

TfL Pension Fund

Annual Review 2016



Notice for the visually impaired

Copies of this report in large type and in a text only format are available from the Fund Office. Please write to TfL Pension Fund, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD, or call 020 7918 3792 for your copy.



From the Chair

I am pleased to present my review as Chair for the year ended 31 March 2016. It has been another year where pensions has rarely been absent from press coverage and from Governmental and regulatory attention.



After the steady increase in the Fund's assets seen in recent years, the experience this year has been of both rises and falls with the Fund's net assets exceeding £8.2 billion at 31 March 2016, a small reduction compared with last year. The Fund's liabilities have continued their general trend of increasing, although with the results of the 31 March 2015 valuation now completed these have been adjusted to reflect the experience of the Fund since the last valuation and revised assumptions.

The importance of employer support and the Trustee's attention on both the Fund's asset and liability components remains key in seeking to ensure the security of member benefits.

The Alternatives and Liability Hedging Committee and the Investment Committee have undertaken a review of the Fund's investment strategy during the year in conjunction with our investment advisers. A number of investment proposals have been considered, with only those which met the Fund's reward and risk criteria being pursued further. As a result of these activities there have been three new investment manager appointments made during the year as well as the termination of three investment manager mandates during the year.

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

With a membership of over 84,000, the day to day administration of the Fund is a significant undertaking. The Fund Office met their service level agreement targets in over 99 per cent of cases.

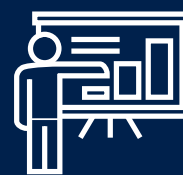
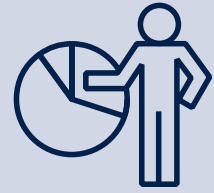
During the year we welcomed Jill Collis and Rachel Kerry to the Trustee Board. The Trustee Directors continued to attend regular training sessions throughout the year to ensure that they remain up to date with legislative changes as well as best practices, and that the Trustee complies with the requirements regarding trustee knowledge and understanding.

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

Maria Antoniou
Chair of the TfL Pension Fund Trustees

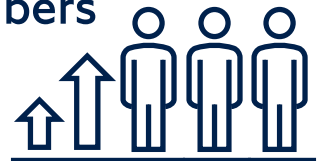
Fund in numbers

Fund value
£8.2 billion



Deficit reduced to £396 million

Over 84,000 members



31 Investment managers



In this year's review

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Membership review

The chart below compares the membership numbers between the 2015 and 2016 Fund years.

2015 - Total members: 83,466

24,336	17,111	31,394	10,625
Contributing members	Deferred pensioners	Pensioners	Dependants and children
25,636	16,732	31,647	10,544

2016 - Total members: 84,569

The 25,636 contributing members are spread across the Participating Employers

	As at 31 March 2016	As at 31 March 2015
Transport for London	25,599	23,410
Tube Lines Limited**	-	886
Other employers*	37	40
Total Members	25,636	24,336

* This section is closed to new members.

** All members of the Tube Lines section transferred to the Public Sector section on 30 March 2016

Year at a glance

As at 31 March 2016, the value of the Fund was £8,215m. This is a decrease of £89.2m on the value at the end of the previous Fund year.

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

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

£8,304.2m		Fund value as at 31 March 2015	
Plus income of....		Minus expenditure of....	
Employers' contributions	£317.2m	Pensions and other benefits paid	£328.0m
Investment income	£104.8m	Investment management	£12.8m
Members' contributions	£59.1m	Other payments	£4.5m
Transfers in from other pension schemes	£1.4m	Administration	£4.2m
		Payment in respect of leavers	£3.3m
		Pension levies	£7.1m
Total income	£482.5m	Total outgoing	£359.9m
Decrease in value of investments £211.8m			

£8,215.0m		Fund value as at 31 March 2016	
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The Fund's accounts are audited each year by independent auditors KPMG LLP, who have confirmed that:

- The Fund's accounts show a true and fair view of the financial transactions during the year ending 31 March 2016 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year
- Contributions were paid to the Fund in accordance with the schedules of contributions in force during the year.

