

## ANNUAL REPORT & ACCOUNTS for the year to 31 March 2024

### 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, 8<sup>th</sup> Floor, Palestra, 197 Blackfriars Road, London SE1 8NJ, or email the Fund Office at [helpdesk@tflpensions.co.uk](mailto:helpdesk@tflpensions.co.uk)

# TfL Pension Fund

## Report and Accounts for the year to 31 March 2024

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#### Administration Office:

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Requests for a copy of the Trust Deed and Rules of the Fund and enquiries about the Fund generally, or about an individual's entitlement to benefit, should be addressed to the TfL Pension Fund Office at the above address. The Report and Accounts and Trust Deed and Rules may be viewed on the TfL Pension Fund's Website, [www.tfl.gov.uk/pensions](http://www.tfl.gov.uk/pensions)

**Pension Schemes Registry scheme reference number:** 10165351

# TfL Pension Fund

## Organisation and Advisers as at 31 March 2024

### Trustee

TfL Trustee Company Limited

### Board of Directors of TfL Trustee Company Limited

(Nominating bodies are shown in brackets)

Ms M Antoniou (Chair)	External Appointment (TfL)
Ms M Adesida	Senior Trains Delivery Manager, Train Operations Jubilee & Northern (TfL)
Ms T Ashton	Director Rail and Sponsored Services, Transport for London (TfL)
Mr FE Brennan	District Organiser, ASLEF (ASLEF)
Mr LP Brown	Service Performance Manager, Transport for London (Unite the Union (T&GWU))
Mr T Cunnington	Head of Buses Business Development (TfL)
Mr SW Ellaby	Assistant SHE Assurance Manager, Analysis & Direction, Transport for London (TSSA)
Mr MA Evers	Chief Customer Officer, Transport for London (TfL)
Ms S Folarin	Internal Auditor, Risk & Assurance, Transport for London (PCC)
Mr P Kilius-Smith	Pensioner (PCC)
Mr J Leach	Assistant General Secretary, RMT (RMT)
Mr CA Miller	Pensioner (PCC)
Mr PJ Murphy	Train Instructor, Northfields, London Underground Limited (PCC)
Ms R O'Donnell	Senior Investment Appraisal Manager, Places for London, Transport for London (TfL)
Mr C Reader	Head of Commercial Media, Transport for London (TfL)
Mr J Terry	Head of SHE Business Partnering, Chief Capital Office, Engineering and Asset Strategy, Transport for London (TfL)
Mr J Thirlby	Head of Financial Planning & Investment (Places for London), Transport for London (TfL)
Mr JB Timbrell	Senior Manufacturing Engineer, London Underground Limited (Unite the Union (Amicus))

## TfL Pension Fund

### Organisation and Advisers as at 31 March 2024 (continued)

#### Principal Employer

Transport for London

#### Participating Employers

Transport for London  
Docklands Light Railway Limited  
London Bus Services Limited  
London Buses Limited  
London River Services Limited  
London Transport Museum Limited  
London Underground Limited  
Rail for London (Infrastructure) Limited  
Transport Trading Limited  
Tube Lines Limited  
Victoria Coach Station Limited  
Cubic Transportation Systems Limited  
Thales Transport and Security Limited

#### Secretary to the Trustee

Mr S Field

#### Auditor

RSM UK Audit LLP

#### Fund Actuary

Mr G Oxtoby, WTW

#### Investment Managers

Anchorage Capital Group LLC  
Augment Brazil I, LP  
BlackRock Investment Management (UK) Limited  
Blue Mountain Capital Partners LLC  
Brevan Howard Asset Management, LLP  
Bridgewater Associates, Inc.  
Cambridge Associates LLC  
CBRE Global Collective Investors UK Limited  
Colonial First State Global Asset Management  
Coronation International Limited  
Credit Suisse AG  
Equilibrium Capital Group LLC  
Goldman Sachs Asset Management  
Harrison Street Real Estate Capital LLC  
IFC Asset Management Company, LLC  
Industry Funds Management Pty Limited  
J O Hambro Capital Management Limited  
JP Morgan Asset Management  
Man Asset Management Ltd  
Neuberger Berman Alternatives Advisers LLC  
Nomura Asset Management UK Limited  
Oak Hill Advisors, LP  
Paradice Investment Management Pty Limited  
Partners Group (UK) Limited  
Pzena Investment Management, LLC  
Russell Implementation Services Limited  
Semperian PPP Investment Partners Holdings Limited  
SCM ManCo 1 Limited  
Siguler Guff & Company, LP  
Stonepeak Associates III LLC  
Veritas Asset Management LLP  
Wellington Management Company, LLP

#### Legal Advisers

Sacker & Partners LLP

#### Communications Advisers

Hughes Communications

#### Independent Medical Adviser

Dr S Sheard

#### Fund Employer Covenant Reviewer

Penfida Limited

#### Bankers

The Royal Bank of Scotland plc

#### Investment Adviser

WTW

#### Custodian & Investment Performance Monitoring

JP Morgan Investor Services

#### AVC Providers

Clerical Medical  
Legal & General  
Standard Life

#### Date of Appointment

3 July 2017  
26 October 2022  
1 September 2014  
1 August 2017  
18 February 2013  
2 November 2005  
28 January 2022  
11 September 2013  
15 December 2009  
24 July 2013  
9 December 2015  
3 December 2020  
15 June 2005  
12 December 2019  
15 March 2013  
24 May 2013  
5 January 2010  
15 January 2018  
26 April 2018  
24 October 2014  
1 September 2004  
1 August 2012  
24 June 2014  
4 June 2010  
24 June 2013  
8 December 2011  
18 February 2008  
21 June 2018  
10 December 2009  
26 April 2018  
7 July 2015  
5 November 2012

## TfL Pension Fund Chair's Introduction

I am pleased to present my review for the year ended 31 March 2024. This has been a productive year for the Trustee with the Fund continuing its diversification journey in line with its investment strategy and prudent risk management framework. Increases in hedging ratios against both interest rates and inflation which were implemented last year at attractive pricing levels have reduced the overall level of risks in the Fund. This was helpful as the Fund begins the 2024 Triennial valuation process.

Liquidity and cash management has been a critical area of focus for the Trustee this year as markets and economies worldwide are becoming more volatile and unpredictable driven by geopolitical tensions, de-globalisation and diverging monetary and fiscal policies in the countries in which the Fund invests. On a more positive note, inflation fell sharply from the levels last seen in the 1980's closer to central bank targets and any material and prolonged economic slowdown did not materialise.

The importance of employer support and the Trustee's attention on both the Fund's asset and liability components remain crucial in seeking to ensure the security of member benefits and the Fund's independent covenant reviewer has continued to monitor developments with respect to TfL, as the Principal Employer.

As previously reported, a condition of Government Funding provided during and immediately after the COVID pandemic was that TfL were required to undertake a review of the Pension Fund, with consultation on any changes proposed to commence no later than 1 July 2024. TfL in their latest update stated that there are several significant complexities to work through before any final detailed proposal can be agreed, which would impact the implementation date and this could not be before 30 September 2026.

With a membership of over 85,000, the day-to-day administration of the Fund is a significant undertaking. Over the course of the year we have seen a significant increase in the volume of workload, almost 94,000 tasks were completed by the Fund Office during the year and they managed to achieve service level agreement targets of 96.1% for the year. The Trustee has looked at ways to enhance our member offering with the introduction of our member enquiry triage service and the new standalone Fund website which went live from December 2023.

The Alternatives and Liability Hedging Committee and the Investment Committee remained active overseeing a growing and vastly more complex portfolio of investments in different asset classes, sectors, and regions with added emphasis on sustainability and ESG matters. I can see just how important ESG has become in all our investment considerations when the committee chairs table their minutes at the Trustee Board meetings. The Trustee Directors are spending a much greater proportion of time in the meetings to understand and challenge our managers on the approach and actions they are taking to progress the Fund's sustainability and Net Zero commitments. A good example of the Net Zero actions taken by the Trustee this year was the decision to explicitly align the Fund's corporate bond portfolio to the Fund's targets. The Committees were equally busy making new investments with the help from its advisor Willis Towers Watson.

This year's investment performance was 6.4%, 5.1% below the benchmark return of 11.5%, while over the longer period of three years the return was 5.4% per year, above the benchmark by 4.0%. Over five years returns were 6.9% per year, 2.1% above the benchmark. More information is contained in the Investment Report starting on page 15.

The Trustee is well aligned with our members passion and interest in ESG. The Trustee published their Net Zero Carbon Journey update in October 2023 and sixth Sustainability Report in December 2023 which highlighted all the key activities in this area and has been well received. The Fund remains on track to achieve its interim target reduction of 55% of carbon emissions for 2030 at the latest and a 100% reduction in its carbon emissions no later than 2045 as outlined in the Net Zero Journey update published late last year, which showed the Fund is either ahead or in line with its targets.

The diligent work carried out by the other Committees (Actuarial Valuation, Audit & Risk, Operations and Appeals) and the Trustee Board itself in carrying out their respective responsibilities has also contributed to supporting good governance in all the Fund's activities.

There has been no change to the Trustee Board in the year and the Board was at full strength at the year end. Alongside the Trustee Directors' continued attendance at regular training sessions throughout the year, there has been focus on effectiveness, the conduct of meetings and setting of priorities as well as re-establishing the investment beliefs of the Board and preparation for the new Single Code issued by the Pensions Regulator.

## **TfL Pension Fund**

### **Chair's Introduction (continued)**

Finally, I am pleased to report that the Fund ended the year on an extraordinarily strong financial footing with assets of £15,012.6m, an all-time high with an increase of £836.0m from the previous year. I would like to record on behalf of the members my thanks to my fellow Trustee Directors and the Fund Office lead by the Fund Secretary for all their hard work and I look forward to the year ahead as we embark on the 2024 valuation.

Maria Antoniou  
Chair  
12 July 2024

# TfL Pension Fund Trustee's Report

The Directors of TfL Trustee Company Limited, the Trustee of TfL Pension Fund, have the pleasure of submitting their Annual Report on the operations of the Fund, together with the Accounts of the Fund for the year ended 31 March 2024.

## 1. Management of the Fund

### (a) The Trustee

The Trustee is required to act in accordance with the Trust Deed and Rules of the Fund, within the framework of pension and trust law. It is responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

All Trustee Directors are expected to complete the Pensions Regulator Trustee Toolkit within 6 months of appointment.

### (b) Board of Directors

The Board of the Trustee is made up of 18 Directors as set out on page 2. Full details of how Directors are nominated are also shown on page 9.

Directors serve for such period as their nominating body determines, or until that body withdraws their nomination or additionally, in the case of a nominee from the TfL Pension Consultative Council (PCC), they cease to be a member of the PCC.

There have been no changes to Directors during and after the year to 31 March 2024.

The table below shows the number of scheduled Trustee Board and Committee meetings attended by each Director listed below, in the year to 31 March 2024, against the total number that they were eligible to attend.

<b>TfL Nominated Directors</b>	<b>No. of meetings</b>	<b>No. of attendances</b>	<b>Non-TfL Nominated Directors</b>	<b>No. of meetings</b>	<b>No. of attendances</b>
Ms M Adesida *	12	10	Mr FE Brennan *	14	13
Ms M Antoniou *	11	11	Mr LP Brown *	19	18
Ms T Ashton *	12	11	Mr SW Ellaby *	11	10
Mr T Cunnington *	14	13	Ms S Folarin *	12	11
Mr MA Evers *	17	16	Mr P Kilius-Smith *	11	10
Ms R O'Donnell *	21	19	Mr J Leach *	9	8
Mr C Reader *	14	12	Mr CA Miller *	10	10
Mr J Terry *	14	10	Mr PJ Murphy *	23	23
Mr J Thirlby *	11	10	Mr JB Timbrell *	18	17

The average attendance for the Directors listed above at scheduled Trustee Board and Committee meetings was 89% TfL nominated and 94% non-TfL nominated respectively.

\* All Trustee Directors have provided a certificate of completion of the Pensions Regulator Trustee Toolkit.

# TfL Pension Fund

## Trustee's Report (continued)

### 2. Committees of the Board of Directors

Whilst the Board of the Trustee decides all policy matters, it has recognised that committees are necessary in carrying out its functions in respect of the TfL Pension Fund efficiently and that the exercise of all delegated authority, when not directly supervised by the Board, shall be supervised by a committee.

For this purpose the Board has set up six committees which comprise either four, six or eight Directors of the Trustee, half of whom are TfL nominated Directors and half of whom are non-TfL nominated Directors. Membership of each committee as at the date the accounts were signed is shown below.

<b>Committee</b>	<b>TfL Nominated</b>	<b>Non-TfL Nominated</b>
Investment	Ms T Ashton Mr MA Evers Ms R O'Donnell Mr J Thirlby	Mr LP Brown Mr P Kilius-Smith Mr PJ Murphy Mr JB Timbrell
Alternatives and Liability Hedging	Mr MA Evers Ms R O'Donnell	Mr PJ Murphy Mr JB Timbrell
Operations	Ms M Adesida Mr T Cunnington Mr C Reader Mr J Terry	Mr FE Brennan Mr LP Brown Ms S Folarin Mr PJ Murphy
Audit and Risk	Mr T Cunnington Mr C Reader Mr J Terry	Mr FE Brennan Mr LP Brown Mr J Leach
Appeals	Ms M Adesida Ms T Ashton Mr J Thirlby	Mr SW Ellaby Ms S Folarin Mr P Kilius-Smith
Actuarial Valuation	Ms M Antoniou Ms R O'Donnell	Mr SW Ellaby Mr CA Miller

### 3. Committee Remits

#### **Investment Committee**

Covers investment matters concerning equities and bonds, including strategy and the appointment and monitoring of Investment Managers, Investment Adviser and the Custodian.

#### **Alternatives and Liability Hedging Committee**

Covers investment matters concerning alternative assets and liability hedging, including strategy, the appointment and monitoring of Investment Managers and monitoring the overall benchmark for the Fund's portfolio.

#### **Operations Committee**

Monitoring the Service Provider's (Transport for London) performance under the Administration Agreement and Fund Rules; monitoring quarterly cash flow, income/expenditure and capital expenditure budgets; instructing the Fund Secretary to prepare the brief to professional advisers to the Fund and to monitor their performance and devising the Fund's communications strategy.



# TfL Pension Fund

## Trustee's Report (continued)

### **Audit and Risk Committee**

To ensure that the rules relating to finance and corporate governance matters are properly applied; the Fund's financial affairs are properly conducted in accordance with best practice and the Fund's accounting policies; to ensure that there are processes in place for the Fund and the Trustee to comply with the Trust Deed and Fund Rules, Articles of Association, legislation and regulation, corporate governance and all relevant internal procedures and policies. Overall responsibility for risk management by receiving, reviewing and where appropriate testing risk mitigations documented in the Funds' Risk Register.

### **Appeals Committee**

To hear appeals as the second stage adjudicator under the Internal Disputes Resolution Procedure.

### **Actuarial Valuation Committee**

To liaise with the Actuary and negotiate with the Principal Employer on matters relating to scheme specific funding and actuarial factors for benefit calculations.

## **4. Governance**

### **Introduction**

The Fund was established with effect from 1 April 1989 to provide retirement and death benefits for all eligible employees of Transport for London, its subsidiaries and associated companies, in accordance with the Rules of the Fund and Definitive Trust Deeds.

Up to 5 April 2006 the Fund was approved by HM Revenue and Customs as an exempt approved scheme under the provisions of Chapter I Part XIV of the Income and Corporation Taxes Act 1988. From 6 April 2006 the Fund automatically became a "registered pension scheme" for tax purposes under the Finance Act 2004.

### **Change to Participating Employers**

There were no changes to the participating employers in the year.

### **Changes to the Trust Deed and Rules of the Fund**

There were no changes to the Trust Deed and Rules during the year.

### **Management of the Fund**

#### **(a) Trustee's responsibility for preparing accounts**

Under the Rules of the Fund and the Pensions Act 1995, the Trustee is required to prepare accounts for each Fund year which show a true and fair view of the financial transactions during the Fund year and of the disposition, at the end of the Fund year, of the assets and liabilities. Assets do not include insurance policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the Fund to, particular members. Liabilities do not include liabilities to pay pensions and benefits after the end of the year.

#### **(b) Statement of Trustee's responsibilities for the accounts**

The accounts, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those accounts:

- Show a true and fair view of the financial transactions of the fund during the scheme year and of the amount and disposition at the end of the fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the fund year, and
- Contain the information specified in Regulation 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

## TfL Pension Fund Trustee's Report (continued)

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the accounts on a going concern basis unless it is inappropriate to presume that the Fund will not be wound up.

The Trustee is also responsible for making available certain other information about the Fund in the form of an annual report.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities including the maintenance of an Effective System of Governance (ESOG).

The Trustee is responsible for the maintenance and integrity of the pension and financial information included on the TfL Pension Fund website.

### **(c) Board of Directors**

The Directors of the Trustee are nominated as follows:

- Nine persons by TfL of whom at least five must be members of the Fund.
- One person each by: - Transport and General Workers' Union; the National Union of Rail, Maritime and Transport Workers; the Associated Society of Locomotive Engineers & Firemen; the London Transport Joint Trades Committee; the Transport Salaried Staffs' Association (or any successor body).
- Two persons by and from Section One of the TfL Pension Consultative Council.
- One person by and from each of Sections Two and Three of the TfL Pension Consultative Council.

Members of the TfL Pension Consultative Council are Fund Members elected by their fellow members. Section One members are pensioners or deferred pensioners. Sections Two and Three are contributing members of the Fund.

The Directors of the Trustee are committed to high standards of governance for all aspects of the Fund's operations. Although the Trustee is not governed by the Combined Code, which applies to UK fully listed companies, the Directors of the Trustee believe that the internal control aspects of the Code help demonstrate good governance and therefore the Trustee has followed the principles of the Code in relation to internal controls.

The Pensions Act 2004 established the Pensions Regulator and amongst its objectives is the promotion of good administration of work-based pension schemes. This has included the publication of codes of practice and accompanying guidance to support trustees in their responsibilities, in particular those covering trustee knowledge and understanding and internal controls. The Trustee has taken steps to follow the Pensions Regulator's guidance as it has developed recognising the new Single Code issued by the Pensions Regulator.

The Directors of the Trustee acknowledge their responsibility for the Fund's system of internal controls and for reviewing its effectiveness. The internal controls are designed to manage risk and control the Fund's business and financial activities in a manner that enables it to:

- Avoid or reduce risks that can cause loss of the Fund's assets or reputational damage,
- Ensure compliance with applicable laws and regulations; and
- Enhance resilience to external events.

To achieve this the Trustee has developed a Governance Framework that includes an annual risk review carried out by the Chairs of Committees, which identifies the key risks facing the Fund and the controls in place to manage these risks. These risks and controls are set out in a Risk Register which is considered by the Audit and Risk Committee and the Board who, together with the relevant committees, regularly review the effectiveness of the internal controls contained therein. The planned work and audit findings of Internal and External Audit are considered by the Audit and Risk Committee throughout the year and reported to the Board annually. It should be recognised, however, that such a process can only provide reasonable, not absolute, assurance against material misstatements or loss.

