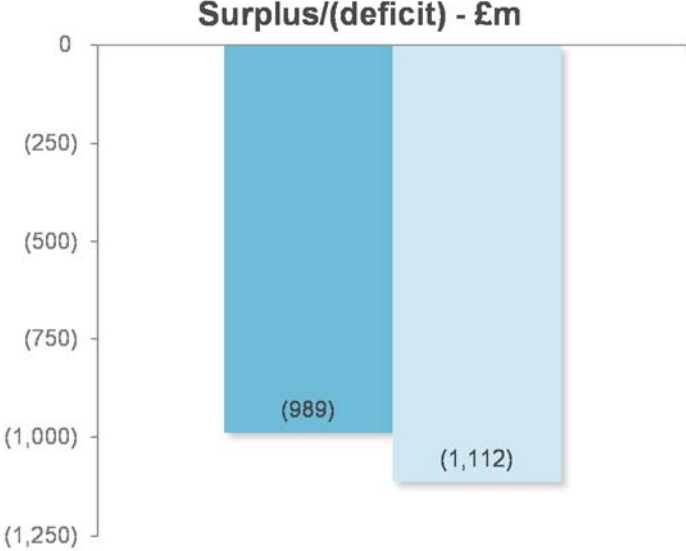
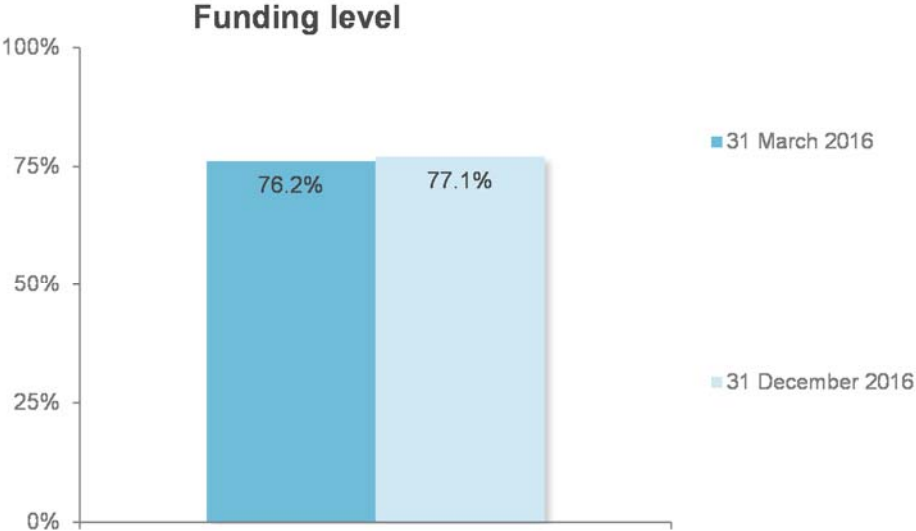


# Leicestershire County Council Pension Fund

Funding update as at 31 December 2016



## Summary

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

The funding level at the latest formal valuation was 76.2%. As at 31 December 2016 the funding level has increased to 77.1%. This represents a deficit of £989m at 31 March 2016 increasing to a deficit of £1,112m at 31 December 2016. A breakdown of this can be found in the graph on page 5 of this report.

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 McKay FFA  
Fund Actuary

### Differences between this funding update and a full actuarial valuation

The accuracy of this type of funding update calculation is expected to decline over time as the period since the last valuation increases. This is because this funding update does not allow for changes in individual members' data since the last valuation.

Details of the approach used in this funding update are given in the appendix.

The figures in tables throughout this document may not add up due to rounding.

## Estimated financial position at 31 December 2016

### Ongoing funding basis

£m	31 Mar 2016	31 Dec 2016
Assets	3,164	3,745
Liabilities	4,153	4,857
Surplus/(deficit)	<b>(989)</b>	<b>(1,112)</b>
Funding level	76.2%	77.1%

