

TfL Pension Fund

Annual Review 2009



Notice for the visually impaired

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From the Chairman

I am pleased to present my review for the year ended 31 March 2009. During this year, more than most, it has been financial and economic events that have dominated the news. These have affected the pensions industry as a whole and it is not surprising that the Trustees' main focus continues to be the long term security of the Fund.

The Investment Committee has had a challenging year monitoring investment performance of the underlying managers and reviewing the overall investment strategy. The Fund is currently cash positive and this position is expected to continue for the foreseeable future, so there are no immediate concerns about the impact of market falls.

The market setbacks during the year have had an effect on investment performance. The overall assets of the Fund have decreased over the past 12 months from £4.682 bn to £3.829 bn. This year's investment performance fell short of the Fund's performance benchmark by 2.3 per cent and over the longer periods of three and five years by 1 per cent and 0.6 per cent respectively. More information can be found on page 7.

A major enhancement has been made to the Pensions website during the year with the introduction of Member Self-Service which has given members greater freedom to check their data and to run calculations. If you have not yet signed up for this facility log on to www.tflpensionfund.co.uk to do so. Further details on this development were provided in the April 2009 edition of Pensionews .

While the events of last year for the Fund were dominated by the impact of Metronet Rail BCV Limited and Metronet Rail SSL Limited going into administration on 18 July 2007, during this year we saw the positive development of the business transfer of the former Metronet undertakings to TfL in May 2008. More information can be found on page 5.

During the year, the Trustees commenced planning for the next triennial actuarial valuation due as at 31 March 2009. This will be the second actuarial valuation conducted under new regulations and its finalisation is expected by the statutory deadline of 30 June 2010.

Finally, I would like to record my thanks to all involved with the continued operations and development of the Fund: the Trustee Directors, Actuary, Investment and Legal Advisers, Investment Managers, Custodian, Auditors and not least the Fund Office and Fund Secretary for their support. I remain confident that, with these resources, we can meet the current challenges and those which lie ahead of us.

Stephen Critchley

Chairman of the TfL Pension Fund Trustees



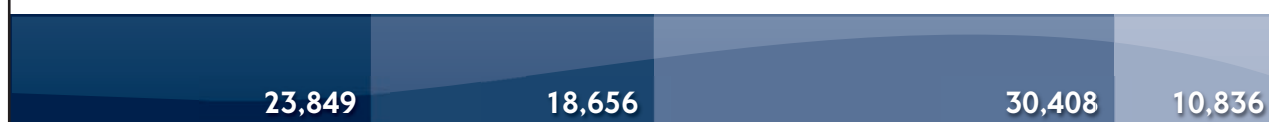
In this year's review

Membership review	3	Additional help or information	9
Year at a glance	4-5	Summary Funding Statement	10-11
How the Fund is invested	6-7	Annual Members' Meeting and Exhibition	back page
The Fund's Trustees	8-9		

Membership review

The chart below compares the membership numbers between the 2008 and 2009 Fund years.

2008 - Total members: 83,749



2009 - Total members: 84,807



Contributing members
 Deferred pensioners
 Pensioners
 Dependants and children

The 24,975 contributing members are spread across the Participating Employers.

	As at 31 March 2008	As at 31 March 2009
Transport for London	18,970	19,046
LUL BCV Section*	1,714	2,378
LUL SSL Section*	1,630	2,129
Tube Lines Limited**	1,328	1,233
Other employers**	207	189

