

TfL Pension Fund

Annual Review 2015



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 3792 for your copy.

From the Chairman

I am pleased to present my review as Chairman for the year ended 31 March 2015. Pensions has continued to be in the spotlight during the year and while defined contribution arrangements have been the main area of government and regulatory change, there has still been much to contend with by defined benefit arrangements such as the TfL Pension Fund.

The Fund's assets have continued to grow, with the Fund's net assets exceeding £8.3bn at 31 March 2015. Although the estimated value of the Fund's liabilities has also seen a broadly corresponding increase, it has meant no improvement in the overall funding position. However a more accurate picture will emerge following the detailed review through the actuarial valuation which commenced on the 31 March 2015. But it does emphasise the continued importance of employer support and for the Trustee's attention on both the Fund's asset and liability components in seeking to ensure the security of member benefits.

The Trustee have been continuing their work in implementing the Fund's investment strategy, as well as continuing to ensure good governance across the Fund's diverse investment holdings. This has included consideration of a number of investment proposals, with only those which meet the Fund's reward and risk criteria being pursued. A rolling review of existing managers and/or strategies to ensure they continue to meet the Fund's needs has also been undertaken. Further details can be found in the Investment Report that forms part of the Annual Report & Accounts that is available on the Fund's website www.tflpensionfund.co.uk

This year's investment performance was behind the benchmark return of 13.7 per cent by 0.5 per cent, while over the longer period of three years it matched the 10.6 per cent return and over five years it was ahead by 0.2 per cent with an average return of 9.5 per cent.

The Fund has 31 investment managers providing a greater diversity to maximise the probability of achieving its return objectives, while managing the overall risk in the portfolio. But this has brought new challenges in carrying out effective investment governance. The Trustee continues to use both the resources of the Fund Office and their investment advisers to support them. In

particular this includes keeping under review the fees paid to managers to ensure they are providing value for money for the investment returns or risk mitigation achieved. As part of this process there is additional disclosure in the accounts this year so that manager fees which are charged to the funds they manage, as well as those paid direct from the Fund, are given equal prominence.

During the year CapGemini UK plc ceased to participate as their last member left service and subsequent to the year end the last member of Tribal Technology Limited transferred to TfL from 1 April 2015, so they will also cease to participate in the Fund.

The Trustee continues the dialogue with the Pensions Regulator on the Technical Provisions and Recovery Plan following the 2012 valuation.

With a membership of over 83,000, the day to day administration of the Fund is a significant undertaking, where close to 42,000 tasks were completed by the Fund Office during the year.

During the year we welcomed Steve White to the Trustee Board and 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 day-to-day challenges and plan effectively for those which lie ahead of us.

Maria Antoniou

Chairman of the TfL Pension Fund Trustees



In this year's review

| | | | |
|--------------------------|---|--|---------------------------|
| Membership review | 3 | Trustee advisers and managers | 9 |
| Year at a glance | 4 | Additional help or information | 9 |
| How the Fund is invested | 5 | Summary Funding Statement | 10 |
| The Fund's Trustees | 8 | Annual Members' Meeting and Exhibition | back page |

Membership review

The chart below compares the membership numbers between the 2014 and 2015 Fund years.

2014 - Total members: 83,097

| | | | |
|----------------------|---------------------|------------|-------------------------|
| 23,662 | 17,406 | 31,310 | 10,719 |
| Contributing members | Deferred pensioners | Pensioners | Dependants and children |
| 24,336 | 17,111 | 31,394 | 10,625 |

2015 - Total members: 83,466

The 24,336 contributing members are spread across the Participating Employers

| | As at 31 March 2015 | As at 31 March 2014 |
|----------------------|---------------------|---------------------|
| Transport for London | 23,410 | 22,680 |
| Tube Lines Limited* | 886 | 939 |
| Other employers* | 40 | 43 |
| Total Members | 24,336 | 23,662 |

* These sections are closed to new members.



