

ANNUAL REVIEW 06

WE TAKE PRIDE IN YOUR SUCCESS.

HYMANS ROBERTSON specialises in providing advisory and management services to UK occupational pension schemes.

From our offices in London, Glasgow and Birmingham we serve the interests of clients in the public and private sectors, both Trustee and Corporate.

Our range of core services includes investment and actuarial consultancy, pension scheme design and management, and we also act as third party administrators.

Working alongside our clients, we listen carefully to the issues before developing strategies that are tailor-made to resolve outstanding challenges and problems. Whenever possible, our core practices work together to deliver integrated solutions that accurately address the issues.

We are the exclusive UK pensions partner within Milliman Global, one of the world's largest international professional service organisations. This connection enables us to keep abreast of issues and developments within other countries' pensions environments, and thus at the forefront of current international thinking on actuarial, investment and management matters.

Proper management of pension and related benefits involves finding ways of matching employer and employee needs. Our ambition – our passion – is to help our clients make the right decisions by providing them with the best possible information and opinion in a timely, clear and rational form.

WE LOOK TO
BUILD ON
SUCCESS,
NOT BASK IN IT.

By any measure, 2005/6 was a very successful year for Hymans Robertson. In this, our first annual review, we celebrate our clients' and our own achievements, but we also set out what we are doing to ensure continuation of that success in future years.

To thrive as a consultancy, we need to give consistently excellent service and advice at a price which our clients believe represents good value.

That is our goal, and I believe that, as a firm, we have specific cultural characteristics which set us apart. These include independence of ownership and thought, which attracts enterprising people, gives us the courage to provide committed advice and encourages a high level of personal commitment to our clients from partners and staff at all levels.

Our industry is changing rapidly, but these core characteristics are valuable constants. The focus of our management of the business is to provide the investment and development to realise our full potential.

Here are a few of my highlights from the year.

OUR SERVICES

During 2005/6 it was encouraging to see newer areas such as Flexible Benefits and Risk Benefit Consulting making progress. Perhaps the most exciting aspect of the year's growth was the steady build-up in our Corporate Consulting practice – advice to corporates who are looking for practical solutions to pensions issues, delivered in a business-orientated framework.

However, even in well-established areas like our local authority activities or in Trustee support, we were able to extend what we do; in the former by establishing

a team of administration experts and in the latter by building a governance framework to help Trustees achieve best practice.

In May 2005 we won the accolade of the Pension and Benefits Consultancy of the Year: the third consecutive year in which we won a top award.

OUR SYSTEMS

It was a big year for systems development. Towards the end of the year we transferred all our third party pensions administration activities to the UPM system, a platform which will allow a step change in functionality and efficiency. After a period of being closed to new business, we are delighted to have already secured two major new administration clients.

It was also an important year for our actuarial team as our own new valuation system was launched in time for the new Scheme Specific Funding Regime. The new system is extraordinarily powerful and flexible and able to answer all the 'what if' questions that clients ask us. It also interfaces closely with the administration system, which will improve efficiency, accuracy and timeliness for those clients who use us both for actuarial and administration services.

Finally, we have revamped several of our investment modelling systems and integrated them more closely with the actuarial systems. As our clients increasingly value 'joined-up advice', our ability to work closely across our various disciplines supported by well integrated systems will be a great advantage.

OUR OFFICES

We believe that it is important to provide our staff with an excellent working environment and to communicate our sense of confidence in the future.

As our Glasgow team completed its first full year in its excellent new offices in the award-winning Clydesdale Bank Exchange building, we signed the lease on similarly high quality new London premises at One London Wall.

OUR PEOPLE

It remains a challenge to find people who have both the technical ability we require and the 'user friendly' approach and commitment which our clients demand and which is one of our core characteristics.

However, in both London and Glasgow, our Investment Practice has strengthened its presence with excellent new appointments. Not only were we able to bring the team to full nearly 50 strong but we were also able to enhance the 'mix', for example by recruiting from a hedge fund management team to strengthen our knowledge of alternative investment vehicles.

In recognition that we all need to continue our personal development we launched a Masterclass programme during the year which will now be rolled out across the firm. The Masterclass is being run in connection with City University, London.

During the year our London office suffered disruption as a result of the terrorist bombings. I cannot speak highly enough about the way in which staff responded to the most difficult circumstances, nor about the way in which our Business Continuity team ensured that our clients suffered only minimal inconvenience.

It is not all work and no play at Hymans Robertson. In 2005/6 we were pleased to help staff raise a significant amount of money for charity through a variety of events including a 'bike and hike' trip through the Highlands and a Murder Mystery evening.

