

TfL Pension Fund

Annual Review 2012



Notice for the visually impaired

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From the Chairman

I am pleased to present my review as Chairman for the year ended 31 March 2012. As in previous years, the subject of pensions has maintained its presence as a regular topic for comment in the media and as a focus for government activity. We again have seen a range of impacts from financial and economic events during the year and while these have been less dramatic than in recent years, a more settled future outlook still looks unlikely.

As last year, the value of the Fund's assets have steadily increased in value during the year, and now exceed £6bn for the first time. The corresponding value of the Fund's liabilities has also increased to almost the same extent bringing only a modest improvement in the overall funding and hence continuing the importance of employer support. The Trustees have therefore had to remain focused on both the Fund's asset and liability components in seeking to ensure the security of member benefits.

The Alternatives and Liability Hedging Committee has been working alongside the Investment Committee in reviewing the Fund's investment strategy, as well as continuing to ensure good governance across the Fund's diverse investment holdings and expanded investment manager base. A number of investment proposals have been considered, but only those which met the Fund's reward and risk criteria have been pursued.

Enhancement to the monitoring of investment performance of the Fund's managers has included introducing more challenging market specific benchmarks for a number of the alternative asset portfolio managers.

During the year, JP Morgan were replaced by Russell Investments as managers of the Fund's currency overlay programme, although JP Morgan remains the Fund's Custodian.

On investment performance, the market recovery during the year, primarily in bonds, has seen the overall assets of the Fund increased from £5.699bn to £6.027bn. This year's investment performance was behind the benchmark by 0.5 per cent, while over three years, it was ahead by 1.2 per cent and over five years it was equal to the benchmark.

Mention is also due to the work of the other Committees (Operations, Audit, Actuarial Valuation and Appeals) and to the Trustee Board itself for ensuring good governance prevails in all the Fund's activities.

With a membership of over 82,000, the day to

day administration of the Fund is a significant undertaking. Just under 41,000 tasks were completed by the Fund Office during the year. Their service level agreement targets were met 100 per cent in two of the quarters and were above 99 per cent in the other two quarters of the year.

During the year, the Trustees commenced planning for the next triennial actuarial valuation, due as at 31 March 2012. The Actuarial Valuation Committee which was established as a standing committee of the Board in September 2008 has already met several times. The valuation is expected to be finalised by the statutory deadline of 30 June 2013.

There have been no changes on the Trustee Board during the year and we have therefore benefited from this period of continuity. However changes were made in the membership of underlying committees to provide some fresh insight.

I can report that at year-end the Trustee Board was at full strength.

The Trustee Directors continued to attend regular training sessions throughout the year to ensure that they remain up to date with legislative changes as well as best practices, and that the Trustee complies with the requirements regarding trust knowledge and understanding.

Finally, on your behalf, I would like to record my thanks to all involved with the continued operations and development of the Fund: the Trustee Directors, Scheme Actuary, Investment and Legal Advisers, Investment Managers, Custodian, Auditors and not least the Fund Office and Fund Secretary for their support. I remain confident that, with these resources, we can meet the current challenges and those which lie ahead of us.

Maria Antoniou

Chairman of the
TfL Pension Fund Trustees



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Membership review

The chart below compares the membership numbers between the 2011 and 2012 Fund years.

2011 - Total members: 83,672

23,606	18,244	30,997	10,825
Contributing members	Deferred pensioners	Pensioners	Dependants and children
22,680	18,292	31,111	10,787

2012 - Total members: 82,870

The 22,680 contributing members are spread across the Participating Employers

	As at 31 March 2011	As at 31 March 2012
Transport for London	22,384	21,519
Tube Lines Limited*	1,055	1,005
Other employers*	167	156

* These sections are closed to new members.

Year at a glance

As at 31 March 2012, the value of the Fund was £6,027.0m. This is an increase of £328m on the value at the end of the previous Fund year.

The diagram below shows the money coming into and going out of the Fund during the year.

