

A GUIDE TO YOUR AVC INVESTMENT OPTIONS



Notice for the visually impaired

Copies of this guide in large type and in a text-only format are available from the Fund Office. Please write to TfL Pension Fund, 8th Floor, Palestra, 197 Blackfriars Road, London SE1 8NJ, or email the Fund Office at helpdesk@tflpensions.co.uk

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INTRODUCTION

This Guide is intended for members who are either considering paying Additional Voluntary Contributions (AVCs) under the TfL AVC Plan or who have already accumulated Funds under the TfL AVC Plan regardless of whether they are currently paying AVCs.

This Guide is intended to provide an overview of the funds that are available for you to invest your AVCs in with Legal & General, the Fund's current AVC provider; if you have accumulated AVCs with the Funds previous AVC providers Clerical Medical or Standard Life different Funds are available. Further details of the Legal & General AVC funds are available on fund fact sheets which can be accessed through the Pension Fund website, the fund code shown is Legal & General's unique code for each investment fund. The information also includes details of the three component funds that are within the TfL 2020 Lifestyle strategy.

IMPORTANT NOTE

When making investment choices it is important that you make your choices based on your own situation and attitudes to risk; while friends and colleagues may share with you details of what they have chosen to do, we will all have different goals and attitudes to risk. These are your pension savings for your retirement so please ensure that your choices reflect your own situation, you may wish to consider seeking independent financial advice.

YOUR INVESTMENT DECISIONS

Decide your objectives

When making any investment decision, your objective may depend largely on when you intend to use your AVC fund and what you want to use it to provide. When investing in a pension scheme, this generally means the number of years until retirement:

- ♦ If you are younger then you may be looking for investment growth
- ♦ Older members may be more concerned with avoiding a fall in value which reduces the income they may receive

Decide your attitude to risk

Different people wish to take different levels of risk with their savings, which is sometimes called their attitude to risk. Some are naturally cautious while others are willing to take more of a risk with a view to getting a better return. There are many ways to describe attitude to risk. Here we use three which could be described as follows:

- ♦ A **cautious investor** is someone who wants investments to be less volatile so that they won't fall in value very much, if at all, and who accepts that in the long run their fund may not be worth as much as it might have been if they had taken more risk
- ♦ A **balanced investor** is someone who is prepared to take short-term falls in return for the potential of long-term growth and will perhaps be investing overseas and not just in the UK, which means there may be more volatility than with UK investment alone

- ♦ An **opportunity investor** is someone who understands and accepts much higher degrees of risk in return for higher potential long-term growth, and with this comes greater volatility. The majority of people tend to see themselves as balanced investors but it may well be that your attitude to risk will change over time or indeed might be affected by other investments that you have.

What else may influence the way you invest?

If you have built up significant savings outside of your pension, or if you have already built up a significant amount of pension in your main scheme, then you may be prepared to take more risk than someone for whom this forms a major part of their retirement planning.

Likewise, somebody who is, for example, 20 years or so away from retirement, or who expects to draw on their investment later in retirement, may be more willing to take a more adventurous view because they have some time and there is potential for investment markets to recover if there is a fall.

Somebody who is within, say, ten years of retirement may take a more cautious view to try and avoid the possibility of a sudden market downturn because they have less time for a potential recovery in investment markets.

You may have other reasons for choosing a particular investment fund, or funds, so when making a decision you should also consider your personal circumstances and seek independent financial advice.

YOUR INVESTMENT OPTIONS

Under the TfL Pension Fund AVC plan you choose how to invest your contributions. You can either choose individual funds or you can choose the lifestyle option. Details of the specific funds available are included later in this guide and on the Fund website where AVC fund factsheets are available. Below is an overview of the options available. It is important to remember that the value of your investments may go down as well as up. If you are in doubt over which option or funds may be appropriate for you then you should seek appropriate independent financial advice.

Self selection

If you prefer to choose the individual funds in which to invest and so directly manage your own investments, then you can select from the range of individual investment funds that the Trustees have selected for the AVC plan. You can select from any combination of the investment funds available.

Legal & General assigns a risk rating to each of the AVC funds available to members. This is to provide an indication of how much a fund may fluctuate and to assist you in deciding how much risk you are comfortable with.