## **TfL Pension Fund**

### **Trustee's Report (continued)**

The Trustee has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are clearly documented and reviewed regularly.

The performance of the Fund's operations and of the Trustee's Investment Managers is reported regularly to the Fund Secretary and the relevant Committees and, where appropriate, the Trustee Board itself. Performance trends and forecasts, as well as actual performance against budgets, are closely monitored. Financial information is prepared using appropriate accounting policies that are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions, communications to members and the safeguarding of the Fund's assets.

#### **Governance Plan**

Following the Risk Review, the Trustee has established a rolling Governance Plan which is updated annually to use in operating and managing the Fund, covering three main areas:

(i) **Mission and Goals**

Setting out the main goals of the Trustee and the main resources available and the Trustee's key success criteria and performance measures.

(ii) **Review and Monitoring Goals, Risks and Performance**

Setting up main areas which the Trustee will review and measure in order to evaluate various aspects of the Fund arrangements.

(iii) **Specific Actions and Year Plan**

Identifying specific actions with a target date for the completion of each action.

#### **Strength of Employer Covenant**

The Trustee monitors the credit rating of the Participating Employers, by taking advice from their professional advisers and by having good communication and exchange of information. As it has done for previous valuations, as part of the 2021 actuarial valuation, the Trustee commissioned an independent review of the employer covenant of Transport for London (TfL) and of the private sector Participating Employers by Penfida, the Fund's independent covenant reviewer. The Trustee also actively monitors the strength of the employer covenant via updates and analysis provided by Penfida.

TfL's funding agreement with the Government, to support the running of their day-to-day operating costs and protecting their growing passenger income following the dramatic fall in fares caused by the pandemic, ended in March 2024. However, TfL have achieved their objective of delivering financial operational sustainability in the year to 31 March 2024, the first time in TfL's history of delivering an operating surplus.

Reports or updates were produced by Penfida following each of the funding deals reached between TfL and the DfT and this is expected to be the case on any future funding deals beyond March 2024.

Penfida's latest report confirmed a rating of "strong" for TfL covenant support unchanged from their previous rating.

#### **Quarterly Investment Updates**

The Trustee continually monitors the financial strength of the Fund by receiving quarterly updates from the Fund Actuary and Investment Adviser and has in place an Integrated Risk Management framework which includes strategic dashboard monitoring which is reviewed quarterly.

# TfL Pension Fund

## Trustee's Report (continued)

### Pension Regulator Supervision

The Pension Regulator has introduced dedicated one-to-one supervision for the biggest pension schemes and the Fund has been included as part of this initiative. This involves maintaining ongoing contact with the Trustee and TfL as the Principal Employer. The Pension Regulator is seeking to build relationships with schemes whose size means they are strategically important regardless of whether they trigger any of the Regulator's risk indicators. Information has been provided to the Regulator following a request for governing documentation.

## 5. Financial review

The Accounts of the Fund for the year to 31 March 2024, as set out on pages 41 to 56, have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995.

The net assets of the Fund, that is the investment assets including the AVC scheme, the fixed assets held for own use, and the net current assets, amounted to £15,012.6m on 31 March 2024. The increase of £836.0m, compared with the value on 31 March 2023 of £14,176.6m, was made up as follows:

	Movement in the year	
	2024	2023
	£m	£m
Net returns on investments	957.3	(185.2)
Net withdrawals from dealings with members	(121.3)	(78.6)
	<u>836.0</u>	<u>(263.8)</u>

Net returns on investments comprised changes in the market value of investments of £793.3m (2023: -£333.2m) and investment income of £187.5m (2023: £177.7m) which were partly offset by investment management expenses of £23.5m (2023: £29.7m). The change in market value of investments for 2024 was made up of realised investment gains of £426.6m and unrealised investment gains of £366.7m (2023: realised gains of £56.4m and unrealised losses of -£389.6m).

The increase from last year in the amount from dealings with members of £42.7m was mainly due an increase in benefits payable of £73.5m and offset by higher contributions receivable of £26.3m and lower pension levies of £4.4m. The rate of contributions payable by the employers participating in the Public Sector Section was 27.3% under the current Schedule of Contributions. Under the Rules of the Fund the administrative costs of the Fund are borne by the Fund itself.

Further details of the financial movements of the Fund can be found in the audited accounts on pages 41 to 56.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 63. Unitisation is subject to a separate audit, following the audit of the main report and accounts.

## 6. Actuarial valuations and actuarial reports

Fund Rule 43, together with recent legislation, requires the Fund Actuary to carry out a formal actuarial valuation of each section of the Fund at least every three years. The valuations reveal the extent to which the sections' existing assets are sufficient to meet their liabilities for benefits that have been earned for service up to the valuation date. They also establish the levels of contributions required in future to provide an appropriate level of funding when account is taken of benefits to be earned in the future.

A formal valuation was carried out by the Fund Actuary as at 31 March 2021 of each of the two sections of the Fund. The valuation for the Public Sector Section was completed on 31 March 2022 and the valuation for the Composite Section was completed on 28 April 2022. As required by legislation and the Fund's governing documents, the assumptions that the Actuary needed to make regarding such matters as future investment returns and members' longevity were agreed between the Trustee and TfL and are recorded in a formal document called the Statements of Funding Principles. The process of agreeing assumptions was carried out separately for each section.

## **TfL Pension Fund Trustee's Report (continued)**

For the Public Sector Section there was a surplus of assets over liabilities of £179m as at 31 March 2021. The Pensions Funding Agreement reached between the Trustee and TfL as part of the 2018 valuation was updated to reflect the surplus as at 31 March 2021. Under the Agreement, certain additional contributions become automatically payable in the event of a funding deterioration (calculated on an annual basis and in subsequent formal valuations). This provides significant additional financial support for the Fund above the contributions required through the Schedule of Contributions.

For the Composite Section there was a surplus of assets over liabilities of £5.4m.

As required by legislation and the Fund's governing documents, the Trustee and TfL agreed a schedule of contributions for each of the sections which show the contributions that are to be paid.

The next actuarial valuation is as at 31 March 2024 and the statutory deadline for completion is 30 June 2025.

Following completion of the formal valuation, a Summary Funding Statement will be sent to each member of the Fund which summarises the valuation results for their section. Further Summary Funding Statements will be sent annually including, where applicable, information from the actuarial reports.

Copies of the Actuary's reports on the valuations and the actuarial reports referred to above are available on application to the Fund Secretary at the address given on the contents page at the front of the Report and Accounts.

# TfL Pension Fund

## Trustee's Report (continued)

### 7. Changes in membership during the year

The table below summarises the movement in membership during the year to 31 March 2024. In addition, the Fund has 367 (2023: 350) pension credit members comprising 210 deferred pensioners (2023: 206) and 157 pensioners (2023: 144).

	<u>2023/ 2024</u>	<u>2023/ 2024</u>	<u>2022/ 2023</u>	<u>2022/ 2023</u>	<u>Change</u>
<b>Contributing members as at 1 April</b>	25,489		25,659		
Joiners	2,276		1,358		
	<u>27,765</u>		<u>27,017</u>		
Contributing members retiring	(758)		(615)		
Leavers taking a refund of contributions	(273)		(203)		
Leavers becoming deferred pensioners	(488)		(676)		
Leavers taking a trivial commutation lump sum	(1)		(4)		
Deaths in service	<u>(37)</u>		<u>(30)</u>		
<b>Contributing members as at 31 March</b>		26,208		25,489	719
<b>Deferred pensioners as at 1 April</b>	16,426		16,499		
Leavers becoming deferred pensioners	488		676		
	<u>16,914</u>		<u>17,175</u>		
Deferred pensions coming into payment	(779)		(658)		
Deferred pensioners transferring to other schemes	(31)		(39)		
Deferred pensioners taking a trivial commutation lump sum	(16)		(18)		
Deferred pensioner deaths	<u>(40)</u>		<u>(34)</u>		
<b>Deferred pensioners as at 31 March</b>		16,048		16,426	(378)
<b>Pensioners as at 1 April</b>	32,299		32,319		
Contributing members retiring	758		615		
Deferred pensions coming into payment	779		658		
	<u>33,836</u>		<u>33,592</u>		
Pensioner deaths	(1,189)		(1,292)		
Pensioners taking a trivial commutation lump sum / 100% Pension Sharing order	(-)		(1)		
<b>Pensioners as at 31 March</b>		32,647		32,299	348
<b>Dependants as at 1 April</b>	9,493		9,528		
Dependants becoming entitled to pensions	599		595		
	<u>10,092</u>		<u>10,123</u>		
Dependant deaths	(564)		(586)		
Dependants taking a trivial commutation lump sum	<u>(51)</u>		<u>(44)</u>		
<b>Dependants as at 31 March</b>		9,477		9,493	(16)
<b>Eligible children as at 1 April</b>	740		710		
Children becoming entitled to pensions	66		54		
	<u>806</u>		<u>764</u>		
Children ceasing to be eligible	(74)		(20)		
Child deaths	<u>(3)</u>		<u>(4)</u>		
<b>Eligible children as at 31 March</b>		729		740	(11)
<b>Total membership as at 31 March</b>		<u>85,109</u>		<u>84,447</u>	<u>662</u>

# TfL Pension Fund

## Trustee's Report (continued)

Details of contributing members by section as at 31 March 2024 were as follows:

	<u>2023/ 2024</u>	<u>2023/ 2024</u>	<u>2022/ 2023</u>	<u>2022/ 2023</u>	<u>Change</u>
	%		%		
Transport for London	26,192	99.94	25,469	99.92	723
Composite section	16	0.06	20	0.08	(4)
	<u>26,208</u>	<u>100.00</u>	<u>25,489</u>	<u>100.00</u>	<u>719</u>

### 8. Pension increases

Deferred members and pensioners receive increases in accordance with the Fund Rules. The April 2024 pension increase is based on the increase in the Retail Price Index over the 12 months to September 2023. Members of the Fund fall into one of two categories; *Existing Members* are those who joined the Fund when it was formed in April 1989 and *New Members* are those who joined on or after 2 April 1989 whose increase is capped at 5%. The full year's increase is 8.9% for Existing Members and 5% for New Members.

Increases to pensions in payment and deferred pensions over the past five years have been as follows:

	<b>Existing Members</b>	<b>New Members</b>
April 2020	2.4%	2.4%
April 2021	1.1%	1.1%
April 2022	4.9%	4.9%
April 2023	12.6%	5.0%
April 2024	8.9%	5.0%

### 9. Fund's advisers

There were no changes to the Fund's advisers during the year.

### 10. Approval of the Report of the Directors of the Trustee

The Investment Report and the Implementation Statement on pages 15 to 37, and the Compliance Statement on page 64 form part of this Report of the Directors of the Trustee.

This Report was approved by the Board of Directors of TfL Trustee Company Limited on 12 July 2024 and was signed on their behalf by:

M Antoniou  
Director  
TfL Trustee Company Limited

F Brennan  
Director  
TfL Trustee Company Limited

# TfL Pension Fund

## Investment Report

### 1. Investment policy (excluding AVC investments)

Most of the Fund's investment assets were invested and administered by the Investment Managers, whose names appear on page 3. The Investment Managers employed during the financial year ended 31 March 2024 had discretion to invest as they saw fit within the asset classes and geographical limitations of their benchmarks, as agreed by the Directors (including any restrictions) following advice from WTW. No new Investment Manager was appointed during the year although certain investment portfolios have been expanded. Certain legacy investments amounting to no more than 1% of total assets are administered in-house but the Directors take appropriate investment advice in the disposition of these assets. The investment with Ardevora was terminated during the year primarily as a result of underperformance and other operational matters.

Investment Managers' fees are primarily based on the market value of the Fund and, in the case of some of the active managers, performance (subject to upper and lower limits and achieving investment hurdle rates, in most cases), but commissions and fees are also charged on investment transactions.

The Directors measure the Fund's performance against the benchmark, below, which is based on the long-term strategic asset allocation.

### 2. Investment overview

The investment assets of the Fund as at 31 March 2024, including AVC investments, had a value of £14,987.2m an increase of £839.9m compared with their value of £14,147.3m as at 31 March 2023. Investment income (i.e. dividends and interest) amounted to £187.5m for the year to 31 March 2024 compared with £177.7m for the year to 31 March 2023.

The bulk of the assets held by the active managers are quoted on the main worldwide stock exchanges and are marketable. The assets held with BlackRock are also highly marketable. A proportion of the Fund's assets are less liquid.

#### Benchmark Summary at 31 March 2024

The Directors measure the Fund's performance against a composite benchmark based upon the current asset allocation. For each active manager the Directors select a portfolio performance measure and for passive managers the performance measure is that of the relevant index being tracked. While the Fund is moving towards its current long-term strategic target allocation, the weightings given to the individual manager benchmarks are their current portfolio valuations, updated on a quarterly basis. The approximate benchmark weights as at 31 March 2024 are set out below (the table has been simplified due to the large number of managers).

Allocation	Weight %	Comparison Basis
UK equities	0.5%	FTSE All Share/MSCI UK
Overseas developed equities	25.9%	FTSE Developed World ex UK/MSCI World ex UK
Emerging market equities	3.0%	MSCI EM/ Russell EM
Fundamental equities	3.5%	FTSE RAFI All World 3000 Index
Developed equities with EM tilt	0.2%	Russell GeoExposure
Liability hedging	7.0%	No suitable market indices for comparison
Global bonds	2.1%	BarCap 60/40 Sovereign Credit Index
Global bonds	2.9%	BarCap Global Agg Corp 1% Constrained
Alternative credit	3.0%	CS Leveraged Loan/BoAML US High Yield
Alternative credit	0.7%	BoAML US T-bills +2%
Alternative credit/ Liquid alternatives	16.7%	SONIA/ SOFR +3.25% / SONIA +5.25% pa
Alternative credit	1.4%	EMBI Global Div /JPM CEMBI Broad Div GBP Hedged
Renewables	0.6%	FTSE Index Linked Gilts over 15years Index +3%
Infrastructure	3.6%	UK/European RPI/CPI +3.5% pa
Infrastructure	5.6%	US CPI + 4% pa/ US CPI + 7% pa
Infrastructure	0.3%	MSCI Brazil Gross Index +3%
Infrastructure	0.1%	MSCI Emerging Markets +2%
Private equity	7.1%	MSCI World +3% pa
Private equity	0.4%	US CPI + 5% pa
Private credit	4.3%	BoAML Global High Yield +2% pa
Commodities	0.7%	Bloomberg Roll Select Commodities Index
Real estate	4.5%	FTSE EPRA/NAREIT Developed +1%
Cash for investing/derivatives for hedging	5.9%	SONIA/Mark to market rates
	<u>100.0</u>	

The majority of active managers are financially incentivised to out-perform a relevant index over rolling three-year periods. The Directors believe the investment mix set out on the following page will maintain an appropriate balance between risk minimisation and return maximisation given the current and future liabilities of the Fund.



# TfL Pension Fund Investment Report (continued)

## Actual Asset Allocation Summary as at 31 March 2024

Portfolio	% of Fund	Manager
<b>Core</b>		
Index tracking (all asset classes) and liability matching assets	23.0	BlackRock Investment Management (UK) Limited <sup>1</sup>
<b>Active Specialist</b>		
Global bonds	4.9	Goldman Sachs Asset Management
Global equities 1	4.2	Pzena Investment Management LLC
Global equities 2	3.7	JO Hambro Capital Management Limited
Global equities 3	3.4	Veritas Asset Management LLP
Pacific Basin equities	1.6	Nomura Asset Management UK Limited
Global emerging market equities	1.0	Coronation International Limited
Global emerging market equities	1.0	Russell Investments Limited
Global High Yield Credit	2.9	Oak Hill Advisors, LP <sup>2</sup>
Global Small Cap equities	1.6	Paradice Investment Management Pty Limited
Absolute Return Credit	0.7	Wellington Management Company, LLP
Asia (ex Japan) equities	0.7	JO Hambro Capital Management Limited
Emerging market debt	1.4	JP Morgan Asset Management
Currency overlay	0.2	Russell Implementation Services Limited
<b>Alternative Assets</b>		
Global Macro Systematic Hedge Fund	4.5	Bridgewater Associates, Inc <sup>2</sup>
UK Core Infrastructure Investment	2.0	Semperian PPP Investment Partners Holdings Ltd <sup>3</sup>
Cory Topco Limited (Energy from Waste)	1.4	SCM ManCo 1 Limited <sup>4</sup>
Private Equity Fund of Funds	0.3	Partners Group (UK) Limited
Reinsurance Hedge Fund	1.6	Credit Suisse AG <sup>2</sup>
Alternative Credit (Asset Backed Securities)	0.0	Goldman Sachs Asset Management
Private Equity	0.3	Goldman Sachs & Co LLC
North America Opportunistic Private Credit	2.2	Siguler Guff & Company, LP
European Infrastructure Private Equity Fund	0.2	Colonial First State Global Asset
Beta Trend Hedge Fund	1.2	Goldman Sachs Asset Management
Private Global Real Estate (Separate Account)	3.2	CBRE Global Collective Investors UK Limited
Multi-Strategy Credit Hedge Fund	0.2	Anchorage Capital Group LLC
Global Macro Discretionary Hedge Fund	2.3	Brevan Howard Asset Management, LLP
Segregated Infrastructure Debt Portfolio	1.3	Industry Funds Management Pty Limited
Global Private Equity (Separate Account)	6.5	Neuberger Berman Alternatives Advisers LLC
Private Corporate and Real Estate Debt	0.7	GS Mezzanine Partners
Emerging Market Infrastructure Fund	0.1	IFC Asset Management Company, LLC
UK Renewables Private Equity	0.6	BlackRock Investment Management (UK) Limited
Commodities	0.7	BlackRock Investment Management (UK) Limited
U.K Unlisted Real Estate	1.3	BlackRock Investment Management (UK) Limited
Alternative Risk Premium Hedge Fund	1.2	Man Asset Management Ltd
Multi-Strategy Hedge Fund	1.1	Man Asset Management Ltd <sup>5</sup>
North America Private Infrastructure Fund	3.6	Stonepeak Associates III LLC
North America Social Infrastructure Fund	2.1	Harrison Street Real Estate Capital <sup>6</sup>
Controlled Environment Agriculture Fund	0.4	Equilibrium Capital Group, LLC <sup>7</sup>
Macro Opportunities Drawdown Fund	0.6	Brevan Howard Asset Management, LLP
Hedge Fund Completion Programme	4.1	Cambridge Associates Ltd
Infrastructure Emerging Market Fund	0.3	Augment Infrastructure Managers Advisory LLC <sup>8</sup>
Cash	5.7	Cash
	<u>100.0</u>	

<sup>1</sup> BlackRock manages a portfolio of financial instruments which seeks to hedge a proportion of the Fund's liabilities interest rate and inflation risk.

<sup>2</sup> The Fund was the only investor in Oak Hill Enhanced Credit Strategy Fund (Offshore) LP, the Credit Suisse Fund and Bridgewater Pure Alpha Strategy Fund as at 31 March 2024.

<sup>3</sup> The Fund has a 25.49% (2023: 25.49%) economic interest in Semperian PPP Investment Partners Holdings Limited.

