PLA Pension Fund

ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2020

COMMITTEE AND ADVISERS

Committee:

Chairman Ms H Deeble

Port Authority Committee Men	Members' Committee Men
Mr R Baker	Mr D Bird
Mr A Griffiths	Miss A Jeffrey
Mr I Moncrieff	Mr C McArthur
Mrs J Tankard	Mr L Steggles

Treasurer:	Miss A Jeffrey
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 Antin Infrastructure Partners Fund II M&G Investments PIMCO Insight Investment IFM Infrastructure Manager Ruffer Investment Manager BlackRock Investment Managers
Custodians:	Citibank International International Fund Services PFPC Trust Company BNP Paribas Securities Luxemburg State Street Northern Trust JP Morgan Chase Bank Royal Bank of Canada
Solicitors:	Sacker and Partners
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 2020, the Committee and Investment Sub Committee met on a total of four occasions. An annual training day also took place during the period.

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 2019 (restated)………………………		**342**
New members………………………………………………..		47
Total……………………………………………………....		389
Membership ceased		
• left service on pension……………………...........	4	
• withdrawal after attaining Normal Pension Age – pension paid but remained in service…...............	2	
• withdrawal before attaining Normal Pension Age – remained in service	1	
• left service before retirement age………………….	24	
• Death in service…………………………………..	0	
• Transfer out………………………………………..	0	**31**
Membership at 31 March 2020…………………….		**358**

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

In setting the Fund's investment strategy, the Committee's primary concern is to act in the best financial interests of the Fund and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. The Committee believes that in order to fulfil this commitment and to protect and enhance the value of the Fund's investments, it must act as a responsible steward of the assets in which the Fund invests.

Pensioner numbers	**Members' Pensions**	**Annuities & Widows', Widowers' & Dependants' pensions**	**EX PLANPS Pensioners & Widows**
At 31 March 2019	1,444	617	15
Commenced during the year	19	32	0
Ceased during the year	85	38	0
At 31 March 2020	1,378	611	15
Variation during the year	(66)	(6)	-

At 31 March 2020, there were 143 deferred pensioners, compared with 139 (restated) at 31 March 2019.

COVID-19

Operations

The in-house administration team have been working remotely since the government introduced lockdown measures.

One member of the team attends the office at least once a week to deal with the post.

Work is processed as normal; some case work is taking a few days longer than usual but well within regulatory timeframes.

The Pension Regulator has issued guidance. Critical processes are:

- Paying benefits
- Retirement processing
- Death casework

In March pensioners were advised that monthly payslips would not be sent during the period of lockdown.

Cashflow

Priority is to ensure pensioner payrolls can be funded without the need to disinvest from any distressed assets. The scheme is holding sufficient cash to pay pension payments into Q1 2021. The situation is being monitored closely by the Trustees and advisers. Disinvestments will be made from the most appropriate asset class as advised by the investment consultant

Funding update

The approximate change in the funding position since the COVID-19 pandemic commenced is shown in the table below:

	Assets	Liabilities	Deficit	Funding level
31/12/19	£366.6m	£414.4m	£47.8m	88%
31/03/20	£353.4m	£437.1m	£83.7m	81%
30/06/20	£383.6m	£448.8m	£65.2m	85%

Covenant

The current COVID 19 situation has adversely affected the global economy. The potential impacts, both financial and operational, have been evaluated for the Authority and the financial forecasts have been reviewed to assess the impact on the going concern assessment. The Authority confirmed that they remain a going concern

The Authority has further confirmed that they are in a good position to continue to pay the ongoing deficit payments. They have not requested to defer any payments into the Scheme.

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, no 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 2020, net assets increased by £1.554m to £354.535m.

The investment management expenses for the year ended 31 March 2020 amounted to £13,000. The rebate of £155,000 resulted in a net rebate of £130,000.

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 2020 and are net of investment management expenses.

	1 year (% p.a.)	3 years (% p.a.)
Fund	3.1	3.7
Benchmark	4.1	3.8

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 (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.

Coronavirus Impact

At the time of the disclosures, markets were in a period of heightened volatility as the COVID-19 outbreak turned into a global pandemic over Q1 2020. Global equities sold off sharply as infection numbers grew and governments across the globe moved to lockdown economies. Central Banks announced unprecedented quantitative easing measure with UK yields down to an all-time low of 0.10% by 31 March 2020.

Market volatility and lockdown measures have made the appraisal of real assets difficult. Illiquid fund managers have introduced "material uncertainty" clauses and heavily caveated valuations to reflect the material uncertainty.

Manager best estimate valuations have been included in this report where possible, however, the infrastructure investments are still subject to some uncertainty in their valuations. This is due to the fact that the impact of COVID-19 on these long-life investments is still uncertain.