Investors may look to invest in a range of funds across different types of investments and levels of risk. The range of investment funds therefore includes funds that invest in stocks and shares, bonds (which can be both company and government debt), and cash-type funds.

Details about the charges, what they cover and how they work are included later in this guide.

Making the right investment choice at the outset is important, as is ensuring that your decision remains appropriate, so you should keep your investment choice under periodic review to ensure it continues to meet your needs. For this reason you can change your investment fund choice, currently without charge, by contacting Legal & General.

Lifestyle

Depending on the number of years to your retirement age or chosen maturity age, a Lifestyle option invests contributions in the designated investment funds and as retirement approaches Legal & General (which manages the Lifestyle options) automatically transfers your fund from higher to lower risk investments.

The aim of this is to lock in any growth you may have benefited from in earlier years and to protect the value of your pension fund from any adverse market movements as retirement approaches. This also means that you may miss out on future investment growth as you approach retirement.

Making the right investment choice at the outset is important, you need to be satisfied that the funds within the option are suitable for you.

It is also important to keep your investment choice under periodic review to ensure it continues to meet your needs. If you wish to change your investment choice please contact Legal & General.

Choosing a maturity age

Unless you advise otherwise, if you choose the Lifestyle option then it will automatically re-balance your funds from higher to lower risk investments assuming you will retire at age 65, which is the Fund's Normal Retirement Age. However, you can select a different maturity age on your application form (for example, age 58 or 63) to which your Lifestyle option will re-balance.

Selecting a maturity age may assist with your overall financial planning but does not change your minimum retirement age or require you to draw benefits at that time as you can subsequently change the selected maturity age at any time by contacting Legal & General. Your employer will not be informed about the maturity age you have selected. You may wish to review the maturity age of your Lifestyle option if your retirement plans change.

If you are a deferred member or leave the Fund before age 60, your benefits will usually be payable from age 60, so if you have elected the Lifestyle option it is important that you review your target maturity age.

WHAT TYPES OF FUNDS ARE AVAILABLE TO ME?

There are four main asset types that funds can invest in. Some funds may invest in more than one of these asset types. These are:

Equities

These are shares in companies. When a fund manager invests in equities they are taking part ownership in the companies concerned. The day-to-day value of the equities invested in will go up and down. The rapid change in the value of equities is often called 'volatility'. Although equities can demonstrate extreme short-term volatility due to their sensitivity to changes in the economy and news about companies and industries, over the long-term they have historically given higher returns than other asset classes. However, you should remember that past performance is not a guide to the future.

Property

Property funds invest in portfolios of commercial properties (warehouses, offices and retail premises for example). Although property can demonstrate volatility due to its sensitivity to movements in the economy, over the long-term it has historically given returns that have outpaced inflation (price changes). However, the impact of stamp duty on the cost of buying and selling properties and the fact that properties can take time, or be difficult, to sell (potentially creating 'liquidity' issues) means that property funds are generally more suitable for longer-term investments.

Bonds and gilts

These are loans to Governments, companies and other institutions who need to borrow money. Generally speaking they pay a known rate of interest for the term of the loan, but their value can still go down as well as up due to changes in general investment market conditions and the state of the economy. Bonds and Gilts offer greater security than equities because their price and therefore their value tend to be less volatile (additionally, Gilts have the security of being issued and backed by the UK Government). However, generally greater security means a lower investment return and Gilts and bond returns have historically been lower than equity returns over the longer-term. However, you should remember that past performance is not a guide to the future.

Cash

Cash is generally not considered a suitable investment for longer periods of time, because historically it has lacked the ability to keep pace with inflation. Cash investments however, can provide capital protection over the short term.

HOW ARE THE FUNDS MANAGED?

There are two main types of fund management: active and passive.

Passive management

The majority of the AVC fund options are passively managed. With passive management, the fund manager invests in the same or similar investments as a particular market index (for example, the Financial Times Stock Exchange (FTSE) All-Share Index). The manager aims to match the return achieved by the index rather than outperform it. This investment approach reduces the risk of funds under-performing. Charges for this type of management are generally lower than for active management.

