

# TfL Pension Fund

## Report and Accounts

for the year to 31 March 2010



### 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.



# TfL Pension Fund

## Report and Accounts for the year to 31 March 2010

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#### **Administration Office:**

TfL Pension Fund  
Wing Over Station  
55 Broadway  
London SW1H 0BD

Telephone (020) 7918 3733

Requests for a copy of the Trust Deed and Rules of the Fund and enquiries about the Fund generally, or about an individual's entitlement to benefit, should be addressed to the TfL Pension Fund Office at the above address. The Report and Accounts and Trust Deed and Rules may be viewed on the TfL Pension Fund's Website, [www.tflpensionfund.co.uk](http://www.tflpensionfund.co.uk).

**Pension Schemes Registry scheme reference number:** 101653517

# TfL Pension Fund

## Organisation and Advisers as at 31 March 2010

### Trustee

TfL Trustee Company Limited

### Board of Directors of TfL Trustee Company Limited

(Nominating bodies are shown in brackets)

Ms M Antoniou (Chairman)	External Appointment, Transport for London (TfL)
Ms LJ Arwood	Pensioner (PCC)
Mr HP Collins	Chief Operating Officer, London Underground Limited (TfL)
Mr SR Critchley	Chief Finance Officer, Transport for London (TfL)
Mr GF Duffy	Director of Employee Relations, London Underground Limited (TfL)
Mr SW Ellaby	Corporate HSE Adviser, Transport for London (PCC)
Mr S Grant	District Organiser, ASLEF (ASLEF)
Ms JV Hart	Senior Disputes Resolution Lawyer, Transport for London (TfL)
Ms C Kavanagh	Director of Performance – Surface Transport, Transport for London (TfL)
Mr JH Knowles	Station & Revenue Functional Council Representative, London Underground Ltd (TSSA)
Mr CA Miller	Pensioner (PCC)
Mr SI Munro	Director of Finance, London Rail (TfL)
Mr PJ Murphy	Train Instructor, Acton Town, London Underground Limited (PCC)
Mr MF O'Connell	Group Financial Controller, Tube Lines (TfL)
Mr P Regan	Director of Corporate Finance, Transport for London (TfL)
Mr PW Sikorski	Assistant General Secretary, RMT (RMT)
Mr JB Timbrell	Project Engineer, London Underground Limited (Unite (Amicus))

### Principal Employer

Transport for London

### Bankers

The Royal Bank of Scotland plc

### Participating Employers

Transport for London  
Docklands Light Railway Limited  
London Bus Services Limited  
London Buses Limited  
London River Services Limited  
London Transport Museum Limited  
London Underground Limited  
Transport Trading Limited  
Victoria Coach Station Limited  
British Transport Police Authority  
Cadbury Limited  
Capgemini UK plc  
Cubic Transportation Systems Limited  
Dalkia Energy & Technical Services Limited  
EDF Energy Powerlink Limited  
HP Enterprise Services UK Limited  
Thales Transport and Security Limited  
Tribal Technology Limited  
Tube Lines Limited

### Communications Advisers

Hughes Communications  
Talking People

### Investment Adviser

Mercer Investment Consulting

### Investment Managers

	Date of Appointment
Bridgewater Associates, Inc.	2 November 2005
Colonial First State Global Asset Mgt	15 December 2009
Davidson Kempner	17 November 2009
Goldman Sachs Asset Management	15 June 2005
IronBridge Capital Management LP	24 December 2009
JO Hambro Capital Management Limited	5 January 2010
Legal & General Investment Management	14 June 2006
Nomura Asset Management UK Limited	1 September 2004
Semperian PPP Investment Partners Holdings Limited	18 February 2008
Siguler Guff & Company	10 December 2009
Taube Hodson Stonex Partners LLP	11 January 2010

### Secretary to the Trustee

Mr S Field

### Custodian

JP Morgan Chase Bank

### Auditors

KPMG LLP

### AVC Providers

Clerical Medical  
Equitable Life  
Standard Life

### Legal Advisers

Sacker & Partners LLP

### Medical Adviser

Prof. K Holland-Elliott

### Scheme Actuary

Mr RV Williams, Towers Watson Limited

# TfL Pension Fund

## Chairman's Introduction

I am pleased to present my first review as Chairman for the year ended 31 March 2010. The financial and economic events that dominated the news last year have continued into this one with an initially more settled outlook being followed by new uncertainties. These continue to affect the pensions industry as a whole as well as the Fund as we also consider what changes a new government may bring.

Against this background the Fund successfully completed in May 2010 and ahead of the statutory deadline of 30 June, the triennial actuarial valuation as at 31 March 2009. As part of this the Trustees have secured the participating employers' agreement to funding the total deficit of £1.419 billion across the nine sections of the Fund. The Actuarial Valuation Committee has played the leading role in reviewing the Actuary's valuation and carrying out the negotiations on the technical provisions and recovery plan for each of the Fund's sections with the Principal Employer, acting on behalf of all the participating employers. The results can be seen in the extracts from the Summary Funding Statements which form part of this report.

We have seen a significant recovery in the value of the Fund's assets over the year, with these exceeding £5 billion but the corresponding value of the Fund's liabilities has also increased almost to the same extent, bringing only a modest improvement in the overall funding and thus underlying the continued importance of employer support. At the same time the Trustees remain focused on both the Fund's asset and liability components in seeking to ensure the security of member benefits.

Leading this focus has been the Investment Committee supported by its monthly working group. In addition to monitoring investment performance of the underlying managers there have been some significant changes in line with the overall investment strategy of the Fund of securing performance with less risk.

The Fund is currently cash positive and so the Trustees are able to focus on the longer term seeking to take advantage of investment opportunities. The Fund has appointed three new global equity managers, replacing the two existing UK equity managers as well as making further appointments for the alternatives portfolio. A number of other potential investments are currently under consideration by the Fund.

On investment performance, as already mentioned, the market recovery during the year has seen the overall assets of the Fund increased over the past 12 months from £3.829 billion to £5.098 billion. This year's investment performance has also seen a recovery after last year's disappointing performance with the benchmark being exceeded by 2.4% and over the longer periods of three and five years the shortfall narrowing to 0.3% and 0.2% respectively. More information is contained in the Investment Report starting on page 13.

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

There have been a number of changes on the Trustee Board during the year, with the fresh insight offered by newer Trustees being balanced by the continuity provided by those with longer service.

I can report that at year end the Trustee Board was almost at full strength, pending the replacement for one of the resignations which took place on 16 March. We welcomed Stephen Ellaby, John Knowles, Stuart Munro and Fergus O'Connell to the Trustee Board during the year.

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 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, 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.

Chairman  
7 July 2010

# TfL Pension Fund

## Trustee's Report

The Directors of TfL Trustee Company Limited, the Trustee of TfL Pension Fund, have pleasure in submitting their Annual Report on the operations of the Fund, together with the Accounts of the Fund for the year ended 31 March 2010.

### 1. Management of the Fund

#### (a) The Trustee

The Trustee is required to act in accordance with the Trust Deed and Rules of the Fund, within the framework of pension and trust law. It is responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### (b) Board of Directors

The Board of the Trustee is made up of 18 Directors. As there was a vacancy at 31 March 2010, there are 17 Directors listed on page 2. Full details of how Directors are nominated are also shown on page 2.

Directors serve for such period as their nominating body determines, or until that body withdraws their nomination or additionally, in the case of a nominee from the TfL Pension Consultative Council (PCC), they cease to be a member of the PCC.

The following changes to directors occurred during the year to 31 March 2010:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Mr I Kierans	8 December 2009	Mr SW Ellaby	8 December 2009	PCC
Mr S Gray	31 December 2009	Mr JH Knowles	16 March 2010	TSSA
Mr SR Perry	16 March 2010	Mr SI Munro	16 March 2010	TfL
Mr A Cleaves	9 March 2010	Mr MF O'Connell	16 March 2010	TfL
Mr TM Chinnery	16 March 2010	-	-	-

Ms M Antoniou was appointed Chairman of the Trustee Board with effect from 1 January 2010 replacing Mr SR Critchley.

The table below shows the number of scheduled Trustee Board and Committee meetings attended by each Director in the year to 31 March 2010 against the total number that they were eligible to attend.

TfL Nominated Directors	No. of meetings	No. of attendances	Non-TfL Nominated Directors	No. of meetings	No. of attendances
Ms M Antoniou	11	11	Ms LJ Arwood	14	13
Mr A Cleaves	11	5	Mr TM Chinnery	11	8
Mr HP Collins	21	13	Mr SW Ellaby	3	3
Mr SR Critchley	19	19	Mr S Grant	12	8
Mr GF Duffy	9	4	Mr S Gray	6	3
Ms JV Hart	13	12	Mr I Kierans	8	6
Ms C Kavanagh	10	9	Mr JH Knowles	1	1
Mr MF O'Connell	1	1	Mr CA Miller	22	19
Mr SR Perry	10	10	Mr PJ Murphy	13	12
Mr P Regan	12	9	Mr PW Sikorski	10	7
			Mr JB Timbrell	17	16

The average attendance at scheduled Trustee Board and Committee meetings was 78% and 81% respectively.

