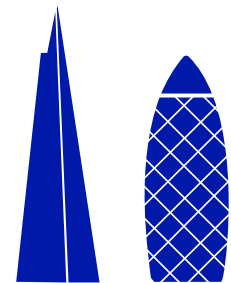




7 OCTOBER 2022

Annual Members' Meeting 2022

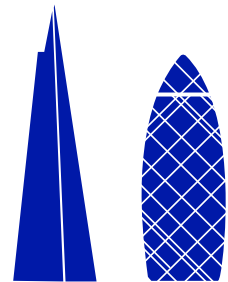


EVERY JOURNEY MATTERS

Welcome and Introduction

Maria Antoniou

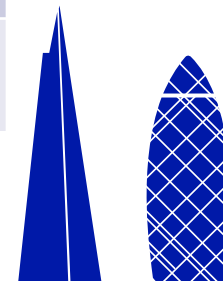
Chair of Trustees



EVERY JOURNEY MATTERS

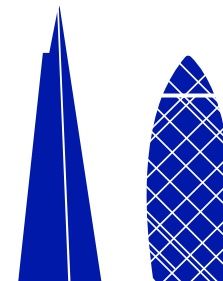
Agenda

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 (WTW)
11.45	Investment & Sustainability Update	Dave Aleppo (WTW)
12.05	Legal Developments	Pauline Sibbit (Sackers & Partners)
12.25	Open Forum – Questions & Answers	Maria Antoniou (Chair of Trustees)
12.45	Refreshments and Informal Discussions	All
13.30	Close	All



Pensions Review

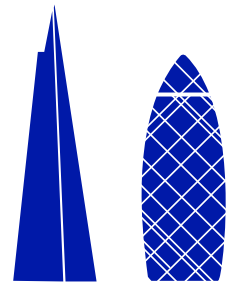
- June 2021 – Funding deal required TfL to undertake a Pensions Review
- July 2021 – Sir Brendan Barber appointed to lead the review with Joanne Segars
- August 2021 – call for Evidence
- August 2021 – Trustees respond to call for Evidence
- September 2021 – Trustees met with Sir Brendan Barber and Joanne Segars
- December 2021 – Interim report issued by the Pensions Review
- January 2022 – Trustees met with Sir Brendan Barber and Joanne Segars
- March 2022 – Pensions Review Final Report issued
- August 2022 – Funding deal required TfL to undertake the following
 - Respond to the findings of the final report by 27 September 2022
 - Submit two categories of options for future service reform by 14 October 2022
 - Agree with His Majesty's Government a final detailed proposal for any recommended changes by 31 January 2023



Review of the Year

Stephen Field

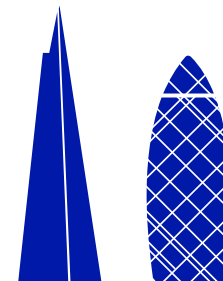
Fund Secretary



EVERY JOURNEY MATTERS

Key Activities Last 12 Months

- Trustees responses to TfL Independent Pensions Review
- Work volumes have remained high
- An increase in online activity
 - Over 25% of members now registered
 - Over 50,000 quotes in the year to 31 March 2022
 - Over 2,300 Expression of Wish forms completed online
- Conclusion of 2021 actuarial valuation
- Consolidation of the Trust Deed & Rules
- Review of Fund website



Key Activities Last 12 Months (continued)

- Fund is targeting Net Zero carbon emissions by 2045 at the latest , with an intermediate target of 55% by 2030 from the baseline established in 2016.
- 34% reduction in Carbon Emission Intensity (tons / \$m sales) of the Fund's portfolio since its peak in Q4 2016.
- Fund's exposure to Oil & Gas via its equity holdings (passive and active) rose this year as the market value of these holdings rose due to a spike in energy prices; but the exposure remains low relative to its benchmark:
 - December 2016 3.3% of overall Fund value
 - March 2019 1.8% of overall Fund value
 - June 2021 0.16% of overall Fund value
 - June 2022 1.8% of overall Fund value
- Exposure in all asset classes (mainly Equity and Bond) to Oil & Gas (Drilling, Exploration and Production) is 2.2% - £308 million as at June 2022 vs. 5.4% in the Fund BM. This is c.60% under-weight.
- The Fund's partnership with Sustainalytics resulted in engagements with 81 investee companies, and 16 cases were successfully resolved since 2020. Also the Plastics and Circular Economy thematic engagement concluded with 18 out of 20 companies reaching the engagement goals.
- Launched a new thematic engagement on Climate Change – Sustainable Forests and Finance. To date, 12 companies are active in this engagement including key actors e.g. Cargill, P&G and banks e.g. JP Morgan. 10 more companies will be involved.
- Active participant of Climate Action 100+ and Carbon Disclosure Project's Non-Disclosure and Science-Based Targets campaigns.
- Glass Lewis voted 5,797 resolutions on behalf of the Fund and voted 'for' 51% of ESG-related shareholder proposals.
- The Fund allocation to "ESG tilted" investments at 11% was on track to meet the revised 15% target (to be met by 2025).

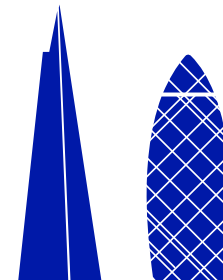


Governance

- Trustee's conduct business through the main Board meetings and 6 sub committee meetings
- Over the year to 31 March 2022, 40 meetings in total were held

Trustees Changes

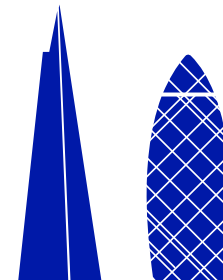
- **To 31 March 2022**
 - Mike Binnington and Michael Hurwitz left
 - Mercillina Adesida and Tom Cunnington joined
 - There have also been changes made to the Sub Committee composition by the TfL nominated Trustees
- **From 31 March 2022**
 - Stephen Hedley, Amanda Hopkins and Lilli Matson left
 - John Leach, Chris Reader and Julian Thirlby joined



Value of the Fund

- At 31 March 2022 the value of the Fund stood at £14.4bn versus £13.1bn at previous year end
- The change in value over the year:

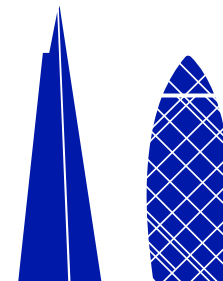
Income	£446m
Plus return on Investment net of expenses	£92m
Plus increase in value of Investments	£1,254m
	<u>£1,792m</u>
Less expenditure	<u>(£453m)</u>
Change in value	£1,339m



Money into the Fund

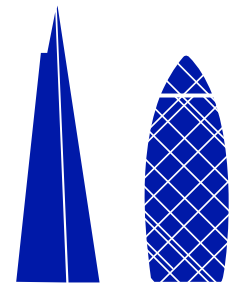
Topic	2021/22 £m	2020/21 £m
Employers' contributions	373.3	401.5
Members' contributions	71.6	70.1
Transfers in from other schemes	1.1	0.4
Total Income	446.0	472.0

Topic	2021/22 £m	2020/21 £m
Investment income net of expenses	92.2	95.6
Total Income	92.2	95.6



Money out of the Fund

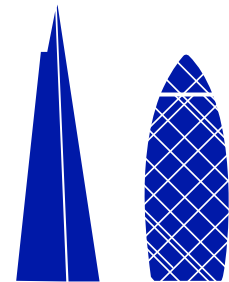
Topic	2021/22 £m	2020/21 £m
Benefits payable	422.7	394.7
Payments to & on account of leavers	4.4	4.9
Other payments	5.6	5.2
Administrative expenses	4.7	4.1
Pension levies	16.0	15.4
Total	453.4	424.3



Investment Portfolios

Value of the Fund:

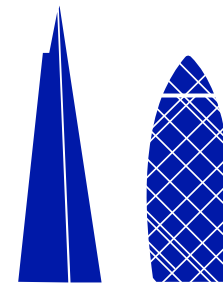
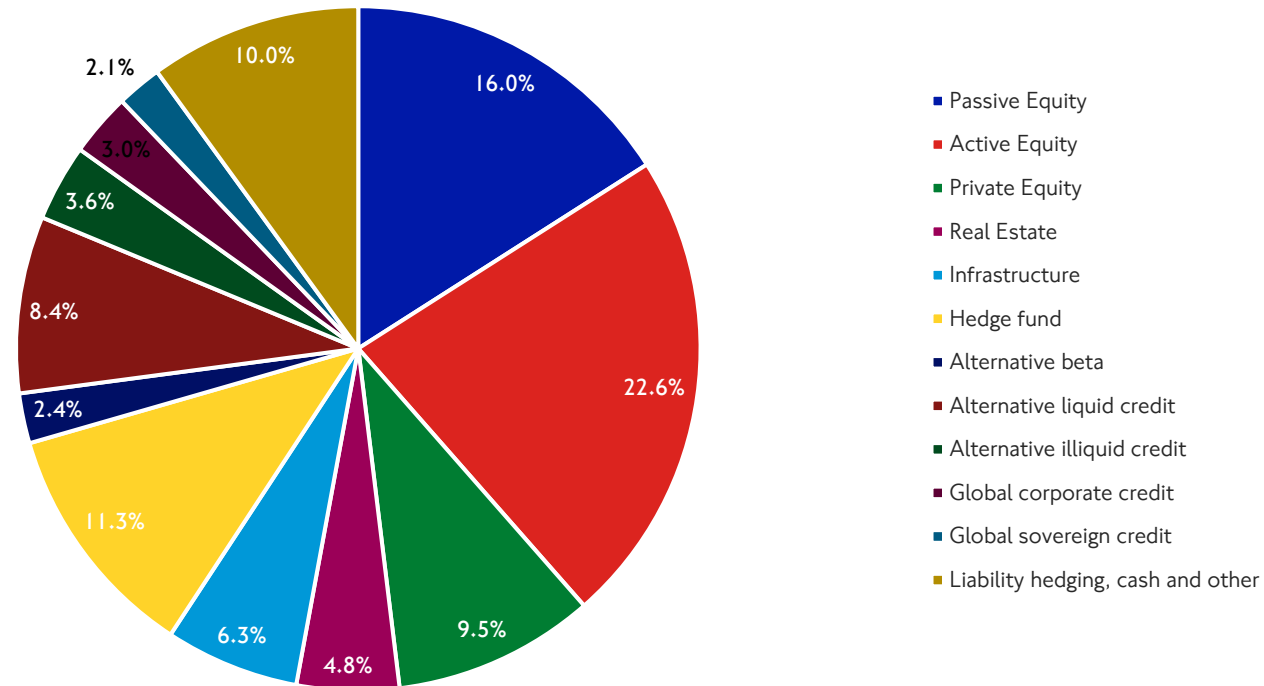
- £14.4 bn (31 March 2022)
- £13.1bn (31 March 2021)
- £10.6bn (31 March 2020)
- £11.0bn (31 March 2019)
- £10.3bn (31 March 2018)
- £9.8bn (31 March 2017)



Investment Diversity

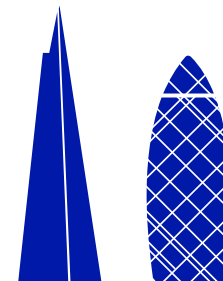
- The Fund continues to diversify to enhance returns while maintaining the risk it takes.

Fund Asset Allocation - March 2022



Investment Costs

Topic	2021/22 £m	2020/21 £m	2019/20 £m
Direct investment management expenses (shown in accounts)	27.5	21.6	19.6
Indirect investment management expenses (shown in change in market value)	44.8	39.1	37.0
Total investment management expenses	72.3	60.7	56.6
Direct investment transaction costs	2.1	1.8	1.8
Total investment management expenses and transaction costs	74.4	62.5	58.4
Investment costs as a percentage of total assets	0.52%	0.48%	0.55%



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 2022 was

4.9%

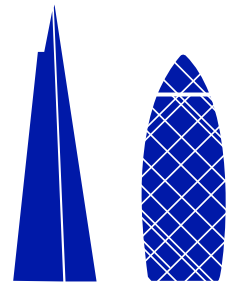
The increase for 2023 will be

To be announced 18 October



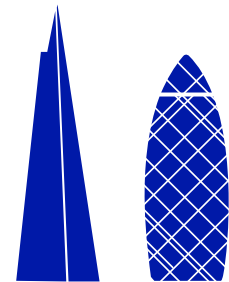
Post 31 March Update

- Production and issue of Annual Benefit Statements
- Guaranteed Minimum Pension reconciliation
- Commenced work on a new Fund website
- Consolidation of the Trust Deed & Rules
- TfL's Pensions Review



Organisations Exhibiting in the Great Hall

- Action on Hearing Loss
- LT Museum Friends
- Staff Travel
- The Fund Office
- The Pensions Consultative Council (PCC)
- Transport Benevolent Fund





TfL Pension Fund

Annual Members' Meeting

Scheme Actuary presentation

7 October 2022

Scheme Actuary review of 2021/22

1. Outcome of the 2021 actuarial valuation of the Public Sector Section
2. Subsequent developments in the funding position
3. Looking ahead – price inflation and longevity

Last year I identified four key Trustee considerations for the 2021 actuarial valuation

1 Covenant: ability of TfL to provide financial support to the Fund over the long term

- Determines the risk tolerance of the Trustee. How does the Trustee make provision for the fact that future outcomes may be worse than ‘expected’?
- The Trustee took independent advice from Penfida on TfL’s financial strength, updating as new funding agreements with Government emerged
- **Conclusion:** TfL’s covenant remains ‘Strong’ – but not as strong as in 2018. TfL’s finances have weakened – less certainty regarding TfL’s ability to support the Fund in the long term than previously

2 Investment: future investment strategy, and expected returns on those assets

- The valuation reflects expectations of future returns on Fund assets at the valuation date
- As part of the 2021 valuation process, TfL expressed a wish for the Fund to be de-risked if possible. Could the asset allocation be amended to reduce the chances of ‘bad’ outcomes in future? But such greater certainty usually comes with cost implications.

Outcome: it was agreed to reduce the discount rate (a prudent assessment of future returns on Fund assets) used to value the Fund’s accrued benefits for the 2021 actuarial valuation. This **increases** the liability value

Four key Trustee considerations for the 2021 actuarial valuation continued...

3 Actuarial: assumptions for life expectancy and other matters affecting Fund members

- I analysed the recent experience of the Fund's own pensioners, and combined with the latest models for future changes in life expectancy
- Outcome: calculated life expectancy for Fund members reduced slightly – by around 7 months for males, and by 1 month for females
- It was also agreed with TfL to reduce the assumed rate of general increases in pensionable pay by 0.25%pa, to be in line with expected future RPI inflation

4 Regulatory: views of the Pensions Regulator

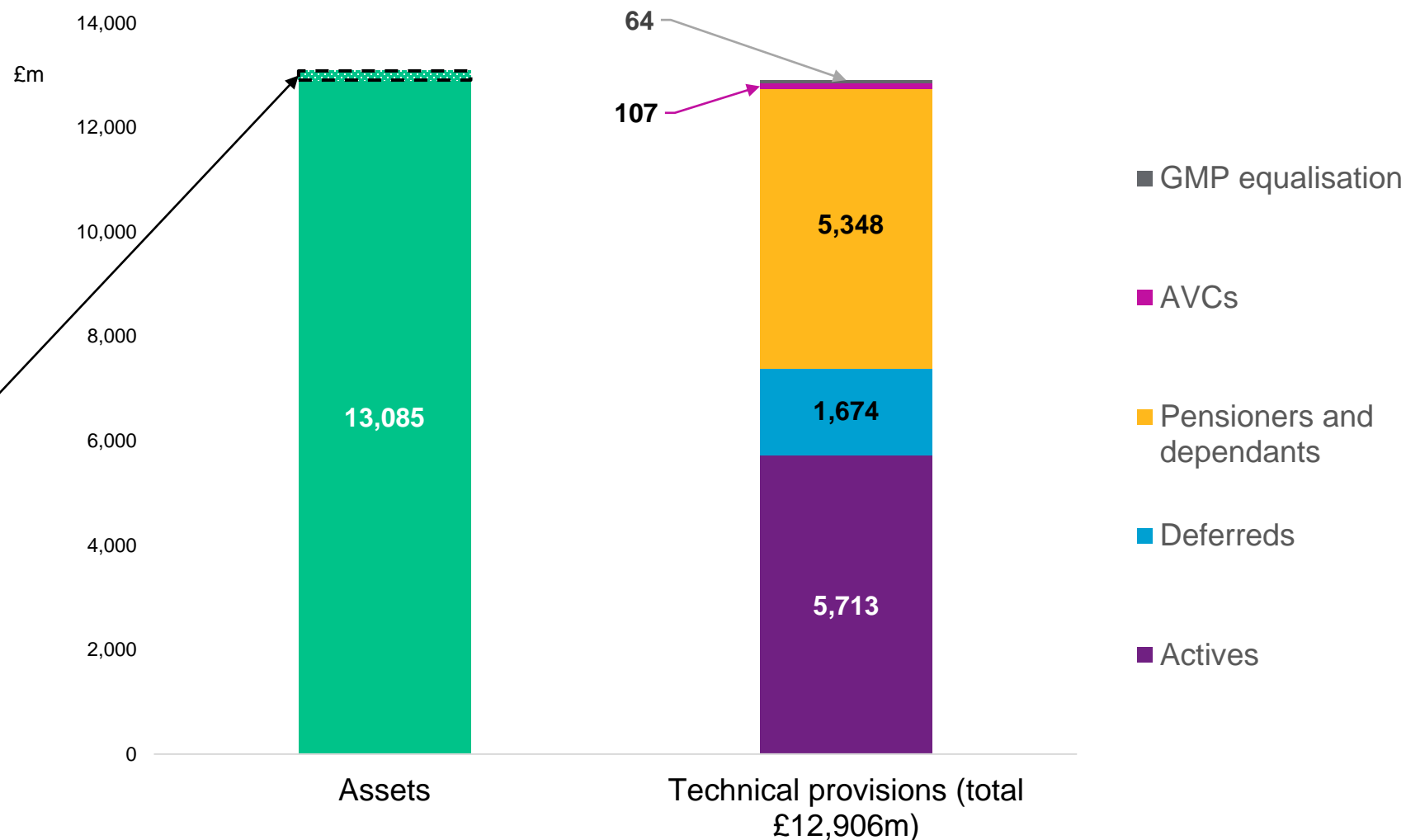
- The Regulator was actively involved in the previous 2018 actuarial valuation
- The Trustee kept the Regulator updated on developments regarding the 2021 valuation. The Regulator asked the Trustee to consider adopting more prudent assumptions given covenant uncertainty, and to review the Fund's hedge ratios with a view to reducing risk
- The Trustee confirmed it was comfortable that the agreement reached with TfL was appropriate

