City of Westminster Pension Fund

Funding update report as at 31 March 2017

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 31 March 2017. 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.

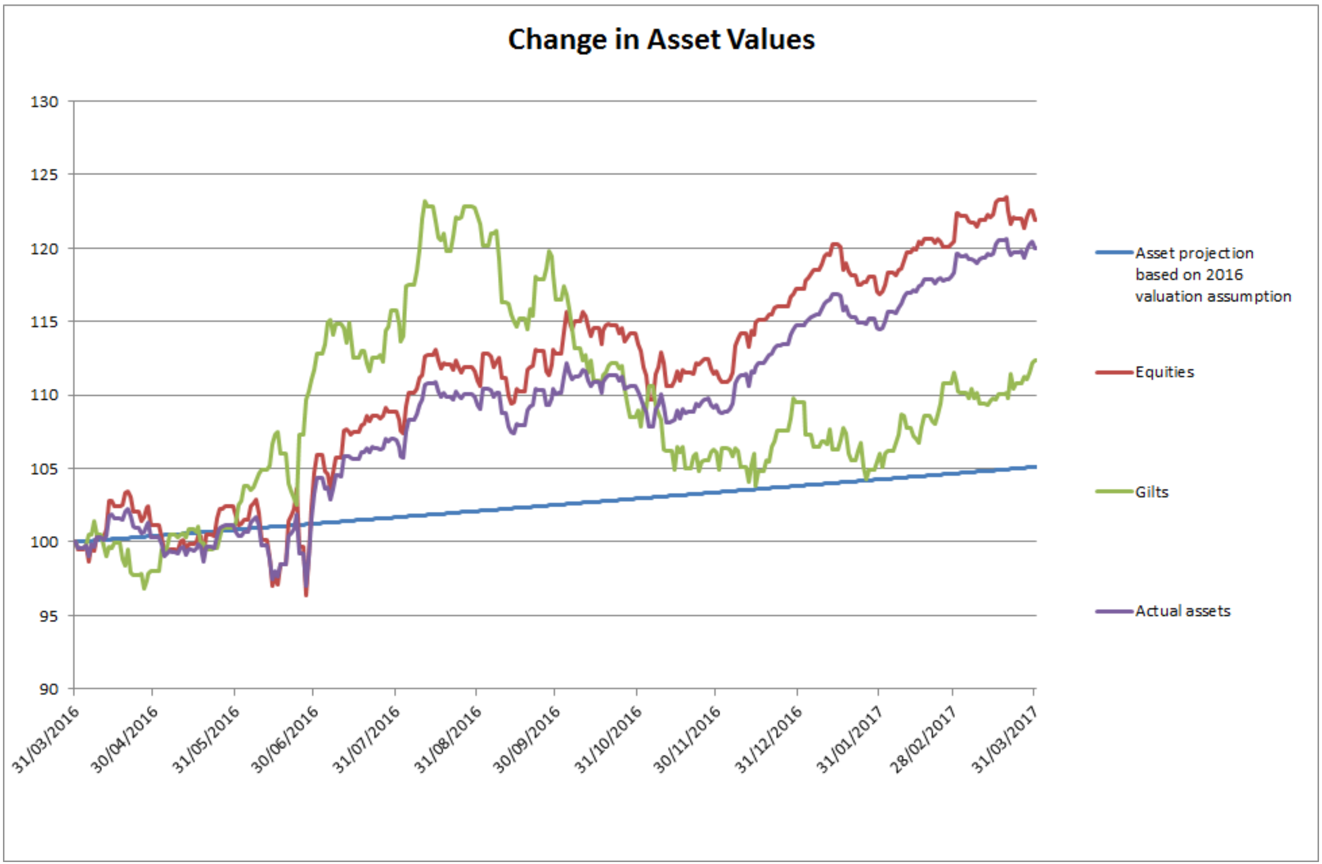
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 March 2017 is as follows:

Assets (market value)	31 Mar 2017		31 Dec 2016		31 Mar 2016	
	£000s	%	£000s	%	£000s	%
UK and overseas equities	960,774	76.1%	916,339	75.7%	790,289	74.1%
Bonds	156,337	12.4%	150,903	12.5%	130,390	12.2%
Property	110,739	8.8%	108,801	9.0%	105,811	9.9%
Gilts	27,334	2.2%	27,889	2.3%	26,733	2.5%
Cash and accruals	6,708	0.5%	7,199	0.6%	13,120	1.2%
Total assets	**1,261,892**	**100%**	**1,211,130**	**100%**	**1,066,343**	**100%**

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 March 2017 is estimated to be 4.5%. The return achieved since the previous valuation is estimated to be 19.9%.

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 31 March 2017 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 show how these assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	31 Mar 2017		31 Dec 2016		31 Mar 2016	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases	2.80%	-	2.81%	-	2.39%	-
Salary increases	4.30%	1.50%	4.31%	1.50%	3.89%	1.50%
Main discount rate	5.05%	2.25%	5.10%	2.29%	5.10%	2.71%

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 lower than at the 31 March 2016 valuation, increasing the value of liabilities used for funding purposes.

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Summary of results

The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 31 March 2017 is 85% and the average required employer contribution would be 30.1% of payroll assuming the deficit is to be paid by 2038;
- this compares with the reported (smoothed) funding level of 80% and average required employer contribution of 28.5% of payroll at the 31 March 2016 funding valuation.

Whilst the funding level has increased due to much higher than expected investment returns, net of a reduction in real discount rates, the lower real discount rates have also increased the cost of ongoing accrual of benefits and so the improved past service funding position has not resulted in a lower overall contribution requirement.

The discount rate underlying the smoothed funding level as at 31 March 2017 is 5.0% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 5.9% p.a.

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.

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 £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2016	1,056,747	1,320,797	(264,050)	80%	16.9%	11.6%	28.5%	5.1%	6.1%
30 Apr 2016	1,069,289	1,336,290	(267,001)	80%	17.2%	11.9%	29.1%	5.0%	6.0%
31 May 2016	1,088,792	1,361,959	(273,167)	80%	17.7%	12.1%	29.8%	4.9%	5.9%
30 Jun 2016	1,103,684	1,383,592	(279,908)	80%	18.2%	12.4%	30.6%	4.8%	5.9%
31 Jul 2016	1,121,960	1,404,218	(282,258)	80%	18.6%	12.4%	31.0%	4.8%	5.8%
31 Aug 2016	1,133,402	1,420,778	(287,376)	80%	18.9%	12.7%	31.6%	4.8%	5.9%
30 Sep 2016	1,150,014	1,437,397	(287,383)	80%	19.3%	12.6%	31.9%	4.9%	5.9%
31 Oct 2016	1,172,816	1,449,174	(276,358)	81%	19.4%	12.2%	31.6%	4.9%	5.9%
30 Nov 2016	1,185,339	1,456,239	(270,900)	81%	19.5%	12.0%	31.5%	5.0%	6.0%
31 Dec 2016	1,206,192	1,462,284	(256,092)	82%	19.5%	11.3%	30.8%	5.1%	6.0%
31 Jan 2017	1,217,761	1,466,251	(248,490)	83%	19.5%	11.0%	30.5%	5.1%	6.0%
28 Feb 2017	1,237,696	1,475,619	(237,923)	84%	19.7%	10.6%	30.3%	5.1%	5.9%
31 Mar 2017	1,255,740	1,485,814	(230,074)	85%	19.8%	10.3%	30.1%	5.0%	5.9%