

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 – Q2 2020

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 2019.

The funding level as at 30 June 2020 was 86%, compared to 94% as at 31 March 2019.

30 June 2020	Ongoing Basis*
Assets	£872m
Liabilities	£1,013m
Surplus (deficit)	(£141m)
Funding Level	86%

*This funding update is provided to illustrate the estimated development of the funding position from 31 March 2019 to 30 June 2020.



Source: Hymans Robertson

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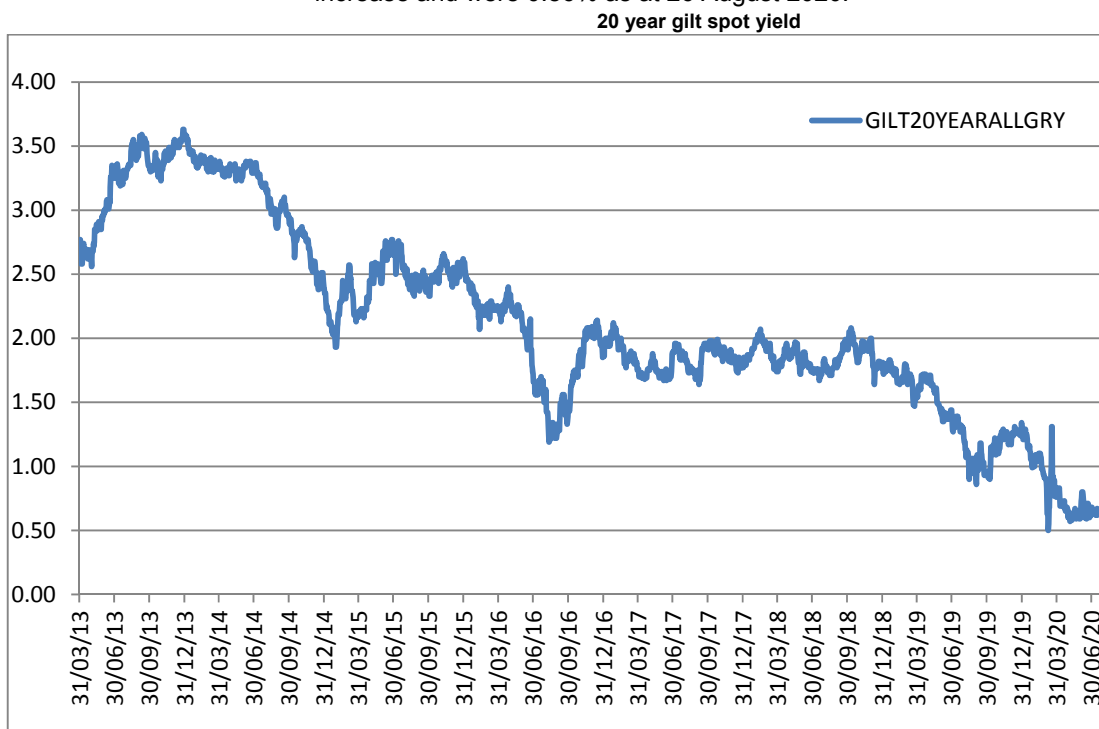
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20 year spot yield

The chart below shows the movement of the 20 year spot yield from 31 March 2013 to 26 August 2020. Yields ended the second quarter of 2020 at 0.64%, a fall from their 0.83% level at the end of Q1 2020. Yields continued to fall as the magnitude of the economic impact of the lockdown began to be felt. Since the easing of the lockdown yields have begun to increase and were 0.86% as at 26 August 2020.



Aon views on bond yields

Given the current uncertainty in markets, Aon's Fixed Income Team has suspended its medium-term projections on rates until the landscape offers more clarity. The table below sets out the market in terms of spot and forward rates as at 13 July 2020.

Summary of market spot and forward rates

	13 July 2020	In 3 years	In 5 years
	20 year Spot Rate	Market Pricing	Market Pricing
Real	-2.53%	-2.38%	-2.25%
Nominal	+0.66%	+0.82%	+0.90%
Breakeven*	+3.28%	+3.28%	+3.22%

*Totals may not sum exactly due to rounding

Conclusion

- The Fund's funding level fell over the quarter;
- Long term bond yields continued to fall over the quarter as the economic ramifications of the lockdown were realised;
- Given the current market uncertainty and the work being undertaken in relation to the Fund's investment strategy, no immediate de-risking actions are recommended.

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