

# **HERMES GROUP PENSION SCHEME**

## **Report and Financial Statements for the year ended 30 June 2020**

Scheme Registration No: 10243702



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

XPS Administration is a trading name of XPS Administration Limited  
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB.

**Part of XPS Pensions Group**

# HERMES GROUP PENSION SCHEME

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# HERMES GROUP PENSION SCHEME

## TRUSTEE AND ITS ADVISERS

<b>Trustee :</b>	Hermes Pension Trustees Limited
<b>Directors of the Trustee Company :</b>	PTL Governance Limited ("PTL") (represented by A Bostock) I A Kirby – Employer Nominated M A Simms – Employer Nominated A Ormrod – Member Nominated P Coe – Member Nominated (appointed 5 December 2019) D P Bradford – Member Nominated (resigned 16 August 2019)
<b>Chair of the Trustee :</b>	Alison Bostock
<b>Secretary to the Trustee :</b>	Inside Pensions Limited
<b>Principal Employer:</b>	BT Pension Scheme Trustees Limited
<b>Actuary :</b>	Mr A Stanley (appointed 18 October 2019) XPS Pensions Limited  Ms E Palfreyman (resigned 18 October 2019) Willis Towers Watson Limited
<b>Auditor :</b>	KPMG LLP
<b>Legal Advisers :</b>	Sackers & Partners LLP
<b>Bankers :</b>	Bank of Scotland Plc (From October 2019) National Westminster Bank Plc (Until February 2020)
<b>Investment Managers :</b>	Aegon Investment Management B.V. Barings GPC GP S.a.r.l Legal & General Investment Management Limited M&G Investment Management Limited Standard Life Aberdeen Plc  Disinvested in December 2019: Hermes Alternative Investment Management Limited
<b>AVC Provider :</b>	Prudential Assurance Company Limited
<b>Investment Adviser :</b>	Lane Clark & Peacock LLP
<b>Consultants &amp; Administrators :</b>	XPS Administration Limited (From 1 December 2019) Capita Employee Benefits Limited (Until 30 November 2019)

# HERMES GROUP PENSION SCHEME

## **CHAIR'S STATEMENT**

This report gives you an update on how the Scheme has progressed during the year ended 30 June 2020.

The total value of the Scheme's assets over the year moved from £252m at 30 June 2019 to £279m at 30 June 2020. The return on the Scheme assets over the year was around 10.3%. In the context of the COVID-19 pandemic and resulting market volatility from March 2020 onwards, the Trustee is pleased with the outcome and is reassured that the investment strategy is working well.

However, 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 is being undertaken as at 30 June 2020. Final results are not due until after the Annual Report & Accounts are produced but at the time of writing, preliminary results are being discussed with the Scheme Actuary and the Principal Employer.

A summary report on actuarial liabilities is included on pages 18 and 19.

The Trustee will continue to review its investment strategy and implement changes to incorporate further de-risking of the assets. A revised Statement of Investment Principles has been adopted to reflect changes made so far.

**Alison Bostock**

**Client Director, PTL**

Date:

15 December 2020

# HERMES GROUP PENSION SCHEME

## TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2020

The Trustee present to the members its annual report and financial statements for the year ended 30 June 2020.

### ***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.

### ***Scheme 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 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) ("BTPSTL") – by a Deed made on 16 September 1998.

With effect from 15 December 2017, BTPSTL 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 2020 is shown on page 2 of this report.

Two of the Directors, Ingrid Kirby and Matthew Simms, are nominated by the principal employer. At the year end two of the Directors were nominated by the Scheme membership. The chair is an independent appointment.

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.

### ***Change of Actuary***

During the year the Actuary changed from Ms E Palfreyman at Willis Towers Watson to Mr A Stanley at XPS Pensions Limited. Ms E Palfreyman confirmed to the Trustee that she knew of no circumstances connected with her resignation that significantly affected the interests of the members or prospective members of, or beneficiaries under, the Scheme.

### ***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 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 with Capita continuing to process the Pensioner payroll during December 2019.

# HERMES GROUP PENSION SCHEME

## TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2020 (continued)

### **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 sub-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 2020, 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 met to discuss investment strategy on 14 April 2020.

The Trustee Board, and all sub-committees are supported by a professional secretariat firm, Inside Pensions, for whom contact details are included on page 8 of this Annual Report. The Trustee Board monitors the performance of Inside Pensions regularly.

### **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 BTPSTL 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 £600,000 reference level, no longer applied.

Therefore there were no Contributions paid or payable during the Scheme year ended 30 June 2020.

### **Financial Development of the Scheme**

Changes in the Scheme's net assets during the year were as follows:

	£'000s
Net assets at 1 July 2019	251,746
Net withdrawals from dealings with members	(6,274)
Net returns on investments	<u>34,064</u>
Net assets at 30 June 2020	<u><u>279,536</u></u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

# HERMES GROUP PENSION SCHEME

## TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2020 (continued)

### Membership

The change in membership during the Scheme year ended 30 June 2020 was as follows:

	Employed deferred members*	Deferred	Pensioners	Totals
<b>At 30 June 2019</b>	39	367	187	593
Left employment	(3)	3	-	-
Transfers out	-	(5)	-	(5)
New retirement pensions	(1)	(7)	8	-
New dependants	-	-	1	1
Deaths	-	-	(1)	(1)
Contingent pension ceased	-	-	(1)	(1)
<b>At 30 June 2020</b>	<b>35</b>	<b>358</b>	<b>194</b>	<b>587</b>

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

At 30 June 2020, included within total 'Deferred' members above are 8 members (2019: 6 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.

# HERMES GROUP PENSION SCHEME

## TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2020 (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 1.7% from April 2020.

#### 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 2.4% from April 2020.

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 1.7% in the year to September 2019.

There were no discretionary increases awarded during the year.

### ***Transfer Values***

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.

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

### ***Benefit/Scheme Changes***

There were no changes made to benefits during the year.

### ***COVID-19***

From March 2020, COVID-19 caused significant disruption to economic activity which has been reflected in global stock market fluctuations and, in turn, in the valuation of pension scheme assets. The Trustee manages the risks associated with movements in investment market prices by constructing a diverse portfolio of investments across various asset classes and markets. It also employs hedging strategies specifically to manage interest risk, inflation risk and currency risk. Furthermore, the Trustee remains in frequent dialogue with their investment adviser to ensure that remedial action is taken if required.

The Trustee continues to monitor the impact of COVID-19 and discuss developments at each Trustee meeting. Furthermore, the Trustee invites a representative from the Employer to each meeting. The Trustee, as part of its ongoing governance, has considered the business continuity plans of its advisers and are comfortable that procedures and policies are in place to ensure that member queries are addressed in a timely manner and benefits continue to be processed in accordance with the Scheme's rules.

