

TfL

PENSIONFUND

Providing for your tomorrow



Annual Report & Accounts for the year to 31 March 2020

Notice for the visually impaired

Copies of this document in large type and in a text only format are available from the Fund Office. Please write to TfL Pension Fund, 4th Floor, 200 Buckingham Palace Road, London SW1W 9TJ, or call 020 7126 4000 for your copy.



TfL Pension Fund

Report and Accounts for the year to 31 March 2020

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Administration Office:

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200 Buckingham Palace Road
London SW1W 9TJ

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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.tfl.gov.uk/pensions

Pension Schemes Registry scheme reference number: 10165351

TfL Pension Fund

Organisation and Advisers as at 31 March 2020

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	External Appointment (TfL)
Mr FE Brennan	Trade Union Official (ASLEF)
Mr LP Brown	Service Performance Manager, Transport for London (Unite the Union (T&GWU))
Mr SW Ellaby	Assistant HSE Manager, HSE Assurance and Improvement, Transport for London (TSSA)
Mr MA Evers	Chief Customer Officer, Transport for London (TfL)
Ms S Folarin	Internal Auditor, Risk & Assurance, Transport for London (PCC)
Mr S Hedley	Senior Assistant General Secretary, RMT (RMT)
Ms A Hopkins	Head of Business Strategy, Transport for London (TfL)
Mr M Hurwitz	Director of Transport Innovation, Transport for London (TfL)
Mr P Kilius-Smith	Pensioner (PCC)
Ms L Matson	Chief Safety, Health & Environment Officer, Transport for London (TfL)
Mr CA Miller	Pensioner (PCC)
Mr PJ Murphy	Train Instructor, Northfields, London Underground Limited (PCC)
Ms R O'Donnell	Senior Treasury Accounting Manager, Transport for London (TfL)
Mr N Pickup	Head of Commercial Property, Transport for London (TfL)
Mr JB Timbrell	Senior Manufacturing Engineer, London Underground Limited (Unite the Union (Amicus))

TfL Pension Fund

Organisation and Advisers as at 31 March 2020 (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
RSM UK Audit LLP

Fund Actuary
Mr G Oxtoby, Willis Towers Watson

Investment Managers

Anchorage Capital Group LLC
Ardevora Asset Management LLP
BlackRock Investment Management (UK) Limited
Blue Mountain Capital Partners LLC
Brevan Howard Asset Management, LLP
Bridgewater Associates, Inc.
CBRE Global Collective Investors UK Limited
Colonial First State Global Asset Management
Coronation International Limited
Credit Suisse AG
Goldman Sachs Asset Management
Harrison Street
IFC Asset Management Company, LLC
Industry Funds Management Pty Limited
J O Hambro Capital Management Limited
JP Morgan Asset Management
Man Asset Management Ltd
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
SCM ManCo 1 Limited
Siguler Guff & Company, LP
Stonepeak Associates III LLC
Veritas Asset Management LLP
Wellington Management Company, LLP

Legal Advisers
Sacker & Partners LLP

Communications Advisers
Hughes Communications

Independent Medical Adviser
Dr S Sheard

Fund 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
Utmost (Equitable Life)
Standard Life

Transition Investment Manager
Citigroup Global Markets Limited

Date of Appointment

3 July 2017
29 June 2015
1 September 2014
1 August 2017
18 February 2013
2 November 2005
11 September 2013
15 December 2009
24 July 2013
9 December 2015
15 June 2005
12 December 2019
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
21 June 2018
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 2020. As with other organisations, dealing with the impact of the Coronavirus has been the major event of the year for the Fund. I had expected to be highlighting the move of the Fund Office in January to 200 Buckingham Palace Road after 31 years residence at 55 Broadway. Having successfully negotiated those logistic and technical challenges in January, an even greater challenge was faced when following the lockdown, the whole Fund Office team was able to remain fully functional while changing to working remotely. For handling postal mail, some attendance at the office has continued, but going forward the efficiency of the Fund Office will benefit as members become more accustomed to making greater use of electronic communications.

Although there has naturally been focus on the period affected by Covid19, for the year as a whole, the Fund Office team day to day administration of the current and future benefits of its over 85,000 members involved over 61,000 tasks being completed. The service level agreement targets achievement was 99.5% for the year.

In the weeks leading up to the Fund's accounting year end, we experienced significant volatility in investment markets which to some extent has continued subsequently. However, the fact is that the Fund is a long-term investor and whilst the value of some of the Fund's assets have fallen, the Fund has a very well diversified portfolio. It also holds investments that have served to protect against the full effects of these falls.

Over the year, assets have decreased by £377.7m to £10,581.8m as at 31 March 2020, while liabilities are estimated to have increased. The importance of employer support and the Trustee's attention on both the Fund's asset and liability components remain crucial in seeking to ensure the security of member benefits and the Fund's independent covenant reviewer has continued to monitor developments with respect to TfL, as the Principal Employer.

Following on from the completion of triennial actuarial valuation last year, there has been an investment strategy review which has now concluded. This targets a high expected return, without changing the level of risk. The result for asset allocation will involve a lower holding of public equity and an increased exposure to private market equity. However, the Fund will remain heavily reliant on equities to generate the required returns and maintain assets in liquid mandates at above 60% of the overall Fund valuation.

Both the Alternatives and Liability Hedging Committee and the Investment Committee, working with our investment advisers, Willis Towers Watson and the Fund Office continue to actively manage the Fund's investments in order to optimise the risk/return profile through identifying new opportunities and in responding promptly to market developments. There has been one new manager appointment during the year with Harrison Street who will be managing a social infrastructure fund and there have been changes to the portfolios of some existing managers where there have been increased or decreased or new portfolios established. Also, Legal & General was appointed to manage Additional Voluntary Contributions. As reported last year, AQR Capital Management and Blue Mountain Capital Partners were terminated shortly after the 31 March 2019 year end.

This year's investment performance was (2.6%), 2.0% above the benchmark return of (4.6%), while over the longer period of three years the return was 2.2% per year, above the benchmark by 0.4%. Over five years returns were 4.8% per year, 0.5% above the benchmark. More information is contained in the Investment Report starting on page 15.

As a signatory of the UN Principles of Responsible Investment, the Fund continues to actively engage with environmental, social and governance ("ESG") matters. The Fund issued its second Sustainability Report in December 2019. It has more recently updated its Statement of Investment Principles to further embed its approach to the consideration of ESG factors, including new regulatory compliance in advance of the October 2020 deadline. The Fund has also appointed Sustainability in December 2019 to enhance corporate Collaborative action such as its role as supporting investor on three company engagements in the Climate Action 100+ initiative has continued. A further significant development this year is for the Fund as an asset holder to provide a report in line with the recommendations of the Task Force on Climate-related Financial Disclosures. While this is not yet a legal requirement, it is expected to become one. This disclosure can be found in the Investment Report.

The diligent work carried out by the other Committees (Actuarial Valuation, Audit & Risk, Operations and Appeals) and the Trustee Board itself in carrying out their respective responsibilities has also contributed greatly to supporting good governance in all the Fund's activities.

During the year we welcomed Rebecca O'Donnell, Amanda Hopkins and Finn Brennan to the Trustee Board and at year-end the Trustee Board was at full strength. Alongside the Trustee Directors' continued attendance at regular training sessions throughout the year, there has been focus on effectiveness, the conduct of meetings and setting of priorities.

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

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 2020.

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.

All Trustee Directors are expected to complete the Pensions Regulator Trustee Toolkit within 6 months of appointment.

(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 and after the year to 31 March 2020:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Ms MJ Kingsley	30 June 2019	Ms R O'Donnell	5 July 2019	TfL
Ms J Collis	6 September 2019	Ms A Hopkins	27 September 2019	TfL
Mr G Dean	5 March 2020	Mr FE Brennan	27 March 2020	ASLEF

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 2020, 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 *	10	10	Mr FE Brennan	1	1
Ms T Ashton *	13	11	Mr LP Brown *	19	16
Mr ME Binnington *	20	19	Mr SW Ellaby *	11	9
Mr MA Evers *	13	13	Ms S Folarin	11	11
Ms A Hopkins *	6	5	Mr S Hedley *	8	3
Mr M Hurwitz *	10	3	Mr P Kilius-Smith *	12	9
Ms L Matson *	15	8	Mr CA Miller *	9	6
Ms R O'Donnell *	13	12	Mr PJ Murphy *	26	26
Mr N Pickup *	19	18	Mr JB Timbrell *	20	20

The average attendance for the Directors listed above at scheduled Trustee Board and Committee meetings was 81% TfL nominated and 83% non-TfL nominated respectively.

* Trustee Directors who have completed the Pensions Regulator Trustee Toolkit and have provided a completion certificate.

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 Mr MA Evers Ms L Matson Mr N Pickup	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 A Hopkins Ms L Matson Ms R O'Donnell	Mr FE Brennan Mr LP Brown Ms S Folarin Mr PJ Murphy
Audit and Risk	Ms A Hopkins Mr M Hurwitz Ms R O'Donnell	Mr FE Brennan Mr LP Brown Mr S Hedley
Appeals	Ms T Ashton Mr MA Evers Mr M Hurwitz	Mr SW Ellaby Ms S Folarin Mr P Kilius-Smith
Actuarial Valuation	Ms M Antoniou Ms R O'Donnell	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 and Risk 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.

Change to Participating Employers

The British Transport Police Authority (BTPA) is a participating employer in the Composite section. Its last employee who was a contributing member of the Fund departed during the year. The participation of BTPA will cease once the intersection transfer to the Public sector section has been completed.

Changes to the Trust Deed and Rules of the Fund

The Rules have been changed so that opposite sex civil partners are treated the same way as same sex civil partners.

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.