<sup>4</sup> The Fund has a 12.44% (2023: 12.44%) economic interest in Cory Topco Limited.

<sup>5</sup> The Fund has a 14.47% (2023: 14.47%) economic interest in the Man 1783 Fund.

<sup>6</sup> The Fund has a 13.44% (2023: 13.50%) economic interest in the Harrison Street Social Infrastructure Fund.

<sup>7</sup> The Fund has a 12.60% (2023: 14.00%) economic interest in the CEFF II Fund.

<sup>8</sup> The Fund has a 7.7% (2023: 15.00%) economic interest in the Augment Brazil I, LP.

## TfL Pension Fund

### Investment Report (continued)

The Directors maintain a Statement of Investment Principles as required by the Pensions Act 1995 and the latest version is available on request from the Fund Office at TfL Pension Fund, Palestra, 8th Floor, 197 Blackfriars Road, London SE1 8NJ or can be found here:

[Statement-of-Investment-Principles-March-2024.pdf \(tflpensionfund.co.uk\)](#)

### 3. Analysis of investments

The 10 largest direct quoted equity holdings of the Fund as at 31 March 2024 are shown below.

	Value	% of Fund's quoted equity holdings	Country	Sector
	£m			
Alphabet	47.2	1.5	USA	Communication Services
Amazon	45.4	1.4	USA	Information Technology
Microsoft Corp	34.8	1.1	USA	Information Technology
Intercontinental Exchange	33.5	1.0	USA	Financials
Taiwan Semiconductor	30.3	0.9	Taiwan	Information Technology
Elevance Health	28.6	0.9	USA	Health Care
Canadian Pacific Kansas City	27.0	0.8	Canada	Industrials
Charter Communications	26.7	0.8	USA	Communication Services
Airbus SE	26.3	0.8	Netherlands	Industrials
Unilever	25.0	0.8	UK	Consumer Staples
	<u>324.8</u>	<u>10.0</u>		

The foregoing excludes exposure to individual stocks through the Fund's holdings of units in pooled investment vehicles.

### 4. Investment performance

The Fund participates in an independent investment performance measurement scheme organised by JP Morgan Investor Services which provides comparative information for assessing investment performance. JP Morgan Investor Services calculates both the overall investment returns obtained on the Fund's assets and the returns obtained by the individual Investment Managers.

Over the past three and five years, the Fund has outperformed its benchmark until last year, when the Fund experienced slight underperformance. The Fund has shown lower volatility over the whole period compared to its benchmark. Over the last year, the Fund's equity managers underperformed their benchmark and the Fund's bond managers were slightly behind their benchmark. The Fund's credit managers had performed well, and the Fund's liability hedging had increased. The Fund's private market managers, which made up close to a third of the Assets Under Management, also detracted performance over the year as their valuations lagged a significant rally seen in public markets since Q4 last year.

The table below shows the total investment returns, net of fees, (including both capital and income) obtained on the Fund's assets (including property but excluding AVCs) for the one, three and five years to 31 March 2024 and the corresponding composite benchmark established by the Trustee as the prime performance comparator. The benchmark quoted is a weighted average of indices relevant to the structure and is relevant throughout the time periods shown.

	One Year		Three Year Average		Five Year Average	
	Total Fund	Benchmark	Total Fund	Benchmark	Total Fund	Benchmark
Annual Return %	6.4	11.5	5.4	1.4	6.9	4.8
Ex currency hedging	5.5	10.6	5.4	6.1	6.8	7.3

The Fund assets returned 6.4% for the year ended 31 March 2024, 5.1% below its benchmark returns of 11.5%.

The Annual Return on investments disclosed in the Trustee's Report above is calculated using consistent and defined source information and using precise inputs. The financial statements disclosures are prepared using the latest available valuations and as a consequence there may be some minor timing differences and variances between investment returns reported above and the investment income, changes in market value and investment management expenses reported in the financial statements.

Since 1 April 2016, the Total Fund ex Currency Hedging Benchmark is calculated by the Fund's performance measurer as a weighted average of the underlying manager benchmarks. This has then been adjusted to estimate the impact of the currency overlay portfolio to produce the Total Fund Benchmark. The currency impact has been estimated as the difference in performance between the Total Fund ex Currency Hedging and the Total Fund.

# TfL Pension Fund

## Investment Report (continued)

Details of the performance of the individual portfolios in the year to 31 March 2024 gross of fees, unless shown otherwise, compared with the previous year are shown below:

	Year to 31 March 2024		Year to 31 March 2023	
	Fund %	Benchmark %	Fund %	Benchmark %
<b>Index-Tracking – BlackRock</b>				
UK equities	8.4	8.4	3.0	2.9
US equities	27.4	27.4	(2.3)	(2.4)
Canadian equities	14.0	14.1	(6.6)	(6.6)
European equities (ex. UK)	13.1	13.4	7.6	8.2
Japan equities	22.4	22.3	2.0	2.0
Pacific Basin (ex. Japan) equities	4.7	4.6	(3.8)	(3.8)
Middle East equities	15.6	15.0	(17.5)	(18.2)
Emerging Market equities	5.1	5.9	(5.3)	(4.9)
FTSE RAFI All World 3000	17.5	17.3	3.0	2.4
GeoExposure	11.9	11.6	8.0	7.9
LDI – BlackRock QIF	(17.2)	(17.2)	(18.5)	(18.5)
<b>Equities</b>				
Coronation – Global EM equities	6.8	5.9	(4.2)	(4.9)
J O Hambro – Asia (exJapan) equities	2.3	1.8	1.8	(3.0)
J O Hambro - Global equities	19.9	20.6	(12.3)	(1.4)
Nomura - Far East equities	13.2	14.4	(0.6)	(0.4)
Paradise -Global Small Cap equities	11.7	14.3	(3.1)	(3.6)
Pzena -Global equities	15.2	22.5	5.1	(1.0)
Russell - EM equities	3.3	5.9	(6.6)	(4.9)
Veritas - Global equities	16.0	20.6	(1.5)	(1.4)
<b>Bonds</b>				
BlackRock - Network Rail bonds <sup>1</sup>	(3.4)	(3.4)	(21.3)	(21.3)
Goldman Sachs - Asset Backed	3.1	3.3	1.3	9.1
Goldman Sachs - Corporate Credit	6.7	5.2	(6.5)	(6.5)
Goldman Sachs - Sovereign Credit	2.5	2.4	(0.3)	0.6
Industry Funds Management	1.1	8.6	12.1	6.1
J P Morgan - Emerging Market Debt	10.3	9.4	(7.6)	(5.8)
Oak Hill - Enhanced Credit	10.4	9.4	7.3	5.8
Wellington	4.0	6.9	3.8	3.9
<b>Other assets</b>				
Anchorage Capital	7.0	8.6	9.4	6.1
Augment Brazil	6.7	28.6	(12.3)	(5.6)
BlackRock Commodities <sup>1</sup>	(11.5)	(8.4)	(24.4)	(15.0)
BlackRock long Lease Property	(3.2)	7.3	(12.5)	(14.6)
BlackRock Real Estate <sup>1</sup>	6.0	6.3	(15.4)	(15.5)
BlackRock Renewable <sup>1</sup>	(15.4)	(9.6)	35.2	(37.5)
GS Broad Street Real Estate	14.2	10.9	15.6	3.9
Brevan Howard Fund <sup>1</sup>	(5.5)	8.6	19.1	6.1
Brevan Howard Special Opportunities	(9.1)	8.6	15.9	6.1
Blue Mountain Capital	12.0	8.6	(14.0)	6.1
Bridgewater Pure Alpha Plus Gold	17.6	9.2	(5.0)	9.1
Bridgewater AW China	5.7	6.4	1.3	12.4
Cambridge Associates Hedge Fund Program	5.2	6.4	13.0	12.4
CBRE	(8.3)	7.3	8.2	(14.6)
Colonial First State Global Asset Mgt <sup>1</sup>	19.8	2.2	26.8	15.0
Cory Topco Limited	1.2	7.9	18.1	17.4
Credit Suisse <sup>1</sup>	17.0	6.4	5.7	12.4
Equilibrium CEFF II	(13.8)	6.3	0.8	16.9
Goldman Sachs Coop Fund	(8.6)	32.6	8.8	1.4
Goldman Sachs Mezzanine VI	(50.2)	10.9	17.6	3.9
Goldman Sachs Mezzanine VII	14.0	10.9	12.0	3.9
Goldman Sachs - Trend	4.6	8.6	12.0	6.1
Goldman Sachs West Street	6.9	10.9	n/a	n/a
Harrison Street Social Infrastructure Fund	3.0	5.3	16.6	15.8
IFC Global Infrastructure	(10.6)	8.0	(26.7)	(3.0)
Man ARP	11.0	8.6	6.6	6.1
Man 1783	16.3	8.6	9.7	6.1
Neuberger Berman	5.6	26.2	4.4	2.3
Partners Group	(9.2)	26.8	(7.4)	2.5
Semperian	(13.6)	7.9	24.5	17.4
Siguler Guff Distressed Debt	(8.5)	18.1	11.9	2.9
Siguler Guff TARO	6.6	10.9	14.7	3.9
Stonepeak Infrastructure Fund	5.0	8.3	13.3	19.1

<sup>1</sup> Performance shown net of fees

The active managers (all the managers shown above with the exception of the Index/Passive and the LDI manager) have been set targets to achieve, measured as out-performance of the relevant benchmarks over 3 year rolling periods, with the extent of out-performance depending on the portfolio.

# TfL Pension Fund

## Investment Report (continued)

### 5. AVCs

Legal and General is the ongoing AVC provider. The distribution of the AVCs invested with the two legacy providers as at the year end is set out below:

	Value of fund at 31 March 2024	% of total	Reported returns (where declared) Year to 31 March 2024
	£m		
<b>Legal &amp; General</b>			
Diversified G28	45.2	29.9	8.8%
All World Equity Index 3	26.6	17.6	22.0%
Cash 3	26.2	17.3	5.1%
HSBC Islamic Global Equity Index Fund 3	12.9	8.5	32.2%
World (Ex-UK) Equity Index 3	11.8	7.8	24.2%
UK Equity Index 3	10.9	7.2	7.7%
Ethical Global Equity Index 3	9.0	5.9	23.5%
All Stocks Index Linked Gilts Index 3	2.5	1.7	(5.9%)
Future World Annuity Aware Fund 3	2.1	1.4	4.1%
Future World Fund 3	1.1	0.7	16.3%
	<u>148.3</u>	<u>98.0</u>	
<b>Clerical Medical</b>			
With Profits	1.8	1.2	N/A
Unit-linked funds	0.8	0.5	N/A
	<u>2.6</u>	<u>1.7</u>	
<b>Standard Life</b>			
Pension With Profits One Fund	0.4	0.3	N/A
	<u>151.3</u>	<u>100.0</u>	

### 6. Custodial arrangements

During the year the Trustee was Custodian of certain property unit trusts and cash. Various brokers hold cash in connection with forward foreign exchange contracts, futures and interest rate swaps. The rest of the Fund's investments, comprising those assets managed by the Fund's Investment Managers, were held by JP Morgan Investor Services as nominee. The Fund's pooled investment interests are held under managed fund policies in the name of the Trustee and the policy documents are held by BlackRock Investment Management (UK) Limited and other custodians.

### 7. Stewardship and activism

The Trustee recognises the Fund's responsibility as an active and long term institutional investor to support and encourage good corporate practices in the companies in which it invests. In the stewardship of assets this means paying regard to relevant environmental, social and governance, ("ESG") considerations when considering the purchase, retention or sale of investments. Following the Trustee's review of their investment beliefs that underpin the approach to investment strategy, in addition to the existing belief that active corporate governance can add value, they have included as a new belief that investment return and sustainability are not conflicting objectives.

Analysis of ESG factors may serve to highlight exposures that could harm a company over the longer term while companies which positively engage with ESG issues may achieve better long-term value when compared with those which do not.

Through delegation to their investment managers the Trustee currently communicates with companies and exercises their rights attaching to their investments through shareholder voting.

In order to build on this investor activism, the Fund has become a signatory of the UN Principles of Responsible Investment ("PRI") which require the Fund to:

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Be an active owner and incorporate ESG issues into ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which it invests.
4. Promote acceptance and implementation of the Principles within the investment industry
5. Work together to enhance our effectiveness in implementing the Principles.
6. Report on activities and progress towards implementing the Principles.

## **TfL Pension Fund Investment Report (continued)**

Through this association with the PRI the Fund will gain support in developing its engagement with ESG issues and through the PRI reporting framework provide information on its activities and be able to assess progress. Signatories are not expected to achieve instant compliance, but they are required to start to incorporate the PRI into investment decision-making and ownership practices and report on their implementation. The Fund continues to work on its compliance with the PRI using its existing resources and this determines the scale and pace of the Fund's engagement.

From 1 October 2021 the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 introduce new requirements relating to reporting in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. These aim to improve both the quality of governance and the level of action by Trustee in identifying, assessing and managing climate risk. The TCFD report for 2024 has been published and can be found here:

<https://www.tflpensionfund.co.uk/news-publications/task-force-on-climate-related-financial-disclosures/>

# TfL Pension Fund Implementation Statement

## Introduction

On 6 June 2019, the Government published the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (“**the Regulations**”). The Regulations, amongst other things, require that the Trustee Directors (“**the Trustee**”) outline how they have ensured that the policies and objectives relating to voting and engagement policies set out in their Statement of Investment Principles (SIP) have been adhered to over the course of the year. This document covers the year ending 31 March 2024.

The purpose of the Implementation Statement (“**the Statement**” or “**IS**”) is to:

- Set out the extent to which, in the opinion of the Trustee, the voting and engagement policy under the Fund’s Statement of Investment Principles (‘SIP’) has been followed during the year
- Describe the voting behaviour by, or on behalf of, the Trustee over the year (including the most significant votes cast by Trustee or on their behalf)

The Trustee must include the Implementation Statement in the Trustee’s Report & Accounts and publish this on a publicly available website. The Statement of Investment Principles (dated June 2023), which includes the voting and engagement policies, can be found here:

<https://www.tflpensionfund.co.uk/news-publications/statements-of-investment-principles/>

The Trustee is only required to report whether, in their opinion, their policies on voting and engagement have been met in the period. They have, however, chosen to report more generally on compliance with the SIP given the importance of this from the governance perspective.

The Fund makes use of diverse range of investments therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact. The Trustee confirms that the investments which the Fund holds were chosen in line with the requirements of Section 36 of the Pensions Act 1995

## Changes to the SIP over the year to 31 March 2024

The SIP that was updated in June 2023 was applicable for most of the period covered by this statement and therefore the sections referenced in this statement are those given in the SIP dated June 2023. The June 2023 SIP was aligned with the regulations mentioned above, which covered policies regarding how asset managers are incentivised to achieve long-term objectives, policies regarding cost transparency and policies on voting and stewardship.

The SIP underwent its annual review in Q1 2024 and the minor updates were made to improve clarity where needed and reflect any changes in the investment portfolios.

## Compliance statement

This Statement demonstrates that the TfL Pension Fund has adhered to the investment principles and policies regarding voting and stewardship, including Environmental, Social, and Governance (“**ESG**”) factors, as set out in the Fund’s SIP.

## Summary of ESG Policy Implementation

The Trustee outlined several key objectives and policies that fall under ESG in the SIP. This section provides a summary of the implementation of these policies.

As all the Fund’s assets are externally managed, the implementation of sustainable investing and ESG integration at individual mandate level is delegated to the investment managers (“**the Managers**”), where the Managers are also expected to engage with the investee companies on the Fund’s behalf.

In addition, the Fund partners with a stewardship specialist, Sustainalytics, and several collaborative engagement platforms, to conduct focused engagements. Since March 2020, all proxy voting activities for the Fund’s segregated equity mandates are carried out by Glass Lewis (as part of the Sustainalytics partnership) on behalf of the Fund.

For all the above external service providers, the Fund ensures that the sustainable investing and stewardship activities are implemented in alignment with its ESG policy by:

- 1) selecting/designing mandates to reflect its ESG policy
- 2) closely monitoring the activities of incumbent managers to ensure they are aligned with the Fund’s ESG policy

## TfL Pension Fund Implementation Statement (continued)

In addition, at the Fund level, the Fund monitors a range of ESG metrics to ensure that the portfolio outcome is in alignment with the Fund's ESG policy. At the strategic asset allocation level, the Fund follows the ESG policy by investing in asset classes that provide more opportunities for ESG-tilted investments, including renewable energy, waste-to-energy infrastructure, energy efficient buildings and other climate transition assets.

The Fund publishes an annual Sustainable Investing report every year which covers the above topics in detail and provides graphical analysis and case studies. The Sustainable Investing report can be read in conjunction with the IS. The latest Sustainable Investing report can be accessed here:

[2023 Sustainable Investing Report](#)

### **How the ESG Objectives & Policies outlined in the SIP have been met**

In this section, the ESG policy sections of the SIP are noted, together with an explanation of how these objectives have been met and policies adhered to over the course of the year to 31 March 2024:

#### *Governance*

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. (section 6.3)

The Trustee Board receives annual training on ESG issues, including climate change. There is a half-day annual investment training session (including ESG and climate-related topics) provided to the Trustee Directors by the Investment Adviser WTW. On 24 April 2023 the Fund held a half-day training seminar focusing on carbon literacy and ESG beliefs. In November 2023 a training session for the Trustee Directors and Pension Consultative Council (PCC) members was delivered by Sustainalytics covering the topic 'evaluating and engaging with companies and their relationship with workers'. On 25 April 2024 (shortly following this year-end) a training session was delivered on biodiversity and TNFD (taskforce for nature related financial disclosures). Fund Office investment staff attended all training sessions.

The Chair of the IC is a member of Accounting for Sustainability and attends industry seminars and conferences regularly. Fund Office staff who have involvement in investment matters have all completed TfL Carbon Literacy Training as part of their annual learning objectives. In addition, the Trustee and the Fund Office staff attend ESG and climate focussed conferences and workshops, such as those hosted by PLSA, Sustainalytics and fund managers, to broaden their exposure and stay abreast of new developments.

#### *Investment managers and advisers (sections 10.10 – 10.11):*

As part of the Fund's due diligence process, a thorough check of the prospective manager's credentials relating to all matters on ESG, sustainable investing and stewardship are reviewed. The Fund assesses whether the prospective manager has an ESG policy, how it is embedded in its strategy, risk management, investment selection, portfolio management and reporting. Results of such assessments are then covered in detail in presentations to the Trustee. Where segregated mandates were implemented, specific requirements for the Managers to consider the alignment of the Fund's ESG policy with the investment decisions made by the Managers were included within the Investment Management Agreement ("IMA"). In the year to 31 March 2024, the Fund made an additional commitment to the Siguler Guff tactical opportunities private debt mandate and specific climate related reporting obligations were introduced. We also reupped the Cambridge Associates hedge fund programme where we reemphasized the obligation to get better climate disclosures and potentially add managers with climate focussed activist agenda, which resulted in the addition of the TCF (The Children Fund). Climate risk assessment was also more explicitly embedded in the Fund's Reinsurance mandate with Credit Suisse that resulted in several portfolio changes to improve the climate robustness of the investment outcomes.

