Hermes Group Pension Scheme

Scheme Registration Number: 10243702

Trustee's Annual Report and Financial Statements For the Year Ended 30 June 2019

Contents

Trustee, Principal Employers and their Advisers

Trustee:	Hermes Pension Trustees Limited
Directors of the Trustee Company	PTL Governance Limited ("PTL") *(represented by A Bostock)* I A Kirby M A Simms D P Bradford – Member Nominated (resigned 16 August 2019) P Coe – Member Nominated (appointed 5 December 2019) A Ormrod
Chairman of the Trustee:	Alison Bostock
Secretary to the Trustee:	Inside Pensions Limited
Principal Employer:	BT Pension Scheme Trustees Limited
Actuary:	Ms E Palfreyman (resigned 18 October 2019) Willis Towers Watson Limited Mr A Stanley (appointed 18 October 2019) XPS Pensions Limited
Auditor:	KPMG LLP
Legal Adviser:	Sackers & Partners LLP
Administrator:	Capita Employee Benefits Limited (until 30 November 2019) XPS Administration Limited (from 1 December 2019)
Investment Managers:	Aegon Investment Management B.V. Barings GPC GP S.a.r.l Hermes Alternative Investment Management Limited Legal & General Investment Management Limited M&G Investment Management Limited Standard Life Aberdeen Plc Disinvested mandates during the accounting period: Barings Global Investment Funds 2 Plc Hermes Investment Management Limited Insight Investment Funds Management Limited
AVC Provider:	Prudential Assurance Company Limited
Investment Advisers:	Lane Clark & Peacock LLP (from 9 October 2018) Hymans Robertson LLP (until 16 October 2018)
Banker:	National Westminster Bank Plc Bank of Scotland (from 1 December 2019)

Trustee's Mission Statement

The Trustee's mission is to manage the Hermes Group Pension Scheme efficiently in the interests of the members, to provide the expected benefits, and to ensure that an excellent quality of service is given to those members.

Chairman's Statement

This report gives you an update on how the Scheme has progressed during the year ended 30 June 2019.

Firstly, I wanted to convey how sad I was to learn of the sudden passing of Douglas Bradford. Douglas had been a Trustee Director for a number of years and had stood down in August. I have been in touch with his family. He will be very much missed.

Turning now to the Scheme, the total value of the Scheme's assets over the year moved from £234m at 30 June 2018 to £252m at 30 June 2019. The return on the Scheme assets over the year was c.9.4%.

The Trustee does not consider the performance of the assets in isolation, but instead sets its investment strategy and measures performance by reference to both the value of Scheme assets and the value of Scheme liabilities, i.e. the value of benefits due to be paid to members under the Scheme's rules.

The latest full actuarial valuation of the Scheme was undertaken as at 31 December 2017, and showed that the Scheme assets exceeded the value of its liabilities calculated on a 'technical provisions' basis. This is a statutory basis which gives a prudent, ie higher than best-estimate, value for the liabilities.

This valuation was signed in November 2018, at which point deficit contributions payable in accordance with the Recovery Plan, agreed as part of the previous triennial actuarial valuation carried out as at 31 December 2014, were discontinued.

The next full actuarial valuation is as at 30 June 2020. It is anticipated that final results will be available in the first half of 2021. A summary report on actuarial liabilities is included on pages 14 and 15.

Following the completion of the actuarial valuation, the Trustee continued to review its investment strategy and has implemented some changes and de-risking in H1 2019. A revised Statement of Investment Principles has now been adopted.

AB

Alison Bostock

Date: 22/1/2020

Trustee's Report

The Trustee of the Hermes Group Pension Scheme ("HGPS", or "the Scheme") has pleasure in presenting its report together with the investment report, actuarial statement and certification, summary of contributions, compliance statement and financial statements for the year ended 30 June 2019.

Scheme Management

The Scheme

The Scheme is a defined benefit pension scheme and its purpose is to provide retirement benefits for Scheme members and, in the event of a member's death, to provide benefits to their spouse and dependants as prescribed in the rules.

The Scheme was originally set up by two principal employers – Hermes Pensions Management Limited, subsequently called Hermes Fund Managers Limited ("Hermes"), and the Trustees of the BT Pension Scheme (now BT Pension Scheme Trustees Limited) ("BTPST") – by a Deed made on 16 September 1998.

With effect from 15 December 2017, BTPST became the sole employer of the Scheme.

The Scheme is a registered pension scheme under the Finance Act 2004. This means that members, their employer and the Scheme benefit from favourable tax treatment.

The Trustee

The Trustee is a trustee company limited by guarantee which acts as Trustee for the Scheme, and is independent of the principal employer. Details of the provisions relating to the power to appoint and remove Directors and on the normal term of office are included in the Appendix to this report. A list of the Trustee Directors at 30 June 2019 is shown on page 2 of this report.

Two of the Directors, Ingrid Kirby and Matthew Simms, are nominated by the principal employer. Douglas Bradford was re-elected as a member-nominated Trustee Director on 20 September 2018.

Irrespective of who appoints them, the Directors act collegiately in the best interests of all of the members of the Scheme.

The Trustee Directors receive training appropriate to their needs, and they continue to assess whether they have the right set of skills both individually and collectively with regular reviews.

Audit Committee

An Audit Committee aided the Trustee's oversight of the Scheme's financial controls. This committee was disbanded as of October 2018 with the Trustee Board assuming the committee's responsibilities.

Scheme Management (continued)

Scheme Administration

Until 30 November 2019, Capita Employee Benefits Limited (Trading as "Capita Employee Solutions") maintained the membership records of the Scheme, calculated benefits, dealt with other administrative matters and also provided accounting and pension payroll services. With effect from 1 December 2019, these services were being transitioned to XPS Administration Limited. Administration was undertaken by XPS with effect from 1 December 2019. Pensioner payroll was undertaken by XPS with effect from 1 January 2020.

The Trustee has appointed 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. The XPS appointment will provide efficiencies by bundling the two service provisions, with the expectation that there will be both significant cost reduction and service improvement.

The administrator's full address is:

XPS Administration Limited
3rd Floor, West Wing
40 Torphichen Street
Edinburgh
EH3 8JB

Email: HGPS@xpsgroup.com
Telephone: 0131 370 2601

Scheme Governance

The Trustee conducts itself in accordance with the Myners principles (as updated in 2008) and Regulatory guidance from The Pensions Regulator.

The Trustee can establish committees from time to time when appropriate. The Trustee Board meets at least quarterly and all investment decisions are considered by the entire Board although implementation of those decisions may be delegated to an Investment Implementation Committee.

The Trustee has a business plan, which it reviews at each meeting, and which enables it to carry out its duties and monitor the performance of all aspects of the Scheme.

The Scheme administrator's performance is measured against a number of service level targets and the Trustee Board monitors performance regularly.

In the year ended 30 June 2019, the Trustee met a total of four times for regular Trustee Board meetings. The normal number of regular Trustee Board meetings in a twelve-month period is four. In addition, the Trustee held a Strategy Day in December 2018, following completion of the actuarial valuation, to discuss investment strategy, with BTPST representatives attending the meeting.

The Trustee Board, and all sub-committees are supported by a professional secretariat firm, Inside Pensions, for whom contact details are included on page 19 of this Annual Report. The Trustee Board monitors the performance of Inside Pensions regularly.