TfL Pension Fund

Trustee's Report (continued)

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.

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 and Risk 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 and Risk 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.

TfL Pension Fund

Trustee's Report (continued)

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

Governance Plan

Following the Risk Review, the Trustee has established a 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.

COVID-19

In early 2020, a new coronavirus, COVID-19, impacted a significant number of countries globally. COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of scheme assets. The Trustee has designed and implemented the Fund's investment strategy taking a long-term view and has built in resilience to withstand short term fluctuations. The Trustee is working with its advisers and the employer to ensure the continued smooth running of the Fund and its investments. The Trustee is also monitoring the effect on the sponsoring employer to ensure continued support for the Fund.

Strength of Employer Covenant

The Trustee monitors the credit rating of the Participating Employers, by taking advice from its professional advisers and by having good communication and exchange of information. As it has done for previous valuations, as part of 2018 actuarial valuation, the Trustee commissioned an independent review of the employer covenant of Transport for London and of the private sector Participating Employers by Penfida. This was updated both in February 2019 and March 2020 following the publication of the respective TfL Business Plans.

In response to the impact of COVID-19, Transport for London identified an initial funding gap of £1.6 billion to October 2020 which the Government agreed to support through a combination of grant and loans.

The Government intends to lead a review of Transport for London's financial sustainability over the Summer. This review will inform any further funding arrangements to achieve a balanced budget in the second half of the year and over the medium term.

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 an Integrated Risk Management framework which includes strategic dashboard monitoring which is reviewed quarterly.

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

Pension Regulator Supervision

The Pension Regulator has introduced dedicated one-to-one supervision for the biggest pension schemes and the Fund has been included as part of this initiative. This involves maintaining ongoing contact with the Trustee and TfL as the Principal Employer. The Pension Regulator is seeking to build relationships with schemes whose size means they are strategically important regardless of whether they trigger any of the Regulator's risk indicators.

TfL Pension Fund

Trustee's Report (continued)

5. Financial review

The Accounts of the Fund for the year to 31 March 2020, as set out on pages 27 to 42, 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 £10,581.8m at 31 March 2020. The decrease of £377.7m, compared with the value at 31 March 2019 of £10,959.5m, was made up as follows:

	Movement in the year	
	2020	2019
	£m	£m
Net returns on investments	(321.2)	562.9
Net (costs)/ additions from dealings with members	(56.5)	58.8
	<u>(377.7)</u>	<u>621.7</u>

Net returns on investments comprised changes in the market value of investments of (£445.0m) (2019: £455.3m) and investment income of £143.4m (2019: £125.2m) which were partly offset by investment management expenses of £19.6m (2019: £17.6m). The change in market value of investments for 2020 was made up of realised investment gains of £153.5m and unrealised investment losses of £598.5m (2019: realised gains of £319.3m and unrealised gains of £136m).

The decrease from last year in the amount from dealings with members of £115.3m was mainly due to a lower contributions receivable of £110.1m, increase in benefits payable of £5.4m, decrease in transfers in of £1.5m, an increase in pension levies of £0.5m. Under the Rules of the Fund the administrative costs of the Fund are borne by the Fund itself.

Further details of the financial movements of the Fund can be found in the audited accounts on pages 27 to 42.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 49. 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 Fund 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 Fund Actuary as at 31 March 2018 of each of the two sections of the Fund. The valuation for the Public Sector Section was completed on 22 March 2019 and the valuation for the Composite Section was completed on 10 April 2019. 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 £603m as at 31 March 2018 is being met through contributions from 1 April 2019 until 31 May 2026 equal to Nil from 1 April 2019 to 31 March 2020 and 6.4% of the total of the relevant pay definition for all Members of the section from 1 April 2020 to 31 May 2026. If deficit contributions in the Fund Year are less than £70m (increased by the Agreed Index) a top-up deficit contribution will be required. If deficit contributions in the Fund Year are more than £70m (increased by the Agreed Index) the excess may be used to offset any top-up deficit contribution required in any subsequent Fund Year. For the first time, a Contingent Funding Agreement has also been reached between the Trustee and TfL as part of the formal valuation. Under the Agreement, certain additional contributions become automatically payable in the event of a funding deterioration (calculated on an annual basis and in subsequent formal valuations). This provides significant additional financial support for the Fund above the contributions required through the Recovery Plan.

TfL Pension Fund

Trustee's Report (continued)

For the Composite Sector Section there is a surplus of assets over liabilities of £4.1m.

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. 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 2021 and the statutory deadline for completion is 30 June 2022.

Following completion of the formal valuation, a Summary Funding Statement was 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.

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 2020. In addition, the Fund has 279 (2019: 255) pension credit members comprising 174 deferred pensioners (2019: 161) and 105 pensioners (2019: 94).

	2019/ 2020	2019/ 2020	2018/ 2019	2018/ 2019	Change
Contributing members as at 1 April 2019	26,093		26,665		
Joiners	1,388		1,274		
	<u>27,481</u>		<u>27,939</u>		
Contributing members retiring	(571)		(709)		
Leavers taking a refund of contributions	(206)		(236)		
Leavers becoming deferred pensioners	(691)		(856)		
Leavers transferring to other schemes	(1)		(1)		
Leavers with less than two years' service – member option decision pending	-		-		
Leavers taking a trivial commutation lump sum	(9)		(14)		
Deaths in service	(27)		(30)		
Contributing members as at 31 March 2020		25,976		26,093	-117
Deferred pensioners as at 1 April 2019	16,916		16,910		
Leavers becoming deferred pensioners	691		856		
	<u>17,607</u>		<u>17,766</u>		
Deferred pensions coming into payment	(671)		(652)		
Deferred pensioners transferring to other schemes	(40)		(61)		
Deferred pensioners taking a trivial commutation lump sum	(15)		(66)		
Deferred pensioner deaths	(37)		(71)		
Deferred pensioners as at 31 March 2020		16,844		16,916	-72
Pensioners as at 1 April 2019	32,511		32,325		
Contributing members retiring	571		709		
Pensions coming into payment	671		652		
	<u>33,753</u>		<u>33,686</u>		
Pensioner deaths	(1,197)		(1,175)		
Pensioners taking a trivial commutation lump sum / 100% Pension Sharing order	-		-		
Pensioners as at 31 March 2020		32,556		32,511	+45
Dependants as at 1 April 2019	9,650		9,710		
Dependants becoming entitled to pensions	529		558		
	<u>10,179</u>		<u>10,268</u>		
Dependant deaths	(593)		(544)		
Dependants taking a trivial commutation lump sum	(36)		(74)		
Dependants as at 31 March 2020		9,550		9,650	-100
Eligible children as at 1 April 2019	683		637		
Children becoming entitled to pensions	51		72		
	<u>734</u>		<u>709</u>		
Children ceasing to be eligible	(36)		(23)		
Child deaths	(1)		(3)		
Eligible children as at 31 March 2020		697		683	+14
Total membership as at 31 March 2020		<u>85,623</u>		<u>85,853</u>	<u>-230</u>

TfL Pension Fund

Trustee's Report (continued)

Details of contributing members by section as at 31 March 2020 were as follows:

	2019/ 2020	2019/ 2020	2018/ 2019	2018/ 2019	Change
	%		%		
Transport for London Composite section	25,946	99.88	26,061	99.88	-115
	30	0.12	32	0.12	-2
	<u>25,976</u>	<u>100.00</u>	<u>26,093</u>	<u>100.00</u>	<u>-117</u>

8. Pension increases

Deferred members and pensioners receive increases in accordance with the Fund Rules. The April 2020 pension increase is based on the increase in the Retail Price Index over the 12 months to September 2019. 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 2.4% 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 2016	0.8%	0.8%
April 2017	2.0%	2.0%
April 2018	3.9%	3.9%
April 2019	3.3%	3.3%
April 2020	2.4%	2.4%

9. Contingent Liability

On 26 October 2018, the High Court ruled that Guaranteed Minimum Pension (GMP) benefits provided to members of pension schemes must be recalculated to reflect equalisation requirements between 17 May 1990 and 6 April 1997. As a result of the ruling, the Trustee of the Fund will need to equalise GMPs between men and women.

At this point in time a method of equalisation for the Fund has not yet been agreed by the Trustee and the Company, and there remain a number of areas where further guidance from the DWP or HMRC is awaited. The Trustee expects to further consider the approach to be taken during 2020/21 and into 2021/22.

The Trustee has carried out initial liability estimates in relation to GMP equalisation which indicates the overall Fund liabilities will not increase by more than 0.5%. As a result the expected backdated corrective payments are deemed not material to these accounts. The Trustee will include the amounts once they can be reliably estimated or in the year of payment.

10. Fund's advisers

The Fund has appointed RSM UK Audit LLP as its new Auditor to replace KPMG, KPMG have confirmed that there were no adverse circumstances on their resignation. There were no other changes to the Fund's advisers during the year.

11. Disclosure of information to auditors

The Directors who held office at the date of approval of this Trustee's report confirm that, so far as they are each aware, there is no relevant audit information of which the Fund's auditor is 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 auditor is 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 2020 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 Harrison Street was appointed to manage a social infrastructure fund. 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. Termination notices were served on AQR Capital Management, LLC and Blue Mountain Capital Partners LLC after the 31 March 2019 year end and because of termination provisions a small legacy amount is to be received from Blue Mountain in 2020.

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 2020, including AVC investments, had a value of £10,560.3m an decrease of £367.5m compared with their value, including AVC investments, of £10,927.8m as at 31 March 2019. Investment income (i.e. dividends and interest) amounted to £143.4m for the year to 31 March 2020 compared with £125.2m for the year to 31 March 2019.

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 smaller proportion of the Fund's assets are less liquid.

