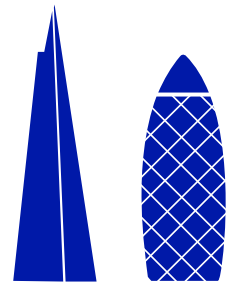




12 OCTOBER 2018

Annual Members' Meeting 2018

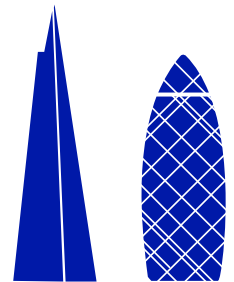


EVERY JOURNEY MATTERS

Welcome and Introduction

Maria Antoniou

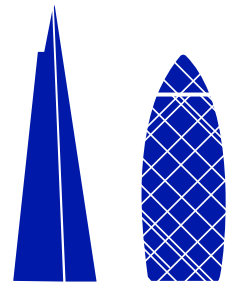
Chair of Trustees



EVERY JOURNEY MATTERS

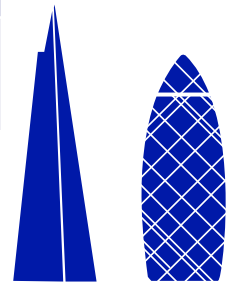
Housekeeping

- Fire alarm and exit
- Toilets
- Mobile phones / Smartphones
- Breaks
- Refreshments



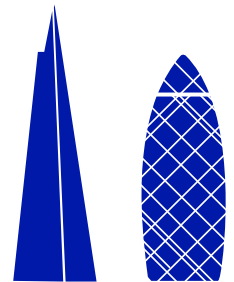
Agenda

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)
11.40	Investment Update	Ed Francis (Willis Towers Watson)
11.55	Legal Development	Ian Pittaway (Sackers & Partners)
12.15	Open Forum – Questions & Answers	Maria Antoniou (Chair of Trustees)
12.45	Refreshments and Informal Discussions	All
13.15	Close	All



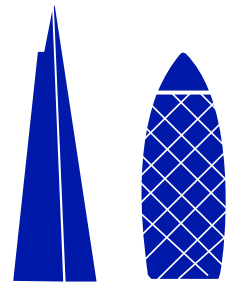
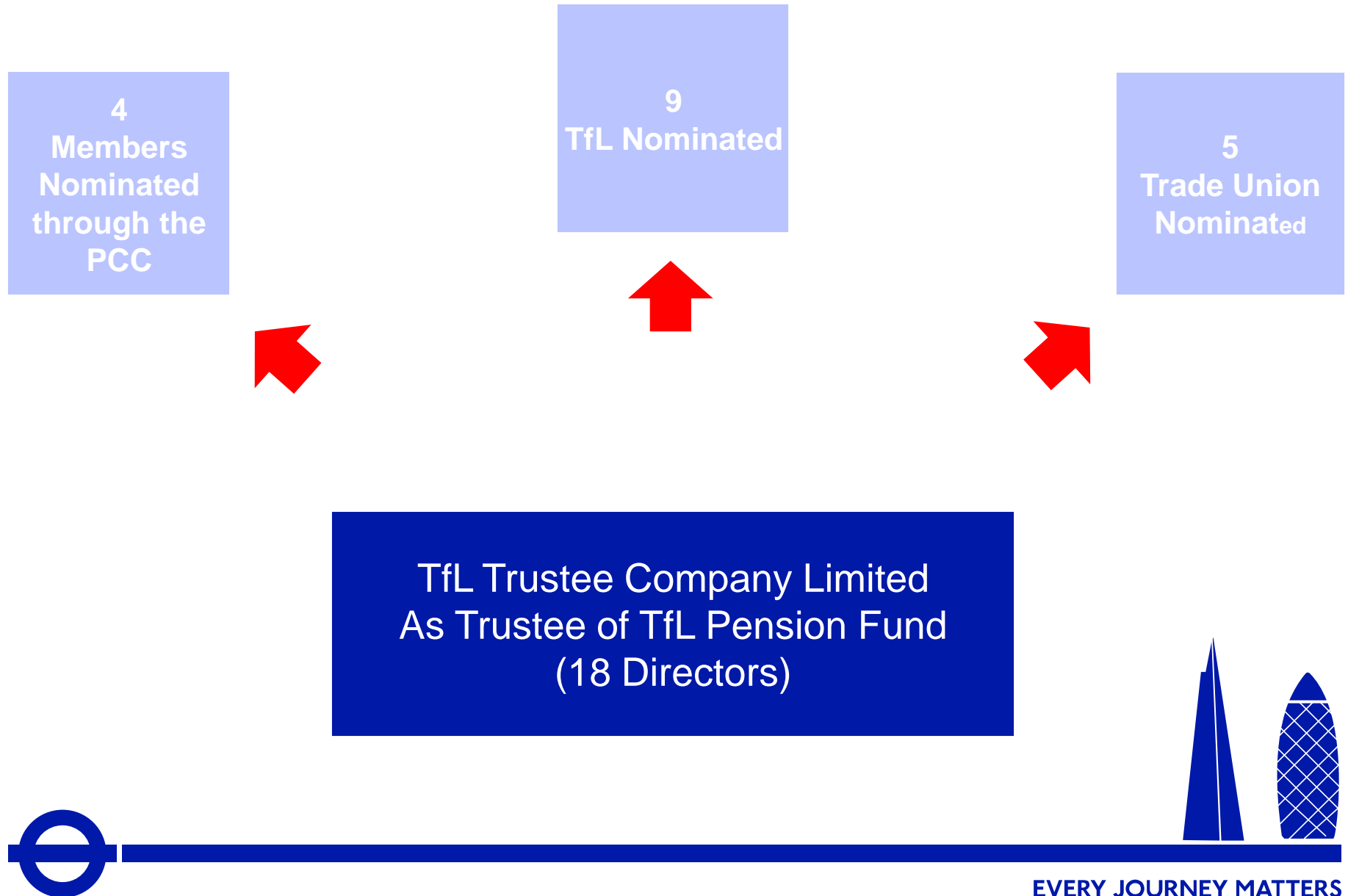
Review of the Year

Stephen Field Fund Secretary



EVERY JOURNEY MATTERS

Trustee Structure



Governance

There are six sub committees who are responsible for looking after different aspects of the Fund as follows:

**Operations Committee
(8 Members)**

Number of meetings held 5

**Investment Committee
(8 Members)**

Number of meetings held 4

**Audit Committee
(6 Members)**

Number of meetings held 3

**Actuarial Valuation Committee
(4 Members)**

Number of meetings held 4

**Appeals Committee
(6 Members)**

Number of meetings held 2

**Alternatives & Liability Hedging Committee
(4 Members)**

Number of meetings held 10

Plus

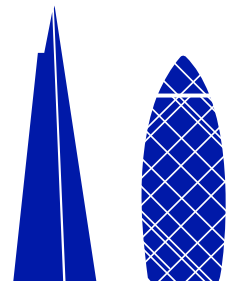
**Annual Committee Chair's
(5 Members)**

Number of meetings held 1

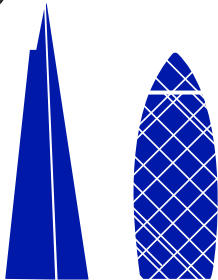
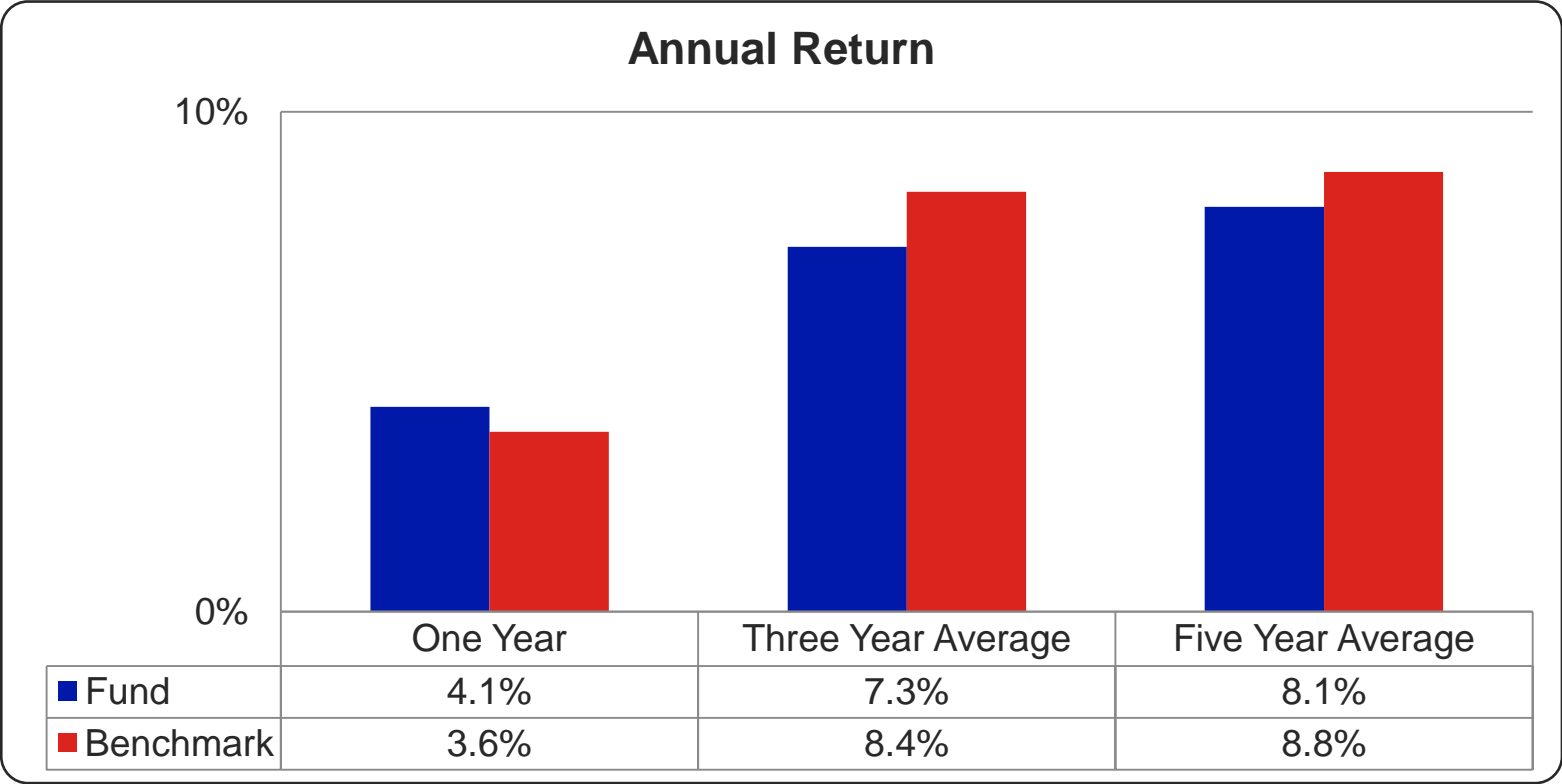
Plus

