

TfL Pension Fund

Annual Review 2017



Notice for the visually impaired

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From the Chairman

I am pleased to present my review as Chairman for the year ended 31 March 2017. It has been another year where pension matters have continued to attract interest from the media, governmental and regulatory authorities.



The steady increase in the Fund's assets has resumed after last year's small reduction, with the Fund's net assets exceeding £9.8 billion at 31 March 2017. The Fund's liabilities have continued their general trend of increasing, although unlike last year, their growth during the year has not outpaced that of the Fund's assets. The next formal review of assets and liabilities will be the actuarial valuation as at 31 March 2018.

The Fund, through the Investment Committee and Alternatives and Liability Hedging Committee, reviewed its investment beliefs during the year and these are now incorporated into the Statement of Investment Principles. Also having decided to become a signatory of the UN Principles of Responsible Investment (UNPRI), the Fund is evidencing its existing stewardship activities as an active and long term institutional investor.

No new investment manager appointments were made during the year, but some new appointments are expected to be finalised shortly.

During the year a new TfL subsidiary, Rail for London (Infrastructure) Limited, became a participating employer in the Public Sector Section of the Fund. This company's employees are covering roles that TfL is undertaking for the Elizabeth line.

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

With a membership of almost 86,000, the day to day administration of the Fund is a significant undertaking. The Fund Office met their service level agreement targets in over 99.9 per cent in three out of four quarters of the year. Whilst the planned non-availability of Member Self Service during a software upgrade resulted in additional call volumes to the Fund office, I am pleased to report the service has now been re-launched.

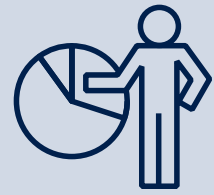
During the year we welcomed Tricia Ashton, Tanya Coff, Nicola Cox and Carole Davies to the Trustee Board. The Trustee Directors continued to attend regular training sessions throughout the year to ensure that they remain up to date with legislative changes as well as best practices, and that the Trustee complies with the requirements regarding 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
Chairman of the TfL Pension Fund Trustees

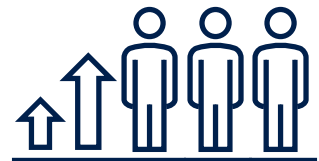
Fund in numbers

Fund value
£9.8 billion



Deficit
£396 million

85,883 members



27 Investment managers



In this year's review

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Membership review

The chart below compares the membership numbers between the 2016 and 2017 Fund years.

2016 - Total 84,559 members

25,636	16,732	31,647	10,544
Contributing members	Deferred pensioners	Pensioners	Dependants and children
26,623	16,618	32,183	10,459

2017 - Total 85,883 members

The 26,623 contributing members are spread across the Participating Employers

	As at 31 March 2017	As at 31 March 2016
Transport for London	26,587	25,599
Other employers*	36	37

* This section is closed to new members.



Year at a glance

As at 31 March 2017, the value of the Fund was £9,867.8m. This is an increase of £1,656.4m on the value at the end of the previous Fund year.

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

£8,304.2m		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
		Payments in respect of leavers	£3.3m
		Pension levies	£7.1m
Total income	£482.5m	Total outgoing	£359.9m
Change in value of investments (£215.4m)			

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

£9,867.8m		Fund value as at 31 March 2017	
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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 2017 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 pie chart below shows the target allocation of the Fund's assets between investment managers.

