

STATEMENT OF INVESTMENT PRINCIPLES



Notice for the visually impaired

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STATEMENT OF INVESTMENT PRINCIPLES

1. Introduction

- 1.1 This document describes the investment policy being pursued by TfL Trustee Company Limited (“the Trustee”), trustee of TfL Pension Fund (“the Fund”) and should be read in conjunction with the Fund’s [Investment Beliefs](#), [TCFD disclosures](#) and [Sustainability Report](#).

Pensions Act 1995 and Subsequent Legislation

- 1.2 Under the Pensions Act 1995 (“the Act”) and subsequent legislation, principally the Occupational Pension Schemes (Investment) Regulations 2005, the Trustee is required to prepare a statement of the principles governing investment decisions. This document fulfils that requirement.
- 1.3 The Trustee is responsible for all aspects of the operation of the Fund including this statement. As required by the Act, it has been drawn up and revised after consultation with Transport for London (“TfL”) as Principal Employer under the Fund in which capacity it is authorised to act on behalf of all the other Participating Employers according to the terms of the Deeds under which they respectively participate in the Fund. The ultimate power and responsibility for deciding investment policy, however, lies solely with the Trustee.
- 1.4 In drawing up this document, the Trustee has sought advice from the Fund’s Investment Adviser and other advisers. The Trustee will review this document at least once a year, or when the Trustee considers a review is needed for other reasons, such as following a significant change in investment policy.
- 1.5 The Trustee has had regard to the requirements of the Act concerning diversification of investments and suitability of investments and the Trustee will consider those requirements on any review of this document or any change in the investment policy.

2. Fund Structure

- 2.1 Since 1999 and following the organisational changes connected with the transition from London Regional Transport to TfL under the Greater London Authority Act 1999, the Public Private Partnership for the London Underground and certain Private Finance Initiatives, the Fund was converted, with effect from 1 May 2001, into a centralised scheme for non-associated employers, with both public and private sector participants.
- 2.2 Over time private sector participation has reduced and so has the number of sections with two now remaining. One of the sections is in respect of the members employed by two private sector Participating Employers and the British Transport Police Authority. The other section is the "Public Sector Section".
- 2.3 The Public Sector Section has the liabilities in respect of members employed by TfL and its subsidiaries and also in respect of all pensioners and deferred pensioners, whether formerly employed by TfL or another Participating Employer.
- 2.4 When the Fund was converted to a scheme for non-associated employers, the Participating Employers decided that, whenever a member of a private sector section becomes entitled to a deferred pension, retires with an entitlement to an immediate pension, or dies, a transfer payment will be made in respect of him or her from the Participating Employer's section to the Public Sector Section. Contributions and transfers-in by and for the active members of a section are held in that section. Nearly all benefits, apart from some cash equivalents, are currently paid out of the Public Sector Section.
- 2.5 The assets of the Fund are invested in accordance with the principles described in this Statement, but to enable the value of each section to be separately identified the investments of the Fund have been unitised. Each separate section is credited with bond units and equity units as determined under Rule 2C of the Fund. The Public Sector Section also holds additional assets including cash, alternative assets and liability matching as set out in section 7.1 of this document. Further types of units may be made available if, in future, the Trustee so decides.

3 Division of Responsibilities

- 3.1 Only persons or organisations with the necessary skills, information and resources are actively involved in taking investment decisions affecting the Fund. The Trustee draws on the expertise of external persons and organisations including the investment managers, Investment Adviser and the Scheme Actuary.

Financial Services and Markets Act

- 3.2 In accordance with the Financial Services and Markets Act 2000, the Trustee will set general investment policy, but will delegate the responsibility for selection of specific investments to the appointed investment managers.

The Trustee and Investment and Alternative Investment Committees

- 3.3 No decision about the investments of the Fund will be made other than by a valid majority of the Directors of the Trustee at a quorate meeting, or by a resolution in writing signed by all the Directors. This will not apply, however, to decisions taken by the investment managers appointed by the Trustee who will make those decisions in accordance with powers delegated to them by the Trustee, or to any decision made by the Trustee's Investment Committee or Alternative Investment Committee where these powers have been delegated to one or other of these Committees.

4 Objectives of the Fund

- 4.1 The primary objective of each section of the Fund is that the existing assets together with future contributions will be sufficient to meet the cost of the accrued and future service benefits provided under the Rules of the Fund.
- 4.2 The expectation of the Trustee is that the target asset allocation for each section will achieve a real return on the assets that, in the longer term, equates to or exceeds the assumed real rate of return set out in the section's Statement of Funding Principles.
- 4.3 Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005 introduced new scheme-specific funding requirements to help ensure that pension schemes are funded to an appropriate level. This legislation applies to each section of the Fund separately. Each section has a Schedule of Contributions. In addition, any section that did not meet the statutory funding objective at the most recent actuarial valuation also has a Recovery Plan. These factors are taken into account by the Trustee when considering the appropriate investment strategy for that section.
- 4.4 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 Participating Employers' covenants permit some risk (i.e. deviation from a liability matched portfolio) being taken in pursuit of growth. The aim is to take on risk in a controlled fashion in order to achieve incremental excess return.

