

# TfL Pension Fund

## Statement of Investment Principles

March 2020



### **Notice for the visually impaired**

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## **1. Introduction**

- 1.1 This document describes the investment policy being pursued by TfL Trustee Company Limited (“the Trustees”), trustee of TfL Pension Fund (“the Fund”).

### **Pensions Act 1995 and Subsequent Legislation**

- 1.2 Under the Pensions Act 1995 (“the Act”) and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005, the Trustees are required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement.
- 1.3 The Trustees are responsible for all aspects of the operation of the Fund including this statement. As required by the Act, it has been drawn up and revised after consultation with Transport for London (“TfL”) as Principal Employer under the Fund in which capacity it is authorised to act on behalf of all the other Participating Employers according to the terms of the Deeds under which they respectively participate in the Fund. The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustees.
- 1.4 In drawing up this document, the Trustees have sought advice from the Fund’s Investment Adviser and other advisers. The Trustees will review this document at least once a year, or when the Trustees consider a review is needed for other reasons, such as following a significant change in investment policy.
- 1.5 The Trustees have had regard to the requirements of the Act concerning diversification of investments and suitability of investments and the Trustees will consider those requirements on any review of this document or any change in the investment policy.

## **2. Fund Structure**

- 2.1 Since 1999 and following the organisational changes connected with the transition from London Regional Transport to TfL under the Greater London Authority Act 1999, the Public Private Partnership for the London Underground and certain Private Finance Initiatives, the Fund was converted, with effect from 1 May 2001, into a centralised scheme for non-associated employers, with both public and private sector participants.
- 2.2 Over time private sector participation has reduced and so has the number of sections with two now remaining. One of the sections is in respect of the members employed by two private sector Participating Employers and the British Transport Police Authority. The other section is the "Public Sector Section".
- 2.3 The Public Sector Section has the liabilities in respect of members employed by TfL and its subsidiaries and also in respect of all pensioners and deferred pensioners, whether formerly employed by TfL or another Participating Employer.

- 2.4 When the Fund was converted to a scheme for non-associated employers, the Participating Employers decided that, whenever a member of a private sector section becomes entitled to a deferred pension, retires with an entitlement to an immediate pension, or dies, a transfer payment will be made in respect of him or her from the Participating Employer's section to the Public Sector Section. Contributions and transfers-in by and for the active members of a section are held in that section. Nearly all benefits, apart from some cash equivalents, are currently paid out of the Public Sector Section.
- 2.5 The assets of the Fund are invested in accordance with the principles described in this Statement, but to enable the value of each section to be separately identified the investments of the Fund have been unitised. Each separate section is credited with bond units and equity units as determined under Rule 2C of the Fund. The Public Sector Section also holds additional assets including cash, alternative assets and liability matching as set out in section 7.1 of this document. Further types of units may be made available if, in future, the Trustees so decide.

### **3. Division of Responsibilities**

- 3.1 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Fund. The Trustees draw on the expertise of external persons and organisations including the investment managers, Investment Adviser and the Scheme Actuary.

#### **Financial Services and Markets Act**

- 3.2 In accordance with the Financial Services and Markets Act 2000, the Trustees will set general investment policy, but will delegate the responsibility for selection of specific investments to the appointed investment managers.

#### **Trustees and the Investment and Alternatives and Liability Hedging Committees**

- 3.3 No decision about the investments of the Fund will be made other than by a valid majority of the Directors of the Trustees at a quorate meeting, or by a resolution in writing signed by all the Directors. This will not apply, however, to decisions taken by the investment managers appointed by the Trustees who will make those decisions in accordance with powers delegated to them by the Trustees, or to any decision made by the Trustees' Investment Committee or Alternatives and Liability Hedging Committee where these powers have been delegated to one or other of these Committees.