### ***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.



# HERMES GROUP PENSION SCHEME

## TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2020 (continued)

### **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>.

### **Enquiries**

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 AL1 3HZ

Tel: 01727 733150

Email: [hermes@insidepensions.com](mailto:hermes@insidepensions.com)

All individual member enquiries and individual benefit entitlements should contact the administrator:

Hermes Group Pension Scheme  
c/o XPS Administration Limited  
3rd Floor, West Wing  
40 Torphichen Street  
Edinburgh EH3 8JB

Tel: 0131 370 2601

Email: [HGPS@xpsgroup.com](mailto:HGPS@xpsgroup.com)

# HERMES GROUP PENSION SCHEME

## TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2020 (continued)

### **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 8 of this report.

### **Money & Pensions Service (MaPS)**

The MaPS is a new service which has been introduced in 2019 combining pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MaPS can be contacted at:

Money & Pensions Service  
Holborn Centre  
120 Holborn  
London EC1N 2TD

Tel: 0115 965 9570

Email: [contact@maps.org.uk](mailto:contact@maps.org.uk)

Website: [www.moneyandpensionservice.org.uk](http://www.moneyandpensionservice.org.uk)

### **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:

Pensions Ombudsman  
10 South Colonnade  
Canary Wharf  
London E14 4PU

Tel: 0800 917 4487

Early resolution email: [helpline@pensions-ombudsman.org.uk](mailto:helpline@pensions-ombudsman.org.uk)

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

# HERMES GROUP PENSION SCHEME

## TRUSTEE REPORT FOR THE YEAR ENDED 30 JUNE 2020 (continued)

### ***The Pensions Regulator (tPR)***

The Pensions Regulator can intervene if they consider that a Scheme's Trustee, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton BN1 4DW

Tel: 0345 600 0707

Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)

Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

### ***The Pension Scheme Registry***

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10243702. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton WV98 1LU

Tel: 0800 731 0193

Website: [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

# HERMES GROUP PENSION SCHEME

## INVESTMENT MANAGEMENT REPORT

### 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

Over the year under review, the investments of the Scheme were managed by Aegon Asset Management ("Aegon"), Barings U.K Limited ("Barings"), Hermes Alternative Investment Management Limited ("Hermes"), Legal & General Investment Management ("Legal & General"), M&G Investments ("M&G") and Standard Life Investments Limited ("Standard Life"). The Scheme fully disinvested from the Hermes Property Unit Trust fund in December 2019.

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.

### Investment Principles

#### ***Trustee's policies in relation to voting rights***

The Trustee recognises its responsibilities as an owner of capital, and believes that good stewardship practices, including monitoring and engaging with investee companies, and exercising voting rights attaching to investments, protect and enhance the long-term value of investments. The Trustee has delegated to its investment managers the exercise of rights attaching to investments, including voting rights, and engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, risks and ESG considerations.

The Trustee does not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the managers' general policies on stewardship, as provided to the Trustee from time to time, taking into account the long-term financial interests of the beneficiaries.

The Trustee seeks to appoint managers or select funds where there are strong stewardship policies and processes, reflecting where relevant the recommendations of the UK Stewardship Code issued by the Financial Reporting Council, and from time to time the Trustee reviews how these are implemented in practice. Furthermore, each of the Scheme's assets managers is a signatory of the United Nations Principles for Responsible Investment.

#### ***Trustee's policies on environmental, social and governance ("ESG") and ethical factors***

The Trustee has considered how environmental, social, governance ("ESG") and ethical factors should be considered in the selection, retention and realisation of investments, given the time horizon of the Scheme and its members.

The Trustee expects its active investment managers to take account of financially material considerations (including climate change and other ESG considerations) in the selection of investments. The Trustee seeks to appoint managers or select funds where there are appropriate skills and processes to do this, and from time to time reviews how its managers are taking account of these issues in practice.

The Trustee has limited influence over managers' investment practices where assets are held in pooled funds, but it encourages its managers to improve their practices where appropriate.

The Trustee does not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

# HERMES GROUP PENSION SCHEME

## INVESTMENT MANAGEMENT REPORT (continued)

### Statement of Investment Principles ("SIP")

In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been produced by the Trustee following consultation with the Employer. The SIP was reviewed and updated in June 2020. The Trustee reviews the SIP at least once every three years, and after any significant change in investment strategy. The Employer, the appointed Investment Consultant, and the appointed Scheme Actuary are consulted during the review.

Any member of the Scheme who would like a copy of the current SIP should contact the Scheme Secretary, at the address on page 8. A copy is also available on the HGPS website at <https://www.hermesgrouppensionscheme.co.uk/scheme-overview>

### Employer Related Investment

As at 30 June 2020 there were no Employer-related investments in the Scheme, within the meaning of Section 40(2) of the Pensions Act 1995.

### 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.

The underlying assets are held by a number of custodians who have agreements with the investment manager of the assets, these are:

Manager	Custodian
Aegon	Citi Depository Services (Ireland) Limited
Barings	Brown Brothers Harriman
Legal & General	UK assets are held with HSBC and all other assets are held with Citibank
M&G	State Street Fund Services (Ireland) Limited
Standard Life	Citibank NA London Branch

There is no direct relationship between the custodians and the Trustee.

# HERMES GROUP PENSION SCHEME

## INVESTMENT MANAGEMENT REPORT (continued)

### Investment Strategy

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

The type of underlying assets and the individual funds are listed below:

Asset class	Allocation as at 30 June 2020 (%)	Strategic allocation (%)
Global equity (passive)	8.5	10.0
Property (active)	8.0	7.5
Diversified credit	12.8	15.0
Buy & maintain credit	16.4	17.5
LDI (passive)	53.8	50.0
Cash	0.5	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Fund	Asset class	Allocation as at 30 June 2020 (£'000)	Allocation as at 30 June 2019 (£'000)
Barings Capital – Euro Private Loan Fund II	Diversified credit	6,977	4,719
M&G – Illiquid Credit	Diversified credit	8,369	12,152
Aegon – European ABS	Diversified credit	20,504	20,543
Standard Life – Long Lease Property	Property (active)	22,254	7,878
Hermes – Property Unit Trust	Property (active)	-	14,389
Legal & General – FTSE RAFI	Global equity (passive)	2,836	3,042
Legal & General – FTSE RAFI Hedged	Global equity (passive)	8,918	9,203
Legal & General – LDI portfolio	LDI (passive)	150,536	128,061
Legal & General – Buy & Maintain Credit	Buy & maintain credit 2020-2024	14,814	15,432
Legal & General – Buy & Maintain Credit	Buy & maintain credit 2025-2029	31,086	20,346
Legal & General – World Developed Equity	Global equity (passive)	3,018	3,028
Legal & General – World Developed Equity Hedged	Global equity (passive)	8,952	9,194
<b>Total</b>		<b>278,264</b>	<b>247,987</b>

# HERMES GROUP PENSION SCHEME

## INVESTMENT MANAGEMENT REPORT (continued)

### Investment Strategy (continued)

The Trustee, with the help of its advisers and in consultation with the Principal Employer, reviewed and modified the overall investment strategy in 2018/19.

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

The Trustee has agreed that the Scheme should hedge 90% of the interest rate risk and 80% of the inflation risk inherent in the Scheme's liabilities (as measured on a gilts flat liability basis).

There is no formal rebalancing policy; however the Trustee monitors the asset allocation on at least a quarterly basis. If material deviations from the strategic allocation occur as a result of market movements, the Trustee will consider with its advisers whether it is appropriate to rebalance the assets considering factors such as market conditions and anticipated future cash flows. It should be noted that the need to maintain the liability hedging strategy can mean that the asset mix is not always rebalanced back to the percentages shown above.

