London Borough of Harrow Pension Fund ('the Fund')
Date: 22 November 2016
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Joseph Peach

Quarterly Trigger Monitoring - Q3 2016

Introduction

The purpose of this short report is to provide an update on the status of three de-risking triggers which the Committee have agreed to monitor on a quarterly basis. The three triggers are related to:

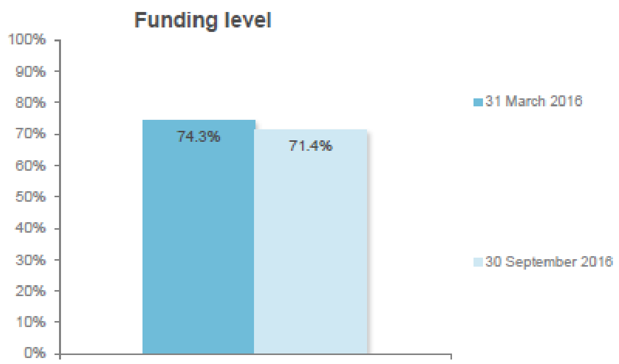
- The Fund's funding level
- Yield triggers based on the 20 year spot yield
- Aon Hewitt's view of bond yields

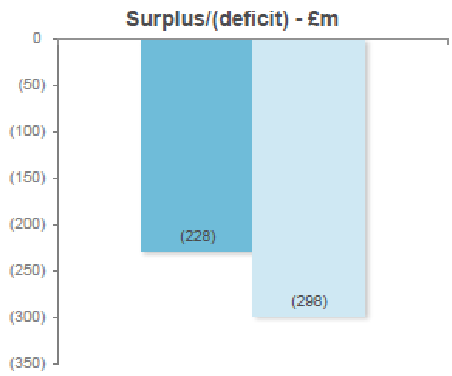
Funding level

The chart below shows the Fund's funding level at the end of the quarter compared with the level at the last actuarial valuation as at 31 March 2016.

The 30 September 2016 update is the first funding update to take account of the new formal funding valuation as at 31 March 2016.

The funding level as at 30 September 2016 was 71.4%, compared to 74.3% as at 31 March 2016 (and compared to 66.2% at the end of June 2016, on the previous funding valuation basis).

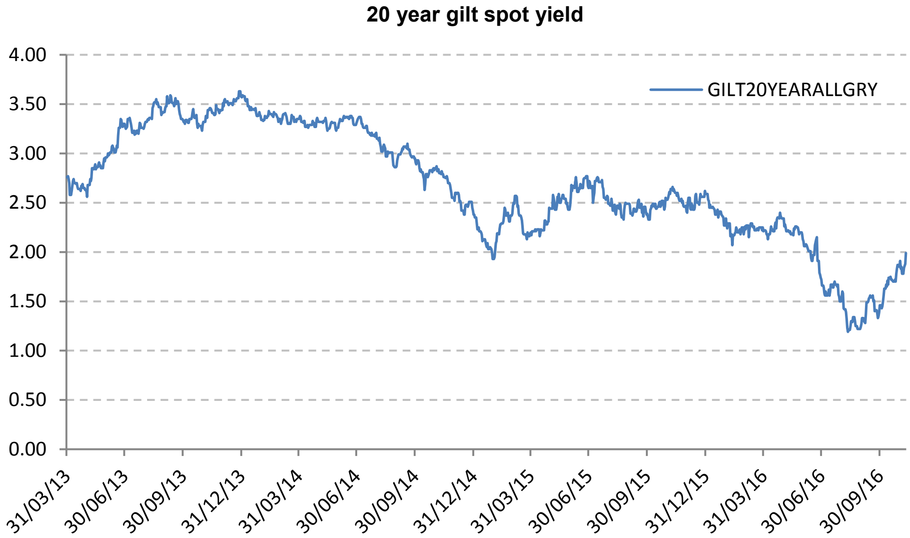




Source: Hymans Robertson

20 year spot yield

The chart below shows the movement of the 20 year spot yield since 31 March 2013 to 10 November 2016. Yields ended the third quarter of 2016 at 1.5% but had rebounded to c.2.0% by 10 November 2016.



Aon Hewitt views on bond yields

The table below sets out Aon Hewitt's views versus the market in terms of spot and forward rates as at 7 November 2016.

Summary of market spot and forward rates versus Aon Hewitt's views

	7 November 2016	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
Real	-1.7%	-1.6%	-0.9%	+0.7%	-1.5%	-0.7%	+0.8%
Nominal	+1.9%	+2.2%	+2.5%	+0.3%	+2.4%	+2.8%	+0.4%
Breakeven*	+3.7%	+3.9%	+3.4%	-0.5%	+3.9%	+3.5%	-0.4%

* AH view on breakeven inflation includes an allowance for an inflation risk premium above expected inflation
Totals may not sum exactly due to rounding

As shown by these figures, we believe that rates will rise faster than the market is indicating. We also believe that the market is overstating breakeven inflation expectations.

Conclusion

There is no material improvement in funding level and long term bond yields remain at low levels, albeit that they have started to rise in recent times. Aon Hewitt believe that yields will rise faster than indicated by the market over the next three and five year period.

No de-risking actions are recommended at the current time.

Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we cannot research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.