#### **4. Objectives of the Fund**

- 4.1 The primary objective of each section of the Fund is that the existing assets together with future contributions will be sufficient to meet the cost of the accrued and future service benefits provided under the Rules of the Fund.
- 4.2 Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005 introduced new scheme-specific funding requirements to help ensure that pension schemes are funded to an appropriate level. This legislation applies to each section of the Fund separately. Each section has a Schedule of Contributions. In addition, any section that did not meet the statutory funding objective at the most recent actuarial valuation also has a Recovery Plan. These factors are taken into account by the Trustees when considering the appropriate investment strategy for that section.
- 4.3 While the primary objective is to hold sufficient assets to meet the liabilities of each section, the Trustees have recognised that the level of funding within each section and the strength of the employers' covenants permit some risk (i.e. deviation from a liability matched portfolio) being taken in pursuit of growth. The aim is to take on risk in a controlled fashion in order to achieve incremental excess return.
- 4.4 In summary, the investment policy therefore pays regard to the following:
- the security of members' benefits;
  - the need to comply with scheme-specific funding requirements;
  - a desire to control the cost of benefits by preserving the Fund's wealth;
  - a desire to limit instability in contribution rates as a result of any failure of the investment strategy;
  - notwithstanding the above, a willingness to embrace risk in a controlled fashion in order to achieve incremental excess return.

#### **Additional Voluntary Contributions (AVCs)**

- 4.5 The Fund provides facilities for members to pay AVCs that are invested in a range of options through the Equitable Life Assurance Society (now Utmost), the Clerical Medical Investment Group Limited, Standard Life Assurance Company and Legal & General Investment Management ("LGIM"). Only the LGIM options remain open to new members. The Trustees' objective is to provide a suitable choice of investments which are appropriate to the needs of members. The Trustees monitor the AVC arrangements on a regular basis and seek expert advice from time to time to ensure that charges and returns remain competitive.

## 5. Investment Beliefs

- 5.1 The following Principles reflect the Trustees' 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.
- 5.2 Risk and return are related, but not all risks are rewarded.
- A pension fund is different to the average of the markets participants and therefore some risks to which a pension fund is exposed can be priced at unattractive levels in the market;
  - Risks sometimes do not pay off but outperformance is not possible without taking risks.
- 5.3 Clear objectives are essential and should be liability related and funding driven.
- Return and risk should be considered relative to the liabilities of the Fund. The Fund is currently open and hence has an infinite life, but regards should be given to potential future developments;
  - Funding, strategy, and sponsor covenant need to be considered together.
- 5.4 An active corporate governance programme can add value.
- 5.5 Skilled investment managers do exist and it is possible to outperform the market
- Identifying skilled managers requires significant investment in research.
- 5.6 Timing is important: asset valuation cannot be ignored when planning strategic change.
- 5.7 Long-term focus is important in thinking about investment strategy and implementation.
- 5.8 Return and sustainability are not conflicting objectives and the main objective of the Fund is to deliver superior investment returns and sustainability is a part of this, not some standalone objective.
- 5.9 Climate change is a significant long-term financial risk which has potential to impact all holdings in the portfolio over time if not properly managed.
- 5.10 There is frequently a first mover advantage, but to exploit it requires a willingness to take unconventional risk.
- There is uncertainty associated with new opportunities and this can create pricing opportunities.
- 5.11 Diversification helps to control risks and improve efficiency.
- 5.12 Illiquidity is frequently rewarded in the long-term.
- Many market participants are not willing to take liquidity risk and this can create pricing opportunities for pension funds with a longer term outlook.
- 5.13 The equity market is generally rewarded in the long-term.
- 5.14 Unrewarded risks should be mitigated where possible.

- 5.15 The implementation of any investment or strategy should be cost effective and at an appropriate price relative to the opportunity.
- The Fund has increasingly leveraged a first mover advantage in many areas made possible by nimble and more experienced governance;
  - Investment has been made in greater Fund Office capacity with the creation of four investment related roles in the last 5 years.

## **6. Sustainability and Environmental, social and governance issues**

- 6.1 The Trustees take a holistic view in aligning their Sustainable Investing Beliefs towards the Fund's investment activities. There is a clear recognition that each of the three factors: Environmental, Social and Governance "ESG" play an important role in driving the long-term value of the Fund's investment portfolio. The Trustees believe that as a long term provider of responsible capital, the Fund should exercise its stewardship responsibilities effectively and be an agent of positive change. This involves engagement and collaboration to help businesses and markets adopt and transition to best practices and sustainable business models.
- 6.2 The Trustees aim to integrate ESG factors and stewardship in all investment processes and decision making. The Trustees have developed an ESG Policy to assist them in applying their investment strategy and beliefs with respect to ESG issues, including climate change and stewardship.

