TfL

PENSIONFUND

Providing for your tomorrow

Annual Report & Accounts for the year to 31 March 2021

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.

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Transport for London

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TfL Pension Fund

Report and Accounts for the year to 31 March 2021

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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 2021

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	Director of Rail and Sponsored Services (TfL)
Mr ME Binnington	External Appointment (TfL)
Mr FE Brennan	Trade Union Offical (ASLEF)
Mr LP Brown	Service Performance Manager, Transport for London (Unite the Union (T&GWU))
Mr SW Ellaby	Assistant SHE Assurance Manager, TLT Systems, 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))

Organisation and Advisers as at 31 March 2021 (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 (until 1 April 2020)
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

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
Legal & General
Standard Life
Utmost (until 19 June 2020)

Transition Investment Manager
Citigroup Global Markets Limited

Investment Managers	**Date of Appointment**
Anchorage Capital Group LLC	3 July 2017
Ardevora Asset Management LLP	29 June 2015
BlackRock Investment Management (UK) Limited	1 September 2014
Blue Mountain Capital Partners LLC	1 August 2017
Brevan Howard Asset Management, LLP	18 February 2013
Bridgewater Associates, Inc.	2 November 2005
CBRE Global Collective Investors UK Limited	11 September 2013
Colonial First State Global Asset Management	15 December 2009
Coronation International Limited	24 July 2013
Credit Suisse AG	9 December 2015
Equilibrium Capital Group LLC	3 December 2020
Goldman Sachs Asset Management	15 June 2005
Harrison Street Real Estate Capital LLC	12 December 2019
IFC Asset Management Company, LLC	15 March 2013
Industry Funds Management Pty Limited	24 May 2013
J O Hambro Capital Management Limited	5 January 2010
JP Morgan Asset Management	15 January 2018
Man Asset Management Ltd	26 April 2018
Neuberger Berman Alternatives Advisers LLC	24 October 2014
Nomura Asset Management UK Limited	1 September 2004
Oak Hill Advisors, LP	1 August 2012
Paradice Investment Management Pty Limited	24 June 2014
Partners Group (UK) Limited	4 June 2010
Pzena Investment Management, LLC	24 June 2013
Russell Implementation Services Limited	8 December 2011
Semperian PPP Investment Partners Holdings Limited	18 February 2008
SCM ManCo 1 Limited	21 June 2018
Siguler Guff & Company, LP	10 December 2009
Stonepeak Associates III LLC	26 April 2018
Veritas Asset Management LLP	7 July 2015
Wellington Management Company, LLP	5 November 2012

TfL Pension Fund
Chair's Introduction

I am pleased to present my review as Chair for the year ended 31 March 2021. The last year has been a year like no other for all of us; for the Fund we have seen huge fluctuations in the value of assets and The Fund Office team have had to adapt to new ways of working.

For TfL the principal employer, the pandemic has had a major impact with a dramatic fall in ridership and fares revenues, the consequential impact on finances has been an area of considerable focus for the Trustee Directors who have continually monitored the strength of employer covenant over this period. This year sees the triennial valuation of the Fund as at 31 March 2021, this is a lengthy and detailed process analysing the assets and liabilities of the Fund and setting assumptions as to how the assets and liabilities will change over the coming years as well as the level of employer funding required. The detail of this activity is being supervised by the Actuarial Valuation Committee and the statutory deadline for completion is 30 June 2022.

With a membership of over 84,000, the day to day administration of the Fund is a significant undertaking. The Pandemic has led to a significant increase in workload, over 77,000 tasks were completed by the Fund Office during the year and they managed to achieve service level agreement targets of 99.2% for the year.

Over the year, assets have increased by £2,520.1m to £13,101.9m as at 31 March 2021, while liabilities are also 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. As part of the 2018 valuation the Trustee and TfL signed a Pension Funding Agreement which provides additional security through an annual review of any excess of liabilities over assets. During the year additional deficit reduction contributions of £25.6m were paid under this agreement.

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 Equilibrium Capital Group who will be managing an agricultural capital fund. Also, Legal & General was appointed to manage Additional Voluntary Contributions with assets totalling £84.4m being transitioned from Standard Life and Utmost (formerly Equitable Life) to Legal & General.

This year's investment performance was 22.3%, 5.8% below the benchmark return of 28.1%, while over the longer period of three years the return was 7.8% per year, below the benchmark by 1%. Over five years returns were 9.4% per year, 0.3% below the benchmark. More information is contained in the Investment Report starting on page 16.

Environmental, Social and Governance ("ESG") matters have been a key area of focus with it being a matter many of our members are passionate about; the Trustee published its third Sustainability Report in December 2020, our ESG Policy was updated to reflect the Fund's increased emphasis on stewardship, set out all the ESG reporting available to members, and set a new target to invest at least 15% of the Fund's portfolio by 2025, by value in investments that have a strong "ESG tilt" this represents a material increase in the Fund's ambition to benefit from the opportunities presented by decarbonisation and "investment with purpose" objectives.

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.

There were no changes to Trustee Directors during the year 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 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.

Maria Antoniou
Chair 9 July 2021

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 2021.

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 after the year to 31 March 2021:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Mr M Hurwitz	7 May 2021	Ms M Adesida	11 June 2021	TfL
Mr M Binnington	5 July 2021	Mr T Cunnington	9 July 2021	TfL

The table below shows the number of scheduled Trustee Board and Committee meetings attended by each Director listed below, in the year to 31 March 2021, 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 *	11	11	Mr FE Brennan *	13	13
Ms T Ashton *	12	11	Mr LP Brown *	19	16
Mr ME Binnington *	14	14	Mr SW Ellaby *	11	11
Mr MA Evers *	15	14	Ms S Folarin	11	10
Ms A Hopkins *	13	10	Mr S Hedley *	8	6
Mr M Hurwitz *	9	7	Mr P Kilius-Smith *	11	11
Ms L Matson *	15	9	Mr CA Miller *	10	9
Ms R O'Donnell *	18	16	Mr PJ Murphy *	24	24
Mr N Pickup *	18	17	Mr JB Timbrell *	19	19

The average attendance for the Directors listed above at scheduled Trustee Board and Committee meetings was 87% TfL nominated and 93% non-TfL nominated respectively.

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

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 as at the date the accounts were signed is shown below.

Committee	TfL Nominated	Non-TfL Nominated
Investment	Mr MA Evers	Mr LP Brown
	Ms L Matson	Mr P Kilius-Smith
	Ms R O'Donnell	Mr PJ Murphy
	Mr N Pickup	Mr JB Timbrell
Alternatives and Liability Hedging	Mr MA Evers	Mr PJ Murphy
	Mr N Pickup	Mr JB Timbrell
Operations	Ms M Adesida	Mr FE Brennan
	Ms T Ashton	Mr LP Brown
	Mr T Cunnington	Ms S Folarin
	Ms A Hopkins	Mr PJ Murphy
Audit and Risk	Mr T Cunnington	Mr FE Brennan
	Ms A Hopkins	Mr LP Brown
	Ms R O'Donnell	Mr S Hedley
Appeals	Ms M Adesida	Mr SW Ellaby
	Ms T Ashton	Ms S Folarin
	Mr L Matson	Mr P Kilius-Smith
Actuarial Valuation	Ms M Antoniou	Mr SW Ellaby
	Ms R O'Donnell	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. Overall responsibility for risk management by receiving, reviewing and where appropriate testing risk mitigations documented in the Funds' Risk Register.

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) ceased to be a participating employer in the Composite section on 1 April 2020.

Changes to the Trust Deed and Rules of the Fund

There were no changes to the Trust Deed and Rules in the year.

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 accounts, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those accounts:

- show a true and fair view of the financial transactions of the fund during the scheme year and of the amount and disposition at the end of the fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the fund year, 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, including a statement whether the accounts have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the accounts on a going concern basis unless it is inappropriate to presume that the Fund will not be wound up.

The Trustee is also responsible for making available certain other information about the Fund in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities including the maintenance of an appropriate system of internal control.

The Trustee is responsible for the maintenance and integrity of the pension and financial information included on the TfL Pension Fund website.

(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.

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

The Fund assets have recovered to the pre pandemic level from the disruption that Covid-19 caused to economic activity, which reflected on the fluctuations in global stock markets and, in turn, in the valuation of scheme assets last March. 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 the 2018 actuarial valuation, the Trustee commissioned an independent review of the employer covenant of Transport for London (TfL) and of the private sector Participating Employers by Penfida, the Fund's independent covenant reviewer. The Trustee also actively monitors the strength of the employer covenant via updates and analysis provided by Penfida.

TfL received base funding of £1.08bn from the Government which extends to 11 December 2021, this is on top of the £0.6bn it has already received for the period from 1 April 2021 to 31 May 2021. The deal also extends the existing revenue top-up arrangements should TfL's actual passenger revenue be lower than a pre-defined Department for Transport (DfT) revenue scenario. This deal enables TfL to maintain core transport services and support economic recovery, and the Government has explicitly committed to continuing to work with TfL on reaching a longer-term financial settlement beyond this.

Reports were produced by Penfida following each of the funding deals reached between TfL and the DfT and this is expected to be the case on future funding deals beyond the existing settlement to 11 December 2021.

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.

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.

5. Financial review

The Accounts of the Fund for the year to 31 March 2021, as set out on pages 46 to 61, 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 £13,101.9m at 31 March 2021. The increase of £2,520.1m, compared with the value at 31 March 2020 of £10,581.8m, was made up as follows:

	Movement in the year	
	2021	***2020***
	£m	***£m***
Net returns on investments	2,472.3	*(321.2)*
Net additions / (costs) from dealings with members	47.8	*(56.5)*
	2,520.1	*(377.7)*

Net returns on investments comprised changes in the market value of investments of £2,376.7m (2020: (£445.0m)) and investment income of £117.2m (2020: £143.4m) which were partly offset by investment management expenses of £21.6m (2020: £19.6m). The change in market value of investments for 2021 was made up of realised investment gains of £753.9m and unrealised investment gains of £1,622.8m (2020: realised gains of £153.5m and unrealised losses of £598.5m).

The increase from last year in the amount from dealings with members of £104.3m was mainly due to a higher contributions receivable of £117.0m, increase in benefits payable of £7.4m, decrease in transfers in of £2.3m, an increase in pension levies of £1.7m. 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 46 to 61.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 68. 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.

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.

7. Changes in membership during the year

The table below summarises the movement in membership during the year to 31 March 2021. In addition, the Fund has 294 (2020: 279) pension credit members comprising 175 deferred pensioners (2020: 174) and 119 pensioners (2020: 105).

	2020/ 2021	2020/ 2021	*2019/ 2020*	*2019/ 2020*	Change
Contributing members as at 1 April	25,976		*26,093*		
Joiners	632		*1,388*		
	26,608		*27,481*		
Contributing members retiring	(492)		*(571)*		
Leavers taking a refund of contributions	(74)		*(206)*		
Leavers becoming deferred pensioners	(371)		*(691)*		
Leavers transferring to other schemes	-		*(1)*		
Leavers with less than two years' service – member option decision pending	-		*-*		
Leavers taking a trivial commutation lump sum	(1)		*(9)*		
Deaths in service	(43)		*(27)*		
Contributing members as at 31 March		25,627		*25,976*	(349)
Deferred pensioners as at 1 April	16,844		*16,916*		
Leavers becoming deferred pensioners	371		*691*		
	17,215		*17,607*		
Deferred pensions coming into payment	(648)		*(671)*		
Deferred pensioners transferring to other schemes	(34)		*(40)*		
Deferred pensioners taking a trivial commutation lump sum	(16)		*(15)*		
Deferred pensioner deaths	(52)		*(37)*		
Deferred pensioners as at 31 March		16,465		*16,844*	(379)
Pensioners as at 1 April	32,556		*32,511*		
Contributing members retiring	492		*571*		
Pensions coming into payment	648		*671*		
	33,696		*33,753*		
Pensioner deaths	(1,537)		*(1,197)*		
Pensioners taking a trivial commutation lump sum / 100% Pension Sharing order	(1)		*-*		
Pensioners as at 31 March		32,158		*32,556*	(398)
Dependants as at 1 April	9,550		*9,650*		
Dependants becoming entitled to pensions	753		*529*		
	10,303		*10,179*		
Dependant deaths	(703)		*(593)*		
Dependants taking a trivial commutation lump sum	(55)		*(36)*		
Dependants as at 31 March		9,545		*9,550*	(5)
Eligible children as at 1 April	697		*683*		
Children becoming entitled to pensions	69		*51*		
	766		*734*		
Children ceasing to be eligible	(47)		*(36)*		
Child deaths	(8)		*(1)*		
Eligible children as at 31 March		711		*697*	14
Total membership as at 31 March		84,506		*85,623*	(1,117)

Details of contributing members by section as at 31 March 2021 were as follows:

	2020/ 2021	2020/ 2021 %	*2019/ 2020*	*2019/ 2020 %*	Change
Transport for London	25,603	99.88	*25,946*	*99.88*	*(343)*
Composite section	24	0.12	*30*	*0.12*	*(6)*
	25,627	100.00	*25,976*	*100.00*	*(349)*

8. Pension increases

Deferred members and pensioners receive increases in accordance with the Fund Rules. The April 2021 pension increase is based on the increase in the Retail Price Index over the 12 months to September 2020. 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 1.1% 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 2017	2.0%	2.0%
April 2018	3.9%	3.9%
April 2019	3.3%	3.3%
April 2020	2.4%	2.4%
April 2021	1.1%	1.1%

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. A further High Court ruling on 20 November 2020 confirmed that this requirement extends to the calculation of cash equivalent transfer values paid from pension schemes such as the Fund prior to the 2018 ruling.

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 industry guidance is awaited, or legal uncertainties remain. The Trustee expects to further consider the approach to be taken during 2021/22 and into 2022/23.

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

There were no 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.

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 2021 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 Equilibrium Capital Group was appointed to manage an agriculture capital 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. No termination notice was served during the year but because of termination provisions a small legacy amount is to be received from Blue Mountain in 2021.

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 2021, including AVC investments, had a value of £13,060.3m an increase of £2,500.0m compared with their value, including AVC investments, of £10,560.3m as at 31 March 2020. Investment income (i.e. dividends and interest) amounted to £117.2m for the year to 31 March 2021 compared with £143.4m for the year to 31 March 2020.

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 2021

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 2021 are set out below (the table has been simplified due to the large number of managers).

