

City of Westminster Pension Fund

Funding update report as at 30 June 2016

Barnett Waddingham LLP

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Introduction

We have carried out a quarterly monitoring assessment of the City of Westminster Pension Fund (the Fund) as at 30 June 2016. The purpose of this assessment is to provide an update on the funding position.

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

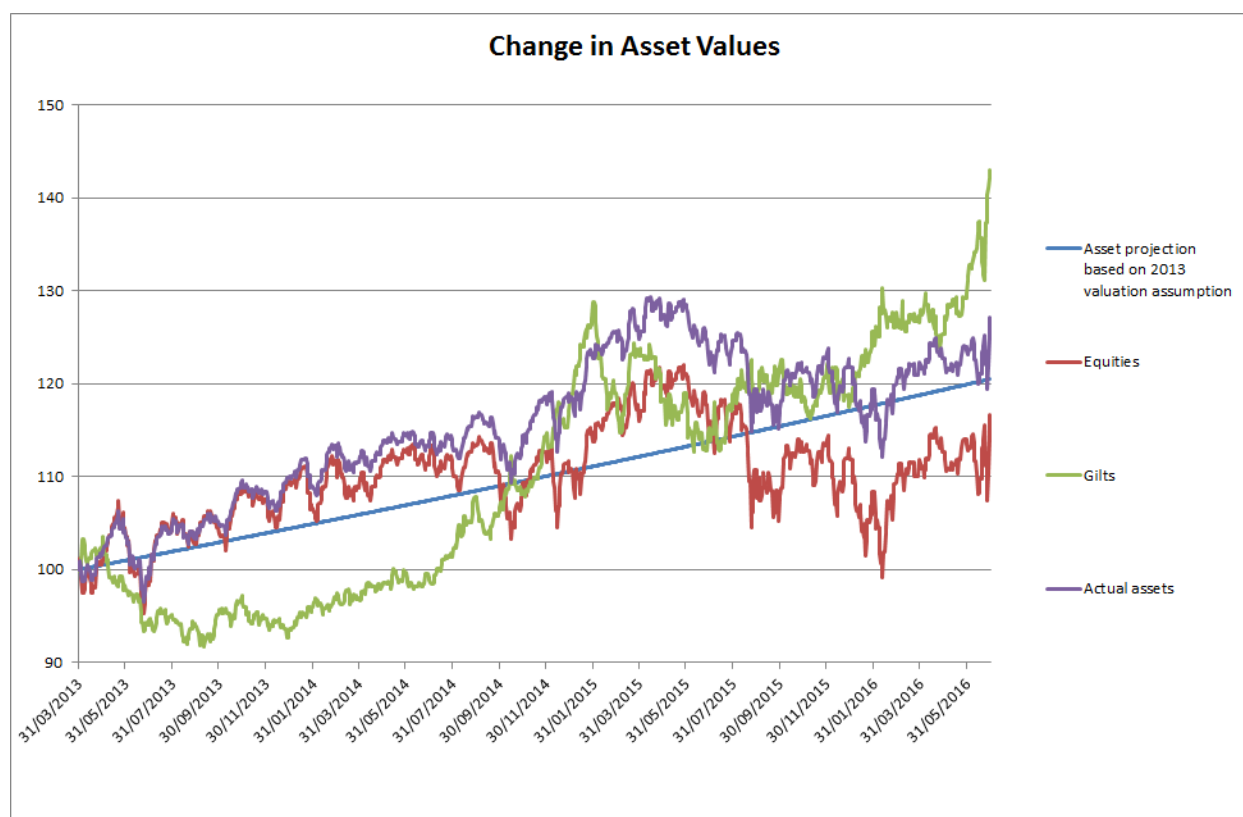
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 June 2016 is as follows:

Assets (Market Value)	30 June 2016		31 March 2016		31 March 2013	
	£000's	%	£000's	%	£000's	%
UK and Overseas Equities	806,806	73.5%	773,617	73.1%	643,179	73.6%
Bonds	143,033	13.0%	146,427	13.8%	111,092	12.7%
Property	106,582	9.7%	105,810	10.0%	35,787	4.1%
Gilts	28,022	2.6%	26,732	2.5%	49,821	5.7%
Cash and Accruals	12,934	1.2%	5,349	0.5%	34,303	3.9%
Total Assets	1,097,377	100%	1,057,934	100%	874,182	100%

The investment return achieved by the Fund's assets in market value terms for the quarter to 30 June 2016 is estimated to be 4.2%. The return achieved since the previous valuation is estimated to be 27.1% (which is equivalent to 7.7% p.a.).