OUR FUTURE

Our success in 2005/06 was the product of several new investment and development initiatives on an already very sound foundation.

For the future, our reputation as a quality organisation with good client relationship skills is a big plus. On the other hand, our marketplace is arguably oversupplied in the traditional areas, and it is clear that we need to differentiate ourselves to continue to succeed if the overall market is shrinking.

Our response to this challenge must be to continue to do what we do very well and to add gradually to the services we offer. I firmly believe that we have the people, the skills, the resources and the vision to thrive whatever the challenge.

Finally, whatever we have achieved or will achieve in the future depends entirely on the efforts of colleagues and the continuing support of our clients. I am grateful to everyone who has contributed so much to making 2005/6 such a good year for Hymans Robertson.



Ronnie Bowie Senior Partner

**WE ARE
REAL PEOPLE,
WITH REAL
SKILLS,
DELIVERING
REAL EXPERTISE.**

THE YEAR IN NUMBERS

2003 WINNER PENSIONS
& BENEFITS
CONSULTANCY
OF THE YEAR

2005 WINNER PENSIONS
& BENEFITS
CONSULTANCY
OF THE YEAR



2004 WINNER
ACTUARIAL
CONSULTANCY
OF THE YEAR

£50,000

DONATED TO
CHARITY

88
EXAMS PASSED
BY OUR STAFF

16%

GROWTH IN
TURNOVER

£4,000,000

OVERALL SPEND
ON HIGH QUALITY
OFFICES AND
INFRASTRUCTURE

**ANALYTICAL
IN ALL WE DO.
PASSIONATE
IN PURSUIT OF
THE ANSWERS.**

THE YEAR AT A GLANCE

APR

HYMANS ROBERTSON converts to a Limited Liability Partnership. This change will provide greater transparency for clients, while maintaining the partnership culture that characterises the best professional services firms.

MAY **HYMANS ROBERTSON** wins the Pension and Benefits category of the 2005 UK Pension Scheme Awards. In addition, all our entries are short-listed – a feat unmatched by any of our competitors.

JUN

OVER 130 EXISTING AND PROSPECTIVE CLIENTS attend our investment conferences in Glasgow and London, enabling us to share news and views on the current and future evolution of the marketplace.

Hymans Robertson Senior Partner Ronnie Bowie is appointed Vice President of the Faculty of Actuaries.

JUL

ROB HARPER joins Hymans Robertson to head up the Birmingham office and develop the firm's business in the Midlands.

AUG

THE FIRST CLIENT goes live on the UPM software. This marks the start of the project to migrate all administration clients away from the existing software. By the end of March 2006, all clients were live on the UPM platform.

SEP

TWO HYMANS ROBERTSON CLIENTS – Westland Pension Fund and East Riding Pension Fund – named as winners at the 2005 UK Pension Scheme of the Year Awards. In addition, a significant number of our clients were short-listed for awards.

OCT

MILLIMAN GLOBAL holds its Annual Conference in Vienna, attracting 110 delegates from other member firms in Europe and the Americas. Hymans Robertson is the exclusive UK pensions partner for Milliman Global which is one of the world's largest international professional service organisations.

NOV

ANNUAL HYMANS ROBERTSON PENSIONS AND BENEFITS CONFERENCES are held in Glasgow, Birmingham and London. Each of the venues is oversubscribed – a testament to the event's popularity.

DEC

HYMANS ROBERTSON is appointed as actuary and investment advisor to the trustees of the £1.25bn Shipbuilding Industries Pension Scheme – the biggest single appointment (measured by fee income) that the firm has ever won by competitive tender.

JAN

AILEEN McGLYNN from Hymans Robertson's Glasgow office is awarded an MBE for services to disabled sport. Aileen won a Gold medal at the 2004 Paralympics in Athens in tandem cycle time trials.

FEB

HYMANS ROBERTSON signs the lease on its new offices at One London Wall. The firm's London office will occupy 25,000 sq ft on two floors.

MAR

HYMANS ROBERTSON appoints six new partners, reflecting the firm's continuing success.

**OUR PHILOSOPHY
OF PARTNERSHIP
IS SUSTAINED BY
HONEST AND
TRANSPARENT
RELATIONSHIPS.**

CLIENT CASE STUDY

PROVIDING
LPFA WITH
EXPERT ADVICE
TO DELIVER
LONG-TERM
STABILITY.

