

TfL Pension Fund

Annual Review 2013



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 2013. As in previous years, the subject of pensions has maintained a strong presence in the news media. Pensions have also been one of the key areas for government activity and the Fund has continued to respond to any legislative changes that have arisen or are proposed. Global financial and economic events have also continued to effect pensions. While there has been no single standout event or theme during the year, it is unlikely that we will enter a period of more settled activity or returns in financial markets in the near future.

The Fund's assets have continued the steady progress in increasing their value as during the previous year. Net assets exceeded £6.8 billion at 31 March 2013. While the value of the Fund's liabilities has also seen a near corresponding increase, overall there has been a modest improvement in the overall funding and thus underlining the importance of employer support. The Trustees have 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 and the Investment Committee have been continuing their work of reviewing the Fund's investment strategy, as well as ensuring good governance across the Fund's diverse investment holdings and expanded investment manager base. A number of investment proposals have been considered, and those which met the Fund's reward and risk criteria have been pursued further. As a result of these activities, eight new investment manager appointments were made during the year as well as a re-organisation of parts of the existing portfolio. Through the greater diversity of investment holdings and exposure to new investment opportunities, the Fund is seeking to maximise the probability of achieving its return objectives, while managing the overall risk in the portfolio. No investment manager mandates were terminated during the year.

The focus on the Fund assets and liabilities is also evidenced by the Fund's successful completion in May 2013 of the triennial valuation as at 31 March 2012, ahead of the statutory deadline of 30 June. As part of this, the Trustees have secured the participating employers' agreement to funding the combined deficit of £736 million across the eight sections of the Fund. The Actuarial Valuation Committee has led the review of the valuations and carried out the negotiations on the technical provisions and in respect of the recovery plans with the Principal Employer, acting on behalf of all the participating employers. The results can be seen in the Summary Funding Statement on page 10.

During the year BNY Mellon were replaced by JP Morgan as managers of the Fund's independent investment performance monitoring programme.

On investment performance, the market recovery during the year, primarily in equities, has seen the overall assets of the Fund increase over the past 12 months from £6.027 billion to £6.870 billion. This year's investment performance was ahead of the benchmark by 0.2 per cent, while over three years it was ahead by 0.6 per cent and over five years it was ahead by 0.2 per cent.

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

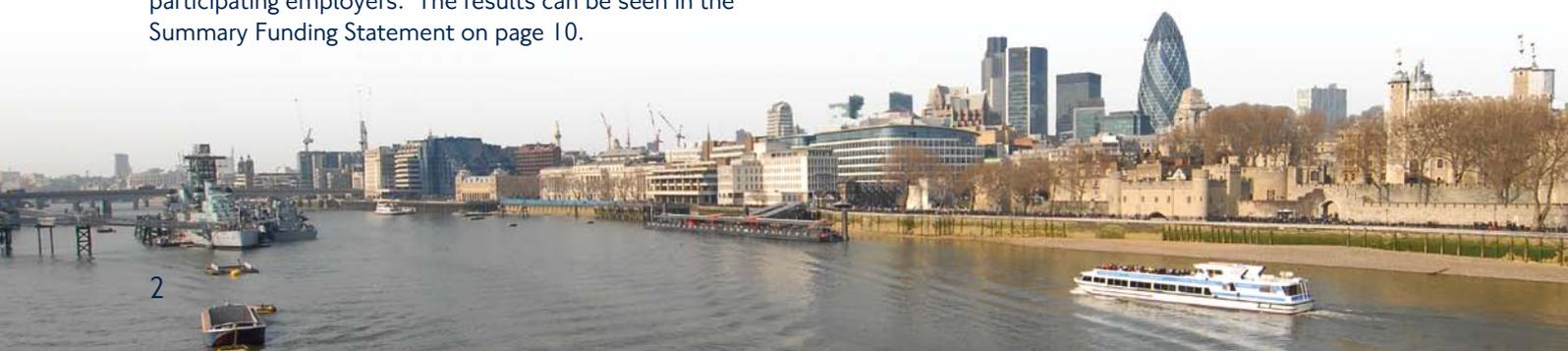
With a membership of over 82,000, the day to day administration of the Fund is a significant undertaking. Just under 40,000 tasks were completed by the Fund Office during the year. All the service level agreement targets were met in all four quarters of the year.

