

TfL Pension Fund

Providing for my tomorrow

Annual Members' Meeting

Tuesday 18 October 2011



Agenda

11.00 *Welcome & Introduction - Maria Antoniou (Chair of Trustees)*

11.10 *Review of the Year - Stephen Field (Fund Secretary)*

Guest Speakers:

11.20 *Actuarial Update over the last 12 months - Richard Williams, Towers Watson*

11.40 *Investment review of last 12 months and future outlook - Ed Francis, Towers Watson*

12.00 *Legal outlook - Ian Pittaway, Sacker & Partners*

12.15 *Open Forum – Questions & Answers - Maria Antoniou*

12.45 *Adjourn for refreshments and informal discussions*

13.00 *Doors Close*

13.15 *Conference Centre cleared*



TfL Pension Fund

Providing for my tomorrow

**Review of the Year
ended 31 March 2011**

**Stephen Field
Fund Secretary**



Agenda

Section 1 : Financial Report

Section 2 : Investment Report

Section 3 : Fund Office Activities

- Membership
- Workload statistics
- Pension Increase
- Equitable Life
- Missing Membership
- Website



Section 1

Financial Report



Net movements in the Fund

	2010/11	2009/10
	£m	£m
Value of Fund at 31 March 2010	5,097.8	3,828.9
Expenditure	(283.0)	(261.0)
Change in market value of investments	418.9	1,154.8
Income	465.3	375.1
Value of Fund at 31 March 2011	5,699.0	5,097.8



Money into the Fund

	2010/11	2009/10
	£m	£m
Employers' contributions	271.3	244.2
Investment income	77.5	62.9
Transfers in from other schemes	71.5	23.5
Members' contributions	45.0	44.5
Total income	465.3	375.1



Money out of the Fund

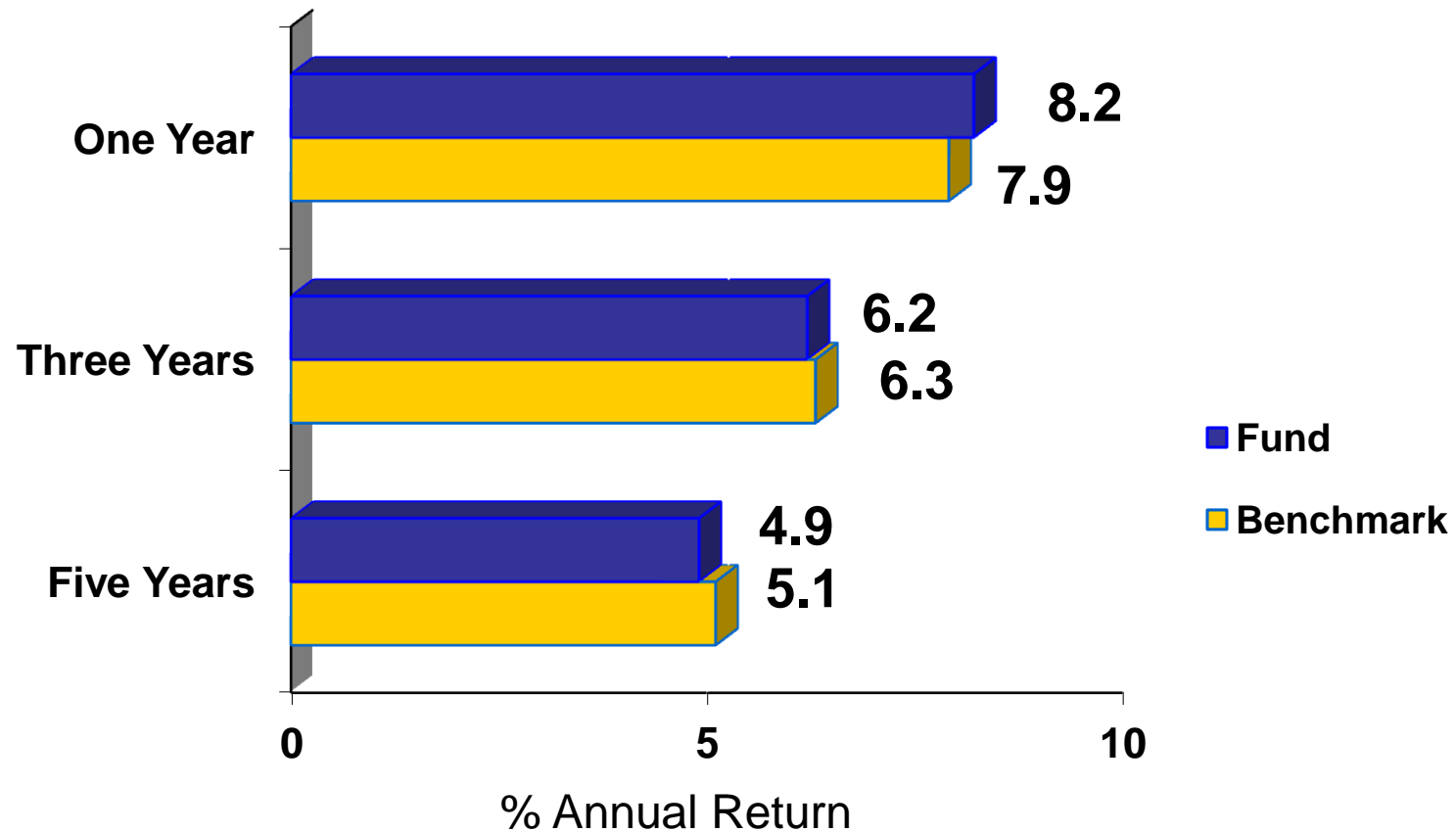
	2010/11 £m	2009/10 £m
Pensions and other benefits paid	267.2	244.7
Investment management expenses	7.5	4.0
Administration expenses	3.8	4.3
Pension levies	1.7	6.5
Payments in respect of leavers	1.7	1.5
Other payments	1.1	-
Total outgoings	283.0	261.0



