



6 OCTOBER 2023

Annual Members' Meeting 2023





Welcome and Introduction

Maria Antoniou Chair of Trustees



Agenda

Time	Topic	Owner
11.00	Welcome and Introduction	Maria Antoniou (Chair of Trustees)
11.10	Review of the Year	Stephen Field (Fund Secretary)
11.25	Actuarial Update	Gareth Oxtoby (Fund Actuary)
11.40	Investment Update	Dave Aleppo (Investment Adviser)
12.05	Legal Developments	Pauline Sibbit (Legal Adviser)
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
- 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
- July 2023 – TfL respond to Government



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 60,000 quotes in the year to 31 March 2023
 - Over 1,300 Expression of Wish forms completed online in the last year
- Development of Fund website



Key Activities Last 12 Months (continued)

- The Fund's partnership with Sustainalytics resulted in engagements with 67 investee companies, and since 2020, 19 cases were successfully resolved.
- Through Sustainalytics' thematic engagement on Climate Change – Sustainable Forests and Finance, the Fund joined forces with other investors to engage with 22 companies in the forestry value chain.
- The Fund continues to be an active participant of Climate Action 100+ and Carbon Disclosure Project's (CDP) Non-Disclosure and Science-Based Targets campaigns. Through CDP, Fund has reached out to 61 companies in 2022 requesting disclosures of climate change related information. Out of these companies, 26 (43%) have now made disclosures.
- Glass Lewis voted 7,152 resolutions on behalf of the Fund and voted 'for' 60% of ESG-related shareholder proposals.
- The current allocation of the Fund to "ESG tilted" investments is approximately 12.9%, approaching its targeted level of 15% by 2025.



Governance

- Consolidation of the Trust Deed & Rules completed on 23 September 2022 and available online from the website.
- Trustee's conduct business through the main Board meetings and 6 sub committee meetings.
- Over the year to 31 March 2023, 33 meetings in total were held.

Trustees Changes

- **To 31 March 2023**
 - Stephen Hedley, Amanda Hopkins, Lilli Matson and Nigel Pickup left.
 - John Leach, Chris Reader, Julian Thirlby and James Terry joined.
 - There have also been changes made to the Sub Committee composition by the TfL nominated Trustees, full details of which are published on the website.
- **No changes since 31 March 2023**



Fund Value

£14,440.4m – Fund value as at 31 March 2022

Plus income of		Minus expenditure of	
Employers' contributions	£307.7m	Pensions and other benefits paid	£433.4m
Investment income	£177.7m	Investment management	£29.7m
Members' contributions	£73.9m	Other payments	£5.5m
Transfers in from other pension schemes	£1.4m	Administration	£4.0m
		Payments in respect of leavers	£2.6m
		Pensions levies	£16.1m
Total income	£560.7m	Total outgoing	£491.3m

Change in value of investments -£333.2m

£14,176.6m – Fund value as at 31 March 2023



Investment Portfolios

Value of the Fund:

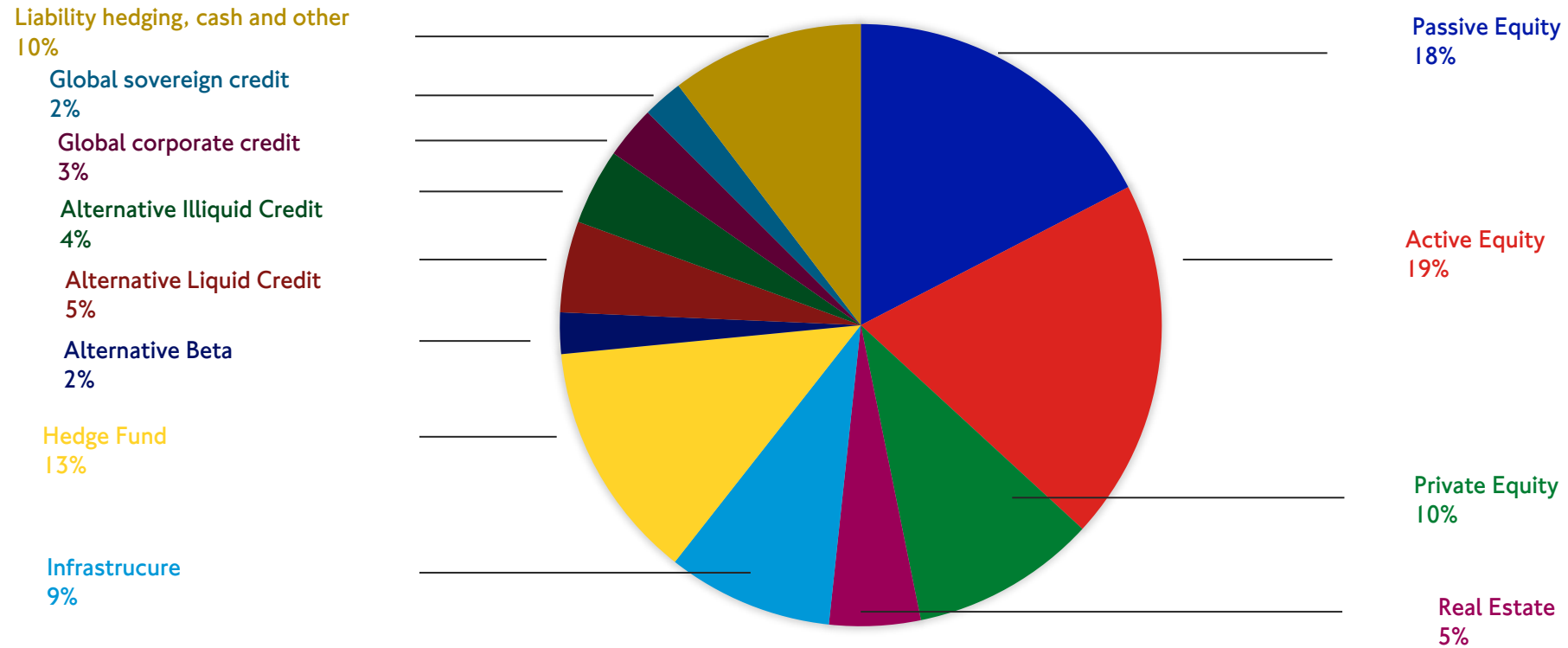
- £14.2bn (31 March 2023)
- £14.4bn (31 March 2022)
- £13.1bn (31 March 2021)
- £10.6bn (31 March 2020)
- £11.0bn (31 March 2019)
- £10.3bn (31 March 2018)



Investment Diversity

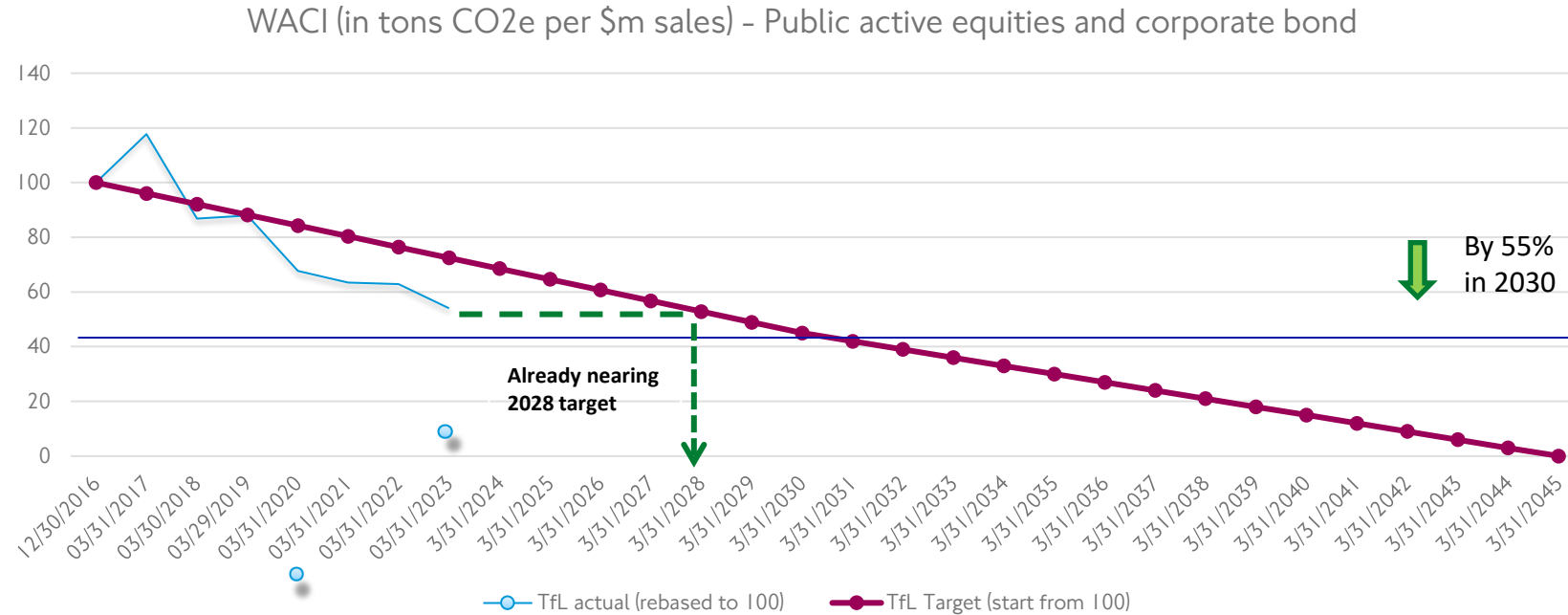
- The Fund continues to diversify to enhance returns while maintaining the risk it takes.

