

## 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 as at 31 March 2019, 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. This funding update has been carried out as at a date of 31 December 2020. There has been extreme volatility in investment markets in response to the COVID-19 global pandemic. This may impact both asset and liability valuations, but in particular may impact the estimate of future investment returns. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

# London Borough of Tower Hamlets Pension Fund

Funding and risk report as at 31 December 2020

	31 December 2020	Ongoing Funding (£m)
HEADLINE	Assets	1,948
	Liabilities	1,716
	Surplus/(deficit)	232
	Funding level	114%

## Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2019 to 31 December 2020, for the London Borough of Tower Hamlets Pension Fund ("the Fund"). It is addressed to 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 £1,552m and the liabilities were £1,525m. This represented a surplus of £27m and equated to a funding level of 102%. Since the valuation the funding level has increase by 12% to 114%. However, the impact on the Consumer Prices Index (CPI) inflation assumption of the recent announcements regarding the Retail Prices Index (RPI) switching to CPIH (a measure of CPI including owner occupiers housing costs) from 2030 is still being assessed. This could have an impact on the estimated funding level shown throughout this report.

Investment returns of 24% over the period since the valuation have been higher than expected. However, the outlook for future investment returns over the next 20 years on the Fund's portfolio of assets has fallen (from 4% to 3.2%), increasing the value placed on liabilities. A full breakdown of the impact of these changes on the funding surplus is included in the dashboard.

Should you have any queries please contact me.

Barry Dodds FFA

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

HEADLINE

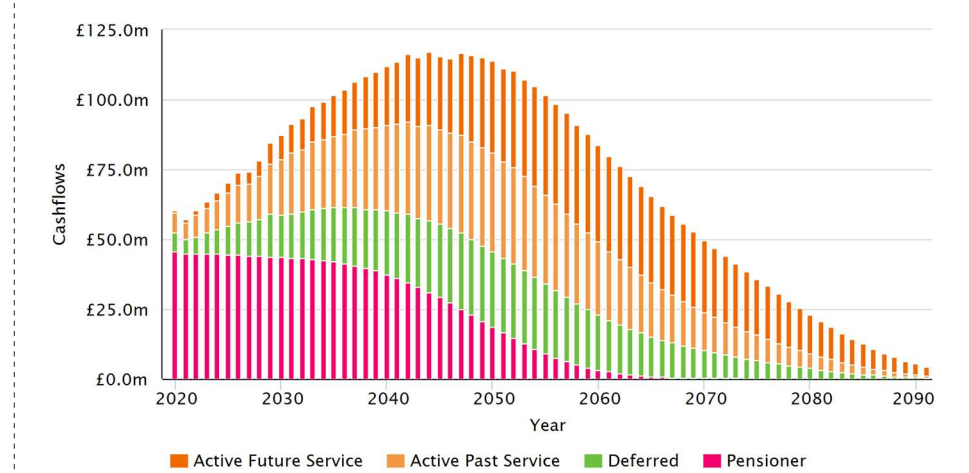
31 December 2020	Ongoing Funding (£m)
<b>Assets</b>	<b>1,948</b>
<b>Liabilities</b>	<b>1,716</b>
<b>Surplus/(deficit)</b>	<b>232</b>
<b>Funding level</b>	<b>114%</b>

Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2019	27
Contributions (less benefits accruing)	(7)
Interest on surplus/(deficit)	(0)
Excess return on assets	368
Change in inflation & expected future investment return	(155)
Surplus/(deficit) as at 31/12/2020	232