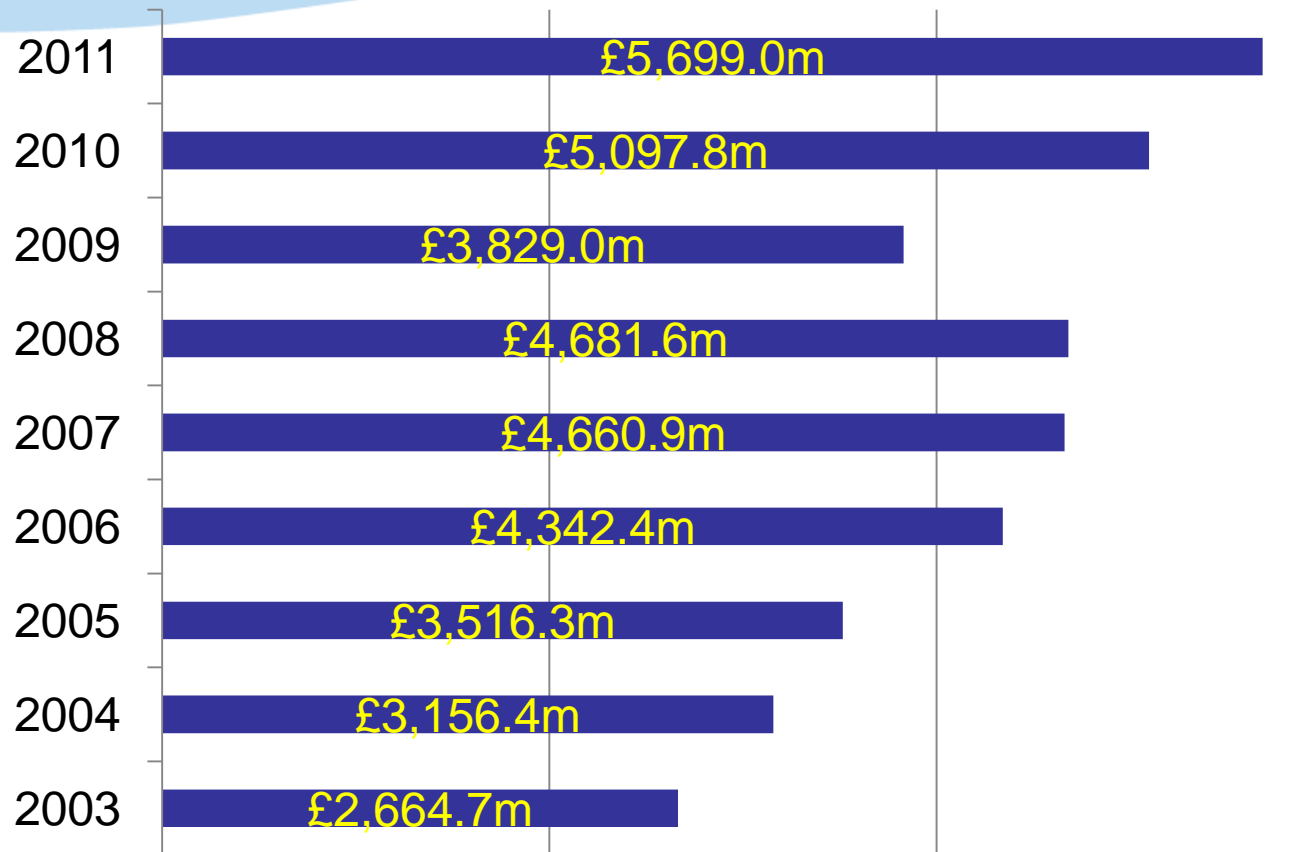
Section 2

Investment Report

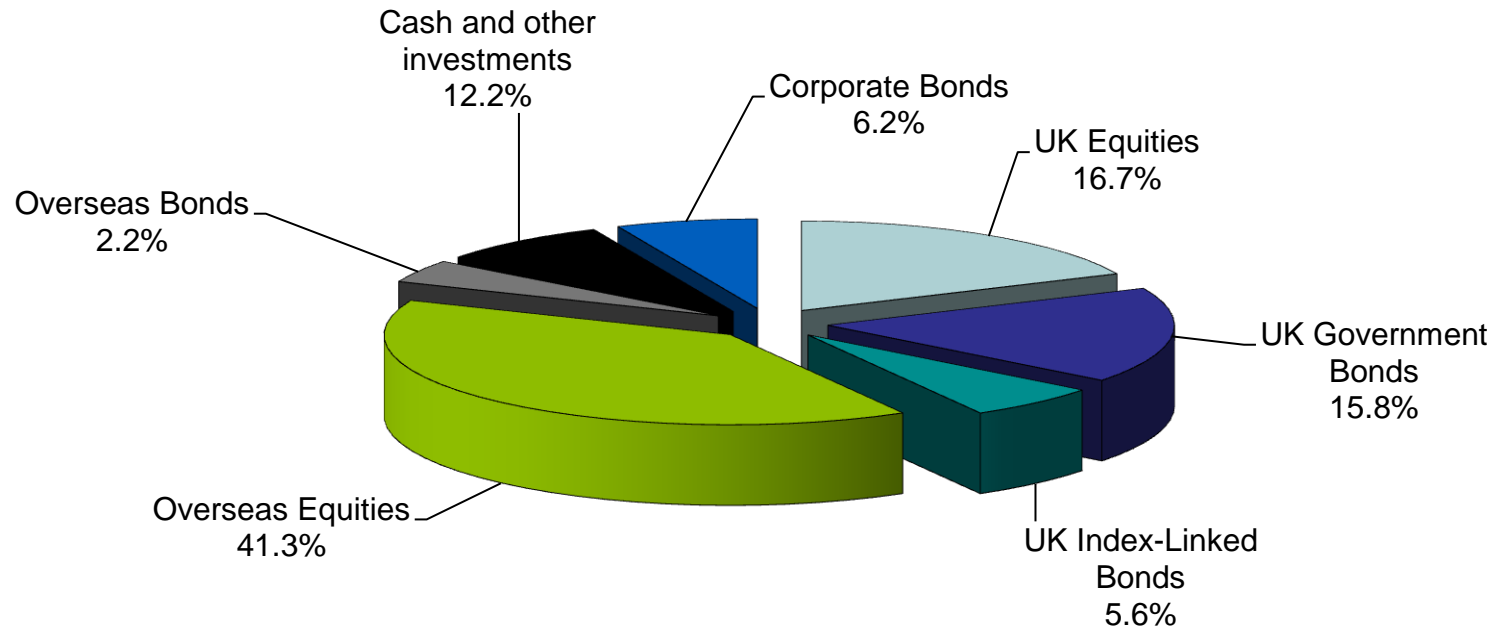
Investment Review to March 2011



How the value of the Fund has changed



The Fund's assets as at 31 March 2011



Section 3

Fund Office Activities

Membership
Pension Increase
Equitable Life
Missing Membership
Workload statistics
Website
Other



Membership of the Fund

	As at 31 March 2011	As at 31 March 2010
Contributing members	23,606	24,430
Deferred pensioners	18,244	18,456
Pensioners	30,997	30,708
Dependants and children	10,825	10,844
Total	83,672	84,438

Pension Increase

Under the Rules of the Fund the April pension increase is calculated by reference to the change in the Retail Prices Index (RPI) over the period September to September.

For April 2011, the increase in RPI over the reference period was 4.6% and this amount was implemented.

For April 2012, the increase in RPI over the reference period is to be announced this morning.

Equitable Life

The Government has confirmed that it made the first compensation payments at the end of June 2011.

The Government plans to write to all eligible policyholders by mid June 2012 confirming whether a payment will be made, the amount and when it will be received. However in the case of Group schemes such as ours, contact may not be until later.

All policyholders should receive compensation by mid 2015.

The Government is basing compensation on 'relative loss', which is the difference between what policyholders received from their policy and what they would of received if invested in certain comparator companies. Eligible policyholders should receive 22.4% of their relative loss.

The Government has said that about one third of policyholders have not suffered a relative loss and a further third have relative losses under £500.

The Trustees and their advisers continue to monitor developments. They will communicate with members after further information has been received by the Fund confirming the compensation position and, if applicable, the payment arrangements.



Missing Membership

As indicated at the AMM last year work on Missing Membership continues and progress has been made in each of the two main categories.

As at 30 September 2011, in respect of Category 1, Training periods, the percentages of acceptance were:

Active	Deferred	Pensioner
56%	9%	60%

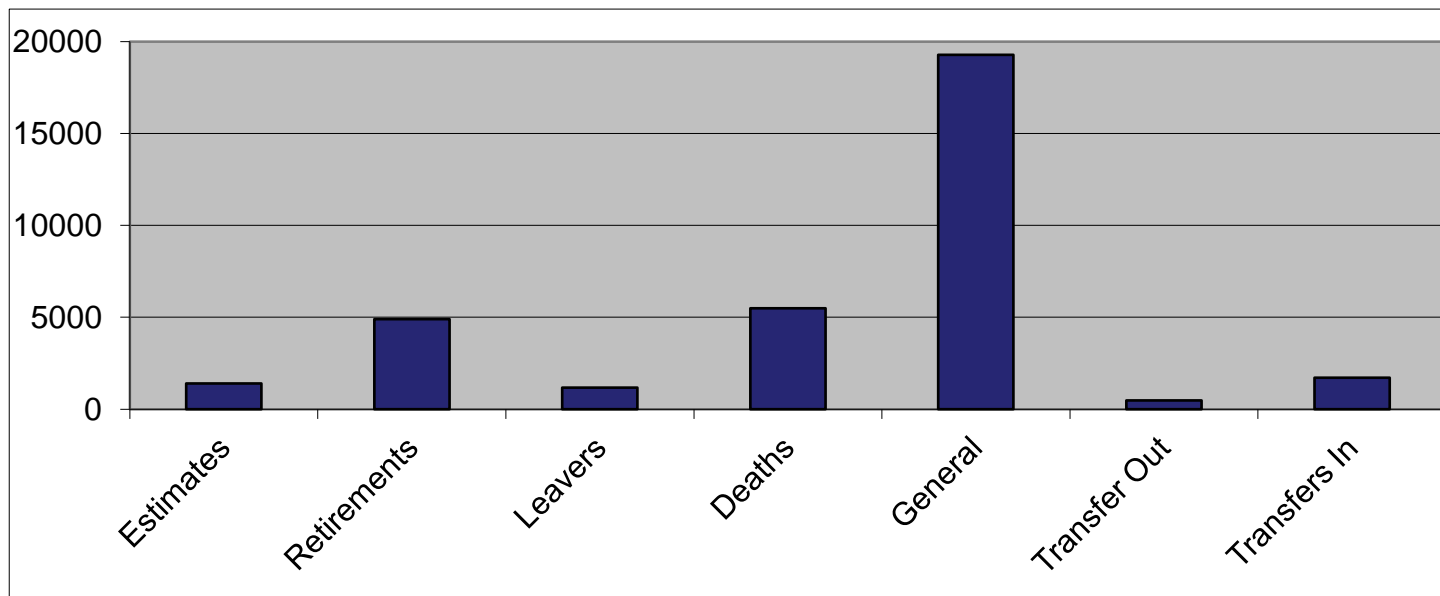
As at 30 September 2011, in respect of Category 2, Fixed Term Contracts to Permanent, the percentages of acceptance for those where and offer has been made were:

Active	Deferred	Pensioner
82%	62%	71%

The funding agreement reached between the Trustee and TfL & LU provided for an advanced payment this was received on 31 March 2009 and no further payments have been necessary.

Workload Statistics

- This has been yet again a busy year for the Fund Office with workload over the period to June 2011 being:-
 - Over 34,400 pieces of correspondence completed
 - SLA achieved in 100% of cases



Website

Member self service

Allows members to view information held by the Fund Office

Active and Deferred Members can:

- Run pension forecasts
- Look at benefit statements

Pensioners can:

- View payslips
- View P60s

Deferred and Pension Members can update their address details; so far over 6,000 members have registered

In the year to June 2011:

- over 20,500 retirement quotations produced
- over 3,800 pensioner payslips viewed
- over 1,100 pensioner P60s viewed
- over 5,500 benefit statements viewed



Member self-service

View your pension details and statements, and use the pension calculator to forecast your pension.

[Sign in](#)

[Register](#)



Other

- Pensioner guides

These are to be available from the website to existing pensioners and on written request a hard copy can be issued.

- E-Comms

Members can register via the website to cease receiving certain pension publications by post and instead view them online.