BACKGROUND

During the 1990s, the London Pensions Fund Authority (LPFA) examined its liabilities in detail and decided to split its pension fund into two separate portfolios. The first of these sub-funds covered what was termed their 'super mature' liabilities, which by their nature were largely pensioners. As a result, the liability profile of this portion was well defined and the LPFA adopted a 'buy and hold' investment strategy using index-linked gilts. On top of this, a small proportion of the sub-fund was invested in both UK and overseas equities on a passive basis with Legal & General Investment Management (L&G).

The less mature sub-fund was then invested in a more traditional portfolio of assets, mainly in UK and overseas equities (70%) on both an active and passive basis. There were also investments in bonds and a range of alternative assets, including property and private equity.

WHAT PROMPTED THE CHANGE?

It was clear from the results of the 2004 actuarial valuation that, as well as increases in contributions, the LPFA needed to generate asset growth materially in excess of liability growth in order to achieve its funding targets.

At this stage, we worked with the Investment Strategy Committee to review all the options open to them. New investment strategies were put in place for both sub-funds, reflecting their different characteristics, but which were more accurately structured to achieve the necessary investment performance.

WHAT STRATEGIES WERE ADOPTED?

For the super mature sub-fund, the Committee decided to move away from traditional index-linked gilts. In the case of this sub-fund there was no real contributor base to fall back on. As a result, they wanted to maintain the liability-based nature of the assets and so appointed three separate managers with mandates measured against a cashflow benchmark. These mandates covered 87.5% of the assets of the sub-fund.

Through our manager research, we had a good understanding of how different managers would approach the task. We worked with the Committee to select the three managers, each with a slightly different mandate aligned with the individual manager's skill set. One manager (ECM) was appointed with a benchmark of the fixed cashflows (i.e. similar in nature to conventional gilts), whilst the other two managers (BGI and Insight) were appointed with a benchmark of the inflation-linked cashflows (i.e. similar in nature to index-linked gilts).

Each of the managers was then given a target to generate an amount of alpha (i.e. outperformance) against their particular cashflow benchmark with an aggregate outperformance target of approximately 1.25%. This allowed the Committee to exploit the skills of a range of managers whilst maintaining a strong focus on the liabilities of the sub-fund.

The final 12.5% of the sub-fund remained invested with L&G's passive equity funds.

For the less mature sub-fund, the picture was different. Here the aim was to maximise the returns for a given risk budget. On this basis, we discussed with the Committee

the different ways in which they could diversify their portfolio in terms of both asset classes and management styles. In all cases, however, the focus was on real returns (i.e. above the rate of inflation).

The first action was to remove an explicit allocation to bonds in the benchmark. The Committee then introduced a diversified range of mandates including unconstrained global equities and target return approaches.

Two of the mandates which we helped the Committee to put in place targeted RPI + 5% p.a. over the long term. The range of submissions from providers in this category was particularly wide, from largely bond-based strategies to a pure global equity mandate. Following detailed discussions with a range of providers, LPFA preferred a more multi-asset approach and selected Merrill Lynch and UBS to run these mandates. Each was given 10% of the overall portfolio to manage on this basis.

Within the pure equity portion of the sub-fund, the Committee retained GSAM's quantitative equity team for the lower risk equity portfolio targeting + 1% p.a. (rather than a passive equity allocation). The emphasis for the remaining equities was on unconstrained global approaches. After interviewing a range of managers, the Committee appointed two – Newton and MFS – both with higher risk portfolios and higher performance targets (+2% p.a.). The use of global mandates meant that only around 30% of the equity exposure was in UK equities. The added currency exposure in the sub-fund was partially hedged back to sterling as part of an active currency mandate, awarded to Record Currency Management.

The final 15%, allocated to 'alternatives', was left untouched. The Committee had already been building up an allocation to alternatives including property, private equity and PFI.

REAPING THE BENEFITS

The two sub-funds now have investment arrangements which better reflect the risk tolerance of the Committee, given the particular nature of the pension liabilities and the desired investment performance from the assets to achieve the funding targets. The portfolios include mandates with liability-linked targets and inflation-linked targets and a wide range of sources of manager skill and different manager approaches. The arrangements are well diversified.

We worked closely with LPFA to put in place these arrangements. We were able to help them examine the pros and cons of a number of differing approaches and to vigorously challenge potential managers on their capabilities.

The installation of the new benchmark and structure spanned the range of the advice which Hymans Robertson provides and the feedback from the client has been very positive.

Peter Scales, London Pensions Fund Authority Chief Executive, commented:

"During a complex process, Hymans Robertson played a major role in providing the Board with practical and knowledgeable advice. As a result, new and innovative investment mandates have been implemented to meet our long-term liabilities."