4.5 In summary, the investment policy therefore pays regard to the following:

- prevailing funding level;
- the security of members' benefits;
- the need to comply with scheme-specific funding requirements;
- a desire to control the cost of benefits by preserving the Fund's wealth;
- a desire to limit instability in contribution rates as a result of any failure of the investment strategy;
- notwithstanding the above, a willingness to embrace risk in a controlled fashion in order to achieve incremental excess return.

5 Liquidity

5.1 There needs to be significant cash available, in the Public Sector Section in particular, to pay the Fund benefits every month. The administrator, in conjunction with the investment managers, ensures that sufficient cash balances are available and should there be a cash demand on the Fund, that assets can be converted easily into cash. The Investment Committee monitors the Fund's liquidity needs and availability on a quarterly basis.

5.2 The investment managers' discretion extends to whether or not to sell particular investments at prevailing prices and which investments to sell to raise cash, as and when required for meeting cash flow requirements.

6 Governance

6.1 The application and development of these principles now fall under the remit of the Investment Governance Group which is chaired by the Pensions Regulator.

6.2 The Trustee Board maintains overall responsibility for investment matters; however its implementation, including that of the ESG Policy, is delegated to the Investment Committee and Alternative Investment Committee.

6.3 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.

Investment Governance Group Principles

6.4 The Trustee has adopted the updated Investment Governance Group principles:

- Effective decision making – Trustee should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation. Trustee should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
- Clear objectives – Trustee should set out an overall investment objective(s) for the Fund that takes account of the scheme's liabilities, the strength of the TfL covenant as well as the attitude to risk of the Trustee, and clearly communicate these to advisers and investment managers.
- Risk and liabilities – In setting and reviewing their investment strategy, Trustee should take account of the form and structure of the liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.
- Performance assessment – Trustee should arrange for the formal measurement of the performance of the investments, investment managers and advisers. Trustee should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.
- Responsible ownership – Trustee should adopt, or ensure that their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles. Trustee should report periodically to members on the discharge of such responsibilities.
- Transparency and reporting – Trustee should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Trustee should provide regular communication to members in the form they consider most appropriate.

6.5 Compliance with the principles will be assessed at least annually.

7 Investment Beliefs

7.1 The Trustee has in place a set of Principles that reflect its Investment Beliefs and these are intended to set the background against which all investment related decisions are made for the benefit of the Fund. The Beliefs were last reviewed through a process lead by the Investment Adviser and changes made to reflect the current thinking on a range of investment and sustainability matters. The aim is that discussions and decisions on investment strategy, implementation, tactical views, and funding should be considered within these principles. The Investment Beliefs are set out in a standalone document, which can be found here: [Statement of Investment Beliefs](#).

8 Investment Strategy: Asset Allocation

- 8.1 Following the conclusion of the 2024 Triennial Valuation and in line with the Side Letter to the Pension Funding Agreement (PFA), the Trustee has reviewed the Fund's Investment Strategy, which was last agreed in 2021, to incorporate further de-risking and liability hedging in light of improved funding status and surplus. A new Investment Strategy based on the results of the 2024 actuarial valuation has been adopted. It results in a further, small reduction in expected targeted returns in line with the de-risking approach agreed by the Trustee in consultation with the sponsor. The strategy also includes a consideration of the options available to help mitigate the level of risk in the Fund's assets with a view to optimising the risk/return profile of the assets in the Fund.
- 8.2 The Trustee has completed the implementation of the strategy which would reduce the Fund's growth assets by scaling back the Fund's allocation to equities and other growth asset classes with consideration of current investment and commitment levels, in a cost-effective way to deliver risk-adjusted returns consistent with achieving sustainable long-term funding position for the Fund. It will also result in an increase in the Fund's interest rates and inflation hedging ratio to around 50% of Technical Provisions liabilities (including proxy assets) as part of a prudent and well collateralised Liability Driven Investment ("LDI") Programme. The total hedge ratio including proxy assets is approximately 53%.
- 8.3 The Trustee sets investment guidelines for each section of the Fund in light of the funding level and maturity of each section. The Trustee also takes into account the strength of the employer's covenant in setting the strategy for each section of the Fund.
- 8.4 In determining this strategy, the Trustee takes advice from the Scheme Actuary and the Investment Adviser on retained investments and the appropriate balance between, in particular, equity, bond and alternative asset class investments, the balance between the portfolios to be held by each of the specialist investment ("active") managers and the proportions of the Fund under "passive" management.
- 8.5 The Trustee measures the performance of the Fund relative to the performance of the Fund's total liabilities and the performance benchmarks set for each of the asset classes, for both active and passive portfolios. Active investment managers take decisions with the aim of outperforming their given performance benchmark. These decisions are in terms of allocating assets between different markets and the choice of individual investments within markets. In contrast, passive management aims to invest in line with the benchmark position. Alternative asset classes include (but are not limited to) real estate, private equity, infrastructure, hedge funds, reinsurance, currencies and commodities.
- 8.6 Investment in derivative instruments will only be made if they:
- Contribute to a reduction of risks; or

- Facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk), and any such investments must be made and managed so as to avoid excessive risk exposure to a single counterparty and to other derivative operations.

