

TfL Pension Fund

Report and Accounts

for the year to 31 March 2018



Notice for the visually impaired

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TfL Pension Fund

Report and Accounts for the year to 31 March 2018

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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.

Pension Schemes Registry scheme reference number: 10165351

TfL Pension Fund

Organisation and Advisers as at 31 March 2018

Trustee

TfL Trustee Company Limited

Board of Directors of TfL Trustee Company Limited

(Nominating bodies are shown in brackets)

Ms M Antoniou (Chair)	External Appointment (TfL)
Ms T Ashton	General Manager, Docklands Light Railway, Transport for London (TfL)
Mr ME Binnington	Head of Corporate Finance, Structured Finance, Transport for London (TfL)
Mr LP Brown	Service Performance Manager, Transport for London (Unite the Union (T&GWU))
Ms J Collis	Director of Health, Safety and Environment, Transport for London (TfL)
Mr G Dean	Train Operator, London Underground Limited (ASLEF)
Mr SW Ellaby	HSE Manager, HSE Rail and Corporate, Transport for London (TSSA)
Mr S Hedley	Senior Assistant General Secretary, RMT (RMT)
Mr M Hurwitz	Director of Transport Innovation, Transport for London (TfL)
Ms R Kerry	Head of Human Resources, Transport for London (TfL)
Mr P Kilius-Smith	Pensioner (PCC)
Ms L Matson	Director of Transport Strategy, Transport for London (TfL)
Mr CA Miller	Pensioner (PCC)
Mr S Mobbs	People Management Advice Specialist, Transport for London (PCC)
Mr PJ Murphy	Train Instructor, Northfields, London Underground Limited (PCC)
Mr N Pickup	Head of Commercial Property, Transport for London (TfL)
Mr JB Timbrell	Project Engineer, London Underground Limited (Unite the Union (Amicus))
Mr S White	4LM Implementation Director, London Underground Limited (TfL)

TfL Pension Fund

Organisation and Advisers as at 31 March 2018 (continued)

Principal Employer

Transport for London

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
Rail for London (Infrastructure) Limited
Transport Trading Limited
Tube Lines Limited
Victoria Coach Station Limited
British Transport Police Authority
Cubic Transportation Systems Limited
Thales Transport and Security Limited

Secretary to the Trustee

Mr S Field

Auditor

KPMG LLP

Scheme Actuary

Mr G Oxtoby, Willis Towers Watson

Investment Managers

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

Legal Advisers

Sacker & Partners LLP

Communications Advisers

Hughes Communications

Independent Medical Adviser

Dr S Sheard

Scheme Employer Covenant Reviewer

Penfida Limited

Bankers

The Royal Bank of Scotland plc

Investment Adviser

Willis Towers Watson

Custodian & Investment Performance Monitoring

JP Morgan Investor Services

AVC Providers

Clerical Medical

Equitable Life

Standard Life

Transition Investment Manager

Citigroup Global Markets Limited

Date of Appointment

2 September 2014

3 July 2017

29 June 2015

1 September 2014

1 August 2017

18 February 2013

2 November 2005

14 October 2010

11 September 2013

15 December 2009

24 July 2013

9 December 2015

15 June 2005

15 March 2013

24 May 2013

5 January 2010

15 January 2018

26 April 2018

24 October 2014

1 September 2004

1 August 2012

24 June 2014

4 June 2010

24 June 2013

8 December 2011

18 February 2008

10 December 2009

26 April 2018

7 July 2015

5 November 2012

TfL Pension Fund

Chair's Introduction

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

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

With a membership of over 86,000, the day to day administration of the Fund is a significant undertaking. Over 53,000 tasks were completed by the Fund Office during the year. Alongside introducing a new administrative system, they still managed to achieve service level agreement targets of 96.1% for the year.

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

The focus of both the Alternatives and Liability Hedging Committee and the Investment Committee has been in carrying through the implementation of the Fund's investment strategy in conjunction with our investment advisers, Willis Towers Watson. This has been primarily focused on developing the alternative asset portfolio mainly through funding from the equity portfolio and with no significant changes to the allocation to bonds. The work to identify suitable new investment opportunities has taken place against a background of continued monitoring of the existing managers together with the impact of the relative changes in asset values.

There have been no new terminations of managers this year, other than the two highlighted in last year's accounts as having taken place after year end. However as well as new portfolios or an increase in existing portfolios, five new manager appointments were made during the year or shortly afterwards, with another appointment expected to be finalised in due course.

This year's investment performance was 4.1%, above the benchmark return of 3.6% by 0.5%, while over the longer period of three years the return was 7.3% per year, below the benchmark by 1.1%. Over five years returns were 8.1% per year, 0.7% behind the benchmark. More information is contained in the Investment Report starting on page 13.

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

The Fund has updated its Statement of Investment Principles to capture its activities from the consideration of environmental, social and governance factors as part of the investment process including those stewardship activities arising from being a signatory of the UN Principles of Responsible Investment and publicise these on the Fund website and in member communications.

Mention is also deserved of the work of the other Committees (Operations, Audit, Appeals and Actuarial) and the Trustee Board itself in diligently carrying out their respective responsibilities in supporting good governance in all the Fund's activities.

During the year we welcomed Sean Mobbs, Michael Hurwitz, Lilli Matson and Nigel Pickup to the Trustee Board and at year-end the Trustee Board was at full strength. The Trustee Directors continued to attend regular training sessions throughout the year to ensure that they remain up to date with legislative changes as well as best practices, and that the Trustee complies with the requirements regarding trust knowledge and understanding.

Finally, on your behalf, I would like to record my thanks to all involved with the continued operations and development of the Fund: the Trustee Directors, Scheme Actuary, Investment and Legal Advisers, Investment Managers, Custodian, Auditors and not least the Fund Office and Fund Secretary for their support.

Maria Antoniou
Chair
6 July 2018

TfL Pension Fund

Trustee's Report

The Directors of TfL Trustee Company Limited, the Trustee of TfL Pension Fund, have the pleasure of submitting their Annual Report on the operations of the Fund, together with the Accounts of the Fund for the year ended 31 March 2018.

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 set out on page 2. Full details of how Directors are nominated are also shown on page 8.

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 2018:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Ms E Cernoia	7 December 2017	Mr M Hurwitz	8 December 2017	TfL
Ms T Coff	7 December 2017	Ms L Matson	8 December 2017	TfL
Ms N Cox	7 December 2017	Mr S Mobbs	8 December 2017	PCC
Ms C Davies	7 December 2017	Mr N Pickup	8 December 2017	TfL

The table below shows the number of scheduled Trustee Board and Committee meetings attended by each Director listed below, in the year to 31 March 2018, 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	9	9	Mr LP Brown	17	16
Ms T Ashton	4	4	Mr G Dean	15	15
Mr ME Binnington	19	17	Mr SW Ellaby	11	9
Ms J Collis	13	10	Mr S Hedley	8	6
Mr M Hurwitz	4	4	Mr P Kilius-Smith	11	11
Ms R Kerry	16	14	Mr CA Miller	9	8
Ms L Matson	4	4	Mr S Mobbs	3	3
Mr N Pickup	6	6	Mr PJ Murphy	24	24
Mr S White	12	9	Mr JB Timbrell	19	19

The average attendance for the Directors listed above at scheduled Trustee Board and Committee meetings was 92% TfL nominated and 93% non-TfL nominated 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 six 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.

Committee	TfL Nominated	Non-TfL Nominated
Investment	Mr ME Binnington Ms L Matson Mr N Pickup Mr S White	Mr LP Brown Mr P Kilius-Smith Mr PJ Murphy Mr JB Timbrell
Alternatives and Liability Hedging	Mr ME Binnington Mr N Pickup	Mr PJ Murphy Mr JB Timbrell
Operations	Ms T Ashton Ms J Collis Ms L Matson Ms R Kerry	Mr LP Brown Mr G Dean Mr S Mobbs Mr PJ Murphy
Audit	Ms J Collis Mr M Hurwitz Mr S White	Mr LP Brown Mr G Dean Mr S Hedley
Appeals	Ms T Ashton Mr M Hurwitz Ms R Kerry	Mr G Dean Mr SW Ellaby Mr P Kilius-Smith
Actuarial Valuation	Ms M Antoniou Ms R Kerry	Mr SW Ellaby Mr CA Miller

3. Committee Remits

Investment Committee

Covers investment matters concerning equities and bonds, including strategy and the appointment and monitoring of Investment Managers, Investment Adviser and the Custodian.