BlackRock (Index tracking and liability matching assets) 40.6%

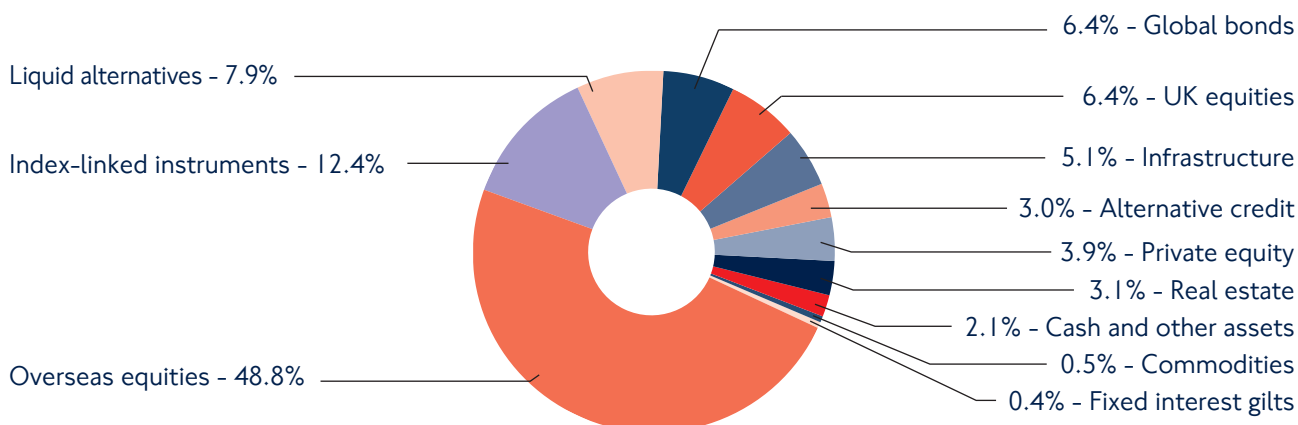
Active Specialist

Pzena (Global equities)	6.7%	Russell (Global Emerging Market equities)	2.1%
Goldman Sachs (Global bonds)	6.6%	JO Hambro (Asia (ex Japan) equities)	1.4%
JO Hambro (Global equities)	5.2%	Coronation (Global Emerging Market equities)	1.3%
Veritas (Global equities)	5.1%	Oak Hill (Alternative credit)	1.3%
Nomura (Pacific Basin equities)	2.7%	Paradice (Global Small Cap equities)	1.2%
Burgundy (North American equities)	2.3%	Wellington (Alternative credit)	0.8%
Ardevora (Global equities)	2.3%	Currency overlay	0.2%

Alternative Assets

Bridgewater (Global Macro Systematic Hedge Fund)	2.8%	Brevan Howard (Global Macro Discretionary Hedge Fund)	1.0%
CBRE (Real Estate (Fund of Funds exposure))	2.4%	Industry Funds (Infrastructure debt)	0.8%
Semperian (Infrastructure assets)	2.3%	Siguler Guff (Distressed Debt Private Equity)	0.7%
Credit Suisse (Reinsurance Hedge Fund)	1.7%	AQR (Futures Hedge Fund)	0.7%
Neuberger Berman (Global equity Fund of Funds)	1.5%	Arrowgrass (Multi-Strategy Hedge Fund)	0.7%
Partners Group (Private Equity Fund of Funds)	1.4%	Goldman Sachs (Alternative Risk Premium Hedge Fund)	0.6%
Colonial First State (Infrastructure Assets)	1.2%	GS Mezzanine (Private Mezzanine debt)	0.6%
Blackrock (UK renewables Private equity)	1.0%	OZ Management (Multi-Strategy Hedge Fund)	0.4%
		IFC (Global Infrastructure Fund)	0.4%

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 2017 were:	Oracle	43.3	USA	Technology
	Charter	35.0	USA	Telecommunications
	Comcast	32.8	USA	Media
	Microsoft	28.7	USA	Technology
	Tencent Holdings	24.7	China	Technology
	Unitedhealth Group	23.8	USA	Healthcare
	Posco	23.6	S Korea	Steel
	Total SA	23.4	France	Oil & Gas
	Allergan	23.3	Ireland	Pharmaceutical
	British American Tobacco	22.4	UK	Tobacco

Stewardship and Activism

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

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

The Fund continues to be 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.

The Fund has also become a signatory of the UN Principles of Responsible Investment (UNPRI). Through this association with the UNPRI the Fund will gain support in developing its engagement with ESG issues and through the UNPRI reporting framework provide information on its activities and be able to assess progress. The Fund will be working on its compliance with the UNPRI using its existing resources and this will determine the scale and pace of the Fund's engagement.

