Hermes Group Pension Scheme

Actuarial Report as at 30 June 2022

August 2022

Contents

01 **Introduction**

This report provides an update of the funding position of the Scheme as at 30 June 2022 and is the second update report following the 30 June 2020 actuarial valuation

01.01 Background and purpose

This report provides 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 30 June 2020 in line with the requirements of Section 224 of the Pensions Act 2004. As such, this report constitutes an 'actuarial report'.

This report provides a comparison of how the value of the Scheme's assets compares to the value of its accrued liabilities (otherwise known as its technical provisions), using the scheme funding assumptions 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.

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

We have obtained the current unaudited (bid) market valuation of the assets, including the Trustee's bank account as at 30 June 2022 from LCP.

02.02 Liability data and calculation methodology

We have based our calculations on the technical provisions produced for the last formal actuarial valuation as at 30 June 2020, making an approximate allowance for the impact of changes in the financial assumptions since that date and actual inflationary increases over the period.

A full summary of the membership data used for the valuation as at 30 June 2020 is provided in my report on that exercise dated May 2021. For this update, we have assumed that membership movements since 30 June 2020 have been in line with the assumptions made in the technical provisions. In addition, we have removed seven members who have taken a transfer value over the period from the liabilities. We are not aware of any other membership movements that would be material to the assessment of the funding position for the purposes of the actuarial report.

02.03 Actuarial assumptions

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

The main financial assumptions we have used, based on market conditions as at 30 June 2022, are summarised in the table overleaf (together with the assumptions used at 30 June 2020 and 30 June 2021):

	30 June 2020	30 June 2021	30 June 2022
Discount rate	Bank of England Gilt Curve (eg. 0.7% at a duration of 21 years) plus 1.0% p.a. reducing linearly to 0.6% p.a. from 2030	Bank of England Gilt Curve (eg. 1.3% at a duration of 21 years) plus 1.0% p.a. reducing linearly to 0.6% p.a. from 2030	Bank of England Gilt Curve (eg. 2.75% at a duration of 21 years) plus 1.0% p.a. reducing linearly to 0.6% p.a. from 2030
RPI inflation	Bank of England implied RPI inflation curve (eg 3.3% p.a. at a duration of 21 years)	Bank of England implied RPI inflation curve (eg 3.6% p.a. at a duration of 21 years)	Bank of England implied RPI inflation curve (eg 3.6% p.a. at a duration of 21 years)

No allowance for climate-related risk is made in the assumptions in the statement of funding principles, and therefore are not allowed for in the figures in this report.

03 Results

03.01 Results of funding update

£17.1m

Surplus at 30 June 2022

An estimate of the Scheme's funding level as at 30 June 2022 is given below with the results of the last formal actuarial valuation and last year's actuarial report shown for comparison.

	Funding position at 30 June 2020 £m	Funding position at 30 June 2021 £m	Funding position at 30 June 2022 £m
Technical Provisions (L)	260.0	244.0	195.2
Value of Assets (A)	279.5	273.9	212.3
Surplus/(Shortfall) (A – L)	19.5	29.9	17.1
Funding Level (A / L)	108%	112%	109%

The results shown are based on the same membership data as for the last formal actuarial valuation adjusted for cashflows and overall changes in pensionable payroll. These details have been supplied to me by the administrators.

03.02 Reconciliation with the results of the previous valuation

Since 30 June 2020, the Scheme's surplus has decreased from £19.5m to £17.1m. The main factors that have combined to produce this change in the position since the last formal actuarial valuation are shown in the table below:

	£m
Surplus at 30 June 2020	**19.5**
Interest on liabilities less expected return on assets	0.4
Net impact of change in financial market conditions on surplus	(5.7)
Investment performance on non-liability hedge assets	8.0
CPI assumption increase post 2030 for funding updates after November 2020	(3.9)
Gain from transfer values paid	0.8
Other (including the unwinding of the expense reserve)	(2.0)
Surplus at 30 June 2022	**17.1**

The most significant influences on the funding position have been as follows:

> Changes in financial conditions underlying the actuarial assumptions used to value the liabilities have placed a significantly lower value on the liabilities. As the Scheme has a

significant amount of hedging, the assets underlying the Scheme's liability hedge have also fallen, however the fall has been greater resulting in a reduction in the surplus.

> The update to the assumption for the gap between RPI and CPI for updates post November 2020 has further reduced the surplus.

However, these items have been partially offset by:

> Higher than expected returns on the Scheme's investments which have increased the surplus.

> A small gain from members transferring out of the Scheme.

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 the last formal actuarial valuation.

03.03 Recovery Plan

As there was no shortfall at the last formal valuation, no recovery plan was needed. The results of this funding update show that the surplus has reduced slightly since the valuation date. We will continue to monitor the funding level of the Scheme quarterly.

04 Formal reassessment of funding

30 June 2023

Next formal valuation due

The next formal actuarial valuation of the Scheme is due no later than 30 June 2023 when we will provide further details of how the Scheme's funding level has developed. However, we will continue to provide further details of how the Scheme's funding level is developing in regular quarterly monitoring.

Signature

Date
23 August 2022

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