Alternatives and Liability Hedging Committee

Covers investment matters concerning alternative assets and liability hedging, including strategy, the appointment and monitoring of Investment Managers and monitoring the overall benchmark for the Fund's portfolio.

Operations Committee

Monitoring the Service Provider's (Transport for London) performance under the Administration Agreement and Fund Rules; monitoring quarterly cash flow, income/expenditure and capital expenditure budgets; instructing the Fund Secretary to prepare the brief to professional advisers to the Fund and to monitor their performance and 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; 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.

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.

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.

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 under the Finance Act 2004.

Changes to the Trust Deed and Rules of the Fund

There have been no changes to the Fund Rules.

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 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.

(b) Statement of Trustee's responsibilities for the accounts

The audited accounts, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, 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 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.

The Trustee has supervised the preparation of the accounts and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up Fund, or have no realistic alternative but to do so; and
- 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 accounts it accompanies.

TfL Pension Fund

Trustee's Report (continued)

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

(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: - Transport and General Workers' 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. The Trustee has taken steps to follow the Pensions Regulator's guidance as it has developed.

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.

TfL Pension Fund

Trustee's Report (continued)

Governance Plan

Following the Risk Review, the Trustee has established a rolling 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, the taking of advice from its professional advisers and by having good communication and exchange of information. As part of both the 2012 and 2015 actuarial valuations, the Trustee commissioned an independent review of the employer covenant of Transport for London and of the private sector section Participating Employers by Penfida. This was updated in March 2017 following the publication of the TfL Business Plan and a new review has been commissioned to coincide with the 2018 actuarial valuation.

Quarterly Investment Updates

The Trustee continually monitors the financial strength of the Fund by receiving quarterly updates from the Fund Actuary and Investment Adviser and has in place a Financial Management Plan which is reviewed quarterly.

The Trustee monitors the performance of the Investment Managers each quarter.

5. Financial review

The Accounts of the Fund for the year to 31 March 2018, as set out on pages 22 to 35, have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995.

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 £10,337.8m at 31 March 2018. The increase of £470m, compared with the value at 31 March 2017 of £9,867.8m, was made up as follows:

	Movement in the year	
	2018	2017
	£m	£m
Net returns on investments	394.8	1,653.9
Net additions from dealings with members	75.2	2.5
	<u>470.0</u>	<u>1,656.4</u>

Net returns on investments comprised changes in the market value of investments of £286.2m (2017: £1,549.9m) and investment income of £127.3m (2017: £119.9m) which were partly offset by investment management expenses of £18.7m (2017: £15.9m). The increase in market value of investments was made up of realised investment gains of £583.3m (2017: losses of £63.3m) and unrealised investment losses of £297.1m (2017: gains of £1,613.2m).

TfL Pension Fund

Trustee's Report (continued)

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 increase from last year in the amount of net additions from dealings with members of £72.7m was mainly due to a decrease in benefits payable of £10.8m, an increase in transfers in from other schemes of £14.3m, an increase in pension levies of £1.1m offset by an increase of contributions receivable of £50.6m. Under the Rules of the Fund the administrative costs of the Fund are borne by the Fund itself. Payments to and on account of leavers increased by £1.7m with administration expenses and other payments slightly higher than the previous year.

Further details of the financial movements of the Fund can be found in the audited accounts on pages 22 to 35.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 42. Unitisation is subject to a separate audit, following the audit of the main report and accounts.

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 2015 of each of the two sections that were still in existence on 31 March 2015 and completed on 27 May 2016. 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.

For the Public Sector Section the funding shortfall of £396 million is being met through contributions from 1 April 2016 until 31 March 2022 equal to 5.45% of the total of the relevant pay definition for all Members of the section and a lump sum on or before 31 March 2018 of £37.8million increased in line with the increase in the RPI between September 2008 and September 2017.

For the Composite Sector Section there is a surplus of assets over liabilities of £2.7million.

As required by legislation and the Fund's governing documents, for the Public Sector section which 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 show 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 deficit.

The next actuarial valuation is as at 31 March 2018 and the statutory deadline for completion is 30 June 2019.

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. An annual actuarial report for the Public Sector section was produced as at 31 March 2017.

Following completion of the formal valuation, a Summary Funding Statement will be sent to each member of the Fund which summarises the valuation results for their section. Further Summary Funding Statements will be sent annually including, where applicable, information from the actuarial reports.

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.

Correspondence with the Pension Regulator has continued throughout the year following the completion of the 2015 valuation and in anticipation of the 2018 valuation.

TfL Pension Fund

Trustee's Report (continued)

7. Changes in membership during the year

The table below summarises the movement in membership during the year to 31 March 2018. In addition, the Fund has 226 (2017: 201) pension credit members comprising 148 deferred pensioners (2017: 136) and 78 pensioners (2017: 65).

	2017/ 2018	2017/ 2018	2016/ 2017	2016/ 2017	Change
Contributing members as at 1 April 2017	26,623		25,636		
Joiners	2,167		3,034		
	<u>28,790</u>		<u>28,670</u>		
Contributing members retiring	(730)		(1,015)		
Leavers taking a refund of contributions	(353)		(283)		
Leavers becoming deferred pensioners	(1,075)		(723)		
Leavers transferring to other schemes	(-)		(3)		
Leavers with less than two years service – member option decision pending	55		5		
Leavers taking a trivial commutation lump sum	(6)		(5)		
Deaths in service	(16)		(23)		
Contributing members as at 31 March 2018		26,665		26,623	+42
Deferred pensioners as at 1 April 2017	16,618		16,732		
Leavers becoming deferred pensioners	1,075		723		
	<u>17,693</u>		<u>17,455</u>		
Deferred pensions coming into payment	(615)		(681)		
Deferred pensioners transferring to other schemes	(92)		(59)		
Deferred pensioners taking a trivial commutation lump sum	(50)		(65)		
Deferred pensioner deaths	(26)		(32)		
Deferred pensioners as at 31 March 2018		16,910		16,618	+292
Pensioners as at 1 April 2017	32,183		31,647		
Contributing members retiring	730		1,015		
Pensions coming into payment	615		681		
	<u>33,528</u>		<u>33,343</u>		
Pensioner deaths	(1,201)		(1,145)		
Pensioners taking a trivial commutation lump sum / 100% Pension Sharing order	(2)		(15)		
Pensioners as at 31 March 2018		32,325		32,183	+142
Dependants as at 1 April 2017	9,876		9,962		
Dependants becoming entitled to pensions	536		621		
	<u>10,412</u>		<u>10,583</u>		
Dependant deaths	(633)		(611)		
Dependants taking a trivial commutation lump sum	(69)		(96)		
Dependants as at 31 March 2018		9,710		9,876	-166
Eligible children as at 1 April 2017	583		592		
Children becoming entitled to pensions	85		45		
	<u>668</u>		<u>637</u>		
Children ceasing to be eligible	(26)		(51)		
Child deaths	(5)		(3)		
Eligible children as at 31 March 2018		637		583	+54
Total membership as at 31 March 2018		<u>86,247</u>		<u>85,883</u>	<u>364</u>

TfL Pension Fund

Trustee's Report (continued)

Details of contributing members by section as at 31 March 2018 were as follows:

	2017/ 2018	2017/ 2018	2016/ 2017	2016/ 2017	Change
	%		%		
Transport for London	26,631	99.88	26,587	99.86	+44
Composite section	34	0.12	36	0.14	-2
	<u>26,665</u>	<u>100.00</u>	<u>26,623</u>	<u>100.00</u>	<u>+42</u>

8. Pension increases

Deferred members and pensioners receive increases in accordance with the Fund Rules. The April 2018 pension increase is based on the increase in the Retail Price Index over the 12 months to September 2017. Members of the Fund fall into one of two categories; *Existing Members* are those who joined the Fund when it was formed in April 1989 and *New Members* are those who joined on or after 2 April 1989 whose increase is capped at 5%. The full year's increase is 3.9% for both Existing Members and New Members.

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

	Existing Members	New Members
April 2014	3.2%	3.2%
April 2015	2.3%	2.3%
April 2016	0.8%	0.8%
April 2017	2.0%	2.0%
April 2018	3.9%	3.9%

9. Fund's advisers

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

10. 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 Fund'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 Fund's auditors are aware of that information.