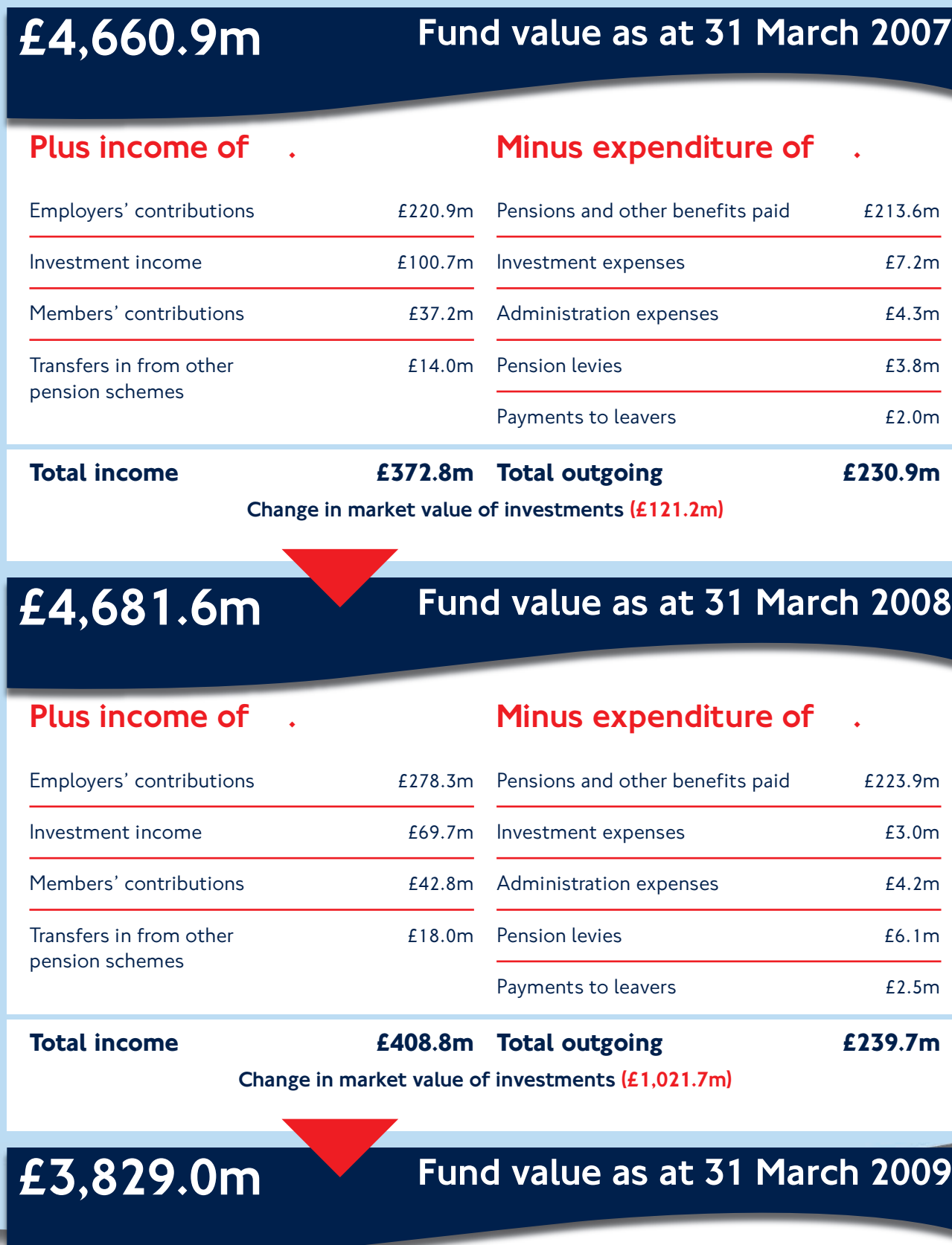
* These sections were closed to new members as at 31 March 2008. However, following the transfer out of administration and the change to corporate ownership, they are available to new members once again.

** These sections are closed to new members.

Year at a glance

As at 31 March 2009, the value of the Fund was £3,829m. This is a decrease of £852.6m on the value at the end of the previous Fund year.

