Barnett Waddingham

Essex Pension Fund

Funding Update Report

as at 31 March 2014

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1. Introduction

1.1. We have carried out an annual monitoring assessment of the Essex Pension Fund as at 31 March 2014. The purpose of this assessment is to provide an update on the funding position.

1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.

1.3. In addition, and for information, we have also assessed the funding position on an alternative “gilts plus” basis where assets are taken at market value and discount rates are a fixed premium over gilt yields (we have assumed a 2% premium). This is the model typically used in the private sector and also by some LGPS Funds.

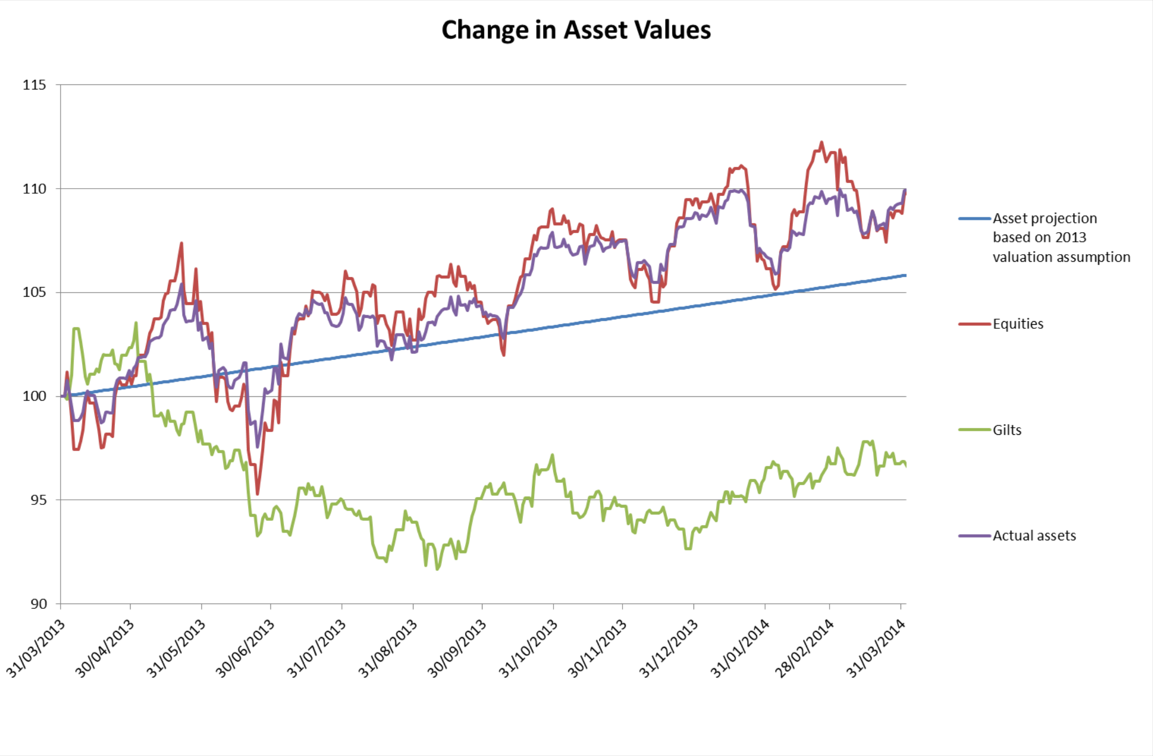
2. Assets

2.1. The estimated asset allocation in market value terms of the Essex Pension Fund as at 31 March 2014 is as follows:

Assets (Market Value)	31 March 2014		31 March 2013	
	£000's	%	£000's	%
Global Equities	2,856,327	66%	2,628,196	66%
Property	468,964	11%	418,595	11%
Index Linked Gilts	344,996	8%	264,371	7%
Corporate Bonds	371,627	9%	336,050	8%
Infrastructure	127,236	3%	113,567	3%
Financing Fund	14,806	0%	16,213	0%
Timber	34,705	1%	30,972	1%
Cash	118,713	3%	150,509	4%
Total Assets	**4,337,374**	**100%**	**3,958,473**	**100%**

2.2. The net investment return achieved by the Fund’s assets in market value terms for the annual to 31 March 2014 is estimated to be 9.2%.

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



2.4. As we can see the asset value in market value terms as at 31 March 2014 in market value terms is slightly more than where it was projected to be at the previous valuation.