While the Trustee did not carry out a review of the overall investment strategy over the year ended 30 June 2020, it did make the following changes to the investments:

- 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 December 2019. The majority of the proceeds were subsequently invested in the existing long-lease property fund held with Standard Life, reflecting the strategic decision to move assets from core property to long-lease property.
- The Scheme's investment strategy was updated in April 2020 to increase the Buy & Maintain Credit strategic allocation by 2.5% and decrease the Property strategic allocation by 2.5%. This reflected:
  - The difficulties in rebalancing the property allocation to 10% as liquidity diminished in this asset class;
  - The long-term direction of the investment strategy (increasing the allocation to corporate bonds to reduce risk and meet the Scheme's cashflow requirements); and
  - Market conditions presenting an attractive entry point to increase the Buy & Maintain Credit allocation
- The Trustee biased the Scheme's inflation hedge pre-2030 (c100% pre-2030, c72% post-2030) to reflect the risk of longer-dated index-linked gilts falling in value due to proposed reforms to the calculation of the RPI index post-2030 (particularly acute for the hedge of the Scheme's CPI-linked liabilities which would not be impacted by the reforms).

While the Scheme's allocation has drifted from the strategic benchmark slightly at the end of the year, the Trustee decided to defer any further rebalancing until the results of the upcoming Actuarial Valuation are known. Otherwise, the only other significant departures from the Statement of Investment Principles over the year to 30 June 2020 were temporary departures necessary as part of the asset transitions to make the strategic changes outlined above.

### 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.

# HERMES GROUP PENSION SCHEME

## INVESTMENT MANAGEMENT REPORT (continued)

### Investment Performance (continued)

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

Annual Rate of Return (%)	Year to 31 Dec 2016	Year to 31 Dec 2017	Year to 31 Dec 2018	Six months to 30 June 2019	Year to 30 June 2020	1.1.2016 to 30.6.2020 Annualised
<b>HGPS</b>	24.3	11.0	(2.1)	11.4	13.4	12.6
Benchmark	23.2	8.3	0.2	10.7	14.3	12.4
HGPS out/(under) performance of benchmark	1.1	2.7	(2.3)	0.7	(0.9)	0.2

Source: Investment managers. LCP calculations.

The Scheme's assets underperformed relative to benchmark over the year: this was predominantly driven by a number of managers underperforming "cash plus" or static objectives (the Barings Capital Euro Private Loan Fund II, the Aegon European ABS fund and M&G Illiquid Credit fund). These managers are not expected to meet these objectives in periods where markets fall, such as the conditions seen in Q1 2020.

### Economic and market background

#### Economic overview

Slightly weaker global growth had been in evidence for much of the second half of 2019, driven by trade tensions (most notably between the US and China), geopolitical concerns, and weak manufacturing activity. That worsened significantly in early 2020, as a lethal coronavirus (SARS-CoV-2, first spotted in Wuhan, China) quickly spread across the globe. In attempts to contain the virus and protect healthcare systems, many countries imposed strict quarantine measures. With flights grounded, borders closed, and factories shut, both supply and demand collapsed across multiple industries and sectors, with both deep and likely long-lasting consequences for the global economy.

In response to the rapidly escalating crisis, major central banks, including the US Federal Reserve and the ECB, reverted to an extremely accommodative monetary stance, reducing interest rates and restarting, or expanding, Quantitative Easing programmes in attempt to cushion the effects of the pandemic. Governments also unleashed unprecedented fiscal stimulus packages; initiatives worth around \$10tn were announced in just the first two months of the pandemic. That is three times more than the fiscal response to the Global Financial Crisis of 2009.

In the UK, the Bank of England also eased monetary policy, cutting rates twice during March 2020, to leave the base rate at 0.1%, its lowest level in history, while also offering unlimited short-term financing for large companies. On the fiscal side, Chancellor Rishi Sunak announced several measures, including paying 80% of wages for furloughed employees, offering tax and business rate holidays, as well as making available £330bn in business loan guarantees.

Whilst Prime Minister Boris Johnson's decisive December general election Conservative victory appeared to cut the risk of a No-Deal Brexit outcome, the coronavirus outbreak temporarily pushed EU-UK trade negotiations off centre stage. Conversations have since recommenced, but progress towards an agreement appears slow. The UK's transition period out of the EU is due to end on 31 December 2020 with the deadline for extension having passed in June 2020.



# HERMES GROUP PENSION SCHEME

## INVESTMENT MANAGEMENT REPORT (continued)

### Economic and market background (continued)

#### **Equities**

Over the year, the Scheme's equity portfolio returned -3.0%, outperforming its benchmark by 0.1%.

Developed market equities performed strongly over the second half of 2019, reflecting investors' response to relatively easy monetary conditions. However, that all changed in the first quarter of 2020. With many countries putting large parts of their economic infrastructure into "deep freeze" in an attempt to slow the virus' spread, developed market equities posted one of their worst ever quarters. However, despite the slump in global output, developed market equities rebounded strongly over Q2 2020 on the back of the unprecedented government and central bank policy support.

During the year, the US stock market passed a significant milestone as it marked the country's longest ever equity market rise, with key indices such as the S&P 500 and Dow Jones posting record highs. The reversal was brutal and sharp; both indices recorded their worst ever falls over the three months to March, dropping by 20% and 23% respectively. But it was also brief – over the following three months, the S&P 500 jumped more than 20%, its largest quarterly gain since 1998, while the Dow Jones gained 18%, its best quarterly return since 1987.

Other regional equity markets also performed strongly during the first half of the year to 30 June 2020, with Eurozone equities the best of the rest, buoyed by renewed European Central Bank stimulus. As the pandemic's epicentre shifted quickly in early 2020 from China to countries such as Italy, Spain and France, the performance of those markets mirrored that of the US; a violent drop in February and March, followed by a very sharp rally in the second quarter.

While somewhat behind their US and European counterparts, UK equities enjoyed a strong second half to 2019. This performance clearly rested in part on the arguably market friendly result of December's general election, which was seen by investors, at least at the time, as reducing the risk of a No-Deal Brexit. UK equities were though among the hardest hit in the three months to March 2020 with the FTSE 100 posting its worst quarterly performance since 1987. Whilst the FTSE 100 rallied over Q2 2020, it lagged many major equity market indices, in part due to its high allocation to energy companies, which underperformed due to the short-term crash in the oil price and possibly, because of longer-term concerns over the viability of their business model.

Over the year to 30 June 2020, Sterling fell against most major currencies, including the Euro, the US Dollar and Japanese Yen, which each benefitted from perceived safe haven status, especially in the early stages of the pandemic. Depending on the market in question, Sterling's weakness added anything between c1% and c3% to unhedged returns.

#### **LDI**

Over the year, the Scheme's LDI portfolio returned 25.8%.

The second half of 2019 proved positive for bonds, given the Bank of England's decision to maintain the base rate at 0.75% on the back of Brexit-induced uncertainty. This, coupled with falling global growth expectations and continued high demand from risk-averse investors for safe haven assets, caused both nominal and inflation-linked gilt yields as well as corporate bond yields to fall and consequently prices to rise. Yields did though rise in November and December, reflecting improved investor confidence in the outlook for the UK as well as an expectation of broader economic benefits on the back of the slight easing of global trade tensions.

However, as the coronavirus took hold in the UK in early 2020, the outlook changed dramatically. In response to the developing economic crisis, the Bank of England cut rates twice in March, leaving the base rate at 0.1%, pledged unlimited short-term financing for large companies and expanded its Quantitative Easing programme by an additional £300bn in purchases of gilts and investment-grade corporate bonds. These measures, coupled with an increased appetite for defensive assets, saw sovereign bond yields fall (and therefore prices rise) sharply over the first half of 2020.