£5,097.8m		Fund value as at 31 March 2010	
Plus income of....		Minus expenditure of....	
Employers' contributions	£271.3m	Pensions and other benefits paid	£267.2m
Investment income	£77.5m	Investment expenses	£7.5m
Members' contributions	£45.0m	Administration expenses	£3.8m
Transfers in from other pension schemes	£71.5m	Pension levies	£1.7m
		Payments to leavers	£1.7m
		Other payments	£1.1m
Total income	£465.3m	Total outgoing	£283.0m
Plus change in value of investments £418.9m			

£5,699.0m		Fund value as at 31 March 2011	
Plus income of....		Minus expenditure of....	
Employers' contributions	£264.0m	Pensions and other benefits paid	£263.9m
Investment income	£85.2m	Investment expenses	£9.5m
Members' contributions	£45.2m	Administration expenses	£3.6m
Transfers in from other pension schemes	£2.2m	Pension levies	£2.9m
		Payments to leavers	£2.7m
		Other payments	£4.5m
Total income	£396.6m	Total outgoing	£287.1m
Plus change in value of investments £218.5m			

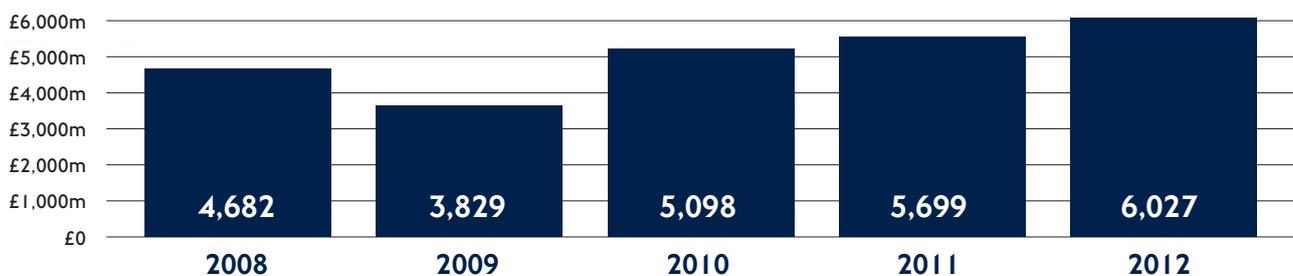
£6,027.0m		Fund value as at 31 March 2012	
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The Fund's accounts are audited each year by independent auditors KPMG LLP, who have confirmed that:

- The Fund's accounts show a true and fair view of the financial transactions during the 12 months to 31 March 2012 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year
- Contributions were paid to the Fund in accordance with the schedules of contributions in force during the year.

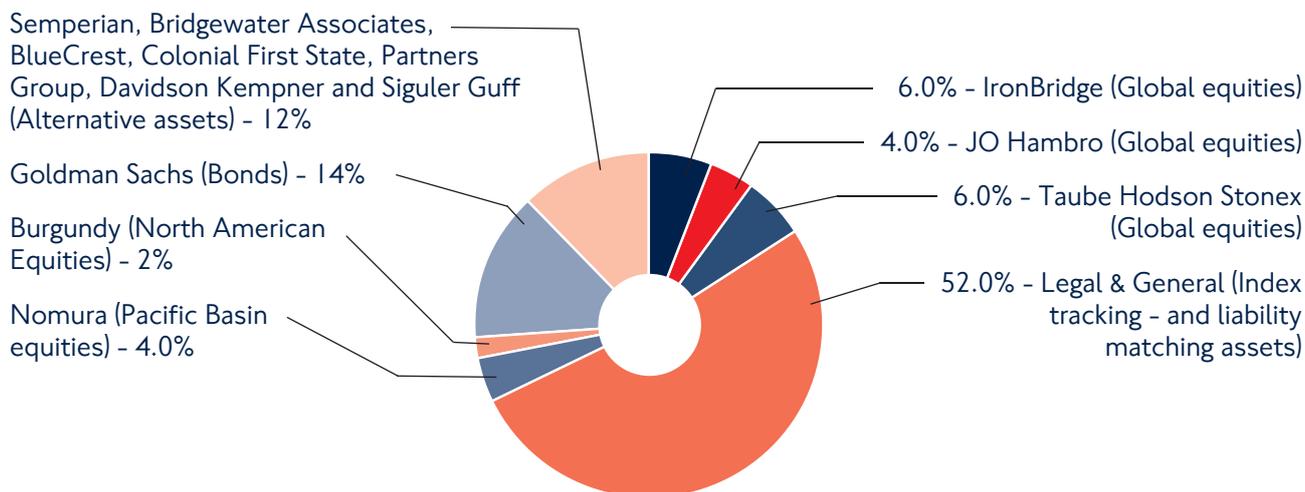
Value of the Fund

Over the year to 31 March 2012, the total value of the Fund's assets increased by £328m to £6.027bn. The chart below shows how the Fund's assets have changed over the last five years.