Active management

The manager aims to achieve investment returns which are higher than a particular market index or benchmark, as returns depend partly on the skill of the individual manager in deciding when to buy, sell or hold onto investments. The charges for this type of management are generally higher than for passively managed funds.



CHARGES

Legal & General apply a charge to money invested in their funds. This is known as the Fund Management Charge (FMC) and is shown as an annual rate. It is accounted for in the unit price and reflected in the value of the fund.

The FMC consists of the Investment Management Charge (IMC) plus additional expenses (AE). It includes investment management fees, fund administration fees, custody/custodian fees, auditing and accounting fees and regulatory charges.

In addition there is an Annual Management Charge (AMC) of 0.14 per cent which covers Legal & General's administration costs, this amount is deducted from your AVC account.

The total cost, known as the total expense ratio or TER, is the sum of the Fund Management Charge, Investment Management Charge and Administration Management Charge. Other than the charges referred to above, no further charges or deductions will be applied to your account unless advised otherwise.

RISK RATINGS

Legal & General allocates risk ratings to funds to indicate how much the fund price might move compared to other funds. The higher the risk rating, the less stable the fund price is likely to be. You can use this to help you decide how much risk you're comfortable taking with your investments.



Legal & General regularly review risk ratings for funds, and these may change in the future.

Legal & General set ratings based on their experts' judgement, using data on:

- ♦ How the fund price has varied from month to month in the past, compared to other funds available
- ♦ How investments in similar asset classes vary from month to month and the investment policy of the fund.

Typically, higher risk ratings mean greater potential for investment returns over the longer term. But high risk funds are more likely to suddenly fall or rise in value. The risk rating is not the only factor you should consider when selecting a fund. If you're not sure which funds to choose, please seek appropriate independent advice.

It's important to remember that, although these ratings can provide a useful indicator of a fund's current and previous level of risk, they should not be used as a guide to future investment performance.

FUNDS AVAILABLE WITH LEGAL & GENERAL

L&G PMC All Stocks Index Linked Gilts Index Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
NEL3	5	0.08%	0.00%	0.08%	0.14%	0.22%

Fund type: Government bonds issued with a long-term repayment period

Fund management: Passive

Fund aim: To track the performance of the FTSE A Index-Linked (All Stocks) Index (including re-invested income) to within +/- 0.25% each year for two years out of three.

L&G PMC All World Equity Index Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
B4T3	5	0.12%	0.00%	0.12%	0.14%	0.26%

Fund type: Shares of UK and overseas companies

Fund management: Passive

Fund aim: This Fund is invested wholly or predominately in ordinary shares that are constituents of the FTSE All-World Index. The objective of the Fund is to hold a portfolio of developed and emerging market securities designed to match the return of the index within a specified tolerance.

L&G PMC Cash Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
EAB3	I	0.09%	0.00%	0.09%	0.14%	0.23%

Fund type: Short term money markets investments such as bank deposits and Treasury bills

Fund management: Active

Fund aim: To provide capital protection with growth at short term interest rates. The fund invests in the short-term money markets such as bank deposits and Treasury Bills.

Cash fund notes:

The Cash fund does not invest in any asset types where the capital value can fall, such as fixed interest securities. The value of the fund's assets would only fall if a deposit holder or the UK Government were unable to meet their obligations.

If the interest earned by the Cash fund's assets is insufficient to cover the fund management charge and any additional fund expenses, the unit price will fall.

L&G PMC Diversified Fund G28

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
B9O2	4	0.18%	0.05%	0.23%	0.14%	0.37%

Fund type: A wide variety of investments including company shares, Government and corporate bonds, private equity, property, currency and commodities

Fund management: Passive (some Active)

Fund aim: To provide long-term investment growth through exposure to a diversified range of asset classes.

L&G PMC Ethical Global Equity Index Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
NEB3	5	0.30%	0.00%	0.30%	0.14%	0.44%

Fund type: Shares of UK and overseas companies demonstrating strong environmental, social and governance practices

Fund management: Passive

Fund aim: To track the performance of the FTSE4Good Global Equity Index (including re-invested income) to within +/- 0.5% each year for two years out of three.