Allocation	Weight %	Comparison Basis
UK equities	2.3	FTSE All Share/MSCI UK
Overseas developed equities	31.0	FTSE Developed World ex UK/MSCI World ex UK
Emerging market equities	5.3	MSCI EM/ Russell EM
Fundamental equities	4.9	FTSE RAFI All World 3000 Index
Developed equities with EM tilt	1.3	Russell GeoExposure
Fixed interest gilts	0.0	FTSE Over 15 Year Gilts
Index-linked gilts	9.3	FTSE ILG Over 5 Year
Global bonds	2.4	BarCap 60/40 Sovereign Credit Index
Global bonds	3.4	BarCap Global Agg Corp 1% Constrained
Alternative credit	2.7	CS Leveraged Loan/BoAML US High Yield
Alternative credit	0.7	BoAML US T-bills +2%
Alternative credit/ Liquid alternatives	11.0	LIBOR +3% pa/LIBOR +5% pa
Alternative credit	1.7	EMBI Global Div /JPM CEMBI Broad Div GBP Hedged
Renewables	0.7	Absolute return of 6.5% pa
Infrastructure	3.8	UK/European RPI +5% pa
Infrastructure	3.2	US CPI +4% pa/ US CPI +7%
Infrastructure	0.3	MSCI Emerging Markets +2%
Private equity	4.9	MSCI World +3% pa
Private equity	0.1	US CPI +5% pa
Private credit	3.4	BoAML Global High Yield +2% pa
Commodities	0.5	Bloomberg Commodity 3 Month Forward
Real estate	4.7	FTSE EPRA/NAREIT Developed +1%
Cash for investing/derivatives for hedging	2.4	LIBOR/Mark to market rates
	100.0	

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.

Actual Asset Allocation Summary as at 31 March 2021

Portfolio	% of Fund	Manager
Core		
Index tracking (all asset classes) and liability matching assets	27.9	BlackRock Investment Management (UK) Limited [1]
Active Specialist		
Global bonds	5.9	Goldman Sachs Asset Management
Global equities 1	2.9	Ardevora Asset Management LLP
Global equities 2	5.4	Pzena Investment Management LLC
Global equities 3	4.8	JO Hambro Capital Management Limited
Global equities 4	4.1	Veritas Asset Management LLP
Pacific Basin equities	2.4	Nomura Asset Management UK Limited
Global emerging market equities	1.5	Coronation International Limited
Global emerging market equities	1.7	Russell Investments Limited
Alternative Credit	2.6	Oak Hill Advisors, LP [2]
Global Small Cap equities	1.9	Paradice Investment Management Pty Limited
Alternative Credit	0.7	Wellington Management Company, LLP
Asia (ex Japan) equities	1.5	JO Hambro Capital Management Limited
Emerging market debt	1.7	JP Morgan Asset Management
Currency overlay	0.6	Russell Implementation Services Limited
Alternative Assets		
Global Macro Systematic Hedge Fund	2.8	Bridgewater Associates, Inc
Infrastructure Investment	2.1	Semperian PPP Investment Partners Holdings Ltd [3]
Cory Topco Limited	1.0	SCM ManCo 1 Limited [4]
Private Equity Fund of Funds	0.7	Partners Group (UK) Limited
Reinsurance Hedge Fund	1.5	Credit Suisse AG [2]
Alternative Risk Premium Hedge Fund	0.9	Goldman Sachs Asset Management
Alternative Credit	0.2	Goldman Sachs Asset Management
Private Equity	0.1	Goldman Sachs & Co LLC
Distressed & Structured PE Credit	1.3	Siguler Guff & Company, LP
Infrastructure Private Equity Fund	0.6	Colonial First State Global Asset
Beta Trend Hedge Fund	0.8	Goldman Sachs Asset Management
Private Real Estate (Separate Account)	3.0	CBRE Global Collective Investors UK Limited
Multi-Strategy Credit Hedge Fund	0.8	Anchorage Capital Group LLC
Global Macro Discretionary Hedge Fund	2.3	Brevan Howard Asset Management, LLP
Multi-Strategy Credit Hedge Fund	0.1	Blue Mountain Capital Partners LLC
Segregated Infrastructure Debt Portfolio	1.6	Industry Funds Management Pty Limited
Global Private Equity (Separate Account)	4.1	Neuberger Berman Alternatives Advisers LLCP
Private Mezzanine Debt	0.4	GS Mezzanine Partners
Emerging Market Infrastructure Fund	0.3	IFC Asset Management Company, LLC
UK Renewables Private Equity	0.7	BlackRock Investment Management (UK) Limited
Commodities	0.5	BlackRock Investment Management (UK) Limited
Real Estate	1.6	BlackRock Investment Management (UK) Limited
Alternative Risk Premium Hedge Fund	1.0	Man Asset Management Ltd
Multi-Strategy Hedge Fund	0.9	Man Asset Management Ltd [5]
Infrastructure Private Equity Fund	1.4	Stonepeak Associates III LLC
Social Infrastructure Fund	1.8	Harrison Street Real Estate Capital [6]
Agriculture Capital Fund	0.1	Equilibrium Capital Group, LLC [7]
Cash	1.8	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 2021.
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 26% economic interest in the Man 1783 Fund.
6 The Fund has a 28.25% economic interest in the Harrison Street Social Infrastructure Fund.
7 The Fund has a 19.95% economic interest in the CEFF II 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 as noted on page 1.

3. Analysis of investments

The 10 largest direct quoted equity holdings of the Fund as at 31 March 2021 are shown below.

	Value £m	% of Fund's quoted equity holdings	Country	Sector
Alphabet	45.2	1.5	USA	Communication Services
Alibaba Group	36.0	1.2	China	Consumer Discretionary
Microsoft Corp	34.6	1.1	USA	Information Technology
Taiwan Semiconductor	33.2	1.1	Taiwan	Information Technology
Canadian Pacific Railway	32.7	1.1	Canada	Industrials
Charter Communications	32.6	1.1	USA	Communication Services
Intercontinental Exchange	30.6	1.0	USA	Financials
Thermo Fisher Scientific	30.1	1.0	USA	Health Care
Lear Corp	27.7	0.9	USA	Consumer Discretionary
Unilever	25.5	0.8	UK	Consumer Staples
	328.2	10.8		

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	1.335

4. Investment performance

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

The Fund has underperformed its benchmark in the year. The benchmark targets for the Fund are ambitious across the alternative investments part of the portfolio and some of the outperformance is expected to be concentrated more in the latter period of investment. The Fund's equity mandates have largely performed well in the year against their benchmarks. Some of the Fund's alternative investments have 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 2021 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 %	22.3	28.1	7.8	8.8	9.4	9.7
Ex currency hedging	20.5	23.1	8.1	8.4	9.8	10.2

The Fund assets returned 22.3% for the year ended 31 March 2021, 5.8% below its benchmark returns of 28.1%.

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 2021 gross of fees, unless shown otherwise, compared with the previous year are shown below:

	Year to 31 March 2021		*Year to 31 March 2020*	
	Fund	**Benchmark**	*Fund*	*Benchmark*
	%	**%**	*%*	*%*
Index-Tracking – BlackRock				
UK equities	27.2	26.7	*(18.6)*	*(18.5)*
North American equities	42.6	42.7	*(2.3)*	*(2.3)*
Canadian equities	43.8	42.9	*(12.5)*	*(13.0)*
European equities (ex. UK)	35.0	34.8	*(7.8)*	*(8.0)*
Japan equities	26.2	26.0	*(2.1)*	*(2.4)*
Pacific Basin (ex. Japan) equities	50.4	50.5	*(17.7)*	*(17.7)*
Middle East/Africa equities	17.6	17.6	*(10.3)*	*(10.1)*
Emerging Market equities	42.0	42.3	*(13.7)*	*(13.5)*
Over 15 year Gilts	(10.8)	(10.8)	*17.7*	*17.7*
FTSE RAFI All World 3000	43.9	42.5	*(15.3)*	*(15.4)*
GeoExposure	50.5	50.9	*(12.9)*	*(12.0)*
LDI – BlackRock QIF	(7.0)	(7.0)	*7.9*	*7.9*
Equities				
Adevora - Global equities	48.2	38.9	*(4.6)*	*(6.7)*
Coronation – Global EM equities	50.3	42.3	*(8.3)*	*(13.5)*
J O Hambro – Asia (ex Japan) equities	56.0	41.4	*(3.4)*	*(9.0)*
J O Hambro - Global equities	54.0	38.9	*(4.9)*	*(6.7)*
Nomura - Far East equities	42.8	33.3	*(4.2)*	*(6.2)*
Paradice -Global Small Cap equities	50.6	55.3	*(21.0)*	*(16.5)*
Pzena -Global equities	59.0	38.4	*(20.2)*	*(5.8)*
Russell - EM equities	44.7	42.9	*(16.9)*	*(13.8)*
Veritas - Global equities	28.5	38.9	*(1.9)*	*(6.7)*
Bonds				
BlackRock - Network Rail bonds[1]	3.7	3.7	*7.4*	*7.4*
Goldman Sachs - Asset Backed	9.6	(9.8)	*(2.0)*	*7.2*
Goldman Sachs - Corporate Credit	12.8	8.7	*0.8*	*1.4*
Goldman Sachs - Sovereign Credit	0.0	(0.1)	*6.0*	*4.5*
Industry Funds Management	6.4	3.1	*(1.6)*	*3.8*
J P Morgan - Emerging Market Debt	18.1	16.5	*(8.8)*	*(7.0)*
Oak Hill - Enhanced Credit	(1.8)	(2.2)	*11.3*	*8.9*
Wellington	5.0	1.8	*2.0*	*3.3*
Other assets				
Anchorage Capital	5.3	3.1	*0.4*	*3.8*
Goldman Sachs - Trend	12.3	3.1	*16.7*[2]	*3.5*[2]
BlackRock Commodities[1]	59.9	67.2	*(34.3)*	*(32.5)*
BlackRock long Lease Property	(0.5)	23.4	*(0.3)*	*(18.5)*
BlackRock Real Estate[1]	21.7	22.2	*15.9*	*(1.7)*
BlackRock Renewable[1]	(2.6)	6.5	*12.9*	*6.5*
Broad Street Real Estate	(12.1)	15.2	*15.9*	*(1.7)*
Brevan Howard Fund[1]	25.1	3.1	*13.5*	*3.8*
Blue Mountain Capital	(17.1)	3.1	*(15.1)*	*3.8*
Bridgewater Pure Alpha Sterling[1]	12.7	5.2	*(20.3)*	*5.8*
CBRE	(2.1)	23.4	*10.4*	*(18.5)*
Colonial First State Global Asset Mgt[1]	28.0	2.5	*5.7*	*8.7*
Cory Topco Limited	3.7	6.5	*2.4*	*7.8*
Credit Suisse[1]	(3.5)	(7.1)	*4.7*	*10.5*
Goldman Sachs - ARP	(1.6)	3.1	*(13.7)*	*3.8*
Goldman Sachs Coop Fund	(11.3)	48.8	*(25.6)*	*1.5*
Goldman Sachs Mezzanine VI	9.0	15.2	*19.0*	*(1.7)*
Goldman Sachs Mezzanine VII	(4.9)	15.2	*16.5*	*(1.7)*
IFC Global Infrastructure	30.8	45.2	*14.2*	*(11.8)*
Man ARP	(5.3)	3.1	*(4.6)*	*3.8*
Man 1783	3.1	3.1	-	-
Neuberger Berman	21.5	44.1	*23.5*	*(3.1)*
Partners Group	5.9	43.2	*15.4*	*(2.4)*
Semperian	(0.4)	6.5	*3.1*	*7.6*
Siguler Guff Distressed Debt	(8.9)	28.1	*9.9*	*(2.4)*
Siguler Guff TARO	(6.4)	15.2	*17.6*	*(1.7)*
Stonepeak Infrastructure Fund	6.4	(1.2)	*20.5*	*14.1*

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.

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 2021 £m	% of total	Reported returns (where declared) Year to 31 March 2021
Legal & General			
Diversified G28	38.5	36.0	20.4%
All World Equity Index 3	16.9	15.7	38.1%
Cash 3	16.7	15.6	0.1%
UK Equity Index 3	8.8	8.2	28.6%
World (Ex-UK) Equity Index 3	6.9	6.5	39.1%
Ethical Global Equity Index 3	4.6	4.3	36.4%
HSBC Islamic Global Equity Index Fund 3	4.3	4.1	35.4%
All Stocks Index Linked Gilts Index 3	3.3	3.0	(1.6%)
Pre-retirement 3	3.0	2.8	2.9%
Future World Fund 3	0.1	0.1	36.1%
	103.1	96.3	
Clerical Medical			
With Profits	3.0	2.7	N/A
Unit-linked funds	0.7	0.7	N/A
	3.7	3.4	
Standard Life			
Pension With Profits One Fund	0.3	0.3	N/A
	107.1	**100.0**	

The legacy Utmost policies with a value of £6.3m were transferred to Legal and General on 19 June 2020.

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.

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:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be an active owner and incorporate ESG issues into ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which it invests.
4. Promote acceptance and implementation of the Principles within the investment industry
5. Work together to enhance our effectiveness in implementing the Principles.
6. 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. 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 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.

