

AMM – 2018

1. When Metronet collapsed there was a shortfall in the funding of their section of the Pension Fund and TfL topped up this shortfall; what has been done to recover this shortfall?

A Pension benefits were not affected as TfL absorbed the cost. There was no legal recourse against the former directors of Metronet to recover this.

2. At the year end Total was the Fund's 6th largest direct equity holding, how does holding this stock achieve the Fund's ESG aspirations?

A The Trustees achieve this through their chosen investment managers who engage with the companies in which they have holdings. The Trustees through both the Investment Committee and Alternatives and Liability Hedging Committee monitor ESG matters and the investment manager engagement. Divesting themselves of any holding of shares in these companies would mean that the shares simply pass onto another buyer whereas holding the shares and encouraging active engagement can make change happen.

Alongside 38 French companies Total has pledged Euro45 billion over 5 years towards renewable energy and low-carbon technologies. Total supports the Paris Pledge for Action of 16 December 2015 and efforts to keep the world on a trajectory that limits the average temperature rise to 2 degrees Celsius. This will be a factor in the investment manager's ongoing assessment of the continuing suitability of this investment.

3. Will the Trustees commit to including the sustainability report in next years Report & Accounts?

A The Report & Accounts are required to comply with reporting standard and while some information is included in the investment report contained in the Report and Accounts, the complete sustainability report will be a separate document, but published on the Fund's website. As with this year's presentation, information in relation to ESG will be included as appropriate in next year's presentation.

4. What is the Fund's risk profile in relation to the potential impact of Brexit and what protective steps are being taken to reduce the risk?

A The Fund's investment portfolio is internationally diverse. If as a result of Brexit the value of Sterling and UK investments falls, this is compensated by the Fund's overseas investments and would have a net positive result for the Fund.

5. Can the current pension scams impact those already receiving their pension?

- A As it stands those already in receipt of their pension have no option to transfer their benefits so are not at risk from these particular scams, but everyone should be wary of unsolicited e-mails and cold callers, and if in any doubt check that they are legitimate.

6. If the Trustees take a very cautious approach for the Fund's investment strategy following the actuarial valuation, could this not have an adverse impact the future affordability of the Fund?

- A The Trustees undertake a formal actuarial valuation every three years and this includes a very detailed process when setting the assumptions, taking advice, looking at past experience and assessing the employer covenant as well as engaging with TfL (the sponsoring employer). The Regulations require that the actuarial valuation results determine a single figure value for the liabilities based on the assumptions adopted about the future, and as they are only assumptions the likelihood is that the actual future outcome will be somewhat different.

As funding comes from a combination of investments and contributions, any shortfall due to adverse investment returns are made up by TfL as part of the actuarial valuation settlement. TfL receives a regular funding report which assists in building its pension obligations into its business planning.

7. What did the Trustees do in terms of engagement with companies in which they are invested such as Total and Unilever?

- A The Trustees appoint and monitor the performance of specialist investment managers; it is the investment managers, not the Trustees, that actively engage with the companies in which the Fund is invested. The Trustees through both the Investment Committee and Alternatives and Liability Hedging Committee regularly meet with and monitor the Fund's investment managers' performance in all areas including ESG.

8. The Fund has slightly exceeded its benchmark for investment return over the last 12 months but when measured over 3 or 5 years it has failed to meet the benchmark, is this as a result of there being too much diversity in the Fund with 43 investment portfolios?

A While the Fund has a large number of individual investment portfolios, many of these are relatively small, around 1% of the Fund's total assets, where the Trustees are exploiting particular investment opportunities. Overall a tough benchmark has been set. While some pension schemes may have fewer portfolios, it is because of the Fund's size that a wide range of different investment opportunities can be exploited in order to optimise the risk/return profile of assets in the Fund.

9. When does the deficit recovery plan expire and to what extent does the delay to Crossrail impact this and what happens if the Fund is still in deficit at the end of the Recovery Plan?

A The Fund rules limit the length of the deficit recovery plan to a maximum of 10 years. The current deficit recovery plan was agreed following the 2015 valuation and ends in 2022. The deficit recovery plan is reviewed at each valuation, formally every three years, taking into account both changes in the level of deficit and affordability. The Trustees take into account the strength of the employer covenant and also affordability when negotiating the recovery plan. The 2018 valuation has not yet been finalised and if there is any impact from Crossrail it will be a factor to be taken into account in the settlement.

