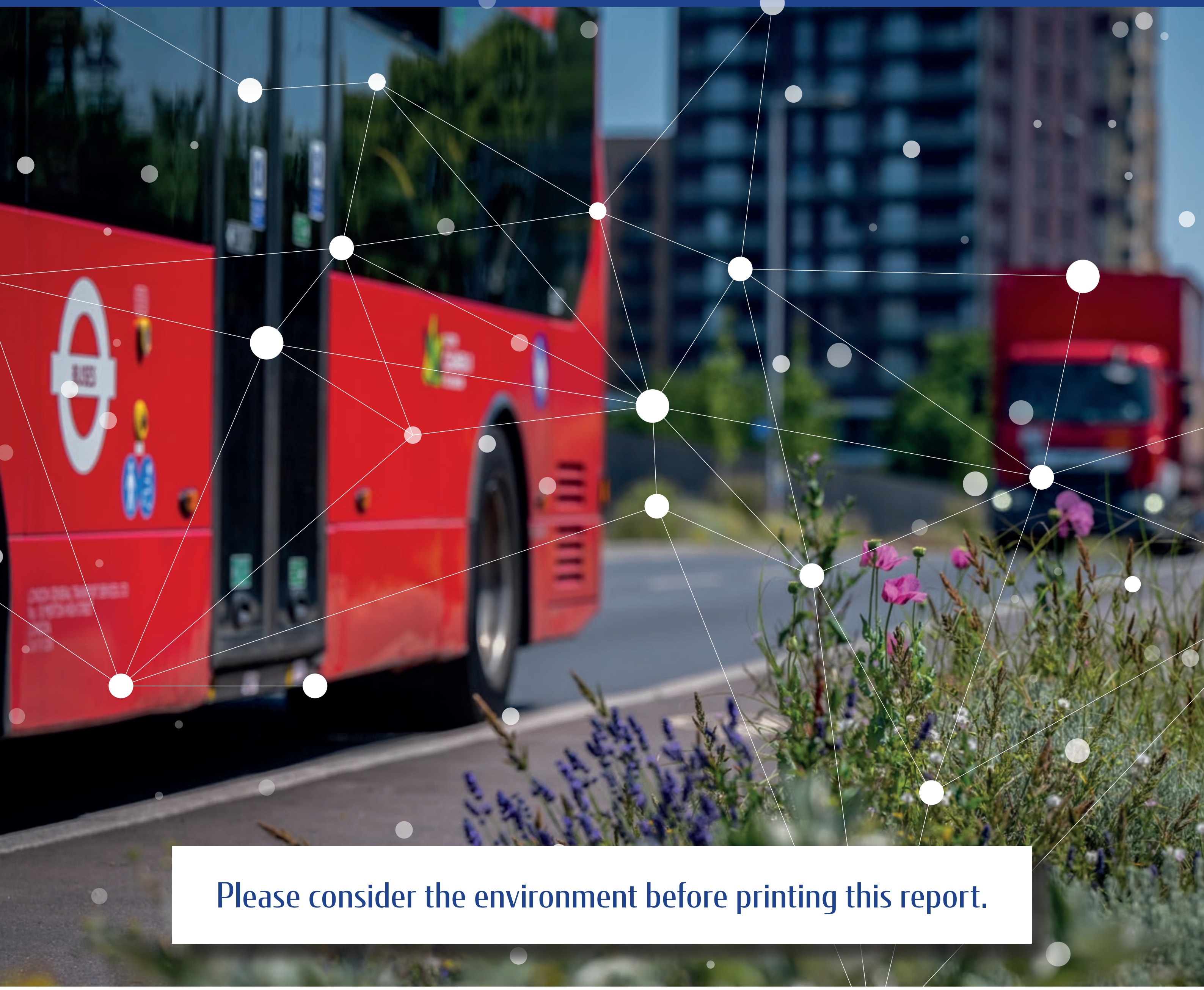
TfL
PENSIONFUND

2023 REPORT ON SUSTAINABLE INVESTING



Please consider the environment before printing this report.

EXECUTIVE SUMMARY

This is a quick-read summary report highlighting the Fund's most significant ESG activities and outcomes achieved over the last twelve months. The full report, which contains more information in each section, can be found on our website here.