General Background

- The MSCI AC World Index fell by 9.5% in local currency terms over the past twelve months. Global equities performed well in the first three quarters of the period, recording the best annual equity market gain in a decade in 2019 as trade war concerns faded with the eventual agreement of a “phase one” US-China trade deal. However, Covid-19 bought an end to the decade-long bull market in Q1 2020, as the virus outbreak in China escalated into a global pandemic. Whilst unprecedented fiscal and monetary stimulus provided support to markets, the MSCI AC World index still recorded its worst quarter since the 2008 Global Financial Crisis with a -19.9% return in local currency terms in Q1 2020. With much of the global economy shuttered going into Q2 2020, a deep global recession appears to be inevitable. Sterling depreciation limited global equity losses for unhedged UK investors. The MSCI AC World Index returned -6.2% in sterling terms.
- On a sector level, Information Technology (7.5%) and Health Care (1.6%) were the best performers in local currency terms. These sectors were relatively unhindered by coronavirus-driven lockdowns. Energy (-41.6%) was the worst-performing sector as oil prices collapsed in Q1 2020.
- Sterling ended a highly volatile twelve-month period 1.7% lower on a trade-weighted basis. Sterling was driven by Brexit developments for most of 2019. Whilst fears of an acrimonious “No Deal” Brexit kept pressure on sterling over 2019, sterling rallied after Prime Minister Boris Johnson agreed a Withdrawal Agreement with the European Union and his Conservative Party won a sizeable majority in the UK general election, paving the way for the Brexit Withdrawal Agreement to be ratified. Sterling fell sharply in Q1 2020, briefly hitting a 30-year low of $1.15/£ against the US dollar amidst safe haven dollar inflows and a deteriorating UK coronavirus situation.
- The US Federal Reserve (Fed) implemented three 25bps rate cuts over the second half of 2019, bringing the Federal Funds Rate target down to 1.50%-1.75%. The Fed then announced two emergency rate cuts in Q1 2020 in a bid to mitigate the severe economic impacts of Covid-19, lowering the Fed Funds Rate target by a total of 150bps to 0.00%-0.25%. The Fed also relaunched quantitative easing, pledging to buy potentially unlimited amounts of treasuries, corporate bonds, and other credit assets.
- Following the Fed’s lead, the Bank of England (BoE) cut its base rate by 65bps to an all-time low of 0.10% in Q1 2020. Meanwhile, the European Central Bank (ECB) cut its deposit rate by 10bps to -0.5% in September 2019 but, with limited room to cut rates further, kept interest rates unchanged in Q1 2020 amidst the coronavirus outbreak. The BoE joined the ECB in launching new asset purchase programme in Q1 2020.
- Brent Crude oil prices fell sharply by 66.7% to US$23/BBL over the last twelve months. Weakening global economic growth and heightened trade tensions kept a lid on crude oil prices over 2019 but almost all of the decline occurred in Q1 2020. Over that quarter, oil prices fell by 65.5% in USD terms as demand for fuel fell due to social distancing measures to reduce the spread of Covid-19 whilst Saudi Arabia ramped up production after it failed to agree a plan with Russia to cut oil supply.
- UK gilt yields fell in tandem with global government bond yields as monetary easing measures by major central banks took interest rates to near zero. Meanwhile, increased demand for government bonds from investors seeking “safe haven” assets amidst an equity market sell-off and from central banks implementing quantitative easing measures also drove prices up and yields down further. According to FTSE All-Stocks indices, UK fixed-interest gilts returned 9.9% whilst index-linked gilts returned 2.2%.
- Investment grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 75bps higher at 217bps, their highest level since 2012. Credit spreads widened by 94bps just in Q1 2020, a reflection of the risk asset sell-off which tormented equity markets over the quarter, as concerns over future corporate earnings and existing corporate leverage resurfaced.

Post 31 March 2020 commentary

- Governments have taken steps to support individuals and business with a range of measures including paying wages, paying company debts and providing financial support for individuals. For example, the US Government has committed an estimated $2trn to these types of measures along with unlimited Quantitative Easing.
- Volatility across all major markets has been high with significant asset price swings driven by sentiment and newsflow. In early April markets rallied due to increased optimism about near term success in virus containment which has continued as global lockdown measures have started to ease in late May and early June.
- Gilt yields and inflation have remained low.
- Despite central bank and government efforts companies have already started to fail during this outbreak as trading was paused during lockdown. Many companies have also taken steps to preserve cash by suspending dividend payments and reducing their workforces.
- Uncertainty persists as the potential of a second wave of infections, along with the development and roll out of a successful vaccine weighs on the expected length and depth of the recession.

Investment Income

Income for the year was as follows:

	2020	2019
	£000	£000
Income from pooled investment vehicles	**20,773**	15,104
Interest receivable on cash deposits	**1**	3
	20,774	15,107

Equity income is re-invested in the Equity Portfolio.

