

TfL Pension Fund

Annual review 2007

Year ending 31 March 2007

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Notice for the visually impaired

Copies of this report in large type and in a text only format are available from the Fund Office. Please write to TfL Pension Fund, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD, or call 020 7918 3733 for your copy.



Message from the Chairman

I am pleased to present my review of the year ended 31 March 2007 – another busy period for the Fund. During the year we have been carrying out the Fund's three-yearly valuation. The purpose of this is to establish the extent to which the Fund's assets are sufficient to pay the benefits that have already been built up by the members, and to set the employers' future contribution levels. The Trustees have considered the results of the valuation and are in the process of agreeing future contributions with TfL.

We have seen another strong year in terms of investment performance, and the Fund has benefited from a well diversified portfolio, successfully overcoming short term market fluctuations with the aim of providing long-term security. We are pleased to announce that the Fund increased in value by 7.3% to £4.66 billion at year-end. There was one change to our investment managers to report during the year, with the successful transfer of the index-tracking investments from Barclays Global Investors to Legal & General Investment Management.

The 2007/08 Fund year brings new challenges, but I remain confident we have the expertise and resources to meet these challenges and ensure the Fund continues to prosper. One of the challenges so far has been the announcement that Metronet Rail SSL and Metronet Rail BCV went into administration with effect from 18 July 2007. At the time of finalising this report the impact of the administration had yet to be determined. The Trustees continue to monitor the position closely.

Finally, I would like to thank all the people who have worked to steer the Fund through the past year, the Trustees, our advisers, the Fund Office and the Fund Secretary.



Stephen Critchley

Money in and out of the Fund

On 31 March 2007, the value of the Fund was £4,660.9m. This was an increase of £318.5m in the value at the end of the previous Fund year.

The tables below show the money coming into and going out of the Fund during the year.

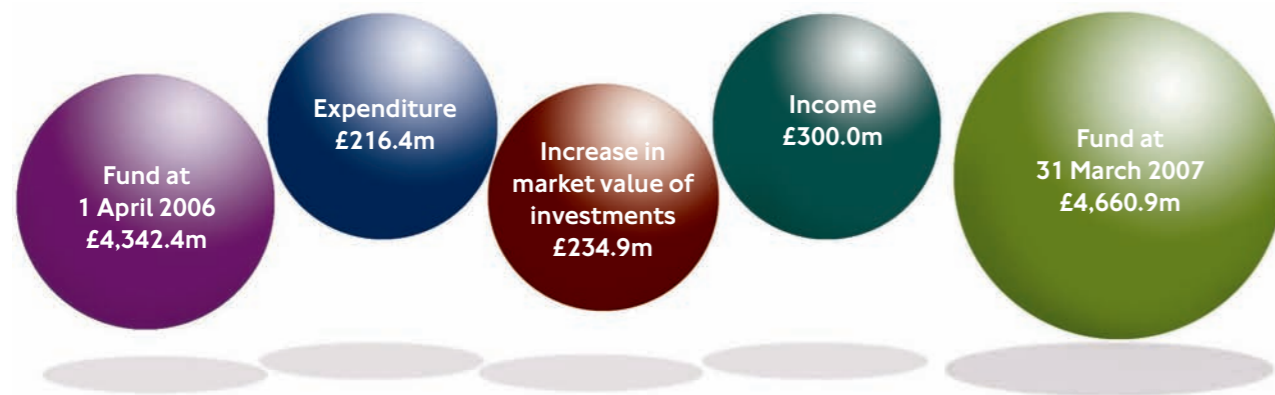
Money into the Fund	2006/07	2005/06
Employers' contributions	£184.0m	£174.0m
Investment income	£71.6m	£67.7m
Members' contributions	£34.5m	£33.0m
Transfers in from other pension schemes	£9.9m	£11.9m
Total income	£300.0m	£286.6m

Money out of the Fund	2006/07	2005/06
Pensions and other benefits paid	£204.8m	£191.0m
Investment expenses	£4.3m	£4.4m
Administration expenses *	£3.9m	£3.5m
Pension levies	£1.9m	£1.1m
Payments to leavers	£1.5m	£2.8m
Total outgoings	£216.4m	£202.8m

* For 2006/07 the Fund's administration expenses were as follows:

- Staff costs £1.9m
- Fund Office running costs £0.5m
- Professional fees £1.3m
- Communications £0.2m

Net movements in the Fund



The Fund's accounts are audited each year by independent auditors, KPMG. They have confirmed that:

- The Fund's accounts show a true and fair view of the financial transactions during the 12 months to 31 March 2007
- Contributions were paid to the Fund in accordance with the schedules of contributions in force during the year

The financial information in this Annual Review is a summary of the full audited accounts.