FUND ASSET ALLOCATION - MARCH 2023



The Fund is ahead of its Net Zero Targets as of 2023

- The Fund's Carbon Emission Intensity (CO₂e tons / \$m sales) in the active equities and bonds portfolios down 46% vs. 2016 figure- 18% ahead of target



- The Fund's exposure to the Oil, Gas and Coal sector ("OG&C") continues to fall in line with the above trend:
 - December 2016 3.3% of overall Fund value
 - March 2019 1.8% of overall Fund value
 - March 2023 1.6% of overall Fund value
- The Fund's exposure to Extractives (Drilling, Exploration and Production), the most carbon intensive sub-sector within OG&C, is down from 0.46% in 2016 to 0.28% in 2023 (vs. 0.9% in the Fund BM or 71% underweight).



Investment Costs

Topic	2022/23 £m	2021/22 £m	2020/21 £m
Direct investment management expenses (shown in accounts)	29.7	27.5	21.6
Indirect investment management expenses (shown in change in market value)	61.7	44.8	39.1
Total investment management expenses	91.4	72.3	60.7
Direct investment transaction costs	2.0	2.1	1.8
Total investment management expenses and transaction costs	93.4	74.4	62.5
Investment costs as a percentage of total assets	0.66%	0.52%	0.48%



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 2023 was

Existing Members 12.6%

New Members 5.0%

The increase for 2024 will be

To be announced 18 October



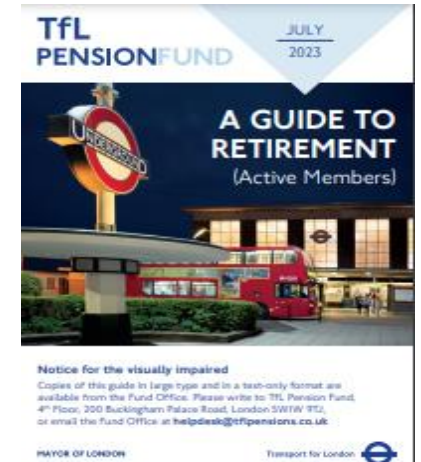
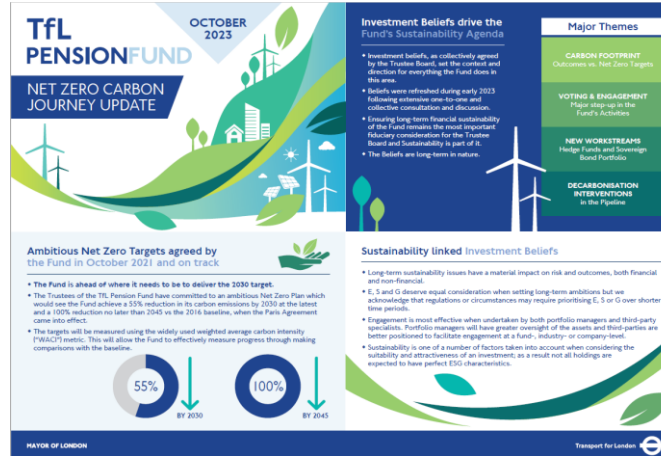
Post 31 March Update

- Production and issue of Annual Benefit Statements
- Guaranteed Minimum Pension reconciliation ongoing
- New Fund website launching before Christmas 23
- TfL's Pensions Review ongoing
- New contact number to enhance member experience
- Fund Office will be relocated from 9 October 23



Published in the last 12 months

- Annual Report & Accounts
- Active Member Benefit Statement
- A Guide to Retirement
- Statement of Investment Belief
- Statement of Investment Principles
- Pensionews
- Annual Review
- Net Zero Carbon Journey Update



Organisations Exhibiting in the Great Hall

- LT Museum Friends
- Staff Travel
- Tax Aid & Tax Help for Older People
- The Fund Office
- The Pensions Consultative Council (PCC)