Outcome: the changes to actuarial assumptions referred to above **reduce** the value placed on the Fund's liabilities. The Trustee agreed with TfL to investigate de-risking after the valuation was signed off

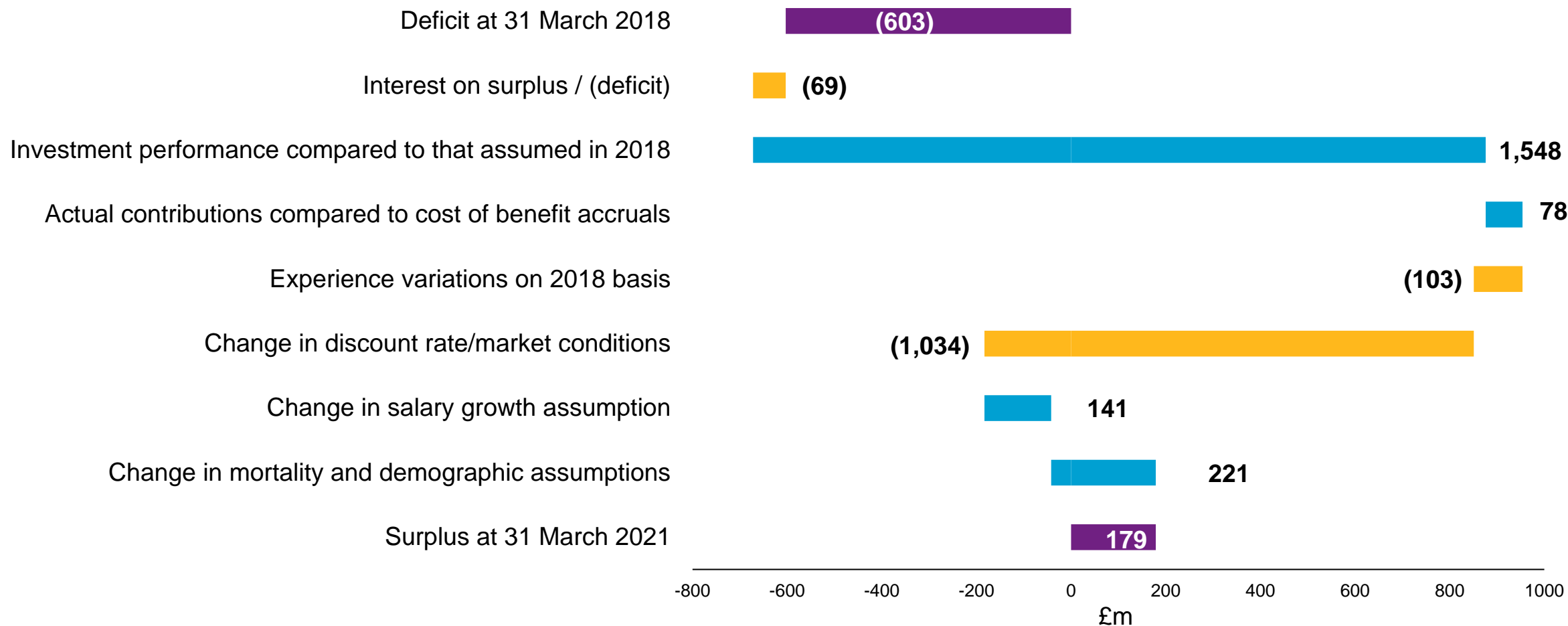
2021 valuation results – Public Sector Section

Surplus at 31 March 2021 of **£179m**, equivalent to a funding level of **101.4%**

This compares to a deficit at the previous valuation of £603m and a funding level of 94.5%



What were the main reasons for the improvement 2018 – 2021?



What will TfL pay to the Public Sector Section after this valuation?

TfL was paying:

	% of pensionable salary roll
Cost of new benefit accrual for current employees	25.7
Allowance for Fund expenses and PPF levies	1.2
Contributions to address deficit revealed by previous valuation	6.4
Total	33.3

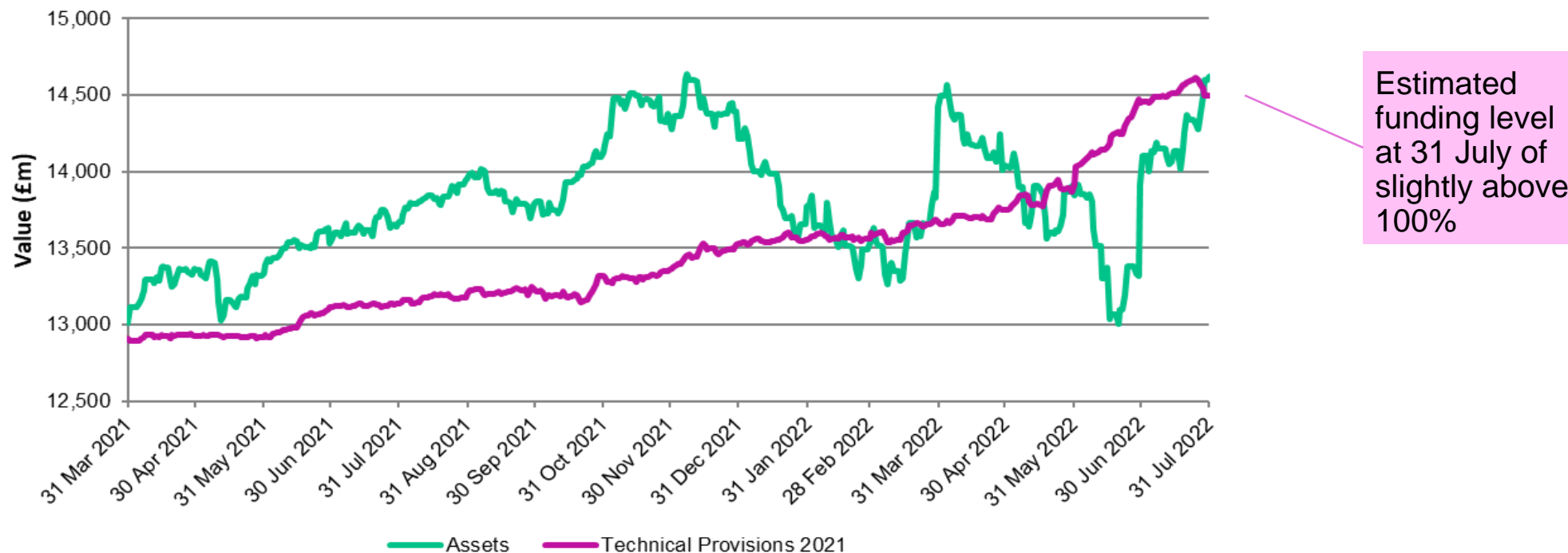
TfL will now pay:

	% of pensionable salary roll
Cost of new benefit accrual for current employees	25.6
Allowance for Fund expenses and PPF levies	1.7
Contributions to address deficit revealed by previous valuation	-
Total	27.3

In addition, the Pensions Funding Agreement remains in place, whereby TfL will pay additional contributions if the financial position of the Public Sector Section worsens at future Fund anniversaries

What has happened to the funding position since March 2021?