Year at a glance

As at 31 March 2015, the value of the Fund was £8,304.2m. This is an increase of £992.3m 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.

| £6,869.7m | | Fund value as at 31 March 2013 | |
|---|----------------|---------------------------------------|----------------|
| Plus income of.... | | Minus expenditure of.... | |
| Employers' contributions | £284.4m | Pensions and other benefits paid | £282.7m |
| Investment income | £80.7m | Investment management | £10.9m |
| Members' contributions | £50.2m | Other payments | £3.9m |
| Transfers in from other pension schemes | £5.6m | Administration | £3.8m |
| | | Payment in respect of leavers | £3.0m |
| | | Pension levies | £5.9m |
| Total income | £420.9m | Total outgoing | £310.2m |
| Change in value of investments £331.5m | | | |

| £7,311.9m | | Fund value as at 31 March 2014 | |
|---|----------------|---------------------------------------|----------------|
| Plus income of.... | | Minus expenditure of.... | |
| Employers' contributions | £298.0m | Pensions and other benefits paid | £300.4m |
| Investment income | £81.5m | Investment management | £13.2m |
| Members' contributions | £53.6m | Other payments | £3.7m |
| Transfers in from other pension schemes | £0.2m | Administration | £3.7m |
| | | Payment in respect of leavers | £3.5m |
| | | Pension levies | £7.3m |
| Total income | £433.3m | Total outgoing | £331.8m |
| Change in value of investments £890.8m | | | |

| £8,304.2m | | Fund value as at 31 March 2015 | |
|------------------|--|---------------------------------------|--|
| | | | |

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 ending 31 March 2015 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.

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 pie chart shows the target allocation of the Fund's assets between investment managers.

| | |
|--|-------|
| Blackrock (Index tracking and liability matching assets) | 46.2% |
| Legal & General (Index tracking) | 0.5% |

Active Specialist

| | |
|------------------------------------|------|
| Goldman Sachs (Global bonds) | 7.3% |
| IronBridge (Global equities) | 6.6% |
| Pzena (Global equities) | 5.8% |
| JO Hambro (Global equities) | 5.6% |
| Nomura (Pacific Basin equities) | 3.0% |
| Burgundy (North American equities) | 2.1% |
| Coronation (Global equities) | 1.3% |

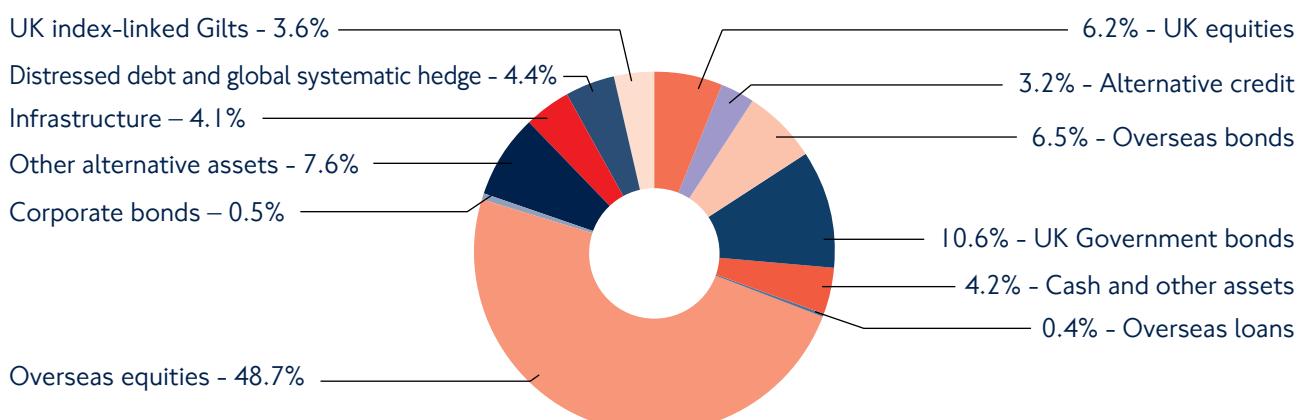
| | |
|--------------------------------------|--------|
| Brigade (Alternative credit) | 1.1% |
| Oak Hill (Alternative credit) | 1.1% |
| Paradice (Global equities) | 1.0% |
| Wellington (Alternative credit) | 1.0% |
| JO Hambro (Asia (ex Japan) equities) | 0.8% |
| Currency overlay | (0.4%) |