TfL Pension Fund

Annual Members' Meeting

Scheme Actuary presentation
Gareth Oxtoby

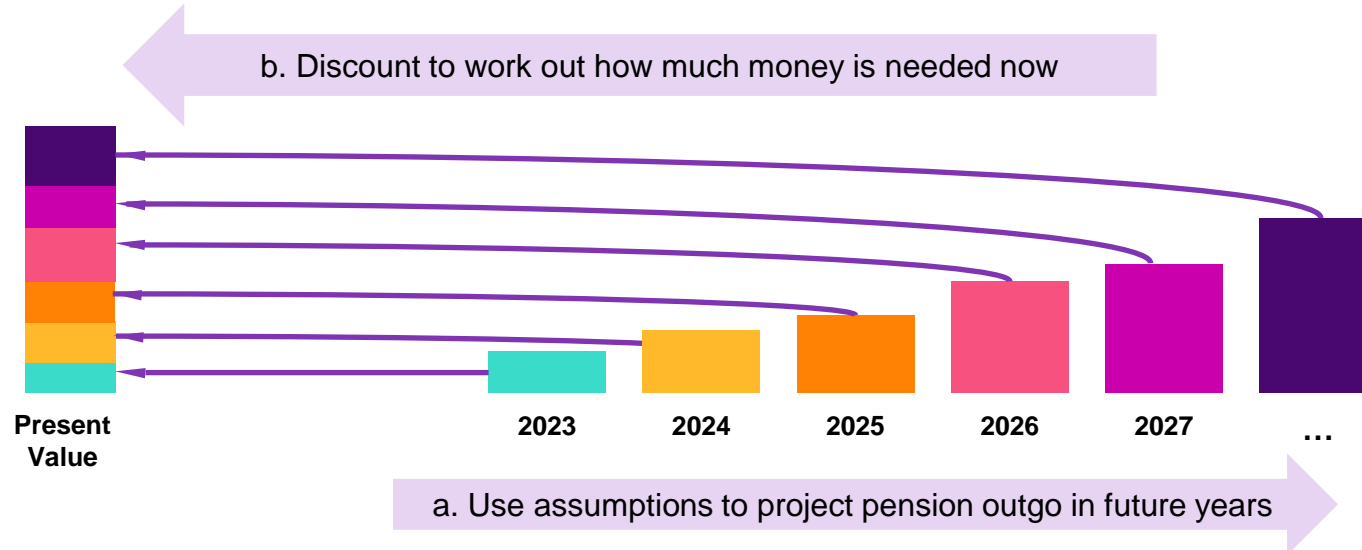
6 October 2023

Scheme Actuary review of 2022/23

1. Updated financial position of the Public Sector Section
2. Looking ahead – climate change and longevity

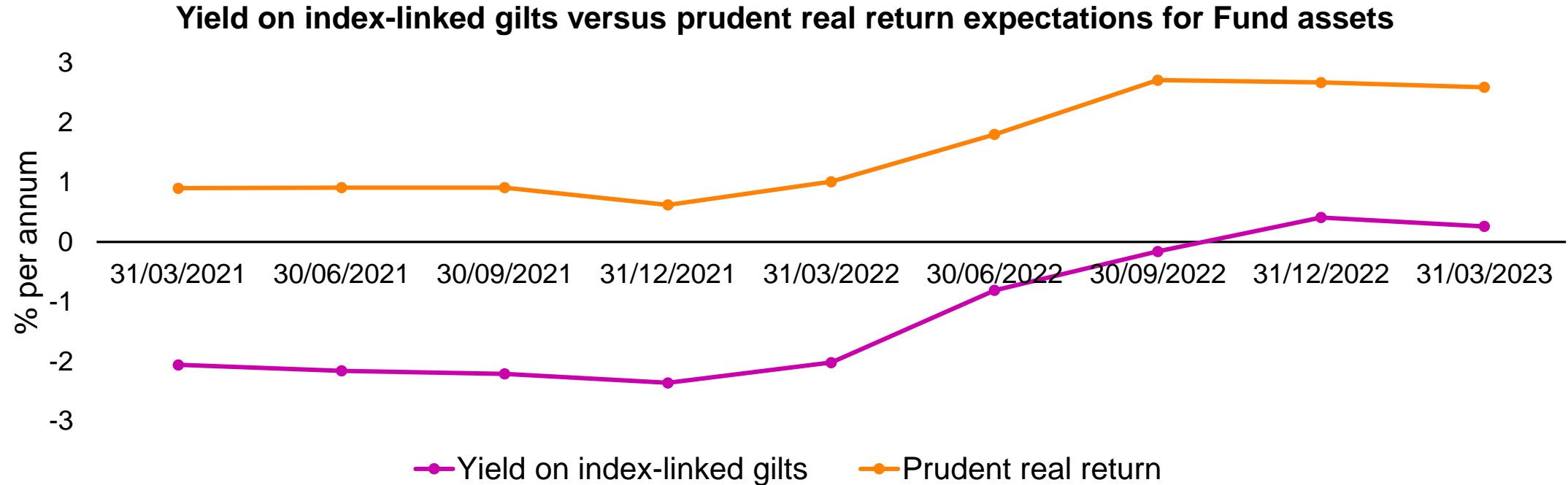
A reminder – how we assess the value of Fund liabilities

- An actuarial valuation involves comparing the market value of the Fund assets at a point in time with the value of pension benefits which Fund members have earned in respect of employment up to that date (the Fund's 'liabilities')
- The calculation of the value of the liabilities involves
 - a. projecting future benefit payments to Members, and then
 - b. discounting those payments back to a current value that we can compare with the current value of the Fund's assets



- This requires us to make a number of assumptions about the future. **The key assumption is the 'real' discount rate** – the extent to which the discount rate used for (b) exceeds assumed future price inflation used to determine future pension payments in (a)
- The discount rate used is a **prudent** assessment of the expected future returns on Fund assets. It typically represents a blend of current short term and longer-term 'normative' return assumptions, so varies with current market conditions

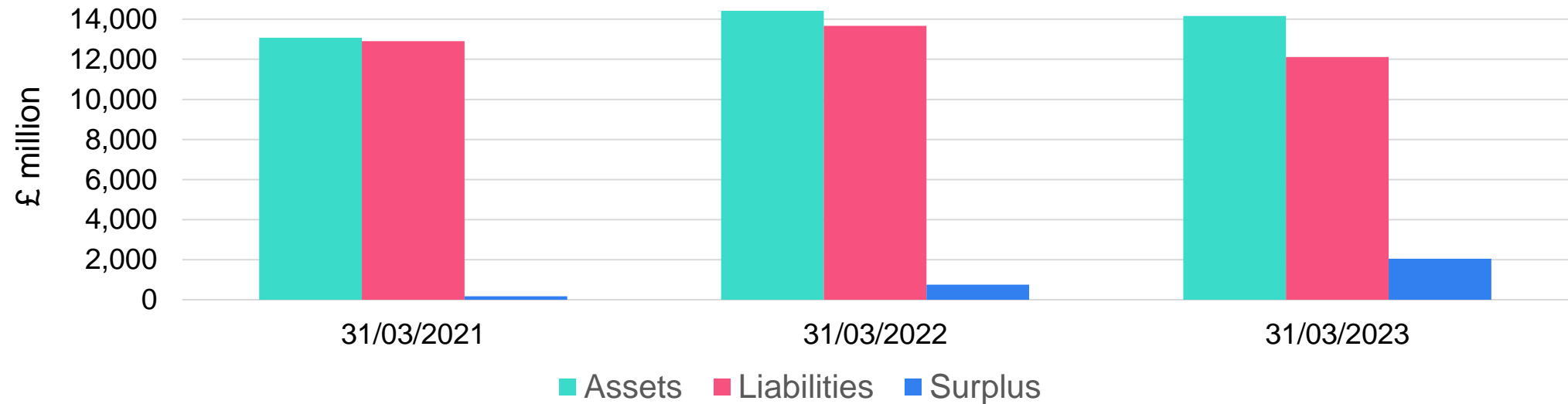
What has happened to that real discount rate assumption since 2021?



- Previously it was anticipated that the March 2021 real discount rate would also be used for the purposes of the 2022 and 2023 annual funding updates which are communicated to Fund members.
- However** this significant change in market conditions resulted in the Trustee agreeing to amend the real discount rate assumption for the annual 31 March 2023 update, in order to avoid giving a misleading impression of the financial position of the Public Sector Section.

So what has happened to the PSS funding position since 2021?

PSS funding position 2021-23



	31 March 2021	31 March 2022	31 March 2023
Market value of PSS assets	£ 13,085 m	£ 14,423 m	£ 14,163 m
Value of PSS liabilities	£ 12,906 m	£ 13,672 m	£ 12,116 m
Surplus / (deficit)	£ 179 m	£ 751 m	£ 2,047 m
Funding level	101.4 %	105.5 %	116.9 %
<i>Real discount rate used</i>	<i>0.66 % pa</i>	<i>0.65 % pa</i>	<i>2.11 % pa</i>

So the PSS looks much healthier, right?

- All other things being equal, there was a marked improvement in the assessed financial position of the Public Sector Section over the year to 31 March 2023
- The Trustee took advantage of this improvement by taking some actions during the year to reduce investment risk ie reduce the risk of things getting worse in future
- However, we cannot take it for granted that this improved position will be maintained
 - Market volatility - the possibility of significant falls in asset values remains
 - Regulatory changes: a new funding code is expected next year, which is likely to set a 'higher bar' for the Section's funding target
 - For TfL, pressure to cut costs is likely to continue
 - And finally, heightened prospects of global threats (war, climate change) remain

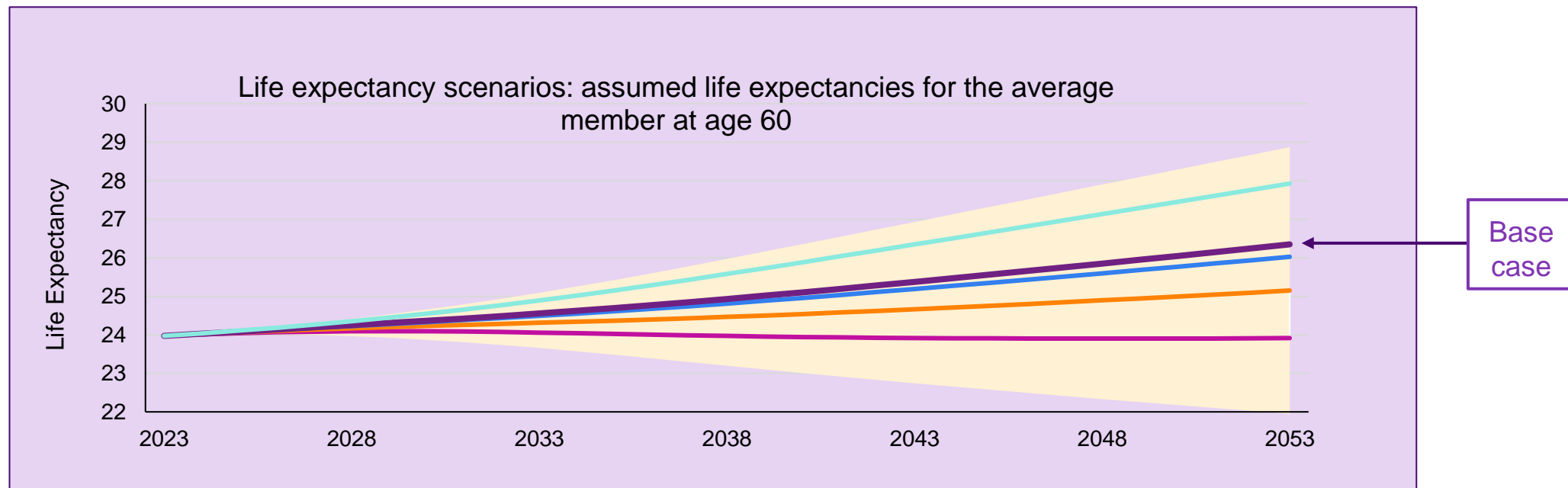
How might climate change affect global mortality rates?

