

London Borough of Harrow Pension Fund ('the Fund')

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Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Joseph Peach

Quarterly Trigger Monitoring - Q4 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 funding level as at 31 December 2016 was 75.7%, compared to 74.3% as at 31 March 2016.



Source: Hymans Robertson

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The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN
t +44 (0) 20 7086 8000 | f +44 (0) 20 7621 1511 | aon.com
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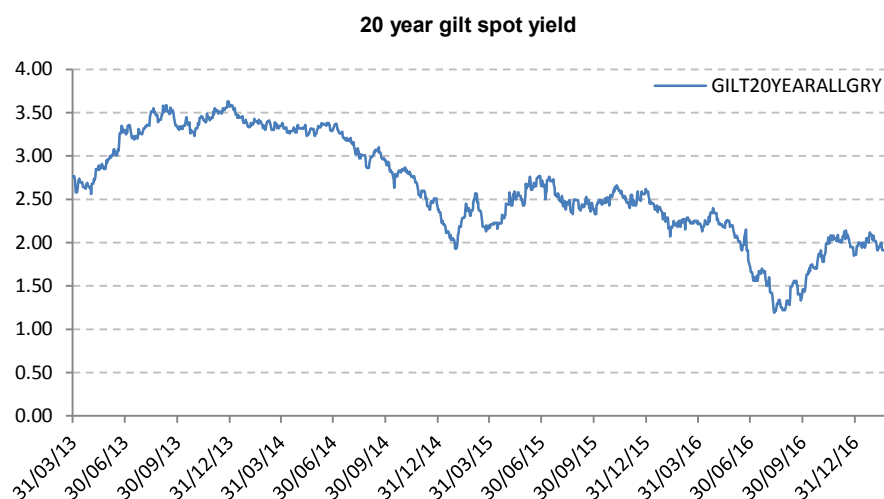
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20 year spot yield

The chart below shows the movement of the 20 year spot yield since 31 March 2013 to 19 February 2017. Yields ended the fourth quarter of 2016 at c.1.9% and, following a small rise and fall post the year end, remain at a similar level of c.1.9% as at 19 February 2017.



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 9 February 2017.

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

	9 February 2017	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
Real	-1.7%	-1.5%	-0.9%	+0.6%	-1.5%	-0.7%	+0.8%
Nominal	+2.0%	+2.3%	+2.5%	+0.2%	+2.4%	+2.8%	+0.4%
Breakeven*	+3.8%	+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.

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