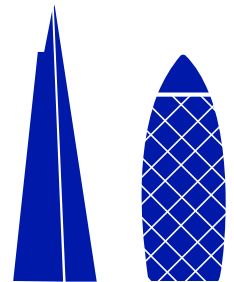




16 OCTOBER 2020

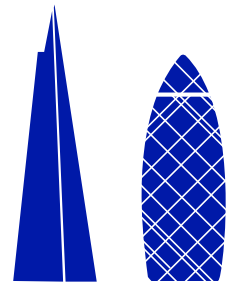
Annual Members' Meeting 2020



EVERY JOURNEY MATTERS

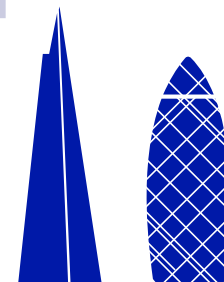
Welcome and Introduction

Maria Antoniou Chair of Trustees



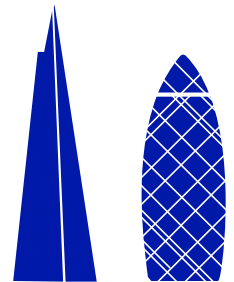
Agenda

Time	Topic	Owner
11.00	Welcome and Introduction	Maria Antoniou (Chair of Trustees)
11.10	Review of the Year	Stephen Field (Fund Secretary)
11.25	Actuarial Update	Gareth Oxtoby (Willis Towers Watson)
11.50	Investment Update	Ed Francis (Willis Towers Watson)
12.05	Legal Development	Ian Pittaway (Sackers & Partners)
12.25	Questions & Answers	Maria Antoniou (Chair of Trustees)
12.45	Close	All



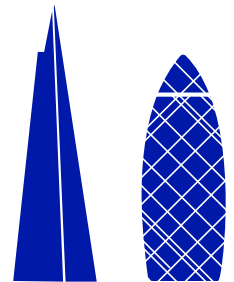
Review of the Year

Stephen Field Fund Secretary



Key Activities Last 12 Months

- Transition of Additional Voluntary Contributions (AVCs) to Legal & General
 - £84 million transferred
 - 4,500 member accounts transferred
- Fund Office relocation to 200 Buckingham Palace Road
- Guaranteed Minimum Pension reconciliation
- Our work on ESG
 - The Funds first PRI full report made public in July 2019, scoring A or higher in all measures
 - The report for July 2020 will be included in our Sustainability Report issued in December
 - Enhanced disclosure in Statement of Investment Principles
- 26% reduction in Carbon Emission (Tonnage) of the Fund's equity and bond holdings since its peak in Q4 2016.



6 Key Activities Last 12 Months (continued)

- Fund exceeded its 5% target of “ESG tilted” investments
 - As of June 2020, the Fund ESG tilted investment value is £900 million which is 8%
- Supporter of Climate Action 100, Carbon Disclosure Project and an early adopter of Task Force on Climate Financial Disclosure (“TCFD”) Regulation.
- Fund’s exposure to Oil & Gas via its equity holdings (passive and active) have been shrinking in recent years
 - December 2016 3.3% of overall Fund value
 - March 2019 1.8% of overall Fund value
 - March 2020 0.9% of overall Fund value
- Exposure in all assets classes (Equity and Bond) to Oil & Gas Producers is 1.1% - £115 million as at March 2020. vs. 3.1% in the Fund BM. This is close to 65% under-weight.
- Sustainalytics and Glass Lewis formally appointed to undertake voting and engagement activities on all actively held equity investments.

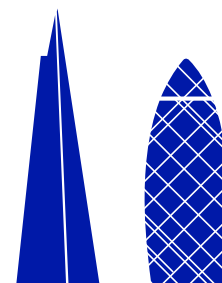


Governance

- Trustee's conduct business through the main Board meetings and 6 sub committee meetings
- Over the year to 31 March 2020, 34 meetings in total were held

Trustees Changes

- To 31 March 2020
 - Rebecca O'Donnell, Amanda Hopkins and Finn Brennan appointed
 - Miriam Kingsley, Jill Collis and Graham Dean left the Trustee Board

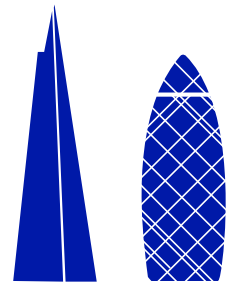


Value of the Fund

- At 31 March 2020 the value of the Fund stood at £10.6bn versus £11.0bn at previous year end

- The change in value over the year:

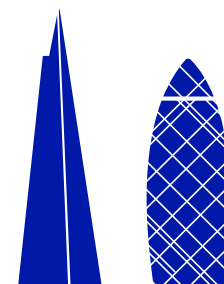
Income	£357m
Plus Return on Investment net of expenses	£124m
Less decrease in value of Investments	(£445m)
	<u>£36m</u>
Less Expenditure	<u>(£414m)</u>
Change in value	(£378m)



Money into the Fund

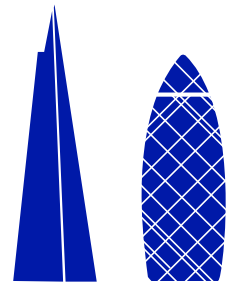
Topic	2019/20 £m	2018/19 £m
Employers' contributions	287.5	399.2
Members' contributions	67.1	65.5
Transfers in from other schemes	2.8	4.3
Total Income	357.4	469.0

Topic	2019/20 £m	2018/19 £m
Investment income net of expenses	123.8	107.6
Total Income	123.8	107.6



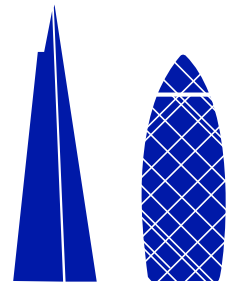
Money out of the Fund

Topic	2019/20 £m	2018/19 £m
Benefits payable	387.3	381.9
Payments to & on account of leavers	4.2	5.3
Other payments	4.5	5.5
Administrative expenses	4.2	4.3
Pension levies	13.7	13.2
Total	413.9	410.2



