Hermes Group Pension Scheme

Actuarial Report as at 30 June 2021

March 2022

Contents

01 **Introduction**

01.01 Background and purpose

This report provides information on the development of the technical provisions of the Hermes Group Pension Scheme (the "Scheme") over the period since the last formal actuarial valuation as at 30 June 2020 in line with the requirements of Section 224 of the Pensions Act 2004. As such, this report constitutes an 'actuarial report'.

This report provides an update of the funding position of the Scheme as at 30 June 2021 and is the first update report following the 30 June 2020 actuarial valuation

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

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

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

02 **Approach adopted**

02.01 Asset data

We have obtained the current unaudited (bid) market valuation of the assets as at 30 June 2021 provided by Zedra Inside Pensions Limited and approximated the net current assets based on the Scheme's bank balance received from the Scheme's administrators.

02.02 Liability data and calculation methodology

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

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

02.03 Actuarial assumptions

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

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

Gilt yields at 30 June 2021 are higher than at 30 June 2020 resulting in a decrease in the value of the liabilities

Price inflation at 30 June 2021 is higher than at 30 June 2020 resulting in a increase in the value of the liabilities

	Funding Assumptions at 30 June 2020	Funding Assumptions at 30 June 2021
Discount rate	Bank of England Gilt Curve (e.g. 0.7% at a duration of 21 years) plus 1.0% p.a. reducing linearly to 0.6% p.a. from 2030	Bank of England Gilt Curve (e.g. 1.3% at a duration of 21 years) plus 1.0% p.a. reducing linearly to 0.6% p.a. from 2030
RPI inflation	Bank of England implied RPI inflation curve (e.g. 3.3% p.a. at a duration of 21 years)	Bank of England implied RPI inflation curve (e.g. 3.6% p.a. at a duration of 21 years)
CPI inflation	RPI less 1.0% p.a. up to 2030, then RPI less 0.4% p.a. from 2030	RPI less 1.0% p.a. up to 2030, then RPI less 0.1% p.a. from 2030

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

03 Results

£24.3m

Surplus at 30 June 2021

03.01 Results of funding update

An estimate of the Scheme's funding level as at 30 June 2021 is given below with the results of the last formal actuarial valuation shown for comparison.

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

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

03.02 Reconciliation with the results of the previous valuation

Since 30 June 2020, the Scheme's surplus has increased from £19.5m to £29.9m. The main factors that have combined to produce this change in the position since the last formal actuarial valuation are shown in the table below:

	Year to 30 June 2021 £m
Surplus at start of year	**19.5**
Interest on liabilities less expected return on assets	0.2
Asset experience	(2.5)
Increase in future inflation expectations	(14.5)
Increase in future gilt return expectations	31.0
CPI assumption increase post 2030 for funding updates after November 2020	(4.1)
Gain from transfer values paid	0.3
Other	(0.0)
Surplus at end of year	**29.9**

Results

The most significant influence on the funding position was the changes in financial conditions underlying the actuarial assumptions used to value the liabilities. Gilt yields have increased significantly which has reduced the liabilities, however, much of this increase has been offset by increases in future inflation expectations and the lower assumption for the gap between RPI and CPI from 2030 for this update. Overall the combined impact of these effects it to place a lower value on the liabilities and hence has increased the surplus.

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

03.03 Recovery Plan

As there was no shortfall at the last formal valuation, no recovery plan was needed. The results of this funding update show that the surplus has increased from 2020. We will continue to monitor the funding level of the Scheme quarterly.

04 Formal reassessment of funding

30 June 2023

Next formal valuation due

The next formal actuarial valuation of the Scheme is due no later than 30 June 2023 when we will provide further details of how the Scheme's funding level has developed. Ahead of this we will provide further details of how the Scheme's funding level is developing in my actuarial report dated 30 June 2022 and regular quarterly monitoring in between times.

Signature

Date
21 March 2022

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