The Fund Office (an in-house management team lead by the Fund Secretary and reporting to the Trustee) monitored all underlying managers through regular calls held either quarterly or semi-annually on each underlying fund or mandate. ESG topics are discussed on these calls and the Fund would ask questions on how ESG issues had been integrated into the investment process in the given period, in particular covering high risk holdings/ material ESG factors and looking for evidence that managers assessed and managed ESG risks adequately.

In the reporting year, equity and fixed income managers were asked to respond to the Fund's ESG questionnaire which asked for information on ESG governance, integration, engagement and case studies. Managers have clear sight of the SIP and the Fund's ESG objectives, and they are required to produce detailed documents which form the basis of the annual ESG review. On the back of these reports, feedback is provided, and the Fund would seek ongoing improvements in the Managers' ESG approach. The Trustee was satisfied with the above-mentioned policies for the respective managers by going through this process on all investments held within the year.

## TfL Pension Fund Implementation Statement (continued)

In November 2023, the Trustee reviewed the biennial “Sustainable Investment Review” report from the Fund’s Investment Adviser, WTW, to assess the extent to which the Fund’s managers are meeting the Fund’s requirements on ESG integration and corporate governments. The next report is due in 2025. Alongside an assessment of the Fund’s public equity investment managers, this review was expanded to cover several of the Fund’s credit and alternatives managers. All managers reported on had achieved overall ratings of “high” or “medium” across the areas assessed.

Assessment of ESG related risks on individual investment decisions made by the manager are given in the monitoring section below.

*Risk management: Financially material ESG issues, including climate change (sections 10.12 - 10.23)*

### *Monitoring on ESG metrics*

During the year, the Fund Office reported their findings on ESG characteristics and scores for the Fund’s active public equity and bond mandates, on a quarterly basis to the Trustee. These reports included analysis on the highest carbon emitters within these asset class holdings as well as the companies with the lowest ESG scores.

Each quarter, a selection of these highlighted companies was discussed with the investment managers that invested in them to understand the rationale for continuing to hold them. One example during the year was a corporate bond holding in Vistra Op (VST), which is the largest independent power producer in the US with 42.4GW of total capacity, 57% Gas, 21% Coal, 15% Nuclear and 6% Renewables. Post sunset shutdowns (2027) Coal should reduce to ~6%, while renewables should increase to ~21%. VST has planned growth projects for 0.9GW of solar capacity, and 0.5GW of energy storage capacity (~4-hour capacity). The manager views them as improving on the environmental side and engages with the company to implement their net zero programme. VST has a Net-Zero target for 2050 for Scope 1 and Scope 2 GHG emissions, with an interim target of 60% reduction by 2030 relative to 2010 Baseline (50% completed). VST has retired three coal plants in the last 12 months and plans to shut down one (1.2GW) in 2025, plus four in 2027 (3.4GW) or earlier depending on pricing. They do rank high on governance and do not have any controversies.

Alongside investee companies’ ESG score and emission intensity, ESG scores at the mandate level were also assessed and used in conjunction with performance figures to evaluate whether any of the mandates were exhibiting significant detrimental impacts on returns due to assets held. During the Fund year, the Trustee was pleased that no mandates needed to be changed based on these metrics.

Each quarter, the weighted average ESG scores and weighted average carbon emissions intensity “WACI” (defined as metric tonnes per million USD sales) across the actively managed public equity and bond mandates were compared against scores for relevant benchmarks. The Fund was broadly in line with the best ESG score of the bucket of indices used for comparison and had an overall lower emissions intensity than all the benchmarks across all quarters in the year. For illustrative purposes, the table below shows the ESG scores and emissions intensity versus benchmarks at different time periods, starting with Q2 2017, when the Fund first started monitoring these metrics:

### **TfL Pension Fund and Benchmark ESG Scores (higher the better)**

Date	Fund score	MSCI ACWI	MSCI EM	Russell 2000
Q2 2017	4.93	5.39	4.25	3.90
Q1 2020	5.70	5.14	4.58	4.65
Q1 2021	5.09	4.97	4.40	4.60
Q1 2022	5.32	5.20	4.64	4.69
Q1 2023	5.99	5.50	4.90	4.90
Q1 2024	5.76	5.48	4.99	4.97



# TfL Pension Fund Implementation Statement (continued)

## TfL Pension Fund and Benchmark Carbon Emissions Intensity (lower the better)

Date	Fund score	MSCI ACWI	MSCI EM	Russell 2000
Q2 2017	185.22	214.82	340.99	192.57
Q1 2020	123.42	180.39	290.16	138.62
Q1 2021	115.69	157.62	274.10	132.43
Q1 2022	114.60	162.81	325.65	154.17
Q1 2023	103.70 <sup>1</sup>	149.82	320.50	148.07
Q1 2024	85.70	118.22	318.92	123.44

<sup>1</sup> 2023 figure restated to include Russell emerging market equity which is a pooled fund and be consistent with the TCFD. Prior to 2023, data shows segregated mandates only (as reported on Aladdin). Russell included from 2023 onward

Further to the emissions intensity data given in the table above, the Fund produced figures outlining its environmental footprint (resource intensity output) for 2023 on page 20 in the 2023 Sustainable Investing Report. In line with best practice under TCFD, the Fund started the process of evaluating its “carbon footprint” across all asset classes with the view to measure and set future aims based on this analysis. In the current reporting year’s TCFD report, the coverage of emissions data has been expanded to include the LDI mandate and alternatives mandates (hedge funds, private markets, alternative credits, subject to data availability).

The impact of the Fund’s investments was assessed against the UN Sustainable Development Goals (‘SDGs’ or ‘Goals’), which are 17 goals to drive the end of poverty, protect the planet and facilitate peace and prosperity by 2030. This analysis was completed by comparing the Fund’s active equity portfolio per SDG, against a custom benchmark. The Fund outperformed the benchmark on 15 out of 17 SDG goals. Full details of these results can be found on page 33 in the 2023 Sustainable Investing report.

### *Exclusion Policy*

Throughout the period, the exclusion policy in place that excludes companies that generate more than 30% of their annual revenues from thermal coal in power generation and/or mineral extraction from the Fund’s segregated mandates was monitored and no breaches were reported. No further exclusion policies were agreed by the Trustee within the year.

### *Private markets*

The Trustee has put significant thought into how to improve engagement and assessment of ESG and sustainability factors in private markets investments. The Fund Office engaged with the underlying managers to continue this process and has provided materials to the Trustee to help improve the understanding of asset class specific initiatives such as GRESB, formerly known as the Global Real Estate Sustainability Benchmark, an organisation that provides ESG benchmarks for infrastructure and real estate assets based on company or fund self-assessments.

### *Investments with positive impact and sustainability themes (sections 10.33 – 10.35):*

As part of its strategic long-term goals, the Fund is increasing its exposures in private markets investments. In this space, there is a variety of assets and initiatives that strongly align with impact and sustainability themes.

In the scheme year, the Fund has made top ups and deployed further capital across several infrastructure funds covering ESG tilted investments globally. Some of these assets are outlined further on pages 35-38 in the 2023 Sustainable Investing Report. All these investments were made with social or environmental impacts in mind.

It is expected that private markets investments will continue to be an important part of the target of allocating at least 15% of assets to investments with a strong ESG-tilt by 2025.

### *Collaborative initiatives (sections 10.36 – 10.39):*

The Trustee recognises the importance of their role as institutional investors; however, they understand the limits of the impact of acting alone. Due to this, the following collaborative initiatives were undertaken within the year:

- The Fund is a signatory to the PRI (Principles for Responsible Investment) and as such completed its annual reporting submission. In the latest results from 2023, the Fund scored 5 stars (the highest score) in all but two of the ten categories assessed by the PRI.

## TfL Pension Fund Implementation Statement (continued)

- The Fund continued to be a signatory to Carbon Disclosure Project (CDP), a non-profit organization dedicated to collecting global environmental data from companies and cities where the Fund participated in the Non-Disclosure Campaign (NDC). As part of the campaign, the Fund agreed to co-sign letters addressed to targeted companies held in the Fund's portfolio. Results from the 2023 campaign were remarkable. Across the whole campaign, 1,590 companies were selected for targeted engagement, reflecting an 8.5% increase from 2022. Among these companies, 1,134 were directly requested by their shareholders or bondholders to disclose information on climate change, while 414 and 463 were urged to disclose data on forests and water security, respectively. The number of companies engaged in the NDC has continued to grow. The NDC will help investors and companies work together to deliver transparency for tackling worldwide environmental issues.
- Through Climate Action 100+ (CA100) the Fund engages with three companies (Rolls Royce, Anglo-American and Rio Tinto). Phase 2 of CA100 was launched in 2023 and the Fund continues its active participation. All three companies have announced net zero by 2050 ambitions and have set short, medium to long term emission reduction targets with varying degrees of details. They are implementing a strategy of decarbonising their own operations, and developing products and technologies that will help clients decarbonise as well as enable the companies to access opportunities presented by the energy transition. There is increased partnership with customers, local governments and the like in research and development. These are all areas that CA100 has been pushing the companies to continue to improve. Companies are also being asked to align their capital spending with their decarbonisation strategies. More information is given in the TCFD report.
- Accounting for Sustainability (A4S) is an initiative that provides tools to help embed sustainability in financial processes. The Chair of the Investment Committee represents the Fund on the A4S Asset Owners Network and provided input on important matters at meetings, including climate change.

*Voting and Engagement (sections 10.28 – 10.32):*

*Policies and alignment*

*Overview*

The Fund held investments in public equities with voting rights in two main ways:

- i. Through segregated mandates set up specifically for the Fund's needs or
- ii. Through pooled vehicles where the Fund is investing alongside other investors

In terms of voting, the key difference is that for segregated mandates, the Fund retains voting rights, whereas for pooled vehicles, the investment managers control voting. The Trustee continues to assess the possibility of moving pooled equity fund assets to segregated structures for more voting control and better outcomes for its members.

*Segregated mandates and voting policies*

For equities held in segregated mandates, the Fund used Glass Lewis as its proxy advisor and Sustainalytics as its engagement partner for the period covered. Sustainalytics engagement also covers corporate bond issuers. Glass Lewis votes on behalf of the Fund in line with best practice in the region where the company is based. Sustainalytics' approach to engagement is centred around the notion of building long-term partnerships with the aim of creating long-term sustainable investment value in the companies that they engage with.

Glass Lewis policies are largely based on the regulations, listing rules, codes of best practice and other relevant standards set in each country. While these guidelines provide a high-level overview of our general policy approach, implementation varies in accordance with relevant requirements or best practices in each market. The latest guidelines can be found through the link below:

[Glass Lewis Voting Policies](#)

For the scheme year covered, the Fund voted based on the Glass Lewis guidelines, with Sustainalytics 'engagement-based overlay' using voting as a means of escalation in a small number of engagement cases where engagement has stalled.

In addition, from 1 April 2024 Sustainalytics will provide an ESG voting overlay that will complement Glass Lewis's traditional corporate governance policies with specialist voting guidance on specific ESG topics. It will be a material expansion on the existing 'engagement-based' voting overlay which usually targets a few dozen cases. As an example of value-add through the new ESG Voting Overlay, Sustainalytics delivered in total 936 ESG-specific vote recommendations in the second quarter of 2023.

## TfL Pension Fund Implementation Statement (continued)

In the case that Sustainalytics are recommending a vote against management proposals, the Fund would send a letter to the company to explain the rationale and strengthen the signal that is to be conveyed through the vote.

Details of the voting behaviour undertaken on behalf of the Trustee, including information on the most significant votes cast, are set out in the appendix to the IS. This includes two examples of where Sustainalytics provided voting recommendations that differed from Glass Lewis (Amazon, Shareholder Proposal Regarding Report on Plastic Packaging; TotalEnergies, Shareholder Proposal Regarding Scope 3 GHG Target and Alignment with Paris Agreement) and the Fund voted to support the shareholder proposals based on their recommendations. It also includes one example where Sustainalytics gave a recommendation that was in support of the Glass Lewis view (Amazon, Shareholder Proposal Regarding the Human Rights Impacts of Facial Recognition Technology). These examples show that Glass Lewis carries out the Fund's voting in accordance with the Fund's stewardship partner Sustainalytics's ESG recommendations, which strengthens the Fund's voting practice.

### *Pooled vehicles and voting policies*

In the year 1 April 2023 to 31 March 2024, the Fund's pooled equity fund managers were BlackRock and Russell Investments where they were in charge of voting for the underlying equity investments. Their voting policies can be accessed through the provided links below.

[Blackrock Investment Stewardship & Voting Policy](#)

[2024 Russell Investments Proxy Voting Policies](#)

The Trustee received and reviewed voting reports from both BlackRock and Russell Investments at least quarterly to monitor the latest period's key votes and review whether the policy is in line with the Fund's stewardship policies. Throughout the year, the Trustee was satisfied that the voting and engagement carried out by BlackRock and Russell Investments was in line with its policies.

### *Engagement*

Following consultation with Sustainalytics in 2019, the Trustee decided to focus on the following three programmes:

- **Global Standards:** Engaging with companies that severely and systematically violate international standards. The aim of the engagement is not only to resolve incidents deemed to breach these standards, but also to improve the company's future ESG performance and risk management to ensure incidents do not occur again.
- **Material Risk:** Proactive engagement with companies with the greatest unmanaged financially-material ESG risks. The collaborative and constructive engagement helps high-risk portfolio companies to better identify, understand and manage their ESG risks.
- **Thematic Engagement:** Focusing on tackling the most challenging ESG issues, from climate change to child labour. In July 2021, the Fund began its focus on Sustainable Forests and Finance theme, which aims to address climate risk and advocate for reductions in both direct and indirect emissions in global forest systems. The Fund worked closely with Sustainalytics in the design stage of this thematic engagement topic. The thematic engagements have a three-year cycle and will be releasing its final report of the theme in Q3 2024.

Engagement is core to the Trustee's arsenal to help driving ESG progression within the Fund and the industry. Engagement statistics and examples can be found in the collaborative initiatives section and the appendix, with additional case studies available in the 2023 Sustainable Investing Report (pages 23-25).

### **Summary of Other Policies**

The Trustee outlines in their SIP several key objectives and policies on strategy, beliefs, allocations, and risks amongst other required policies. This section gives a summary of these policies.

The SIP sets out the Trustee's investment objectives for the Fund and the investment principles governing how decisions about investments must be made.

An important part of the SIP is the Beliefs. The SIP sets out the Trustee's Investment Beliefs and they are intended to set the background against which all investment related decisions are made for the benefit of the Fund.

Discussions and decisions on investment strategy, implementation, tactical views, and funding should be guided by these principles. The Investment Beliefs were updated in Q2 2023 and are now contained in a standalone document but referenced in the SIP.

The Trustee has a duty to set investment strategy and to select and monitor underlying funds and managers. When setting the investment strategy, the Trustee needs to consider how the assets are best invested to help the Fund to pay benefits when they are due, whether these are due in the short-term or in the long-term.

## TfL Pension Fund Implementation Statement (continued)

The Trustee will need to consider and respond to changes in the strength of the employer covenant and the level of investment return expected in the agreed Funding arrangement.

As stated in Section 4 of the SIP, while the primary objective is to hold sufficient assets to meet the liabilities of each section, the Trustee has recognised that the level of funding within each section and the strength of the employers' covenants permit some investment risk being taken in pursuit of growth.

The aim is to take on risk in a controlled fashion to achieve incremental excess return - a process that is agreed by the Trustee in consultation with TfL and submitted to the Pensions Regulator as part of the triennial funding.

In the past decade, the Fund's investment strategy has evolved from a simple combination of equities and bonds to a much more diversified portfolio comprising a significant allocation to alternative assets. The introduction of liquid alternatives and private market allocations aims to enhance the return (while controlling risk) for the Fund.

These changes have been guided by the Fund's SIP. The SIP itself has evolved to reflect the Trustee's changing investment beliefs, adapting to the emergence of new investment trends and products available in the marketplace.

As part of setting up the strategy, the Trustee has the task of selecting, monitoring and reviewing a mix of assets which provides an appropriate degree of risk exposure and potential for reward (returns) for the Fund investments.

The Trustee also must ensure that assets are sufficiently liquid, to be able to release funds from the Fund investments and pay the benefits as they become due and meet other cash requirements including meeting collateral calls within the Fund's derivatives portfolio and capital calls from private markets managers on both short term and long term basis.

### **How the other objectives & policies outlined in the SIP have been met**

The Trustee outlines in their SIP several key objectives and policies. These are noted below, together with an explanation of how these objectives have been met and policies adhered to over the course of the year to 31 March 2024:

#### Objectives of the Fund (sections 4.1 – 4.5):

To deliver sustainable long-term funding in line with the recovery plan agreed. Following the completion of the 2021 Actuarial Valuation, the Trustee has now agreed a new Investment Strategy based on the results of the actuarial valuation, which is documented in the SIP. It results in a small reduction in targeted returns in line with a de-risking approach agreed by the Trustee in consultation with TfL. The next triennial valuation will be carried out at 31 March 2024.

#### Additional Voluntary Contributions (AVCs) (sections 12.1- 12.2):

The Trustee fulfilled their duties in providing members the option to make additional contributions into investment options provided by the chosen provider, Legal & General Investment Management (LGIM). LGIM was appointed following a review at the end of 2019.

#### Investment Beliefs (section 7.1):

The Beliefs guided how the Fund was managed during the year and have helped to inform Trustee actions and safeguard value during periods of ongoing uncertainty, such as the conflict between Russia and Ukraine. This can be most prominently seen through the beliefs that diversification can control risk and the importance of long-term thinking. There are also beliefs around climate change and sustainability which shape the Fund's approach in these areas. The Investment Beliefs were recently updated in Q2 2023 and are now contained in a standalone document but referenced in the SIP.

#### Governance Policy (sections 10.7 – 10.9):

In the year to 31 March 2024 the Trustee took steps to meet the TCFD reporting requirements in line with the Department for Work and Pensions ("DWP") regulations and best practice guidance.

## TfL Pension Fund Implementation Statement (continued)

### Investment Strategy: Asset Allocation (sections 8.1 – 8.6):

The Trustee is advised by the Fund's Investment Adviser, WTW, on the Fund's Investment Strategy. It is usually set following a Triennial actuarial valuation and is reviewed on an annual basis to consider any significant market and economic changes. The current investment strategy was agreed as part of the review and broader strategy discussions with the Fund's corporate sponsor TfL, and based on the results of the actuarial valuation of the Fund as at 31 March 2021. Decisions were made to de-risk the investment strategy by reducing the expected return by a total 0.3% pa. This would be achieved through reducing the public equity allocation, increasing private market and alternative credit weightings and also the Fund's overall rates and inflation hedge ratio to nearly 33%.

The first stage of 0.1% reduction was implemented through increased liability hedging in the LDI portfolio in December 2022 and the next 0.1% reduction was completed in March 2023. Implementation for the final stage of a further 0.1% reduction started in the 2023/24 scheme year via reduction in equity exposure and increased alternatives and credit allocations and will continue over the next few years. This final stage needs to be implemented over time as deploying assets in private markets takes time and a material reduction in equity exposure needs to be phased and market conditions considered.