CONTINUED REDUCTIONS IN CARBON EMISSIONS

- The Trustee set ambitious Net Zero Targets in October 2021 and the Fund is ahead of where it needs to be to deliver the 2030 interim target. The Fund's Carbon Emission Intensity (CO_2e tonnes / $m sales) in the active equity and bond portfolios has **reduced by 46% since 2016** and as of Q1 2023, the Fund was **40% ahead of its benchmark**. A "Net Zero Carbon Journey Update" was published recently on the Fund's website here.
- The Fund conducted climate scenario testing on its liabilities (pension benefits) and sponsor covenant alongside its assets in the 2023 TCFD report (available on our website here). The analysis shows overall risk exposure to climate change is mitigated and managed by measures already taken or being taken.
- The Trustee has recently examined the Fund's fossil fuel extractive holdings. The Investment Committee considered the potential financial returns from holding undervalued extractive companies, whether engagement can be effective in changing their business strategy and thereby reducing carbon emissions in a 'real world' setting, and to what extent holding extractives will affect the Fund's progress over time toward the Net Zero Targets. The Investment Committee decided it is prudent to take more time to consider this issue and will continue its dialogue with the fund managers before any decisions are made.
- With its stewardship partner Sustainalytics, the Fund participates in the Climate Change and Sustainable Forestry thematic programme which currently engages 22 companies in the forestry commodities, consumer products and financing value chain. Another programme with Sustainalytics, Material Risk Engagement, covers over 300 companies across the Fund's active and passive holdings, of which two-thirds have a focus on carbon emissions and decarbonisation/ net zero goals.

SOCIAL IMPACT OF THE FUND'S PORTFOLIO

While the Trustee has devoted a significant amount of time and Fund resources to progress the Fund's net zero ambitions, the social impact of the Fund's investment portfolio remains an important topic on the agenda.

- Our stewardship partner Sustainalytics conducts engagements on the Trustee's behalf to address any severe and systematic violations of international standards in portfolio companies. The aim is not only to resolve the incident (including taking remedial actions), but also to improve the company's future ESG performance and risk management to ensure incidents do not occur again. As of Q2 2023 there were 13 and 4 engaged cases addressing human rights and labour rights violations respectively, among the Fund's active holdings. Sustainalytics carries out a higher number of total engagements which involve the Fund's passive holdings too.
- With regard to the commitment of allocating 15% of Fund assets to ESG tilted investments, the Fund now holds **total investments of 12.9% or c. £1,837m in assets with an ESG tilt** as of March 2023, an increase of £274m compared to last year.
- The UN Sustainable Development Goals ('SDGs') are a blueprint for achieving a more sustainable future for all, addressing issues from peace to climate change to equality. The Fund continues to monitor its active equity and bond portfolios against a custom benchmark. As at Q1 2023, the Fund's active equities performed **better than the benchmark on 15 of 17 of the SDGs.**

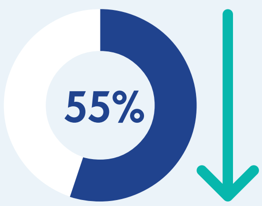
Voting Activities

- Over the 1 year to end-March 2023, Glass Lewis (the Fund's proxy voting specialist) has voted a total of 7152 proposals on the segregated holdings.

NET ZERO BY 2045:

TfL PENSION FUND IS ON TRACK

The Trustee of the TfL Pension Fund have recently committed to an ambitious Net Zero Plan which would see the Fund achieve a 55% reduction in its carbon emissions by 2030 at the latest and a 100% reduction no later than 2045 vs the 2016 baseline.