Scheme Management (continued)

Contributions

As a result of the Scheme being in surplus on a Technical Provisions basis, at 31 December 2017, with an allowance for expenses incorporated into the calculation of the liabilities, no further contributions were payable by BTPST after 30 November 2018, when the valuation documentation was signed. In addition, the contribution payment (or "top-up") in respect of Scheme expenses incurred, over a £600,0000 reference level, no longer applied.

The Trustee has therefore waived payment of £34,000 that was payable by the employer in respect of the five-month period 1 July 2018 to 30 November 2018, and also waived payment of £141,000 that was payable by the employer in respect of the six-month period to 30 June 2018 (and as previously reported within current assets).

Financial Statements and Financial Developments of the Scheme

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995 and have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

The financial development of the Scheme during the year ended 30 June 2019 can be summarised as follows:

	£000's
Contributions receivable	2,221
Member related costs	(5,100)
Administrative expenses	(662)
Net withdrawals from dealings with members	**(3,541)**
Investment income	999
Change in market value of investments	20,243
Investment management expenses	(263)
Net returns on investments	**20,979**
Net increase in the fund during the year	**17,438**
Scheme value as at 1 July 2018	234,308
Scheme value as at 30 June 2019	**251,746**

During the year, following the completion of the 31 December 2017 actuarial valuation, which showed the Scheme to be in surplus, no further deficit or expense related contributions were payable with effect from 1 December 2018 through until 30 November 2023.

As reported above, the Trustee has waived payment of £34,000 (2018 - £141,000) by the employer in respect of scheme expenses incurred over a £600,000 reference level.

There were no other significant developments affecting the financial position of the Scheme during the year.

Membership and Benefits

Scheme Membership

The change in membership during the year ended 30 June 2019 was as follows:

	Employed deferred members*	Deferred	Pensioners	Totals
At 30 June 2018- as reported	48	366	185	599
Changes in the year:				
Left employment	(8)	8	-	-
Transfers out	-	(4)	-	(4)
New retirement pensions	(1)	(9)	10	-
Deaths	-	-	(2)	(2)
At 30 June 2019	39	361	193	593

* *When the Scheme closed to future benefit accrual on 31 October 2011 the active members became 'employed deferred members'.*

At 30 June 2019, included within total pensioners above are 6 members (2018: 3 members) who have passed their normal retirement date and who have not yet taken benefits from the Scheme.

Benefits

For active members who joined HGPS from 1 April 1999 onwards, benefits for pensionable service from 1 January 2009 were based on career average revalued earnings. Benefits for these members accrued before 1 January 2009 are based on final salary. All benefits for members who joined prior to 1 April 1999, i.e. former members of the Hermes Pension Scheme, are based on final salary.

Lump sum death benefits payable from HGPS on the death of Employed Deferred Members if they die before taking their benefits is 1.25 times pensionable salary. This is not insured.

Added Years and Additional Voluntary Contributions

Until 31 October 2011 active members of the Scheme were able to purchase increased benefits in two ways:

i) by buying added years of pensionable service in the Scheme by paying an additional percentage of salary during their active membership; and

ii) by making additional voluntary contributions (AVCs) to a with-profits fund managed by Prudential Assurance Company Limited.

From 1 November 2011 these options ceased.

Members can no longer pay AVCs or any contributions to HGPS. The members who paid AVCs to Prudential, the Scheme's AVC investment manager, retain their investment in the fund which can be used to provide additional benefits when they retire. The added years benefit a member purchased up to 31 October 2011 is included in their main HGPS benefits.

Membership and Benefits (continued)

Pension Increases

Former Hermes Pension Scheme Members Who Joined Pre-1 April 1999

Pensions in payment and deferred pensions are increased in April each year in line with the Government's pension increase orders, in the same way that public sector pensions are increased. In practice these increases are currently based on Consumer Prices Index (CPI) inflation for the twelve months ended the previous September, and there is no cap on the increases. As a result, pensions in payment and deferred pensions were increased by 2.4% from April 2019.

Members Who Joined Post-1 April 1999

Pensions in payment are increased each April in line with Retail Prices Index (RPI) inflation for the twelve months ended the previous September, up to a maximum of 5% each year. Pensions in payment increased by 3.3% from April 2019.

Deferred pensions are revalued up to retirement in line with government legislation. In practice these increases in deferment are currently based on CPI inflation for the twelve months ended the previous September. The increases are capped at 5% per annum for benefits earned before 6 April 2009 and at 2.5% per annum for benefits earned on or after 6 April 2009. The cap is applied cumulatively across the whole period of deferment not in respect of each individual year. The CPI increased 2.4% in the year from September 2017 to September 2018.

No discretionary increases were awarded during the year.

Transfers

It is the responsibility of the Trustee to decide the basis on which cash equivalent transfer values (CETVs) are calculated. Transfer values represent fair value in relation to the alternative benefits payable. No allowance is made for any discretionary increases to pensions. When the Scheme closed to future benefit accrual on 31 October 2011 the Trustee ceased to accept transfers-in of benefits from other pension schemes. However, the Trustee and the employer did agree that Employed Deferred Members may transfer in benefits from the Hermes Group Stakeholder Pension Plan if they take their pension when they retire, if employed by Hermes at that time. The transfer amount from the stakeholder plan can then be used to increase the defined benefit pension and / or cash payable from HGPS on terms determined by the Trustee in agreement with the employer.

Investment Management

Overview

The Trustee, with the assistance of its appointed investment adviser, determines the overall investment strategy for the Scheme and sets out the broad policy to be adopted by each of the appointed fund managers.

Investment Managers

The names of those who are managing the Scheme's investments as at 30 June 2019 are listed on page 2. The Trustee has delegated the day-to-day management of investment to its appointed fund managers. A written agreement between the Trustee and each manager sets out the terms on which the manager will act.

The Trustee understands that environmental, social and governance (ESG) considerations are among the factors which the Scheme's active investment managers take into account, where relevant, when selecting investments. The Trustee expects that the extent to which these considerations may have a fundamental impact on the portfolio will be taken into account by the investment managers as part of their delegated duties. The Trustee's policy is to consider the managers' policy as part of the manager selection process, and then to leave implementation to their discretion. ESG factors are considered to be particularly relevant to equity exposure; the Scheme holds a relatively small proportion of its assets in equities, in passive pooled vehicles.

Investment Principles / Departures from SIP

In compliance with Section 35 of the Pensions Act 1995, the Trustee maintains a Statement of Investment Principles ("SIP"), which sets out its policy for investing the assets of the Scheme.

As at 30 June 2019, the Scheme's investment strategy was not in line with the SIP. A review of the Scheme's investment strategy was undertaken during the year and a revised SIP reflecting the changes to the Scheme's investment strategy was in the process of being approved as at year end. Following the year end, the updated SIP was signed on 10 September 2019.

Any member of the Scheme who would like a copy of the current SIP should contact the Scheme Secretary, at the address on page 19. A copy is also available on the HGPS website at https://www.hermesgrouppensionscheme.co.uk/scheme-overview

Employer Related Investment

There have been no employer related investments during the year.

Custodial Arrangements

The Trustee considers that it is important to keep the investment management of its assets separate from their custody, to minimise the risk of the assets being misused. For pooled funds it is the responsibility of the fund manager to appoint and monitor custodians. The Scheme bank account moved from NatWest to Bank of Scotland with the change of administrator from Capita to XPS.

Investment Management (continued)

Investment Strategy

All of the Scheme's assets are held in pooled investment vehicles to improve diversification.