# TfL Pension Fund

## Trustee's Report (continued)

### 2. Committees of the Board of Directors

Whilst the Board of the Trustee decides all policy matters, it has recognised that committees are necessary in carrying out its functions in respect of the TfL Pension Fund efficiently and that the exercise of all delegated authority, when not directly supervised by the Board, shall be supervised by a committee.

For this purpose the Board has set up five committees which comprise either four, six or eight Directors of the Trustee, half of whom are TfL nominated Directors and half of whom are non-TfL nominated Directors. Membership of each committee is shown below.

<b>Committee</b>	<b>TfL Nominated</b>	<b>Non TfL Nominated</b>
Investment	Mr HP Collins Mr SR Critchley Mr GF Duffy Mr P Regan	Mr CA Miller Mr PJ Murphy Mr JB Timbrell Vacancy
Operations	Ms JV Hart Ms C Kavanagh Mr SI Munro Mr MF O'Connell	Ms LJ Arwood Mr SW Ellaby Mr CA Miller Mr PW Sikorski
Audit	Ms JV Hart Mr SI Munro Mr MF O'Connell	Mr S Grant Mr JH Knowles Vacancy
Appeals	Ms M Antoniou Mr HP Collins Mr SR Critchley	Ms LJ Arwood Mr S Grant Mr PJ Murphy
Actuarial Valuation	Ms M Antoniou Mr HP Collins	Mr CA Miller Mr JB Timbrell

### 3. Committee Remits

#### Investment Committee

Keeping under review the appropriateness and, where deemed appropriate, recommending changes to the overall investment strategy of the Fund; investigating and reporting the use of new financial instruments; overseeing the investment adviser and investment managers and global custodian; keeping under review the appropriateness of investment managers, custodians, and the Fund's investment adviser.

#### Operations Committee

Monitoring the Service Provider's performance under the Administration Agreement and Fund Rules; monitoring quarterly cash flow, income and expenditure and capital expenditure budgets, instructing the Fund Secretary to prepare the brief to professional advisers to the Fund and to monitor their performance; devising the Fund's communications strategy.

#### Audit Committee

To ensure that the rules relating to finance and corporate governance matters are properly applied, the Fund's financial affairs are properly conducted in accordance with best practice and the Fund's accounting policies, and to ensure that there are processes in place for the Fund and the Trustee to comply with the Trust Deed and Fund Rules, Articles of Association, legislation and regulation, corporate governance and all relevant internal procedures and policies.

## TfL Pension Fund

### Trustee's Report (continued)

#### Appeals Committee

To hear appeals as the second stage adjudicator under the Internal Disputes Resolution Procedure as approved from time to time by the Board.

#### Actuarial Valuation Committee

To liaise with the Actuary and negotiate with the Principal Employer on matters relating to scheme specific funding and actuarial factors for benefit calculations. The committee ensures compliance with the statutory funding requirements.

## 4. Governance

### Introduction

The Fund was established with effect from 1 April 1989 to provide retirement and death benefits for all eligible employees of Transport for London, its subsidiaries and associated companies, in accordance with the Rules of the Fund and Definitive Trust Deeds.

During the year ended 31 March 2010 there were no changes to the number of participating employers, but Electronic Data Systems Limited changed its name to HP Enterprise Services UK Limited.

Up to 5 April 2006 the Fund was approved by HM Revenue and Customs as an exempt approved scheme under the provisions of Chapter I Part XIV of the Income and Corporation Taxes Act 1988. From 6 April 2006 the Fund automatically became a "registered pension scheme" for tax purposes.

Members of the Fund are contracted out of the earnings-related element of the state pension scheme.

With effect from 30 March 2010 the LUL BCV and LUL SSL sections of the TfL Pension Fund were closed and the assets and liabilities of those sections transferred to the Public Sector Section.

### Changes to the Trust Deed and Rules of the Fund

During the year the following changes to the Trust Deed and Rules have been agreed by the Trustee and Transport for London:

- (i) Members who join the Fund after April 2010 and leave the Fund with less than three months' pensionable service will receive a refund of their contributions and the option to defer or transfer pension rights will no longer apply.
- (ii) The Trustee may, with the consent of the Principal Employer, transfer assets and liabilities between a new section of the Scheme and the Public Sector Section. The consent of the Participating Employer of the new section will also be required.
- (iii) Following a merger of two or more sections by transferring all of the assets of one or more sections to another section or sections, the Trustee and Principal Employer may determine to wind-up the section or sections from which the assets and liabilities were transferred.

### Management of the Fund

#### (a) Trustee's responsibility for preparing Accounts

Under the Rules of the Fund and the Pensions Act 1995, the Trustee is required to prepare Accounts for each Fund year which show a true and fair view of the financial transactions of the Fund during the Fund year and of the disposition, at the end of the Fund year, of the assets and liabilities. Assets do not include insurance policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the Fund to, particular members; liabilities do not include liabilities to pay pensions and benefits after the end of the year.

# TfL Pension Fund

## Trustee's Report (continued)

### (b) Statement of trustee's responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited accounts for each Fund year which:

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

The Trustee has supervised the preparation of the accounts and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Fund prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The trustees also have certain responsibilities in respect of contributions which are set out in the statement of trustees' responsibilities accompanying the trustee's summary of contributions.

The Trustee also has general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

The Trustee has considered the Fund's compliance with law and regulations and is not aware of any actual or potential non-compliance with laws, regulations and the Trust Deed that could have a material effect on the ability of the Fund to conduct its affairs and therefore on the position disclosed in these Accounts.

### (c) Board of Directors

The Directors of the Trustee are nominated as follows:

- Nine persons by TfL of whom at least five must be members of the Fund.
- One person each by: - Unite the Union; the National Union of Rail, Maritime and Transport Workers; the Associated Society of Locomotive Engineers & Firemen; the London Transport Joint Trades Committee; the Transport Salaried Staffs' Association (or any successor body).
- Two persons by and from Section One of the TfL Pension Consultative Council.
- One person by and from each of Sections Two and Three of the TfL Pension Consultative Council.

Members of the TfL Pension Consultative Council are Fund Members elected by their fellow members. Section One members are pensioners or deferred pensioners. Sections Two and Three are contributing members of the Fund.

The Directors of the Trustee are committed to high standards of governance for all aspects of the Fund's operations. Although the Trustee is not governed by the Combined Code, which applies to UK fully listed companies, the Directors of the Trustee believe that the internal control aspects of the Code help demonstrate good governance and therefore the Trustee has followed the principles of the Code in relation to internal controls.

The Pensions Act 2004 established the Pensions Regulator and amongst its objectives is the promotion of good administration of work-based pension schemes. This has included the publication of codes of practice and accompanying guidance to support trustees in their responsibilities, in particular those covering trustee knowledge and understanding and internal controls. In November 2009 the Pensions Regulator launched a campaign aimed at encouraging good governance and administration. The Trustee is taking steps to follow the Pensions Regulator's guidance as it develops.

## TfL Pension Fund

### Trustee's Report (continued)

The Directors of the Trustee acknowledge their responsibility for the Fund's system of internal controls and for reviewing its effectiveness. The internal controls are designed to manage risk and control the Fund's business and financial activities in a manner that enables it to:

- avoid or reduce risks that can cause loss of the Fund's assets or reputational damage,
- ensure compliance with applicable laws and regulations; and
- enhance resilience to external events.

To achieve this the Trustee has developed a Governance Framework that includes an annual risk review carried out by the Chairs of Committees, which identifies the key risks facing the Fund and the controls in place to manage these risks. These risks and controls are set out in a Risk Register which is considered by the Audit Committee and the Board who, together with the relevant committees, regularly review the effectiveness of the internal controls contained therein. The planned work and audit findings of Internal and External Audit are considered by the Audit Committee throughout the year and reported to the Board annually. It should be recognised, however, that such a process can only provide reasonable, not absolute, assurance against material misstatements or loss.

The Trustee has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are clearly documented and reviewed regularly.

The performance of the Fund's operations and of the Trustee's Investment Managers is reported regularly to the Fund Secretary and the relevant Committees and, where appropriate, the Trustee Board itself. Performance trends and forecasts, as well as actual performance against budgets, are closely monitored. Financial information is prepared using appropriate accounting policies that are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions, communications to members and the safeguarding of the Fund's assets.

#### **Governance Plan**

Following the Risk Review the Trustee has established a 1 year Governance Plan which is updated annually to use in operating and managing the Fund, covering three main areas:

(i) Mission and Goals

Setting out the main goals of the Trustee and the main resources available and the Trustee's key success criteria and performance measures.

(ii) Review and Monitoring Goals, Risks and Performance

Setting up main areas which the Trustee will review and measure in order to evaluate various aspects of the Fund arrangements.

(iii) Specific Actions and Year Plan

Identifying specific actions with a target date for the completion of each action.

#### **Strength of Employer Covenant**

The Trustee monitors the credit rating of the Participating Employers by taking advice from its professional advisers and by having good communication and exchange of information.