9 Risk Management

9.1 The Trustee recognises a number of risks involved in the investment of the assets including:

- Solvency risk and mismatching risk – is measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies and addressed through the asset allocation strategy and through ongoing triennial actuarial valuations.
- Manager risk – is measured by the expected deviation of the return relative to the benchmark set and addressed through the diversification of the Fund’s assets across multiple investment managers and through the ongoing monitoring of the managers.
- Currency risk – is measured by the level of exposure to non-Sterling denominated assets and addressed through a currency overlay strategy.
- Liquidity risk – is measured with reference to the level of net cashflow required by the Fund over a specified period and addressed by the Trustee together with the Fund’s administrators and managers monitoring the level of cash held in order to limit the impact of the cash flow requirements on the investment policy and material risk hedging activities. The Fund’s rates and inflation hedging activity undertaken as part of the segregated Liability Driven Investment (“LDI”) Programme includes collateral headroom triggers in line with the recommendations made by the Fund’s Investment Adviser and consistent with the most up to date regulatory guidance. Liquidity risk is tracked and reported holistically in line with the best industry practices.
- Diversification risk – the Trustee has sought to minimise this risk by the allocation of funds to specific markets. These are designed to prevent over-concentration in any one type of investment or over-exposure to a particular company.
- Illiquidity risk – the Trustee has invested a portion of the Fund’s assets in investments for which there is no recognised market. The Trustee has taken this into account when sizing the allocation to such investments; they also expect to receive an appropriate return premium for this risk.

- Climate change risk – The Trustee’s policy towards managing the long-term financial risks of climate change on the Fund’s investment portfolio is outlined in their ESG policy within the SIP.
- Inflation and interest rate risk – is measured by comparing the likely movement in the Fund’s liabilities and assets due to movements in inflation and interest rates and addressed by holding a portfolio of matching assets (physical bonds and/or derivatives) that enable the Fund’s assets to better-match movements in the value of the liabilities due to inflation and interest rates.
- Derivatives: Counterparty risk – this risk is mitigated through collateral management, diversifying exposure across counterparties, and the use of robust ISDA, GMRA or other relevant derivatives documentation.
- Derivatives: Basis risk – the returns from backing assets used to meet the payable leg of a derivative contract may not match exactly. This risk is addressed through the investment policy adopted by the Trustee for the backing assets and the investment managers’ asset management capabilities.
- Liability risk – pension liabilities can only be estimated and there is a risk of divergence between the performance of the derivatives and the actual value of the liabilities (for example, due to changes in assumptions or demographics). This risk is mitigated by updating the liability hedging benchmark at appropriate regular intervals.
- Legal and operation risk – the successful operation of derivatives depends on the various legal documents governing the derivative contracts and the correct completion of some operational tasks. The Trustee takes appropriate advice when putting in place legal documents, reviewing legal documents already in place and appointing and monitoring providers capable of carrying out the required operational tasks.
- The Trustee is also aware of the risks relating to the initial terms of entry in derivative contracts (for example, purchasing the contracts at a competitive price) and the valuation of the derivatives on an ongoing basis. With the help of their advisers, the Trustee monitors these positions on a regular basis.

9.2 Investment values can also be adversely affected by political intervention of governments in the actions of underlying portfolio companies. The Trustee has little control over this apart from restricting the size of investments in jurisdictions which are seen as risky.

9.3 The Trustee has put in place safeguards to protect the Fund’s investments from fraud. There are also strict controls on who can authorise the transfer of cash and the accounts to which transfers can be made.

- 9.4 The Trustee recognises that active management introduces a risk of under-performance. However, they believe that by use of a mixture of “passive” and “active” portfolios, overall out-performance can be achieved within acceptable risk parameters.
- 9.5 The Trustee measures and monitors the risks identified above through a combination of quarterly investment monitoring reports which include assessments of the investment managers and estimates of the impact on the funding level of the Fund; regular actuarial valuations; regular strategy reviews; risk register that is updated and reviewed quarterly and ad-hoc investigations.