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



The Fund's accounts are audited each year by independent auditors KPMG, who have confirmed that:

The Fund's accounts show a true and fair view of the financial transactions during the 12 months to 31 March 2009

Contributions were paid to the Fund in accordance with the schedules of contributions in force during the year

News

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

- (i) Allowing members who remain in service after age 65 to continue contributing and to earn a pension as an alternative to ceasing contributions and then receiving a 'bonus' pension for the period payment was deferred (provided payment is deferred for at least six months).
- (ii) Removing the limit of 40 years for contributory membership for benefit entitlements, except in respect of ill health retirement benefits where the 40 years limit still applies.
- (iii) Contributions payable each calendar year are calculated using your pensionable salary in force in early November. If, as a result of a late settlement of a pay award, your pensionable salary increases retrospectively from a date before November, then your contributions will also increase and be collected accordingly.

Following the business transfer of the former Metronet undertakings to TfL in May 2008 and transfer of staff to the LUL Nominee companies it has been possible to close the two new sections in the Fund which were established for Metronet REW Limited and Metronet TMU Limited as part of the scheme rescue. With the transfer of LUL Nominee staff to LUL in December 2008, LUL became the participating employer for the two former Metronet sections.

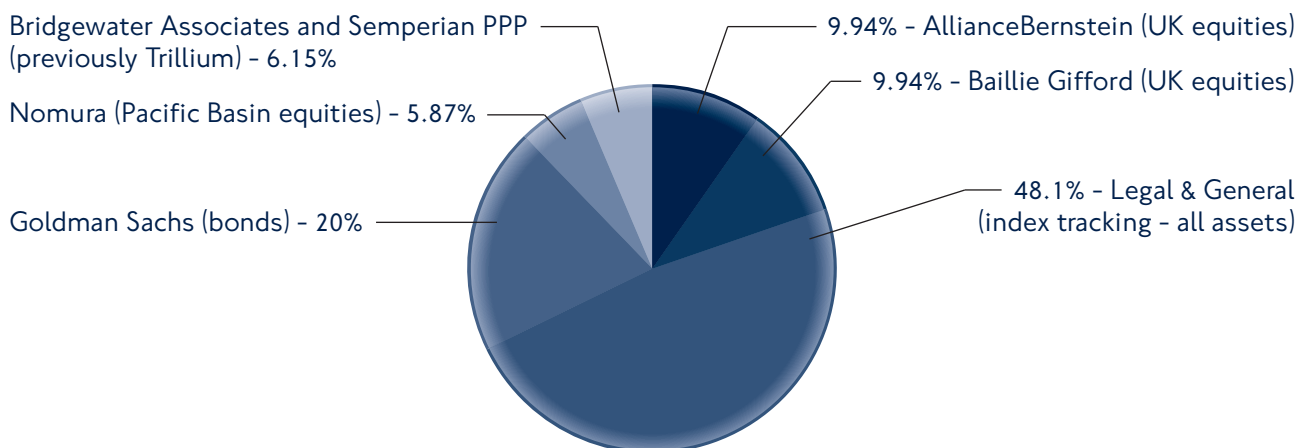
A further initiative to simplify the structure of the Fund and reduce regulatory costs has been achieved through the transfer of Tribal Technology Limited and British Transport Police Authority members into the Composite Section of the Fund. This enabled the number of Fund sections to be reduced by two.



