

2013 AMM - Q & A's

- Q1 The Fund's investment portfolio is extremely diverse, what assurances can the Trustees provide that there is good governance and that rewards for the appointed investment manager are not outrageous.
- A1 When appointing an appropriate manager an important part of the research goes to ensure that there is good corporate governance and that the fee structure is competitive and acceptable to the Trustee.
- Q2 There were many technical terms in the presentation (e.g. LDI assets); therefore it would be helpful to provide a glossary.
- A2 We will try to ensure that presenters make more effort to explain technical terms in the future, although it may cause further confusion. Liability-Driven Investing is the process whereby an investment strategy is set with explicit reference to funding a specific set of liabilities with objectives set to each individual manager to achieve.
- Q3 With the Government's introducing the flat rate pension from 2016, what impact will there be to the active fund membership?
- A3 The ending of contracting out will mean higher National Insurance contributions from employees and their employers. These will go towards establishing eligibility to the single tier state pension, which will be set at a higher level than the current basic state pension. Therefore overall pension provision will be higher, albeit at a higher cost.
- It will be for the employer to decide how to respond to this higher cost burden.
- Q4 How do Equitable Life members know if they are eligible under the compensation scheme?
- A4 Atos (who are administering the scheme) provided the TfL Pension Fund with the member names to whom the scheme were going to pay compensation and the Fund have provided 2,168 addresses to them. Although Atos commenced writing to members in June, a recent update from them indicated that there were running behind target.
- [After meeting update: in November it was confirmed that 1117 members had now been paid with other payments pending, awaiting checks to be completed]
- Q5 What effects will the change have on the Fund of the change in State Pension Age and the use of CPI as one of the criteria for State pension increases instead of RPI and in other public service pension arrangements?

A5 The Rules of the Fund require the use of the RPI to increase pensions.

The Rules regarding the Scheme Pension Age remain unchanged; however provision has been made with respect to the variable pension option where this will be calculated to take account of members' later State Pension Age.

Q6 As 41% of the Fund is invested in overseas equities, can there be a breakdown of the emerging markets?

A6 We will be minded to include a breakdown at the next AMM

Q7 Are the Trustees really bothered about the ethical nature of our investments?

A7 The Trustees of TfL Pension Fund have agreed that social, environmental and ethical factors should be included amongst the criteria taken into account when considering the purchase, retention or sale of investments, and have asked the investment managers to proceed accordingly in their stewardship of the Fund's assets.

The Trustees must exercise their investment powers in accordance with legislation. They have a legal duty to seek to maximise investment returns in order to meet the cost of current and future benefits and to take proper investment advice. The view of the Trustees' Investment Adviser is that excluding companies that represent particular industries would increase the volatility of the Fund's investments to the possible detriment of the beneficiaries.

The Trustees, of whom 50% are selected by members or their representatives, cannot invest other than on the grounds of financial returns, security and diversification. They can consider other social and moral criteria, but only where this would be expected to produce a financial return as least as good and within the standard of care and prudence required by law. Consideration is also given to the potential impact on a company's reputation, and how public relations can impact on share price. The Trustees as a body have considered the issue and concluded they did not wish to change their investment approach given this general duty. However, the Trustee is active in monitoring the Fund's investment manager voting where it is disclosed.

Q8 The trend continues that all Pension Fund communications be electronic and services on line, with little provision for those who do not have access.

A8 All Fund material is available in hard copy, although payslips are only issued annually or when a payment changes by £10. Members are given a choice and most organisations have

moved away from hard copy and although I appreciate your frustration, there is a balance to be made between operational efficiency and satisfying a diversity of individual needs.

Q9 Why is Howard Collins still reported as being a Director when he has already left?

A9 The report is for the accounting year and during this financial year he was a Director

Q10 Can you elaborate on the Bank of New York being replaced by JP Morgan (JPM) and did the recent fine have any impact on the Fund.

A10 The change related to investment performance reporting services for the Fund and it followed a competitive tender exercise for these services. There was no impact on the Fund from the fine which relates to the trading activities by the bank, not for any activities it undertakes for the Fund. JPM still remains one of the strongest banks.

Q11 AVCs appears to be attractive to offset Government benefits. It would be helpful if more information could be provided on benefit statements.

A11 AVCs are available to all Fund members with full details available on the Fund's and Standard Life's websites. As a new addition, the 2013 benefit statements incorporated AVC fund values.

Q12 I note investment management expenses have increased by over £2 million. Could you comment?

A12 The investment management fees are in part determined by the value of holdings under management and as the Fund value has risen compared with last year, so have investment management fees. There has also been some switching during the year from passive to active or to more specialist management which has resulted in higher fees being paid. The nature of some of these investments is that fees, when related to the initial investment are high in the short term while funds are being invested, but then fall relatively, as the investment becomes fully funded. Overall the increase in fees needs to be considered not in absolute terms, but in relation to performance. The Trustees review performance both gross and net of fees.

Q13 There have been a number of scare stories, to what degree do the Government dictate and how much political influence is put upon the Fund.

A13 The Trustee Board is independent and all decisions are taken by them. Whilst politicians' views are noted, the Trustee views and decisions will always be with the best interest of the members. Of course overriding legislation takes precedent.