L&G PMC Future World Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
BJI3	5	0.24%	0.00%	0.24%	0.14%	0.38%

Fund type: Shares of UK and overseas companies which exhibit characteristics that have historically led to higher returns or lower risk than the market as a whole and are less carbon-intensive and earn green revenues

Fund management: Passive

Fund aim: To replicate the performance of the Index (the FTSE All-World ex CW Climate Balanced Factor Index) and will ensure the Fund has similar characteristics as the Index whilst not necessarily holding all the constituents of the Index. The anticipated annual tracking error, in normal market conditions, relative to the Index is +/-0.60% in two years out of three.

L&G PMC Future World Annuity Aware Fund 3 (previously the Pre-Retirement Fund)

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
NEN3	4	0.12%	0.00%	0.12%	0.14%	0.26%

Fund type: Government and corporate bonds issued both in the UK and overseas

Fund Management: Passive

Fund aim: To improve potential outcomes for investors likely to purchase fixed annuities by providing a diversified exposure to assets that reflect the broad characteristics of investments underlying a typical traditional level annuity product, incorporating Environmental, Social and Governance (“ESG”) considerations as part of the investment strategy.

The Fund cannot provide full protection against changes in annuity rates for individual members as these also depend upon a number of other factors (for example changes to mortality assumptions).

This fund is designed for people who anticipate buying an annuity (a guaranteed income). If you invest in this Fund but do not plan to buy an annuity, it is important to review your retirement plans and consider selecting a different investment which may match your intentions more closely.

L&G PMC UK Equity Index Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
NBC3	6	0.10%	0.00%	0.10%	0.14%	0.24%

Fund type: Shares of UK companies

Fund management: Passive

Fund aim: To track the performance of the FTSE All-Share Index (including re-invested income) to within +/- 0.25% each year for two years out of three.

L&G PMC World (ex UK) Equity Index Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
NED3	5	0.12%	0.00%	0.12%	0.14%	0.26%

Fund type: Shares of overseas companies

Fund management: Passive

Fund aim: To track the performance of the FTSE World (excluding UK) Index (including re-invested income) to within +/- 0.50% each year for two years out of three.

L&G PMC HSBC Islamic Global Equity Index Fund 3

Fund Code	Risk Rating	IMC	AE	FMC	AMC	Total expense ratio (FMC + AMC)
BB43	5	0.23%	0.12%	0.35%	0.14%	0.49%

Fund type: Shares of UK and overseas companies that meet Islamic investment principles

Fund management: Passive

Fund aim: To achieve capital growth over the long term. The Fund will track the performance of the Dow Jones Islamic Market Titans 100 Index, while minimising as far as possible the tracking error between the Fund's performance and the performance of the Index. In addition, the Fund shall comply with Shariah Principles as interpreted and laid down by the Shariah Committee and provided to the Directors and the Investment Manager.



IMPORTANT

The value of investments can fall as well as rise and is not guaranteed – you may get back less than you pay in. Please remember that neither the Trustee, TfL nor Legal & General are providing financial advice.

If you want to make your own investment decisions, you should speak to a qualified financial adviser. You can find one in your local area at unbiased.co.uk. Please note that advisers will usually charge for their services.



LIFESTYLE STRATEGY OPTION

This Lifestyle strategy (known as the 'TfL 2020 Lifestyle Strategy') is designed for members who intend to take 100% of their AVC pension pot as a cash lump sum at their retirement date.

Initially, your pension savings will be invested in a fund that invests in equities (the L&G All World Equity Index Fund). In return for targeting a higher level of investment growth over the longer term, you accept that the value of your pension savings may go up or down quite sharply, and more often, compared to some other lower risk asset classes

When you are 20 years from your retirement date, Legal & General will automatically start to gradually move your AVC pension savings so that, by the time you are 10 years from your retirement date, 100% of your fund will be invested in a diversified fund (the L&G Diversified Fund) that aims to reduce exposure to investment risk by investing in a range of different assets whilst also aiming to provide investment growth over the long term.

