PLA Pension Fund

ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2016

PORT OF LONDON AUTHORITY

COMMITTEE AND ADVISERS

Committee:

Chairman Ms H Deeble

Port Authority Committee Men	Members' Committee Men
Mr B Chapman	Mr R Brodie
Mr R Mortimer	Mr P Durkin
Dr S Steedman (to 30 November 2015)	Mr P Golds
Mr A Griffiths	Miss A Jeffrey
Mr I Moncrieff (from 7 December 2015)	Mr L Steggles

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 Investment 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 2012 to 31 March 2017.

During the year to 31 March 2016, the Committee met on four occasions.

Changes in the Fund Rules

The Rules of the Fund were amended at a general meeting of members held on 29 February 2016.

These changes fell into two categories:-

- Rule amendments to enable the Authority to offer members the option to pay contributions by way of "salary sacrifice". Salary sacrifice is a more tax-efficient way for members to make pension contributions; and
- Rule amendment to update of the rules on trivial commutation in line with legislative changes.

There were no other 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 2015		**310**
New members		10
Total		320
Membership ceased		
• left service on pension	2	
• withdrawal after attaining Normal Pension Age – pension paid but remained in service	6	
• withdrawal before attaining Normal Pension Age – remained in service	2	
• left service before retirement age	9	
• Death in service	-	
• Transfer out	-	**19**
Membership at 31 March 2016		**301**

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 2015	1760	606	13
Commenced during the year	17	40	1
Ceased during the year	103	40	0
At 31 March 2016	1674	606	14
Variation during the year	(86)	-	1

At 31 March 2016, there were 146 deferred pensioners, compared with 139 at 31 March 2015.

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, 1 transfer payment was 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 2016, net assets decreased by £10.860m to £308.397m.

The investment management expenses for the year ended 31 March 2016 amounted to £4,000. The rebate due from Invesco Asset Management of £274,000 resulted in a net rebate of £270,000.

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 2016 and are net of investment management expenses.

	1 year (% p.a.)	3 years (% p.a.)
Fund	0.0	6.8
Benchmark	0.2	6.3

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 modest 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 (as assessed on a gilt basis) 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 2016

- Economic momentum slowed globally over the year to March 2016, with the US suffering from a fall in confidence and business activity, weaker Chinese economic growth, and global trade failing to grow. Eurozone economic growth steadily improved as the weaker euro boosted exports, but Japan's economy experienced two (non-consecutive) quarters of recession over the year. UK growth remained steady around the 2% mark, although fears over a 'Brexit' from the EU ignited some concerns over the UK's future economic prospects.
- After intense speculation on the timing of the US interest rate lift off, the Federal Reserve (Fed) pulled the trigger in December, raising the target federal funds band from 0-0.25% to 0.25-0.5%. However, expectations over the timing of future rate rises were tempered heavily on increasing economic uncertainty. In the Eurozone, ongoing concerns over weak growth and deflation caused the European Central Bank (ECB) to expand quantitative easing (QE) in Q1 2016 and bring interest rates even lower. The Bank of Japan (BoJ) continued with its aggressive QE programme in an effort to ramp up inflation. Monetary easing also continued in China as authorities attempted to control the slowing economy and volatile financial markets. Concern over the effectiveness of developed market central bank easing actions grew, causing unexpected market moves after the easing announcements.
- In May 2015, the UK electorate voted in a conservative government after great outcome uncertainty. In Greece, after months of negotiations over austerity conditions, the left wing Syriza Greek government came to a bailout agreement with its creditors. A snap election, in which Alexis Tsipras was re-elected, followed soon after. In the second half of 2015, the European migrant crisis became one of the dominant themes in news headlines. After UK Prime Minister David Cameron secured a deal with Brussels over reformed terms of the UK's EU membership, a referendum over a British exit from the EU was set for June 2016.
- After the Brent crude oil price rebounded back to nearly $70 per barrel in spring 2015, prices fell again, eventually hitting lows of $28 per barrel in January 2016. All other major commodity prices also fell over the year as Chinese growth weakened. This helped to keep global inflation low and the US, UK and various other economies experienced inflation levels close to zero over the 12 months.
- Over the year, the MSCI All Country World Index returned -4.9% in local currency terms and -1.2% in sterling terms as sterling weakened in the second half of the period over Brexit fears. Equities

experienced especially violent falls in August, triggered by an unexpected managed devaluation of the Chinese renminbi, and in January, over global growth worries.