In summary, in the year to March 2024, the Fund made investments in line with the target allocation.

### Risk Management (sections 9.1 – 9.5):

Risk management at the mandate level is delegated to the investment managers.

Risk monitoring is fully integrated in the Quarterly Performance reports reviewed by the Trustee. Several risk metrics are covered in these reports ranging from portfolio level Value at Risk (VaR) and volatility to scenario analysis, tracking error, drawdown measures and market beta at both the portfolio and at an individual mandate level. Risk was assessed on a regular basis throughout the year using these methods and the Fund operated within its risk limits.

### Rates of Return (section 8.5):

Rates of return for the Fund are calculated independently by the Fund's performance manager (JP Morgan) and reported on a quarterly basis. It shows current portfolio return expectations against benchmark returns. In addition, mandate level returns were monitored against performance benchmarks agreed with the managers, to ensure that they were in line with long-term expectations. During the year, one mandate (Ardevora) was terminated following significant asset outflows and weak performance.

### Liquidity (sections 5.1 – 5.2):

The Trustee monitors the Fund's liquidity regularly including projections of near and mid-term requirements. A liquidity update is presented to the Investment Committee and the Alternative and Liability Hedging Committee on a quarterly basis.

### Monitoring (sections 11.7 – 11.14):

During the period, four performance monitoring reports were produced for the Investment Committee meetings and four were produced for the Alternatives and Liability Hedging Committee meetings in the period by the Performance Manager, Investment Advisor, and the Fund Office. Fees were assessed against performance both on a short-term and long-term basis to assess value. During this process, fees were checked to ensure they were in line with IMAs.

The Trustee will continue to work with the Investment Adviser and the Fund Office to improve monitoring analysis and mitigate unwanted risks which are more prevalent in times of stress. No concerns were raised within the period, relating to fees and incentives versus managers' performance. The Trustee continues to closely monitor fees to ensure value for the Fund and its members.

The performance manager reports provide returns over multiple periods (quarterly, annual, 3 years etc) for the Fund, the individual mandates and also their benchmarks. For segregated mandates, performance data is received through the Fund's custodian, JP Morgan, while other mandates are sourced directly from the fund managers. The reports assess value for money (VFM) through analysis of outperformance against the management fees.

Altogether, for the active equity, fixed income and real estate mandates, the active performance added to the Fund weighted based on market values was -0.9% vs fees calculated on the same basis of 0.5% over a trailing 36-month period to 31 March 2024, leading to underperformance of -1.4% p.a. net of fees. As at 31 March 2024, the liquid alternative mandates generated around 3.6% alpha and the Fund paid 1.7% of fee leading to outperformance of around 1.9% p.a. net of fees over a trailing 36-month period.

## TfL Pension Fund Implementation Statement (continued)

The Fund's Investment Adviser also produces reports that give a quarterly holistic update of performance and funding in the context of the liabilities, complementing the Fund Office performance reports. Performance is provided net of fees and compared to individual benchmarks per fund/mandate. Risk is also monitored at the portfolio and underlying fund or mandate level. Quarterly manager assessments are also included and where necessary, highlight any major manager changes.

### **Conclusion & future developments**

Over the course of the year to 31 March 2024, the Trustee is pleased to report that they have, in their opinion, adhered to the policies set out in the Fund's SIP.

The Trustee will continue monitoring the funds and managers the Fund uses and will seek professional advice from its Investment Adviser as appropriate.

The Trustee recognises that they have a responsibility, as an institutional investor, to encourage and promote high standards of stewardship in relation to the assets that the Fund invests in. The Trustee will continue to use its influence to drive positive behaviour and change among the fund managers and other third parties that the Trustee rely on, such as the stewardship service provider and Investment Adviser.

The Trustee will, as appropriate, set increasingly higher standards for these parties in future, and will monitor, assess, and hold them accountable to ensure that the assets of the Fund are appropriately invested and managed. Accordingly, the Trustee will continue to improve the Fund's responsible investment policies throughout 2024-2025 with a focus on its net-zero strategy (as well as an increasing focus on non-climate areas such as social, biodiversity and circular economy, as evidenced by the 'meta themes' noted in the paragraph below). With support from the Investment Adviser and regular engagement with managers, proper policy implementation will be monitored.

Looking ahead, starting from 1 April 2024, Sustainalytics will expand the Fund's engagement footprint to six 'meta themes' providing comprehensive coverage to the most important E, S and G issues, ranging from human rights, human capital management, net zero, biodiversity, circular economy to corporate governance. Sustainalytics will also provide an ESG voting overlay that will complement Glass Lewis's traditional corporate governance policies with specialist voting guidance on specific ESG topics. The ESG voting overlay is closely joint up with the engagement programmes and will cover the six meta themes with ample focus on climate as well as non-climate issues (such as social issues).

The Fund is actively deploying capital in private market mandates, where there is a rich opportunity set in climate transition and other sustainable investments, to move asset allocation towards strategic goals as well as towards the Fund's 15% ESG tilted investment allocation target by 2025.

# TfL Pension Fund Implementation Statement (continued)

## Appendix

### Voting Statistics

The table below gives a summary of voting statistics across all public equity holdings within the year to 31 March 2024:

	Votable meetings	Votable Resolutions	% of Votable Resolutions Voted On	% of Votes with Management*	% Votes against Management*	% of Votes Abstained*	% of Resolutions Voted Contrary to Proxy Adviser
<b>Segregated accounts</b>	573	7,381	100%	87%	10%	1%	1%
<b>BlackRock Total<sup>^</sup></b>	11,359	133,785	96%	93%	6%	1%	0%
<b>BlackRock Real Estate Index Fund</b>	346	3,732	98%	94%	5%	0%	0%
<b>BlackRock Russell Developed Large Cap EM Geo-Exposure Index Fund</b>	481	6,754	95%	94%	5%	0%	0%
<b>BlackRock Aquila Life MSCI World Fund</b>	1,003	15,204	98%	94%	5%	0%	0%
<b>BlackRock Aquila Life US Equity Fund</b>	599	8,024	99%	97%	2%	0%	0%
<b>BlackRock Aquila Life Canadian Equity Fund</b>	49	726	100%	98%	1%	0%	0%
<b>BlackRock Aquila Life UK Equity Fund</b>	1,045	14,770	96%	96%	3%	1%	0%
<b>BlackRock Aquila Life European Equity Fund</b>	454	8,623	82%	88%	11%	1%	0%
<b>BlackRock Aquila Life Japanese Equity Fund</b>	511	6,075	100%	96%	3%	0%	1%
<b>BlackRock Aquila Life Pacific Rim Equity Fund</b>	439	3,119	100%	89%	10%	0%	0%
<b>BlackRock Aquila Life Israel Equity Fund</b>	74	580	100%	87%	12%	3%	0%
<b>BlackRock Aquila Life Global 3000 Fundamental Weighted Index</b>	3,575	43,099	95%	94%	5%	1%	0%
<b>BlackRock iShares EM Index Fund (IE) Agg</b>	2,783	23,079	98%	87%	12%	2%	0%
<b>Russell Total</b>	862	7,804	98%	82%	13%	1%	6%
<b>Russell Emerging Markets Equity Fund<sup>†</sup></b>	862	7,804	98%	82%	13%	1%	6%
<b>Total</b>	12,794	148,970	96%	92%	7%	1%	0%

Figures provided by the investment managers, Glass Lewis and Sustainalytics

\* % of the resolutions voted on. Figures may not total 100% due to a variety of reasons, such as lack of management recommendation, scenarios where an agenda has been split voted, multiple ballots for the same meeting were voted differing ways, or a vote of 'Abstain' is also considered a vote against management.

<sup>†</sup>Russell Investments does not strictly follow the voting policy of its proxy advisor as it has its own voting policy, which is why there is a large deviation in contrary votes. The Fund has no control over that policy.

<sup>^</sup>BlackRock uses multiple proxy advisors for information but voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Principles and custom market-specific voting guidelines.

# TfL Pension Fund

## Implementation Statement (continued)

### Voting Behaviour

Through voting with Glass Lewis, the Fund generally votes in line with what is seen as best practice and relevant to the given jurisdiction. Regional insights and statistics highlighting voting trends for proxy season 2023 are given below.

#### North America

- In the US, over the last two years, there's been a notable 12% rise in the number of shareholder proposals due to SEC changes allowing fewer exclusions. Despite this increase, support for these proposals has significantly declined from 36% in 2021 to 23% in 2023, partly due to changes in the types of proposals submitted. Moreover, there's been a decrease in the number and proportion of proposals receiving majority approval. In 2021, 18% of proposals got majority support, compared to just 5% in 2023.
- In Canada, there is no mandatory say-on-pay proposal on company ballots, leaving it to the discretion of boards to grant shareholders a voice on executive compensation.
- One shareholder resolution received majority support from shareholders, with 99.5% voting in its favour (proposed by Investors for Paris Compliance at Cenovus Energy Inc). The proposal requested "that the Company issue a report periodically on how its direct and indirect lobbying and public policy advocacy align with its net zero goal." In this case, management had taken the rare step of supporting the shareholder proposal.

#### United Kingdom

- By law, UK Main Market listed companies must submit remuneration policy proposals every three years. In 2023, 61% of FTSE 350 companies proposed policy updates, primarily increasing incentive opportunities. Shareholder support for remuneration policies and quantum increases was strong. Companies that proposed modest increases with added safeguards received the highest support.
- Companies saw a notable shift in justifying significant executive salary increases by aligning them with or keeping them below the rate awarded to the wider workforce. Companies provided multiple reasons for these salary hikes, often citing expanded role scope or company growth as key factors.
- FTSE 100 and FTSE 250 boards approached the FTSE Women Leaders Review targets, with women holding 40.8% and 41.9% of board positions, respectively. While senior management representation improved, it still fell short of targets. Sustainalytics continues to focus on such matters.

#### Europe

- In 2023, gender diversity in European boardrooms took significant steps forward, with an average representation of 40% in large- and mid-cap companies. Most European markets surpassed the 35% threshold, with particularly notable increases observed in the Netherlands, Switzerland, Spain, and all the Nordics except Sweden. However, men continue to predominantly hold board chair positions at 90% to 95% of large- and mid-cap companies throughout Europe, except in Belgium and Italy. Switzerland recorded the lowest number of gender-diverse board chairs in 2023, with only one female chair each at Swatch Group Ltd. and Logitech International SA.
- While executive-level gender diversity increased in most European markets, only Finland, Sweden, and France have more than a quarter of women on boards.
- In 2023, insufficient response to shareholder dissent became the leading driver for negative voting recommendations on retrospective remuneration proposals at European blue-chip and mid-cap companies, along with the adoption of concerning pay practices. This reflects the spike in shareholder opposition observed last year, when around one in six retrospective remuneration proposals at European blue-chip and mid-cap companies received the support of less than 80% of votes cast. The figures rise higher if the support of major/controlling shareholders is discounted.

#### Australia and New Zealand

- There has been a decline in both the number of shareholder proposals and their support in the Australian market, contrasting with global trends. While ESG issues typically dominate these proposals, the decrease does not indicate waning interest in ESG but attributed to fewer submissions from key groups like the Australasian Centre for Corporate Responsibility (ACCR) and Market Forces, possibly due to successful engagements with Australian companies or increased focus abroad.
- There was a notable increase in support for climate-related proposals at Australian companies, aligning closely with the global average. Previously, such proposals were mainly targeted at emissions-intensive industries but expanded to include financial institutions reflecting a broader global trend of investor focus on financing activities.



## TfL Pension Fund Implementation Statement (continued)

### Japan

- Japan's 2023 proxy season saw increased expectations for companies to address climate change, human capital, equality, and diversity, impacting director elections, pay decisions, and shareholder proposals. Shareholder activism and governance reform surged, with a 28% increase in companies receiving proposals, over half focusing on ESG issues, particularly climate change. While none of the proposals were approved, they received support at a level which prompted boards to respond. Progress was seen in board gender diversity, with companies facing investor opposition for not appointing female directors, in some cases leading to narrowly approved reappointments of certain chairs and CEOs.

### Asia ex Japan

- China's A-share market had over 5,000 public companies listed on Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), and Beijing Stock Exchange (BSE). Glass Lewis covered the AGMs of 1,480 companies in 2023 season. Over 90% of proposals reviewed were recommended for support, with 6.6% advised against. Concerns included guarantee provisions and insufficient independence on supervisory boards. Despite efforts to improve board diversity and gender representation, women remain underrepresented with the number of female directors seeing only a modest increase of 1.6% each year for the past three years.
- In Korea, board independence remained a primary concern, accounting for over 50% of issues raised, consistent with 2022. Gender quota enforcement began for large companies, but overall board gender diversity saw only a slight increase to 7.8%. There was a notable rise in disclosing board skills matrices observed in various filings, indicating progress in corporate governance. Shareholder activism also increased significantly, driven by domestic investors, with a 47% increase in shareholder proposals, mainly focusing on dividends and capital-related topics.
- India's 2023 proxy voting season saw Glass Lewis cover a total of 886 Indian companies, compared with 778 companies in 2022. The highest number of "against" recommendations were for Election of Director proposals, followed by executive remuneration, equity incentive plans, accounts, and reports. Gender diversity on corporate boards is a crucial subject. A significant step towards this was the introduction of the Companies Act, 2013, mandating at least one-woman director on Indian public company boards. SEBI (Securities Exchange Board of India) further reinforced this by requiring at least one independent woman director on each board since 2020. With mandatory quotas in effect, nearly all listed issuers comply, barring exceptional circumstances.

### Latin America

- 2022 marked a significant regulatory update in Brazil after four years. A resolution passed and mandated an extensive increase in ESG disclosure obligations within Formulários de Referência (Annual Reports), requiring detailed information on sustainability reports, climate, environmental, and social risks, as well as management and employee diversity.
- Despite expectations for improved and more comprehensive ESG disclosure and newly disclosed diversity information, the number of companies fully integrating these disclosures into their Annual Reports within 2023 was limited. However, Glass Lewis anticipated that most issuers will have adapted their annual reports in 2024.

### Middle East and Africa

- In Ghana, a Domestic Debt Exchange Programme (DDEP) was launched in 2022 to address issues such as inflation with approximately 85% of bondholders participating. While participation was voluntary, the government incentivized banks to join by elevating the risk weighting of old bonds from 0% to 100%. Additionally, non-participating banks were excluded from accessing liquidity support through the newly established Ghana Financial Stability Fund. The DDEP significantly affected the proposals that were monitored by Glass Lewis in 2023 proxy season. Participating banks recorded substantial impairment losses in their balances, leading to reductions in their capital and liquidity ratios. Consequently, some Ghanaian banks have sought shareholder approval to boost their share capital by issuing ordinary and preference shares.
- In Saudi Arabia, where equity-based compensation was rare, seven companies have presented employee share ownership plans for shareholders' approval. However, additional disclosure on the terms of the overall plans or specific grants, including vesting schedules and any other conditions, has been lacking.

Overall, the analysis of regional voting behaviour reveals a growing emphasis on governance issues such as executive remuneration, board independence and diversity, and shareholder activism across various global markets. While some regions demonstrate progress in gender diversity and ESG disclosure, challenges persist, including excessive board tenure, lack of gender representation, and declining shareholder support for proposals. Regulatory changes, such as those by the US SEC (Securities and Exchange Commission) and HKEX (Hong Kong Exchange), are influencing voting dynamics, indicating a shift towards greater shareholder accountability in corporate decision-making processes.

## TfL Pension Fund Implementation Statement (continued)

In line with the Fund's Investment Beliefs, there is clear recognition that ESG/sustainability must be fully integrated into the Fund's investment framework. In that context, the relevance, applicability, and materiality of different ESG issues is different for every investment and these factors can form a credible basis for the Trustee to pursue engagement and voting activities in partnership with the Fund's investment managers and Sustanalytics. Based on this, the Fund has identified key votes deemed most significant over the year:

Company name	Wells Fargo	American International Group Inc (AIG)	Adidas AG
Investment mandate	Segregated	Segregated	Segregated
Date of vote	25/04/2023	10/05/2023	11/05/2023
Size of fund's/mandate's holding as at the date of the vote (% of total Fund)	0.10%	0.05%	0.01%
Summary of the resolution	Shareholder proposal regarding report on harassment and discrimination	Advisory vote on executive compensation	Approval of the 2022 remuneration report on an advisory basis
How the Fund voted   With or Against Management	For   Against Management	Against   Against Management	Against   Against Management
Vote %   Resolution Outcome	52.3% For   42.7% Against   Passed	32.3% For   67.5% Against   Rejected	67.9% For   32.1% Against   Passed
Rationale(s) for Voting Decision	Wells Fargo's hiring practices came under scrutiny in 2022 including reports of conducting interviews for already filled positions and subsequent retaliation against complaining employees. Given recent allegations of discrimination and the human capital management ramifications of such allegations, Glass Lewis believes that the proposal would provide further assurance to employees and shareholders that Wells Fargo has thoroughly investigated this issue and is taking appropriate corrective measures.	AIG awarded a substantial Restricted Stock Unit (RSU) award to Mr. Zaffino (CEO) upon signing his five-year employment agreement, valued at \$50 million and vested over five years. While AIG cited Zaffino's leadership, capabilities, and track record as justification, Glass Lewis warns shareholders about the lack of performance-based vesting conditions, its significant quantum compared to Zaffino's total compensation, and deviation from peer norms. Questions also arise regarding the absence of retention-focused annual awards and AIG's history of granting substantial one-off awards to Zaffino. Overall, Glass Lewis find the award unjustified and insufficiently rationalized.	The remuneration report provides reasonable disclosure of Adidas' executive pay system and practices. However, Glass Lewis is concerned about the large severance payment granted to the departing CEO, who resigned shortly after being reappointed amid performance concerns. Glass Lewis views high fixed pay levels with scepticism, as they are not directly linked to performance and may serve as a safety net when performance falls short of expectations.
Implications and lessons learnt out of the resolution's outcome. Probable future steps for the Fund to take after the outcome.	Companies need to demonstrate a genuine commitment to diversity and inclusion in their hiring practices whilst ensuring fair and unbiased recruitment processes. These steps are essential for maintaining trust and credibility between employees and stakeholders. Overall, by supporting the resolution, shareholders help mitigate reputational risks associated with unethical practices, thereby protecting the long-term interests of the company and its stakeholders. Thus, support for this practice will continue, premised on sound rationale, particularly if the stock remains held by the Fund.	Substantial RSU award granted to CEO, particularly given its lack of performance-based vesting conditions could lead to shareholder activism, increased scrutiny of executive compensation practices, and potentially lower support for the company's executive pay policies in future shareholder votes. The company's reputation could suffer as the public may view the company as prioritizing executive interests over shareholder value and responsible corporate governance. Support for this practice will continue, premised on sound rationale, particularly if the stock remains held by the Fund.	In 2022, "Against" votes were low at 8.21%, but in 2023, they surged to 32.1%. This significant rise shows a growing recognition on linking executive pay to performance, ensuring transparent compensation practices, and upholding good governance. Although the resolution did not pass, support for this practice will continue, premised on sound rationale, particularly if the stock remains held by the Fund.
'Most Significant' criteria	Distinctive voting rationale and significant % of opposition to the proposal	Distinctive voting rationale and significant % of opposition to the proposal	Distinctive voting rationale and significant % of opposition to the proposal
Theme	Social	Governance	Governance