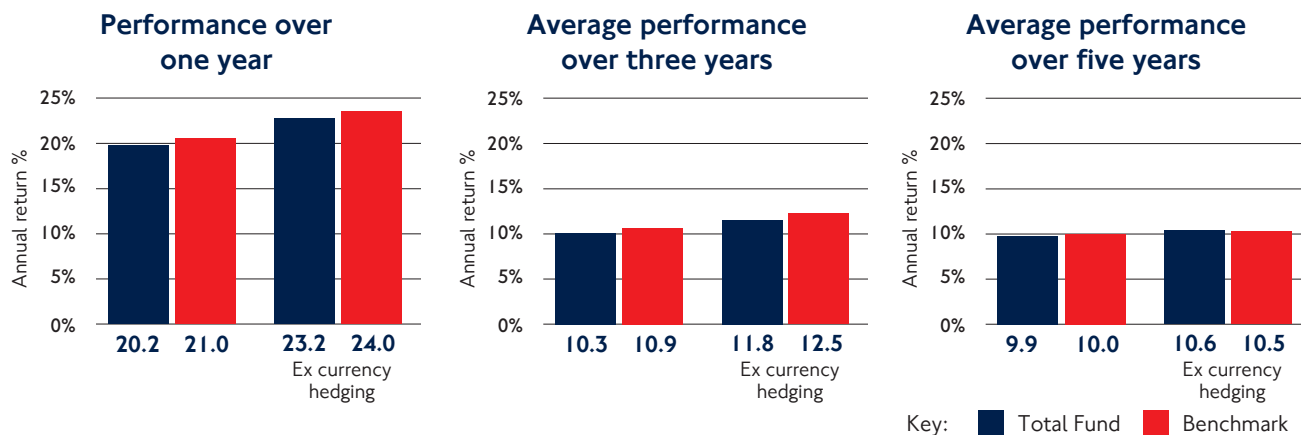
The Trustee has asked the Investment Managers to exercise their voting and other rights as shareholders in a manner they believe to be consistent with best practice in relation to Corporate Governance and in accordance with the Institutional Shareholders' Committee's (ISC) Statement of Principles on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

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



Investment performance

The chart below shows that the investment return was 0.8 per cent below the Fund's performance benchmark (the comparator set by the Trustees) for the year to 31 March 2017. Over the longer periods, investment performance was 0.6 and 0.1 per cent per annum below the benchmark over three years and five years respectively.



While the Fund's pension liabilities are sterling based, it holds assets denominated in a number of currencies. In order to mitigate the impact of currency movements, the Fund carries out a limited program of hedging. This provides some protection against changes in asset values that arise due to movements in exchange rates.

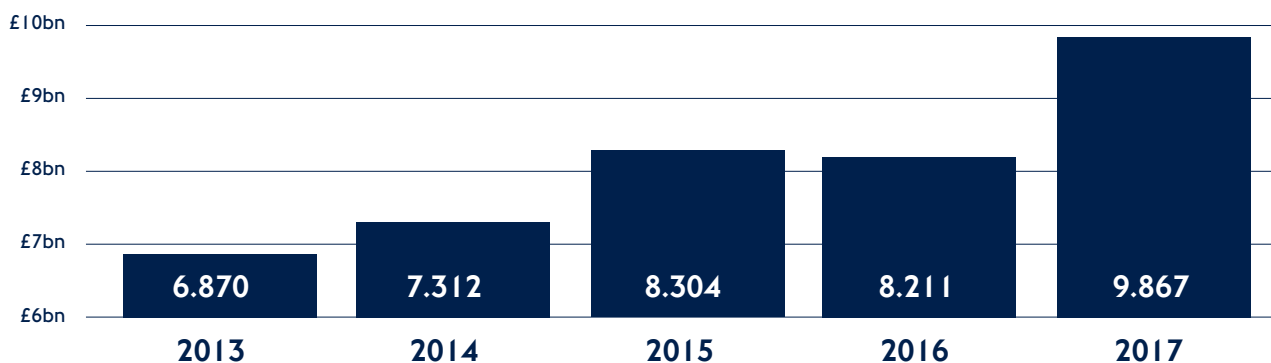
The Fund's assets

The Fund's assets total £9,867.8m, of which £69m are in respect of Additional Voluntary Contributions (AVCs). The amount held by each section on 31 March 2017 is shown below

Section	£m
Public Sector	9,851.4
Composite Section	16.4

Value of the Fund

Over the year to 31 March 2017, the total value of the Fund's assets increased by £1.656bn to £9.867bn. 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 2017, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Maria Antoniou

(Chairman)