**Trustee Board
(18 Members)**

Number of meetings held 5



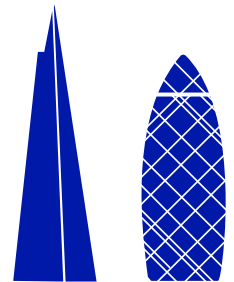
Investment Return



Investment

Investment – Managers

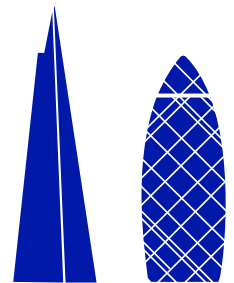
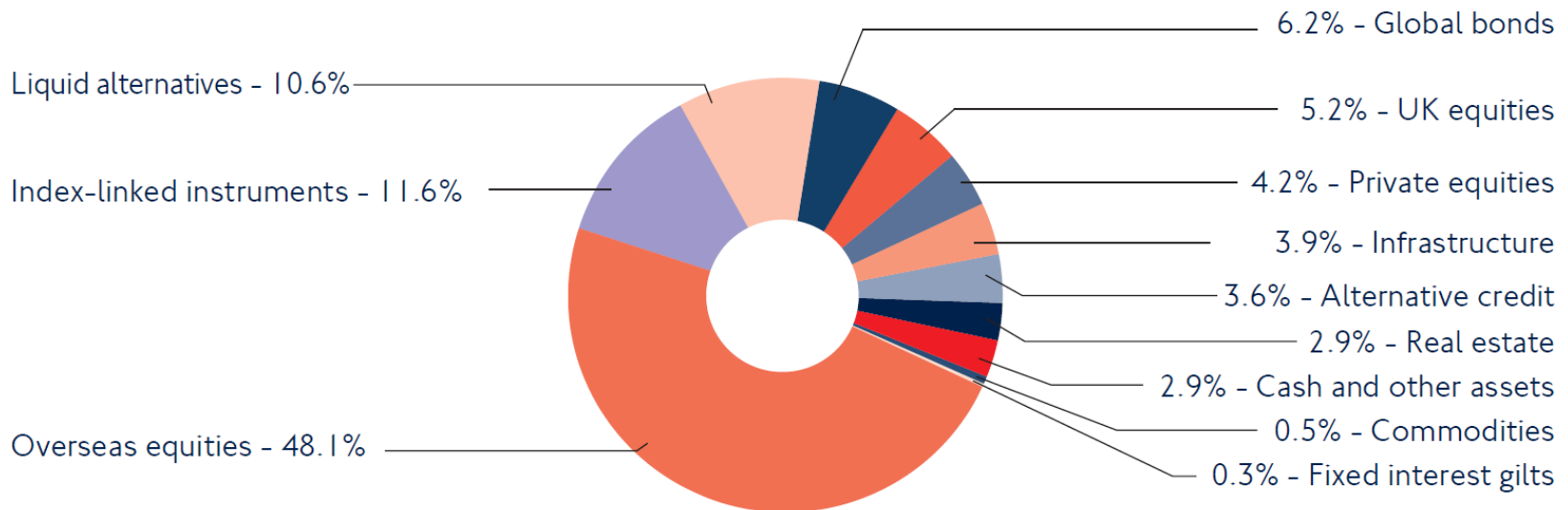
- Funds assets invested through **30** Managers with **43** Portfolios
- Value of the Fund:
 - £10.3bn (31 March 2018)
 - £9.8bn (31 March 2017)
 - £8.2bn (31 March 2016)
 - £8.3bn (31 March 2015)
 - £7.3bn (31 March 2014)



Investment Diversity

Investments spread over a number of asset classes

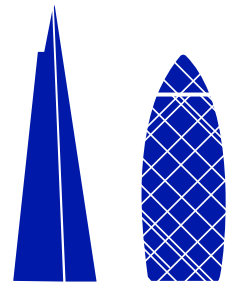
The Fund is held in a range of different investments (assets) in the UK and overseas.



EVERY JOURNEY MATTERS

Investment Costs

Topic	2017/18 £m	2016/17 £m	2015/16 £m
Direct investment management expenses (shown in accounts)	18.7	15.9	12.8
Indirect investment management expenses (shown in change in market value)	23.7	26.1	20.1
Total investment management expenses	42.4	42.0	32.9
Direct investment transaction costs	2.0	2.5	3.6
Total investment management expenses and transaction costs	44.4	44.5	36.5
Investment costs as a percentage of total assets	0.43%	0.45%	0.44%



Investing for Sustainable Returns

- Trustee has a fiduciary duty to earn financial returns to ensure that the Fund can meet its pension obligations
- Return and sustainability are not conflicting objectives
- As a long-term investor, the Trustee considers long-term risks and opportunities with sustainable investment forming a key part of the investment strategy

What we have done:

- Voting on actively managed equity holdings
- Signed up to the UN Principles of Responsible Investment
- Signed up to Climate Action 100+ group
- £100 million invested in UK solar and wind projects
- £100 million invested in European infrastructure projects
- £38 million in loans for renewable assets
- \$100M commitment to invest in critical Infrastructure opportunities in developing countries contributing to the UN Sustainable Development Goals
- Enhanced the information contained within the Statement of Investment Principles
- Increased the information available directly from the Funds Website

But we need to do more

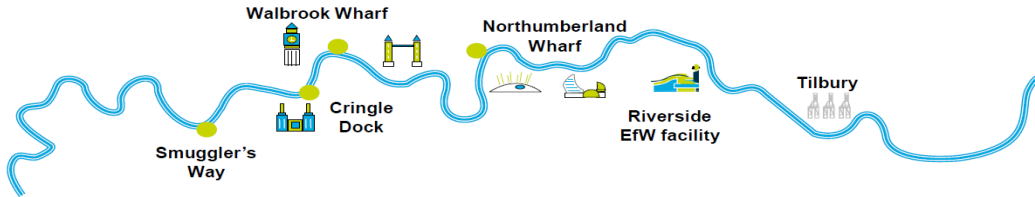
What we are doing:

- Exclusions on significant coal only investments
- Increased our investment in sustainable assets by an £125 million invested in London's critical waste infrastructure since the year end
- Publishing our own Sustainability report by the end of 2018



Since the year end year

CORY Riverside - £125 investment in London's Critical Waste Infrastructure (11% holding in company)



- It is the UK's largest and most environmentally friendly Energy from waste facility providing critical public services to local authorities in London by processing close to 17% of London's 4.4 million tonnes of residual waste.