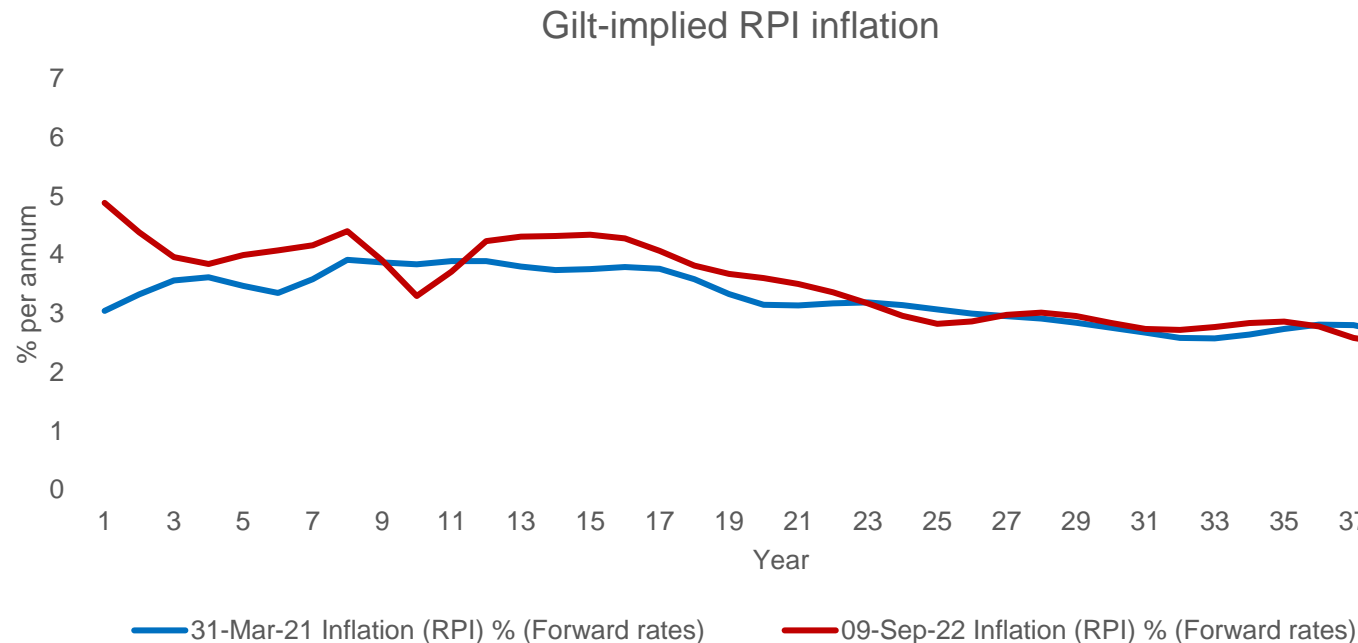
- The chart below summarises the approximate progression of the Public Sector Section's assets and liabilities over the period from 31 March 2021 to 31 July 2022.



- On the tracking methodology adopted, the increase in liabilities (pink line) reflects interest costs and the recent rise in short-term inflation
- The estimated market value of the Fund assets (green line) has been more volatile.

Changes in long-term inflation expectations

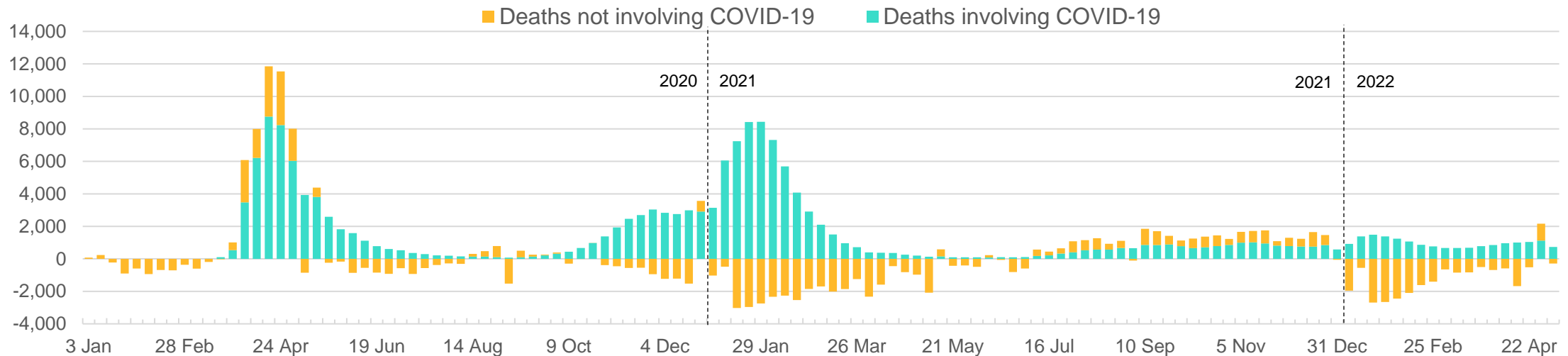
- A key determinant in assessing the Fund's liabilities is future levels of RPI inflation
- The chart below shows expectations of future year-by-year RPI inflation for the next 40 years as derived from UK government bond pricing



Current higher levels of RPI inflation are not expected to be maintained for long. Over the longer term relevant to the Fund, current gilt pricing implies average RPI inflation remaining in the range 3-4% a year.

Longevity: COVID-19 and further developments in life expectancy

- For the 2021 actuarial valuation of the Fund, no specific view was taken regarding the potential longer-term impact of the pandemic on life expectancy
- COVID-related deaths are still being recorded, but much below the 2020 and 2021 peaks. But it is the overall level of deaths which is more relevant



- Not all groups have been impacted equally

Males vs
females

Old vs
young

DB Scheme vs
general population

- So what happens next - still too early to tell.
One credible view - COVID will effectively 'cancel out' the last decade of improvements in life expectancy?

Limitations

- WTW has prepared this presentation for the Trustee of the TfL Pension Fund as an update from the Actuary to be presented at the Annual Members' Meeting on 7 October 2022.
- It was not prepared for any other use or for use by any other party and may well not address their needs, concerns, or objectives. It is not intended to form a basis for any decisions to do or omit to do anything.
- This presentation is provided to the Trustee solely for its use, for the specific purpose indicated. This presentation is based on information available to WTW at the date of the presentation and takes no account of subsequent developments after that date. It may not be modified or provided to any other party without WTW's prior written permission. It may also not be disclosed to any other party without WTW's prior written permission except as may be required by law. In the absence of our express written permission to the contrary, WTW accepts no responsibility for any consequences arising from any third party relying on this presentation or the opinions we have expressed. This presentation is not intended by WTW to form a basis for any decision by a third party to do or omit to do anything.
- In particular, they should not be used by any member as a basis for taking action or not taking action in connection with any benefit entitlement from the Fund.

