

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

Date: 22 August 2019
Prepared for: Pension Fund Committee ('the Committee')
Prepared by: Colin Cartwright
Joseph Peach

Quarterly Trigger Monitoring – Q2 2019

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 30 June 2019 was 77.6%, compared to 77.2% as at 31 March 2019 and 74.3% as at 31 March 2016.

30 June 2019	Ongoing Basis*
Assets	£873m
Liabilities	£1,125m
Surplus (deficit)	(£252m)
Funding Level	77.6%

* Funding update prepared on an approximate basis allowing for changes in market conditions (asset values, market yields) and fund cashflow data since 31 March 2016. Funding results taking account of actual membership data as at 30 June 2019 and updated actuarial assumptions will be provided later in 2019.



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

Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority.
Registered in England & Wales No. 4396810

Registered office:

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

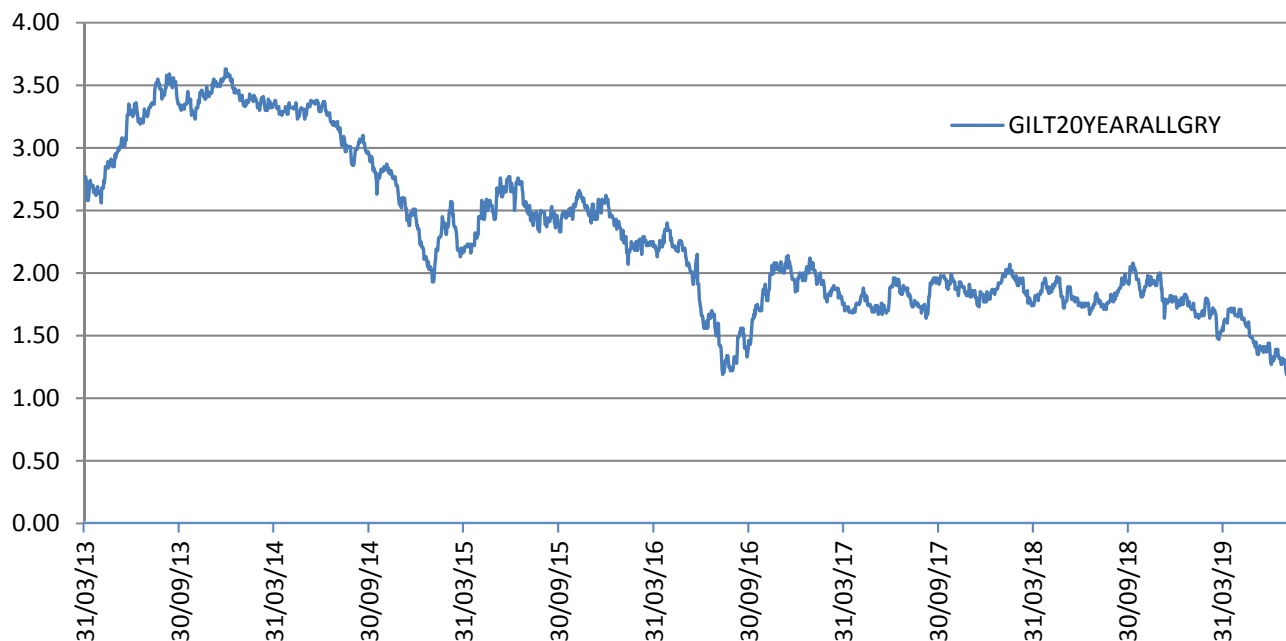
This report and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent no part of this report should be reproduced, distributed or communicated to anyone else and, in providing this report,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

Copyright © 2019 Aon Hewitt Limited. All rights reserved.

20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 21 August 2019. Yields ended the second quarter of 2019 at 1.44%, a decrease from their 1.54% level at the end of Q1 2019. Yields initially rose over April before falling towards the end of the month and into May. Yields fluctuated throughout the month of May before steadily declining through June. Since the end of the second quarter yields have continued to decline, falling as low as 0.90% in mid-August.

20 year gilt spot yield



Aon views on bond yields

Given the uncertainty surrounding Brexit, Aon's Fixed Income Team has suspended its medium-term projections on rates until the Brexit landscape offers more clarity. The table below sets out the market in terms of spot and forward rates as at 6 August 2019. 3 year market pricing is currently not available for real rate and breakeven inflation rates.

Summary of market spot and forward rates

	6 August 2019	In 3 years	In 5 years
	20 year Spot Rate	Market Pricing	Market Pricing
Real	-2.3%	N/A	-1.9%
Nominal	+1.2%	+1.4%	+1.5%
Breakeven*	+3.6%	N/A	+3.5%

*Totals may not sum exactly due to rounding

Conclusion

The funding level increased over the quarter whilst long term bond yields have fallen to even lower levels.

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.