Investment

Investment Fund Value

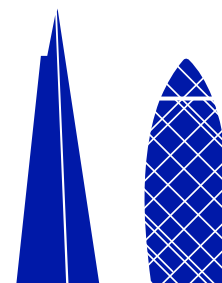
- At 31 March 2018 Fund value stood at £10.3bn versus £9.8bn at previous year end
- Up £0.5bn

- The change in value over the year:

Income	£459m
Plus Return on Investment net of expenses	£109m
Plus Increase in value of Investments	£286m
	<u>£854m</u>

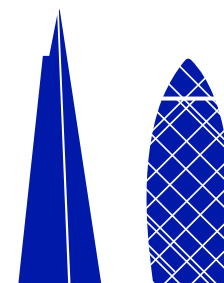
Less Expenditure	<u>£384m</u>
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Change in value	£470m
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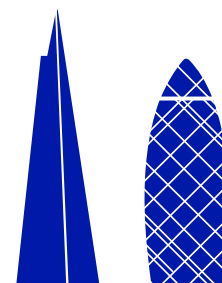
Money into the Fund

Topic	2017/18 £m	2016/17 £m
Employers' contributions	374.8	324.8
Members' contributions	64.0	63.5
Investment income net of expenses	108.6	104.0
Transfers in from other schemes	19.9	5.6
Total Income	567.3	497.9

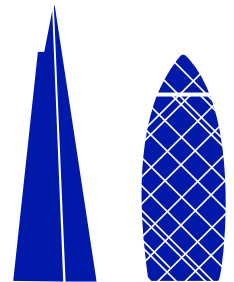
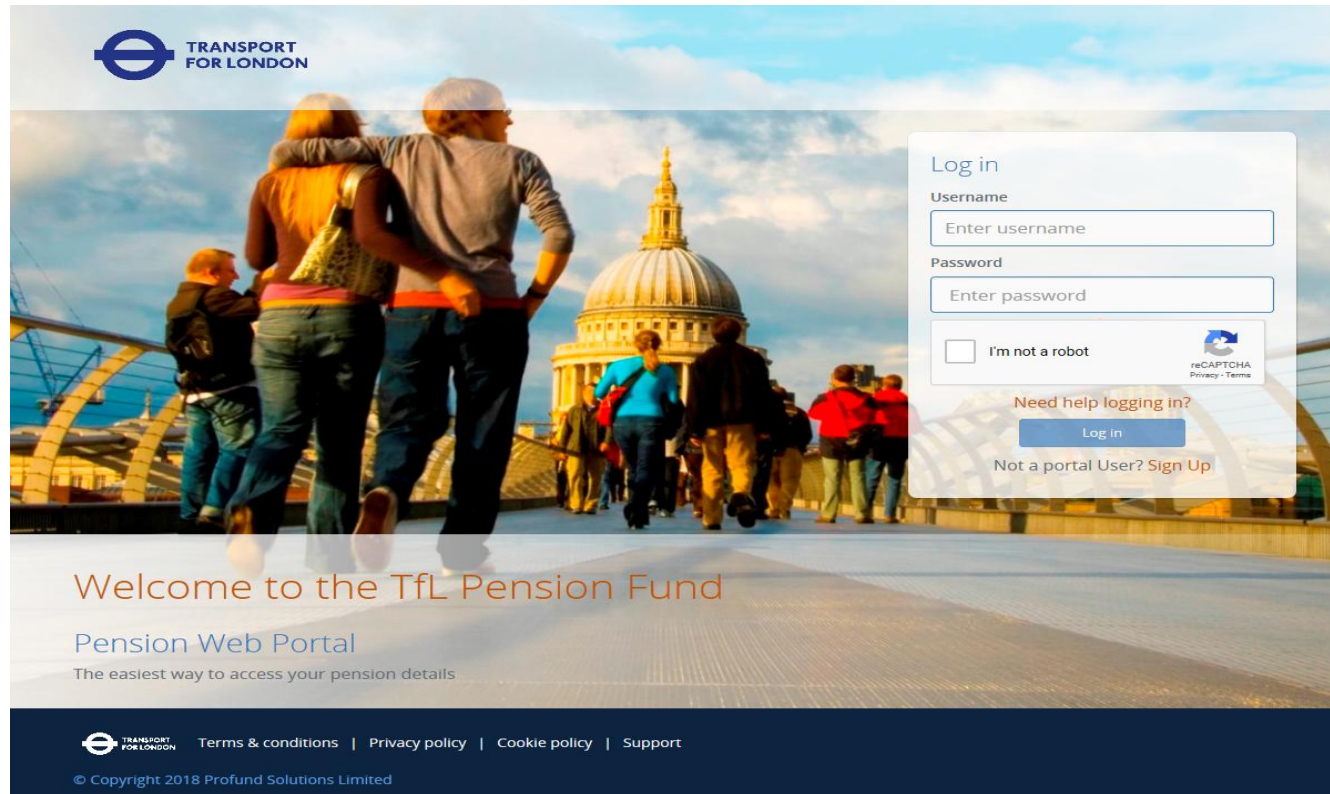


Money out of the Fund

Topic	2017/18 £m	2016/17 £m
Benefits payable	357.7	368.5
Payments to & on account of leavers	7.6	5.9
Other payments	4.3	4.1
Administrative expenses	4.2	4.1
Pension levies	9.9	8.8
Total	383.7	391.4



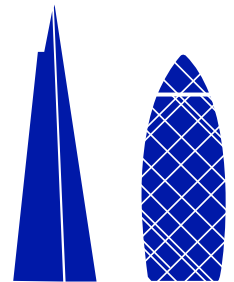
New Web Portal



2019 Pension Increase

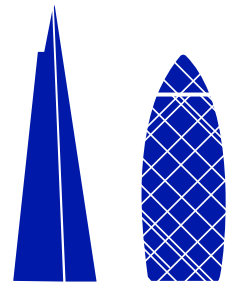
Under the Rules of the Fund the April pension increase is calculated by reference to the change in the Retail Prices Index (RPI) over the period September to September.

RPI is due to be announced Wednesday, 17th October 2018.



Organisations Exhibiting in the Great Hall

- TfL Pension Fund Office
- The Pensions Consultative Council (PCC)
- LT Museum Friends
- Tax Help for Older People
- Staff Travel
- Transport Benevolent Fund



TfL Pension Fund

Annual Members' Meeting Scheme Actuary presentation

Gareth Oxtoby

12 October 2018

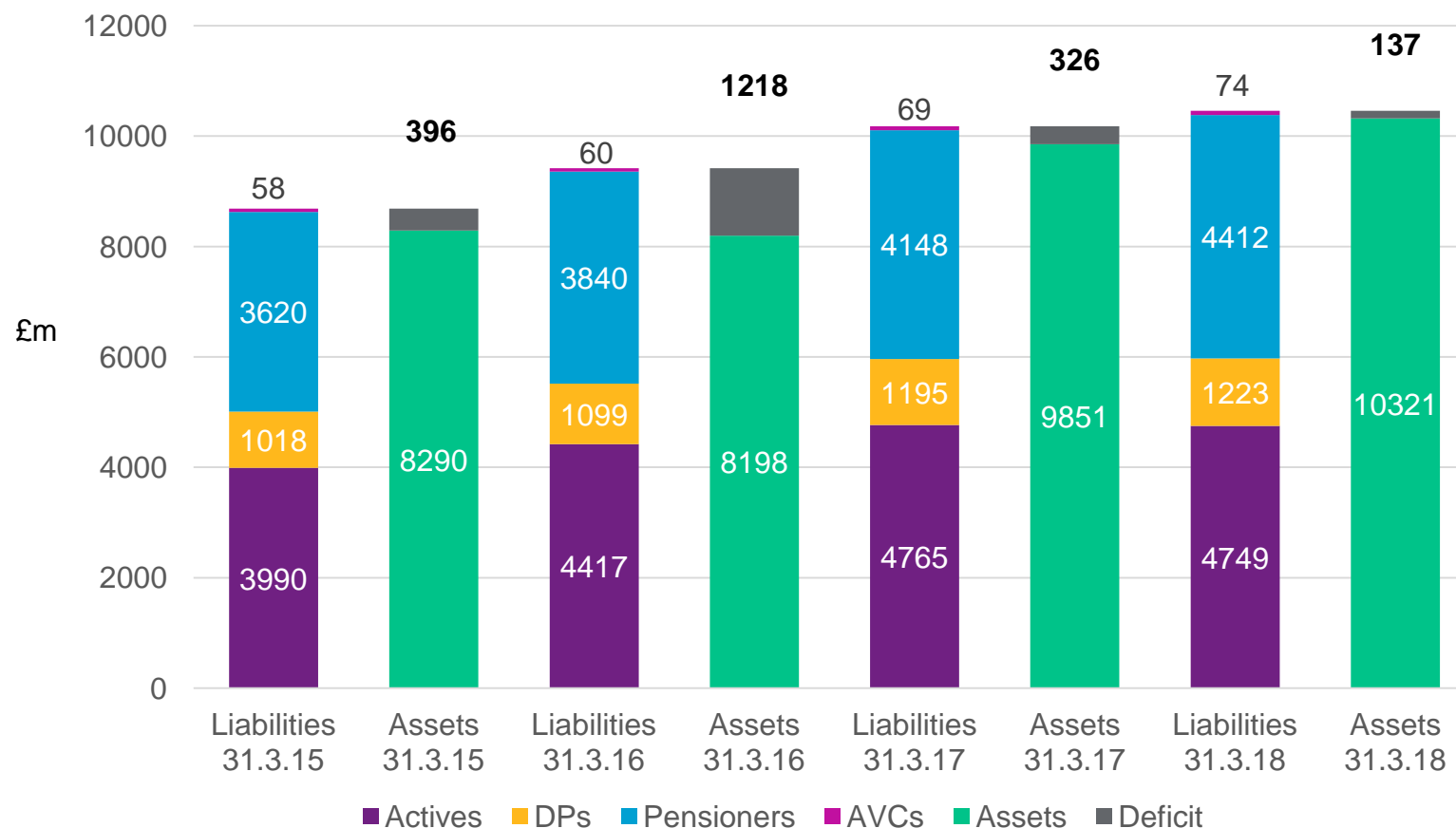


Introduction

- The formal three-yearly funding valuation of the Fund takes place in 2018. This determines the level of contributions which TfL are required to pay into the Fund in future. However, that process is still at a fairly early stage and there are no results that I can share with you today
- What I can do is share with you some thoughts relevant to the environment in which the 2018 valuation of the Fund is being carried out
 - An update on the progression of the financial position of the Public Sector Section of the Fund if 'everything had remained the same'
 - Some reasons why things may not have remained the same
 - External developments and Regulatory influence
 - The Trustee's view of an appropriately prudent approach to funding
 - Latest longevity projections
 - And finally, some insight into the direction of the wider UK defined benefit pensions market (and why the Fund is different)

PSS – development of financial position 31.3.15 to 31.3.18

Public Sector Section – assets and liabilities



So all other things being equal, an improvement on where the Fund was at the 2015 valuation date, and a further improvement over the year to 31 March 2018

What are the main reasons for the reduction in deficit since 2017?