Despite a spike in credit spreads during Q1 2020 Sterling corporate bonds performed strongly. Performance was driven by the fall in government bond yields and a recovery in credit spreads over Q2 2020, aided by the Bank of England's inclusion of corporate debt in its bond-purchasing programme.

## INVESTMENT MANAGEMENT REPORT (continued)

### Economic and market background (continued)

#### **Credit**

Over the year, the Scheme's buy and maintain credit portfolio returned 4.4%. The Scheme's investment in the Aegon ABS fund returned -0.2% over the year to 30 June 2020, underperforming its benchmark by 2.9%. The Scheme's investment in the Barings European Private Loan Fund II returned -0.8% over the year to 30 June 2020, underperforming its objective by 6.5%. The Scheme's investment in the M&G Illiquid Credit Opportunities Fund returned -0.9% over the year to 30 June 2020, underperforming its objective by 6.7%.

During the early part of the period, global bond yields fell, as investors bought heavily into the asset class in response to relatively benign economic conditions, with slowing but positive global growth. Central bank monetary easing also helped, particularly the three interest rate cuts delivered by the US Federal Reserve over August to October. In late 2019, there was a partial sell-off in safer assets, including global government bonds, following an improvement in growth expectations and reduced global trade tensions.

At the start of 2020, as the coronavirus pandemic took hold and economic growth across much of the world nosedived, global central banks embarked on further significant monetary policy loosening. Notably, the US Federal Reserve cut interest rates twice in March and set the benchmark interest rate close to zero. In response, government bond yields fell to historic lows but did experience a mid-March period of extreme volatility as cash-hungry investors panic-sold any liquid assets to hand.

Corporate bond credit spreads and yields, which are inversely related to prices, rose considerably over the first few months of 2020, especially in those sectors more vulnerable to government response to the pandemic, such as travel, retail and autos. A number of high-profile companies including Ford and Kraft Heinz saw their credit rating drop to sub-investment grade status. Nonetheless, the three months to 30 June 2020 saw a sharp rebound in investment sentiment, primarily fuelled by unprecedented monetary stimulus; this resulted in credit spreads narrowing over the period.

#### **Property**

Over the year, the Scheme's investment in the Standard Life Long Lease Property Fund returned 4.7%, underperforming its gilts-based objective by 8.5%. Although the performance of this Fund was reasonable it struggled to keep based with its gilts-based objective as gilts rallied significantly. The fund outperformed the wider UK property market.

At the aggregate level, UK property generated negative returns over the year to 30 June 2020. For the second half of 2019, UK property posted modest gains, with rental income offsetting the falls in capital values seen in some sectors. The dispersion of performance across sectors was high. While retail struggled, with shopping centre and high street valuations falling, industrial property strengthened further. Investor and occupier demand for assets supporting logistics and storage remained high.

With the onset of the coronavirus outbreak in the second half of the period, the number of transactions fell sharply, with many independent valuers unable to physically carry out due diligence property reviews given the social distancing measures enforced by government. The retail and leisure sectors were the most heavily affected as many businesses were forced to cease trading when lockdown began.

Given that valuers were unable in many cases to provide reliable valuations, a large number of funds suspended trading. Property managers expect funds to remain suspended until the market returns to "normal" although what that might mean remains unclear. Leasing activity slowed dramatically, with tenants reluctant to commit to new lease terms given the huge level of economic uncertainty.

# HERMES GROUP PENSION SCHEME

## 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.

**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.

# HERMES GROUP PENSION SCHEME

## REPORT ON ACTUARIAL LIABILITIES (continued)

### 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 actuarial annual update reports as at 31 December 2018 and 30 June 2019. These reports are not as precise and detailed as the 2017 report. The 2019 report shows that the funding position had increased by £3.9m from a surplus of £19.2m at 31 December 2017 to a surplus of £23.1m at 30 June 2019, with assets valued at £251.7m and liabilities valued at £228.6m. The change in funding position was due to investment returns being higher than assumed and deficit reduction contributions paid to the Scheme, offset to a certain extent by changes in financial market conditions increasing the value placed on the Scheme's liabilities.

# HERMES GROUP PENSION SCHEME

## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

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 it either intends to wind up the Scheme, or has 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 it 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 Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for 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, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it 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.

### Approval

The Trustee's Report, which includes the Investment Management Report, the Report on Actuarial Liabilities and the Statement of Trustee's Responsibilities, was approved by the Trustee on:

15 December 2020 ..... date

.....  
**Trustee Director**

# HERMES GROUP PENSION SCHEME

## 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 2020 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 2020 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.

### 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").

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, 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 Chair's Statement, the Implementation 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.

# HERMES GROUP PENSION SCHEME

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME (Continued)

### Responsibilities of the Trustee

As explained more fully in its statement set out on page 20, 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](http://www.frc.org.uk/auditorsresponsibilities).

### 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.

**Gemma Broom**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square,  
London E14 5GL

Date 15 December 2020

# HERMES GROUP PENSION SCHEME

## FUND ACCOUNT

For the year ended 30 June 2020

	Note	2020 £'000s	2019 £'000s
<b>CONTRIBUTIONS AND BENEFITS</b>			
Employer contributions	4	-	2,221
Transfers in	5	256	-
Other income		1	-
		<u>257</u>	<u>-</u>
Benefits paid or payable	6	(4,169)	(3,749)
Payments to and on account of leavers	7	(1,879)	(1,351)
Administrative expenses	8	(483)	(662)
		<u>(6,531)</u>	<u>(5,762)</u>
<b>NET (WITHDRAWALS) FROM DEALINGS WITH MEMBERS</b>		<u>(6,274)</u>	<u>(3,541)</u>
<b>RETURNS ON INVESTMENTS</b>			
Investment income	9	4,823	999
Change in market value of investments	11	29,532	20,243
Investment management expenses	10	(291)	(263)
<b>NET RETURNS ON INVESTMENTS</b>		<u>34,064</u>	<u>20,979</u>
<b>NET INCREASE IN THE FUND FOR THE YEAR</b>		27,790	17,438
<b>OPENING NET ASSETS</b>		<u>251,746</u>	<u>234,308</u>
<b>CLOSING NET ASSETS</b>		<u><u>279,536</u></u>	<u><u>251,746</u></u>

The notes on pages 25 to 39 form part of these financial statements.



# HERMES GROUP PENSION SCHEME

## STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 30 June 2020

	Note	2020 £'000s	2019 £'000s
<b>INVESTMENT ASSETS</b>	11		
Pooled investment vehicles	12	278,264	247,987
AVC investments	14	9	9
Other investment balances		-	120
<b>TOTAL NET INVESTMENTS</b>		<u>278,273</u>	<u>248,116</u>
<b>CURRENT ASSETS</b>	19	1,438	3,858
<b>CURRENT LIABILITIES</b>	20	(175)	(228)
<b>CLOSING NET ASSETS</b>		<u><u>279,536</u></u>	<u><u>251,746</u></u>

The accompanying notes on pages 25 to 39 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 18 and 19 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 15 December 2020**  
**and signed on its behalf by: .....** **2020**

.....  
**Trustee Director**

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

### 1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions 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 issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to meet obligations as they fall due for at least the next twelve months from the approval of these financial statements. In reaching this conclusion, the Trustee considered the impact of the COVID-19 outbreak on the Scheme and on the Principal Employer, BT Pension Scheme Trustees Limited. Under the rules of the BT Pension Scheme, BT Pension Scheme Trustees Limited are entitled to take from the assets of the BT Pension Scheme all liabilities and expenses incurred by them in their capacity as Principal Employer of the Scheme. Consequently, the funding obligations of the BT Pension Trustees as Principal Employer of the Scheme is effectively underwritten by the assets of the BT Pension Scheme which are currently £57,493 million. Based on its assessment the Trustee is confident that the Scheme will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements and therefore, have prepared the financial statements on a going concern basis.

