

2017 Newsletter

Hydraulics Research Pension Scheme

In my role as the Chairman of the Trustees, I am pleased to send you this copy of the 2017 Newsletter for the Hydraulics Research Pension Scheme (which we call below the 'Scheme' for short). We hope you find this newsletter both interesting and informative, but we are keen to hear your views on future topics you would like us to cover.

Paul Samuels, Chair of Trustees

The current Trustee board



There are currently 4 Trustees:

Two Trustees are Member Nominated:

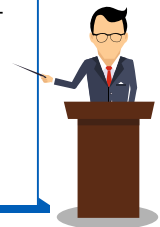
Paul Samuels (Chairman) and Michael Keevil

Two Trustees are appointed by HR Wallingford:
Kim Taylor and HR Trustees Ltd.
(represented by Claire Teagle).

There were no changes to the Trustee Board during last year.

Highlights in this issue

- Summary Funding Statement – including results of the latest formal valuation.
- Investment strategy review – completion of recent changes.
- Pensions news and FAQs.



Contact us

You should inform us of any changes in your personal details, such as your name, address or marital status together with any changes in your nominated dependants to receive benefits payable upon your death

For general scheme information, complaints or queries:

The Trustees of the Hydraulics Research Pension Scheme

c/o Kim Taylor
HR Wallingford Group Limited
Howbery Park
Wallingford
Oxfordshire
OX10 8BA
T: 01491 822317
E: k.taylor@hrwallingford.com

For quotations on your Scheme benefits, individual benefit queries and change of personal details:

Scheme Administrator

Sara Broadbent
Pensions Administrator
KPMG Pensions
Arlington Business Park
Theale, Reading, RG7 4SD

Tel: 0118 964 2467
E: Sara.Broadbent@kpmg.co.uk



Summary Funding Statement

The Scheme is a defined benefit scheme. This means that it pays a pension equal to a specified monthly amount when you retire, based on your length of service and salary. The Scheme is closed to future benefit accrual, and so no further benefits are being built up by members. Contributions that have been paid to the Scheme are invested in one common fund for all members, which is used to provide retirement benefits when they fall due.

The Trustees regularly monitor the funding position of the Scheme to ensure that there are sufficient funds to meet all pension obligations for the lifetime of its members. Each year, we send you this Summary Funding Statement to provide you with updated information about the level of funding for the Scheme, as required by the Pensions Act 2004.

Actuarial valuation as at 31 March 2016

A full valuation of the Scheme is carried out every three years. In March 2017, the most recent full valuation (with an effective date of 31 March 2016) was completed by Ray Pygott, the Scheme Actuary. The results of the valuation showed that the Scheme was around 85% funded with a deficit of £14.7m (shown in the table below).

In order to remove this deficit, the Trustees and Company agreed a 'Recovery Plan' to ensure the Scheme can meet its primary objective of being able to pay out all the future benefits when they are due.

The Trustees secured an increase in contributions payable by the Company to the Scheme to help eliminate the larger deficit. The schedule of payments is shown in the table opposite. It was expected that under this Recovery Plan, the funding deficit would be removed by 31 July 2028.

Recovery Plan – Schedule of Company contributions

£500k per annum in 2017 and 2018
£725k per annum between 2019 and 2024
£785k in 2025
£800k per annum between 2026 and 2028

Recent Actuarial update

Approximate actuarial updates are carried out in each year where a full funding valuation has not been carried out. The latest actuarial update was carried out as at 31 March 2017, and revealed a funding deficit of £18.1m. Funding levels for many pension schemes have been particularly volatile over the last couple of years resulting from economic uncertainty and unstable financial markets. This has resulted in an increase in the cost of providing a pension which means an increase in the value of the Scheme's liabilities. Although the Scheme's assets have grown through positive investment performance, the net deficit has increased.

Results (£m)	2016 Valuation	2017 Update
Assets	£81.6m	£92.2m
Liabilities	£96.3m	£110.3m
Funding deficit	£14.7m	£18.1m
Funding Level	85%	84%

The Trustees continue to regularly monitor the funding position and the Company's ability to make the contributions it has committed to pay and take any actions they deem appropriate after taking professional advice.

Definitions

Assets – the value of the pooled funds held to provide pension benefits to Scheme members

Funding level – the percentage of liabilities covered by the assets of the Scheme

Liabilities – the estimated total amount required today to provide members of the Scheme with their agreed benefits when they fall due.

Deficit – the amount by which the value of the liabilities exceeds the assets

The Actuarial Valuation Report as at 31 March 2016 and the Actuarial Update as at 31 March 2017 are available on request. Please contact Kim Taylor (listed on the front page) for more information.

Wind-up (solvency) estimate

The valuation results assumed that the Scheme continues to operate in its current state for foreseeable future.

If the Trustees and the Company decide to wind up the Scheme, the Company would need to contribute to the Scheme so that all members' benefits can be secured in full with an insurance company. This is known as paying "full solvency benefits". As at the 31 March 2016 funding valuation, this amount was estimated to be £75.1m.

Should the Scheme wind up without enough money to secure all the benefits with an insurance company, the Pension Protection Fund (PPF) might be able to take over the Scheme's obligations and pay compensation to members. Further information and guidance is available on the PPF's website (www.pensionprotectionfund.co.uk), or you can write to the PPF at: Renaissance, 12 Dingwall Road, Croydon, Surrey, CR0 2NA.

