



18 OCTOBER 2024

# Annual Members' Meeting 2024



EVERY JOURNEY MATTERS



Welcome and Introduction

# Maria Antoniou

## Chair of Trustees



EVERY JOURNEY MATTERS

# Agenda

Time	Topic	Owner
11.00	Welcome and Introduction	Maria Antoniou (Chair of Trustees)
11.10	Review of the Year	Stephen Field (Chief Executive & Fund Secretary)
11.25	Actuarial Update	Gareth Oxtoby (Fund Actuary)
11.40	Investment Update	Dave Aleppo (Investment Adviser)
12.05	Legal Developments	David Saunders (Legal Adviser)
12.25	Open Forum – Questions & Answers	Maria Antoniou (Chair of Trustees)
12.45	Refreshments and Informal Discussions	All
13.30	Close	All





Review of the Year



# Stephen Field

## Chief Executive & Fund Secretary



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## Key Activities Last 12 Months

- New Website launched
- Work volumes have remained high 14% up on previous year
- An increase in online activity
  - Over 29% of members now registered
  - Over 64,000 quotes in the year to 31 March 2024
  - Over 1,400 Expression of Wish forms completed online in the last year
- Triage Service launched with new telephone number



## Key Activities Last 12 Months (continued)

- The Fund's carbon emission intensity has reduced by 53% from the 2016 baseline, on track to meet the 55% interim target by 2030. Implemented net zero investment guidelines in the fixed income mandate, with equity guidelines under development.
- The Fund made a further \$400m commitment to its clean energy portfolio as well as investments with social impacts. Highlights include:
  - £33m direct acquisition of an onshore windfarm in Cambridgeshire
  - £100m commitment to an emerging market (EM) direct equity mandate managed by IFC (International Finance Corporation) with focus on net zero transition and socio-economic impacts in lower income countries
- ESG-tilted assets allocation reached 13.5% (approx. £2bn) this year and is on target of reaching 15% in 2025.
- The Fund is utilising leading stewardship specialist Sustainalytics's most comprehensive programme, Engagement 360, to expand its engagement footprint to six 'meta themes' covering key Environmental, Social and Governance issues.
- The Fund received top scores from PRI (Principles for Responsible Investment) with the highest 5-star rating across all asset classes and 4 stars in policy governance and strategy.



# Governance

- Trustee's conduct business through the main Board meetings and 6 sub committee meetings.
- Over the year to 31 March 2024, 30 meetings in total were held.
- Effective System of Governance (ESOG)

## **Trustees Changes**

- No changes to 31 March 2024
- Post 31 March 2024 Sonja Folarin stepped down as a Trustee Director and David Moore has been appointed.



## Fund Value

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

Plus income of .....		Minus expenditure of .....	
Employers' contributions	£328.2m	Pensions and other benefits paid	£506.9m
Investment income	£187.5m	Investment management	£23.5m
Members' contributions	£79.8m	Other payments	£6.0m
Transfers in from other pension schemes	£1.3m	Administration	£5.0m
		Payments in respect of leavers	£1.0m
		Pensions levies	£11.7m
<b>Total income</b>	<b>£596.8m</b>	<b>Total outgoing</b>	<b>£554.1m</b>

**Change in value of investments £793.3m**

**£15,012.6m – Fund value as at 31 March 2024**



**EVERY JOURNEY MATTERS**



## Value of the Fund in recent years

### Value of the Fund:

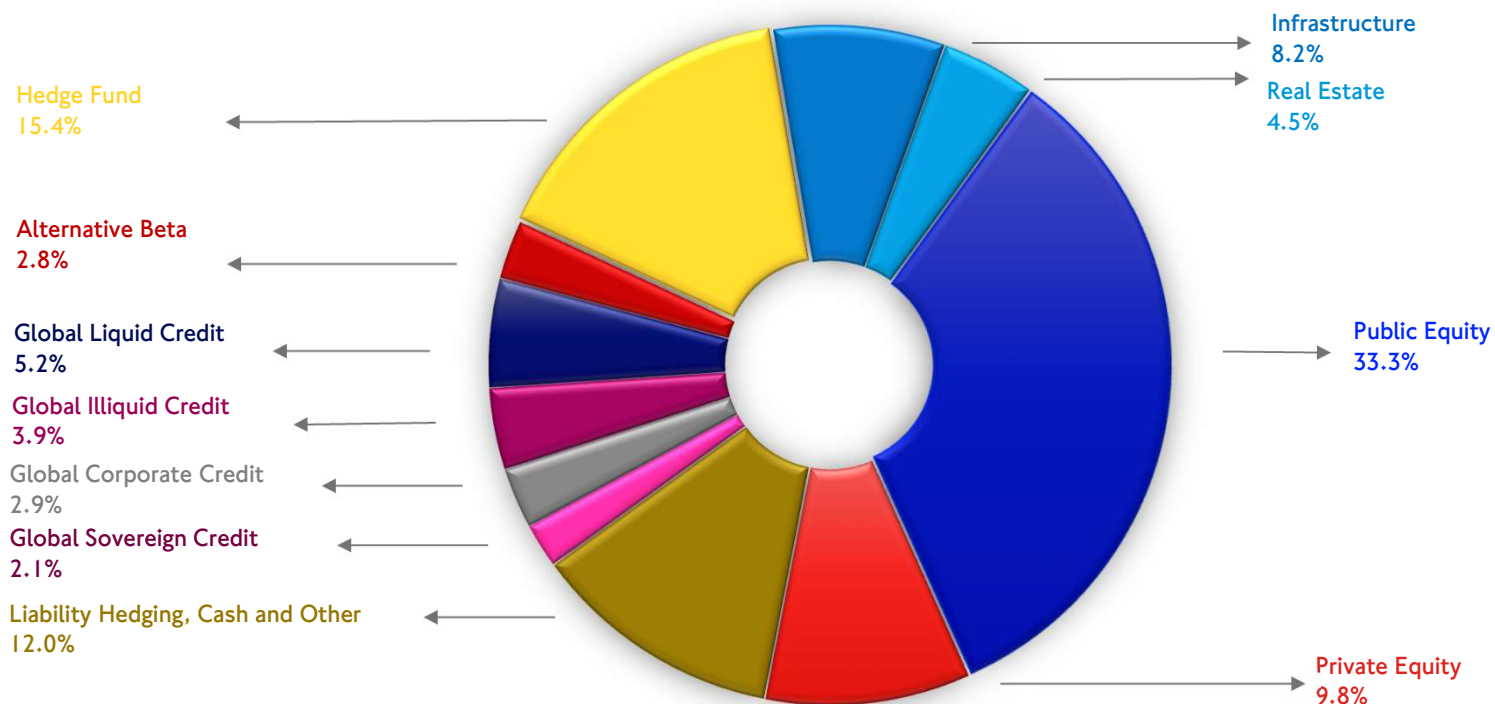
- £15.0bn (31 March 2024)
- £14.2bn (31 March 2023)
- £14.4bn (31 March 2022)
- £13.1bn (31 March 2021)
- £10.6bn (31 March 2020)
- £11.0bn (31 March 2019)



# Investment Diversity

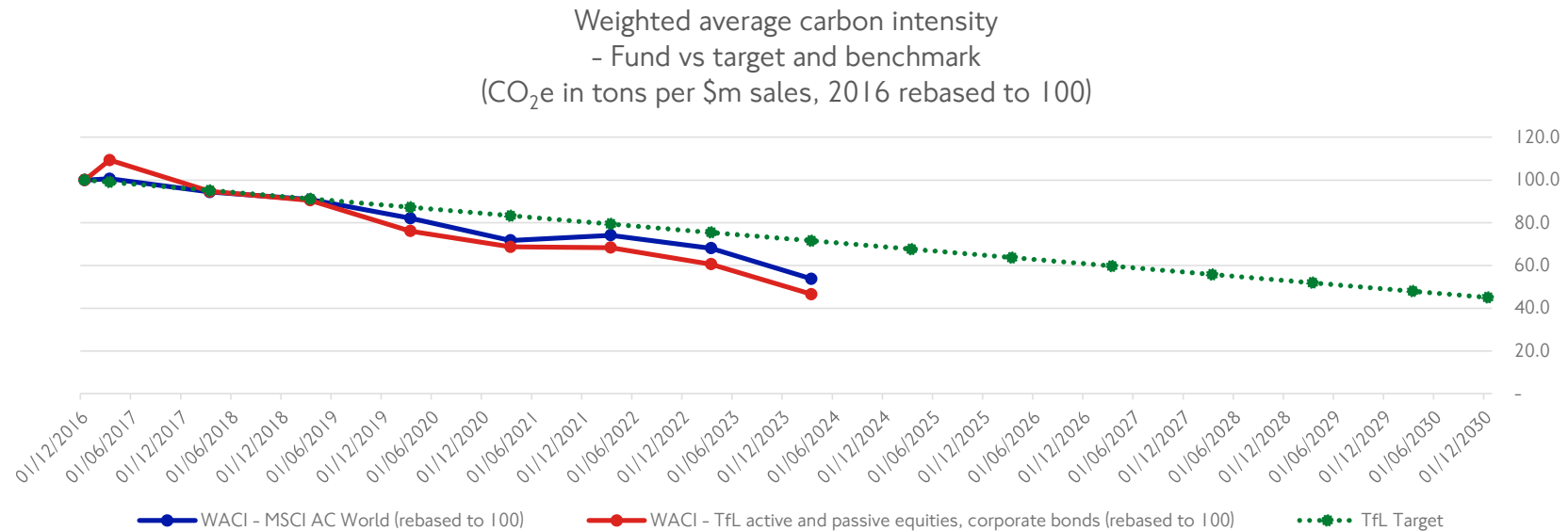
- The Fund continues to diversify to enhance returns while maintaining the risk it takes.