#### **Quarterly Investment Updates**

The Trustee monitors the financial strength of the Fund by receiving quarterly updates from the Fund Actuaries and Investment Advisers.

## TfL Pension Fund

### Trustee's Report (continued)

The Trustee monitors the performance of the investment managers each quarter. In order to increase the diversification of assets, the Trustee recommended a switch from UK to overseas equities exposure to facilitate the funding of global equity investment mandates.

#### 5. Financial review

The Accounts of the Fund for the year to 31 March 2010 have been drawn up in compliance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

The net assets of the Fund, that is the investment assets including the AVC scheme, the fixed assets held for own use, and the net current assets, amounted to £5,097.8m at 31 March 2010. The increase of £1,268.8m, compared with the value at 31 March 2009 of £3,829.0m, was made up as follows:

	<u>2010</u> £m	<u>2009</u> £m
Net returns on investments	1,213.7	(954.8)
Net additions from dealings with members	<u>55.1</u>	<u>102.2</u>
	<u>1,268.8</u>	<u>(852.6)</u>

Net returns on investments comprised increased market value of investments of £1,154.8m (2009: decrease of £1,021.5m), investment income of £62.9m (2009: £69.7m) offset by investment management expenses of £4.0m (2009: £3.0m). The increase in market value of investments was made up of realised investment gains of £86.8m (2009: losses of £292.1m) and unrealised investment gains of £1,068.0m (2009: losses of £729.4m).

The increase in the value of investments together with the net additions from dealings with members, as contributions receivable plus transfers in from other schemes exceeded benefits payable, payments to and on account of leavers, administrative expenses and pension levies.

The net additions from dealings with members were £55.1m (2009: £102.2m). This reduction in the amount of net additions was mainly due to a decrease in contributions of £32.4 million as a result of lower employer deficit contributions offset by higher normal contributions from salary increases, whilst transfers in from other schemes increased by £5.5m. Under the Rules of the Fund the administrative costs of the Fund are borne by the Fund itself. Administrative costs and pension levies increased by £0.5m primarily owing to the payment of the Pension Protection Fund and Pensions Regulator levies. Benefits payable increased by £20.8m, mainly as a result of increases in pensions and lump sum retirement benefit payments. Payments to and on account of leavers decreased by £1.1m.

Further details of the financial movements of the Fund may be found in the audited Accounts on pages 20 to 29.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 51.

#### 6. Actuarial valuations and actuarial reports

Fund Rule 43, together with recent legislation, requires the Scheme Actuary to carry out a formal actuarial valuation of each section of the Fund at least every three years. The valuations reveal the extent to which the sections' existing assets are sufficient to meet their liabilities for benefits that have been earned for service up to the valuation date. They also establish the levels of contributions required in future to provide an appropriate level of funding when account is taken of benefits to be earned in the future.

A formal valuation was carried out by the Scheme Actuary as at 31 March 2009 of each of the nine sections that were still in existence on 31 March 2010 (as at 30 March 2010 the assets and liabilities of the LUL BCV and LUL SSL sections were transferred to the Public Sector Section so that valuations were not required for these two sections). As required by legislation and the Fund's governing documents, the assumptions that the Actuary needed to make regarding such matters as future investment returns and members' longevity were agreed between the Trustee and TfL and are recorded in formal documents called Statements of Funding Principles. The process of agreeing assumptions was carried out separately for each section.

## TfL Pension Fund

### Trustee's Report (continued)

As required by legislation and the Fund's governing documents, for each of the sections that had a funding deficit the Trustee and TfL agreed a Recovery Plan which sets out how the deficit is to be made good. They also agreed a Schedule of Contributions for each of the sections which shows the contributions that are to be paid for the next five years or, if longer, until the funding deficit was expected to be eliminated. They show separately the contributions required to meet future accruing benefit costs and the additional contributions that are planned to finance the funding deficits.

For each section with 100 or more members, legislation requires the Scheme Actuary to provide an actuarial report in each year between formal actuarial valuations to give the Trustee an approximate update of the section's funding position. Actuarial reports will therefore be provided for the three largest sections as at 31 March 2010 and 31 March 2011.

Following completion of the valuations, a Summary Funding Statement will be sent to each member of the Fund which summarises the valuation results for his or her section. Further Summary Funding Statements will be sent following receipt of the actuarial reports. Extracts from the 2010 Summary Funding Statements for each section are shown on pages 32 to 40.

Copies of the Actuary's reports on the valuations and the actuarial reports referred to above are available on application to the Fund Secretary at the address given on the Contents page at the front of the Report and Accounts.

#### 7. Pension increases

Deferred members and pensioners receive increases in accordance with the Fund Rules based on the increase in the Retail Price Index over the year to the previous September. Those members whose pension commenced on or before 1 April 2008 received an increase, with effect from 1 April 2009, of 5.0% based on the increase in the Retail Price Index for the year to September 2008. For pensioners whose pension commenced after 1 April 2008, the increase was reduced pro-rata.

Over the year to September 2009 there was a fall in the Retail Price Index and as a result deferred members and pensioners received no increase from April 2010.

Increases to pensions in payment and deferred pensions over the past five years have been as follows:

April 2006	2.7%
April 2007	3.6%
April 2008	3.9%
April 2009	5.0%
April 2010	0.0%

#### 8. Metronet

The former Metronet sections, namely LUL SSL and LUL BCV, had London Underground Limited as their sole participating employer from December 2008. TfL also became a participating employer in these sections from July 2009. With effect from 30 March 2010 their assets and liabilities were transferred to the Public Sector Section and the LUL BCV and LUL SSL sections formally wound up.

#### 9. Tube Lines

TfL has purchased the shares of Tube Lines Limited which became a subsidiary of TfL with effect from 27 June 2010. The Tube Lines section remains as a "New Section" separate from the Public Sector Section.

# TfL Pension Fund

## Trustee's Report (continued)

### 10. Changes in membership during the year

During the year to 31 March 2010 total membership decreased by 369 to 84,438. This figure comprises an decrease in contributing members of 545, an increase in dependants and eligible children of 36, a decrease in deferred pensioners of 170 and an increase in pensioners of 310.

	<u>2009/ 2010</u>	<u>2009/ 2010</u>	<u>2008/ 2009</u>	<u>2008/ 2009</u>	<u>Change</u>
<b>Contributing members as at 1 April 2009</b>	24,975		23,849		
Joiners	1,088		2,508		
	<u>26,063</u>		<u>26,357</u>		
Contributing members retiring	(599)		(409)		
Leavers taking a refund of contributions	(263)		(307)		
Leavers becoming deferred pensioners	(719)		(617)		
Leavers with less than two years service – member option decision pending	(19)		(16)		
Deaths in service	(33)		(33)		
<b>Contributing members as at 31 March 2010</b>		24,430		24,975	-545
<b>Deferred pensioners as at 1 April 2009</b>	18,626		18,656		
Leavers becoming deferred pensioners	719		617		
	<u>19,345</u>		<u>19,273</u>		
Deferred pensions coming into payment	(741)		(519)		
Deferred pensioners taking a trivial commutation lump sum	(6)		(2)		
Deferred pensioners transferring to other schemes	(72)		(69)		
Deferred pensioner deaths	(70)		(57)		
<b>Deferred pensioners as at 31 March 2010</b>		18,456		18,626	-170
<b>Pensioners as at 1 April 2009</b>	30,398		30,408		
Contributing members retiring	599		409		
Deferred pensions coming into payment	741		519		
	<u>31,738</u>		<u>31,336</u>		
Pensioner deaths	(1,030)		(938)		
<b>Pensioners as at 31 March 2010</b>		30,708		30,398	+310
<b>Dependants as at 1 April 2009</b>	10,224		10,219		
Dependants becoming entitled to pensions	560		597		
	<u>10,784</u>		<u>10,816</u>		
Dependant deaths	(537)		(591)		
Dependants taking a trivial commutation lump sum	-		(1)		
<b>Dependants as at 31 March 2010</b>		10,247		10,224	+23
<b>Eligible children as at 1 April 2009</b>	584		617		
Children becoming entitled to pensions	103		82		
	<u>687</u>		<u>699</u>		
Children ceasing to be eligible	(90)		(114)		
Child deaths	-		(1)		
<b>Eligible children as at 31 March 2010</b>		597		584	+13
<b>Total membership as at 31 March 2010</b>		<u>84,438</u>		<u>84,807</u>	<u>-369</u>

In addition the Fund has 72 pension credit members comprising 52 deferred pensioners and 20 pensioners

## TfL Pension Fund

### Trustee's Report (continued)

Details of contributing members by section as at 31 March 2010 were as follows:

	2009/ 2010	2009/ 2010	2008/ 2009	2008/ 2009	Change
	%		%		
Transport for London	23,066	94.41	19,046	76.26	+4,020
LUL BCV section	-	-	2,378	9.52	-2,378
LUL SSL section	-	-	2,129	8.52	-2,129
Tube Lines Limited	1,183	4.84	1,233	4.93	-50
EDF Energy Powerlink Limited	121	0.49	127	0.51	-6
Cubic Transportation Systems Limited	27	0.11	26	0.10	+1
HP Enterprise Services UK Limited	22	0.09	23	0.09	-1
Composite section	7	0.03	9	0.04	-2
Thales Transport and Security Limited	2	0.01	2	0.01	-
Cadbury Limited	1	0.01	1	0.01	-
Capgemini UK plc	1	0.01	1	0.01	-
<b>Total</b>	<b>24,430</b>	<b>100.00</b>	<b>24,975</b>	<b>100.00</b>	<b>-545</b>

# TfL Pension Fund

## Investment Report

### 1. Investment policy (excluding AVC investments)

Most of the Fund's investment assets were invested and administered by the investment managers, whose names appear on page 2. The investment managers employed during the financial year ended 31 March 2010 had discretion to invest as they saw fit within the asset classes and geographical limitations laid down by the Directors. Certain legacy investments amounting to no more than 1% of total assets are administered in-house but the Directors take appropriate investment advice in the disposition of these assets.