Benchmark Summary at 31 March 2020

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 2020 are set out below (the table has been simplified due to the large number of managers).

Allocation	Weight %	Comparison Basis
UK equities	2.2	FTSE All Share/MSCI UK
Overseas developed equities	28.6	FTSE Developed World ex UK/MSCI World ex UK
Emerging market equities	5.1	MSCI EM/ Russell EM
Fundamental equities	4.2	FTSE RAFI All World 3000 Index
Developed equities with EM tilt	1.1	Russell GeoExposure
Fixed interest gilts	0.4	FTSE Over 15 Year Gilts
Index-linked gilts	12.7	FTSE ILG Over 5 Year
Global bonds	3.0	BarCap 60/40 Sovereign Credit Index
Global bonds	3.7	BarCap Global Agg Corp 1% Constrained
Alternative credit	2.5	CS Leveraged Loan/BoAML US High Yield
Alternative credit	0.8	BoAML US T-bills +2%
Alternative credit/ Liquid alternatives	11.9	LIBOR +3% pa/LIBOR +5% pa
Alternative credit	1.2	EMBI Global Div /JPM CEMBI Broad Div GBP Hedged
Renewables	1.0	Absolute return of 6.5% pa
Infrastructure	4.8	UK/European RPI +5% pa
Infrastructure	1.1	US CPI +7%
Infrastructure	0.3	MSCI Emerging Markets +2%
Private equity	5.5	MSCI World +3% pa
Private credit	3.7	BoAML Global High Yield +2% pa
Commodities	0.4	Bloomberg Commodity 3 Month Forward
Real estate	5.0	FTSE EPRA/NAREIT Developed +1%
Cash for investing/derivatives for hedging	0.8	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 2020

Portfolio	% of Manager Fund
<i>Core</i>	
Index tracking (all asset classes) and liability matching assets	31.3 BlackRock Investment Management (UK) Limited ¹
<i>Active Specialist</i>	
Global bonds	6.7 Goldman Sachs Asset Management
Global equities 1	2.4 Ardevora Asset Management LLP
Global equities 2	4.1 Pzena Investment Management LLC
Global equities 3	4.4 JO Hambro Capital Management Limited
Global equities 4	3.9 Veritas Asset Management LLP
Pacific Basin equities	2.5 Nomura Asset Management UK Limited
Global emerging market equities	1.2 Coronation International Limited
Global emerging market equities	1.6 Russell Investments Limited
Alternative Credit	2.4 Oak Hill Advisors, LP ²
Global Small Cap equities	1.5 Paradise Investment Management Pty Limited
Alternative Credit	0.8 Wellington Management Company, LLP
Asia (ex Japan) equities	1.2 JO Hambro Capital Management Limited
Emerging market debt	1.2 JP Morgan Asset Management
Currency overlay	(0.5) Russell Implementation Services Limited
<i>Alternative Assets</i>	
Global Macro Systematic Hedge Fund	2.2 Bridgewater Associates, Inc
Infrastructure Investment	2.6 Semperian PPP Investment Partners Holdings Ltd ³
Cory Topco Limited	1.2 SCM ManCo 1 Limited ⁴
Private Equity Fund of Funds	1.1 Partners Group (UK) Limited
Reinsurance Hedge Fund	1.9 Credit Suisse AG ²
Alternative Risk Premium Hedge Fund	1.1 Goldman Sachs Asset Management
Alternative Credit	0.2 Goldman Sachs Asset Management
Private Equity	0.1 Goldman Sachs & Co LLC
Distressed & Structured PE Credit	1.5 Siguler Guff & Company, LP
Infrastructure Private Equity Fund	1.0 Colonial First State Global Asset
Beta Trend Hedge Fund	0.8 Goldman Sachs Asset Management
Private Real Estate (Separate Account)	3.3 CBRE Global Collective Investors UK Limited
Multi-Strategy Credit Hedge Fund	0.9 Anchorage Capital Group LLC
Global Macro Discretionary Hedge Fund	2.2 Brevan Howard Asset Management, LLP
Multi-Strategy Credit Hedge Fund	0.4 Blue Mountain Capital Partners LLC
Segregated Infrastructure Debt Portfolio	1.5 Industry Funds Management Pty Limited
Global Private Equity (Separate Account)	4.3 Neuberger Berman Alternatives Advisers LLCP
Private Mezzanine Debt	0.6 GS Mezzanine Partners
Emerging Market Infrastructure Fund	0.3 IFC Asset Management Company, LLC
UK Renewables Private Equity	1.0 BlackRock Investment Management (UK) Limited
Commodities	0.4 BlackRock Investment Management (UK) Limited
Real Estate	1.7 BlackRock Investment Management (UK) Limited
Alternative Risk Premium Hedge Fund	1.3 Man Asset Management Ltd
Multi-Strategy Hedge Fund	1.1 Man Asset Management Ltd ⁵
Infrastructure Private Equity Fund	1.1 Stonepeak Associates III LLC
Cash	1.3 Cash
	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 and the Credit Suisse Fund as at 31 March 2020.

³ The Fund has a 25.675% economic interest in Semperian PPP Investment Partners Holdings Limited.

⁴ The Fund has a 11.36% economic interest in Cory Topco Limited.

⁵ The Fund has a 30% economic interest in the Man 1783 Fund.

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, 200 Buckingham Palace Road, London SW1W 9TJ 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 2020 are shown below.

	Value	% of Fund's quoted equity holdings	Country	Sector
	£m			
Charter Communications	34.4	1.6	USA	Communication Services
Alphabet	33.1	1.5	USA	Communication Services
Thermo Fisher Scientific	28.2	1.3	USA	Health Care
Intercontinental Exchange	27.7	1.3	USA	Financials
Alibaba Group	25.9	1.2	China	Information Technology
Oracle	22.6	1.0	USA	Information Technology
Facebook	21.5	1.0	USA	Communication Services
BAE Systems	21.3	1.0	UK	Industrials
Canadian Pacific Railway	21.1	1.0	Canada	Industrials
Unilever	20.8	1.0	Netherlands	Consumer Staples
	<u>256.3</u>	<u>11.9</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	1,384

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 outperformed its benchmark in the year. The benchmark targets for the Fund are ambitious across the alternative investments part of the portfolio and for some of the outperformance is expected to be concentrated more in the latter period of investment. The alternative investments have largely performed well in the year against their benchmarks. Some of the Fund's large equity and hedge fund mandates underperformed over the year, which reduced the overall outperformance 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 2020 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 %	(2.6)	(4.6)	2.2	1.8	4.8	4.3
Ex currency hedging	(1.7)	(3.2)	2.5	2.2	5.7	5.8

The Fund assets returned (2.6%) for the year ended 31 March 2020, 2.0% above its benchmark returns of (4.6%).

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 2020 gross of fees, unless shown otherwise, compared with the previous year are shown below:

	Year to 31 March 2020		Year to 31 March 2019	
	Fund %	Benchmark %	Fund %	Benchmark %
Index-Tracking – BlackRock				
UK equities	(18.6)	(18.5)	6.4	6.4
North American equities	(2.3)	(2.3)	17.9	17.7
Canadian equities	(12.5)	(13.0)	13.1	12.6
European equities (ex. UK)	(7.8)	(8.0)	2.8	2.7
Japan equities	(2.1)	(2.4)	1.0	(1.1)
Pacific Basin (ex. Japan) equities	(17.7)	(17.7)	4.7	4.7
Middle East/Africa equities	(10.3)	(10.1)	13.6	13.1
Emerging Market equities	(13.7)	(13.5)	(0.9)	(0.3)
Over 15 year Gilts	17.7	17.7	4.8	4.7
FTSE RAFI All World 3000	(15.3)	(15.4)	6.9	6.2
GeoExposure	(12.9)	(12.0)	4.3	3.8
LDI – BlackRock QIF	7.9	7.9	4.3	4.3
Equities				
Adevora - Global equities	(4.6)	(6.7)	11.5	10.5
Coronation – Global EM equities	(8.3)	(13.5)	1.6	(0.3)
J O Hambro – Asia (ex Japan) equities	(3.4)	(9.0)	(0.1)	2.0
J O Hambro - Global equities	(4.9)	(6.7)	9.3	10.5
Nomura - Far East equities	(4.2)	(6.2)	(1.6)	0.9
Paradise -Global Small Cap equities	(21.0)	(16.5)	(3.9)	5.4
Pzena -Global equities	(20.2)	(5.8)	3.1	12.0
Russell - EM equities	(16.9)	(13.8)	(3.9)	(0.3)
Veritas - Global equities	(1.9)	(6.7)	18.7	10.5
Bonds				
BlackRock - Network Rail bonds ¹	7.4	7.4	6.1	6.1
Goldman Sachs - Asset Backed	(2.0)	7.2	10.0	10.3
Goldman Sachs - Corporate Credit	0.8	1.4	4.0	3.2
Goldman Sachs - Sovereign Credit	6.0	4.5	4.1	4.5
Industry Funds Management	(1.6)	3.8	12.8	3.8
J P Morgan - Emerging Market Debt	(8.8)	(7.0)	(0.1)	2.4
Oak Hill - Enhanced Credit	11.3	8.9	11.2	7.8
Wellington	2.0	3.3	5.4	2.9
Other assets				
Anchorage Capital	0.4	3.8	(2.2)	12.6
Goldman Sachs - Trend	16.7 ²	3.5 ²	-	-
BlackRock Commodities ¹	(34.3)	(32.5)	(9.7)	(3.9)
BlackRock long Lease Property	(0.3)	(18.5)	(5.0) ²	3.5 ²
BlackRock Real Estate ¹	15.9	(1.7)	23.4	23.1
BlackRock Renewable ¹	12.9	6.5	13.6	6.5
Broad Street Real Estate	15.9	(1.7)	13.1	13.3
Brevan Howard Fund ¹	13.5	3.8	10.0	3.8
Blue Mountain Capital	(15.1)	3.8	(6.7)	3.8
Bridgewater Pure Alpha Sterling ¹	(20.3)	5.8	1.9	5.8
CBRE	10.4	(18.5)	13.5	24.3
Colonial First State Global Asset Mgt ¹	5.7	8.7	9.3	4.9
Cory Topco Limited	2.4	7.8	4.4 ²	3.2 ²
Credit Suisse ¹	4.7	10.5	0.5	13.7
Goldman Sachs - ARP	(13.7)	3.8	(0.5)	3.8
Goldman Sachs Coop Fund	(25.6)	1.5	0.9 ²	6.9 ²
Goldman Sachs Mezzanine VI	19.0	(1.7)	4.3	13.3
Goldman Sachs Mezzanine VII	16.5	(1.7)	8.4	13.3
IFC Global Infrastructure	14.2	(11.8)	(4.7)	1.7
Man ARP	(4.6)	3.8	(4.4) ²	3.5 ²
Neuberger Berman	23.5	(3.1)	13.6	14.4
Partners Group	15.4	(2.4)	10.9	16.0
Semperian	3.1	7.6	14.9	7.6
Siguler Guff Distressed Debt	9.9	(2.4)	9.0	14.2
Siguler Guff TARO	17.6	(1.7)	11.0	13.3
Stonepeak Infrastructure Fund	20.5	14.1	6.3	8.0