FUND ASSET ALLOCATION - JUNE 2024



# Net Zero Target update

- As of 31 March 2024, the Fund's carbon emission intensity has reduced by 53% as compared to 2016 baseline; it is on track to reach the 2030 reduction target which is 55%.



- The Fund's exposure to the Oil, Gas and Coal sector ("OG&C") continues to fall in line with the above trend:
  - December 2016 3.3% of overall Fund value
  - March 2019 1.8% of overall Fund value
  - August 2024 1.3% of overall Fund value
- The Fund's exposure to Extractives (Drilling, Exploration and Production), the most carbon intensive sub-sector within OG&C, is down from 0.46% in 2016 to 0.26% in 2024.



## Investment Costs

Topic	2023/24 £m	2022/23 £m	2021/22 £m
Direct investment management expenses (shown in accounts)	23.5	29.7	27.5
Indirect investment management expenses (shown in change in market value)	43.1	61.7	44.8
<b>Total investment management expenses</b>	<b>66.6</b>	<b>91.4</b>	<b>72.3</b>
Direct investment transaction costs	2.2	2.0	2.1
<b>Total investment management expenses and transaction costs</b>	<b>68.8</b>	<b>93.4</b>	<b>74.4</b>
Investment costs as a percentage of total assets	0.46%	0.66%	0.52%



## Pension Increase

- Under the Rules of the Fund the April pension increase is calculated by reference to the change in the Retail Prices Index (RPI) over the period September to September.

**The increase for 2024 was**

**Existing Members 8.9%**

**New Members 5.0%**

**The increase for 2025 will be**

**To be announced 16 October**





## Post 31 March Update

- Production and issue of Annual Benefit Statements
- Guaranteed Minimum Pension rectification commencing under phase 2 of the project
- TfL's Pensions Review ongoing



# Published in the last 12 months

- Annual Report & Accounts
- Active Member Benefit Statement
- Deferred Benefit Statement
- Statement of Investment Principles
- Pensionnews
- Annual Review
- Sustainability Report



## Organisations Exhibiting in the Great Hall

- The Fund Office
- The Pensions Consultative Council (PCC)
- Transport Benevolent Fund
- TfL Communications





# TfL Pension Fund

## Annual Members' Meeting

Scheme Actuary presentation  
Gareth Oxtoby

18 October 2024

# Scheme Actuary review of 2024

1. Preparing for the 2024 actuarial valuation of the Public Sector Section (“the Scheme”)
2. What next?



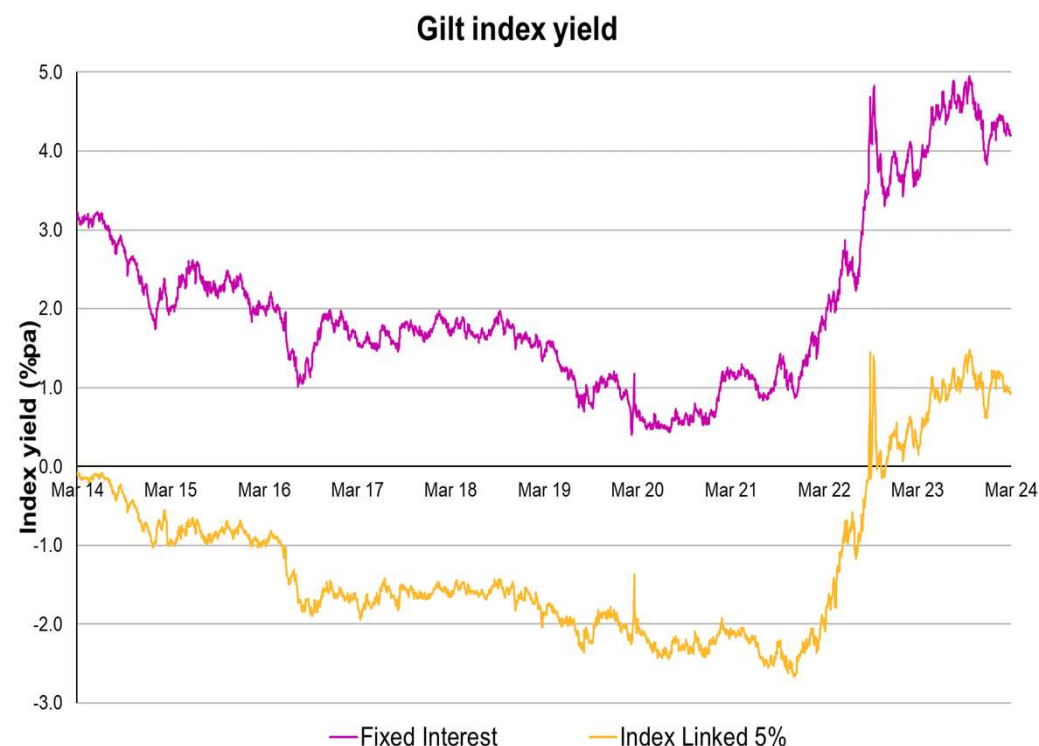
# Preparing for the 2024 actuarial valuation of the Scheme

- The Trustee is required to carry out an actuarial valuation of the Scheme every three years. The next valuation of the Fund has an effective date of 31 March 2024
- Main purpose
  - a) To check whether the money already in the Scheme is sufficient to pay the benefits which members have earned so far as they fall due
  - b) To calculate the amount of money required to be paid by TfL to finance further benefit accrual by current employees and new joiners
- **Main outcomes of the previous (2021) valuation of the Scheme**
  - a) The Fund's assets of £13.1bn were slightly more than the amount estimated to be required to finance future payments of benefits earned to date (referred to in the funding jargon as the 'Technical Provisions') of £12.9bn
  - b) TfL would pay 27.3% of pensionable pay to finance future pension accrual and associated Scheme expenses (members continue to pay 5%)
  - c) An updated version of a contingent contribution agreement should the position deteriorate was agreed

**Today's focus: in the absence of 2024 valuation results, we'll look at some recent wider developments which will influence the 2024 valuation outcome**

# Market conditions – higher yields than in 2021 and 2023

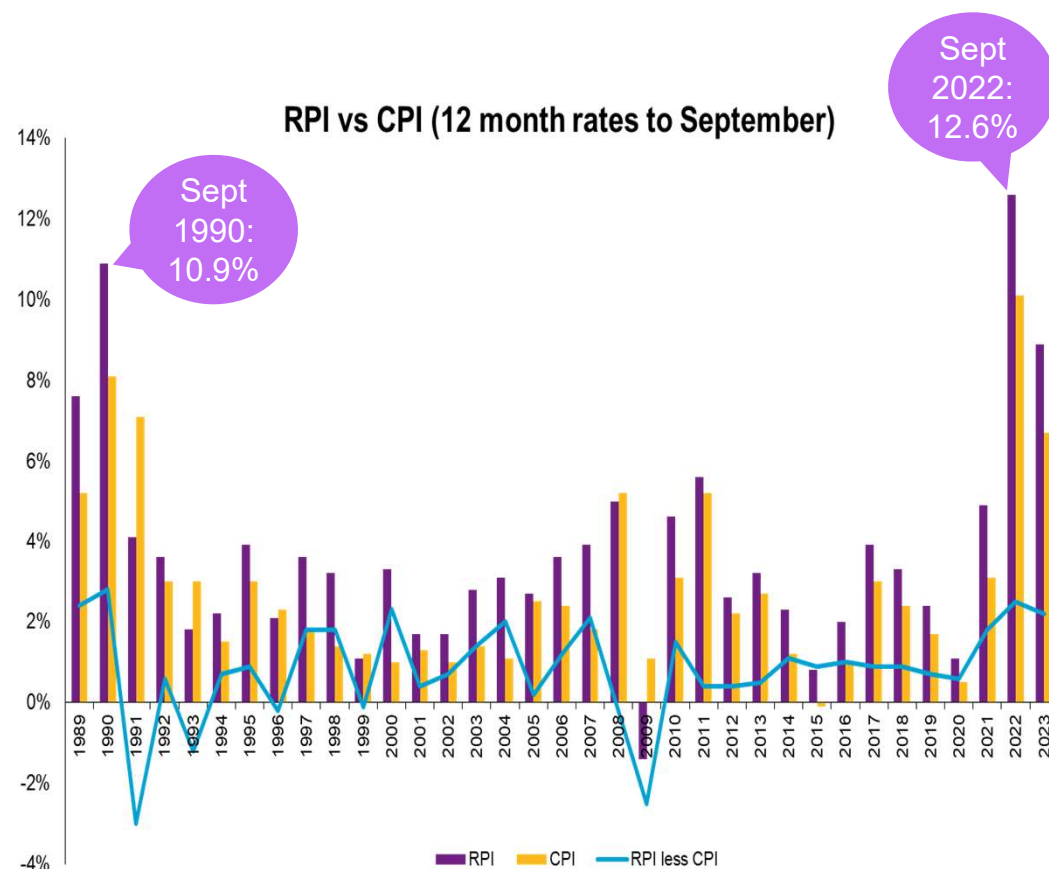
- As noted last year, all other things being equal there was a marked improvement in the assessed financial position of the Scheme at 31 March 2023 compared with that revealed by the 2021 actuarial valuation
- This was primarily because the returns expected in future on Scheme assets had increased – so the amount of money needed now to finance Scheme benefits went down
- While some volatility remains, return expectations as at 31 March 2024 are, if anything, a bit higher than a year ago – yields on Government bonds (gilts) are higher than they have been for over 10 years
- **CONCLUSION:** in the absence of other considerations, this should be positive for the financial position of the Scheme