10 Sustainability and Environmental, social and governance issues (“ESG Policy”)

Purpose and scope

- 10.1 The purpose of the Policy is to set out how the Fund’s overall investment strategy and beliefs are applied with respect to ESG integration and effective stewardship, in compliance with the Trustee’s regulatory and fiduciary responsibilities.
- 10.2 This includes how the Trustee takes account of financially material ESG issues, including climate change, the Trustee’s policy in relation to exercising of their ownership rights, and the extent to which non-financial matters are taken into account in the selection, retention and realisation of investments.
- 10.3 The Trustee takes a holistic view in aligning their Sustainable Investing Beliefs towards the Fund’s investment activities. There is a clear recognition that each of the three factors: Environmental, Social and Governance “ESG” play an important role in driving the long-term value of the Fund’s investment portfolio. The Trustee believes that as a long-term provider of responsible capital, the Fund should exercise its stewardship responsibilities effectively and be an agent of positive change. This involves engagement and collaboration to help businesses and markets adopt and transition to best practices and sustainable business models.
- 10.4 The Trustee aims to integrate ESG factors and stewardship in all investment processes and decision making. It is fully integrated into all the Fund’s manager mandates to the extent possible by nature of each asset class. It is already incorporated by way of contracts in the Fund’s segregated public equity and bond mandates and expected to be rolled out to the Fund’s alternative portfolio of credit, private markets and liquid alternatives, where these include physical securities. There is a recognition that alternative managers are in their early stages of adoption of best practices around disclosures, including around key ESG Metrics, and therefore sustained encouragement is required from the Trustee to change industry practices.

Investment strategy and beliefs

- 10.5 The Trustee's investment strategy is presented in section 8 above. The full investment beliefs are presented in a standalone document which can be accessed here: [Statement of Investment Beliefs](#).
- 10.6 The investment beliefs which have the strongest relevance for the ESG Policy are:
- Long-term sustainability issues have a material impact on risk and outcomes, both financial and non-financial
 - E, S and G deserve equal consideration when setting our long-term ambition level but we acknowledge that regulations or circumstances may require prioritising E, S or G over shorter time periods.
 - Engagement is most effective when undertaken by both portfolio managers and third-party specialists. Portfolio managers will have greater oversight of the assets and third parties are better positioned to facilitate engagement at a fund-, industry- or system-level.
 - Sustainability is one of a number of factors taken into account when considering the suitability and attractiveness of an investment; as a result not all holdings are expected to have perfect ESG characteristics.
 - Investment decisions should be made with reference to robust data and analysis whenever available. Given that risk management is multi-faceted, investment decisions do not necessarily have to comply with this data and analysis, and in some circumstances, decisions may need to be taken in the absence of reliable data.
 - Investment decisions should be made with an awareness and appreciation for all facets of risk. In such cases where the risk-mitigation provided by diversification are significantly eroded, risks such as sustainability or reputational risk, further consideration must be given to that investment.

Governance

- 10.7 The Trustee aims to fully adopt the best practice guidance, developed and published by the DWP's Pensions Climate Risk Industry Group (PCRIG) for occupational pension schemes on integrating climate risk, and the DWP Regulations into investment decision-making and reporting.

- 10.8 The Trustee has already undertaken several preparatory steps based on the PCRIG best practice guidance by using the DWP Regulations four key pillars, namely Governance, Strategy, Risk Management, and Metrics & Targets building, in the design of the ESG Policy.
- 10.9 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.

Investment managers, advisers and stewardship service providers

- 10.10 In accordance with the Pensions Act, the Fund appoints authorised investment managers to manage the Fund's underlying assets. An investment manager's credentials with respect to sustainable investing, ESG integration and stewardship are considered as part of the selection process when appointing a new manager and monitored for the Fund's existing managers. In most cases, investment managers are appointed with the expectation of a long-term relationship but with an ability to terminate where considered appropriate.
- 10.11 As part of the selection, regular monitoring and review of the Fund's investment consultant, the integration of ESG issues (including climate change) into their approach to investment manager ratings, research and recommendations is a consideration. Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristics of the portfolio (including climate-related metrics and targets) and managers' engagement activities. The managers' own TCFD (Task Force on Climate Financial Disclosures) disclosures, required to comply with the DWP Regulations, and their scenario analysis of the Fund's mandate will also be assessed. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager may be terminated and replaced.
- 10.12 The Fund has partnered with Sustainalytics and Glass Lewis in order to obtain external support in exercising its ownership rights. Voting and engagement activities carried out on the Fund's behalf are regularly monitored through the Fund's direct participation in company meetings, as well as review and discussion of statistics and case profiles reported by the stewardship partners, to ensure they are aligned with the Fund's objectives and the Trustee's investment beliefs.

Risk Management: Financially material ESG issues, including climate change

- 10.13 The Fund's assets are managed by external investment managers. The assessment of ESG related risk is delegated to the investment managers given their expertise in their respective investment specialities.

