PLA Pension Fund

# ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2018

# COMMITTEE AND ADVISERS

**Committee:**

| | |
|---|---|
| **Chairman** | Ms H Deeble |

**Port Authority Committee Men**
Mr B Chapman (to 31 December 2017)
Mr R Mortimer (to 9 May 2017)
Mr A Griffiths
Mr I Moncrieff
Mr R Baker (from 9 May 2017)
Mrs J Tankard (from 10 October 2017)

**Members' Committee Men**
Mr R Brodie (to 31 March 2017)
Mr P Durkin (to 31 March 2017)
Mr P Golds (to 31 March 2017)
Miss A Jeffrey
Mr L Steggles
Mr C McArthur (from 1 April 2017)
Mr D Bird (from 1 April 2017)

| | |
|---|---|
| **Treasurer:** | Mr D Giles (to February 2018)<br>Miss A Jeffrey (from March 2018) |
| **Secretary:** | Miss D Bottacchi |
| **Actuary:** | Mr M Whitfield, Aon Hewitt |
| **Auditors:** | Ernst & Young LLP |
| **Investment Consultant:** | Aon Hewitt |
| **Investment Managers:** | Invesco Asset Management<br>JP Morgan Alternative Asset Management<br>Prisma Capital Partners (to May 2018)<br>Antin Infrastructure Partners Fund II<br>M&G Investments<br>PIMCO<br>Insight Investment<br>IFM Infrastructure Manager (from December 2017)<br>Ruffer Investment Manager (from April 2018)<br>BlackRock Investment Managers (from May 2018) |
| **Custodians:** | Citibank International<br>International Fund Services<br>PFPC Trust Company<br>BNP Paribas Securities Luxemburg<br>State Street<br>Northern Trust<br>JP Morgan Chase Bank (from May 2018)<br>Royal Bank of Canada (from April 2018) |
| **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 2018, the Committee and Investment Sub Committee met on six 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 2017………………………. | | **306** |
| New members………………………………………….. | | 36 |
| Total……………………………………………….... | | 342 |
| Membership ceased | | |
| • left service on pension………………….......... | 1 | |
| • withdrawal after attaining Normal Pension Age – pension paid but remained in service…............... | 3 | |
| • withdrawal before attaining Normal Pension Age – remained in service | 3 | |
| • left service before retirement age…………………. | 14 | |
| • Death in service…………………………………….. | 1 | |
| • Transfer out………………………………………….. | - | **22** |
| Membership at 31 March 2018………………………. | | **320** |

# 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 2017 | 1597 | 600 | 14 |
| Commenced during the year | 19 | 42 | 0 |
| Ceased during the year | 97 | 35 | 0 |
| At 31 March 2018 | 1519 | 607 | 14 |
| Variation during the year | (78) | 7 | - |

At 31 March 2018, there were 151 deferred pensioners, compared with 145 at 31 March 2017.

# 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 2018, net assets decreased by £2.191m to £348.999m.

The investment management expenses for the year ended 31 March 2018 amounted to £39,000. The rebate due from Invesco Asset Management of £324,000 resulted in a net rebate of £285,000.

## 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 2018 and are net of investment management expenses.

| | 1 year (% p.a.) | 3 years (% p.a.) |
|---|---|---|
| **Fund** | 2.5 | 7.0 |
| **Benchmark** | 1.6 | 6.1 |

### 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 (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 2018

- Global equities continued on an upward trend over most of the last year but momentum was abruptly halted in the first quarter of 2018. Equity markets fell on worries about rising bond yields and growing trade tension. Nonetheless, over the last twelve months, the MSCI AC World index was up 11.2% in local currency terms. The pro-business and tax reform agenda of the new US president, along with a lowered threat of populism in Europe and a commodity rally, were supportive.
- The US Federal Reserve (Fed) continued on their course to normalise monetary policy. In this period, the Fed hiked the Federal Funds rate on three separate occasions, reaching 1.50%-1.75% in March 2018. Furthermore, the Fed began to unwind its sizeable bond purchases under its quantitative easing (QE) programme. Meanwhile, the Bank of England (BoE) voted to raise rates in November 2017, increasing the bank rate back to the pre-Brexit decision level of 0.5% while expectations of further tightening increased in 2018. The European Central Bank (ECB) also scaled back its monthly bond purchases but extended the duration. In contrast, loose monetary policy continued to be pursued by the Bank of Japan (BoJ).
- Production cuts undertaken by the Organization of the Petroleum Exporting Countries (OPEC) had their desirable effect of lifting oil prices. The price of Brent crude oil broke through the US$70/bbl level (a three year high) in early 2018 and ended the first quarter at US$69/bbl. The S&P GSCI Commodity index finished the year to March 2018 up 14.1% in US dollars. Industrial metals also rose by 8.0%, aided by solid global economic growth and a weak US dollar although global trade fears have dented recent returns.
- UK fixed interest gilt yields rebounded at the shorter end of the curve on the back of higher policy rates and inflation expectations. However, ongoing Brexit uncertainty and a weak UK government after the inconclusive general election result have anchored longer gilt yields. Consequently, the UK gilt yield curve has flattened over the year. Both fixed interest and index-linked gilts returned 0.5% over the last twelve months.
- Sterling ended the twelve month period 2.9% higher on a trade-weighted basis, rallying on the back of expectations of an increase in the base rate in both late September 2017 and early 2018. Sterling strength, particularly against the US dollar, lowered the return of global equities to just 2.4% in sterling terms. The US dollar was notably weak on a trade-weighted basis over the year as the US's perceived economic and monetary advantage reduced. The euro strengthened on a trade-weighted basis as Macron won the French presidential elections which lowered Eurozone political uncertainty while the latent economic recovery took hold.
- UK investment grade corporate bond spreads narrowed by only 2bps to end the twelve month period at 126bps. Spreads were on a downward trend for most of the period until the