### **ESG Policy purpose and scope**

- 6.3 The purpose of the ESG Policy is to set out how the Fund's overall investment strategy and beliefs are applied with respect to ESG integration and effective stewardship, in compliance with the Trustees' regulatory and fiduciary responsibilities.
- 6.4 This includes how the Trustees take account of financially material ESG issues, including climate change, the Trustees' policy in relation to exercising of their ownership rights, and the extent to which non-financial matters are taken into account in the selection, retention and realisation of investments.

## **Investment strategy and beliefs**

- 6.5 The Trustees' investment strategy and investment beliefs are presented in full in section 5 above.
- 6.6 The investment beliefs which have the strongest relevance for the ESG Policy are:
- An active corporate governance programme can add value
  - Long-term focus is important in thinking about investment strategy and implementation
  - Return and sustainability are not conflicting objectives and the main objective of the Fund is to deliver superior investment returns and sustainability is part of this, not a standalone objective
  - 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
  - Implementation of investment strategy should be cost effective and at an appropriate price relative to the opportunity
  - Diversification helps to control risks and improve efficiency

## **Governance**

- 6.7 The Trustee Board maintains overall responsibility for investment matters however its implementation, including that of the ESG Policy, is delegated to the Investment Committee and Alternatives & Liability Hedging Committee.
- 6.8 The ESG Policy will be reviewed and updated at least annually together with the Statement of Investment Principles and published on the Fund's website.

## **Investment managers and advisers**

- 6.9 In accordance with the Pensions Act, the Fund appoints authorised investment managers to manage the Fund's underlying assets. An investment manager's credentials with respect to sustainable investing, ESG integration and stewardship are considered as part of the selection process when appointing a new manager and monitored for the Fund's existing managers.
- 6.10 As part of the selection, regular monitoring and review of the Fund's investment consultant, the integration of ESG issues into their approach to investment manager ratings, research and recommendations is a consideration. Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager may be terminated and replaced.



## **Financially material ESG issues, including climate change**

- 6.11 The Fund's assets are managed by external investment managers. The assessment of ESG related risks is delegated to the investment managers given their expertise in their respective investment specialities.
- 6.12 The Trustees aim to integrate ESG factors into their investment analysis and decision-making processes. The investment manager selection process to appoint new managers will consider how the manager's approach to ESG aligns to the Fund's strategy and how ESG factors are integrated into the manager's investment process and reporting.
- 6.13 The Fund's investment managers are assessed in their ability to deliver financially, taking into account of the range of risks (including ESG risks) that attach to assets they manage.
- 6.14 The Fund uses a third party tool to monitor the ESG characteristics and scores of its active public equity and bond mandates. The tool also allows the Fund to monitor underlying individual companies of interest, such as those which have the lowest ESG scores. This can be supplemented by the manager's own reporting of ESG considerations within their portfolio.
- 6.15 There is a specific focus on climate change risk through regular monitoring of the level of carbon emissions in the Fund's actively managed public equity and bond holdings which are reviewed on a manager by manager basis. For those holdings with the highest emissions, the respective managers are required to provide a clear analysis on:
- i) how climate change risk is being incorporated in their risk-return analysis
  - ii) how they are engaging with such companies to encourage the shift to a more sustainable business model
  - iii) rationale for the continued inclusion of such holdings in their portfolio
- 6.16 The Trustees are committed to the monitoring and annual reporting of the Fund's "carbon footprint" and more importantly in pursuing an engagement policy with respect to addressing climate change risk.
- 6.17 The Trustees, in partnership with like-minded pension schemes, aim to use engagement as a way to encourage companies to adopt sustainable business models and practices. However, where "sufficient" progress has not been made or is not forthcoming in view of the Fund's managers, the Trustee is open to the consideration of divestment and exclusions ( as the Trustees action on coal would indicate and this is discussed below).
- 6.18 The Trustees have decided 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. This policy has already been implemented in more recently appointed infrastructure mandates and ongoing consultations are well advanced with the Fund's existing active equity and bond managers to implement the exclusion.
- 6.19 No investment will be permitted in coal in the Fund's Private Markets portfolio of direct and co-investments, except where a company is making or has explicitly committed to make a transition towards a non-coal future.