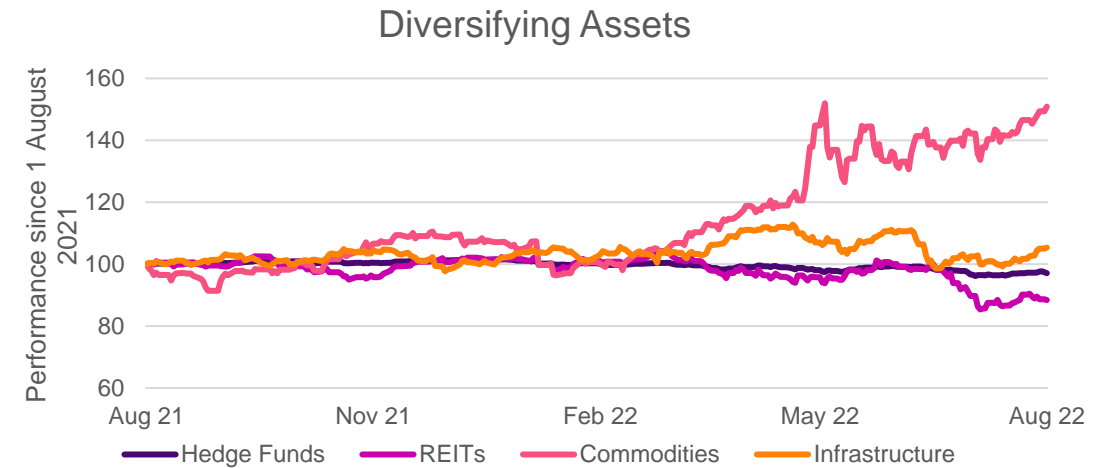
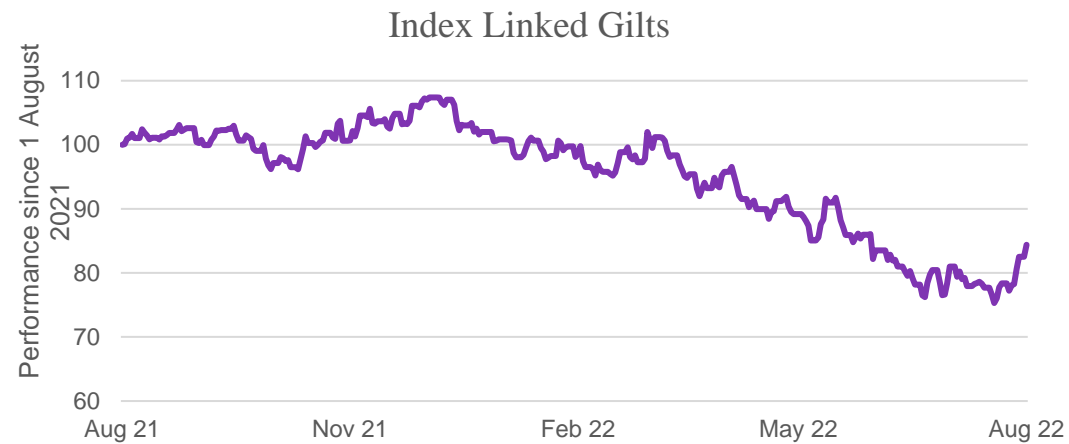
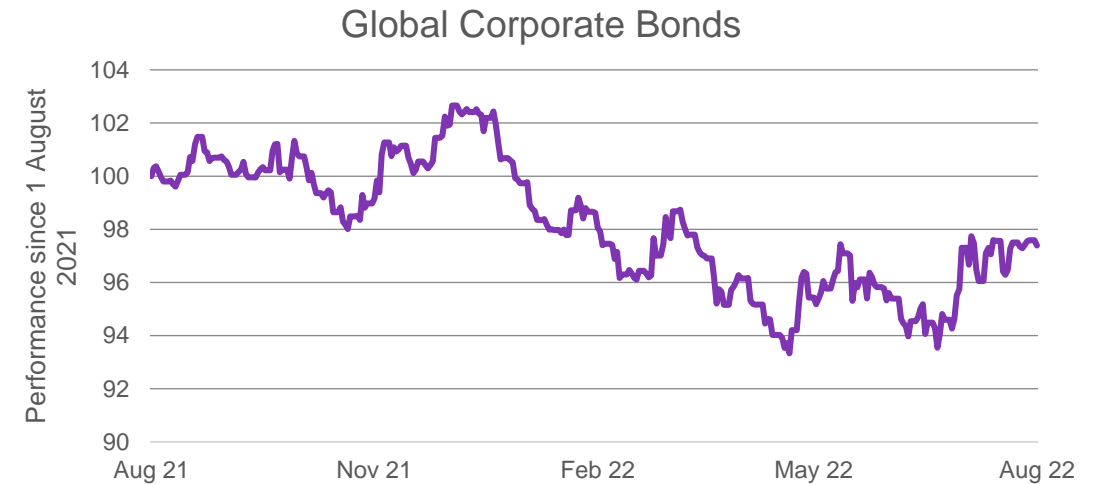
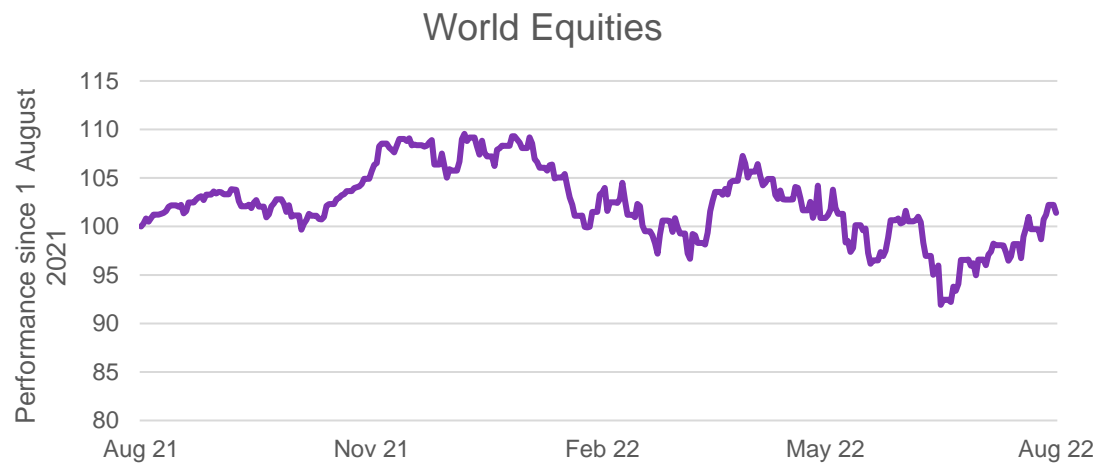


TfL Pension Fund

Annual Members' Meeting – Investment Update

7 October 2022

Market Performance has been volatile

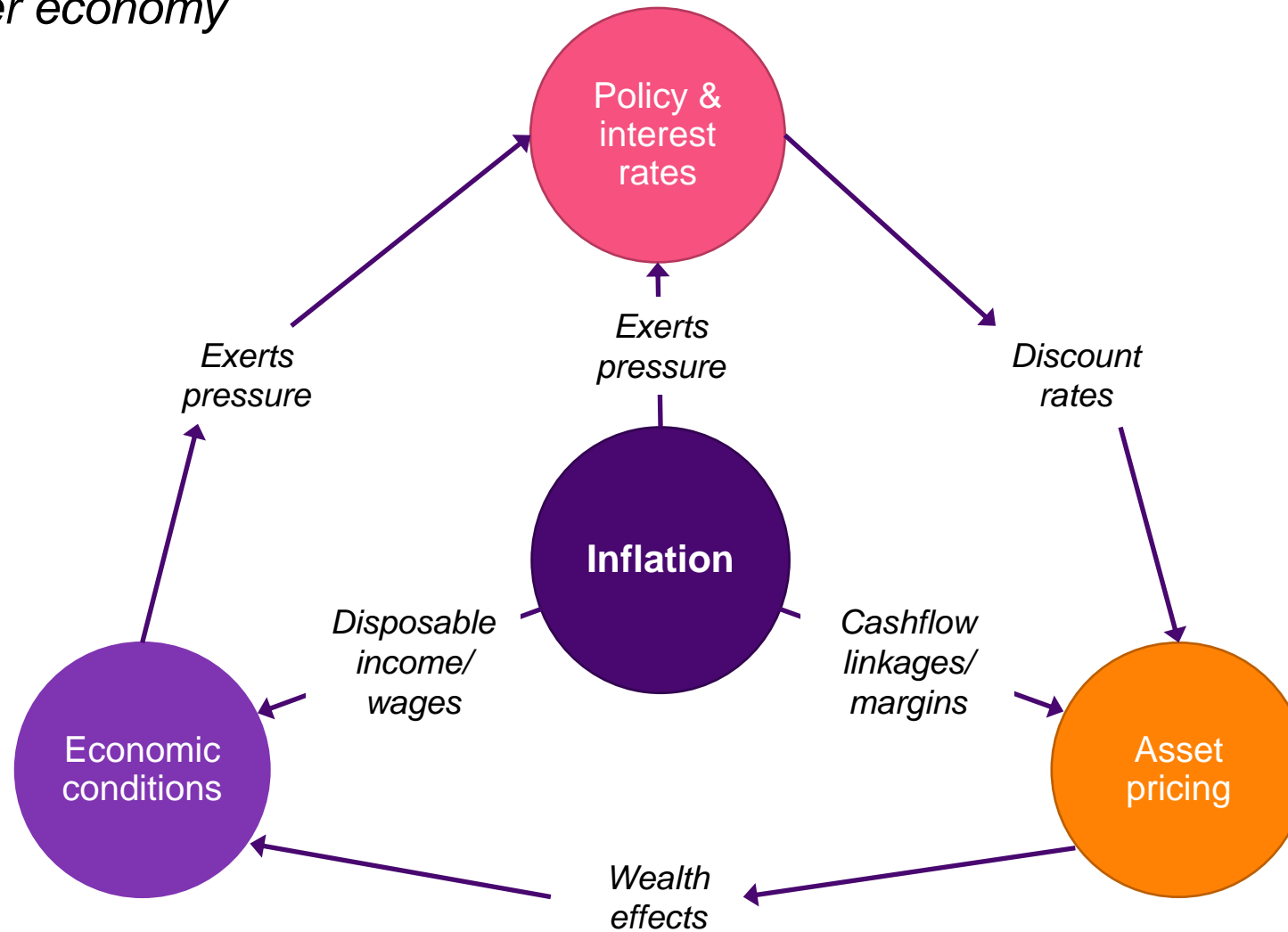


Notes

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; REITs – FTSE EPRA Nareit Developed Index; Commodities – S&P GSCI; Infrastructure – S&P Global Infrastructure Index
100 = level at 1st August 2021

