Port of London Authority Retirement Benefits Scheme (“the Scheme”)
Statement of Investment Principles (“the Statement”)

1. Scope of Statement

This Statement has been prepared in accordance with section 35 of the Pensions Act 1995 (as amended by the Pensions Act 2004, and the Occupational Pension Schemes (Investment) Regulations 2005).

The effective date of this Statement is 30 September 2020. The Trustees will review this Statement and the Scheme’s investment strategy no later than three years after the effective date of this statement and without delay after any significant change in investment policy.

2. Consultations Made

The Trustees have consulted with the sole employer, The Port of London Authority (the “Authority”), prior to writing this Statement and will take the Authority’s comments into account when they believe it is appropriate to do so.

The Trustees are responsible for the investment strategy of the Scheme. They have obtained advice on the investment strategy appropriate for the Scheme and on the preparation of this Statement. This advice is provided by Aon Solutions UK Limited, who are authorised and regulated by the Financial Conduct Authority.

The day-to-day management of the Scheme's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority.

3. Objectives and Policy for Securing Objectives

The Trustees objectives for setting the investment strategy of the Scheme are:

- “funding objective” - to ensure that the Scheme 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 Authority;

- “stability objective” – to have due regard to the likely level and volatility of required contributions when setting the Scheme’s investment strategy; and

- “security objective” – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustees will take into account the strength of Authority’s covenant when determining the expected improvement in the solvency position of the Scheme.

4. Choosing Investments

The types of investments held and the balance between them is deemed appropriate given the liability profile of the Scheme, its cashflow requirements, the funding level of the Scheme and the Trustees’ objectives.

The assets of the Scheme are invested in the best interests of the members and beneficiaries.

The Trustees exercise their powers of investment (or delegation where these powers have been delegated to a fund manager) in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole. In order to avoid an undue concentration of risk a spread of assets is held.

Assets held to cover the Scheme's technical provisions (the liabilities of the Scheme) are invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the Scheme.

The assets of the Scheme are invested predominantly on regulated markets (with investments not on regulated markets being kept to a prudent level) and properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings so as to avoid accumulations of risk in the portfolio as a whole.

Investment in derivatives is only made in so far as they contribute to the reduction of investment risks or facilitate efficient portfolio management and are managed such as to avoid excessive risk exposure to a single counterparty or other derivative operations.

5. Arrangements with asset managers

The Trustees regularly monitor the Scheme's investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Trustees' policies, including those on non-financial matters. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and

- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustees are supported in this monitoring activity by their investment consultant.

The Trustees receives annual reports and verbal updates from the investment consultant on various items including the investment strategy, performance, and longer-term positioning of the portfolio. The Trustees focus on longer-term performance when considering the ongoing suitability of the investment strategy in relation to the Scheme objectives and assess the asset managers over 3-year periods.

The Trustees also receive annual stewardship reports on the monitoring and engagement activities carried out by their asset manager, which supports them in determining the extent to which the Scheme's engagement policy has been followed throughout the year.

The Trustees share the policies, as set out in this SIP, with the Scheme's asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Trustee's policies.

Before appointment of a new asset manager, the Trustees review the governing documentation associated with the investment and will consider the extent to which it aligns with their policies. Where possible, they will seek to amend that documentation so that there is more alignment. Where it is not possible to make changes to the governing documentation, for example if the Scheme invests in a collective vehicle, then the Trustees will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Trustees meetings).

The Trustees believes that having appropriate governing documentation, setting clear expectations to the asset managers by other means (where necessary), and regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustees' policies and are based on assessments of medium- and long-term financial and non-financial performance.

Where asset managers are considered to make decisions that are not in line with the Trustees' policies, expectations, or the other considerations set out above, the Trustees will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although the continued appointment all for asset managers will be reviewed periodically, and at least every three years. For certain closed ended vehicles, the duration is defined by the nature of the underlying investments.

The Trustees will annually review the carbon intensity of the portfolio and expect the carbon intensity of the overall portfolio to trend downwards, where appropriate, the Trustees will engage with managers who have a relatively high carbon intensity portfolio.

6. The Balance Between Different Kinds of Investments

The Trustees recognise that the key source of financial risk (in relation to meeting their objectives) arises from asset allocation.

They therefore retain responsibility for setting asset allocation and take expert advice as required from their professional advisers.