When you are five years from your retirement date, Legal & General will begin to move your AVC pension pot so that, when you reach your retirement date, 100% will be invested in a lower-risk fund that invests in short-term cash deposits (the L&G Cash

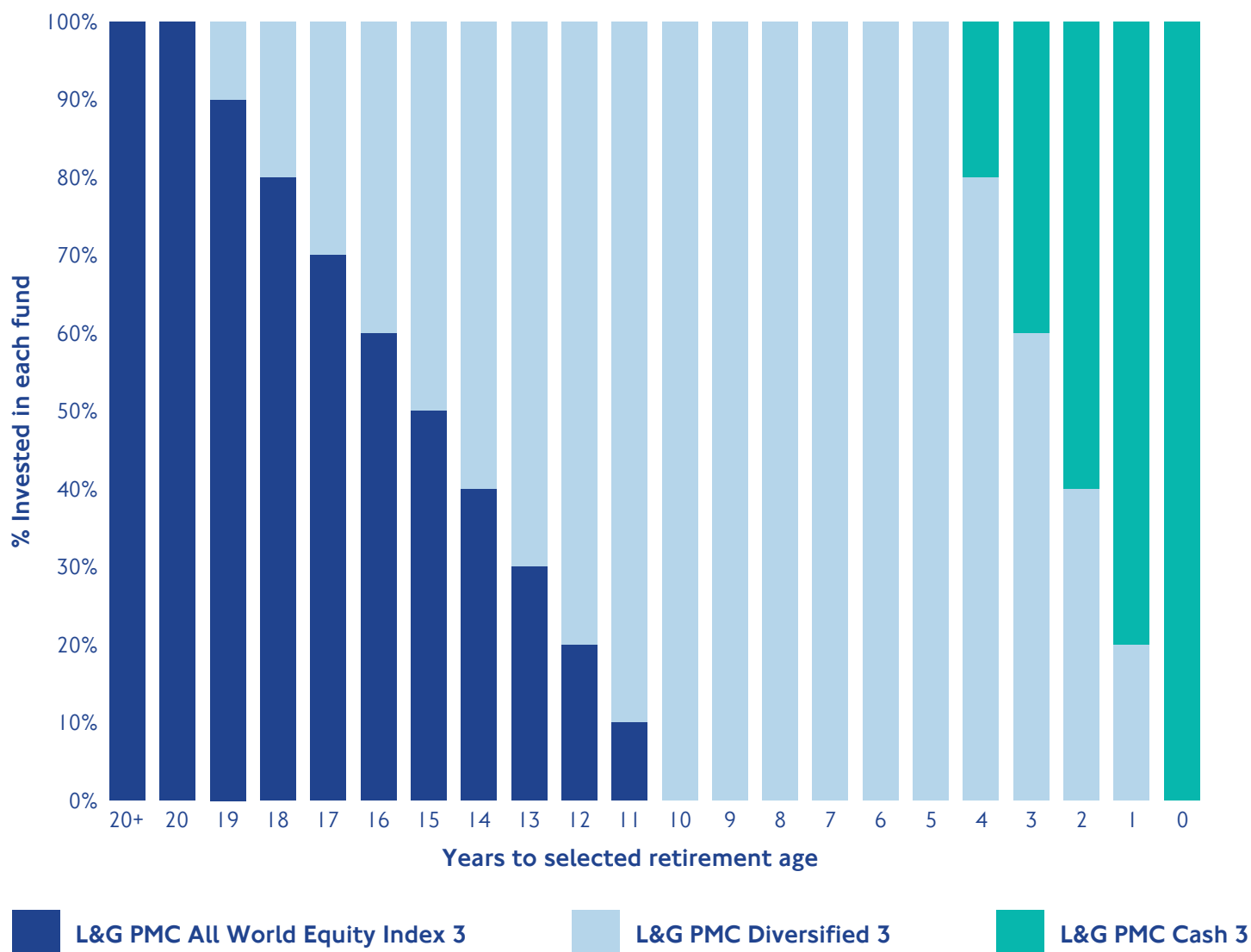
Fund). Instead of aiming for higher investment growth, this fund aims to reduce the impact of any sudden falls in the value of your AVC pension pot, as you approach retirement.