REDUCTION BY 2030

REDUCTION BY 2045

SUSTAINABILITY PROGRESS CHECKLIST

2023 2022

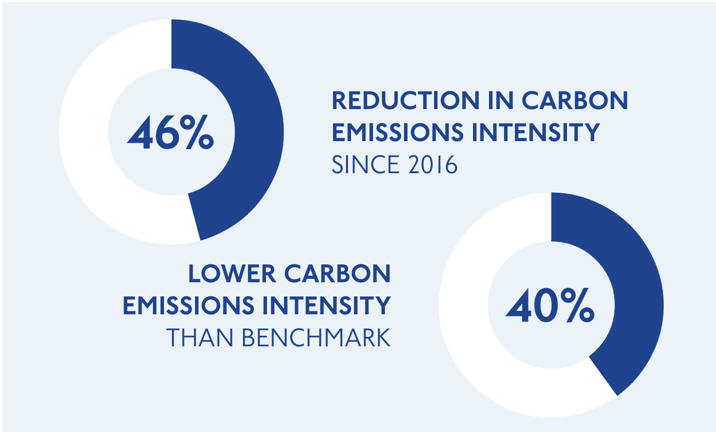
ACTION PLAN	BEHIND THE CURVE	ON THE BACK FOOT	ON THE FRONT FOOT	GETTING AHEAD
1. Setting Investment beliefs	Trustee board relies on its investment consultants to tell them what to believe. Sets nothing out in writing.	Trustee board receives a brief training session before minuting that ESG and climate change are considered material financial factors.	Trustee board spends time on training before discussing and agreeing a responsible investment beliefs statement including a position on climate change risk.	Trustee board discusses ESG beliefs at least annually. Where applicable, trustee seeks to align beliefs with sponsor views. Considers alignment of strategy with UN SDGs.
2. Review Existing Managers	No engagement with existing managers.	Takes stock of existing managers and uses investment consultant scoring framework to rate current managers on their ESG credentials. However, scores are only used as a differentiator where there are other reasons to review a manager.	Full consideration of each manager's ESG capabilities (including qualifications) with specialist input from investment consultants – includes being alive to "green-washing". Managers which require most attention identified and engaged with. Where no improvement is forthcoming or possible within current mandates, these will be reviewed.	All managers expected to demonstrate deep ESG integration. Integrates corporate environmental data in manager investment processes.
3. Set a DB investment strategy	Existing strategy not reviewed.	Trustee keeps existing strategy under review as ESG experience develops.	For active mandates: considers diversification across sources of climate risk as well as traditional asset classes. Sustainability and low carbon indices considered for passive allocations.	Positive allocation to sustainable investment or investment in assets aligned with a below 2°C pathway. Consider tilting portfolio away from lower scoring ESG assets or sectors such as high carbon emitters.
4. Document a Policy	Adds generic wording to SIP at suggestion of the investment consultant. No further thought by trustee. Trustee does not consider wording or how it will be implemented in practice.	Trustee considers wording in the SIP reflecting the circumstances of the scheme and existing manager mandates. Trustee agrees how wording is implemented in practice with their investment consultants.	Trustee develops a stand-alone responsible investment policy which supplements the SIP. This may start with existing manager mandates but will progress to deeper integration of ESG factors over time. The policy is periodically reviewed.	Extensive responsible investment policy with detailed consideration of ESG in each asset class, detailed climate change policy and stewardship policies. Climate change risk embedded across other trustee governance and internal control frameworks and considered as part of an integrated risk management framework (including any climate change risks pertinent to the scheme sponsor covenant).
5. Ongoing manager monitoring	Reports on quarterly past performance figures only. No forward-looking consideration of manager ESG attributes or exposure of mandates to climate change risk in the longer term.	Active managers are expected to demonstrate how ESG criteria are being used in stock selection and de-selection.	Develops a robust monitoring process – reporting qualitatively and quantitatively against each manager. Managers expected to demonstrate integration of ESG in investment processes rather than the existence of separate "advisory" ESG analysts.	Measures alignment of listed equity and corporate bond portfolios across 2° transition sectors and technologies.
6. Appointing new managers	Mentions ESG only as an afterthought in tender invitations and gives it no weight in selection criteria.	ESG is identified in tenders as an important issue on which potential new managers will be expected to demonstrate competency.	ESG credentials key in tender process. Investment management agreements negotiated to include specific ESG requirements.	Responsible investment requirements incorporated across all asset classes including e.g. side letter terms in private equity funds.
7. Stewardship & engagement	Not considered relevant. Justified based on an incorrect assumption that the scheme's investments are all pooled and therefore "stewardship is impossible".	Trustee expects managers to report on how they have exercised voting rights attached to shares (including across passive equity mandates). Managers are expected to be signatories to the FRC Stewardship Code.	Managers are expected to report in detail on their engagement policies and how these have been implemented. This should include examples of voting against the board on ESG related issues. Managers with a poor engagement record will be downgraded. Consider adoption of an off-the-shelf voting e.g. AMNT redlines.	Large schemes: takes an active and direct role engaging with investee companies across all asset classes. Considers joining other investors in filing climate-related shareholder resolutions where companies are underperforming on adaptation or disclosure. Small schemes: appoints proxy voting and engagement service reflecting trustee's ESG beliefs and position on climate risk.
8. Scenario testing	None or a purely qualitative assessment only.	Quantitative scenario analysis on a small proportion of the asset portfolio only, focusing initially on listed equities and corporate bonds.	All-portfolio quantitative risk assessment (including all real asset holdings) to identify exposure to transition and physical risk under different climate scenarios. Liability and covenant risks also considered qualitatively.	Quantitative risk assessment, covering the full investment portfolio, liabilities, and covenant, to identify exposure to transition and physical risk under different climate scenarios.
9. Reporting	Minimum compliant TCFD report published to meet regulatory requirements.	TCFD report published in line with typical industry practice. Little additional commentary provided through annual reports and member newsletters.	TCFD report published in line with typical industry practice. Material use of additional voluntary disclosures used to communicate progress with wider stakeholders.	TCFD report goes above and beyond requirements, including incorporating all optional disclosures. Material use of additional voluntary disclosures used to communicate progress with wider stakeholders.
10. Industry Involvement	None	Relies on advisers to provide updates on significant developments requiring action and training as required.	Trustee board keeps abreast of industry discussions and attends events to improve knowledge and observe best-practice. Considers becoming a UN PRI Signatory.	Joining investor groups such as IIGCC. Engage with policy makers to improve practice across the industry.

