

TfL Pension Fund

Annual Review 2018



Notice for the visually impaired

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From the Chair

I am pleased to present my review as Chair for the year ended 31 March 2018. As has become customary, I can note at the outset the frequency of reference to pension matters in the media alongside governmental, parliamentary and regulatory activity. More often than not these highlight shortcomings which serve to underline the challenges in operating pension arrangements successfully.



Focusing on our own Fund, an achievement this year has been the completion of the work implementing a new administration and payroll system. With the new system now launched, including the availability of member self service, I would encourage all members to register for access, if you have not already done so. There are a number of activities including viewing pensioner payslips and running retirement calculations that can be done “online” at a time that suits you. Alongside introducing a new administrative system, the Fund Office still managed to achieve service level agreement targets of 96.1 per cent for the year.

Another landmark this year has been in the value of the Fund’s net assets passing the £10 billion mark for the first time during the year and exceeding £10.3 billion at 31 March 2018. At the same time the Fund’s liabilities have continued their general trend of increasing, although their growth during this year has not outpaced that of the Fund’s assets. However, we will receive a clearer picture from the formal review of assets and liabilities through the triennial actuarial valuation at 31 March 2018 for which work has commenced. The detail of this activity is being supervised by the Actuarial Valuation Committee and the statutory deadline for completion is 30 June 2019.

The Fund continued to use greater diversity of investment to maximise the probability of achieving its return objectives, while managing the overall risk in the portfolio. Recognising the importance of employer support in ensuring the security of member benefits, the Trustee consults with TfL as Principal Employer on investment strategy, in particular at the options available to help mitigate the level of risk with a view to optimising the risk/return profile of the assets in the Fund.

As part of the investment process, the Fund has updated its Statement of Investment Principles to include activities from the consideration of environmental, social and governance factors. Included are stewardship activities arising from being a signatory of the UN Principles of Responsible Investment which are publicised on the Fund website and in member communications.

During the year we welcomed Sean Mobbs, Michael Hurwitz, Lilli Matson and Nigel Pickup 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.

Maria Antoniou
Chair of the TfL Pension Fund Trustees

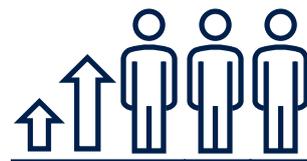
Fund in numbers

Fund value
£10.3
billion



Deficit
£396
million

86,247 members



28 Investment
managers



In this year's review

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Membership review

The chart below compares the membership numbers between the 2017 and 2018 Fund years.

