions (otherwise known as its technical provisions) and so the information provided only relates to the progress made by the Scheme towards meeting the statutory funding objective.

Legislation requires the Trustee to make this report available to BT Pension Scheme Trustees Limited (the "Employer") within seven days of them receiving it.

Following a request from the Employer to align the Scheme's annual reporting cycle with the annual reporting cycle of the Employer, this report has been prepared as at 30 June 2019 and therefore covers the 18 month period since the last formal valuation as at 31 December 2017 (the "2017 valuation"). The Trustee and Employer have agreed that the next formal actuarial valuation will be carried out with an effective date of 30 June 2020.

This report, and the work undertaken to produce it, is compliant with TAS 100 and TAS 300, set by the Financial Reporting Council. No other TASs apply. The report has been written on the basis that decisions (other than simply deciding not to bring forward the effective date of the next valuation) will not be based on its contents. Appropriate advice should be obtained before any follow up actions are taken.

02 Approach adopted

02.01 Asset data

The net assets as at 30 June 2019 have been taken from the Trustee's Annual Report and Financial Statements for the year end.

02.02 Liability data and calculation methodology

We have based our calculations on the technical provisions produced for the 2017 valuation as at 31 December 2017, making an approximate allowance for the impact of changes in the financial assumptions since that date. In particular, please note that on grounds of materiality we have not made any allowance for the small error identified following the 2017 valuation, which is estimated to add around £0.3m to the Scheme's liabilities.

The results shown are based on the same membership data as for the 2017 valuation, however we have made an approximate global allowance for membership movements over the period to 30 June 2019.

02.03 Actuarial assumptions

The statement of funding principles sets out how the assumptions to calculate the technical provisions are to be derived.

No allowance for climate-related risk is made in the assumptions in the statement of funding principles, and therefore none is allowed for in the figures in this report.

The financial assumptions used are based on full gilt yield curves and inflation yield curves as described in the statement of funding principles. However please note that the financial assumptions underlying the statement of funding principles are based on curves produced by the Scheme's previous actuarial adviser. Therefore an approximate global allowance based on publicly available financial data has been used for the purpose of this update.

Over the period 31 December 2017 to 30 June 2019, the gilt yield curve has fallen at most durations and the price inflation curve has risen at shorter durations and remained broadly unchanged thereafter (based on publicly available information), both of which have increased the value placed on the Scheme's liabilities. The changes in the gilt yield and price inflation curves are shown in the graphs in Appendix A.

Gilt yields at 30 June 2019 are lower than at 31 December 2017 resulting in an increase in the value of the liabilities

03 Results

110%

Funding level at
30 June 2019

£23m

Surplus at
30 June 2019

03.01 Results of funding update

An estimate of the Scheme's funding level as at 30 June 2019 is given below, with the results of the 2017 valuation and previous actuarial report shown for comparison.

Funding position as at: (£m)	30 June 2019	31 December 2018	31 December 2017
Technical Provisions (L)	228.6	211.5	215.3
Value of Assets (A)	251.7	228.1	234.5
Surplus/(Shortfall) (A – L)	23.1	16.6	19.2
Funding Level (A / L)	110%	108%	109%

03.02 Reconciliation of results

Since 31 December 2017, the Scheme's surplus has therefore increased from £19.2m to £23.1m. The main factors that have combined to produce this change in the position are shown in the table below:

	£m
Surplus at 31 December 2017	19
Employer Deficit Reduction Contributions, with interest ¹	5
Change in financial conditions increasing the value placed on technical provisions	(15)
Investment performance better than assumed	14
Surplus at 30 June 2019	23

1. Paid in line with the schedule of contributions agreed as part of the valuation as at 31 December 2014 before the 2017 valuation was finalised.

The Trustee should note that the results of the approximate calculations may differ from the actual position disclosed if we were to carry out more detailed calculations. However we consider the approach adopted to be adequate for the purposes of assessing the progression of the Scheme's funding level since 31 December 2017.

03.03 Recovery Plan

As there was no shortfall at the 2017 valuation, no recovery plan was needed. The results of this funding update show that the funding level was better than expected.