If you would like a copy of the Report and Accounts, please contact the Director of Pensions and Fund Secretary at the following address:

4th Floor, Wing over Station
55 Broadway
London SW1H 0BD

Alternatively you can download a copy from the Fund's website at www.tflpensionfund.co.uk

Investment review

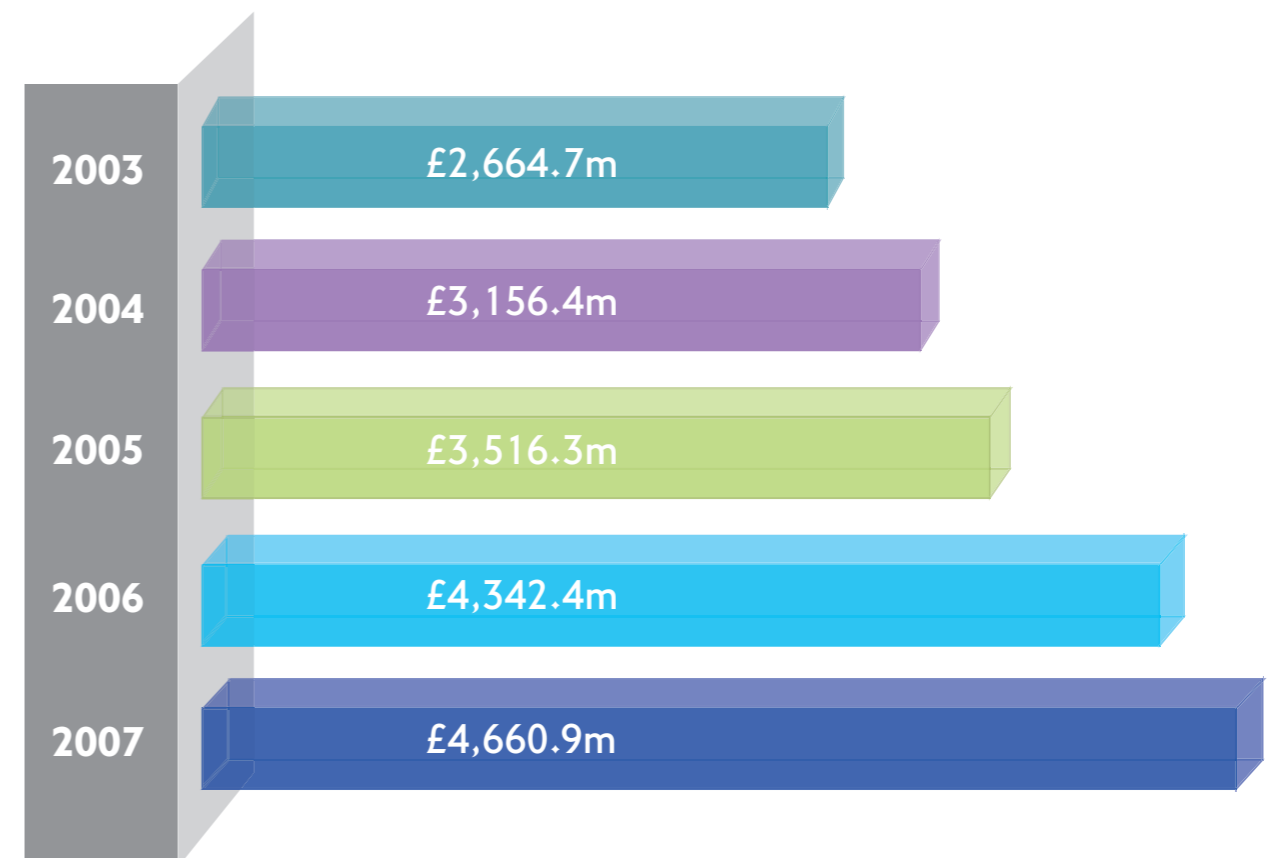
As these tables show, the Fund's return for the year was 0.3% lower than the target (benchmark) set by the Trustees. When measured over three years, the Fund's investment performance was slightly ahead of the benchmark at 13.0% a year; measured over five years the performance was in line with the benchmark at 7.7% a year.

Tables below show investment returns

Performance over one year			Average performance over three years			Average performance over five years		
	Total Fund	Benchmark	Total Fund	Benchmark	Total Fund	Benchmark		
Return	5.8%	6.1%	13.0%pa	12.9%pa	7.7%pa	7.7%pa		

During the year the value of the Fund increased by £318.5m to £4,660.9m.