### 2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The address of the principal employer for the Scheme, BT Pension Scheme Trustees Limited, is: One America Square, 17 Crosswall, London EC3N 2LB England.

The address for general enquiries to the Scheme is: The Secretary of the Hermes Group Pension Scheme, Inside Pensions, 42-48 Victoria Street, St Albans, AL1 3HZ.

The address for member enquiries to the Scheme is: Hermes Group Pension Scheme, c/o XPS Administration Limited, 3rd Floor, West Wing, 40 Torphichen Street, Edinburgh, EH3 8JB.

The Scheme is a defined benefit pension scheme which closed to future accrual on 31 October 2011. The Scheme's 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.

### 3. ACCOUNTING POLICIES

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

#### (a) Accounting Convention

The financial statements are prepared on an accruals basis.

#### (b) 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 additional contributions are accounted for when received, or when a formal agreement is made, whichever is earlier.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

**(c) Payments to Members**

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

Benefits are accounted for in the period in which the member notifies the Trustee of their 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.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits this is shown separately within benefits.

**(d) Expenses**

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration.

**(e) Investment Income**

Income from pooled investment vehicles, which distribute income, is accounted for when declared by the fund manager.

Income from pooled investment vehicles which is reinvested within the funds and arising on the underlying investments of accumulation funds (which is therefore not directly paid to the Scheme) is reflected within the change in market value.

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

**(f) Investments**

Investments are included at fair value as follows:

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The Standard Life Long Lease Property fund had suspended trading at the year end with the valuation provided having material valuation uncertainty attached to it due to the COVID-19 pandemic.

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.

**(g) Presentation Currency**

The Scheme's 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.

**(h) Critical accounting estimates and judgements**

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

<b>4. CONTRIBUTIONS</b>	2020 £'000s	2019 £'000s
<b>Employer Contributions</b>		
Deficit funding	-	2,083
Other - expenses	-	313
Trustee waiver of Other – expenses (“Shortfall”) - 2019	-	(34)
Trustee waiver of Other – expenses (“Shortfall”) - 2018	-	(141)
	<u>-</u>	<u>2,221</u>
<p>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.</p> <p>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 plus £50,000 per month towards Scheme administrative expenditure.</p>		
<b>5. TRANSFERS IN</b>	2020 £'000s	2019 £'000s
Individual transfers in from other schemes	<u>256</u>	<u>-</u>
<p>The transfer in benefits above relate to transfers in from the Hermes Group Stakeholder Pension Plan. More information on this can be seen on page 7 under Transfer Values.</p>		
<b>6. BENEFITS PAID OR PAYABLE</b>	2020 £'000s	2019 £'000s
Pensions	3,645	3,461
Commutation of pensions and lump sum retirement benefits	523	288
Taxation where lifetime or annual allowance exceeded	1	-
	<u>4,169</u>	<u>3,749</u>
<b>7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS</b>	2020 £'000s	2019 £'000s
Individual transfers out to other schemes	1,861	1,350
State Scheme Premiums	18	1
	<u>1,879</u>	<u>1,351</u>
<b>8. ADMINISTRATIVE EXPENSES</b>	2020 £'000s	2019 £'000s
Administration	92	83
Actuarial fees	72	153
Legal fees	2	40
Trustee Director fees & expenses	60	74
Secretarial fees	83	108
Investment advice	130	190
Liability insurance	22	-
Audit fees	22	14
	<u>483</u>	<u>662</u>

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 8. ADMINISTRATIVE EXPENSES (continued)

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

	2020 £'000s	2019 £'000s
I A Kirby	8	8
A Ormrod	8	8
M Simms	8	8
P Coe	4	-
D P Bradford	1	8
PTL Governance Limited	31	38
	<u>60</u>	<u>70</u>

### 9. INVESTMENT INCOME

	2020 £'000s	2019 £'000s
Income from pooled investment vehicles	4,808	995
Interest on cash deposits	15	4
	<u>4,823</u>	<u>999</u>

The increase in the income from pooled investment vehicles is due to a substantial increase in the bi-annual income received from the M&G Illiquid Credit Opportunities Fund.

### 10. INVESTMENT MANAGEMENT EXPENSES

	2020 £'000s	2019 £'000s
Administration, management & custody	269	284
Brokerage fees	28	-
Fee & unit rebates	(6)	(21)
	<u>291</u>	<u>263</u>

£27,986 was paid to CBRE Property Match in brokerage fees for arranging the sale of the Hermes Property Unit Trust on the secondary market and additional purchases in the Standard Life Long Lease Property fund, also on the secondary market. By using a broker to access the secondary market for property funds, the Scheme achieved attractive pricing, more certain pricing and swifter transactions (relative to making direct unit redemptions / subscriptions with the asset managers).

### 11. RECONCILIATION OF INVESTMENTS

	Market Value at 01.07.2019 £'000s	Purchases at cost £'000s	Sales proceeds £'000s	Change in market value £'000s	Market Value at 30.06.2020 £'000s
Pooled investment vehicles	247,987	27,447	(26,702)	29,532	278,264
AVC investments	9	-	-	-	9
	<u>247,996</u>	<u>27,447</u>	<u>(26,702)</u>	<u>29,532</u>	<u>278,273</u>
Other investment balances	120				-
	<u>248,116</u>				<u>278,273</u>

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 11. RECONCILIATION OF INVESTMENTS (continued)

Other investment balances at 2019, related to quarterly accrued dividends which were receivable in respect of the Scheme's previous holding in the Hermes Property Unit Trust.

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. Direct transaction costs include costs charged to the scheme such as fees, commissions and stamp duty. There are no separately identifiable direct costs incurred.

Indirect costs incurred on the underlying securities held within the Legal & General QIAIF were 0% of the average holding value during the year (2019: 0.49%).

### 12. POOLED INVESTMENT VEHICLES

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

	2020 £'000	2019 £'000
Equity	23,724	24,467
Property	22,254	22,267
Illiquid credit	8,369	12,152
LDI	150,536	128,061
Buy and maintain credit	45,900	35,778
Private loans	6,977	4,719
Asset backed securities	20,504	20,543
	<u>278,264</u>	<u>247,987</u>

The LDI holding relates to a Qualifying Instruction Alternative Investment Fund (QIAIF) pooled fund held with Legal & General, where the Scheme is the sole investor in the fund. Further details are provided in note 13.

### 13. 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:

	2020 £'000	2019 £'000
Bonds	220,589	111,295
Repurchase agreements	(78,217)	10,109
Swaps	(1,288)	6,359
Cash deposits	9,500	315
	<u>150,584</u>	<u>128,078</u>

The valuation of the underlying assets above of £150,584,256 differs from the unitised valuation of £150,536,262 reported in note 12, due to the unitised valuation reflecting trade settlements up to and including the weekly unitised valuation date of 1 July 2020.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 13. SOLE INVESTOR FUND (continued)

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

- 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 2020, the optimal required collateral balance for derivatives was £19,380,000 (2019: £23,670,000) and the eligible and available collateral was £131,460,785 (2019: £110,416,950).