Investment managers' fees are primarily based on the market value of the Fund and, in the case of the active managers, performance (subject to upper and lower limits), but commissions and fees are also charged on investment transactions.

The Directors measure the Fund's performance against the benchmark below which is based on the long-term strategic asset allocation.

#### Benchmark Summary at 31 March 2010

Sector	Weight (%)	Comparison Basis
UK Equities	17.25	FTSE All-Share Index
Overseas Equities	40.25	FTSE AW All World ex UK (Hed) Index FTSE AW All World ex UK Index
UK Index-Linked Gilts	17.90	FTSE A ILG (Over 5 Years) Index
UK Gilts	17.80	FTSE A Over 15 Years Gilts Index
UK Cash Balances	6.80	LIBID 7 day Sterling
	<u>100.00</u>	

Each of the active managers has been set a target based on out-performance of a relevant index over rolling three-year periods. The Directors believe the target allocation set out below will maintain an appropriate balance between risk minimisation and return maximisation given the current and future liabilities of the Fund.

Portfolio	% of Fund	Manager
<b>Core</b>		
Index tracking (all asset classes) and liability matching assets *	55.26	Legal & General Investment Management
<b>Active Specialist</b>		
Bonds	16.90	Goldman Sachs Asset Management
Global equities 1	7.05	IronBridge Capital Management LP
Global equities 2	7.05	Taube Hodson Stonex Partners LLP
Global equities 3	2.33	JO Hambro Capital Management Limited
Pacific Basin equities	4.66	Nomura Asset Management UK Limited
Currency overlay (equities)	-	JP Morgan
<b>Alternative Assets</b>		
Infrastructure assets	4.10	Semperian PPP Investment Partners Holdings Limited**
Other assets	2.05	Bridgewater Associates, Inc
Distressed debt	0.60	Davidson Kempner
	<u>100.00</u>	

\* Legal & General are in the process of constructing a portfolio which seeks to hedge a proportion of the Fund's liabilities interest rate and inflation risk.

\*\* The Fund has a 25.8828% economic interest in Semperian PPP Investment Partners Holdings Limited (formerly Semperian PPP Investment Partners LP).

## TfL Pension Fund

### Investment Report (continued)

The allocation of index tracking funds to market categories is regularly rebalanced to ensure that the total fund is allocated in accordance with the strategic guidelines. The Directors maintain a Statement of Investment Principles as required by the Pensions Act 1995 and the latest version is available on request from the Fund Office at TfL Pension Fund, Wing Over Station, 55 Broadway, London SW1H 0BD or from the Fund's website.

#### 2. Custodial arrangements

During the year the Trustee was custodian of certain property unit trusts, venture capital funds and cash. Various brokers hold cash held in connection with the Goldman Sachs forward foreign exchange contracts and interest rate swaps. The rest of the Fund's investments, comprising those assets managed by the Fund's investment managers, were held in the names of nominees by JP Morgan Chase Bank. The Fund's pooled investment managed fund units are held under managed fund policies in the name of the Trustee and the policy documents are held by Legal & General Investment Management Limited and BNY Mellon Asset Management.

#### 3. Investment overview

The investment assets of the Fund as at 31 March 2010, including AVC investments, had a market value of £5,087.6m, an increase of £1,268.7m compared with their market value, including AVC investments, of £3,818.9m as at 31 March 2009. Investment income (i.e. dividends and interest) amounted to £62.9m for the year to 31 March 2010 compared with £69.7m for the year to 31 March 2009.

The bulk of the assets held by the active managers are quoted on the main worldwide stock exchanges and are marketable. The assets held with Legal & General are also marketable. A small proportion of the Fund's assets are less readily marketable, including the Fund's interest in Semperian PPP Investment Partners Holdings Limited and Davidson Kempner.

The income and maturity values of the holdings in UK government stocks are secure but capital values may fluctuate. The other assets have less secure income streams and capital values may also fluctuate.

#### 4. Analysis of investments

A detailed analysis of the investment assets of the Fund at 31 March 2010 is shown below.

	2010		2009	
	£m	%	£m	%
Fixed interest securities	606.0	11.9	564.3	14.8
Equities - UK	90.8	1.8	635.4	16.6
- Overseas	821.3	16.1	250.3	6.5
Index-linked securities	126.0	2.5	134.5	3.5
Pooled investment vehicles				
Fixed interest securities	808.4	15.9	752.8	19.7
Index-linked securities	188.5	3.7	45.0	1.2
Equities	1,988.1	39.1	991.9	26.0
Other	349.9	6.9	328.0	8.6
Derivatives	5.8	0.1	10.3	0.3
Cash deposits	51.4	1.0	58.8	1.5
Other investment balances	16.5	0.3	18.2	0.5
AVC scheme investments	34.9	0.7	29.4	0.8
	<u>5,087.6</u>	<u>100.0</u>	<u>3,818.9</u>	<u>100.0</u>

## TfL Pension Fund

### Investment Report (continued)

A geographical analysis of the Fund's worldwide equity holdings is given below.

	Total		UK	North America	Europe	Japan	Other
	%	£m	£m	£m	£m	£m	£m
Direct quoted	28.1	912.1	90.8	294.7	208.8	129.2	188.6
Pooled investment vehicles	71.9	2,335.4	984.6	798.4	259.9	40.5	252.0
Total	100.0	3,247.5	1,075.4	1,093.1	468.7	169.7	440.6

The 10 largest direct quoted equity holdings of the Fund as at 31 March 2010 are shown below.

	Market value	% of total quoted equity holdings	Country
	£m	%	
Nestle	17.7	1.9	Switzerland
Occidental Petrol	12.2	1.3	USA
Becton Dickinson	11.8	1.3	USA
Oracle	11.7	1.3	USA
Union Pacific	10.5	1.2	USA
Bayer	10.4	1.1	Germany
United Technologies	10.2	1.1	USA
Svenska Handelsbanken	9.5	1.0	Sweden
Sumitomo Mitsui Financial Group	8.4	0.9	Japan
Unilever	8.3	0.9	UK
	<u>110.7</u>	<u>12.0</u>	

The foregoing excludes exposure to individual stocks through the Fund's holdings of units in pooled investment vehicles.

The Fund's investment in the following unit trusts represents more than 5% of the units in issue of these trusts.

	No of units held by the Fund	% of units in issue	Market value of units £m
Midlands Growth Fund	14,055	25.4	0.1
Abbotstone Property Unit Trust	2,575	56.3	1.7

## 5. Investment performance

The Fund participates in an investment performance measurement scheme organised by BNY Mellon Asset Servicing which provides comparative information for assessing investment performance. BNY Mellon Asset Servicing calculate both the overall investment returns obtained on the Fund's assets and the returns obtained by the individual investment managers.

The table below shows the total investment returns (including both capital and income) obtained on the Fund's assets (including property but excluding AVCs) for the one, three and five years to 31 March 2010 and the corresponding composite benchmark established by the Trustee as the prime performance comparator. The benchmark quoted is a weighted average of indices relevant to the structure and is relevant throughout the time periods shown.

# TfL Pension Fund

## Investment Report (continued)

	One Year		Three Year Average		Five Year Average	
	Total Fund	Bench -mark	Total Fund	Bench -mark	Total Fund	Bench -mark
Annual Return %	31.9	29.5	3.5	3.8	7.6	7.8

The Fund assets returned 31.9% for the year ending 31 March 2010, 2.4% above its benchmark return of 29.5%.