Equity market commentary

- Despite the UK experiencing sturdy economic growth, the UK equity market returned -3.9% over the period. The market's sizeable resource component exposed the market to falling commodity prices.
- The best performing sectors were consumer goods (17.5%) and technology (11.9%) while the basic materials (-26.4%) sector was by far the laggard.
- UK mid cap equities (1.7%) outperformed both small (1.6%) and large (-5.3%) cap equities. This marked large cap underperformance was a result of its higher international and commodity exposures.
- The US was the only region to provide a positive return over the period. Relative performance was strong against a backdrop of reduced risk appetite. US equities provided a 0.9% return in local currency terms, but the strong US dollar brought the sterling return up to 4.2%.
- Continental European equities returned -11.5% in local currency terms whilst sterling weakness in Q1 of 2016 brought the sterling return up to -4.2%. Accommodative monetary policy from the ECB was offset by weak Eurozone and global growth, which hurt the market given the openness of the Eurozone economy.
- Japanese equities performed very strongly at the beginning of the period, boosted by domestic equity buying and additional quantitative easing, even as economic data was weak. However, Q1 2015 saw the Japanese stock market underperform other markets as Chinese weakness and yen strength both weighed on exporters. Concern over policy effectiveness and the economy reversed positive investor sentiment. Japanese equities provided the lowest local currency return (-12.2%) but sterling returns (-3.3%) were better as the yen strengthened versus sterling over the year.
- Emerging market performance was weak, mainly caused by ongoing uncertainty over China's growth and weak commodity prices. There was also concern over the impact of Fed monetary policy on the region. However, emerging markets outperformed in Q1 2016 as lower US rate expectations took the pressure off EM currencies. Emerging market equities returned -7.4% in local currency terms and -8.8% in sterling terms over the full period.
- In the FTSE All World ex UK Index, the best performing sectors were utilities (9.0%) whilst oil & gas (-11.0%) and basic materials (-9.0%) were the worst performing.

Bond market commentary

- UK gilt yields fell over the twelve months to March 2016, with yields at some maturities falling to record lows. The Fed's first interest rate rise in almost a decade finally took place in December, but concern over growth in the US and the rest of the world prevented yields from rising higher.
- UK corporate bond spreads over government bonds widened by 46 bps over the period as the increase in risk aversion and falling oil prices had an impact.

Currencies and Interest Rates commentary

- UK policy rates remained at 0.5%, unchanged since March 2009. Decent UK economic data and aggressive monetary easing in the Eurozone caused sterling to appreciate early in the period. However, sterling depreciated later on the back of jitters over the impending EU referendum and broad strength in both the euro and yen. Sterling ended the year down 5.2% on a trade-weighted basis.
- The Federal Funds rate target band was raised from 0-0.25% to 0.25-0.5% in December 2015. However, the push back in interest rate rise expectations after December saw the dollar weaken against the strong euro and yen. The US dollar appreciated by 3.3% against sterling over the year.
- The ECB, in response to the lack of inflationary pressures in the economy, kept in pursuit of easier monetary policy. However, the euro appreciated by 5.3% on a trade-weighted basis and by 9.6% against sterling over the year as Brexit fears pressured sterling and the ECB focused more on domestic stimulus.
- The BoJ left rates at 0-0.1%, unchanged since December 2008, and continued with its aggressive quantitative easing programme. However, the currency strongly appreciated as global equity market volatility increased the appeal of the "safe haven" currency and investors grew sceptical of QE impact on the yen. The yen appreciated by 5.0% over the year on a trade-weighted basis, and by 10.2% against sterling.

Gilt returns

- UK fixed gilts returned 3.2% and index-linked gilts returned 1.7% over the whole period.
- Long dated fixed interest gilt returns were the highest, outperforming short and medium term maturities. The same occurred for index-linked gilts.
- Index-linked gilts underperformed fixed gilts at all maturities as index-linked yields fell by less at long maturities and actually rose marginally at medium 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) widened by 46 bps to 163 bps over the year, but spreads rose as high as 191 bps in Q1 of 2016. UK non-gilts returned 0.4%, underperforming gilts.
- The widening in spreads came as investors re-priced risk assets more cautiously over the year.
- Credit spreads widened the most for BBB-rated issues whilst AAA-rated spreads widened the least.

Investment Income

Income for the year was as follows:

	2016	2015
	£000	£000
Income from bonds	**-**	4,525
Income from pooled investment vehicles	**18,079**	17,273
Interest receivable on cash deposits	**2**	15
Distributable income	**37**	-
	18,118	21,813

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 2016	**2016**	**2015**
	£000	**£000**
Income		
Contributions	8,909	6,613
Investment income	18,118	21,813
Foreign currency losses	-	(2)
Sundry income	-	20
Change in market value	(17,725)	27,205
Total Income	**9,302**	**55,649**
Expenditure		
Benefits payable*	(20,412)	(20,220)
Payments on account of leavers	(20)	(662)
Investment management expenses	270	(220)
Total expenditure	**(20,163)**	**(21,102)**
Net (decrease)/increase in the Fund during the year	(10,860)	34,547
Opening net assets of the Fund	319,257	284,710
Closing net assets of the Fund	**308,397**	**319,257**

*The total cost of pensions and annuities payable from the Fund at 31 March 2016 was £19,184,678 per annum. This amount was £180,956 per annum lower than at 31 March 2015.

Net assets statement

As at 31 March 2016	**2016**	**2015**
	£000	**£000**
Investment Assets		
Pooled investment vehicles	305,554	316,857
AVC investments	1,331	1,482
Cash deposit & other investments	749	593
Net investment assets	307,634	318,932
Net current assets/(liabilities)	763	325
Net assets	308,397	319,257

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 2015. The increase was 3.00% and applied in all instances to staff who had left service prior to 1 July 2014. 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 2015, a proportional amount of the standard increase was paid on 1 December 2015.

In the case of pensioners below the age of 55 years on 1 December 2015, 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 2015, 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 2016 and 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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