3. Changes in Market Conditions – Market Yields and Discount Rates

3.1. 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 tables show how the assumptions under our BW Economic Funding Model have changed since the last triennial valuation:

Assumptions BW Economic Model	31 March 2014 Nominal	 Real	31 March 2013 Nominal	 Real
	%p.a.		%p.a.	
Pension Increases	2.78%	-	2.74%	-
Salary Increases	4.58%	1.80%	4.54%	1.80%
Discount Rate	5.88%	3.10%	5.80%	3.06%

3.2. 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.

3.3. As we see the real discount rate under the BW Economic Model is broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.

3.4. The following table shows how assumptions have changed under the alternative "gilt plus" model with a 2% risk premium.

Assumptions Gilts Plus Model	31 March 2014 Nominal	 Real	31 March 2013 Nominal	 Real
	%p.a.		%p.a.	
Pension Increases	2.83%	-	2.80%	-
Salary Increases	4.63%	1.80%	4.60%	1.80%
Discount Rate	5.62%	2.79%	5.14%	2.34%

3.5. As we see the real discount rate under the gilt plus model has increased as gilt yields have increased following the Bank of England's announcement that the program of "quantitative easing" is to be relaxed and is now closer to the Economic Model which is largely immune from the "QE effect".

4. Summary of Results

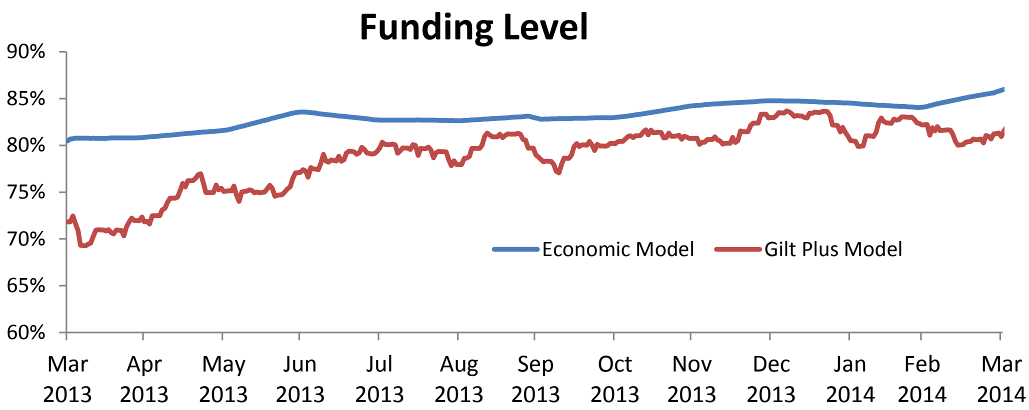
4.1. The results of our assessment indicate that:

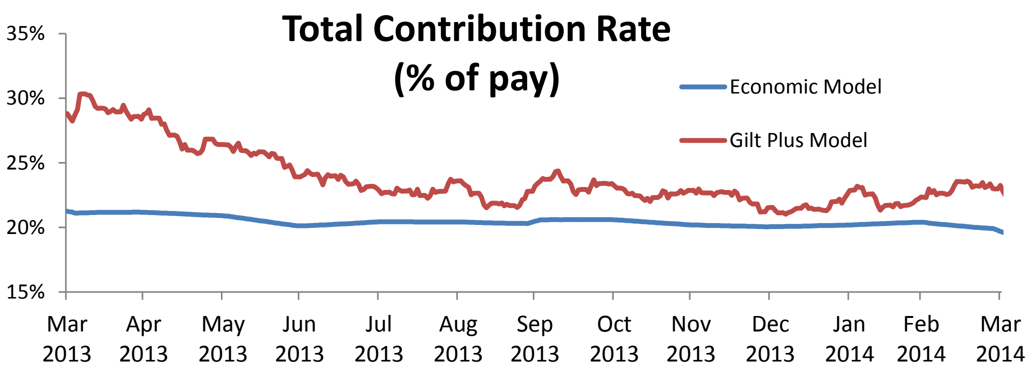
- The current projection of the smoothed funding level as at 31 March 2014 is 86% and the average required employer contribution would be 19.7% of payroll assuming the deficit is to be paid by 2033.
- This compares with the reported (smoothed) funding level of 80% and average required employer contribution of 21.7% of payroll at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 31 March 2014 is 5.9% per annum. The investment return required to restore the funding level to 100% by 2033, without the employers paying deficit contributions, would be 6.7% per annum.