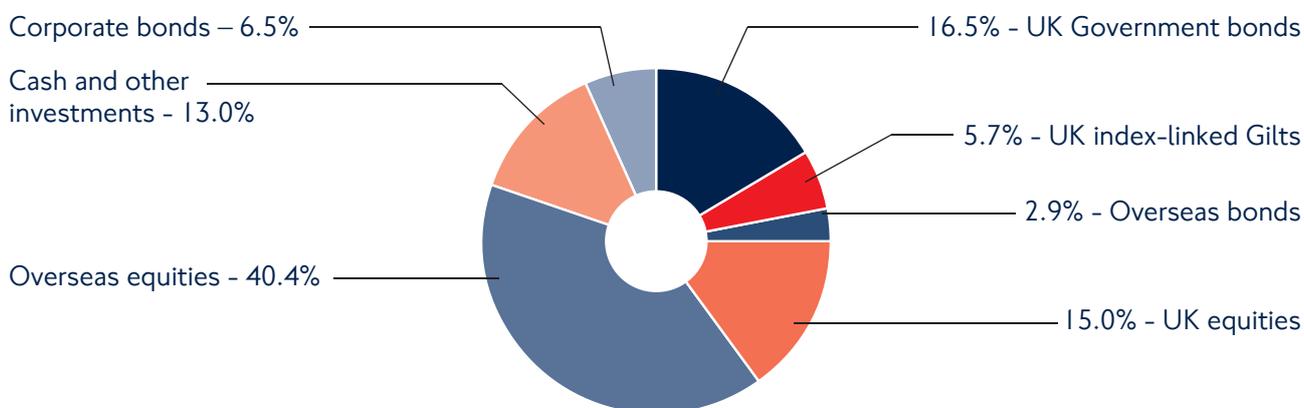


How the Fund is invested

The Trustees are ultimately responsible for deciding how to invest the money building up in the Fund in relation to members' benefits. With the assistance of their appointed Investment Adviser, they appoint specialist investment managers, who are given specific instructions and benchmarks to follow by the Trustees. The following pie chart shows the target allocation of the Fund's assets between investment managers.



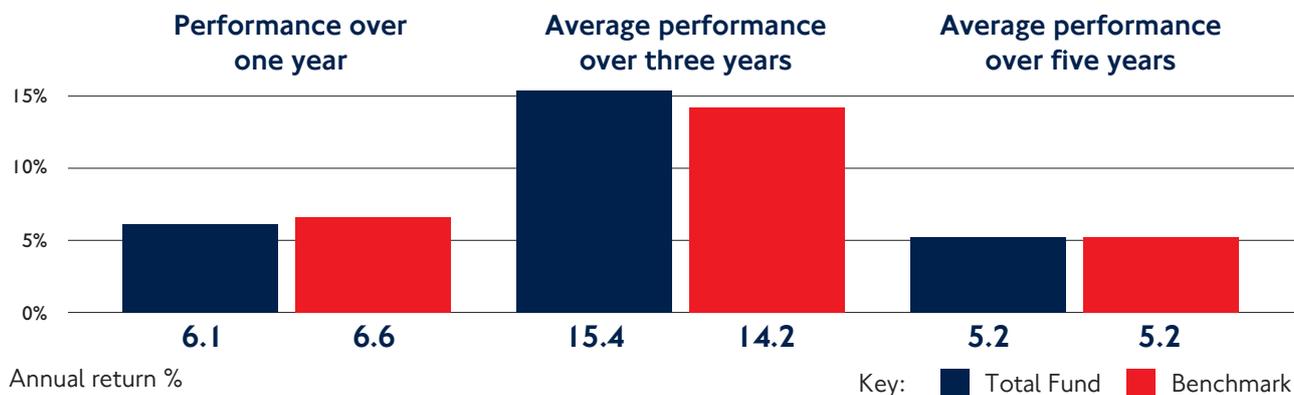
The Fund is held in a range of different investments (assets) in the UK and overseas.