Investment Portfolios

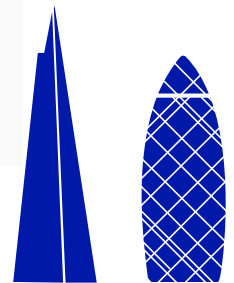
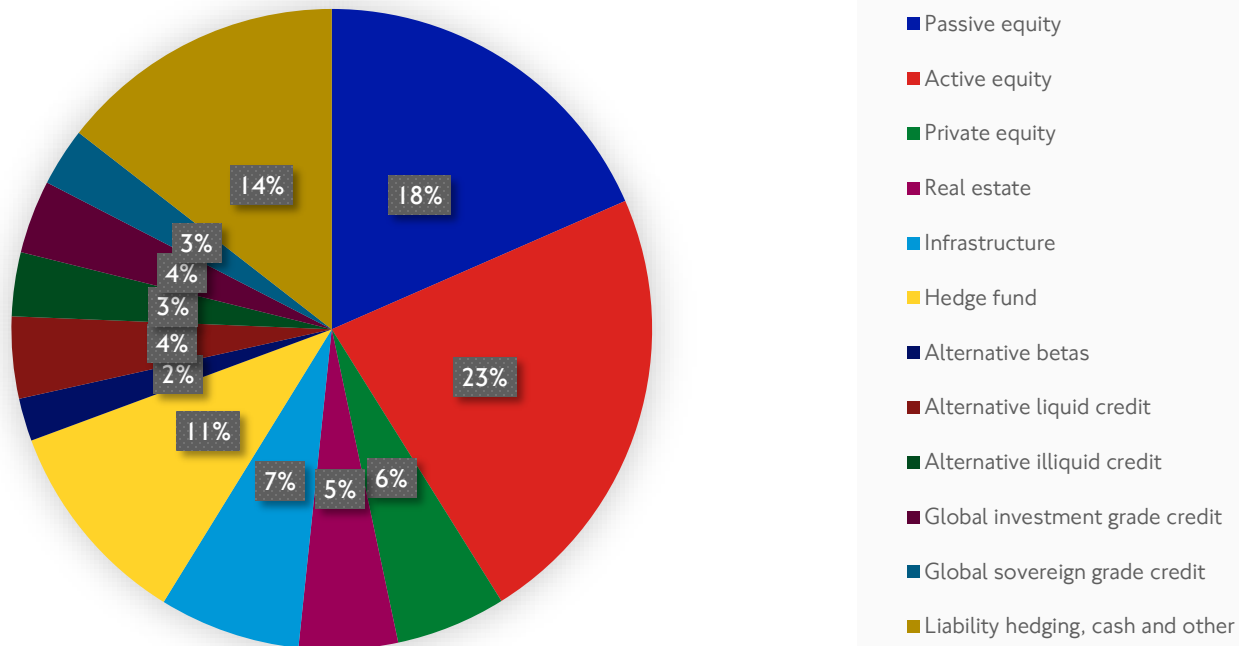
- Value of the Fund:
 - £10.6bn (31 March 2020)
 - £11.0bn (31 March 2019)
 - £10.3bn (31 March 2018)
 - £9.8bn (31 March 2017)
 - £8.2bn (31 March 2016)
 - £8.3bn (31 March 2015)



Investment Diversity

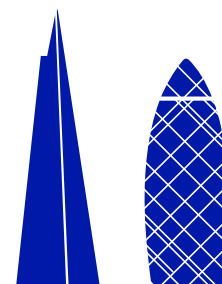
- The Fund continues to diversify to enhance returns while maintaining the risk it takes.
- This helped to reduce drawdown during the Covid-19 crisis.

Fund Asset Allocation - March 2020



Investment Costs

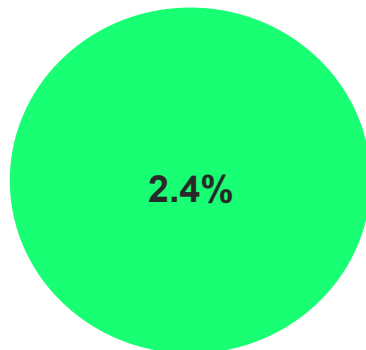
Topic	2019/20 £m	2018/19 £m	2017/18 £m
Direct investment management expenses (shown in accounts)	19.6	17.6	18.7
Indirect investment management expenses (shown in change in market value)	37.0	32.7	24.6
Total investment management expenses	56.6	50.3	43.3
Direct investment transaction costs	1.8	2.0	2.0
Total investment management expenses and transaction costs	58.4	52.3	45.3
Investment costs as a percentage of total assets	0.55%	0.48%	0.44%



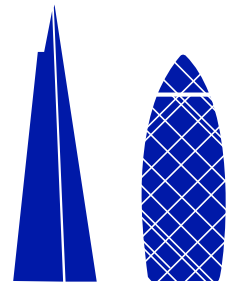
2021 Pension Increase

Under the Rules of the Fund the April pension increase is calculated by reference to the change in the Retail Prices Index (RPI) over the period September to September.

The increase for 2020 was:

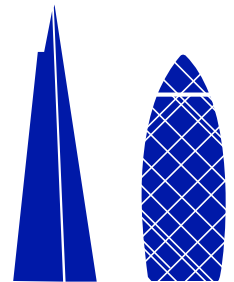


The increase for 2021 will be:



Post 31 March Update

- Fund Office team have all moved to remote working
 - Telephones diverted from office numbers
 - Provision of laptops
 - Provision of mobile phones
 - Provision of other equipment as necessary
 - Website updated with mobile numbers
 - Skeleton team of staff visiting office to deal with incoming and outgoing post
- Changes to process
 - Acceptance of documents electronically
 - Provision of prepaid reply envelopes
- All benefit payments continue to be made
- All investment activities have continued



TfL Pension Fund

Annual Members' Meeting Scheme Actuary presentation

Gareth Oxtoby
16 October 2020



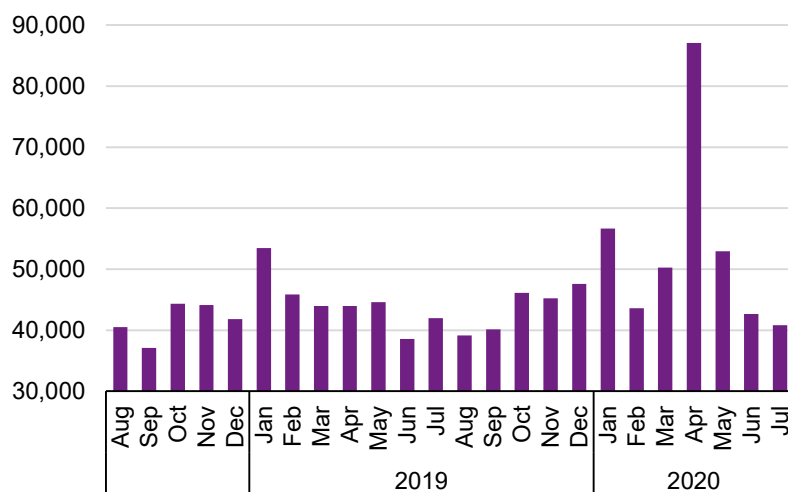
2020 – a year like no other

- **Mortality update**
- **Covenant update**
- **Funding update**
- **Other relevant developments**
 - RPI reform
 - Funding reform - Pensions Regulator proposals

