HYMANS ROBERTSON

London Borough of Tower Hamlets Pension Fund

Funding and risk report as at 31 March 2019

HEADLINES

31 March 2019	Ongoing funding
Assets	£1,568m
Liabilities	£1,729m
Surplus/(deficit)	(£160m)
Funding level	90.7%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 March 2019, for the London Borough of Tower Hamlets Pension Fund ("the Fund"). It is addressed to the London Borough of Tower Hamlets in its capacity as the Administering Authority of the Fund and has been prepared in my capacity as your actuarial adviser.

At the last formal valuation the Fund assets were £1,126m and the liabilities were £1,361m. This represents a deficit of £235m and equates to a funding level of 82.8%. Since the valuation the funding level has increased by c7.9% to 90.7% as detailed in the table above.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

Should you have any queries please contact me.

Barry Dodds FFA

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Notes

The most recent actuarial (Navigator) report shows an estimated funding level at 31/3/19 that is above the 2016 published funding level.

It is worth emphasising that this assessment of the health of the whole fund is a crude one - produced by a single, simple, mechanical projection of the 2016 position allowing only for market changes (asset returns, market yields) and estimated contributions paid.

As part of the actual 2019 valuation, the actuaries will not only collect new membership data to refresh their analysis, but are also revisiting the actuarial assumptions that are to be used in their calculations. It should be noted that, after a positive 3 years for asset returns, the actuary's expectation is that the relative and absolute position of the Fund (and most of the employers underneath) at the 2019 valuation will continue to be a healthy one.

One interesting aspect of the 2019 valuation will be the impact of increasing scrutiny. Whilst setting contributions continues to be the key output from the valuations, there will be continuing interest in the "health of the Fund" and how that it is presented to the various different scrutineers – the existing declaration of the health via a single funding level will be reviewed and may change from the current approach.

Reliances and limitations

This report was commissioned by and is addressed to the London Borough of Tower Hamlets in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

HYMANS ROBERTSON

London Borough of Tower Hamlets Pension Fund | Strategy and Risk Management dashboard

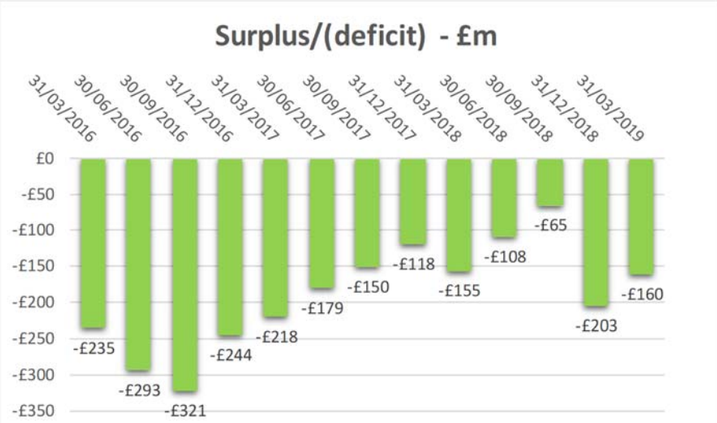
CURRENT POSITION

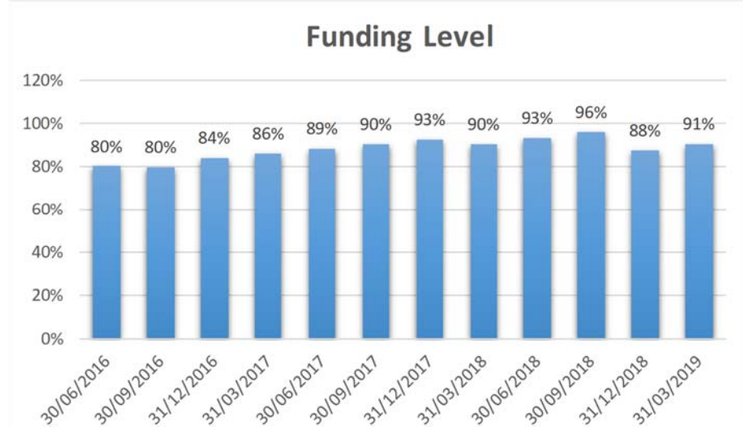
31 March 2019	Ongoing funding
Assets	£1,568m
Liabilities	£1,729m
Surplus/(deficit)	(£160m)
Funding level	90.7%