The Task Force on Climate-related Financial Disclosures ("TCFD") recommendations have been used 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	The Trustee of the TfL Pension Fund ("Fund") i.e. the Trustee Board maintains overall responsibility for investment matters however its implementation, including that of climate related risks and opportunities, is delegated to the Investment Committee ("IC") and Alternatives & Liability Hedging Committee ("ALHC"). The IC and the ALHC are subgroups of the Trustee Board. The Trustee Board 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 IC and approved by the Trustee Board. The Trustee Board receives annual training on Environmental, Social and Governance issues, including climate change. The Trustee Board is ultimately accountable for climate-related risks and opportunities and sets the broad strategy and direction, with input from the Fund's Investment and Legal Adviser, within which the IC and ALHC undertake further actions. The IC is responsible for the Fund's investments in equities, bond and real estate holdings and the ALHC is responsible for the Fund's Alternatives investments and Hedging activities. The Trustee Board receives quarterly updates from the IC and ALHC to undertake that oversight function. The four members of the ALHC are always drawn from the 8-member IC to ensure there is an alignment on broader investment and sustainability issues. The IC, which meets at least quarterly and ALHC which meets at least nine times in a year, has delegated responsibility for managing climate-related issues in their respective asset classes as part of its remit for the implementation of the Fund's investment strategy. Environmental, Social and Governance ("ESG") issues are reviewed by the IC and the ALHC at their meetings in an integrated investment framework. In addition, IC has delegated to its Chair the authority to send letters to engaged companies as a means of engagement escalation (supported by the Fund Office), and the Chair reports back to the IC on follow-ups. This arrangement recognises that in order for this process to be effective it cannot follow the quarterly IC meeting cycle. A Sustainable Investing report is published every year which covers sustainability and ESG issues, including climate change. Member comments

	and feedback are channelled through the Pension Consultative Council (PCC), which the Trustee Board takes into account when reviewing its ESG policy and climate change strategy. In addition, the Trustee Board has a robust governance framework. Trustee Directors are nominated by the employer TfL, as well as the PCC and the Trades Unions, representing a plurality of views (including those from members) on the Board. Lastly the Trustee Board receives input and support from external third parties (investment and legal advisors Willis Towers Watson and Sackers, and stewardship partner Sustainalytics) in monitoring climate related risks and opportunities. Sustainalytics, a Morningstar Company, is a leading independent ESG and corporate governance research, ratings and analytics firm. It engages with portfolio holding companies on behalf of the Fund on three programmes (Global Standards, Material Risk and a thematic programme, currently on Plastics and Circular Economy but a new theme on Climate Change – Sustainable Forests and Finance is launching in June 2021). Sustainalytics' partner Glass Lewis carries out proxy voting on all of the Fund's segregated equity mandates.
Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities	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 Fund Office with the Head of Pensions Investments responsible and the Directors of Compensation & Benefits (Fund Secretary) accountable for it. Management is responsible for proposing climate change policy and processes for the Trustee to review/ approve, as well as implementing the agreed risk management measures with support from the investment team– for detail, see the Strategy and Risk Management sections below. The Fund Office engages with the Fund's investment managers and investment advisors to collect information and carry out climate risk assessment. It also monitors the managers' fulfilment of fiduciary duty in managing climate risk on behalf of the Fund, and the stewardship services provided by Sustainalytics in exercising the Fund's ownership rights on climate related matters. The Fund Office 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. Finally, the Fund Secretary ensures there are adequate resources available for managing climate risk in the Fund Office. These resources include software (BlackRock Aladdin risk analytics including ESG risks and an upcoming Aladdin Climate function), personnel/resourcing support (a 5-member inhouse investment team and external support including Sustainalytics and the fund managers), and access to data (the Fund subscribes to both MSCI and Sustainalytics ESG and carbon data and research) – how these resources are being deployed is further explained in the sections below.
Strategy	
Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	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. The Trustee believes 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. Climate change brings about both physical and transition risks, which can be both short term (acute) and medium/ long term in nature. It can be argued that shorter term risks tend to be regulatory and

	reputational risk, medium term as transition risk and longer term as physical risk, but there is often overlap between these timeframes. The bottom line is the Trustee has considered these different climate risks across different timeframes. In the paragraphs below, we explain this further. For physical risks, we have identified our real estate, infrastructure, catastrophic reinsurance, and private debt mandates as primary exposure to physical climate risk. The Fund reviews the manager's due diligence process for assessing physical risks (including acute risk such as flooding or hurricane, and chronic risk such as drought or rising sea levels) as well as how the risks are managed – see Risk Management section for more detail. For transition risks, the Fund considers 1. those affecting its asset portfolio (see below) and 2. those affecting the Fund's operations itself (namely, changing regulatory requirements and membership/ public expectations, which require ample response from the Fund to manage the 'regulatory' and 'reputational' risks arising from such changes that can be more short term in nature). Asset-related transition risks: 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, 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. 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 portfolio climate risk analysis tools provided by TPI, Bank of England and PACTA. Liability and covenant related risks – The Fund has not yet undertaken any analysis to measure these risks, but these risks have been identified and the Trustee Board has plans to consider these impacts over 2021/22, as part of Integrated Risk Management for DB pensions.
Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	The Fund's primary purpose is the delivery of pension benefits and ensuring there are enough funds to achieve that. The strategy is to use data-driven and evidence based framework to shift the portfolio assets over time to companies that are better prepared to handle physical and transition risks, reduce and over time completely eliminate investments in companies that are not; and finally and more importantly, tilt the portfolio to Climate opportunities by investing in companies and sectors that would gain from low carbon transition (the winners). We expect to test the strategy, assets, liabilities and the robustness of employer covenant from October 2021 as part of the TCFD framework. From a financial planning perspective, key metrics is the delivery and sustainability of long-term funding ratio of the Fund. Net zero carbon transition - As part of its response to climate-related risks, the Fund has started the planning of its net zero carbon transition; the framework is being developed in 2021 with input from its consultant and asset managers. This will set out interim and long-term targets for reducing the asset portfolio's carbon emissions. This will be achieved through a range of measures, some of which are already in place as described below, and will be further accelerated.

	Asset allocation and manager selection - Through its diversification of investments, the Fund's strategy seeks to mitigate the impact of climate-related risks and identify opportunities. 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. In the updated 2021 Statement of Investment Principles the Fund has set a target to invest at least 15% of the Fund's portfolio by 2025 (up from the previous 5% target which has been met), by value in investments that have a strong "ESG tilt", of which a significant portion will be climate friendly. This represents a material increase in the Fund's ambition to benefit from the opportunities presented by decarbonisation and "investment with purpose" objectives. 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. Stewardship - Climate risk has a significant impact on the Fund's stewardship strategy and is of high priority. Working with its investment managers and its stewardship partner Sustainalytics, as well as Climate Action 100+, the Fund engages with investee companies that exhibit high climate-related risk (such as non-alignment with Paris Agreement transition pathway) and encourage more effective management of such risk, in order to 'safeguard' the assets. Voting is used as an important tool to exercise its ownership right on climate related matters. Managers are also required to engage with companies where climate change is considered likely to impact the asset's value over the investment horizon. Feedback from engagements inform the managers' decision to continue holding the assets or not, and the Fund challenges such decisions as necessary. The Fund also promotes the adoption of TCFD among its investees through its managers and collaborative campaigns (such as through CDP). Divestment – Although the Fund has a preferred approach for engagement, it carefully considers where divestment may be necessary due to the nature of certain sectors; since 2019 it has taken an immediate disinvestment action for stocks and assets where thermal coal contributes more than 30% of company revenues. The Fund has also drawn up a process to assess companies that are not aligned with Paris Agreement (based on TPI analysis) and require managers to engage with these companies, with divestment remaining an option for the fossil fuel companies if engagement does not lead to improvements. This area is expected to be refined and further developed as part of the planning of the Fund's net zero carbon transition plans.
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.	Since 2019 the Fund has carried out annual scenario analysis using PACTA (Paris Agreement Capital Transition Assessment). Its methodology draws on a combination of scenarios for temperature rise. The results show the current 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 2021 review covered equities and bonds comprising £3.7 billion of the Fund's assets. The results for the equity portfolio (which is substantially larger than the bond portfolio) are summarised below. The charts mentioned can be found at the end of this report. Current exposure to climate transition risk (Chart 1): The equity portfolio is less exposed to transition risk than the benchmark across the Power and Oil &Gas sectors, as it has less allocation to these sectors than the benchmark; also, within the Power sector a higher proportion of its Power Capacity comes from Renewables/Hydro power.

	On the other hand, the Fund has an overweight to the Automotive sector but less exposure to low carbon technology, due to the fund managers holding more of the traditional car makers than emerging electric vehicle makers, with the belief that the former are actively reshaping their product mix toward low carbon (indeed, the 'future exposure' analysis immediately below shows the Fund's holdings are projected to overtake the benchmark in this regard) and has established capabilities in car making, while the latter may be overpriced. The Fund also has an overweight allocation to the Cement and Steel sectors compared to the benchmark (although the fund managers actively engage with these companies to improve their carbon management; cost effective low carbon technology does not currently exist but the companies held by the Fund are sector leaders in this area and play a critical role in helping the developing countries (where they are located) deliver on multiple UN Sustainable Developments Goals such as sustainable cities and communities, clean water and sanitation, affordable and clean energy and decent work and economic growth). Expected future exposure to high and low carbon economy (Chart2): The equity portfolio is estimated to outperform the market in all three climate relevant sectors with currently available low carbon alternatives (Power, Automotive and Fossil Fuels), because it has a higher share of low carbon technology in each sector than the market, when projected under a scenario that is in line with the Paris Agreement. 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. The results (Chart 3) show that the impact on the equity portfolio would be contained (varies depending on the scenario; circa 4% loss of value by year 2050 for the 'long term orderly transition'), while the impact on the corporate bond portfolio is even more muted (less than 0.5% loss of value)[1]. Based on the above analysis, the equity and corporate bond portfolio's exposure to climate change risks appears to be mitigated, showing that we are on the right track, although we continue to further improve the balance of our exposure to climate risk/ opportunities. In addition, the Fund has significant allocations to private market assets with a strong climate sustainability theme which the PACTA and BoE tools are not able to capture. To address this issue, the Fund works with its service providers (such as Blackrock Aladdin) to explore new tools that can enable the analysis of the whole portfolio. 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. 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. The Fund is also asking its managers to conduct climate resilience testing on the mandates they manage for the Fund and report on the findings on an annual basis.
Risk Management	
Recommended Disclosure (a)	As all assets are managed externally, at a mandate level the Fund has explicitly stipulated clauses in the IMA requiring its segregated equity and bond managers (and has started work to expand this to private market mandates in

1 This analysis was carried out in 2020 using March 2020 portfolio holdings. The analysis could not be repeated in 2021 at the time of writing as the PACTA tool no longer produces data input required for the Bank of England stress test.

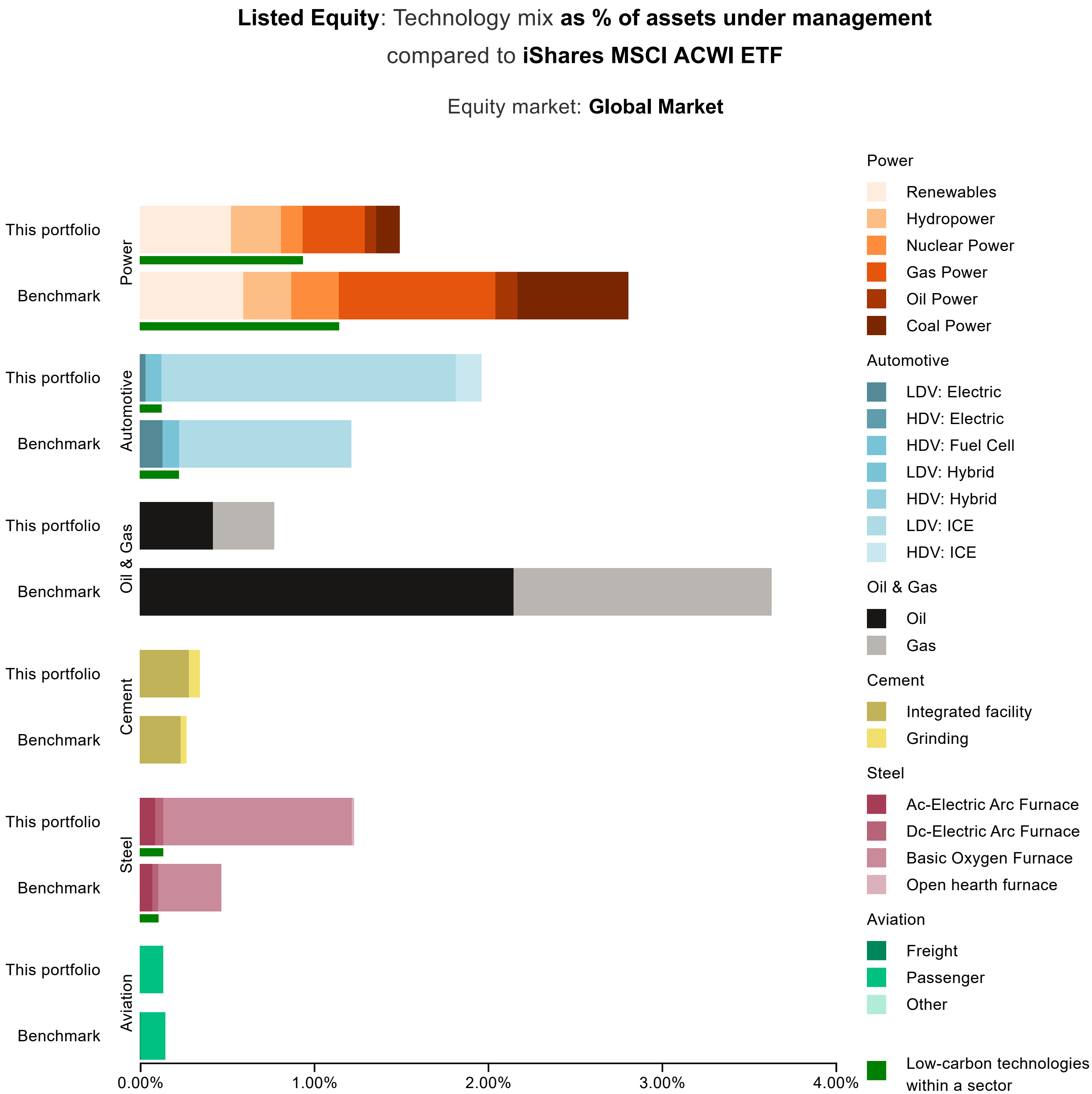
Describe the organisation's processes for identifying and assessing climate-related risks.	2021) to account for climate related risks in the investment process, including an annual questionnaire asking for TCFD reporting/ carbon data from each manager. As mentioned previously, reports and analysis with regards to climate related risks and opportunities is carried out by Management. BlackRock's Aladdin tool (using MSCI ESG data) and the TPI analysis enables Management to identify the climate-related risks in the Fund's segregated equity and bond portfolios. The Fund identifies the holdings with highest reported carbon intensity and holdings not aligned with Paris Agreement transition pathways, and assesses the investment managers' rationale for holding such stocks (including the managers' engagement with these companies) – an example being RWE (this case study can be found in the 2020 Sustainable Investing Report). Engagements with investees through Climate Action 100+, Sustainalytics and the managers help the Fund attain information to assess the quality of company management of climate risk – an example being Rio Tinto (more information can be found in the Climate Action 100+ section in the 2020 Sustainable Investing Report). For passive equity investments there is data available from the manager which measure the carbon intensity of these portfolios. For private equity, infrastructure, real estate, private debt, hedge funds and other assets, manager supplied information and engagement is used. The Fund is in the process of an exercise to collect carbon intensity data from all of the private market mandates in order to combine this data with public market assets, and assess the full picture of the Fund's exposure to climate risk. Where carbon data is not readily available on the private market assets, the Fund will use a suitable proxy (MSCI GICS level 4 sector average carbon intensity) to enable this assessment. The Fund also requires its fund managers to explain how the managers identify and assess climate risk within their portfolios. Within real estate and infrastructure (in the form of both equity and debt investing), the Fund reviews the manager's due diligence process for assessing physical risks that the assets are exposed to (such as flooding and excessive heat) as well as how the risks are managed (such as the operator's quality of management). As an example, with our main real estate mandate, we have had discussions at length with the manager to examine how they assess physical risks (understanding the tools and data they use, including 'mapping' physical risks), how such analysis is incorporated into investment decisions (we ask for specific examples), and the stewardship aspect (we challenge the manager to actively engage with tenants e.g. educate/encourage tenants to be energy efficient). Also, we ask for asset level GRESB2 reports (the current industry standard for ESG disclosures for real estate) and where they are not available, we push managers to start providing provide them and engage more with building occupants/operators to collect data. Within private equity and corporate private debt, the Fund reviews how the managers assess climate risks for the businesses that the Fund is providing capital to (including both transition and physical risks).
Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.	Manager monitoring – Climate risk management is part of the regular conversation with investment managers, and each year the Fund formally evaluates the managers' effectiveness in doing this through a questionnaire (starting with equity and bond mandates in 2021 and expanding to private markets). This is supplemented by the monitoring of the Fund's equity mandates through a bi-annual (every two years) review provided by the Fund's investment