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



As we can see the asset value as at 30 June 2016 in market value terms is more than where it was projected to be at the previous valuation.

Changes in market conditions – market yields and discount rates

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 June 2016		31 March 2016		31 March 2013	
	Nominal %p.a.	Real	Nominal %p.a.	Real	Nominal %p.a.	Real
Pension Increases	2.42%	-	2.49%	-	2.74%	-
Salary Increases	4.22%	1.80%	4.29%	1.80%	4.54%	1.80%
Discount Rate						
<i>Scheduled Bodies</i>	5.55%	3.14%	5.78%	3.29%	5.90%	3.16%
<i>Admission Bodies (in service)</i>	4.28%	1.86%	4.53%	2.03%	4.90%	2.16%
<i>Admission Bodies (left service)</i>	2.50%	0.08%	2.77%	0.28%	3.50%	0.76%

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. The main real discount rate is broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.

Summary of results

The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 30 June 2016 is 79% and the average required employer contribution would be 31.0% of payroll assuming the deficit is to be paid by 2038;
- this compares with the reported (smoothed) funding level of 74% and average required employer contribution of 29.8% of payroll at the City of Westminster Pension Fund funding valuation.

The discount rate underlying the smoothed funding level as at 30 June 2016 is 5.6% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.7% p.a.

SAB comparison model

For illustrative purposes, we have also assessed the funding position using the LGPS Scheme Advisory Board's (SAB) standardised financial assumptions. As part of the 2016 actuarial valuation, we will be required to calculate this funding level and submit it to the SAB so that LGPS Funds can be easily compared with each other. For the purposes of our calculation, we have adopted a 3% real discount rate based on a CPI assumption of 2% p.a.

As at 31 March 2013, we estimate the funding level of the Whole Fund to be 78% on the SAB basis. As at 30 June 2016, this is estimated to have increased to 88%.

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.

As part of the formal 2016 valuation we will be assessing the funding position and required contribution rates not only on a basis that is consistent with the last valuation, but also in light of the SAB's comparative basis and also the Government Actuary's section 13 valuation. We will also be reviewing all the assumptions (and in particular the possible impact of Brexit) and so the results set out in this report are unlikely to be those that we finally report on from the formal 2016 valuation. Without pre-empting these discussions it is likely that we will be considering a more prudent view of the future than adopted at the 2013 valuation (at least for the Scheduled Bodies).

