PLA Pension Fund

ANNUAL REPORT & ACCOUNTS

for the year ended 31 March 2023

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 (to 30 April 2023)	Miss A Jeffrey
Mrs S MacKenzie	Mr S Davies (from 1 April 2022)
Mrs J Tankard (to 31 July 2023)	Mr D Newbury (from 1 April 2022)
Mr S Lockwood (from 1 August 2023)	

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 (to 30 November 2022) Lane Clark & Peacock LLP (from 15 November 2022)
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 (to June 2022)
Custodians:	Caceis (Invesco) PFPC Trust Company (JP Morgan) BNP Paribas (Antin) State Street (M&G, PIMCO & JP Morgan) Northern Trust (Insight) BNY Mellon (Ruffer) JP Morgan Chase Bank (legacy BlackRock)
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 2023, the Committee and Valuation Sub Committee met on a total of five 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 2022		**315**
New members…………………………………………..		0
Total…………………………………………………..		315
Membership ceased		
• left service on pension…………………..........	3	
• withdrawal after attaining Normal Pension Age – pension paid but remained in service…...............	7	
• withdrawal before attaining Normal Pension Age – remained in service	0	
• left service before retirement age………………….	19	
• Death in service……………………………………..	1	
• Transfer out…………………………………………..	0	**30**
Membership at 31 March 2023……………………….		**285**

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 2022	1,224	634	16
Commenced during the year	24	41	0
Ceased during the year	89	48	0
At 31 March 2023	1,159	627	16
Variation during the year	(65)	(7)	0

At 31 March 2023, there were 156 deferred pensioners, compared with 149 as at 31 March 2022.

Liability Driven Investments 'LDI' Update

The Fund use this type of fund which protects against shocks in interest rates and inflation. This is to ensure more stable funding levels. Most LDI mandates use a degree of leverage to achieve the desired level of protection (hedging); they borrow money to gain more market exposure through further gilt purchase. The collateral for this borrowing is typically made up of qualifying bonds and cash.

Following the Government's mini budget, the speed of the rising interest rates meant that LDI managers have been forced to call cash at short notice to maintain the level of protection.

The Fund was well positioned to come through this liquidity crisis. The Committee had undertaken several steps in 2022 to reduce risk in the Fund by disinvesting from growth assets. The Fund's Committee was not required to be a forced seller of gilts and the Fund maintained its interest rate and inflation sensitivity hedges.

All LDI managers are calling for more cash to support their hedging programs to improve the resilience and there was a further requirement to disinvest from the Fund's growth assets within the portfolio.

The Pensions Regulator 'TPR' has since issued new guidance setting out practical steps trustees should take to manage risks when using leveraged LDI. The Committee of the Fund are working closely with their advisers to ensure all necessary guidance is adhered to.

Covenant and Market Developments

The year to 31 March 2023 was a volatile year for global investment markets, with persistent inflation, slowing economic growth and geopolitical risks impacting investor sentiment. In the UK, the September "minibudget" resulted in government bonds yields spiking and the value of the pound falling. The knock-on impact on the UK

pension industry became headline news as the Bank of England was forced to step in with an emergency bond buying programme, as schemes' LDI managers issued a series of collateral calls to support their interest rate and inflation hedging mandates.
Action was taken over the period to provide collateral to support the Fund's interest rate and inflation hedging. The Committee reduced the Fund's liability hedging ratio during the period to ensure the Fund could maintain a suitable level of risk and return in the portfolio. This was subsequently increased in 2023, alongside a number of changes to the Scheme's strategy to reduce risk.
Whilst market events saw an overall decrease in the Fund's asset values, the value placed on the Fund's liabilities also fell in value over the period. The net effect was an improvement in the Fund's funding position.
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 overall management of the Committee's investments is the responsibility of the Committee. However, the day-to-day management of the Fund's asset portfolio is the responsibility of the investment managers, who operate within the guidelines of their specific mandates.

During the year to 31 March 2023, net assets decreased by £73.698m to £309.432m.

The investment management expenses for the year ended 31 March 2023 amounted to £25,000. The rebate of £113,000 resulted in a net expense of £88,000.

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 2023 and are net of investment management expenses.

	1 year (% p.a.)	3 years (% p.a.)
Fund	-16.9	-1.8
Benchmark	-16.0	-3.3

Negative investment performance has been driven by the significant impact of rising gilt yields, which has caused the value of the Fund's matching assets to fall. However, by design, the matching assets aim to move in line with the Fund's liabilities and these rising gilt yields also caused the liabilities of the Fund to fall. Overall, the funding position improved over the period.