Direct and indirect causes of climate-related mortality changes

	Factor	Potential to increase death rates	Potential to reduce death rates
Direct	Weather events	Increases in natural disasters (flooding, droughts, storms, wildfires), and spread of 'tropical' diseases.	Milder winter conditions could be beneficial.
	Economy	Economic losses reducing wealth (strongly correlated with longevity).	Economic gains from technological innovation increasing wealth.
Indirect	Food	Disruptions to food supplies (grown locally or imported) leading to higher food costs, negatively impacting diets.	Healthier low-carbon and less animal-based diets, brought about through legal / tax / social change.
	Air	Increased rates of mortality relating to poor air quality due to failure to develop cleaner forms of energy and transport.	Reduced rates of mortality relating to poor air quality resulting from transition to low-carbon energy sources and electric vehicles.
	Lifestyle	Preceding factors contribute to more sedate, indoor-based, and less healthy lifestyles.	Preceding factors contribute to more active lifestyles with more time spent outside.

Illustrative impact on life expectancy

- WTW have developed a number of different climate scenarios, ranging from 'business as usual' (no further attempt to incentivise emission reductions) to 'climate emergency' (aggressive policies implemented to reduce emissions)
- Mortality outcomes under possible future scenarios are impossible to predict accurately and will depend on complex interactions between various factors.
- We have projected the impact on mortality expectations under four climate change scenarios based on typical pension scheme liabilities. The chart below illustrates how life expectancies might develop for the Fund. There is a wide range of different outcomes depending on the scenario assumed.



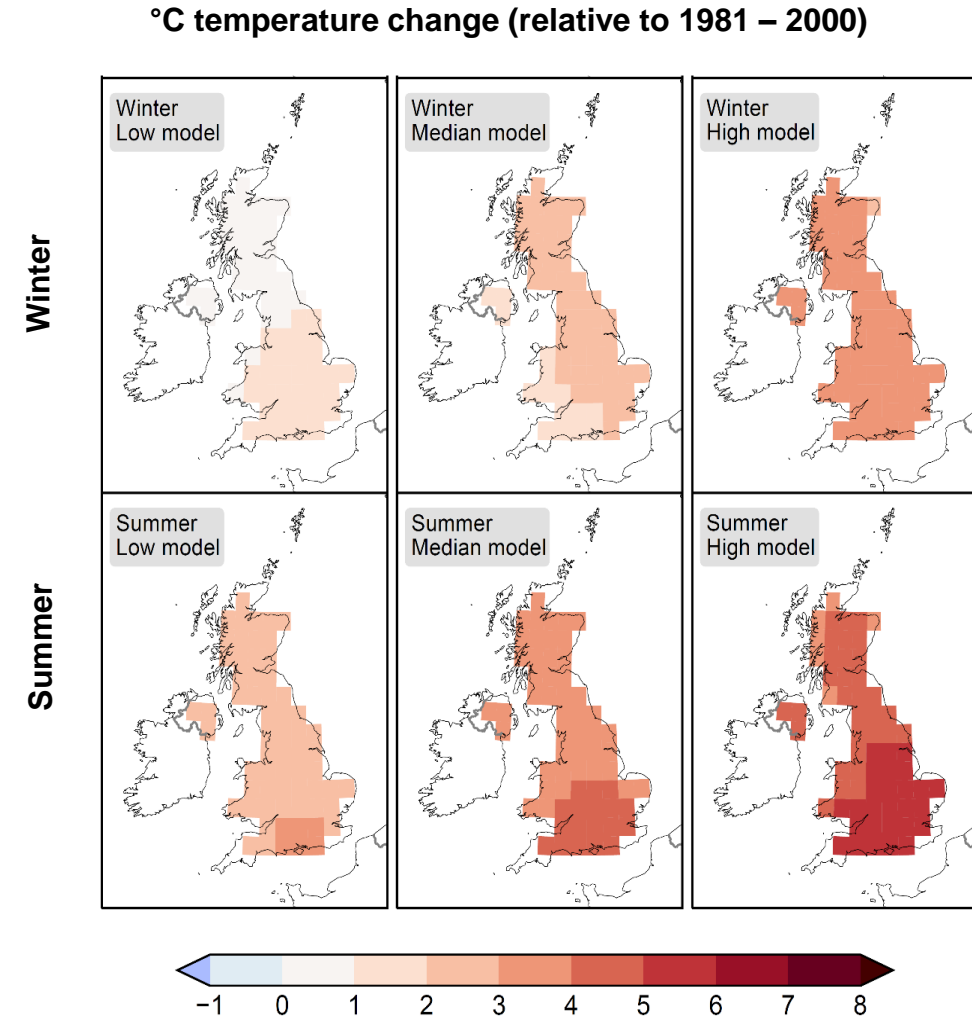
Now look more closely at potential local weather changes

The Met Office's UK Climate Projections (UKCP18) show a trend towards warmer, wetter winters, and hotter, drier summers. Under the projections:

- A 2°C average increase in global temperatures corresponds to a 1 to 1.5°C median increase in winter temperatures across the UK. Median increases over the summer are also expected, with the largest warming in the South East of England
- A 4°C average increase in global temperatures corresponds to temperature increase across all seasons and sections of the UK, with the largest median increases being 4 to 5°C during the summer months in the South East (see charts to the right)

Some conclusions:

- Climate change is a global emergency
- The impact on pension scheme funding is difficult to predict. Any negative impact on life expectancy would be beneficial from a scheme funding perspective
- Due to the location of the majority of its members, climate change could have a bigger impact on the membership of the Fund than on the UK population as a whole



Source: Met Office UKCP18 Factsheet

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 6 October 2023.
- 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

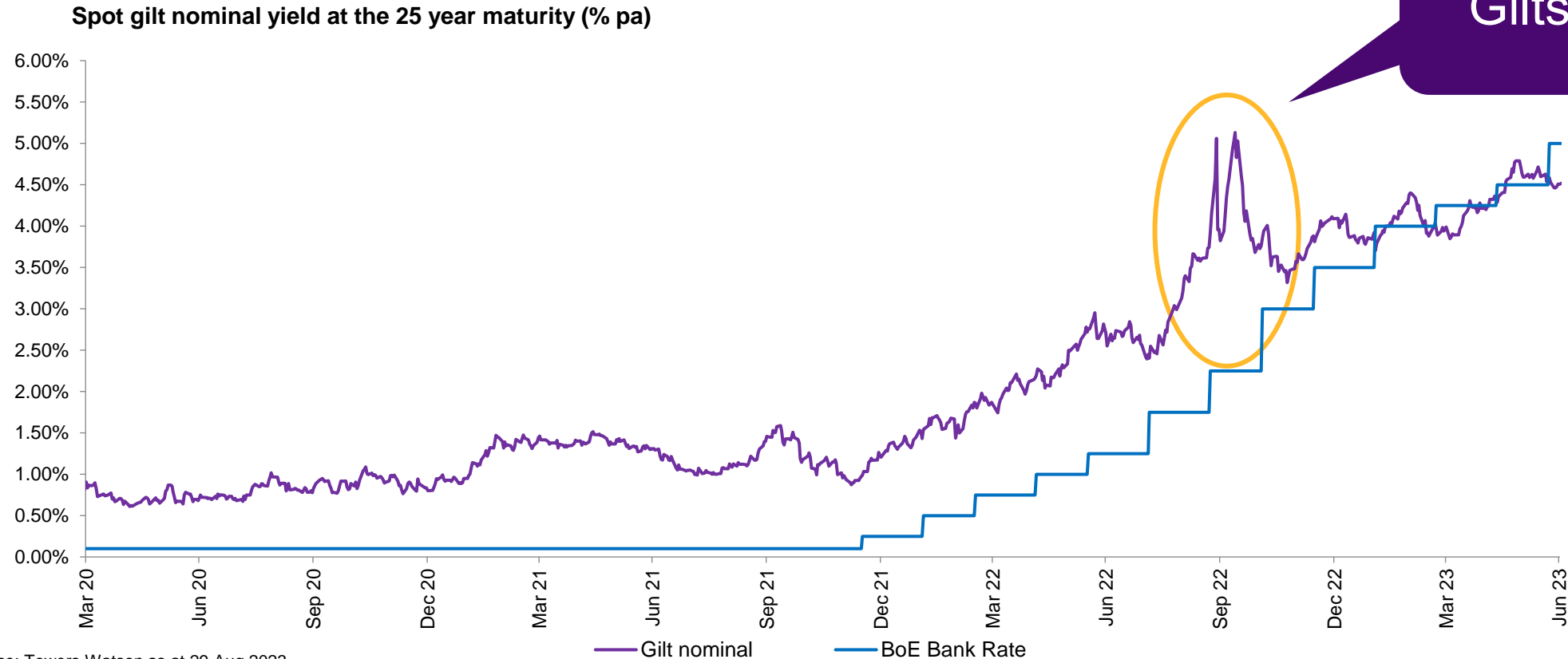
Investment Update
Dave Aleppo

6 October 2023

Investment Update

1. Market update
2. Fund performance
3. Trustee actions
4. ESG progress

Back to the (not-so-) mini-budget...



