PLA Pension Fund

ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2017

COMMITTEE AND ADVISERS

Committee:

Chairman Ms H Deeble

Port Authority Committee Men	**Members' Committee Men**
Mr B Chapman	Mr R Brodie (to 31 March 2017)
Mr R Mortimer (to 9 May 2017)	Mr P Durkin (to 31 March 2017)
Mr A Griffiths	Mr P Golds (to 31 March 2017)
Mr I Moncrieff	Miss A Jeffrey
Mr R Baker (from 9 May 2017)	Mr L Steggles
	Mr C McArthur (from 1 April 2017)
	Mr D Bird (from 1 April 2017)

Treasurer:	Mr D Giles
Secretary:	Miss D Bottacchi
Actuary:	Mr M Whitfield, Aon Hewitt
Auditors:	Ernst & Young LLP
Investment Consultant:	Aon Hewitt
Investment Managers:	Invesco Asset Management JP Morgan Alternative Asset Management Prisma Capital Partners Antin Infrastructure Partners Fund II M&G Investments PIMCO Insight Investment
Custodians:	Citibank International International Fund Services PFPC Trust Company BNP Paribas Securities Luxemburg State Street Brown Brothers Harriman Trustee Services Northern Trust
Solicitors:	Sacker and Partners LLP
Bank:	National Westminster Bank PLC

In accordance with the provisions of Rule 23(2), a new Committee was appointed to serve for the period 1 April 2017 to 31 March 2022.

During the year to 31 March 2017, the Committee met on four occasions.

Changes in the Fund Rules

There were no changes in the benefit and contribution structure of the Fund nor in any of the other provisions of the Rules.

Membership

Active members

Membership at 31 March 2016……………………….		**301**
New members………………………………………..		23
Total…………………………………………………..		324
Membership ceased		
• left service on pension…………………..........	6	
• withdrawal after attaining Normal Pension Age – pension paid but remained in service…...............	4	
• withdrawal before attaining Normal Pension Age – remained in service	1	
• left service before retirement age………………….	6	
• Death in service……………………………………..	1	
• Transfer out………………………………………..	-	**18**
Membership at 31 March 2017……………………….		**306**

Statement of Investment Principles

The Committee, after consultation with the Investment Consultant and the Authority, have prepared a Statement of Investment Principles (SIP) which is available upon request.

The Rules of the Fund do not permit Employer related investments

The Committee's policy on the custody of the Fund's assets is set out in the Rules of the PLA Pension Fund. To ensure compliance with the Pensions Act 1995 a written 'Notice of Appointment' between the Pension Fund and the custodian is in place.

Pensioner numbers

	Members' Pensions	**Annuities & Widows', Widowers' & Dependants' pensions**	**EX PLANPS Pensioners & Widows**
At 31 March 2016	1674	606	14
Commenced during the year	14	37	0
Ceased during the year	91	43	0
At 31 March 2017	1597	600	14
Variation during the year	(77)	(6)	-

At 31 March 2017, there were 145 deferred pensioners, compared with 146 at 31 March 2016.

Transfer Values

Transfer values paid during the year were determined, where appropriate, in accordance with the statutory cash equivalent requirements, and fully reflected the value of the deferred pensioners' accrued benefit rights. During the year, other than AVC transfers out, 3 transfer payments were made. All calculations conform with factors and instructions provided by the Actuary. Transfer values are calculated as the cash value of the deferred pension entitlement, the spouse's pension payable in the event of death and an allowance for guaranteed pension increases. No allowance is included for discretionary pension increases that may be paid.

At the meeting held on 1 June 2009, the Committee agreed to the Authority's proposal that the Fund should cease to accept transfer values with immediate effect.

Financial and Investment Review

The Committee, after consultation with the Investment Consultant and Actuary, set a broad investment policy with day to day investment decisions being delegated to the Investment Managers.

During the year to 31 March 2017, net assets increased by £42.793m to £351.190m.

The investment management expenses for the year ended 31 March 2017 amounted to £4,000. The rebate due from Invesco Asset Management of £273,000 resulted in a net rebate of £269,000.

Investment Report

Investment performance

The following table details the Port of London Authority Pension Fund's (the 'Fund') estimated investment performance over historic periods.

Performance figures are shown to 31 March 2017 and are net of investment management expenses.

	1 year (% p.a.)	3 years (% p.a.)
Fund	18.8	11.9
Benchmark	17.1	11.1

Investment strategy

The Committee of Management's (the 'Committee') objectives for setting the investment strategy of the Fund are:

- "funding objective" - to ensure that the Fund is fully funded using assumptions that contain a margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the Port of London Authority (the 'Authority');
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Fund's investment strategy; and
- "security objective" – to ensure that the solvency position of the Fund is expected to improve. The Committee will take into account the strength of Authority's covenant when determining the expected improvement in the solvency position of the Fund.