Investment strategy

The broad investment objectives are agreed by the Committee, having consulted with the Employer. Within the context of these risk and return objectives, the Committee, taking advice from the Fund's Investment Consultant, decides on the overall allocation of assets between the various asset classes, and selects the appropriate managers within each asset class.
The Fund is subject to various regulations, and the portfolios of the Fund are invested in accordance with these regulations. The Committee determines the broad investment strategy to be adopted by the Fund. The objective set for the Fund is to adopt a strategy, which will maximise the likelihood of achieving the Committee's primary funding objectives in a stable manner. In setting the investment strategy, the Committee has considered the investment objectives for the Fund as set out in the SIP.
The following table details the asset distribution at the financial year end by asset class compared to the strategy as set out in the SIP.

Asset class	Allocation as at 31 March 2023	Strategic Allocation (%)
Diversified Growth Funds ("DGFs")	6.7%	14.0%
Equities	13.2%	20.0%
Infrastructure	18.0%	12.0%
Fund of Hedge Funds	0.2%	0.0%
Multi-Asset Credit	24.4%	35.0%
Liability Driven Investment ("LDI")	37.5%	19.0%
Total	**100.0%**	**100.0%**

Figures may not sum due to rounding.

Following unprecedented gilt yield volatility in 2022, higher levels of investment was required within the LDI portfolio to support the same hedging levels. This was sourced from the wider portfolio (further details below). This resulted in the asset allocation since October 2022 being materially different to the strategic allocation above. Following Fund year end, the Committee reviewed and revised the allocations and tolerance ranges set out in the SIP.

During the year, the Committee, with the assistance of its Investment Consultant, continued to review the Fund's investment strategy. These changes are set out below:

- In May 2022 the Committee agreed to make a full redemption from the BlackRock Dynamic Diversified Growth Fund and used the proceeds to top up the Insight Liquidity Fund within the LDI portfolio.
- In September and October 2022 there was heighted gilt market volatility which resulted in various capital calls from the Fund's LDI mandate to maintain the Fund's liability hedge. To meet these capital calls monies were divested from the Fund's liquid assets including equities and DGFs.
- In March 2023 the Committee switched the Fund's multi-asset credit assets with M&G from its monthly dealt Alpha Opportunities Fund to its daily dealt Total Return Credit Fund to improve liquidity within the strategy. The Total Return Credit Fund follows a similar process to the Alpha Opportunities fund with a similar risk/return profile.
- In March 2023, following a refresh of the Fund's liability hedging benchmark the Committee agreed to transfer monies from the PIMCO Diversified Income Fund to the LDI mandate to increase the interest rate hedging to 95% of the Technical Provisions liabilities, in line with the inflation hedge. This helped lock in the Fund's funding gains and reduce risks in the portfolio.

To meet its objectives as detailed in its SIP, the Committee will look to de-risk the investment strategy further as and when appropriate. This will broadly involve increasing the matching assets over time, whilst decreasing the return seeking assets. Therefore, the actual asset allocation is expected to shift progressively over time.

Investment Income

Income for the year was as follows:

	2023	2022
	£000	£000
Income from pooled investment vehicles	**17,536**	19,952
Interest receivable on cash deposits	**29**	-
	17,565	19,952

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 2023	2023 £000	2022 £000
Income		
Contributions	9,500	8,480
Investment income	17,565	19,952
Change in market value	(80,659)	(4,692)
Total Income	**(53,594)**	**23,740**
Expenditure		
Benefits payable*	(20,148)	(21,374)
Payments on account of leavers	(44)	(91)
Investment management expenses	88	177
Total expenditure	**(20,104)**	**(21,288)**
Net (decrease)/increase in the Fund during the year	(73,698)	2,452
Opening net assets of the Fund	383,130	380,678
Closing net assets of the Fund	**309,432**	**383,130**

*The total cost of pensions and annuities payable from the Fund at 31 March 2023 was £18,297,291 per annum. This amount was £149,418 per annum higher than at 31 March 2022.

Net assets statement

As at 31 March 2023	2023 £000	2022 £000
Investment Assets		
Pooled investment vehicles	300,558	353,890
AVC investments	980	1,180
Other investment balances	1,002	21,612
Derivatives	247	419
Net investment assets	302,807	377,101
Investment Liabilities - Derivatives	-	(3)
Total Net Investments	302,807	377,098
Net current assets/(liabilities)	6,625	6,032
Net assets	309,432	383,130

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 2022. The increase was 5.00% and applied in all instances to staff who had left service prior to 1 July 2021. 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 2022, a proportional amount of the standard increase was paid on 1 December 2022. In the case of pensioners below the age of 55 years on 1 December 2022, 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 2022, 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.

As scheduled in the PFA the funding position was reviewed as at 31 March 2023, by the Fund Actuary, the funding level was estimated to be 102%, with a surplus of £4.8m. Accordingly, no further action was required under the PFA until 31 March 2024.

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, Telecom House, 125-135 Preston Road, Brighton, BN1 6AF

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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