Source: Towers Watson as at 29 Aug 2023

Following a steady increase in government bond yields over the first half of 2022, we saw a sharp increase in yields followed the extreme market reaction to the (not-so-)mini budget on 25th September 2022 and the knock-on impacts to UK defined benefit pension schemes.

The Fund continues to meet its regulatory requirements

The Pensions Regulator (TPR) April 2023 Guidance

Trustees must:

The Fund has met this requirement through

Maintain robust governance structures

- Trustee Training
- Nimble use of subcommittees with Fund Office & Investment Advisor support

Consider LDI as part of wider investment strategy

- Detailed consideration of liability hedging in investment strategy review

Maintain an appropriate minimum level of collateral

- Setting a minimum collateral headroom of 350bps (in line with regulatory guidance)

Monitor the resilience of the investment portfolio

- Regular monitoring of portfolio liquidity and collateral headroom

What else has happened in investment markets?

World Equities



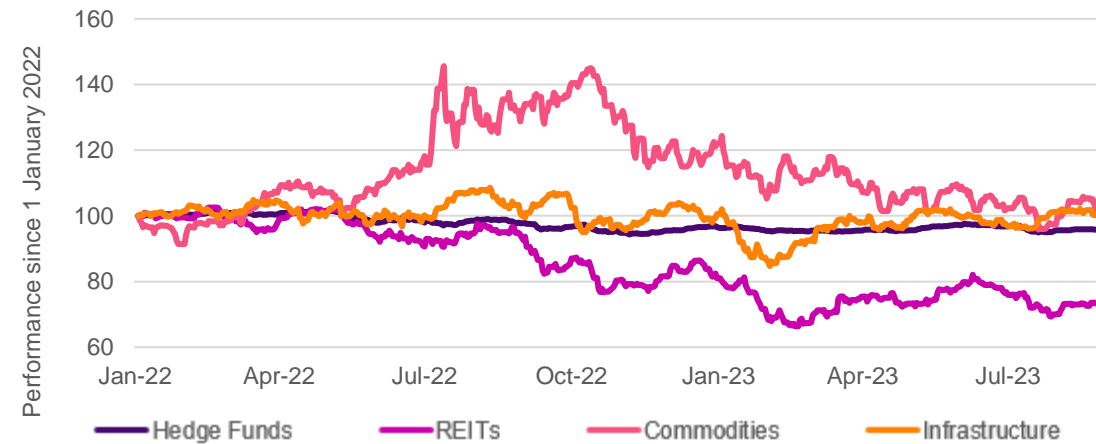
Global Corporate Bonds



Index Linked Gilts



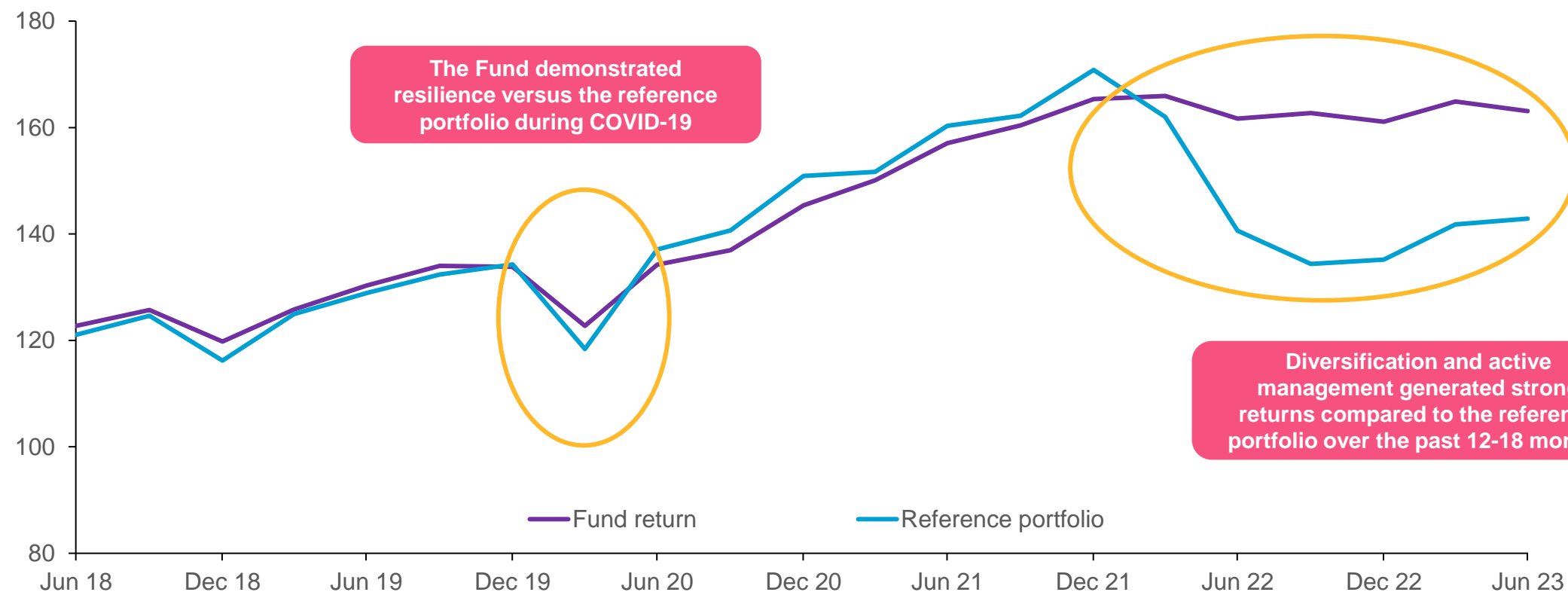
Diversifying assets



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 January 2022

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.

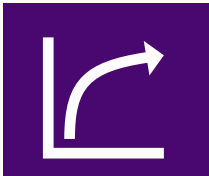
Market outlook – prepare for continued uncertainty



The economy remains **out of balance**



Assets pricing looks **too optimistic**



We believe that interest rates and inflation are likely to be **higher for longer**



However a **high degree of uncertainty** around the path from here



Reducing risk and spreading your risk remains the best plan



But this environment will create **opportunities** for skilled active managers

What actions have been taken?