Contributions

A revised Schedule of Contributions was prepared following the 2018 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 2020	2020	2019
	£000	**£000**
Income		
Contributions	15,344	7,924
Investment income	20,774	15,107
Change in market value	(15,266)	1,627
Total Income	**20,852**	**24,658**
Expenditure		
Benefits payable*	(19,361)	(20,010)
Payments on account of leavers	(77)	(696)
Investment management expenses	130	40
Total expenditure	**(19,308)**	**(20,666)**
Net (decrease)/increase in the Fund during the year	1,544	3,992
Opening net assets of the Fund	352,991	348,999
Closing net assets of the Fund	**354,535**	**352,991**

*The total cost of pensions and annuities payable from the Fund at 31 March 2020 was £18,474,246 per annum. This amount was £193,410 per annum lower than at 31 March 2019.

Net assets statement

As at 31 March 2020	2020	2019
	£000	**£000**
Investment Assets		
Pooled investment vehicles	340,414	352,729
AVC investments	1,151	1,281
Other investment balances	10,386	797
Net investment assets	351,951	354,807
Investment Liabilities - Derivatives	(799)	(242)
Total Net Investments	351,152	354,565
Net current assets/(liabilities)	3,383	(1,574)
Net assets	354,535	352,991

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 2019. The increase was 3% and applied in all instances to staff who had left service prior to 1 July 2018. 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 2019, a proportional amount of the standard increase was paid on 1 December 2019.

In the case of pensioners below the age of 55 years on 1 December 2019, 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 2019, 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 2018. This showed that on that date:

The value of Technical Provisions was	£405.3m
The value of the assets was	£347.7m

Results

In accordance with the Statutory Funding Objective, as at 31 March 2018, the assets covered 86% of the Fund's liabilities and the deficit was £57.6m (assets of £347.7m being less than liabilities of £405.3m). The assets covered 64% 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. The Authority will contribute as follows in respect of the deficit:

- 1 April 2018 to 31 December 2018
  level monthly instalments of £333,333

- 1 January 2019 to 31 December 2024
  £4m per annum, payable by 31 January in the calendar year to which the contribution relates

- £2m in Quarter 4 2019, payable by 31 December 2019

- £2m in Quarter 1 2020, payable by 31 March 2020

- 1 January 2025 to 30 April 2025
  £1,333,333, payable by 31 January 2025

In addition, the Authority has agreed to pay additional contributions of £4m per annum, payable in level monthly instalments of £333,333, for the period 1 May 2025 to 31 August 2026.

The next full valuation must be carried out with an effective date no later than 31 March 2021.

Data Protection Act 2018

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 2018) 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

The Pensions Regulator ('TPR') is the United Kingdom ('UK') regulator of work-based pension schemes. TPR's role is to act to protect the interest of pension scheme members and to enforce the law as it applies to occupational pension schemes.

The regulations set out clearly the areas that TPR covers and the powers that are vested in it. For example, TPR can prohibit or disqualify Trustees for acting unlawfully, and can impose fines on wrong doers. TPR can be contacted at:

The Pensions Regulator, Napier House, Trafalgar Place, Brighton, BN1 4DW

0345 600 1011, customersupport@tpr.gov.uk or www.thepensionsregulator.gov.uk

The Pension Protection Fund

The Pension Protection Fund was established to provide compensation to members of eligible pension schemes, when there is a qualifying insolvency event in relation to the Employer and where there are insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation. The Pension Protection Fund can be contacted at:

PPF Member Services, Pension Protection Fund, PO Box 254, Wymondham, NR18 8DN

0330 123 2222 ppfmembers@ppf.co.uk or www.ppf.co.uk

Questions about pensions

If you have any questions about your pension, The Pensions Advisory Service ('TPAS'), which is part of the Money and Pensions Service, provides professional, independent and impartial help with pensions for free. Services include independent information and general guidance on pension matters. TPAS can be contacted at:

Money and Pensions Service, 120 Holborn, London EC1N 2TD

0800 011 3797 www.pensionsadvisoryservice.org.uk

Resolving difficulties/Internal Dispute Resolution

It is expected that most queries relating to benefits can be resolved with the Fund's Administrator. In the event that a complaint cannot be resolved members can make a formal complaint using the Fund's Internal Dispute Resolution ('IDR') procedure details of which can be obtained from the Administrator.

If the complaint is not resolved satisfactorily, the Government appointed Pensions Ombudsman can investigate complaints of injustice due to bad administration either by the Trustee or the Fund's Administrator, or disputes of fact of law. The Pensions Ombudsman can be contacted at:

The Pensions Ombudsman, 10 South Colonnade, Canary Wharf, London E14 4PU

0800 917 4487 enquiries@pensions-ombudsman.org.uk or www.pensions-ombudsman.org.uk
Enquiries concerning the Fund, or potential benefits under it, should be addressed to:

Miss D Bottacchi, Fund Secretary
Port of London Authority, London River House, Royal Pier Road, Gravesend, Kent, DA12 2BG

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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