## TfL Pension Fund Implementation Statement (continued)

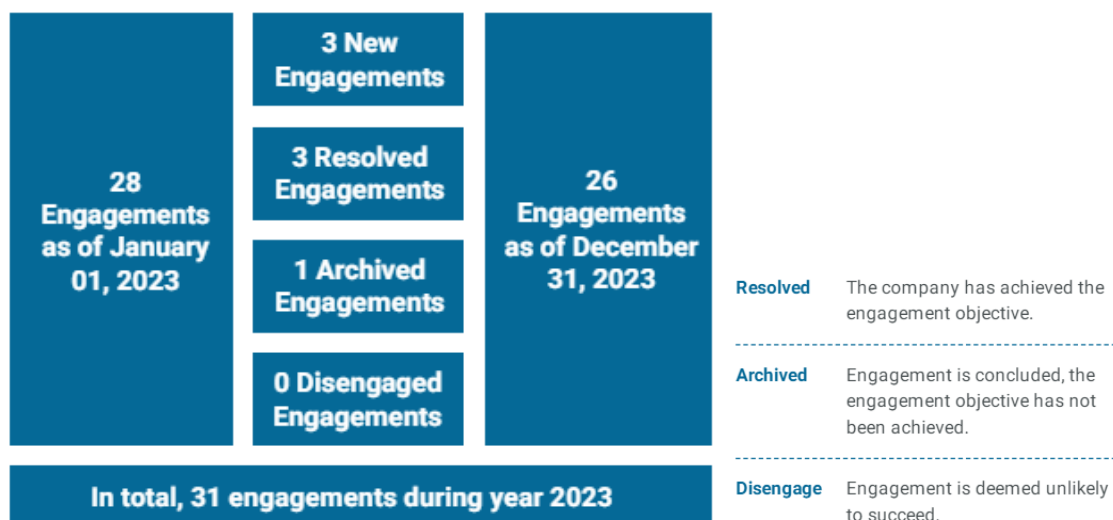
Company name	Amazon.com Inc	Amazon.com Inc	TotalEnergies SE
Investment mandate	Segregated	Segregated	Segregated
Date of vote	24/05/2023	24/05/2023	26/05/2023
Approximate size of fund's/mandate's holding as at the date of the vote (as % of portfolio)	0.15%	0.15%	0.03%
Summary of the resolution	Shareholder Proposal Regarding Report on Plastic Packaging	Shareholder Proposal Regarding the Human Rights Impacts of Facial Recognition Technology	Shareholder Proposal Regarding Scope 3 GHG Target and Alignment with Paris Agreement
How the Fund voted   With or Against Management	For, Against Management	For, Against Management	For, Against Management
Vote %   Resolution Outcome	31.8% For   66.8% Against   Rejected	37.2% For   62% Against   Rejected	28.6% For   65.5% Against   Rejected
Rationale(s) for Voting Decision	<p>Glass Lewis research demonstrates that Amazon has taken significant steps and offered substantial disclosure regarding its efforts to minimize its plastic footprint, enhance the sustainability of its packaging, and implement recycling initiatives. The company has actively engaged with vendors on its platform, urging them to use 100% recyclable packaging and reduce excess packaging. However, much of the plastic associated with Amazon's operations is beyond its direct control. Consequently, Glass Lewis questions the necessity of providing the requested report, indicating potential imprudent use of resources.</p> <p>On the other hand, Sustainalytics recommends voting in favour of the resolution, noting that Amazon's efforts to reduce plastic packaging lack clarity and may not be aligned with key plastic pollution initiatives. Additionally, Amazon has not established time-bound targets to address plastic pollution.</p>	<p>Glass Lewis acknowledges the significant civil and human rights risks associated with Amazon's facial recognition technology, especially given such risks are dependent on the technology use by its Amazon Web Services (AWS) customers. This issue is dynamic, with ongoing regulatory developments, leading several state and local governments to either restrict or consider restricting the use of facial recognition software due to these risks. Given the regulatory uncertainty, Glass Lewis believe that additional disclosure concerning the financial, operational, and reputational risks associated with the use of its product is justified.</p> <p>Moreover, Sustainalytics recommendations is parallel to that of Glass Lewis's recommendation, highlighting the various uses of this technology by government agencies and foreign states, some of which may contribute to human rights abuses or perpetuate discrimination.</p>	<p>Glass Lewis acknowledges TotalEnergies' robust disclosure on climate initiatives and interim targets for net zero, covering Scopes 1, 2, and 3 emissions. Nonetheless, Sustainalytics highlights the absence of targets for the entire energy product mix, suggesting an opportunity for shareholder encouragement. Despite TotalEnergies' early leadership in setting Scope 3 targets, shareholders should seek increased transparency, recognizing the evolving nature of climate transition and emission reduction efforts, leaving room for improvements.</p>
Implications and lessons learnt out of the resolution's outcome. Probable future steps for the Fund to Take subsequent to the outcome.	<p>Shareholders increasingly expect companies to address environmental issues and to set clear, measurable targets for progress tracking. It is excellent that Sustainalytics raised concerns on potential gaps in transparency, particularly concerning the alignment of Amazon's efforts with key plastic pollution initiatives and the absence of time-bound targets. Although the resolution did not pass, support for this practice will continue, premised on sound rationale, particularly if the stock remains held by the Fund.</p>	<p>The voting outcome highlights growing awareness among shareholders regarding potential ethical and regulatory concerns surrounding the use of such technology. Shareholders are increasingly cognizant of the evolving regulatory environment and its potential impact on Amazon's operations. Although the resolution did not pass, support for this practice will continue, premised on sound rationale, particularly if the stock remains held by the Fund.</p>	<p>The resolution provides an avenue for shareholders to engage with TotalEnergies regarding emissions reduction goals and its oversight in not extending emissions reduction targets to its entire energy product mix. Addressing this gap could mitigate potential risks or deficiencies in the company's sustainability strategy. It is crucial to recognize that even for sustainability leaders, there is always scope for enhancement. Although the resolution did not pass, support for this practice will continue, premised on sound rationale, particularly if the stock remains held by the Fund.</p>
'Most Significant' criteria	Distinctive voting rationale and significant % of opposition to the proposal	Distinctive voting rationale and significant % of opposition to the proposal	Distinctive voting rationale and significant opposition % to the proposal
Theme	Environment	Social	Environment

## TfL Pension Fund Implementation Statement (continued)

### Engagement

Voting alone has limitations in fully representing an investor's view of a company's management and operations. Engagement plays a crucial role in achieving stewardship outcomes. As a result of this, engagement is a key tool that the Fund uses, with its stewardship partner Sustainalytics and the Fund's investment managers through three engagement streams: -

- 1. Global Standard Engagement (GSE) Programme:** 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. Latest annual programme statistics based on the Fund's active holdings are portrayed below:



Source: Sustainalytics-TfL Global Standards Engagement 2023 Annual Report

- Europe stands out as the region where the highest number of engagements has taken place, with a notable focus on the banking and diversified metals industries. Social issues comprise a sizeable portion, approximately 65%, of these engagements, reflecting a growing emphasis on addressing social aspects within the broader spectrum of ESG topics.
- Mapping the engagements objectives to the SDGs resulted into the following statistics: -
  - 19% in SDG 3 (Good Health and Wellbeing)
  - 3% in SDG 4 (Quality Education)
  - 16% in SDG 8 (Decent Work and Economic Growth)
  - 3% in SDG 9 (Industry, Innovation, and Infrastructure)
  - 10% in SDG 10 (Reduced Inequality)
  - 10% in SDG 11 (Sustainable Cities and Communities)
  - 19% in SDG 12 (Responsible Consumption and Production)
  - 6% in SG 13 (Climate Action)
  - 3% in SDG 14 (Life Below Water)
  - 6% in SDG 15 (Life on Land)
  - 55% in SDG 16 (Peace and Justice, Strong Institutions)

## TfL Pension Fund Implementation Statement (continued)

- Example of resolved engagement case: Rio Tinto Ltd (global diversified miner in Australia)

<b>Engagement Since</b>	Q2 2020
<b>Engagement Resolved</b>	Q4 2023
<b>Issue</b>	In 2020, Rio Tinto Ltd. was involved in destroying an Aboriginal heritage site of high archaeological and cultural value in Australia and other community relations controversies in several countries.
<b>Change Objective</b>	Rio Tinto Ltd. should agree on a compensation package with the Puutu Kunti Kurrama and Pinikura (PKKP), the Traditional Owners of the destroyed rock-shelters, ensure that it rebuilds community relations with the PKKP and ensure its community relations teams are fully integrated into its operations.
<b>Engagement Outcomes</b>	<ul style="list-style-type: none"> <li>• Rio Tinto Ltd. has agreed on a compensation package with the PKKP, the Traditional Owners of the lands on which the company operates and completed the physical rehabilitation, to an extent possible, of the destroyed rock shelters.</li> <li>• It established suitable community relations mechanisms across all its operations and to maintain the relationship on which the consent is based.</li> <li>• The company's heritage and community relations teams have become fully integrated into its operations to ensure integrated decision-making process.</li> <li>• Since the company repaired the damage to an extent possible, re-established free, prior and informed consent with the local Aboriginal people as well as included heritage in its risk management systems and mine production decision-making, Sustainalytics decided to resolve the case.</li> </ul>

2. **Material Risk Engagement Programme:** Sustainalytics helps high-risk portfolio companies to better identify, understand and manage their ESG risks, with an aim to address the management gaps, so the target company improves its ESG performance and risk management.

- Example of resolved engagement case: Posco Holdings, Inc (Korean steelmaker)

<b>Engagement Since</b>	Q1 2020
<b>Engagement Resolved</b>	Q4 2023
<b>ESG Risk</b>	Corporate governance, community relations and carbon from own operation.
<b>Change Objective</b>	Posco should communicate and enforce its internal standards across the entire Group and be transparent about how these standards are applied and implemented to subsidiaries and affiliates. Moreover, the company should identify long term goals for key material issues and share progress towards these goals with investors.
<b>Engagement Outcomes</b>	<ul style="list-style-type: none"> <li>• Posco has made significant strides in ESG risk management, implementing structured strategies based on materiality analysis and providing investors with insights into risk management and performance.</li> <li>• They are conducting human rights risk reviews across their affiliated companies and have begun reporting according to the TCFD framework, publishing a separate climate change report.</li> <li>• The group-wide compliance management is overseen by the ESG team, with clear policies and management systems in place.</li> <li>• Additionally, Posco has established a board ESG committee and recruited new board members with environmental and technological expertise.</li> <li>• As Posco has improved their ESG risk rating sufficiently, Sustainalytics decided to resolve the case.</li> </ul>

## TfL Pension Fund Implementation Statement (continued)

3. **Thematic Engagement Programme (Climate Change-Sustainable Forest and Finance):** 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 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.

- There are 11 out of 22 companies in this engagement, in which the Fund has active holdings as at end-March 2024, while the Fund potentially holds most of the companies in this engagement through its passive equity portfolios.
- In 2023, Sustainalytics held 35 engagement meetings, resulting in notable achievements. For instance, two companies heeded Sustainalytics' advice by publishing their CDP responses on their websites. This demonstrates a willingness among companies to implement changes based on Sustainalytics' recommendations, suggesting promising positive outcomes in future engagement dialogues.
- Example of current engagement case: **The case of world's largest producer of certified sustainable palm oil.**

Engagement Since	Q2 2022
<b>Change Objective</b>	<ul style="list-style-type: none"> <li>• The company should demonstrate how its management of climate change &amp; forestry-related activities is in line with international disclosure standards and have science-based targets aligning with a 1.5-degree transition pathway or beyond, as well as being actively involved in efforts to further SDG goals.</li> <li>• The engagement seeks to promote the integration of nature-related risks and disclosures into reporting, strategic planning, and risk management, for long-term value creation in forestry value chains.</li> </ul>
<b>Engagement Outcomes</b>	<ul style="list-style-type: none"> <li>• During a Net Zero webinar in January 2023, the company demonstrated strong commitment and outlined detailed plans to achieve its targets by 2030 and 2050.</li> <li>• Subsequent meetings in March and August 2023 covered climate targets, risk assessment, water risk, and compliance with the EU Deforestation Regulation.</li> <li>• The company is actively working on a comprehensive water risk assessment and is well-prepared to meet EU Deforestation Regulation requirements.</li> <li>• In January 2024, discussions focused on the company's climate initiatives, lobbying activities, and readiness for TNFD compliance.</li> <li>• A site visit in March 2024 further demonstrated the company's efforts in climate action and nature conservation, including its SBTi net zero target approval process and biodiversity enhancement projects. Overall, the progress on climate and nature topics is encouraging, and Sustainalytics urge the company to involve investors in future discussions for greater transparency and collaboration.</li> </ul>

## **TfL Pension Fund**

# **Independent Auditor's Report to the Trustee of the TfL Pension Fund**

### **Opinion**

We have audited the accounts of the TfL Pension Fund for the year ended 31 March 2024 which comprise the Fund Account, the Statement of Net Assets (available for benefits) and notes to the accounts, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the accounts:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the accounts section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the accounts in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

In auditing the accounts, we have concluded that the Fund's Trustee's use of the going concern basis of accounting in the preparation of the accounts is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the accounts are authorised for issue.

Our responsibilities and the responsibilities of the Fund's Trustee with respect to going concern are described in the relevant sections of this report.

### **Other information**

The other information comprises the information included in the annual report, other than the accounts and our auditor's report thereon. The Fund's Trustee is responsible for the other information contained within the annual report. Our opinion on the accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of Trustee**

As explained more fully in the Trustee responsibilities statement set out on pages 8 and 9, the Trustee is responsible for the preparation of accounts and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error.

In preparing the accounts, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

## TfL Pension Fund

# Independent Auditor's Report to the Trustee of the TfL Pension Fund (continued)

### Auditor's responsibilities for the audit of the accounts

Our objectives are to obtain reasonable assurance about whether the accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

### The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the accounts, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the accounts, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the accounts due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the audit engagement team:

- obtained an understanding of the nature of the environment, including the legal and regulatory framework that the Fund operates in and how the Fund is complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the accounts may be susceptible to fraud.

As a result of these procedures we consider the most significant laws and regulations that have a direct impact on the accounts are the Pensions Act 1995 and 2004 and regulations made under them and FRS 102, including the Financial Reports of Pension Schemes 2018 (the Pensions SORP).

We performed audit procedures to detect non-compliances which may have a material impact on the financial statements which included reviewing financial statement disclosures.

The audit engagement team identified the risk of management override of controls as the area where the accounts were most susceptible to material misstatement due to fraud. Audit procedures performed included but were not limited to testing manual journal entries and evaluating the business rationale in relation to any significant, unusual transactions and transactions entered into outside the normal course of business and challenging judgements and estimates.

A further description of our responsibilities for the audit of the accounts is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



# **TfL Pension Fund**

## **Independent Auditor's Report to the Trustee of the TfL Pension Fund**

### **(continued)**

#### **Use of our report**

This report is made solely to the Fund's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**RSM UK Audit LLP**  
**Statutory Auditor**  
**Chartered Accountants**  
25 Farringdon Street,  
London, EC4A 4AB

12 July 2024

# TfL Pension Fund Fund Account

For the year ended 31 March 2024

	Note	2024 £ million	2024 £ million	2023 £ million	2023 £ million
<b>Contributions and benefits</b>					
Contributions receivable	3				
Employer		<b>328.2</b>		307.7	
Employee		<b>79.8</b>		73.9	
Individual transfers in from other schemes		<b>1.3</b>		1.4	
		<u><b>409.3</b></u>		<u>383.0</u>	
Benefits payable	4	<b>(506.9)</b>		(433.4)	
Payments to and on account of leavers	5	<b>(1.0)</b>		(2.6)	
Other payments	6	<b>(6.0)</b>		(5.5)	
Administrative expenses	7	<b>(5.0)</b>		(4.0)	
Pension levies	8	<b>(11.7)</b>		(16.1)	
		<u><b>(530.6)</b></u>		<u>(461.6)</u>	
<b>Net withdrawals from dealings with members</b>			<b>(121.3)</b>		<b>(78.6)</b>
<b>Returns on investments</b>					
Investment income	9	<b>187.5</b>		177.7	
Change in market value of investments	11a	<b>793.3</b>		(333.2)	
Investment management expenses	12	<b>(23.5)</b>		(29.7)	
<b>Net returns on investments</b>			<b>957.3</b>		<b>(185.2)</b>
<b>Net increase/(decrease) in the fund during year</b>			<b>836.0</b>		<b>(263.8)</b>
<b>Net assets at beginning of year</b>			<b>14,176.6</b>		<b>14,440.4</b>
<b>Net assets at end of year</b>			<b>15,012.6</b>		<b>14,176.6</b>

The Notes on Pages 43 to 56 form part of these Accounts.

# TfL Pension Fund

## Statement of Net Assets (available for benefits)

As at 31 March 2024

	Note	2024 £ million	2023 £ million
<b>Investment assets</b>	<b>11</b>		
Bonds		699.7	641.2
Equities		2,664.0	3,041.4
Loans		326.4	319.2
Pooled investment vehicles	<b>11b</b>	9,821.5	9,264.8
Derivatives	<b>11c</b>	63.6	131.1
AVC investments		151.3	126.7
Cash and liquidity funds		1,210.8	621.9
Other investment balances		108.3	47.6
		<b>15,045.6</b>	<b>14,193.9</b>
<b>Investment liabilities</b>	<b>11</b>		
Derivatives	<b>11c</b>	(25.5)	(36.6)
Other investment balances		(32.9)	(10.0)
		<b>(58.4)</b>	<b>(46.6)</b>
<b>Total net investments</b>		<b>14,987.2</b>	<b>14,147.3</b>
<b>Fixed assets held for own use</b>	<b>13</b>	-	-
<b>Current assets</b>	<b>14</b>	<b>47.8</b>	<b>49.1</b>
<b>Current liabilities</b>	<b>15</b>	<b>(22.4)</b>	<b>(19.8)</b>
<b>Net assets at end of year</b>		<b>15,012.6</b>	<b>14,176.6</b>

The Notes on Pages 43 to 56 form part of these Accounts.

The Accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. The Accounts do not take account of the obligations to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included on page 61 and these Accounts should be read in conjunction with that Report.

These Accounts were approved by the Board of Directors of the TfL Trustee Company Limited on 12 July 2024 and were signed on their behalf by:

M Antoniou  
Director  
TfL Trustee Company Limited

F Brennan  
Director  
TfL Trustee Company Limited

# TfL Pension Fund

## Notes to the Accounts

### 1. Basis of preparation

The accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (SORP) (Revised 2018).

