Port of London Authority Pension Fund (“the Fund”)
Statement of Investment Principles (“the Statement”)

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 Committee of Management (“the Committee”) will review this Statement and the Fund’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.

Consultations Made

The Committee has consulted with the 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 Committee is responsible for the investment strategy of the Fund. They have obtained written advice on the investment strategy appropriate for the Fund 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 Fund's assets has been delegated to investment managers who are authorised and regulated by the Financial Conduct Authority. A copy of this Statement is available to the investment managers appointed and members of the Fund upon request.

Objectives and Policy for Securing Objectives

The Committee’s 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 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.

Choosing Investments

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

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

The Committee 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. The diversification is both within and across the major asset classes.

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

The assets of the Fund 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 counter party or other derivative operations.

Arrangements with asset managers

The Committee regularly monitors the Fund’s investments to consider the extent to which the investment strategy and decisions of the asset managers are aligned with the Committee’s 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 Committee is supported in this monitoring activity by their investment consultant.

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

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

The Committee shares the policies, as set out in this SIP, with the Fund’s asset managers, and requests that the asset managers review and confirm whether their approach is in alignment with the Committee’s policies.

Before appointment of a new asset manager, the Committee reviews the governing documentation associated with the investment and will consider the extent to which it aligns with the Committee’s policies. Where possible, the Committee 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 Fund invests in a collective vehicle, then the Committee will express its expectations to the asset managers by other means (such as through a side letter, in writing, or verbally at Committee meetings).

The Committee 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 Committee's 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 Committee's policies, expectations, or the other considerations set out above, the Committee 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 Committee will annually review the carbon intensity of the portfolio and expect the carbon intensity of the overall portfolio to trend downwards, where appropriate, the Committee will engage with managers who have a relatively high carbon intensity portfolio.

The Balance Between Different Kinds of Investments

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

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.

The asset allocation set out in Appendix I will be implemented following the investment advice given in 2020. A broad range of available asset classes have been considered.

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 Fund, following which the Committee 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 Fund levy). The Committee 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 Committee 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 Committee will re-consider the continued appropriateness of the Fund's existing investment strategy.

The Committee monitor the risks arising through the selection or appointment of fund managers on a quarterly basis via investment monitoring reports prepared by their professional advisors. 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 Committee 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 Committee acknowledge that investment returns achieved outside of the expected deviation (positive or negative) maybe an indication that the investment manager is taking a higher level of risk than indicated.

For due diligence purposes the Fund operates an Investment Subcommittee, which meets as required, with the invitation for the whole Committee to attend.

Custody

Day to day control of custody arrangements is delegated to the custodians. The Committee receive a copy of the investment managers', custodians' and auditors' reports on their respective procedures prepared in accordance with FRAG21/94 issued by the Institute of Chartered Accountants.

The authority appointed KAS Bank (custodian) to administer the transactional activity required as part of the currency hedging overlay implemented on the Fund's equity portfolio managed by Invesco.

The custodians are independent of the Authority.

Expected Returns on Assets

Over the long-term the Committee' expectations are:

- for the "growth" assets (e.g. UK and overseas equities);

  to achieve a return which at least keeps pace with the increase in national average earnings (price inflation plus 2% p.a.) over the same period. The Committee are willing to incur short-term volatility in asset price behaviour with the expectation that over the long term these assets will outperform asset classes which may be regarded as matching the liabilities;

- 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;

- the projected annual investment returns for the asset classes taken from the Technical Provisions from the actuarial valuation are based on RPI inflation plus 3% for the growth assets (Fund of Hedge Funds, Diversified Growth Funds, Infrastructure and Equities), and the fixed interest gilt yield curve plus 0.5% p.a. for the matching assets (Credit & Liability Driven Investments), where RPI inflation is based on the gilt market implied break-even inflation curve.

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

Realisation of Investments/Liquidity

The Committee 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).