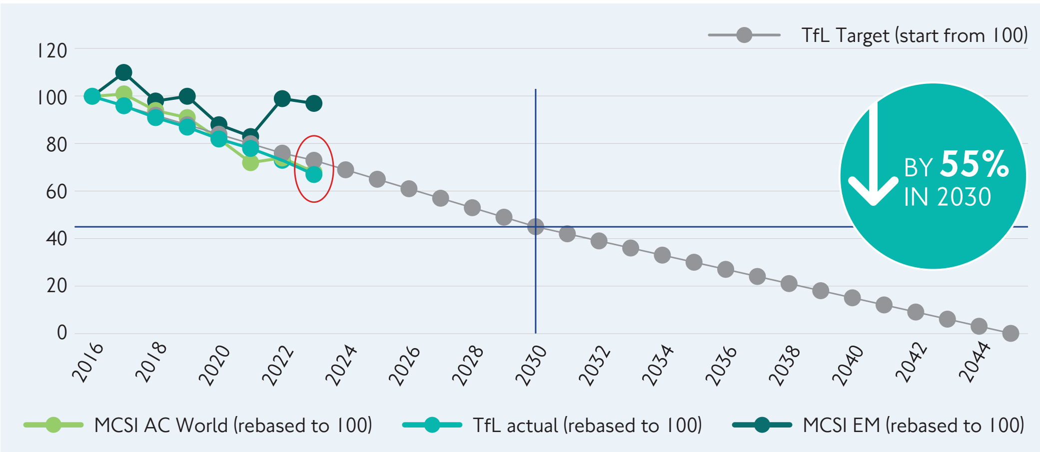
Source: Sackers and Partners LLP

CLIMATE CHANGE ACTION

Noteworthy progress since our last publication

- The Fund is monitoring its carbon footprint through Carbon Emissions Intensity, which is the tonnes of emissions produced by a company per million dollars of sales. When summed up for the total Fund, it measures how efficient the portfolio in terms of carbon emissions per unit of output.
- In the twelve months to 31 March 2023, the Fund's carbon emissions intensity across its active equity and bonds portfolio declined by 14%, falling from 114 CO_2e tonnes per million dollars of sales to 99 CO_2e tonnes per million dollars of sales.
- As the graphs to the right show, emissions intensity reduced by 46% since 2016 and as of Q1 2023, the Fund was 40% ahead of its benchmark.





WACI (in tons CO_2e per $m sales) – Private and public (all)

- As the chart to the left shows, including the public and private investments, the Fund is 7% ahead of target, and 3% ahead of MSCI AC World. Assuming a linear path, the Fund is 2 years ahead of its 2030 target.

Source: Aladdin/proxy from underlying indices/ manager input/estimate

THEMATIC ENGAGEMENT (CLIMATE CHANGE-SUSTAINABLE FOREST AND FINANCE):

Launched in July 2021, this Engagement is intended to address climate risk and advocate for reductions in direct and indirect emissions in the context of global forest systems which targets 22 companies throughout forestry-linked value chains to promote science-based emissions reduction strategies, transparent climate-related disclosure, and sustainable practices to mitigate impacts from climate change.

