PLA Pension Fund

ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2022

COMMITTEE AND ADVISERS

Committee:

Chairman Mr M Evans – ITS Limited

Port Authority Committee Men	**Members' Committee Men**
Mr R Baker	Mr D Bird
Mr A Griffiths	Miss A Jeffrey
Mrs S MacKenzie (from 1 January 2022)	
Mr I Moncrieff (to 31 December 2021)	Mr S Davies (from 1 April 2022
Mrs J Tankard	Mr C McArthur (to 31 March 2022)
	Mr D Newbury (from 1 April 2022)
	Mr L Steggles (to 31 March 2022)

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 2022 to 31 March 2027.

During the year to 31 March 2022, the Committee and Valuation 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 2021		**359**
New members…………………………………………..		3
Total…………………………………………………...		362
Membership ceased		
• left service on pension…………………..........	10	
• withdrawal after attaining Normal Pension Age – pension paid but remained in service…................	2	
• withdrawal before attaining Normal Pension Age – remained in service	0	
• left service before retirement age………………….	31	
• Death in service……………………………………..	3	
• Transfer out…………………………………………..	1	**47**
Membership at 31 March 2022………………………		**315**

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 2021	1,294	607	15
Commenced during the year	29	55	3
Ceased during the year	99	28	2
At 31 March 2022	1,224	634	16
Variation during the year	(70)	27	1

At 31 March 2022, there were 149 deferred pensioners, compared with 142 as at 31 March 2021.

Covenant

The COVID 19 situation and the Ukraine crisis has had an impact on 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 2022, net assets increased by £2.452m to £383.130m.

The investment management expenses for the year ended 31 March 2022 amounted to £26,000. The rebate of £203,000 resulted in a net rebate of £177,000.

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 2022 and are net of investment management expenses.

	1 year (% p.a.)	3 years (% p.a.)
Fund	3.9	5.4
Benchmark	2.7	4.1

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 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 background

- Global equities generated positive returns over the last twelve months. Equities delivered solid returns in 2021, boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, markets reversed some of their gains in Q1 2022 as geopolitical risk took centre stage with Russia invading Ukraine. Furthermore, major central banks continued to move forward with normalising monetary policy as inflation rates worldwide rose rapidly.
- The Russian invasion of Ukraine created significant market volatility and economic uncertainty over Q1 2022. G7 sanctions against Russia are likely to slow GDP growth this year and cause further supply chain disruption. While the US has banned Russian oil and gas imports, the picture in Europe is more complicated given its Russian oil and gas dependence. The UK indicated it would phase out Russian oil imports by the end of the year, and the European Union stated that it would reduce dependency on Russian energy by two-thirds this year. Germany also halted approval for the commercial use of Nord Stream 2, their natural gas pipeline sourced from Russia, although Nord Stream 1 remains operational.
- US equities posted the strongest local and sterling returns over the year, helped by their high exposure to large technology companies. After approving a $1.9tn economic relief package, the US Senate passed a $1.2tn bipartisan infrastructure bill. However, President Biden's ambitious $1.75tn "Build Back Better" bill suffered a significant setback after his fellow Democratic Senator, Joe Manchin, opposed the bill due to rising inflation, a surging pandemic, and global uncertainty. In Q1 2022, the US equity market started poorly as inflation concerns led to the expectation of a faster than anticipated tightening of monetary policy, which weighed on the performance of sectors such as Information Technology and Consumer Discretionary. However, Economic data continue to be robust. The US economy added 678,000 jobs in February 2022 (above the previous month's upwardly revised 481,000 jobs) and the unemployment rate fell to 3.8%.
- UK equities were the second-best performing equity market in sterling terms over the last year. The reopening of the global economy bolstered the UK's Energy and Industrials sectors during 2021. However, the UK reported approximately 5 million Covid-19 cases in Q4 2021 due to the newly discovered Omicron variant, dampening equity returns relative to other regions such as the US and Europe over Q4. UK equities rebounded strongly over Q1 due to their tilt towards the Energy and Materials sectors. This performance was driven by fears over the supply of oil and other key commodities impacted by the conflict in Ukraine.