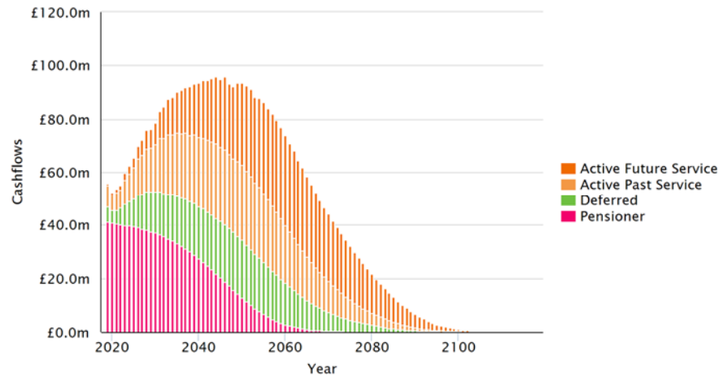
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(235)
Contributions (less benefits accruing)	45
Interest on surplus/(deficit)	(21)
Excess return on assets	259
Impact of change in yields & inflation	(209)
Surplus/(deficit) as at 31/03/2019	(160)

	31 March 2016	31 December 2018	31 March 2019
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.76%	1.48%
Index-linked Gilts	-0.96%	-1.54%	-1.81%
Implied Inflation	3.16%	3.35%	3.35%
AA Corporate Bonds	3.36%	2.76%	2.36%
Price Indices			
FTSE All Share	3,395	3,675	3,978
FTSE 100	6,175	6,728	7,279

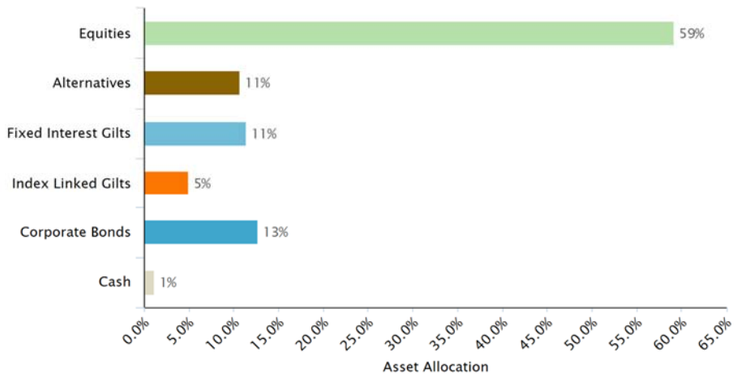
PROGRESS

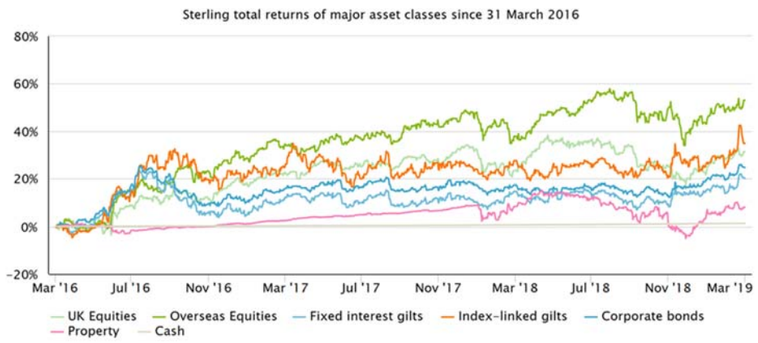






ASSETS AND RISKS





Sensitivity Matrix as at 31 March 2019 for Ongoing funding basis (£m)

Shift in bond yields (% p.a.) \ Shift in equity level (using FTSE 100 levels as proxy)	5,095 -30%	5,823 -20%	6,551 - 10%	7,279	8,007 + 10%	8,735 + 20%	9,463 + 30%
+0.6	(368)	(259)	(149)	(39)	70	180	289
+0.4	(406)	(297)	(187)	(77)	32	142	251
+0.2	(446)	(337)	(227)	(118)	(8)	101	211
0.0	(489)	(380)	(270)	(160)	(51)	59	168
-0.2	(535)	(425)	(315)	(206)	(96)	13	123
-0.4	(583)	(473)	(364)	(254)	(145)	(35)	74
-0.6	(635)	(525)	(415)	(306)	(196)	(87)	23

less than 50% | 50% - 85% | 85% - 95% | 95% - 100% | 100% - 105% | 105% - 115% | greater than 115%

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