¹ Performance shown net of fees

² Since inception

The active managers (all the managers shown above with the exception of the Index/Passive and the LDI manager) 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

Legal and General were appointed as the ongoing AVC provider from 1 April 2020. The distribution of the AVCs invested with the three legacy providers as at the year end is set out below:

	Value of fund at 31 March 2020	% of total	Reported returns (where declared) Year to 31 March 2020
	£m		
Utmost (Equitable Life)			
Unit-linked funds			
Secure Cash Investment	2.4	2.9	N/A
Managed	2.1	2.5	(6.5%)
UK FTSE All Share Tracker	1.2	1.4	(15.2%)
Money Market	0.3	0.4	0.3%
	<u>6.0</u>	<u>7.2</u>	
Clerical Medical			
With Profits	3.0	3.6	N/A
Unit-linked funds	0.7	0.8	N/A
	<u>3.7</u>	<u>4.4</u>	
Standard Life			
Passive Plus Iii Pension Fund	33.3	40.0	(5.1%)
Deposit and Treasury Pension Fund	12.2	14.7	(0.3%)
International Equity Pension Fund	6.0	7.2	21.7%
Vanguard FTSE UK All Share Index Pension Fund	5.3	6.4	(19.3%)
BlackRock Acs World (ex UK) Equity Tracker Fund	4.4	5.3	(1.9%)
Annuity Targeting Pension Fund	3.3	4.0	5.6%
Ethical Pension Fund	3.1	3.7	(9.2%)
Ishares Index Linked Gilt Index Pension Fund	3.2	3.8	8.1%
HSBC Islamic Global Equity Index Pension Fund	2.4	2.9	14.6%
Pension With Profits One Fund	0.3	0.4	N/A
	<u>73.5</u>	<u>88.4</u>	
	<u>83.2</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 better long-term value when compared with those which do not.

Through delegation to its investment managers the Trustee currently communicates with companies and exercises its 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 2,300 PRI signatories worldwide comprising asset owners, such as the Fund, investment managers and service providers, representing over \$86 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 continues to work on its compliance with the PRI using its existing resources and this determines the scale and pace of the Fund's engagement.

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

In 2018 the Fund became a supporting investor in the Climate Action 100+. This is a joint initiative between the PRI organisation and regional investor groups on climate change. As supporting investor, the Fund has participated collectively with fellow investors in engaging with 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 ("TCFD").

The Task Force recommends that all organisations, including asset owners such as pension schemes provide climate-related financial disclosures.

In March 2020, the Department for Work and Pensions and the Pensions Climate Risk Industry Group published a consultation on new non-statutory guidance for occupational pension schemes on assessing, managing and reporting climate-related risks, in line with recommendations by the TCFD.

The Government has set the expectation that all listed companies and large asset owners, including occupational pension schemes, will disclose in line with those recommendations by 2022. In addition, amendments made to the Pension Schemes Bill during its progress through Parliament provide a power for the Government to require prescribed pension schemes to publish climate change related risk information, and to impose requirements with a view to ensuring effective governance of those schemes with respect to the effects of climate change.

TfL Pension Fund

Investment Report (continued)

The consultation was due to close on 2 July 2020 and the Trustee will be monitoring developments. In the meantime, the TCFD recommendations have been used for the first time to disclose to members the Trustee's approach to climate-related risks and opportunities.

Governance	
Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities	<p>The Trustee of the TfL Pension Fund ("Fund") has developed beliefs with regards to the financial impact to the Fund arising from climate change. The resulting belief is that climate change is a significant long-term financial risk which has the potential to impact all holdings in the portfolio over time if not properly managed. This belief is integral to the Fund's Statement of Investment Principles ("SIP") which also sets out how the Fund's ESG policy, which includes climate change issues, is taken into account in relation to exercising its ownership rights. The SIP is reviewed on an annual basis by the Investment Committee ("IC") and approved by the Trustee Board. The Trustee Board receives annual training on Environmental, Social and Governance issues, including climate change.</p> <p>The Trustee Board provides oversight and receives quarterly updates from the IC and Alternatives & Liability Hedging Committee ("ALHC"). The IC, which meets at least quarterly, has delegated responsibility for managing climate-related issues, as part of its remit for the implementation of the Fund's investment strategy. A report covering Environmental, Social and Governance ("ESG") issues is reviewed by the IC at its meetings. The climate-related risks covered include a quarterly analysis of the carbon intensity in the segregated equity and bond portfolios. Together with the ALHC, the IC considers potential climate-related investment opportunities.</p>
Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities	<p>Management responsibility for preparing the reports for the Trustee Committees for their assessment and decision-making, including with regards to climate related risks and opportunities, is performed by the Head of Pensions Investment and Head of Pensions Governance & Compliance with oversight by the Directors of Compensation & Benefits. This includes engagement with the Fund's investment managers and investment advisors.</p> <p>Management also gathers relevant information through the Fund's membership of the PRI, CDP, Climate Action 100+, A4S, other investment industry contacts and the use of various risk tools such as that provided by MSCI and specialist providers in the investment sustainability sector such as Sustainalytics who assist in the identification and management of risk.</p>
Strategy	
Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	<p>The Fund is an open scheme and its Investment Beliefs highlight the importance of a long-term focus in thinking about its investment strategy and implementation. Also, that climate change is a significant long term financial risk which has the potential to impact all holdings in the portfolio over time if not properly managed.</p> <p>As the Fund's investments are externally managed, engagement with its investment managers is a key step in understanding these risks and opportunities for the individual portfolios that comprise the Fund. This includes understanding their investment process and the reasoning for the individual asset selection in the context of those sectors which are most impacted by climate change e.g. through the potential for stranded assets or susceptibility to catastrophic risk (physical risk), as well as more generally the transition risk which many companies in the portfolios may face over short, medium and longer-term time frames as the economy transitions to a low carbon economy. At the same time the Fund is engaging with its existing and potential new managers where there are investment opportunities e.g. in clean energy and waste management, in responding to climate change risks.</p> <p>Identification of risks and opportunities is also informed through the Fund's organisational contacts e.g. Climate Action 100+, the PRI, CDP and A4S and the use of tools provided by TPI, IEA, Bank of England and PACTA.</p>

TfL Pension Fund

<p>Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.</p>	<p>The Fund's business purpose is the delivery of pension benefits and ensuring there are sufficient funds to achieve that.</p> <p>The impact of an adverse risk materialising would fall significantly upon the Fund's investment value and potentially upon funding. Through its use of "value at risk" methodology the Fund includes in its financial planning an assessment of a material loss of investment value and the response and mitigation forms part of its integrated risk management covering in addition to the funding strategy and the employer covenant.</p> <p>Through its diversification of investments, the Fund's strategy also seeks to mitigate the impact of climate-related risks and identify opportunities. In addition the Fund's approach to the selection, appointment and monitoring of its investment managers is framed to ensure that such risks form part of their investment processes together with the ability of those managers to find opportunities where there is alignment between environmental outcomes and achieving good financial performance. As part of its response to climate-related risks, the Fund assesses the carbon intensity in its segregated equity and bond portfolios and the timescale of plans to reduce these. Also, it has set an immediate divestment action for stocks where thermal coal contributes more than 30% of company revenues.</p>
<p>Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 degree C or lower scenario.</p>	<p>The Fund has a well-diversified portfolio of assets including specific allocations to those in the renewables sector which provides resilience to potential adverse consequences of climate change. Both in 2019 and 2020 the Fund has carried out scenario analysis using PACTA. Its methodology draws on a combination of scenarios for temperature rise. The results show the exposure of the portfolio to economic activities affected by the transition to a low-carbon economy and what is the expected future exposure to high- and low-carbon economic activities based on the current revealed production and investment plans of the companies in the portfolio. The more recent review covered equities and bonds comprising \$2.8 billion of the Fund's assets. For current exposure to transition risks for both equities and bonds, the portfolio is significantly below that of the market as a whole and for the alignment with 2 degree C (or lower) scenario over the next five years, the portfolio trends are generally more favourable than for those of the respective benchmarks.</p> <p>In addition, a Bank of England stress test has been carried out on the Fund's segregated equity and corporate bond holdings under three climate scenarios of; a sudden disorderly transition, a long-term orderly transition and no transition with current policies continuing. For these scenarios the stress test indicated a loss in equity and bond values of 2.71% and 0.04%, 4.08% and 0.33% and 5.99% and 0.77% respectively.</p> <p>The analysis and reporting of resilience for a single enterprise is materially different from that currently achievable for a pension scheme with a dependency for a depth of disclosure across multiple enterprises and investment vehicles for which an adequate level of reliability does not exist currently.</p> <p>While the Fund will continue to make use of scenario-based assessments, they will only form a part of the information the Fund uses when considering resilience of its portfolios, with a strong focus needed on the managers' approach to sustainability.</p>
<p>Risk Management</p>	
<p>Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.</p>	<p>As mentioned previously, the Trustee provides oversight of climate-related risks and opportunities to which the Fund is exposed. Reports and analysis with regards to these risks and opportunities is carried out by management. BlackRock's Aladdin tool together with ESG data sourced from MSCI enables management to identify the climate-related risks in the Fund's segregated equity and bond portfolios. For passive equity investments there are data available which measure the carbon intensity of these portfolios. For private equity, infrastructure, real estate, hedge funds and other assets, manager supplied information and engagement is used. The Fund's organisational involvements, such as with the PRI, CDP, A4S, Climate Action 100+ and Sustainability enables engagement with investee companies to encourage better disclosure and practices related to climate-related risks to improve data availability and assessment of those risks.</p>