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 3. The Investment Managers employed during the financial year ended 31 March 2018 had discretion to invest as they saw fit within the asset classes and geographical limitations of their benchmarks, as agreed by the Directors (including any restrictions) following advice from Willis Towers Watson. During the year termination notices were served on Arrowgrass Capital Partners, LLP and OZ Management LP while JP Morgan Asset Management, Anchorage Capital Partners Offshore Limited and Blue Mountain Credit Alternatives Fund Limited were appointed. Since the year end further appointments have been made in respect of Man Risk Premia SPC and Stonepeak Infrastructure Fund LP. 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 some of the active managers, performance (subject to upper and lower limits and achieving investment hurdle rates, in most cases), 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.

2. Investment overview

The investment assets of the Fund as at 31 March 2018, including AVC investments, had a value of £10,302.6m an increase of £472.5m compared with their value, including AVC investments, of £9,830.1m as at 31 March 2017. Investment income (i.e. dividends and interest) amounted to £127.3m for the year to 31 March 2018 compared with £119.9m for the year to 31 March 2017.

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 BlackRock are also highly marketable. A small proportion of the Fund's assets are less readily marketable.

Benchmark Summary at 31 March 2018

The Directors measure the Fund's performance against a composite benchmark based upon the current asset allocation. For each active manager the Directors select a portfolio performance measure and for passive managers the performance measure is that of the relevant index being tracked. While the Fund is moving towards its current long-term strategic target allocation, the weightings given to the individual manager benchmarks are their current portfolio valuations, updated on a quarterly basis. The approximate benchmark weights as at 31 March 2018 are set out below (the table has been simplified due to the large number of managers).

Allocation	Weight (%)	Comparison Basis
UK equities	5.2	FTSE All Share/MSCI UK
Overseas developed equities	32.6	FTSE Developed World ex UK/MSCI World ex UK
Emerging market equities	7.4	MSCI EM/ Russell EM
Fundamental equities	5.9	FTSE RAFI All World 3000 Index
Developed equities with EM tilt	2.2	Russell GeoExposure
Fixed interest gilts	0.3	FTSE Over 15 Year Gilts
Index-linked gilts	11.6	FTSE ILG Over 5 Year
Global bonds	2.7	BarCap 60/40 Sovereign Credit Index
Global bonds	3.5	BarCap Global Agg Corp 1% Constrained
Alternative credit	1.9	CS Leveraged Loan/BoAML US High Yield
Alternative credit	0.8	BoAML US T-bills +2%
Alternative credit/ Liquid alternatives	10.6	LIBOR +3% pa/LIBOR +5% pa
Alternative credit	0.9	EMBI Global Div /JPM CEMBI Broad Div GBP Hedged
Renewables	1.0	Absolute return of 6.5% pa
Infrastructure and real estate	2.4	UK RPI +5% pa
Infrastructure	1.2	European CPI +5%
Infrastructure	0.3	MSCI Emerging Markets +2%
Private equity	3.3	MSCI World +3% pa
Private equity	0.9	BoAML Global High Yield +2% pa
Commodities	0.5	Bloomberg Commodity 3 Month Forward
Real estate	2.9	FTSE EPRA/NAREIT Developed +1%
Cash for investing/derivatives for hedging	1.9	LIBOR/Mark to market rates
	<u>100.0</u>	

The majority of active managers are financially incentivised to out-perform a relevant index over rolling three-year periods. The Directors believe the investment mix set out on the following page will maintain an appropriate balance between risk minimisation and return maximisation given the current and future liabilities of the Fund.

TfL Pension Fund

Investment Report (continued)

Actual Asset Allocation Summary as at 31 March 2018

Portfolio	% of Manager Fund
Core	
Index tracking (all asset classes) and liability matching assets	38.9 BlackRock Investment Management (UK) Limited ¹
Active Specialist	
Global bonds	6.4 Goldman Sachs Asset Management
Global equities 1	2.4 Ardevora Asset Management LLP
Global equities 2	6.4 Pzena Investment Management LLC
Global equities 3	4.5 JO Hambro Capital Management Limited
Global equities 4	4.2 Veritas Asset Management LLP
Pacific Basin equities	2.7 Nomura Asset Management UK Limited
North American Small Cap equities	2.0 Burgundy Asset Management Limited
Global emerging market equities	1.4 Coronation International Limited
Global emerging market equities	2.2 Russell Implementation Services Limited
Alternative Credit	1.9 Oak Hill Advisors, LP ²
Global Small Cap equities	1.2 Paradice Investment Management Pty Limited
Alternative Credit	0.8 Wellington Management Company, LLP
Asia (ex Japan) equities	1.3 JO Hambro Capital Management Limited
Emerging market debt	1.0 JP Morgan Asset Management
Currency overlay	0.4 Russell Implementation Services Limited
Alternative Assets	
Global Macro Systematic Hedge Fund	2.9 Bridgewater Associates, Inc
Infrastructure Investment	2.5 Semperian PPP Investment Partners Holdings Ltd ³
Private Equity Fund of Funds	1.3 Partners Group (UK) Limited
Reinsurance Hedge Fund	1.9 Credit Suisse IRIS ALHC Fund Limited
Alternative Risk Premium Hedge Fund	1.0 Goldman Sachs Asset Management
Distressed & Structured PE Credit	0.6 Siguler Guff & Company, LP
Infrastructure Private Equity Fund	1.2 Colonial First State Global Asset Management
Managed Futures Hedge Fund	1.0 AQR Capital Management, LLC
Real Estate (Fund of Funds Exposure)	2.4 CBRE Global Collective Investors UK Limited
Multi-Strategy Credit Hedge Fund	1.0 Anchorage Capital Partners Offshore Limited
Global Macro Discretionary Hedge Fund	1.0 Brevan Howard Asset Management, LLP
Multi-Strategy Credit Hedge Fund	1.0 Blue Mountain Credit Alternatives Fund Limited
Segregated Infrastructure Debt Portfolio	0.7 Industry Funds Management Pty Limited
Global Private Equity Fund of Funds	2.1 Neuberger Berman Alternatives Advisers LLC
Private Mezzanine Debt	0.4 GS Mezzanine Partners
Emerging Market Infrastructure Fund	0.3 IFC Asset Management Company, LLC
UK Renewables Private Equity	1.0 BlackRock Renewable Income UK Fund
	100.0

¹ BlackRock manages a portfolio of financial instruments which seeks to hedge a proportion of the Fund's liabilities interest rate and inflation risk.

² The Fund was the only investor in Oak Hill Enhanced Credit Strategies Fund (Offshore) LP as at 31 March 2018.

³ The Fund has a 29.1215% economic interest in Semperian PPP Investment Partners Holdings Limited.

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.

TfL Pension Fund

Investment Report (continued)

3. Analysis of investments

The 10 largest direct quoted equity holdings of the Fund as at 31 March 2018 are shown below.

	Value	% of Fund's quoted equity holdings	Country	Sector
	£m	%		
Oracle	34.0	0.7	USA	Technology
Microsoft	30.9	0.6	USA	Technology
Airbus	27.9	0.5	France	Aerospace
Comcast	27.6	0.5	USA	Media
American Express	26.2	0.5	USA	Finance
Total SA	23.9	0.5	France	Oil and Gas
Charter Communications	21.8	0.4	USA	Telecommunications
Thermo Fisher Scientific	21.2	0.4	USA	Technology
Mylan	19.3	0.4	USA	Pharmaceutical
FaceBook	18.9	0.4	USA	Media
	<u>251.7</u>	<u>4.9</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	Value of units £m
Abbotstone Property Unit Trust	2,575	56.3	1.501

4. Investment performance

The Fund participates in an independent investment performance measurement scheme organised by JP Morgan Investor Services which provides comparative information for assessing investment performance. JP Morgan Investor Services calculates both the overall investment returns obtained on the Fund's assets and the returns obtained by the individual Investment Managers.

The Fund has underperformed its benchmark by a very small margin due to a combination of factors. The benchmark targets for the Fund are ambitious across the alternative investments part of the portfolio and for some of this outperformance is expected to be concentrated more in the latter period of investment. Also some of the Fund's large equity and hedge fund mandates underperformed over the year, contributing to the shortfall against the benchmark. But in most cases their performance since inception has remained quite strong.

The table below shows the total investment returns, net of fees, (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 2018 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.