How the Fund is invested

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

Blackrock (Index tracking and liability matching assets) 44.1%

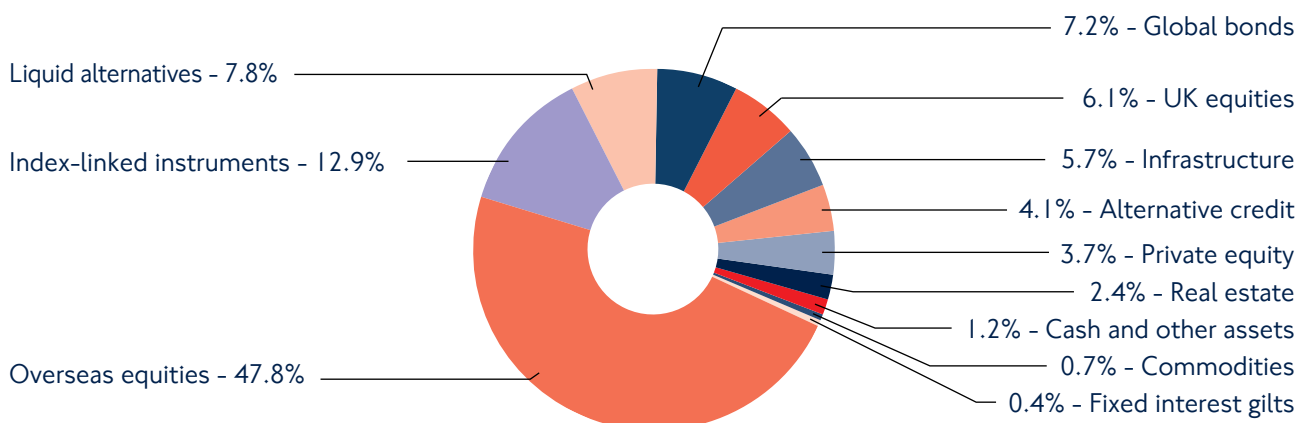
Active Specialist

Goldman Sachs (Global bonds)	7.4%	JO Hambro (Asia (ex Japan) equities)	1.2%
Pzena (Global equities)	5.7%	Brigade (Alternative credit)	1.1%
JO Hambro (Global equities)	5.0%	Coronation (GlobalEquities)	1.1%
Vertias (Global equities)	4.8%	Oak Hill (Alternative credit)	1.1%
Nomura (Pacific Basin equities)	2.4%	Paradice (Global equities)	1.1%
Burgundy (North American equities)	2.2%	Wellington (Alternative credit)	1.0%
Ardevora (Global equities)	2.0%	Currency overlay	(0.7%)

Alternative Assets

Bridgewater (Global Macro Systematic Hedge Fund)	3.0%	Neuberger Berman (Global equity Fund of Funds)	0.9%
Semperian (Infrastructure assets)	2.9%	Arrowgrass (Multi-Strategy Hedge Fund)	0.8%
Partners Group (Private Equity Fund of Funds)	1.6%	Industry Funds (Infrastructure debt)	0.8%
CBRE (Real Estate (Fund of Funds exposure))	1.5%	Goldman Sachs (Alternative Risk Premium Hedge Fund)	0.7%
Credit Suisse (Reinsurance Hedge Fund)	1.5%	Gresham (Commodities)	0.7%
Colonial First State (Infrastructure Assets)	1.2%	GS Mezzanine (Private Mezzanine debt)	0.6%
Blackrock (UK renewables Private equity)	1.1%	Brevan Howard (Global Macro Discretionary Hedge Fund)	0.5%
Siguler Guff (Distressed Debt Private Equity)	1.0%	OZ Management (Multi-Strategy Hedge Fund)	0.4%
AQR ((Futures Hedge Fund)	0.9%	IFC (Global Infrastructure Fund)	0.3%
		Rogge (Emerging Market Currencies)	0.1%

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



How the Fund is invested (cont.)