Alternative Assets

| | |
|---|------|
| Bridgewater (Global Macro Systematic Hedge Fund) | 3.4% |
| Semperian (Infrastructure assets) | 2.9% |
| Partners Group (Private Equity Fund of Funds) | 1.5% |
| Nephila (Reinsurance Hedge Fund) | 1.4% |
| Colonial First State (Infrastructure Private Equity Fund) | 1.1% |
| Siguler Guff (Distressed Debt Private Equity) | 1.1% |
| AQR (Futures Hedge Fund) | 0.9% |
| Gresham (Commodities) | 0.9% |
| CBRE (Real Estate (Fund of Funds exposure)) | 0.8% |

| | |
|--|------|
| Arrowgrass (Multi-Strategy Hedge Fund) | 0.7% |
| Brevan Howard (Global Macro Discretionary Hedge Fund) | 0.5% |
| OZ Management (Multi-Strategy Hedge Fund) | 0.5% |
| Industry Funds (Infrastructure debt) | 0.4% |
| GS Mezzanine (Private Mezzanine debt) | 0.2% |
| IFC (Emerging Market Infrastructure Fund) | 0.2% |
| Neuberger Berman (Global Private Equity Fund of Funds) | 0.2% |
| Blackrock (UK renewables Private Equity) | 0.1% |
| Davidson Kempner (Distressed Debt Hedge Fund) | 0.1% |
| Rogge (Emerging Market Currencies) | 0.1% |

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



How the Fund is invested (cont.)

| Top 10 shares | Market Value £m | Country | Sector |
|---------------------|-----------------|-------------|--------------------|
| Nestle | 26.5 | Switzerland | Food Processing |
| Novartis | 21.7 | Switzerland | Pharmaceuticals |
| Bayer | 20.2 | Germany | Healthcare |
| Microsoft | 20.0 | USA | Technology |
| Tencent Holdings | 19.6 | China | Technology |
| Illinois Tool Works | 19.4 | USA | Engineering |
| CVS Health | 18.3 | USA | Healthcare |
| ING Groep | 18.2 | Netherlands | Financial Services |
| Walt Disney | 18.0 | USA | Entertainment |
| Google | 17.9 | USA | Internet |

Activism

The Trustee recognises the Fund's responsibility as an active and long term institutional investor to support and encourage good corporate governance practices in the companies in which it invests. Specifically within its arrangements with Investment Managers, the Trustee communicates with companies and exercises the rights attaching to its investments and these activities are reported back to the Trustee by these managers. The Trustee has asked the Investment Managers to exercise their voting and other rights as shareholders in a manner they believe to be consistent with best practice in relation to Corporate Governance. For companies in which the Fund is invested, details of the number of annual and extraordinary general meetings our investment managers voted at are provided in the full Annual Report & Accounts.

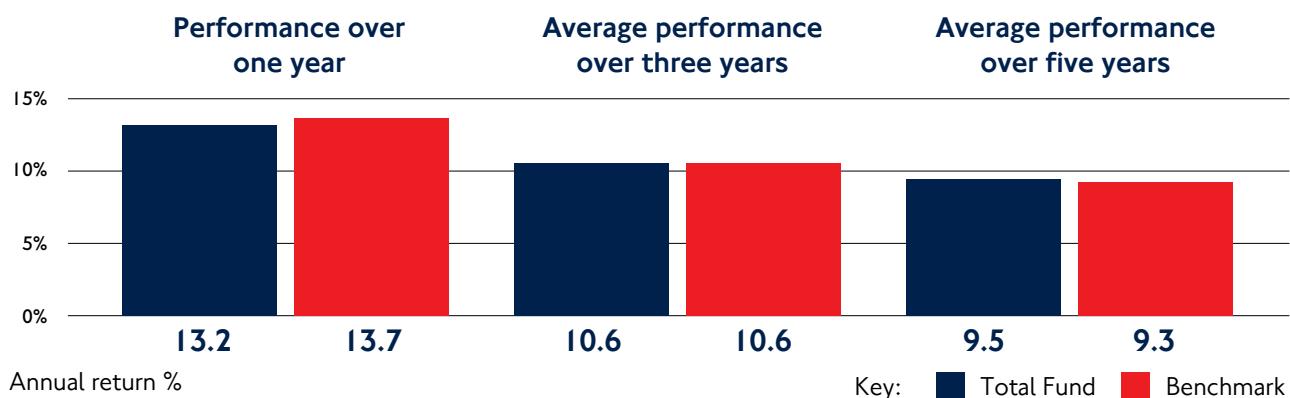
The Trustees have considered the Law Commission's report on the Fiduciary Duties of Investment Intermediaries. The review was initiated by government to evaluate whether the law on Fiduciary duties works in the interests of end investors. The government has issued a consultation on changes to the Investment Regulations following this report which closed on 24 April 2015. The Trustees will consider the government's response when this is issued, but have decided to make no changes to the Statement of Investment Principles on environmental, social and governance issues in the interim.