The Trustees review their investment strategy following each formal actuarial valuation of the Scheme (or more frequently should the circumstances of the Scheme change in a material way). The Trustees take written advice from their professional advisers regarding an appropriate investment strategy for the Scheme.

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

A broad range of available asset classes has been considered.

7. Investment Risk Measurement and Management

The key investment risks are recognised as arising from asset allocation. These are assessed triennially in conjunction with the actuarial valuation of the Scheme, following which the Trustees take advice on the continued appropriateness of the existing investment strategy.

Risks associated with changes in the Authority's covenant are assessed by monitoring the Failure Score (as defined for the purposes of calculating the risk-based element of the Pension Protection Scheme levy). The Trustees also have an agreement with the Authority to receive notification of any events which have the potential to alter the creditworthiness of the sponsoring employers in particular, the Trustees will be informed of Type A events, as defined in appropriate guidance issued by the Pensions Regulator and employer-related Notifiable Events. On receipt of such notification, the Trustees will re-consider the continued appropriateness of the Scheme's existing investment strategy.

The Trustees monitor the risks arising through the selection or appointment of fund managers on an ad hoc basis via investment monitoring reports prepared by their manager. Expected deviation from the benchmark (for a passive manager) or out-performance target (for an active manager) is detailed in the appendix of this statement. The Trustees have appointed Aon Solutions UK Limited to alert them on any matters of material significance that might affect the ability of each fund manager to achieve its objectives.

The Trustees acknowledge that investment returns achieved with the expected deviation (positive or negative) maybe an indication that the investment manager is taking a higher level of risk than indicated.

8. Custody

Investment in pooled funds gives the Trustees a right to the cash value of the units rather than to the underlying assets. The managers of the pooled fund are responsible for the appointment and monitoring of the custodian of the fund’s assets.

The custodians are independent of the Authority.

9. Expected Returns on Assets

Over the long-term Trustees’ expectations are:

1. for the “matching” assets;

   for index-linked bonds, to achieve a rate of return in excess of price inflation, and short-term price behaviour in line with the cost of providing index-linked annuities;

   for monetary assets (e.g. UK and overseas bonds, cash etc) to achieve a rate of return which is at least in line with changes in the cost of providing fixed income annuities;

2. the projected annual investment return for all the asset classes taken from the actuarial valuation, as at 31 March 2019, is 0.8% p.a. for long-term fixed interest, index-linked gilts and non government bonds and price inflation of 3.3% p.a.

Returns achieved by the fund managers are assessed against performance benchmarks set by the Trustees in consultation with their advisers and fund managers.

10. Realisation of Investments/Liquidity

The Trustees recognise that there is a risk in holding assets that cannot be easily realised should the need arise.

The majority of the assets held are realisable at short notice (either through the sale of direct holdings of stocks, bonds etc. or the sale of units in pooled funds).

11. Cost Monitoring

The Trustees are aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Scheme's assets. The Trustees recognise that in addition to annual management charges, there are a number of other costs incurred by their asset managers including turnover costs (i.e. the costs incurred when the assets managers buy and sell underlying investments).

The Trustees asks all of their asset managers to provide full details of the costs incurred in managing the Scheme’s assets and expect them to provide this information in line with the CTI cost transparency template. The costs are reviewed annually to determine the overall cost level and where these costs are out of line with expectations the managers will be asked to explain the rationale, including why it is consistent with their strategy and the extent they expect it to continue in the future.

The Trustees accept that transaction costs will be incurred to drive investment returns and that the level of these costs varies across asset classes and by manager style within an asset class. In both cases, a high level of transaction costs is acceptable as long as it is consistent with the asset class characteristics and manager’s style and historic trends.

Targeted portfolio turnover is defined as the expected frequency with which each underlying investment managers’ fund holdings change over a year. The Scheme's investment consultant monitors this on behalf of the Trustees as part of the manager monitoring they provide to the Trustees and flags where there are concerns.

Where the Trustees’ monitoring identifies a lack of consistency the mandate will be reviewed.

The Trustees are supported in their cost transparency monitoring activity by their investment consultant.

12. Environmental, Social and Governance Considerations

The Trustees acknowledge that an understanding of financially material considerations including environmental, social and corporate governance (ESG) factors, such as climate change, and risks related to these factors can contribute to the identification of investment opportunities and financially material risks.

As part of their delegated responsibilities, the Trustees expect the Scheme's investment managers to take into account corporate governance, social, and environmental considerations (including long-term risks posed by sustainability concerns including climate change risks) in the selection, retention and realisation of investments. Any decision should not apply personal ethical or moral judgments to these issues, but should consider the sustainability of business models that are influenced by them.