Top 10 shares		Value £m	Country	Sector
The Fund has significant holdings in shares (equities) of a number of major quoted companies. The ten largest holdings as at 31 March 2016 were:	Oracle	34.6	USA	Technology
	Microsoft	32.7	USA	Technology
	Comcast	23.2	USA	Media
	Time Warner Cable	23.0	USA	Telecommunications
	Total SA	19.9	France	Oil & Gas
	Allergan	19.3	Ireland	Pharmaceutical
	Tencent Holdings	18.2	China	Technology
	Unitedhealth Group	18.1	USA	Healthcare
	Capita	17.5	UK	Business Solutions
	British American Tobacco	17.3	UK	Tobacco

Activism

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

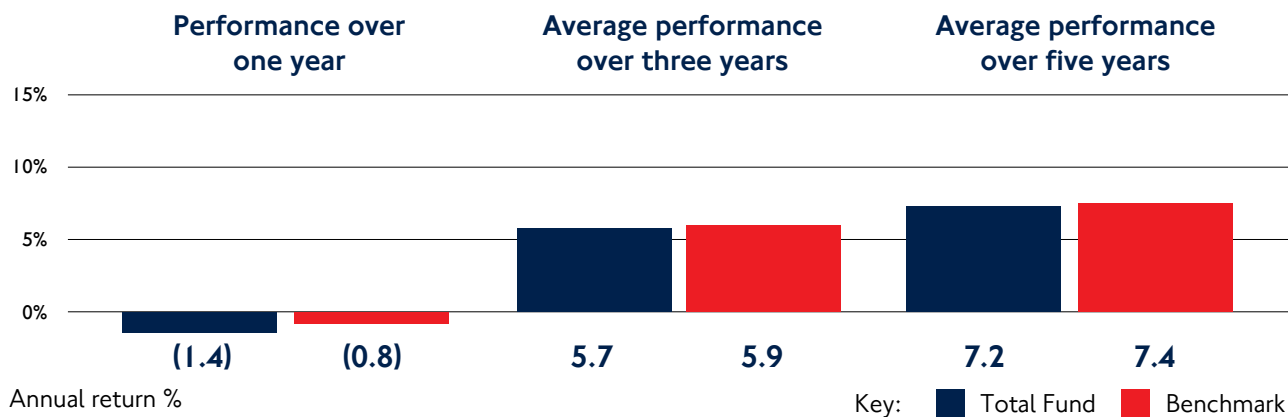
The Fund is a signatory of the Carbon Disclosure Project, now known as CDP, which works with shareholders and corporations to disclose environmental matters such as the greenhouse gas emissions of major corporations.

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 Trustee will continue to monitor the developments on environment, social and governance issues, but has made no change in the Statement of Investment Principles to its current coverage of these matters.

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

Investment performance

The chart below shows that the investment return was 0.6 per cent below the Fund's performance benchmark (the comparator set by the Trustees) for the year to 31 March 2016. Over the longer periods, investment performance was 0.2 per cent below the benchmark over both three years and five years.