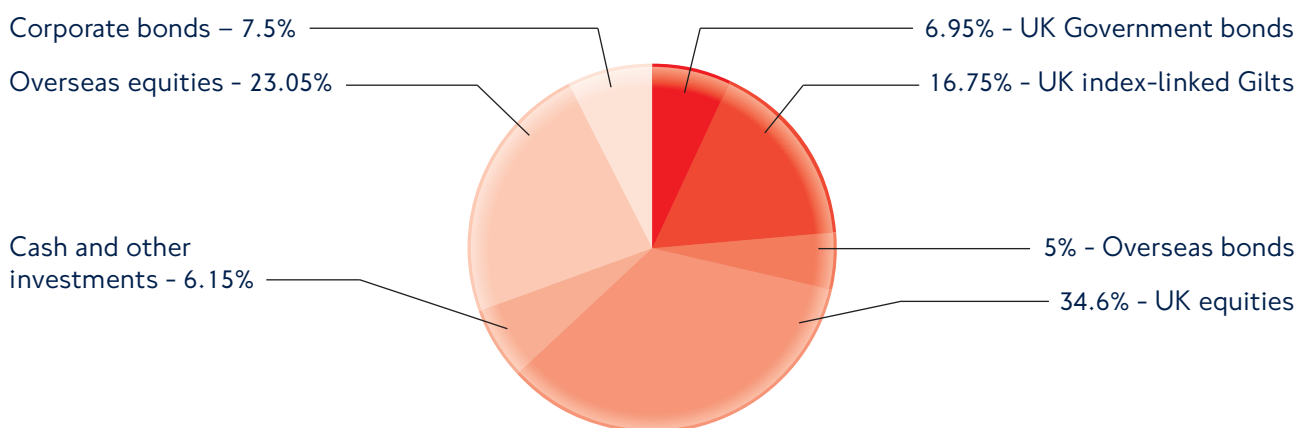
How the Fund is invested

Managing investments

The Trustees are ultimately responsible for deciding how to invest the money building up in the Fund in relation to members' benefits. They appoint specialised investment managers, who are given specific instructions and benchmarks to follow by the Trustees. The following pie chart shows the target allocation of the Fund's assets between investment managers.



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



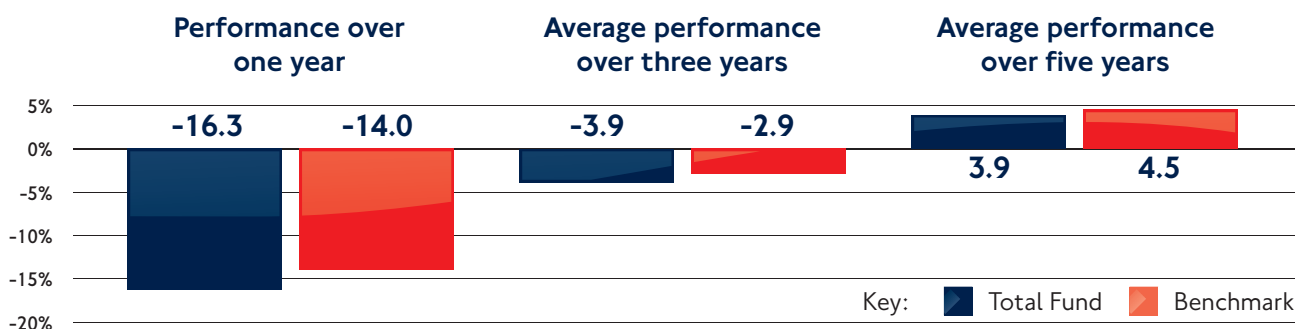
Top 10 shares

The Fund has significant holdings in shares (equities) of a number of major UK quoted companies. The ten largest holdings as at 31 March 2009 were:

	£m		£m
Vodafone	46.5	HSBC	27.6
Royal Dutch Shell	44.2	BP	27.1
GlaxoSmithKline	41.3	British American Tobacco	22.4
BG Group	36.6	Tesco	20.8
BHP Billiton	29.7	Imperial Tobacco	17.2

Investment performance

The chart below shows that the investment return was 2.3 per cent below the Fund's performance benchmark (the comparator set by the Trustees). Over the longer periods of three and five years, investment performance was 1.0 and 0.6 per cent below benchmark.