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<p>Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.</p>	<p>Firms who are integrating climate change into their operational decision-making and have lower carbon intensities are likely to be better prepared for the transition to a lower carbon economy. As the Fund is externally managed, there is a focus on engagement with those managers through encouragement and in the critical scrutiny of their integration into their investment process of the management of climate-related risks. The information gathered from the processes for identifying and assessing climate-related risks is also used both to influence the implementation of investment strategy e.g. in reducing carbon intensity and in the wider context e.g. voting at AGMs to support the adoption by companies of policies to mitigate those risks. Sustainalytics have been engaged to conduct their global standards engagement together with two specific themes covering material risk engagement and plastics and the circular economy.</p>
<p>Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.</p>	<p>Climate change risk is a significant long-term financial risk and is an Investment Belief of the Trustee. In order to ensure that the Fund's investment managers are familiar with the Trustee's investment beliefs, such that the managers can integrate climate risk into their risk management process, the Fund's SIP is shared with the managers. Furthermore, the Trustee continually engages with the investment managers with regards to their practices concerning climate change risk and opportunities. This is supplemented by the monitoring of the Fund's equity mandates through a yearly report provided by the Fund's investment consultant, Willis Towers Watson ("WTW") focussing on WTW's assessment of the sustainability capabilities and activities of the managers.</p> <p>In addition to provision of data to help manage climate-related risk, Sustainalytics also assists with the Fund's stewardship practices which helps reduce the risk posed to the Fund by climate change by aligning the Fund's underlying holding companies' actions with the Trustee's beliefs.</p>
<p>Metrics and Targets</p>	
<p>Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process</p>	<p>The Fund uses the metrics on ESG scoring and carbon intensity sourced through the BlackRock Aladdin tool's use of MSCI ESG data. For ESG scoring data is sourced from over 1000 data points covering ESG policies, programs and performance. Key issues are selected and weighted and scored to arrive at a final letter rating between the best (AAA) and worst (CCC). For carbon intensity approximately 8500 companies are evaluated for both reported and estimated Scope 1 & 2 carbon emissions. The intensity is expressed by comparing carbon emissions to sales. The Fund also uses climate scenario analysis using PACTA and IEA scenarios together with assessment through the TPI tool which allows the assessment of carbon management quality and carbon performance for key companies within high risk sectors. Stewardship data from Sustainalytics (voting and engagement activity) also provide metrics used to assess climate-related risks and opportunities in conjunction with assessments at the manager level provided by WTW for equity mandates.</p>
<p>Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks.</p>	<p>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 138 metric tonnes per million USD sales (weighted average) at 31 December 2019. This compares with an average figure of 186 for the representative global equity index. The portfolio of actively managed equities and bonds covered by this disclosure was valued at approximately £3.1 billion at 31 March 2020.</p>
<p>Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</p>	<p>The quarterly metrics used to assess carbon intensity in the segregated equity and bond portfolios are not used for any formal target but are expected to continue on a downward trajectory either through a manager decision on disinvestment or the actions of the investee companies.</p> <p>For "impact" investments which include those generating a measurable environmental benefit alongside a financial return, there is a target of 5% by value of total Fund investments which is close to being achieved.</p>

TfL Pension Fund

Key

The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. It is supported by, but not part of, the United Nations.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

CDP is a not-for-profit charity that runs the global disclosure system for [investors](#), [companies](#), [cities](#), [states and regions](#) to manage their environmental impacts.

Climate Action 100+ is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. To date, more than 450 investors with more than USD \$40 trillion in assets under management have signed on to the initiative.

A4S: The Prince's Accounting for Sustainability Project (A4S) was established by HRH The Prince of Wales in 2004. It has three core aims:

- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues
- Scale up action across the global finance and accounting community

MSCI is a finance company serving as a global provider of equity, fixed income, hedge fund stock market indexes, and multi-asset portfolio analysis tools.

Sustainalytics is the leading independent global provider of ESG and corporate governance research and ratings to investors.

TPI (the Transition Pathway Initiative) is a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy.

IEA (the International Energy Agency) is an autonomous intergovernmental organization established in the framework of the Organisation for Economic Co-operation and Development and is committed to shaping a secure and sustainable energy future for all.

Aladdin is an electronic system by BlackRock Solutions, the risk management division of investment management corporation, BlackRock, for investment professionals to see their whole portfolio and understand risk exposure.

PACTA (Paris Agreement Capital Transition Assessment) is a free, first-of-its kind software that analyses the alignment of equity, bond, or lending portfolios with various climate scenarios.

Scope 1 covers direct emissions from owned or controlled sources.

Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.

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.

Additional external support on engagement was put in place from December 2019 with the appointment of Sustainalytics and from 1 April 2020 all voting for the segregated equity mandates has been consolidated with proxy voting advisor Glass Lewis as part of the new Sustainalytics arrangement.

Voting is being based initially upon the Glass Lewis guidelines, as informed by Sustainalytics engagement activity. Their consolidated voting reports arising are reviewed by the Trustee and discussed where appropriate with Sustainalytics and Glass Lewis. It is expected that the voting guidelines will evolve as a result of this dialogue.

On behalf of the Fund, Sustainalytics will conduct their global standards engagement together with two specific themes covering material risk engagement and plastics and the circular economy. The Fund will continue to review with its investment managers their engagement with the companies with which they invest.

TfL Pension Fund

Investment Report (continued)

For companies in the Fund's actively managed equity portfolios there were 545 annual general meetings or extraordinary general meetings held in the year to 31 March 2020 and at 200 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 15,887 shareholder meetings and at 6,234 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.

In June 2019 the Government had published the Occupational Pension Schemes (Investment and Disclosure) (amendment) Regulations which implemented the EU's second Shareholders' Rights Directive covering workplace pension scheme stewardship and governance.

The new Regulations significantly expanded the Statement of Investment Principles ("SIP") requirements in addressing stewardship in more detail and revise trustees' investment disclosure obligations.

Trustees are required to explain key elements of their arrangements with their appointed investment managers and in particular how the arrangement incentivises the asset manager to align its investment strategy and decisions with the profile and duration of the liabilities of the investor, how performance is evaluated, portfolio turnover costs are monitored and how the arrangement incentivises the manager to engage in the best medium to long-term interest of the investor.

The SIP is reviewed annually and this year the update includes these new disclosure requirements on manager arrangements. The revised SIP was approved by the Trustee Board in March 2020.

From 1 October 2021 trustees will be required to produce an annual disclosure on their engagement and voting practices. For defined contribution schemes the date is 1 October 2020, but this does not include schemes such as the Fund whose only defined contribution arrangements are in respect of Additional Voluntary Contributions.

Defined benefit schemes will also have to publish their SIPs and the annual engagement and voting disclosure on a publicly available website.

The annual report and accounts currently include information on engagement and voting. With the appointment of Sustainalytics, this will provide the opportunity to develop this reporting to meet both Trustee and Regulatory needs.

Both the SIP and Annual Report and Accounts are already made available on a publicly available website: www.tfl.gov.uk/pensions

In March 2020, the Trustee approved changes to the SIP to comply with the revised Investment Regulations.