- Emerging markets (EM) were the worst-performing market in local currency and sterling terms over the last twelve months. The rise in interest rates by major central banks resulted in EM returns lagging other markets. State regulatory clampdowns across many of China's corporate sectors, and China's zero-tolerance covid policy causing several Chinese cities to enter strict lockdown dampened economic growth. Russian equities collapsed in price and MSCI and FTSE Russell removed "uninvestable" Russian equities from their widely-tracked emerging markets indices although the weight of Russia is not that large in the equity universe.
- On a global sector level, Energy (43.3%), Health Care (13.7%) and Technology (13.3%) were the best performing sectors in local currency terms. Communication Services (-6.4%) was the worst-performing sector, followed by Consumer Discretionary (-3.9%) and Industrials (4.1%).
- Sterling ended the twelve months 1.1% lower on a trade-weighted basis. In Q4 2021, the Bank of England (BoE) raised its benchmark interest rate by 15bps to 0.25% to combat inflation. In Q1 2022, the BoE increased its benchmark interest by another 50 bps to 0.75%. The expectation of higher interest rates and diminishing Brexit fears had improved sentiment over much of 2021, but the outbreak of war in Ukraine led to significant flows towards the US dollar.
- Brent crude oil prices rose by 69.8% to $108/BBL over the last twelve months. Economic recovery and a cutback in production over the pandemic supported oil prices. In Q3 2021, OPEC+ reached an agreement to increase crude oil production by 400,000 barrels a day from August until the end of 2022, although this pace disappointed expectations. In the fourth quarter, the momentum in oil prices dropped as Omicron, and resurgent Covid fears surfaced. However, crude oil prices rose sharply during the first quarter as geopolitical tensions due to the Russia-Ukraine war further exacerbated supply fears.
- Yields fell in Q2 2021 as variant virus risks and worries over a slower pace of global economic recovery arose. Nominal yields then picked up once more over the third quarter of 2021, driving the negative performance of UK fixed-interest government bonds. Yields rose on the back of brought-forward interest rate hike expectations against the background of rising inflation and central bank indications of policy rate increases. However, longer-dated yields briefly fell back in Q4 2021 due to heightened uncertainty surrounding Omicron. Short-dated yields later began to factor in potential monetary policy changes and saw notable increases. In Q1 2022, yields rose strongly across maturities due to expectations of future rate hikes. Overall, according to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.1%, whilst index-linked gilts rose by 5.1% over the last twelve months. Index-linked gilts significantly outperformed nominal gilts due to increased break evens driven by expectations of more persistent inflation.
- Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 24bps to 130bps.
- UK commercial property returned 23.9% over the period, supported by an income return of 5.1% and an 18.0% increase in capital values. The easing of lockdown restrictions helped the retail sector as it returned 20.8% over the year. Meanwhile, the office sector returned 6.7% over the year, whilst industrials continued to outperform with a return of 42.3%.

Investment Income

Income for the year was as follows:

	2022	2021
	£000	£000
Income from pooled investment vehicles	**19,952**	18,045
Interest receivable on cash deposits	**-**	1
	19,952	18,046

Equity income is re-invested in the Equity Portfolio.

Contributions

A revised Schedule of Contributions was prepared following the 2021 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 2022	2022 £000	2021 £000
Income		
Contributions	8,480	11,669
Investment income	19,952	18,046
Change in market value	(4,692)	16,228
Total Income	**23,740**	**45,943**
Expenditure		
Benefits payable*	(21,374)	(19,865)
Payments on account of leavers	(91)	(14)
Investment management expenses	177	79
Total expenditure	**(21,288)**	**(19,800)**
Net (decrease)/increase in the Fund during the year	2,452	26,143
Opening net assets of the Fund	380,678	354,535
Closing net assets of the Fund	**383,130**	**380,678**

*The total cost of pensions and annuities payable from the Fund at 31 March 2022 was £18,147,873 per annum. This amount was £93,464 per annum higher than at 31 March 2021.

Net assets statement

As at 31 March 2022	2022 £000	2021 £000
Investment Assets		
Pooled investment vehicles	353,890	367,084
AVC investments	1,180	1,234
Other investment balances	21,612	1,982
Derivatives	419	-
Net investment assets	377,101	370,300
Investment Liabilities - Derivatives	(3)	(170)
Total Net Investments	377,098	370,130
Net current assets/(liabilities)	6,032	10,548
Net assets	383,130	380,678

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 2021. The increase was 3.86% and applied in all instances to staff who had left service prior to 1 July 2020. 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 2021, a proportional amount of the standard increase was paid on 1 December 2021. In the case of pensioners below the age of 55 years on 1 December 2021, 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 2021, 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 2021. This showed that on that date:

The value of Technical Provisions was	£428.4m
The value of the assets was	£379.5m

Results
In accordance with the Statutory Funding Objective, as at 31 March 2021, the assets covered 89% of the Fund's liabilities and the deficit was £48.9m (assets of £379.5m being less than liabilities of £428.4m). The assets covered 71% 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 October 2028. The Authority will contribute as follows in respect of the deficit:

- September 2022 (to reflect backdated contributions from 1 April 2021 to 31 August 2022) payment of £2,020,833.

- 1 September 2022 to 31 December 2022
  £4.25m per annum, paid in equal monthly instalments.

- 1 January 2023 to 31 October 2028
  £4.25m per annum increased each year in line with the increase in CPI inflation over the year to September of the preceding year, paid in equal monthly instalments

The next full valuation must be carried out with an effective date no later than 31 March 2024.

Contingency support
As part of the 31 March 2021 Actuarial valuation process, the Trustees and sponsoring employer have agreed the following:

- a negative pledge against a named asset.
- in the event that the PLA Pension Fund requires a significant cash injection the named asset could be used as security for the PLA to borrow money to put into the Fund.
- a pension funding agreement has been put in place which details the agreed triggers and terms to be applied.

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.aon.com/unitedkingdom/privacy

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 Money Helper Service, 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. Money Helper can be contacted at:

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

0800 011 3797 www.moneyhelper.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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