	Year to 31 March 2018 £m
Start-year deficit	326
Expected interest on deficit	+ 16
Deficit contributions from TfL	- 69
Actual returns on Fund assets compared with assumed rate	+ 92
Actual Fund pension increases compared with assumed rate	+ 27
Impact of changes in market conditions on Fund liability assessment	- 255
End-year deficit	137

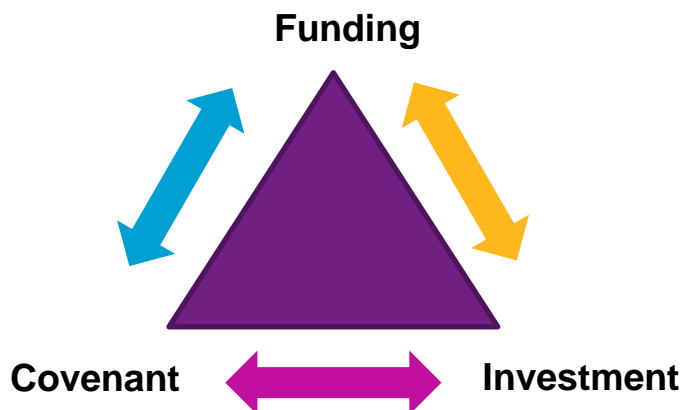
Notes:

1. Figures shown are relative to assumptions adopted at start of Fund year
2. Analysis is approximate: figures are shown to nearest £1m but should not be considered as 'accurate' to that extent
3. Individual figures depend upon the order in which this analysis is carried out

So the improvement in the financial position was primarily due to a combination of deficit contributions paid by TfL, and Fund asset performance relative to the liabilities

Progress of the funding position – some conclusions

- Assessed on terms consistent with those agreed for the purposes of the 2015 valuation, as at 31 March 2018 the financial position of the PSS is **pretty much where we would have expected it to be – gradually moving towards full funding of the Section.**
- BUT there are also **changes in the external environment** which will need to be taken into account for the 2018 funding valuation, for example
 1. Government views on pension scheme funding generally
 2. The Pensions Regulator's view of the Fund, and the implications of any possible weakening of TfL's financial position



3. Updated research on population longevity trends
- Therefore, it would be **unwise to assume that the position agreed when the March 2018 formal funding assessment is concluded will be similar to that estimated here.**

Changes in the external environment (1)

Carillion collapse (January 2018)