Market commentary to 31 March 2017

- Global equities rebounded strongly following a tumultuous start to 2016, with the MSCI AC World Index returning 17.0% over 12 months in local currency terms. The UK economy proved to be resilient after the surprise Brexit vote in the EU referendum and economic conditions improved across many regions whilst Donald Trump's win in the US presidential election further boosted optimism in the US economy towards the end of the year. A pick-up in inflation across many regions from summer 2016 spurred a rotation from bond markets into equity markets, although bond markets rallied once more in Q1 2017.
- As widely expected after Trump's win, the US Federal Reserve (Fed) raised the target federal funds rate by 25bps to 0.50-0.75% in December. A further 25bps hike to 0.75-1.00% was announced in March 2017. In contrast, monetary policy eased in other major countries as the Bank of England (BoE), the European Central Bank (ECB) and the Bank of Japan (BoJ) all pursued greater monetary easing, utilising a combination of lower policy rates and extended quantitative easing (QE).
- Commodity prices recovered from 2016 lows over the period. The price of Brent crude oil moved higher as global growth prospects improved and gathered further pace upon OPEC's decision to cut production late in 2016. However, the swift increase in supply from US shale oil producers in response to the higher oil price drove US inventories higher which kept a cap on oil prices. Other commodities also rallied over the period as supply/demand conditions improved.
- UK gilt yields fell dramatically up until the summer of 2016, with an acceleration following the Brexit result and subsequent monetary easing undertaken by the BoE. From August, however, there was a turnaround in gilt yields as inflation expectations increased. This upward yield move reversed somewhat in 2017 as the reflation trade lost momentum with UK yields trending lower with other markets.
- Sterling depreciated sharply on the back of the EU referendum result and renewed monetary easing. Consequently, the MSCI All Country World index returned a huge 32.2% in sterling terms. The US dollar, on the other hand, appreciated on a trade-weighted basis.
- UK investment grade corporate bond spreads narrowed by 34bps to end the first quarter of 2017 at 128bps following better than expected economic data and the BoE's extension to corporate bonds in its asset purchasing programme.
- UK property returns remained positive over the period despite concerns over the impact of Brexit on the commercial real estate market. Capital values have recovered but remain below pre-Brexit levels. The IPD Monthly Index returned 3.9% over the 12 month period to March 2017.

Equity market commentary

- UK equities posted a return of 22.0% over the 12 months to March 2017 – the most by any region in local currency terms. This was despite the volatility caused by the Brexit vote and the uncertainty of its future impact on the UK economy. Many companies listed on the UK stock exchange earn overseas revenues and the outperformance of these stocks provided a major lift to large cap stocks.
- The best performing sector was basic materials (67.9%) while the telecommunications sector (-

10.0%) was the laggard and the only sector to post negative returns.

- There was not a great deal of disparity between large and small cap returns as both performed well over the 12 month period (23.3% vs. 23.0%). Both, however, outperformed mid cap equities (21.9%). Large cap equities benefited from sterling weakness, as well as strong performance from the energy sector which comprises a greater proportion of the large cap index whilst smaller cap stocks benefited from the UK's economic resilience.
- US equities outperformed other regions in sterling terms (35.2%). Macroeconomic data was positive especially in the second half of 2016, whilst prospects of fiscal spending under the new US administration bolstered the equity market. A strong earnings season in early 2017, especially for financials, was also supportive. Unhedged returns were boosted by US dollar strength as US monetary policy tightened.
- Continental European equities returned 18.5% in local currency terms whilst sterling weakness in 2016 brought the sterling return up to 27.9%. Signs of economic recovery and the ECB's accommodative monetary policy provided a boost to equity markets. Headwinds in the form of concerns over the banking sector, Brexit and European elections curbed investor enthusiasm for the region.
- Despite posting double-digit returns over the 12 month period, Japan was the weakest performing region in local currency terms, as concern over the effectiveness of Abenomics and yen strength up to summer 2016 hurt exporter profit. Japanese equities returned 14.5% in local currency terms whilst sterling weakness boosted equity returns in sterling terms (32.8%).
- Emerging market performance picked up in local currency terms as the Chinese government stimulus supported Chinese growth. Concerns over protectionist policies under a Trump presidency and higher US rate expectations were shrugged off, helped improving emerging macroeconomic fundamentals. Overall, emerging market equities performed well, returning 15.5% in local currency terms and 35.2% in sterling terms.
- In the FTSE All World ex UK Index, the best performing sectors (in sterling terms) were technology (43.7%) and basic materials (43.3%) whilst telecommunications (19.7%) was the worst performing sector.