### Investment return

Quarter Ending	%
30/06/2016	6.5%
30/09/2016	6.2%
31/12/2016	4.5%

### Market indicators

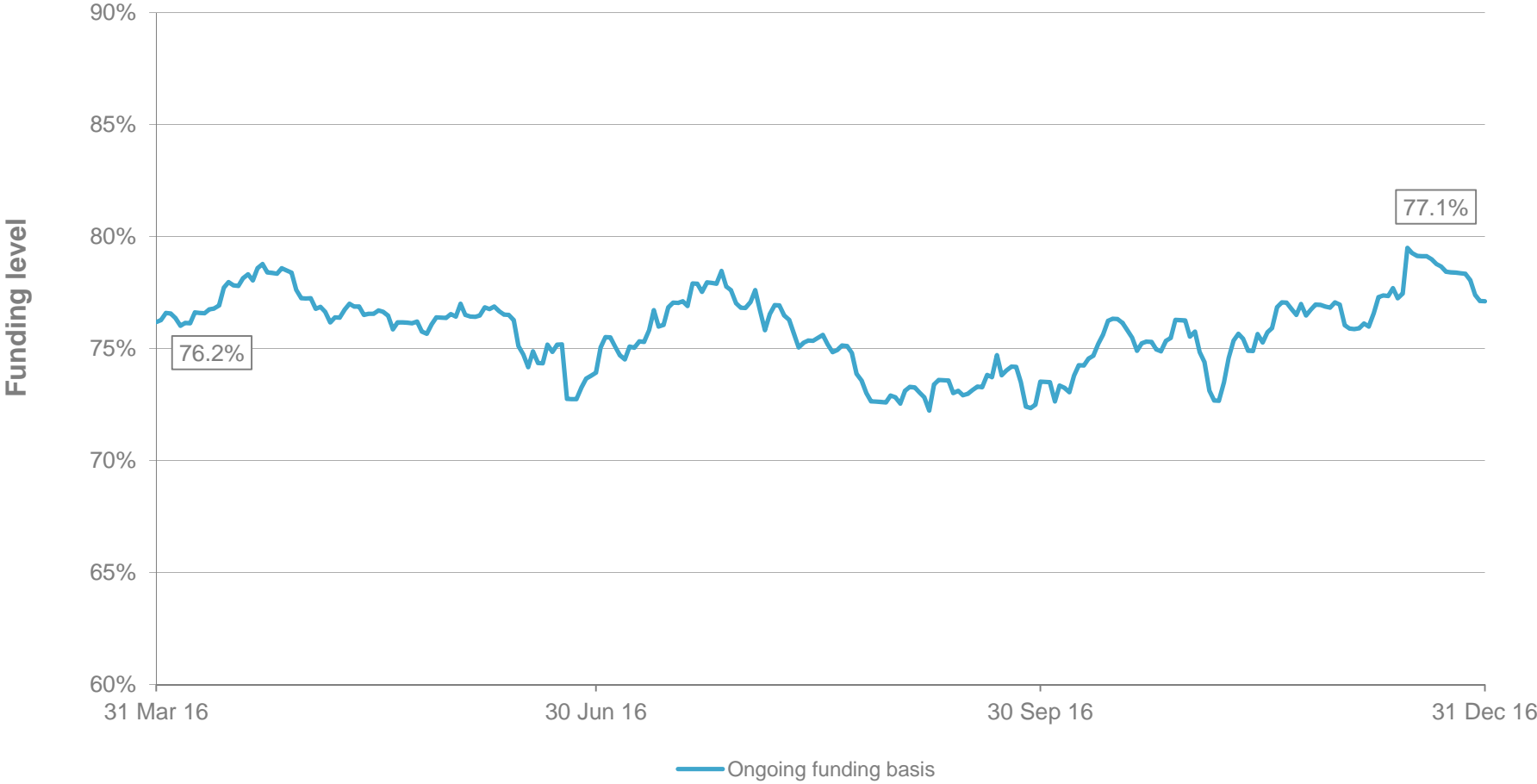
	31 Mar 2016	31 Dec 2016
<b>Market yields (p.a.)</b>		
Fixed interest gilts	2.18%	1.77%
Index linked gilts	-0.96%	-1.61%
Implied inflation (RPI)	3.20%	3.40%
Implied inflation (CPI)	2.10%	2.40%
AA corporate bonds	3.36%	2.62%
AOA	1.80%	1.80%
<b>Price indices</b>		
FTSE All Share	3,395	3,873
FTSE 100	6,175	7,143

### Basis summary

	31 Mar 2016	31 Dec 2016
<b>Pre retirement discount rate</b>		
Nominal	4.0%	3.6%
Real	0.8%	0.2%
<b>Post retirement discount rate</b>		
Nominal	4.0%	3.6%
Real	0.8%	0.2%
Salary increase rate	3.2%	3.4%

The assumptions underlying the funding bases are set out in the Funding Strategy Statement. They are those set for the 2016 valuation of the Fund updated for market conditions as at the calculation date.