Top 10 shares	Market Value £m	Country
The Fund has significant holdings in shares (equities) of a number of major quoted companies. The ten largest holdings as at 31 March 2012 were:	Nestle	Switzerland
	Apple Computer	USA
	Exxon Mobil	USA
	HSBC Holdings	UK
	Hitachi	Japan
	Google	USA
	Occidental Petrol	USA
	Svenska Handelsbanken	Sweden
	Oracle	USA
	National Oilwell Varco	USA

Investment performance

The chart below shows that the investment return was 0.5 per cent below the Fund's performance benchmark (the comparator set by the Trustees) for the year to 31 March 2012. Over the longer periods, investment performance was 1.2 per cent above the benchmark over three years and in line with the benchmark over five years.



The Fund's assets

The Fund's assets total £6,027.0m. The amount held by each section on 31 March 2012 is shown below

Section	£m	Section	£m
Public Sector	5,796.44	HP Enterprise Services UK Limited	3.24
Tube Lines Limited	173.62	Composite Section	0.81
UK Power Networks Services Powerlink Limited	44.96	Capgemini UK plc	0.74
Cubic Transportation Systems Ltd	6.69	Thales Transport and Security Limited	0.54



The Fund's Trustees

The Fund is managed by a board of directors, known as the Trustees. Individual Trustees are nominated by TfL (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, they have set up six committees: Operations, Investment, Alternatives & Liability Hedging, Audit, Actuarial Valuation and Appeals, each of which deals with a specific aspect of Fund management.

On 31 March 2012, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Maria Antoniou
(Chairman),
External Appointment,
Transport for London

Mike Binnington
Senior Principal
Commercial Finance
Transport for London

Howard Collins
Chief Operating Officer,
London Underground Limited

Stephen Critchley
Chief Finance Officer,
Transport for London

Gerry Duffy
Director of
Employee Relations,
London Underground Limited

Jane Hart
Principal Lawyer
Health, Safety and
Environment,
Transport for London

Clare Kavanagh
Director of Performance
Surface Transport,
Transport for London

Stuart Munro
Finance and Commercial
Director, Tube Lines,
Transport for London

Dave O'Brien
Head of Risk
Management & Audit,
Tube Lines,
Transport for London

**Unite the Union
(T&GWU)**
Lewis Brown
IM Service Manager,
Transport for London

**Associated Society of
Locomotive Engineers
and Firemen**
Steve Grant*
District Organiser,
ASLEF

**Transport Salaried Staffs'
Association**
John Knowles
Station & Revenue
Functional Council
Representative,
London Underground
Limited, TSSA

**National Union of Rail,
Maritime and
Transport Workers**
Patrick Sikorski
Assistant General
Secretary, RMT

Unite the Union (Amicus)
John Timbrell
Project Engineer
London Underground Limited

**TfL Pension
Consultative
Council**
Linda Arwood
Pensioner

Stephen Ellaby
HSE Manager,
Specialist Services
Transport for London

Chris Miller
Pensioner

Paul Murphy
Train Instructor,
Acton Town,
London Underground Limited

*with effect from 12 June 2012, Graham Dean replaced Steve Grant

Trustee advisers and managers

The Trustees have appointed the following professional advisers and managers to assist with the running of the Fund.

Investment managers	BlueCrest Capital Management (UK) LLP Bridgewater Associates, Inc Burgundy Asset Management Colonial First State Global Asset Management Davidson Kempner Goldman Sachs Asset Management IronBridge Capital Management LP JO Hambro Capital Management Ltd Legal & General Investment Management Nephila Capital Limited Nomura Asset Management UK Ltd Partners Group (UK) Limited Rogge Global Partners PLC Russell Implementation Services Limited Semperian PPP Investment Partners Holdings Ltd Siguler Guff & Company Taube Hodson Stonex Partners LLP
Investment adviser	Towers Watson Limited
Custodian	JP Morgan Chase Bank
Administration services	Transport for London
Scheme Actuary	RV Williams, Towers Watson Limited
Legal advisers	Sacker & Partners LLP
Auditor	KPMG LLP
Bankers	The Royal Bank of Scotland plc
Independent Performance Monitoring	BNY Mellon Asset Servicing
Communications	Hughes Communications
Independent Medical adviser	Dr S Sheard
AVC providers	Clerical Medical, Equitable Life, Standard Life
Secretary to the Trustee	S Field