Details of the performance of the individual portfolios in the year to 31 March 2010 compared with the previous year are shown below:

	Year to 31 March 2010		Year to 31 March 2009	
	Fund %	Benchmark %	Fund %	Benchmark %
Index-Tracking – Legal & General	49.7	N/A	-21.3	N/A
UK Equities	53.0	52.3	-29.1	-29.3
North American Equities	43.5	43.2	-13.9	-14.0
European Equities (ex. UK)	47.9	47.5	-30.6	-31.1
Japan Equities <sup>1</sup>	29.8	29.6	N/A	-10.8
Pacific Basin (ex. Japan) Equities <sup>1</sup>	70.2	69.1	N/A	-22.4
UK Fixed Interest	-0.1	-0.2	8.6	8.6
Index-linked Gilts	10.4	10.4	-2.9	-2.8
LDI – Legal & General	9.4	11.1	0.2*	N/A
UK Equities				
Alliance Bernstein	9.8#	10.9#	-39.4	-29.3
Baillie Gifford	5.7#	10.9#	-26.9	-29.3
Far East Equities				
Nomura	49.9	50.7	-18.4	-15.7
Bonds				
Goldman Sachs	23.5	13.8	-8.4	0.0
Legal & General - Network Rail Bonds	10.4<	6.6<	-	-
Currency overlay				
Bridgewater – Currency forward positions	-	-	-4.1*	-1.3
Bridgewater – Cash (equitised to US equities)	-	-	-9.9*	-10.0
Other assets				
Semperian <sup>2</sup>	-7.9	0.5	16.1	3.6
Bridgewater <sup>2</sup>	6.6	0.1	16.9*	0.3*
Davidson Kempner <sup>2</sup>	14.1#	0.1#	-	-

# One quarter's results (not annualised)

\* Two quarter's results (not annualised)

< Three quarter's results (not annualised)

1 L & G did not have an allocation to these funds for the full period, therefore performance in the previous year is not shown

2 Performance shown net of fees

The active managers (all the above except Legal & General) have been set targets to achieve, measured as out-performance of the relevant benchmarks over 3 year rolling periods, with the extent of out-performance depending on the portfolio.

# TfL Pension Fund

## Investment Report (continued)

### 6. AVCs

The distribution of the AVCs invested with the three providers as at the year end is set out below:

	Value of fund at 31 March 2010  £m	% of total	Reported returns (where declared) Year to 31 March 2010
<b>Equitable Life</b>			
With Profits	4.8	13.8	N/A
Unit-linked funds			
Managed	4.1	11.7	37.2%
UK Tracking	1.4	4.1	53.8%
Lifestyle	0.6	1.7	53.8%
Building Society funds	0.9	2.6	N/A
	<u>11.8</u>	<u>33.9</u>	
<b>Clerical Medical</b>			
With Profits	6.7	19.2	0.5%
Unit-linked funds	0.6	1.7	N/A
	<u>7.3</u>	<u>20.9</u>	
<b>Standard Life</b>			
Managed	7.5	21.5	37.7%
International	1.2	3.4	46.7%
Protection	3.1	8.9	-2.4%
Sterling	0.6	1.7	5.1%
FTSE Tracker	1.2	3.4	55.8%
Ethical	0.5	1.4	42.5%
With Profits	0.5	1.4	2.0%
Managed cash	0.8	2.3	N/A
Blackrock Aquila Gilts	0.4	1.2	N/A
	<u>15.8</u>	<u>45.2</u>	
	<u>34.9</u>	<u>100.0</u>	
Total AVC scheme investments			

### 7. Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

## TfL Pension Fund

### Investment Report (continued)

#### 8. Approval of the Report of the Directors of the Trustee

The Compliance Statement on page 52 forms part of this Report of the Directors of the Trustee.

This Report was approved by the Board of Directors of TfL Trustee Company Limited on 7 July 2010 and was signed on their behalf by:

M Antoniou

PJ Murphy

Directors  
TfL Trustee Company Limited

# Independent Auditors' Report to the Trustee of TfL Pension Fund

We have audited the Financial Statements of the TfL Pension Fund for the year ended 31 March 2010 which comprise the Fund Account, the Net Assets Statement and related notes. These Financial Statements have been prepared under the accounting policies set out therein.

This report is made solely to the Fund's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder.

Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in such an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Trustee and Auditors

As described in the Statement of Trustee's responsibilities on pages 6 and 7, the Fund's Trustee is responsible for obtaining an annual report, including audited Financial Statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements show a true and fair view and contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Trustee's report and other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the Trustee in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the Financial Statements.

## Opinion

In our opinion the financial statements:

- show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the Fund during the Fund year ended 31 March 2010 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 Scheme year); and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

Tom Brown  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
London  
7 July 2010

# TfL Pension Fund

## Fund Account

For the year ended 31 March 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
<b>Dealings with members</b>					
Contributions receivable	3	288,704		321,065	
Individual transfers in from other schemes		<u>23,484</u>		<u>17,991</u>	
		<u>312,188</u>		<u>339,056</u>	
Benefits payable	4	244,736		223,906	
Payments to and on account of leavers	5	1,484		2,539	
Administrative expenses	6	4,374		4,237	
Pension levies	7	<u>6,502</u>		<u>6,138</u>	
		<u>257,096</u>		<u>236,820</u>	
<b>Net additions from dealings with members</b>			55,092		102,236
<b>Returns on investments</b>					
Investment income	8	62,921		69,670	
Change in market value of investments	9	1,154,810		(1,021,453)	
				)	
Investment management expenses	10	<u>(3,967)</u>		<u>(3,032)</u>	
<b>Net returns on investments</b>			<u>1,213,764</u>		<u>(954,815)</u>
<b>Net increase or (decrease) in the fund during year</b>			<u>1,268,856</u>		<u>(852,579)</u>
<b>Net assets at beginning of year</b>			<u>3,828,992</u>		<u>4,681,571</u>
<b>Net assets at end of year</b>			<u>5,097,848</u>		<u>3,828,992</u>

## Net Assets Statement

As at 31 March 2010

	Note	2010 £'000	2009 £'000
<b>Investment assets</b>	9	5,100,081	3,843,927
<b>Investment liabilities</b>	9	(12,513)	(25,024)
<b>Total net investments</b>		<u>5,087,568</u>	<u>3,818,903</u>
<b>Fixed assets held for own use</b>	11	562	816
<b>Current assets</b>	12	39,112	26,082
<b>Current liabilities</b>	13	(29,394)	(16,809)
<b>Net assets at end of year</b>		<u>5,097,848</u>	<u>3,828,992</u>

The Notes on Pages 21 to 29 form part of these Accounts.

These Accounts were approved by the Board of Directors of TfL Trustee Company Limited on 7 July 2010 and were signed on their behalf by:

M Antoniou

PJ Murphy

Directors  
TfL Trustee Company Limited

# TfL Pension Fund

## Notes to the Accounts

### 1. Basis of preparation

The Accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

The Accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. The Accounts do not take account of the obligations to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the extracts from the Summary Funding Statements and certificates by the Actuary on pages 31 to 49 and these Accounts should be read in conjunction with those statements.

### 2. Accounting policies

#### (a) Inclusion of income and expenditure

(i) *Contributions*

Employers' contributions are accounted for in the period to which the corresponding pay relates.

Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and Recovery Plan under which they are paid.

(ii) *Transfers to and from other schemes*

Transfer payments in respect of members transferred to and from the Fund during the year are included in the Accounts in accordance with the transfer agreement.

(iii) *Benefits payable*

Benefits payable are accounted for on the basis of entitlement during the year in accordance with the Rules of the Fund. Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the Trustee of his or her decision as to what form of benefit they will take.

(iv) *Investment income*

Dividends from quoted securities are credited to income when the investments are declared ex-dividend. Other investment income is accounted for on an accruals basis. Dividends and interest are grossed up for the amount of any taxation recoverable. Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the unit price.

(v) *Investment management expenses*

Investment management expenses are accounted for on an accruals basis. Performance related investment management expenses are accounted for at the time they become due for payment under the terms of the appropriate Investment Management Agreement.

(vi) *Foreign currencies*

Balances denominated in foreign currencies are translated using the rate of exchange ruling at the Net Assets Statement date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Differences arising on investment balances translation are accounted for in the change in market value of investments during then year.

(vii) *Additional voluntary contributions (AVCs)*

AVCs are accounted for on an accruals basis, in the same way as other contributions, and the resulting investments are included in the net assets statement.

(viii) *Depreciation*

Expenditure on fixed assets held for own use has been capitalised to reflect the economic usefulness of the assets to the Fund. Depreciation of fixed assets held for own use is provided on a straight-line basis over their estimated useful lives as follows:

Computer equipment	-	5 years
Furniture	-	5 years

# TfL Pension Fund

## Notes to the Accounts (continued)

### (b) Valuation of investments

Investments are included at values which are determined as follows:

- (i) UK and foreign securities quoted on a recognised stock exchange are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the Net Assets Statement;
- (ii) fixed interest securities are stated at their clean prices (i.e. excluding accrued income). Accrued income is accounted for within investment income;
- (iii) pooled investment vehicles (managed funds and unit trusts) are stated at the bid price for funds with bid/offer spreads as provided by the investment managers;
- (iv) unquoted securities are included at fair value estimated by the Trustee based on the advice from the investment manager;
- (v) derivatives are stated at market value. All gains and losses arising on derivatives contracts are reported with the Change in Market Value of investments.

Exchange traded derivatives are stated at market values determined using market quoted prices. For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

Over the counter (OTC) derivatives are stated at market value using pricing models and relevant data as at the year-end date

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing the contract at the reporting date by entering into an equal and opposite contract at that date;

- (vi) short-term deposits are valued at cost at 31 March 2010 taking into account gains or losses on foreign currencies;
- (vii) AVC investments are shown at the values advised by the AVC providers.