### 14. 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:

The Trustee holds assets invested separately from the main fund investments to secure additional benefits on a money purchase basis for those members who elected to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to up to 31 December confirming the value of their fund and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2020	2019
	£'000	£'000
Prudential Assurance Company Limited – with profits	<u>9</u>	<u>9</u>

### 15. FAIR VALUE DETERMINATION OF INVESTMENTS

The fair value of financial instruments has been estimated 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 (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 15. FAIR VALUE DETERMINATION OF INVESTMENTS (continued)

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	At 30 June 2020			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
AEGON – European ABS	-	20,504	-	20,504
Barings Capital – Euro Private Loan Fund	-	-	6,977	6,977
Legal & General – FTSE RAFI	-	2,836	-	2,836
Legal & General – FTSE RAFI Hedged	-	8,918	-	8,918
Legal & General – QIAIF	-	150,536	-	150,536
Legal & General – Buy & Maintain Credit	-	45,900	-	45,900
Legal & General – World Developed Equity	-	3,018	-	3,018
Legal & General – World Developed Equity Hedged	-	8,952	-	8,952
M&G – Illiquid Credit	-	-	8,369	8,369
Standard Life – Long Lease Property	-	-	22,254	22,254
<b>Total Pooled Investment Vehicles</b>	-	<b>240,664</b>	<b>37,600</b>	<b>278,264</b>
<b>AVC Investments</b>	-	-	<b>9</b>	<b>9</b>
	-	<b>240,664</b>	<b>37,609</b>	<b>278,273</b>

	At 30 June 2019			
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
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
<b>Total Pooled Investment Vehicles</b>	-	<b>216,727</b>	<b>31,260</b>	<b>247,987</b>
<b>AVC Investments</b>	-	-	<b>9</b>	<b>9</b>
<b>Other Investment Balances</b>	<b>120</b>	-	-	<b>120</b>
	<b>120</b>	<b>216,727</b>	<b>31,269</b>	<b>248,116</b>

Note: Standard Life took the decision to defer redemptions, switches and subscriptions in the Long Lease Property fund from 1:00pm 18 March 2020 as a result of the market disruption being caused by COVID-19. The funds' Independent Valuers informed Standard Life of material uncertainty around the valuation of UK physical property and to protect the interests of all investors in the fund, the fund was suspended. As a result the fund has been moved to Level 3 as at the 30 June 2020.



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 16. INVESTMENT RISK 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.

The strategy at 30 June 2020 was to hold:

- 67.5% 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 (17.5% 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).
- 32.5% 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.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 16. INVESTMENT RISK DISCLOSURES (continued)

#### Risk Exposures

Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the Scheme's investment managers. The Trustee monitors the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions, on a regular basis.

The table below summarises the Scheme's investments that have significant exposure to indirect credit and market risks.

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

Key: The risk noted affects the fund significantly (●), partially (P) or hardly / not at all (○).

Further information on these risks and the Trustee's approach to risk management is set out below. This does not include AVCs, as these are not considered significant in relation to the overall investments of the Scheme.

#### 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. It is directly exposed to credit risk in relation to the solvency of the custodians of those funds.

The role of a custodian is to ensure the safe-keeping of the assets and facilitate all transactions entered into by the appointed investment managers. The Trustee is not responsible for the appointment of the custodian of the assets contained within the various pooled fund investments. The pooled investment vehicle's governing body is responsible for appointing its own custodian for the safe-keeping, monitoring and reconciliation of documentation relating to these securities.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 16. INVESTMENT RISK DISCLOSURES (continued)

#### Credit Risk (continued)

The Scheme's holdings in pooled investment vehicles are 'unrated' from a credit perspective. Direct credit risk arising from pooled investment vehicles is mitigated by: the underlying assets of the pooled arrangements being ring-fenced from the assets of the custodian and the investment manager; the regulatory environments in which the pooled fund managers operate; and diversification of the Scheme's investments across a number of pooled funds. The Trustee carries out due diligence checks on investments into new pooled funds and on an ongoing basis monitors any changes to the operating environment of those pooled funds. The Trustee also carries out due diligence checks on new appointments of investment managers and custodians for segregated accounts and on an ongoing basis monitors any changes to the operating environment of these entities.

The Scheme is indirectly exposed to credit risks arising from the underlying investments held by the pooled funds, for example where they invest in bonds. The amount invested in each of these mandates is shown in the Statement of Net Assets.

The managers of these pooled funds manage credit risk by having a diversified exposure to bond issuers, conducting thorough research on the probability of default of those issuers, and having only a limited exposure to bonds rated below investment grade. The magnitude of credit risk within each fund will vary over time, as the manager changes the underlying investments in line with its views on markets, asset classes and specific bonds.

Within the LDI portfolio, there is exposure to credit risk as the LDI portfolio manager uses derivative instruments to match the Scheme's liabilities. The terms under which the LDI portfolio is managed include provisions to manage the exposure to credit risk, such as limits on the exposure to any single counterparty and minimum credit ratings that all counterparties must meet. In addition, the derivative positions are collateralised daily so as to aim to limit credit risk to one day's market movements.

Indirect credit risk arises in relation to underlying investments held in the property pooled investment vehicles. The property funds are exposed to the credit risk relating to the underlying tenants. This risk is mitigated by holding a diverse portfolio of investments with exposure to a range of properties and tenants.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being 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.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2020	2019
	£'000	£'000
Irish Collective Asset Management Vehicle	20,504	20,543
Qualifying Investor Alternative Investment Fund	6,977	4,719
Unit-linked insurance funds	242,414	196,184
Irish Qualifying Investor Alternative Investment Fund	8,369	12,152
Unit Trust		14,389
<b>Total</b>	<b>278,264</b>	<b>247,987</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 16. INVESTMENT RISK DISCLOSURES (continued)

#### Currency risk

As the Scheme's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents additional currency risk.

Whilst the majority of the currency exposure of the Scheme's assets is to Sterling, the Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustee considers the overseas currency exposure in the context of the overall investment strategy, and believes that the currency exposure that exists diversifies the strategy and is appropriate. Furthermore, the Trustee manages the amount of currency risk by investing in pooled funds that hedge some or all of their currency exposure, or implement separate currency hedging arrangements.

All of the Scheme's pooled funds are accessed via a Sterling share class. Therefore the Scheme is not subject to direct currency risk.

In order to mitigate indirect currency risk exposure, the Trustee has implemented a 75% currency hedge on global equities. The rest of the Scheme's assets are only invested in Sterling investments, Sterling hedged overseas investments or mandates with minimal exposure to overseas investments.

The diversified credit managers hedge currency risk in their mandates.

#### Interest Rate and Inflation Rate Risk

Interest rate risk and inflation risk is a significant risk for the Scheme given that movements in interest rates and inflation are a significant influence on the value of the liabilities assessed in present day terms. Some of the Scheme's assets are subject to interest rate risk (both nominal and real interest rates). However, the overall interest rate exposure of the Scheme's assets hedges part of the corresponding risks associated with the Scheme's liabilities. The net effect will be to reduce the volatility of the funding level, and therefore the Trustee believes that it is appropriate to have exposure to interest rate risk in this manner.