- 6.20 To enable this exclusion to be implemented in an efficient and consistent manner, the Fund is proposing to make use of a widely referenced exclusion list maintained by an expert third party. This is the agency responsible for providing investment services to Norway's sovereign wealth fund.
- 6.21 For other asset classes such as infrastructure, real estate, private equity and private credit, the Trustees also seek assurance on both the manager's approach to ESG issues and evidence of ESG integration in their investment process. The underlying companies are being encouraged to publish, where relevant, the impact of their activities in terms of the UN Sustainable Development Goals or an equivalent sector specific framework.

### **Stewardship activities, including voting and engagement**

- 6.22 The exercising of ownership rights has been delegated to the Fund's investment managers. The Trustees have encouraged the Fund's investment managers to promote good practice through voting and corporate engagement. Additional external support on engagement was put in place from December 2019 with the appointment of Sustainalytics and from 1 April 2020 all voting for the segregated equity mandates has been consolidated with proxy voting advisor Glass Lewis as part of the new Sustainalytics arrangement.
- 6.23 Voting is being based initially upon the Glass Lewis guidelines, as informed by Sustainalytics engagement activity. Their consolidated voting reports arising are reviewed by the Trustees and discussed where appropriate with Sustainalytics and Glass Lewis. It is expected that the voting guidelines will evolve as a result of this dialogue.
- 6.24 On behalf of the Fund, Sustainalytics will conduct their global standards engagement together with two specific themes covering material risk engagement and plastics and the circular economy. The Fund will continue to review with its investment managers their engagement with the companies with which they invest.
- 6.25 The Fund also invests in a pooled passive equity fund which tracks an underlying index (with the intent of maintaining equity exposure in the most cost-effective fashion), managed by BlackRock. Because this is a pooled mandate in that the Fund holds units of the BlackRock portfolio rather than directly owning the underlying shares, the manager acts independently with respect to voting and corporate engagement. BlackRock provides regular reporting to the Fund which is regularly reviewed by Trustees as part of the monitoring process.

### **Investments with positive impact and sustainability themes**

- 6.26 The Trustees take into account a range of investment-related factors in the selection, retention and realisation of investments. The Trustees have a fiduciary duty to secure financial returns for the Fund to ensure they can meet the Fund's current and long-term pension obligations. Investing sustainably in opportunities which will deliver long-term value aligns with the overall objective of the Fund.
- 6.27 The Trustees aim to be early adopters and innovators in areas of "impact investments", where there is an intention to generate a measurable, beneficial social or environmental impact alongside a financial return. Examples include the Fund's investments in clean energy, waste, education and banking, where such investments can deliver on many of the UN's Sustainable Development Goals.

6.28 The Trustees are actively looking to do more and targeting to invest at least 5% of the Fund's portfolio, by value in investments that have a strong "ESG tilt".

### **Collaborative initiatives**

6.29 The Trustees recognise that there are limits to the influence that the Fund can achieve as a single investor and the resources it can reasonably commit. Hence it is active in identifying opportunities for collaboration with other interested parties to increase the effectiveness that can be achieved on ESG issues. This is especially true in the area of climate change where there is a need to press governments as much as companies.

6.30 The Fund is a signatory to the United Nations Principles for Responsible Investment, CDP (formerly known as the Carbon Disclosure Project), A4S: Accounting for Sustainability Asset Owners Network and is a supporting investor of Climate Action 100+.

6.31 Through participation in Climate Action 100+, the Trustees with other investors are collectively engaging with 161 companies which include the world's largest greenhouse gas emitters. This support includes attendance and questioning company boards at annual general meetings, at private meetings and other engagement activities.