TfL Pension Fund Annual Members' Meeting

Actuarial update

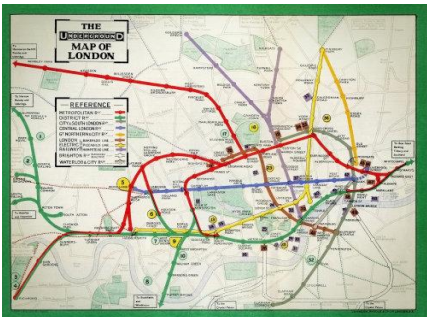
Richard Williams
Scheme Actuary

18 October 2011

1911

2011

2111



Great Britain in 1911

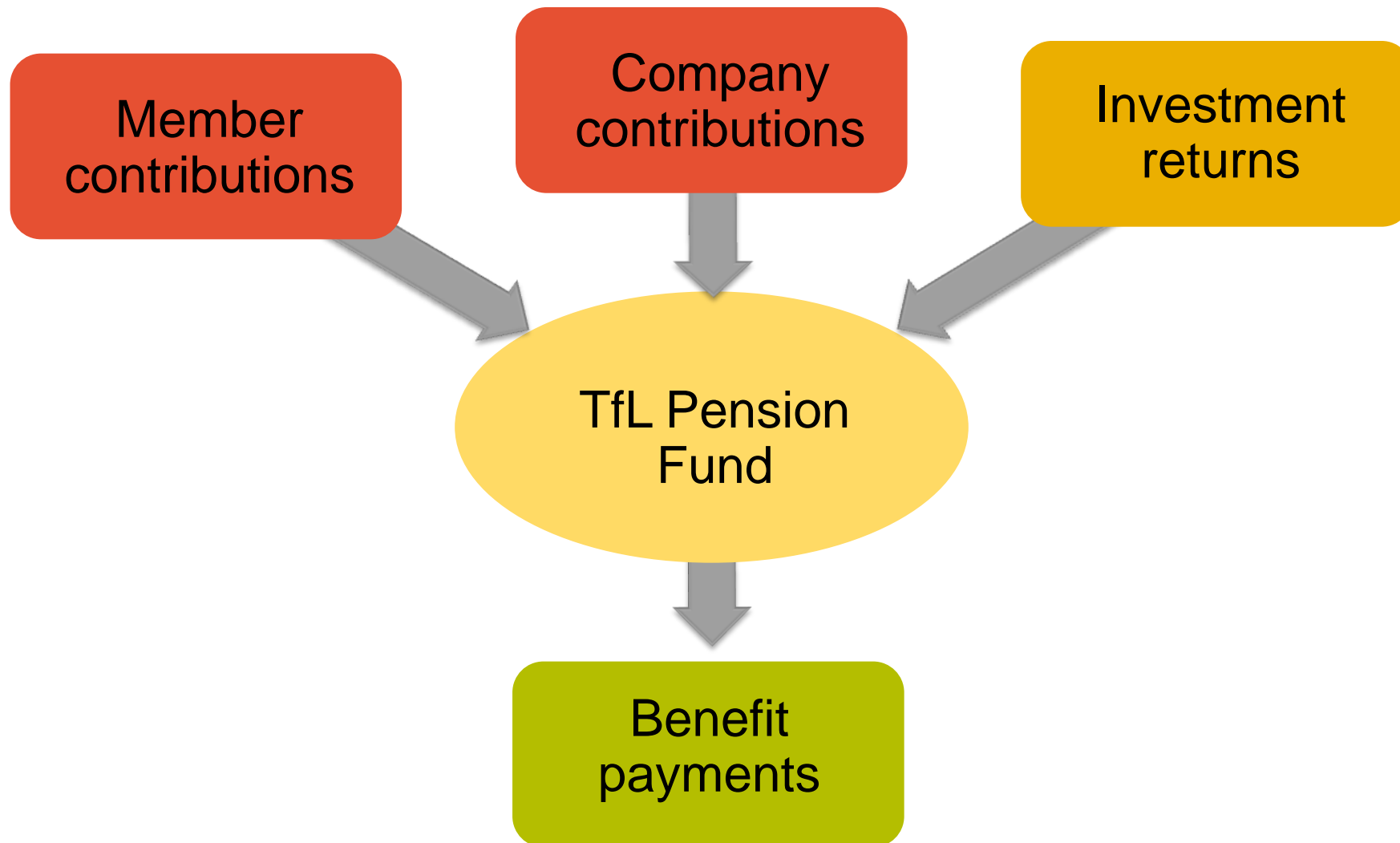


- Life expectancy:
 - Men – 50 years
 - Women – 54 years
- Average family 2.8 children
- Minority Liberal government
- Commons vote to pay MPs a salary
- 1911 National Insurance Act
- First LU electric escalator at Earl's Court station
- Manchester United win 1910-11 football league

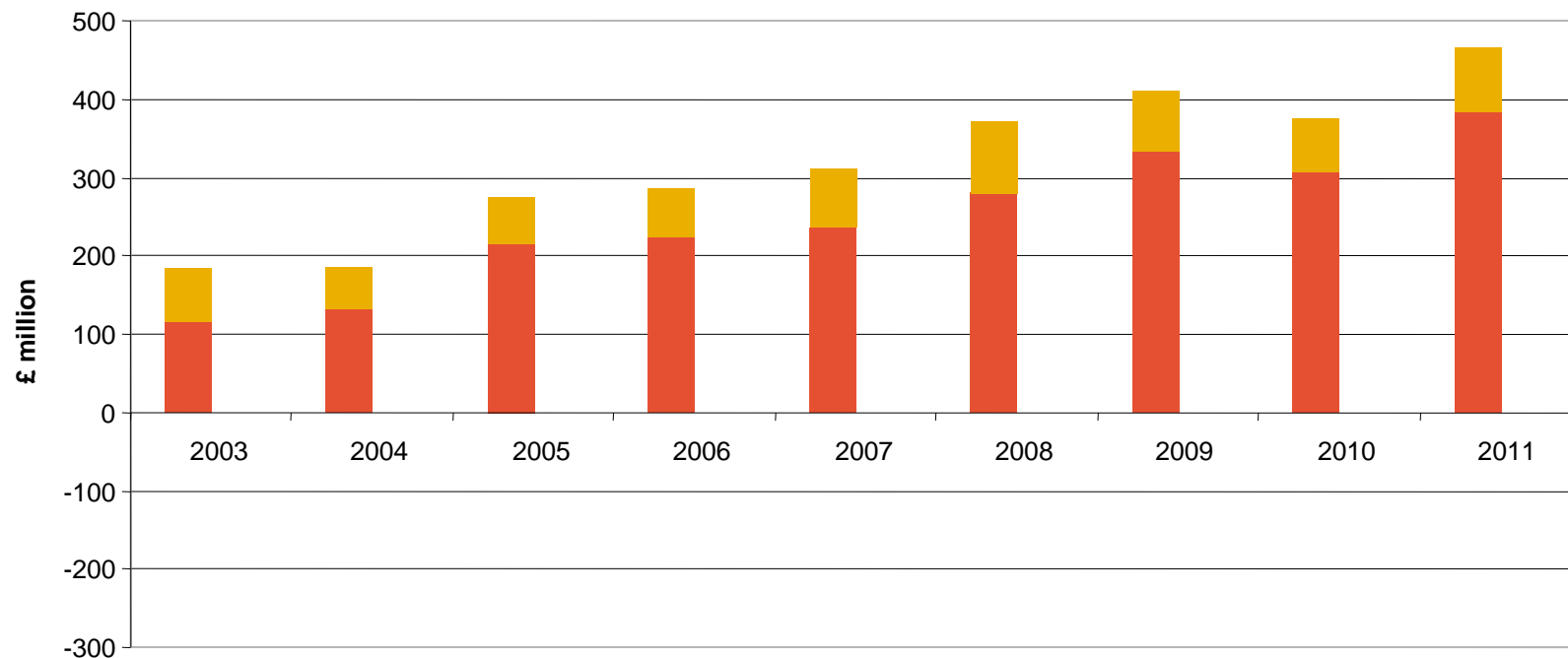
Agenda

- How the Fund operates
- How an actuarial valuation is performed
- Funding position as at 31 March 2009
- Development in funding position since 31 March 2009
- Questions