With most companies in the UK operating a hybrid working model, the ridership on TfL's network has yet to reach the pre-pandemic level. TfL's funding agreement with the Government, to support the running of their day-to-day operating costs and protecting their growing passenger income following the dramatic fall in fares caused by the pandemic, has ended in March 2024. However, TfL have achieved their objective of delivering financial operational sustainability in the year to 31 March 2024, the first time in TfL's history of delivering an operating surplus.

TfL reiterated in their latest correspondence with the Government on 20 July 2023 their commitment to continuing to deliver the requirements of the funding agreement. TfL also stated in the letter that there are several significant complexities to work through before any final detailed proposal can be agreed, which would impact the implementation date and this could not be before 30 September 2026.

If the employer is unable to meet its obligations to the Pension Fund, there is a risk that the Pension Fund would enter into a Pension Protection Fund assessment period and therefore the Pension Fund would not be a going concern.

However, based on TfL making positive steps to improve their financials as noted above and no changes could be made to the Fund before 30 September 2026, the Trustee believes that the Fund will remain a going concern for the 12 months subsequent to the signing of these accounts. Therefore, the accounts have been prepared on a going concern basis.

### 2. Accounting policies

#### (a) Inclusion of income and expenditure

##### (i) Contributions

Employers' and Employees' contributions are accounted for in the period to which the corresponding pay relates. Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedules of Contributions and Recovery Plan under which they are paid. Additional deficit reduction contributions are accounted for on the due date on which they are payable under the Pension Funding Agreement.

##### (ii) Transfers to and from other schemes

Transfer payments in respect of members transferred to and from the Fund during the year are included in the Accounts in accordance with the transfer agreement.

##### (iii) Benefits payable

Benefits payable are accounted for on the basis of entitlement during the year in accordance with the Rules of the Fund. Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the Trustee of his or her decision as to what form of benefit they will take.

##### (iv) Investment income

Dividends from quoted securities are credited to income when the investments are declared ex-dividend. Other investment income is accounted for on an accruals basis. Dividends and interest are grossed up for the amount of any taxation recoverable. Investment income arising from the underlying investments of pooled investment vehicles which is reinvested within the pooled investment vehicles is reflected in the unit price.

##### (v) Securities lending

The Fund's custodian is authorised to release securities to a third party under a securities lending arrangement.

## TfL Pension Fund

### Notes to the Accounts (continued)

(vi) *Investment management expenses*

Investment management expenses are accounted for on an accruals basis. Performance related investment management expenses are accounted for at the time they become due for payment under the terms of the appropriate Investment Management Agreement.

(vii) *Foreign currencies*

Balances denominated in foreign currencies are translated using the rate of exchange ruling at the Statement of Net Assets date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Differences arising on the translation of investment balances are accounted for in the change in market value of investments during the year.

(viii) *Additional voluntary contributions (AVCs)*

AVCs are accounted for on an accruals basis, in the same way as other contributions. The resulting investments are included in the net assets statement.

(ix) *Depreciation*

Expenditure on fixed assets held for own use has been capitalised to reflect the economic usefulness of the assets to the Fund. Depreciation of fixed assets held for own use is provided on a straight-line basis over their estimated useful lives which is 5 years for computer equipment and furniture.

#### **(b) Investments**

(i) Investments are included at their fair value as described below;

(ii) The majority of listed investments are stated at the bid price at the date of the Statement of Net Assets;

(iii) Fixed interest securities are stated at their clean prices (i.e. excluding accrued income). Accrued income is accounted for within investment income;

(iv) Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

(v) Unquoted securities are included at fair value estimated by the Trustee based on the advice from the Investment Manager using appropriate valuation techniques;

(vi) Loans are included at fair value estimated by the Trustee based on the advice from the Investment Manager using appropriate valuation techniques;

(vii) Derivatives are stated at fair value.

- Exchange traded derivatives are stated at fair value determined using market quoted prices.
- Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
- Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.
- Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

(viii) Short-term deposits are valued at cost at 31 March 2024 taking into account gains or losses on foreign currencies;

(ix) AVC investments are shown at the values advised by the AVC providers.

# TfL Pension Fund

## Notes to the Accounts (continued)

### 3. Contributions receivable

	<b>2024</b>	<i>2023</i>
	<b>£ million</b>	<i>£ million</i>
<i>Employers</i>		
Normal	<b>328.2</b>	307.7
Deficit funding	-	-
	<b>328.2</b>	307.7
<i>Members</i>		
Normal	<b>60.1</b>	56.4
Additional Voluntary Contributions	<b>19.7</b>	17.5
	<b>79.8</b>	73.9
	<b>408.0</b>	381.6

Members' contributions are 5% of their contributory pensionable salary and are accounted for when deducted from members' pay. Employers' contributions are a multiple of the members' contributions, subject to fixed cash additions or deductions. Employer contributions are agreed between the Trustee, on the advice of the Actuary, and the Principal Employer following the actuarial valuation.

Following the completion of the latest triennial actuarial valuation as at 31 March 2021, no deficit reduction contributions are payable under the new Schedules of Contributions for the Public Sector Section certified by the Fund Actuary on 31 March 2022 and for the Composite Section certified by the Fund Actuary on 28 April 2022 effective from 1 April 2022 and 1 May 2022 respectively.

In addition to contributions required under the Schedule of Contributions an annual assessment is undertaken at 31 March each year to determine the Fund's financial position which in turn determines whether any additional contributions are required to be paid to the Fund by TfL. Due to the strength of the Fund and its current funding level, no deficit reduction contributions were required from TfL for the year to 31 March 2024 following this annual assessment (2023: £Nil).

### 4. Benefits payable

	<b>2024</b>	<i>2023</i>
	<b>£ million</b>	<i>£ million</i>
Pensions	<b>392.7</b>	350.9
Commutations and lump sum retirement benefits	<b>112.3</b>	79.2
Lump sum death benefits (net of those insured)	<b>1.5</b>	1.2
Taxation where lifetime or annual allowance exceeded	<b>0.4</b>	2.1
	<b>506.9</b>	433.4

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Fund in exchange for the Fund settling their tax liability.

### 5. Payments to and on account of leavers

	<b>2024</b>	<i>2023</i>
	<b>£ million</b>	<i>£ million</i>
Individual transfers to other schemes	<b>0.8</b>	2.4
Refunds to members leaving service	<b>0.2</b>	0.2
	<b>1.0</b>	2.6

### 6. Other payments

	<b>2024</b>	<i>2023</i>
	<b>£ million</b>	<i>£ million</i>
Premiums on term insurance policies	<b>6.0</b>	5.5

## TfL Pension Fund

### Notes to the Accounts (continued)

#### 7. Administrative expenses

	2024 £ million	2024 £ million	2023 £ million	2023 £ million
<i>Staff costs</i>				
Payroll	2.6		2.2	
Triage service	0.2		-	
		2.8		2.2
<i>Establishment costs</i>				
Accommodation	0.2		0.1	
Computer costs	0.5		0.3	
		0.7		0.4
<i>Professional fees</i>				
Legal fees	0.4		0.3	
Audit fees	0.1		0.1	
Accountancy and tax fees	0.1		0.1	
Actuarial fees	0.4		0.3	
Medical fees	0.1		0.1	
Covenant review	-		0.1	
TfL Pensions review	0.1		0.1	
		1.2		1.1
<i>Communication</i>				
Distribution	0.2		0.2	
Printing	0.1		0.1	
		0.3		0.3
<i>Consumables</i>				
General		-		-
		5.0		4.0

Administrative expenses include recharges by Transport for London of £2.8m (2023: £2.3m) for staff and other costs.

#### 8. Pension levies

	2024 £ million	2023 £ million
Pension Protection Fund	11.4	15.7
Pension Regulator levies	0.3	0.4
	11.7	16.1

#### 9. Investment income

	2024 £ million	2023 £ million
Income from bonds	16.8	20.0
Dividends from equities	46.0	56.6
Income from pooled investment vehicles	42.8	58.6
Income from loans	26.4	27.2
Income/(Expenses) from derivatives	1.2	(1.3)
Income from liquidity funds	53.1	16.0
Income from securities lending	0.7	0.6
Other investment income	0.5	-
	187.5	177.7

# TfL Pension Fund

## Notes to the Accounts (continued)

### 10. Tax

TfL Pension Fund is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate (see Note 9 above).

### 11. Investments

#### a) Reconciliation of investments held at beginning and end of year

	Value at 1 April 2023	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Value at 31 March 2024
	£ million	£ million	£ million	£ million	£ million
Bonds	641.2	1,046.2	(983.9)	(3.8)	699.7
Equities	3,041.4	1,178.1	(1,769.7)	214.2	2,664.0
Loans	319.2	54.4	(26.6)	(20.6)	326.4
Pooled investment vehicles	9,264.8	756.7	(717.2)	517.2	9,821.5
Derivative contracts	94.5	103.4	(229.6)	69.8	38.1
Liquidity funds	446.1	2,078.6	(1,477.6)	(0.2)	1,046.9
AVC investments	126.7	19.7	(11.8)	16.7	151.3
	<u>13,933.9</u>	<u>5,237.1</u>	<u>(5,216.4)</u>	<u>793.3</u>	<u>14,747.9</u>
Cash deposits	175.8				163.9
Other investment assets	47.6				108.3
Other investment liabilities	(10.0)				(32.9)
<b>Total net investments</b>	<u>14,147.3</u>				<u>14,987.2</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

#### b) Pooled investment vehicles (PIVs)

The Fund's holdings of PIVs are analysed below:

	2024	2023
	£ million	£ million
Absolute Return funds	1,970.4	1,544.2
Equity funds	2,502.1	2,375.6
Fixed Interest funds	753.8	684.3
Multi Private Credit funds	12.0	14.2
Private Equity funds and infrastructure funds	3,077.9	2,979.7
Property funds	220.0	234.5
Qualifying Investor fund (see below)	1,048.0	1,228.8
Reinsurance funds	237.3	203.5
	<u>9,821.5</u>	<u>9,264.8</u>

The Fund invests in a Qualifying Investor Fund with BlackRock Investment Management (UK) Limited, in which the Fund is the sole investor. A breakdown of the underlying investment classes held within this fund is shown below:

	2024	2023
	£ million	£ million
Government Bonds	896.9	1,047.7
Network Rail Bonds	149.0	154.2
Options	0.4	13.0
Swaps	1.7	13.9
	<u>1,048.0</u>	<u>1,228.8</u>



## TfL Pension Fund

### Notes to the Accounts (continued)

#### b) Pooled investment vehicles (PIVs) (continued)

The Fund invests in a number of pooled investment vehicles in which it is the sole investor, the aggregated investment position of these sole investor funds is summarised below:

	<b>2024</b>	2023
	<b>£ million</b>	<i>£ million</i>
Absolute return	<b>487.4</b>	414.6
Fixed income	<b>440.6</b>	394.9
Reinsurance	<b>237.4</b>	203.6
Infrastructure fund	-	37.8
	<b><u>1,165.4</u></b>	<u>1,050.9</u>

#### c) Derivatives

The Trustee has authorised the use of derivatives by some of their Investment Managers as part of the Fund's investment strategy. The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

##### Total derivatives

	<b>2024</b>		2023	
	<b>Assets</b>	<b>Liabilities</b>	<i>Assets</i>	<i>Liabilities</i>
	<b>£ million</b>	<b>£ million</b>	<i>£ million</i>	<i>£ million</i>
Swaps	<b>14.3</b>	<b>(6.9)</b>	7.6	(2.4)
Futures	<b>15.6</b>	<b>(4.6)</b>	10.1	(16.5)
Foreign exchange	<b>36.7</b>	<b>(17.2)</b>	113.4	(17.4)
Options	<b>0.9</b>	<b>(0.7)</b>	-	(0.3)
	<b><u>67.5</u></b>	<b><u>(29.4)</u></b>	<u>131.1</u>	<u>(36.6)</u>

##### Swaps

Swaps comprising interest rate swaps, credit default swaps, total return swaps and basis swaps have been implemented to hedge the interest rate risk as part of the Fund's investment strategy to enhance returns and facilitate efficient portfolio management. The Fund had derivative contracts outstanding at the year end relating to its fixed interest investment portfolio. These contracts are traded over the counter and exchange traded. The details are:

Nature	Nominal amount	Duration	Asset value	Liability value at year end
			at year end	at year end
			<b>£ million</b>	<b>£ million</b>
Interest rate swaps	336,364,502	Expires 1 to 5 years	<b>1.0</b>	<b>(0.7)</b>
	157,47,322	Expires 5 to 10 years	<b>1.7</b>	<b>(1.3)</b>
	124,120,073	Expires 10 to 15 years	<b>2.2</b>	<b>(2.1)</b>
	8,850,654	Expires 15 to 20 years	<b>1.8</b>	<b>(0.7)</b>
	30,949,262	Expires 20 to 25 years	<b>1.2</b>	<b>(1.0)</b>
	14,157,765	Expires 25 to 30 years	<b>0.1</b>	-
	66,920,000	Expires 30 to 35 years	<b>0.8</b>	<b>(1.1)</b>
Credit default swaps	117,651,850	Expires 1 to 5 years	<b>2.7</b>	-
	79,932,984	Expires 5 to 10 years	<b>2.8</b>	-
<b>Total 2024</b>			<b><u>14.3</u></b>	<b><u>(6.9)</u></b>
<i>Total 2023</i>			<u>7.6</u>	<u>(2.4)</u>

At the end of the year the Fund held cash collateral of £11.6m (2023: £4.1m) in respect of swaps.

## TfL Pension Fund

### Notes to the Accounts (continued)

#### c) Derivatives (continued)

##### Futures

The Fund had exchange-traded UK and overseas bond index futures outstanding at the year end as follows:

Nature	Nominal amount	Duration	Asset value at year end £ million	Liability value at year end £ million
Commodities	245,203,194	Expires under 1 year	11.1	(3.5)
Equity	144,498,760	Expires under 1 year	2.7	(0.1)
Treasury	161,428,671	Expires under 1 year	1.6	(1.0)
Diversified Financials	141,605,297	Expires under 1 year	0.1	-
Diversified Financials	133,586,016	Expires 1 to 5 years	0.1	-
<b>Total 2024</b>			<b>15.6</b>	<b>(4.6)</b>
<i>Total 2023</i>			<i>10.1</i>	<i>(16.5)</i>

At the end of the year the Fund held cash collateral of £31.0m (2023: £19.8m) in respect of futures.

##### Foreign exchange

In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investment to a targeted level.

The Fund had open foreign exchange contracts at the year end as follows:

Contract	Settlement date	Currency bought and sold	Asset value at year end £ million	Liability value at year end £ million
Forward OTC	1 month	Various	9.1	(4.9)
Forward OTC	2 months	Various	16.6	(1.3)
Forward OTC	3 months	Various	7.8	(5.4)
Forward OTC	4 months	Various	0.4	(2.2)
Forward OTC	5 months	Various	2.4	(0.1)
Forward OTC	6 months	Various	0.4	(3.3)
<b>Total 2024</b>			<b>36.7</b>	<b>(17.2)</b>
<i>Total 2023</i>			<i>113.4</i>	<i>(17.4)</i>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### c) Derivatives (continued)

##### Options

Type of Option	Nominal amount	Duration	Asset value at year end £ million	Liability value at year end £ million
Call OTC	63,380,000	Expires under 1 year	0.2	-
Call Exchange	79,373,096	Expires under 1 year	0.7	-
Put Exchange	72,032,064	Expires under 1 year	-	(0.7)
<b>Total 2024</b>			<b>0.9</b>	<b>(0.7)</b>
<i>Total 2023</i>			-	(0.3)

#### d) AVC investments

During the year Legal & General, Clerical Medical and Standard Life had delegated responsibility for the investment and administration of the Fund's Additional Voluntary Contribution (AVC) plan. Members' contributions are deducted from their pay by the employers and are paid to the providers via the Fund Office, where they are invested on behalf of the individuals concerned and in accordance with their instructions to provide additional benefits, within the Fund limits. Each member contributing to the AVC plan receives an annual benefit statement of their account. The aggregate amounts of AVC investments at the year end are as follows:

	2024 £ million	2023 £ million
Legal & General	148.3	123.5
Clerical Medical (legacy)	2.6	2.7
Standard Life (legacy)	0.4	0.5
	<b>151.3</b>	<b>126.7</b>

#### e) Transaction costs

Included within purchases and sales are direct transaction costs of £2.2m (2023: £2.0m) comprising commissions, fees and stamp duty. These costs are attributable to the key asset classes as follows:

	Commission £ million	Fees and Stamp Duty £ million	Total £ million
<b>2024</b>			
Equities	1.3	0.9	2.2
<i>2023</i>			
Equities	1.2	0.8	2.0

## TfL Pension Fund

### Notes to the Accounts (continued)

#### f) Investment fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 which are observable (ie developed using market data) for the asset or liability, either directly or indirectly;

Level 3: inputs which are unobservable (ie for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Fund's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>At 31 March 2024</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Bonds	2.3	697.4	-	<b>699.7</b>
Equities	2,295.2	-	368.8	<b>2,664.0</b>
Loans	-	-	326.4	<b>326.4</b>
Pooled investment vehicles	300.1	3,482.8	6,038.6	<b>9,821.5</b>
Derivatives	18.3	19.6	0.2	<b>38.1</b>
Liquidity funds	1,046.9	-	-	<b>1,046.9</b>
AVC investments	-	149.1	2.2	<b>151.3</b>
Cash	163.9	-	-	<b>163.9</b>
Other investment balances	75.4	-	-	<b>75.4</b>
	<u>3,902.1</u>	<u>4,348.9</u>	<u>6,736.2</u>	<u><b>14,987.2</b></u>
<i>At 31 March 2023</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
<i>Bonds</i>	<i>2.5</i>	<i>638.7</i>	<i>-</i>	<i>641.2</i>
<i>Equities</i>	<i>2,621.7</i>	<i>-</i>	<i>419.7</i>	<i>3,041.4</i>
<i>Loans</i>	<i>-</i>	<i>-</i>	<i>319.2</i>	<i>319.2</i>
<i>Pooled investment vehicles</i>	<i>268.4</i>	<i>3,510.1</i>	<i>5,486.3</i>	<i>9,264.8</i>
<i>Derivatives</i>	<i>(1.2)</i>	<i>96.0</i>	<i>(0.3)</i>	<i>94.5</i>
<i>Liquidity funds</i>	<i>446.1</i>	<i>-</i>	<i>-</i>	<i>446.1</i>
<i>AVC investments</i>	<i>-</i>	<i>124.1</i>	<i>2.6</i>	<i>126.7</i>
<i>Cash</i>	<i>175.8</i>	<i>-</i>	<i>-</i>	<i>175.8</i>
<i>Other investment balances</i>	<i>37.6</i>	<i>-</i>	<i>-</i>	<i>37.6</i>
	<u><i>3,550.9</i></u>	<u><i>4,368.9</i></u>	<u><i>6,227.5</i></u>	<u><i>14,147.3</i></u>

# TfL Pension Fund

## Notes to the Accounts (continued)

### g) Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out as follows:

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Fund's exposures to credit and market risks are set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Fund.