COVID-19: death rates

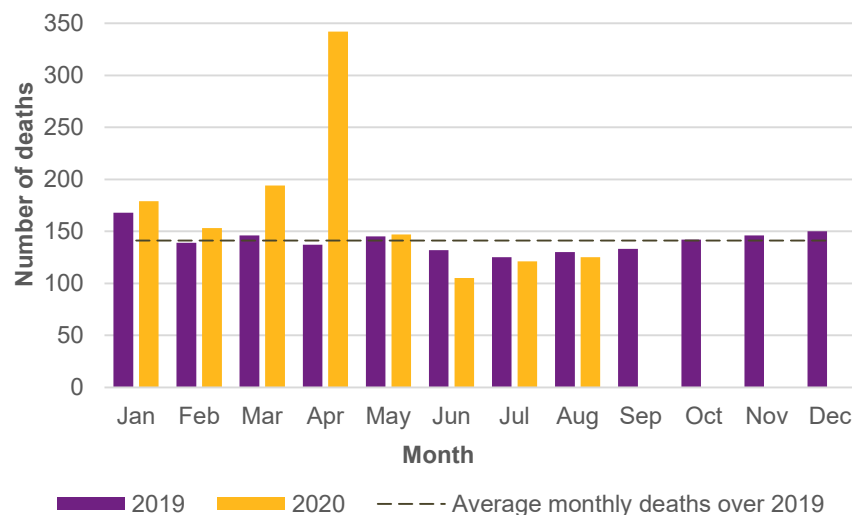
- In any 'normal' year there is a marked seasonality to death rates, with more deaths in the winter – particularly if there is an aggressive flu season
- This year, the tragic impact of COVID-19 was a significant spike in deaths in the Spring – as experienced by both the wider population and the Fund

England & Wales – monthly death registrations



Source: Derived from provisional weekly death registration data published by the Office for National Statistics

TfLFP – monthly pensioner / dependant deaths



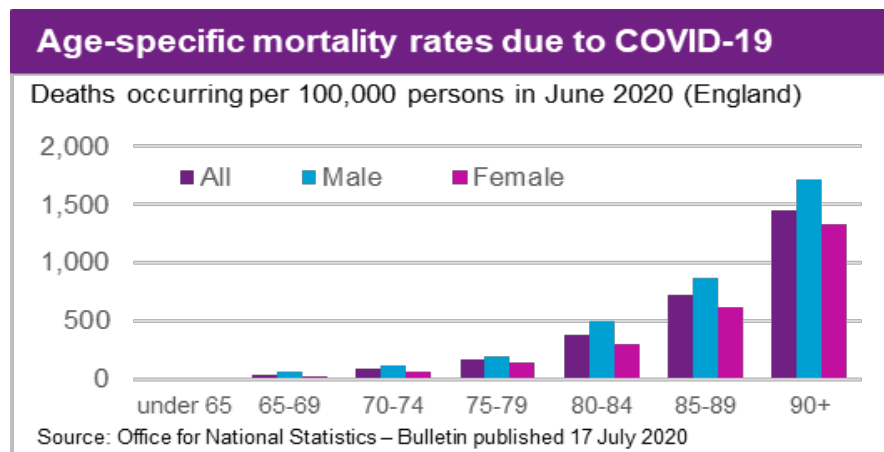
Source: TfLFP Fund Office

- Since May, the Fund's more recent experience appears to be of lower numbers of pensioner deaths than in the previous year – this is consistent with wider population experience compared with average mortality rates

COVID-19: death rates

What does this mean for the financial position of the Fund?

- In the short term, 'extra' pensioner deaths improve the Fund's finances – but not by much. This is because it has been a one-off 'shock' concentrated on the more elderly
- More significant is any long-term impact on mortality rates, and here the impact of COVID-19 is unclear



Post-COVID outcome	Possible impact on life expectancy
Economic repercussions lead to a reduction in living standards	↓
COVID persists – and/or long-term health of those who had COVID but recovered (or left other conditions untreated) worse	↓
Increased spending on the NHS	↑
Improved population hygiene leads to lower transmission rates for other infections eg flu	↑
Conclusion: too early to tell – possible small improvement in funding level?	

Covenant update

- Prior to the pandemic, the Trustee had placed significant reliance on TfL's status as a strong employer with flexibility to afford an increase in contributions to support the Fund if its financial position worsened
- COVID had a massive impact on TfL's finances as passenger numbers plummeted by over 90%
- The Government recognised the importance of keeping TfL running to London and the nation, providing financial support of up to **£1.9bn** as announced in May
- TfL published a revised budget in July, anticipating the need for up to **£3.5bn** of support for the full financial year, and **c£2.9bn** in 2020/21 to invest in vital capital projects and support the nation's economic recovery
- There remains significant uncertainty – eg future social distancing requirements



“Prudent financial management had placed TfL on the cusp of breaking even for the first time in its history and with strong financial reserves. However, the pandemic revealed that the current funding model, with its unusually heavy reliance on fare revenue, simply doesn't work when faced with such a shock”
Andy Byford, London's Transport Commissioner