Ensuring resilience in uncertain times



Prudent increase to **bond allocation** in rising interest rate environment



Increasing allocation to **diversifying assets** e.g. GSAM Private Debt



Continued integration of **Sustainable Investment**



Agreed set of **ESG beliefs** in the June 2023 Statement of Investment Beliefs



Ongoing **education, monitoring** and **engagement** on climate issues



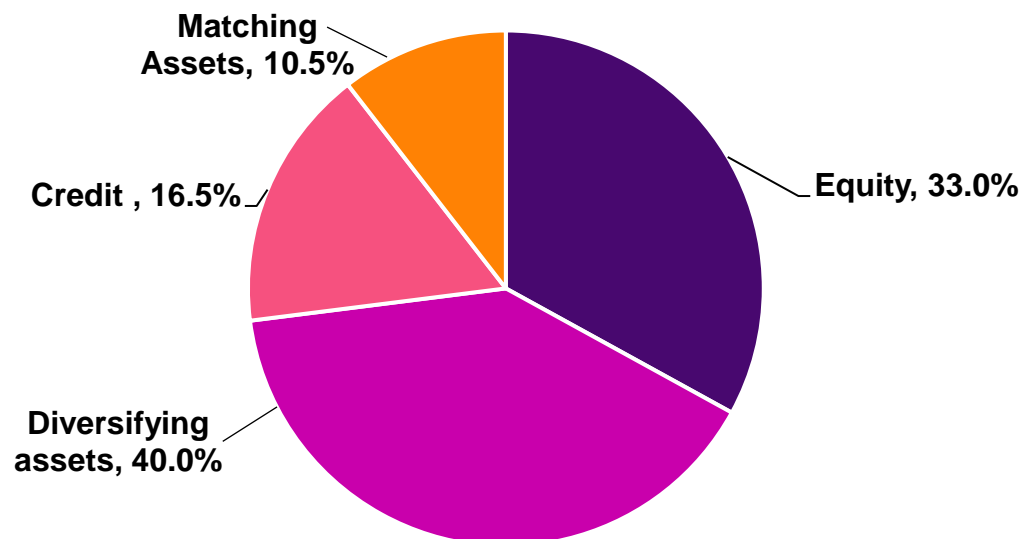
Identifying **new sources of return**



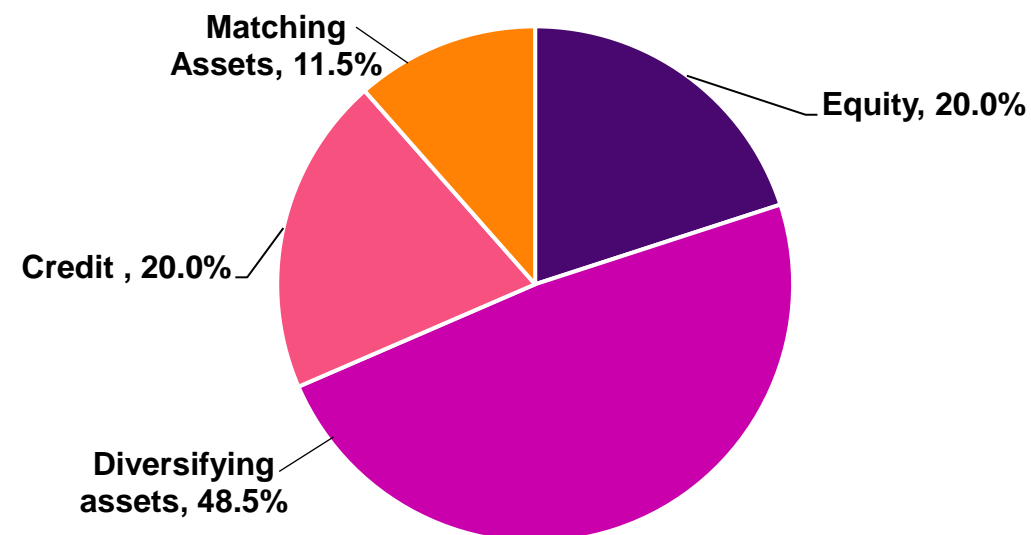
Thorough and regular **risk and liquidity monitoring**

How has the target strategy changed since the proposed de-risking?

Previous Target Portfolio



New Target (De-Risked) Portfolio



Reduced
equity
exposure

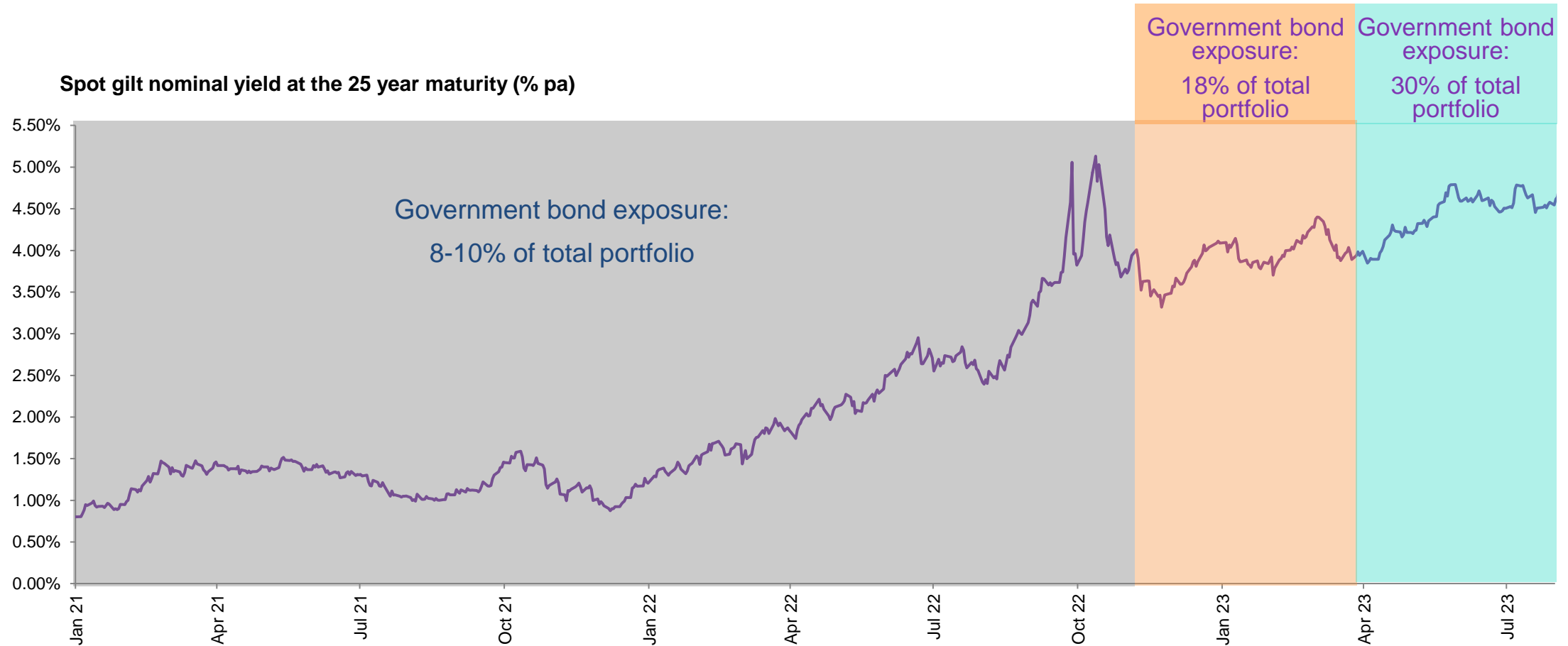
Increased
diversification

Reduced
interest rate
and inflation
risk

Improved
ESG
credentials

Taking advantage of rising government bond yields

The Fund has added exposure to government bonds at higher yields



Source: Towers Watson as at 29 Aug 2023

ESG progress – moving forward, balancing all the risks



ESG Integration

- ✓ Updated ESG beliefs
- ✓ Enhanced TCFD reporting



Climate risk hedging training

- ✓ Carbon literacy training
- ✓ Ongoing training for members



Fund engagement

- ✓ Maintain quarterly engagement reviews
- ✓ Measurable results on an E, S, and G



Net Zero no later than 2045

- ✓ A target that balances difference sources of risk to members benefits.
- ✓ Fund Office detailed monitoring shows ahead of target and ahead of benchmark

Engagement as a tool to improve societal impact of the Fund

The Trustee has partnered with Sustainalytics to carry out **focused engagements with companies**



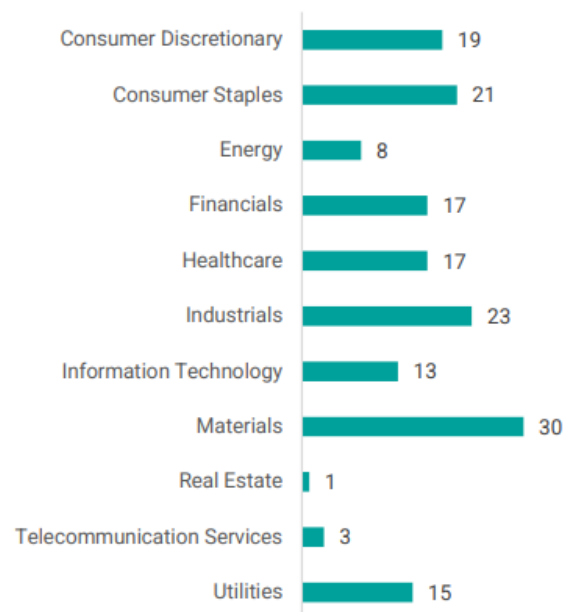
Sustainalytics is a leading independent ESG research and stewardship specialist



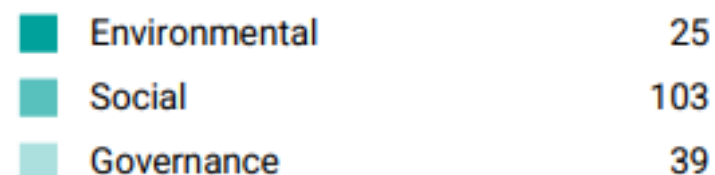
Sustainalytics engages with companies that severely and systematically violate international standards and aims to improve the company's future ESG performance and risk management



Cases by Sector



Cases by Theme



How focused engagements work

The case of McDonald's Corporation

McDonald's has faced numerous allegations of race discrimination, sexual harassment and labour rights violations.



Sustainalytics engages on behalf of the Trustee by encouraging the company to adopt, train their employees on, and report compliance with their **Standards of Business Conduct**.

McDonald's confirmed that all 39,000 restaurants across the globe are now required to adhere to these standards, and reporting of violations against this conduct standard is now taking place.