While it is correct for accounting purposes to treat the pooled investment vehicles in the financial statements as a single line, the Trustee nevertheless considers that for asset-mix purposes the values of the underlying funds should be used to determine sector exposure and the following tables and charts have been drawn up on that basis.

Following a formal strategy review in December 2018, the Trustee made several changes to the Scheme's investment strategy over the first six months of 2019.

- The Scheme's Global Equity portfolio was halved, with the Trustee reducing the Scheme's exposure to emerging markets by fully disinvesting from Hermes Global Emerging Market Equity Fund. The Trustee also switched from World Developed equity funds to All World equity funds and increased the level of currency hedging to 75% (of developed market currencies).
- Within the Scheme's Diversified Credit portfolio, the Trustee fully disinvested from the high yield credit mandate with Barings and invested into an asset-backed securities ("ABS") mandate with Aegon.
- The Trustee introduced two pooled 'buy and maintain' credit funds, managed by Legal & General Investment Management ("LGIM"). This solution is designed to partially match the first ten years of liability cashflow, providing income (and some interest rate hedging) for the Scheme.
- The Trustee also fully disinvested from the Scheme's Diversified Growth Fund mandate with Insight.

With these changes, the Trustee's new investment strategy is 65% liability matching assets (LDI and corporate bonds) and 35% return-seeking assets (global equity, property and diversified credit).

At 30 June 2019, the Scheme held investments in the following funds managed by Legal & General Investment Management ("LGIM"):

- All World Equity Index
- All World Equity Index – GBP Hedged
- FTSE RAFI All World 3000 Equity
- FTSE RAFI All World 3000 Equity – GBP Hedged
- LDI assets invested in a QIAIF

The total value of funds held by LGIM on behalf of the Scheme at 30 June 2019 was £188 million.

The other funds held by the Scheme at 30 June 2019 were as follows:

Strategy	Fund
Diversified credit:	M&G Illiquid Credit Opportunities Fund, Barings European Private Loan Fund, Aegon European ABS Fund
Property:	Hermes Property Unit Trust and Standard Life Long Lease Property Fund

Investment Management (continued)

Investment Strategy (continued)

At 30 June 2019, the Hermes Group of Companies were involved in managing one of the Scheme's portfolios, with Hermes Alternative Investment Management Limited managing the Hermes Property Unit Trust.

The Trustee reviews the performance of all the Scheme's investment managers and funds regularly.

In the second half of 2019, the Trustee agreed to disinvest the entire holding in the Hermes Property Unit Trust in two tranches. The first tranche of £2.75m was completed in October 2019, with the second tranche completed in January 2020. Proceeds of the first tranche were subsequently invested in the existing property fund held with Standard Life, reflecting the strategic decision to move assets from core property to long-lease property. A Trustee decision on where to place the proceeds arising from the second tranche is to be made in January 2020.

Investment Performance

The Trustee continues to monitor investment performance against Scheme benchmarks. The overall benchmark return is obtained by combining the strategic asset allocation of the Scheme with the asset class returns of appropriate market indices.

Over the year to 30 June 2019 the overall investment return for the Scheme was 9.4% against the benchmark return of 9.8%. For background, over the one year period to 30 June 2019, the Consumer Prices Index rose by a modest 2.0%.

The Scheme's performance in the last five calendar years is shown in the table below:

Comparison with benchmark 2015 - 2019

Annual Rate of Return (%)	**2015**	**2016**	**2017**	**2018**	**2019***	**2015 to 2019 Annualised**
HGPS	3.0	24.3	11.0	-2.1	9.4	10.2
Benchmark	4.5	23.2	8.3	0.2	9.8	10.2
HGPS out/(under) performance of benchmark	-1.5	1.1	2.7	-2.3	-0.4	0.0

** For the twelve month period to 30 June 2019*

From December 2014 to June 2019, the Scheme returned 10.2% per annum, in line with its benchmark return.

Investment Management (continued)

Asset Allocation

The table below shows the asset allocation of the new long term strategic asset mix.

	Long Term Strategic Asset Allocation (%)	Actual Asset Allocation (%) 30 June 2019	Actual Asset Allocation (%) 30 June 2018
Global equity (passive)	10.0	9.9	21.1*
Multi asset (active)	0.0	0.0	15.3
Property (active)	10.0	9.0	9.3
Diversified credit	15.0	15.1	14.3
Buy & maintain credit	15.0	14.4	0.0
LDI (passive)	50.0	51.6	40.0
Cash	0.0	0.0	0.0
	100.0	100.0	100.0

Notes:

1. At 30 June 2019 £4m was held in the Scheme's Trustee bank account. This followed a period in the first half of 2019 during which some mandates were disinvested, with proceeds invested so that the overall asset allocation matched the revised long term strategic allocation as closely as possible, and with some remaining cash retained in the Scheme's Trustee bank account available to meet benefit outgo, or to be invested.
2. The strategic asset allocation has changed in the year to 30 June 2019 with a higher allocation to LDI (up from 40% to 50%) and a lower allocation to certain "growth" assets.

* At 30 June 2018 the Scheme's equity allocation also included the Scheme's investment in Hermes Global Emerging Markets Fund (which was actively managed).

Report on Actuarial Liabilities

As required by the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2017. This showed that on that date:

The value of the Technical Provisions was:	£215.3 million
The value of the assets at that date was:	£234.5 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate:

Willis Towers Watson market implied gilt curve +0.75% pa (approximate single equivalent rate 2.4%).

The assumed rate of return on investment for funding purposes has regard to the Scheme's anticipated future investment strategy. The discount rate assumption used to determine the past service liability was determined based on the yield on long-term Gilts plus a premium. The premium is intended to allow for some asset outperformance over Gilt returns reflecting the Scheme's future investment strategy.

Future Retail Price inflation (RPI):

Willis Towers Watson market implied inflation curve (approximate single equivalent rate 3.4%).

The RPI assumption takes into account information available in respect of bond markets at the effective date of the actuarial valuation. RPI Inflation is term-dependent based on an appropriate curve.

Future Consumer Price inflation (CPI): The assumption for future CPI is set by reference to the RPI assumption and allows for a prudent view of the expected long term gap between RPI and CPI; at 31 December 2017, this long term gap was set at 1.0% per annum (approximate single equivalent rate 2.4%).

Pension increases: derived from the rates for future retail and consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

Report on Actuarial Liabilities (continued)

Significant actuarial assumptions (continued)

Pay increases: in line with consumer price inflation curve.

Mortality: SAPS Light ("S2 Light normal health pensioner tables") series with a 95% multiplier for males and SAPS ("S2 Normal health pensioner tables") with a 90% multiplier for females, based on member's year of birth and projected from 2007 in line with the CMI 2014 Core Projections model with a long term rate of 1.5% pa.

Recovery Plan

The valuation of the Hermes Group Pension Scheme as a continuing Scheme was signed in November 2018 and revealed a surplus as at 31 December 2017 of £19.2 million. Therefore as there were sufficient assets to cover the Scheme's Technical Provisions at the valuation date, a recovery plan was not required.

The employer has also agreed to make further special contributions, if applicable, to meet the strains which arise on account of redundancies or early retirements of employed-deferred members.