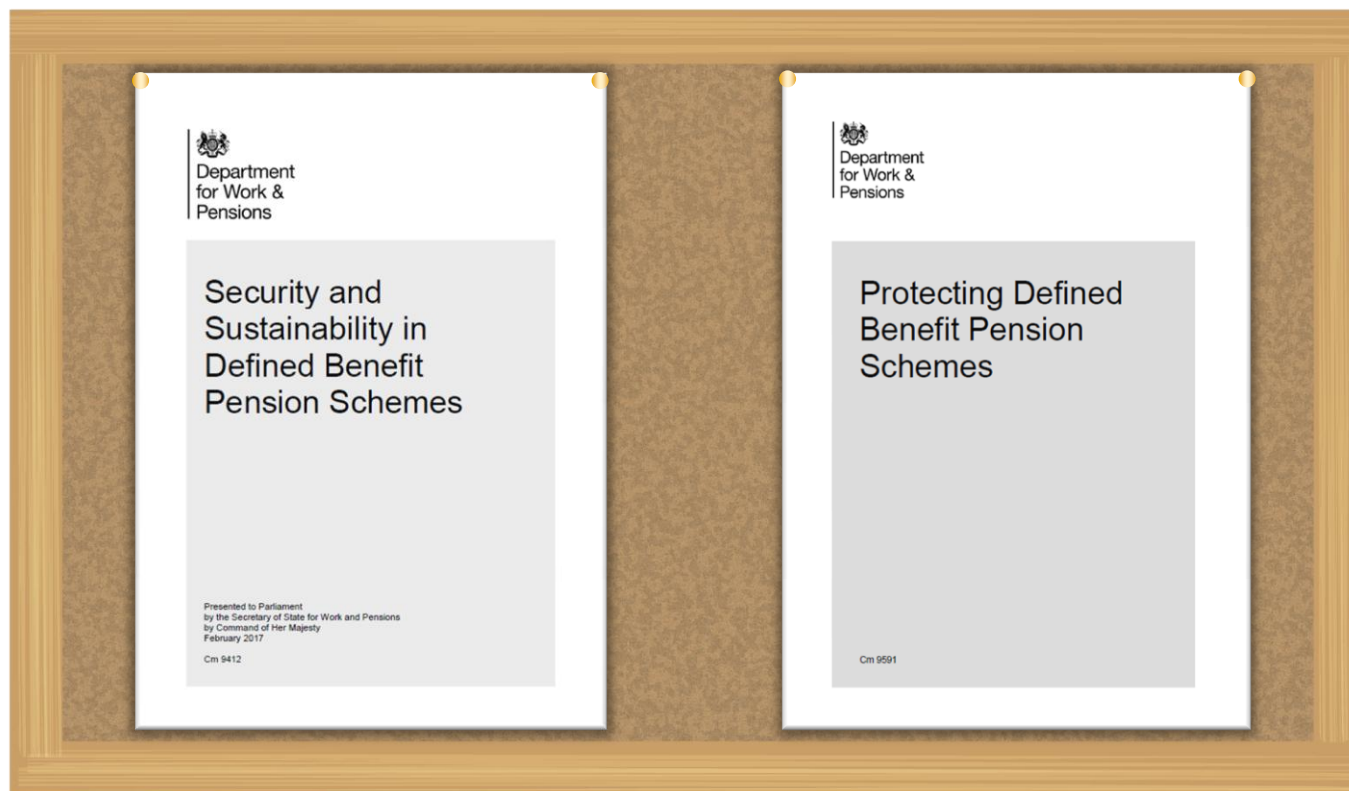
The  INDEPENDENT

Carillion Collapse

Construction giant tried to “wriggle out” of pensions obligations, says MPs

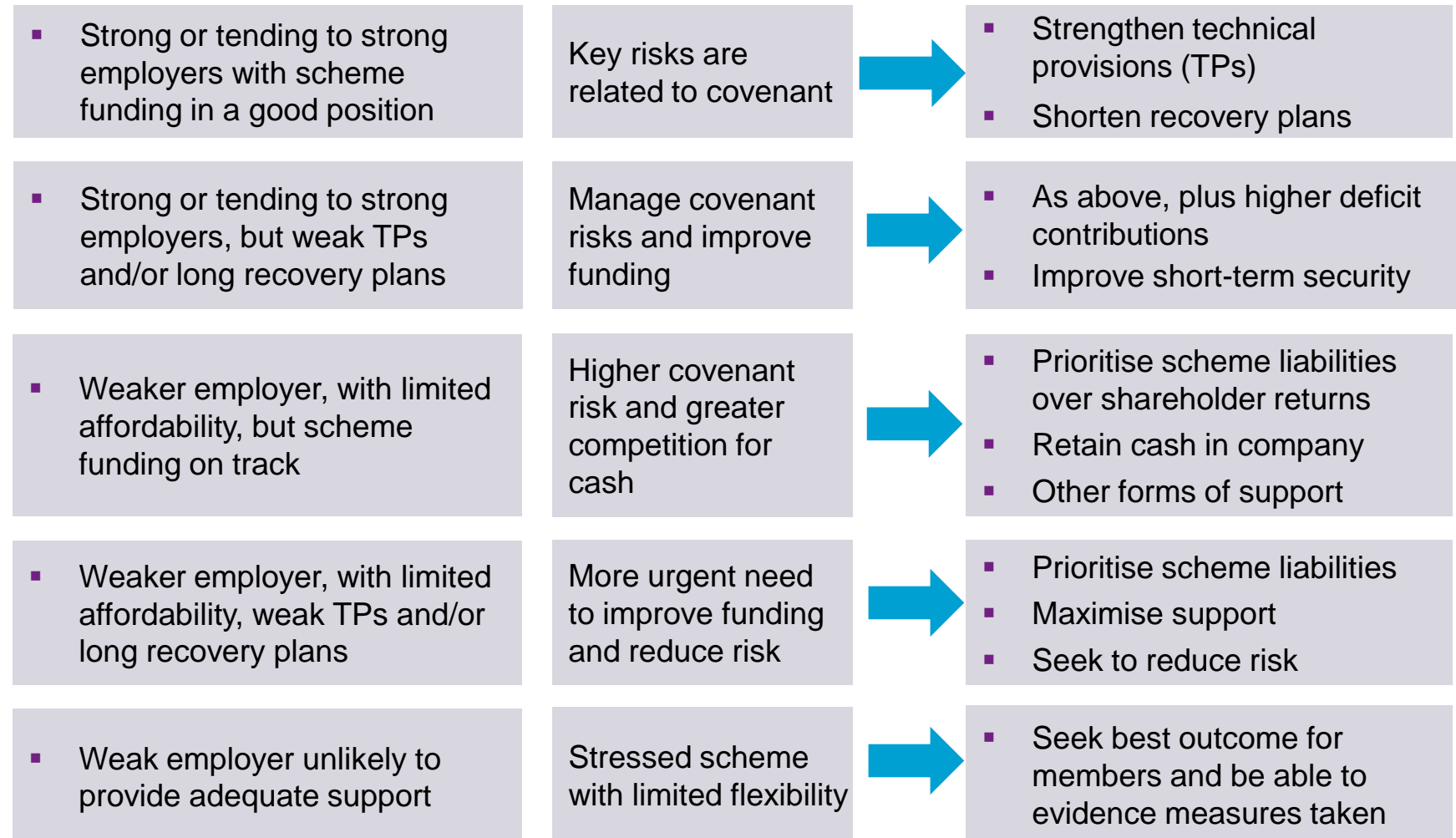
Changes in the external environment (1)

Green paper (February 2017) and White paper (March 2018)



Changes in the external environment (2)

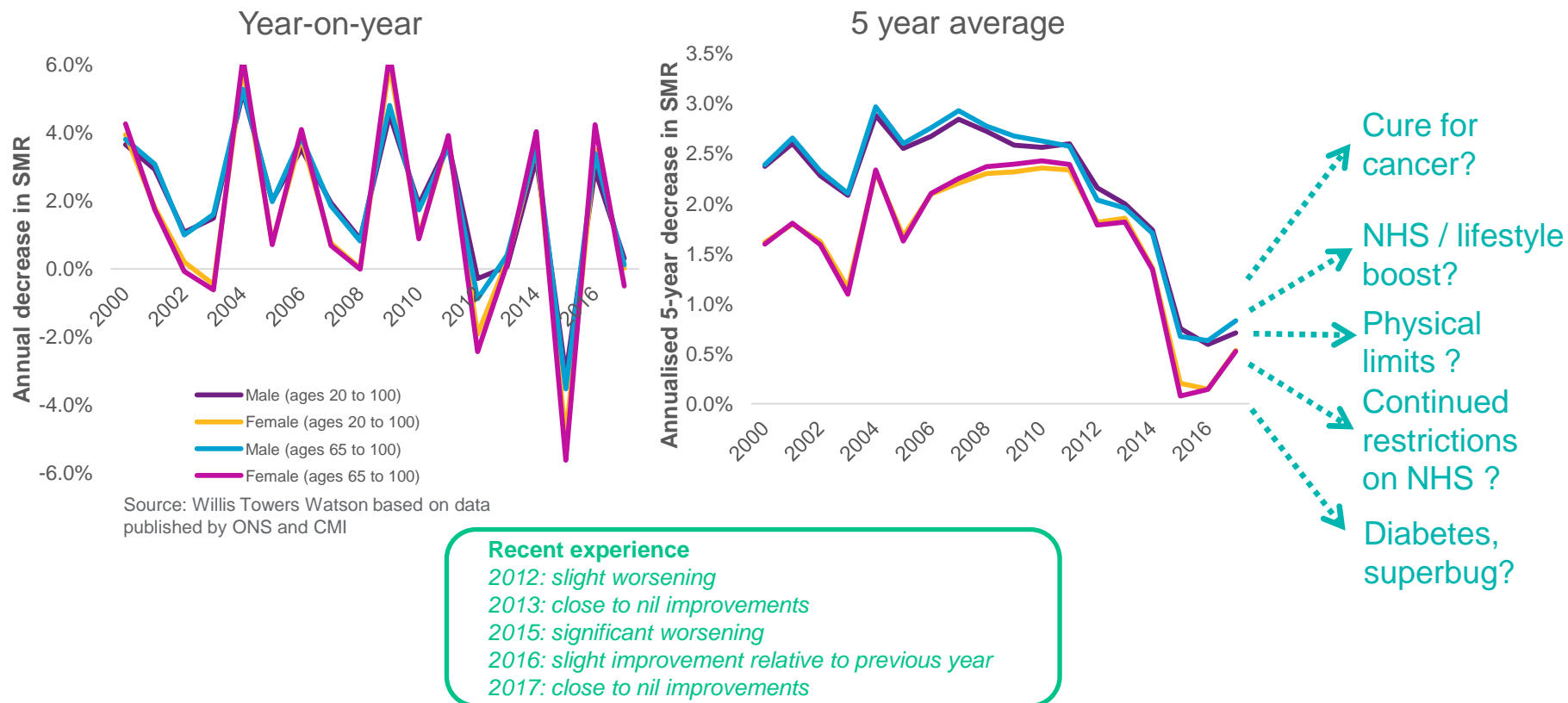
Key messages from The Pensions Regulator - how trustees should approach valuations and manage risks (April 2018)



Changes to the external environment (3)

Longevity trends

Until 2012, annual adult UK mortality improvements have been positive and relatively stable



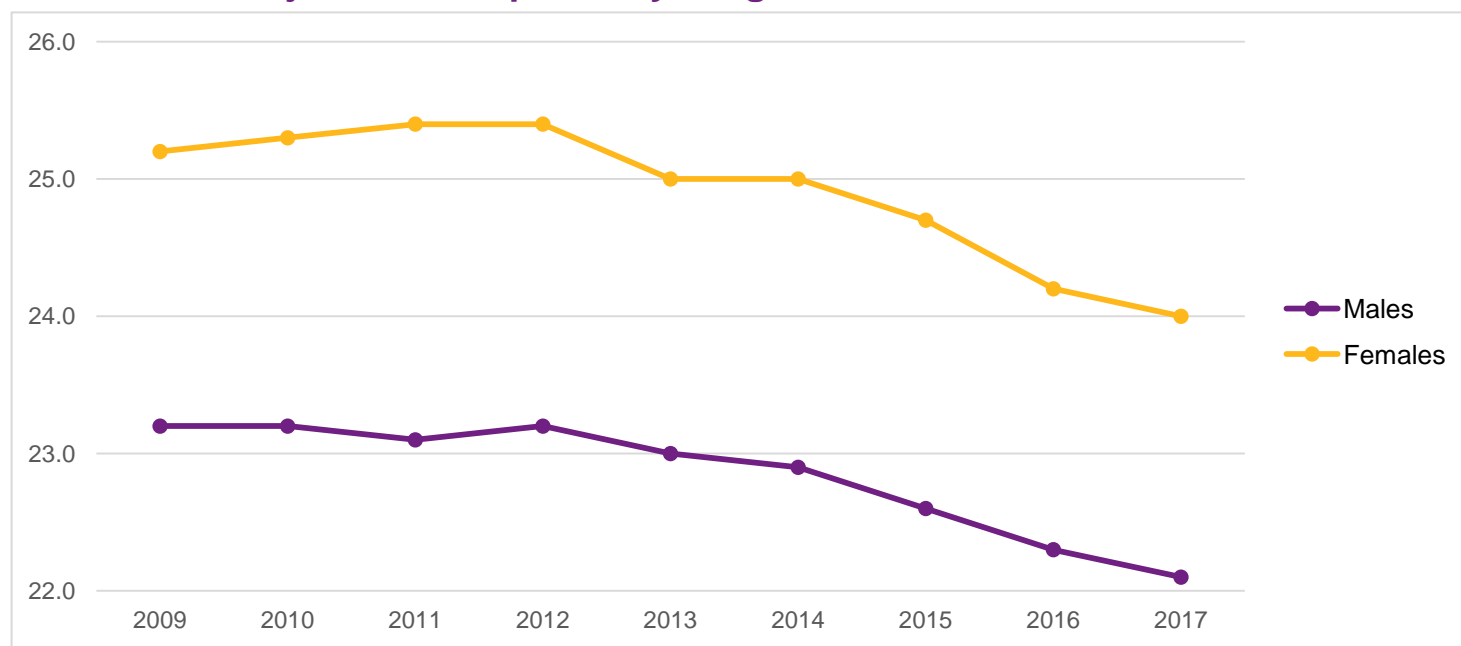
While recent trends indicate a period of lower mortality improvements, trends can change and views on improvements over the longer term will differ

Changes to the external environment (3)

Longevity trends

But since 2012, the previous trend of improvements in longevity has slowed and in fact the forward-looking projections of population life expectancy have been coming down

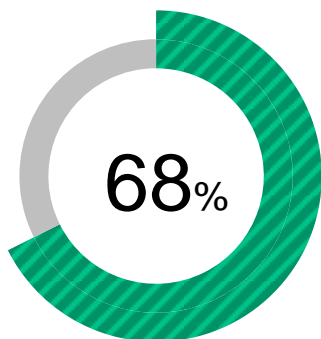
Projected life expectancy at age 65 under CMI models since 2009



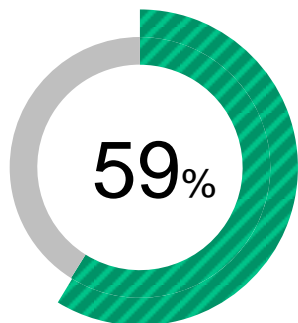
I expect the latest projection models to be taken into account for the 2018 valuation – this will reduce the value of the Fund's liabilities, improving the assessed financial position

And finally, our survey said...