- 10.14 The Trustee aims to integrate ESG factors into their investment analysis and decision-making processes. The investment manager selection process to appoint new managers will consider how the manager's approach to ESG aligns to the Fund's strategy and how ESG factors are integrated into the manager's investment process and reporting.
- 10.15 The Fund's investment managers are assessed in their ability to deliver financially, taking into account of the range of risks (including ESG risks) that attach to assets they manage.
- 10.16 The Trustee undertakes a regular review of the Fund's ESG metrics using the MSCI Scoring and Reporting Framework on the Aladdin Platform (or equivalent). This allows the Fund to monitor underlying individual companies of interest, such as those which have the lowest ESG and climate change scores and any material social concerns. This can be supplemented by the manager's own reporting of ESG considerations within their portfolio. Social considerations have been progressively included in the holistic framework and now make up a noticeable proportion of the ESG processes in line with the Fund's objectives and the Trustee's investment beliefs.
- 10.17 To prioritise and focus on material ESG deviations, the Trustee will look to identifying the top 10 active holdings with the worst carbon intensity scores (as defined by the MSCI or equivalent) and/or where the Holding ESG scores are between 0 and 1.4 and using these as the basis to have discussions with the Fund's active managers. Where discussions do validate the materiality and impact of the "scores", the Trustee will expect to see a clear strategy for change as part of the active manager's engagement with the company managements and where managements are not forthcoming to "changes" consideration will be given to disinvesting from such companies.
- 10.18 There is a specific focus on climate change risk through regular monitoring of the level of carbon emissions in the Fund's overall portfolio of actively and passively managed public equity and bond holdings and also reviewed on a manager by manager basis. The aim is to also capture the carbon intensity of the Fund's Private Markets using actual disclosures, where available, and proxy measures, where actual exposures are not reported. For the Fund's portfolio of Liquid Alternatives, a similar approach would be adopted where portfolios include physical securities and look-through data is available.
- 10.19 The Trustee is committed to the monitoring and annual reporting of the Fund's "carbon footprint" and more importantly in pursuing an engagement policy with respect to addressing climate change risk. For those holdings with the highest emissions, the respective managers are required to provide a clear analysis on:
- i) how climate change risk is being incorporated in their risk-return analysis
 - ii) how they are engaging with such companies to encourage the shift to a more sustainable business model
 - iii) rationale for the continued inclusion of such holdings in their portfolio.

- 10.20 On social considerations, the Fund makes use of Sustainalytics's Global Standards Screening which flags any company that they assess to be non-compliant, or at risk of being non-compliant with international norms on human rights and labour rights, covering the UN's Global Compact Principles, International Labour Organization's (ILO) Conventions, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. If the Fund's managers hold any of these companies, they are required to explain the rationale for holding these companies and engage with the companies to resolve any concerns. If the resolution remains unsatisfactory after a reasonable period of time determined on a specific basis, the Fund would require the holding to be divested. Further, through the Global Standards Engagement, the Fund engages alongside other Sustainalytics's clients with companies that severely or systematically violate the international norms. In these engagements, Sustainalytics ask for access to remedy at the investee companies and report to the Fund through case profiles how the investees are performing. The Fund is also part of the Sustainalytics thematic engagements that seek to promote best practice on human rights and labour rights.
- 10.21 As part of the Fund's Investment Strategy and ESG Policy, the Trustee may review from time to time the Fund's exposure to a particular sector, country or region. The Trustee has recently reviewed its framework to investing in China from an ESG perspective and are comfortable that the right framework is in place and that the investment managers hold the right expertise to integrate ESG considerations when investing in China. With the benefit of greater oversight from the Fund's ESG Framework, the investment approach towards China would be kept under annual review and changes made if required as part of a robust portfolio construction process that balances risks and returns in a consistent way from a fiduciary perspective.
- 10.22 The Trustee, in partnership with like-minded pension schemes, aims to use engagement as a way to encourage companies to adopt sustainable business models and practices. However, where "sufficient" progress has not been made or is not forthcoming in view of the Fund's managers, the Trustee is open to the consideration of divestment and exclusions (as the Trustee action on coal would indicate and this is discussed below).
- 10.23 The Trustee has decided to exclude companies that generate more than 30% of their annual revenues from thermal coal in power generation and/or mineral extraction from its active mandates across the Fund. This policy has already been implemented in more recently appointed infrastructure mandates and ongoing consultations are well advanced with the Fund's existing active equity and bond managers to implement the exclusion.
- 10.24 No investment will be permitted in coal in the Fund's Private Markets portfolio of direct and co-investments, except where a company is making or has explicitly committed to make a transition towards a non-coal future.

- 10.25 To enable this exclusion to be implemented in an efficient and consistent manner, the Fund has subscribed to Sustainalytics' database to assess the level of company involvement in thermal coal. This is used to update the Fund's exclusion list every quarter.
- 10.26 The Trustee also believes that investment in oil extraction related securities and infrastructure could present a long-term financial risk to the Fund and would also be incompatible with Paris Agreement. The Fund currently has a process to assess companies that are not aligned with the Paris Agreement (based on TPI analysis) and requires managers to engage with these companies, with divestment remaining an option for the fossil fuel companies if engagement does not lead to improvements. This process is expected to be refined and evolve as part of the Fund's net zero carbon transition plans as technology for decarbonisation and investment research on stewardship best practice continues to evolve. Finally, the Trustee tracks the impact of the portfolio companies' activities in terms of the UN Sustainable Development Goals or an equivalent sector specific framework and where this data is not available encourage underlying companies to publish it.