The aims of this Lifestyle strategy have been set by the TFL Pension Fund Trustee having taken appropriate advice. Please note this does not necessarily mean that this Lifestyle strategy is suitable for you and your individual circumstances. It's important to be aware that there are other investment options available to you.

This Lifestyle strategy may not be suitable if you don't take pension benefits as intended once you reach your retirement date. It's also important to review your investment strategy on a regular basis, both before and after your retirement date, to ensure that the funds in which your AVC pension pot is invested remain suitable for your needs.

Please note, if you intend to take all of your AVCs as cash, only 25% of the total value of your TfL Pension Fund pension and AVCs may be taken tax-free up to the current Lump Sum Allowance of £268,275. If you do not take your AVCs at the same time as your Fund benefits then the maximum tax free cash sum would be limited to 25% of your AVC fund and you will be subject to tax at your marginal rate on the remaining amount.

The chart below shows how your AVCs are automatically switched into lower risk funds as you approach your target retirement age.



If you wish to invest through the Lifestyle strategy option this would apply to the whole of your AVC funds, you cannot mix* and match between the Lifestyle strategy and self select funds.

It is important that if you choose to invest through the Lifestyle strategy that you select an appropriate target retirement age; you can change this age in the future at any time should your plans for retirement change. You should regularly review your retirement plans and if you do intend to change your target retirement age, the earlier you do so the better to avoid investments being switched to lower risk investments too soon (if you intend to retire later) or remaining in higher risk funds (if you intend to retire earlier)

*If you have transferred in AVCs from one of the Fund's previous AVC providers, these may be in self select funds and if this is the case you will need to contact Legal & General if you wish to switch the transferred funds into the Lifestyle strategy.

STARTING OR CHANGING YOUR AVCs

New contributors

There are two parts to the application form that we need you to complete:

- ◆ Your contribution choice
- ◆ Your investment choice

Please ensure that you fully complete and sign both parts of the application form.

On the Investment choice form:

- ◆ If you have chosen the lifestyle option, please ensure that you have chosen a selected retirement age (you can change this in the future should you wish to do so)
- ◆ If you have chosen the self select option, please ensure that the split between funds adds up to 100%

The completed forms should be returned to the Fund Office so that we can set up your AVCs.

Existing contributors

If you wish to change the amount you pay into the TfL AVC Plan please fully complete an AVC change of payment form and return it to the Fund Office so that we can make the necessary arrangements with payroll.

If you wish to change your investment choice or if you are paying AVCs under the Lifestyle Strategy Option and wish to change your target retirement age, you will need to contact Legal & General, please see the managing your AVCs section below for the various options available.

MANAGING YOUR AVCs

Once your Legal & General AVC account has been set up, Legal & General will write to you with details of your account number as well as details of how to register for their online service 'Manage Your Account' at www.legalandgeneral.com/mya

Under 'Manage Your Account' you can:

- ◆ Check the current value of your AVCs
- ◆ Monitor your contributions
- ◆ See your statements
- ◆ Update your details
- ◆ Change your investments

You can also contact Legal & General by:

Telephone: 0345 070 8686

Email: employerdedicatedteam@landg.com

Post: Legal & General Assurance Society Ltd
Workplace Savings – Trustee Servicing First Contact Team,
City Park, The Droveway, Hove BN3 7PY

THE TFL PENSION FUND OFFICE

The staff in the Fund Office will be pleased to answer any queries you may have. They cannot give financial advice or deal with tax matters but will be able to point you to who to contact for the assistance you need.

They can be contacted at:

TfL Pension Fund
8th Floor, Palestra
197 Blackfriars Road
London SE1 8NJ

Email at: helpdesk@tflpensions.co.uk

If you are telephoning the team, you can reach the call centre on **01737 235 298**. Please have your Member number and National Insurance number to hand when you call.

Fund Office appointments

The Fund Office team are working on a hybrid basis so we are now able to see visitors in the office, but with fewer people in the office each day we require you to contact us to book an appointment by email or telephone to ensure that a member of the team is available to help you.

If you have access to the internet, you can access our Pension Web Portal and find lots of information, including forms and Fund documents, on the Fund's website at www.tflpensionfund.co.uk