In the unlikely event that the employer ceased paying contributions to the Scheme ("discontinuance"), the Trustee could seek to meet benefits payments either by winding up the Scheme or by continuing it as a closed fund. The terms available from insurance companies at 31 December 2017 were such that, based on the Scheme's assets and liabilities at that date, the premiums charged to secure accrued rights in full would have exceeded the value of the Scheme's assets.

Actuarial Valuation

The next actuarial valuation of the Scheme will have an effective date of 30 June 2020. It is anticipated that the results will be available in 2021.

Funding Update

Following the last formal triennial actuarial valuation reported above as at 31 December 2017, the Scheme's overall funding position on a Technical Provisions basis was rolled forward in an actuarial annual update report as at 31 December 2018. The 2018 report is not as precise and detailed as the 2017 report, but the 2018 report shows that the funding position had reduced by £2.6m from a surplus of £19.2m to a surplus of £16.6m, with assets valued at £228.1m and liabilities valued at £211.5m. The change in funding position was due to investment returns being lower than assumed, offset to a certain extent by the payment of employer deficit reduction contributions to the Scheme over the period.

The next actuarial update report will be as at 30 June 2019, and will be finalised in Q1 2020, using the asset values in these accounts.

Statement of Trustee's Responsibilities

Trustee's Responsibilities in Respect of the Financial Statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the trustees. Pension scheme regulations require the trustees to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of trustees' responsibilities accompanying the trustee's summary of contributions.

The Trustee is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

Trustee's Responsibilities in Respect of Contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the schedule.

Compliance Matters

The purpose of this Statement is to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of administrative routine.

Transfer Values

Transfer values are calculated and verified as required under the provisions of the Pensions Act 1993.

Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax. Tax charges are accrued on the same basis as the investment income to which they relate.

Internal Dispute Resolution Procedure

The Trustee has found that most queries or requests for information about the Scheme are capable of being answered satisfactorily by the Administrator or the Scheme Secretary.

Nevertheless the Trustee has a procedure to resolve disputes, which gives a member the means of having a grievance considered at the highest level.

The Internal Dispute Resolution Procedure (IDRP) is in two stages. At stage 1, the dispute/complaint is considered by the Secretary to the Trustee. A member not satisfied with the decision can ask at stage 2 for the matter to be reconsidered by the Trustee Board.

A member of the Scheme who has a query or complaint which is likely to prove difficult to resolve is given a copy of the IDRP. A copy of the procedure can be obtained from the Secretary to the Scheme at the address shown on page 19 of this report.

The Pensions Advisory Service ("TPAS")

TPAS is available to assist members and beneficiaries of the Scheme on pension matters. TPAS may be contacted at 11 Belgrave Road, London, SW1V 1RB.

Telephone: 0800 011 3797

Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme. The Pensions Ombudsman can be contacted at 1st Floor, 10 South Colonnade, Canary Wharf, London, E14 4PU.

Telephone: 0800 917 4487

Early resolution email: helpline@pensions-ombudsman.org.uk

Email: enquiries@pensions-ombudsman.org.uk

Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where trustees, employers or Professional Advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Terrace, Brighton, BN1 4DW.

Compliance Matters (continued)

Pension Tracing

A pension tracing service is carried out by the Department for Work and Pensions. The Pension Tracing Service can be contacted at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU.

Registration under the applicable Data Protection Legislation and European Union (EU) General Data Protection Regulations (GDPR)

The European Union's General Data Protection Regulation ('GDPR') became effective in the UK on 25 May 2018. Its purpose is to create a data protection regime that is fit for the 21st Century and update the current regime that was introduced in 1995.

The GDPR introduced changes to how personal data is used and protected, and the rights that members have in respect of their data. Although the overall framework of the law is similar to previous UK requirements, the way in which the Trustee has to demonstrate compliance has changed. The Trustee holds personal data about members in its capacity as a 'data controller', which it uses to contact members, calculate and pay benefits, and administer the Scheme generally. As data controller, the Trustee has obligations under the GDPR which relate to how data is stored, how and why it is used and how it is shared with third parties. In certain circumstances the Scheme Actuary will be a data controller in relation to Scheme data. The previous and new Scheme Actuary has provided details to the Trustee on how they use data and keep it safe.

The Trustee has taken advice from its legal advisers on what it needed to do to be compliant with the new regime, which included assessing the arrangements it has with its service providers that use the Scheme's data (such as the Scheme's administrators, actuaries, lawyers and investment advisers) and ensuring that appropriate technical and organisational security measures are in place to keep the Scheme's personal data secure.

The Trustee has in place a Privacy Notice which it issued to all members at the end of May 2018. This included more details on rights members have in relation to their data as well as more information on how data is held, who it is used by and for what purpose, and what safeguards are in place to ensure that data is protected. The Trustee will keep this notice updated from time to time.

More information on the GDPR can be found on the Information Commissioner's Office website, https://ico.org.uk.

Contact for Further Information

Further information on the Scheme is available on the Scheme's website:

https://www.hermesgrouppensionscheme.co.uk/

Members who have a general query about this report or the Scheme in general, should contact Inside Pensions at the following address:

The Secretary of the Hermes Group Pension Scheme
Inside Pensions
42-48 Victoria Street
St Albans
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Approval of the Trustee's Report

The Trustee's Report was approved by the Trustee Board on 22 January 2020 and signed on its behalf by:

.... **Date:** 22/1/2020

Trustee Director

Independent Auditor's Report to the Trustee of the Hermes Group Pension Scheme

Opinion

We have audited the financial statements of Hermes Group Pension Scheme ("the Scheme") for the year ended 30 June 2019 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 30 June 2019 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Trustee, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Scheme's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Scheme's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Report on the audit of the financial statements (continued)

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme, including the impact of Brexit, and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions), the Chairman's Statement, and the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's Responsibilities

As explained more fully in their statement set out on page 16, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A further description of our responsibilities is provided on the FRC's website at: www.frc.org.uk/auditorsresponsibilities.

Report on the audit of the financial statements (continued)

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Fang Fang Zhou
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London, E14 5GL

Date: 23/11/20

Fund Account

For the year ended 30 June 2019

	Note	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Contributions and benefits			
Employer contributions	4	**2,221**	3,017
Benefits paid or payable	5	**(3,749)**	(2,029)
Payments to and on account of leavers	6	**(1,351)**	(682)
Administrative expenses	7	**(662)**	(517)
		(5,762)	(3,228)
Net withdrawals from dealings with Members		**(3,541)**	(211)
Net returns on investments			
Investment income	8	**999**	481
Change in market value of investments	9	**20,243**	(434)
Investment management expenses	10	**(263)**	(74)
Net returns on investments		**20,979**	(27)
Net increase / (decrease) in the fund during the year / period		**17,438**	(238)
Net assets of the Scheme at start of year / period		**234,308**	234,546
Net assets of the Scheme at end of year / period		**251,746**	234,308

The accompanying notes on pages 25 to 44 are an integral part of these financial statements.

Statement of Net Assets

Available for benefits as at 30 June 2019

	Note	**30 June 2019 £'000**	30 June 2018 £'000
Investment assets:			
Pooled investment vehicles	9,11	**247,987**	232,523
AVC investments	9,13	**9**	9
Other investment balances	9	**120**	130
Total net investments	9	**248,116**	232,662
Current assets	19	**3,858**	2,001
Current liabilities	20	**(228)**	(355)
Net assets of the Scheme at end of year		**251,746**	234,308

The accompanying notes on pages 25 to 45 are an integral part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the Report on Actuarial Liabilities on pages 14 and 15 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on 22 January **2020 and signed on its behalf by:**

.... **Trustee Director**

Notes to the Financial Statements

For the year ended 30 June 2019

1. General Information

The Scheme is a defined benefit pension scheme and its purpose is to provide retirement benefits for Scheme members and, in the event of a member's death, to provide benefits to their spouse and dependants as prescribed in the rules.