How the value of the Fund has changed



Assets split by section

The Fund's assets held by each section on 31 March 2007 are shown in the table below:

Section	Value £m
Public	4,101.87
Metronet Rail BCV Limited	189.89
Tube Lines Limited	167.91
Metronet Rail SSL Limited	166.69
EDF Energy Powerlink Limited	26.63
Cubic Transportation Systems Ltd	3.58
Electronic Data Systems Limited	2.64
British Transport Police Authority	0.45
Capgemini UK plc	0.42
Tribal Technology Limited	0.36
Cadbury Limited	0.26
Thales Communications Services Ltd	0.23
Total	4,660.93

How the Fund is invested

The Fund is held in a range of different investments (assets) in the UK and overseas. These charts show who manages the Fund and how it was invested on 31 March 2007.

Who manages the Fund

Legal & General (Index tracking – all assets) **49.0%**

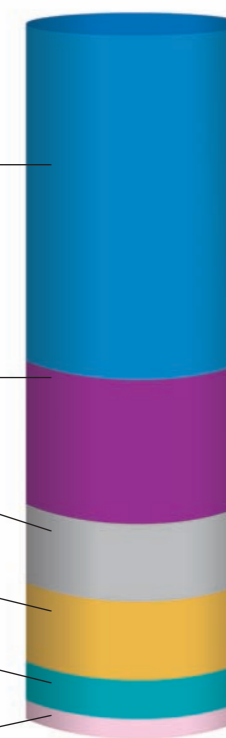
Goldman Sachs (Bonds) **20.0%**

Alliance Capital (UK equities) **11.0%**

Baillie Gifford (UK equities) **11.0%**

Nomura (Pacific Basin equities) **6.5%**

Bridgewater Associates (Currency) **2.5%**



The Fund's assets

UK equities **38.0%**

Overseas equities **26.2%**

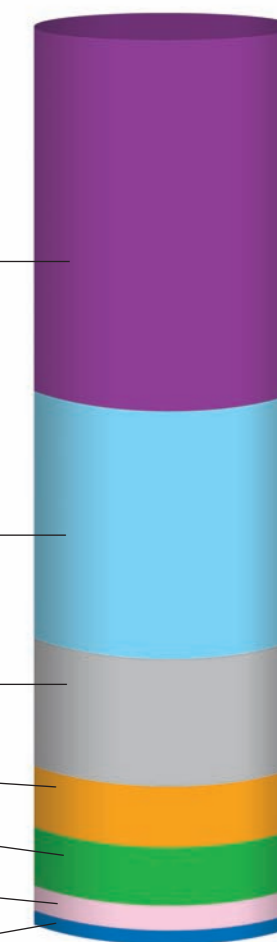
UK Government Index-Linked Bonds **15.3%**

UK Government Bonds **8.2%**

Corporate Bonds **8.0%**

Overseas Bonds **2.9%**

Cash and other investments **1.4%**



Top 10 shares

The Fund has significant holdings in the shares (equities) of a number of major UK companies. On 31 March 2007 the 10 largest holdings were:

1	Royal Bank of Scotland	£76.3m
2	GlaxoSmithKline	£62.7m
3	Royal Dutch Shell	£53.8m
4	Barclays Bank	£50.3m
5	BP	£48.6m
6	Vodafone	£45.3m
7	HSBC	£43.5m
8	BG Group	£30.2m
9	BHP Billiton	£26.5m
10	HBOS	£21.9m

Trustees' managers and advisers at 31 March 2007

Investment Managers

Alliance Capital Ltd
Baillie Gifford & Co
Bridgewater Associates, Inc
Goldman Sachs Asset Management
Legal & General Investment Management
Nomura Asset Management UK Ltd

Custodian

JP Morgan Chase Bank

Administration Services

Transport for London

Investment Adviser

Mercer Investment Consulting

Scheme Actuary

RV Williams, Watson Wyatt Limited

Legal Advisers

Sacker & Partners LLP

Auditors

KPMG LLP

Bankers

The Royal Bank of Scotland plc

Communications Adviser

GR Communications

Medical Adviser

Professor K Holland-Elliott

AVC Providers

Clerical Medical
Equitable Life
Standard Life

Membership review

Between 1 April 2006 and 31 March 2007, the total membership of the Fund increased by 227 to 82,484.

The table shows how the membership is split between contributing members, deferred members, pensioners and dependants.

	As at 31 March 2007	As at 31 March 2006
Contributing members	22,453	22,174
Deferred pensioners	18,803	18,941
Pensioners	30,436	30,345
Dependants and children	10,792	10,797

The table below shows how the contributing members are spread across the Participating Employers.