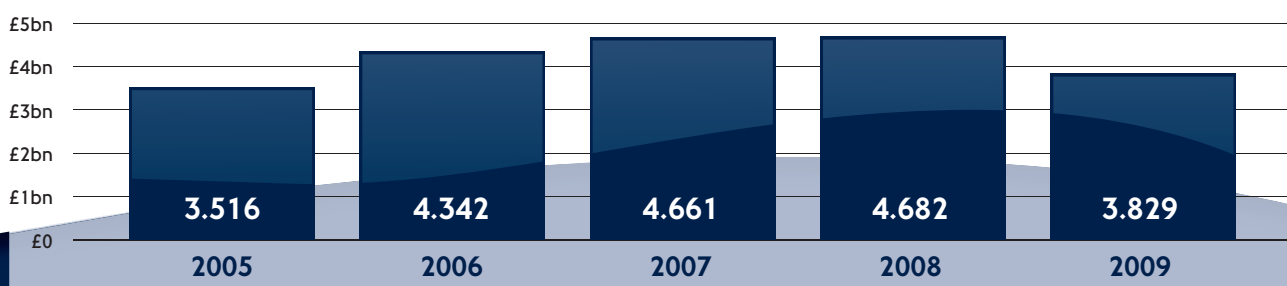
The Fund's assets

The Fund's assets total £3,829m. The amount held by each section on 31 March 2009 is shown in the list below

Section	£m	Section	£m
Public Sector	3,370.34	Electronic Data Systems Limited	1.98
LUL BCV	164.72	Composite	0.87
LUL SSL	151.13	Capgemini UK plc	0.38
Tube Lines Ltd	113.45	Thales Transport and Security Ltd	0.31
EDF Energy Powerlink Limited	22.38	Cadbury Limited	0.15
Cubic Transportation Systems Ltd	3.29		

Value of the Fund

Over the year to 31 March 2009, the total market value of the Fund's assets decreased by £853m to £3,829m. The chart below shows how the Fund's assets have changed over the last five years.



The Fund's Trustees

The Fund is managed by a board of directors, known as the Trustees. Individual Trustees are nominated by TfL (as Principal Employer), the trades unions and the TfL Pension Consultative Council (PCC), which is itself elected by and from the membership.

The Trustees are responsible for all aspects of Fund management, both financial and administrative. As this is a complex process for a scheme as large as the TfL Fund, there are five committees: operations, investment, audit, actuarial valuation and appeals, each of which deals with a specific aspect of Fund management.

On 31 March 2009, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Stephen Critchley
(Chairman), Chief Finance
Officer, Transport for London

Maria Antoniou
External Appointment,
Transport for London

Andrew Cleaves
Commercial Director
Tube Lines Limited

Howard Collins
Chief Operating Officer,
London Underground
Limited

Gerry Duffy
Director of Employee
Relations, London
Underground Limited

Jane Hart
Senior Disputes Resolution
Lawyer, Transport for
London

Clare Kavanagh
Director of Performance -
Surface Transport,
Transport for London

Steve Perry
Vice President Asset
Performance Controller,
London Underground
Limited

Peter Regan
Director of Corporate
Finance, Transport for London

Associated Society of Locomotive Engineers and Firemen

Steve Grant
District Organiser, ASLEF

London Transport Joint Trades Committee

John Timbrell
Project Engineer
Trains Division
London Underground
Limited

National Union of Rail, Maritime and Transport Workers

Patrick Sikorski
Assistant General
Secretary, RMT

Unite the Union

Tom Chinnery
Pensioner, Unite the Union

Transport Salaried Staffs' Association

Steve Gray
Group Reserve Stations
Supervisor Class 1, London
Underground Limited

TfL Pension Consultative Council

Linda Arwood
Pensioner

Ian Kierans

Group HR Customer
Services Delivery,
Transport for London

Chris Miller
Pensioner

Paul Murphy

Train Instructor, Acton
Town, London
Underground Limited

Trustee advisers and managers

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

Investment managers	AllianceBernstein Limited, Baillie Gifford & Co, Bridgewater Associates, Inc, Goldman Sachs Asset Management, Legal & General Investment Management, Nomura Asset Management UK Ltd, Semperian PPP Investment Partners LP
Custodian	JP Morgan Chase Bank
Administration services	Transport for London
Investment adviser	Mercer Investment Consulting
Scheme Actuary	RV Williams, Watson Wyatt Limited
Legal advisers	Sacker & Partners LLP
Auditors	KPMG LLP
Bankers	The Royal Bank of Scotland plc
Communications adviser	Talking People, a Buck Consultants company
Medical adviser	Professor K Holland-Elliott
AVC providers	Clerical Medical, Equitable Life, Standard Life
Fund Secretary	S Field, FPMI