How the Fund operates



Fund's cashflow position

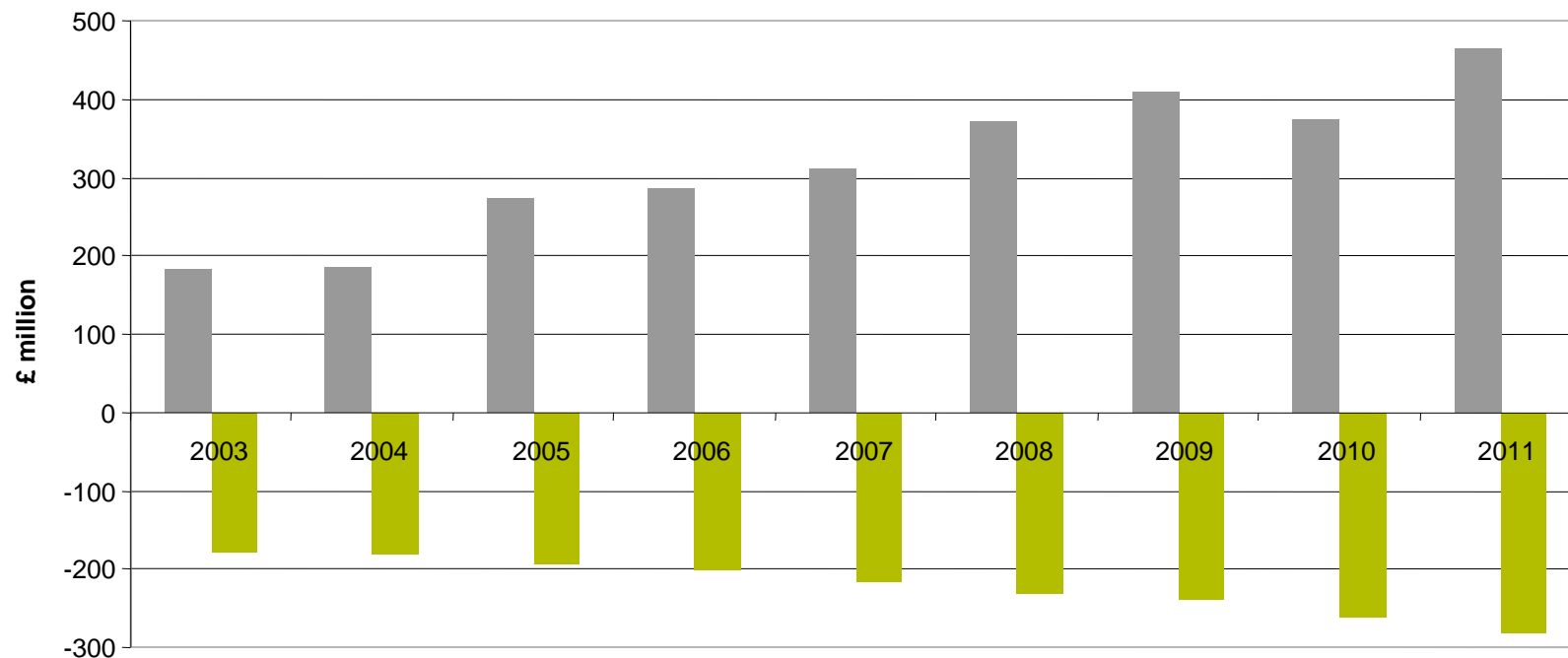


Contributions / transfers



Investment income

Fund's cashflow position

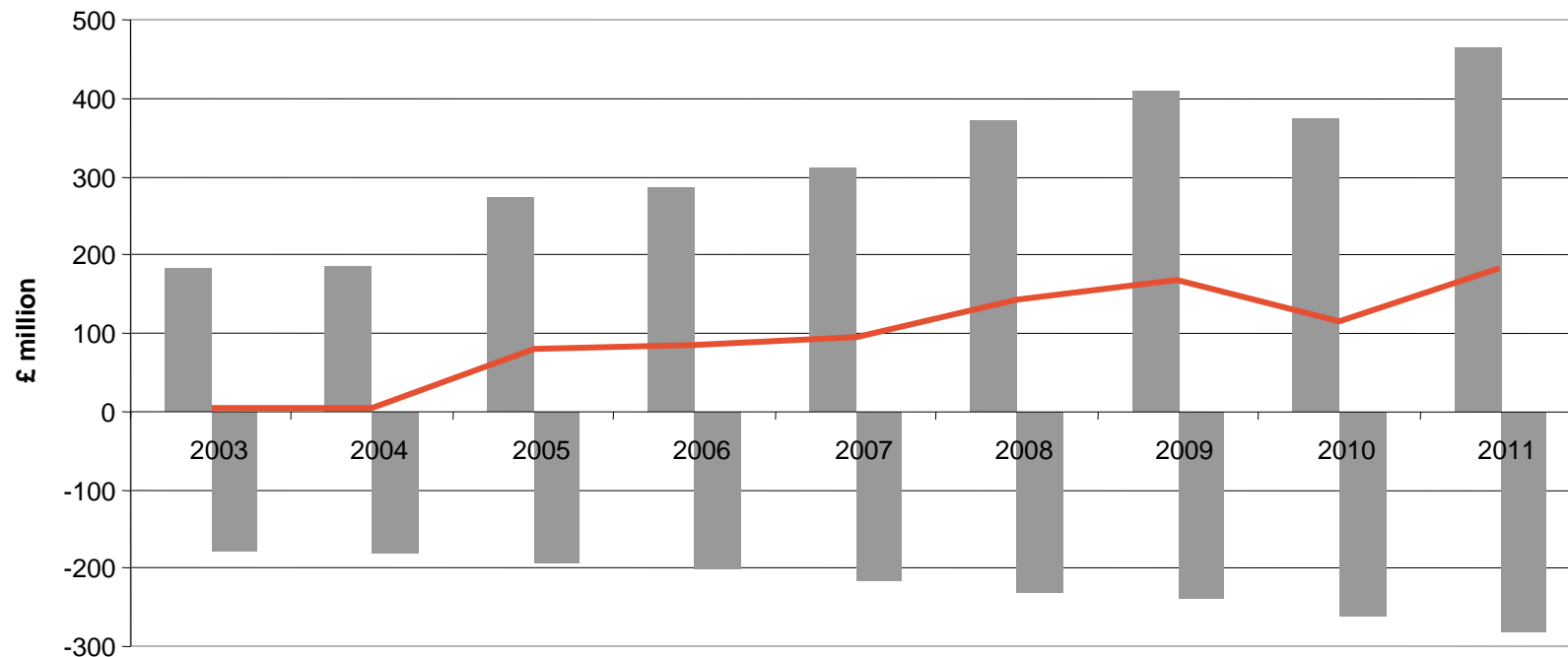


Contributions / transfers / investment income



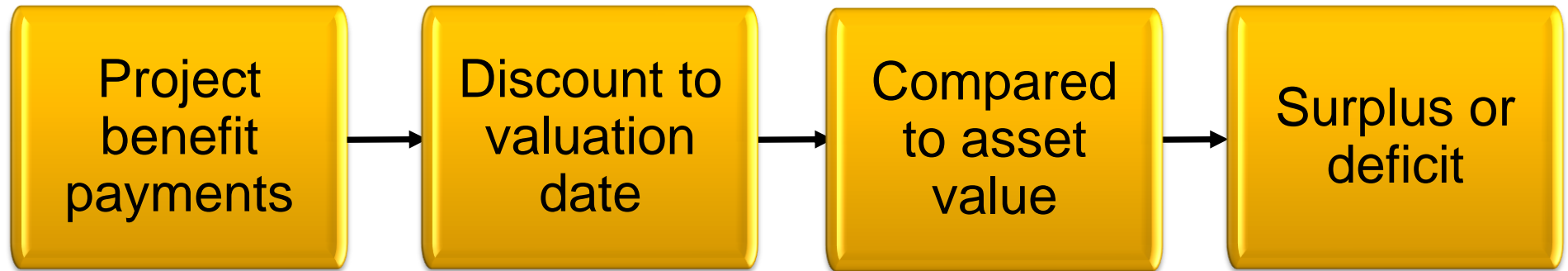
Benefit payments

Fund's cashflow position



— Net cashflow

How an actuarial valuation is performed



Eg:

£105 in
1 year

£100 today
(5% interest)

£95
today

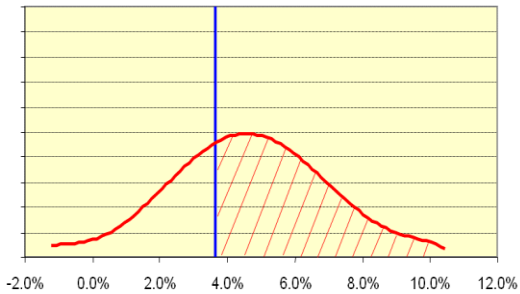
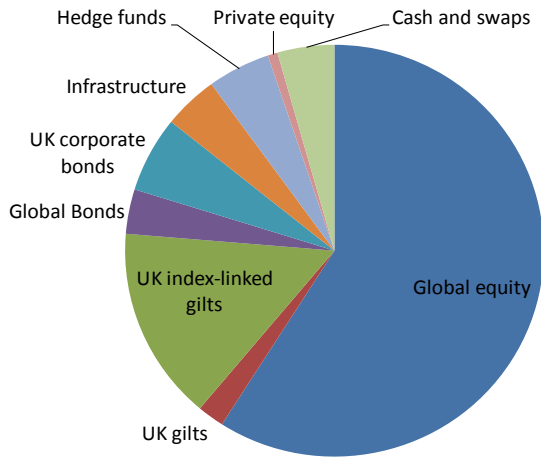
£5
deficit

Apply twice

1. Benefits accrued by valuation date

2. Benefits accruing over next year

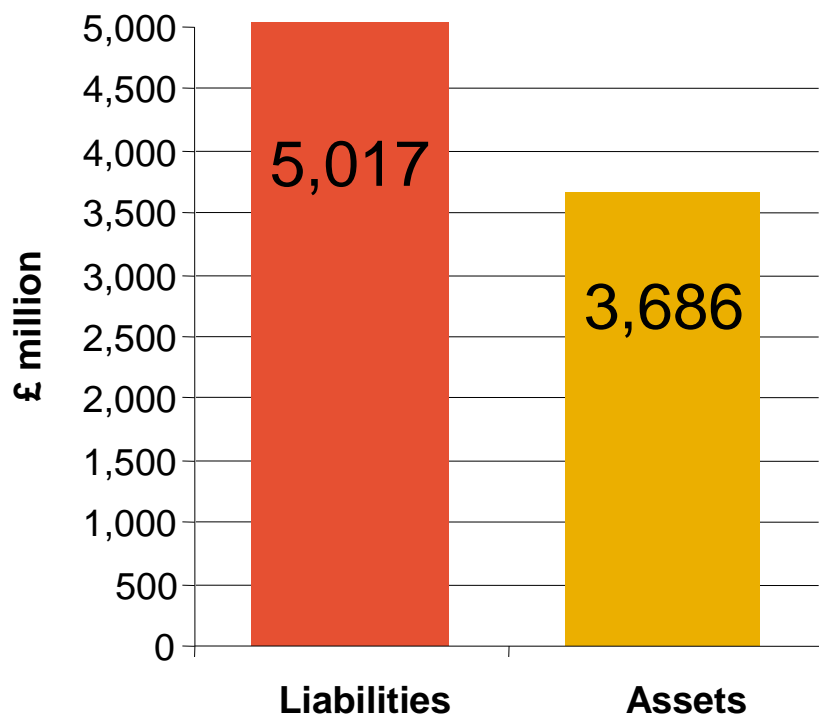
Assumptions are crucial – investment return



Long term
projected
investment
return



Funding position as at 31 March 2009 (Public Sector Section – including BCV / SSL)



Deficit contributions
(until 31 March 2020)

12.95% of salaries
(currently c£100 million a year)

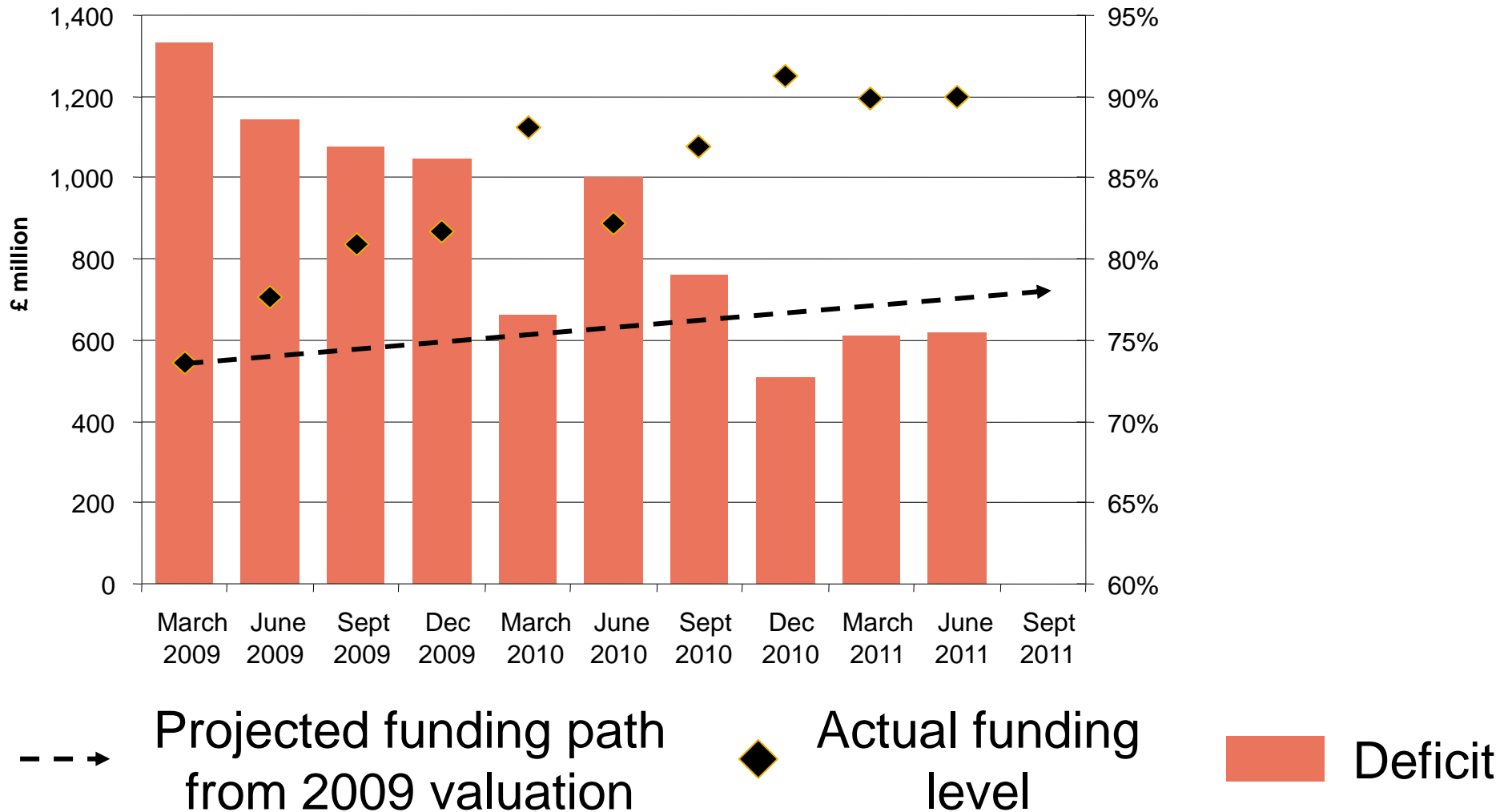
plus

£107.4 million (RPI linked) in each of
2018, 2019 and 2020

Cost of new benefit accrual

18.05% of salaries
(currently c£140 million a year)

Development in funding position since 31 March 2009 (Public Sector Section – including BCV / SSL)