Inflation

Impact on the wider economy



What actions have been taken?

Ensuring resilience in uncertain times



Increasing allocation to
diversifying assets e.g.
Cambridge Associates



Prudent bond allocation in
rising interest rate
environment



Continued integration of
Sustainable Investment



Identifying **new sources of**
return

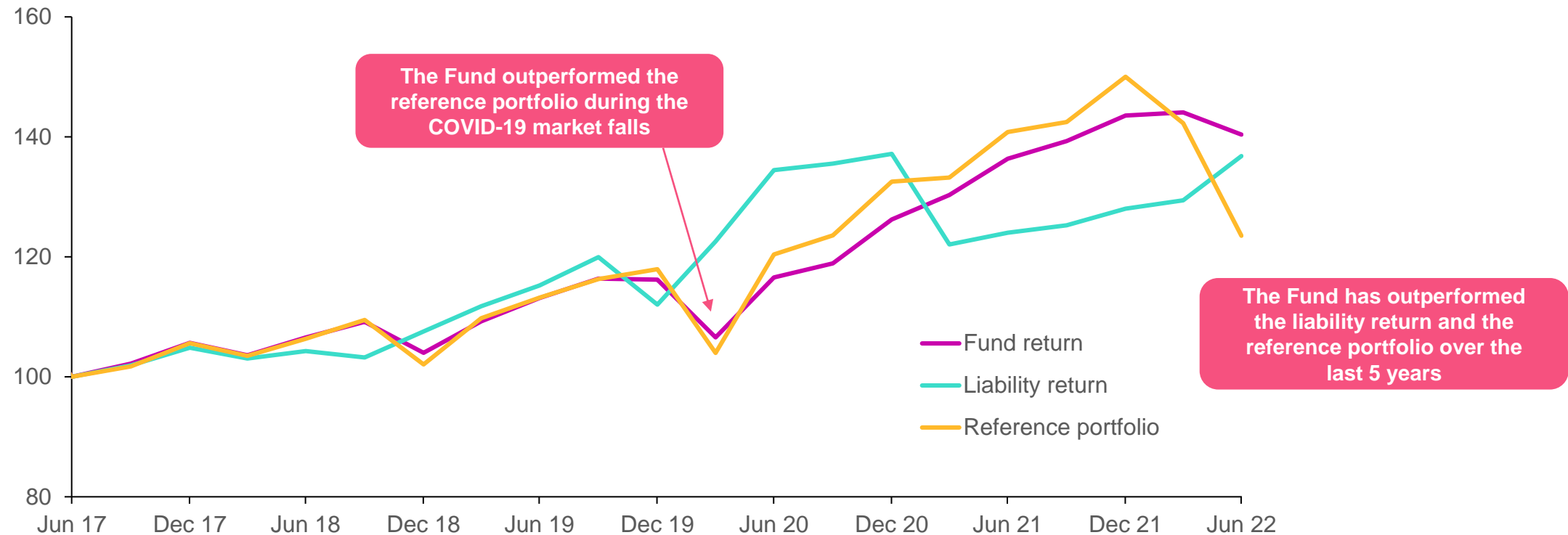


Ongoing **monitoring** and
engagement on climate
issues



Thorough and regular **risk**
monitoring

Portfolio Performance



Source: JP Morgan, WTW, FTSE International Limited, ICE Benchmark Administration Limited

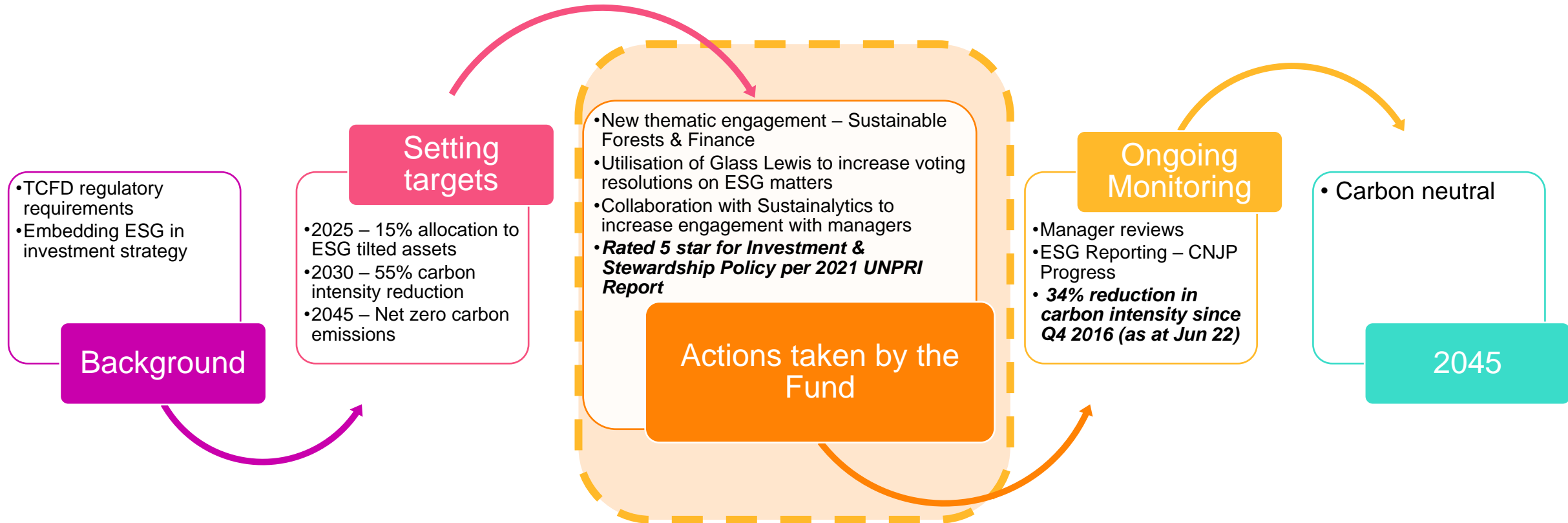
For the period till 31 March 2019, the reference portfolio benchmark consists of 15% FTSE Over 5 Year Index-Linked Gilts, 61.25% FTSE All-World equities (50% hedged) and 23.75% 3 month GBP LIBOR.

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 from 31 March 2021 is based on the updated "Pensions Funding Agreement" basis.