Carbon Neutral Journey Plan

- 10.27 The Trustee has reinforced their views of climate change being a financial risk to the return of the Fund's assets by committing to a Net Zero Carbon Emissions Plan by 2045. To assist in meeting this target, a reduction of 55% of carbon emissions has been set for 2030 at the latest. These targets are set based on the comparison with the 2016 baseline, when the Paris Agreement came into effect.
- 10.28 The targets will be measured using the weighted average carbon intensity ("WACI") metric, which is the same metric used to measure the Fund's carbon footprint. This will allow the Fund to effectively measure progress through making comparisons with the baseline.
- 10.29 In 2023, the Trustee published the first Net Zero Carbon Journey Update of the Fund ([link](#) to the relevant page on the Fund's website). The Trustee also provides an update in the annual Report of Sustainable Investing ([link](#) to the relevant page). The Fund is trending ahead of its target.
- 10.30 The Fund will look to tilt its exposure to sectors, companies, and opportunities presented by the decarbonisation agenda across all asset classes currently held. A particular focus will be on investments in the Alternatives space, presenting the most relevant opportunity set.
- 10.31 Enhancements to the existing sustainability monitoring, screening, and engagement frameworks will also be implemented, with emphasis on carbon metrics.

Stewardship Strategy and Policy: Voting and Engagement

Approach and Procedure:

- 10.32 The Fund's approach to stewardship is based on closely monitored delegation and collaborative action. The exercising of ownership rights has been delegated to the Fund's investment managers. The Trustee has encouraged the Fund's investment managers to promote good practice through voting and corporate engagement. Additional external support on engagement was put in place from December 2019 with the appointment of Sustainalytics and from 1 April 2020 all voting for the segregated equity mandates has been consolidated with proxy voting advisor Glass Lewis. From April 2024, the Fund started taking part in Sustainalytics's most comprehensive programme, Engagement 360, which provides an ESG Voting Overlay (applied to the segregated equity mandates) and extends the engagements to six 'meta themes' covering key systemic issues including climate change, biodiversity, human rights and labour rights. The Fund's stewardship approach will continue to evolve to uphold the Fund's objectives and the Trustee's investment beliefs.
- 10.33 Voting and engagements delegated to stewardship partners/ managers are regularly monitored through the Fund's participating directly in company meetings, and reviewing/ discussing large holdings/ high risk engagements and votes.
- 10.34 The Fund's priority of corporate engagement is public equity, where it participates directly in dialogues with companies through Sustainalytics and collaborative platforms. In other asset classes, including fixed income, private markets and hedge funds/ liquid alternatives, the Fund's participation in corporate dialogues is mainly through managers and in several instances as an active member of the Investment Advisory Boards of these pooled funds. The Fund will look to utilise its right to vote, as part of the Fund's engagement efforts.
- 10.35 The Fund's approach to stewardship also has increasing focus on 'outcomes' to shape positive, real-world impact aligned with the SDGs through ESG integration which focus on identifiable 'financially material' ESG issues and engagement and voting which then encourage companies to address these issues, which are often linked to SDGs.
- 10.36 The Fund also invests in a pooled passive equity fund which tracks an underlying index (with the intent of maintaining equity exposure in the most cost-effective fashion), managed by BlackRock. From 1 April 2026 the Fund will make use of BlackRock's Voting Choice and apply Glass Lewis's ESG Thematic Voting policy to the passive portfolio (Subject to IC Approval). The enhancement has been made to ensure a consistent voting approach across the Fund's equity mandates. Because this is a pooled mandate in that the Fund holds units of the BlackRock portfolio rather than directly owning the underlying shares, the manager acts independently with respect to corporate engagement. BlackRock provides regular reporting to the Fund which is regularly reviewed by the Trustee as part of the monitoring process.

10.37 Published voting policies from the stewardship partners:

Segregated equities

[Glass Lewis Proxy Voting Policies](#)

(select Benchmark Voting Policy in the left-hand side filters to see the country-based benchmark voting policies; online registration is required to download the documents)

Sustainalytics [ESG Voting Policy Overlay Guidelines 2025 International.pdf](#)

Sustainalytics [ESG Voting Policy Overlay Guidelines 2025 US Companies.pdf](#)

(applied as an overlay to the Glass Lewis benchmark voting policy above)

Pooled fund equities

[Glass Lewis Proxy Voting Policies](#)

(select Thematic Voting Policies in the left-hand side filters and look for “ESG”, to see the ESG Voting Policy which is applied to the passive equity mandates; online registration is required to download the document)

Investments with positive impact and sustainability themes

- 10.38 The Trustee takes into account a range of investment-related factors in the selection, retention and realisation of investments. The Trustee has a fiduciary duty to secure financial returns for the Fund to ensure they can meet the Fund’s current and long-term pension obligations. Investing sustainably in opportunities which will deliver long-term value aligns with the overall objective of the Fund.
- 10.39 The Trustee aims to be early adopters and innovators in areas of “impact investments”, where there is an intention to generate a measurable, beneficial social or environmental impact alongside a financial return. Examples include the Fund’s investments in clean energy, waste, education and banking, where such investments can deliver on many of the UN’s Sustainable Development Goals.
- 10.40 The Trustee has an objective to invest at least 15% of the Fund’s portfolio by value in investments that have a strong “ESG tilt”. This represents a material increase in the Fund’s ambition to benefit from the opportunities presented by decarbonisation and “investment with purpose” objectives. These investments currently represent over 15% of the portfolio, taking into account commitments that the Fund has made to private market strategies that will be drawn down over the next few years.