2017 - Total 85,883 members

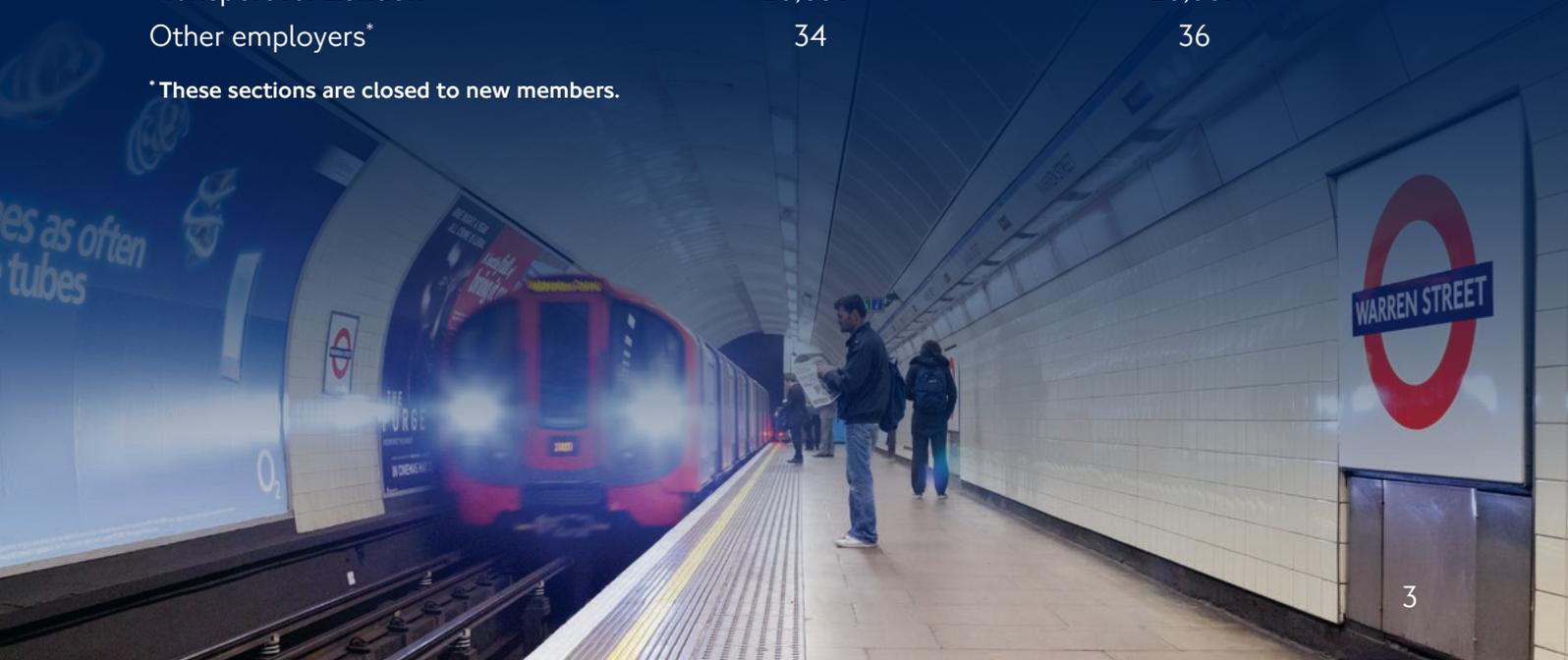
26,623	16,618	32,183	10,459
Contributing members	Deferred pensioners	Pensioners	Dependants and children
26,665	16,910	32,325	10,347

2018 - Total 86,247 members

The 26,665 contributing members are spread across the Participating Employers

	As at 31 March 2018	As at 31 March 2017
Transport for London	26,631	26,587
Other employers*	34	36

*These sections are closed to new members.



Year at a glance

As at 31 March 2018, the value of the Fund was £10,337.8m. This is an increase of £470.0m 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.

£8,211.4m		Fund value as at 31 March 2016	
Plus income of....		Minus expenditure of....	
Employers' contributions	£324.8m	Pensions and other benefits paid	£368.5m
Investment income	£119.9m	Investment management	£15.9m
Members' contributions	£63.5m	Other payments	£4.1m
Transfers in from other pension schemes	£5.6m	Administration	£4.1m
		Payments in respect of leavers	£5.9m
		Pension levies	£8.8m
Total income	£513.8m	Total outgoing	£407.3m
Change in value of investments £1,549.9m			

£9,867.8m		Fund value as at 31 March 2017	
Plus income of....		Minus expenditure of....	
Employers' contributions	£374.9m	Pensions and other benefits paid	£357.7m
Investment income	£127.3m	Investment management	£18.7m
Members' contributions	£64.1m	Other payments	£4.3m
Transfers in from other pension schemes	£20.0m	Administration	£4.2m
		Payments in respect of leavers	£7.6m
		Pension levies	£10.0m
Total income	£586.3m	Total outgoing	£402.5m
Change in value of investments £286.2m			

£10,337.8m		Fund value as at 31 March 2018	
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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 ending 31 March 2018 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 table shows the target allocation of the Fund's assets between investment managers.