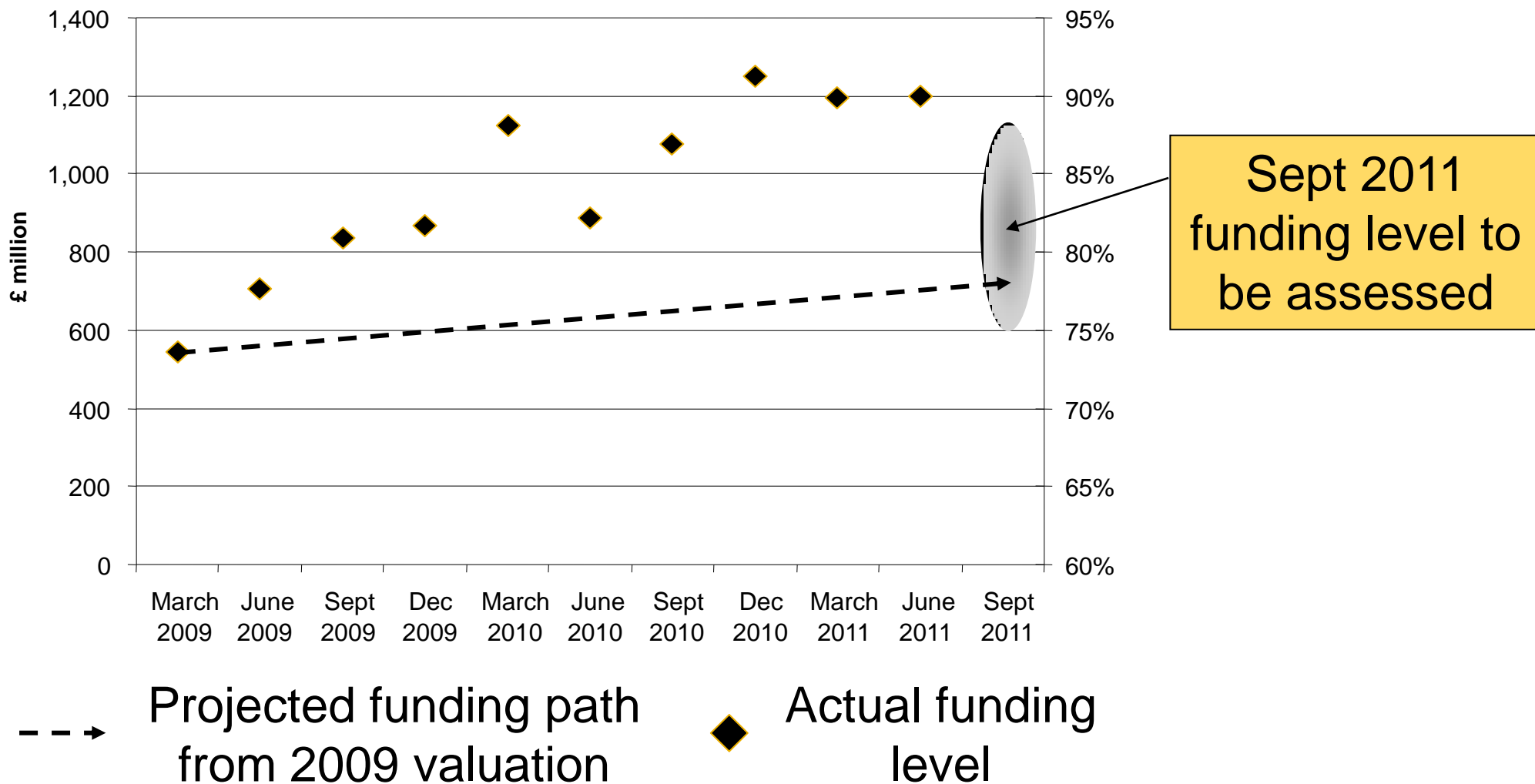


What has happened since 30 June 2011?

- Fund value has fallen
 - equity investment values down
 - partially offset by bond investment values rising
- Positive net cashflow position
 - Fund is not a forced seller
 - investing for the long term
- Ongoing monitoring of position
 - Trustee monitors
 - update to 30 September due shortly

Next full valuation as at 31 March 2012

Development in funding position since 31 March 2009 (Public Sector Section – including BCV / SSL)



Sept 2011 funding level to be assessed

Questions



Limitations

- The content of these slides has been prepared for the Trustee of the TfL Pension Fund in accordance with an engagement letter addressed to the Trustee dated 22 August 2002 (as amended) and our general terms and conditions of business.
- These slides are provided to the Trustee to form an update from the Actuary to be presented at the Annual Members' Meeting on 18 October 2011.
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TfL Pension Fund Annual Members' Meeting

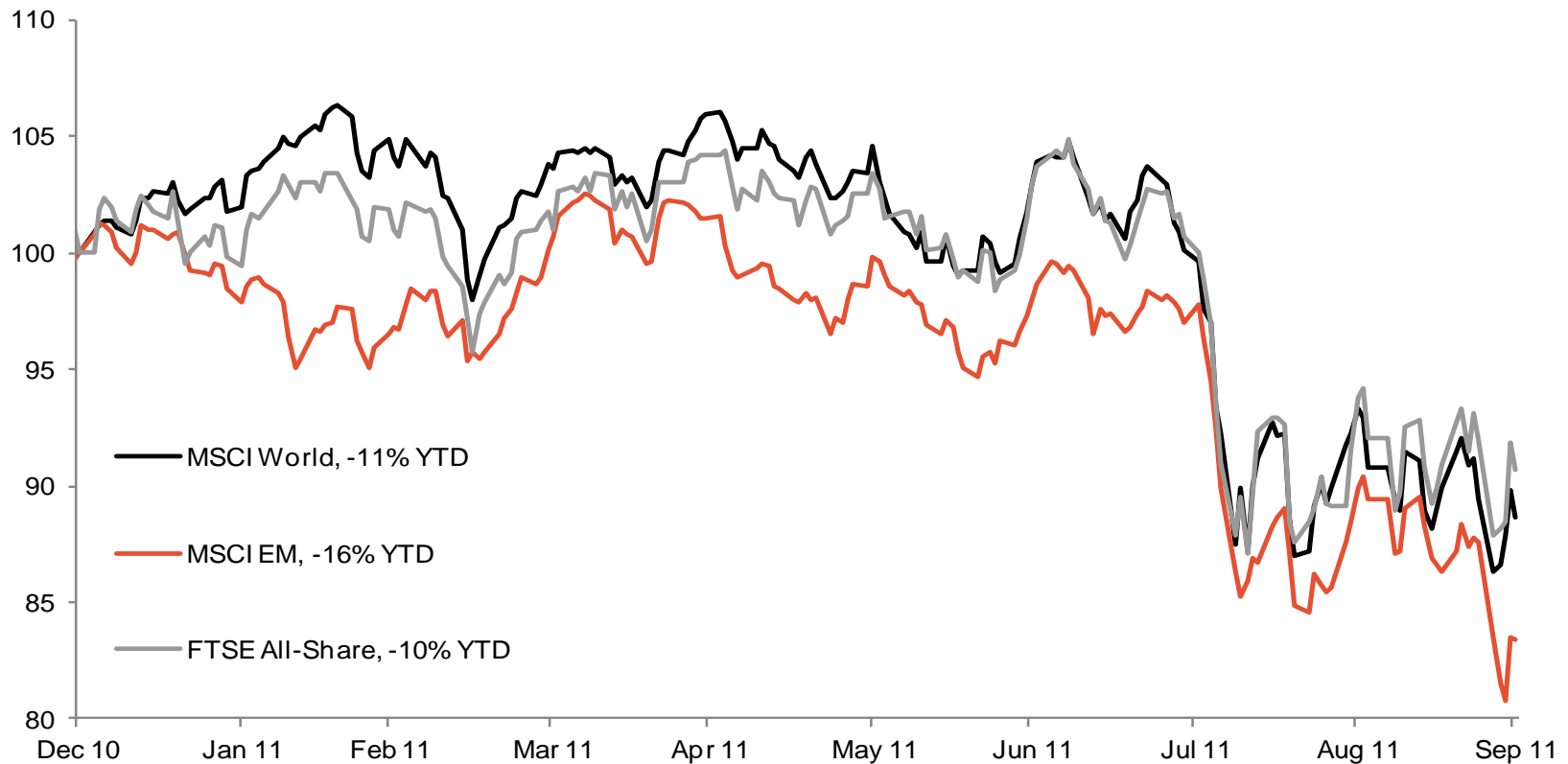
Investment update

Ed Francis

18 October 2011

What has happened to equity markets this year?

1 January 2011 – 30 September 2011



Returns are shown in local currency

What has happened to long gilt yields this year

(Over 25-year nominal gilt yields, 30 Sept 2010 – 30 Sept 2011)