The only assets the Scheme invests in with material exposure to changes in interest rates are the Scheme's LDI and Buy and Maintain Credit portfolios. The diversified credit mandates have some sensitivity to changing interest rates, but this sensitivity will vary over time as the underlying investments change, and it is not expected to be a significant driver of returns due to the investment approaches of these funds. The amount invested in each of these mandates is shown in the Statement of Net Assets.

#### Other Price Risk

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

The Trustee monitors this risk on a regular basis, looking at the performance of the Scheme as a whole as well as each individual portfolio. The Trustee believes that the Scheme's assets are adequately diversified between different asset classes and within each asset class to manage this risk.

The exposure to other price risk within the property mandate will vary over time depending on how the managers change the underlying asset allocation to reflect their market views.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 17. INVESTMENT RISK 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. In addition, the risk is also mitigated by transacting with counterparties which are at least investment grade credit rated.

Direct credit risk on the Liquidity Fund is mitigated by the underlying assets 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 2020 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 Scheme's liabilities as a result of a rise in the discount rate. These offsetting risks result in a reduction in funding level volatility.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 17. INVESTMENT RISK DISCLOSURES – SOLE INVESTOR FUND (continued)

#### 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 1.9 times as at 30 June 2020.

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).

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.

### 18. CONCENTRATION OF INVESTMENTS

The following investments, with the exception of UK government securities, represented over 5% of the net assets of the Scheme:

	2020		2019	
	£'000	%	£'000	%
Legal & General QIAIF*	150,536	53.9%	128,061	50.9%
Legal & General Buy & Maintain Credit 2025-29	31,086	11.1%	20,346	8.1%
Standard Life Long Lease Property S1	22,254	8.0%	n/a	<5%
AEGON European ABS	20,504	7.3%	20,543	8.2%
Legal & General Buy & Maintain Credit 2020-24	14,814	5.3%	15,432	6.1%
Hermes Property Unit Trust	-	-	14,389	5.7%

\*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:

Legal & General Liquidity Fund	n/a	<5%	12,853	5.1%
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### 19. CURRENT ASSETS

	2020	2019
	£'000s	£'000s
Bank balance	1,420	3,831
Vat recoverable	18	-
Other debtors	-	27
	<u>1,438</u>	<u>3,858</u>

Following the implementation of the 2018 SORP, the Vat recoverable is deducted from the administrative expenses accordingly and the balance receivable is shown in current assets above.

# HERMES GROUP PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

<b>20. CURRENT LIABILITIES</b>	2020 £'000s	2019 £'000s
Accrued expenses	102	158
Tax payable - PAYE	67	64
Due to employer	6	6
	<u>175</u>	<u>228</u>

The amounts due to the employer above are due to BT Pension Scheme Management Limited for Trustee Director Fees.

## 21. RELATED PARTIES

PTL Governance Limited, represented by Alison Bostock in the role of Independent Chair, earned fees, exclusive of VAT, of £31,287 (2019: £38,000) for services to the Scheme as disclosed in note 8. There were no amounts payable at the year end (2019: £14,778).

The Trustee Director fees were recharged to the Scheme by BT Pension Scheme Management Limited (BTPSM) and fees of £21,162 (2019: £24,000) were recharged during the year. Of this amount, £6,030 (2019: £6,000) was payable at the year end date, as disclosed in note 20, and was settled by the Scheme in July 2020. This recharging arrangement was in operation for three of the Trustee Directors as at year end. One other Trustee Director invoices the Scheme directly, their fees during the year were £8,000 (2019: £8,000), of this amount £2,000 (2019: £2,000) was payable at the year end and was settled by the Scheme in July 2020.

During the year, the Scheme held investments, on an arm's length basis with Hermes Alternative Investment Management Limited and at the year end the balance held was £Nil (2019: £14.4m).

BT Pension Scheme 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. TAXATION STATUS

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

## 23. EMPLOYER RELATED INVESTMENTS

There have been no employer related investments during the year.

## 24. CONTINGENT LIABILITIES

At 30 June 2020 in the opinion of the Trustee, the Scheme had no contingent liabilities other than to pay future pensions as they fall due.

## 25. CAPITAL COMMITMENTS

At 30 June 2020, there was a capital commitment of £3,850,000 (2019: £6,526,968) to be called for the Barings European Private Loan Fund of the total £11,000,000 commitment.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30 June 2020

### 26. GMP EQUALISATION

On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top up historic Cash Equivalent Transfer Values that were calculated based on unequalised benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is currently evaluating this issue and the impact to the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps. Based on an initial assessment the backdated payments and related interest are not expected to be material and have not been recognised in these financial statements. The payments will be accounted for in the year of payment.

### 33. COVID-19

As a result of the COVID-19 (Coronavirus) pandemic, there was a dramatic downturn in global markets in March 2020. The outbreak is having a significant financial impact on economies and organisations around the world. The Trustee continues to take proactive and considered steps, in conjunction with its advisers, to assess the situation and respond to it.

The current situation with the virus and its impact remains exceptionally fluid and volatile in its effect on asset markets. The Trustee has designed and implemented an investment strategy which takes a necessarily long-term view, whilst also having built in resilience to withstand short term fluctuations.

Given the extreme volatility affecting all asset markets, and the extreme global economic uncertainty prevailing, it is not practicable to provide a quantitative estimate of the impact of the virus on the Scheme's assets at this time and no adjustments have been made.

As noted on page 31 Standard Life took the decision to defer redemptions, switches and subscriptions in the Long Lease Property fund from 1:00pm 18 March 2020 as a result of the market disruption being caused by COVID-19. The funds' Independent Valuers informed Standard Life of material uncertainty around the valuation of UK physical property and to protect the interests of all investors in the fund, the fund was suspended. This was lifted on 3 August 2020.



# HERMES GROUP PENSION SCHEME

## INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE HERMES GROUP PENSION SCHEME

### Statement about contributions

We have examined the summary of contributions payable under the Schedule of Contributions to the Hermes Group Pension Scheme in respect of the Scheme year ended 30 June 2020 which is set out on page 41.

In our opinion contributions for the Scheme year ended 30 June 2020, as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 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 20 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.

**Gemma Broom**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

15 Canada Square,  
London E14 5GL

Date 15 December 2020

# HERMES GROUP PENSION SCHEME

## SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedule of Contributions were as follows:

	£
Reconciliation to the financial statements:	<u>    -</u>

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 BTPSTL 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 £600,000 reference level, no longer applied.

Therefore there were no contributions payable in the period 1 July 2019 to 30 June 2020.

**This summary was approved by the Trustee on** 15 December .....**2020**

**Signed on behalf of the Trustee**

.....  
**Trustee Director**

# HERMES GROUP PENSION SCHEME

## ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

### Actuary's certification of the schedule of contributions

Name of scheme: Hermes Group Pension Scheme

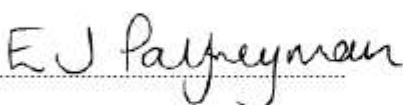
#### Adequacy of rates of contributions

- 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 

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

## IMPLEMENTATION STATEMENT

### *Implementation Statement*

### *Covering 1 July 2019 to 30 June 2020*

The Trustee of the Hermes Group Pension Scheme (the "Scheme") is required to produce a yearly statement to set out how, and the extent to which, the Trustee has followed the voting and engagement policies in its Statement of Investment Principles ("SIP") during the year. This is provided in Section 1 below.

The Statement is also required to include a description of the voting behaviour during the year by, and on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) and state any use of the services of a proxy voter during that year. This is provided in Section 3 below.

