**TfL TRUSTEE COMPANY LIMITED**

**Notes of the 2005 Annual Members' Meeting**
**Held at 11:00 hrs on Tuesday 4 October 2005 in the Assembly Hall at Church House, Dean's Yard, Westminster**

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| **Platform Party:** | **Stephen Critchley** | **( Fund Chairman)** |
| | **Sue Timbrell** | **(Director of Pensions and Fund Secretary)** |
| | **Richard Williams** | **(Scheme Actuary)** |
| | **Nick Sykes** | **(Investement Adviser)** |
| | **Garry Wake** | **(Pensions Manager)** |
| | **John Ingleton** | **(Trustee)** |
| | **Marina Ainsworth** | **(Trustee)** |
| | **John Timbrell** | **(Trustee)** |
| | **Tom Scanlon** | **(Trustee)** |
| | **Chris Miller** | **(Trustee)** |
| | **Steve Grant** | **(Trustee)** |
| | **Jane Hart** | **(Trustee)** |
| | **Steve Allen** | **(Trustee)** |
| | **Pat Sikorski** | **(Trustee)** |
| | **John Robson** | **(Trustee)** |
| **Apologies:** | **Chris Godbold** | **(Trustee)** |
| | **Gerry Duffy** | **(Trustee)** |
| | **Hugh Hood** | **(Trustee)** |

**There were 257 other members in attendance**

1. Stephen Critchley introduced himself, the Trustees and guests. Having dealt with safety notices he outlined the meeting programme and invited questions during the open forum at the end of the meeting or individually during the informal refreshments session.

2. Sue Timbrell presented the Fund's Report and Accounts for the year ended 31 March 2005, highlighting changes during the period and noting the rise in the Fund's assets from £3.156 billion to £3.516 billion. She also pointed out that there had been an overall increase of 357 in the number of members and beneficiaries which is good news for the Fund as a steady flow of new members maintains the balance between those paying into the Fund and those drawing benefits. (Copies of slides attached.)

3. Nick Sykes gave a presentation on the investment changes made since the actuarial valuation of the TfL Pension Fund as at 31 March 2003, where the Fund is today and the changes which the Trustees are considering. He explained that all change, in investment terms, costs

money, therefore, if the Trustees make changes it will be for one of four reasons:

- to improve the return of the Fund
- to reduce the risk of the Fund
- to reduce the cost to the Fund
- to adopt best practice

All of the changes that are adopted by the Trustees, on the advice of the Investment Adviser, are measured against one of these four yardsticks.

Mr Sykes summarised that it had been a busy two years for the Investment Committee and the Trustees and that the changes to investments were expected to add to the Fund's return. The Investment Adviser and the Trustees will consider further changes to enhance returns over the next 12-18 months. (Copies of slides attached)

4. John Ingleton gave a presentation on the role of a Pension Fund Trustee. He outlined the concept and history of trusts in the UK and explained the principle of a trust and that there are tax advantages to pension funds set up under trust. He explained that a Trustee's responsibilities are defined by law and can be summarised as follows:

   - Trustees must act within the legal framework and in accordance with the Trust Deed and Fund Rules
   - Trustees are required to act prudently, conscientiously, honestly and with the utmost good faith
   - Most Trustees, whether appointed by the Employer, the Trades Unions or the Fund members, wear two hats and they must learn to keep them separate.
   - Trustees must always act in the best interests of Members and balance the interest of different categories of beneficiary. A Trustee must not act as a representative of the group which appointed him.
   - A Trustee must take professional and expert advice whenever necessary.
   - Trustees must invest the assets of the Fund to the best possible advantage and cast aside personal views on the ethical and political aspects of an investment.

   Mr Ingleton summarised a Trustee's responsibilities as being 'in essence, all about getting the right money in, from employers as well as from active members, paying the right amount to the right people at the right time and keeping the accounts and records straight'. (Copies of slides attached.)