**WE DARE
TO THINK
DIFFERENTLY.**

FINANCIAL REVIEW 06

OPERATING HIGHLIGHTS

In our first year of trading as a Limited Liability Partnership, we continued the trend of recent years with a 16% growth in turnover, to which all our major service areas made a contribution.

Several factors contributed to this success. We continued to gain new clients, including our largest ever private sector scheme appointment. We also secured new income through innovative new services such as pensions and benefits communications advice and implementation, consultancy to corporate clients keen to review their employee benefits programmes from a fresh perspective, and advice on effective trustee board governance.

We also experienced additional demand from existing clients for work required by the advent of 'A-day'.

Whilst justifiably being known for our work on local government pension schemes, **81%** of our clients are now from other sectors, including not-for-profit organisations, with **69%** of our business coming from the private sector.

These positive developments have led us to increase headcount to 318 at year-end, with a corresponding increase in our cost base. We continue to recruit the best candidates from the pensions and investment industries.

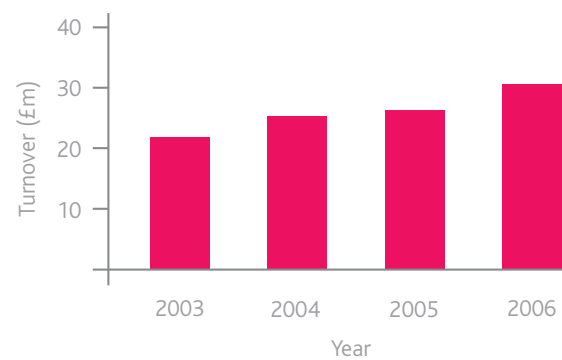
We have also made a commitment to move offices in London before the lease expires on the existing Bunhill Row premises. Under FRS12, this has crystallised a significant charge against the profits for the last year. Despite this charge profits were still up over 11%. We considered the office move justified as it helps us

to fulfil our commitment to providing an excellent working environment for our staff and partners, conducive to providing the best possible client service.

FINANCIAL POSITION AND PLANS

We have sought to build up our balance sheet to capitalise on emerging market opportunities from a position of financial strength and liquidity. The clearest indicator of this is our current cash position of £4 million. This has enabled us to recruit ahead of client demand in service areas such as flexible benefits, communications, corporate consultancy and aspects of our investment service. We have invested nearly £4 million overall in high quality accommodation and infrastructure appropriate for the highly technological era in which we operate. Our liabilities for VAT and tax, to retired members and for other trade creditors are a reflection of the growth in our trading activities and our commitment to investing in the development of our business.

Our aim is to maintain steady growth in our client base, based on a firm foundation of providing high quality consultancy and administration services.



SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2006 £'000	2005 £'000
Turnover	30,433	26,186
Other Operating Income	419	560
Total Income	30,852	26,746
Other Operating Costs	-27,908	-24,031
Operating Profit	2,944	2,715
Net Interest Receivable	103	25
Profit For The Period Available For Division Among Members	3,047	2,740

SUMMARY CONSOLIDATED BALANCE SHEET

	2006 £'000	2005 £'000
Fixed Assets	2,248	3,185
Current Assets		
Debtors Including Work In Progress	9,475	9,331
Cash at Bank and in Hand	3,992	1,915
Creditors	-5,455	-4,909
Net Current Assets	8,012	6,337
Total Assets Less Current Liabilities	10,260	9,522
Long Term Creditors	-1,219	-1,317
Amounts Due to Former Members	-1,565	-686
Provisions for Liabilities	-1,500	-
Net Assets	5,976	7,519
Represented by:		
Members' Capital	3,275	3,150
Members' Other Interests	2,701	4,369
Total Members' Interests	5,976	7,519

673

THE AGGREGATED YEARS OF EXPERIENCE
SHARED BY OUR PARTNERS.

Ronnie Bowie • George Henshilwood • Gail Paterson • Russell Borland • Clive Fortes • Douglas Anderson •
David Bowie • Crawford Taylor • Charles Young • Brendan Mooney • Jan Burke • John Dickson • Sheila Pollard •
Tom Douglas • John Hastings • Bob Blows • Adrian Green • James Entwisle • Peter Dyer • Lindsay Davies •
Alison Murray • Brian Nimmo • Cameron Caskie • Bryan Chalmers • Richard Crowhurst • Robert Inglis • Paul Potter •
Rob Harper • Patrick Bloomfield • Russell Chapman • Peter Kane • Martin Potter • Lorna Tonner • Karen McWilliam

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