Covenant update

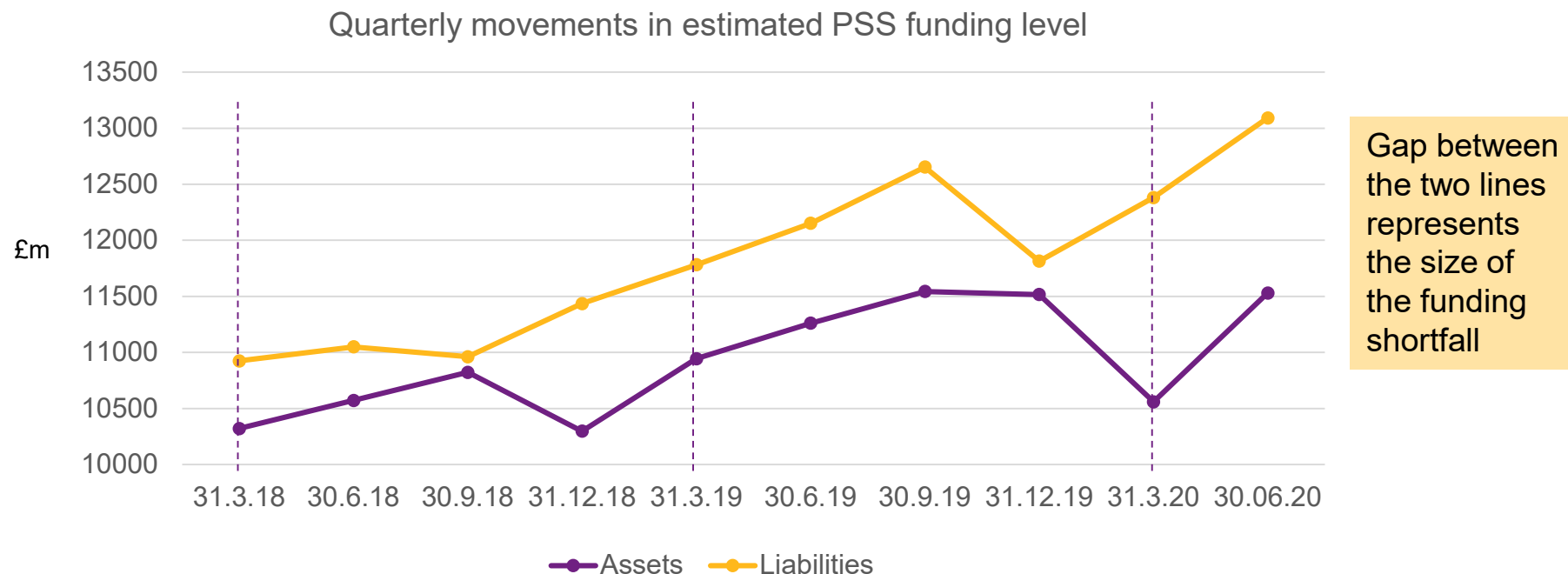
What does this mean for the Fund?

- TfL's credit rating remains good, and TfL remains a critical part of the London transport infrastructure
- The payment by TfL of ongoing and deficit repair contributions to the Fund remains a priority, and previously-agreed contingent funding remains a budgeted baseline cost for TfL
- However, TfL's finances are undoubtedly weakened by the pandemic. TfL's flexibility to put more money into the Fund if needed in the medium-term future is likely to be reduced
- It is unclear on the extent to which the Fund will be covered by the DfT's independent review into TfL's future financial position

Conclusion: current funding arrangements remain in place. The need for, and level of, Governmental support in the longer term is unclear. The Trustee remains in regular dialogue with TfL regarding developments.

Funding update

Movements in funding position over the period to 30 June 2020



- Over the year to 31 March 2019, both assets and liabilities increased in value over the year – but with liabilities increasing by a bit more than assets
- The year to 31 March 2020 was more volatile. Q4 2019 saw a marked improvement, but then COVID-19 provided a major blow to the Fund's overall funding level over Q1 2020 – asset values fell while liability values increased
- Asset values recovered in Q2 2020 but future real return expectations weakened further

Funding update

What does this mean for the Fund?

- The estimated funding level at 31 March 2020 – 85% - is below that at the 2018 valuation date
 - But the Fund has recovered from similar short-term volatility in the past (the funding level was worse than this at the time of the 2008 financial crisis)
- However, because Fund assets and liabilities have both been growing, the shortfall in £m terms is now at a historic high
- The 2018 valuation agreement put a contractual arrangement in place to address exactly this sort of worsening – it provides for a contingent increase in deficit contributions if needed, which could cover a potential deficit in excess of £1bn
- In the meantime, asset values have continued to recover since 31 March

Conclusion: It is too early to predict the likely outcome of the 2021 actuarial valuation. However, all other things being equal it seems likely to show a worse outcome than the 2018 valuation

Other relevant developments

RPI reform

- There are a number of different measures of inflation. Under the Fund Rules, members' Fund pensions generally increase in line with Retail Prices Index (RPI) inflation
- The Government and the UK Statistics Authority have proposed changes to the calculation of RPI, to align RPI with CPIH - from a date to be confirmed, but could be as early as 2025. If enacted, this will reduce increases to Fund pensions from that date – potentially by up to 1% pa

Funding reform - proposed new regulatory regime

- In March 2020, the Pensions Regulator published a consultation on a revised code of practice to apply to the funding of pension schemes such as the TfL Pension Fund.
- The Government's intention is to improve transparency and accountability, and for trustees to focus on long-term issues for their schemes.
- In practice, the outcome (expected no sooner than end 2021) could be a more demanding funding regime, largely driven by issues for closed schemes (the majority) rather than open schemes like the Fund.

Conclusion: changes in the external environment will impact on next year's triennial valuation of the Fund, which is likely to present some new challenges.