During the year we welcomed Graham Dean, Andrew Pollins and Steve Hedley to the Trustee Board and at year-end the Trustee Board was at full strength. The fresh insight offered by these new trustees has been balanced by the continuity provided by those with longer service.

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 all trustees comply 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, Independent Medical Adviser and not least the Fund Office and Fund Secretary for their support.

Maria Antoniou
Chairman of the
TfL Pension Fund Trustees



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Membership review

The chart below compares the membership numbers between the 2012 and 2013 Fund years.

2012 - Total members: 82,870

22,680	18,292	31,111	10,787
Contributing members	Deferred pensioners	Pensioners	Dependants and children
23,012	17,812	31,228	10,720

2013 - Total members: 82,772

The 23,012 contributing members are spread across the Participating Employers

	As at 31 March 2013	As at 31 March 2012
Transport for London	21,883	21,519
Tube Lines Limited*	980	1,005
Other employers*	149	156
Total Members	23,012	22,680

* These sections are closed to new members.

Year at a glance

As at 31 March 2013, the value of the Fund was £6,869.7m. This is an increase of £842.7m on the value at the end of the previous Fund year.

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

£5,669.0m		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 management	£9.5m
Members' contributions	£45.2m	Other payments	£4.5m
Transfers in from other pension schemes	£2.2m	Administration	£3.6m
		Pension levies	£2.9m
		Payment in respect of leavers	£2.7m
Total income	£396.6m	Total outgoing	£287.1m
Change in value of investments £218.5m			

£6,027.0m		Fund value as at 31 March 2012	
Plus income of....		Minus expenditure of....	
Employers' contributions	£266.1m	Pensions and other benefits paid	£274.7m
Investment income	£76.8m	Investment management	£11.8m
Members' contributions	£47.0m	Other payments	£4.6m
Transfers in from other pension schemes	£0.4m	Administration	£3.9m
		Payment in respect of leavers	£2.8m
		Pension levies	£1.6m
Total income	£390.3m	Total outgoing	£299.4m
Change in value of investments £751.8m			

£6,869.7m		Fund value as at 31 March 2013	
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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 year ended 31 March 2013 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 2013, the total value of the Fund's assets increased by £843m to £6,870m. 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. They appoint specialised investment managers, who are given specific instructions and benchmarks to follow by the Trustees. The following table shows the target allocation of the Fund's assets between investment managers.