### 3. Contributions receivable

	2010 £'000	2009 £'000
<b>Employers</b>		
Normal	186,370	137,313
Deficit funding	57,856	140,974
	<u>244,226</u>	<u>278,287</u>
<b>Members</b>		
Normal	41,212	39,578
Additional voluntary contributions	3,266	3,200
	<u>44,478</u>	<u>42,778</u>
	<u>288,704</u>	<u>321,065</u>

Members' contributions are 5% of their contributory pensionable salary and are accounted for when deducted from members' pay. Employers' contributions are a multiple of the members' contributions, subject to fixed cash additions or deductions. Employer contributions are agreed between the Trustee, on the advice of the Actuary, and the Principal Employer following the actuarial valuation.

All employers paid their respective contributions in accordance with the Schedules of Contributions.

# TfL Pension Fund

## Notes to the Accounts (continued)

### 4. Benefits payable

	2010 £'000	2009 £'000
Pensions	197,467	187,613
Commutations and lump sum retirement benefits	40,367	31,330
Lump sum death benefits	6,902	4,963
	<u>244,736</u>	<u>223,906</u>

### 5. Payments to and on account of leavers

	2010 £'000	2009 £'000
Individual transfers to other schemes	936	1,981
Refunds to members leaving service	314	339
Payments for members joining state scheme	234	219
	<u>1,484</u>	<u>2,539</u>

### 6. Administrative expenses

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
<b>Staff costs</b>				
Payroll	1,981		1,934	
Recruitment and training (incl. trustee)	16		11	
		1,997		1,945
<b>Establishment costs</b>				
Accommodation	181		174	
Computer costs	442		384	
Telecommunications	15		22	
Depreciation	294		265	
		932		845
<b>Professional fees</b>				
Legal fees	340		335	
Audit fees	90		102	
KPMG non-audit fees	28		11	
Actuarial fees	669		538	
Medical fees	32		55	
Other professional fees	42		52	
		1,201		1,093
<b>Communication</b>				
Distribution	96		98	
Printing	99		198	
		195		296
<b>Consumables</b>				
Stationery	10		13	
Microfilm	6		8	
General	33		37	
		49		58
		<u>4,374</u>		<u>4,237</u>

### 7. Pension levies

	2010 £'000	2009 £'000
Pension Protection Fund	6,298	5,936
Pension Regulator levies	204	202
	<u>6,502</u>	<u>6,138</u>

# TfL Pension Fund

## Notes to the Accounts (continued)

### 8. Investment income

	2010 £'000	2009 £'000
Income from fixed interest securities	32,771	38,984
Dividends from equities	20,220	40,899
Income from index-linked securities	2,378	2,911
Income from pooled investment vehicles	6,395	8,714
Income from derivatives	384	(25,793)
Interest on cash deposits	172	3,356
Income from securities lending	270	432
Other investment income	331	167
	<u>62,921</u>	<u>69,670</u>

### 9. Investments

#### a) Reconciliation of investments held at beginning and end of year

	Value at 1 April 2009 £'000	Purchases at cost & derivative payments £'000	Sale proceeds & derivative receipts £'000	Change in Market Value £'000	Value at 31 March 2010 £'000
Fixed interest securities	564,307	336,503	401,434	106,608	605,984
Equities	885,680	840,314	1,068,450	254,487	912,031
Index-linked securities	134,533	76,209	94,438	9,675	125,979
Pooled investment vehicles	2,117,669	1,769,628	1,360,163	807,773	3,334,907
Derivative contracts	10,348	61,993	37,630	(28,859)	5,852
AVC investments	29,370	3,651	3,255	5,126	34,892
	<u>3,741,907</u>	<u>3,088,298</u>	<u>2,965,370</u>	<u>1,154,810</u>	<u>5,019,645</u>
Cash deposits	58,793				51,401
Other investment assets	32,324				20,894
Other investment liabilities	(14,121)				(4,372)
<b>Total net investments</b>	<u>3,818,903</u>				<u>5,087,568</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transactions costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £1,043,000 (2009: £1,774,000). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investment within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

# TfL Pension Fund

## Notes to the Accounts (continued)

### b) Details of investments held at year end

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
<b>Fixed interest securities</b>				
UK public sector quoted	75,742		74,552	
UK corporate quoted	333,572		298,009	
Overseas public sector quoted	84,333		56,367	
Overseas corporate quoted	<u>112,337</u>		<u>135,379</u>	
		605,984		564,307
<b>Equities</b>				
UK quoted	90,778		635,406	
Overseas quoted	<u>821,253</u>		<u>250,274</u>	
		912,031		885,680
<b>Index-linked securities</b>				
UK public sector quoted	<u>125,979</u>		<u>134,533</u>	
		125,979		134,533
<b>Pooled investment vehicles</b>				
Managed funds				
Fixed interest - UK	796,796		743,231	
Fixed interest - Overseas	11,602		9,592	
Index-linked - UK	188,505		45,003	
Equities - UK	1,988,058		991,922	
Cash - UK	916		637	
Other - UK	171,422		187,091	
Other - Overseas	159,220		116,890	
Unit trusts				
Other - UK	106		13,755	
Other - Overseas	16,595		7,861	
Property - UK	<u>1,687</u>		<u>1,687</u>	
		3,334,907		2,117,669
<b>Derivative assets</b>				
Swaps - OTC	6,298		8,731	
Futures – exchange traded	244		1,343	
FX - OTC	<u>7,451</u>		<u>11,177</u>	
		13,993		21,251
<b>Cash deposits</b>				
Sterling deposits	26,963		53,654	
Foreign currency deposits	<u>24,438</u>		<u>5,139</u>	
		51,401		58,793
<b>Other investment asset balances</b>				
Amounts due from broker	-		488	
Outstanding trades	2,521		7,551	
Outstanding dividend entitlements and recoverable withholding tax	<u>18,373</u>		<u>24,285</u>	
		20,894		32,324
<b>AVC investments</b>		34,892		29,370
<b>Total investment assets</b>		<u>5,100,081</u>		<u>3,843,927</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
<b>Derivative liabilities</b>				
Swaps – OTC	(3,482)		(5,523)	
Futures – exchange traded	(533)		(445)	
FX – OTC	<u>(4,126)</u>		<u>(4,935)</u>	
		(8,141)		(10,903)
<b>Other investment liability balances</b>				
Amounts due to broker	(629)		(13,383)	
Outstanding trades	(2,418)		-	
Accrued expenses	<u>(1,325)</u>		<u>(738)</u>	
		(4,372)		(14,121)
<b>Total investment liabilities</b>		<u>(12,513)</u>		<u>(25,024)</u>
<b>Total net investments</b>		<u>5,087,568</u>		<u>3,818,903</u>

#### c) Pooled investment vehicles

The Fund's investment in the following managed funds represented more than 5% of the net assets at the 31 March 2010:

	£'000
Legal & General UK Equity Index	813,121
Legal & General LDI Portfolio implementation	964,068
Legal & General North America Equity Index	639,141
Legal & General Europe (ex UK) Equity Index	259,885

The investments in pooled investment vehicles are managed by companies registered in the UK with the exception of Bridgewater Associates and Davidson Kempner which are US registered.

#### d) Derivative assets

The Trustee has authorised the use of derivatives by some of their investment managers as part of their investment strategy for the pension scheme. The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

##### Interest rate and credit default swaps

Interest rate swaps to hedge the interest rate risk were undertaken as part of the Fund's investment strategy to enhance returns and facilitate efficient portfolio management. The Fund had derivative contracts outstanding at the year end relating to its fixed interest investment portfolio. These contracts are traded over the counter. The details are:

Nature	Country	Nominal amount	Currency	Duration	Asset value at year end £'000	Liability value at year end £'000
Interest rate swaps	Brazil	71,600,000	BRL	2012	224	-
	Canada	114,170,000	CAD	2012-2020	418	(21)
	Europe	35,180,000	EUR	2010-2040	1,279	-
	Korea	60,706,509,000	KRW	2011	155	(8)
	UK	271,410,000	GBP	2015-2040	2,857	(1,682)
	USA	131,490,000	USD	2017-2040	1,320	(265)
Credit default swaps	Europe	138,800,000	EUR	2015	-	(1,395)
	Ireland	3,500,000	USD	2014	43	-
	USA	80,350,000	USD	2014-2015	2	(111)
					<u>6,298</u>	<u>(3,482)</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### Futures

The Fund had exchange-traded UK and overseas bond index futures outstanding at the year end as follows.

Nature	Country	Nominal amount	Duration	Asset value at year end	Liability value at year end
				£'000	£'000
UK Long Gilt	Bought	131	June 2010	97	-
German Bonds	Bought	58	June 2010	18	-
German Bonds	Bought	212	June 2010	129	-
US Treasury Bonds	Bought	294	June 2010	-	(115)
US Treasury Bonds	Bought	712	June 2010	-	(379)
US Treasury Bonds	Bought	158	June 2010	-	(27)
US Treasury Bonds	Bought	108	June 2010	-	(12)
				<u>244</u>	<u>(533)</u>

#### Forward foreign exchange

In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investment to the targeted level.