The address of the principal employer for the Scheme, BT Pension Scheme Trustees Limited, is: One America Square, 17 Crosswall, London EC3N 2LB.

2. Basis of Preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and with guidance set out in the Statement of Recommended Practice (Revised November 2014).

3. Accounting Policies

The principal accounting policies of the Scheme, which have been applied consistently in the current and preceding year, are as follows:

Contributions

Employer deficit funding contributions and other employer contributions payable in respect of Scheme expenses are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the employer and Trustee.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are payable.

Employer additional contributions are accounted for when received, or when a formal agreement is made, whichever is earlier.

Payments to Members

Benefits are accounted for in the year in which the member notifies the Trustee of the member's decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring, leaving or death.

Pensions in payment are accounted for in the year to which they relate.

Individual transfers out of the Scheme are accounted for when member liability is discharged which is normally when the transfer amount is paid.

Expenses

Expenses are accounted for on an accruals basis.

Notes to the Financial Statements (continued)

3. Accounting Policies (continued)

Investment Income

Income from cash and short term deposits is accounted for on an accruals basis.

Income from pooled investment vehicles which distribute income is accounted for on an accruals basis on the date stocks are quoted ex-dividend.

Income from pooled investment vehicles which is reinvested within the funds and is therefore not directly paid to the Scheme is included within change in market value.

Valuation and Classification of Investments

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price, or most recent transaction price is used.

The methods of determining fair value for the principal classes of investments are:

Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days, are included at the latest price provided by the manager at or before the year end.

Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a fair approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.

The change in market value of investments during a year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Presentation Currency

The Scheme functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Notes to the Financial Statements (continued)

4. Contributions

	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Employer contributions		
Deficit funding	**2,083**	2,500
Other - expenses	**313**	517
Trustee waiver of Other – expenses ("Shortfall") :		
– current year	**(34)**	-
– prior year	**(141)**	-
	2,221	3,017

Following completion of the 31 December 2017 actuarial valuation, and per the Schedule of Contributions dated 29 November 2018, no further deficit or expense contributions were payable to the Scheme for the period 1 December 2018 to 30 November 2023.

Up until 30 November 2018, in accordance with the Schedule of Contributions dated 24 March 2016, the employer was required to pay £5.0m deficit contributions in the calendar years ended 31 December 2018 and 2019 with £416,667 payable each month.

As a result, deficit funding contributions for the period 1 July 2018 to 30 November 2018 of £2,083,000 we payable, as reported above.

The Schedule of Contributions dated 24 March 2016 also required the employer to pay £50,000 per month towards Scheme administrative expenditure, and where those contributions are insufficient to wholly cover that period's expenditure, then an additional contribution payment was payable by the end of the following calendar year.

Waiver of Other – expenses ("Shortfall") payments

During the year, the Trustee waived the payment of shortfall contributions payable to the Scheme as referred to on page 7.

Notes to the Financial Statements (continued)

5. Benefits Paid or Payable

	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Pensions	**3,461**	1,644
Commutations of pensions and lump sum retirement benefits	**288**	385
	3,749	2,029

6. Payments to and on account of leavers

	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Individual transfers out to other schemes	**1,350**	682
Contribution equivalent premiums	**1**	-
	1,351	682

Notes to the Financial Statements (continued)

7. Administrative Expenses

	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Administration and secretarial services	**191**	117
Actuarial fees	**153**	146
Audit fees	**14**	22
Legal fees	**40**	50
Covenant consultancy fees	**-**	43
Investment consultancy fees	**190**	97
Trustee Director fees and expenses	**74**	38
Other fees and expenses	**-**	4
	662	517

Trustee Director's fees, excluding VAT and expenses, were payable as follows:

	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Mr D P Bradford	**8**	4
Mrs I A Kirby	**8**	4
Mr A Ormrod	**8**	4
Mr M Simms	**8**	4
PTL Governance Limited	**38**	18
	70	34

All Trustee Directors, other than the Chairman, each receive a payment of £8,000 per annum, pro-rated for split periods of service.

Notes to the Financial Statements (continued)

8. Investment Income

	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Income from pooled investment vehicles	**995**	481
Bank interest	**4**	-
	999	481

9. Investment Reconciliation

	Value at 1 July 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 30 June 2019 £'000
Pooled investment vehicles	232,523	**110,093**	**(114,872)**	**20,243**	**247,987**
AVC investments	9	**-**	**-**	**-**	**9**
	232,532	**110,093**	**(114,872)**	**20,243**	**247,996**
Other investment balances	130				**120**
	232,662				**248,116**

Other investment balances relate to quarterly accrued dividends receivable in respect of the Scheme's holding in the Hermes Property Unit Trust.

10. Investment Management Expenses

	Year ended 30 June 2019 £'000	Six month period ended 30 June 2018 £'000
Administration, management and custody	**284**	90
Fee rebates	**(21)**	(16)
	263	74

Notes to the Financial Statements (continued)

11. Pooled Investment Vehicles

The Scheme's investments in pooled investment vehicles at the year end comprised:

	30 June 2019 £'000	30 June 2018 £'000
Equity	**24,467**	49,032
Bonds	**-**	18,911
Property	**22,267**	21,605
Illiquid credit	**12,152**	11,714
Diversified growth	**-**	35,474
LDI	**128,061**	93,062
Buy and maintain credit	**35,778**	-
Private loans	**4,719**	2,725
Asset backed securities	**20,543**	-
	247,987	232,523

The LDI holding relates to a Qualifying Instruction Alternative Investment Fund (QIAIF) pooled fund held with Legal & General (QIAIF), where the Scheme is the sole investor in the fund. Further details are provided in note 12.

12. Sole Investor Fund

The Scheme is the sole investor in the Legal & General QIAIF Fund. At the year end the underlying assets of this fund were valued as follows:

	30 June 2019 £'000	30 June 2018 £'000
Bonds	**111,295**	89,646
Cash deposits	**10,109**	1,691
Repurchase agreements	**6,359**	1,664
Swaps	**315**	61
	128,078	93,062

The valuation of the underlying assets above of £128,078,000 differs from the unitised valuation of £128,061,000 reported in note 11, due to the unitised valuation reflecting trade settlements up to and including the weekly unitised valuation date of 1 July 2019.

LGIM's Independent Investment Risk Team calculate optimal and critical levels of collateral and cash for all mandates which include derivatives (listed and OTC). These optimal and critical levels of collateral are set using a Value-at-Risk (VaR) based metric which is market standard and similar to that is used by the clearing houses.

- The optimal and critical levels of cash are included where the mandate includes derivatives which can only be collateralised on an ongoing basis using cash

Notes to the Financial Statements (continued)

12. Sole Investor Fund (continued)

- The optimal and critical levels of cash are components of the optimal and critical level of collateral, which in general for LDI mandates include cash and government bonds

At 30 June 2019, the optimal required collateral balance for derivatives was £23,670,000 and the eligible and available collateral was £110,416,950.