	One Year		Three Year Average		Five Year Average	
	Total Fund	Benchmark	Total Fund	Benchmark	Total Fund	Benchmark
Annual Return %	4.1	3.6	7.3	8.4	8.1	8.8
Ex currency hedging	2.8	3.2	8.1	8.7	8.4	8.7

The Fund assets returned 4.1% for the year ended 31 March 2018, 0.5% above its benchmark returns of 3.6%.

Since 1 April 2016, the Total Fund ex Currency Hedging Benchmark is calculated by the Fund's performance measurer as a weighted average of the underlying manager benchmarks. This has then been adjusted to estimate the impact of the currency overlay portfolio to produce the Total Fund Benchmark. The currency impact has been estimated as the difference in performance between the Total Fund ex Currency Hedging and the Total Fund.

TfL Pension Fund

Investment Report (continued)

Details of the performance of the individual portfolios in the year to 31 March 2018 gross of fees, unless shown otherwise, compared with the previous year are shown below:

	Year to 31 March 2018		Year to 31 March 2017	
	Fund %	Benchmark %	Fund %	Benchmark %
Index-Tracking – BlackRock				
UK equities	1.4	1.3	22.1	22.0
North American equities	1.7	1.8	35.1	35.2
Canadian equities	(6.2)	(6.6)	31.6	31.2
European equities (ex. UK)	3.9	3.9	28.0	28.0
Japan equities	7.4	7.3	32.7	32.5
Pacific Basin (ex. Japan) equities	1.9	1.8	37.4	37.3
Middle East/Africa equities	(19.4)	(19.6)	0.1	(0.2)
Emerging Market equities	11.2	11.4	34.7	34.7
Over 15 year Gilts	2.3	2.2	12.4	12.4
FTSE RAFI All World 3000	1.3	0.7	35.9	35.5
GeoExposure ¹	5.1	5.0	39.9	40.4
LDI – BlackRock QIF	(0.9)	N/A	10.0	N/A
Equities				
Adevora - Global equities	8.5	2.4	34.9	32.2
Burgundy - North American equities	(1.5)	(0.4)	39.4	45.1
Coronation – Global EM equities	11.9	11.4	37.1	34.7
J O Hambro – Asia (ex Japan) equities	1.5	12.2	35.0	35.0
J O Hambro - Global equities	10.8	2.4	27.2	32.2
Nomura - Far East equities	12.0	6.6	37.7	34.1
Paradice -Global Small Cap equities	12.4	3.4	35.2	32.5
Pzena -Global equities	1.9	1.3	39.3	31.9
Russell EM equities	10.0	10.2	43.4	43.7
Veritas - Global equities	1.5	2.4	27.4	32.2
Bonds				
BlackRock - Network Rail bonds ¹	2.0	2.0	21.9	21.9
Goldman Sachs - Asset Backed	1.0	(2.9)	23.3	0.4
Goldman Sachs - Corporate Credit	1.7	1.7	3.8	3.5
Goldman Sachs - Sovereign Credit	0.4	(0.1)	10.7	9.6
Industry Funds Management	(1.2)	3.4	22.2	3.5
IFM – Enhanced Credit	0.5	(2.3)	(1.4) ²	0.1 ²
J P Morgan Emerging Debt	(2.2) ²	(1.8) ²	-	-
Oak Hill Advisors ¹	1.4	(4.9)	36.3	31.4
Oak Hill - Enhanced Credit	(3.7) ²	(3.1) ²	-	-
Wellington	2.0	2.1	(1.5)	1.7
Other assets				
Anchorage Capital	(2.2) ²	(4.0) ²	-	-
AQR Capital Management ¹	(5.1)	3.4	(11.1)	3.5
Arrowgrass ¹	2.3	1.6	1.7	3.5
BlackRock Commodities ¹	(2.5) ²	(1.6) ²	21.4 ²	21.4 ²
BlackRock Real Estate ¹	(7.5)	(7.1)	17.1	17.1
BlackRock Renewable ¹	9.5	6.5	2.9	6.5
Broad Street Real Estate	(12.8) ²	(3.1) ²	-	-
Brevan Howard : Fund ¹	(3.2)	3.4	0.2	3.5
Blue Mountain Capital	(0.5) ²	2.0 ²	-	-
Bridgewater Pure Alpha Sterling ¹	3.5	5.4	13.1	5.5
CBRE	5.8	(6.2)	18.1	18.3
Colonial First State Global Asset Mgt ¹	13.0	9.1	20.6	14.9
Credit Suisse ¹	(20.8)	(8.3)	18.8	19.4
Goldman Sachs - ARP	8.0	3.4	(27.4)	3.5
Goldman Sachs Mezzanine VI	(3.2)	(3.0)	38.1	33.4
Goldman Sachs Mezzanine VII	(5.5) ²	(2.9) ²	-	-
IFC Global Infrastructure	(20.8)	13.6	19.4	37.4
Neuberger Berman	10.8	5.6	23.3	36.9
Och-Ziff ¹	7.3	2.7	11.8	3.4
Partners Group	8.8	4.9	14.1	36.7
Semperian	10.4	8.5	3.3	8.3
Siguler Guff Distressed Debt	2.7	2.4	31.0	36.7
Siguler Guff TARO	2.2 ²	0.3 ²	-	-

¹ Performance shown net of fees

² Since inception

The active managers (all the managers shown above with the exception of BlackRock) 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)

5. 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 2018	% of total	Reported returns (where declared) Year to 31 March 2018
	£m		
Equitable Life			
With Profits	2.1	2.9	N/A
Unit-linked funds			
Managed	2.9	3.9	0.7%
UK FTSE Tracking	1.7	2.3	0.9%
Money	0.4	0.5	(0.1%)
	<u>7.1</u>	<u>9.6</u>	
Clerical Medical			
With Profits	4.5	6.1	N/A
Unit-linked funds	0.9	1.2	N/A
	<u>5.4</u>	<u>7.3</u>	
Standard Life			
Passive Plus Pension Fund	28.6	38.7	1.6%
International Equity Pension Fund	5.5	7.4	1.0%
Annuity Targeting Pension Fund	3.2	4.3	(0.3%)
Ethical Pension Fund	3.1	4.2	7.0%
Deposit and Treasury Pension Fund	8.6	11.7	(0.1%)
BlackRock Aquila Over 5 year Index-linked	2.4	3.3	0.4%
BlackRock Aquila World (ex UK) Equity Fund	3.1	4.2	(0.1%)
Vanguard FTSE UK All Share Ind Pension Fund	5.4	7.3	1.0%
HSBC Islamic Global Equity Index Pension Fund	1.1	1.5	(0.4%)
Pension With Profits One Fund	0.4	0.5	N/A
	<u>61.4</u>	<u>83.1</u>	
	<u>73.9</u>	<u>100.0</u>	

6. Custodial arrangements

During the year the Trustee was Custodian of certain property unit trusts and cash. Various brokers hold cash in connection with forward foreign exchange contracts, futures and interest rate swaps. The rest of the Fund's investments, comprising those assets managed by the Fund's Investment Managers, were held by JP Morgan Investor Services as nominee. The Fund's pooled investment interests are held under managed fund policies in the name of the Trustee and the policy documents are held by BlackRock Investment Management (UK) Limited and other custodians.

TfL Pension Fund

Investment Report (continued)

7. Stewardship and activism

The Trustee recognises the Fund's responsibility as an active and long term institutional investor to support and encourage good corporate practices in the companies in which it invests. In the stewardship of assets this means paying regard to relevant environmental, social and governance, ("ESG") considerations when considering the purchase, retention or sale of investments. Following the Trustee's review of their investment beliefs that underpin the approach to investment strategy, in addition to the existing belief that active corporate governance can add value, they have included as a new belief that investment return and sustainability are not conflicting objectives.

Analysis of ESG factors may serve to highlight exposures that could harm a company over the longer term while companies which positively engage with ESG issues may achieve long-term value when compared with those which do not.

Through delegation to its investment managers the Trustee currently communicates with companies and exercise the rights attaching to its investments through shareholder voting.

In order to build on this investor activism, the Fund has become a signatory of the UN Principles of Responsible Investment ("PRI") which require the Fund to:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Be an active owner and incorporate ESG issues into ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which it invests.
- Promote acceptance and implementation of the Principles within the investment industry
- Work together to enhance our effectiveness in implementing the Principles.
- Report on activities and progress towards implementing the Principles.

Through this association with the PRI the Fund will gain support in developing its engagement with ESG issues and through the PRI reporting framework provide information on its activities and be able to assess progress. There are over 1,700 PRI signatories worldwide comprising asset owners, such as the Fund, investment managers and service providers, representing over \$70 trillion in assets.