recent market volatility sparked risk-off behaviour and spread widening.

- UK commercial property posted double-digit returns as the recovery in capital values continued after the shockwave caused by the EU referendum in 2016 and as the economy proved resilient. The IPD Monthly Index returned 11.0% over the year.

**Equity market commentary**

- UK equities posted a return of 1.2% over the year, lagging the wider equity market. In particular, the UK's difficult political situation and lowered official growth forecasts dragged down investor sentiment towards the UK market. This meant that the UK suffered significantly during the heightened market volatility seen in Q1 18. Sterling appreciation also detracted from returns due to the UK stock exchange's large exposure to companies that earn overseas revenue.
- The best performing sectors were Basic Materials (15.4%) and Oil & Gas (10.0%) while Utilities (-18.6%) and Technology (-11.1%) were the laggards over the year.
- Small cap equities were the outperformers over the 12 month period, returning 6.0%. Small cap equities tend to be more domestically-focused, thus being less exposed to sterling's appreciation.
- The US equity market rally held firm throughout 2017 but fell back over the first quarter of 2018. The equity market fall was in large triggered by expectations of a pick-up in US inflation, off the back of higher than forecast wage inflation data. Yet despite this, and the increasing trade tensions between the US and China towards the end of the year, the US market faired relatively well. Solid sets of corporate earnings reports, robust economic data and expectations for tax reform helped to support the market. US equities posted a return of 14.2% in local currency terms but sterling appreciation led to a much lower return of 1.8% in sterling terms. The Fed continued hiking interest rates throughout the year with three rate increases over the course of the 12 months.
- European equities returned 4.2% in local currency terms and 4.3% in euro terms. Political risks, which had dampened investor enthusiasm for the region in earlier periods, fell back over 2017 as far-right political parties were defeated in both France and Holland. However, tensions resurfaced during the first quarter of 2018 when the Five-Star Movement gained support in Italian elections, resulting in a hung parliament. Economic recovery continued over the year with very encouraging economic data releases. Sentiment indicators trended upwards, albeit falling back in Q1 18 as economic momentum appeared to slow. Continued loose monetary policy was a support to European equities. However, comments from the ECB hinting at monetary policy normalisation raised expectations of QE tapering in the Eurozone in the future.
- Japan returned 15.1% in local currency terms, retracting some of the initial gains after suffering during the first quarter of the year. Strong corporate earnings over the year supported the market. . A positive result in the snap Japanese election and investor expectations of a continuation in easy monetary policy, against the low inflation backdrop, resulted in strong performance over the majority of 2017. However, global geopolitical events acted as the major headwind with trade concerns resulting in yen appreciation which dampened equity performance. Sterling strength against the yen detracted from Japanese equity returns in sterling terms (7.5%).
- Emerging markets performed strongly over the year as improving macroeconomic fundamentals alongside capital inflows bolstered returns. Despite increased fears of protectionism and global trade wars towards the end of the period, the region fared well, returning 22.4% in local currency terms. Sterling strength eroded returns to 11.8% for unhedged UK investors. A rise in commodity prices provided key support to the region which was the best performing in both local and sterling terms over the year.
- In the FTSE All World ex UK Index, the best performing sectors (in sterling terms) were Technology (26.6%), Industrials (13.9%) and Financials (13.7%) whilst Telecommunications (-4.2%) was the worst and only negative performing sector.

**Currencies and Interest Rates commentary**

- Sterling proved to be resilient despite a weakened UK government and Brexit related uncertainty. The failure by the Conservative party to secure a majority in June general elections caused mid-year sterling weakness. However, an increase in the bank base rate in November boosted the pound. Toward the end of the period, the conditional agreement for a transition Brexit period provided some further impetus for sterling with substantially more time for both parties to settle on a new relationship. The US dollar was down 7.5% on a trade-weighted basis and 10.9% against sterling over the year.