BlackRock (Index tracking and liability matching assets) 38.9%

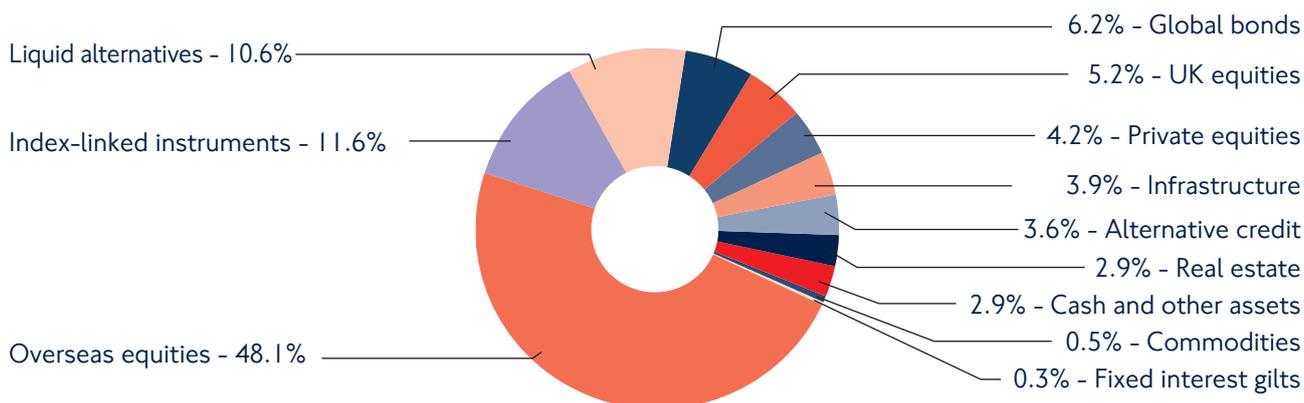
Active Specialist

Goldman Sachs (Global bonds)	6.4%	Oak Hill (Alternative credit)	1.9%
Pzena (Global equities)	6.4%	Coronation (Global Emerging Market equities)	1.4%
JO Hambro (Global equities)	4.5%	JO Hambro (Asia (ex Japan) equities)	1.3%
Veritas (Global equities)	4.2%	Paradice (Global Small Cap equities)	1.2%
Nomura (Pacific Basin equities)	2.7%	JP Morgan (Emerging Market debt)	1.0%
Ardevora (Global equities)	2.4%	Wellington (Alternative credit)	0.8%
Russell (Global Emerging Market equities)	2.2%	Currency overlay	0.4%
Burgundy (North American equities)	2.0%		

Alternative Assets

Bridgewater (Global Macro Systematic Hedge Fund)	2.9%	BlackRock (UK renewables Private equity)	1.0%
Semperian (Infrastructure assets)	2.5%	Blue Mountain (Multi Strategy Credit Hedge Fund)	1.0%
CBRE (Real Estate (Fund of Funds exposure))	2.4%	Brevan Howard (Global Macro Discretionary Hedge Fund)	1.0%
Neuberger Berman (Global equity Fund of Funds)	2.1%	Goldman Sachs (Alternative Risk Premium Hedge Fund)	1.0%
Credit Suisse (Reinsurance Hedge Fund)	1.9%	Industry Funds (Infrastructure debt)	0.7%
Partners Group (Private Equity Fund of Funds)	1.3%	Siguler Guff (Distressed Debt Private Equity)	0.6%
Colonial First State (Infrastructure Assets)	1.2%	GS Mezzanine (Private Mezzanine debt)	0.4%
AQR (Futures Hedge Fund)	1.0%	IFC (Global Infrastructure Fund)	0.3%
Anchorage (Multi-Strategy Credit Hedge Fund)	1.0%		

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		Value £m	Country	Sector
The Fund has significant holdings in shares (equities) of a number of major quoted companies. The ten largest holdings as at 31 March 2018 out of a total of £10.337.8m were:	Oracle	34.0	USA	Technology
	Microsoft	30.9	USA	Technology
	Airbus	27.9	France	Aerospace
	Comcast	27.6	USA	Media
	American Express	26.2	USA	Finance
	Total SA	23.9	France	Oil & Gas
	Charter Communications	21.8	USA	Telecommunications
	Thermo Fisher Scientific	21.2	USA	Technology
	Mylan	19.3	USA	Pharmaceutical
	Facebook	18.9	USA	Media

Stewardship and Activism

The Trustees recognise the Fund's responsibility as an active and long term institutional investor to support and encourage good corporate practices in the companies in which it invests.