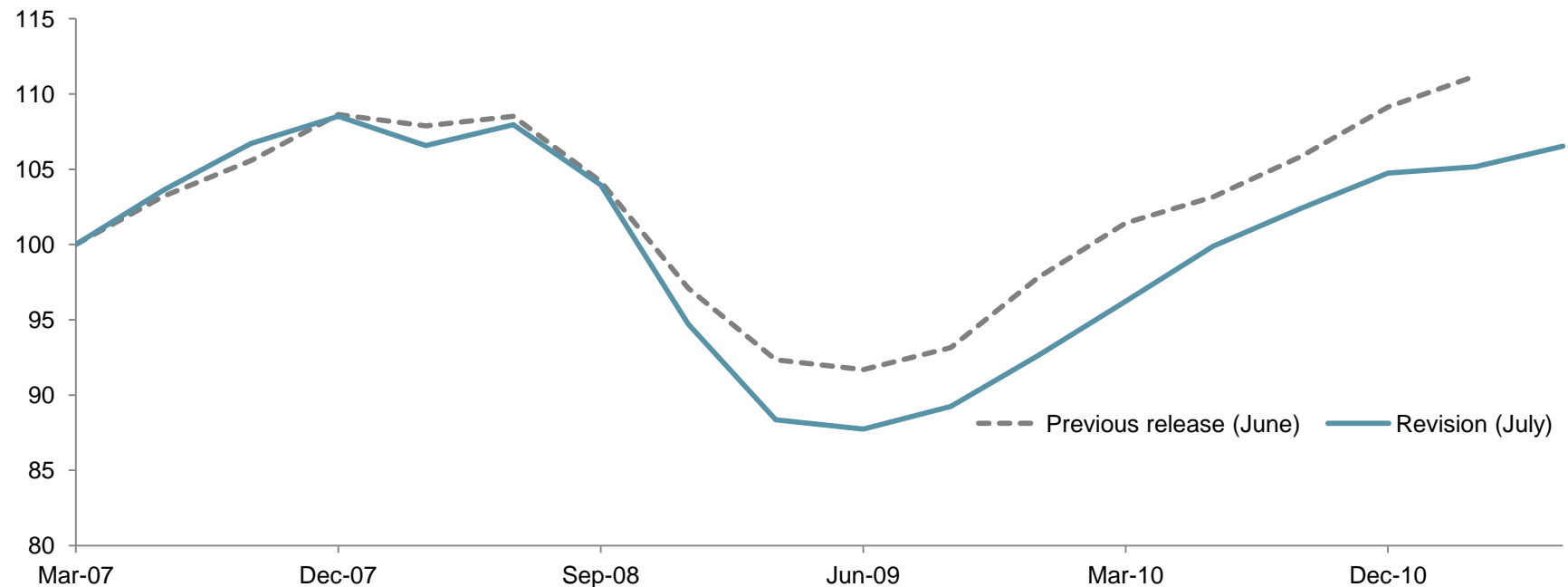


Source: Barcap

Recent macroeconomic data has been weak

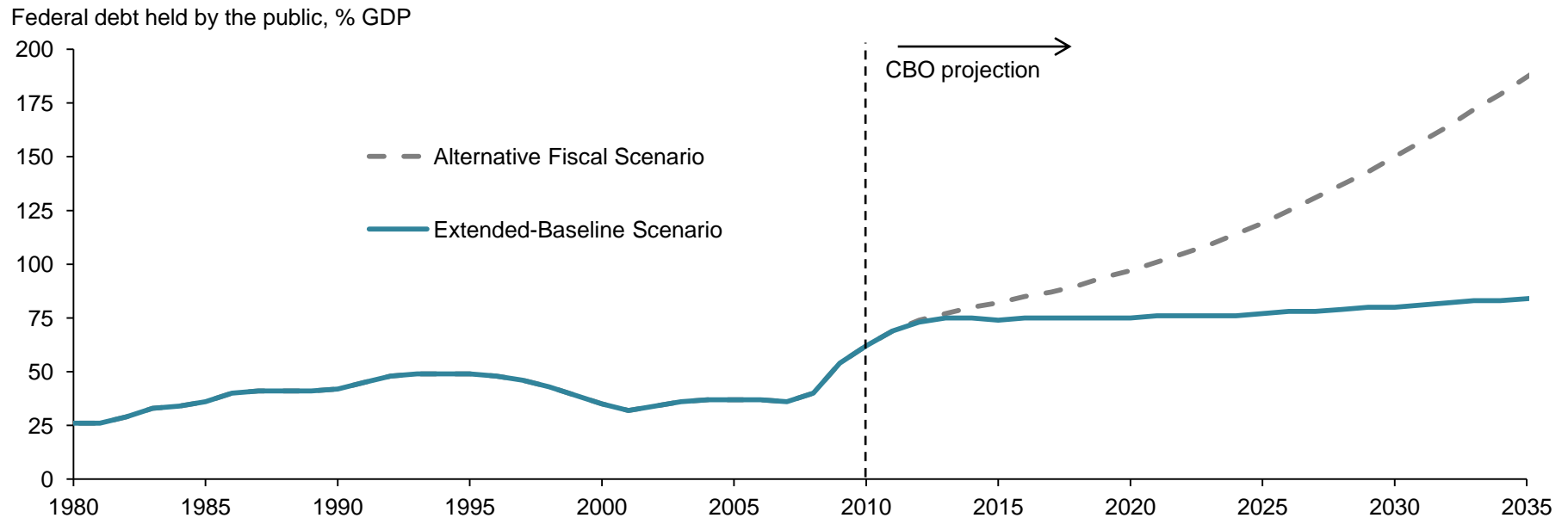
- Recent publications of industrial output, consumer & business surveys etc have been below expectations
- In the US growth has been weaker than expected and heavily revised downwards

US real GDP, indexed 31/3/2007 = 100



US sovereign downgrade

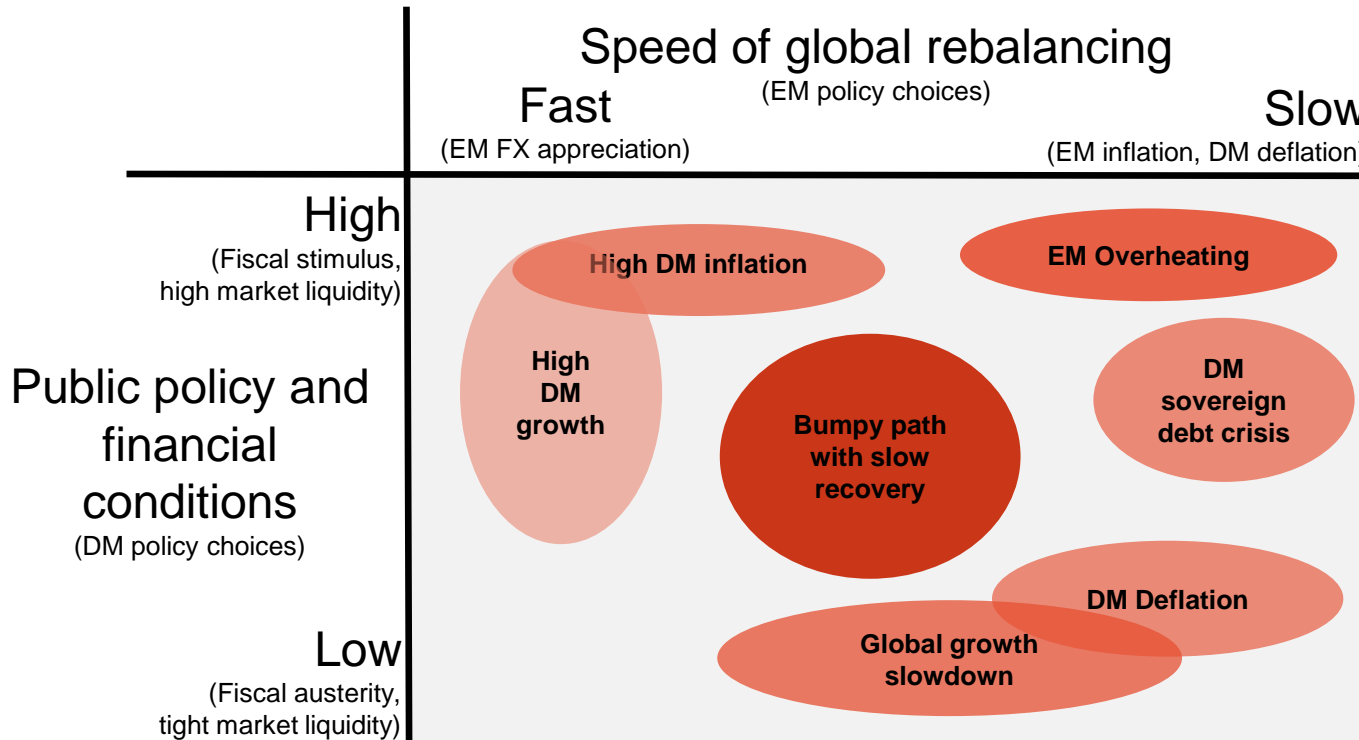
- S&P rating agency has downgraded the US long-term sovereign credit rating from AAA to AA+ with a negative outlook. Prospect widely discussed, but not expected
- Is US policy insufficient to stabilise debt trajectory?



Eurozone debt contagion

- Italian and Spanish spreads (over Bunds) increased markedly in July, a sign of contagion
- 2nd Greek bailout needed to propose measures to control this:
 - (i) helping the banking system
 - (ii) buying government bonds to contain contagion
 - (iii) facilitating orderly restructurings of debt.
- Market reaction was not favourable with yields hitting new highs
- Practical details are missing, implementation risks are still considerable, not clear the European Financial Stability Facility ('EFSF') is big enough: still considerable medium-term uncertainty.
- ECB recently stepped-in and bought Italian & Spanish debt
- This is a temporary measure - downside risks remain

Our economic view of the world (economic scenarios)



Scenario probabilities

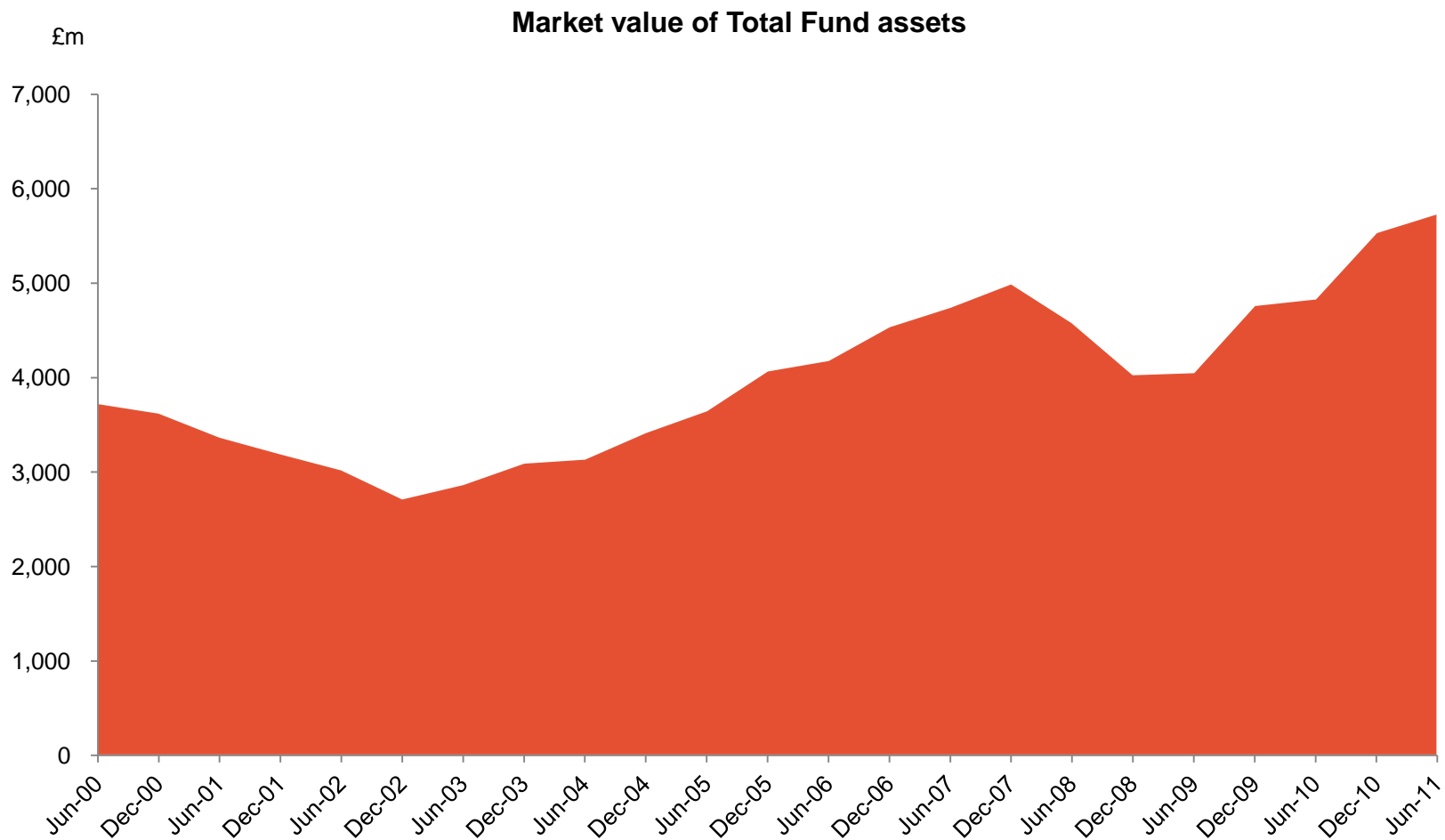
Bumpy path with slow recovery	45%
Global growth slowdown	} 20%
DM Deflation	
High DM growth	} 10%
High DM inflation	
Major DM sovereign debt crisis and default risks	10%
EM overheating	15%