Signatories are not expected to achieve instant compliance, but they are required to start to incorporate the PRI into investment decision-making and ownership practices and report on their implementation. The Fund will be working on its compliance with the PRI using its existing resources and this will determine the scale and pace of the Fund's engagement.

The update to the Fund's investment beliefs and its becoming a signatory to PRI have been included in the Fund's Statement of Investment Principles.

A new development for 2018 is the Climate Action 100+ initiative which is a joint initiative between the PRI organisation and regional investor groups on climate change. The Fund has become a supporting investor and collectively these investors have committed to engage with more than 100 of the world's largest greenhouse gas emitters. The objectives are that companies implement a strong governance framework which clearly articulates their Boards' accountability and oversight of climate change risk, take action to reduce greenhouse emissions and provide enhanced corporate disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

From the carbon emissions data the Fund has established a measure of its "carbon footprint" based on scope 1 and 2 greenhouse gas emissions giving a figure of 170 metric tonnes per million USD sales at 31 December 2017. This compares with an average figure of 220 for the representative global equity index.

The Fund is also a signatory of the Carbon Disclosure Project, now known as CDP, which works with shareholders and corporations to disclose environmental matters such as the greenhouse gas emissions of major corporations.

Within its arrangements with Investment Managers, the Trustee communicates with companies and exercises the rights attaching to its investments and these activities are reported back to the Trustee by these managers.

The Trustee has asked the Investment Managers to exercise their voting and other rights as shareholders in a manner they believe to be consistent with best practice in relation to Corporate Governance and in accordance with the Institutional Shareholders' Committee's ("ISC") Statement of Principles on the Responsibilities of Institutional Shareholders and Agents. These Principles have been carried forward and adopted by the Financial Reporting Council ("FRC") in the UK Stewardship Code for institutional investors.

TfL Pension Fund

Investment Report (continued)

For companies in the Fund's actively managed equity portfolios there were 576 annual general meetings or extraordinary general meetings held in the year to 31 March 2018 and at 185 of these there were votes for the Fund's portfolio cast against management. Because of the nature of the active portfolio the number of companies in which the Fund has direct shareholdings is relatively small. By contrast as an index tracker, the Fund's passive equity manager, BlackRock holds a wider number of shareholdings.

With respect to passive equity management, because the Fund holds units rather than the underlying shares, its manager BlackRock acts independently but has a strong track record of activism both at meetings with and in its engagement with management. During the year BlackRock voted at 17,165 shareholder meetings and at 6,369 of these it casted votes against management.

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

The Trustee receives regular reports on governance and compliance matters, as well as voting information

Following the Law Commission's report on the Fiduciary Duties of Investment Intermediaries, the Government issued a consultation on changes to the Investment Regulations which closed on 24 April 2015.

The Government's response was that no changes should be made as there was no consensus on the questions it raised. It also felt that guidance from the Pensions Regulator would be a more effective route than regulation.

The Pensions Regulator has issued new investment guidance for defined benefit pension schemes in which it states that trustees should take environmental, social and governance factors into account if they believe they are financially significant.

The Law Commission in their 2017 report on "Social Investment" repeated the request made in their 2014 report for the Government to amend the Investment Regulations. In response the Government has agreed to consult again in 2018 with legislation to follow, subject to the outcome of the consultation.

The Trustee will continue to monitor the developments on environment, social and governance issues.

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

The Compliance Statement on page 43 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 6 July 2018 and was signed on their behalf by:

M Antoniou

C Miller

Directors
TfL Trustee Company Limited

TfL Pension Fund

Independent Auditor's Report to the Trustee of TfL Pension Fund

Opinion

We have audited the accounts of TfL Pension Fund ("the Fund") for the year ended 31 March 2018 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 2.

In our opinion the accounts:

- show a true and fair view of the financial transactions of the Fund during the Fund year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Fund in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the accounts. We have nothing to report in these respects.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions), the Chair's Statement, and the actuarial certification of the schedule of contributions. Our opinion on the accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our accounts audit work, the information therein is materially misstated or inconsistent with the accounts or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on pages 7 and 8, the Fund's Trustee is responsible for: supervising the preparation of accounts which show a true and fair view; such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error; assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Fund, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the accounts.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

TfL Pension Fund

Independent Auditor's Report to the Trustee of TfL Pension Fund (continued)

The purpose of our audit work and to whom we owe our responsibilities

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 it in an auditor's 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 Trustee, for our audit work, for this report, or for the opinions we have formed.

Julie Radcliffe
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square,
London,
E14 5GL

6 July 2018

TfL Pension Fund Fund Account

For the year ended 31 March 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Dealings with members					
Contributions receivable	3				
Employer		374,865		324,819	
Employee		64,047		63,469	
Individual transfers in from other schemes		19,987		5,649	
		<u>458,899</u>		<u>393,937</u>	
Benefits payable	4	(357,701)		(368,514)	
Payments to and on account of leavers	5	(7,572)		(5,869)	
Other payments	6	(4,333)		(4,137)	
Administrative expenses	7	(4,168)		(4,054)	
Pension levies	8	(9,952)		(8,847)	
		<u>(383,726)</u>		<u>(391,421)</u>	
Net additions from dealings with members			75,173		2,516
Returns on investments					
Investment income	9	127,327		119,910	
Change in market value of investments	11a	286,177		1,549,918	
Investment management expenses	12	(18,720)		(15,943)	
Net returns on investments			394,784		1,653,885
Net increase in the fund during year			469,957		1,656,401
Net assets at beginning of year			9,867,844		8,211,443
Net assets at end of year			10,337,801		9,867,844

The Notes on Pages 24 to 35 form part of these Accounts.

TfL Pension Fund

Statement of Net Assets (available for benefits)

As at 31 March 2018

	Note	2018 £'000	2017 £'000
Investment assets	11		
Bonds		622,526	606,283
Equities		2,571,423	2,602,793
Loans		72,161	76,375
Pooled investment vehicles	11b	6,431,002	6,121,285
Derivatives	11c	67,582	62,189
AVC investments		73,909	68,963
Cash and liquidity funds		477,587	281,138
Other investment balances		35,616	63,219
		<u>10,351,806</u>	<u>9,882,245</u>
Investment liabilities	11		
Derivatives	11c	(17,700)	(27,068)
Other investment balances		(31,519)	(25,113)
		<u>(49,219)</u>	<u>(52,181)</u>
Total net investments		<u>10,302,587</u>	<u>9,830,064</u>
Fixed assets held for own use	13	87	88
Current assets	14	45,545	48,495
Current liabilities	15	(10,418)	(10,803)
Net assets at end of year		<u>10,337,801</u>	<u>9,867,844</u>

The Notes on Pages 24 to 35 form part of these Accounts.

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 Report on Actuarial Liabilities included on page 40 and these Accounts should be read in conjunction with that Report.

These Accounts were approved by the Board of Directors of the TfL Trustee Company Limited on 6 July 2018 and were signed on their behalf by:

M Antoniou

C Miller

Directors
TfL Trustee Company Limited

TfL Pension Fund

Notes to the Accounts

1. Basis of preparation

The accounts have been prepared in accordance with Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014).

2. Accounting policies

(a) Inclusion of income and expenditure

(i) *Contributions*

Employers' and Employees' 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 Schedules 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) *Stock lending*

The Fund's custodian is authorised to release stock to a third party under a stock lending arrangement.

(vi) *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.

(vii) *Foreign currencies*

Balances denominated in foreign currencies are translated using the rate of exchange ruling at the Statement of Net Assets 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 the translation of investment balances are accounted for in the change in market value of investments during the year.

(viii) *Additional voluntary contributions (AVCs)*

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

(ix) *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 which is 5 years for computer equipment and furniture.

(x) *Going Concern*

The accounts have been prepared on a going concern basis as it is considered by the Trustee that TfL Pension Fund will continue in operational existence for the foreseeable future and meet its liabilities as they fall due for payment.