Cost Monitoring

The Committee is aware of the importance of monitoring their asset managers' total costs and the impact these costs can have on the overall value of the Fund's assets. The Committee recognises 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 Committee asks all of their asset managers to provide full details of the costs incurred in managing the Fund’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 Committee accepts 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 Fund's investment consultant monitors this on behalf of the Committee as part of the manager monitoring they provide to the Committee and flags where there are concerns.

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

The Committee is supported in their cost transparency monitoring activity by their investment consultant.

Environmental, Social and Governance Considerations

The Committee acknowledges 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 Committee expects the Fund'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 Committee is taking the following steps to monitor and assess ESG related risks and opportunities:

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

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

- The Committee will request all of the Fund'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 Fund look to appoint a new manager, the Committee will request this information as part of the selection process. All responses will be reviewed and monitored with input from their investment consultant.

Stewardship - Voting and Engagement

The Committee recognises the importance of its 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 its investments reside. The Committee recognises that ultimately this protects the financial interests of the Fund and its beneficiaries.

The Committee regularly reviews the suitability of the Fund'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 Committee has set out in its policy, the Committee aims to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Committee requires the Fund's investment managers to use their influence as major institutional investors to carry out the Committee's 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 Committee requires 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 Committee will engage with their investment managers where necessary for more information.

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

The Committee will engage with its 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 Fund members on request.

The transparency for voting should include voting actions and rationale with relevance to the Fund, 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 Committee or the asset manager. Where voting is concerned the Committee expects their asset managers to recall stock lending as necessary, in order to carry out voting actions.

From time to time, the Committee will consider the methods by which, and the circumstances under which, it 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 Committee 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 Committee.

Members' Views and Non-Financial Factors

The Committee does not specifically take into account the views of Fund 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 Fund (defined as 'non-financial factors' in the 2018 Regulations). The Committee will review its policy towards this on a triennial basis.

Additional Voluntary Contributions (“AVC’s”) Arrangements

Some members obtain further benefits by paying AVC’s to the Fund. The liabilities in respect of these AVC’s are equal to the value of the investments bought by the contributions. Details of AVC providers and fund options are included in the Appendix to this Statement.

From time to time the Committee review the choice of investments available to members to ensure that they remain appropriate to the members' needs.

Port of London Authority Pension Fund
Appendix I to Statement of Investment Principles

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

The Committee's 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 (%)	Range (%)
Fund of Hedge Funds	0%	0%
Diversified Growth Funds	14%	9%-19%
Equities	20%	15% - 25%
Infrastructure	12%	0% - 17%
Multi-Asset Credit	35%	30% - 40%
Liability Driven Investment	19%	15% - 24%
Cash	0%	0% - 10%

2. Investment Management Arrangements

The following describes the mandates given to the fund managers within each asset class.

2.1 Fund of Hedge Funds (J.P. Morgan Multi Strategy Fund II, Ltd) (0%)

JPMorgan's fund is a multi-strategy Fund of Hedge Funds. JPMorgan's target is to achieve a return of 3 month US Treasury Bills plus 5-7% p.a.

2.2 Diversified Growth Fund (BlackRock) (6%)

BlackRock's fund is a multi-strategy fund that uses fundamental asset allocation to drive portfolio risk and return over time. BlackRock's target is to achieve 3 month LIBOR + 3% p.a. over rolling three year periods (net of fees).

2.3 Diversified Growth Fund (Ruffer) (8%)

Ruffer's fund is a multi-strategy fund which seeks capital growth using fundamental asset allocation and stock selection using predominately bonds and equity. Ruffer's target is to achieve a consistent return significantly greater than the Bank of England base rate.

2.4 Equities (Invesco) (20%)

Asset Class	Benchmark	Weight	Range	Target	Expected Tracking Error
UK equities	FTSE All Share	10%	+/-2%pa	+1%pa*	+/-1%pa
Overseas equities	MSCI World ex UK Net Dividend Reinvested	45%	+/-2%pa	+1%pa*	+/-1%pa
	MSCI World ex UK Hedged to GBP Net Dividend Reinvested	45%	+/-2%pa	+1%pa*	+/-1%pa

* This is an enhanced equity mandate with the portfolio expected to outperform the benchmark. The target +1% p.a. is seen as the most that the mandate will outperform by. Outperformance is expected to be approximately 0.5% p.a. after fees.