THE CASE OF A BRAZIL-BASED COMPANY ENGAGED IN THE PRODUCTION AND SALE OF BEEF

Sustainalytics had two engagement calls with the company during the reporting period. The first call in September 2022 focused on its climate mitigation strategies and forest commodities management. The second call in November 2022 focused on its approaches to biodiversity and natural capital issues.

The company is willing to engage and has put efforts into its climate strategy, but there is still room to improve. It has conducted decarbonization studies. SBTi (Science Based Targets initiative) methodology was taken into account but not yet committed to execution.

The company has also developed mechanisms to monitor both direct and indirect suppliers. It acknowledges that monitoring the indirect suppliers is the greatest challenge in this sector.

Sustainalytics highlighted the importance of science-based targets and will follow up on its initiatives on low carbon transition.

SOCIAL IMPACT OF INVESTMENT AND STEWARDSHIP ACTIVITIES

While the Trustee has devoted a significant amount of time and Fund resources to progress the Fund's net zero ambitions, the social impact of the Fund's investment portfolio remains an important topic on the agenda

SOCIAL ENGAGEMENT:

- Sustainalytics engages with companies that severely and systematically violate international standards, thus aim to resolve the incident, and to improve the company's future ESG performance and risk management to ensure no recurrence of such incidents. Around 60% of Global Standards Engagements seek to address social (human rights and/or labour rights) incidents. As of June 2023 there are over 100 active cases addressing human rights and/ or labour rights issues which span the whole Fund portfolio including passive index holdings.
- In addition, under the Material Risk Engagement, Sustainalytics helps high-risk portfolio companies to better identify, understand and manage their ESG risks. This covers not only environmental but also important social issues including: the social impact of products and services, community relations, occupational health and safety, human capital, data privacy and access to basic services.
- In addition to Sustainalytics, the Fund's managers also assess and identify social issues in their portfolio holdings and engage the companies.

Global Standards Engagement – Cases by Theme

THE CASE OF MCDONALD'S CORP

McDonald's and its franchisees have faced numerous allegations of race discrimination and sexual harassment, as well as lawsuits for violating wage and hour regulations. Considering that McDonald's is one of the largest employers worldwide, its alleged failure to enforce proper labour standards and protect the rights of its employees and franchisees could have significant negative implications on a global scale.

Sustainalytics sets the change objective to be: actively promote the company's Standard of Business Conduct among its franchisees, and ensure franchisees live up to this especially with regards to labour rights. Efforts taken by the company to ensure compliance in this area should be transparently reported to relevant stakeholders.

McDonald's has established a strategy to address the issue. The company has indicated on its website that it is committed to supporting implementation of the Global Brand Standards with Franchisees through a suite of policies, tools, trainings and reporting mechanisms. All 39,000 McDonald's restaurants across the globe, both Company-owned and franchised locations, will be required to adhere to these standards. McDonald's has committed to regularly assessing its approach, and engaging with relevant stakeholders to improve our monitoring, analysis and remediation of human rights impacts in order to be more transparent and effective in supporting people. All restaurants will be assessed and held accountable in accordance with the applicable McDonald's market's business evaluation processes starting in 2022. However, as of May 2023, McDonald's franchises continue to enter settlements, and be fined and sued concerning similar allegations.

Sustainalytics is actively pushing McDonald's to promote the company's Standard of Business Conduct among its franchisees, and ensure franchisees live up to this. The case status remains engaged and more meetings are being set up to continue the dialogue.

INVESTMENTS WITH SOCIAL IMPACT

In addition to the stewardship activities outlined above, the Fund seeks to enhance positive social impact through its asset allocation. At the end of March 2023, the Fund holds a total of c. £750m investment in the healthcare, education, and other social infrastructure sectors. This is part of the Fund's target of allocating 15% of its investments to ESG tilted assets by 2025. The social impact of the Fund's investments is also demonstrated in the Portfolio Impact Analysis as well as the investment case studies on the next few pages.