- Meanwhile, sterling moved broadly sideways against the euro after euro strength in the first part of the year. On a trade-weighted basis, the euro rose by 8.3% and appreciated by 2.0% against sterling.
- Sterling ended the 12 month period up 2.9% on a trade-weighted basis, largely unchanged as euro strength partially offset US dollar weakness.
- The yen weakened for most of the period but bouts of risk aversion in global markets amid heightened geopolitical tensions led to safe-haven flows into Japan which propped up the yen, resulting in just 0.7% yen depreciation (on a trade-weighted basis) over the 12 month period and by 6.8% against sterling.
- The Federal Funds rate target was raised by 25bps three times over the 12 months from 0.75-1.00% to 1.50-1.75%. Furthermore, the Fed announced an initiative to reduce its multi-trillion dollar balance sheet, which began in October 2017.
- In October 2017, the European Central Bank announced further extensions to its QE programme, from January to September 2018 as inflation remained low, but reduced monthly bond purchases from €60bn to €30bn. The Bank of Japan maintained its aggressive quantitative easing programme and yield curve constraints in a bid to control longer bond yield levels relative to shorter interest rates.

**Gilt returns**

- UK fixed gilts returned 0.5%, as did their index-linked counterparts. Increasing expectations of interest rate hikes by the Bank of England pushed yields up over the year, apart from at long durations. Dovish remarks by the central bank at the end of 2017 saw yields decreasing again. However, yields increased significantly in Q1 2018 on the back of global inflationary expectations.
- Fixed interest bonds posted negative returns at short and medium maturities. In contrast, a flattening of the fixed interest yield curve led to positive returns at long maturities as yields fell marginally. Long-dated fixed interest gilts consequently outperformed short and medium-term maturities.
- Index-linked gilts underperformed fixed gilts at long-term maturities. Short and medium maturity index-linked bonds posted negative returns. Breakeven inflation, the difference between nominal and real yields, inched lower across maturities over the year.

**UK Investment Grade Credit**

- UK iBoxx non-gilt credit spreads (the difference between the yields on non-government bonds and equivalent maturity government bonds) tightened by 2bps to 126bps over the 12 month period.
- Spreads narrowed most dramatically in the second quarter of 2017 due to improving investor sentiment after encouraging economic data releases, both in the UK and globally as well as BoE intervention in the corporate bond market. Credit spreads reached a minimum of 111bps in early November against a globally benign credit backdrop. However, over the whole of 2018, spreads widened as risk appetite wavered in Q1 when equity markets fell. UK non-gilts returned 1.2%, outperforming fixed interest gilts.
- Lower quality corporate bonds outperformed with BBB-rated credit spreads narrowing the most (falling by 14 bps). AAA-rated spreads moved 5bps lower and A-rated bonds moved 5 bps higher.

# Investment Income

**Income for the year was as follows:**

| | 2018 | 2017 |
|---|---|---|
| | **£000** | £000 |
| Income from pooled investment vehicles | **6,586** | 31,426 |
| Interest receivable on cash deposits | **1** | 3 |
| | **6,587** | 31,429 |

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 2018 | 2018 £000 | 2017 £000 |
|---|---|---|
| **Income** | | |
| Contributions | 7,509 | 7,302 |
| Investment income | 6,587 | 31,429 |
| Change in market value | 3,715 | 24,356 |
| **Total Income** | **17,811** | **63,087** |
| | | |
| **Expenditure** | | |
| Benefits payable* | (20,091) | (20,324) |
| Payments on account of leavers | (196) | (239) |
| Investment management expenses | 285 | 269 |
| **Total expenditure** | **(20,002)** | **(20,294)** |
| | | |
| Net (decrease)/increase in the Fund during the year | (2,191) | 42,793 |
| Opening net assets of the Fund | 351,190 | 308,397 |
| **Closing net assets of the Fund** | **348,999** | **351,190** |

*The total cost of pensions and annuities payable from the Fund at 31 March 2018 was £18,900,785 per annum. This amount was £203,730 per annum lower than at 31 March 2017.

# Net assets statement

| As at 31 March 2018 | 2018 £000 | 2017 £000 |
|---|---|---|
| **Investment Assets** | | |
| Pooled investment vehicles | 326,818 | 348,089 |
| AVC investments | 1,309 | 1,412 |
| Other investment balances | 19,834 | 781 |
| Net investment assets | 347,961 | 350,282 |
| Net current assets/(liabilities) | 1,038 | 908 |
| Net assets | 348,999 | 351,190 |

# 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 2017. The increase was 3.50% and applied in all instances to staff who had left service prior to 1 July 2016. 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 2017, a proportional amount of the standard increase was paid on 1 December 2017.

In the case of pensioners below the age of 55 years on 1 December 2017, the increase was to apply from their 55$^{th}$ birthdays.

Where a pensioner had a Guaranteed Minimum Pension which had been increased by the State in April 2017, 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.

As required an interim report of the funding position was completed as at 31 March 2017. This showed that the funding position had improved since the last valuation such that the assets covered 84% of the Fund's liabilities and the deficit was £67.8m.

The next full valuation must be carried out with an effective date no later than 31 March 2018 and is currently underway.

# 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 (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 10 South Colonnade, Canary Wharf, London E14 4PU.

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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**Telephone:** 01474 562287 **Fax:** 01474 562281 **Email:** pensions@pla.co.uk