Aon Hewitt

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

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Prepared for:	Pension Fund Committee ('the Committee')
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Quarterly Trigger Monitoring - Q3 2017

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 charts and table below show 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 30 September 2017 was 81.0%, compared to 79.2% as at 30 June 2017 and 74.3% as at 31 March 2016.

Ongoing funding basis

£m	31 Mar 2016	30 Jun 2017	30 Sep 2017
Assets	661	815	834
Liabilities	889	1,030	1,030
Surplus/(deficit)	(228)	(214)	(196)
Funding level	74.3%	79.2%	81.0%

Source: Hymans Robertson

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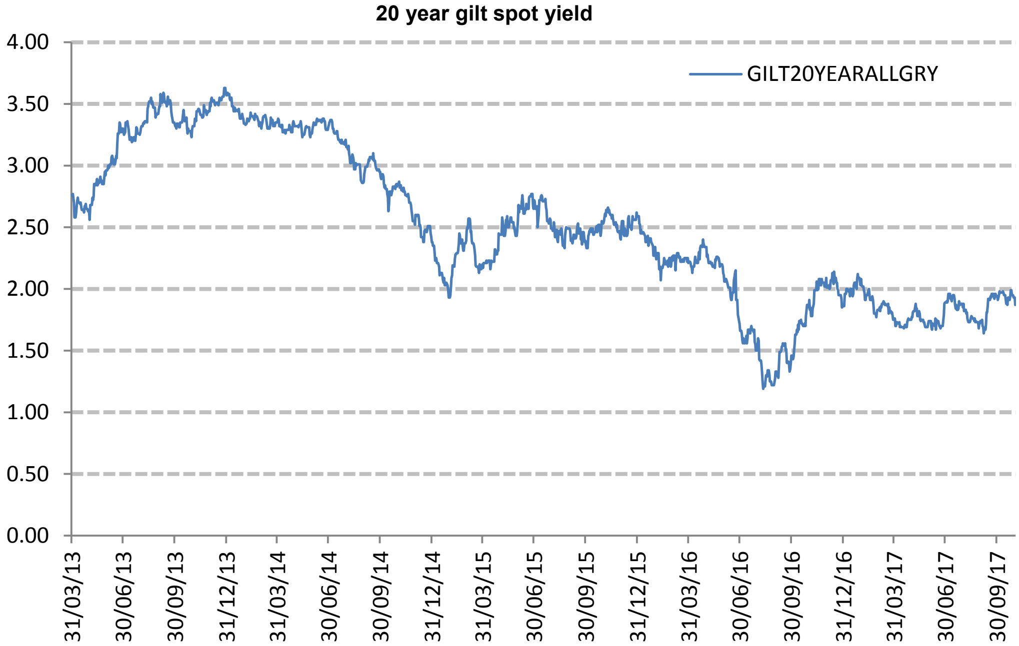
20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 2 November 2017. Yields ended the third quarter of 2017 at 1.94%, a rise from their 1.89% level at the end of Q2 2017. Yields fell gradually during the first 2 months of Q3 2017 but rose sharply in mid-September. Since the end of Q3 2017 yields have remained broadly flat, though did fall on 2 November 2017 (to 1.87%); the date of the interest rate rise announcement.



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 12 October 2017.

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

	12 October 2017	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	AH View	Diff	Market Pricing	AH View	Diff
Real	-1.6%	-1.4%	-1.1%	+0.4%	-1.4%	-0.9%	+0.5%
Nominal	+2.1%	+2.3%	+2.6%	+0.3%	+2.4%	+2.8%	+0.4%
Breakeven*	+3.7%	+3.8%	+3.7%	-0.1%	+3.9%	+3.7%	-0.2%

* 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, albeit to a lesser extent than previously.

Conclusion

Whilst there has been an improvement in funding level, long term bond yields remain at low levels. 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, whilst the Fund's revised investment strategy is implemented.

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