2 formerly known as the "Global Real Estate Sustainability Benchmark"

	consultant, Willis Towers Watson ("WTW") focussing on WTW's assessment of the sustainability capabilities and activities of the managers. The Fund considers the WTW report alongside information gathered through the Fund's dialogue with the managers (including the ESG questionnaire). Managers who show inadequate management of climate risk are challenged to improve their practices. The Fund will consider removing a manager if they do not show improvements on climate risk management over time. As noted previously, the Fund has specific clauses in its segregated equity and bond mandate IMAs asking managers to monitor and manage climate related risks in the investment process e.g. through engaging investee companies. Mandate design – The Fund has applied an exclusion across its segregated active mandates to exclude from its portfolio all companies that generate more than 30% of their revenue from thermal coal mining or electricity generation. The Fund has implemented in its fixed income mandate a 'best effort' target of 20% lower carbon intensity versus benchmark at every calendar year end. In private markets, the Fund actively seek out climate opportunities. In the private equity programme, the latest tranche has a 25% best effort target to invest in ESG tilted assets, a high proportion of which would be climate opportunities. As a result. the Fund has made large allocations to climate friendly infrastructure (renewable energy, water utilities and waste management), real estate (energy efficient buildings) and private equity (controlled environment farming). Case studies of these investments can be found in the 2020 Sustainable Investing report. Stewardship- Sustainalytics helps the Fund manage climate risk by aligning the Fund's underlying holding companies' actions with the Trustee's beliefs. This is achieved through the Global Standard and Material Risk engagements, as well as a new thematic programme Sustainable Forests and Finance. Also, the Fund's organisational involvements with CDP and Climate Action 100+ ("CA100"), 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. The Fund also has specific clauses in its IMA with segregated equity and bond managers to promote better climate risk disclosure among investee companies.
Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Climate risk is considered among other significant financial risks as listed in the SIP. Investment decisions at the asset class level consider climate risk and are tilted toward asset classes that provide greater access to opportunities that mitigate or control climate risk – examples being the private market investments listed in the section above. Our assets and liabilities are coded on the BlackRock Aladdin Explore platform, a leading industry platform with direct ESG and carbon data feed from MSCI and Sustainalytics, that allows us to have real time access to key ESG/ climate metrics, at mandate and portfolio levels. BlackRock is adding a dedicated TCFD reporting function to the platform, which would provide trend analysis and climate risk portfolio attribution. In addition, we have been in conversation with BlackRock about the rollout of a new platform, Aladdin Climate, to be released later this year. This is a platform focused on forward-looking scenario analysis which could provide analysis on implied temperature rise and financial impact of the physical risk (e.g. sea level rising caused flooding hazard). We will be in a pilot programme to test both the TCFD reporting functionality and Aladdin Climate platform and provide feedback, as part of our collaboration and advocacy initiative.

	With our custodian JP Morgan, we also tested their ESG reporting system and provided useful feedback. At the manager level, the Trustee continually engages with the investment managers and require the incorporation of climate risks and opportunities into their investment process (thereby integrating climate change into traditional financial analysis).
Metrics and Targets	
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	At a total Fund and asset class level, the Fund reports the following metrics, on an annual basis, which the Management takes into consideration in investment strategy setting, risk management and manager evaluation: Weighted Average Carbon Intensity; Carbon footprint. The metrics are calculated through BlackRock Aladdin on segregated, public assets (equity and bonds). At a sector and issuer level, the Fund also uses the TPI tool which allows the assessment of carbon management quality and carbon performance for key companies within high risk sectors. For assessments at the manager level, the Fund will consider metrics provided by WTW for equity mandates.
Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks.	As of 31 Dec 2020, the Fund has calculated the metrics below covering scope 1 and 2 emissions of the segregated, public assets through BlackRock Aladdin and based on MSCI data: Weighted Average Carbon Intensity- 114.04 Tons CO_2e / \$M revenue (equity and bonds); Carbon footprint- 130.63 Tons CO_2e / \$M invested (equity only). In terms of risk assessment, the metrics can be compared against market index benchmarks. The Fund's equity (segregated) holdings' weighted average Carbon Intensity (tons CO_2e per \$m revenue), was 107.55 – 28% lower than the custom benchmark (which is a blend of MSCI World/ Emerging Market indices). The Fund's corporate bonds (segregated) holdings have weighted average Carbon Intensity (tons CO_2e per \$m revenue) of 168.3 – 31% lower than the Barclay Global Aggregate Corporate Index benchmark.
Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	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. The Fund is in the process of setting interim and long-term carbon reduction targets as part of its Net Zero transition plan. For "impact (or 'do good')" investments which include those generating measurable real-world benefits, including environmental, alongside a sufficient financial return, in the financial year ending March 2021 there was a target of 5% by value of total Fund investments which has been achieved. At the time of writing, this target has been extended to 15% by value of Fund investments, expected to be achieved no later than 2025.

Chart 1 – PACTA Current exposure to climate transition risk



TfL Pension Fund

Chart 2 - PACTA Expected future exposure to high and low carbon economy

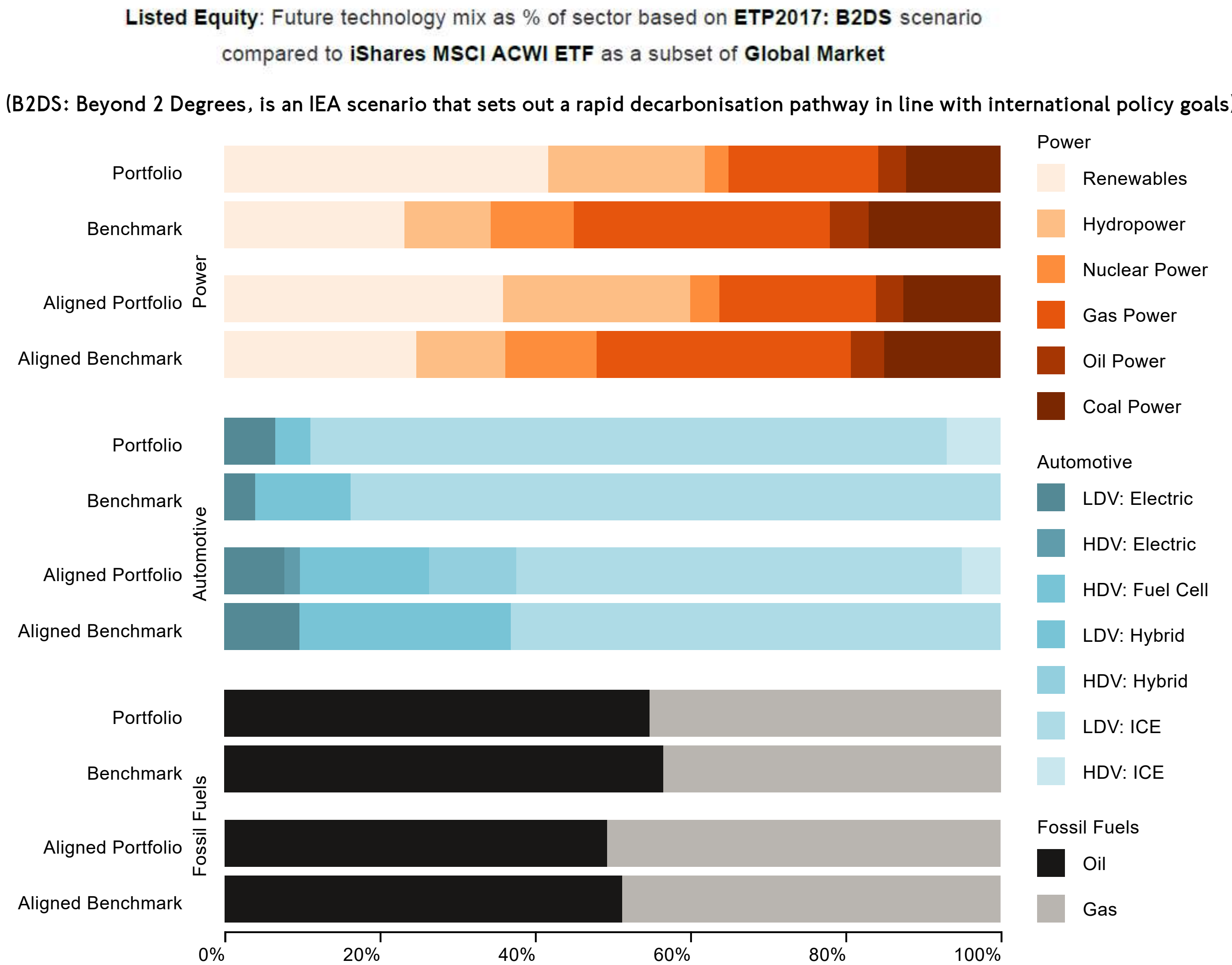
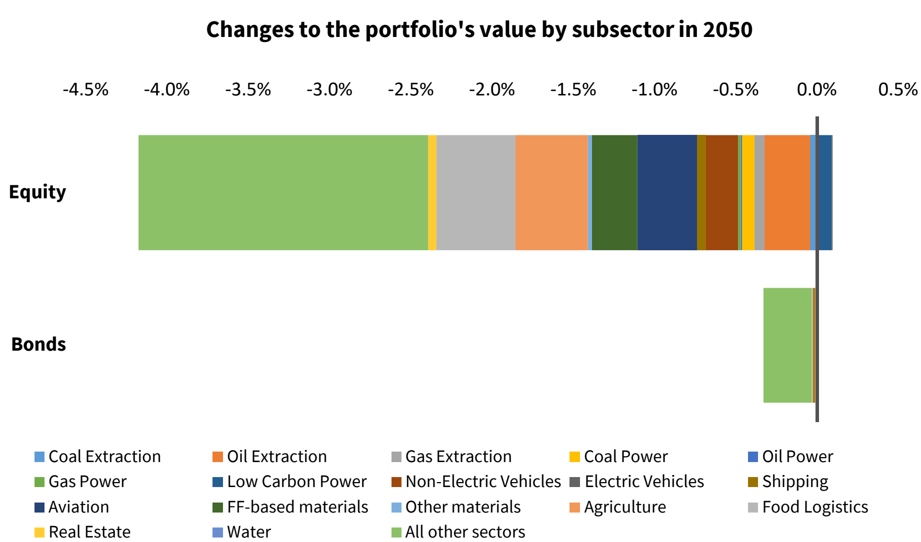


Chart 3. Bank of England stress test: Scenario B, Long term, orderly transition broadly in line with the Paris Agreement with year of impact 2050



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:

1. Inspire finance leaders to adopt sustainable and resilient business models
2. Transform financial decision making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues
3. 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.

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.

8. Implementation Statement

Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations ('the Regulations'). The Regulations, amongst other things, require that the Directors outline how they have ensured that the policies and objectives relating to voting and engagement policies set out in their Statement of Investment Principles (SIP) have been adhered to over the course of the year. This document covers the year ending 31 March 2021.

The purpose of the Implementation Statement ('the Statement' or 'IS') is to:

- Set out the extent to which, in the opinion of the Trustee, the voting and engagement policy under the Fund's Statement of Investment Principles ('SIP') has been followed during the year.
- Describe the voting behaviour by, or on behalf of, the Trustee over the year.

The Trustee must include the Implementation Statement in the Trustee's Report & Accounts and publish this on a publicly available website. Both the Statement of Investment Principles (dated March 2020), which includes the voting and engagement policies, and Implementation Statement can be found here:

https://tfl.gov.uk/pensions/fund-management/investment-management-and-principles

The Trustee is only required to report whether, in its opinion, its policies on voting and engagement have been met in the period. They have, however, chosen to report more generally on compliance with the SIP given the importance of this from the governance perspective.

Changes to the SIP over the year to 31 March 2021

- The SIP that was updated in March 2020 was applicable for the majority of the period covered by this statement and therefore the sections referenced in this statement are those given in the SIP dated March 2020. The March 2020 SIP was already aligned with the regulations mentioned above, which covered policies regarding how asset manager incentives to achieve long-term objectives, policies regarding cost transparency and policies on voting and stewardship rights.

  The SIP underwent its annual review in March 2021 and the following changes were made:

  - Updates for TCFD-aligned requirements: The Task Force on Climate- Related Financial Disclosures (TCFD) is a committee that has developed a set of climate-related financial risk disclosures for companies and organisations to inform investors and interested parties. The Fund's ESG Policy already covers many of these areas and work undertaken as part of ESG Investment Integration would complement it. Following completion of the Department for Work and Pensions' (DWP) consultation and publication of statutory guidance, the Fund's TCFD Compliance Framework will be tabled at a future meeting for approval. Revisions to the SIP refer to this requirement.
  - The ESG Policy was also updated to include wording on the Fund's increased emphasis on stewardship, set out all the ESG reporting available to members, and set a new target to invest at least 15% of the Fund's portfolio by 2025, by value in investments that have a strong "ESG tilt" (representing a material increase in the Fund's ambition to benefit from the opportunities presented by decarbonisation and "investment with purpose" objectives).
  - Restructuring of the SIP to make it clearer and more precise.

Compliance statement

This Statement demonstrates that the TfL Pension Fund has adhered to the investment principles and policies regarding voting and stewardship, including ESG factors, as set out in the Fund's SIP.

Summary of ESG Policy Implementation

The Trustee outlines in its SIP, a number of key objectives and policies that fall under ESG. This section gives a summary of the implementation of these policies.

As all the Fund's assets are externally managed, the implementation of sustainable investing/ ESG integration at individual mandate level is delegated to the investment managers ("managers"), with the managers also engaging with investee companies on the Fund's behalf.

In addition, the Fund partners with stewardship specialist, Sustainalytics, and several collaborative engagement platforms, to carry out focused engagements. Since March 2020, all proxy voting activities for the Fund's active equity mandates are carried out by Glass Lewis (as part of the Sustainalytics partnership) on behalf of the Fund.

For all the above external service providers, the Fund ensures that the sustainable investing and stewardship activities are implemented in alignment with its ESG policy by:

1) selecting/ designing mandates to reflect its ESG policy

2) closely monitoring the activities of incumbent managers to ensure they are aligned with its policy

In addition, at the Fund level, the Fund monitors a range of ESG metrics to ensure portfolio outcome is in alignment with its ESG policy. At the strategic asset allocation level, the Fund follows the ESG policy by investing in asset classes that provide more opportunities for ESG tilted investments, including renewable energy/ waste to energy infrastructure, energy efficient buildings and Impact private equity.