**WARNING: market conditions could get worse again in future!**

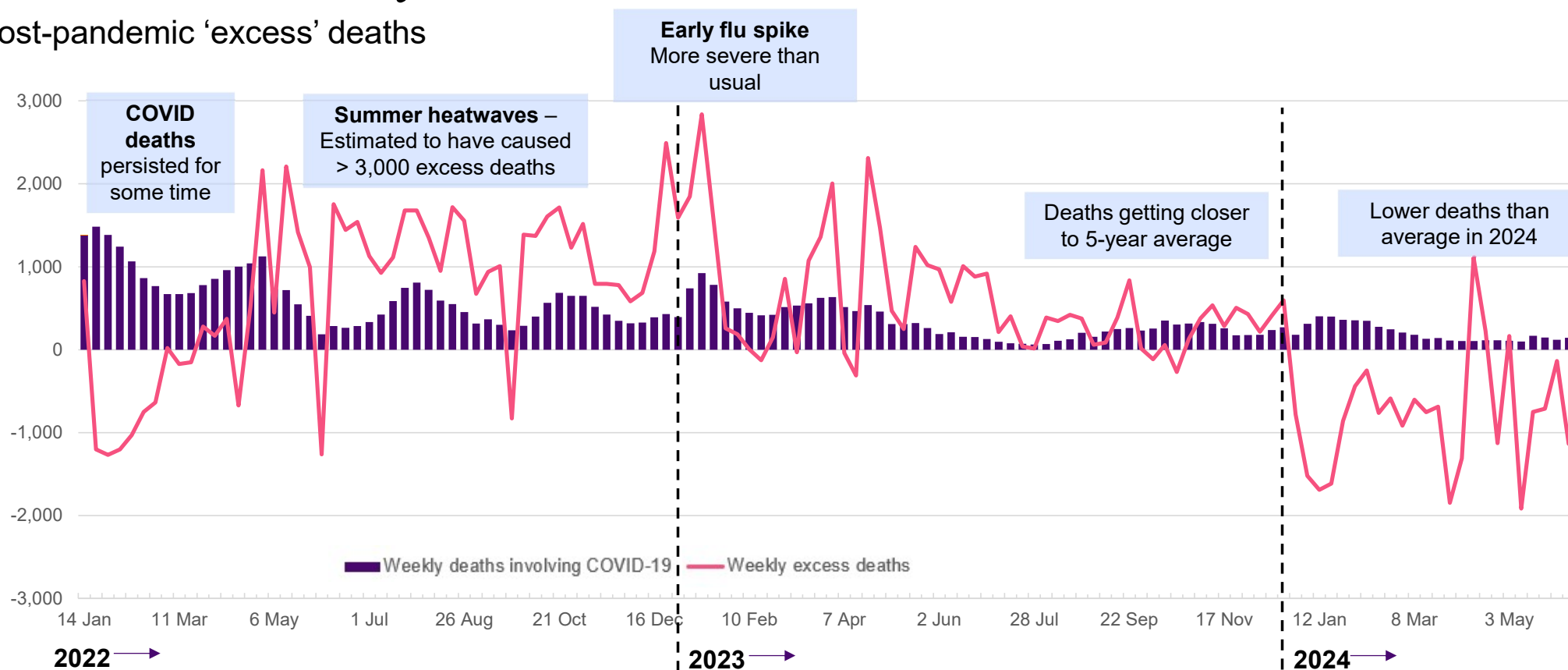
# Market conditions – recent price inflation

- The chart shows annual price inflation since 1989
- As you will be aware, since the 2021 valuation we have experienced inflation at levels not seen for over 30 years
- This unanticipated recent spike in inflation has increased members' pensions by more than we assumed – leading to an unanticipated increase in Scheme liabilities
- A key question for the actuarial valuation is – what will inflation be in future?
  - Recently, inflation has been coming down sharply – RPI inflation for 12 months to August = 3.5%
  - The Bank of England and the Office for Budget Responsibility are projecting similarly low levels of inflation over the next 2-3 years
  - From 2030, the RPI calculation is aligned with (generally lower) CPIH
- **CONCLUSION:** future long-term inflation expectations are likely to be broadly similar to three years ago



# Trends in mortality

## Post-pandemic 'excess' deaths

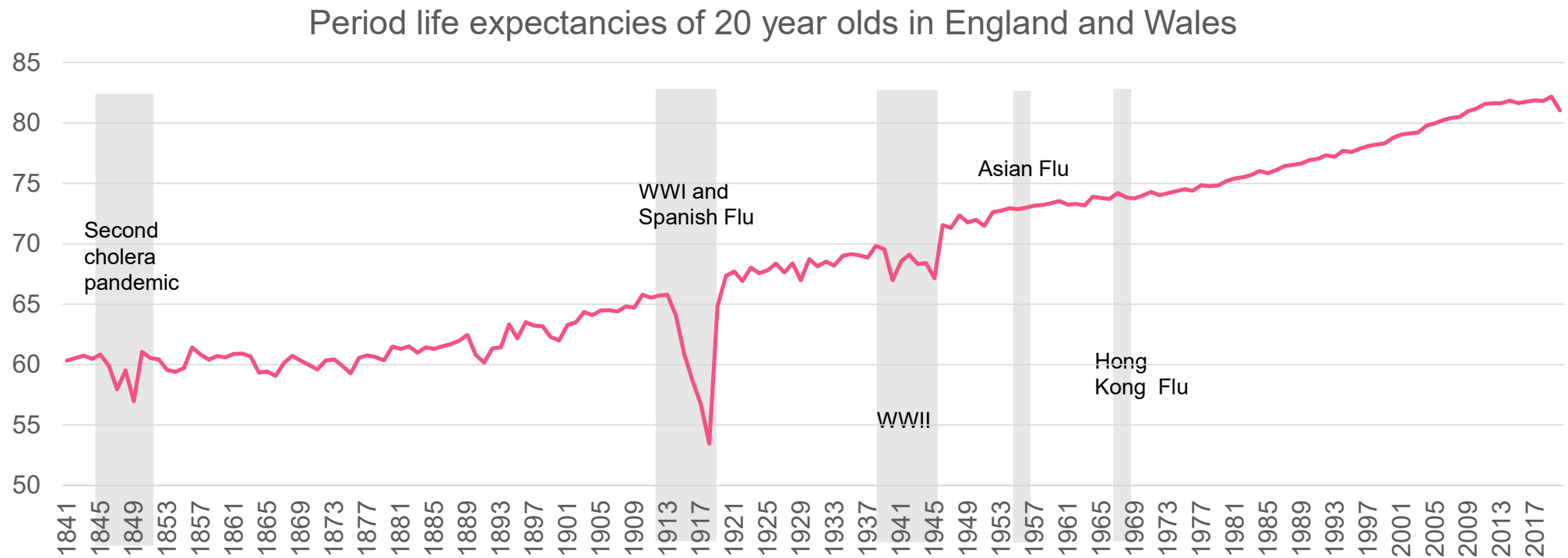


ONS data: Excess deaths measured versus 5-year average excluding 2020, England and Wales

**Total weekly death numbers remained above average through 2022 and 2023 - but 2024 shows a different picture**

# The case for longer life expectancies

The impact of historic shocks is negligible



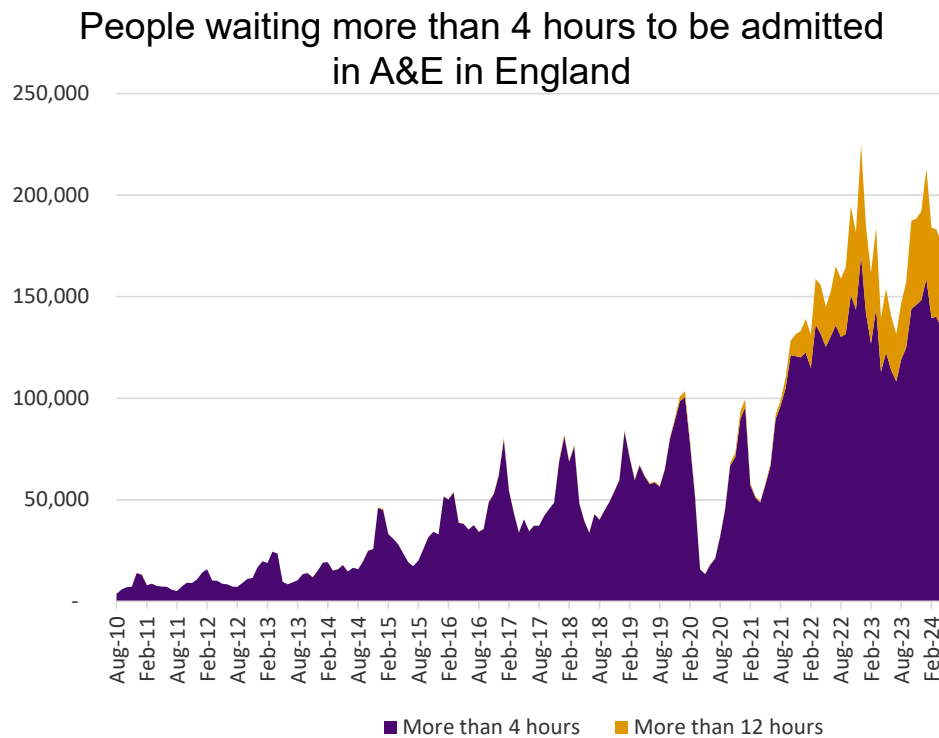
Source: Human Mortality Database

Argument: Previous mortality shocks have not resulted in a noticeable shift in long-term longevity improvements