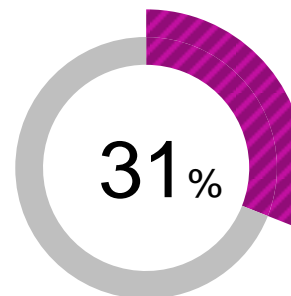
Stronger powers for the Pensions Regulator – good or bad?



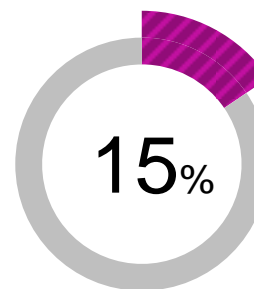
It is a positive step for TPR to be able to define what is “prudent” and “appropriate”



The extended powers of TPR will help to produce better outcomes for DB members



I’m confident that TPR will police funding agreements fairly and effectively



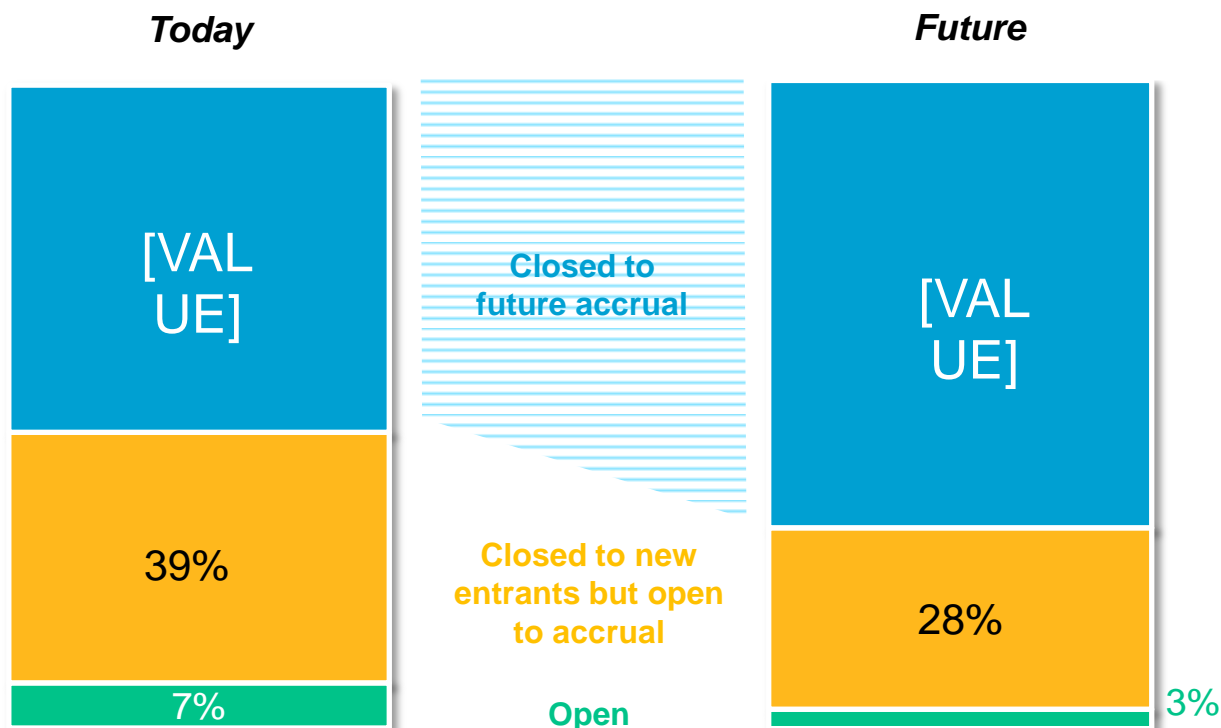
This is likely to make a big difference to future funding settlements for our scheme

Note: percentages indicate ‘Agree’ or ‘Strongly agree’

Source: 2018 WTW UK Defined Benefit Survey

Our survey said...

2-in-3 DB schemes will be closed to future accruals by 2020



Note: observations were weighted to allow one single response per scheme

Source: 2018 WTW UK Defined Benefit Survey

Conclusion: your Fund is becoming an increasingly rare and precious thing!

Regular funding valuations are an important part of continuing to ensure its future wellbeing and I look forward to reporting to you on the outcome of the 2018 valuation next year

Limitations

- Willis Towers Watson 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 12 October 2018.
- 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.
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TfL Pension Fund

Annual Members Meeting – Investment Update

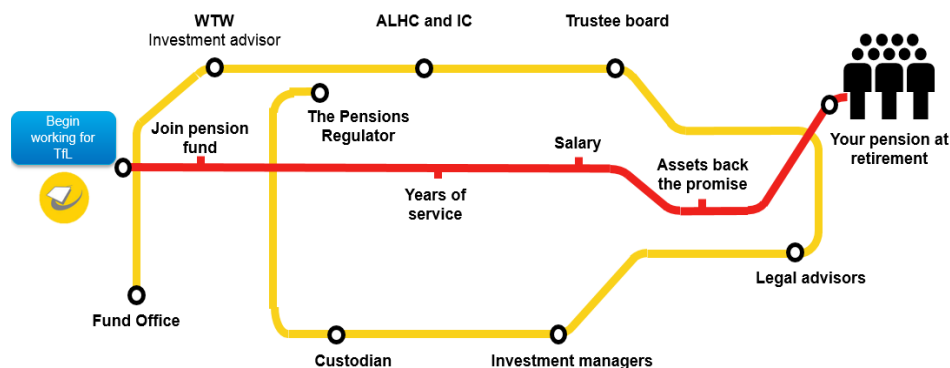
Ed Francis

12 October 2018

The Fund is an open defined benefit pension fund

The Fund is unusual in that it is an open defined benefit pension fund unlike most other pension schemes.

What is defined benefit?



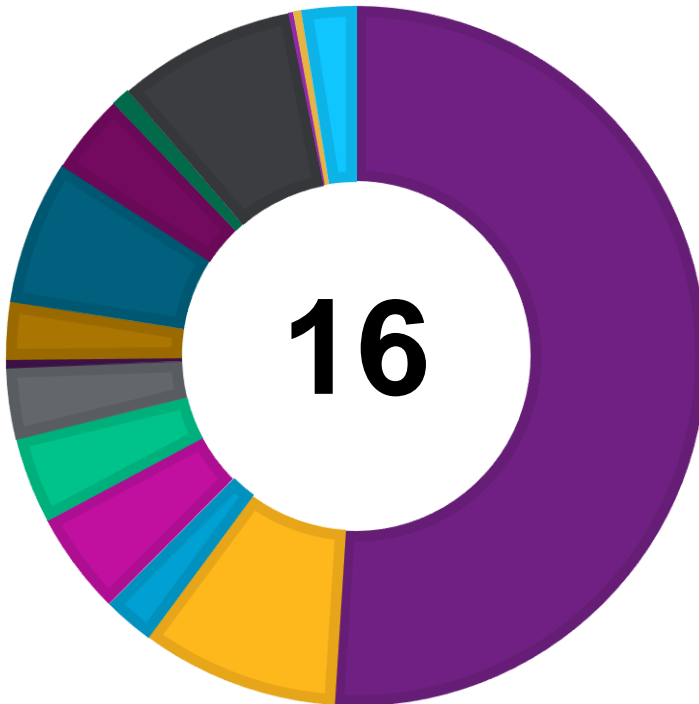
Why does this matter?

- Individual members do not face the investment risk.
- The Fund can invest for the very long term and think ahead. This affects the choice of assets.
- The Fund is able to take a broader view of its impact and role in society via its investment decisions.

