Barnett Waddingham

LB Hammersmith and Fulham Pension Fund

Funding Update Report

as at 31 March 2014

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1. Introduction

1.1. The purpose of this assessment is to provide an update on the funding position. The purpose of this report is to provide an update on the funding position of the LB Hammersmith and Fulham Pension Fund as at 31 March 2014.

1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.

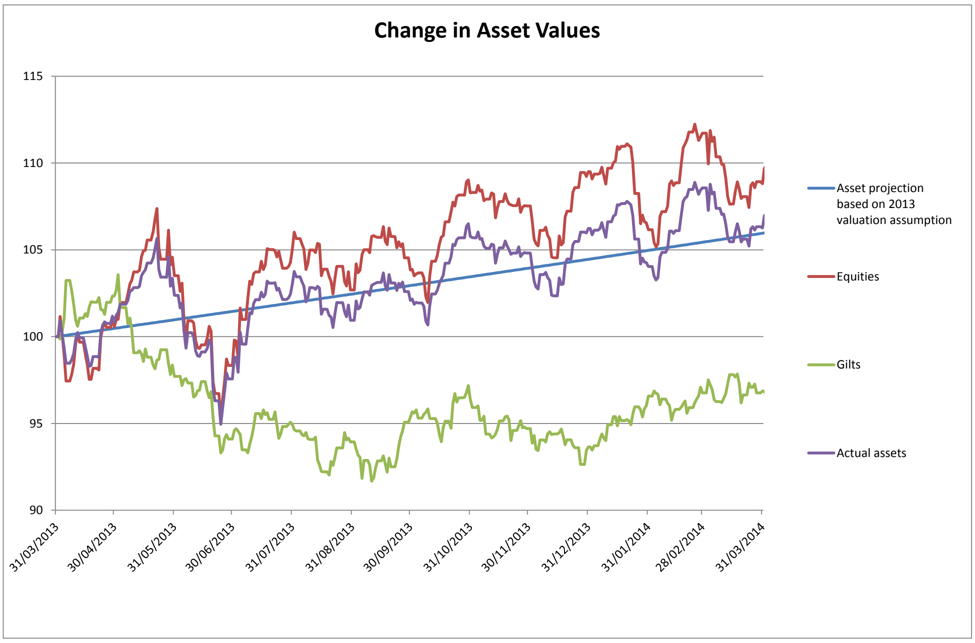
2. Assets

2.1. We were provided with the following asset allocation of the LB Hammersmith and Fulham Pension Fund as at 30 November 2013:

Assets (Market Value)	30 November 2013		31 March 2013	
	£000's	%	£000's	%
Absolute Return	193,398	25.7%	191,468	26.4%
Commodities	2,668	0.4%	4,615	0.6%
Hedge Funds	89,733	11.9%	101,396	14.0%
UK and Overseas Equities	425,881	56.6%	390,299	53.9%
Gilts	24,278	3.2%	23,755	3.3%
Cash and Accruals	16,445	2.2%	12,553	1.7%
Total Assets	**752,403**	**100%**	**724,086**	**100%**

2.2. From 30 November, we have assumed that the Fund has achieved returns in line with the market to 31 March 2014 based on the above strategy, which would suggest a return of about 6.3% since 31 March 2013.

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see asset value as at 31 March 2014 in market value terms is estimated to be slightly more than where it was projected to be at the previous valuation.

3. Changes in Market Conditions – Market Yields and Discount Rates

3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities however is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	31 March 2014		30 November 2013		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.77%	-	2.80%	-	2.74%	-
Salary Increases	4.57%	1.80%	4.60%	1.80%	4.54%	1.80%
Discount Rate	6.06%	3.29%	6.10%	3.30%	5.96%	3.22%

3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is higher than at the 2013 valuation, reducing the value of liabilities used for funding purposes.

4. Summary of Results

4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2014 is 86% and the average required employer contribution would be 20.4% of payroll for pre-2014 benefits or 20.1% of payroll for post-2014 benefits assuming the deficit is to be paid over 22 years.
- This compares with the reported (smoothed) funding level of 83% and average required employer contribution of 22.2% of payroll for pre-2014 benefits or 21.9% of payroll for post-2014 benefits at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 31 March 2014 is 6.1% per annum. The investment return required to restore the funding level to 100% over 22 years, without the employers paying deficit contributions, would be 6.8% per annum.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.

Mark Norquay FFA
Associate

Appendix 1 Financial position since previous valuation

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures for the previous 3 months are projected numbers and likely to change up until 3 months after the reporting date.

Smoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Discount Rate	Return required to restore funding level (pa)
March 2013	715,915	863,421	(147,506)	83%	13.9%	8.3%	22.2%	6.0%	6.8%
April 2013	723,783	867,295	(143,512)	83%	14.0%	8.0%	22.0%	6.0%	6.8%
May 2013	728,942	867,710	(138,768)	84%	13.9%	7.7%	21.6%	6.0%	6.8%
June 2013	731,725	866,511	(134,786)	84%	13.7%	7.5%	21.3%	6.0%	6.8%
July 2013	735,688	866,971	(131,283)	85%	13.7%	7.3%	21.0%	6.1%	6.8%
August 2013	737,070	866,857	(129,786)	85%	13.6%	7.2%	20.8%	6.1%	6.8%
September 2013	741,553	870,347	(128,794)	85%	13.6%	7.2%	20.7%	6.1%	6.8%
October 2013	746,849	874,385	(127,536)	85%	13.6%	7.1%	20.7%	6.1%	6.8%
November 2013	750,901	874,100	(123,199)	86%	13.5%	6.8%	20.3%	6.1%	6.8%
December 2013	754,913	877,539	(122,627)	86%	13.5%	6.8%	20.3%	6.1%	6.8%
January 2014	757,580	880,575	(122,996)	86%	13.5%	6.8%	20.3%	6.1%	6.8%
February 2014	757,820	882,303	(124,483)	86%	13.5%	6.8%	20.4%	6.1%	6.8%
March 2014	761,470	886,489	(125,019)	86%	13.5%	6.9%	20.4%	6.1%	6.8%