10. What benefits are payable when a pensioner dies?

A On the death of a pensioner the Fund Office will ascertain whether there are any adult dependants or eligible children. If there are and they meet the definition of adult dependant or eligible child, under the Fund Rules, then pensions will be payable. Where a pensioner dies very soon after retiring there may also be a small lump sum payable.

11. Will the Trustees commit to providing more transparency on its investments including details of its exposure to various sectors?

A Where the Fund has a direct equity holding, the table of holdings published on the website can be extended to the top 20 holdings. With regard to analysis by sector the Trustees will consider how easily and cost effectively this could be achieved.

12. Has the Fund considered in investing in TfL property for example the main hub buildings?

A Firstly there is a limit on self investment; the Fund cannot invest more than 5% in the sponsoring employer. The Trustees have in the past looked at whether investment in a TfL property would be a good investment and while noting that TfL as a tenant would provide a steady income stream, the Trustees have to balance that with the cost of the investment and against other opportunities. When considered previously, it was not deemed to be attractive.

13. What actions will the Fund consider as a result of the carbon audit?

A Engagement is between the investment managers and the companies in which they invest, the Trustees role is to scrutinise investment manager's engagement and receive more detailed information. The Trustees through the Investment Committee monitor the carbon footprint exposure of the underlying portfolios of the Fund's listed equity and bond managers and their investments which have the highest carbon emissions. This provides an additional tool for the scrutiny of these Fund's investment managers.

14. Will the Fund increase its investments in sustainable assets to reduce its carbon footprint and if so by how much?

A Almost certainly over time, the Fund's exposure in this area will increase, subject to appropriate financial criteria being met. However the actual amount by which such investment will change is not possible to forecast currently.

15. Do the Trustees model for a scenario of the Fund closing to new entrants?

A Modelling takes place based on the scheme as it is at the moment. A scheme closed to new entrants has a very different long term outlook to one open to new entrants. In schemes where such a scenario has arisen, generally there is no overnight change, however over the longer term the trustees would look to reduce the risk of being unable to meet increasingly shorter-term benefit payments by changing the investment strategy to invest in lower risk, but lower returning assets, which would increase employer costs.

16. Is the TfL Pension Fund going to develop a climate change policy that transparently addresses the risks and opportunities which exist in the transition to a low carbon economy?

A The Fund is already accessing the opportunities emanating from the transition to a low carbon economy, such as investing in renewable and energy-from-waste projects amongst other things. That trend can be expected to continue. The Fund's investment approach towards Environmental, Social and Governance ("ESG") issues, currently outlined in the Statement of Investment Principles is being expanded in order to provide a clearer framework for the Trustees to share with its investment managers and enable a better alignment with their risk management framework.

17. Is the TfL Pension Fund going to develop a voting policy that instructs asset managers to vote in certain ways at company AGMs on specific issues such a climate change, remuneration, tax and diversity?

A Creating, managing and running the voting of shares in-house can prove a resource intensive and expensive task. Hence the Fund has delegated the decision to its equity managers who, as part of their mandate, review the AGM resolutions in the context of assessing a firm's long-term financial sustainability on all of the ESG aspects. There were 576 AGMs during the financial year and at 185 votes were cast against management. As part of their monitoring, the Trustees review this activity and the reasons for managers' voting decisions. This has proved an efficient means of monitoring voting to date. But other options may be assessed, including a cost/benefits analysis of consolidating the voting process through a single entity to have more visibility and direct control over the outcomes.

18. It's great to see the TfL Pension Fund as a signatory of Climate Action 100+, what specific steps are you going to take to encourage the world's largest emitters of greenhouse gases to take action?

A It is important that the Fund through its managers continues to engage with these companies, nudging their managements to take the necessary actions. However being a signatory and supporting investor of Climate Action 100+ means that the Fund through collaboration can potentially be more effective in furthering this objective. More detail on the work of Climate Action 100+ can be found on their website: <http://www.climateaction100.org/>