2.5 Infrastructure (Antin Infrastructure Partners II) (5%)

Antin's fund is an Infrastructure fund. The fund has a target gross Internal Rate of Return ('IRR') of 15% p.a. and a gross cash yield target of 5% p.a. IRR is the standard performance metric for infrastructure investments.

2.6 Infrastructure (IFM - Industry Fund Management - Global Infrastructure Fund) (7%)

IFM invest in core infrastructure assets with a long investment horizon. IFM tends to pursue assets that do not have significant operating risk or team up with aligned operators for more assets with operating risk. The fund's performance objective is 10% p.a. on a net basis over the long term, which is expected to range between 8% and 12% p.a. depending on the stage of the market cycle.

2.7 Multi-Asset Credit (Pacific Investment Management Company 'PIMCO') (25%)

PIMCO's Diversified Income Fund is a multi-asset credit fund. The benchmark is equally weighted between the Barclays Global Aggregate Credit Component, BofA Merrill Lynch Global High Yield BB-B Rated Constrained and JPMorgan EMBI Global. There is no explicit target, but the fund aims to deliver 1-1.5% p.a. over the benchmark.

2.8 Multi-Asset Credit (M&G) (10%)

M&G's Alpha Opportunities Fund is a multi-asset credit fund. The target is LIBOR +3-5% p.a. (gross of fees).

2.9 Liability Driven Investment (Insight) (19)

Insight's Enhanced Selection funds provide nominal and real returns reflecting a typical liability profile with dynamic instrument selection between gilts and swaps on a partially-funded basis.

2.10 Cash balances

A working balance of cash is held for imminent payment of benefits, expenses, etc. Under normal circumstances it is not the Committee's intention to hold a significant cash balance and this is carefully monitored by the Fund's administrator.

2.11 Re-balancing arrangements

The Committee review the balance of the assets on a regular basis, following which appropriate corrective action is taken if needed.

3. Fee structure for advisers and managers

3.1 Advisers

The Committee's 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 Committee 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 Committee believe to be appropriate given the nature of the investment objective.

3.3 Summary of investment management fee arrangements

Manager	Annual Management Charge*	Performance Fee
JPMorgan	0.65% p.a.	8% with a high water mark and a hurdle rate of 3 month US T – Bills
BlackRock	0.55% p.a.	n/a
Ruffer	1.0% p.a.	n/a
Invesco	0.10% p.a.	15% outperformance with high water mark
Antin	1.50% p.a. on undrawn capital 1.0% p.a. on drawn capital/invested capital.	20% performance share with 8% hurdle and 50% catch-up
IFM	0.77% pa on drawn capital	10% over an 8% hurdle rate net of management fees and expenses, 33.3% catch-up, 50% held back each year to cover potential underperformance in the subsequent year
PIMCO	0.69% p.a. standard fee. For investments over £100m, 0.65% p.a. on first £100m and 0.59% p.a. thereafter	n/a
M&G	Total Expense Ratio of 0.50% p.a. (no explicit AMC)	n/a
Insight	LDI 0.10% on first £100m hedged 0.09% p.a. thereafter. Liquidity Fund 0.08% p.a.	n/a

** As a percentage of funds invested, unless otherwise stated.*

4. Additional Voluntary Contributions

The Committee has made available the following range of investment options:

a) Utmost Life and Pensions unit linked funds.

b) Clerical Medical Investment Group with profits, building society and managed funds.

c) Standard Life UK equity, Overseas equity, Managed, Managed Cash, Sterling, Protection and Index Linked Funds. There is also a lifestyle strategy fund, which invests in the Managed fund until 8 years and 11 months before the member's selected retirement date after which switching to the Cautious Managed Fund and then to the Protection and Sterling funds commences.