Additional help or information

The financial information in this annual review is a summary of the full audited accounts. If you would like a copy of the Annual Report and Accounts, please contact the Head of Pensions and Fund Secretary, at the following address:

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

Visit the website

Whether you are a contributing member, a pensioner or have a deferred pension, you can use the website to find more information about the Fund. Registering for Member Self-Service will allow you to view the data we hold for you, change your address if you are a pensioner or deferred member or run what if' calculations if you are a contributing or deferred member. You can also download a full copy of the Annual Report and Accounts. Visit our website at www.tflpensionfund.co.uk

We continue to take great care to ensure that our website is helpful and easy to use. We hope that you will take the opportunity to visit the site – we always welcome your comments and ideas, which you can email to us via the site.



Summary Funding Statement

This statement provides members entitled to benefits from the Public Sector Section (the Section) of the Fund with an update of the financial position of the Section. It is based on the 31 March 2006 valuation. Reference to TfL in this document means TfL and those of its subsidiaries that are Participating Employers in this Section.

The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2006, the funding position of the Section was as follows:

Assets	£3,820m
Amount needed to provide benefits earned to 31 March 2006	£4,012m
Shortfall	£192m
Funding level	95%

As a result TfL agreed to pay deficit contributions of 9.25 per cent of pensionable salaries from 1 April 2007 to 31 March 2010 and 0.75 per cent of pensionable salaries from 1 April 2010 in order to eliminate the shortfall by 31 March 2017. These deficit payments are in addition to regular contributions (from members and TfL) which are intended to cover the cost of benefits for future service. TfL made an advance payment of £157m in August 2007 in respect of some of its future contributions.

The estimated additional amount needed on 31 March 2006 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £2,949m. This calculation assumes all benefits would be secured with an insurance company. The Trustee is required by law to provide you with this information. It does not imply that there is any intention of winding up the Section.

Change in Funding Position

The ongoing funding position was last assessed as at 31 March 2008, when the funding level was estimated to be 84 per cent with a shortfall of £773m. This assessment was not a formal valuation, but measured the position in an approximate manner consistent with that used for the 2006 valuation, taking account of membership changes since then. In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2007 was estimated to be 97 per cent with a shortfall of £114m. The deterioration in the funding

position between 31 March 2007 and 31 March 2008 was due primarily to poor investment returns, partly offset by contributions paid into the Section exceeding the estimated cost of new benefit accrual. The next formal valuation is as at 31 March 2009 and the results will be included in the 2010 summary funding statement.

Other matters

The Trustee is required to tell you by law that there has not been any payment to TfL out of the funds of TfL Pension Fund since the date of the last summary funding statement sent to you. Also that the Pensions Regulator has not exercised its statutory powers to modify the Section's benefits or to determine the outcome of the actuarial valuation or the contributions to be paid to the Section.

How the Section operates

How is my pension paid for?

Both the members currently employed by companies participating in the Section, and those companies themselves pay contributions to the Section, so that it can pay pensions to members when they retire. The money to pay for members' pensions is held in a common fund. It is not held separately for each individual.

How do we calculate the amount the Section needs?

The Trustee obtains regular actuarial valuations – or financial 'health checks' – of the Section. This process involves a comparison of the market value of the assets held by the Section with the amount estimated to be needed to pay the benefits built up to date, determined using the Trustee's chosen assumptions regarding future unknown events. The Trustee, having taken the advice of the Scheme Actuary, then comes to an agreement with TfL on the level of contributions to be paid to the Section in future. (The Scheme Actuary is responsible for providing advice to the Trustee on a range of matters, including funding issues.)