#### (i) Credit risk

The Fund is subject to credit risk as it invests in bonds, OTC derivatives, has cash balances, undertakes stock lending activities and enters into repurchase agreements. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

	<b>Investment grade</b>	<b>Non- investment grade</b>	<b>Unrated</b>	<b>Total</b>
<b>At 31 March 2024</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>	<b>£ million</b>
Bonds*	1,755.5	14.0	5.8	<b>1,775.3</b>
Loans	-	-	326.5	<b>326.5</b>
OTC Derivatives	29.7	-	-	<b>29.7</b>
Cash	1,589.5	-	-	<b>1,589.5</b>
Other investment balances	64.6	0.2	0.1	<b>64.9</b>
Stock lending	300.0	-	-	<b>300.0</b>
Repos	77.4	-	-	<b>77.4</b>
Time deposits	24.7	-	-	<b>24.7</b>
PIVs	-	-	8,773.5	<b>8,773.5</b>
	<u>3,841.4</u>	<u>14.2</u>	<u>9,105.9</u>	<u><b>12,961.5</b></u>

\* This includes bonds held in the Qualifying Investor Fund.

## TfL Pension Fund

### Notes to the Accounts (continued)

#### g) Investment risks (continued)

	<i>Investment grade</i>	<i>Non- investment grade</i>	<i>Unrated</i>	<i>Total</i>
<i>At 31 March 2023</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>	<i>£ million</i>
<i>Bonds*</i>	1,896.5	14.1	8.4	1,919.0
<i>Loans</i>	-	-	319.2	319.2
<i>OTC Derivatives</i>	122.6	-	-	122.6
<i>Cash</i>	1,035.9	-	-	1,035.9
<i>Other investment balances</i>	9.2	0.2	0.1	9.5
<i>Stock lending</i>	341.4	-	-	341.4
<i>Repos</i>	90.1	-	-	90.1
<i>Time deposits</i>	76.0	-	-	76.0
<i>PIVs</i>	-	-	8,036.0	8,036.0
	<u>3,571.7</u>	<u>14.3</u>	<u>8,363.7</u>	<u>11,949.7</u>

\* This includes bonds held in the Qualifying Investor Fund.

The Fund has indirect credit risk which arises in relation to underlying investments held in the bond pooled investment vehicles of £753.8m (2023: £684.3m).

A summary of pooled investment vehicles by type of arrangement is as follows:

	<b>2024</b>	<b>2023</b>
	<b>£ million</b>	<b>£ million</b>
Open ended investment fund	3,880.6	3,341.2
Open ended investment companies	1,167.7	1,123.5
Shares of limited partnerships	1,069.2	1,059.6
Qualifying Investor Fund	1,048.0	1,228.8
Closed ended investment companies	993.1	947.1
Unit trusts	662.6	662.3
Closed ended investment funds	601.1	557.1
Private Tactical Credit	318.4	260.8
Shares of limited companies	62.6	66.8
Shares of listed REIT	17.0	16.4
Other	1.2	1.2
	<u>9,821.5</u>	<u>9,264.8</u>

#### (ii) Currency risk

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy.

#### (iii) Interest rate risk

The Fund is subject to interest rate risk on the LDI investments comprising bonds and interest rate swaps held either as segregated investments or through pooled vehicles and cash.

#### (iv) Other price risk

Other price risk arises principally in relation to the Fund's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, private equity and investment properties.

The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

## TfL Pension Fund

### Notes to the Accounts (continued)

#### g) Investment risks (continued)

The following table summarises the extent to which the various classes of investments are affected by financial risks:

	Market risk			2024	2023
	Currency	Interest rate	Other price	£ million	£ million
Bonds	●	●	○	699.7	641.2
Equities	●	○	●	2,664.0	3,041.4
Loans	●	●	○	326.4	319.2
Pooled investment vehicles				9,821.5	9,264.8
Direct	●	○	○		
Indirect	●	○	●		
Derivative contracts	●	◐	○	38.1	94.5
Liquidity funds	●	○	○	1,046.9	446.1
AVC investments	●	◐	●	151.3	126.7
Cash deposits	●	●	○	163.9	175.8
Other investments	●	○	○	75.4	37.6
<b>Total</b>				<b>14,987.2</b>	<b>14,147.3</b>

In the above table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly/not at all.

#### h) Securities lending

The Fund lends certain fixed interest and equity securities under a Trustee approved securities lending programme. As at 31 March 2024 £300.0m of investments were loaned comprising £194.6m Overseas equities, £87.6m Overseas fixed interest securities, £17.1m UK equities and £668k UK fixed interest securities. Collateral of £318.3m was held as at 31 March 2024 in the form of cash of £102.0m and non-cash of £216.3m (2023: £341.4m loaned against £356.5m collateral).

Additionally, included in the securities lending programme are Repos of £77.4m (2023: £90.1m) and Time Deposits of £24.7m (2023: £76.0m).

#### i) Self investment

There were no employer-related investments at any time during the year ended 31 March 2024.

#### j) Commitments

At the 31 March 2024 the Fund had contractual commitments of £1,578.2m (2023 £968.8m) to pay calls on outstanding drawdowns for alternative investments in pooled investment vehicles, unquoted equities and loans.

#### k) Concentration of investments

The concentration of investments is disclosed on pages 16 to 17 of the Investment report.

## 12. Investment management expenses

	2024	2023
	£ million	£ million
Administration, management and custody	22.6	28.8
Performance measurement services	0.3	0.2
Other advisory services	0.6	0.7
	<b>23.5</b>	<b>29.7</b>

The total investment management expenses incurred during the year was £66.6m (2023: £91.4m) of which only £23.5m (2023: £29.7m) was remitted; the balance was deducted as part of the daily pricing of the individual asset portfolios.

# TfL Pension Fund

## Notes to the Accounts (continued)

### 13. Fixed assets held for own use

	Computer equipment £ million	Total £ million
<i>Cost at 1 April 2023</i>	0.7	0.7
<i>Cost at 31 March 2024</i>	<u>0.7</u>	<u>0.7</u>
<i>Accumulated depreciation at 1 April 2023</i>	(0.7)	(0.7)
Depreciation charge for the year	-	-
<i>Accumulated depreciation at 31 March 2024</i>	<u>(0.7)</u>	<u>(0.7)</u>
<b>Net book value at 1 April 2023</b>	<u>-</u>	<u>-</u>
<b>Net book value at 31 March 2024</b>	<u>-</u>	<u>-</u>

### 14. Current assets

	2024 £ million	2023 £ million
<i>Debtors</i>		
Prepayments and accrued income	33.5	34.6
<i>Cash balances</i>	<u>14.3</u>	<u>14.5</u>
	<u>47.8</u>	<u>49.1</u>

Accrued income includes contributions of £24.5m (2023 £24.2m) received in accordance with the Schedule of Contributions after the year end.

### 15. Current liabilities

	2024 £ million	2023 £ million
<i>Creditors</i>		
Unpaid benefits	11.7	10.3
Accrued expenses and deferred income	<u>9.5</u>	<u>8.3</u>
	21.2	18.6
<i>Unpresented items</i>	<u>1.2</u>	<u>1.2</u>
	<u>22.4</u>	<u>19.8</u>

Unpresented items are payments submitted and cheques drawn but not presented for payment by 31 March 2024. Interest is not payable on these sums.



## **TfL Pension Fund**

### **Notes to the Accounts (continued)**

#### **16. Contingent Liability**

On 26 October 2018, the High Court ruled that Guaranteed Minimum Pension (GMP) benefits provided to members of pension schemes must be recalculated to reflect equalisation requirements between 17 May 1990 and 6 April 1997. As a result of the ruling, the Trustee of the Fund will need to equalise GMPs between men and women. A further High Court ruling on 20 November 2020 confirmed that this requirement extends to the calculation of cash equivalent transfer values paid from pension schemes such as the Fund prior to the 2018 ruling.

The Trustee has been working with their advisors but at this point in time a method of equalisation for the Fund has not yet been agreed by the Trustee and the Company. The Trustee has however made good progress in reconciling its GMP records with those held by HMRC and expects to progress the work required to equalise member benefits in 2024/25 and 2025/26.

The Trustee has carried out initial liability estimates in relation to GMP equalisation which indicates the overall Fund liabilities will not increase by more than 0.5%. As a result, any expected backdated corrective payments are deemed not material to these accounts. The Trustee will include the amounts once they can be reliably estimated or in the year of payment.

#### **17. Related parties**

The Fund has received contributions from 11 Trustee Directors who are also members of the Fund. The Fund has paid benefits to 3 Trustee Directors who are also beneficiaries of the Fund.

Transport for London (TfL) pays administration expenses on behalf of the Fund and subsequently recharges these to the Fund. Administrative expenses recharged by TfL during the year end were £2.8m (2023: £2.3m) and are included in Note 7 on page 46. At 31 March 2024, £0.8m (2023: £0.4m) has been included in creditors in respect of administration expenses rechargeable to the Fund and a balance due to TfL.

All of the above transactions are in accordance with the Trust Deed and Rules of the Fund.

## TfL Pension Fund

### Summary of Contributions

The Fund's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid. The Fund's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Fund and for procuring that contributions are made to the Fund in accordance with the Schedules.

### Trustee's Summary of Contributions payable under the Schedules in respect of the fund year ended 31 March 2024

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Fund's Trustee. It sets out the employer and member contributions payable to the Fund under the schedules of contributions; for the Public Sector Section certified by the Fund Actuary on 31 March 2022 effective from 1 April 2022, for the Composite Section certified by the Fund Actuary on 28 April 2022 effective from 1 May 2022. The Fund auditor reports on contributions payable under the schedules in the Auditor's statement about contributions.

#### Contributions payable under the schedules in respect of the Fund year

	£ million
<b>Employers</b>	
Normal contributions	328.2
Deficit funding	-
<b>Members</b>	
Normal contributions	60.1
<b>Contributions payable under the schedules (as reported on by the Fund auditor)</b>	<u>388.3</u>

#### Reconciliation of contributions payable under the schedules of contributions reported in the Accounts in respect of the Fund year

	£ million
Contributions payable under the schedules (as above)	388.3
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditor)	
Additional employer contributions	-
Member additional voluntary contributions	19.7
<b>Total contributions reported in the accounts</b>	<u>408.0</u>

This Report was approved by the Board of Directors of the TfL Trustee Company Limited on 12 July 2024 and was signed on their behalf by:

M Antoniou  
Director  
TfL Trustee Company Limited

F Brennan  
Director  
TfL Trustee Company Limited

## **TfL Pension Fund Actuary's Certificates**

Pages 59 to 60 contain a formal certificate for each section provided by the Fund Actuary to the effect that, in his opinion:

- When the certificates were given, the contributions shown in the section's schedule of contributions were expected to be sufficient to meet the "statutory funding objective" by the end of the period covered by the schedule;
- The schedule is consistent with the section's Statement of Funding Principles.

The "statutory funding objective" is that the value of the section's assets is at least equal to the value of its past service liabilities assessed as described in the section's Statement of Funding Principles.

# TfL Pension Fund

## Actuary's certification of schedule of contributions

Name of section: **TfL Pension Fund – Composite Section**

### Adequacy of rates of contributions

- I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2021 to continue to be met for the period for which the schedule is to be in force.

### Adherence to statement of funding principles

- I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 28 April 2022.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Section's liabilities by the purchase of annuities, if the Section were to be wound up.

**G M Oxtoby**  
**Fellow of the Institute and Faculty of Actuaries**

**Date 28 April 2022**

**Towers Watson Limited, a**  
**WTW company**  
**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

# **TfL Pension Fund**

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Public Sector Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2021 to continue to be met for the period for which the schedule is to be in force.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 31 March 2022.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Section's liabilities by the purchase of annuities, if the Section were to be wound up.

**G M Oxtoby**  
**Fellow of the Institute and Faculty of Actuaries**

**Date 31 March 2022**

**Towers Watson Limited, a**  
**WTW company**  
**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

## TfL Pension Fund

# Report on Actuarial Liabilities (forming part of the Trustee's report)

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to base on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee Board and the Employer and set out in the Statement of Funding Principles, which is available to Fund members on request.

The most recent full actuarial valuation of the Fund was carried out as at 31 March 2021. This showed that on that date:

The value of the Technical Provisions for the Public Sector section (PSS) was £12,906m and for the Composite section was £11.12m.

The value of the assets at that date was: £13,085m for the Public Sector section and £16.48m for the Composite section.

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

### Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

### Significant actuarial assumptions

#### Discount interest rate to value technical provisions:

Public Sector section = Term dependent discount rate trending from a real rate\* of 0.9% per annum to 0.6% per annum over 7 years from 1 April 2021.

Composite section = In service, a term dependent discount rate trending from a real rate\* of -1.57% per annum to -2.14% per annum over 7 years from 1 April 2021. The PSS discount rate is used post-transfer to the PSS.

\*real rates shown are compounded with assumed RPI inflation to obtain nominal discount rates

**Future retail price inflation (RPI):** Gilt market-implied RPI inflation curve

**Future consumer price inflation (CPI):** RPI inflation curve, less 1.0% pa before 2030 (no adjustment thereafter)

**Pension increases (non-GMP):** based on RPI inflation adjusted for caps and floors as appropriate, with single-equivalent rates of

Existing Members: 3.5% pa in deferment, 3.5% pa in payment

New Members: 3.3% pa in deferment, 3.1% pa in payment

**Pay increases:** general increases in line with the assumed rate of future retail price inflation (RPI)

**Mortality** – current assumed mortality rates in deferment and in payment are based on standard 'S3' tables with different tables and different scaling factors adopted for males and females, and for members retiring in normal health or ill-health respectively. Allowance is made for improvements in longevity after 2021 in line with the CMI 2020 core projection model with an assumed long-term mortality improvement trend of 1.5% per annum.

## **TfL Pension Fund**

# **Independent Auditor's Statement about Contributions, under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the TfL Pension Fund**

### **Statement about contributions payable under schedule of contributions**

We have examined the summary of contributions payable to the TfL Pension Fund on page 57, in respect of the Fund year ended 31 March 2024.

In our opinion the contributions for the Fund year ended 31 March 2024 as reported in the summary of contributions on page 57 and payable under the schedules of contributions have in all material respects been paid for the Public Sector Section at least in accordance with the schedule of contributions certified by the Fund Actuary on 31 March 2022 and for the Composite Sector Section at least in accordance with the schedule of contributions certified by the Fund Actuary on 28 April 2022.

### **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 57 have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the schedules of contributions.

### **Respective responsibilities of trustee and auditor**

As explained more fully on page 57, the Fund's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised schedules of contributions showing the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the schedules of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions and to report our opinion to you.

### **Use of our statement**

This statement is made solely to the Fund's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

**RSM UK Audit LLP**  
**Statutory Auditor**  
**Chartered Accountants**

25 Farringdon Street,  
London,  
EC4A 4AB

12 July 2024

## TfL Pension Fund

### Participating Employers' Unit Holdings and Asset Values Statement

Historically the Fund is structured into a series of financially segregated sections, with the Public Sector section providing benefits for public sector employees and all pensioners and deferred pensioners, and individual sections for each of the private sector employees. The Fund's main investment portfolio is unitised for accounting purposes. The participating employers' unit entitlements and unit values as determined under Rule 2C of the Fund are shown below.

Participating Employer	Equity Fund			
	As at 31 March 2024		As at 31 March 2023	
	Units	£ million	Units	£ million
Public Sector Section	1,022,673,607	4,902.6	1,263,552,058	5,121.9
Composite section	2,170,247	10.4	2,489,080	10.1
	<b>1,024,843,854</b>	<b>4,913.0</b>	<b>1,266,041,138</b>	<b>5,132.0</b>

The Equity Fund unit price at the year end was £4.79 (2023 £4.05)

Participating Employer	Bond Fund			
	As at 31 March 2024		As at 31 March 2023	
	Units	£ million	Units	£ million
Public Sector Section	475,577,423	1,632.3	477,546,297	1,542.9
Composite section	1,190,481	4.1	1,226,564	3.9
	<b>476,767,904</b>	<b>1,636.4</b>	<b>478,772,861</b>	<b>1,546.8</b>

The Bond Fund unit price at the year end was £3.43 (2023 £3.23)

Participating Employer	Alternative and Liability Driven Assets Fund			
	As at 31 March 2024		As at 31 March 2023	
	Units	£ million	Units	£ million
Public Sector Section	3,352,741,534	7,435.9	3,207,941,467	7,111.3
	<b>3,352,741,534</b>	<b>7,435.9</b>	<b>3,207,941,467</b>	<b>7,111.3</b>

The Alternative Liability Driven Assets Fund unit price at the year end was £2.22 (2023 £2.22)

	31 March 2024	31 March 2023
	£ million	£ million
Equity Fund	4,913.0	5,132.0
Bond Fund	1,636.4	1,546.8
Alternative and Liability Driven Assets Fund	7,435.9	7,111.3
Other (non unitised assets allocated to Public Sector)	1,027.3	386.5
<b>Total Net Assets at end of year</b>	<b>15,012.6</b>	<b>14,176.6</b>



# TfL Pension Fund

## Compliance Statement

### 1. Fund Advisers

There are written agreements in place between the Trustee and each of the Fund advisers listed on Page 3 of this report and also with the Principal Employer.

### 2. Transfers

All transfer values paid to or received from other pension schemes were calculated using formulae agreed by the Fund Actuary and in accordance with statutory regulations. No transfers were made at less than their cash equivalent.

### 3. Changes to the Fund's advisers

There were no changes to the Fund's advisers during the year.

### 4. Pension Tracing Service

To help members of pension schemes trace past pension rights, the Department for Work and Pensions (DWP) has set up the Pension Tracing Service. The Fund is registered with the Pension Tracing Service and the registration number is 101653517.

The Pension Tracing Service can be contacted at:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

Telephone 0800 731 0193

Web address : <https://www.gov.uk/find-pension-contact-details>

### 5. Money and Pensions Service

The Money and Pensions Service (MaPS) brings together three respected financial guidance bodies: the Money Advice Service, The Pensions Advisory Service and Pension Wise. MaPS is an arm's length body sponsored by the Department for Work and Pensions, established at the beginning of 2019, and also engages with HM Treasury on policy matters relating to financial capability and debt advice.

For general enquiries, please contact:

[contact@maps.org.uk](mailto:contact@maps.org.uk)

Telephone 01159 659570

### 6. Complaints Procedure

In the event of a complaint from a member or beneficiary of the Fund, every effort will be made to fully investigate and resolve it on an informal basis. In the event that a complaint cannot be satisfactorily resolved, the Fund has an Internal Disputes Resolution Procedure, a copy of which is available from the Secretary to the Trustee.

Should any complaint still remain unresolved after using this procedure, it may be referred to the Pensions Ombudsman as follows:

#### *Pensions Ombudsman*

The Pensions Ombudsman was appointed to resolve issues and disputes that may arise between schemes and their members. The Ombudsman has powers similar to those of a County Court.

The Pensions Ombudsman can be contacted at:

[enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

Telephone Local: 0800 917 4487 Overseas: +44 (0) 207 630 2200

# 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  
8<sup>th</sup> Floor, Palestra  
197 Blackfriars Road  
London SE1 8NJ

**Email at:** [helpdesk@tflpensions.co.uk](mailto: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 that you 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](http://www.tflpensionfund.co.uk)