TfL Pension Fund

Notes to the Accounts (continued)

(b) Investments

- (i) Investments are included at fair value.
- (ii) The majority of listed investments are stated at the bid price at the date of the Statement of Net Assets.
- (iii) Fixed interest securities are stated at their clean prices (i.e. excluding accrued income). Accrued income is accounted for within investment income;
- (iv) Pooled investment vehicles are stated at the bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads as provided by the Investment Managers;
- (v) Unquoted securities are included at fair value estimated by the Trustee based on the advice from the Investment Manager;
- (vi) Loans are included at fair value estimated by the Trustee based on the advice from the Investment Manager;
- (vii) Derivatives are stated at fair value.
 - Exchange traded derivatives are stated at fair value determined using market quoted prices.
 - Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
 - Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date
 - Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
 - All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.
 - Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.
- (viii) Short-term deposits are valued at cost at 31 March 2018 taking into account gains or losses on foreign currencies;
- (ix) AVC investments are shown at the values advised by the AVC providers.

3. Contributions receivable

	2018 £'000	2017 £'000
<i>Employers</i>		
Normal	269,754	267,708
Deficit funding	105,111	57,111
	<u>374,865</u>	<u>324,819</u>
<i>Members</i>		
Normal	52,762	52,364
Additional voluntary contributions	11,285	11,105
	<u>64,047</u>	<u>63,469</u>
	<u>438,912</u>	<u>388,288</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 which resulted in a change of normal and deficit contributions which took effect from 1 April 2016.

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

TfL Pension Fund

Notes to the Accounts (continued)

4. Benefits payable

	2018 £'000	2017 £'000
Pensions	281,205	269,110
Commutations and lump sum retirement benefits	74,493	97,186
Lump sum death benefits (net of those insured)	1,540	1,385
Taxation where lifetime or annual allowance exceeded	463	833
	<u>357,701</u>	<u>368,514</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Fund in exchange for the Fund settling their tax liability.

5. Payments to and on account of leavers

	2018 £'000	2017 £'000
Individual transfers to other schemes	7,155	5,381
Refunds to members leaving service	350	333
Payments for members joining state scheme	67	155
	<u>7,572</u>	<u>5,869</u>

6. Other payments

	2018 £'000	2017 £'000
Premiums on term insurance policies	4,333	4,137

7. Administrative expenses

	2018 £'000	2018 £'000	2017 £'000	2017 £'000
<i>Staff costs</i>				
Payroll	2,400		2,393	
Recruitment and training (incl. Trustee)	14		13	
		2,414		2,406
<i>Establishment costs</i>				
Accommodation	88		88	
Computer costs	477		481	
Telecommunications	13		17	
Depreciation	50		61	
		628		647
<i>Professional fees</i>				
Legal fees	350		245	
Audit fees	87		84	
KPMG non-audit fees	83		3	
Actuarial fees	208		280	
Medical fees	64		42	
Covenant review	30		53	
Other professional fees	16		37	
		838		744
<i>Communication</i>				
Distribution	158		121	
Printing	94		95	
		252		216
<i>Consumables</i>				
Stationery	8		10	
General	28		31	
		36		41
		<u>4,168</u>		<u>4,054</u>

Administrative expenses include recharges by Transport for London of £2,518,656 for staff and other costs.

TfL Pension Fund

Notes to the Accounts (continued)

8. Pension levies

	2018	2017
	£'000	£'000
Pension Protection Fund	9,733	8,668
Pension Regulator levies	219	179
	<u>9,952</u>	<u>8,847</u>

9. Investment income

	2018	2017
	£'000	£'000
Income from bonds	22,069	25,500
Dividends from equities	53,323	50,708
Income from pooled investment vehicles	45,659	35,764
Income from loans	4,028	4,554
Income / (expenses) from derivatives	(2,158)	981
Interest on cash deposits	1,996	1,042
Income from securities lending	1,416	1,324
Other investment income	994	37
	<u>127,327</u>	<u>119,910</u>

Overseas investment income is stated gross of withholding taxes.

10. Tax

TfL Pension Fund is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate (see Note 9 above).

11. Investments

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

	Value at 1 April 2017	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Value at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Bonds	606,283	683,248	622,403	(44,602)	622,526
Equities	2,602,793	836,174	971,623	104,079	2,571,423
Loans	76,375	39,256	38,322	(5,148)	72,161
Pooled investment vehicles	6,121,285	919,936	665,110	54,891	6,431,002
Derivative contracts	35,121	-	185,950	200,711	49,882
Liquidity funds	113,002	998,543	904,568	(24,965)	182,012
AVC investments	68,963	11,284	7,549	1,211	73,909
	<u>9,623,822</u>	<u>3,488,441</u>	<u>3,395,525</u>	<u>286,177</u>	<u>10,002,915</u>
Cash deposits	168,136				295,575
Other investment assets	63,219				35,616
Other investment liabilities	(25,113)				(31,519)
Total net investments	<u>9,830,064</u>				<u>10,302,587</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.

TfL Pension Fund

Notes to the Accounts (continued)

b) Pooled investment vehicles (PIVs)

The Fund's holdings of PIVs are analysed below:

	2018	2017
	£'000	£'000
Absolute Return funds	671,394	543,848
Equity funds	2,721,595	2,767,156
Fixed Interest funds	401,236	235,258
Private Equity funds and infrastructure funds	1,160,737	1,132,757
Property funds	63,627	66,180
Qualifying Investor fund	1,224,531	1,208,766
Reinsurance funds	187,882	167,320
	<u>6,431,002</u>	<u>6,121,285</u>

The Fund is the sole investor in the Qualifying Investor Fund. The assets underlying this PIV are:

	2018	2017
	£'000	£'000
Government Bonds	837,398	848,593
Network Rail Bonds	360,674	356,058
Options	46,125	14,916
Swaps	(23,596)	(19,398)
Other	3,930	8,597
	<u>1,224,531</u>	<u>1,208,766</u>

c) Derivatives

The Trustee has authorised the use of derivatives by some of their Investment Managers as part of the Fund's investment strategy. The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

Total derivatives

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Swaps	5,584	(5,844)	15,959	(8,173)
Futures	7,726	(6,415)	6,862	(5,776)
Foreign exchange	53,968	(5,104)	39,368	(13,119)
Options	304	(337)	-	-
	<u>67,582</u>	<u>(17,700)</u>	<u>62,189</u>	<u>(27,068)</u>

TfL Pension Fund

Notes to the Accounts (continued)

c) Derivatives (continued)

Swaps

Swaps comprising interest rate swaps, credit default swaps, total return swaps and basis swaps have been implemented to hedge the interest rate risk 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 and exchange traded. The details are:

Nature	Nominal amount	Duration	Asset value at year end £'000	Liability value at year end £'000
Interest rate swaps	169,689,323	Expires 1 to 5 years	601	(551)
	73,653,499	Expires 5 to 10 years	296	(1,056)
	11,138,483	Expires 10 to 15 years	332	(523)
	16,642,104	Expires 15 to 20 years	58	(143)
	5,971,905	Expires 20 to 25 years	-	(78)
	3,307,666	Expires 25 to 30 years	-	(48)
	3,352,598	Expires 30 to 35 years	5	(29)
Credit default swaps	20,473,310	Expires 1 to 5 years	-	(372)
	92,343,639	Expires 5 to 10 years	1,809	-
	40,144,490	Expires 10 to 15 years	178	-
Total return swaps	74,302,935	Expires less than 1 year	2,204	(3,044)
Basis	4,979,713	Expires less than 1 year	101	-
Total 2018			5,584	(5,844)
<i>Total 2017</i>			<i>15,959</i>	<i>(8,173)</i>

The counterparties had deposited £5.3m of cash collateral at the year end. This collateral is not reported within the Fund's net assets. At 31 March 2018, collateral of £2.3m was deposited with the counterparties, which is reported within Cash deposits in the Fund's net assets.

Futures

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

Nature	Nominal amount	Duration	Asset value at year end £'000	Liability value at year end £'000
Cash	15,804,434	Expires under 1 year	24	-
Commodities	148,725,906	Expires under 1 year	6,259	(4,786)
Equity	21,147,751	Expires under 1 year	6	(184)
Swaps	8,092,009	Expires under 1 year	-	(3)
Swaps	62,297,333	Expires 1 to 5 years	-	(11)
Total Return	2,744,445	Expires under 1 year	577	-
Treasury	222,277,302	Expires under 1 year	641	(1,221)
Treasury	3,533,123	Expires 1 to 5 years	219	(210)
Total 2018			7,726	(6,415)
<i>Total 2017</i>			<i>6,862</i>	<i>(5,776)</i>

The counterparties had deposited £14.0m of cash collateral at the year end. This collateral is not reported within the Fund's net assets. At 31 March 2018, collateral of £1.9m was deposited with the counterparties, which is reported within Cash deposits in the Fund's net assets.