Currencies and Interest Rates commentary

- The UK bank rate was lowered to 0.25% by the BoE, the first change since March 2009. This, alongside the UK public's decision to leave the EU proved to be a catalyst for major sterling weakness over the year. Sterling ended the 12 month period to March 2017 down 9.3% on a trade-weighted basis.
- The federal funds rate target was raised twice in the year to March 2017 from 0.25-0.50% to 0.75-1.00%, continuing the divergence with interest rate paths in other regions. The dollar strengthened on a trade-weighted basis (4.1%) on the back of a stronger economic outlook and rising interest rate expectations. The US dollar appreciated by 13.0% against sterling over the last 12 months.
- Towards the end of 2016, the ECB extended its extensive quantitative easing programme to a later deadline, albeit at a slower rate of €60 billion per month. The euro depreciated slightly by 0.5% on a trade-weighted basis, kept in check by uncertainty amid strong support for populist anti-euro political parties but ended 7.3% up against sterling. In addition to the negative policy interest rate initiated at the start of 2016, the BoJ continued with its aggressive quantitative easing programme and implemented yield curve controls to keep bond yields close to zero. Following a substantial depreciation of the yen in the last quarter of 2016, there was a partial correction over the first few months of 2017. The yen appreciated by 4.2% over the 12 month period on a trade-weighted basis and by 13.7% against sterling.

Gilt returns

- UK fixed gilts returned 6.6% and index-linked gilts returned 19.9% over the period.
- Long dated fixed interest gilt returns were the highest, outperforming short and medium term maturities as the yield curve flattened over the period. The same return profile applied to index-linked gilts.
- Index-linked gilts outperformed fixed gilts at all maturities as index-linked yields fell more due to a sharp rise in breakeven inflation as sterling weakness, UK economic resilience and commodity strength boosted inflation expectations. The index-linked gilt index also outperformed due to its higher sensitivity to interest rates.
- Both fixed and index-linked gilt yields moved down sharply following the result of the EU referendum and subsequent BoE announcement of easier monetary policy. However, higher anticipated and actual inflation late in 2016 and at the start of 2017 caused nominal yields to rebound whilst the real yield curve was broadly unchanged since the end of Q3 2016, with the exception of short maturities.

UK Investment Grade Credit

- UK iBoxx non-gilt credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) narrowed by 34bps to 128bps over the 12 month period. Spreads rose as high as 168bps in the aftermath of the Brexit decision, before moving back down. UK non-gilts returned 9.2%, outperforming fixed interest gilts.

- Better than expected economic data after the Brexit decision and the BoE's pledge to buy up to £10bn of corporate debt as part of its asset purchasing programme brought spreads down over the period. Since the BoE's purchasing programme, credit spreads have traded within a very tight range.
- Credit spreads narrowed the most for BBB-rated issues whilst AAA-rated spreads narrowed the least.

Investment Income

Income for the year was as follows:

	2017	2016
	£000	£000
Income from pooled investment vehicles	**31,210**	18,079
Interest receivable on cash deposits	**3**	2
Distributable income	**216**	37
	31,429	18,118

Equity income is re-invested in the Equity Portfolio.

Contributions

A revised Schedule of Contributions was prepared following the 2015 actuarial valuation as required by Section 227 of the Pensions Act 2004. All contributions due under the Rules from both the Employer and the Employees have been received by the Fund and included in the audited accounts.

Fund account

For the year ended 31 March 2017	**2017**	**2016**
	£000	**£000**
Income		
Contributions	7,302	8,909
Investment income	31,429	18,118
Change in market value	24,356	(17,724)
Total Income	**63,087**	**9,303**
Expenditure		
Benefits payable*	(20,324)	(20,412)
Payments on account of leavers	(239)	(20)
Investment management expenses	269	269
Total expenditure	**(20,294)**	**(20,163)**
Net (decrease)/increase in the Fund during the year	42,793	(10,860)
Opening net assets of the Fund	308,397	319,257
Closing net assets of the Fund	**351,190**	**308,397**

*The total cost of pensions and annuities payable from the Fund at 31 March 2017 was £19,104,515 per annum. This amount was £80,163 per annum lower than at 31 March 2016.