Experience to date in the votes against management is that they have rarely been sufficient to overturn management proposals. But such votes against may still have a role in influencing management behaviour going forward.



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 2015. Over the longer periods, investment performance was in line with the benchmark over three years and 0.2 per cent above the benchmark over five years.



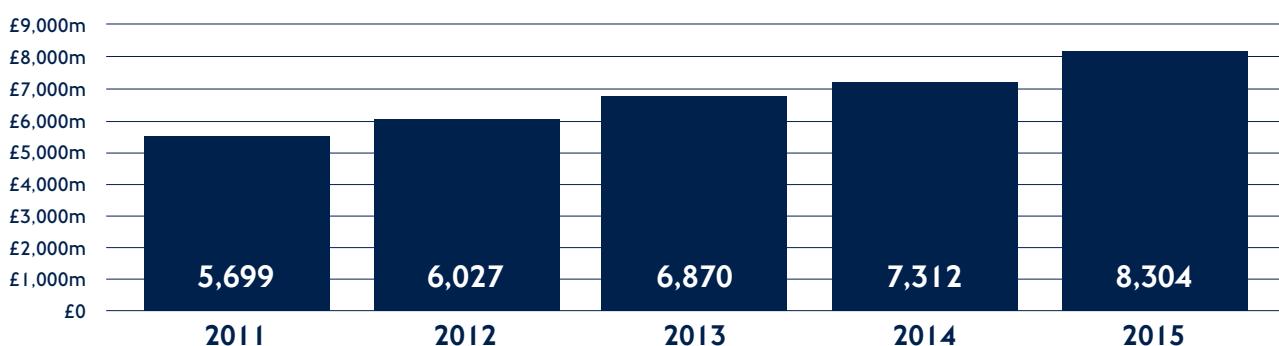
The Fund's assets

The Fund's assets total £8,304.2m. The amount held by each section on 31 March 2015 is shown below

| Section | £m | Section | £m |
|----------------------------------|---------|---------------------------------------|-----|
| Public Sector | 8,015.6 | Thales Transport and Security Limited | 0.8 |
| Tube Lines Limited | 274.2 | Composite Section | 0.6 |
| Cubic Transportation Systems Ltd | 12.7 | Capgemini UK plc | 0.3 |

Value of the Fund

Over the year to 31 March 2015, the total value of the Fund's assets increased by £992m to £8.304bn. The chart below shows how the Fund's assets have changed over the last five years.



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 2015, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Maria Antoniou

(Chairman)

External Appointment,
Transport for London

Angela Back

Head of HS&E for
Chief Operating Office
London Underground Limited

Mike Binnington

Senior Principal
Commercial Finance,
Transport for London

Emanuela Cernoia

Senior Treasury Manager,
Transport for London

Jane Hart*

Principal Solicitor
Transport for London

Dave O'Brien

Head of Risk Management
Rail & Underground,
Transport for London

Andrew Pollins

Director of Finance
Rail & Underground,
Transport for London

Mike Weston

Director of Buses
Surface Transport,
Transport for London

Steve White

Operations Director
London Underground Limited

Unite the Union

(T&GWU)

Lewis Brown
IM Service Analyst
Team Leader
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

