PLA Pension Fund

ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2021

COMMITTEE AND ADVISERS

Committee:

Chairman — Ms H Deeble (to 31 December 2020)
Mr M Evans – ITS Limited (from 19 January 2021)

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 Solutions UK Ltd
Auditors:	Ernst & Young LLP
Investment Consultant:	Aon Solutions UK Ltd
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 2021, the Committee and Investment Sub Committee met on a total of 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 2020		**358**
New members…………………………………………..		26
Total…………………………………………………...		384
Membership ceased		
• left service on pension…………………..........	5	
• 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………………….	15	
• Death in service……………………………………..	0	
• Transfer out…………………………………………..	0	**25**
Membership at 31 March 2021……………………….		**359**

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 2020	1,378	611	15
Commenced during the year	18	48	1
Ceased during the year	102	52	1
At 31 March 2021	1,294	607	15
Variation during the year	(84)	(4)	-

At 31 March 2021, there were 143 deferred pensioners, compared with 143 as at 31 March 2020.

COVID-19

Operations

The in-house pensions & payroll administration team have been working remotely since the government introduced lockdown measures. As measures have relaxed an office presence has increased.

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

The Pension Regulator guidance to administrators remains that critical processes are Paying benefits, Retirement processing and Death casework.

Business continuity plans are in place and all these items (and more) are being processed remotely by the team successfully.

In March 2020, pensioners were advised that monthly payslips would not be sent during the period of lockdown. Payslips were reintroduced in August 2020.

Cashflow

Priority is to ensure pensioner payrolls can be funded without the need to disinvest from any distressed assets. The situation is 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
31/03/20	£353.4m	£437.1m	£83.7m	81%
30/06/20	£383.6m	£448.8m	£65.2m	85%
30/09/20	£375.2m	£441.4m	£66.2m	85%
31/12/20	£396.2m	£443.3m	£47.1m	89%

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 2021, net assets increased by £26.143m to £380.678m.

The investment management expenses for the year ended 31 March 2021 amounted to £35,000. The rebate of £129,000 resulted in a net rebate of £79,000.

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 2021 and are net of investment management expenses.

	1 year (% p.a.)	3 years (% p.a.)
Fund	8.9	5.8
Benchmark	3.9	4.4

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.

Market Background

- After severe disruption in global markets in early 2020 from the Coronavirus pandemic, equity markets rebounded in Q2 and Q3 2020 as a slowdown in new cases and the relaxation of lockdown measures resulted in a sharp economic rebound. A second wave outbreak at the onset of winter, however, dampened economic optimism over

Q4 2020. Equity markets continued to rally as huge fiscal and monetary stimulus and optimism over Covid-19 vaccine rollouts led to investor willingness to overlook the sharpest economic recession in generations. Heightened political uncertainty around November's US presidential election provided some drag on risk sentiment, but increased expectations of expanded fiscal spending following Democrat Joe Biden's victory boosted markets.