#### **1. Introduction – Last review of the voting and engagement policies**

The voting and engagement policies in the SIP were reviewed and updated during the Scheme year in September 2019 to reflect the Trustee's investment beliefs on these matters and regulatory changes. Further detail and the reasons for these changes are set out in Section 2. As part of this SIP update, the employer was consulted and confirmed it was comfortable with the changes.

#### **2. Voting and engagement**

As part of its advice on the selection and ongoing review of the investment managers, the Scheme's investment adviser, LCP, incorporates its assessment of the nature and effectiveness of managers' approaches to voting and engagement.

The September 2019 update of the Scheme's SIP took account of the Trustee's policy on financially material considerations, non-financial factors and engagement activities, with the amendments made to reflect the Trustee's approach to the regulatory changes that came into force with effect from 1 October 2019.

#### **3. Description of voting behaviour during the year**

All of the Trustee's holdings in listed equities are within pooled funds and the Trustee has delegated to its investment managers the exercise of voting rights. Therefore the Trustee is not able to direct how votes are exercised and the Trustee itself has not used proxy voting services over the year.

In this section we have sought to include voting data on the Scheme's funds that hold equities as follows:

- Legal & General All World Equity Index Fund
- Legal & General All World Equity Index Fund (GBP Hedged)
- FTSE RAFI AW 3000 Equity Index Fund
- FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged).

In addition to the above, the Trustee contacted the Scheme's other asset managers that don't generally hold listed equities, to ask if any of the assets held by the Scheme had voting opportunities over the period. These managers confirmed that they did not have any voting opportunities over the period.

##### **3.1 Description of the voting processes for Legal & General equity funds**

Legal & General's voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas. Legal & General's voting policies are reviewed annually, taking into account feedback from its clients. Every year, Legal & General holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as it develops Legal & General's voting and engagement policies.

All decisions are made by Legal & General's Investment Stewardship team and in accordance with the relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the



# HERMES GROUP PENSION SCHEME

## IMPLEMENTATION STATEMENT (continued)

same individuals who engage with the relevant company. The Investment Stewardship team uses the Institutional Shareholder Services (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by Legal & General and it does not outsource any part of the strategic decisions. Legal & General uses ISS recommendations but purely to augment its own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that Legal & General receives from ISS for UK companies when making specific voting decisions.

To ensure the proxy provider votes in accordance with Legal & General's position on ESG, Legal & General has put in place a custom voting policy with specific voting instructions that apply to all markets globally. Legal & General retains the ability in all markets to override any vote decisions, which are based on its custom voting policy. This may happen where engagement with a specific company has provided additional information that allows Legal & General to apply a qualitative overlay to its voting judgement. Legal & General have strict monitoring controls to ensure its votes are fully and effectively executed in accordance with its voting policies by its service provider.

### 3.2 Summary of voting behaviour over the year

A summary of voting behaviour over the period is provided in the table below. The total size of the Scheme's invested assets as at 30 June 2020 was £278.3m.

	Fund 1	Fund 2	Fund 3	Fund 4
<b>Manager name</b>	Legal & General	Legal & General	Legal & General	Legal & General
<b>Fund name</b>	All World Equity Index Fund	All World Equity Index Fund (GBP Hedged)	FTSE RAFI AW 3000 Equity Index Fund	FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged)
<b>Total size of fund at end of reporting period</b>	£4.8bn	£3.9bn	£5.2bn	£1.4bn
<b>Approximate value of trustees' assets</b>	£3.0m	£9.0m	£2.8m	£8.9m
<b>Average number of holdings</b>	1,419	1,419	3,109	3,109
<b>Number of meetings eligible to vote</b>	3,595	3,595	3,250	3,250
<b>Number of resolutions eligible to vote</b>	40,386	40,386	39,276	39,276
<b>% of resolutions voted</b>	99.8	99.8	99.3	99.3
<b>% of resolutions voted with management</b>	81.2	81.2	80.9	80.9
<b>% of resolutions voted against management</b>	18.3	18.3	18.8	18.8
<b>% of resolutions abstained</b>	0.5	0.5	0.3	0.3
<b>% of meetings with at least one vote against management</b>	67.4	67.4	71.4	71.4
<b>% of resolutions voted contrary to recommendation of proxy advisor</b>	11.3	11.3	13.0	13.0

### 3.3 Most significant votes over the year

Commentary on the most significant votes over the period is set out below. We have interpreted "most significant votes" to mean those provided by the investment managers, following the PLSA guidance provided.

#### Legal & General Equity Portfolio

## IMPLEMENTATION STATEMENT (continued)

The below votes were listed as significant by Legal & General and were taken in relation to the All World Equity Index Fund, All World Equity Index Fund (GBP Hedged), FTSE RAFI AW 3000 Equity Index Fund and FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged).

- **Barclays, May 2020**

Legal & General voted for a resolution to approve Barclays' commitment to tackling climate change. The resolution proposed by Barclays set out its long-term plans and had the backing of ShareAction and co-filers. This vote was considered significant as there was increased client interest in Legal & General's voting intentions and engagement activities in relation to the Barclays 2020 AGM. The outcome of the vote was that it was supported by 99.9% of shareholders.

- **Amazon, May 2020**

Legal & General voted for a shareholder proposal requesting a mandatory independent board chair policy, as they believed it would lead to a governance structure that would benefit long-term shareholders. Legal & General were also concerned more generally by the harsh workplace practices alleged and the news of a string of workers catching COVID-19. Legal & General had multiple engagements with Amazon over the 12 months leading to the vote. This vote was considered significant as there was considerable market and press attention leading up to the AGM in May 2020. The outcome of the vote was that it was supported by c.30% of shareholders.

- **ExxonMobil, May 2020**

Legal & General voted against the re-election of the combined chair and CEO of the company, as part of their 'Climate Impact Pledge' escalation sanction. Legal & General had concerns over the company's approach to climate change, political lobbying and board independence. This vote was considered significant as it was linked to a Legal & General engagement campaign. The outcome of the vote was that 93.2% of shareholders supported the re-election of the combined chair and CEO.

The below vote was listed as significant by Legal & General and was taken in relation to the FTSE RAFI AW 3000 Equity Index Fund and FTSE RAFI AW 3000 Equity Index Fund (GBP Hedged).

- **Lagardère, May 2020**

Legal & General voted for a shareholder resolution to replace the existing company directors on the Supervisory Board. They voted in favour of removing 5 of the incumbent directors and in favour of 5 candidates which were proposed to replace them. Legal & General believed that the company strategy had not been value-enhancing and the governance structure of the company was not allowing the Supervisory Board to challenge management on this. This vote was considered significant as there was increased media and public interest, given the proposed revocation of the company's board. The outcome of the vote was that the proposed resolutions received around 30-40% support from shareholders, although they were not passed.

## 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 deferred employed 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 Chair who is appointed by the principal employer after consultation with and the agreement of the member-nominated Directors;
  - the principal employer fixes the Chair's period of office;
  - the Chair can be removed from office as Trustee Director and Chair 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 Chair'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 Chair, the term is limited to a normal maximum of eleven years unless the principal employer and other Trustee Directors agree to an extension.











# HGPS Accounts YE 30.06.2020

Final Audit Report

2020-12-15

Created:	2020-12-15
By:	Rachel Moore (rachel.moore@insidepensions.com)
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