Collaborative initiatives

- 10.41 The Trustee recognises that there are limits to the influence that the Fund can achieve as a single investor and the resources it can reasonably commit. Hence it is active in identifying opportunities for collaboration with other interested parties to increase the effectiveness that can be achieved on ESG issues. This is especially true in the area of climate change where there is a need to press governments as much as companies.
- 10.42 The Fund is a signatory to the United Nations Principles for Responsible Investment, CDP (formerly known as the Carbon Disclosure Project), A4S: Accounting for Sustainability Asset Owners Network and is a supporting investor of Climate Action 100+.
- 10.43 Through participation in Climate Action 100+, the Trustee, with other investors, is collectively engaging with 161 companies which include the world's largest greenhouse gas emitters. This support includes attendance and questioning company boards at annual general meetings, at private meetings and other engagement activities.
- 10.44 The objective is that companies implement a strong governance framework which clearly articulates their Boards' accountability and oversight of climate change risk, take action to reduce greenhouse emissions and provide enhanced corporate disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

Reporting to Members

TCFD Report (in compliance with the DWP Regulations)

- 10.45 As the Fund assets are larger than £5bn (minimum asset threshold requiring the DWP Regulations compliance from 1 October 2021), the Trustee has complied with the following requirements:
- Meet the DWP Regulations obligations for the scheme year from 1 October 2021 to the end of that scheme year at the least and the full year most likely. The regulation requires the DWP Regulations disclosures initially for the period 1 October 2021 to 31 March 2022. Subsequently, the reporting period of this report will follow the regular scheme year; and
 - Publish a TCFD Report within 7 months of the end of that scheme year with a link included in the Annual Report and Accounts for that scheme year and in annual benefit statements.

SIP Implementation Statement

- 10.46 A SIP Implementation Statement will be published within the Annual Report and Accounts for the scheme year and will:
- Set out how, and the extent to which, all of the scheme's policies in the SIP have been followed, including the policies on stewardship (the minimum required per the legislation), during the relevant scheme year;
 - Describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the scheme year, and state any use of the services of a proxy voter.

Sustainable Investing Reporting

- 10.47 The Trustee will continue to capture the Fund's current and evolving sustainable investing activities through the publication of a Sustainable Investing Report. The first report was published on the Fund website in December 2018 and the follow-on reports are published on an annual basis.
- 10.48 These publications are an addition to the existing reporting to members on ESG matters through 'Pensionews', the Stewardship and activism section in the annual report and accounts, the TCFD report, the Annual Review and ESG page on the Fund website.

11 Investment Manager Structure

- 11.1 The Fund employs a number of investment managers, for whom the overall benchmark and asset ranges specified are designed to ensure that the Fund's assets are adequately diversified and suitable for the Fund given the liability profile of each section. In this regard, the Trustee has taken advice from the Investment Adviser.
- 11.2 The due diligence carried out for individual manager selection and appointment ensures that their investment strategy is aligned with that of the trustees, including in respect of environmental, social and governance factors as described in section 6 above. The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Fund's assets.

Portfolio	Manager
<u>Core</u> Multi-asset Index tracking portfolio – including equities, bonds, and cash	BlackRock Investment Management (UK) Limited
<u>Liability Matching</u> Liability Hedging Portfolio and Equity Option Portfolio	BlackRock Investment Management (UK) Limited
<u>Active Specialist</u> Bonds 1 Bonds 2 Bonds 3	Goldman Sachs Asset Management Oak Hill Advisors L.P. Wellington Management Company, LLP
Global equities 1 Global equities 2 Global equities 3	Pzena Investment Management LLC JO Hambro Capital Management Group Veritas Asset Management LLP
Japan & Asia Pacific equities Asian ex Japan equities	Nomura Asset Management UK Limited JO Hambro Capital Management Limited
Emerging market equities	Coronation International Limited
Small cap equities	Paradice Investment Management Pty Ltd
Emerging market bonds	JP Morgan Asset Management
<u>Alternatives</u> Distressed Debt Infrastructure Debt Senior and Mezzanine Debt	Siguler Guff & Company Industry Funds Management (IFM) Limited Goldman Sachs Merchant Banking Division