The Fund publishes an annual Sustainable Investing report every year which covers the above topics in detail and provides graphical analysis and case studies. The Sustainable Investing report can be read in conjunction with this Implementation Statement:
https://content.tfl.gov.uk/sustainability-report-2020.pdf

How the ESG Objectives & Policies outlined in the SIP have been met

In this section, the ESG policy sections of the SIP are noted, together with an explanation of how these objectives have been met and policies adhered to over the course of the year to 31 March 2021:

Investment managers and advisers (sections 6.9 – 6.10):

As part of the Fund's due diligence process, a thorough check of the prospective manager's credentials relating to all matters on ESG, sustainable investing and stewardship are reviewed. In the year to 31 March 2021, there were 2 new investment funds the Fund invested in, both of which were reviewed through questionnaire responses with follow up clarifications, as well as further assessment in face to face meetings with the Trustee. Neither of the new investment funds breached the Trustee's exclusion policy of excluding companies that generate more than 30% of their annual revenues from thermal coal in power generation and/or mineral extraction. ESG was explicitly covered in all stages of the selection process: The Fund assessed whether the manager has an ESG a policy, how it is embedded in its strategy, risk management, investment selection, portfolio management and reporting. This was also covered in detail in presentations to the Trustee. Based on the findings of this analysis, the Trustee was satisfied with the suitability of the managers' policies and their alignment with the Fund's objectives.

The Fund Office (in house management team lead by the Fund Secretary and reporting to the Trustee) monitored all underlying managers through regular calls held either quarterly or semi-annually on each underlying fund or mandate. ESG topics are discussed on these calls and the Fund would ask questions on how ESG issues had been integrated into the investment process in the given period, in particular covering high risk holdings/ material ESG factors and looking for evidence that managers assessed and managed ESG risks adequately. Managers have clear sight of the SIP and Fund ESG expectations, and they are required to produce detailed documents which form the basis of the annual ESG review. On the back of these reports, feedback is provided, and the Fund would seek ongoing improvements in the managers' ESG approach. During the implementation of all investments already held within the period, the Trustee was satisfied with the above-mentioned policies for the respective managers by going through this process.

Across all segregated equity and bond mandates, additional Investment Management Agreement (IMA) wording in respect of stewardship, sustainable investing and ESG integration was put in place with the underlying managers. The Trustee sees this as an important step forward in ensuring that the managers' approaches align with their own and will help aid with monitoring and accountability in the future. This process will be explored across all other asset classes in the near future.

Assessment of ESG related risks on individual investment decisions made by the manager are given in the monitoring section below.

Risk management: Financially material ESG issues, including climate change (sections 6.11 – 6.21)

Monitoring on ESG metrics

During the year, the Fund Office reported their findings on ESG characteristics and scores for the Fund's active public equity and bond mandates, on a quarterly basis to the Trustee. These reports included analysis on the highest carbon emitters within these asset class holdings as well as the companies with the worst ESG scores. Each quarter, a selection of these highlighted companies was discussed with the investment managers that had selected them in order to understand the rationale for holding them. As part of these discussions, it was raised that one manager disinvested from a high emitting cement company due to its lack of future plans to mitigate its impact on the environment.

Alongside this data, ESG scores at the mandate level were also assessed and used in conjunction with performance figures to evaluate whether any of the mandates were exhibiting significant detrimental impacts on returns due to assets held. Within the scheme year the Trustee was happy that no mandates needed to be changed based on these metrics.

The weighted average ESG and weighted average carbon emissions intensity "WACI" (defined as metric tonnes per million USD sales) across the actively managed public equity and bond holdings were compared against equivalent scores for relevant benchmarks each quarter. The Fund was broadly in line with the best ESG score of the bucket of indices used for comparison and had an overall lower emissions intensity than all the benchmarks across all quarters in the year. For illustrative purposes, the table below shows ESG scores and emissions intensity versus benchmarks at different time periods, starting with Q2 2017, when the Fund first started monitoring these metrics:

TfL Pension Fund and Benchmark ESG Scores (higher the better)

Date	**Fund score**	MSCI ACWI	MSCI EM	Russell 2000
Q2 2017	**4.93**	5.39	4.25	3.90
Q1 2020	**5.70**	5.14	4.58	4.65
Q1 2021	**5.09**	4.97	4.40	4.60

TfL Pension Fund and Benchmark Carbon Emissions Intensity (lower the better)

Date	**Fund score**	MSCI ACWI	MSCI EM	Russell 2000
Q2 2017	**185.22**	214.82	340.99	192.57
Q1 2020	**123.42**	180.39	290.16	138.62
Q1 2021	**115.69**	157.62	274.10	132.43

Further to the emissions intensity data given in the table above, the Fund produced figures outlining its resource intensity output for 2020 on page 14 in the annual Sustainable Investing Report. In line with upcoming best practice under TCFD, the Fund started the process of evaluating its "carbon footprint" across all asset classes with the view to measure and set future aims based on this analysis.

The impact of the Fund's investments was assessed against the UN Sustainable Development Goals ('SDGs' or 'Goals'), which are 17 goals to drive the end of poverty, protect the planet and facilitate peace and prosperity by 2030. This analysis was completed by comparing the Fund's active equity portfolio per SDG, against a custom benchmark. The Fund outperformed the benchmark on majority of SDG goals. Full details of these results can be seen on pages 36-37 in the Sustainable Investing report.

The Sustainable Investing Report for 2020 has been published and can be found here:

https://content.tfl.gov.uk/sustainability-report-2020.pdf

Exclusion Policy

Throughout the period, the exclusion already in place to exclude companies that generate more than 30% of their annual revenues from thermal coal in power generation and/or mineral extraction from its active mandates across the Fund was monitored and no breaches were reported. No further exclusion policies were agreed by the Trustee within the year.

Private markets

The Trustee has put significant thought into how to improve engagement and assessment of ESG and sustainability factors in private markets. The Fund Office engaged with the underlying managers to continue this process and has provided materials to the Trustee to help improve the understanding of asset class specific initiatives such as GRESB, formerly known as the Global Real Estate Sustainability Benchmark, an organisation that provides ESG benchmarks for infrastructure and real estate assets based on company or fund self-assessments.

For one indirect real estate mandate, the manager has gone further than encouraging underlying funds to participate in GRESB, by making disclosure mandatory in their contracts within a certain period after launch. The Trustee has held direct meetings with the manager to initiate research into any potential shortcomings in the current GRESB scores at underlying asset level and to work with the manager to ensure participation levels are at the level expected.

Investments with positive impact and sustainability themes (sections 6.26 – 6.28):

As part of its strategic long-term goals, the Fund is increasing its weighting to private markets. In this space, there is a variety of assets and initiatives that strongly align with impact and sustainability themes.

In the scheme year, the Fund has made top ups and deployed further capital across a number of infrastructure funds covering investments from renewable energy to data centres. Some of these assets are outlined further on pages 42-47 in the Sustainable Investing Report. A commitment was also made to a fund focussing solely on sustainable greenhouses in North America. All these investments were made with social or environmental impacts in mind.

The Fund's infrastructure debt mandate is a good example of investments with a strong ESG tilt. Over 50% of the mandate (by market value) is invested in renewable electricity and waste-to-energy plants. Two of these assets (Great River Hydro and Kwinana) can be seen on pages 35 and 36 respectively in the Case Studies section in the Fund's 2019 Sustainable Investing Report:

https://content.tfl.gov.uk/tfl-pension-fund-report-on-sustainable-investing-2019-1.pdf

The manager also actively looks for future investments that provides both strong ESG qualities and adequate financial returns.

It is expected that private markets investments will continue to be an important part of the target of allocating at least 15% of assets to investments with a strong "ESG tilt" by 2025.

Collaborative initiatives (sections 6.29 – 6.32):

The Trustee recognises the importance of their role as institutional investors; however, they understand the limits of the impact of acting alone. Due to this, the following collaborative initiatives were undertaken within the year:

- The Fund is a signatory to the United Nations Principles for Responsible Investment and as such completed its annual reporting submission, scoring an A or A+ in each module.
- The Fund continued to be a signatory to CDP, a not-for-profit charity that gathers global environmental data from companies and cities and engaged in the 2020 Non-Disclosure Campaign within the period. As a result, the Fund sent over 60 letters to companies requesting disclosures of climate change related information. This resulted in 8 companies responding to CDP for the first time. This engagement will help investors and companies work together to tackle worldwide environmental issues.
- Through Climate Action 100+ the Fund engaged with three companies (Rolls Royce, Anglo-American and Rio Tinto), with carbon reduction targets set by each one and companies either established on in the process of developing roadmaps to outline the course to achieving these goals. Engagement responses and TCFD related disclosures published within the year were also more transparent than previously, showing the impact the initiative is having. More information is given in the 2020 Sustainable Investing Report (pages 31-32 for Climate Action 100+, pages 13-20 for disclosures).
- Accounting for Sustainability (A4S) is an initiative that provides tools to help embed sustainability in financial processes. The Chair of the Investment Committee represents the Fund on the A4S Asset Owners Network and provided input on important matters at meetings, including climate change.

Voting and Engagement (sections 6.22 – 6.25)

Policies and alignment

Overview

The Fund held investments in public equities with voting rights in two main ways: through segregated mandates set up specifically for the Fund's needs or through pooled vehicles where the Fund is investing alongside other investors. The key difference in terms of voting is that for segregated mandates, the Fund retains voting rights, where for pooled vehicles the investment manager controls voting. Within the year, the Trustee began the process of assessing the possibility of moving pooled equity fund assets to segregated structures for more voting control and better outcomes for its members.

Segregated mandates and voting policies

For equities held in segregated mandates, the Fund used Glass Lewis as its proxy advisor and Sustainalytics as its engagement partner for the period covered. Glass Lewis votes on behalf of the Fund in line with best practice in the region in which a certain company is based. Sustainalytics' approach to engagement is centered around the notion of building long-term partnerships with the aim of creating long-term sustainable investment value in the companies that they engage with.

Glass Lewis policies are largely based on the regulations, listing rules, codes of best practice and other relevant standards set in each country. While these guidelines provide a high-level overview of our general policy approach, implementation varies in accordance with relevant requirements or best practices in each market. The latest guidelines can be found in the link below:

https://www.glasslewis.com/voting-policies-current/

For the scheme year covered, the Fund voted based on the Glass Lewis guidelines, with a Sustainalytics 'overlay' using voting as a means of escalation in a small number of engagement cases.

Details of the voting behaviour undertaken on behalf of the Trustee, including details of the most significant votes cast, is set out in the appendix to this report.

Pooled vehicles and voting policies

In the year 1 April 20 to 31 March 2021, the Fund's pooled equity fund managers were BlackRock and Russell Investments. As a result of this, votes attached to the underlying equity investments and controlled by the manager. Their voting policies can be found on the links below:

BlackRock Proxy Voting policies

Russell Investments Proxy Voting Policies

The Trustee received and reviewed voting reports from both BlackRock and Russell Investments at least quarterly in order to monitor the latest period's key votes and review whether the policy is in line with the Trustee's policies. For the year of this statement, the Trustee was happy that the voting and engagement carried out by BlackRock and Russell Investments was in line with its policies.

Engagement

Following consultation with Sustainalytics in 2019, the Trustee decided to focus on the following three programmes:

- **Global Standards:** Engaging with companies that severely and systematically violate international standards. The aim of the engagement is not only to resolve incidents deemed to breach these standards, but also to improve the company's future ESG performance and risk management to ensure incidents don't occur again.
- **Material Risk:** Proactive engagement with companies with the greatest unmanaged financially-material ESG risks. The collaborative and constructive engagement helps high-risk portfolio companies to better identify, understand and manage their ESG risks.

- **Thematic Engagement:** Focusing on tackling the most challenging ESG issues, from climate change to child labour. Under this type of engagement, the Fund is focusing on Plastics and the Circular Economy. The objectives of this engagement is to improve recycling practices and increase reusability.

The thematic engagements have a three-year circle.

Engagement is core to the Trustee's arsenal to help driving ESG progression within the Fund and within the industry. Engagement statistics and examples can be found in the collaborative initiatives section and the appendix, with additional case studies available in the 2020 Sustainable Investing Report (pages 26-32).

Summary of Other Policies

The Trustee outlines in its SIP a number of key objectives and policies on strategy, beliefs, allocations and risks amongst other required policies. This section gives a summary of these policies.

The SIP (Statement of Investment Principles) sets out the Trustee's investment objectives for the Fund and the investment principles governing how decisions about investments must be made.

An important part of investment principles is the Investment Beliefs. The SIP sets out the Trustee's Investment Beliefs and they are intended to set the background against which all investment related decisions are made for the benefit of the Fund.

The aim is that discussions and decisions on investment strategy, implementation, tactical views, and funding should be considered within these principles. The full list of beliefs can be found in the SIP.

The Trustee has a duty to set investment strategy and to select and monitor underlying funds and managers. When setting the investment strategy, the Trustee needs to consider how the assets are best invested to help the Fund to pay benefits when they are due, whether these are due in the short-term or in the long-term.

Trustee will need to consider and respond to changes in the strength of the employer covenant and the level of investment return expected in the Fund's recovery plan.

As stated in Section 4.3 of the SIP, while the primary objective is to hold sufficient assets to meet the liabilities of each section, the Trustee has recognised that the level of funding within each section and the strength of the employers' covenants permit some investment risk being taken in pursuit of growth.

The aim is to take on risk in a controlled fashion in order to achieve incremental excess return - a process that is agreed by the Trustee in consultation with TfL and signed off by the Pensions Regulator as part of the triennial funding update review.

In the past decade, the Fund's investment strategy has evolved from a simple combination of equities and bonds to a much more diversified portfolio comprising a significant allocation to alternative assets. The introduction of liquid alternatives and private market allocations looks to enhance the return (while controlling risk) for the Fund.

These changes have been guided by the Fund's SIP. The SIP itself has evolved to reflect the Trustee's changing investment beliefs, adapting to the emergence of new investment trends and products available in the marketplace.

As part of setting up the strategy, the Trustee has the task of selecting, monitoring and reviewing a mix of assets which provides an appropriate degree of risk exposure and potential for reward (returns) for the Fund investments.

Trustee also has to ensure that assets are sufficiently liquid, in order to be able to release funds from the Fund investments and pay the benefits as they become due, whether on a long term or a short term basis.

How the other objectives & policies outlined in the SIP have been met

The Trustee outlines in its SIP a number of key objectives and policies. These are noted below, together with an explanation of how these objectives have been met and policies adhered to over the course of the year to 31 March 2021:

Objectives of the Fund (sections 4.1 – 4.4):

To deliver sustainable long-term funding in line with the recovery plan agreed as part of Triennial review in 2018. A new plan will be agreed following the triennial valuation taking place this year.