Sustainalytics will remain engaged with McDonald's and more meetings are being set up to **continue the dialogue and review the reporting**

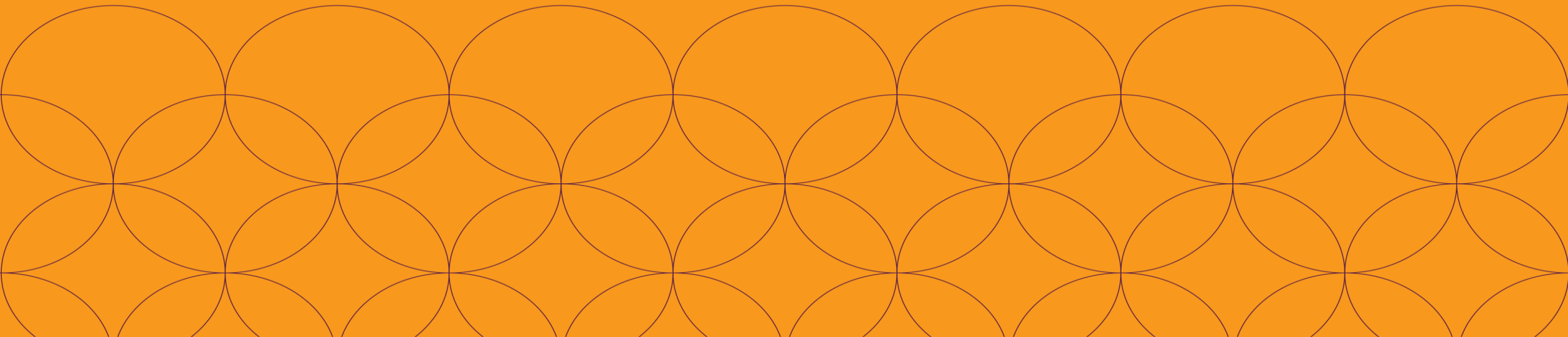
In summary

- Despite the turbulence during the end of 2022 and beginning of 2023, the Fund has continued to thrive
- Balanced approach to risk management has been the key to navigate this unprecedented period of uncertainty
- More positive steps being taken in terms of reducing interest rate risk, inflation risk, equity risk and sustainability risks this year
- And in doing so, increase the confidence of meeting the ultimate goal: **benefit security for members**

TfL Pension Fund

Annual Members' Meeting – 6 October 2023

Pauline Sibbit



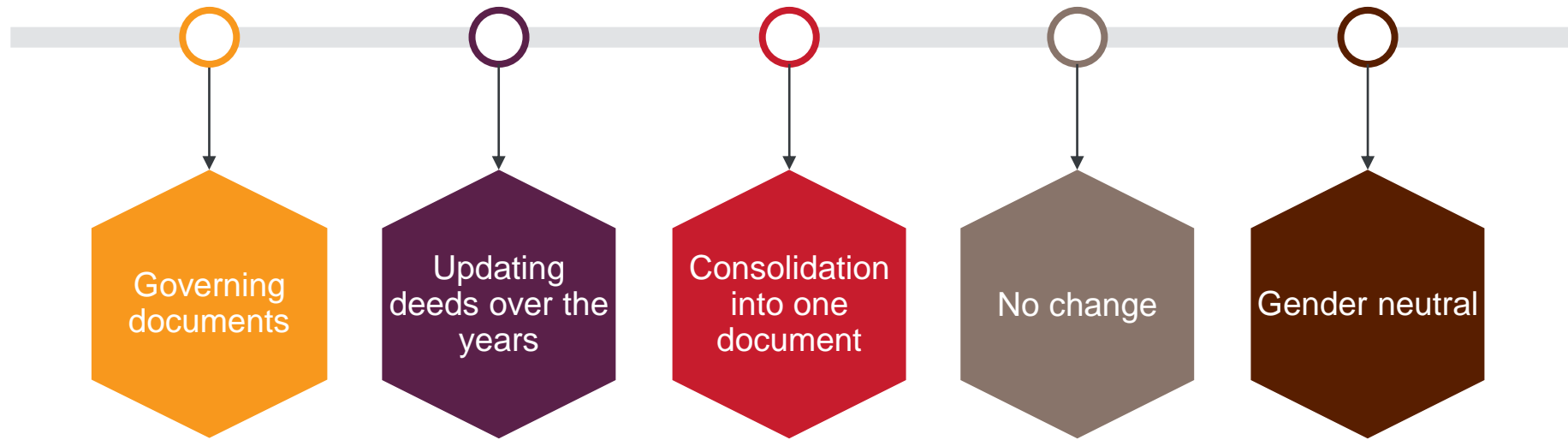
What developments are we going to cover?

Sackers

- 1 Trust Deed and Rules
- 2 Pensions Review
- 3 The Mansion House speech & the pensions avalanche
- 4 Pensions tax changes

1

Trust Deed and Rules



2

Pensions Review

Government / TfL
correspondence
July 2023

No change before
30 September 2026
at the earliest

Protection of
the past

3

The Mansion House speech & the pensions
avalanche

Three golden rules

Sackers

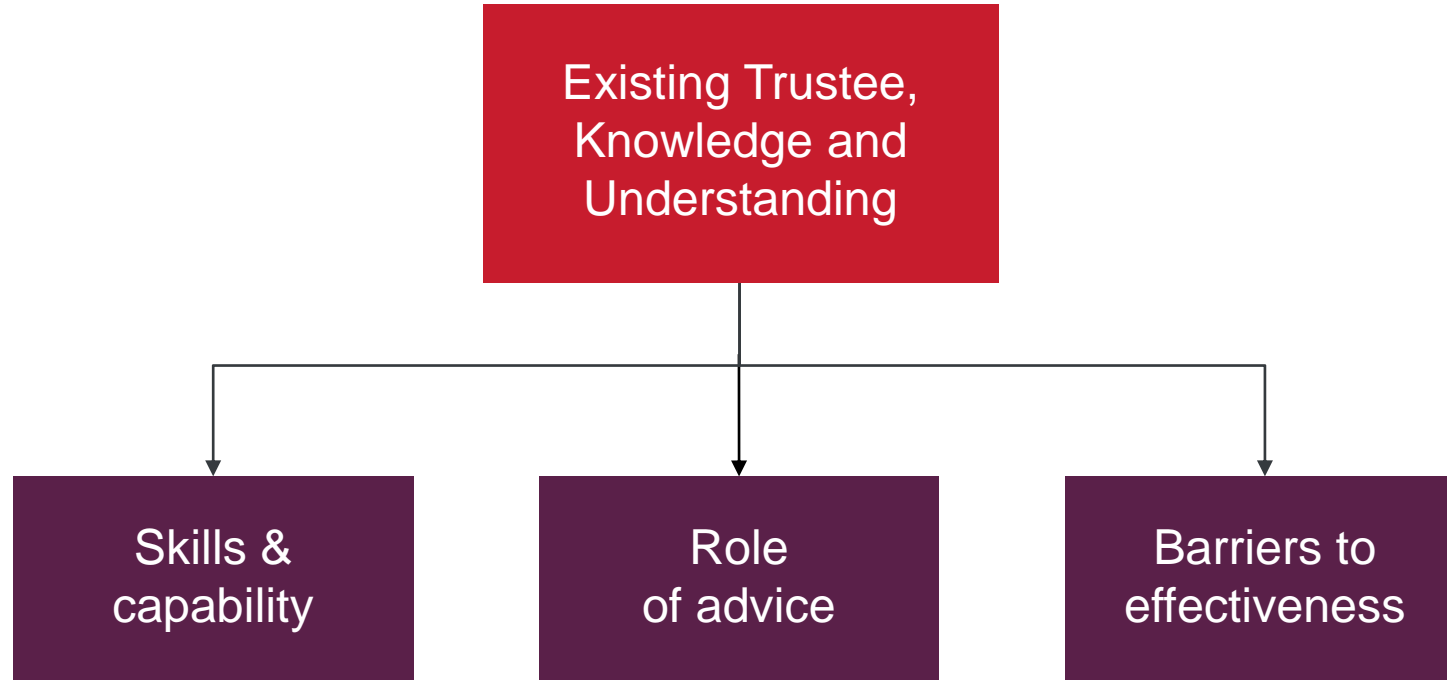
Securing best possible outcome for pensions savers