Real estate Debt	Goldman Sachs Broad Street Real Estate Partners
Infrastructure	IFC Asset Management Company LLC
Infrastructure	Semperian PPP Investment Partners Holdings Limited
Infrastructure	Stonepeak Infrastructure Fund LP
Infrastructure	SCM ManCo1 Limited (Cory Riverside Energy and Wadlow Wind Farm)
Infrastructure	Augment Infrastructure Managers Advisory LLC
Private Equity	IFC Asset Management Company LLC
Private Equity	Blackstone
Private Equity	Harrison Street
Private Equity	Brevan Howard Asset Management LLP
Private equity	Equilibrium Capital Group LLC
Private equity	Neuberger Berman Europe Limited
Private equity	Goldman Sachs & Co LLC
Private equity and Real estate	Partners Group Limited
Real estate	CBRE Global Collective Investors UK Limited
Real estate	BlackRock Investment Management (UK) Limited
Hedge fund	Bridgewater Associates
Hedge fund	Brevan Howard Asset Management LLP
Hedge fund	Cambridge Associates Limited
Hedge fund	Goldman Sachs Asset Management
Hedge fund	Anchorage Capital Partners Offshore Limited
Hedge fund	Blue Mountain Credit Alternatives fund Limited
Hedge fund	Man Risk Premia SPC
Hedge fund	Man 1783 Strategies

Reinsurance	Euler ILS Partners
Real estate securities	BlackRock Investment Management (UK) Limited
Commodities	BlackRock Investment Management (UK) Limited
Renewable energy	BlackRock Investment Management (UK) Limited
Currency Hedging	Russell Implementation Services Limited

- 11.3 The decision regarding use of active and passive management includes consideration of the efficiency, liquidity, and level of transaction costs likely to prevail within each market as well as the impact of the investment manager fees on future expected returns, net of fees.
- 11.4 The proportionate investment held by each manager at any point in time may vary from the overall benchmark and specified asset ranges due to market movements and/or differential performance relative to benchmark. These variations will be monitored and the Investment Adviser will advise the Trustee quarterly if, in his opinion, the degree of variation requires rebalancing.
- 11.5 The Trustee has instituted controlled Securities Lending programmes to help offset investment expenses. These are managed and are reported upon by the appointed Global Custodian, JP Morgan Investor Services. Russell Investments operate a currency hedging programme on behalf of the Fund.
- 11.6 The assets of the Fund will largely consist of investments admitted to trading on regulated markets and that investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

Monitoring

- 11.7 The Investment Committee and Alternative Investment Committee of the Trustee together with investment specialists in the Fund Office hold regular meetings with the investment managers and receive their reports to satisfy themselves that the managers continue to carry out their work competently and have appropriate knowledge and experience to manage the investments of the Fund.
- 11.8 The Investment Adviser provides quarterly updates of performance to assist in the reviews of the Fund's and investment managers' performance against the benchmarks and targets set. This is supplemented by the Fund Office's activities. Performance is assessed on a quarterly and cumulative basis and incorporates a methodology to capture value added in comparison with fees.
- 11.9 The Trustee reviews the costs incurred in managing the Fund's assets regularly which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, the Trustee has regard to the actual portfolio turnover and how this compares with the expected turnover for that mandate.
- 11.10 These engagements and monitoring of the investment managers with the assistance of the Investment Adviser provide suitable evidence that the managers are complying with the terms of their respective investment management agreements, including the exercise of their delegated powers and benchmark reference. The investment managers maintain internal control processes to identify any instances where a potential breach has occurred and any such instances are reported promptly to the Trustee.
- 11.11 To ensure there is appropriate evaluation of the asset managers' performance and remuneration is in line with the Trustee's wider policy, the Trustee, after consulting with the Investment Adviser, will consider at least once every 12 months whether they are satisfied with the managers' past performance and fees together with their potential to, at least, perform in line with their benchmark and target in the future.
- 11.12 If the Trustee is not satisfied they will require the manager concerned to take such steps as will then satisfy them in this respect, or will remove that manager and appoint another. At the outset of the appointment, termination arrangements are agreed. For individual portfolio arrangements these usually allow for immediate or short-notice termination while for some pooled fund and/or less liquid investments there may be a longer process of disinvestment.
- 11.13 When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be

terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

11.14 The Trustee also carries out specific monitoring in respect of ESG matters which is covered in Section 6 above.

12 Additional Voluntary Contributions (AVCs)

12.1 The Fund provides facilities for members to pay AVCs that are invested in a range of options through the Equitable Life Assurance Society (now Utmost), the Clerical Medical Investment Group Limited, Standard Life Assurance Company and Legal & General Investment Management (“LGIM”). Only the LGIM options remain open to new members. The Trustee’s objective is to provide a suitable choice of investments which are appropriate to the needs of members.

12.2 The Trustee monitors the AVC arrangements on a regular basis and seeks expert advice from time to time to ensure that charges and returns remain competitive. This would include ESG assessment of the LGIM options.

March 2026 (updated to include managers appointed to February 2026)

THE TFL PENSION FUND OFFICE

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

They can be contacted at:

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

Email at: helpdesk@tflpensions.co.uk

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

Fund Office appointments

The Fund Office team are working on a hybrid basis so we are now able to see visitors in the office, but with fewer people in the office each day we require 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