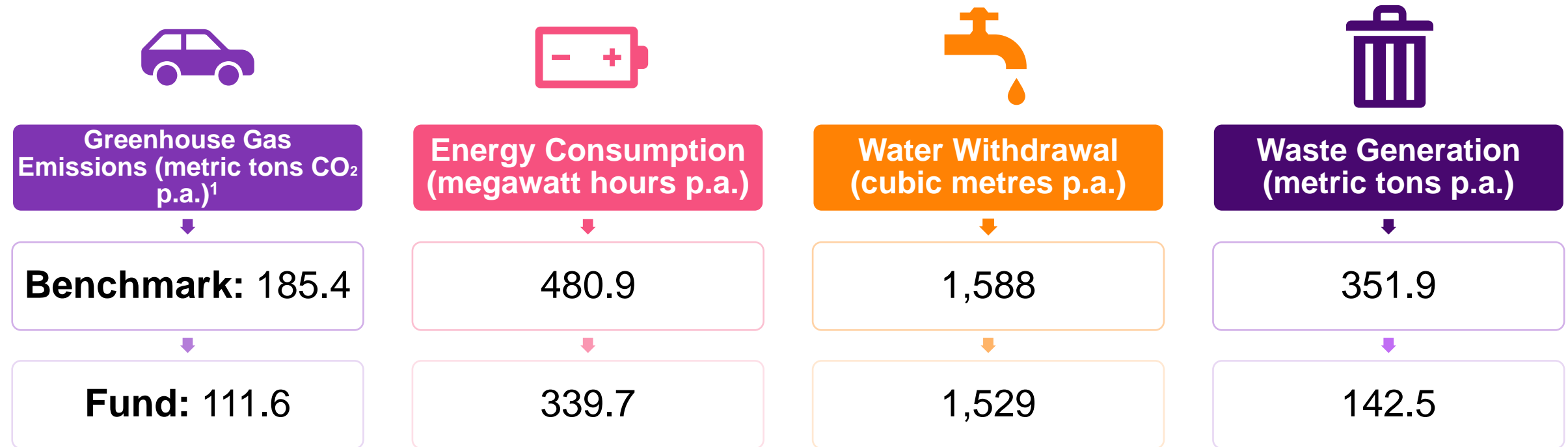
Sustainable Investing

Striving for Net Zero – Carbon Neutral Journey Planning



Sustainable Investing

Reducing the environmental footprint of the Fund's active equity portfolio



Data as of 31 March 2022

1. CO₂ and other gases that are recalculated into CO₂ equivalent

Sustainable Investing

A case study: Debt financing for dairy renewable gas projects in the US



Converts animal manure from 14 dairy farms into biogas



Generates revenues from its renewable natural gas reaching end market users through **carbon credits**

Expected return of **LIBOR + 6%**

Generates enough electricity to meet the power needs of approx. **44,000 homes annually**

Source: IFM Investors



Thank you for your time.

Items being covered today

Sackers

TfL Pensions Review

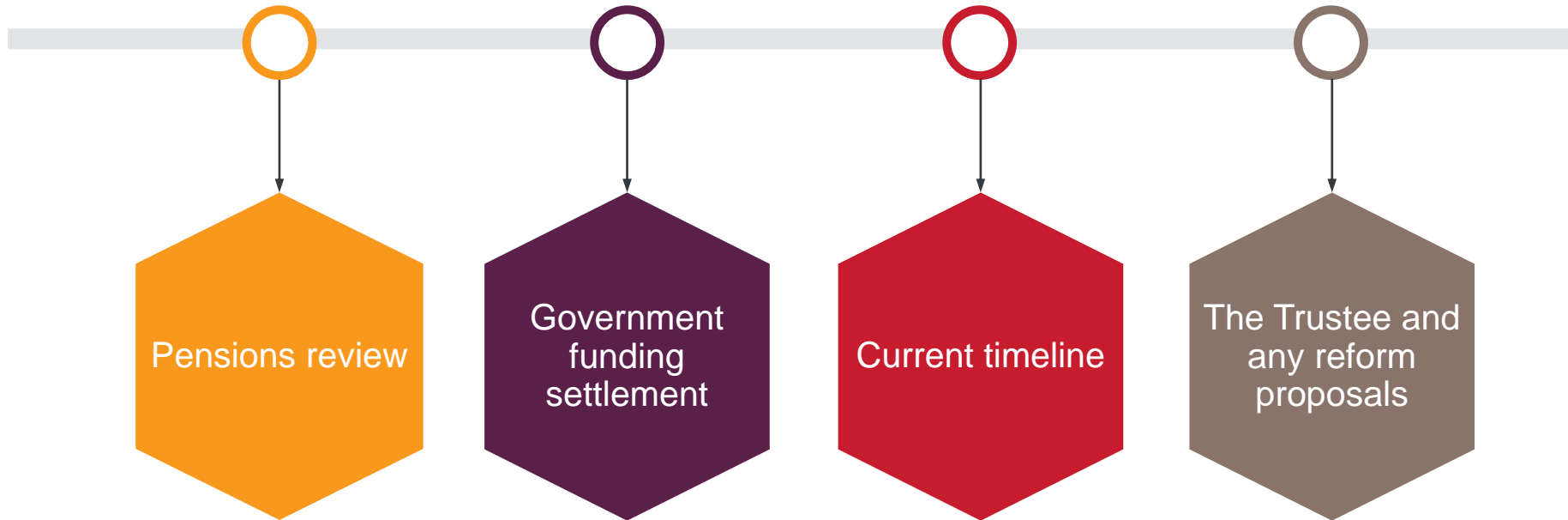
Legislative / regulatory themes

“Consumer
Protection”

Pension
scheme
governance

Transparency

.....and of course tax changes



Consumer protection – avoidance of transfer scams

Sackers



Relevant to
“deferred
members”

Scams not
going away

New powers for
trustees to hold
up transfers
including
sending
members to
MoneyHelper

Trustee cannot make the transfer unless prescribed conditions are satisfied

Condition One

Low-risk schemes

Condition Two

Occupational
scheme -
employment link

Overseas scheme -
residency link or
employment link

Red and amber
flags Occupational
scheme

Stronger nudge to pension guidance

Sackers



Which
benefits?

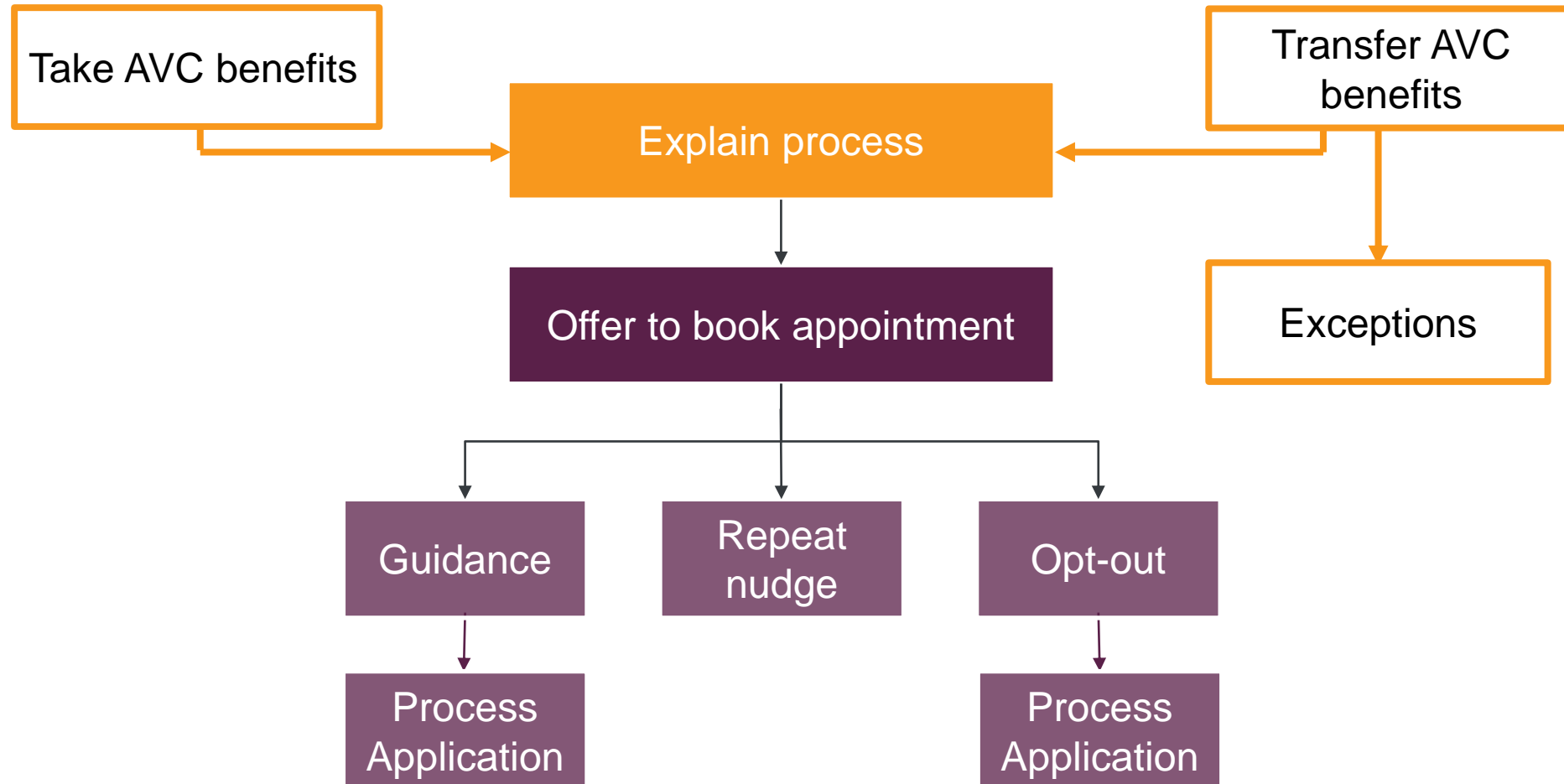
What's
changing and
why?