### Change in funding level since last valuation

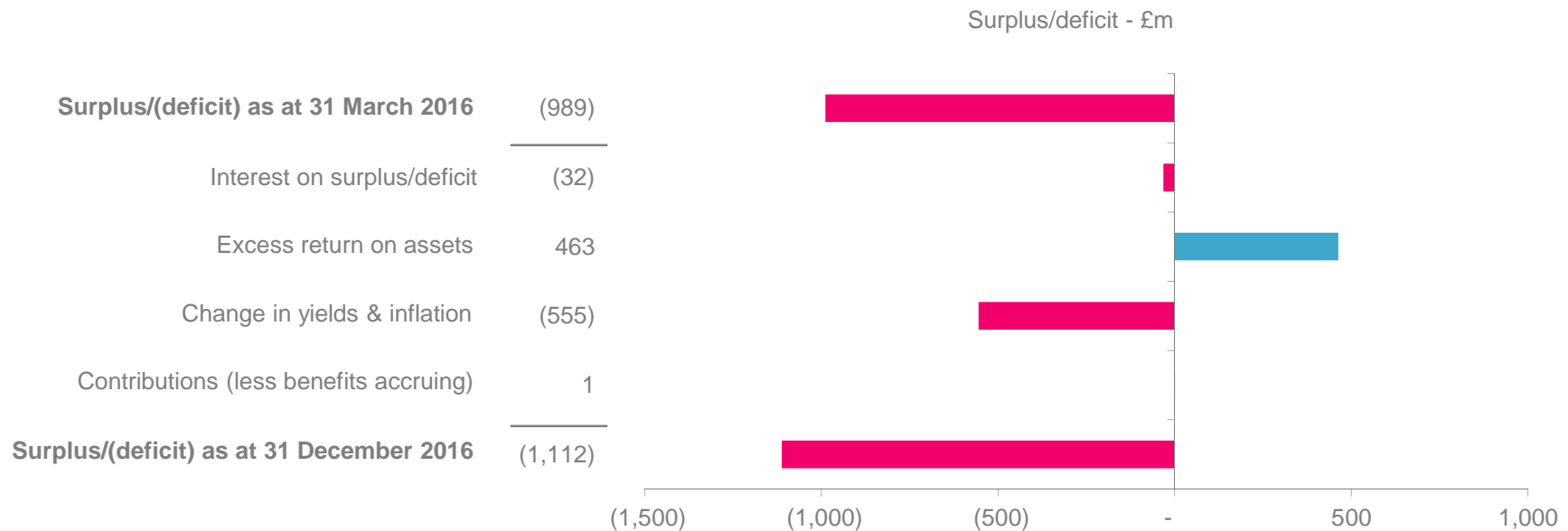


## What's happened since last valuation? – Ongoing funding basis

Assets	£m
Asset value as at 31 March 2016	3,164
Contributions paid in:	125
Benefit payments:	(103)
Expected return on assets:	96
Excess return on assets:	463
Asset value as at 31 December 2016	3,745

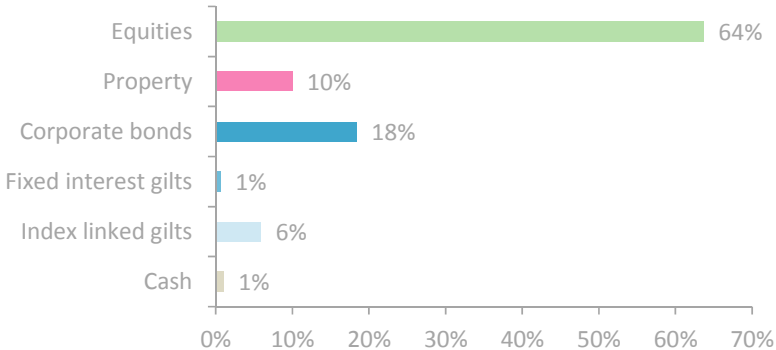
Liabilities	£m
Liability value as at 31 March 2016	4,153
Cost of benefits accruing:	124
Interest on liabilities:	128
Change in yields & inflation:	555
Benefit payments:	(103)
Liability value as at 31 December 2016	4,857