5. Stephen Critchley invited questions from the floor. The following questions were raised:

5.1 **Annual pension payslips: why were pensioners not asked to vote on whether they wanted an annual payslip?**

This issue was considered very seriously by the Trustees. The aim was to improve communication to all members, to include all payment dates for the coming year and the Tax year-end P60 details. We were also trying to reduce the cost to the Fund because as at the last valuation the Fund had quite a significant deficit. The Trustees felt that the saving of just short of £200,000 a year from changing to annual payslips rather than the regular four-weekly payslips was one that they could not ignore.

5.2 **At the AMM two years ago we asked to be allowed to vote on the annual payslip issue. Why was this not done?**

It is the Trustees who are responsible for taking decisions of this nature and members' votes must only be sought when it is proposed that there be a reduction in benefits. The Trustees did consider the views of the members at that time and decided that an annual payslip was in the best interest of the Fund.

5.3 **Vote of thanks for the new annual payslip with less personal information contained therein.**

5.4 **Why haven't the Trustees responded to the 250 signatures that were put before the Trustee Board to call an EGM (Extraordinary General Meeting) on your current proposals to join funds with the London Pension Fund Authority and what is your current thinking on this?**

The background to this question is that TfL is a functional body of the Greater London Authority (GLA). There are four of those functional bodies, ourselves, the Metropolitan Police Authority, the London Fire and Emergency Planning Authority and the London Development Agency. There is a fifth member of the wider GLA family which is the London Pension Funds Authority (LPFA). This Authority is responsible for operating a pension fund which has as its members the residuary bodies that were left over when the Greater London Council was abolished some 20 years ago. It was suggested by the Mayor that it seemed odd that there should be two bodies within the GLA family that were administering pension funds. There will be no merger of the two funds – it is not possible. On the one hand the TfL Pension Fund is regulated under the Pensions Act 1995 – it is essentially the same sort of scheme legally as is run by private sector companies. On the other hand, the fund run by the LPFA is part of the Local Government Pension Scheme which is operated under quite separate legislation. Those two funds will not be merged.

TfL currently provides the administration and secretarial services to your pension fund. The Trustees have an agreement with TfL for that to happen but it is their option as to whether they choose to seek those services from TfL or from any other body. What we have been exploring is whether it is possible for the administration and the secretarial services to be provided jointly to both the TfLPF and the LPFA. LPFA and TfL jointly commissioned a study by an outside consultant on this just under 12 months ago and that was reported to the Trustees at a Board meeting at the end of January. In March a paper was brought to the Trustee Board suggesting that the further exploration of the option of jointly administering the two authorities be carried out. The Trustee Board discussed this paper very thoroughly and was not happy that it was proven that it was in the interests of the Fund that the present work be carried forward. A further study has since been commissioned by TfL alone for the benefit of the TfLPF alone as opposed to the joint study that was carried out before. The findings are expected shortly and will be reported to the TfLPF Trustees. At that point they will decide whether or not to do the further work that was rejected in March.

Quite separately, the Trustees received an application from just over 250 members of the Pension Fund requesting an EGM to consider the proposal to merge. The Trustees are quite happy to hold an EGM should there be any such proposal. At the present time there is no such proposal – work is still under way to consider whether there should be a proposal. If there is a proposal I can assure you that if those 250 members continue to wish there to be an EGM we will hold such a meeting.

5.5 **Are the Trustees aware that Canada has made a £5 billion claim against Imperial Tobacco? This is for treating smoke related diseases by the country. I note that we have investments with Imperial Tobacco. Have the Trustees considered the risk factors associated with such investments?**

Last year, a number of members expressed their concern that the Pension Fund was invested in tobacco related stocks. The Trustees agreed to consider whether that was something that we should do something about. The Trustees have concluded, following investment advice, that it is best to give our investment managers discretion in what they invest in. We have concluded after due consideration that it remains appropriate for us to give discretionary mandates of that sort.