Additional Voluntary Contributions (AVCs) (section 4.5):

The Trustee fulfilled its duty in providing members the option to make additional contributions into investment options provided by the chosen provider, Legal & General Investment Management (LGIM). LGIM was appointed following a review at the end of 2019. Within the year, existing policies with Standard Life (excluding with profits) and Utmost were transferred to Legal & General as part of a consolidation exercise.

Investment Beliefs (section 5, 6.5 - 6.6):

The beliefs guided how the Fund was managed during the year and have helped to safeguard value during the pandemic. This can be most prominently seen through the beliefs that diversification can control risk and the importance of long-term thinking. There are also beliefs around climate change and sustainability which shape the Fund's approach in these areas. No changes to the investment beliefs were made in the year to March 2021.

Governance Policy (sections 6.7 – 6.8):

As part of the annual SIP review, the ESG Policy was reviewed and updated to reflect changes required for TCFD disclosures and to simplify and consolidate the wording.

Strategic Asset Allocation (sections 7.1 – 7.4):

The Trustee is advised by the Fund's Investment Adviser (Willis Towers Watson) on the Fund's Investment Strategy. It was set following the conclusion of 2018 Triennial review and is reviewed on an annual basis to consider any significant market and economic changes. No major changes were made last year. The aim of the strategy was to increase the expected return of the Fund while maintaining the same level of risk it was taking before. This would be achieved through reducing the public equity allocation and increasing private market and alternative credit weightings. In the year to March 2021, the Fund made investments in line with the target allocation.

Risks (sections 7.5 – 7.9):

Risk management at the mandate level is delegated to the investment managers.

Risk monitoring is fully integrated in the Quarterly Performance reports reviewed by the Trustee. Several risk metrics are covered in these reports ranging from portfolio level Value at Risk (VaR) and volatility to scenario analysis, tracking error, drawdown measures and market beta at both the portfolio and at an individual mandate level. Risk was assessed on a regular basis throughout the year using these methods and the Fund operated within its risk limits.

Rates of Return (sections 7.10):

Rates of return for the Fund are calculated independently by the Fund's performance manager (JP Morgan) and reported on a quarterly basis. It shows current portfolio return expectations against benchmark returns. In addition, mandate level returns were monitored against performance benchmarks agreed with the managers, to ensure that they were in line with long-term expectations.

Liquidity (sections 7.11 – 7.12):

The Trustee monitors the Fund's liquidity at all times including projections of near and mid-term requirements. In March 2020 when there was uncertainty about how the pandemic and resulting economic slowdowns would unfold. The Trustee took proactive and timely measures in consultation with the managers and the Investment Adviser. Several investment mandates were temporarily amended as a result to optimise liquidity, many of the amendments since reversed as liquidity conditions improved in the later part of 2020.

Incentives (sections 8.7 – 8.14):

During the period, four monitoring reports were produced for the Investment Committee meetings and four were produced for the Alternatives and Liability Hedging Committee meetings in the period by the Performance Manager, Investment Adviser and the Fund Office. Fees were assessed against performance both on a short-term and long-term basis to assess value. During this process, fees were checked to ensure they were in line with IMAs.

The Trustee will continue to work with the Investment Adviser to improve monitoring analysis and mitigate unwanted risks which are more prevalent in times of stress. No concerns were raised within the period, relating to fees and incentives versus performance. The Trustee will closely monitor fees to ensure value for the Fund and its members.

The performance manager reports provide returns over multiple time frames (quarterly, annual, 3 years etc) for the Fund, the individual mandates and also their benchmarks. It receives data feed directly from the Fund managers and for the segregated mandates through the Fund's custodian, which also is JP Morgan.

The Fund's investment adviser reports give a quarterly holistic update of performance and funding in the context of the liabilities. Performance is provided net of fees and compared to individual benchmarks per fund/mandate. Risk is also monitored at the portfolio and underlying fund or mandate level. Quarterly manager assessments are included and highlight major manager changes.

The Fund Office report compliments this by assessing value for money (VFM) through analysis of outperformance against fees. For the active equity and bond mandates, the active performance added to the Fund weighted based on market values was 0.8% vs fees calculated on the same basis of 0.4% over a trailing 36-month period. Performance is analysed versus peer group and is rule based. Stress testing of certain relevant scenarios is included for a different view on risk.

Conclusion & future developments

Over the course of the year to 31 March 2021, the Trustee is pleased to report that they have, in their opinion, adhered to the policies set out in the Fund's SIP.

The Trustee will continue monitoring the funds and managers the Fund uses and will seek professional advice from its investment adviser as appropriate.

The Trustee recognises that it has a responsibility, as an institutional investor, to encourage and promote high standards of stewardship in relation to the assets that the Fund invests in. The Trustee will continue to use its influence to drive positive behaviour and change among the fund managers and other third parties that the Trustee relies on; such as the stewardship service provider and investment adviser.

The Trustee will, as appropriate, set increasingly higher standards for these parties in future, and will monitor, assess and ultimately hold them to account to ensure that the assets of the Trustee is appropriately invested. Accordingly, the Trustee will develop the Fund's responsible investment policies during 2021 and, with support from the investment adviser and regular engagement with managers, will monitor their appropriate application.

Appendix

Voting Statistics

The table below gives a summary of voting statistics across all public equity holdings within the year to 31 March 2021:

	Votable meetings	Votable Resolutions	% of votable resolutions voted on	% of votes with management	% votes against management	% of votes abstained	% of resolutions voted contrary to proxy adviser
Segregated accounts	494	5,797	99%	89%	9%	1%	<1%
BlackRock Total	8,666	99,812	95%	93%	7%	1%	n/a*
BlackRock US Index Fund	611	7,542	100%	97%	3%	<1%	n/a*
BlackRock AW Dev Asia Pacific ex Japan Index Fund	448	3,150	100%	90%	10%	<1%	n/a*
BlackRock Japan Index Fund	517	6,221	100%	98%	2%	0%	n/a*
BlackRock Israel Index Fund	55	485	100%	92%	8%	1%	n/a*
BlackRock All World Canada Index Fund	54	740	100%	99%	1%	0%	n/a*
BlackRock AW Dev Europe ex UK Index Fund	546	9,326	81%	88%	12%	1%	n/a*
BlackRock iShares Emerging Markets Fund	2,472	23,180	97%	91%	9%	3%	n/a*
BlackRock Property Index Fund	293	3,020	99%	94%	5%	0%	n/a*
BlackRock Russell Dev Large Cap EM GeoExposure Index Fund	377	5,584	100%	93%	6%	0%	n/a*
BlackRock RAFI AW 3000 Index Fund	3,293	40,564	93%	94%	6%	1%	n/a*
Russell Total	1,438	13,578	99%	81%	16%	3%	5%†
Russell Emerging Markets Equity Fund	875	8,357	99%	80%	16%	4%	5%
Russell Emerging Markets Opportunities Fund	563	5,221	100%	82%	16%	2%	5%
Total Votes	**10,598**	**119,187**	**95%**	**91%**	**8%**	**1%**	**1%**

Figures for voting with or against management and abstaining may not add to 100% due to either rounding, the votes cast with and against management includes abstained votes already or if there were multiple vote strings for a given meeting, any proposal voted in a different manner between the vote strings is counted twice.

†Russell Investments does not strictly follow the voting policy of its proxy adviser as it has its own voting policy, which is why there is a large deviation in contrary votes. The Fund has no control over that policy.

*BlackRock does not follow any single proxy adviser's voting recommendations. BlackRock uses multiple proxy advisers for information but voting decisions are made by members of the BlackRock Investment Stewardship team.

Voting Behaviour

Through voting with Glass Lewis, the Fund generally votes in line with what is seen as best practice and relevant to the given jurisdiction. The effect of minority stakeholder votes tends to be small but is growing. A few examples of this are given by Glass Lewis' Proxy Season review reports, which looks specifically at their coverage. Regional stats highlighting voting trends for 2020 are given below:

USA

- The average support for directors was around 94.5%, however there was a decrease in the number of directors who received over 91%, compared to 2019.
- The average support for say-on-pay proposals was 89.7% in 2020 compared to 89.8% and 90.0% in 2019 and 2018 respectively.

Europe

- Dutch companies saw the most failed remuneration votes due to recent legal and best practice requirements. This includes a requirement to explain the "societal acceptance" of remuneration.
- The Shareholders Rights Directive II (SDR II) gives weight to the link between executive pay and long-term sustainability of companies. This has increased E&S metrics in incentive terms.

UK

- 48 companies were opposed by at least 20% of shareholders in 2020 on remuneration related proposal versus 58 in 2019.
- In aggregate, the FTSE100 hit its target of 33% gender diversification on boards, however two boards, Aston Martin Lagonda and Domino's Pizza Group became all male.

Japan

- The proportion of boards with no female directors or officers decreased from 55% in 2019 to 50% in 2020.
- 35.6% of directors were independent across all companies, up from 26.6% in 2019.

These facts show that the impact of minority investors is starting to grow and their voice will be heard as engagements and voting policies develop. The Fund fully accepts the fact that the impact it can have on its own is limited but appreciates the important of voicing its opinion in the pursuit of better company governance.

In line with the Fund's Investment Beliefs, there is clear recognition that ESG/sustainability should be fully integrated with the Fund's investment framework. In that context, the relevance, applicability and materiality of different ESG issues is different for every investment and these factors can form a credible basis for the Trustee to pursue engagement and voting activities in partnership with the Fund's managers and Sustainalytics. Based on this, the Fund has outlined the votes it deemed to be most significant over the year:

Company name	Estee Lauder Cos., Inc.	Oracle Corp.	Singapore Technologies Engineering Ltd
Part of TfL portfolio	TfL segregated	TfL segregated	TfL segregated
Date of vote	10/11/2020	04/11/2020	15/05/2020
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.118%	0.170%	0.008%
Summary of the resolution	Advisory Vote on Executive Compensation	Advisory Vote on Executive Compensation	Elect KWA Chong Seng
How you voted	Against, against management	Against, against management	Against, against management
Rationale for the voting decision	There is a disconnect between pay and performance for executives. This is shown through guaranteed bonuses, using similar metrics for long and short-term performance and additional equity grants as the Company believes the incentive plan pay-outs were disproportionately impacted by COVID-19 relative to actual employee performance.	The Company's reaffirmation of its commitment not to grant additional equity awards to NEOs who hold front-loaded grants is favourable, but the lack of other meaningful changes to a program with clear areas of persistent concern still warrants a vote against this proposal. Shareholder discontent has been clear through previous votes, but the concerns have not been addressed by the company.	Within Glass Lewis' standard independent board members metrics for Singapore, the board is not seen as sufficiently independent. The Government of Singapore is an indirect majority shareholder of Temasek Holdings (Private) Limited ("Temasek"), which beneficially owns 52% of the Company. The Company has stated that directors connected to the Government are independent but not provided evidence of this being the case. Kwa Chong Seng is deemed independent by the Company but not Glass Lewis on this basis.
Outcome of the vote	97.62% For, passed	58.53% For, passed	97.15% For, passed
Implications of the outcome e.g. were there any lessons learned and what likely future steps will you take in response to the outcome?	Although this is not the desired result, the Fund voted in line with Glass Lewis' policy and voiced its discontent at the pay levels.	Although this is not the desired result, the discontent of investors is clear and hard for the company to ignore.	The vote passed, but the discontent from minority investors may spark more transparency on the matter.
'Most Significant' criteria	Size of holding as a % of mandate	Size of holding as a % of mandate; significance of vote outcome	Importance of vote rationale

TfL Pension Fund

Theme	Governance	Governance	Governance
Company name	**Ariake Japan Co. Ltd**	**IHH Healthcare Bhd**	**Mckesson Corporation**
Part of TfL portfolio	TfL segregated	TfL segregated	TfL segregated
Date of vote	19/06/2020	23/06/2020	29/07/2020
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.022%	0.004%	0.123%
Summary of the resolution	Elect Tomoki Tagawa	Directors' Fees	SHP Regarding Reviewing Political Spending or Lobbying
How you voted	Against, against management	Against, against management	For, against management
Rationale for the voting decision	The board consists of men only and there is no apparent desire to change this stance. On this basis, Glass Lewis opted to vote against the election of Tomoki Tagawa, who is CEO of the Company to show its objection.	Director's fees should have a balance between being competitive to retain good quality directors and reflecting the time and effort required for serving on the board. The proposed pay level for the board chair is significantly higher than other board members and not clearly justified. Pay inequality among non-executive directors can lead to long-terms problems with company-wide remuneration as well as board-level management and oversight.	The Company did enhance disclosures concerning electioneering expenditures prior to the meeting, but there was still a significant lack of disclosure on indirect lobbying expenditures. Increased disclosure would allow shareholders to more fully assess risks presented by the Company's indirect lobbying activities, namely reputational risk, particularly given the national attention to issues related to opioid distribution, and risks associated to political risk.
Outcome of the vote	94.64% For, passed	99.68% For, passed	51.71% For, passed
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	The vote passed, but objection to these practices will continue in future votes if the stock continues to be held by the Fund.	The vote passed, but Glass Lewis and the Fund voted in line with policy on this type of matter.	The vote passed, which was a significant win for investors. More transparency should be provided through annual report so investors can better assess the Company's risk exposures and practices.
'Most Significant' criteria	Importance of vote rationale	Importance of vote rationale	Size of holding as a % of mandate; significance of vote outcome
Theme	Governance/Social	Governance	Governance
Company name	**Exxon**	**Facebook**	**Activision Blizzard**
Part of TfL portfolio	TfL segregated	TfL segregated	TfL segregated
Date of vote	27/05/2020	27/05/2020	11/06/2020
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.031%	0.237%	0.017%
Summary of the resolution	Shareholder Proposal Regarding Report on Risks of Gulf Coast Petrochemical Investments	Shareholder Proposal Regarding Report on Online Child Exploitation	Shareholder Proposal Regarding Political Contributions and Expenditures Report
How you voted	For, against management	For, against management	For, against management
Rationale for the voting decision	The Company has significant investments in the Gulf Coast. Due to this, there is a need for risk reporting that covers what would happen in the event of unplanned chemical releases and the effect on public health. As extreme weather events become more frequent and severe due to climate change,	The vote for reporting was made as the Company has not disclosed how it will tackle the spread of child exploitative distribution as it expands its encrypted messaging capabilities. The Company also tends to take a reactive rather than a proactive stance on these	Information regarding direct and indirect political spending is very limited and concerning. If spending was reported on, shareholders would be able to assess the Company's political spending and the risks associated.