6.32 The objective is that companies implement a strong governance framework which clearly articulates their Boards' accountability and oversight of climate change risk, take action to reduce greenhouse emissions and provide enhanced corporate disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

### **Sustainability Report and other Reporting to Members**

6.33 The Trustees will undertake a regular review of the Fund's ESG metrics, including climate change, using the MSCI Scoring and Reporting Framework on the Fund's Aladdin Platform (or equivalent). This would include identifying the top 10 active holdings with the worst carbon intensity scores (as defined by the MSCI or equivalent) and/or where the Holding ESG scores are between 0 and 1.4 and using these as the basis to have discussions with the Fund's active managers. Where discussions do validate the materiality and impact of the "scores", the Trustees will expect to see a clear strategy for change as part of the active manager's engagement with the company managements and where managements are not forthcoming to "changes" consideration will be given to disinvesting from such companies.

6.34 The Trustees have captured the Fund's current and evolving SI activities through the publication of an investment Sustainability Report. The Foundation report was published on the Fund website in December 2018 and the follow on report was published in December 2019.

6.35 The Sustainability Report is an addition to the existing reporting to members on ESG matters through 'Pensionews', the Stewardship and activism section in the annual report and accounts, the Annual Review and ESG page on the Fund website.

## **7. Strategic Asset Allocation**

- 7.1 An Investment Strategy review based on the results of the actuarial valuation of the Fund as at 31 March 2018 commenced in 2019 and is expected to conclude in 2020. This follows the introduction of new asset classes to the alternatives portfolio and review of the structure of both the equity and bond portfolios completed as part of the previous review. The work also includes a consideration of the options available to help mitigate the level of risk in the Fund's assets with a view to optimising the risk/return profile of the assets in the Fund.
- 7.2 The Trustees set investment guidelines for each section of the Fund in light of the funding level and maturity of each section. The Trustees also take into account the strength of the employer's covenant in setting the strategy for each section of the Fund. In determining this strategy, the Trustees take advice from the Scheme Actuary and the Investment Adviser on retained investments and the appropriate balance between, in particular, equity, bond and alternative asset class investments, the balance between the portfolios to be held by each of the specialist investment ("active") managers and the proportions of the Fund under "passive" management.
- 7.3 The Trustees measure the performance of the Fund relative to the performance of the Fund's total liabilities and the performance benchmarks set for each of the asset classes, for both active and passive portfolios. Active investment managers take decisions with the aim of outperforming their given performance benchmark. These decisions are in terms of allocating assets between different markets and the choice of individual investments within markets. In contrast, passive management aims to invest in line with the benchmark position. Alternative asset classes include (but are not limited to) real estate, private equity, infrastructure, hedge funds, reinsurance, currencies and commodities.
- 7.4 Investment in derivative instruments will only be made if they:
- Contribute to a reduction of risks; or
  - Facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investments must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

### **Risks**

- 7.5 The Trustees recognise a number of risks involved in the investment of the assets including:
- Solvency risk and mismatching risk – is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies and addressed through the asset allocation strategy and through ongoing triennial actuarial valuations.
  - Manager risk – is measured by the expected deviation of the return relative to the benchmark set and addressed through the diversification of the Fund's assets across multiple investment managers and through the ongoing monitoring of the managers.

- Currency risk – is measured by the level of exposure to non-Sterling denominated assets and addressed through a currency overlay strategy.
- Liquidity risk – is measured with reference to the level of net cashflow required by the Fund over a specified period and addressed by the Trustees together with the Fund's administrators monitoring the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- Diversification risk – the Trustees have sought to minimise this risk by the allocation of funds to specific markets. These are designed to prevent over-concentration in any one type of investment or over-exposure to a particular company.
- Illiquidity risk – the Trustees have invested a portion of the Fund's assets in investments for which there is no recognised market. The Trustees have taken this into account when sizing the allocation to such investments; they also expect to receive an appropriate return premium for this risk.
- Inflation and interest rate risk – is measured by comparing the likely movement in the Fund's liabilities and assets due to movements in inflation and interest rates and addressed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Fund's assets to better-match movements in the value of the liabilities due to inflation and interest rates.
- Derivatives: Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
- Derivatives: Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustees for the backing assets and the investment managers' asset management capabilities.
- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustees take appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
- The Trustee is also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of their advisers, the Trustee monitors these positions on a regular basis.
- Climate change risk – The Trustees' policy towards managing the long-term financial risks of climate change on the Fund's investment portfolio is outlined in their ESG policy within the SIP.