EM: Emerging Markets
 DM: Developed Markets

Underlying economic view remains unchanged

- Fundamentally, nothing “new” has happened, these events are just manifestations of old realities:
 - We are not in a normal cyclical recovery
 - The de-leveraging process will be long and difficult.
- Recent events have increased downside risks:
 - Developed economies are weak and therefore vulnerable to shocks
 - We remain very exposed to public policy error
- Outcomes uncertain – think in terms of scenarios

Growth in assets



Source: BNY Mellon

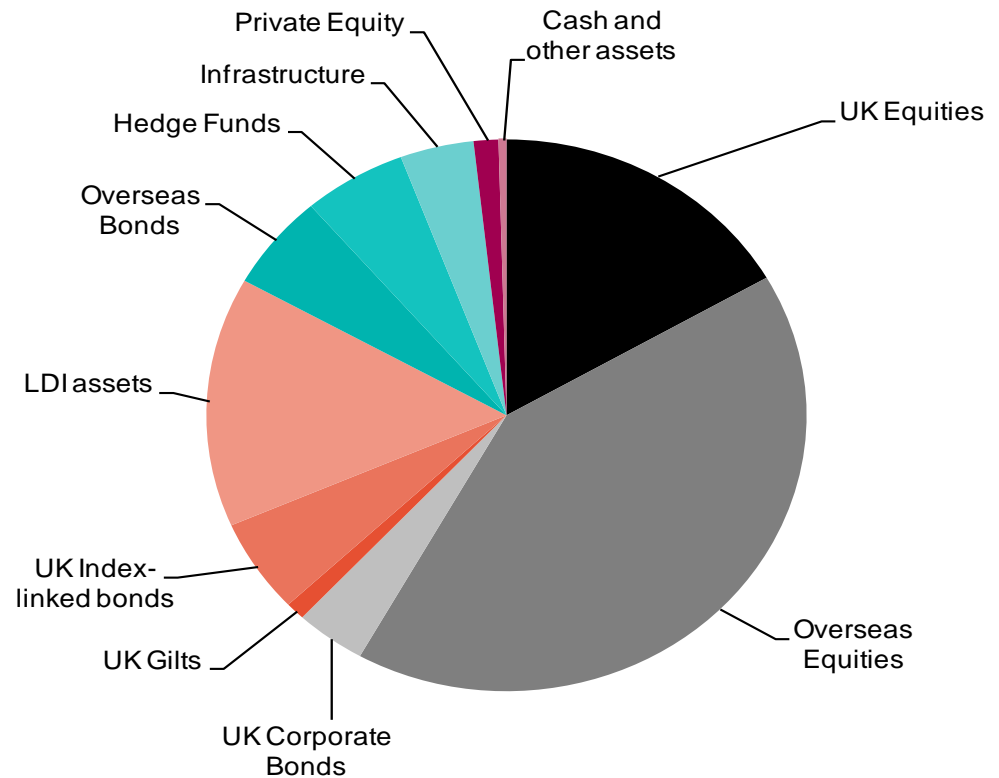
How does the Fund allocate its assets?

- **Reflects**

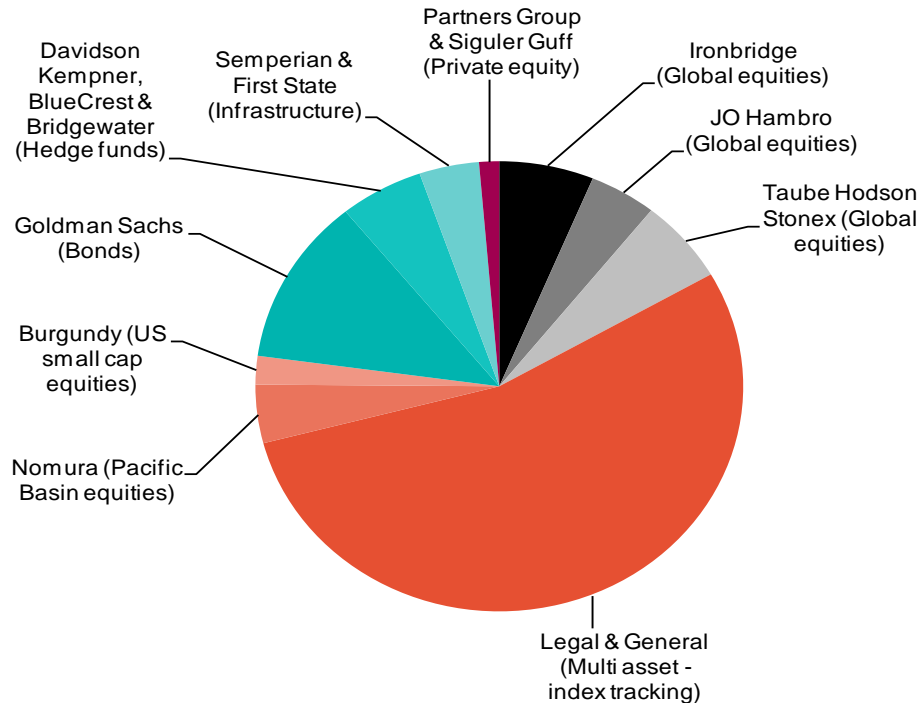
- Long term perspective on asset classes
- Limited appetite to purchase very low yielding investments
- Desire to diversify away from simple equities and bonds

- **Future developments**

- Further diversification
- Retaining desire for long-term value creation

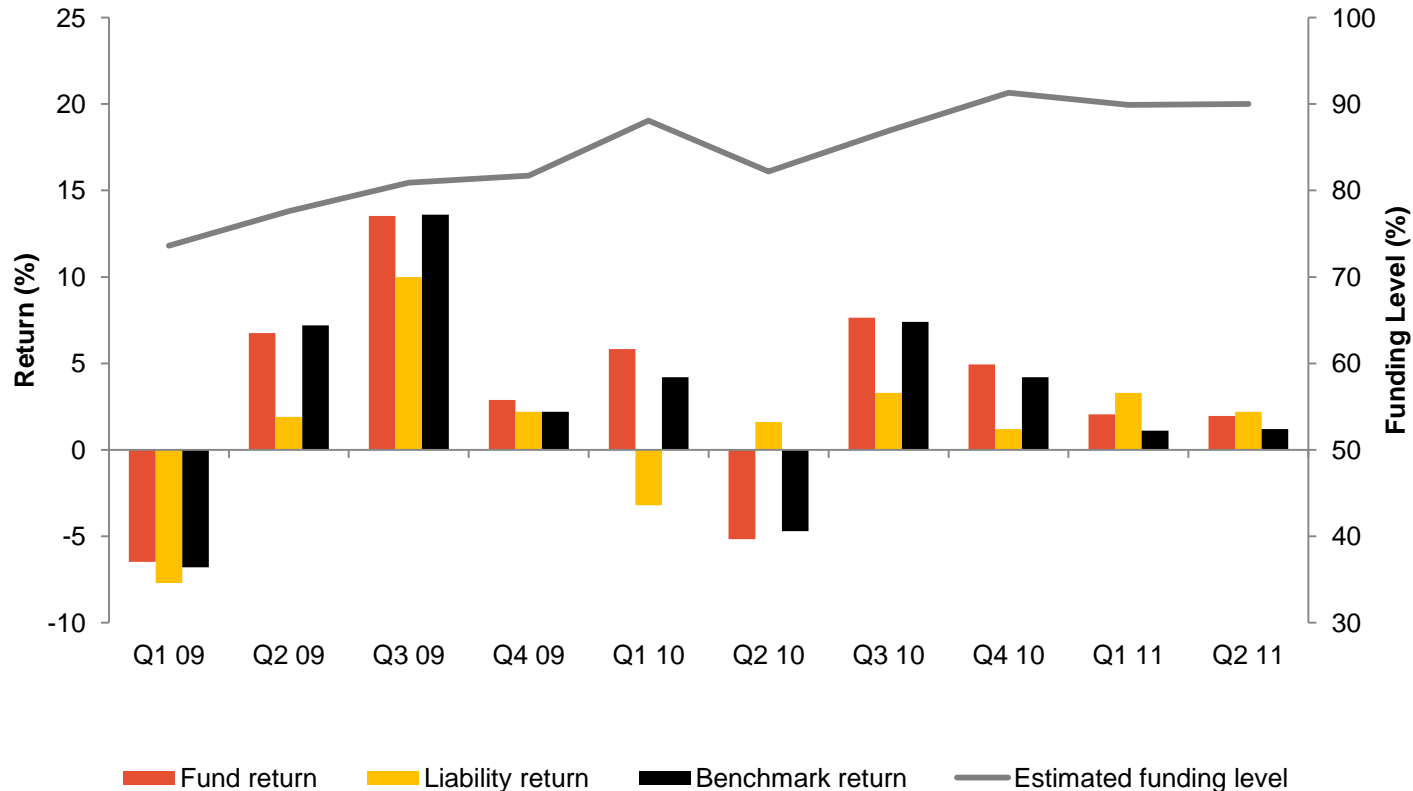


How is the Fund invested?



- There have been no new manager appointments since the last annual meeting
- The Fund has invested in an additional fund with Bridgewater – Pure Alpha Major Markets

Recent Scheme performance



Over the 12 months to 30 June, the Fund outperformed its liabilities by 7.1% and its benchmark by 2.9%.