The importance of TfL's support

The Trustee's objective is to have enough money in the Section to pay pensions now and in the future. However, the success of the plan relies on TfL's continuing to support the Section because:

- TfL will be paying the future expenses of running the Section on an annual basis
- The funding level can fluctuate and, when there is a funding shortfall, TfL will usually need to put in more money
- And the target funding level may be insufficient, in which case TfL will need to put in more money

What would happen if the Section were to be wound up?

We are legally required to inform you what would happen if the Section were to be wound up. If this happens you might not receive the full amount of pension you have built up, even if the Section is fully funded on an ongoing basis. However, while the Section continues to operate in its current form, even though the funding may temporarily be below target, benefits will continue to be paid in full.

If the Section were to wind up, TfL would be required to pay enough into the Section to enable members' benefits to be completely secured with an insurance company. It may be, however, that TfL would not be able to pay this full amount. If TfL was unable to pay this amount, the Pension Protection Fund might be able to take over the Section and pay compensation to members. For further information on the Pension Protection Fund see the website at

www.pensionprotectionfund.org.uk or write to the Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view

of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes TfL will continue in business and support the Section.

What is the Section invested in?

The contributions paid into the Section are invested by the Fund's Trustee in a variety of assets. At the current time the Trustee's long-term policy is to hold about 30 per cent of the assets in bonds and about 56 per cent in equities and 14 per cent in other types of investment.

Important: If you are thinking of leaving the Section for any reason, you should consult a professional adviser, before taking any action.

Additional documents available on request

*The Statement of Funding Principles**. This sets out the scheme's funding plan.

*The Recovery Plan**. This explains how the funding shortfall is being made up.

*The Statement of Investment Principles**. This explains how the Trustee invests the Section's assets.

*The Schedule of Contributions**. This shows the contributions being paid into the Section.

The full report on the latest *Actuarial Valuation* as at 31 March 2006 and *Actuarial Reports* as at 31 March 2007 and 31 March 2008.

The TfL Pension Fund Members' or Pensioners' Guide**. You should already have a copy but we can provide you with another if required.

An Annual Benefit Statement. If you have not received a benefit statement in the last 12 months you can ask for a statement that provides an illustration of the pension you might receive from the Section.

*These documents are also available on the website: www.tflpensionfund.co.uk

You are invited to the Annual Members' Meeting and Exhibition

This year's TfL Pension Fund Annual Members' Meeting (AMM) will be at 11:00 on Tuesday 13 October. The exhibition starts at 10:00 when refreshments will be available. After the success of previous events we have again decided to go back to One Great George Street, Westminster, London SW1P 3AA. The meeting and exhibition are open to all Fund members - contributing members, members in receipt of a pension (including dependants and children) and those who have left the company with an entitlement to a deferred pension.

You will be able to ask questions on the day, but if you cannot attend, you can submit a question to the Trustees by writing to the Head of Pensions & Fund Secretary, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD. You will receive a response as soon as possible after the AMM.

Please remember, we can only answer general questions about the Fund at the meeting, not those relating to your own benefits.

The programme for the meeting is:
Introduction at 11:00
Review of the year to 31 March 2009
Legal Framework of the Scheme
Overview of the investments held by the Fund
Update from the Actuary
Open Forum – Questions & Answers
Adjourn for refreshments and informal discussions
Close at 13:15

For the exhibition, we have invited a number of external organisations to bring along information of interest to all our members. The exhibition will run throughout the meeting and will also close at 13:15. If you cannot attend the whole event, please feel free to pop in and find out what's going on. For members who are mobility impaired access to the building is now via the main entrance. If you require further information please contact the Fund Office on 020 7918 2906. Please note that, for security reasons, you may be asked for some form of identification on arrival.