4.3. More detailed results are included in the appendix.

4.4. The following charts show how the funding position and average required employer contribution rate has changed under both funding models since the last valuation date.





4.5. The 2 key observations are

- The Economic Model continues to deliver more stable funding levels and employer contribution rates.
- The narrowing of the gap between the two models.

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

Graeme D Muir FFA

Partner

Appendix 1 Detailed Valuation Results

Economic Model Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing Cost (% of Payroll)	CARE Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Discount Rate	Return required to restore funding
March 2013	3,925,714	4,878,393	(952,679)	80%	14.5%	14.3%	7.2%	21.7%	5.8%	6.9%
April 2013	3,949,259	4,886,071	(936,812)	81%	14.4%	14.2%	6.9%	21.2%	5.9%	6.9%
May 2013	3,993,852	4,896,855	(903,003)	82%	14.4%	14.2%	6.7%	20.9%	5.9%	6.9%
June 2013	4,097,214	4,899,393	(802,179)	84%	14.3%	14.1%	6.0%	20.1%	5.9%	6.8%
July 2013	4,059,381	4,910,205	(850,824)	83%	14.2%	14.1%	6.4%	20.5%	5.9%	6.9%
August 2013	4,062,355	4,915,543	(853,188)	83%	14.2%	14.0%	6.4%	20.4%	5.9%	6.9%
September 2013	4,107,344	4,962,847	(855,503)	83%	14.3%	14.1%	6.5%	20.6%	5.9%	6.9%
October 2013	4,139,030	4,988,774	(849,744)	83%	14.3%	14.2%	6.4%	20.6%	5.9%	6.9%
November 2013	4,223,411	5,013,700	(790,290)	84%	14.4%	14.2%	6.0%	20.2%	5.9%	6.8%
December 2013	4,270,083	5,037,264	(767,181)	85%	14.4%	14.2%	5.9%	20.1%	5.9%	6.7%
January 2014	4,273,027	5,055,694	(782,666)	85%	14.4%	14.2%	6.0%	20.4%	5.9%	6.8%
February 2014	4,263,768	5,074,979	(811,211)	84%	14.4%	14.2%	6.2%	20.6%	5.9%	6.8%
March 2014	4,380,183	5,091,462	(711,278)	86%	14.4%	14.2%	5.5%	19.7%	5.9%	6.7%

Gilts Plus Model Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing Cost (% of Payroll)	CARE Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Discount Rate pre retirement	Return required to restore funding
March 2013	3,958,473	5,511,016	(1,552,543)	72%	18.1%	17.8%	11.0%	29.1%	5.1%	6.8%
April 2013	3,991,155	5,557,464	(1,566,309)	72%	18.2%	18.0%	10.8%	28.8%	5.0%	6.7%
May 2013	4,049,552	5,394,496	(1,344,944)	75%	17.2%	16.9%	9.5%	26.4%	5.3%	6.8%
June 2013	3,953,018	5,125,305	(1,172,286)	77%	15.6%	15.4%	8.5%	23.9%	5.6%	6.9%
July 2013	4,086,906	5,125,899	(1,038,993)	80%	15.4%	15.2%	7.6%	22.9%	5.6%	6.8%
August 2013	4,011,615	5,147,154	(1,135,538)	78%	15.4%	15.2%	8.4%	23.6%	5.7%	7.0%
September 2013	4,074,833	5,158,260	(1,083,427)	79%	15.4%	15.2%	8.0%	23.2%	5.6%	6.8%
October 2013	4,206,434	5,248,017	(1,041,583)	80%	15.8%	15.6%	7.7%	23.2%	5.6%	6.7%
November 2013	4,227,682	5,235,350	(1,007,668)	81%	15.6%	15.4%	7.5%	22.9%	5.7%	6.8%
December 2013	4,288,707	5,169,018	(880,311)	83%	15.1%	14.9%	6.6%	21.5%	5.8%	6.8%
January 2014	4,219,284	5,240,848	(1,021,564)	81%	15.4%	15.2%	7.7%	23.1%	5.6%	6.8%
February 2014	4,335,272	5,275,922	(940,650)	82%	15.5%	15.3%	7.1%	22.6%	5.6%	6.6%
March 2014	4,337,374	5,358,349	(1,020,975)	81%	15.8%	15.6%	7.7%	23.3%	5.6%	6.7%

A1.1. Note that market values of assets under the Gilts Plus Model at dates other than March are estimates. Asset values under the Economic Model are smoothed (estimated) market values.