

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 - Q1 2018

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 March 2018 was 78.3%, compared to 82.0% as at 31 December 2017 and 74.3% as at 31 March 2016.

31 March 2018	Ongoing Basis
Assets	£816m
Liabilities	£1,042m
Surplus (deficit)	(£226m)
Funding Level	78.3%



Source: Hymans Robertson

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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The Aon Centre | The Leadenhall Building | 122 Leadenhall Street | London | EC3V 4AN

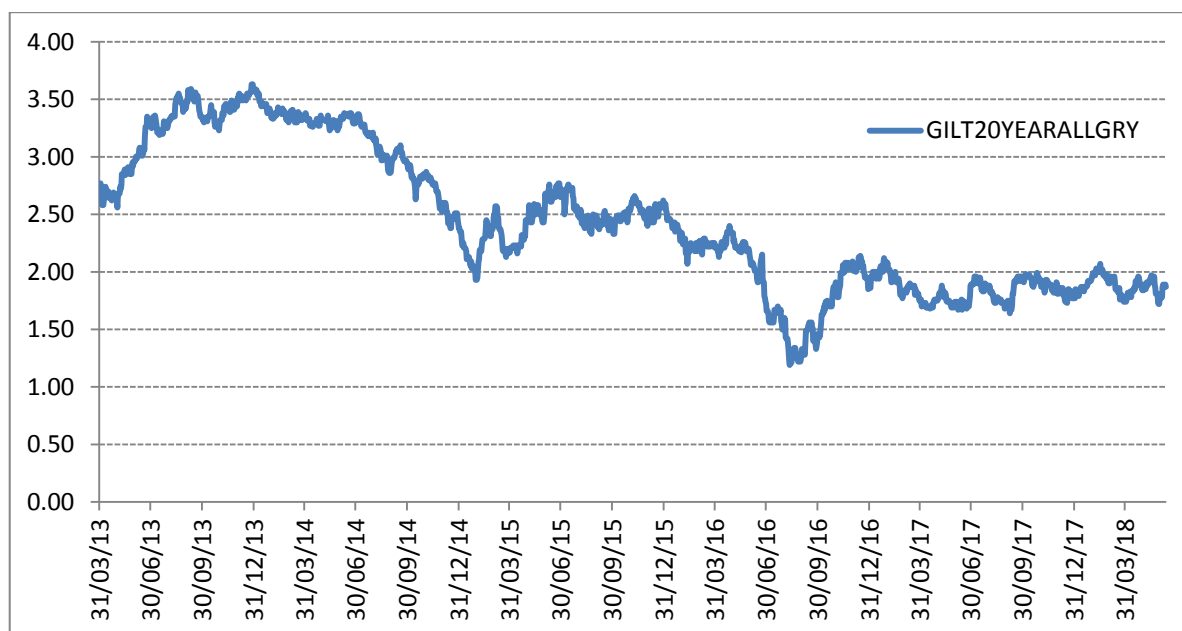
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20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 12 June 2018. Yields ended the first quarter of 2018 at 1.74%, a decline from their 1.77% level at the end of Q4 2017. Yields rose to c. 2% in mid-February but began to decline towards the end of the month and thereafter until the end of the quarter. Since the end of Q1 2018 yields have increased, and as at 12 June 2018 were at 1.87%.

20 year gilt spot yield



Aon views on bond yields

The table below sets out Aon's views versus the market in terms of spot and forward rates as at 8 June 2018.

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

	8 June 2018	In 3 years			In 5 years		
	20 year Spot Rate	Market Pricing	Aon View	Diff	Market Pricing	Aon View	Diff
Real	-1.5%	-1.4%	-0.9%	+0.5%	-1.4%	-0.8%	+0.6%
Nominal	+1.9%	+2.1%	+2.7%	+0.6%	+2.2%	+2.8%	+0.6%
Breakeven*	+3.5%	+3.6%	+3.6%	0.0%	+3.6%	+3.6%	0.0%

* 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 interest rates will rise faster than the market is indicating but believe that the market is accurately forecasting breakeven inflation expectations.

Conclusion

The funding level fell over the quarter and 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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