- Global Covid-19 cases continued to surge in Q1 2021, with many countries going back into lockdown as new virus variants became more virulent. Health concerns also halted the vaccine rollout in some countries whilst supply constraints led to a slower than expected rollout in Europe. However, improving economic data over the quarter in most countries and global vaccination rollouts boosted economic recovery optimism. The MSCI AC World Index rose by 51.1% in local currency terms over the past twelve months and by 38.9% in sterling terms.
- US equities posted the strongest return over the year, helped by their high exposure to large technology companies. The $1.9tn US economic relief package was approved by the Senate soon after Democrat Joe Biden was sworn in as US President in January 2021 which fed market expectations of stronger US growth and inflation. In contrast to the US, UK equities performed poorly as the UK economy struggled with a high virus death rate and Brexit worries over 2020. Emerging markets held up well as they were supported by the low global interest rate backdrop and the weak dollar. The risk of a reversal in both of these drivers, led to weaker EM equity performance in Q1 2021, however.
- On a global sector level, Consumer Discretionary (75.0%) and Information Technology (69.8%) were the best performers in local currency terms. These sectors were bolstered by Coronavirus-driven lockdowns. Utilities (19.3%) was the worst-performing sector, followed by Consumer Staples (20.7%) and Health Care (27.9%).
- Governments across major economies announced swift and significant fiscal support for businesses and individuals. The US government approved several stimulus packages and have proposed a new infrastructure bill worth $1.9tn. The European Union (EU) promised a recovery package which was increased to €1.8tn and passed in late 2020.
- Central banks loosened monetary policy with quantitative easing (QE) programs. The US Federal Reserve (Fed) even began buying individual corporate bonds directly from the secondary market for the first time in Q2 2020. The Fed then announced a major policy shift in Q3 2020 by adopting an "average inflation targeting" approach which implies a higher tolerance towards inflation. In Q4 2020 and Q1 2021, the Fed maintained its guidance surrounding keeping interest rates near zero until at least 2024 and continuing to buy $120bn of debt per month until "substantial further progress has been made" towards its employment and inflation targets.
- In Q3 2020, the Bank of England (BOE) reported in its meeting minutes that it was examining how negative interest rates could be implemented effectively should this be required. However, deputy governor Dave Ramsden later suggested that the current base rate represented the "effective lower bound" for interest rates.
- The European Central Bank (ECB) launched a €1.9tn pandemic emergency purchase program (PEPP) which will continue until March 2022.
- After years of negotiations, the UK and the European Union (EU) reached a historic Brexit trade deal. The deal was reached after issues including EU fishing rights in UK waters and fair competition rules were agreed. The agreement allows most goods to be traded between the UK and the EU without tariffs or quotas. Meanwhile, EU fishing rights in UK waters will be reduced by one-quarter over a five and a half-year transition period, after which access will depend on annual negotiations. Spain and the UK also agreed to keep the land border between the British overseas territory of Gibraltar and Spain open.
- Sterling ended the twelve months 5.7% higher on a trade-weighted basis. Sterling depreciated in Q2 2020 due to the deteriorating UK coronavirus situation, Brexit uncertainty and a poor economic outlook. However, in Q3 2020, the weak US dollar led to sterling gains against the dollar. Sterling continued to more broadly appreciate in Q4 2020 in anticipation that a Brexit deal would be reached. The relief rally in sterling in Q1 2021, in the wake of the Brexit deal was boosted by the launch of a successful UK vaccination program.
- Brent crude oil prices rose by 179.4% over the last twelve months to $63/BBL. After Q1's sharp fall oil prices recovered in Q2 2020, rising by 81%, supported by record-setting production cuts by OPEC+ and the easing of lockdown measures in major economies, leading to expectations of higher oil demand. Optimism over vaccine approval and the start of vaccinations supported oil prices later in the year, even though OPEC and Russia agreed to increase oil production by 500,000 barrels per day from January 2021. OPEC also cut its forecast for 2021 growth in oil demand, citing continued virus uncertainty and weak labour markets. In Q1 2021, crude oil prices were again boosted by positive vaccine developments and easing lockdowns. OPEC+ decided to maintain a production rate at 7mb/d, slightly down from the previous quarter's 7.2 m barrels per day.
- Inflation expectations rose globally over the last year on the back of liquidity expansion and growth optimism. This rise in inflation expectations was a key driver of rising global bond yields from record low levels reached in

the first half of 2020. The rise in inflationary expectations was most significant in the US given the shift in Fed strategy and the massive US fiscal spending program.

- UK gilt yields fell to extreme lows in summer 2020 on the back of the pandemic, Brexit uncertainty and increased expectations of a BOE rate cut to negative levels. However, yields started to edge up across maturities in Q3 as global risk sentiment improved. In Q1 2021, gilt yields rose sharply on the back of economic optimism in the light of several vaccine discoveries, further fuelled by the new US stimulus package. According to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.5%, whilst index-linked gilts returned 2.3% over the last twelve months.
- Credit markets benefited from risk-on investor sentiment over the year, with credit spreads continuing to contract to ever tighter levels. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 111bps lower at 106bps.

Investment Income

Income for the year was as follows:

	2021	2020
	£000	£000
Income from pooled investment vehicles	**18,045**	20,773
Interest receivable on cash deposits	**1**	1
	18,046	20,774

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 2021	**2021**	**2020**
	£000	**£000**
Income		
Contributions	11,669	15,344
Investment income	18,046	20,774
Change in market value	16,228	(15,266)
Total Income	**45,943**	**20,852**
Expenditure		
Benefits payable*	(19,865)	(19,361)
Payments on account of leavers	(14)	(77)
Investment management expenses	79	130
Total expenditure	**(19,800)**	**(19,308)**
Net (decrease)/increase in the Fund during the year	26,143	1,554
Opening net assets of the Fund	354,535	352,991
Closing net assets of the Fund	**380,678**	**354,535**

*The total cost of pensions and annuities payable from the Fund at 31 March 2021 was £18,054,409 per annum. This amount was £419,837 per annum lower than at 31 March 2020.

Net assets statement

As at 31 March 2021	**2021**	**2020**
	£000	**£000**
Investment Assets		
Pooled investment vehicles	367,084	340,414
AVC investments	1,234	1,151
Other investment balances	1,982	10,386
Net investment assets	370,300	351,951
Investment Liabilities - Derivatives	(170)	(799)
Total Net Investments	370,130	351,152
Net current assets/(liabilities)	10,548	3,383
Net assets	380,678	354,535

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 2020. The increase was 3% and applied in all instances to staff who had left service prior to 1 July 2019. 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 2020, a proportional amount of the standard increase was paid on 1 December 2020. In the case of pensioners below the age of 55 years on 1 December 2020, 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 2020, 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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