Limitations

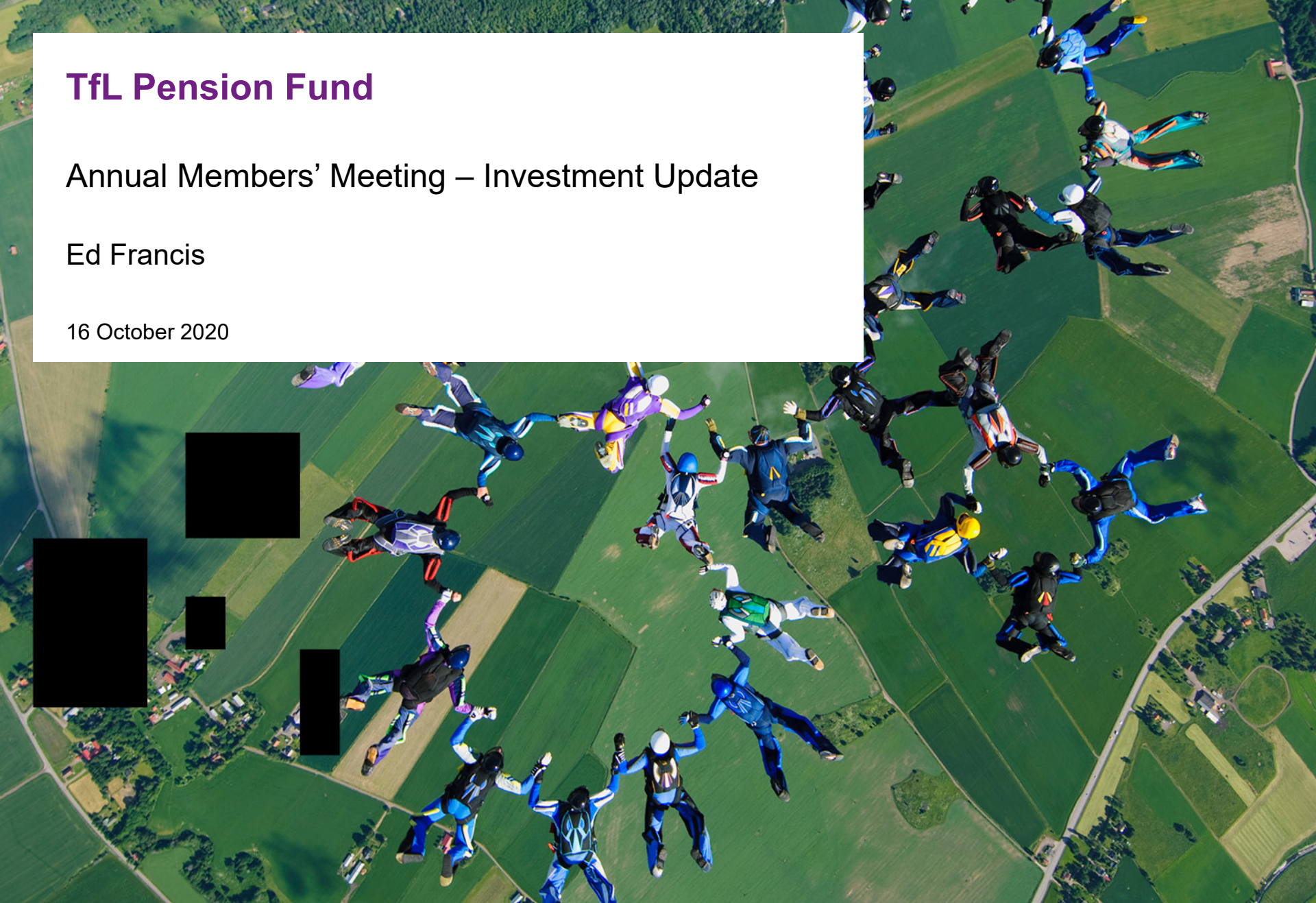
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TfL Pension Fund

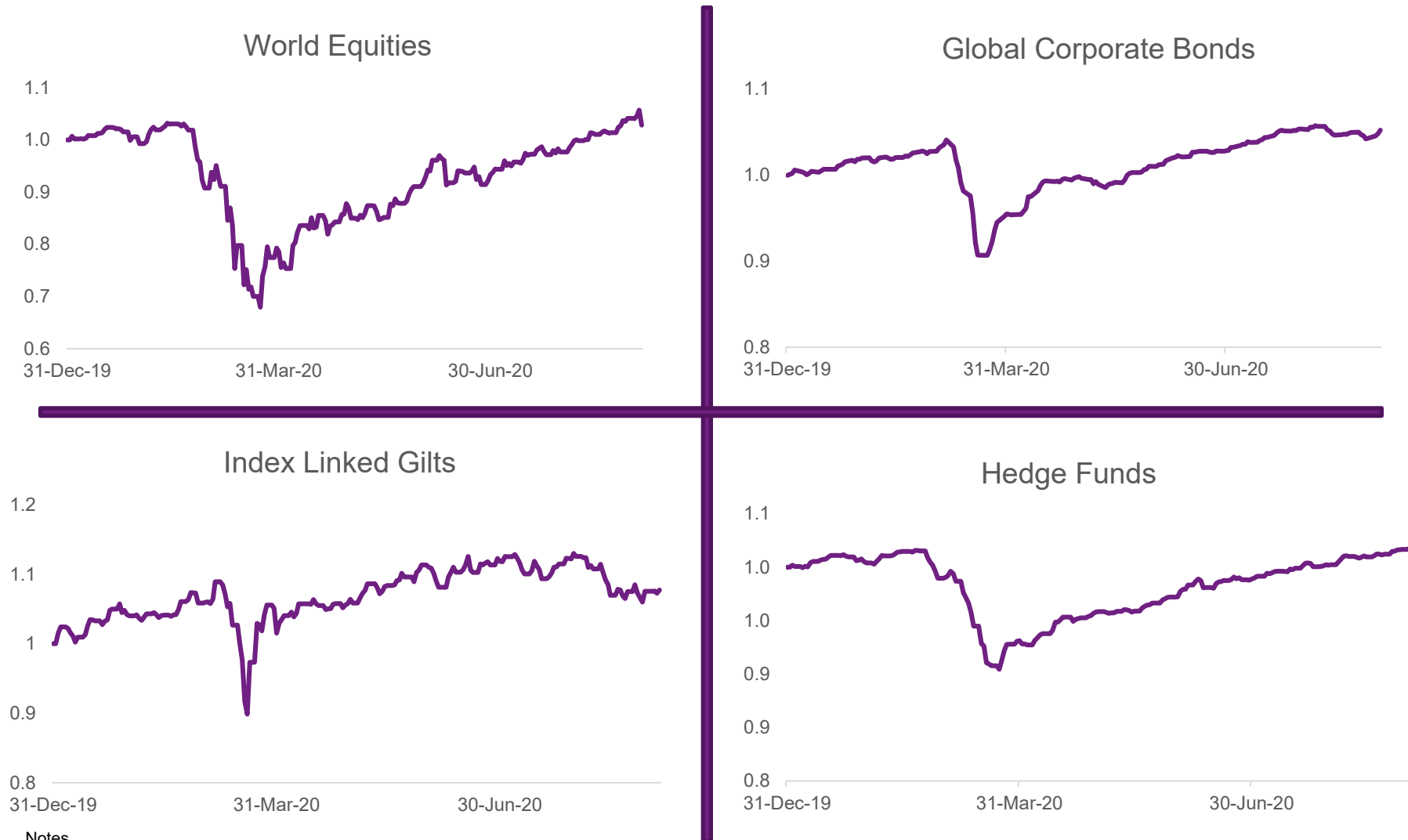
Annual Members' Meeting – Investment Update

Ed Francis

16 October 2020



Market performance has been volatile



Notes

World Equities – MSCI World; Global Corporate Bonds – Bloomberg Barclays Global Aggregate (GBP hedged)

Index Linked Gilts - FTSE Actuaries UK Index-Linked Gilts All Stocks; Hedge Funds – HFRX Global Hedge Fund Index