External Appointment

Transport for London

Tricia Ashton

General Manager

Victoria Line

London Underground Limited

Mike Binnington

Senior Principal

Commercial Finance

Transport for London

Emanuela Cernoia

Assistant Treasurer

Transport for London

Tanya Coff

Finance Director

Transport for London

Jill Collis

Director of HS&E

Transport for London

Nicola Cox

Principal

Commercial Finance

Transport for London

Rachel Kerry

Head of HR

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

Union of Rail,

Maritime and

Transport Workers

Steve Hedley

Senior Assistant General

Secretary

RMT

Transport Salaried Staffs' Association

Stephen Ellaby

HSE Manager

Transport for London

Unite the Union (Amicus)

John Timbrell

Project Engineer

London Underground Limited

TfL Pension Consultative Council

Carole Davies

Borough Engagement Manager

Transport for London

Paul Kilius-Smith

Pensioner

Chris Miller

Pensioner

Paul Murphy

Train Instructor

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
Burgundy Asset Management Limited
CBRE Global Collective Investors UK Limited
Colonial First State Global Asset Management
Coronation International Limited
Credit Suisse IRIS ALHC Fund Limited
Goldman Sachs Asset Management
IFC Asset Management Company LLC
Industry Funds Management Pty Limited
JO Hambro Capital Management Ltd
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
Russell Implementation Services Limited
Semperian PPP Investment Partners Holdings Ltd
Siguler Guff & Company LP
Veritas Asset Management LLP
Wellington Management Company LLP

Custodian

JP Morgan Investor Services

Administration services

Transport for London

Investment adviser

Willis Towers Watson

Scheme Actuary

Gareth Oxtoby, Willis Towers Watson

Legal advisers

Sacker & Partners LLP

Auditor

KPMG LLP

Bankers

The Royal Bank of Scotland plc

Investment Performance Monitoring

JP Morgan Investor Services

Transition Manager

Citigroup Global Markets Limited

Communications

Hughes Communications

Independent Medical adviser

Dr Simon Sheard

Scheme Employer Covenant Reviewer

Penfida Limited

AVC providers

Clerical Medical, Equitable Life, Standard Life

Secretary to the Trustee

Stephen Field, FPMI

Additional help or information

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

We take great care to ensure that our website is helpful and easy to use and hope that you will take the opportunity to visit the site. We always

welcome your comments and ideas, which you can email to us via our website.

The financial information in this annual review is a summary of the full audited accounts and you can download a full copy of the Annual Report and Accounts from our website at www.tfl.gov.uk/pensions. If you would like a paper copy of the Annual Report and Accounts, please contact the Director of Pensions & Reward and Fund Secretary, at the following address:

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

Summary Funding Statement

This statement provides members entitled to benefits from the Public Sector Section (the Section) of the Fund with an update of the financial position of the Section. It is based on the 31 March 2015 valuation. Reference to Transport for London (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 salary from 1 April 2016 to 31 March 2022 and, on or before 31 March 2018, a lump sum of £37.8m increased in line with the increase in the Retail Prices Index (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 salary 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 £10,676m (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 2016 when the funding level was estimated to be 87 per cent with a shortfall of £1,218m. The deterioration in the funding position between 31 March 2015 and 31 March 2016 was due primarily to investment returns

being lower than expected for the year and the increase in the value of liabilities that resulted from lower prospective investment returns.

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 22 per cent of the assets in bonds and about 54 per cent in equities and 24 per cent in other types of investment.

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

Annual Benefit Statement

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

Additional documents available on request

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

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

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

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

The full report on the latest *Actuarial Valuation* as at 31 March 2015* and *Actuarial Reports* as at 31 March 2016.

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

*These documents are also available on the website: www.tfl.gov.uk/pensions

You are invited to the Annual Members' Meeting and Exhibition

This year's TfL Pension Fund Annual Members' Meeting (AMM) will be at 11:00 on Friday 27 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 2017
- Actuarial update over the last 12 months
- Legal developments and changes to the TfL Pension Fund
- Investment strategy and implementation
- Open Forum – Questions & answers
- Adjourn for refreshments and informal discussions
- Close at 13:15

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

For members who have mobility considerations access to the building is via the main entrance. If you require further information please contact the Fund Office on 020 7918 3787.

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