	As at 31 March 2007	As at 31 March 2006
Transport for London	17,274	16,632
Metronet Rail BCV Ltd*	1,813	1,950
Metronet Rail SSL Ltd*	1,711	1,835
Tube Lines Ltd*	1,434	1,522
Other employers*	221	235

* These sections are closed to new members.

The Fund's actuarial valuation

In the 2006 Annual Review we looked at why pension funds are required to carry out regular actuarial valuations and how the results are used. Each section of the Fund now has its own separate valuation and, for most sections, the future contribution rates have now been agreed between the Trustees and TfL.

The statutory deadline for the entire valuation process to have been completed was 30 June 2007, and leading up to this date and also since then the Trustees have kept the Pensions Regulator fully informed of the ongoing position. He remains satisfied that the Trustees and TfL are committed to finalising the valuation process as soon as

possible for those sections that have not yet been agreed.

A further communication will be provided to members showing the final results of the valuation process.

In the same way as last year a Summary Funding Statement is attached which shows the specific position for your section, along with details of how any shortfall is being addressed. For those sections where agreement has not yet been reached between the Trustees and TfL on future funding, the Summary Funding Statement sets out the position based on the latest information available to the Trustees.

The Fund expects to receive the full support of all employers involved and member contributions remain unchanged at 5% of pensionable salary.

The Pension Fund website

Whether you are a contributing member, a pensioner or have a deferred pension, you can find more information about the Fund on our website at www.tflpensionfund.co.uk

The look and feel of the site, as well as the content, has recently undergone a complete review. We hope that you will take the opportunity to visit the site – we always welcome your comments and ideas, which you can send to us by filling in the online feedback form.

The Fund's Trustees

The Fund is managed by a board of directors, known as the Trustees. Individual Trustees are nominated by Transport for London (as Principal Employer), the trades unions and the TfL Pension Consultative Council (PCC), which is itself elected by and from the membership.

The Trustees are responsible for all aspects of Fund management, both financial and administrative. As this is a complex process for a scheme as large as the TfL Fund, there are five sub-committees; operations, investment, audit, dispute resolution and appeals, each of which deals with a specific aspect of Fund management.

While the Trustees appoint a number of specialist advisers to help them in their work, ultimately they are responsible for all decisions relating to the Fund. To help them do this, there is a programme of internal training and all Trustees are encouraged to attend pensions-related seminars. Since April 2006, all pension scheme trustees have been required by law to reach a minimum standard of knowledge of pensions law and investment issues, which we take very seriously and make every effort to achieve. New Trustees are also given extra help and support to get them up to speed.

On 31 March 2007, the Trustees were as listed below. The nominating bodies are shown in brackets.

Stephen Critchley (Chairman), Chief Finance Officer, Transport for London (TfL)

Steve Allen, Interim Managing Director Finance, Transport for London (TfL)

Maria Antoniou, Group HR Director, Transport for London (TfL)

Howard Collins, Deputy Chief Operating Officer, London Underground Limited (TfL)

Andrew Cleaves, Director of Periodic Review, Tube Lines Limited (TfL)

Gerry Duffy, Director of Employee Relations, London Underground Limited (TfL)

Chris Godbold, Director, Transport Benevolent Fund (PCC)

Steve Grant, District Organiser, ASLEF (ASLEF)

Steve Gray, Group Reserve Station Supervisor Class 1, London Underground Limited (TSSA)

Jane Hart, Senior Disputes Resolution Lawyer, TfL Legal, Transport for London (TfL)

Chris Miller, pensioner (PCC)

Steve Perry, Vice President Asset Performance Controller, Metronet Rail (TfL)

John Robson, Train Operator, Arnos Grove, London Underground Limited (PCC)

Tom Scanlon, Regional Industrial Organiser, T&GWU (T&GWU)

Patrick Sikorski, Assistant General Secretary, RMT (RMT)

Michael Swiggs, pensioner (PCC)

John Timbrell, Project Engineer, Metronet Rail, Trains Division (LTJTC)

Richard Webster, Director of Finance – Surface Transport, Transport for London (TfL)

Since 31 March 2007, Steve Allen and Richard Webster have resigned from the Board. TfL are in the process of replacing these Trustees.

Key:

ASLEF – Associated Society of Locomotive Engineers and Firemen

LTJTC – London Transport Joint Trades Committee

PCC – TfL Pension Consultative Council

RMT – National Union of Rail, Maritime and Transport Workers

T&GWU – Transport & General Workers' Union

TfL – Transport for London

TSSA – Transport Salaried Staffs' Association