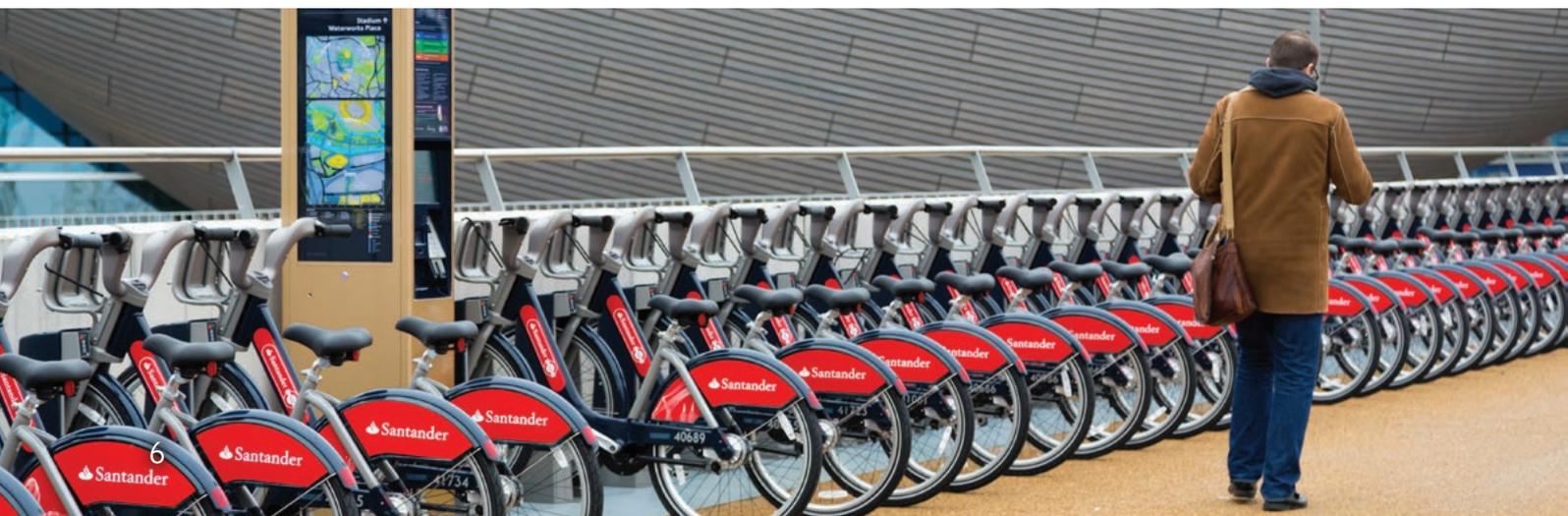
In the stewardship of assets this means paying regard to relevant environmental, social and governance ("ESG") considerations when considering the purchase, retention or sale of investments. In the Trustees' investment beliefs that underpin the approach to investment strategy, investment return and sustainability are not seen as conflicting objectives.

The Fund is a signatory of the UN Principles of Responsible Investment ("PRI"). Through this association with the PRI the Fund is gaining support in developing its engagement with ESG issues and assessing its progress. The Fund is using its existing resources and this will frame the scale and pace of its activity. A new initiative for 2018 is membership of the PRI supported Climate Action 100+ group whose objectives include the reduction of greenhouse gas emissions through engagement with the largest emitters.

The Fund has established a measure of its own "carbon footprint" giving a figure of 170 metric tonnes per million USD sales at 31 December 2017 which compares with an average figure of 220 for the representative global equity index.

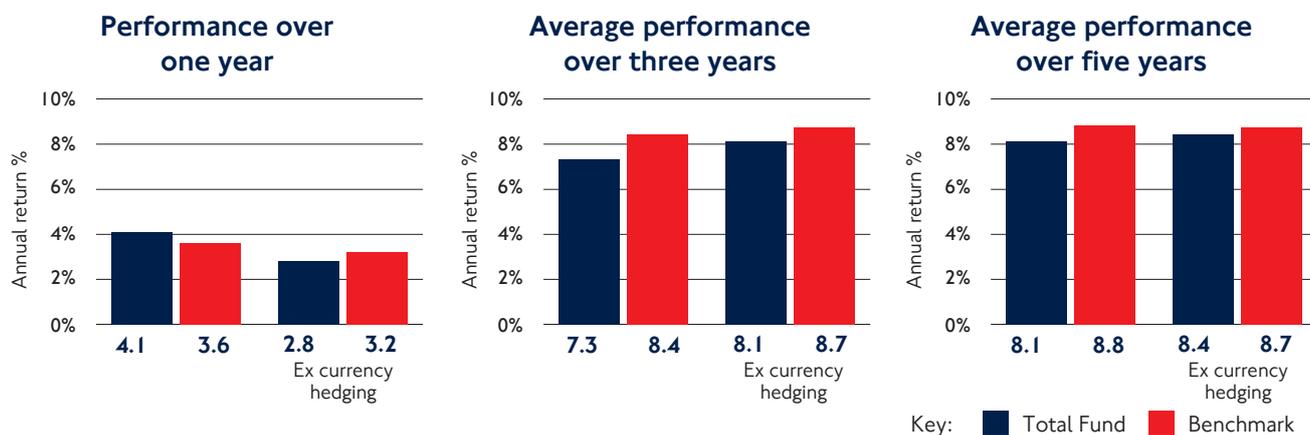
The Trustee has asked the Investment Managers to exercise their voting and other rights as shareholders in a manner they believe to be consistent with best practice in relation to Corporate Governance and in accordance with the Institutional Shareholders' Committee's ("ISC") Statement of Principles on the Responsibilities of Institutional Shareholders and Agents.