The Trustees are taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustees will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's assets and liabilities.

- As part of ongoing monitoring of the Scheme's investment managers, the Trustees will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Scheme's investment managers' integration of ESG on a regular basis.

- The Trustees will request all of the Scheme's investment managers to provide their Responsible Investment policy and details of how they integrate ESG into their investment decision making process on a regular basis. Should the Scheme look to appoint a new manager, the Trustees will request this information as part of the selection process. All responses will be reviewed and monitored with input from their investment consultant.

13. Stewardship – Voting and Engagement

The Trustees recognise the importance of their role as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which the Scheme's investments reside. The Trustees recognise that ultimately this protects the financial interests of the Scheme and its beneficiaries.

The Trustees regularly review the suitability of the Scheme’s appointed asset managers and takes advice from their investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustees have set out in their policy, the Trustees aim to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustees require the Scheme’s investment managers to use their influence as major institutional investors to carry out the Trustees' rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies to promote good corporate governance, accountability, and positive change.

The Trustees require that their investment managers will provide details of their stewardship policy and activities on a regular basis, and will monitor this with input from their investment consultant. The Trustees will engage with their investment managers where necessary for more information.

The Trustees review the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustees will review the alignment of their policies to those of the Scheme’s asset managers and ensure their managers, or other third parties, use their influence as major institutional investors to carry out the Trustees’ rights and duties as a responsible shareholder and asset owner.

The Trustees will engage with their investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be made available to Scheme members on request.

The transparency for voting should include voting actions and rationale with relevance to the Scheme, in particular, where: votes were cast against management; votes against management generally were significant, votes were abstained; voting differed from the voting policy of either the Trustees or the asset manager. Where voting is concerned the Trustees expect their asset managers to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Trustees will consider the methods by which, and the circumstances under which, they would monitor and engage with an issuer of debt or equity, an asset manager or another holder of debt or equity, and other stakeholders. The Trustees may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest where they become known to the Trustees.

14. Members' Views and Non-Financial Factors

The Trustees do not specifically take into account the views of Scheme members and beneficiaries in relation to ethical considerations, social and environmental impact, or present and future quality of life of the members and beneficiaries of the Scheme (defined as 'non-financial factors' in the 2018 Regulations). The Trustees will review their policy towards this on a triennial basis.

15. Additional Voluntary Contributions (“AVC’s”) Arrangements

The Scheme does not have any AVC assets.

Port of London Authority Retirement Benefits Scheme
Appendix I to Statement of Investment Principles

This Appendix sets out the Trustees' current investment strategy, and is supplementary to the Trustees' Statement of Investment Principles (the "attached Statement").

The Trustees' investment strategy has been established in order to maximise the likelihood of achieving the primary objectives set out in the attached Statement. The details are laid out below.

1. Asset Allocation Strategy

Asset Class	Weight (%)
Bonds	100%

2. Investment Management Arrangements

The following describes the mandate given to the fund manager for the asset class above.

2.1 Bonds

Fund	Benchmark	Weight
Aviva GM Sterling Bond Fund	See note	100%

Note: Fund benchmark is not specified by the manager, however the Trustees monitor the Fund's performance against BAML Sterling Broad Index.

2.2 Cash balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Trustees intention to hold a significant cash balance.

2.3 Re-balancing arrangements

The Scheme only invests in one fund therefore rebalancing is not an issue.

3. Fee structure for advisers and managers

3.1 Advisers

The Trustees investment advisers are paid for advice received on the basis of the time spent by the adviser. For significant areas of advice (e.g. one off special jobs, or large jobs, such as asset and liability modelling), the Trustees will endeavour to agree a project budget.

These arrangements recognise the bespoke nature of the advice given and that no investment decisions have been delegated to the adviser.

3.2 Investment managers

For passive mandates, or mandates where the manager is seeking to add incremental value in excess of the performance benchmark, the investment manager is remunerated as a set percentage of the assets under management. This is in keeping with market practice.

For higher performance/higher risk mandates, the manager also has a performance-related fee, which the Trustees believe to be appropriate given the nature of the investment objective.

3.3 Summary of investment management fee arrangements

Fund	Fee Scale	Performance Fee
Aviva GM Sterling Bond Fund	0.25% p.a.	None

4. Additional Voluntary Contributions

The Scheme does not have any AVC assets.