Prioritising strong & diversified gilt market

Strengthening UK's position as leading financial centre

Trustees' skills, capability & culture

Sackers



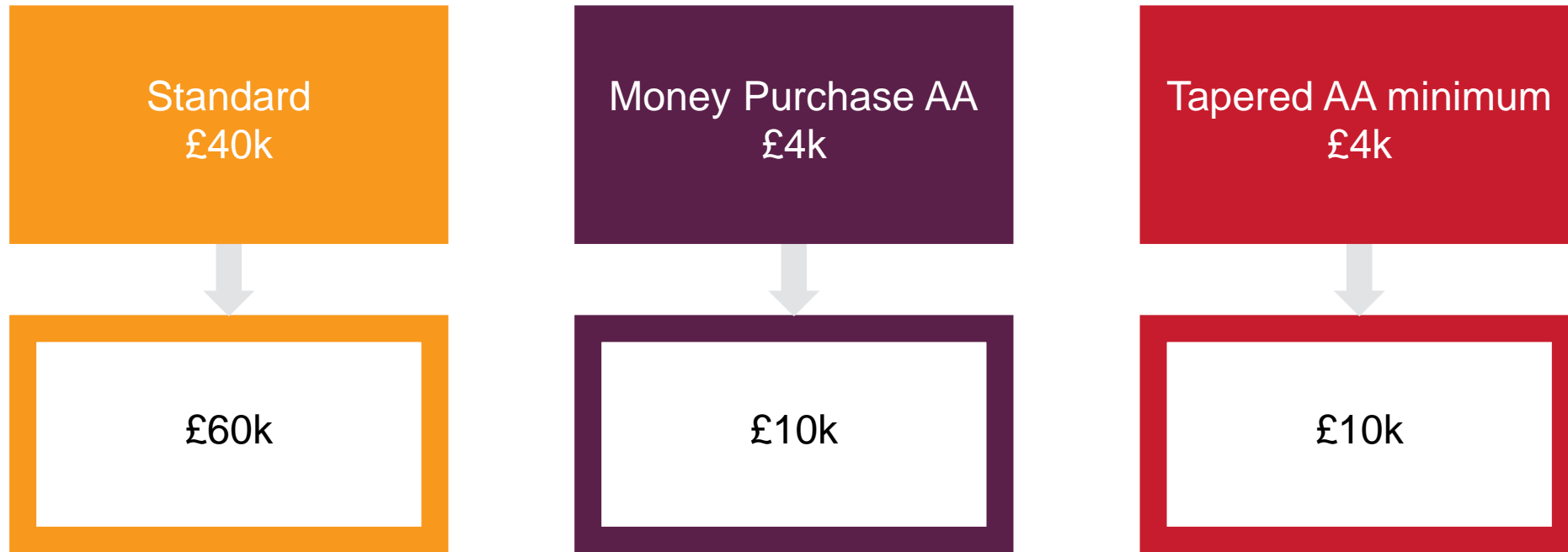
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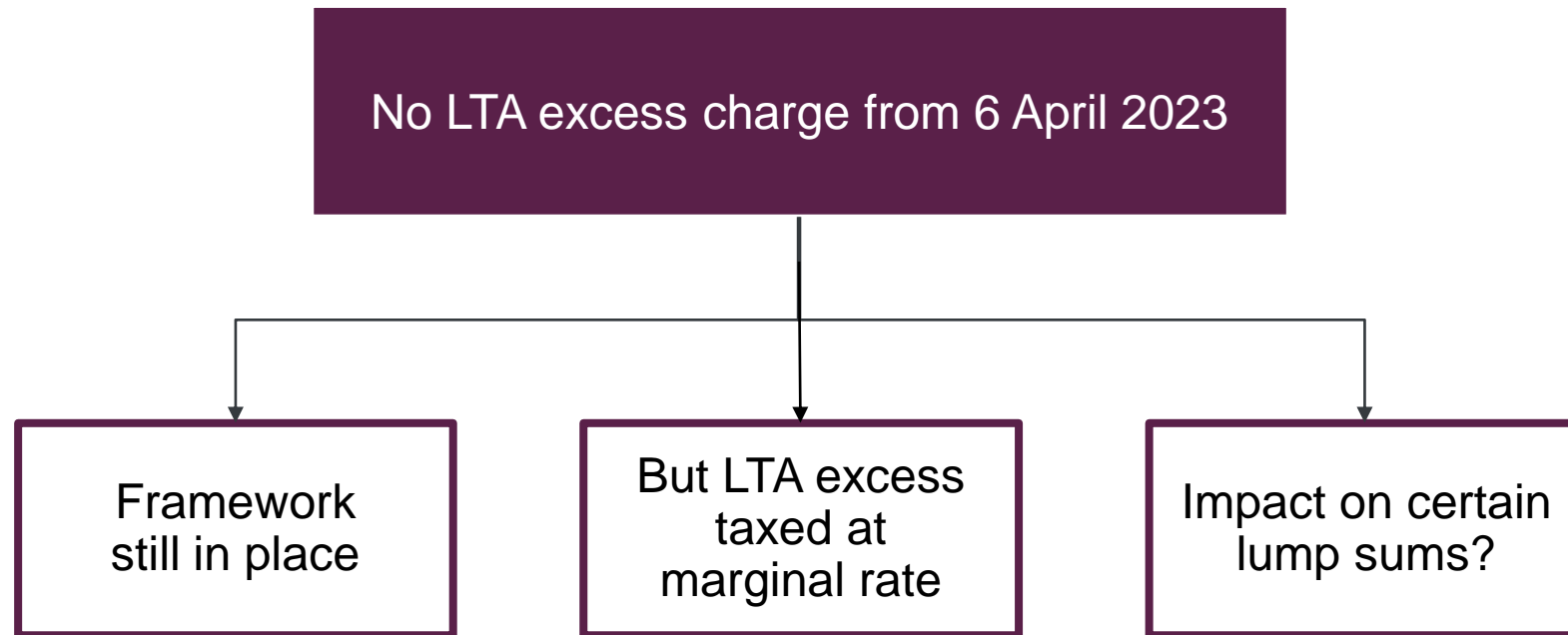
Pensions tax changes



Annual allowance (AA) adjustments from 6 April 2023

Sackers



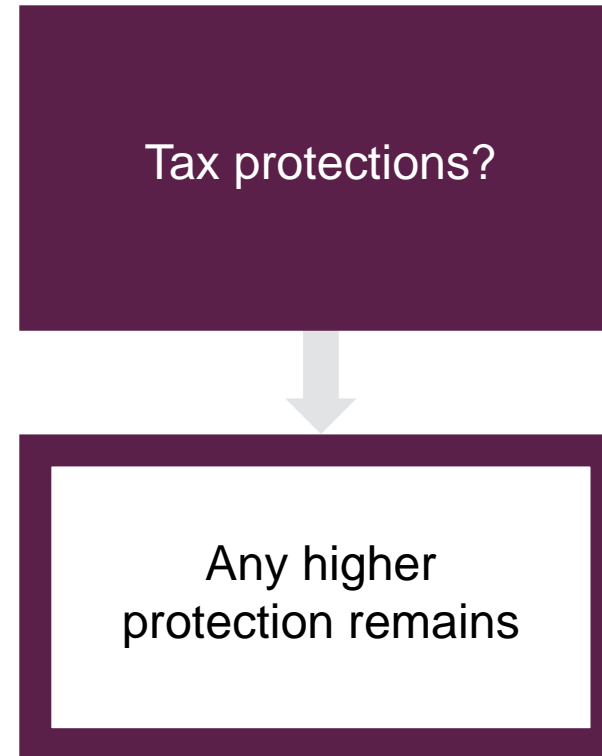
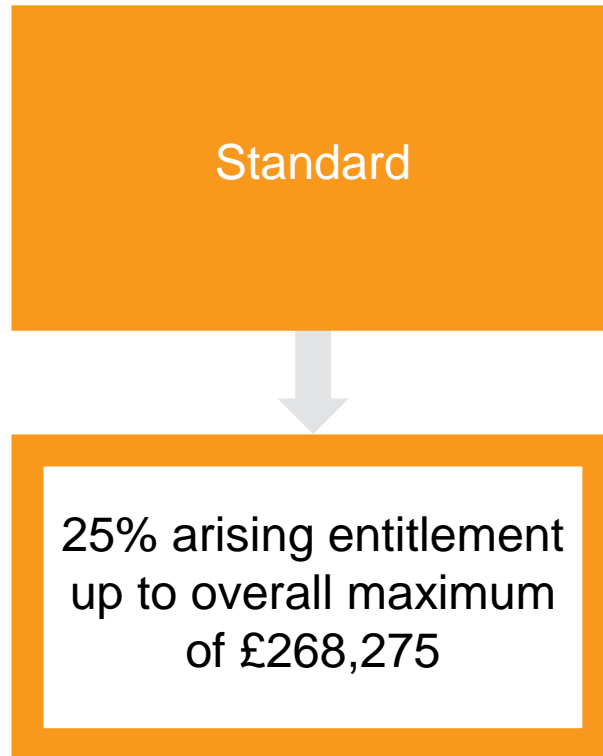




LTA to be
abolished
altogether
6 April 2024

Tax free lump sums

Sackers



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Open Forum – Questions & Answers



Refreshments and Informal Discussions



Thank You

See you next year
on
Friday 18 October 2024