TfL Pension Fund

Notes to the Accounts (continued)

c) Derivatives (continued)

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 a targeted level.

The Fund had open Foreign exchange contracts at the year end as follows:

Contract	Settlement date	Currency bought	Currency sold	Asset value at year end £'000	Liability value at year end £'000
Forward OTC	1 month	Various	Various	14,782	(2,441)
Forward OTC	2 months	Various	Various	21,226	(701)
Forward OTC	3 months	Various	Various	9,520	(920)
Forward OTC	4 months	Various	Various	4,867	(979)
Forward OTC	5 months	Various	Various	2,735	(63)
Forward OTC	6 months	Various	Various	838	-
Total 2018				53,968	(5,104)
<i>Total 2017</i>				<i>39,368</i>	<i>(13,119)</i>

The counterparties had deposited £21.1m of cash collateral at the year end. This collateral is not reported within the Fund's net assets. At 31 March 2018, collateral of £8.3m was deposited with the counterparties, which is reported within Cash deposits in the Fund's net assets.

Options

Type of Option	Nominal amount	Duration	Asset value at year end £'000	Liability value at year end £'000
Call ET	402,204	Expires under 1 year	298	-
Put ET	637,691	Expires under 1 year	-	(325)
Call OTC	3,421,723	Expires 10 to 15 years	6	-
Put OTC	1,497,004	Expires 30 to 35 years	-	(12)
Total 2018			304	(337)
<i>Total 2017</i>			<i>-</i>	<i>-</i>

d) 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 benefits, within the Fund 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:

	2018 £'000	2017 £'000
Standard Life	61,425	55,150
Equitable Life	7,105	8,064
Clerical Medical	5,379	5,749
	73,909	68,963

TfL Pension Fund

Notes to the Accounts (continued)

e) Transaction costs

Included within purchases and sales are direct transaction costs of £1,964,000 (2017: £2,495,000) comprising commissions, fees and stamp duty. These costs are attributable to the key asset classes as follows:

	Commission £'000	Fees and Stamp Duty £'000	2018 Total £'000	2017 Total £'000
2018				
Equities	1,293	666	1,959	
Bonds	-	5	5	
2017				
Equities	1,587	900		2,487
Bonds	-	8		8

f) Investment fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 which are observable (ie developed using market data) for the asset or liability, either directly or indirectly;

Level 3: inputs which are unobservable (ie for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Fund's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 March 2018				
Bonds	5,348	599,269	17,909	622,526
Equities	2,542,421	16,719	12,283	2,571,423
Loans (IFM)	-	3,840	68,321	72,161
Pooled investment vehicles	10,789	3,795,608	2,624,605	6,431,002
Derivatives	1,310	48,604	(32)	49,882
Liquidity funds	182,012	-	-	182,012
AVC investments	-	67,188	6,721	73,909
Cash	295,575	-	-	295,575
Other investment balances	4,097	-	-	4,097
	<u>3,041,552</u>	<u>4,531,228</u>	<u>2,729,807</u>	<u>10,302,587</u>
At 31 March 2017 (restated)				
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	2,796	603,098	389	606,283
Equities	2,602,606	187	-	2,602,793
Loans (IFM)	-	-	76,375	76,375
Pooled investment vehicles	11,967	4,140,457	1,968,861	6,121,285
Derivatives	1,086	34,035	-	35,121
Liquidity funds	113,002	-	-	113,002
AVC investments	-	61,354	7,609	68,963
Cash	168,136	-	-	168,136
Other investment balances	38,106	-	-	38,106
	<u>2,937,699</u>	<u>4,839,131</u>	<u>2,053,234</u>	<u>9,830,064</u>

TfL Pension Fund

Notes to the Accounts (continued)

g) Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Fund's exposures to credit and market risks are set out below. This does not include annuity insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Fund.

(i) Credit risk

The Fund is subject to credit risk as it invests in bonds, OTC derivatives, has cash balances, undertakes stock lending activities and enters into repurchases agreements. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

	Investment grade	Non- investment grade	Unrated	Total
At 31 March 2018	£'000	£'000	£'000	£'000
Bonds*	1,770,460	26,763	20,194	1,817,417
Loans	-	-	72,161	72,161
OTC Derivatives	70,140	-	-	70,140
Cash	521,049	-	-	521,049
Other investment balances	(32,377)	262	265	(31,850)
Stock lending	336,000	-	-	336,000
Repos	28,189	-	-	28,189
Time deposits	3,343	-	-	3,343
PIVs	-	-	5,206,470	5,206,470
	<u>2,696,804</u>	<u>27,025</u>	<u>5,299,090</u>	<u>8,022,919</u>

* This includes bonds held in the Qualifying Investor Fund.

TfL Pension Fund

Notes to the Accounts (continued)

g) Investment risks (continued)

	<i>Investment grade</i>	<i>Non- investment grade</i>	<i>Unrated</i>	<i>Total</i>
<i>At 31 March 2017</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Bonds*</i>	1,773,868	21,699	12,238	1,807,805
<i>Loans</i>	-	-	76,375	76,375
<i>OTC Derivatives</i>	21,862	-	-	21,862
<i>Cash</i>	304,352	-	-	304,352
<i>Other investment balances</i>	26,349	150	118	26,617
<i>Stock lending</i>	207,300	-	-	207,300
<i>Repos</i>	19,503	-	-	19,503
<i>Time deposits</i>	9,848	-	-	9,848
<i>PIVs</i>	-	-	4,912,519	4,912,519
	<u>2,363,082</u>	<u>21,849</u>	<u>5,001,250</u>	<u>7,386,181</u>

* This includes bonds held in the Qualifying Investor Fund.

The Fund has indirect credit risk which arises in relation to underlying investments held in the bond pooled investment vehicles of £401.2m (2017: £235.3m).

A summary of pooled investment vehicles by type of arrangement is as follows:

	2018	2017
	£'000	£'000
Open ended investment fund	2,811,583	2,723,357
Qualifying Investor Fund	1,224,531	1,208,766
Closed ended investment companies	600,564	555,103
Open ended investment companies	674,378	489,516
Shares of limited partnerships	374,144	417,511
Unit trusts	326,990	353,476
Shares of UK limited companies	301,226	301,075
Closed ended investment funds	96,353	58,924
Other	21,233	13,557
	<u>6,431,002</u>	<u>6,121,285</u>

(ii) Currency risk

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy.

(iii) Interest rate risk

The Fund is subject to interest rate risk on the LDI investments comprising bonds and interest rate swaps held either as segregated investments or through pooled vehicles and cash.

(iv) Other price risk

Other price risk arises principally in relation to the Fund's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, private equity and investment properties.

The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

TfL Pension Fund

Notes to the Accounts (continued)

g) Investment risks (continued)

The following table summarises the extent to which the various classes of investments are affected by financial risks:

	Currency	Market risk Interest rate	Other price	2018 £'000	2017 £'000
Bonds	●	●	○	622,526	606,283
Equities	○	○	●	2,571,423	2,602,793
Loans	●	●	○	72,161	76,375
Pooled investment vehicles					
Direct	●	○	○		
Indirect	○	○	●	6,431,002	6,121,285
Derivative contracts	●	●	○	49,882	35,121
Liquidity funds	●	○	●	182,012	113,002
AVC investments	○	○	●	73,909	68,963
Cash deposits	●	○	○	295,575	168,136
Other investments	●	○	○	4,097	38,106
Total				10,302,587	9,830,064

In the above table, the risk noted affects the asset class [●] significantly, [●] partially or [○] hardly/not at all.

h) Securities lending

The Fund lends certain fixed interest and equity securities under a Trustee approved securities lending programme. As at 31 March 2018 £336.0m of investments were loaned comprising £259.9m Overseas equities, £22.6m Overseas fixed interest securities, £45.9m UK equities and £7.6m UK fixed interest securities. Collateral of £366.9m was held as at 31 March 2018 in the form of cash of £32.1m and non-cash of £334.8m (2017: £207.3m loaned against £223.7m collateral).

i) Self investment

There were no employer-related investments at any time during the year ended 31 March 2018.

j) Commitments

At the 31 March 2018 the Fund had contractual commitments of £943.8m (2017 £583.4m) to pay calls on outstanding drawdowns for alternative Investments in pooled investment vehicles, unquoted equities and loans.