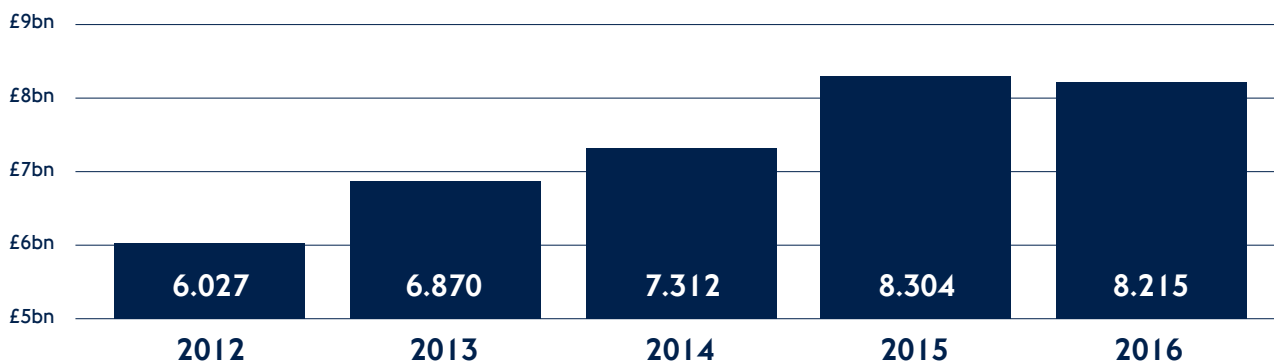
The Fund's assets

The Fund's assets total £8,215.0m. The amount held by each section on 31 March 2016 is shown below

Section	£m
Public Sector	8,201.9
Composite Section	13.1

Value of the Fund

Over the year to 31 March 2016, the total value of the Fund's assets decreased by £89m to £8.215bn. The chart below shows how the Fund's assets have changed over the last five years.



The Fund's Trustees

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

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

On 31 March 2016, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Maria Antoniou
(Chairman)
External Appointment,
Transport for London

Angela Back
Head of HS&E for COO
London Underground Limited

Mike Binnington
Senior Principal
Commercial Finance,
Transport for London

Emanuela Cernoia
Assistant Treasurer
Transport for London

Jill Collis
Director of HS&E
Transport for London

Rachel Kerry
Head of HR
Transport for London

Dave O'Brien
Head of Risk Management
Rail & Underground,
Transport for London

Mike Weston
Director of Buses
Surface Transport,
Transport for London

Steve White
Operations Director
London Underground Limited

**Unite the Union
(T&GWU)**
Lewis Brown
IM Service Analyst
Team Leader,
Transport for London

**Associated Society of
Locomotive Engineers
and Firemen**
Graham Dean
Train Operator
London Underground Limited

**National Union of Rail,
Maritime and
Transport Workers**
Steve Hedley
Senior Assistant General
Secretary, RMT

**Transport Salaried Staffs'
Association**
Vacancy

Unite the Union (Amicus)
John Timbrell
Project Engineer
London Underground Limited

**TfL Pension Consultative
Council**
Stephen Ellaby
HSE Manager
Specialist Services,
Transport for London

Paul Kilius-Smith
Pensioner

Chris Miller
Pensioner

Paul Murphy
Train Instructor, Northfields,
London Underground Limited

Trustee advisers and managers

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

Investment managers

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

Custodian

JP Morgan Investor Services

Administration services

Transport for London

Investment adviser

Willis Towers Watson

Scheme Actuary

G Oxtoby, Willis Towers Watson

Legal advisers

Sacker & Partners LLP

Auditor

KPMG LLP

Bankers

The Royal Bank of Scotland plc

Independent Performance Monitoring

JP Morgan Investor Services

Transition Investment Manager

Citigroup Global Markets Limited

Communications

Hughes Communications

Independent Medical adviser

Dr S Sheard

Scheme Employer Covenant Reviewer

Penfida Limited

AVC providers

Clerical Medical, Equitable Life, Standard Life

Secretary to the Trustee

S Field, FPMI

Additional help or information

The financial information in this annual review is a summary of the full audited accounts. If you would like a copy of the Annual Report & Accounts, please contact the Director of Pensions & Reward and Fund Secretary, at the following address:
4th Floor, Wing over Station, 55 Broadway,
London SW1H 0BD.

Visit the website

Whether you are a contributing member, a pensioner or have a deferred pension, you can use the website to find more information about the Fund. You can also download a full copy of the Annual Report & Accounts from our website at www.tflpensionfund.co.uk

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

Summary Funding Statement

This statement provides members entitled to benefits from the Public Sector Section (the Section) of the Fund with an update of the financial position of the Section. It is based on the 31 March 2015 valuation. Reference to TfL in this document means TfL and those of its subsidiaries that are Participating Employers in this Section.