For companies in which the Fund is invested, details of the number of annual and extraordinary general meetings our investment managers voted at (and where votes were cast against management) are provided in the full Annual Report & Accounts.



Investment performance

The chart below shows that the investment return was 0.5 per cent above the Fund's performance benchmark (the comparator set by the Trustees) for the year to 31 March 2018. Over the longer periods, investment performance was 1.1 and 0.7 per cent below the benchmark over three years and five years respectively.



While the Fund's pension liabilities are sterling based, it holds assets in a number of currencies. In order to mitigate the impact of currency movements, the Fund carries out a limited program of hedging. This means that when sterling rises this provides some protection against the fall in value of those assets in other currencies.

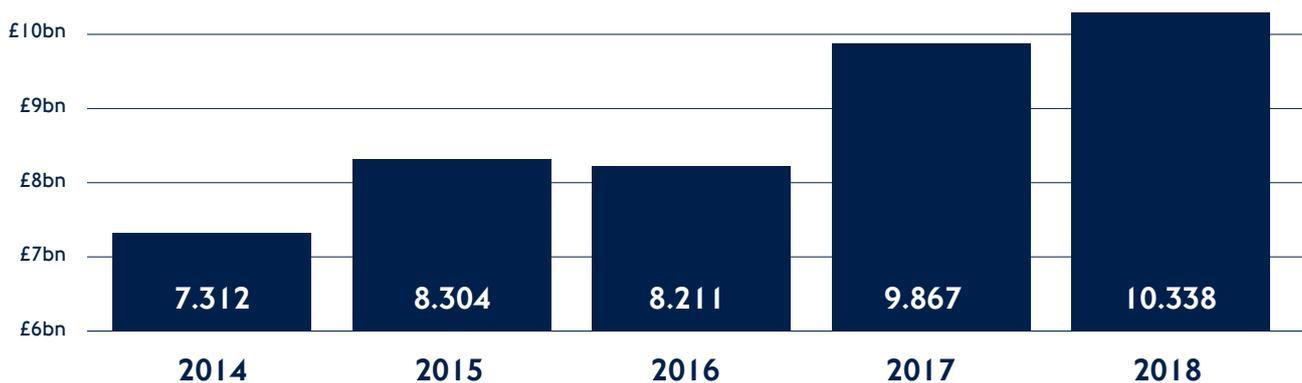
The Fund's assets

The Fund's assets total £10,337.8m, of which £73.9m are Additional Voluntary Contributions (AVCs). The amount held by each section on 31 March 2018 is shown below.

Section	£m
Public Sector	10,321.2
Composite Section	16.6

Value of the Fund

Over the year to 31 March 2018, the total value of the Fund's assets increased by £470.0m to £10,337.8m. 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 2018, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Maria Antoniou

(Chair)

External Appointment

Transport for London

Tricia Ashton

General Manager

Docklands Light Railway

Transport for London

Mike Binnington

Head of Corporate Finance

Structured Finance

Transport for London

Jill Collis

Director of HS&E

Transport for London

Michael Hurwitz

Director of Transport

Innovation

Transport for London

Rachel Kerry

Head of Human Resources

Transport for London

Lilli Matson

Director of Transport Strategy

Transport for London

Nigel Pickup

Head of Commercial Property

Transport for London

Steve White

4LM Implementation Director

London Underground Limited

Unite the Union (T&GWU)

