

TfL

PENSIONFUND

Statement of Investment Beliefs - June 2023



Notice for the visually impaired

Copies of this report 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.



This page is intentionally blank



STATEMENT OF INVESTMENT BELIEFS

JUNE 2023

1. Introduction

- 1.1 This document outlines the investment beliefs held by the TfL Trustee Company Limited (“the Trustee”), trustee of the TfL Pension Fund, as well as the process followed to develop and agree the Trustee’s investment beliefs.
- 1.2 The principles contained within this document reflect the Trustee’s Investment Beliefs and 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.
- 1.3 The last full review of the Trustee’s investment beliefs and the Statement of Investment Beliefs (the ‘Statement’) was concluded in June 2023.

2. Process for developing Investment Beliefs

- **Stage 1 – Education.** The Trustee undertook training from the Fund’s investment advisor on why investment beliefs are important and areas where new beliefs were required or where market practice has evolved. Investment beliefs should be evidence-based and action-orientated. The beliefs should be held with high conviction whilst the implications and opportunity costs of holding a belief should be understood at the time they are agreed. The investment advisor also outlined the process the Trustee would undertake to complete the review, including the format and requirements for a questionnaire to identify the investment beliefs of individual Trustee Directors. This took place in October 2022.
- **Stage 2 – Information.** Following receipt of the beliefs questionnaire, the individual Trustee Directors held discussions with the Fund’s investment advisor in small groups to discuss the questionnaire and raise any questions or areas that needed further explanation. The points discussed in these meetings were used to further the Trustee’s understanding of what was being asked and to clarify comments left in the questionnaire. The individual Trustee Directors completed the beliefs questionnaire alongside these discussions. This took place in December 2022.
- **Stage 3 – Discussion.** The Trustee reviewed the results of the beliefs questionnaire with accompanying analysis from the investment advisor based on comments from the Trustee, with a particular focus on areas lacking consensus. The results showed areas where the Trustee had settled beliefs and areas that needed further investigation and/or education. This took place in February 2023. In addition to this, the Trustee held a further discussion specifically on the ESG beliefs to further understand the implications of holding a given belief. This took place in April 2023.
- **Stage 4 – Documentation.** Based on the results of the training, questionnaire and discussions, the Trustee constructed a beliefs statement with support from the Fund’s investment advisor. Following agreement of the Statement of Investment Beliefs, the beliefs will be referenced and challenged when proposing changes to investment strategy, integrated into the annual business plan, and used when hiring and training new Trustee Directors. This took place between March and June 2023.

3. Investment beliefs

Governance	1.	There is a risk/return benefit to embracing complexity and dynamism and our scale means that our governance resources should be flexed to manage this complexity.
Strategy	2.	Investment decisions should be made with reference to robust data and analysis whenever available. Given that risk management is multi-faceted, investment decisions do not necessarily have to comply with this data and analysis, and in some circumstances, decisions may need to be taken in the absence of reliable data.
	3.	Investment decisions should be made with an awareness and appreciation for all facets of risk. In such cases where the risk-mitigation provided by diversification are significantly eroded, risks such as sustainability or reputational risk, further consideration must be given to that investment.
Portfolio construction	4.	Investing in illiquid assets is expected to be rewarded in the long-term and is attractive net of risks and costs. As the Fund is currently open with a very long time horizon, it has a competitive advantage over other investors and pension schemes when investing in illiquid assets.
	5.	Skilled investment managers do exist and it is possible to outperform the market. Identifying skilled managers requires significant investment in research.
	6.	There is frequently a first mover advantage, but to exploit it requires a willingness to take unconventional risk.
Fees	7.	Value for money, rather than absolute cost, should be prioritised when selecting investment managers and mandates
	8.	Long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial
	9.	E, S and G deserve equal consideration when setting our long-term ambition level but we acknowledge that regulations or circumstances may require prioritising E, S or G over shorter time periods.
Sustainability	10.	Engagement is most effective when undertaken by both portfolio managers and third-party specialists. Portfolio managers will have greater oversight of the assets and third-parties are better positioned to facilitate engagement at a fund-, industry- or system-level.
	11.	Sustainability is one of a number of factors taken into account when considering the suitability and attractiveness of an investment; as a result not all holdings are expected to have perfect ESG characteristics
Monitoring	12.	Some short-term indicators, such as manager performance, short-term funding level volatility or carbon emissions, can be useful indicators of possible long-term trend or impairment of skill or asset quality, and may be used to prompt review by the Trustee. However short-term indicators in isolation have limited predictive power.

4. Review process

The above statements have been agreed by the Trustee based on the position of the Fund and investment environment as at the date of this Statement. Therefore, the Statement should be reviewed no later than three years since the last full review of the Statement or following:

- Significant turnover of Trustee Directors
- Significant changes to market conditions or Fund circumstances
- Significant changes to investment beliefs across the industry

The next full review of the Statement of Investment Beliefs is due to take place in the 2025/26 Fund Year.

For further help or information

Please contact the Fund Office if you have any questions about this document.
Contact details are shown below.

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