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



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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 six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Smoothed										
Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing (% of Payroll)	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
March 2013	866,938	1,164,198	(297,260)	74%	14.3%	13.3%	16.5%	29.8%	5.9%	7.1%
April 2013	878,910	1,165,568	(286,658)	75%	14.3%	13.8%	13.1%	26.8%	5.9%	7.1%
May 2013	888,642	1,169,568	(280,926)	76%	14.2%	13.7%	12.9%	26.6%	5.9%	7.1%
June 2013	895,688	1,170,718	(275,030)	77%	14.1%	13.5%	12.7%	26.2%	6.0%	7.1%
July 2013	904,339	1,173,403	(269,063)	77%	14.0%	13.4%	12.5%	25.9%	6.0%	7.0%
August 2013	909,690	1,175,518	(265,828)	77%	13.9%	13.3%	12.4%	25.7%	6.0%	7.1%
September 2013	918,777	1,183,051	(264,274)	78%	13.9%	13.3%	12.3%	25.7%	6.0%	7.1%
October 2013	929,362	1,191,805	(262,443)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
November 2013	938,213	1,201,055	(262,842)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
December 2013	946,872	1,211,047	(264,176)	78%	14.0%	13.4%	12.4%	25.8%	6.0%	7.0%
January 2014	954,969	1,220,108	(265,139)	78%	13.9%	13.4%	14.1%	27.5%	6.0%	7.0%
February 2014	962,658	1,228,794	(266,137)	78%	13.9%	13.4%	14.3%	27.7%	6.0%	7.0%
March 2014	1,004,578	1,236,829	(232,251)	81%	13.9%	13.4%	14.4%	27.8%	6.0%	6.9%
April 2014	1,005,726	1,247,749	(242,023)	81%	-	13.4%	15.8%	29.2%	6.0%	6.9%
May 2014	1,007,188	1,258,014	(250,825)	80%	-	13.4%	16.3%	29.7%	5.9%	6.9%
June 2014	1,009,896	1,238,977	(229,081)	82%	-	12.8%	15.5%	28.3%	6.1%	7.0%
July 2014	1,009,337	1,256,980	(247,642)	80%	-	13.0%	15.2%	28.2%	6.1%	7.0%
August 2014	1,009,990	1,267,542	(257,552)	80%	-	13.0%	15.8%	28.8%	6.0%	7.0%
September 2014	1,009,471	1,277,558	(268,087)	79%	-	13.0%	16.4%	29.4%	6.0%	7.0%
October 2014	1,023,980	1,302,309	(278,329)	79%	-	13.2%	17.1%	30.4%	5.9%	7.0%
November 2014	1,034,712	1,316,533	(281,820)	79%	-	13.3%	17.7%	31.0%	5.9%	6.9%
December 2014	1,040,341	1,330,754	(290,413)	78%	-	13.4%	18.4%	31.8%	5.9%	6.9%
January 2015	1,078,282	1,357,915	(279,633)	79%	-	13.7%	17.5%	31.2%	5.8%	6.8%
February 2015	1,091,181	1,371,376	(280,195)	80%	-	13.8%	17.9%	31.7%	5.8%	6.7%
March 2015	1,104,985	1,374,723	(269,739)	80%	-	13.7%	17.6%	31.3%	5.8%	6.8%
April 2015	1,106,355	1,376,996	(270,640)	80%	-	13.6%	17.4%	31.0%	5.9%	6.9%
May 2015	1,105,768	1,385,201	(279,433)	80%	-	13.5%	17.8%	31.4%	6.0%	7.0%
June 2015	1,103,539	1,409,858	(306,319)	78%	-	13.9%	19.0%	32.8%	5.9%	7.0%
July 2015	1,075,550	1,399,015	(323,464)	77%	-	13.4%	19.9%	33.3%	6.0%	7.2%
August 2015	1,065,910	1,403,042	(337,132)	76%	-	13.3%	20.5%	33.8%	6.1%	7.3%
September 2015	1,054,032	1,415,081	(361,048)	74%	-	13.3%	21.6%	34.9%	6.1%	7.4%
October 2015	1,045,357	1,393,809	(348,452)	75%	-	14.1%	20.9%	35.0%	6.1%	7.4%
November 2015	1,037,921	1,376,553	(338,632)	75%	-	13.9%	20.2%	34.0%	5.9%	7.1%
December 2015	1,044,752	1,374,674	(329,922)	76%	-	14.0%	19.4%	33.4%	5.8%	7.0%
January 2016	1,044,649	1,365,555	(320,905)	77%	-	14.0%	18.7%	32.7%	5.8%	7.0%
February 2016	1,039,835	1,350,435	(310,600)	77%	-	13.9%	18.0%	31.9%	5.8%	7.0%
March 2016	1,035,950	1,320,585	(284,635)	78%	-	13.8%	17.3%	31.2%	5.8%	6.9%
April 2016	1,062,187	1,339,884	(277,697)	79%	-	14.1%	14.0%	28.1%	5.6%	6.7%
May 2016	1,069,701	1,351,663	(281,962)	79%	-	14.3%	16.3%	30.6%	5.6%	6.7%
June 2016	1,073,450	1,360,660	(287,209)	79%	-	14.4%	16.6%	31.0%	5.6%	6.6%