Stephen Ellaby

HSE Manager,
Specialist Services
Transport for London

Paul Kilius-Smith

Pensioner

Chris Miller

Pensioner

Paul Murphy

Train Instructor, Northfields,
London Underground Limited

Trustee advisers and managers

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

Investment managers

AQR Capital Management LLC
Arrowgrass Capital Partners LLP
Blackrock Investment Management (UK) Limited
Brean Howard Asset Management LLP
Bridgewater Associates, Inc
Brigade Capital Management LLC
Burgundy Asset Management Limited
CBRE Global Collective Investors UK Limited
Colonial First State Global Asset Management
Coronation International Limited
Davidson Kempner Capital Management LLC
Goldman Sachs
Gresham Investment Management LLC
Industry Funds Management Pty Limited
IFC Global Infrastructure Fund LP
IronBridge Capital Management LP
JO Hambro Capital Management Ltd
Legal & General Investment Management
Nephila Capital Limited
Neuberger Berman Alternatives Advisers LLC
Nomura Asset Management UK Ltd
Oak Hill Advisors LP
OZ Management LP
Paradice Investment Management Pty Limited
Partners Group (UK) Limited
Pzena Investment Management LLC
Rogge Global Partners Plc
Russell Implementation Services Limited
Semperian PPP Investment Partners Holdings Ltd
Siguler Guff & Company
Wellington Management Company LLP

Custodian

JP Morgan Investor Services

Administration services

Transport for London

Investment adviser

Towers Watson Limited

Scheme Actuary

G Oxtoby, 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

Transition Investment Manager

Citigroup Global Markets Limited

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, FPMI

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 & 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 & 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

The ongoing funding level was last assessed as at 31 March 2014 when the funding level was estimated to be 92 per cent with a shortfall of £589 million. The funding position has remained broadly unchanged since the previous assessment as at 31 March 2013 (when the funding level was estimated to be 92 per cent with a shortfall of £546 million). Favourable investment returns over the year, accompanied by contributions

into the Section exceeding the estimated cost of new benefit accrual, were broadly offset by the increase in the value of the liabilities that resulted from lower prospective investment returns. The assessments as at 31 March 2013 and 31 March 2014 were not formal valuations, but measured the position consistently with the 2012 formal valuation in an approximate manner.

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 be required 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 25 per cent of the assets in bonds and about 55 per cent in equities and 20 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 explains how the funding shortfall is being made up.

*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* and *Actuarial Reports* as at 31 March 2013 and 31 March 2014.

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 Friday 2 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.

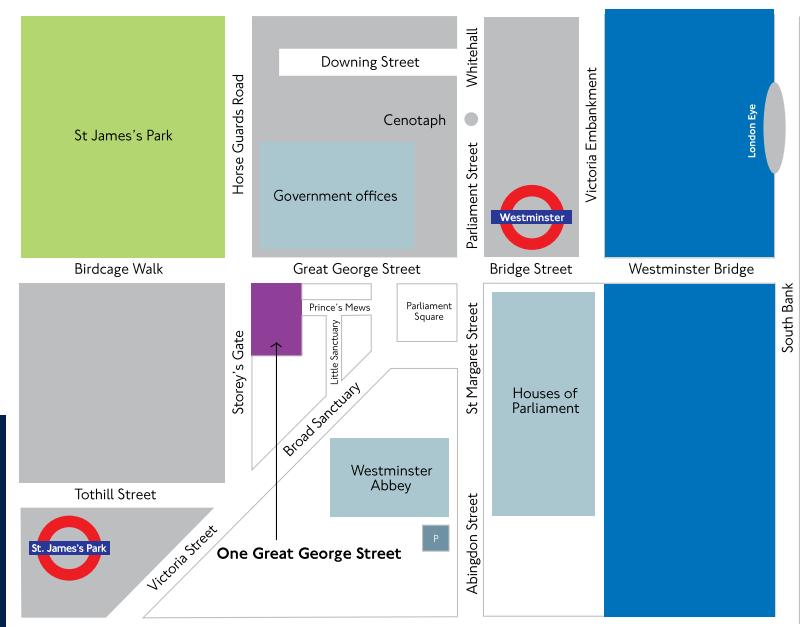
The programme for the meeting is:

- Introduction at 11:00
- Review of the Annual Report & Accounts to 31 March 2015
- 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.



This review is printed on paper that is made from 50% recycled and 50% sustainable sources.