	there is a real need for this disclosure.	matters, which this vote would look to change.	
Outcome of the vote	73.82% against, didn't pass	85.94% against, didn't pass	56.24% For, passed
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	The vote didn't pass, but there will be a continued push on this matter in the future due to the implications on public health and environment of such events.	It is important that investor discontent on disclosure is highlighted to the Company and this vote shows that.	This result should give shareholders more transparency on how direct and indirect political spending is made by the company.
'Most Significant' criteria	Importance of voting matter	Size of holding as a % of mandate; Importance of voting matter	Size of holding as a % of mandate; significance of vote outcome
Theme	Environmental	Social	Social
Company name	**Amazon**	**Woodside Petroleum Ltd.**	**Sinopharm Group Co Ltd**
Part of TfL portfolio	TfL segregated	BlackRock	Russell Investments
Date of vote	27/05/2020	30/04/2020	18/12/2020
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.020%	0.003%	0.004%
Summary of the resolution	Shareholder Proposal Regarding Report on Promotion Data	Ordinary Resolution on Paris Goals and Targets	2020 Financial Services Framework Agreement
How you voted	For, against management	Against, with management	For, with management
Rationale for the voting decision	The requested report on promotion data also asked for the information to broken down by title and level for different gender and racial identities. This would only give a small insight into the Company's practices and internal assessments on advancing women and racial minorities, but it could be useful information when assessed on a year on year basis.	Based on the Company's existing reporting and engagement to date, BlackRock believe the Company recognises the priority it must place on carbon disclosures and reduction targets. Scope 3 emissions are particularly hard to accurately calculate for the sector and the company requires time to define and implement a strategy for this.	Section IX-L Russell vote for proposals to approve control and profit transfer agreements between a parent and its subsidiaries.
Outcome of the vote	86.83% against, didn't pass	52.68% against, didn't pass	~57% against, didn't pass
Implications of the outcome eg were there any lessons learned and what likely future steps will you take in response to the outcome?	Unfortunately, this didn't pass but the vote was conducted in line with voting policy and highlights an important topic for the Company to engage on.	BlackRock's view is that the company is responsive to shareholder concerns on carbon disclosure and emissions targets. The Company publicly recognises the science of climate change, has committed to the Paris Goals, and stated its ambition of being carbon neutral by 2050. It has a Sustainability Division, which holds responsibility for carbon offsets and hydrogen business development, and publishes a separate sustainability report that discloses its climate change strategy, emissions reduction targets, and historical emissions performance	This vote was closely contested, ultimately defeated by ~57% of the shareholder vote. In this case, Glass Lewis found there was no significant cause for concern, as the proposed agreements were found to be fair and reasonable by an independent financial advisor. Our guidelines functioned as intended and the rationale was sound.
'Most Significant' criteria	Importance of voting matter	Importance of voting matter	Importance of voting matter; significance of vote outcome
Theme	Social	Governance	Governance

Engagement

Voting can only go so far in representing an investor's view of a company and whether a company is deemed to be run in the best way it can. As a result of this, engagement is a key tool that the Fund uses, with its engagement partner Sustainalytics, in order to voice this view and work with companies for mutually beneficially change. Some cases can be seen below of engagements that took place within the year. Further cases can be seen on pages 26 to 32 of the Fund's Sustainable Investing report.

Case 1: Magnit

Magnit comes under the Material Risk engagement type with Sustainalytics. This is looking to improve company long-term value for investors by engaging with high-risk companies on their financially material ESG issues. Due to engaging with the company, the following developments were made. Magnit:

- Hired a Chief Sustainability Officer to drive development and implementation of ESG/sustainability practices.
- Established a Sustainability Steering Committee to support the ESG governance structure and coordinate the sustainability effort across the organization.
- Published its first annual Sustainability Report in 2020, which is aligned with the GRI Core option and includes materiality analysis. Established a Sustainability Steering Committee to support the ESG governance structure and coordinate the sustainability effort across the organization.
- Developed a sustainability strategy with a wide range of commitments and goals towards 2025.
- Signed the UN Global Compact, a voluntary CEO commitment to implement universal sustainability principles.
- In 2020, the ESG Risk Ratings overall score improved to 26.1 and Magnit moved into the top 55% of the industry category.

All voting at the general meeting was in line with management with no changes needed from the Sustainalytics overlay due to strong engagement.

Case 2: Hyundai Motor Co., Ltd.

Background

In 2017, a senior executive was questioned by authorities on an alleged corruption scheme involving the president of the country, Park Geun-hye, and her close friend. The allegations stated that, Hyundai had provided financial donations to two controversial foundations belonging to the former politician. In 2018, the former president was sentenced to prison for the corruption scheme that exposed links between politics and businesses.

Engagement Objective

The engagement objective was to thoroughly investigate allegations of the bribery scheme and see evidence of improvement of the company's anti-corruption programme, reflecting its corruption risk exposure.

The company was open and willing to share information with Sustainalytics and address any investors' concerns. In terms of compliance, Hyundai explained that it has an internal anticorruption and anti-bribery policy and business guidelines for all its employees. It provides online or offline compliance training to all employees, depending on the business unit, and a compliance self-assessment framework exists for each business unit to better understand its exposure to compliance risk. Furthermore, the company has a whistleblower channel (Cyber Audit Office) that collects and analyses all incoming reports on compliance issues. Lastly, during the dialogue, Hyundai demonstrated a higher awareness of ESG issues and committed to improve its external disclosure as part of its sustainability strategy.

Outcome

Currently, the company's ethics and compliance management system includes an internal anti-corruption policy, business conduct guidelines, compliance training for all employees, compliance self-assessment frameworks for all business units, and a whistle-blower channel to collect and analyse all reports on compliance issues, including bribery and corruption. These measures demonstrate Hyundai's preparedness to reduce risk exposure to bribery and avoid potential disruptions in the company's operations due to unethical behaviour of employees. Sustainalytics decided to resolve the case.
All voting at the general meeting was in line with management with no changes needed from the Sustainalytics overlay due to strong engagement.

Case 3: Rio Tinto Ltd.

Background

Rio Tinto is one of the world's largest diversified mining companies. In May 2020, two ancient rock-shelters were destroyed in the Pilbara region of Western Australia. A recent study of the Juukan Gorge, located on Puutu Kunti Kurrama and Pinikura (PKKP) land, dated one rock shelter as more than 46,000 years old. The findings were not publicised. The consultation by company with the PKKP has been criticized. Although the company knew of the study identifying the usage of one rock shelter, this information was allegedly not passed on to either the regulators or the PKKP.

Engagement Objective and Activity

Rio Tinto should compensate the local aboriginal tribes for the destruction of the Juukan Gorge rock shelters. The company should work to amend the relevant laws in Western Australia. Rio Tinto should seek to re-establish good working relations with the aboriginal peoples who are impacted or potentially impacted and should ensure that decisions on mine activities cannot be undertaken without relevant input.

Next Step

As a first step, Sustainalytics will request a conference call with Rio Tinto to confirm the actions it has taken since the incident. Sustainalytics will then ask about whether the company intends to restructure its operations to ensure that operational decisions are discussed in advance with the community consultation team.

9. Approval of the Report of the Directors of the Trustee

The Compliance Statement on page 69 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 9 July 2021 and was signed on their behalf by:

M Antoniou
Director
TfL Trustee Company Limited

LP Brown
Director
TfL Trustee Company Limited

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 for the year ended 31 March 2021 which comprise the Fund Account, and the Statement of Net Assets (available for benefits) and notes to the accounts, including 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 2021, and of the amount and disposition at that date of its assets and liabilities, other than the 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 1995.

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 could be adversely impacted by the continuing impact of the Coronavirus (Covid-19) outbreak on the principal employer, Transport for London, and the uncertainty as to the principal employer's ability to secure long-term funding to enable them to continue to support the Fund. 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 Fund's Trustee is responsible for the other information contained within the annual report. Our opinion on the accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the accounts themselves. 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 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 are 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.

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.

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

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the accounts, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the accounts, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the accounts due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Fund operates in and how the Fund is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the accounts may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the accounts are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP).

We performed audit procedures to review the accounts for compliance with the relevant legislation.

The audit engagement team identified the risk of management override of controls as the area where the accounts were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside the normal course of business and challenging judgements and estimates.

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

9 July 2021

TfL Pension Fund
Fund Account

For the year ended 31 March 2021

	Note	2021 £'000	2021 £'000	*2020 £'000*	*2020 £'000*
Dealings with members					
Contributions receivable	3				
Employer		**401,521**		*287,493*	
Employee		**70,100**		*67,110*	
Individual transfers in from other schemes		**457**		*2,775*	
		472,078		*357,378*	
Benefits payable	4	**(394,738)**		*(387,302)*	
Payments to and on account of leavers	5	**(4,854)**		*(4,216)*	
Other payments	6	**(5,193)**		*(4,478)*	
Administrative expenses	7	**(4,107)**		*(4,213)*	
Pension levies	8	**(15,412)**		*(13,699)*	
		(424,304)		*(413,908)*	
Net additions / (costs) from dealings with members			**47,774**		*(56,530)*
Returns on investments					
Investment income	9	**117,232**		*143,439*	
Change in market value of investments	11a	**2,376,689**		*(444,945)*	
Investment management expenses	12	**(21,634)**		*(19,634)*	
Net returns on investments			**2,472,287**		*(321,140)*
Net increase / (decrease) in the fund during year			**2,520,061**		*(377,670)*
Net assets at beginning of year			**10,581,818**		*10,959,488*
Net assets at end of year			**13,101,879**		*10,581,818*

The Notes on Pages 48 to 61 form part of these Accounts.

TfL Pension Fund
Statement of Net Assets (available for benefits)

As at 31 March 2021

	Note		2021 £'000		*2020 £'000*
Investment assets	11				
Bonds		**721,688**		*653,337*	
Equities		**3,272,515**		*2,405,782*	
Loans		**341,360**		*299,489*	
Pooled investment vehicles	11b	**7,895,882**		*6,617,145*	
Derivatives	11c	**122,760**		*55,555*	
AVC investments		**107,136**		*83,188*	
Cash and liquidity funds		**625,275**		*544,133*	
Other investment balances		**48,502**		*37,173*	
			13,135,118		*10,695,802*
Investment liabilities	11				
Derivatives	11c	**(38,109)**		*(117,472)*	
Other investment balances		**(36,726)**		*(17,985)*	
			(74,835)		*(135,457)*
Total net investments			**13,060,283**		*10,560,345*
Fixed assets held for own use	13		**90**		*125*
Current assets	14		**63,243**		*41,706*
Current liabilities	15		**(21,737)**		*(20,358)*
Net assets at end of year			**13,101,879**		*10,581,818*

The Notes on Pages 48 to 61 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 66 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 9 July 2021 and were signed on their behalf by:

M Antonio
Director
TfL Trustee Company Limited

LP Brown
Director
TfL Trustee Company Limited

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).

The worldwide spread of Covid-19 (Coronavirus) has continued to cause worldwide restrictions on travel and with the UK Government still asking people who can work from home to continue to do so until at least 19 July. However, with the rollout of the UK vaccines programme and the Government's Roadmap out of lockdown saw a steady increase of ridership on TfL's network to 60% of the pre pandemic level. The sponsoring employer received base funding of £1.08bn from the Government which extends to 11 December 2021, this is on top of the £0.6bn it has already received for the period from 1 April to 31 May 2021. The deal also extends the existing revenue top-up arrangements should TfL's actual passenger revenue be lower than a pre-defined Department for Transport revenue scenario. This deal enables TfL to maintain core transport services and support economic recovery, and the Government has explicitly committed to continuing to work with TfL on reaching a longer-term financial settlement beyond this.

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 accounts. 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. Additional deficit reduction contributions are accounted for on the due date on which they are payable under the Pension Funding Agreement.

(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.

(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 2021 taking into account gains or losses on foreign currencies;

(ix) AVC investments are shown at the values advised by the AVC providers.

3. Contributions receivable

	2021	2020
	£'000	£'000
Employers		
Normal	304,192	287,493
Deficit funding	71,715	-
Additional contributions	25,614	-
	401,521	287,493
Members		
Normal	55,775	53,559
Additional Voluntary Contributions	14,325	13,551
	70,100	67,110
	471,621	354,603

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 6.4% of the total of the relevant pay definition for all Members of the section, payable from 1 April 2020 to 31May 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.

Additional deficit reduction contributions of £25.6m were paid under the Pension Funding Agreement agreed between the Trustee and TfL as part of the 2018 valuation.

4. Benefits payable

	2021	2020
	£'000	£'000
Pensions	323,063	313,463
Commutations and lump sum retirement benefits	69,495	71,432
Lump sum death benefits (net of those insured)	1,042	1,719
Taxation where lifetime or annual allowance exceeded	1,138	688
	394,738	387,302

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

	2021	2020
	£'000	£'000
Individual transfers to other schemes	4,747	3,827
Refunds to members leaving service	107	191
Payments for members joining state scheme	-	198
	4,854	4,216

6. Other payments

	2021	2020
	£'000	£'000
Premiums on term insurance policies	5,193	4,478

7. Administrative expenses

	2021 £'000	2021 £'000	*2020 £'000*	*2020 £'000*
Staff costs				
Payroll	**2,259**		*2,327*	
Recruitment and training (incl. Trustee)	**16**		*16*	
		2,275		*2,343*
Establishment costs				
Accommodation	**90**		*90*	
Computer costs	**466**		*501*	
Telecommunications	**14**		*15*	
Depreciation	**35**		*38*	
		605		*644*
Professional fees				
Legal fees	**333**		*291*	
Audit fees	**90**		*85*	
Accountancy and tax fees	**108**		*159*	
Actuarial fees	**282**		*284*	
Medical fees	**24**		*32*	
Covenant review	**68**		*52*	
Other professional fees	**32**		*28*	
		937		*931*
Communication				
Distribution	**144**		*159*	
Printing	**119**		*97*	
		263		*256*
Consumables				
Stationery	**4**		*5*	
General	**23**		*34*	
		27		*39*
		4,107		*4,213*

Administrative expenses include recharges by Transport for London of £2,328,332 (2020: £2,273,249) for staff and other costs.