### Overall effect

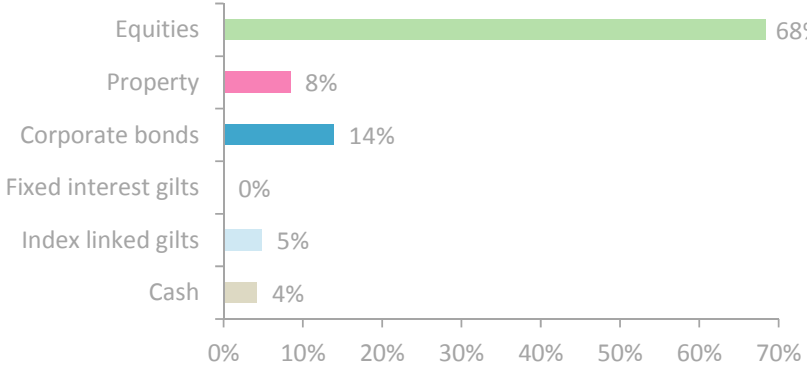


# What caused your assets to change?

Allocation at valuation date



Allocation at 31 December 2016



Sterling total returns of major asset classes



## Sensitivity matrix – Ongoing funding basis

<b>Better outcomes</b>								
<b>Bond yields (% p.a.)</b>	2.37	65.1% <b>(1,508)</b>	71.8% <b>(1,220)</b>	78.5% <b>(932)</b>	85.1% <b>(644)</b>	91.8% <b>(356)</b>	98.4% <b>(68)</b>	105.1% 220
	2.17	63.2% <b>(1,655)</b>	69.6% <b>(1,367)</b>	76.0% <b>(1,079)</b>	82.4% <b>(790)</b>	88.8% <b>(502)</b>	95.2% <b>(214)</b>	101.6% 74
	1.97	61.2% <b>(1,810)</b>	67.4% <b>(1,522)</b>	73.6% <b>(1,234)</b>	79.7% <b>(946)</b>	85.9% <b>(658)</b>	92.1% <b>(370)</b>	98.2% <b>(82)</b>
	1.77	59.3% <b>(1,976)</b>	65.2% <b>(1,688)</b>	71.2% <b>(1,400)</b>	77.1% <b>(1,112)</b>	83.0% <b>(824)</b>	89.0% <b>(536)</b>	94.9% <b>(248)</b>
	1.57	57.4% <b>(2,153)</b>	63.1% <b>(1,865)</b>	68.8% <b>(1,577)</b>	74.5% <b>(1,289)</b>	80.2% <b>(1,001)</b>	85.9% <b>(713)</b>	91.6% <b>(425)</b>
	1.36	55.5% <b>(2,341)</b>	61.0% <b>(2,053)</b>	66.5% <b>(1,765)</b>	71.9% <b>(1,477)</b>	77.4% <b>(1,189)</b>	82.9% <b>(901)</b>	88.4% <b>(613)</b>
	1.16	53.7% <b>(2,543)</b>	58.9% <b>(2,255)</b>	64.2% <b>(1,967)</b>	69.4% <b>(1,679)</b>	74.7% <b>(1,391)</b>	79.9% <b>(1,103)</b>	85.2% <b>(815)</b>
		5,000	5,714	6,429	7,143	7,857	8,571	9,286
<b>Equity level (using FTSE 100 Price Index as a proxy)</b>								
<b>Better outcomes</b>								

77.1%	Funding level
<b>(1,112)</b>	Surplus/(deficit) – £m

## Appendix: Scope, methodology, reliances, limitations and market data

### Scope

This funding update is provided to Leicestershire County Council as the Administering Authority of the Leicestershire County Council Pension Fund to illustrate the funding position as at 31 December 2016. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with Hymans Robertson LLP’s prior written consent, in which case it is to be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing.

### Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that provided for the last valuation, as set out in the:

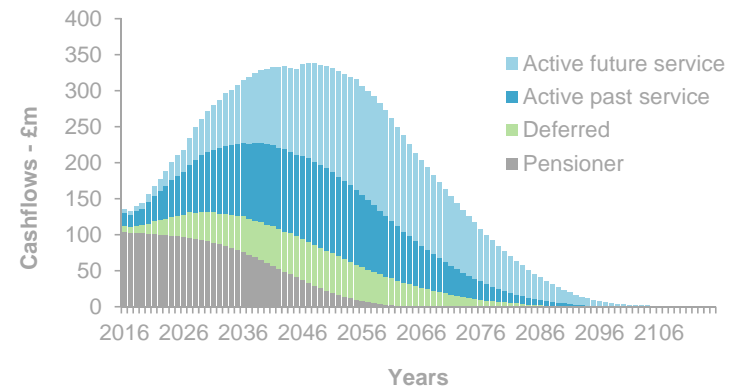
- Valuation Assumptions Briefing Note
- Funding Strategy Statement
- Valuation Report (to be issued by 31 March 2017)
- Rates and Adjustments Certificate (to be issued by 31 March 2017)