13. Additional Voluntary Contributions (AVC) Investments

Members' additional voluntary contributions, when received, are invested separately from the main Scheme fund in the form of insurance policies and deposits securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 December confirming the amounts held in their account and the movements in the year. The aggregate amounts of money purchase AVC investments are as follows:

	30 June 2019 £'000	30 June 2018 £'000
Prudential Assurance Company Limited	**9**	9

14. Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. There are no separately identifiable direct costs incurred.

Indirect costs incurred on the underlying securities held within the Legal & General QIAIF were 0.49% of the average holding value during the year (2018 – 0.38%).

Notes to the Financial Statements (continued)

15. Investment Fair Value

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable for the asset or liability.

The Scheme's investment assets have been fair-valued using the above hierarchy levels as follows:

As at 30 June 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Pooled Investment Vehicles				
AEGON – European ABS	-	20,543	-	20,543
Barings Capital – Euro Private Loan Fund	-	-	4,719	4,719
Hermes – Property Unit Trust	-	-	14,389	14,389
Legal & General – FTSE RAFI	-	3,042	-	3,042
Legal & General – FTSE RAFI Hedged	-	9,203	-	9,203
Legal & General – QIAIF	-	128,061	-	128,061
Legal & General – Buy & Maintain Credit	-	35,778	-	35,778
Legal & General – World Developed Equity	-	3,028	-	3,028
Legal & General – World Developed Equity Hedged	-	9,194	-	9,194
M&G – Illiquid Credit	-	-	12,152	12,152
Standard Life – Long Lease Property	-	7,878	-	7,878
Total Pooled Investment Vehicles	-	216,727	31,260	247,987
AVC Investments	-	-	9	9
Other Investment Balances	120	-	-	120
	120	216,727	31,269	248,116

Notes to the Financial Statements (continued)

15. Investment Fair Value (continued)

As at 30 June 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Pooled Investment Vehicles				
Barings Capital – Global High Yield Credit Strategies	-	18,911	-	18,911
Barings Capital – Euro Private Loan Fund	-	-	2,725	2,725
Hermes – Global Emerging Markets	-	10,115	-	10,115
Hermes – Property Unit Trust	-	-	14,113	14,113
Insight – Broad Opportunities	-	35,474	-	35,474
Legal & General – FTSE RAFI	-	9,734	-	9,734
Legal & General – FTSE RAFI Hedged	-	9,674	-	9,674
Legal & General – QIAIF	-	93,062	-	93,062
Legal & General – World Developed Equity	-	9,791	-	9,791
Legal & General – World Developed Equity Hedged	-	9,718	-	9,718
M&G – Illiquid Credit	-	-	11,714	11,714
Standard Life – Long Lease Property	-	7,492	-	7,492
Total Pooled Investment Vehicles	-	203,971	28,552	232,523
AVC Investments	-	-	9	9
Other Investment Balances	130	-	-	130
	130	203,971	28,561	232,662

Notes to the Financial Statements (continued)

16. Investment Risks Disclosures

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy as detailed below. The Trustee manages investment risks, including credit risk and market risk, using monitoring reports produced by its investment adviser and taking into account the Scheme's strategic investment objectives. Investment objectives and risks are also managed through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management is set out below.

In respect of the Scheme's QIAIF holding, its investment risks, on a look-through basis, are disclosed separately in note 17.

Investment Strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the Scheme payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the strength of the employer covenant, the long term liabilities of the Scheme and the funding agreed with the employer. The investment strategy is set out in the Statement of Investment Principles.

Notes to the Financial Statements (continued)

16. Investment Risks Disclosures (continued)

Investment Strategy (continued)

The strategy at 30 June 2019 was to hold:

a. 65% in investments that move broadly in line with the long-term liabilities of the Scheme. This is referred to as Liability Driven Investment (LDI) and the purpose is to mitigate the impact of changes in interest rates and inflation on long-term liabilities. In 2019, the Trustee appointed Legal & General to run a buy and maintain corporate bond portfolio alongside the Scheme's LDI mandate (15% of Scheme assets). This allocation provides interest rate hedging against the Scheme's shorter-term liabilities (up to ten years) whilst also providing income for the Scheme (as the bonds mature/pay coupons).

b. 35% in investments comprising of global equities, property, direct lending and asset-backed securities (the latter two asset classes are together referred to as diversified credit). The purpose of these investments is to deliver income and capital growth to assist in meeting the Scheme's objectives.

Risk Exposures

As the Scheme's economic exposure to its investments is obtained via pooled funds (including the QIAIF), it has exposure to the credit and market risks arising from the pooled investment vehicles as well as indirect exposure to the credit and market risks arising from the underlying investments within the pooled investment vehicles.

The Scheme's pooled investment vehicles comprise the following:

- Unit-linked long term insurance policies;
- Unit trusts
- Open ended investment companies; and a
- Qualifying Investor Alternative Investment Fund

Each type of arrangement has different regulatory and legal structures, for example whether governed by trust or company law and, therefore, the underlying investments will have differing degrees of protection in the event of insolvency of the pool manager.

Notes to the Financial Statements (continued)

16. Investment Risks Disclosures (continued)

Risk Exposures (continued)

The Trustee has considered the extent, if any, to which each of the Scheme's funds are affected by the direct and indirect risks set out under FRS 102. This is captured pictorially in the table below, which is based on the opinion of the Trustee's investment adviser:

Strategic asset class groupings	Credit risk		Market risk					
			Currency risk		Interest rate risk		Other price risk	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
Liability Driven Investments	●	●	○	○	○	●	○	○
Equity	●	○	○	●	○	○	○	●
Diversified Credit	●	●	○	●	○	◑	○	●
Buy & Maintain Credit	●	●	○	○	○	●	○	●
Property	●	◑	○	○	○	○	○	●

In the table above, the risk noted affects the asset class [●] significantly, [◑] partially or [○] hardly/not at all.

The following section provides further details on the risk exposures and the steps taken by the Scheme to mitigate these risks.

Credit Risk

The Scheme has direct credit risk in so far as it is dependent on the pooled arrangements to deliver the cash flows which support the units in them held by the Scheme. As the Scheme is wholly invested in pooled investment vehicles, direct credit risk affects all of the Scheme's funds.

Direct credit risk is mitigated by the underlying assets of the pooled arrangements being, in part, ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Through the use of its adviser, the Trustee carries out due diligence checks on the appointment of any new pooled investment manager (an example of this was the introduction of the ABS mandate within the Scheme's diversified credit portfolio in May 2019) and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

The Scheme is also indirectly exposed to credit risks arising on the financial instruments within the pooled arrangements which have credit risk. For example, the Scheme's diversified credit mandate is invested in a range of credit instruments, such as investment grade and non-investment grade debt, and therefore, the Scheme is indirectly exposed to the risk of default of the underlying issuers. In addition, the Scheme is also exposed to the credit risk arising from the financial instruments the LDI manager uses in the efficient management of that portfolio; this mostly concerns the use of derivative investments.

Notes to the Financial Statements (continued)

16. Investment Risks Disclosures (continued)

Credit Risk (continued)

The Trustee has considered the indirect credit risk through the choice of funds it uses to carry out the investment strategy and will have an expectation that the investment managers, through their approach to investment, will seek to diversify their holdings on an ongoing basis to minimise the impact of default by any one issuer. The risk is further mitigated by the types of investments held. For example, the Scheme's LDI portfolio invests in gilts (which are backed by the UK government). Further, the credit risk of the assets within the diversified credit mandate is mitigated by the investment manager's continuous analysis of the credit quality of the securities held within this mandate.