Legal & General (Index tracking and liability matching assets) 50.4%

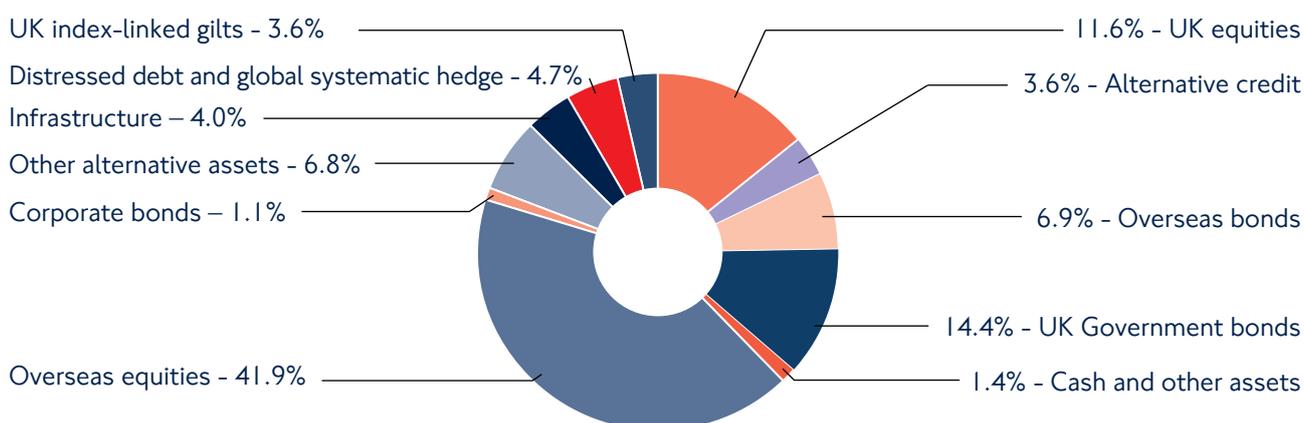
Active Specialist

Goldman Sachs (Global bonds)	8.7%
IronBridge (Global equities)	6.1%
Taube Hodson Stonex (Global equities)	5.5%
JO Hambro (Global equities)	4.4%
Nomura (Pacific Basin equities)	3.9%
Burgundy (North American equities)	2.5%
Brigade (Alternative credit)	1.2%
Oak Hill (Alternative credit)	1.2%
Wellington (Alternative credit)	1.1%
Currency overlay	(0.4%)

Alternative Assets

Bridgewater (Global Macro Systematic Hedge Fund)	3.2%
Semperian (Infrastructure assets)	2.7%
Nephila (Reinsurance Hedge Fund)	1.5%
Colonial First State (Infrastructure assets)	1.4%
Partners Group (Private equity Fund of Funds)	1.4%
BlueCrest (Managed Futures / Global Macro)	1.0%
Gresham (Commodities)	0.8%
Siguler Guff (Distressed Debt Private equity)	0.8%
Davidson Kempner (Distressed Debt Hedge Fund)	0.6%
Brevan Howard (Global Macro Discretionary Hedge Fund)	0.6%
Arrowgrass (Multi-Strategy Hedge Fund)	0.5%
OZ Management (Multi-Strategy Hedge Fund)	0.5%
Rogge (Emerging Market Currencies)	0.4%

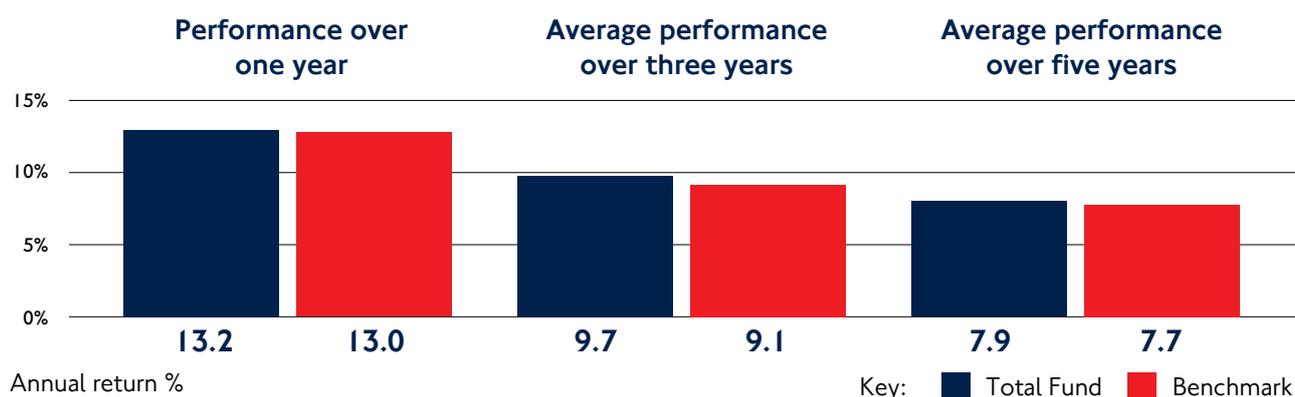
The Fund is held in a range of different investments (assets) in the UK and overseas.



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 2013 were:	Nestle	24.8	Switzerland
	HSBC Holdings	17.1	UK
	Sumitomo Mitsui Financial Group	16.3	Japan
	Google	15.4	USA
	Svenska Handelsbanken	15.1	Sweden
	Exxon Mobil	14.5	USA
	Occidental Petrol	13.6	USA
	Adidas	13.0	Germany
	Walt Disney	12.7	USA
	Roche Holdings	12.5	Switzerland

Investment performance

The chart below shows that the investment return was 0.2 per cent above the Fund's performance benchmark (the comparator set by the Trustees) for the year to 31 March 2013. Over the longer periods, investment performance was 0.6 per cent above the benchmark over three years and 0.2 per cent above the benchmark over five years.