5.6 **Can we be assured that all the private companies are making appropriate contributions and what would be the position if they failed to do so – would there be a liability on the other participating employers?**

The security for the provision of benefits within the Fund comes from the investments and from the level of contributions that come in from the participating employers. Those are re-assessed every three years and as a result of the 2003 valuation contributions were set for all participating employers from 2004. There is also a requirement that these contribution levels are checked annually. The short answer is that the rates required will be paid. There is no cross-subsidy. It is the employer who is responsible for the section involved who has to pay the contributions and that very fact is something that the Trustees take into account when they determine the investment strategy for that particular section.

5.7 **For new members is there any guarantee that the TfL final salary scheme is still going to be around say in 5 or 10 years time or will new members only have the option of joining a money purchase scheme?**

The background to this question is that over the last five years the position regarding occupational pension provision has changed quite dramatically if you look at the private and public sectors overall. In the private sector the numbers of members of defined benefits (final salary) schemes has reduced due to a combination of things – increased longevity, lower investment returns and greater transparency in pension accounting which has led to companies reviewing risks. All of these factors have led to increasing costs in defined benefit provision and that has led to some organisations looking at closing their final salary scheme to new entrants, to looking at changing the benefits, looking at individuals perhaps paying additional voluntary contributions – a whole load of different approaches primarily driven by financial considerations for those companies where their own financial performance is regularly watched in the stock market. The same factors don't apply outside the private sector but nevertheless the public sector is still participating in the same job market as the private sector so there must be some implications there. In the private sector we are seeing increasing moves towards defined contribution rather than defined benefit pension provision.

The question is focussed on the public sector section of the Fund as there are other sections where employers have already decided that they don't wish to admit new entrants. That is not the case in respect of the public sector section. Nobody is able to give a guarantee about five or ten years time, however, TfL today has to date remained committed to the Pension Fund in the sense that membership is continuing and there are no proposals that that should change that the Trustees are aware of. That is despite the fact that the cost of the Pension Fund in terms of current employees has essentially doubled since 1 April 2004 and the pension contributions now run at 30% of pensionable salary which is a very high proportion. But, TfL has planned for that money to be paid in order that the deficit of the Fund that was revealed in the 2003 valuation should be made good over 10 years. We will see next year following the 2006 valuation whether we are making progress in that respect. The Trustees cannot give a guarantee but do not believe that there are any adverse signs.

5.8 **Why were Additional Voluntary Contributions (AVCs) subbed out initially to Equitable Life which almost went bankrupt then to Clerical Medical which the Trustees are now not recommending? Do you not think that AVCs should be taken back in to the main body of the pension scheme?**

Additional Voluntary Contributions are additional to what you pay as part of membership of the Fund and they are voluntary. It is for each person to decide whether it's in their interests to do so, whether they can afford to do so and the general philosophy of them is that the investments are at the risk of the individual that makes that additional voluntary contribution and is not shared by everybody else who belongs to the Fund. We have constantly sought to offer, not recommend, funds for additional voluntary contributions that we believe are good ones and are that the best that we can offer. There are some limitations in the choice that we can offer to you at the present time simply because the Fund is sectionalised and the very number of employers and the variations in the frequency with which employees are paid means that only a restricted number of investment houses are prepared to offer.

5.9 **Has the HBOS (parent company to Clerical Medical) Fund Manager changed? Is that why you are no longer recommending Clerical Medical?**

The Trustees do look at the performance and administration of the AVC providers and this was a regular review that the Trustees carried out regarding Clerical Medical. They did not take the decision lightly but made it on the basis of advice given by our advisers. There were problems with both Clerical Medical's administration and also their investment performance and the two things together led to the Trustees deciding not to go forward with Clerical Medical for new members. However, it remains open to existing members. The actual investment side of Clerical Medical is now called 'Insight' but there has been no change in Investment Manager.