- 7.6 Investment values can also be adversely affected by political intervention. The Trustees have little control over this apart from restricting the size of investments in jurisdictions which are seen as risky.
- 7.7 The Trustees have put in place safeguards to protect the Fund's investments from fraud. There are also strict controls on who can authorise the transfer of cash and the accounts to which transfers can be made.
- 7.8 The Trustees recognise that active management introduces a risk of under-performance. However, they believe that by use of a mixture of "passive" and "active" portfolios, overall out-performance can be achieved within acceptable risk parameters.
- 7.9 The Trustees measure and monitor the risks identified above through a combination of quarterly investment monitoring reports which include assessments of the investment managers and estimates of the impact on the funding level of the Fund; regular actuarial valuations; regular strategy reviews; and ad-hoc investigations.

### **Rates of Return**

- 7.10 The expectation of the Trustees is that the strategic asset allocation for each section will achieve a real return on the assets that, in the longer term, equates to or exceeds the assumed real rate of return set out in the section's Statement of Funding Principles.

### **Liquidity**

- 7.11 There needs to be significant cash available, in the Public Sector Section in particular, to pay the Fund benefits every month. The administrator in conjunction with the investment managers ensures that sufficient cash balances are available and should there be a cash demand on the Fund, that assets can be converted easily into cash.
- 7.12 The investment managers' discretion extends to whether or not to sell particular investments at prevailing prices and which investments to sell to raise cash, as and when required for meeting cash flow requirements.

## 8. Investment Manager Structure

- 8.1 The Fund employs a number of investment managers, for whom the overall benchmark and asset ranges specified are designed to ensure that the Fund's assets are adequately diversified and suitable for the Fund given the liability profile of each section. In this regard, the Trustees have taken advice from the Investment Adviser.
- 8.2 The due diligence carried out for individual manager selection and appointment ensures that their investment strategy is aligned with that of the trustees, including in respect of environmental, social and governance factors as described in section 6 above. The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets.

<b>Portfolio</b>	<b>Manager</b>
<u>Core</u> Multi-asset Index tracking portfolio – including equities, bonds, and cash	BlackRock Investment Management (UK) Limited
<u>Liability Matching</u> Liability Hedging Portfolio and Equity Option Portfolio	BlackRock Investment Management (UK) Limited
<u>Active Specialist</u> Bonds 1 Bonds 2 Bonds 3	Goldman Sachs Asset Management Oak Hill Advisors L.P. Wellington Management Company, LLP
Global equities 1 Global equities 2 Global equities 3 Global equities 4	Pzena Investment Management LLC JO Hambro Capital Management Group Ardevora Asset Management LLP Veritas Asset Management LLP
Japan & Asia Pacific equities Asian ex Japan equities	Nomura Asset Management UK Limited JO Hambro Capital Management Limited
Emerging market equities Emerging market equities	Coronation International Limited Russell Investments Ireland Limited
Small cap equities	Paradice Investment Management Pty Ltd
Emerging market bonds	JP Morgan Asset Management

<b>Portfolio</b>	<b>Manager</b>
<u>Alternatives</u>	
Distressed Debt Infrastructure Debt Mezzanine Debt Real estate Debt	Siguler Guff & Company Industry Funds Management Limited Goldman Sachs Merchant Banking Division Goldman Sachs Broad Street Real Estate Partners
Infrastructure Infrastructure Infrastructure	Colonial First State Global Asset Management IFC Asset Management Company LLC Semperian PPP Investment Partners Holdings Limited
Infrastructure Infrastructure (Cory Riverside Energy) Infrastructure	Stonepeak Infrastructure Fund LP SCM ManCo1 Limited  Harrison Street
Private equity Private equity Private equity and Real estate Real estate	Neuberger Berman Europe Limited Goldman Sachs & Co LLC Partners Group Limited  CBRE Global Collective Investors UK Limited
Hedge fund Hedge fund Hedge fund Hedge fund Hedge fund Hedge fund Hedge fund Hedge fund	Bridgewater Associates Brevan Howard Asset Management LLP AQR Capital Management LLC Goldman Sachs Asset Management Anchorage Capital Partners Offshore Limited Blue Mountain Credit Alternatives fund Limited Man Risk Premia SPC Man 1783 Strategies
Reinsurance	Credit Suisse AG
Real estate securities	BlackRock Investment Management (UK) Limited
Commodities	BlackRock Investment Management (UK) Limited
Renewable energy	BlackRock Investment Management (UK) Limited
Currency Hedging	Russell Implementation Services Limited