Currency risk

The Scheme does not have direct currency risk as its interest in the pooled investment vehicles is predominately priced in sterling, which is the same currency as the Scheme's liabilities.

The Scheme is, however, subject to indirect currency risk as some of the underlying investments are held in overseas markets and priced in the local currency. As such the value of the Scheme's assets may be affected favourably or unfavourably by fluctuations in currency rates, relative to sterling. Further, currency risk may arise from investment in derivative instruments exposed to non-sterling currencies. Indirect currency risk mainly applies to the Scheme's equity, diversified credit and multi asset mandates.

In order to mitigate some currency risk exposure, the Trustee has adopted a 75% currency hedge on developed equities.

The Trustee expects that the Scheme's underlying investment managers will review the impact of currency movements in their investment decision-making as part of their ongoing management of the portfolios. Where applicable, the investment managers have discretion over whether or not to hedge underlying currency risk based on their views of financial markets.

Interest Rate Risk

The Scheme's interest in pooled investment vehicles is largely unaffected by movements in interest rates and therefore there is no direct interest rate risk. However, some of the underlying investments within the pooled investment vehicles are exposed to interest rates detailed below and therefore the Scheme has indirect interest rate risk.

As noted above, the Scheme's LDI portfolio is able to invest in assets such as fixed interest and index-linked gilts, gilts and index-linked repurchase transactions, swaps and cash and cash like assets. These broadly move in line with the Scheme's liabilities as a consequence of changing interest rates and inflation. The Scheme's target allocation to LDI (and buy and maintain credit) is 65% of assets which is intended to provide hedging of 90% of interest rate risk and 80% of inflation risk (as measured on a gilts flat liability basis).

In addition, the Scheme is subject to an element of interest rate risk on the underlying holdings within the diversified credit mandate. However, the bond assets within this mandate are typically short duration or floating rate and therefore are less sensitive to changes in interest rates. Further, the investment managers are tasked with taking into account interest rate risk as part of the mandate's holistic risk management approach.

Notes to the Financial Statements (continued)

16. Investment Risks Disclosures (continued)

Other Price Risk

The Scheme has indirect exposure to other price risk, principally in relation to its "return seeking" portfolio which includes equities and investment property held in pooled vehicles.

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets. According to the Scheme's Statement of Investment Principles, each investment manager is expected to manage broadly diversified portfolios and to spread assets across a number of individual shares and securities.

17. Investment Risks Disclosures – Sole Investor Fund

Pooled investment vehicles include the Scheme's investment in a Qualifying Investor Alternative Investment Fund ("QIAIF") held with Legal & General.

The Scheme is the sole investor in this fund and accounting regulations require that the risk disclosures required by FRS 102 are made on a 'look through' basis as if the Scheme held the investments in this fund directly.

The following table summarises the extent to which the underlying investments of this fund are affected by financial risks:

Pooled investment vehicles	Credit and market risk			
	Credit	Currency	Interest rate	Other price
Bonds	●	○	●	○
Repurchase Agreements	●	○	●	○
Liquidity Funds	●	○	●	○
Inflation and Interest Rate Swaps	●	○	●	○

In the table above, the risk noted affects the asset class [●] significantly, or [○] hardly/not at all.

As sole investor, the Scheme is subject to the following risks arising on the underlying investments held at the year end within the QIAIF:

Credit risk

Credit risk arising on bonds is mitigated by investing in UK government bonds where the credit risk is minimal.

Credit risk on repurchase agreements and swaps is mitigated through collateral arrangements as disclosed in note 12. In addition, the risk is also mitigated by transacting with counterparties which are at least investment grade credit rated.

Notes to the Financial Statements (continued)

17. Investment Risks Disclosures – Sole Investor Fund (continued)

Credit risk (continued)

Direct credit risk on the Liquidity Fund is mitigated by the underlying assets of the fund being ring-fenced from Legal & General's wider business and the regulatory environment in which Legal & General operate.

The QIAIF is also subject to indirect credit risk in relation to the instruments held within the Legal & General Liquidity Fund. This is mitigated by ensuring cash is held with a diversified range of institutions which are at least investment grade credit rated.

Currency Risk

The QIAIF's underlying assets were not subject to currency risk as at 30 June 2019 as none were held in overseas markets.

Interest Rate Risk

The underlying assets of the QIAIF are subject to interest rate risk because a proportion of the investments are held in bonds and bond-like instruments (fixed interest gilts, index linked gilts, repurchase agreements, swaps and cash).

If interest rates rise, the value of these investments will fall, but this risk is deliberate as it will be offset by a fall in the actuarial value of the Schemes liabilities as a result of a rise in the discount rate. These offsetting risks result in a reduction in funding level volatility.

Other Price Risk

There is no other price risk as there is no equity or other return seeking assets in the QIAIF.

Leverage Risk and collateral monitoring

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 leverage of the QIAIF was around 1.8 times as at 30 June 2019.

The Trustee's aim is to hedge 90% of interest rate risk and 80% of inflation risk (as measured on a gilts flat liability basis) with 50% of total Scheme assets. When this target has been reached, 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.

Notes to the Financial Statements (continued)

18. Concentration of Investments

The following holdings, with the exception of UK government securities, represented more than 5% of the net assets of the Scheme as at 30 June 2019 and the prior year:

	30 June 2019 Market value £000	**30 June 2019 % of net assets**	30 June 2018 Market value £000	30 June 2018 % of net assets
Barings Capital Global High Yield Credit Strategies Fund	**-**	**-**	18,911	8.1
Hermes Property Unit Trust	**14,389**	**5.7**	14,113	6.0
Insight Absolute Broad Opportunities	**-**	**-**	35,474	15.1
Legal & General QIAIF*	**128,061**	**50.9**	93,062	39.7
Legal & General Buy & Maintain Credit 2025-29	**20,346**	**8.1**	-	-
Legal & General Buy & Maintain Credit 2020-24	**15,432**	**6.1**	-	-
AEGON European ABS	**20,543**	**8.2**	n/a	< 5.0%
M&G Illiquid Credit Opportunities Fund	**n/a**	**< 5.0%**	11,714	5.0

*Within the Legal & General QIAIF, the following holdings, with the exception of UK government securities, represented more than 5% of the net assets of the Scheme as at 30 June 2019 and the prior year:

Legal & General Liquidity Fund	**12,853**	**5.1**	-	-

Notes to the Financial Statements (continued)

19. Current Assets

	30 June 2019 £'000	30 June 2018 £'000
Contributions due from employer in respect of:		
Employer other – expense contributions	-	141
Cash balances	**3,831**	1,850
Other debtors	**27**	10
	3,858	2,001

Employer's other expense contributions receivable of £nil (2018 - £141,000) represent the shortfall of employer contributions to meet the administrative expenses incurred by the Scheme in each year as was required by the former Schedule of Contributions dated 24 March 2016, which was applicable until 30 November 2018.

During the year, the Trustee waived the payment of shortfall contributions payable to the Scheme as referred to on page 7.