5.10 **Are we opting out of Clerical Medical now and moving to Standard Life when in a few years' time we may be doing the same thing and again asking members to jump ship, at cost, to another provider?**

There is no requirement for members to jump ship. The circumstance with Equitable Life was particular to that organisation, very specialist and it is unlikely that it will occur again. In terms of where we go your point is well made – will Clerical Medical in future be better than it is at the moment? It may be, it may not be. This is the real problem about investments. The value of investments can go up as well as down. What the Trustees seek to do is offer what we believe is a good product. If we no longer believe that it is a good product then we don't offer it but it is ultimately something that you cannot guarantee. The Trustees will constantly review what is offered to you and there may be changes.

5.11 **Can you explain the decision to go back into property – has the market drastically changed or are we going to buy the same properties back again? What has changed over the last couple of years to lead to this decision?**

There was a fundamental review of the investment arrangements in 1999 following some disappointing performance. One of the conclusions at that time was to withdraw from direct investment in property. The view at that time was that you are either a major player in that field or you are not in it. We were not as a Fund a major player in that field and it was felt best not to be in it. Direct investment is where the Fund owns particular properties. What we are now looking at, and no decision has been made, is investment in property as part of the overall equity component of the Fund and this would be indirect investment. It would be in some sort of pooled vehicle where a fund manager has a pool of properties and the Fund could buy a portion of that pooled vehicle. The Trustees are inclined to give serious consideration to investment in property but on a different basis so that they do not have the problems associated with owning individual buildings.

5.12 **If I move abroad will I lose the yearly increase on my pension?**

No, wherever you are you will continue to receive your pension benefits unchanged from this Fund. We pay a considerable number of pensioners living abroad already.

5.13 **There seem to be many different colours of the roundel used in the newsletter dated 1 March 2005. Also, there have been a number of changes in Trustees over the last financial year and they hold different job titles which make it very difficult to make comparisons to the previous year. Finally, I did not receive my copy of the Annual Review until Saturday 1 October which left me no time to prepare for today's meeting. My last point is that in the newsletter it states that the Pension Fund Office is on the third floor – is that correct?**

Some of the Annual Reviews were distributed very late and the Trustees sincerely apologise to those who received their copy late. We will ensure that that does not happen in future years. Clearly it is not satisfactory that you received it on Saturday when the meeting is on Tuesday and I apologise for that – it will be corrected in future. We note your other points and will take a record of them.

We will consider whether we should do anything about them in future.

5.14 **I would like to ask the Director of Pensions a question – did I hear you say that the increase in membership was over 300?**

The overall increase in membership in the year to 31 March 2005 was 357. The increase in contributing members was 191 of that 357.

5.15 **You said, in answer to a question about the EGM, that if the members still wanted it there would be an EGM. Does that assume that the 250 signatures will be out of date?**

No they would not be out of date, it doesn't assume anything.

5.16 **This month is Black History Month. I wondered why, after 36 years of my being employed by London Transport, there is neither black nor ethnic minority on your panel?**

It is a very good question you ask and we should do something about that and I shall bring it to the attention of the employers. I cannot do anything about it on the members side but on the employers side I shall make sure we do something about that at the earliest possible opportunity because I was struck by the diversity in this hall which I think is more so than in previous years and reflects the known diversity in the membership. You make a very good point that we should do something about.

5.17 **Looking at page 3 of the Annual Review, the investment income in this current year is £61.5 million and in the previous year was £60.5 million which is less than 2% less. Last years actuarial report said that the major reason for deterioration of the financial position of the totals fund was the poor investment performance over the inter-valuation period when compared with the Actuary's long-term funding assumptions. I was hoping to see a leap in this current year because apparently before the investment income was poor. Would you like to comment on that?**

The investment income figure you are looking at is the investment income which does not take into account the increase in market value of the holdings which also needs to be taken into account as well. I think that that is just a part of the picture. There will be switches between income and market value depending on how the Fund is invested. There is an encouraging trend in one of the lines; if you were to look into the annual report on page 12 there is an analysis of the figures that you have read out and the growth in dividend income is really quite pronounced there because it went up from £27.5million to £32.3 million. The actual split between investment income and market value growth will vary over the years depending on the tactics of a particular manager. Next year, following the valuation, we will get an understanding of how we have done over the last three years compared to what the Actuary assumed we would do.