The last 3 months will have been more challenging

Recent manager performance

Periods to 30 June 2011

Manager	1 year (%)			3 year (% pa)			Since inception (% pa)		
	Fund	B'mark	Difference	Fund	B'mark	Difference	Fund	B'mark	Difference
Ironbridge	23.3	21.6	1.7	-	-	-	8.8	7.7	1.1
JO Hambro	35.2	21.3	13.9	-	-	-	20.0	6.4	13.6
THS	26.4	21.6	4.8	-	-	-	7.1	6.1	1.0
Burgundy	-	-	-	-	-	-	4.4	3.6	0.8
Nomura	19.6	12.3	7.3	10.9	8.9	2.0	10.9	10.5	0.4
Goldman Sachs	5.2	4.5	0.7	9.7	10.5	-0.8	4.6	4.9	-0.3
L&G passive equity and bonds	23.1	-	-	9.5	-	-	7.9	-	-
L&G Network Rail bonds	10.5	9.7	0.8	-	-	-	10.7	9.0	1.7
L&G liability driven investments	7.2	-	-	-	-	-	6.5	-	-
BlueCrest	-	-	-	-	-	-	5.2	0.3	4.9
Bridgewater Pure Alpha	31.5	0.4	31.1	-	-	-	23.6	0.2	23.4
Bridgewater PA Major Markets	-	-	-	-	-	-	4.9	0.1	4.8
Davidson Kempner	10.0	0.4	9.6	-	-	-	16.3	0.4	15.9
Semperian	-0.6	0.4	-1.0	2.6	1.1	1.5	1.2	1.4	-0.2

Source: BNY Mellon

Performance not shown for Partners Group and Siguler Guff (private equity) and First State (infrastructure) managers due to the immaturity of these investments. There are no benchmarks for the L&G passive equity and bond or liability driven investment portfolios.

Questions



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TfL Pension Fund Annual Members' Meeting

Legal Outlook

Ian Pittaway

18 October 2011



Theme of 2011



Discord and Challenge

Switch from
Retail Price
Index to
Consumer Price
Index



Government announcement in
June 2010 would apply to Public
Sector



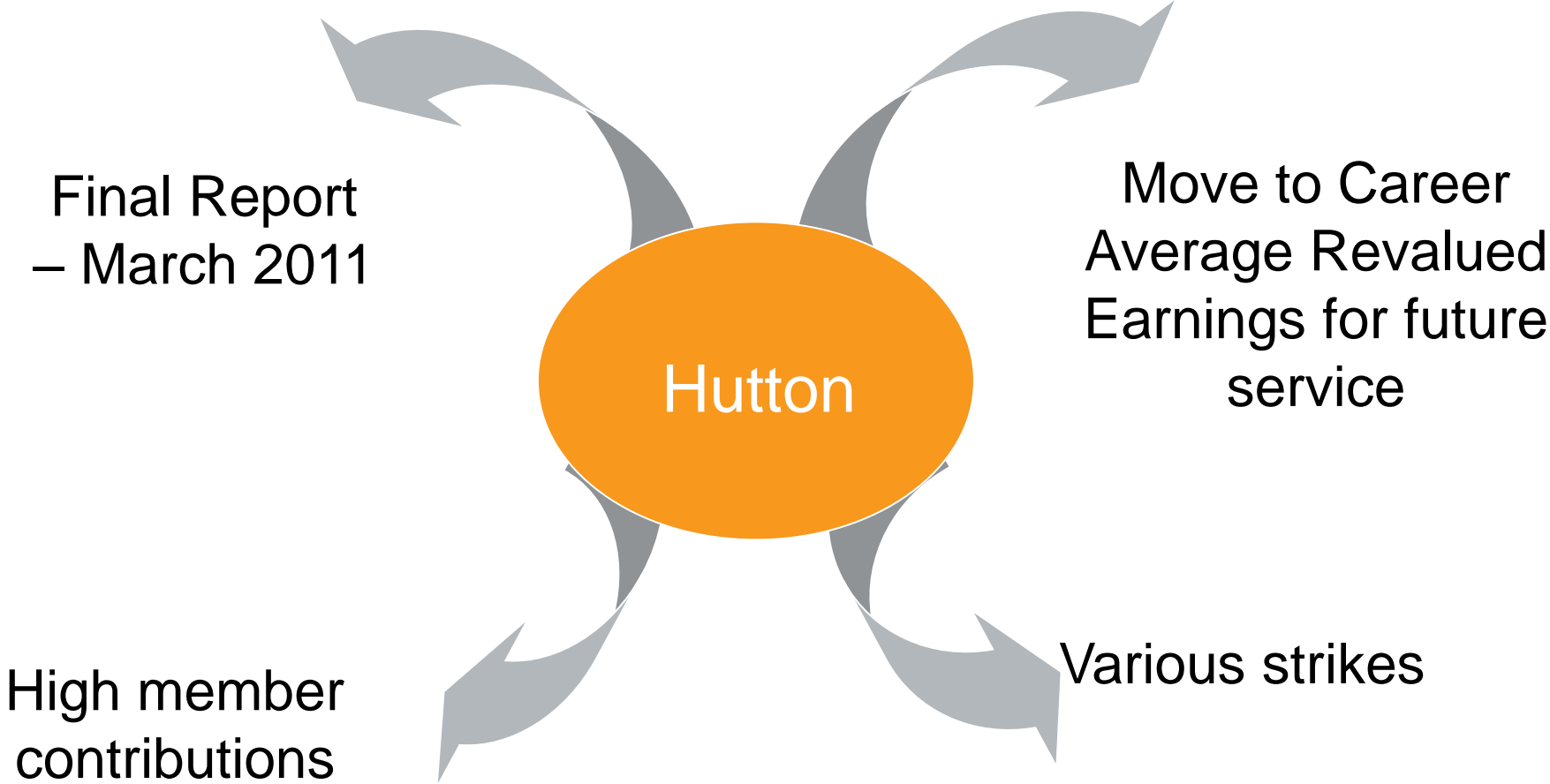
Extended to private sector in July
2010



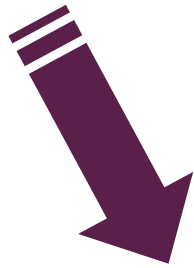
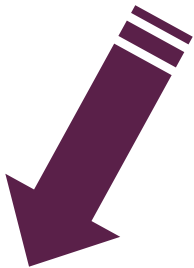
Random effect depending on
wording of rules



British Airways



Prudential Case



Pension Increase discretionary - employer decides

Long practice of granting RPI

Introduced cap of 2.5% in 2005

Challenged by members

Judge held in favour of employer-free to withhold consent

Pensions Regulator

Lehmans /
Nortel

Where does
the debt rank?

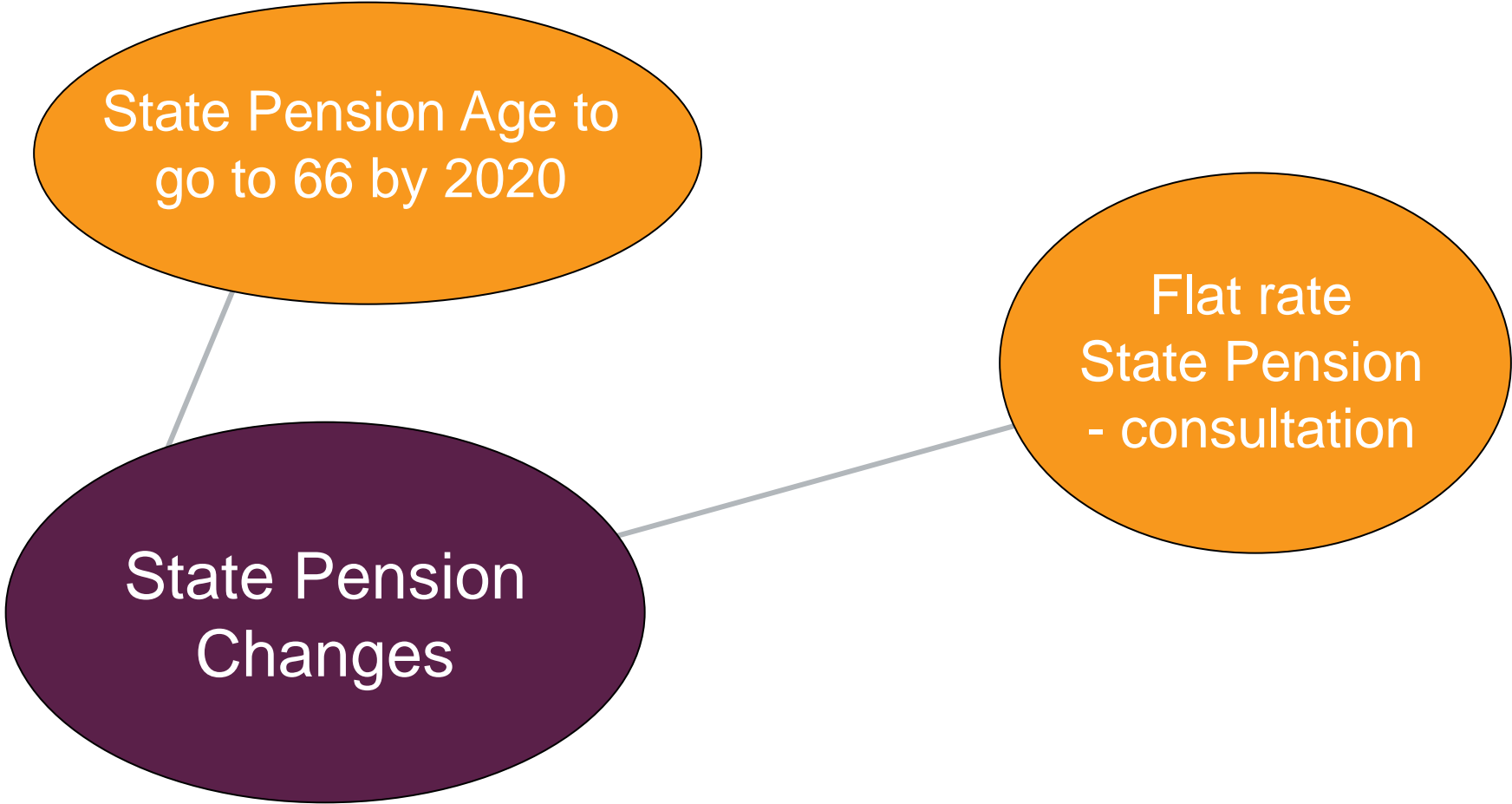
Bonas
case

Test –
Achats

Challenged
sex-based
factors

Held illegal for
insurance products –
must change from
December 2012

Does it apply
to pensions?



7m unpensioned

Employer
contributions of 3%
(total 8%)

Auto-
enrolment

Challenge for
many employers

NEST likely to be main
vehicle

Conclusion

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graph TD; A[Conclusion] --> B[Pensions high on the agenda]; B --> C[Much conflict as stakes are high]; C --> D[Unlikely to go away as an issue];
```

Pensions high on the agenda

Much conflict as stakes are high

Unlikely to go away as an issue

TfL Pension Fund

Providing for my tomorrow

Open Forum