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

The Compliance Statement on page 50 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 10 July 2020 and was signed on their behalf by:

M Antoniou
Directors
TfL Trustee Company Limited

SW Ellaby

TfL Pension Fund

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

Opinion

We have audited the accounts of the TfL Pension Fund (the Fund) for the year ended 31 March 2020 which comprise the Fund Account, Statement of Net Assets (available for benefits) and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accounts:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2020, 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 year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the accounts section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the accounts in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the accounts, which indicates that the Fund may be adversely affected by the growing impact of the Covid-19 (Coronavirus) outbreak. Whilst the Trustee is taking action to mitigate the impact, given the unpredictable nature and impact of the outbreak, and how rapidly the responses to the outbreak are changing, the Trustee is unable to predict the full extent of the impact with regards to the going concern basis of accounting and its related disclosures. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Fund's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the accounts and our auditor's report thereon. The Trustee is responsible for the other information. Our opinion on the accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the accounts, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the accounts or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of trustee

As explained more fully in the Trustee's responsibilities statement set out on pages 7 and 8, the Trustee is responsible for the preparation of accounts and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the accounts, the Trustee is responsible for 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 the Trustee either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

TfL Pension Fund

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

Auditor's responsibilities for the audit of the accounts

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

A further description of our responsibilities for the audit of the accounts is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Fund's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in 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 and the Fund's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants

25 Farringdon Street,
London,
EC4A 4AB

10 July 2020

TfL Pension Fund Fund Account

For the year ended 31 March 2020

	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
<i>Dealings with members</i>					
Contributions receivable	3				
Employer		287,493		399,223	
Employee		67,110		65,503	
Individual transfers in from other schemes		2,775		4,272	
		<u>357,378</u>		<u>468,998</u>	
Benefits payable	4	(387,302)		(381,924)	
Payments to and on account of leavers	5	(4,216)		(5,265)	
Other payments	6	(4,478)		(5,515)	
Administrative expenses	7	(4,213)		(4,302)	
Pension levies	8	(13,699)		(13,218)	
		<u>(413,908)</u>		<u>(410,224)</u>	
<i>Net (costs) / additions from dealings with members</i>			(56,530)		58,774
<i>Returns on investments</i>					
Investment income	9	143,439		125,225	
Change in market value of investments	11a	(444,945)		455,290	
Investment management expenses	12	(19,634)		(17,602)	
<i>Net returns on investments</i>			<u>(321,140)</u>		<u>562,913</u>
<i>Net (decrease)/increase in the fund during year</i>			<u>(377,670)</u>		<u>621,687</u>
<i>Net assets at beginning of year</i>			<u>10,959,488</u>		<u>10,337,801</u>
<i>Net assets at end of year</i>			<u>10,581,818</u>		<u>10,959,488</u>

The Notes on Pages 29 to 42 form part of these Accounts.

TfL Pension Fund

Statement of Net Assets (available for benefits)

As at 31 March 2020

	Note	2020 £'000	2019 £'000
<i>Investment assets</i>	11		
Bonds		653,337	659,871
Equities		2,405,782	2,578,264
Loans		299,489	258,864
Pooled investment vehicles	11b	6,617,145	6,501,714
Derivatives	11c	55,555	60,926
AVC investments		83,188	81,458
Cash and liquidity funds		544,133	816,378
Other investment balances		37,173	42,659
		<u>10,695,802</u>	<u>11,000,134</u>
<i>Investment liabilities</i>	11		
Derivatives	11c	(117,472)	(45,817)
Other investment balances		(17,985)	(26,482)
		<u>(135,457)</u>	<u>(72,299)</u>
<i>Total net investments</i>		<u>10,560,345</u>	<u>10,927,835</u>
<i>Fixed assets held for own use</i>	13	125	163
<i>Current assets</i>	14	41,706	45,986
<i>Current liabilities</i>	15	(20,358)	(14,496)
Net assets at end of year		<u>10,581,818</u>	<u>10,959,488</u>

The Notes on Pages 29 to 42 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 47 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 10 July 2020 and were signed on their behalf by:

M Antoniou
Directors
TfL Trustee Company Limited

SW Ellaby

TfL Pension Fund

Notes to the Accounts

1. Basis of preparation

The accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (SORP) (Revised 2018).

During March 2020, the worldwide spread of Covid-19 (Coronavirus) caused worldwide restrictions on travel, government financial stimulus and extreme financial market volatility. The sponsoring employer received funding of £1.6bn from the government which extends to October 2020 and at present there is uncertainty about whether or not further funding will be provided and if it is, the nature of that funding and the implications for that funding upon the ability of the employer to continue to meet its obligations to the Pension Fund. To counteract this, an emergency budget was released by the employer in June 2020, revealing plans to reduce capital investment and to cut maintenance and renewal spending.

If the employer is unable to meet its obligations to the Pension Fund, there is a risk that the pension fund would enter into a Pension Protection Fund assessment period and therefore the pension fund would not be a going concern. However, on the basis of measures already seen in response to Covid-19 as noted above, the Trustee believes that either further budget cuts would be made or further funding would be forthcoming to the employer due to its critical role in the infrastructure of London transport.

Although the Trustee considers the position noted above creates a material uncertainty that exists which may have some impact on the Fund's ability to continue as a going concern, having considered funding matters, operational matters and the overall position of the Principal Employer, there is an expectation that the Fund will remain a going concern for the 12 months subsequent to the signing of these financial statements. Therefore, the accounts have been prepared on a going concern basis.

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 which is reinvested within the pooled investment vehicles is reflected in the unit price.

(v) Securities lending

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

TfL Pension Fund

Notes to the Accounts (continued)

- (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.

(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 2020 taking into account gains or losses on foreign currencies;
- (ix) AVC investments are shown at the values advised by the AVC providers.

TfL Pension Fund

Notes to the Accounts (continued)

3. Contributions receivable

	2020 £'000	2019 £'000
<i>Employers</i>		
Normal	287,493	271,363
Deficit funding	-	57,860
Other contribution	-	70,000
	<u>287,493</u>	<u>399,223</u>
<i>Members</i>		
Normal	53,559	53,072
Additional voluntary contributions	13,551	12,431
	<u>67,110</u>	<u>65,503</u>
	<u>354,603</u>	<u>464,726</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.

For the Public Sector Section the funding shortfall of £603m as at 31 March 2018 is being met through contributions from 1 April 2019 until 31 May 2026 equal to Nil from 1 April 2019 to 31 March 2020 and 6.4% of the total of the relevant pay definition for all Members of the section, payable from 1 April 2020 to 31 May 2026. If deficit contributions in the Fund Year are less than £70m (increased by the Agreed Index) a top-up deficit contribution will be required. If deficit contributions in the Fund Year are more than £70m (increased by the Agreed Index) the excess may be used to offset any top-up deficit contribution required in any subsequent Fund Year.

4. Benefits payable

	2020 £'000	2019 £'000
Pensions	313,463	297,369
Commutations and lump sum retirement benefits	71,432	82,430
Lump sum death benefits (net of those insured)	1,719	1,551
Taxation where lifetime or annual allowance exceeded	688	574
	<u>387,302</u>	<u>381,924</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

	2020 £'000	2019 £'000
Individual transfers to other schemes	3,827	4,947
Refunds to members leaving service	191	310
Payments for members joining state scheme	198	8
	<u>4,216</u>	<u>5,265</u>

6. Other payments

	2020 £'000	2019 £'000
Premiums on term insurance policies	4,478	5,515

TfL Pension Fund Notes to the Accounts (continued)

7. Administrative expenses

	2020 £'000	2020 £'000	2019 £'000	2019 £'000
<i>Staff costs</i>				
Payroll	2,327		2,246	
Recruitment and training (incl. Trustee)	16		15	
		2,343		2,261
<i>Establishment costs</i>				
Accommodation	90		90	
Computer costs	501		488	
Telecommunications	15		15	
Depreciation	38		41	
		644		634
<i>Professional fees</i>				
Legal fees	291		292	
Audit fees	85		88	
Accountancy and tax fees	159		54	
Actuarial fees	284		469	
Medical fees	32		34	
Covenant review	52		172	
Other professional fees	28		24	
		931		1,133
<i>Communication</i>				
Distribution	159		136	
Printing	97		105	
		256		241
<i>Consumables</i>				
Stationery	5		6	
General	34		27	
		39		33
		<u>4,213</u>		<u>4,302</u>

Administrative expenses include recharges by Transport for London of £2,273,249 (2019: £2,367,173) for staff and other costs.

8. Pension levies

	2020 £'000	2019 £'000
Pension Protection Fund	13,475	12,996
Pension Regulator levies	224	222
	<u>13,699</u>	<u>13,218</u>

9. Investment income

	2020 £'000	2019 £'000
Income from bonds	22,097	21,970
Dividends from equities	52,135	55,407
Income from pooled investment vehicles	36,904	36,091
Income from loans	20,713	6,685
Income / (expenses) from derivatives	(1,253)	(2,103)
Interest on cash deposits	12,269	6,067
Income from securities lending	568	1,086
Other investment income	6	22
	<u>143,439</u>	<u>125,225</u>

TfL Pension Fund

Notes to the Accounts (continued)

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 2019	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Value at 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Bonds	659,871	1,348,091	1,370,819	16,194	653,337
Equities	2,578,264	1,092,140	1,003,193	(261,429)	2,405,782
Loans	258,864	73,692	15,111	(17,956)	299,489
Pooled investment vehicles	6,501,714	550,740	404,490	(30,819)	6,617,145
Derivative contracts	15,109	103,079	5,284	(174,821)	(61,917)
Liquidity funds	525,082	1,429,520	1,762,311	28,530	220,821
AVC investments	81,458	13,551	7,177	(4,644)	83,188
	<u>10,620,362</u>	<u>4,610,813</u>	<u>4,568,385</u>	<u>(444,945)</u>	<u>10,217,845</u>
Cash deposits	291,296				323,312
Other investment assets	42,659				37,173
Other investment liabilities	(26,482)				(17,985)
Total net investments	<u>10,927,835</u>				<u>10,560,345</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.

b) Pooled investment vehicles (PIVs)

The Fund's holdings of PIVs are analysed below:

	2020 £'000	2019 £'000
Absolute Return funds	878,663	871,702
Equity funds	2,073,083	2,362,332
Fixed Interest funds	483,715	481,857
Private Equity funds and infrastructure funds	1,456,927	1,175,322
Property funds	192,215	153,243
Qualifying Investor fund (see below)	1,334,186	1,269,651
Reinsurance funds	198,356	187,607
	<u>6,617,145</u>	<u>6,501,714</u>
	2020 £'000	2019 £'000
Qualifying Investor fund	904,675	876,218
Government Bonds	405,391	380,095
Network Rail Bonds	62,018	35,624
Options	(37,898)	(22,286)
Swaps	<u>1,334,186</u>	<u>1,269,651</u>

TfL Pension Fund Notes to the Accounts (continued)