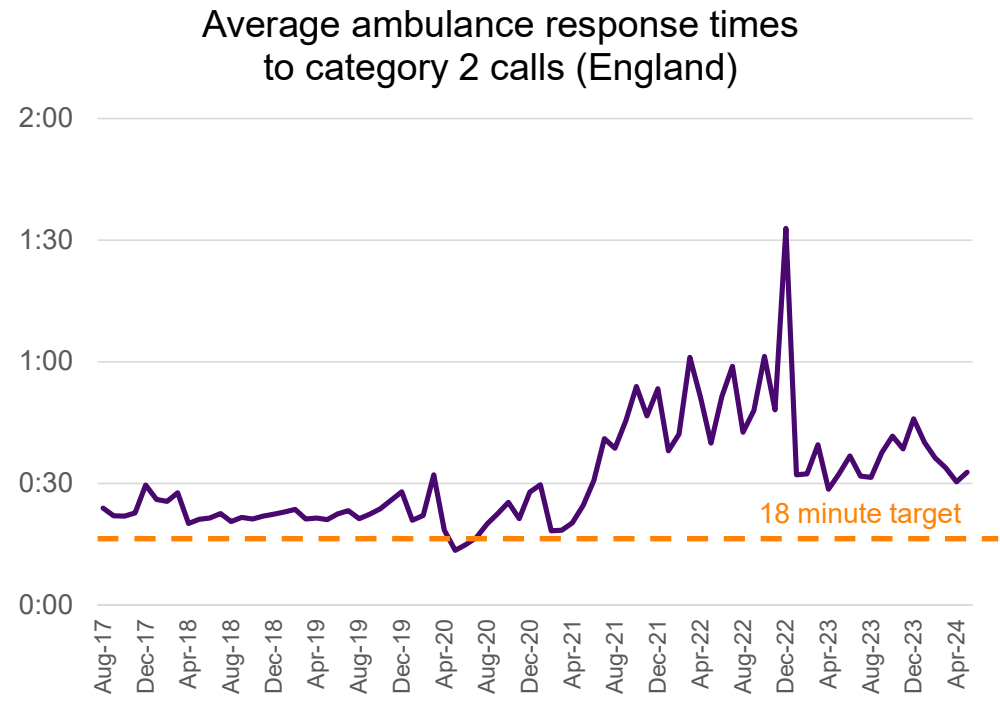


# The case for shorter life expectancies

## Strain on the NHS and social care



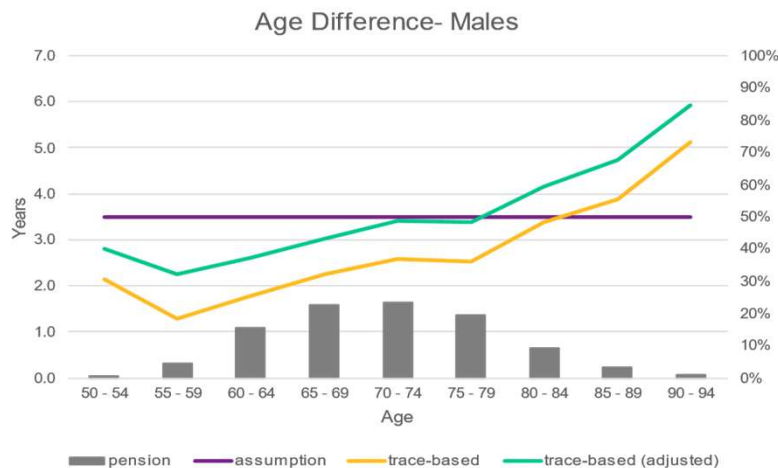
Source: <https://www.england.nhs.uk/statistics>



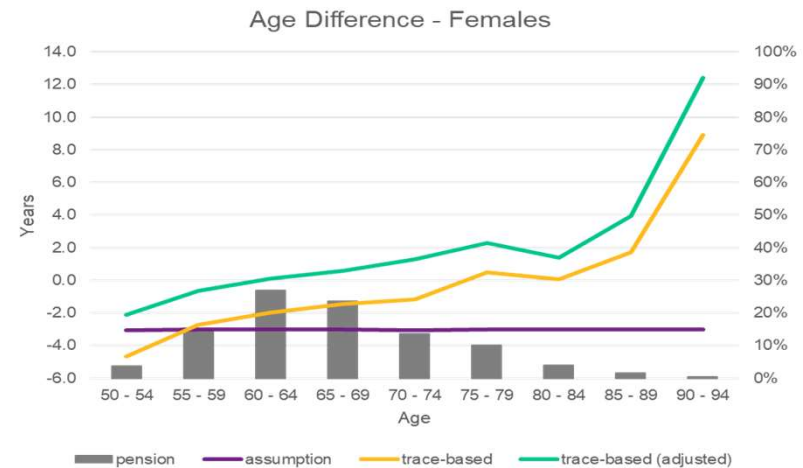
Argument: Strains on health and social care have emerged prior to and during the pandemic – rapid change is unlikely

# Scheme-specific analysis – you and your ‘other half’

- As part of the valuation process we assess the value of benefits which may be payable in future to your dependants after you die
- This requires a number of assumptions – including a) how likely you are to have an eligible dependant when you die, and b) how old your spouse or eligible dependant will be compared to you
- As part of the 2024 valuation process, the Trustee commissioned some additional analysis to test these assumptions. Based on a data tracing exercise carried out by LexisNexis, we discovered that with regards to b)



Male TfL pensioners: our previous assumption - your female dependant will be on average 3.5 years younger than you at death - was pretty good



Female TfL pensioners: it turns out that your male dependants will be on average a year younger than you – considerably younger than previously assumed

# Wider pensions environment: the new funding regime is (nearly) here

## Structure

### Primary legislation

The Pensions Act 2004 (as amended by the Pension Schemes Act 2021) continues to set out the framework

### Secondary legislation – regulations

The 2005 funding regulations continue to apply, amended by the new funding and investment regulations

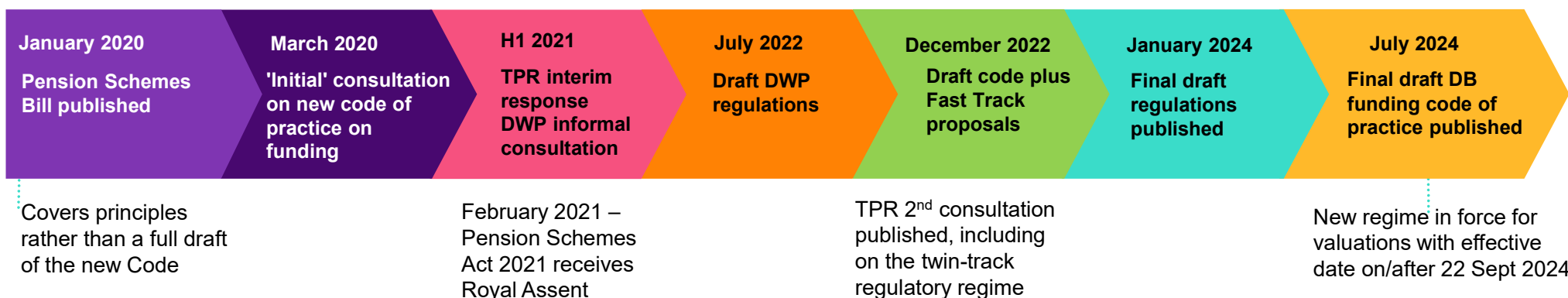
Additional requirements under the new funding and investment regulations will sit alongside the (amended) 2005 funding regulations

### Regulator guidance

**Code of Practice**  
A revised **Code of Practice** will set out how this will be regulated

**Additional Guidance**  
Revised guidance on **assessment of employer covenant** still outstanding

## Timescale



**New funding regulations and Code of Practice do NOT apply for the Scheme's 31 March 2024 valuation**

# Next steps regarding the 2024 valuation of the Scheme

- All other things being equal, there is no reason to believe that the marked improvement in the assessed financial position of the Scheme over the year to 31 March 2023 – as described at last year's AMM - will not be maintained (and possibly enhanced).
- The Scheme Rules set out a process to follow in reaching agreement.
- In doing so, the Trustee will need to take into account
  - Developments in the strength of TfL and its ability to continue to support the Scheme
  - Market volatility - the possibility of significant falls in asset values remains
  - Regulatory changes: the new funding regime – which will apply to the next valuation due in 2027 - is likely to set a 'higher bar' for Scheme funding
  - Any input from the Pensions Regulator.
- The statutory deadline for completing the 2024 valuation is 30 June 2025, but it is anticipated that the valuation process required by the Scheme Rules will be completed well before then.