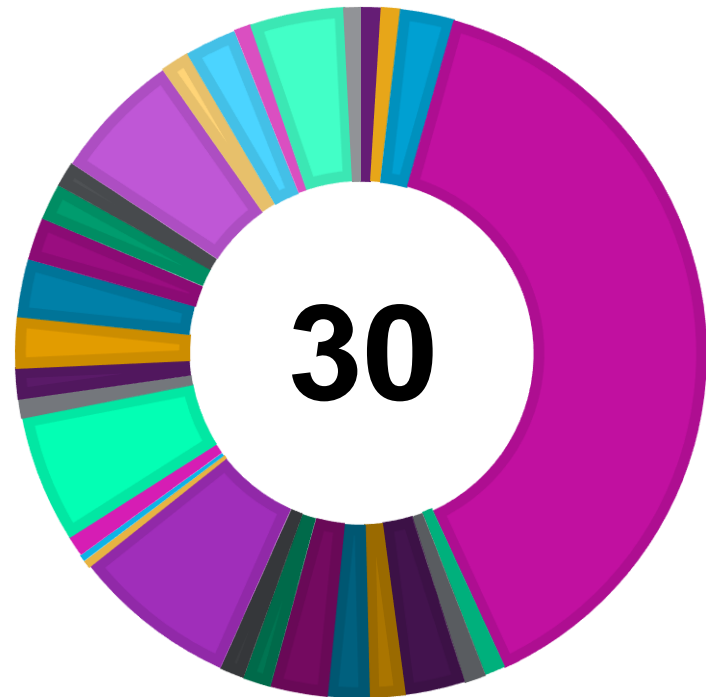
Diversification

The Fund invests across asset classes, investment managers and geographical locations to spread risks as widely as practicable

Asset Classes



Investment Managers



Sustainable investing

Investing to meet present and future needs through management of long-term risks and opportunities, which involves considering environmental, social and governance (ESG) issues as well as the wider impacts on society.



Sustainable investment is important to create a profitable investment plan which generates long term returns and is of benefit to society, and hence Members, as a whole.

What does the Fund already do?

Currently the Fund participates in many activities to invest sustainably...



Monitors the **carbon emissions** of Investment Manager's underlying holdings on a regular basis



Assesses its public equity managers approach to sustainability in 3 areas: **Environmental, Social & Governance** via WTW Sustainable Investment reports

Monitors the exposure to **coal** and other energy sources in the portfolio especially in private market investments



Targets investment in specific sustainable investment **themes**

e.g. the BlackRock renewable energy fund



What is the Fund already doing?

The Trustee is a signatory of the United Nations Principles for Responsible Investment

Signatory of:



The Fund commits to integrating ESG factors into the investment decisions

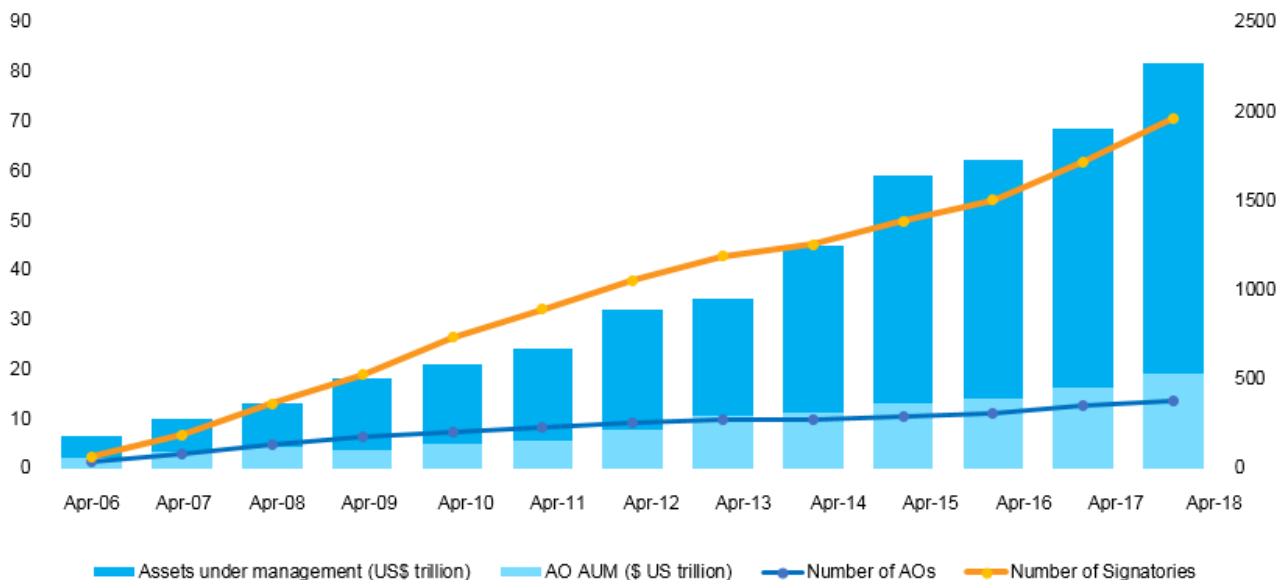


The Fund gets graded every year on how well it is doing at this

UN PRI membership



Assets under management (US\$ trillion)



14%

of signatories are based in the UK

2%

are UK asset owners

Data as at 10 May 2018; chart as at 30 April 2018

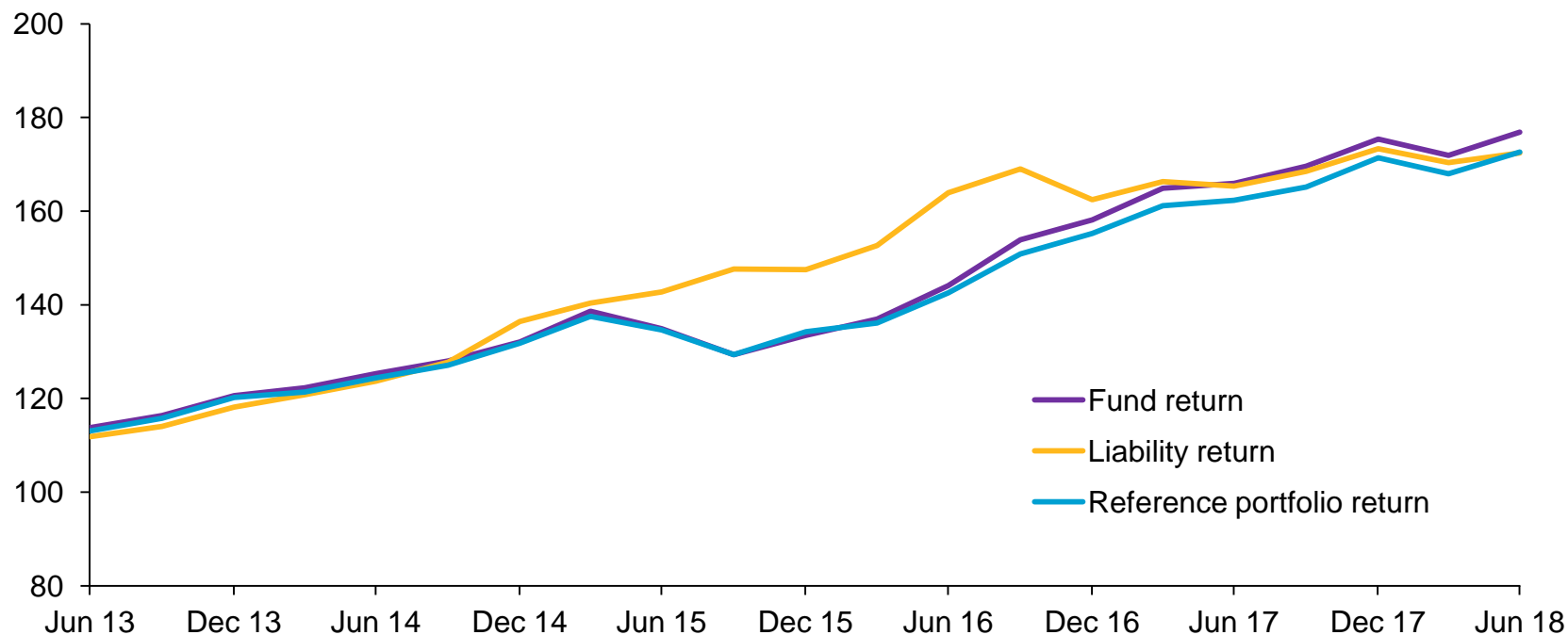
UN Principles for Responsible Investment



Relative performance

- The Fund's strategy has outperformed a simple equity and bond strategy
- The Fund has kept pace with its liabilities over the last 5 years
- Performance has been positive over the past 12 months

Cumulative performance over 5 years to 30 June 2018



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

Manager changes

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



JP Morgan

Emerging markets bond fund

MAN

Alternative risk premia fund

Semperian

Private equity investment into Dusty Top Co

Siguler Guff

Private equity absolute return fund

Stonepeak

US infrastructure fund & co-investment



Och Ziff

Termination of Hedge Fund
manager during the year

The Fund continues to look for
new opportunities to increase its
allocation to illiquid assets

Limitations

- The content of these slides has been prepared for the Trustee of the TfL Pension Fund in accordance with an engagement letter addressed to the Trustee dated 22 August 2002 (as amended) and our general terms and conditions of business.
- These slides are provided to the Trustee to form an update from the Investment Consultant to be presented at the Annual Members' Meeting on 12 October 2018.
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Transport for London Pension Fund Annual Members' Meeting – 12 October 2018

Ian Pittaway

A year in the life of a pensions lawyer for TfL PF

- What exactly do we do?