Additional help or information

The financial information in this annual review is a summary of the full audited accounts. If you would like a copy of the Annual Report and Accounts, please contact the Head of Reward & Pensions and Fund Secretary, at the following address:
4th Floor, Wing over Station, 55 Broadway,
London SW1H 0BD

Visit the website

Whether you are a contributing member, a pensioner or have a deferred pension, you can use the website to find more information about the Fund. You can also download a full copy of the Annual Report and Accounts from our website at www.tflpensionfund.co.uk

We take great care to ensure that our website is helpful and easy to use and hope that you will take the opportunity to visit the site. We always welcome your comments and ideas, which you can email to us via our website.

Summary Funding Statement

This statement provides members entitled to benefits from the Public Sector Section (the Section) of the Fund with an update of the financial position of the Section. It is based on the 31 March 2009 valuation. Reference to Transport for London (TfL) in this document means TfL and those of its subsidiaries that are Participating Employers in this Section.

The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2009, the funding position of the Section was as follows:

Assets	£3,369m
Amount needed to provide benefits earned to 31 March 2009	£4,575m
Shortfall	£1,206m
Funding level	74%

As a result TfL agreed to pay deficit contributions of 12.95 per cent of pensionable salary from 1 April 2010 to 31 March 2020 and, on or before each of 31 March 2018, 31 March 2019 and 31 March 2020, a lump sum of £107.4m increased in line with the increase in the Retail Prices Index (RPI) between September 2008 and the September before the payment is due in order to eliminate the shortfall by 31 March 2020. These amounts took account of contributions, benefit accruals, expenses and interest after the valuation date. These deficit payments are in addition to regular contributions (from members and the employer) which are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2010 are 18.05 per cent of pensionable salary for all members of the Section.

The estimated additional amount needed on 31 March 2009 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £4,963m. This calculation assumes all benefits would be secured with an insurance company. The Trustee is required by law to provide you with this information. It does not imply that there is any intention of winding up the Section.

Change in Funding Position

The ongoing funding position was last assessed as at 31 March 2011 when the funding level was estimated to be 89 per cent with a shortfall of £664m. This assessment was not a formal valuation, but measured the position in an approximate manner consistent with that used for the 2009 valuation, taking account of the membership changes since then. The funding

position has remained broadly unchanged since it was previously assessed as at 31 March 2010 (at which date the estimated shortfall was also £664m). This is the net effect of employee and employer contributions paid into the Section over the year exceeding the estimated cost of new benefit accrual, positive investment returns over the year and lower than expected salary increases, which have been broadly offset by an increase in the value of liabilities that resulted from lower prospective investment returns.

Next funding valuation

The next formal valuation is at 31 March 2012 and the results will be included in the 2013 Summary Funding Statement.

Other matters

With effect from 30 March 2010 the assets, liabilities and members of the LUL SSL and LUL BCV sections have been transferred to the Public Sector Section. The total shortfall after including the shortfalls as at 31 March 2009 in the LUL BCV Section and the LUL SSL Section was £1,331m. This total shortfall amount was used as the basis for determining the deficit payments described above.

The Trustee is required to tell you by law that there has not been any payment to TfL out of the funds of the TfL Pension Fund since the date of the last summary funding statement sent to you. The Trustee is also required to tell you that the Pensions Regulator has not exercised its statutory powers to modify the Section's benefits or to determine the outcome of the actuarial valuation or the contributions to be paid to the Section.

How the Section operates

How is my pension paid for?

Both the members currently employed by companies participating in the Section, and those companies themselves pay contributions to the Section, so that it can pay pensions to members when they retire. The money to pay for members' pensions is held in a common fund. It is not held separately for each individual.

How do we calculate the amount the Section needs?