Fund Actions to Ensure Portfolio Resilience

Pre-pandemic – ensuring portfolio resilience



Holding a **diversified portfolio** to reduce return volatility



Use of **active management** to take advantage of market conditions



Purchasing **equity options** to reduce volatility in equity returns

During pandemic – rapid responses undertaken



Taking advantage of **short-term investment opportunities** e.g. credit markets



Using **liquidity management** to ensure member benefits continue to be paid



Taking £50m profit from **equity options** to mitigate negative equity returns



Increased **communication with managers** to ensure financial and operational challenges were being addressed

WTW COVID-19 scenarios - latest

1. Gradual recovery from economic lows

- Public health policy measures highly effective with virus spread controlled by mid-Q2
- Shelter-at-home and other stringent measures eased

2. Extended economic weakness

- Problem transmissions occur up to Q3; public health policy is less effective in controlling the virus
- New cluster cases in localised areas; shelter-at-home and other stringent measures re-implemented at a local level

3. Systemic economic crisis

- Problem transmissions occur up to Q4; public health policy is less effective
- New cluster cases continue in localised waves through northern hemisphere winter; larger scale regional shelter-at-home measures required

US recovers to Q4 19 GDP levels in Q1 2021

Europe recovers to Q4 19 GDP levels in Q3 2021

US recovers to Q4 2019 GDP levels in Q1 2022

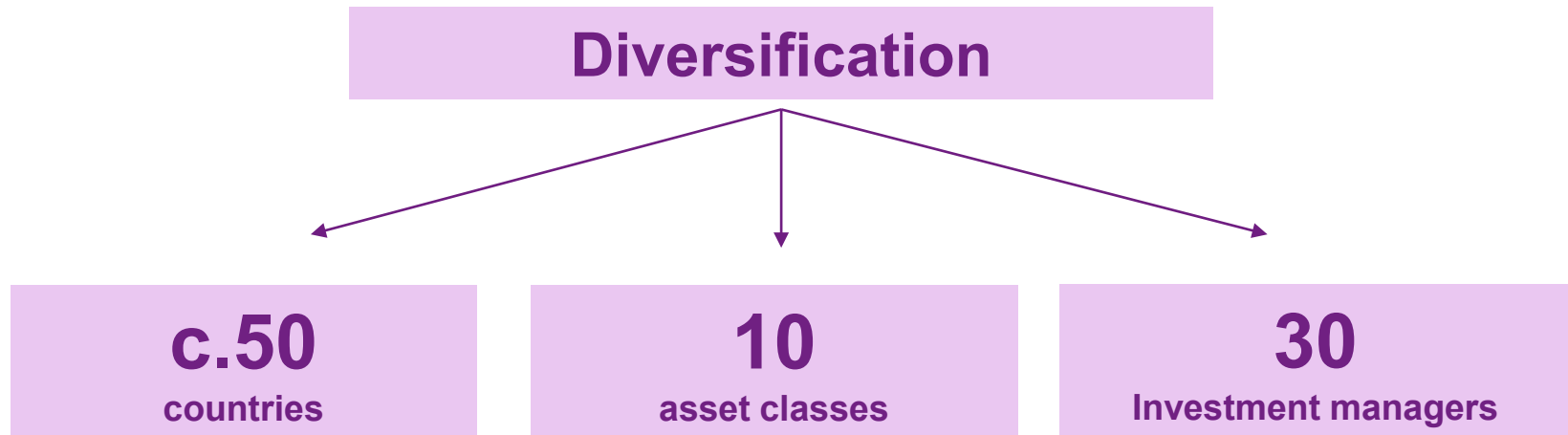
Europe recovers to Q4 2019 GDP levels in Q1 2023

US recovers to Q4 2019 GDP levels in Q2 2023

Europe recovers to Q4 2019 GDP levels in Q4 2024

We are living in uncertain times

COVID-19 is one of many risks the Fund faces



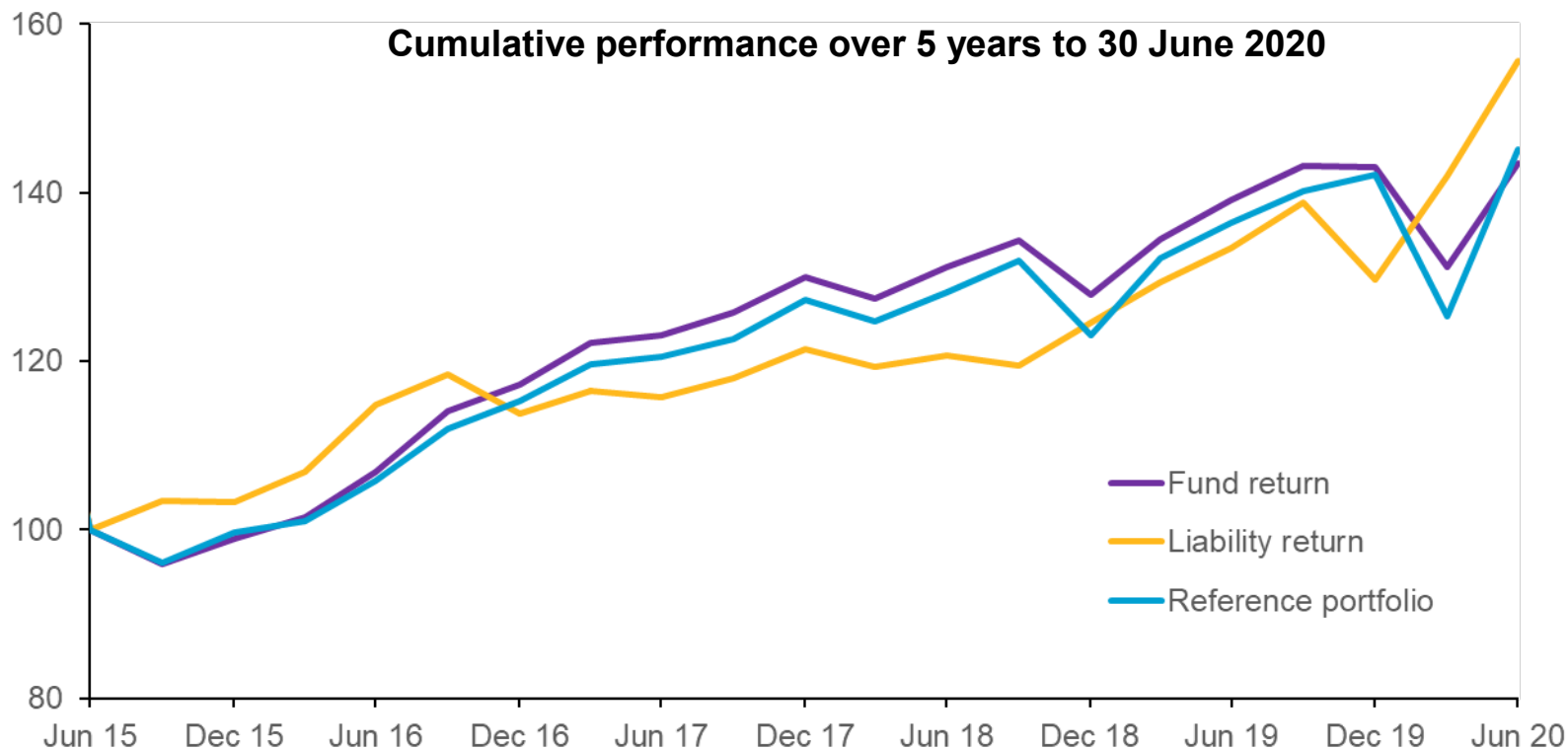
Niche investment ideas

For example:

**Harrison Street Social Infrastructure
Lineage Food Cold Storage Platform**

Relative performance

- The Fund's strategy has marginally underperformed the reference portfolio over a five year period.
- The Fund was keeping in pace with its liabilities over the last 5 years until Q1 2020 when the Fund experienced sharp increases to the liability value following the outbreak of coronavirus
- Performance has been positive over the past 12 months



Source: JP Morgan, Willis Towers Watson, FTSE International Limited, ICE Benchmark Administration Limited

For the period till 31 March 2019, the reference portfolio benchmark consists of 15% FTSE Over 5 Year Index-Linked Gilts, 61.25% FTSE All-World equities (50% hedged) and 23.75% 3 month GBP LIBOR .

The reference portfolio benchmark consists of 30% FTSE All World Index / 30% FTSE All World Index – GBP Hedged, 20% Barcap Global Ag Corp 1% Constrained Hedged, 20% FTSE Over 15 Year Index Linked Gilt Index onwards. The new reference portfolio was first reported against in Q1 2020.

Liability return is based on the "Pensions Funding Agreement" basis.

Manager changes

The Trustee continues to manage the Fund's investment managers actively



MAN
1783 Fund
(Hedge Fund)
Harrison Street
Social Infrastructure
(Secure Income)



Blue Mountain
ALHC agreed to terminate in 2019
(Hedge Fund)

The Fund continues to look for new opportunities to increase its allocation to a broader range of assets to diversify investment risk more widely

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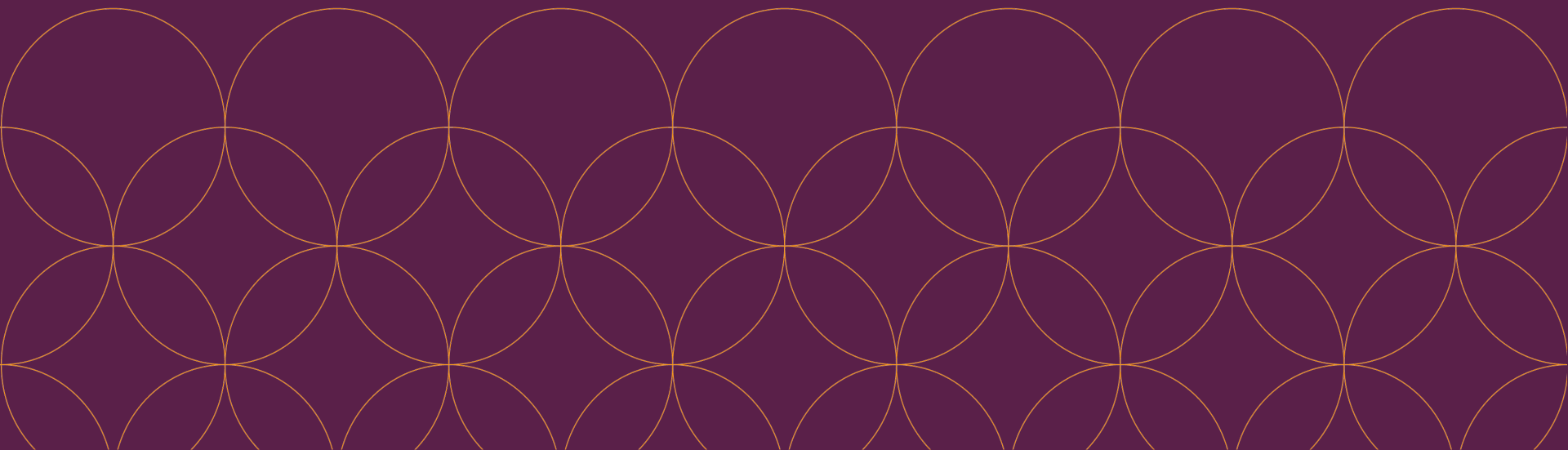
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TfL PF : Annual Members' Meeting Legal Update

16 October 2020

Ian Pittaway



What is a trustee's role –
especially with COVID-19?