Pension Scams

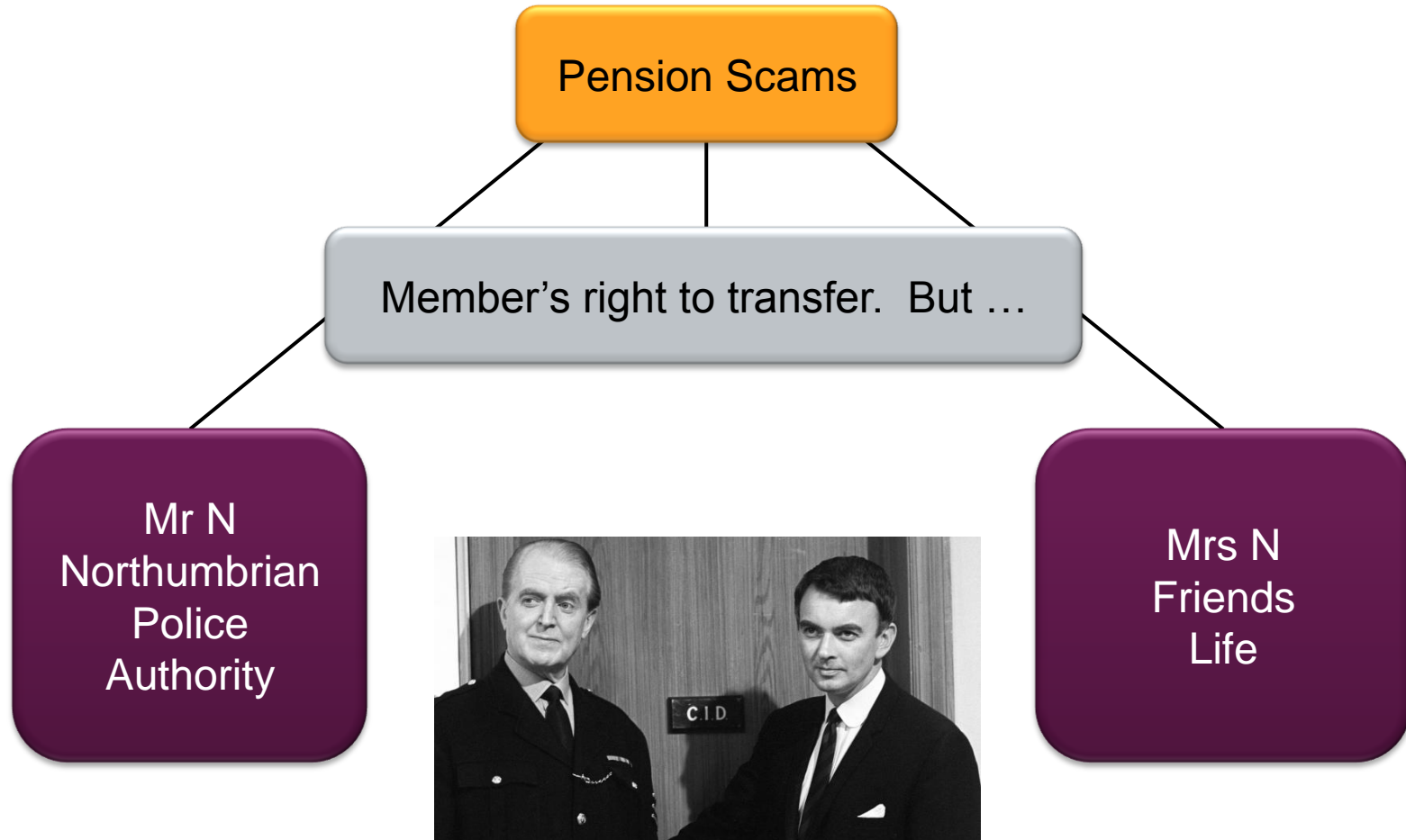
General Data
Protection
Regulations

Investment
duties

The
Pensions Regulator

Court Cases
- BA and Barnardos

GMP Equalisation?





Environmental,
Social
and
Governance



More regulation coming about how Trustees approach this subject



But occasionally confusion around Trustee duties



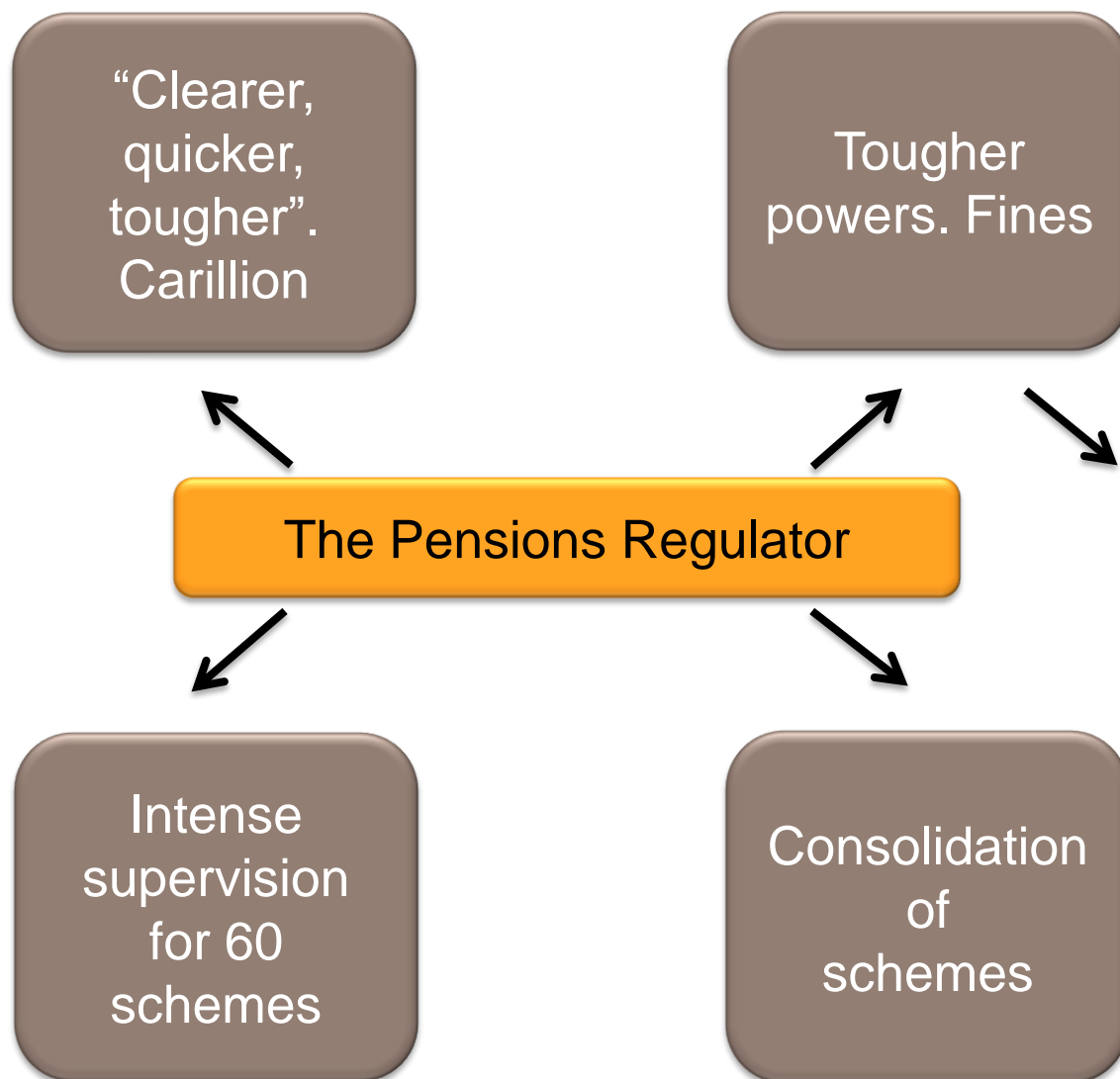
Trustees appoint managers – do not pick individual shares in companies



Recognition ESG is a key financial factor in investment returns. But trustees should not be driven solely by moral concerns – only investment reasons. Fine line



Important to have sound processes and to engage with appointed managers about topic



BA

Barnardos




Barnardos

Guaranteed
Minimum
Pension

Mirrored State
pension
benefits –
unequal
between sexes

Is that lawful?
EU law

LLOYDS
BANKING
GROUP



Pension schemes
critical to large
numbers of people

Highly regulated
by law

CONCLUSION

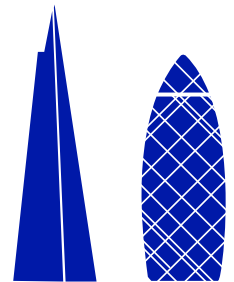
Often at cutting edge
eg ESG or GDPR

But generally well run
and will deliver
benefits

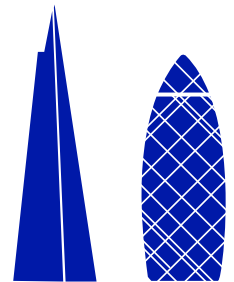
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Open Forum and Q&A



Refreshments and Informal Discussions



Thank You
and
see you next year
on
18 October 2019