# Limitations

- WTW has prepared this presentation for the Trustee of the TfL Pension Fund as an update from the Actuary to be presented at the Annual Members' Meeting on 18 October 2024.
- It was not prepared for any other use or for use by any other party and may well not address their needs, concerns, or objectives. It is not intended to form a basis for any decisions to do or omit to do anything.
- This presentation is provided to the Trustee solely for its use, for the specific purpose indicated. This presentation is based on information available to WTW at the date of the presentation and takes no account of subsequent developments after that date. It may not be modified or provided to any other party without WTW's prior written permission. It may also not be disclosed to any other party without WTW's prior written permission except as may be required by law. In the absence of our express written permission to the contrary, WTW accepts no responsibility for any consequences arising from any third party relying on this presentation or the opinions we have expressed. This presentation is not intended by WTW to form a basis for any decision by a third party to do or omit to do anything.
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The background of the slide features a complex financial chart. It includes a candlestick chart with green and red bars, overlaid with several moving average lines in blue, red, and white. The chart is set against a dark background with some horizontal grid lines. The overall aesthetic is professional and data-driven.

# TfL Pension Fund

## Annual Members' Meeting

Investment Update  
Dave Aleppo

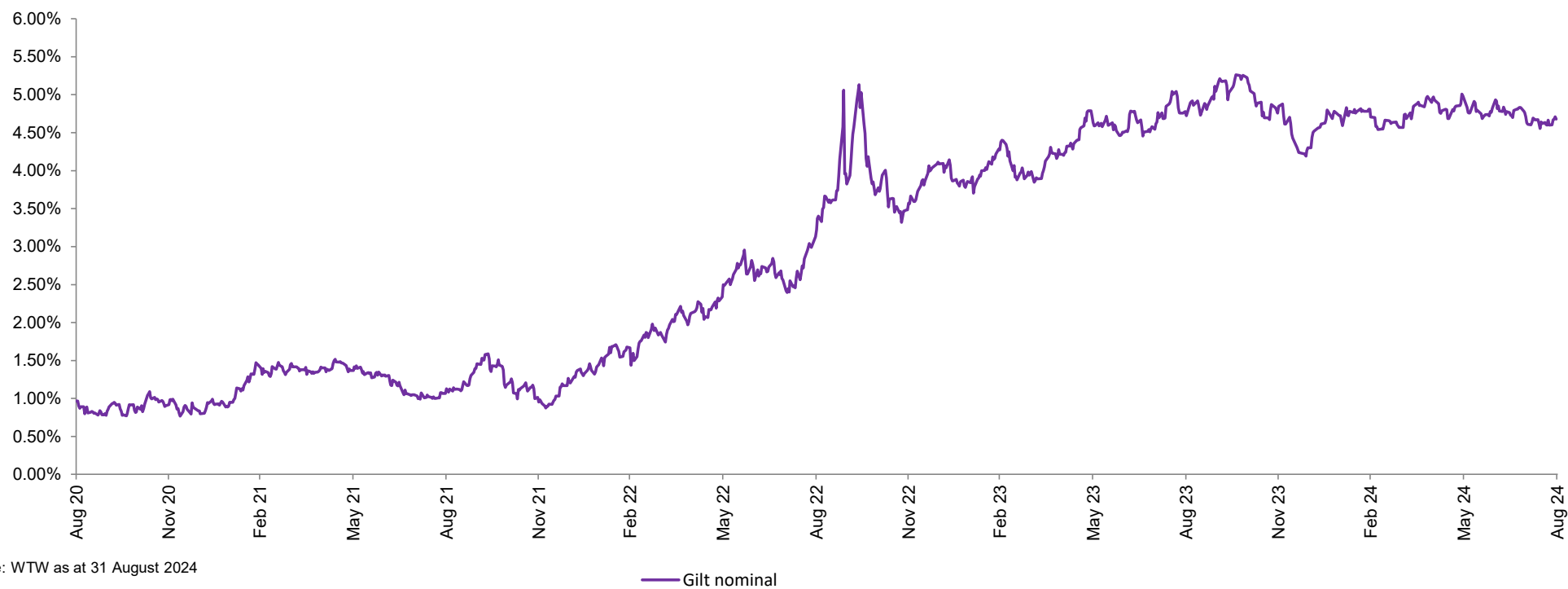
18 October 2024

# Investment Update

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

# Now in calmer waters...

Long dated gilt yields (% pa)



Source: WTW as at 31 August 2024

.....But a number of risk catalysts on the horizon

### Inflation to Growth

Markets and Central Bankers' attention shifts from inflation risks to growth risks.

### Divergence of key economies

Developed Markets are displaying more divergence in policy and outcomes.

### Political risks

National elections scheduled in over 60 countries representing close to half the global population during 2024, potentially leading to market volatility.

# Tracking the economic context

Now	Vs. last year
<b>Inflation</b> will most likely fall towards central bank targets by the end of this year	More certainty on inflation. Still not guaranteed
<b>Interest rates</b> likely need to ease at least as fast as inflation in most developed market regions	Not much change in Bank rate setting. Arguably more uncertainty on where rates might move to from this point
<b>Economic activity</b> , particularly in the US, is returning to a more “normal” range	Improved growth prospects in the US but downside risks remain. Elsewhere modest growth is unchanged from last year

# What else has happened in investment markets?

## World Equities



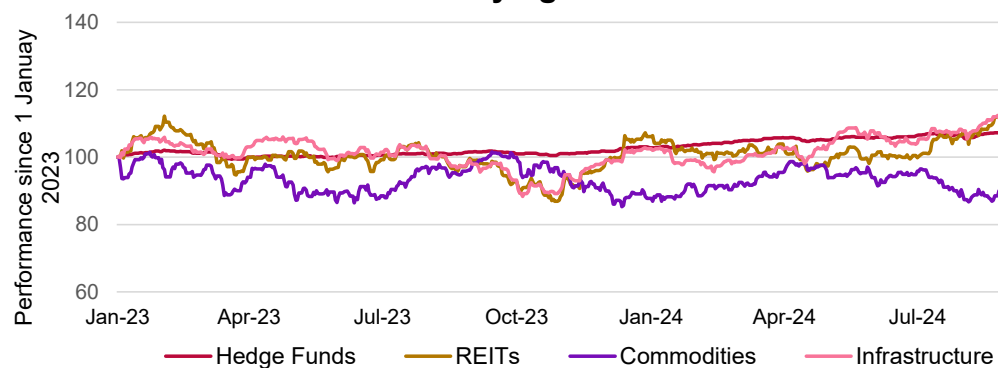
## Global Corporate Bonds



## Index Linked Gilts



## Diversifying assets

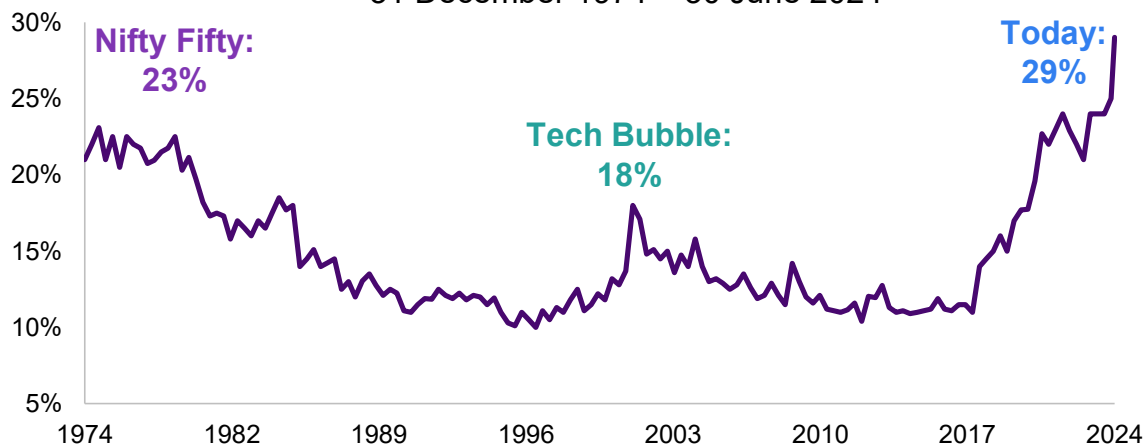


### Notes

World Equities – MSCI World; Global Corporate Bonds – Bloomberg Barclays Global Aggregate (GBP hedged); Index Linked Gilts - FTSE Actuaries UK Index-Linked Gilts All Stocks; Hedge Funds – HFRX Global Hedge Fund Index; REITs – FTSE EPRA Nareit Developed Index; Commodities – S&P GSCI; Infrastructure – S&P Global Infrastructure Index  
100 = level at 1st January 2023