Notes to the Financial Statements (continued)

20. Current Liabilities

	30 June 2019 £'000	30 June 2018 £'000
Accrued expenses	158	277
Amounts due to employer related companies:		
Hermes Fund Managers Limited	-	8
BT Pension Scheme Management Limited	6	8
Other creditors	64	62
	228	355

21. Related Party Transactions

PTL Governance Limited, represented by Alison Bostock in the role of Independent Chairman, earned fees, exclusive of VAT, of £38,000 (Six months ended 30 June 2018: £18,000) for services to the Scheme as disclosed in note 7. Of this amount £15,000 (2018: £Nil) was payable at the year end date. Other Trustee Director fees of £Nil (2018: £Nil) were recharged to the Scheme by Hermes Fund Managers Limited during the year. £Nil (2018: £8,000) was payable at the year end date as disclosed in note 20.

With effect from 1 January 2018, Trustee Director fees were recharged to the Scheme by BT Pension Scheme Management Limited (BTPSM) and fees of £24,000 (2018: £14,000) were recharged during the year. Of this amount, £6,000 (2018: £8,667) was payable at the year end date, as disclosed in note 20, and was settled by the Scheme in August 2019. This recharging arrangement was in operation for three of the Trustee Directors as at year end. One other Trustee Director invoices the Scheme directly.

At 30 June 2019, the Scheme held investments, on an arm's length basis, with Hermes Investment Management Limited of £Nil (2018: £10.1m) and with Hermes Alternative Investment Management Limited of £14.4m (2018: £14.1m).

BT Pension Scheme Management Limited, Hermes Investment Management Limited and Hermes Alternative Investment Management Limited are related to the Scheme as all form part of the same corporate group as the principal employer.

22. Employer Related Investments

There have been no employer related investments during the year.

23. Contingent liabilities

At 30 June 2019 in the opinion of the Trustee, the Scheme had no contingent liabilities.

24. Capital commitments

At 30 June 2019 the Scheme held funding commitments with investment managers as follows:

	Total Commitments £'000	Amounts drawn down to 30 June 2019 £'000	Outstanding commitments at 30 June 2019 £'000
Barings Global Credit Fund	11,000	4,473	6,527

Notes to the Financial Statements (continued)

25. GMP Equalisation

In October 2018, the High Court ruled that the Lloyds Banking Group Pension Scheme must equalise Guaranteed Minimum Pension (GMP) between females and males in respect of pensionable service between 1990 and 1997. This ruling has a potential impact on the Scheme as benefits may increase for members whose benefits include such GMP. In terms of the accounts, this ruling may have an impact in terms of the accounts showing the resulting difference in pension which has been paid to pensioners. The Trustee is still in the process of reaching a reliable estimate for the impact of this ruling. There is however provision made for GMP equalisation within the actuarial valuation of the Scheme liabilities.

Summary of Contributions Payable

For the Year Ended 30 June 2019

Contributions payable to the Scheme under the Schedules of Contributions were as follows:

	£000s	£000s
Schedule of Contributions dated 24 March 2016:		
Employer's deficit funding contributions		2,083
Employer other contributions in respect of Scheme expenses:		
- Monthly amounts received	250	
- Other amounts received allocated towards Scheme expenses	29	
- Shortfall amount payable by 31 December 2019	34	
- Trustee waiver of shortfall amount payable	(34)	
Total Employer other contributions in respect of Scheme expenses		279
Schedule of Contributions dated 29 November 2018:		
Employer's deficit funding contributions	-	
Employer other contributions in respect of Scheme expenses	-	
Trustee waiver of shortfall amount payable	(141)	
Total Employer other contributions in respect of Scheme expenses		(141)
Contributions required by the Schedules of Contributions as Reported on by the Scheme auditor included in the Financial Statements (Note 4)		2,221

As a result of the Scheme being in surplus on a Technical Provisions basis, at 31 December 2017, with an allowance for expenses incorporated into the calculation of the liabilities, the additional contribution payment (or "top-up") in respect of Scheme expenses incurred, over a £600,0000 reference level, no longer applied.

During the year, the Trustee waived the payment of shortfall contributions payable to the Scheme as referred to on page 7.

The Employer has also met the cost of the PPF Levy directly.

Approved by the Trustee on 22 January **2020 and signed on its behalf by:**

.... **Trustee Director**

Independent Auditor's Statement about Contributions to the Trustee of the Hermes Group Pension Scheme

We have examined the summary of contributions payable under the Schedules of Contributions to the Hermes Group Pension Scheme in respect of the Scheme year ended 30 June 2019 which is set out on page 45.

In our opinion contributions for the Scheme year ended 30 June 2019, as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the actuary on 24 March 2016 and 29 November 2018.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the Schedule of Contributions.

Respective Responsibilities of the Trustee and the Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 16 the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustee, for our work, for this statement, or for the opinions we have formed.

Fang Fang Zhou
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square,
London, E14 5GL

Date: 23/1/20

Actuary's Certification of the Schedule of Contributions dated 29 November 2018

Actuary's certification of the schedule of contributions

Name of scheme: Hermes Group Pension Scheme

Adequacy of rates of contributions

1 I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions dated 29 November 2018 are such that the Statutory Funding Objective could have been expected on 31 December 2017 to continue to be met during the period for which the Schedule is in force.

2 I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the Statement of Funding Principles and any Recovery Plan.

Adherence to statement of funding principles

3 I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 29 November 2018.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature E J Palfreyman

Emma Palfreyman
Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited, a Willis Towers Watson Company
51 Lime Street
London
EC3M 7DQ

29 November 2018

Actuary's Certification of the Schedule of Contributions dated 24 March 2016

Actuary's certification of the schedule of contributions

Name of scheme: Hermes Group Pension Scheme

Adequacy of rates of contributions

1 I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 31 December 2014 to be met by the end of the period specified in the Recovery Plan.

2 I also certify that the rates of contributions shown in this schedule are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the Statement of Funding Principles and any Recovery Plan.

Adherence to statement of funding principles

3 I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 24 March 2016.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature E J Palfreyman Date 24/3/2016

Name: Emma Palfreyman

Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited
71 High Holborn
London
WC1V 6TP

24 March 2016

Appendix

Trustee Arrangements

1. The main provisions relating to the appointment and retirement of Trustee Directors are as follows:

- there is a minimum of five Trustee Directors, but a sixth Director may be appointed from time to time;
- two of the Directors are nominated by the principal employer, who can also remove them from office;
- two of the Directors are member-nominated Directors, elected by the active members, deferred pensioners and pensioners;
- member-nominated Directors can be removed from office by the principal employer, at the request of the members;
- in addition, there is a Chairman who is appointed by the principal employer after consultation with and the agreement of the member-nominated Directors;
- the principal employer fixes the Chairman's period of office;
- the Chairman can be removed from office as Trustee Director and Chairman by the principal employer and has to be so removed by the principal employer at the request of the member-nominated Directors; and
- the employer may from time to time appoint a sixth Trustee Director, who will be "independent", with the consent of the other five Directors. The sixth Director will not be a member of the Scheme, or an employee or ex-employee of any employer participating in the Scheme.

2. A Trustee Director's normal term of office is four years:

- a Trustee Director can be appointed for a second term giving a normal maximum period of eight years, unless the principal employer and the other Trustee Directors agree to a third term;
- a member-nominated Director who has completed a term of office will be required to seek re-election if he/she wishes to serve for a second or third term;
- the Chairman's term of office is normally three years with a normal maximum of two terms (i.e. six years), unless the principal employer and the other Trustees agree to a third term;
- for a Director who subsequently becomes Chairman, the term is limited to a normal maximum of eleven years unless the principal employer and other Trustee Directors agree to an extension;