12. Investment management expenses

	2018 £'000	2017 £'000
Administration, management and custody	17,829	15,171
Performance measurement services	135	76
Other advisory services	756	696
	18,720	15,943

The total investment management expenses incurred during the year was £42.4m (2017:£42.0m) of which only £18.7m (2017:£15.9m) was actually remitted; the balance was deducted as part of the daily pricing of the individual asset portfolios.

TfL Pension Fund

Notes to the Accounts (continued)

13. Fixed assets held for own use

	Computer equipment £'000	Furniture £'000	Total £'000
<i>Cost at 1 April 2017</i>	2,014	34	2,048
Additions	49	-	49
Withdrawals	(1,347)	-	(1,347)
<i>Cost at 31 March 2018</i>	<u>716</u>	<u>34</u>	<u>750</u>
<i>Accumulated depreciation at 1 April 2017</i>	(1,926)	(34)	(1,960)
Depreciation charge for the year	(50)	-	(50)
Withdrawals	1,347	-	1,347
<i>Accumulated depreciation at 31 March 2018</i>	<u>(629)</u>	<u>(34)</u>	<u>(663)</u>
Net book value at 1 April 2017	<u>88</u>	<u>-</u>	<u>88</u>
Net book value at 31 March 2018	<u>87</u>	<u>-</u>	<u>87</u>

14. Current assets

	2018 £'000	2017 £'000
<i>Debtors</i>		
Prepayments and accrued income	27,568	27,155
<i>Cash balances</i>	<u>17,977</u>	<u>21,340</u>
	<u>45,545</u>	<u>48,495</u>

15. Current liabilities

	2018 £'000	Restated 2017 £'000
<i>Creditors</i>		
Unpaid benefits	4,419	5,883
Accrued expenses and deferred income	<u>4,280</u>	<u>3,805</u>
	8,699	9,688
<i>Net off cash balance</i>	<u>1,719</u>	<u>1,115</u>
	<u>10,418</u>	<u>10,803</u>

Accrued expenses of £868,000 were incorrectly treated as unpaid benefits in 2017.

Net off cash balance represents payments submitted and cheques drawn but not presented for payment by 31 March 2018. Interest is not payable on these sums.

16. Related parties

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

Transport for London (TfL) pays administration expenses on behalf of the Fund and subsequently recharges these to the Fund. Administrative expenses recharged by TfL during the year end were £2,518,656 (2017: £2,527,158) and are included in Note 7 on page 25. At 31 March 2018, £727,300 (2017: £596,002) has been included in creditors in respect of administration expenses 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 a schedule 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 in respect of any active member of the Fund and for procuring that contributions are made to the Fund in accordance with the schedule.

Trustee's Summary of Contributions payable under the Schedules in respect of the fund year ended 31 March 2018

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 27 May 2016 in respect of the Fund year ended 31 March 2018. The Fund auditor reports on contributions payable under the schedules in the Auditor's statement about contributions.

Contributions payable under the schedules in respect of the Fund year

	£'000
Employers	
Normal contributions	269,754
Deficit funding	105,111
Members	
Normal contributions	52,762
Contributions payable under the schedules (as reported on by the Fund auditor)	<u>427,627</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)	427,627
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditors)	
Member additional voluntary contributions	11,285
Total contributions reported in the accounts	<u>438,912</u>

This Report was approved by the Board of Directors of the TfL Trustee Company Limited on 6 July 2018 and was signed on their behalf by:

M Antoniou

C Miller

Directors
TfL Trustee Company Limited

TfL Pension Fund Actuary's Certificates

Pages 38 to 39 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.

TfL Pension Fund

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 2015 to continue to be met for the period for which the schedule is to be in force.

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 1 May 2016.

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.

G M Oxtoby
Fellow of the Institute of and Faculty of Actuaries

Date 27 May 2016

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

TfL Pension Fund

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 2015 to be met by the end of the period specified in the recovery plan dated 1 May 2016.

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 1 May 2016.

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.

G M Oxtoby
Fellow of the Institute of and Faculty of Actuaries

Date 27 May 2016

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

TfL Pension Fund

Report on Actuarial Liabilities (forming part of the Trustee's report)

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Fund members on request.

The most recent full actuarial valuation of the Fund was carried out as at 31 March 2015. This showed that on that date:

The value of the Technical Provisions for the Public Sector section was £8,686m and for the Composite section was £11.4m

The value of the assets at that date was: £8,290m for the Public Sector section and £14.1m for the Composite section

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate:

Public Sector section (PSS) = 5.31% pa

Composite section = 2.64% pa in-service, 5.31% pa post-transfer to PSS

Future retail price inflation:

Public Sector section (PSS) = 3.2% pa

Composite section = 2.7% pa in-service, 3.2% pa post-transfer to PSS

Future consumer price inflation:

Public Sector section (PSS) = 2.2% pa

Composite section = 1.7% pa in-service, 2.2% pa post-transfer to PSS

Pension increases: 3.2% pa for Existing Members, 3.0% pa for New Members

Pay increases: General pay increases of 0.5% pa above the assumed rate of future retail price inflation.

Mortality – current assumed mortality rates in deferment and in payment are based on standard 'S2' tables with different tables and different scaling factors adopted for males and females, and for members retiring in normal health or ill-health respectively. Allowance is made for improvements in longevity from 2015 in line with the CMI 2015 core projection model with an assumed long-term mortality improvement trend of 1.6% per annum.

TfL Pension Fund

Independent Auditor's Statement about Contributions to the Trustee of the TfL Pension Fund

Statement about contributions

We have examined the summary of contributions payable under the schedule of contributions to the TfL Pension Fund in respect of the fund year ended 31 March 2018 which is set out on page 35.

In our opinion contributions for the Fund year ended 31 March 2018 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 27 May 2016.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient 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 schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the schedule of contributions.

Respective responsibilities of trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on pages 7 and 8, the Fund's trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the schedule of contributions.

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

The purpose of our work and to whom we owe our responsibilities

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 auditor's 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.

Julie Radcliffe for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square,
Canary Wharf,
London,
E14 5GL

6 July 2018

TfL Pension Fund

Participating Employers' Unit Holdings and Asset Values Statement

Historically the Fund is structured into a series of financially segregated sections, with the Public Sector section providing benefits for public sector employees and 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.

	Equity Fund			
	As at 31 March 2018		As at 31 March 2017	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	1,927,672,258	5,471,317	2,055,979,308	5,476,974
Composite section	4,161,063	11,810	4,420,268	11,775
	<u>1,931,833,321</u>	<u>5,483,127</u>	<u>2,060,399,576</u>	<u>5,488,749</u>

The Equity Fund unit price at the year end was £2.838302284 (2017 £2.663924686)

	Bond Fund			
	As at 31 March 2018		As at 31 March 2017	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	502,773,381	1,405,485	442,409,870	1,230,337
Composite section	1,696,677	4,743	1,663,014	4,625
	<u>504,470,058</u>	<u>1,410,228</u>	<u>444,072,884</u>	<u>1,234,962</u>

The Bond Fund unit price at the year end was £2.795464751 (2017 £2.780988756)

	Alternative and Liability Driven Assets Fund			
	As at 31 March 2018		As at 31 March 2017	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	2,028,396,973	3,224,989	1,893,986,246	2,987,425
	<u>2,028,399,700</u>	<u>3,224,989</u>	<u>1,893,986,246</u>	<u>2,987,425</u>

The Alternative Liability Driven Assets Fund unit price at the year end was £1.589920060 (2017 £1.577321342)

	31 March 2018	31 March 2017
	£'000s	£'000s
Equity Fund	5,483,127	5,488,749
Bond Fund	1,410,228	1,234,962
Alternative and Liability Driven Assets Fund	3,224,989	2,987,425
Other (non unitised assets allocated to Public Sector)	219,457	156,708
Total Net Assets at end of year	<u>10,337,801</u>	<u>9,867,844</u>

TfL Pension Fund Compliance Statement

1. Fund Advisers

There are written agreements in place between the Trustee and each of the Fund advisers listed on Page 3 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 have been no changes 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:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
Telephone 0345 6002 537

5. Complaints Procedure

In the event of a complaint from a member or beneficiary of the Fund, 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 Ombudsman as follows:

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

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)

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For further help or information

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

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4th Floor
Wing over Station
55 Broadway
London SW1H 0BD

Telephone: 020 7918 3733
Email: helpdesk@tflpensionfund.co.uk
Website: www.tfl.gov.uk/pensions