The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2015, the funding position of the Section after allowing for the effect of the merger into the Section of the Tube Lines Limited Section was as follows:

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

As a result TfL agreed to pay deficit contributions of 5.45 per cent of pensionable pay from 1 April 2016 to 31 March 2022 and, on or before 31 March 2018, a lump sum of £37.8 million increased in line with the increase in RPI between September 2008 and September 2017. These amounts took account of contributions, benefit accruals, expenses and interest after the valuation date. These deficit payments are in addition to regular contributions (from members and the employer) which are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2016 are 25.55 per cent of pensionable pay for all members of the Section.

The estimated additional amount needed on 31 March 2015 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £10,676 million (taking no account of the merger of the Tube Lines Limited Section). This calculation assumes all benefits would be secured with an insurance company. The Trustee is required by law to provide you with this information. It does not imply that there is any intention of winding up the Section.

Change in Funding Position

The ongoing funding level was last assessed as at 31 March 2014 when the funding level was estimated to be 92 per cent with a shortfall of £589 million. The improvement in the funding position between 31 March 2014 and 31 March 2015 was due primarily to investment returns being higher than assumed, which more than exceeded

the increase in the value of liabilities that resulted from lower prospective investment returns. Also contributions paid into the Section exceeded the estimated cost of new benefit accrual.

Next funding valuation

The next formal valuation is at 31 March 2018.

Other matters

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

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

How the Section operates

How is my pension paid for?

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

How do we calculate the amount the Section needs?

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

The importance of TfL's support

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

- TfL will be paying the future expenses of running the Section on an annual basis;
- the funding level can fluctuate and, when there is a funding shortfall, TfL will usually be required to put in more money.

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

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

If the Section were to wind up, TfL would be required to pay enough into the Section to enable members' benefits to be completely secured with an insurance company. It may be, however, that TfL would not be able to pay this full amount. If TfL was unable to pay this amount, the Pension Protection Fund might be able to take over the Section and pay compensation to members. For further information on the Pension Protection Fund see the website at www.pensionprotectionfund.org.uk or write to the Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

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

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes TfL will continue in business and support the Section.

What is the Section invested in?

The contributions paid into the Section are invested by the Fund's Trustee in a variety of assets. At the current time the Trustee's investment policy is to hold about 24 per cent of the assets in bonds and about 54 per cent in equities and 22 per cent in other types of investment.

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

Annual Benefit Statement

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

Additional documents available on request

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

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

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

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

The full report on the latest *Actuarial Valuation* as at 31 March 2015* and *Actuarial Reports* as at 31 March 2013 and 31 March 2014.

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

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

You are invited to the Annual Members' Meeting and Exhibition

This year's TfL Pension Fund Annual Members' Meeting (AMM) will be at 11:00 on Friday 14 October. The exhibition starts at 10:30 when refreshments will be available. After the success of previous events we have again decided to go back to One Great George Street, Westminster, London SW1P 3AA. The meeting and exhibition are open to all Fund members - contributing members, members in receipt of a pension (including dependants and children) and those who have left the company and have a deferred pension.

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

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

The programme for the meeting is:

- Introduction at 11:00
- Review of the Annual Report & Accounts to 31 March 2016
- Actuarial update over the last 12 months
- Legal developments and changes to the TfL Pension Fund
- Investment strategy and implementation
- Open Forum – Questions & answers
- Adjourn for refreshments and informal discussions
- Close at 13:15

For the exhibition, we have invited a number of external organisations to bring along information of interest to all our members. The exhibition will run throughout the meeting and will also close at 13:15. If you cannot attend the whole event, please feel free to pop in and find out what's going on.

For members who have mobility considerations access to the building is via the main entrance. If you require further information please contact the Fund Office on 020 7918 2906.

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