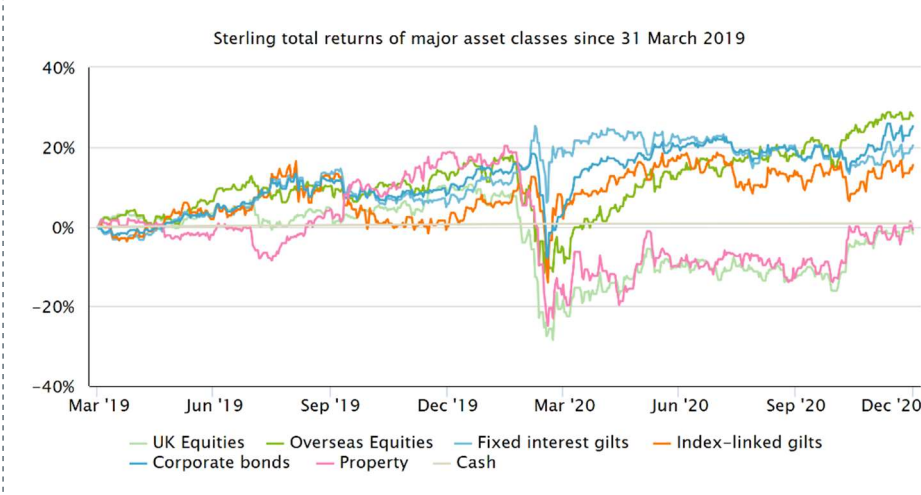
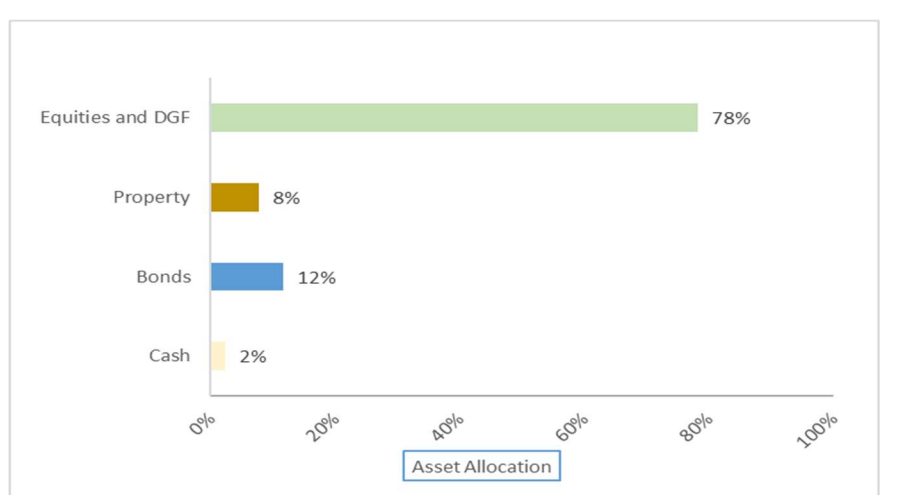
	31 March 2019	31 December 2020
<b>Market yields (p.a.)</b>		
Fixed interest gilts	1.49%	0.67%
Index-linked gilts	-1.81%	-2.31%
Implied inflation	3.36%	3.05%
AA corporate bond yield	2.36%	1.35%
<b>Price Index</b>		
FTSE All Share	3,978	3,674
FTSE 100	7,279	6,461
<b>Expected future investment return (p.a.)</b>		
20yr annualised return on Fund's asset portfolio*	4.0%	3.2%

\*There is at least a 70% likelihood of the Fund's investments achieving a return of at least 3.2% p.a. over the next 20 years  
 \*There was some extreme volatility in investment markets around the date of 31 December 2020, which may impact the likelihood estimates of expected future investment returns in this report.

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Shift in expected future investment return (% p.a.)	Shift in equity level (using FTSE 100 levels as proxy)						
	4,522 -30%	5,168 -20%	5,814 -10%	6,461	7,107 +10%	7,753 +20%	8,399 +30%
+0.6	(91)	77	244	412	580	747	915
+0.4	(147)	21	188	356	524	691	859
+0.2	(207)	(39)	129	296	464	631	799
0.0	(271)	(103)	65	232	400	567	735
-0.2	(339)	(171)	(3)	164	332	499	667
-0.4	(412)	(244)	(76)	91	259	426	594
-0.6	(490)	(322)	(154)	13	181	348	516

Legend: less than 50%, 50% - 85%, 85% - 95%, 95% - 100%, 100% - 105%, 105% - 115%, greater than 115%