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

	2020		2019	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Swaps	8,565	(6,710)	14,416	(8,944)
Futures	14,136	(9,761)	13,551	(9,175)
Foreign exchange	32,281	(100,846)	32,916	(27,554)
Options	573	(155)	43	(144)
	<u>55,555</u>	<u>(117,472)</u>	<u>60,926</u>	<u>(45,817)</u>

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	183,009,249	Expires less than 1 year	4	-
	122,230,189	Expires 1 to 5 years	2,693	(675)
	15,736,392	Expires 5 to 10 years	2,390	(1,599)
	2,355,070	Expires 10 to 15 years	44	(496)
	1,999,596	Expires 15 to 20 years	290	(68)
	2,988,832	Expires 20 to 25 years	33	(88)
	146,951	Expires 25 to 30 years	220	(260)
Credit default swaps	623,191	Expires 30 to 35 years	51	(108)
	6,798,660	Expires less than 1 year	-	(48)
	86,512,023	Expires 1 to 5 years	32	(640)
	1,370,509	Expires 5 to 10 years	158	(55)
Total return swaps	7,245,564	Expires 10 to 15 years	208	-
	445,605	Expires less than 1 year	2,035	(1,983)
Basis	10,061,324	Expires less than 1 year	-	(48)
	10,303,096	Expires 1 to 5 years	46	(12)
	483,373	Expires 5 to 10 years	205	(468)
	1,620,000	Expires 15 to 20 years	156	-
	670,000	Expires 25 to 30 years	-	(162)
Total 2020			<u>8,565</u>	<u>(6,710)</u>
<i>Total 2019</i>			<u>14,416</u>	<u>(8,944)</u>

At the end of the year the Fund held collateral of £24.0m (2019: £41.4m) in respect of swaps.

TfL Pension Fund Notes to the Accounts (continued)

c) Derivatives (continued)

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
Commodities	100,919,753	Expires under 1 year	8,585	(4,147)
Equity	30,319,106	Expires under 1 year	170	(2,789)
Swaps	118,735,833	Expires under 1 year	565	(137)
Treasury	26,169,161	Expires under 1 year	4,816	(2,688)
Total 2020			14,136	(9,761)
<i>Total 2019</i>			<i>13,551</i>	<i>(9,175)</i>

At the end of the year the Fund held collateral of £25.6m (2019: £32.0m) in respect of futures.

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	24,481	(37,878)
Forward OTC	2 months	Various	Various	1,109	(7,691)
Forward OTC	3 months	Various	Various	6,557	(16,646)
Forward OTC	4 months	Various	Various	-	(18,347)
Forward OTC	5 months	Various	Various	-	(18,975)
Forward OTC	6 months	Various	Various	134	(1,309)
Total 2020				32,281	(100,846)
<i>Total 2019</i>				<i>32,916</i>	<i>(27,554)</i>

TfL Pension Fund Notes to the Accounts (continued)

c) Derivatives (continued)

Options

Type of Option	Nominal amount	Duration	Asset value at year end £'000	Liability value at year end £'000
Call ET	494,941	Expires under 1 year	573	-
Put OTC	68,103,050	Expires 1 to 5 years	-	(52)
Put OTC	52,997,552	Expires 5 to 10 years	-	(61)
Put OTC	3,951,772	Expires 10 to 15 years	-	(42)
Total 2020			573	(155)
<i>Total 2019</i>			<i>43</i>	<i>(144)</i>

d) AVC investments

During the year Standard Life, Clerical Medical and Utmost (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:

	2020 £'000	2019 £'000
Standard Life	73,447	70,497
Utmost (Equitable Life)	6,045	6,689
Clerical Medical	3,696	4,272
	83,188	81,458

e) Transaction costs

Included within purchases and sales are direct transaction costs of £1,795,000 (2019: £2,103,000) comprising commissions, fees and stamp duty. These costs are attributable to the key asset classes as follows:

	Commission £'000	Fees and Stamp Duty £'000	Total £'000
2020			
Equities	997	605	1,602
Bonds	18	175	193
<i>2019</i>			
<i>Equities</i>	<i>1,246</i>	<i>801</i>	<i>2,047</i>
<i>Bonds</i>	<i>48</i>	<i>8</i>	<i>56</i>

TfL Pension Fund

Notes to the Accounts (continued)

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	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 31 March 2020				
Bonds	7,797	645,540	-	653,337
Equities	2,143,897	-	261,885	2,405,782
Loans	-	-	299,489	299,489
Pooled investment vehicles	221,741	3,356,058	3,039,346	6,617,145
Derivatives	5,895	(68,564)	752	(61,917)
Liquidity funds	220,821	-	-	220,821
AVC investments	-	79,423	3,765	83,188
Cash	323,312	-	-	323,312
Other investment balances	19,188	-	-	19,188
	<u>2,942,651</u>	<u>4,012,457</u>	<u>3,605,237</u>	<u>10,560,345</u>

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<i>At 31 March 2019</i>				
<i>Bonds</i>	<i>5,457</i>	<i>654,414</i>	<i>-</i>	<i>659,871</i>
<i>Equities</i>	<i>2,324,015</i>	<i>-</i>	<i>254,249</i>	<i>2,578,264</i>
<i>Loans</i>	<i>-</i>	<i>-</i>	<i>258,864</i>	<i>258,864</i>
<i>Pooled investment vehicles</i>	<i>314,085</i>	<i>3,544,830</i>	<i>2,642,799</i>	<i>6,501,714</i>
<i>Derivatives</i>	<i>4,376</i>	<i>10,834</i>	<i>(101)</i>	<i>15,109</i>
<i>Liquidity funds</i>	<i>525,082</i>	<i>-</i>	<i>-</i>	<i>525,082</i>
<i>AVC investments</i>	<i>-</i>	<i>75,744</i>	<i>5,714</i>	<i>81,458</i>
<i>Cash</i>	<i>291,296</i>	<i>-</i>	<i>-</i>	<i>291,296</i>
<i>Other investment balances</i>	<i>16,177</i>	<i>-</i>	<i>-</i>	<i>16,177</i>
	<u><i>3,480,488</i></u>	<u><i>4,285,822</i></u>	<u><i>3,161,525</i></u>	<u><i>10,927,835</i></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 repurchase 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 2020	£'000	£'000	£'000	£'000
Bonds*	1,939,112	24,510	21,737	1,985,359
Loans	-	-	299,489	299,489
OTC Derivatives	(43,691)	-	-	(43,691)
Cash	632,763	-	-	632,763
Other investment balances	(42,855)	344	280	(42,231)
Stock lending	326,860	-	-	326,860
Repos	51,340	-	-	51,340
Time deposits	28,589	-	-	28,589
PIVs	-	-	5,282,958	5,282,958
	<u>2,892,118</u>	<u>24,854</u>	<u>5,604,464</u>	<u>8,521,436</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 2019</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Bonds*</i>	1,884,912	20,657	21,260	1,926,829
<i>Loans</i>	-	-	258,864	258,864
<i>OTC Derivatives</i>	17,489	-	-	17,489
<i>Cash</i>	851,765	-	-	851,765
<i>Other investment balances</i>	(11,435)	255	232	(10,948)
<i>Stock lending</i>	313,904	-	-	313,904
<i>Repos</i>	12,968	-	-	12,968
<i>Time deposits</i>	4,551	-	-	4,551
<i>PIVs</i>	-	-	5,232,062	5,232,062
	<u>3,074,154</u>	<u>20,912</u>	<u>5,512,418</u>	<u>8,607,484</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 £483.7m (2019: £481.8m).

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

	2020	2019
	£'000	£'000
Open ended investment fund	2,329,345	2,552,607
Qualifying Investor Fund	1,334,186	1,269,651
Closed ended investment companies	619,379	645,603
Open ended investment companies	720,958	770,223
Shares of limited partnerships	573,912	489,998
Unit trusts	583,852	492,757
Shares of limited companies	78,496	73,803
Closed ended investment funds	249,948	164,215
Other	127,069	42,857
	<u>6,617,145</u>	<u>6,501,714</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:

	Market risk			2020	2019
	Currency	Interest rate	Other price	£'000	£'000
Bonds	●	●	○	653,337	659,871
Equities	●	○	●	2,405,782	2,578,264
Loans	●	●	○	299,489	258,864
Pooled investment vehicles					
Direct	●	○	○		
Indirect	○	●	●	6,617,145	6,501,714
Derivative contracts	●	●	●	(61,917)	15,109
Liquidity funds	●	○	○	220,821	525,082
AVC investments	○	●	●	83,188	81,458
Cash deposits	●	○	○	323,312	291,296
Other investments	●	○	○	19,188	16,177
Total				10,560,345	10,927,835

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 2020 £326.8m of investments were loaned comprising £243.3m Overseas equities, £53.6m Overseas fixed interest securities, £19.0m UK equities and £10.9m UK fixed interest securities. Collateral of £349.8m was held as at 31 March 2019 in the form of cash of £79.8m and non-cash of £270.0m (2019: £313.9m loaned against £352.5m collateral).

i) Self investment

There were no employer-related investments at any time during the year ended 31 March 2020.

j) Commitments

At the 31 March 2020 the Fund had contractual commitments of £1,444.4m (2019 £1,010.8m) to pay calls on outstanding drawdowns for alternative investments in pooled investment vehicles, unquoted equities and loans.