8.3 The decision regarding use of active and passive management includes consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns, net of fees.



- 8.4 The proportionate investment held by each manager at any point in time may vary from the overall benchmark and specified asset ranges due to market movements and/or differential performance relative to benchmark. These variations will be monitored and the Investment Adviser will advise the Trustees quarterly if, in his opinion, the degree of variation requires rebalancing.
- 8.5 The Trustees have instituted controlled Securities Lending programmes to help offset investment expenses. These are managed and are reported upon by the appointed Global Custodian, JP Morgan Investor Services. Russell Investments operate a currency hedging programme on behalf of the Fund.
- 8.6 The assets of the Fund will largely consist of investments admitted to trading on regulated markets and that investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

### **Monitoring**

- 8.7 The Investment Committee and Alternatives and Liability Hedging Committee of the Trustees together with investment specialists in the Fund Office hold regular meetings with the investment managers and receive their reports to satisfy themselves that the managers continue to carry out their work competently and have appropriate knowledge and experience to manage the investments of the Fund.
- 8.8 The Investment Adviser provides quarterly updates of performance to assist in the reviews of the Fund's and investment managers' performance against the benchmarks and targets set. This is supplemented by the Fund Office's activities. Performance is assessed on a quarterly and cumulative basis and incorporates a methodology to capture value added in comparison with fees.
- 8.9 The Trustee reviews the costs incurred in managing the Fund's assets regularly which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee has regard to the actual portfolio turnover and how this compares with the expected turnover for that mandate.
- 8.10 These engagements and monitoring of the investment managers with the assistance of the Investment Adviser provide suitable evidence that the managers are complying with the terms of their respective investment management agreements, including the exercise of their delegated powers and benchmark reference. The investment managers maintain internal control processes to identify any instances where a potential breach has occurred and any such instances are reported promptly to the Trustees.
- 8.11 To ensure there is appropriate evaluation of the asset managers' performance and remuneration is in line with the Trustees' wider policy, the Trustees, after consulting with the Investment Adviser, will consider at least once every 12 months whether they are satisfied with the managers' past performance and fees together with their potential to, at least, perform in line with their benchmark and target in the future.

- 8.12 If the Trustees are not satisfied they will require the manager concerned to take such steps as will then satisfy them in this respect, or will remove that manager and appoint another. At the outset of the appointment, termination arrangements are agreed. For individual portfolio arrangements these usually allow for immediate or short-notice termination while for some pooled fund and/or less liquid investments there may be a longer process of disinvestment.
- 8.13 When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
- 8.14 The Trustees also carry out specific monitoring in respect of ESG matters which is covered in Section 6 above.

## 9. Investment Governance Group Principles

9.1 The Trustees have adopted the updated Investment Governance Group principles:

- **Effective decision making** – Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
- **Clear objectives** – Trustees should set out an overall investment objective(s) for the Fund that takes account of the scheme's liabilities, the strength of the sponsor covenant as well as the attitude to risk of both the Trustees and the scheme sponsor, and clearly communicate these to advisers and investment managers.
- **Risk and liabilities** – In setting and reviewing their investment strategy, Trustees should take account of the form and structure of the liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.
- **Performance assessment** – Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.
- **Responsible ownership** – Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustees should report periodically to members on the discharge of such responsibilities.
- **Transparency and reporting** – Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to members in the form they consider most appropriate.

9.2 The application and development of these principles now fall under the remit of the Investment Governance Group which is chaired by the Pensions Regulator.

9.3 Compliance with the principles will be assessed at least annually.

March 2020 (updated to include managers appointed to February 2020)

## For further help or information

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

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