To pay the promised benefits

Administer
the
scheme

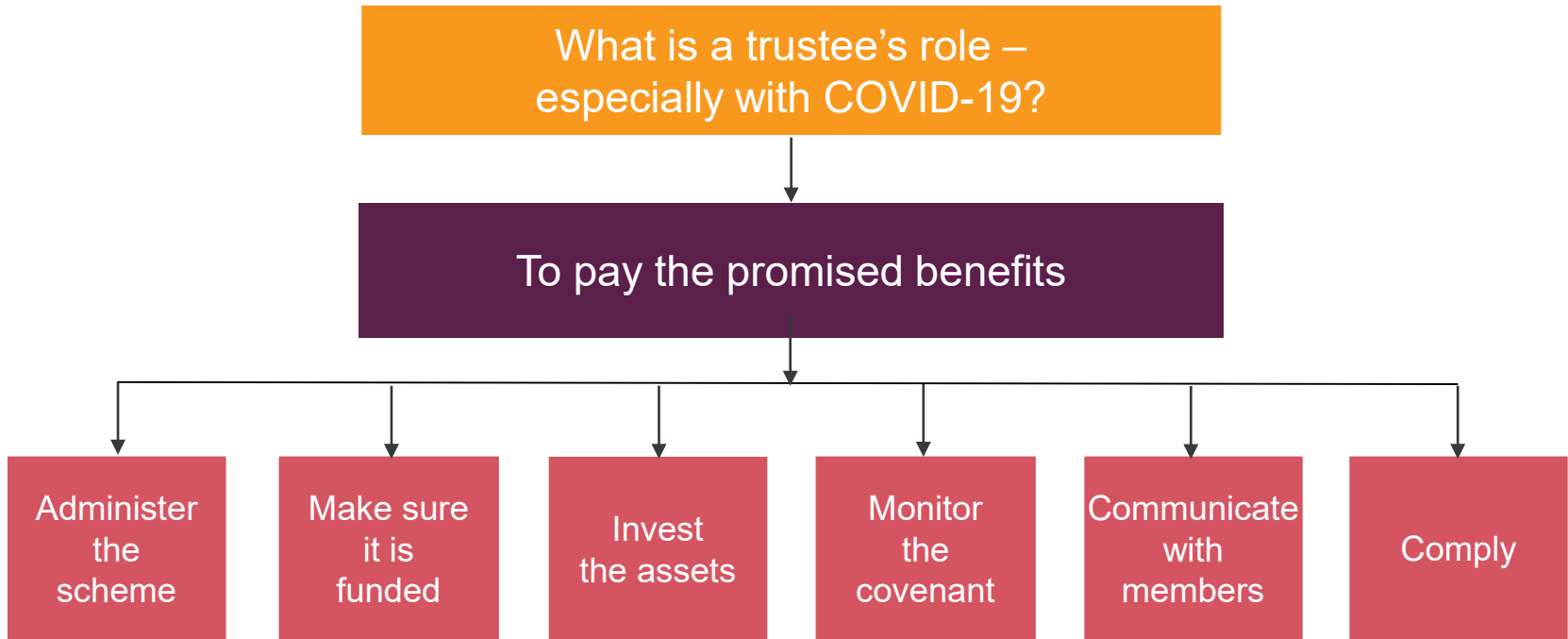
Make sure
it is
funded

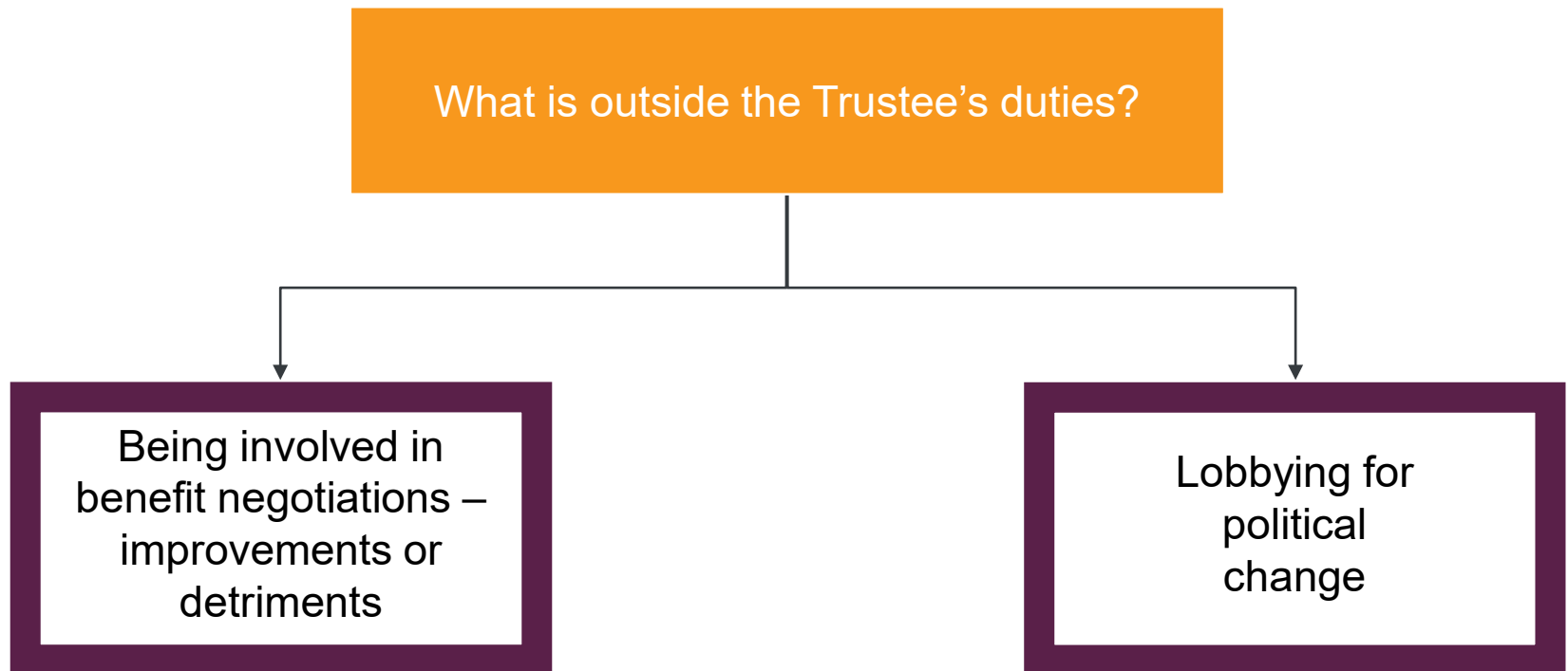
Invest
the assets

Monitor
the
covenant

Communicate
with
members

Comply





PENSIONS BILL

Long term
Funding
Objective

Pensions
Dashboard

Pensions
Regulator
Powers

Helping Trustees
on Transfers

But what about
open schemes?

Go to Jail?

COVID-19

Trustees in the
hot seat



Some covenants (strength of employer)
are adversely affected



Some employers asked for deficit
contributions to be suspended



Trustee decision whether to agree to
suspension or not




Do I agree to help the employer? Or put
the company under?



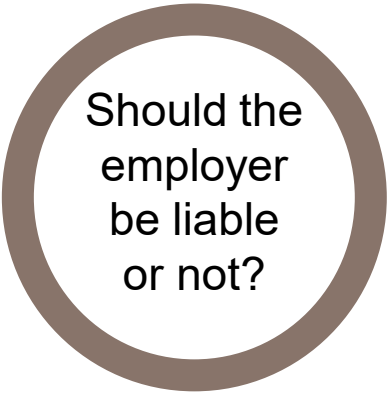
Morrison's



GDPR



Employee
with a
vendetta



Should the
employer
be liable
or not?

Ian Pittaway

Partner

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E enquiries@sackers.com

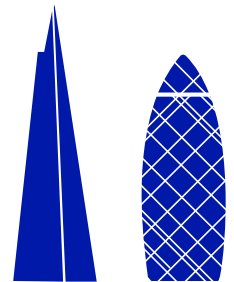
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Q&A



Thank You
and
see you next year
8 October 2021