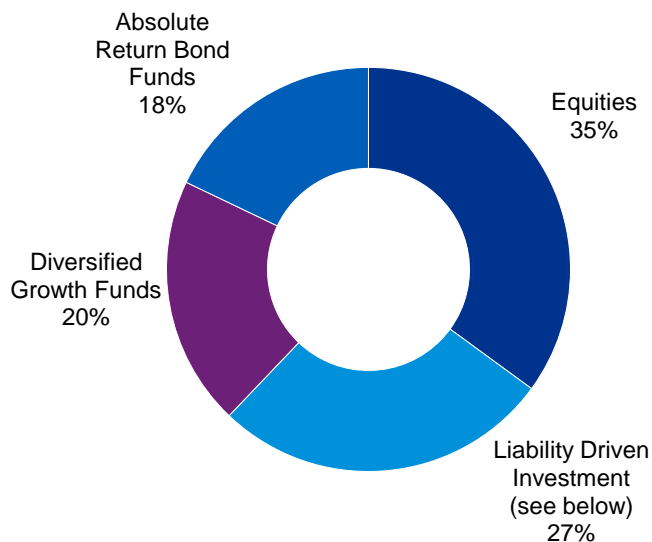
Neither the Trustees nor the Company have any plans to wind up the Scheme but we are required by law to let you know the Scheme's financial position if this event were to happen.



Investment strategy

As at 31 March 2017, the Scheme's assets were broadly allocated as shown in the pie chart. The total value of the assets was £92.2m.

Asset Allocation as at 31 March 2017



The Trustees invest the assets of the Scheme with the aim that all members' benefits built up can be paid when they fall due. Over the course of 2016/17, the Trustees continued their focus on reducing the risk of the funding position worsening.

Liability Driven Investment

To this end, the Trustees (with Company agreement) transferred their index-linked gilts fund to an investment strategy designed to match movements in the Scheme's liabilities, particularly in volatile economic conditions. This strategy is called 'Liability Driven Investment' or 'LDI' and was set up in March 2017 with Legal and General.

Following this change, the Trustees have significantly reduced the risk of the funding level deteriorating by unfavourable market movements, whilst retaining the same expected level of investment returns across the whole asset holding.

In essence, this change has been designed to help make your benefits more secure.

The Trustees have updated the Scheme's Statement of Investment Principles to reflect the changes made to the investment strategy. They will continue to monitor the Scheme's investment performance to ensure the strategy is meeting its objectives.

No payments have been made from the Scheme to the Company over the last year.

News and FAQs

State Pension

Following a review, the Government announced in July 2017 that the rise in the State Pension Age to 68 will be brought forward. This will result in a higher State Pension Age for people born between 6 April 1970 and 5 April 1978. Further details can be found at:

www.gov.uk/state-pension-age

You can also find out how much State Pension you could get under the new State Pension arrangements at:

www.gov.uk/check-state-pension

Pension increases

Pensions in payment are increased annually on 1 April each year and the increase is linked to the increase in the Consumer Prices Index ("CPI"). This year, members' pensions were increased on 1 April 2017 by 1%. There were no discretionary increases granted during the year.



Pension liberation fraud

The number of cases of pension fraud has been on the increase in the UK. Typically, these scams involve using 'pension loans' or cash incentives to entice savers below the age of 55 into transferring benefits out of their pension scheme.

You should be wary of being approached out of the blue over the phone or via text message and you should never give out financial or personal information to a cold caller. If you do receive pension incentives, then you should speak to an independent adviser (see the website below) who can provide you with unbiased advice.

Every transfer value quotation will also be sent out with the Pensions Regulator's guide on the warning signs to look out for when transferring benefits to an alternative arrangement.

? Q. Is my pension at risk following the Company's recent performance announcement?

The Trustees are in regular dialogue with the Company regarding its financial performance and operational position. The Company attends every Trustees meeting at which the Trustees review the likely ability of the Company to meet its future obligations.

The Trustees also retain a charge over a portion of the Company's property, which will provide security should the Company be unable to meet its financial commitments to the Scheme. It is important to note that the assets of the Scheme are held in the funds controlled by the Trustees; completely separate from the Company.

? Q. Where can I get further information on my benefits?

For further information on your retirement benefits, you can consult the Scheme booklet, which describes the benefits available to members of the Scheme and outlines some of the rules that govern the Scheme. It is intended as a guide to help you gain a greater understanding of your retirement benefits. The latest version of the Scheme booklet was finalised in 2015. If you wish to obtain a copy of the booklet, please contact Kim Taylor (details on front page).

? Q. Where can I obtain information/advice regarding pensions?

The public services website, Directgov, has useful information on pensions and retirement planning:

www.direct.gov.uk/en/Pensionsandretirementplanning

The Money Advice Service is a free, independent service set up by the Government to give people clear, unbiased money advice. They produce clear information and guidance on how to find out more details in reference to your pensions questions: www.moneyadviceservice.org.uk

If you need to contact an independent financial advisor you can look in the Yellow Pages or try:

www.unbiased.co.uk

? Q. Does the Scheme hold an Internal Dispute Resolution Procedure?

Trustees of all Occupational Pension Schemes are required to establish and operate a procedure attempting to resolve any complaint or dispute which may arise in relation to the Scheme. If you wish to see a copy of the Scheme's Internal Dispute Resolution Procedure, please contact Kim Taylor (details on the front page).