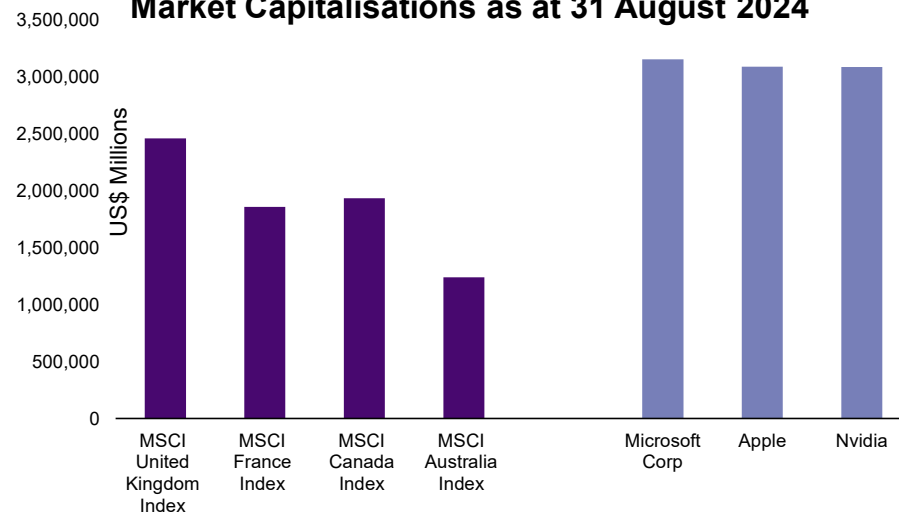
# Equity concentration risk at historic highs

**Weighting of top 5 Stocks in the S&P 500**  
31 December 1974 – 30 June 2024



Source: MSCI Inc, August 2024.

**Market Capitalisations as at 31 August 2024**

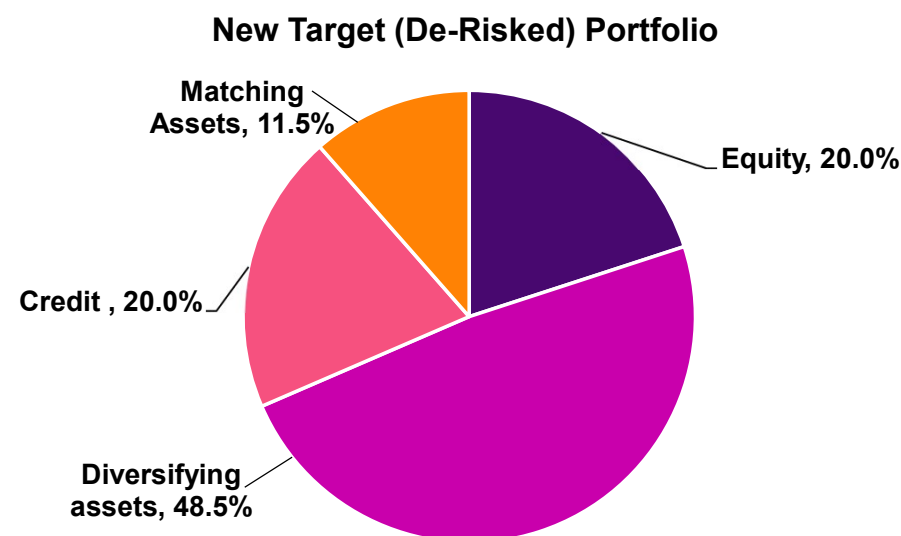
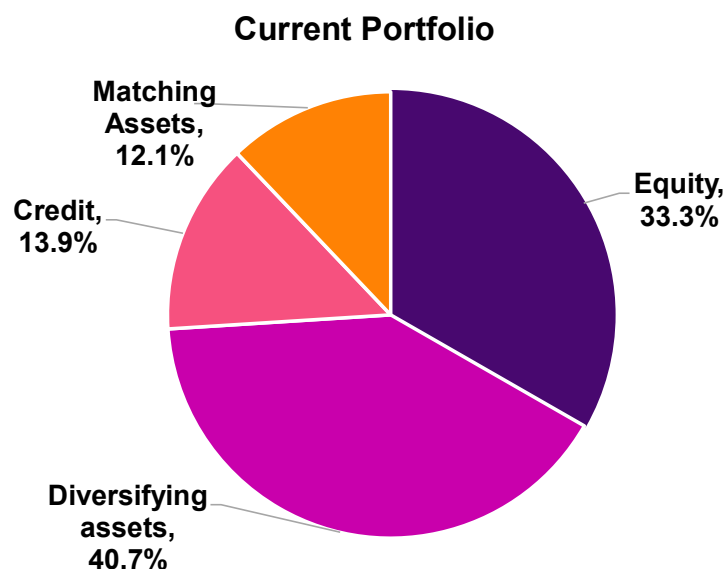


	Global Equities	Global Equities excluding Mag 7	Mag 7
12 months to Q2 2024	22.7%	9.3%	42.7%

Source: AJ Bell and Morningstar, June 2024



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



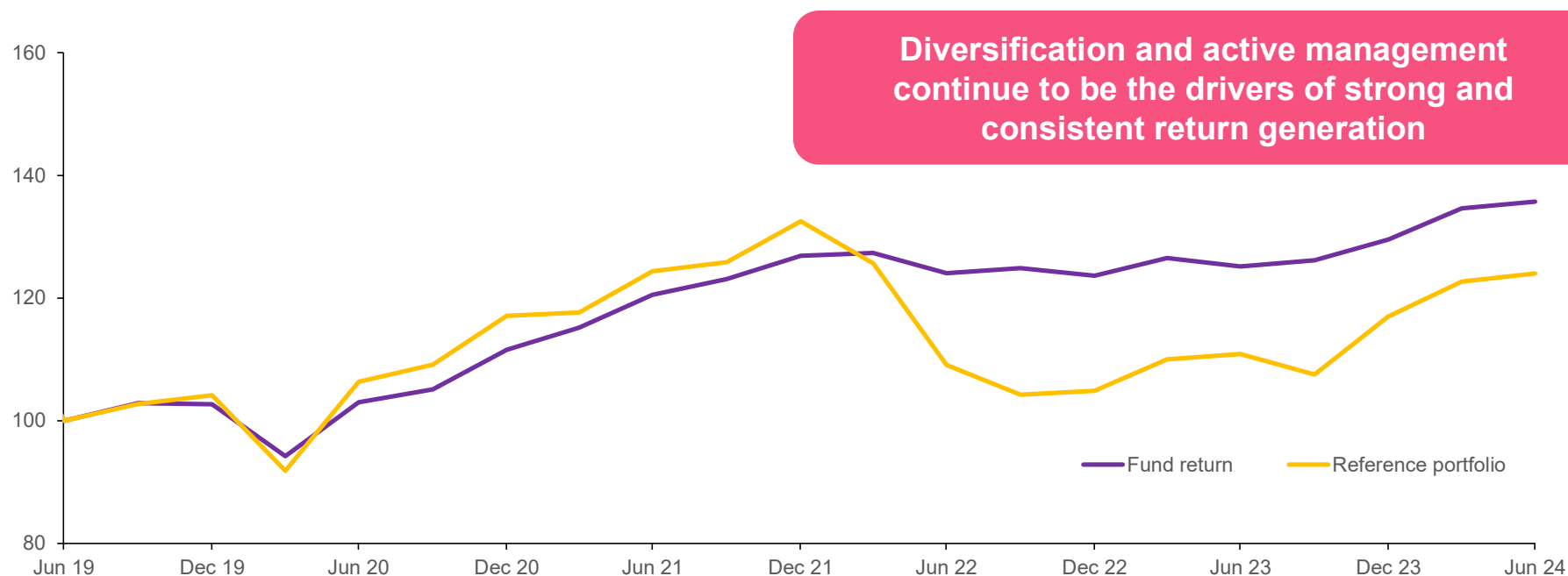
Reduced  
equity  
exposure

Increased  
diversification

Increased  
interest rate  
and inflation  
protection

Improved  
ESG  
credentials

# Portfolio Performance



Source: JP Morgan, WTW, FTSE International Limited, ICE Benchmark Administration Limited

For the period till 31 March 2019, the reference portfolio benchmark consists of 15% FTSE Over 5 Year Index-Linked Gilts, 61.25% FTSE All-World equities (50% hedged) and 23.75% 3-month GBP LIBOR.

The reference portfolio benchmark consists of 30% FTSE All World Index / 30% FTSE All World Index – GBP Hedged, 20% Barcap Global Ag Corp 1% Constrained Hedged, 20% FTSE Over 15 Year Index Linked Gilt Index onwards. The new reference portfolio was first reported against in Q1 2020.