SUSTAINABLE DEVELOPMENT GOALS (SDG's)

Portfolio Impact Analysis

- The Fund also partners with LGT Capital Partners to analyse the Fund's active equity portfolio's SDG impact. This process assesses the impact of different categories of products and services on the SDGs, and then summarises companies' revenue share in these categories to create a score ranging from -10 (worst) to +10 (best).
- The SDGs are a blueprint for global sustainability and prosperity. Each of the 17 goals represent an urgent call to action to address global issues that affect people and the planet now and into the future. They include challenges such as poverty, inequality, climate change, economic growth, peace, and hunger.
- The spider graph below shows how the Fund scores relative to the custom benchmark on each of the 17 SDGs. The Fund continues to outperform the benchmark in all categories with the exception of Goal 5 (Gender Equality), which is primarily driven by the Fund's exposure to Emerging Market companies that continue to have less gender diversification at both a board and workforce level. The other exception is Goal 11 (Sustainable Cities and Communities), which is about making cities and human settlements inclusive, safe, resilient and sustainable. The Fund marginally underperforms the benchmark which could be driven by the emerging market exposure.

This analysis still does not capture the impact of the Fund's private market investments, which typically have a particular ESG focus and form the majority of the Fund's ESG-tilted investments. As a result, we expect that when disclosures across private market investments become available, the SDG impact scores will materially improve. The Fund continues to encourage better disclosure in these areas and the Case Studies section of this report will provide an insight into the impact the Fund is having in its private markets investments.

CASE STUDIES

Investments and actions which meet the Fund's return profile and strongly contribute to the Trustee's sustainability objectives

EV RAPID CHARGING NETWORK – INSTAVOLT

The UK needs reliable public charging infrastructure to realize the EV transition, and the required rapid chargers needed to support the ban of internal combustion engine vehicles by 2030 is in excess of 10x today

InstaVolt is a leading independent rapid charge point network owner and operator for electric vehicles (EVs) in the U.K.

Investment Rationale
Thematic investment in a high-growth market supported by strong tailwinds. They are a first mover in a land- and grid-grabbing race, with existing exclusivity contracts with landlords which partly de-risks roll-out of future sites.

Impact Thesis
The Company develops and operates critical infrastructure to support the necessary mass adoption of EVs to enable decarbonisation of the U.K.'s transportation sector. As of February 28, 2023, the Company has installed a nationwide network of over 1,000 charge points that are powered by 100% renewable energy. The Company's charge points are often situated at retail, food, beverage, and forecourt sites to offer convenient service for end-users to combine their charge with other day-to-day activities.

InstaVolt's is keen to accelerate the roll-out of charge points to reach a nationwide network of 10,000 rapid EV chargers by 2032 and build the network necessary to support the ban on internal combustion engine vehicles by 2030.

ENERGY EFFICIENT DATA CENTRE – DIGITAL EDGE

Background
Digital Edge is a data center platform established to transform digital infrastructure in Asia.

ESG highlight
- Targeting carbon neutrality by 2030
- 50% energy transition to renewables by 2025
- 20% of female employees at Director level and above
- 1.3 or less peak Power Usage Effectiveness for all new data centers

Key Sustainability Considerations
- Legacy data centers typically have high carbon usage
- Further acquisition of existing facilities are also carbon intensive and need to be transitioned to become carbon neutral
- Business operations are concentrated within jurisdictions prone to laxer labor, health and safety, and environmental standards

Key Initiatives Delivered
- Committing to achieve carbon neutrality by 2030 (and ongoingly seeking to minimize the footprint of its data center portfolio including transition legacy data centers to renewable and carbon-free energy)
- Prioritizing the health & safety of its workforce and contractors
- Partnering with local communities to create jobs and generate economic growth
- Partnering with suppliers who share Digital Edge's commitments to ESG principles
- Structured and built out a Sustainability Committee to oversee the decarbonization efforts and provide guidance and execution of the Paris-Aligned Business Plan
- Senior management ESG alignment embedded, with portion of discretionary annual compensation tied to ESG outcomes
- Engaged with the Environmental Resources Management Group ("ERM") to conduct a Human Rights Assessment on the portfolio company. ERM did not identify any red flags

WHAT NEXT

In this final section the Trustee sets out its plans for taking the Fund's sustainability work further over the coming year.

Take further steps to move the investment portfolio toward the interim target of 55% carbon emissions reduction by 2030. Adopt new investment guidelines in the investment manager mandates that incorporate specific ESG and net zero criteria. For example, the Fund is undertaking a restructuring of the £2bn passive equity portfolio to incorporate ESG tilts.

Continue to strengthen stewardship with investee companies (through collaboration with fund managers and partnership with Sustainalytics, and collaborative programmes like Climate Action 100). This will remain a key tool for pushing companies that are ESG laggards into improving their performance, thereby achieving 'real world' impact.