8. Pension levies

	2021 £'000	*2020 £'000*
Pension Protection Fund	**15,190**	*13,475*
Pension Regulator levies	**222**	*224*
	15,412	*13,699*

9. Investment income

	2021 £'000	*2020 £'000*
Income from bonds	**20,460**	*22,097*
Dividends from equities	**42,876**	*52,135*
Income from pooled investment vehicles	**32,218**	*36,904*
Income from loans	**20,524**	*20,713*
Expenses from derivatives	**(197)**	*(1,253)*
Interest on cash deposits	**501**	*12,269*
Income from securities lending	**681**	*568*
Other investment income	**169**	*6*
	117,232	*143,439*

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 2020	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Value at 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Bonds	653,337	1,483,686	1,406,415	(8,920)	**721,688**
Equities	2,405,782	1,103,821	1,193,517	956,429	**3,272,515**
Loans	299,489	55,557	19,291	5,605	**341,360**
Pooled investment vehicles	6,617,145	1,149,762	1,026,891	1,155,866	**7,895,882**
Derivative contracts	(61,917)	-	148,688	295,256	**84,651**
Liquidity funds	220,821	960,240	911,823	(44,471)	**224,767**
AVC investments	83,188	98,728	91,704	16,924	**107,136**
	10,217,845	4,851,794	4,798,329	2,376,689	**12,647,999**
Cash deposits	323,312				**400,508**
Other investment assets	37,173				**48,502**
Other investment liabilities	(17,985)				**(36,726)**
Total net investments	10,560,345				**13,060,283**

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:

	2021	*2020*
	£'000	*£'000*
Absolute Return funds	**1,014,062**	*878,663*
Equity funds	**2,605,492**	*2,073,083*
Fixed Interest funds	**652,105**	*483,715*
Private Equity funds and infrastructure funds	**2,005,683**	*1,456,927*
Property funds	**231,710**	*192,215*
Qualifying Investor fund (see below)	**1,196,564**	*1,334,186*
Reinsurance funds	**190,266**	*198,356*
	7,895,882	*6,617,145*

The Fund invests in a Qualifying Investor Fund with BlackRock Investment Management (UK) Limited, in which the Fund is the sole investor. A breakdown of the underlying investment classes held within this fund is shown below:

	2021	*2020*
	£'000	*£'000*
Government Bonds	**1,012,450**	*904,675*
Network Rail Bonds	**190,693**	*405,391*
Options	**19,643**	*62,018*
Swaps	**(26,222)**	*(37,898)*
	1,196,564	*1,334,186*

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

	2021		*2020*	
	Assets £'000	**Liabilities £'000**	*Assets £'000*	*Liabilities £'000*
Swaps	**19,665**	**(9,308)**	*8,565*	*(6,710)*
Futures	**19,876**	**(16,380)**	*14,136*	*(9,761)*
Foreign exchange	**82,765**	**(11,768)**	*32,281*	*(100,846)*
Options	**454**	**(653)**	*573*	*(155)*
	122,760	**(38,109)**	*55,555*	*(117,472)*

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	13,156,884	Expires less than 1 year	**-**	**(2)**
	342,501,545	Expires 1 to 5 years	**1,007**	**(503)**
	67,248,004	Expires 5 to 10 years	**3,278**	**(4,062)**
	45,780,774	Expires 10 to 15 years	**1,860**	**(778)**
	23,925,406	Expires 15 to 20 years	**1,068**	**(10)**
	880,000	Expires 20 to 25 years	**27**	**(108)**
	168,475	Expires 25 to 30 years	**93**	**(243)**
	811,021	Expires 30 to 35 years	**17**	**(237)**
Credit default swaps	42,035,723	Expires less than 1 year	**1,739**	**(8)**
	101,529,632	Expires 1 to 5 years	**1,752**	**(20)**
	246,628,028	Expires 5 to 10 years	**6,282**	**(209)**
	136,194,002	Expires 10 to 15 years	**-**	**(769)**
Total return swaps	71,834,097	Expires less than 1 year	**2,255**	**(2,240)**
Basis	23,645,281	Expires 1 to 5 years	**287**	**(92)**
	4,753,335	Expires 5 to 10 years	**-**	**(27)**
Total 2021			**19,665**	**(9,308)**
Total 2020			*8,565*	*(6,710)*

At the end of the year the Fund held collateral of £34.2m (2020: £24.0m) in respect of swaps.

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	159,509,071	Expires under 1 year	**14,287**	**(12,840)**
Equity	77,713,784	Expires under 1 year	**3,260**	**(207)**
Cash Instruments	295,876,265	Expires under 1 year	**62**	**(9)**
Treasury	97,069,647	Expires under 1 year	**2,267**	**(3,324)**
Total 2021			**19,876**	**(16,380)**
Total 2020			*14,136*	*(9,761)*

At the end of the year the Fund held collateral of £41.1m (2020: £25.6m) 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	**28,647**	**(3,832)**
Forward OTC	2 months	Various	Various	**19,405**	**(4,887)**
Forward OTC	3 months	Various	Various	**19,611**	**(956)**
Forward OTC	4 months	Various	Various	**10,771**	**(120)**
Forward OTC	5 months	Various	Various	**3,885**	**(74)**
Forward OTC	6 months	Various	Various	**446**	**(1,899)**
Total 2021				**82,765**	**(11,768)**
Total 2020				*32,281*	*(100,846)*

c) Derivatives (continued)

Options

Type of Option	Nominal amount	Duration	Asset value at year end £'000	Liability value at year end £'000
Call OTC	4,558,236	Expires under 1 year	**25**	
Put OTC	18,019,790	Expires under 1 year		**(167)**
Call OTC	22,323,686	Expires 5 to 10 years	**253**	
Put OTC	63,550,026	Expires 5 to 10 years		**(450)**
Call OTC	19,480,259	Expires 10 to 15 years	**66**	
Put OTC	8,746,922	Expires 10 to 15 years		**(35)**
Call OTC	1,634,403	Expires 30 to 35 years	**110**	
Put OTC	519,630	Expires 30 to 35 years		**(1)**
Total 2021			**454**	**(653)**
Total 2020			*573*	*(155)*

d) AVC investments

During the year Legal & General, Standard Life and Clerical Medical had delegated responsibility for the investment and administration of the Fund's Additional Voluntary Contribution (AVC) plan with the legacy Utmost policies and all Standard Life (other than with-profits) being transferred to Legal and General during the year. 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:

	2021 £'000	*2020 £'000*
Legal & General	**103,144**	*-*
Clerical Medical	**3,670**	*3,696*
Standard Life	**322**	*73,447*
Utmost (Equitable Life)	**-**	*6,045*
	107,136	*83,188*

e) Transaction costs

Included within purchases and sales are direct transaction costs of £1,828,000 (2020: £1,795,000) 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**
2021			
Equities	**1,054**	**774**	**1,828**
Bonds	-	-	-
2020			
Equities	*997*	*605*	*1,602*
Bonds	*18*	*175*	*193*

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:

At 31 March 2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Bonds	7,031	714,657	-	**721,688**
Equities	3,047,641	-	224,874	**3,272,515**
Loans	-	-	341,360	**341,360**
Pooled investment vehicles	218,674	3,669,867	4,007,341	**7,895,882**
Derivatives	7,279	4,412	72,960	**84,651**
Liquidity funds	224,767	-	-	**224,767**
AVC investments	-	103,883	3,253	**107,136**
Cash	400,508	-	-	**400,508**
Other investment balances	11,776	-	-	**11,776**
	3,917,676	4,492,819	4,649,788	**13,060,283**

At 31 March 2020	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
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*
	2,942,651	*4,012,457*	*3,605,237*	*10,560,345*

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 2021	**£'000**	**£'000**	**£'000**	**£'000**
Bonds*	1,878,316	38,728	31,324	**1,948,368**
Loans	-	-	341,360	**341,360**
OTC Derivatives	59,678	-	-	**59,678**
Cash	640,483	-	-	**640,483**
Other investment balances	210	461	488	**1,159**
Stock lending	450,975	-	-	**450,975**
Repos	25,263	-	-	**25,263**
Time deposits	725	-	-	**725**
PIVs	-	-	6,699,318	**6,699,318**
	3,055,650	39,189	7,072,490	**10,167,329**

* This includes bonds held in the Qualifying Investor Fund.

g) **Investment risks (continued)**

	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*
	2,892,118	*24,854*	*5,604,464*	*8,521,436*

* 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 £652.1m (2020: £483.7m).

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

	2021	*2020*
	£'000	*£'000*
Open ended investment fund	**3,112,902**	*2,329,345*
Qualifying Investor Fund	**1,196,564**	*1,334,186*
Closed ended investment companies	**698,892**	*619,379*
Open ended investment companies	**938,680**	*720,958*
Shares of limited partnerships	**685,672**	*573,912*
Unit trusts	**684,620**	*583,852*
Shares of limited companies	**81,311**	*78,496*
Closed ended investment funds	**367,875**	*249,948*
Other	**129,366**	*127,069*
	7,895,882	*6,617,145*

(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.

g) Investment risks (continued)

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

	Market risk				
	Currency	Interest rate	Other price	**2021 £'000**	*2020 £'000*
Bonds	●	●	○	**721,688**	*653,337*
Equities	●	○	●	**3,272,515**	*2,405,782*
Loans	●	●	○	**341,360**	*299,489*
Pooled investment vehicles				**7,895,882**	*6,617,145*
Direct	●	◐	○		
Indirect	○	◐	●		
Derivative contracts	●	◐	◐	**84,651**	*(61,917)*
Liquidity funds	●	○	○	**224,767**	*220,821*
AVC investments	◐	◐	●	**107,136**	*83,188*
Cash deposits	●	○	○	**400,508**	*323,312*
Other investments	●	○	○	**11,776**	*19,188*
Total				**13,060,283**	*10,560,345*

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 2021 £450.9m of investments were loaned comprising £331.5m Overseas equities, £81.7m Overseas fixed interest securities, £27.2m UK equities and £10.5m UK fixed interest securities. Collateral of £480.8m was held as at 31 March 2021 in the form of cash of £26.1m and non-cash of £454.7m (2020: £326.8m loaned against £349.8m collateral).

i) Self investment

There were no employer-related investments at any time during the year ended 31 March 2021.

j) Commitments

At the 31 March 2021 the Fund had contractual commitments of £919.0m (2020 £1,444.4m) to pay calls on outstanding drawdowns for alternative investments in pooled investment vehicles, unquoted equities and loans.

12. Investment management expenses

	2021 £'000	*2020 £'000*
Administration, management and custody	**20,866**	*18,820*
Performance measurement services	**143**	*130*
Other advisory services	**625**	*684*
	21,634	*19,634*

The total investment management expenses incurred during the year was £60.7m (2020: £56.6m) of which only £21.6m (2020: £19.6m) was remitted; the balance was deducted as part of the daily pricing of the individual asset portfolios.

Notes to the Accounts (continued)

13. Fixed assets held for own use

	Computer equipment £'000	Furniture £'000	Total £'000
Cost at 1 April 2020	699	26	725
Additions	-	-	-
Disposals	-	-	-
Cost at 31 March 2021	**699**	**26**	**725**
Accumulated depreciation at 1 April 2020	(574)	(26)	(600)
Depreciation charge for the year	(35)	-	(35)
Depreciation on disposals	-	-	-
Accumulated depreciation at 31 March 2021	**(609)**	**(26)**	**(635)**
Net book value at 1 April 2020	*125*	-	*125*
Net book value at 31 March 2021	**90**	-	**90**

14. Current assets

	2021 £'000	2020 £'000
Debtors		
Prepayments and accrued income	**34,943**	*25,568*
Cash balances	**28,300**	*16,138*
	63,243	*41,706*

Accrued income includes contributions of £24.6m (2020 £14.6m) received in accordance with the Schedule of Contributions after the year end.

15. Current liabilities

	2021 £'000	2020 £'000
Creditors		
Unpaid benefits	**12,773**	*12,961*
Accrued expenses and deferred income	**8,306**	*6,344*
	21,079	*19,305*
Unpresented items	**658**	*1,053*
	21,737	*20,358*

Unpresented items are payments submitted and cheques drawn but not presented for payment by 31 March 2021. 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. A further High Court ruling on 20 November 2020 confirmed that this requirement extends to the calculation of cash equivalent transfer values paid from pension schemes such as the Fund prior to the 2018 ruling.

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 industry guidance is awaited, or legal uncertainties remain. The Trustee expects to further consider the approach to be taken during 2021/22 and into 2022/23.

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.

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 £2,328,332 (2020: £2,273,249) and are included in Note 7 on page 51. At 31 March 2021, £813,933 (2020: £817,356) has been included in creditors in respect of administration expenses rechargeable to the Fund and a balance due to TfL.

All of the above transactions are in accordance with the Trust Deed and Rules of the Fund.

TfL Pension Fund
Summary 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 Schedules.

Trustee's Summary of Contributions payable under the Schedules in respect of the fund year ended 31 March 2021

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 2021. The Fund auditor reports on contributions payable under the schedules in the Auditor's statement about contributions.

Contributions payable under the schedules in respect of the Fund year

	£'000
Employers	
Normal contributions	304,192
Deficit funding	71,715
Members	
Normal contributions	55,775
Contributions payable under the schedules (as reported on by the Fund auditor)	431,682

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)	431,682
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditor)	
Additional employer contributions	25,614
Member additional voluntary contributions	14,325
Total contributions reported in the accounts	471,621

This Report was approved by the Board of Directors of the TfL Trustee Company Limited on 9 July 2021 and was signed on their behalf by:

M Antoniou
Director
TfL Trustee Company Limited

LP Brown
Director
TfL Trustee Company Limited

TfL Pension Fund
Actuary's Certificates

Pages 64 to 65 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.

Actuary's certification of schedule of contributions

Name of section: **TfL Pension Fund – Composite Section**

Adequacy of rates of contributions

- 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

- 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

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 Trustee Board 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 62, in respect of the Fund year ended 31 March 2021.

In our opinion the contributions for the Fund year ended 31 March 2021 as reported in the attached summary of contributions on page 62 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 schedule of contributions certified by the Fund Actuary 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 62 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 62, 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

9 July 2021

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 2021		*As at 31 March 2020*	
	Units	**£'000s**	*Units*	*£'000s*
Participating Employer				
Public Sector Section	**1,452,953,022**	**5,781,269**	*1,597,228,563*	*4,242,760*
Composite section	**2,974,139**	**11,834**	*3,673,032*	*9,757*
	1,455,927,161	**5,793,103**	*1,600,901,595*	*4,252,517*

The Equity Fund unit price at the year end was £3.98 (2020 £2.66)

	Bond Fund			
	As at 31 March 2021		*As at 31 March 2020*	
	Units	**£'000s**	*Units*	*£'000s*
Participating Employer				
Public Sector Section	**486,064,428**	**1,601,350**	*527,741,987*	*1,585,556*
Composite section	**1,410,799**	**4,648**	*1,275,471*	*3,832*
	487,475,227	**1,605,998**	*529,017,458*	*1,589,388*

The Bond Fund unit price at the year end was £3.29 (2020 £3.00)

	Alternative and Liability Driven Assets Fund			
	As at 31 March 2021		*As at 31 March 2020*	
	Units	**£'000s**	*Units*	*£'000s*
Participating Employer				
Public Sector Section	**2,872,175,132**	**5,312,485**	*2,562,137,501*	*4,487,468*
	2,872,175,132	**5,312,485**	*2,562,137,501*	*4,487,468*

The Alternative Liability Driven Assets Fund unit price at the year end was £1.85 (2019 £1.68)

	31 March 2021	*31 March 2020*
	£'000s	*£'000s*
Equity Fund	**5,793,103**	*4,252,517*
Bond Fund	**1,605,998**	*1,589,388*
Alternative and Liability Driven Assets Fund	**5,312,485**	*4,487,468*
Other (non unitised assets allocated to Public Sector)	**390,293**	*252,445*
Total Net Assets at end of year	**13,101,879**	*10,581,818*

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

There were no 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.