# What actions have been taken?

*Ensuring resilience in uncertain times*



Prudent increase to bond allocation in rising interest rate environment



Increasing allocation to diversifying assets e.g. infrastructure and private equity



Continued integration of Sustainable Investment



With a set of ESG Beliefs agreed in June 2023, The Trustee also received training on biodiversity in April 2024



Ongoing education, monitoring and engagement on climate issues



Identifying new sources of return, such as smart beta equity approaches



Thorough and regular risk and liquidity monitoring

# ESG progress – moving forward, balancing different risks



## Education

- ✓ Biodiversity and new TNFD disclosures training was provided for the Trustee in April
- ✓ Trustees will be attending an accredited climate course in October



## Engagement

- ✓ Fund office carries out quarterly manager engagement reviews
- ✓ Fund office, WTW and Sustainalytics carrying out engagement at wider industry level



## Emissions

- ✓ Investments continue to be made in areas to achieve a positive societal impact
- ✓ As at 31 March 2024, the Fund's reported carbon emission intensity has **reduced by 53%** as compared to the 2016 baseline
- ✓ **The Fund remains on track to achieve its carbon reduction targets**

# Adding scale and impact to the Fund's engagement strategy

The Trustee has partnered with Sustainalytics to carry out **focused engagements with companies**. The top three areas of focus include:

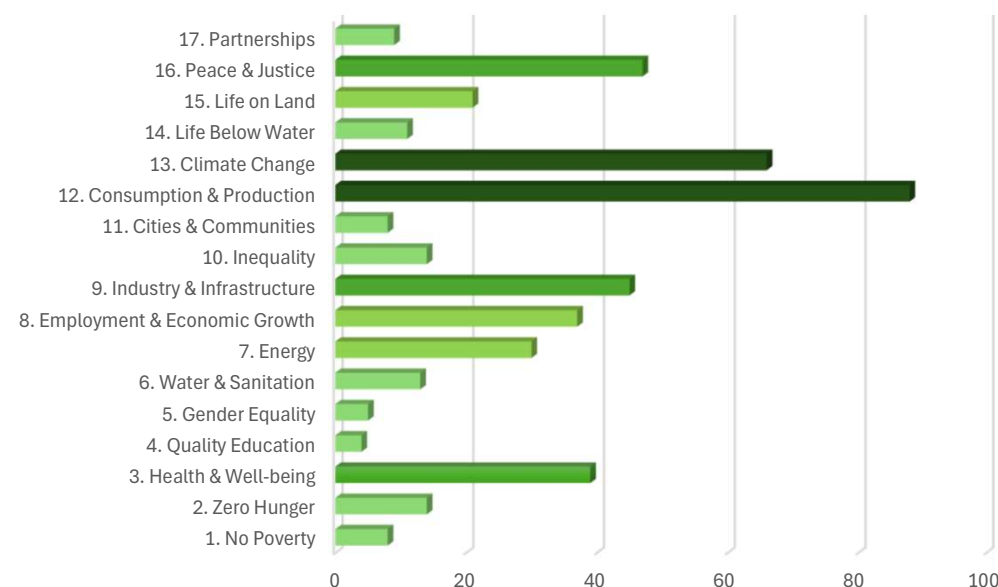
- **Consumption & Production** (88 engagements): engagements with companies to promote sustainable business practices within SDG #12
- **Climate Change** (66 engagements): these engagements under SDG #13 reflect the Fund's commitment to climate action. This highlights efforts to reduce greenhouse gas emissions and support the climate transition
- **Peace & Justice** (47 engagements): Engagements associated with SDG #16 (Peace, Justice and Strong Institutions) underscore the Fund's commitment to responsible and ethical practices within its investments

## Cases by Theme



Source: Sustainalytics. Data as at 30 June 2024.

## ENGAGEMENTS PER SUSTAINABLE DEVELOPMENT GOALS



# How focussed engagements work

The case of App State's Campus Renewable Energy System and Mitsubishi Motors Corporation



## Outcomes from engagement

- A partnership with one of the Fund's investment manager to build a renewable, net-zero district energy system for Appalachian State University in the US, **incorporating cutting edge energy efficiency features while preserving affordability**
- The partnership supports the University's transition to renewable energy



## Outcomes from engagement

- With a focussed engagement strategy to reduce carbon emissions, Mitsubishi made significant progress by committing to carbon neutrality by 2050, however they have not set a 2030 target in line with 1.5°C scenario
- With specific change objectives set, Mitsubishi Motors will continue **improving its emissions management and disclosure towards a low carbon transition**

# Key Takeaways for the Year Ahead

Despite market uncertainty and volatility, the Fund's portfolio has continued to thrive

A balanced approach to risk management continues to be the key to success

Steps have been taken to reduce the overall level of risk

And in doing so, increase the confidence of meeting the ultimate goal: **benefit security for members**



# Disclaimer

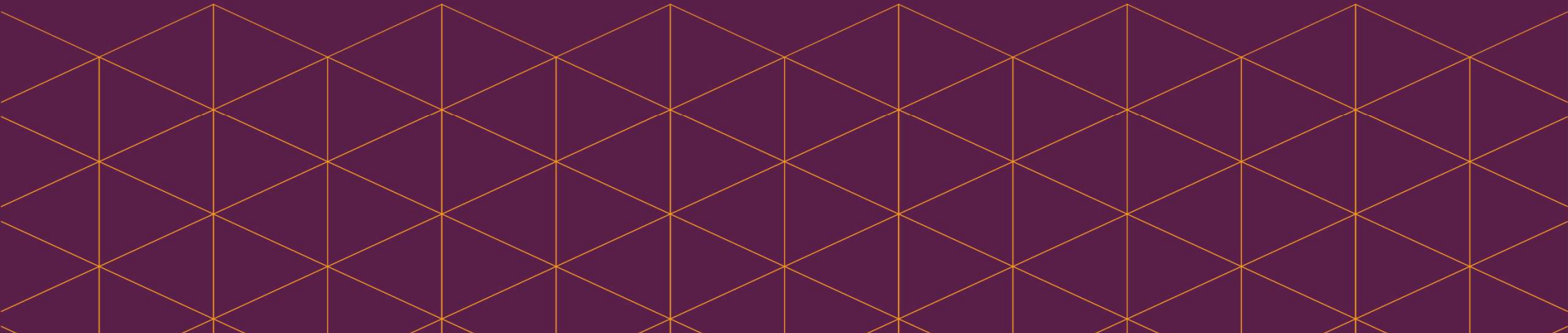
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# TfL Pension Fund

Annual Members' Meeting

David Saunders, Senior Partner, Sackers

18 October 2024



## What developments are we going to cover?

Sackers

- 1 New Government – personalities and priorities
- 2 An update on pensions dashboards
- 3 The Pensions Regulator's General Code of Practice
- 4 Case law update – *Virgin Media* and *BBC*

# 1

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## New Government – personalities and priorities

## Ministers



Secretary of State for  
Work and Pensions  
The Rt Hon Liz Kendall MP

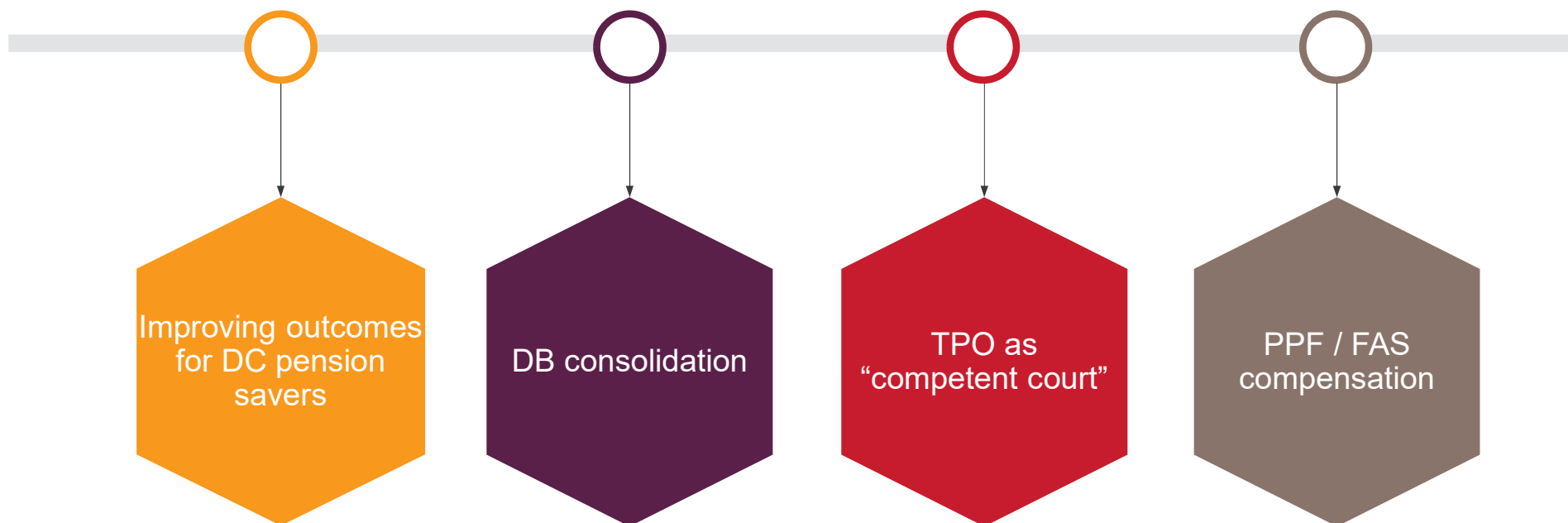
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## Sackers