12. Investment management expenses

	2020	2019
	£'000	£'000
Administration, management and custody	18,820	16,897
Performance measurement services	130	115
Other advisory services	684	590
	19,634	17,602

The total investment management expenses incurred during the year was £56.6m (2019:£50.3m) of which only £19.6m (2019:£17.6m) 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 2019</i>	754	33	787
Additions	-	-	-
Disposals	(55)	(7)	(62)
<i>Cost at 31 March 2020</i>	<u>699</u>	<u>26</u>	<u>725</u>
<i>Accumulated depreciation at 1 April 2019</i>	(591)	(33)	(624)
Depreciation charge for the year	(38)	-	(38)
Depreciation on disposals	55	7	62
<i>Accumulated depreciation at 31 March 2020</i>	<u>(574)</u>	<u>(26)</u>	<u>(600)</u>
Net book value at 1 April 2019	<u>163</u>	<u>-</u>	<u>163</u>
Net book value at 31 March 2020	<u>125</u>	<u>-</u>	<u>125</u>

14. Current assets

	2020 £'000	2019 £'000
<i>Debtors</i>		
Prepayments and accrued income	25,568	28,569
<i>Cash balances</i>	16,138	17,417
	<u>41,706</u>	<u>45,986</u>

Accrued income includes contributions of £14.6m (2019 £16.7m) received in accordance with the Schedule of Contributions after the year end.

15. Current liabilities

	2020 £'000	2019 £'000
<i>Creditors</i>		
Unpaid benefits	12,961	8,418
Accrued expenses and deferred income	6,344	4,272
	<u>19,305</u>	<u>12,690</u>
<i>Unpresented items</i>	1,053	1,806
	<u>20,358</u>	<u>14,496</u>

Unpresented items are payments submitted and cheques drawn but not presented for payment by 31 March 2020. Interest is not payable on these sums.

16. Contingent Liability

On 26 October 2018, the High Court ruled that Guaranteed Minimum Pension (GMP) benefits provided to members of pension schemes must be recalculated to reflect equalisation requirements between 17 May 1990 and 6 April 1997. As a result of the ruling, the Trustee of the Fund will need to equalise GMPs between men and women.

At this point in time a method of equalisation for the Fund has not yet been agreed by the Trustee and the Company, and there remain a number of areas where further guidance from the DWP or HMRC is awaited. The Trustee expects to further consider the approach to be taken during 2020/21 and into 2021/22.

The Trustee has carried out initial liability estimates in relation to GMP equalisation which indicates the overall Fund liabilities will not increase by more than 0.5%. As a result the expected backdated corrective payments are deemed not material to these accounts. The Trustee will include the amounts once they can be reliably estimated or in the year of payment.

TfL Pension Fund

Notes to the Accounts (continued)

17. 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 £2,273,249 (2019: £2,367,173) and are included in Note 7 on page 32. At 31 March 2020, £615,600 (2019: £625,200) has been included in creditors in respect of administration expenses rechargeable to the Fund and there was also a balance of £201,756 due to TfL.

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 2020

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; for the Public Sector Section certified by the Fund Actuary on 22 March 2019 and for the Composite Sector Section certified by the Fund Actuary on 8 April 2019, in respect of the Fund year ended 31 March 2020. 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
<i>Employers</i>	
Normal contributions	287,493
Deficit funding	-
<i>Members</i>	
Normal contributions	53,559
Contributions payable under the schedules (as reported on by the Fund auditor)	<u>341,052</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)	341,052
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditor)	
Member additional voluntary contributions	13,551
Total contributions reported in the accounts	<u>354,603</u>

This Report was approved by the Board of Directors of the TfL Trustee Company Limited on 10 July 2020 and was signed on their behalf by:

M Antoniou
Directors
TfL Trustee Company Limited

SW Ellaby

TfL Pension Fund Actuary's Certificates

Pages 45 to 46 contain a formal certificate for each section provided by the Fund 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 2018 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 29 March 2019.

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 and Faculty of Actuaries

Date 10 April 2019

Towers Watson Limited, a
Willis Towers Watson company
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 2018 to be met by the end of the period specified in the recovery plan dated 22 March 2019.

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 22 March 2019.

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 and Faculty of Actuaries

Date 22 March 2019

Towers Watson Limited, a
Willis Towers Watson company
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 base 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 2018. This showed that on that date:

The value of the Technical Provisions for the Public Sector section (PSS) was £10,924m and for the Composite section was £12.44m.

The value of the assets at that date was: £10,321m for the Public Sector section and £16.55m 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 to value technical provisions:

Public Sector section = Term dependent discount rate trending from a nominal rate of 4.84% per annum to 4.54% per annum over 10 years from 1 April 2018

Composite section = In service, a term dependent discount rate trending from a nominal rate of 3.10% per annum to 2.35% per annum over 10 years from 1 April 2018. The PSS discount rate is used post-transfer to the PSS.

Future retail price inflation:

Public Sector section = 3.4% pa

Composite section = 3.2% pa in-service, 3.4% pa post-transfer to PSS

Future consumer price inflation:

Public Sector section = 2.4% pa

Composite section = 2.2% pa in-service, 2.4% pa post-transfer to PSS

Pension increases: 3.4% pa for Existing Members, 3.2% pa for New Members

Pay increases: General pay increases of 0.25% 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 2018 in line with the CMI 2017 core projection model with an assumed long-term mortality improvement trend of 1.5% per annum.

TfL Pension Fund

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

Statement about contributions payable under schedule of contributions

We have examined the summary of contributions payable to the TfL Pension Fund on page 43, in respect of the Fund year ended 31 March 2020.

In our opinion the contributions for the Fund year ended 31 March 2020 as reported in the attached summary of contributions on page 43 and payable under the schedules of contributions have in all material respects been paid for the Public Sector Section at least in accordance with the schedule of contributions certified by the Fund Actuary on 22 March 2019 and for the Composite Sector Section at least in accordance with the schedules of contributions certified by the Fund Actuary on 27 May 2016 and on 10 April 2019.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 43 have in all material respects been paid at least in accordance with the schedules 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 schedules of contributions.

Respective responsibilities of trustee and auditor

As explained more fully on page 43, the Fund's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised schedules 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 schedules of contributions.

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

Use of our statement

This statement is made solely to the Fund's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in an auditor's statement 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 as a body, for our audit work, for this statement, or for the opinions we have formed.

RSM UK Audit LLP
Statutory Auditor
Chartered Accountants

25 Farringdon Street,
London,
EC4A 4AB

10 July 2020

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 2020		As at 31 March 2019	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	1,597,228,563	4,242,760	1,618,479,637	4,843,544
Composite section	3,673,032	9,757	3,742,741	11,201
	<u>1,600,901,595</u>	<u>4,252,517</u>	<u>1,622,222,378</u>	<u>4,854,745</u>

The Equity Fund unit price at the year end was £2.66 (2019 £2.99)

	Bond Fund			
	As at 31 March 2020		As at 31 March 2019	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	527,741,987	1,585,556	519,040,330	1,529,679
Composite section	1,275,471	3,832	1,522,932	4,488
	<u>529,017,458</u>	<u>1,589,388</u>	<u>520,563,262</u>	<u>1,534,167</u>

The Bond Fund unit price at the year end was £3.00 (2019 £2.95)

	Alternative and Liability Driven Assets Fund			
	As at 31 March 2020		As at 31 March 2019	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	2,562,137,501	4,487,468	2,400,045,777	4,034,396
	<u>2,562,137,501</u>	<u>4,487,468</u>	<u>2,400,045,777</u>	<u>4,034,396</u>

The Alternative Liability Driven Assets Fund unit price at the year end was £1.75 (2019 £1.68)

	31 March 2020	31 March 2019
	£'000s	£'000s
Equity Fund	4,252,517	4,854,745
Bond Fund	1,589,388	1,534,167
Alternative and Liability Driven Assets Fund	4,487,468	4,034,396
Other (non unitised assets allocated to Public Sector)	252,445	536,180
<i>Total Net Assets at end of year</i>	<u>10,581,818</u>	<u>10,959,488</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 Fund Actuary and in accordance with statutory regulations. No transfers were made at less than their cash equivalent.

3. Changes to the Fund's advisers

The Fund has appointed RSM UK Audit LLP as its new Auditor, there were no other changes to the Fund's advisers during the year.

4. Pension Tracing Service

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

The Pension Tracing Service can be contacted at:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU
Telephone 0800 731 0193

You cannot currently request contact details by post because of coronavirus.

Web address : <https://www.gov.uk/find-pension-contact-details>

5. Money and Pensions Service

The Money and Pensions Service (MaPS) brings together three respected financial guidance bodies: the Money Advice Service, The Pensions Advisory Service and Pension Wise. MaPS is an arm's length body sponsored by the Department for Work and Pensions, established at the beginning of 2019, and also engages with HM Treasury on policy matters relating to financial capability and debt advice.

For general enquiries, please contact:

contact@maps.org.uk
Telephone 01159 659570

6. 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



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For further help or information

Please contact the Fund Office (details below) if you have any questions or feedback about the Report & Accounts.

TfL Pension Fund
4th Floor
200 Buckingham Palace Road
London
SW1W 9TJ

Telephone: 020 7126 4000

Email: helpdesk@tflpensionfund.co.uk

Website: www.tfl.gov.uk/pensions

Pension Web Portal

If you have not already done so why not register today?

To Register, please visit www.pensions.tfl.gov.uk you will need your e-mail address, Pension Fund Member number and your National Insurance number, you will also need to key in other details about yourself such as your name and date of birth.

Once registered you will be able to:

- View payslips (pensioners only)
- View P60s (pensioners only)
- View benefit statements
- Run retirement calculations (active and deferred members only)
- Update your address (pensioners and deferred members only)
- Submit and track the progress of general enquiries to the Fund Office

We have published a Pension Web Portal user guide on the Pension Fund website which includes step by step the process to register.

Pension Fund Website

Pensions can be complicated. For more information, visit our website for a comprehensive look at the benefits provided by the TfL Pension Fund. It makes things as clear as possible so that you can understand your benefits and options, no matter what you have planned for the future.