

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 - Q4 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'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 31 December 2017 was 82.0%, compared to 81.0% as at 30 September 2017 and 74.3% as at 31 March 2016.

31 December 2017	Ongoing Basis
Assets	£872m
Liabilities	£1,063m
Surplus (deficit)	(£191m)
Funding Level	82.0%



Source: Hymans Robertson

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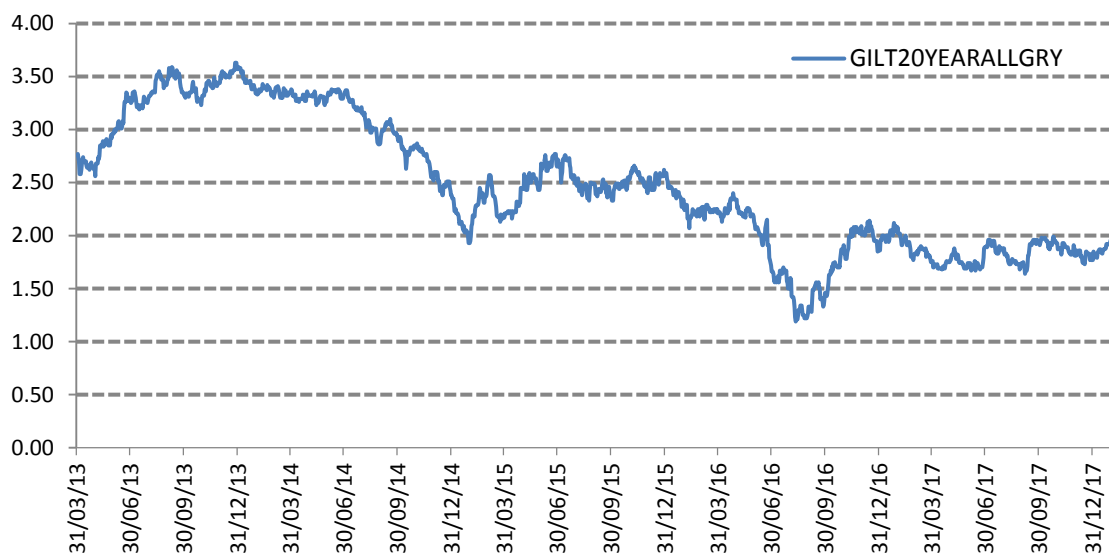
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20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 12 February 2018. Yields ended the fourth quarter of 2017 at 1.77%, a decline from their 1.94% level at the end of Q3 2017. Yields continued to rise into mid October but began to decline towards the end of the month as markets began to anticipate the interest rate rise on 2 November 2017. Yields continued to decline through November and December. Since the end of Q4 2017 yields have begun increasing, and yields were 2.00% as at 12 February 2018.

20 year gilt spot yield



Aon Hewitt views on bond yields

The table below sets out Aon's views versus the market in terms of spot and forward rates as at 16 January 2018.

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

	16 January 2018	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	Aon View	Diff	Market Pricing	Aon View	Diff
Real	-1.7%	-1.5%	-1.0%	+0.6%	-1.5%	-0.8%	+0.7%
Nominal	+1.9%	+2.1%	+2.6%	+0.5%	+2.2%	+2.8%	+0.6%
Breakeven*	+3.6%	+3.7%	+3.6%	-0.1%	+3.7%	+3.6%	-0.1%

* Aon 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 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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