The scheme had open FX contracts at the year end as follows:

Contract	Settlement date	Currency bought	Currency sold	Asset value at year end	Liability value at year end
				£'000	£'000
Forward OTC	1 month	Various	Various	1,184	(1,653)
Forward OTC	3 months	Various	Various	6,267	(2,473)
				<u>7,451</u>	<u>(4,126)</u>

#### e) AVC investments

During the year Standard Life, Clerical Medical and Equitable Life had delegated responsibility for the investment and administration of the Fund's Additional Voluntary Contribution (AVC) plan. Members' contributions are deducted from their pay by the employers and are paid directly to the providers, where they are invested on behalf of the individuals concerned and in accordance with their instructions to provide additional pension benefits, within the Scheme limits. Each member contributing to the AVC plan receives an annual benefit statement of their account. The aggregate amounts of AVC investments at the year end are as follows:

	2010 £'000	2009 £'000
Standard Life	15,846	11,333
Equitable Life	11,784	10,520
Clerical Medical	7,262	7,517
	<u>34,892</u>	<u>29,370</u>

#### f) Securities lending

The Fund lends certain fixed interest and equity securities under a Trustee approved securities lending programme. At the 31 March 2010 £71.5m of investments were loaned under a securities lending programme against collateral of £76.6m comprising £32.1m overseas equities, £21.1m cash, £16.1m overseas bonds, and UK Gilts of £7.3m (2009: £151.2m loaned against £165.9m collateral).

# TfL Pension Fund

## Notes to the Accounts (continued)

### g) Self investment

There were no employer-related investments at any time during the year ended 31 March 2010.

### 10. Investment management expenses

	2010 £'000	2009 £'000
Administration, management and custody	3,441	2,644
Performance measurement services	23	24
Other advisory services	503	364
	<u>3,967</u>	<u>3,032</u>

### 11. Fixed assets held for own use

	Computer equipment £'000	Furniture £'000	Total £'000
<i>Cost at 1 April 2009</i>	1,665	72	1,737
Additions	40	-	40
Withdrawals	(29)	-	(29)
<i>Cost at 31 March 2010</i>	<u>1,676</u>	<u>72</u>	<u>1,748</u>
<i>Accumulated depreciation at 1 April 2009</i>	849	72	921
Depreciation charge for the year	294	-	294
Withdrawals	(29)	-	(29)
<i>Accumulated depreciation at 31 March 2010</i>	<u>1,114</u>	<u>72</u>	<u>1,186</u>
<i>Net book value at 1 April 2009</i>	<u>816</u>	<u>-</u>	<u>816</u>
<i>Net book value at 31 March 2010</i>	<u>562</u>	<u>-</u>	<u>562</u>

### 12. Current assets

	2010 £'000	2009 £'000
<i>Debtors</i>		
Contributions due from employer in respect of:		
Employer	12,641	7,036
Prepayments and accrued income	13,261	13,134
	<u>25,902</u>	<u>20,170</u>
Cash balances	13,210	5,912
	<u>39,112</u>	<u>26,082</u>

### 13. Current liabilities

	2010 £'000	2009 £'000
<i>Creditors</i>		
Unpaid benefits	3,485	3,081
Accrued expenses and deferred income	24,939	12,361
	<u>28,424</u>	<u>15,442</u>
Bank overdrafts	970	1,367
	<u>29,394</u>	<u>16,809</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

Bank overdrafts represent cheques drawn but not presented for payment by 31 March 2010. Interest is not payable on these sums.

#### 14. Related parties

The Fund has received contributions in respect of Directors of the Trustee who are also contributing members of the Fund. The Fund has paid benefits to Directors of the Trustee who are also beneficiaries of the Fund.

Transport for London pays administration and investment expenses on behalf of the Fund and subsequently recharges these to the Fund. At 31 March 2010, £553,000 (2009: £443,000) has been included in creditors in respect of administration expenses and fixed asset expenditure rechargeable to the Fund.

All of the above transactions are in accordance with the Trust Deed and Rules of the Fund.

## TfL Pension Fund

### Statement of Trustee's Responsibilities in respect of Contributions

The Fund's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised the Schedules of Contributions showing the rates of contributions payable towards the fund by or on behalf of the employer and the active members of the fund and the dates on or before which such contributions are to be paid. The Fund's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the fund in accordance with the schedules.

### Trustee's Summary of Contributions payable under the Schedules in respect of the fund year ended 31 March 2010

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Fund's Trustee. It sets out the employer and member contributions payable to the Fund under the Schedules of Contributions certified by the Scheme Actuary on the 23 July 2007, 31 July 2007, 13 August 2007, 12 September 2007, 22 January 2008 and 19 June 2008 in respect of the scheme year ended 31 March 2010. The Fund auditor reports on contributions payable under the Schedules in the Auditors' Statement about Contributions.

#### Contributions payable under the Schedules in respect of the Fund year

	£'000
<b>Employers</b>	
Normal contributions	186,370
Deficit funding	57,856
<b>Members</b>	
Normal contributions	41,212
<b>Contributions payable under the Schedules (as reported on by the Fund auditors)</b>	<u>285,438</u>

#### Reconciliation of contributions payable under the Schedules of Contributions reported in the Accounts in respect of the Fund year

	£'000
Contributions payable under the Schedules (as above)	285,438
Contributions payable in addition to those due under the Schedules (and not reported on by the Fund auditor)	
Member additional voluntary contributions	3,266
<b>Total contributions reported in the accounts</b>	<u>288,704</u>

This Report was approved by the Board of Directors of TfL Trustee Company Limited on 7 July 2010 and was signed on their behalf by:

M Antoniou

PJ Murphy

Directors  
TfL Trustee Company Limited

## TfL Pension Fund

### Summary Funding Statements and Actuary's Certificates

Pages 32 to 40 contain extracts from the 2010 Summary Funding Statements. There is a separate statement for each section of the Fund.

Pages 41 to 49 contain a formal certificate for each section provided by the Scheme Actuary to the effect that, in his opinion:

- when the certificates were given, the contributions shown in the section's Schedule of Contributions were expected to be sufficient to meet the "statutory funding objective" by the end of the period covered by the Schedule;
- the Schedule is consistent with the section's Statement of Funding Principles.

The "statutory funding objective" is that the value of the section's assets is at least equal to the value of its past service liabilities assessed as described in the section's Statement of Funding Principles.

## Cadbury Limited Section

### Extract from the 2010 Summary Funding Statement

#### 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	£0.153 million
Amount needed to provide benefits earned to 31 March 2009	£0.163 million
Shortfall	£0.010 million
Funding level	94%

As a result Cadbury Limited agreed to pay a one-off contribution of £0.021m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 25.1% of pensionable pay 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 £0.169 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## Capgemini UK plc Section

### Extract from the 2010 Summary Funding Statement

#### 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	£0.392 million
Amount needed to provide benefits earned to 31 March 2009	£0.459 million
Shortfall	£0.067 million
Funding level	85%

As a result Capgemini UK plc ("Capgemini") agreed to pay a one-off contribution of £0.069m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 23.55% of pensionable pay 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 £0.540 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## Composite Section

### Extract from the 2010 Summary Funding Statement

#### 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	£0.915 million
Amount needed to provide benefits earned to 31 March 2009	£1.169 million
Shortfall	£0.254 million
Funding level	78%

As a result Tribal Technology Limited agreed to pay a one-off contribution of £0.113m by 1 April 2010 and British Transport Police Authority the sum of £0.031 million each year (payable monthly at the rate of £2,583 per month) from 1 April 2010 to 31 March 2016 with the aim of eliminating the ongoing deficit. These amounts take 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 the 1 April 2010 are 22.05% of pensionable pay 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 £1.576 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## Cubic Transportation Systems Limited Section

### Extract from the 2010 Summary Funding Statement

#### 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	£3.280 million
Amount needed to provide benefits earned to 31 March 2009	£4.175 million
Shortfall	£0.895 million
Funding level	79%

As a result Cubic Transportation Systems Limited ("CTS") agreed to pay a one-off contribution of £0.918m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 22.95% of pensionable pay 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 £5.615 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## EDF Energy Powerlink Limited Section

### Extract from the 2010 Summary Funding Statement

#### 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	£22.40 million
Amount needed to provide benefits earned to 31 March 2009	£32.57 million
Shortfall	£10.17 million
Funding level	69%

As a result EDF Energy Powerlink Limited ("EDF") agreed to pay a one-off contribution of £9.74m by 1 April 2010 and 2.55% of pensionable pay for all members from 1 April 2010 to 31 March 2020 with the aim of eliminating the ongoing deficit. These amounts take 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 the 1 April 2010 are 23.45% of pensionable pay 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 £45.99 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## TfL Pension Fund

### HP Enterprise Services UK Limited Section

#### Extract from the 2010 Summary Funding Statement

This section was formerly known as the Electronic Data Systems Limited 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	£1.795 million
Amount needed to provide benefits earned to 31 March 2009	£2.557 million
Shortfall	£0.762 million
Funding level	70%

As a result Electronic Data Systems Limited (now HP Enterprise Services UK Limited) agreed to pay a one-off contribution of £0.798m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 21.4% of pensionable pay 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 £3.963 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.