The Trustee obtains regular actuarial valuations – or financial ‘health checks’ – of the Section. This process involves a comparison of the market value of the assets held by the Section with the amount estimated to be needed to pay the benefits built up to date, determined using the Trustee’s chosen assumptions regarding future unknown events. The Trustee, having taken the advice of the Scheme Actuary, then comes to an agreement with TfL on the level of contributions to be paid to the Section in future. (The Scheme Actuary is responsible for providing advice to the Trustee on a range of matters, including funding issues).

The importance of TfL’s support

The Trustee’s objective is to have enough money in the Section to pay pensions now and in the future. However, the success of the plan relies on TfL’s continuing to support the Section because:

- TfL will be paying the future expenses of running the Section on an annual basis
- The funding level can fluctuate and, when there is a funding shortfall, TfL will usually need to put in more money.

What would happen if the Section were to be wound up?

We are legally required to inform you what would happen if the Section were to be wound up. If this happens you might not receive the full amount of pension you have built up, even if the Section is fully funded on an ongoing basis. However, whilst the Section continues to operate in its current form, even though the funding may temporarily be below target, benefits will continue to be paid in full.

If the Section were to wind up, TfL would be required to pay enough into the Section to enable members’ benefits to be completely secured with an insurance company. It may be, however, that TfL would not be able to pay this full amount. If TfL was unable to pay this amount, the Pension Protection Fund might be able to take over the Section and pay compensation to members. For further information on the Pension Protection Fund see the website at www.pensionprotectionfund.org.uk or write to the Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes TfL will continue in business and support the Section.

What is the Section invested in?

The contributions paid into the Section are invested by the Fund’s Trustee in a variety of assets. At the current time the Trustee’s investment policy is to hold about 30 per cent of the assets in bonds and about 56 per cent in equities and 14 per cent in other types of investment.

Important: If you are thinking of leaving the Section for any reason, you should consult a professional adviser before taking any action.

Annual Benefit Statement

If you have not received a benefit statement in the last 12 months you can ask for a statement that provides an illustration of the pension you might receive from the Section.

Additional documents available on request

*The Statement of Funding Principles**. This sets out the Section’s funding plan.

*The Recovery Plan**. This sets out the Section’s funding plan.

*The Statement of Investment Principles**. This explains how the Trustee invests the Section’s assets.

*The Schedule of Contributions**. This shows the contributions being paid into the Section.

The full report on the latest *Actuarial Valuation* as at 31 March 2009* and *Actuarial Reports* as at 31 March 2010 and as at 31 March 2011.

The TfL Pension Fund Members’ or Pensioners’ Guide**. You should already have a copy but we can provide you with another if required.

*These documents are also available on the website: www.tflpensionfund.co.uk

You are invited to the Annual Members' Meeting and Exhibition

This year's TfL Pension Fund Annual Members' Meeting (AMM) will be at 11:00 on Tuesday 9 October. The exhibition starts at 10:30 when refreshments will be available. After the success of previous events we have again decided to go back to One Great George Street, Westminster, London SW1P 3AA. The meeting and exhibition are open to all Fund members - contributing members, members in receipt of a pension (including dependants and children) and those who have left the company and have a deferred pension.

You will be able to ask questions on the day, but, if you cannot attend, you can submit a question to the Trustees by writing to the Fund Secretary, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD. You will receive a response as soon as possible after the AMM.

Please remember, we can only answer general questions about the Fund at the meeting, not those relating to your own benefits.

The programme for the meeting is:

- Introduction at 11:00
- Review of the Annual Report & Accounts to 31 March 2012
- Actuarial update over the last 12 months
- Legal developments and changes to the TfL Pension Fund
- Investment strategy and implementation
- Open Forum – Questions & answers
- Adjourn for refreshments and informal discussions
- Close at 13:15

For the exhibition, we have invited a number of external organisations to bring along information of interest to all our members. The exhibition will run throughout the meeting and will also close at 13:15. If you cannot attend the whole event, please feel free to pop in and find out what's going on.

For members who have mobility considerations access to the building is via the main entrance. If you require further information please contact the Fund Office on 020 7918 2906.

Please note that, for security reasons, you may be asked for some form of identification on arrival.