Lewis Brown

Service Performance Manager

Transport for London

Associated Society of Locomotive Engineers and Firemen

Graham Dean

Train Operator

London Underground

Union of Rail, Maritime and Transport Workers

Steve Hedley

Senior Assistant General

Secretary

RMT

Transport Salaried Staffs' Association

Stephen Ellaby

HSE Manager

HSE Rail and Corporate

Transport for London

Unite the Union (Amicus)

John Timbrell

Project Engineer

London Underground Limited

TfL Pension

Consultative Council

Paul Kilius-Smith

Pensioner

Chris Miller

Pensioner

Sean Mobbs

People Management

Advice Specialist

Transport for London

Paul Murphy

Train Instructor

London Underground

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
Anchorage Capital Partners Offshore Limited
Ardevora Asset Management LLP
BlackRock Investment Management (UK) Limited
Blue Mountain Credit Alternatives Fund Limited
Brevan Howard Asset Management LLP
Bridgewater Associates, Inc
Burgundy Asset Management Limited
CBRE Global Collective Investors UK Limited
Colonial First State Global Asset Management
Coronation International Limited
Credit Suisse IRIS ALHC Fund Limited
Goldman Sachs Asset Management
IFC Asset Management Company LLC
Industry Funds Management Pty Limited
JO Hambro Capital Management Ltd
JP Morgan Asset Management
Neuberger Berman Alternatives Advisers LLC
Nomura Asset Management UK Ltd
Oak Hill Advisors LP
Paradice Investment Management Pty Limited
Partners Group (UK) Limited
Pzena Investment Management LLC
Russell Implementation Services Limited
Semperian PPP Investment Partners Holdings Ltd
Siguler Guff & Company LP
Veritas Asset Management LLP
Wellington Management Company LLP

Custodian

JP Morgan Investor Services

Administration services

Transport for London

Investment adviser

Willis Towers Watson

Scheme Actuary

Gareth Oxtoby, Willis Towers Watson

Legal advisers

Sacker & Partners LLP

Auditor

KPMG LLP

Bankers

The Royal Bank of Scotland plc

Investment Performance Monitoring

JP Morgan Investor Services

Transition Manager

Citigroup Global Markets Limited

Communications

Hughes Communications

Independent Medical adviser

Dr Simon Sheard

Scheme Employer Covenant Reviewer

Penfida Limited

AVC providers

Clerical Medical, Equitable Life, Standard Life

Secretary to the Trustee

Stephen Field, FPMI

Additional help or information

Whether you are a contributing member, a pensioner or have a deferred pension, you can use the website www.tfl.gov.uk/pensions to find out more information about the Fund as well as accessing our self service website through our Pension Web Portal www.pensions.tfl.gov.uk

If you have not already registered to use the Pension Web Portal, why not sign up today.

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.

The financial information in this annual review is a summary of the full audited accounts and you can download a full copy of the Annual Report and Accounts from our website at www.tfl.gov.uk/pensions. If you would like a paper 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

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 2015 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 2015, the funding position of the Section after allowing for the effect of the merger into the Section of the Tube Lines Limited Section was as follows:

Assets	£8,290 million
Amount needed to provide benefits earned to 31 March 2015	£8,686 million
Shortfall	£396 million
Funding level	95%

As a result, TfL agreed to pay deficit contributions of 5.45 per cent of pensionable pay from 1 April 2016 to 31 March 2022 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 2016 are 25.55 per cent of pensionable pay for all members of the Section.

The estimated additional amount needed on 31 March 2015 to ensure that all members' benefits could have been paid in full, if the Section had started winding up, was around £10,676 million (taking no account of the merger of the Tube Lines Limited Section). 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 2017 when the funding level was estimated to be 97 per cent with a shortfall of £326 million. The improvement in the funding position between 31 March 2015 and 31 March 2017 was due primarily to the level of deficit contributions paid by TfL since 2015. Asset

performance has also mitigated the increase in the value of liabilities due to a reduction in the real discount rate since 31 March 2015.

Next funding valuation

The next formal valuation is at 31 March 2018.

Other matters

Tube Lines Limited joined the Section with effect from 30 March 2016 and all the assets and liabilities of the Tube Lines Limited Section were transferred at that date.

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 the 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 22 per cent of the assets in bonds and about 54 per cent in equities and 24 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 2015* and *Actuarial Reports* as at 31 March 2016 and 31 March 2017.

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.tfl.gov.uk/pensions

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 12 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 2018
- 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 3787.

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