This update therefore complies with the following Technical Actuarial Standards (TASs):

- Reporting (“TAS R”)                      • Data (“TAS D”)
- Modelling (“TAS M”)                    • Pensions TAS

### How liabilities are calculated

- The future benefits that are payable from the Fund (“cash-flows”) were calculated on a specific set of assumptions at the last valuation date.
- These cash-flows (on the Ongoing funding basis) are shown below.
- These cash-flows were adjusted using available financial and Fund information to produce estimated cash-flows at post valuation dates.
- The specific information used for this update is set out on the next page.
- Market information is used to produce discount rates at these dates.
- The estimated cash-flows are discounted to produce the estimated liability value at a specific date.



### How assets are calculated

Assets are projected from the valuation date allowing for actual or estimated Fund cash-flows, actual quarterly returns (where available) and daily benchmark indices



**The update allows for:**

- 1 Movements in the value of the assets as measured by index returns and data from the administering authority where available.
- 2 Movements in liabilities as a result of changes in yields and hence inflation and discount rate assumptions.
- 3 Estimated cash-flows (contributions and benefit payments).
- 4 Expected accrual of benefits for employee members accrued since the last valuation (based on projected salary roll).
- 5 Demographic experience in line with assumptions.
- 6 Variations in liabilities arising from the changes in RPI since the valuation date differing relative to assumptions.
- 7 Benefit accrual in line with the 2014 scheme.

**The update does not allow for:**

- 1 Asset allocations differing from those assumed (other than when asset data is recalibrated based on available information).
- 2 The asset values as at the date of this report have not been based on audited Fund accounts.
- 3 Variations in liabilities arising from salary rises differing relative to assumptions.
- 4 Differences between estimated and actual salary roll of employees.
- 5 Variation between actual and expected demographic experience (e.g. early retirement or mortality).

**Membership data**

My calculations are based on the membership data provided for the most recent actuarial valuation. Details on the quality of this data and a data summary can be found in the last formal actuarial valuation report.

**Limitations of this model**

In the short term, the typical main contributors to funding position volatility are movements in the value of assets held, liability changes due to yield movements, benefit changes and deficit contributions to the Fund.

The accuracy of this type of funding update calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant; particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller schemes). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

Liability calculations are performed on the valuation date, the funding update date, anniversaries of the valuation date and each month-end in between. Interpolation is used for other dates shown in graphs. Some asset classes are not easily tracked by the benchmark indices used in this model which can lead to significant differences between actual and projected asset values.

**Indices used to update projected asset values**

Some of the following indices have been used to update projected asset values in this funding update.

- FTSE 100
- FTSE 250
- FTSE Small Cap
- FTSE All Share
- FTSE All World Series North America (£)
- FTSE All World Series Japan (£)
- FTSE All World Series Developed Europe (£)
- FTSE All World Series Developed Asia Pacific (£)
- FTSE All World Series All World Developed Ex UK (£)
- FTSE All World Series All World Ex UK (£)
- FTSE All World Series All Emerging (£)
- UK Government Fixed Interest Gilts (Over 15 Years)
- UK Government Index-Linked Gilts (Over 5 Years)
- UK Government Index-Linked Gilts (Over 15 Years)
- iBoxx A rated UK Corporate Bonds (Over 15 Years)
- iBoxx AA rated UK Corporate Bonds (Over 15 Years)
- iBoxx AAA rated UK Corporate Bonds (Over 15 Years)
- iBoxx All Investment Grades rated UK Corporate Bonds (Over 15 Years)
- IPC Property
- Cash Indices LIBOR 1 Month

The indices are a standard list and are not necessarily the same indices that managers have been asked to track or beat. All indices used to estimate projected asset values are total return indices. However, the market indicators quoted in this report are price indices, as these are more widely recognised.

**Market information used to update liability values**

Some of the following market information has been used to update liabilities values in this funding update.

- Nominal gilt yield curves derived from Bank of England data
- RPI gilt inflation curve derived from Bank of England data
- Nominal swap curves derived from Bloomberg data
- Real swap curves derived from Bloomberg data
- Inflation volatilities derived from the swap market
- FTSE Actuaries UK Fixed Interest Gilts Yields (Over 15 Years)
- FTSE Actuaries Index-Linked Gilts (3% Inflation) Yields (Over 15 Years)
- iBoxx AA rated UK Corporate Bond Yields (Over 15 Years)

Note: Market yields displayed in the market indicators table are on an annual basis.