04 Formal reassessment of funding

The next formal actuarial valuation of the Scheme will be carried out with an effective date of 30 June 2020 when we will provide further details of how the Scheme's funding level has developed.

Signature**Date**

28 January 2020

Name

Adam Stanley
Scheme Actuary

Qualification

Fellow of the Institute
and Faculty of Actuaries

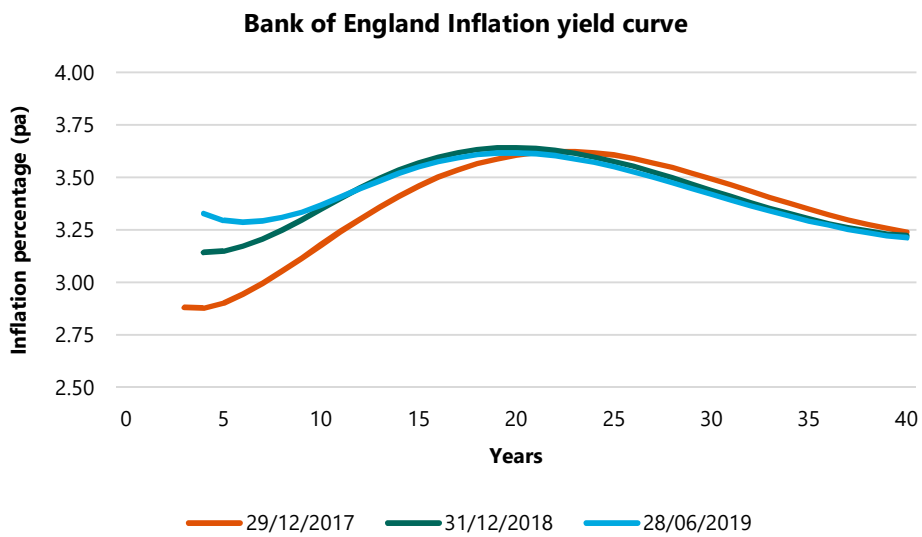
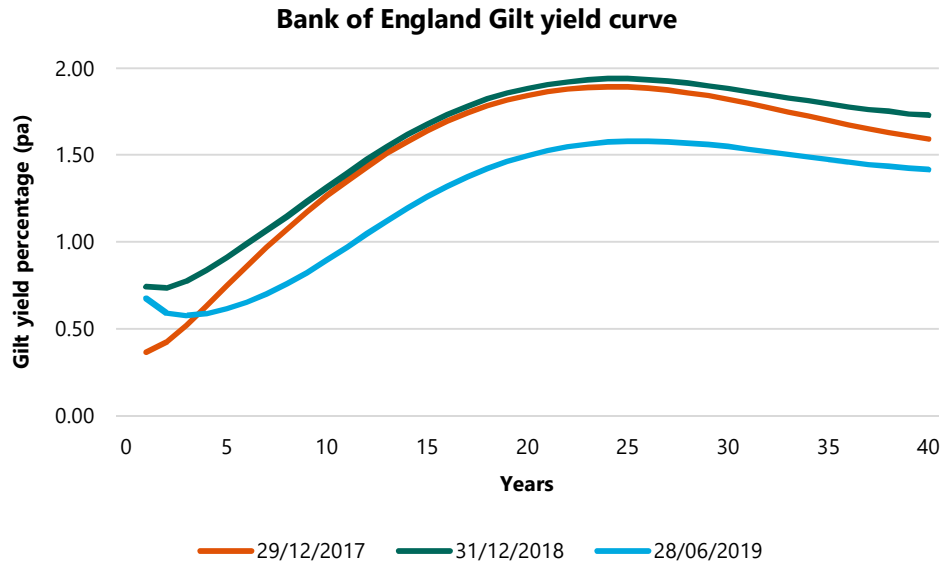
Address

Tempus Court
Onslow Street
Guildford
GU1 4SS

Employer

XPS Pensions

Appendix A - Financial Assumptions



Contact us
xpsgroup.com