Continue to deploy capital in areas that will achieve additionality of impact, such as in the private markets. Sectors will include renewable energy, low carbon technology and associated infrastructure such as electric vehicle charging network and battery storage, among others, as well as areas that create social impact such as healthcare and education.

The Trustee is minded to ensure Social and Governance issues remain an important topic on the agenda, alongside the Fund's net zero ambitions, to create a more balanced ESG approach in line with the 9th statement of the Investment Beliefs. The actions mentioned above (manager mandates, engagement and voting, and asset allocation) are not limited to achieving environmental impact and will help deliver social impact and improve corporate governance in the investment portfolio too.

Fossil fuel extractives – the Trustee will continue the dialogue with the fund managers and consider a framework that will assess these companies on their net zero readiness and divestment would be an option for companies that are resistant to change.

Continue to enhance carbon emissions reporting. The 2023 TCFD report (published online, link here) disclosed the Fund's detailed plan in this area, such as working with fund managers to improve private market data quality (increase the percentage of actual data versus estimates). Other initiatives that the Trustee is exploring include the recently published TNFD (Taskforce for Nature-related Financial Disclosures) framework and its impact on reporting.

GLOSSARY

AMNT
Association of Member Nominated Trustees

Climate Action 100+
An investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change

Carbon Intensity (Weighted Average Carbon Intensity)
Carbon intensity (or emission intensity) measures the carbon emissions per unit of output (expressed as CO_2e tonnes / $m Sales). Weighted average means each company's carbon intensity is adjusted by its weight in the Fund's total portfolio (as a percentage of the total market value.

CDP
formerly the Carbon Disclosure Project. The CDP is an international non-profit organisation that helps companies and cities disclose their environmental impact.

CO_2e
"Carbon dioxide equivalent" or "CO_2e" is a term for describing different greenhouse gases in a common unit. For any quantity and type of greenhouse gas, CO_2e signifies the amount of CO_2 which would have the equivalent global warming impact.

COP26
The 2021 United Nations Climate Change Conference, also known as COP26, is the 26th United Nations Climate Change conference. COP stands for Conference of the Parties, and will be attended by countries that signed the United Nations Framework Convention on Climate Change (UNFCCC) – a treaty agreed in 1994.

DB
Defined Benefit

ESG
Environmental, Social and Governance

Fiduciary Duty
The legal duty of one party (the fiduciary) to act in the best interests of another (the principle). In the investment chain there are a number of these relationships including the duty that boards have to shareholders, the duty between trustees and beneficiaries and the duty between asset managers and their clients

FRC Stewardship Code
Financial Reporting Council Stewardship Code

GHG
Greenhouse Gases

IIGCC
Institutional Investors Group on Climate Change

MSCI
Morgan Stanley Capital International, a global provider of equity, fixed income, hedge fund stock market indexes, and multi-asset portfolio analysis

Paris Pledges
By joining the pledge, businesses, cities, civil society groups, investors, regions, trade unions and other signatories promised to ensure that the ambition set out by the Paris Agreement is met or exceeded to limit global temperature rise to less than 2 degrees Celsius

Scope 1 Emissions
Direct emissions from owned or controlled sources

Scope 2 Emissions
Indirect emissions from the generation of purchased energy

Scope 3 Emissions
Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organisation (in this case, the Fund's investee companies), but that the organisation indirectly impacts in its value chain. Scope 3 emission sources include emissions both upstream and downstream of the organisation's activities, such as business travel, procurement, waste and water.

Sustainable Development Goals
The Sustainable Development Goals (SDGs) were 17 integrated global goals adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

SIP
Statement of Investor Principles

Stewardship
A purposeful dialogue between shareholders and boards with the aim of ensuring a company's long-term strategy and day-to-day management is effective and aligned with shareholders' interest. Good stewardship should help protect and increase the value of investments

TCFD
Task Force on Climate-related Financial Disclosures. The recommendations of TCFD were transposed into UK pension regulation in 2021. The aim is to improve and increase reporting of climate-related financial risks and opportunities.

TPI
Transition Pathway Initiative

Voting rights
Equity investors typically enjoy rights to vote at annual and extraordinary general meetings (AGMs and EGMs). The resolutions on which shareholders vote will vary according to individual countries' legal frameworks. They may include voting on an individual director's appointment, remuneration or mergers and acquisition