Net assets statement

As at 31 March 2017	**2017**	**2016**
	£000	**£000**
Investment Assets		
Pooled investment vehicles	348,089	305,554
AVC investments	1,412	1,331
Other investment balances	781	749
Net investment assets	350,282	307,634
Net current assets/(liabilities)	908	763
Net assets	351,190	308,397

Pension increases

In accordance with the Rules of the Fund, an increase in the pensions of retired staff and beneficiaries was made with effect from 1 December 2016. The increase was 3.00% and applied in all instances to staff who had left service prior to 1 July 2015. The increase was also to be applied to deferred pensions and potential benefits, except for former deferred members of the PLANPS where Statutory Revaluation in deferment applies.

In the case of those members of staff who left service between 2 July and 30 November 2016, a proportional amount of the standard increase was paid on 1 December 2016.

In the case of pensioners below the age of 55 years on 1 December 2016, the increase was to apply from their 55th birthdays.

Where a pensioner had a Guaranteed Minimum Pension which had been increased by the State in April 2016, the amount of the GMP at State Retirement Age was deducted before applying the increase.

Report on Actuarial Liabilities

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Fund members on request.

The most recent full actuarial valuation of the Fund was carried out as at 31 March 2015. This showed that on that date:

The value of Technical Provisions was	£394.3m
The value of the assets was	£317.8m

Results

In accordance with the Statutory Funding Objective, as at 31 March 2015, the assets covered 81% of the Fund's liabilities and the deficit was £76.5m (assets of £317.8m being less than liabilities of £394.3m). The assets covered 61% of the Fund's buy-out liabilities at that date.

Following the valuation, the Committee of Management and the Authority put in place a Contribution Schedule with the aim of removing the deficit over the period to 31 August 2026. The Authority will contribute £4m per annum towards the deficit until 31 August 2026 in level monthly instalments of £333,333.

The next full valuation must be carried out with an effective date no later than 31 March 2018, although interim reports of the position as at 31 March 2017 will also be required.

Data Protection Act 1998

The Committee and the Employer have both a legal obligation and a legitimate interest to process data relating to members for the purpose of administering and operating the Fund and paying benefits under it. This may include passing on data about members to the Fund's actuary, auditor, administrator, and such other third parties as may be necessary for the administration and operation of the Fund.

The Committee and the Employer are both regarded as 'Data Controllers' (for the purposes of the Data Protection Act 1998) in relation to data processing referred to above and can be contacted at the address shown below.

Furthermore our advisers Aon Hewitt have set out an explanation of how they, and the scheme actuary, use personal information when providing actuarial services to pension scheme trustees; this explanation can be found at www.aonhewitt.co.uk/privacy-statement.

Disclosure Regulations

The Pensions Regulator (TPR)

From April 2005 there is a new regulator of work-based pension schemes. Called the Pensions Regulator, it replaces the Occupational Pensions Regulatory Authority (OPRA).

TPR has new powers and a new approach to protecting pension benefits. TPR has a wide range of powers to help put matters right. In extreme cases, the regulator is able to fine trustees or employers, and remove trustees from a scheme.

TPR, Napier House, Trafalgar Place, Brighton, East Sussex, BN1 4DW.

Internal Dispute Resolution Procedure

The Pensions Act 1995 requires all pension schemes to have an internal disputes resolution procedure to deal with any disagreements between the Trustees and any member, prospective member or beneficiary. The procedure will not restrict any member's right to refer any complaint to TPAS or the Pensions Ombudsman, but they may refuse to hear a complaint until it has been considered through the Internal Dispute Resolution Procedure.

If you wish to make a complaint, you must do so in writing to the Pensions Manager. She will consider the complaint and send you her written decision and explanation, where possible within two months. If you are still dissatisfied, you have the right to appeal to the Trustees. Full details of the procedure are available from the Pension Manager.

The Pensions Manager, Port of London Authority, London River House, Royal Pier Road, Gravesend, Kent DA12 2BG

The Pensions Advisory Service (TPAS)

TPAS, a voluntary organisation providing free pensions advice, has been established to assist members and beneficiaries of the Fund in connection with any difficulties that they have failed to resolve with the Trustees or administrators. It tries to resolve problems by arbitration, but where arbitration is unsuccessful in reaching a satisfactory agreement between the parties concerned, TPAS can refer cases to the Pensions Ombudsman. He will adjudicate and his decision is binding on both parties.

TPAS
11 Belgrave Road, London SW1V 1RB

The Pensions Ombudsman can be contacted at the same address.

This report is prepared in accordance with the Disclosure Regulations. Enquiries concerning the Fund or an individual's entitlement under it should be addressed to the Secretary.

Contact

For more information about any of the topics covered in this newsletter or for general information about the PLA Pension Fund, please contact:

Secretary
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