The Fund's assets

The Fund's assets total £6,869.7m. The amount held by each section on 31 March 2013 is shown below

Section	£m	Section	£m
Public Sector	6,593.2	HP Enterprise Services UK Limited	3.5
Tube Lines Limited	213.8	Capgemini UK plc	0.9
UK Power Networks Services Powerlink Limited	49.5	Composite Section	0.7
Cubic Transportation Systems Ltd	7.5	Thales Transport and Security Limited	0.6

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, there are six sub-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 2013, 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

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,
Transport for London

Andrew Pollins

Director of Finance
Rail & Underground,
London Underground Limited

Unite the Union (T&GWU)

Lewis Brown
IM Problem Manager,
Transport for London

Associated Society of Locomotive Engineers and Firemen

Graham Dean
Train Operator,
London Underground Limited

National Union of Rail, Maritime and Transport Workers

Steve Hedley
Assistant General Secretary,
RMT

Transport Salaried Staffs' Association

John Knowles
Station & Revenue
Functional Council
Representative,
London Underground Limited

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 13 June 2013, Angela Back replaced Howard Collins

**with effect from 31 May 2013, Stuart Munro resigned

Trustee advisers and managers

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

Investment managers

Arrowgrass Capital Partners LLP
BlueCrest Capital Management (UK) LLP
Brevan Howard Asset Management LLP
Bridgewater Associates, Inc
Brigade Capital Management LLC
Burgundy Asset Management
Colonial First State Global Asset Management
Davidson Kempner Capital Management LLC
Goldman Sachs Asset Management
Gresham Investment Management LLC
IFC Global Infrastructure Fund LP
IronBridge Capital Management LP
JO Hambro Capital Management Ltd
Legal & General Investment Management
Nephila Capital Limited
Nomura Asset Management UK Ltd
Oak Hill Advisors LP
OZ Management LP
Partners Group (UK) Limited
Rogge Global Partners plc
Russell Implementation Services Limited
Semperian PPP Investment Partners Holdings Ltd
Siguler Guff & Company, LP
Taube Hodson Stonex Partners LLP
Wellington Management Company LLP

Custodian

JP Morgan Investor Services

Administration services

Transport for London

Investment adviser

Towers Watson Limited

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

JP Morgan Investor Services

Communications

Hughes Communications

Independent Medical adviser

Dr S Sheard

Scheme Employer Covenant Reviewer

Penfida Partners LLP

AVC providers

Clerical Medical, Equitable Life, Standard Life

Secretary to the Trustee

S Field

***with effect from 1 August 2013, GM Oxtoby of Towers Watson Limited replaced RV Williams as Scheme Actuary

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 Director of Pensions & Reward 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 2012 valuation. Reference to 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 2012, the funding position of the Section was as follows:

Assets	£5,796m
Amount needed to provide benefits earned to 31 March 2012	£6,495m
Shortfall	£699m
Funding level	89%

As a result TfL agreed to pay deficit contributions of 10.60 per cent of pensionable pay from 1 April 2013 to 31 March 2020 and, on or before 31 March 2018, a lump sum of £37.8 million increased in line with the increase in RPI between September 2008 and September 2017. 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 2013 are 20.40 per cent of pensionable pay for all members of the Section.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £7,288 million. 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

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2011 was estimated to be 89 per cent with a shortfall of £664 million. The deterioration in the funding position between 31 March 2011 and 31 March 2012 was due primarily to investment returns being lower than assumed and

an increase in the value of liabilities that resulted from lower prospective investment returns, partly offset by contributions paid into the Section exceeding the estimated cost of new benefit accrual, lower than expected salary increases and the effect of changes to the valuation.

Next funding valuation

The next formal valuation is at 31 March 2015.

Other matters

The Trustee is required to tell you by law that there has not been any payment to TfL out of the funds of 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 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 28 per cent of the assets in bonds and about 56 per cent in equities and 16 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 2012*.

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 22 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 Director of Pensions & Reward and 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 2013
- 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.