##### **Next funding valuation**

The next formal valuation is as at 31 March 2012.

## Public Sector Section

### Extract from the 2010 Summary Funding Statement

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

As a result TfL agreed to pay deficit contributions of 12.95% of pensionable pay 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 £107.4 million increased in line with the increase in 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 the 1 April 2010 are 18.05% of pensionable pay 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 £4,963 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

#### 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 £1,331 million. This total shortfall amount was used as the basis for determining the deficit payments described above.

## Thales Transport and Security Limited Section

### Extract from the 2010 Summary Funding Statement

#### 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	£0.274 million
Amount needed to provide benefits earned to 31 March 2009	£0.310 million
Shortfall	£0.036 million
Funding level	88%

As a result Thales Transport and Security Limited ("Thales") agreed to pay a one-off contribution of £0.035m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 19.25% of pensionable pay 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 £0.498 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## Tube Lines Limited Section

### Extract from the 2010 Summary Funding Statement

#### 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	£113.5 million
Amount needed to provide benefits earned to 31 March 2009	£189.1 million
Shortfall	£75.6 million
Funding level	60%

As a result Tube Lines Limited ("Tube Lines") agreed to pay £0.34425m in the period 1 April 2010 to 30 June 2010, £0.923m per month in the period 1 July 2010 to 31 December 2017, increased each 1 April from 1 April 2011 by the percentage increase (if any) in the RPI over the year to the previous September with the aim of eliminating the ongoing deficit by 31 December 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 the 1 July 2010 are 20.95% of pensionable pay 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 £313.5 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Cadbury Limited Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Capgemini UK plc Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Composite Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Cubic Transportation Systems Limited Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – EDF Energy Powerlink Limited Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Electronic Data Systems Limited Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

This section is now known as the HP Enterprise Services UK Limited Section

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Public Sector Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 19 May 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 19 May 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Towers Watson Limited**

**Date 25 May 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Thales Transport and Security Limited Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

**Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Tube Lines Limited Section**

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 19 May 2010.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 19 May 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Towers Watson Limited**

**Date 25 May 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

# **Independent Auditors' Statement about Contributions, made under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of TfL Pension Fund**

We have examined the summary of contributions payable under the Schedules of Contributions to the TfL Pension Fund in respect of the Fund year ended 31 March 2010 which is set out on page 30.

This statement is made solely to the Fund's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to it in an auditors' statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee, for our work, for this statement, or for the opinions we have formed.

## **Respective responsibilities of the Trustee and Auditors**

As described on page 7, the Fund's Trustee is responsible, under the Pensions Act 2004, for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions which sets out the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employers and the active members of the Fund. The Trustee has a general responsibility for procuring that contributions are made to the Fund in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid to the Fund and to report our opinion to you.

We read the Trustee's report and other information in the Annual Report and consider whether it is consistent with the Summary of Contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the Summary of Contributions.

## **Basis of statement about contributions**

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the Summary of Contributions have in all material respects been paid at least in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work.

## **Statement about contributions payable under the Schedules**

In our opinion contributions for the Fund year ended 31 March 2010 as reported in the Summary of Contributions and payable under the Schedule have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the actuary on the 23 July 2007, 31 July 2007, 13 August 2007, 12 September 2007, 22 January 2008 and 19 June 2008.

Tom Brown  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
London  
7 July 2010

## Participating Employers' Unit Holdings and Asset Values Statement

The Fund is structured into a series of financially segregated sections, comprising a composite section for the ongoing public sector employees (including responsibility for all pensioners and deferred pensioners) and individual sections for each of the private sector employees. The Fund's main investment portfolio is unitised for accounting purposes. The participating employers' unit entitlements and unit values as determined under Rule 2C of the Fund are shown below.

Participating Employer	Equity Fund			
	As at 31 March 2010		As at 31 March 2009	
	Units	£'000s	Units	£'000s
Public Sector Section	2,105,041,742	2,814,410.1	1,816,393,466	1,626,640.8
LUL BCV Section	-	-	128,750,051	115,300.0
LUL SSL Section	-	-	118,135,010	105,793.8
Tube Lines Limited	83,596,036	111,766.7	88,680,641	79,416.5
EDF Energy Powerlink Limited	19,811,530	26,487.7	16,241,095	14,544.4
Cadbury Limited	133,289	178.2	126,509	113.3
Capgemini UK plc	222,496	297.5	212,299	190.1
Cubic Transportation Systems Ltd	2,176,656	2,910.2	1,839,330	1,647.2
Composite section	370,006	494.7	631,716	565.7
HP Enterprise Services UK Ltd	1,510,439	2,019.4	1,656,305	1,483.3
Thales Transport and Security Ltd	200,014	267.4	239,827	214.8
	<u>2,213,062,208</u>	<u>2,958,831.9</u>	<u>2,172,906,249</u>	<u>1,945,909.9</u>

The Equity Fund unit price at the year-end was £1.336985422 (2009 £0.895533313)

Participating Employer	Bond Fund			
	As at 31 March 2010		As at 31 March 2009	
	Units	£'000s	Units	£'000s
Public Sector Section	534,072,482	902,969.8	488,538,272	679,135.0
LUL BCV Section	-	-	35,546,339	49,414.3
LUL SSL Section	-	-	32,615,655	45,340.2
Tube Lines Limited	28,331,043	47,900.0	24,483,658	34,035.6
EDF Energy Powerlink Limited	8,435,802	14,262.6	5,633,707	7,831.6
Cadbury Limited	35,134	59.4	27,166	37.8
Capgemini UK plc	175,944	297.5	136,764	190.1
Cubic Transportation Systems Ltd	1,721,248	2,910.2	1,184,906	1,647.2
Composite section	157,549	266.4	219,129	304.6
HP Enterprise Services UK Ltd	398,140	673.1	355,667	494.4
Thales Transport and Security Ltd	67,786	114.6	66,213	92.0
	<u>573,395,128</u>	<u>969,453.6</u>	<u>588,807,476</u>	<u>818,522.8</u>

The Bond Fund unit price at the year-end was £1.690725160 (2009 £1.390136628)

	31 March 2010 £'000s	31 March 2009 £'000s
Equity Fund	2,958,832	1,945,910
Bond Fund	969,454	818,523
Alternative assets (allocated to Public Sector)	1,120,782	1,020,973
Other (non unitised assets allocated to Public Sector)	48,780	43,586
<b>Total Net Assets at 31 March</b>	<u>5,097,848</u>	<u>3,828,992</u>

## Compliance Statement

### 1. Scheme Advisers

There are written agreements in place between the Trustee and each of the Scheme advisers listed on Page 2 of this report and also with the Principal Employer.

### 2. Transfers

All transfer values paid to or received from other pension schemes were calculated using formulae agreed by the Scheme Actuary and in accordance with statutory regulations. No transfers were made at less than their cash equivalent.

### 3. Changes to the Fund's advisers

There were no changes to the Fund's advisers during the year.

### 4. Pension Tracing Service

To help members of pension schemes trace past pension rights, the Department for Work and Pensions (DWP) has set up the Pension Tracing Service. The Fund is registered with the Pension Tracing Service and the registration number is 101653517.

The Pension Tracing Service can be contacted at:

The Pension Service  
Tyneview Park  
Whitely Road  
Newcastle upon Tyne  
NE98 1BA  
Telephone 0845 6002 537

### 5. Complaints Procedure

In the event of a complaint from a member or beneficiary of the Scheme, every effort will be made to fully investigate and resolve it on an informal basis. In the event that a complaint cannot be satisfactorily resolved, the Fund has an Internal Disputes Resolution Procedure, a copy of which is available from the Secretary to the Trustee.

Should any complaint still remain unresolved after using this procedure, it may be referred to the Pensions Advisory Service and the Pensions Ombudsman as follows:

The Pensions Advisory Service (TPAS)

The Service was established to assist members of schemes in clarifying their expectations and rights with present or past Schemes. TPAS can be contacted at:

The Pensions Advisory Service  
11 Belgrave Road  
London SW1V 1RB  
Telephone 0845 6012 923 (Calls charged at local rate)

Pensions Ombudsman

The Pensions Ombudsman was appointed to resolve issues and disputes that may arise between schemes and their members. The Ombudsman has powers similar to those of a County Court. The Ombudsman can be contacted at the same address as TPAS and has a separate telephone number:

Telephone 020 7630 2200

Scheme members should initially seek assistance through TPAS who, if unable to satisfactorily clarify matters, will refer appropriate cases to the Ombudsman.

## For further help or information

Please contact the Fund Office if you have any questions about this report.  
Contact details are shown below.

TfL Pension Fund  
4th floor  
Wing over Station  
55 Broadway  
London SW1H 0BD

**Telephone:** 020 7918 3733  
**Email:** [helpdesk@tflpensionfund.co.uk](mailto:helpdesk@tflpensionfund.co.uk)  
**Website:** [www.tflpensionfund.co.uk](http://www.tflpensionfund.co.uk)