In force
1 June 2022

Delivering the Stronger Nudge

Sackers

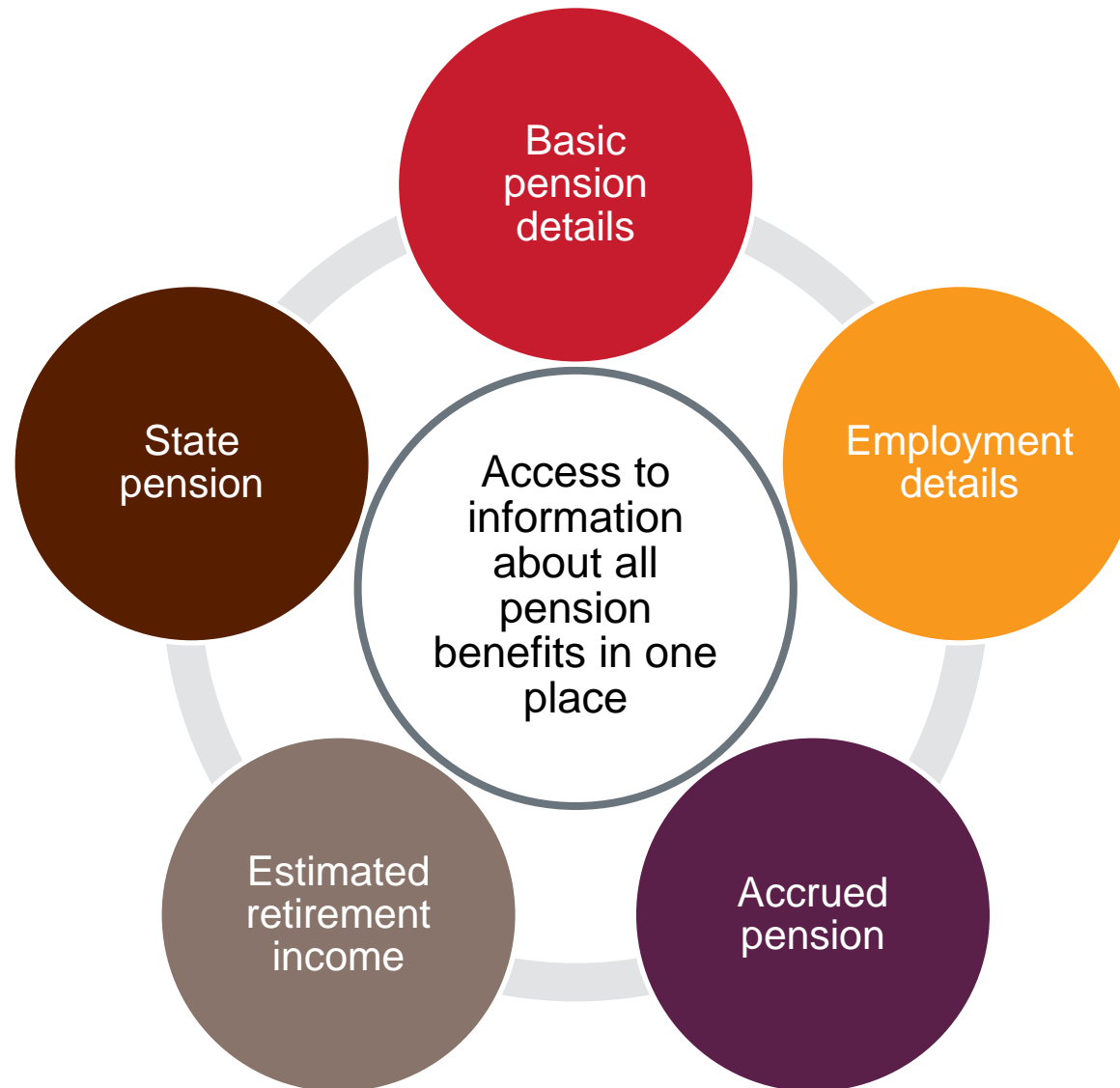
Application / communication in relation to application to:



Key theme better governance = better run pension schemes

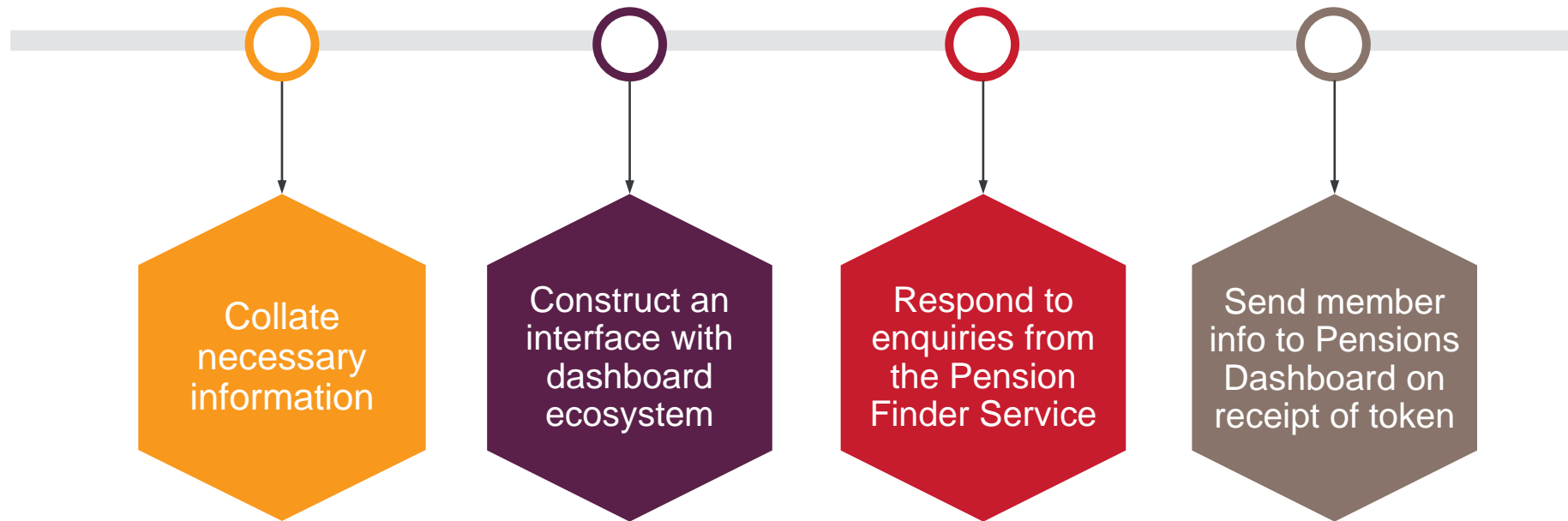
Requirements for various investment reporting

Introduction of a single code by the Pensions Regulator



What will the Fund need to do?

Sackers



Dashboards expected to be operational from 2023 – as the Fund is one of the largest schemes it will be one of the first to be phased in

Change to normal minimum pension age... and the tax change

Sackers

Age at which
under tax laws
can take
benefits

NB different age
if retiring on ill
health grounds

Will rise to 57 in
2028

But protections
for those with
rights to take at
earlier age –
relevant to TfL
members

Protection applies on transfers out and for those who joined the Fund before
4 November 2021

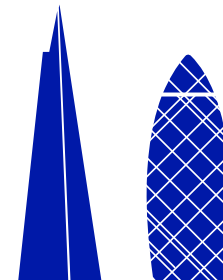
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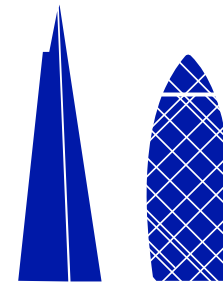
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Q&A



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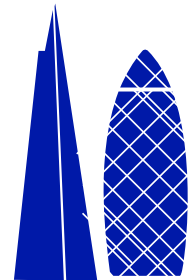
Refreshments and Informal Discussions



EVERY JOURNEY MATTERS

Thank You

See you in October next year
(details to be confirmed)



EVERY JOURNEY MATTERS