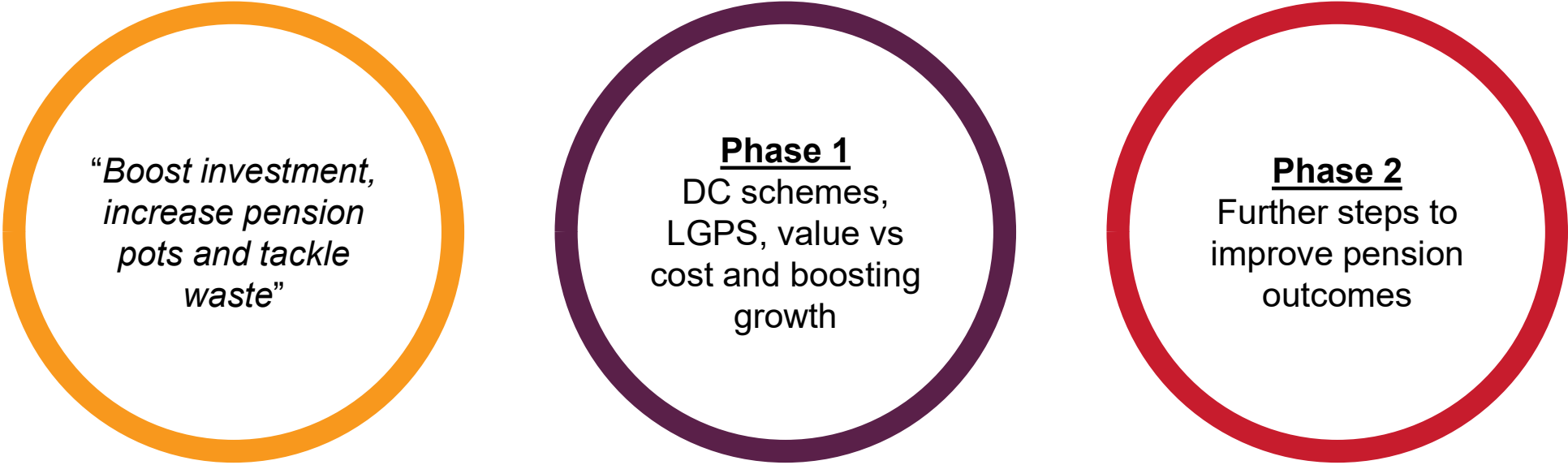
Pensions Minister  
Emma Reynolds MP

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## Pensions review and call for evidence

Sackers



*“Boost investment,  
increase pension  
pots and tackle  
waste”*

**Phase 1**  
DC schemes,  
LGPS, value vs  
cost and boosting  
growth

**Phase 2**  
Further steps to  
improve pension  
outcomes



Budget speculation

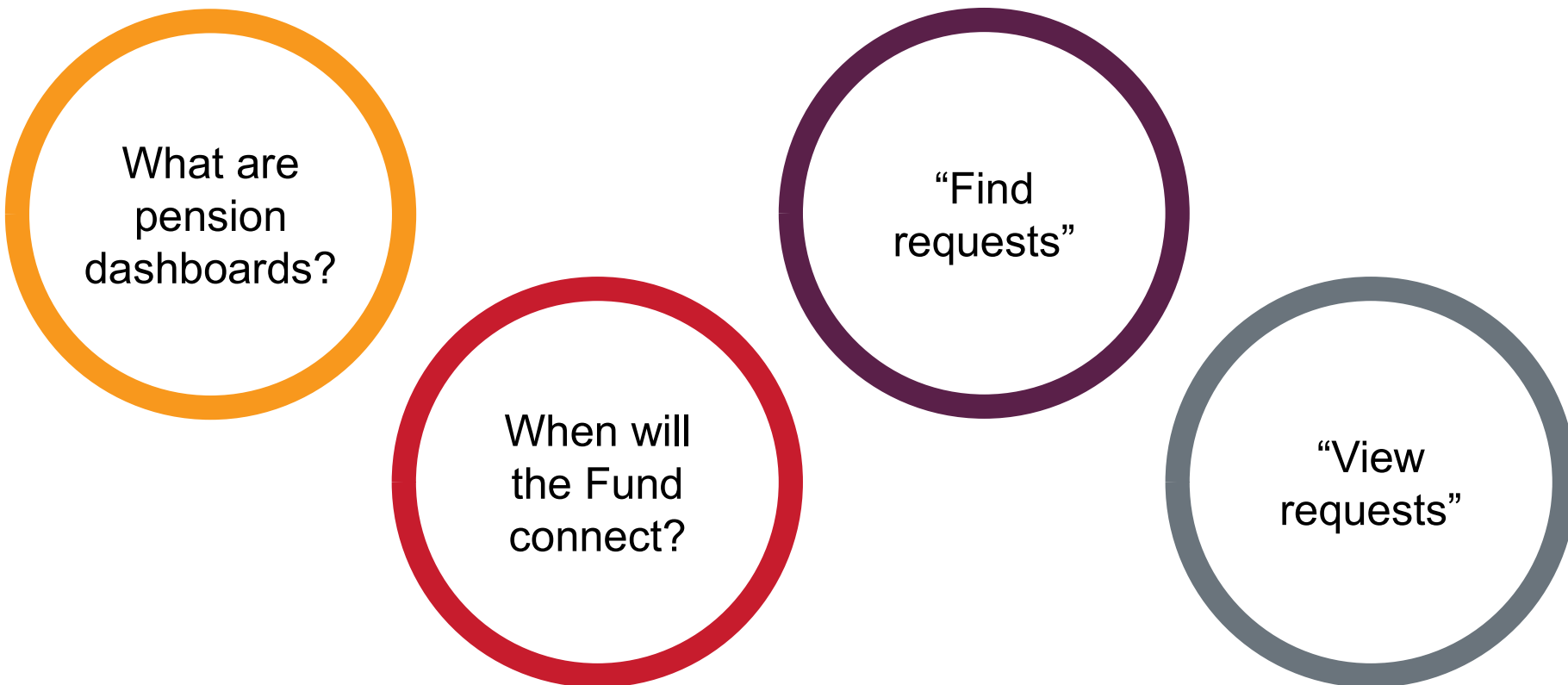
Sackers



# 2

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## An update on pensions dashboards



What are  
pension  
dashboards?

“Find  
requests”

When will  
the Fund  
connect?

“View  
requests”

# 3

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## The Pensions Regulator's General Code

In force  
27 March 2024

Effective system of  
governance  
("ESOG")

Modules include:

- Governing body
- Funding and investment
- Administration
- Communications and disclosure

Own risk assessment  
("ORA")

# 4

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## Case law update – *Virgin Media* and *BBC*



Actuarial confirmation needed for changes to rules of contracted-out schemes

Changes void without confirmation

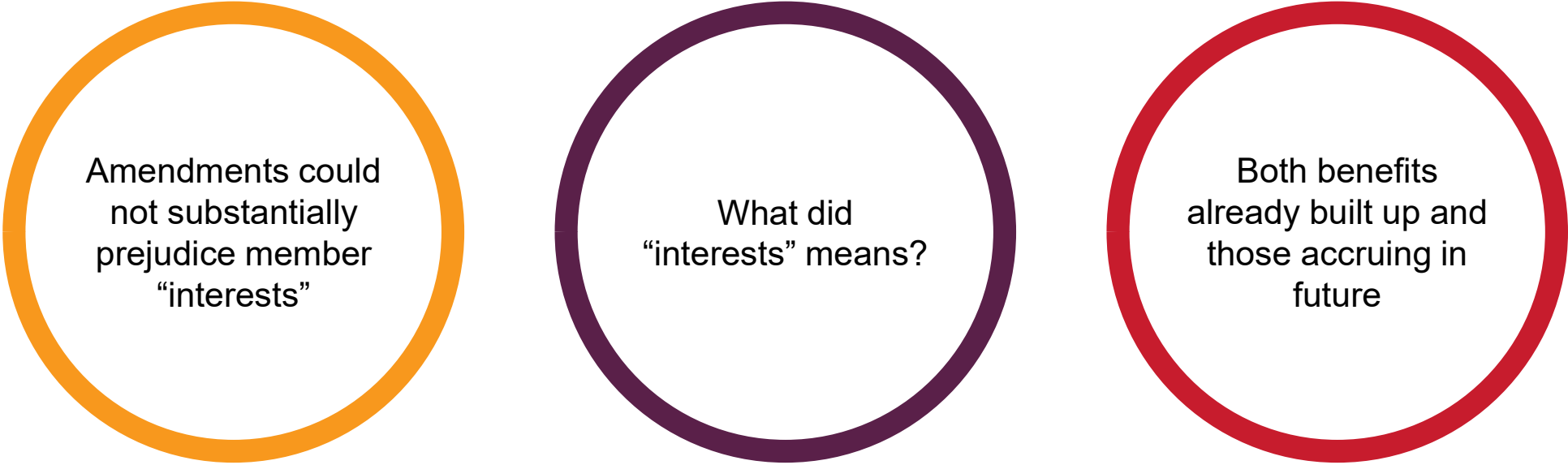
What evidence needed that confirmation was given?

DWP response?



## BBC v BBC Pension Trust Limited and another

Sackers



Amendments could  
not substantially  
prejudice member  
“interests”

What did  
“interests” means?

Both benefits  
already built up and  
those accruing in  
future

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## Open Forum – Questions & Answers



## Refreshments and Informal Discussions



Thank You

See you next year

17 October 2025