5.18 **There is a lot of talk at the moment about having to work to 65 or 70 or whatever, what is the position regarding our future retirement ages?**

The answer probably varies a little section by section, but TfL contracts I understand do not have a stated retirement age so it is essentially the choice of the individual when they retire. What the Fund provides is that you can continue to contribute until age 65. So in theory, you could work until age 67 but at 65 you stop making pension contributions and accruing benefits. At the present time you can retire at age 60 without any reduction in benefit from actuarial calculations. Your pension would depend on your service and salary at that date.

5.19 **What are your views on the Pension Protection Fund? Should we be resisting going into it or whether we should be paying a small part?**

The Government has created a Pension Protection Fund (PPF) which is funded by a levy from employers sponsoring final salary schemes, and makes payments in the event of schemes having insolvent employers and has insufficient assets to pay the benefits under the fund. The level of protection provided is quite complicated. Before it came into force TfL made approaches to the Department for Work and Pensions to seek exemption from paying the PPF levy on the grounds that TfL believes that it is highly unlikely that it would ever become insolvent – it is probably not possible in law, although there are some legal ramifications that say that it is possible for TfL to become insolvent but it is virtually impossible. The situation is different for the other sections of the Fund because their sponsoring employers are private companies. TfL was not successful at that time and so from this year we are paying the levy which amounts to around £1 million which comes from the Fund’s assets and will ultimately find its way back to the employers to provide in higher contributions. TfL will continue to make representations seeking exemption for the public sector section of the Fund. At the same time, the PPF is planning to introduce, from 1 April 2006, a risk-based levy so the charge will not be a flat rate but will be dependent upon how risky the PPF believes your fund is. And that will depend on how well funded it is, whether it’s in surplus or deficit and the extent it is, and their assessment of the covenant of the employer. We shall make strong representations for TfL that it has an extremely strong covenant and therefore the levy should be as low as possible under a risk-based scheme. So, TfL is adopting a two-pronged strategy, seeking to get exemption but, if unsuccessful, making its best argument to reduce the levy on the Fund. That doesn't reduce the protection to the member but means that more of the assets of the Fund are available to pay benefits rather than to support other pension schemes sponsored by employers that don't have the covenant that TfL is able to provide.

5.20 **Complaint that no information was given regarding access to the building for disabled people.**

Point well taken and we will ensure that we do better next year.

5.21 **The gentleman from Mercer Consulting said that you were going to put more money into high yield bonds. Do you mean by that so-called junk bonds which carry more risk and if so is that an appropriate investment to secure a reliable income stream?**

The bond manager has the freedom to invest in high yield bonds but it doesn't form part of the strategic allocation so there's no change to the overall riskiness of the assets in which the Fund is strategically allocated. But, if on a tactical basis they think high yield bonds are attractive value and only under those circumstances can they buy those to boost the return of the Fund so we might see them from time to time. It's not a long-term strategic investment for the Fund.

5.22 **Could you say a few words about the impact on pensioners, if any, of the changes in pension legislation which are coming up next April? I have read press reports that occupational funds have a requirement to pay an incremental increase equal to RPI up to a maximum of 5% and that legislation reduces that to 2.5%. Is that correct please?**

Yes, the reduction to 2.5% is provided for under the legislation but no decision has been made as to whether to change. It is something that we will have to decide, however, it would not affect any existing members.

The Fund Chairman brought the meeting to a close at 12:50, thanked all members for attending and invited them to join the panel and the Fund Office team for refreshments.