

Barnett Waddingham

**London Borough of
Hammersmith and Fulham
Pension Fund**

Funding Update Report
as at 30 September 2014

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1. Introduction

- 1.1. We have carried out a quarterly monitoring assessment of the London Borough of Hammersmith and Fulham Pension Fund as at 30 September 2014. The purpose of this assessment is to provide an update on the funding position.
- 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

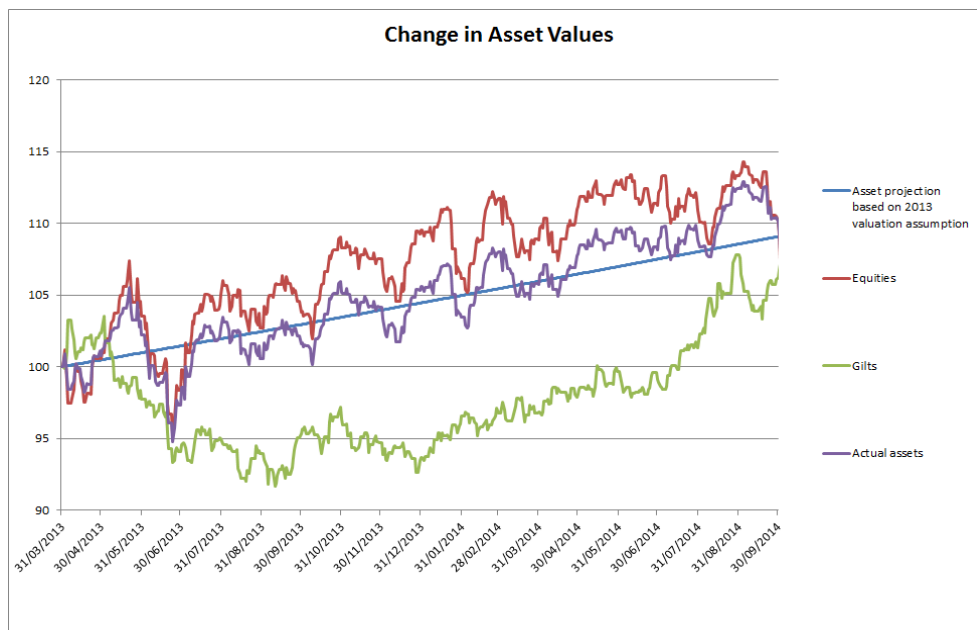
2.1. The estimated (unsmoothed) asset allocation of the London Borough of Hammersmith and Fulham Pension Fund as at 30 September 2014 is as follows:

Assets (Market Value)	30 September 2014		30 June 2014		31 March 2013	
	£000's	%	£000's	%	£000's	%
Absolute Return	68,314	8.6%	195,357	25.1%	191,468	26.4%
Commodities	2,823	0.4%	2,612	0.3%	4,615	0.6%
Hedge Funds	106,707	13.4%	94,918	12.2%	101,396	14.0%
UK and Overseas Equities	438,361	55.2%	440,023	56.4%	390,299	53.9%
Gilts	27,366	3.4%	26,097	3.3%	23,755	3.3%
Cash and Accruals	149,885	18.9%	20,603	2.6%	12,553	1.7%
Total Assets	793,455	100%	779,610	100%	724,086	100%

2.2. The increase in the cash allocation is due to the sale of some absolute return assets close to the valuation date. For the purposes of this interim review we have assumed that the cash proceeds will be reinvested in similar growth assets.

2.3. The investment return achieved by the Fund's assets in market value terms for the quarter to 30 September 2014 is estimated to be 1.9%. The return achieved since the previous valuation is estimated to be 10.2% (which is equivalent to 6.7% per annum).

2.4. 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:



2.5. As we can see the asset value as at 30 September 2014 in market value terms is 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 shows how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	30 September 2014		30 June 2014		31 March 2013	
	Nominal %p.a.	Real	Nominal %p.a.	Real	Nominal %p.a.	Real
Pension Increases	2.67%	-	2.74%	-	2.74%	-
Salary Increases	4.47%	1.80%	4.54%	1.80%	4.54%	1.80%
Discount Rate	5.87%	3.20%	5.95%	3.21%	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 broadly similar as at the 2013 valuation, maintaining 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 30 September 2014 is 85.6% and the average required employer contribution would be 21.8% of payroll assuming the deficit is to be paid by 2035.
- This compares with the reported (smoothed) funding level of 82.9% and average required employer contribution of 21.9% of payroll at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 30 September 2014 is 5.9% per annum. The investment return required to restore the funding level to 100% by 2035, without the employers paying deficit contributions, would be 6.6% 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.



Graeme D Muir FFA
Partner

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. The Ongoing Cost is the cost of the CARE benefits.

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
March 2013	715,915	863,421	(147,506)	83%	13.6%	8.3%	21.9%	6.0%	6.8%
April 2013	723,791	867,688	(143,897)	83%	13.6%	8.1%	21.7%	6.0%	6.8%
May 2013	728,946	868,509	(139,564)	84%	13.6%	7.8%	21.4%	6.0%	6.8%
June 2013	731,739	867,699	(135,960)	84%	13.5%	7.7%	21.1%	6.0%	6.8%
July 2013	735,705	868,567	(132,861)	85%	13.4%	7.5%	20.9%	6.1%	6.8%
August 2013	737,087	868,857	(131,770)	85%	13.3%	7.5%	20.8%	6.1%	6.9%
September 2013	741,569	872,754	(131,185)	85%	13.3%	7.4%	20.8%	6.1%	6.9%
October 2013	746,859	877,215	(130,356)	85%	13.4%	7.4%	20.8%	6.1%	6.8%
November 2013	750,901	877,319	(126,419)	86%	13.3%	7.2%	20.5%	6.1%	6.8%
December 2013	755,725	881,184	(125,459)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
January 2014	760,194	884,185	(123,991)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
February 2014	763,200	887,025	(123,825)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
March 2014	767,141	891,546	(124,405)	86%	13.4%	7.1%	20.5%	6.1%	6.8%
April 2014	774,710	898,649	(123,939)	86%	13.4%	7.3%	20.7%	6.0%	6.8%
May 2014	777,240	903,109	(125,869)	86%	13.5%	7.4%	20.9%	6.0%	6.8%
June 2014	779,486	910,536	(131,049)	86%	13.6%	7.7%	21.4%	6.0%	6.7%
July 2014	786,787	919,151	(132,364)	86%	13.7%	8.0%	21.6%	5.9%	6.7%
August 2014	790,518	923,582	(133,064)	86%	13.7%	8.0%	21.7%	5.9%	6.7%
September 2014	793,688	927,324	(133,636)	86%	13.7%	8.1%	21.8%	5.9%	6.6%