

TfL Pension Fund

Annual review 2008



Notice for the visually impaired

Copies of this report in large type and in a text only format are available from the Fund Office. Please write to TfL Pension Fund, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD, or call 020 7918 3733 for your copy.



From the Chairman

I am pleased to present my review of the year ended 31 March 2008. You will see that this year's review has a new look and feel in line with our drive to improve communication with Fund members.

The events of the year for the Fund were dominated by the impact of Metronet Rail BCV Limited and Metronet Rail SSL Limited going into administration on 18 July 2007. We have provided more details on the actions taken and the effects on the Fund on page 5.

During the year, the Fund's three-yearly valuation was finalised. The purpose of this is to establish the extent to which the Fund's assets are sufficient to pay the benefits already built up by members and to set the employers' future contribution levels. Please see page 5 for more details.

The Trustee Board has had a busy year monitoring the investment performance of the underlying managers and implementing changes to the strategic asset allocation of the Fund, including a move into alternative investments.

The Fund entered into an agreement in February 2008 to make its first investment with Trillium PPP Investment Partners LP, which is an investor in a wide range of infrastructure projects.

Despite the market setbacks in the final quarter, the overall assets of the Fund have increased over the past 12 months from £4.661bn to £4.682bn. This year's investment performance did fall short of the Fund's performance benchmark by 0.4 per cent, and over the longer periods of three and five years by 0.2 per cent. More information on the Fund's investments and their performance is contained on pages 6 and 7.

Finally, I would like to thank all the people who have worked to steer the Fund through the past year: the Trustees, our advisers, the Fund Office and the Fund Secretary.

Stephen Critchley
Chairman of the TfL Pension Fund
Trustees

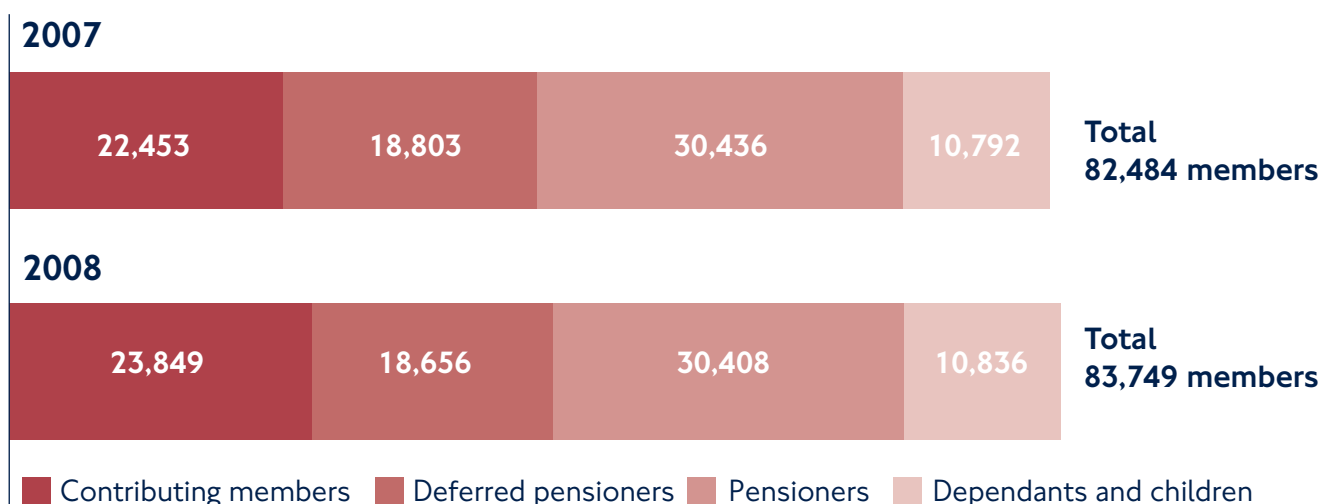


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Membership review

The chart below compares membership numbers between the 2007 and 2008 Fund years. As you can see, the total membership of the Fund increased by 1,265 to 83,749.



The 23,849 contributing members are spread across the Participating Employers.

	As at 31 March 2007	As at 31 March 2008
Transport for London	17,274	18,970
Metronet Rail BCV Ltd*	1,813	1,714
Metronet Rail SSL Ltd*	1,711	1,630
Tube Lines Ltd**	1,434	1,328
Other employers**	221	207

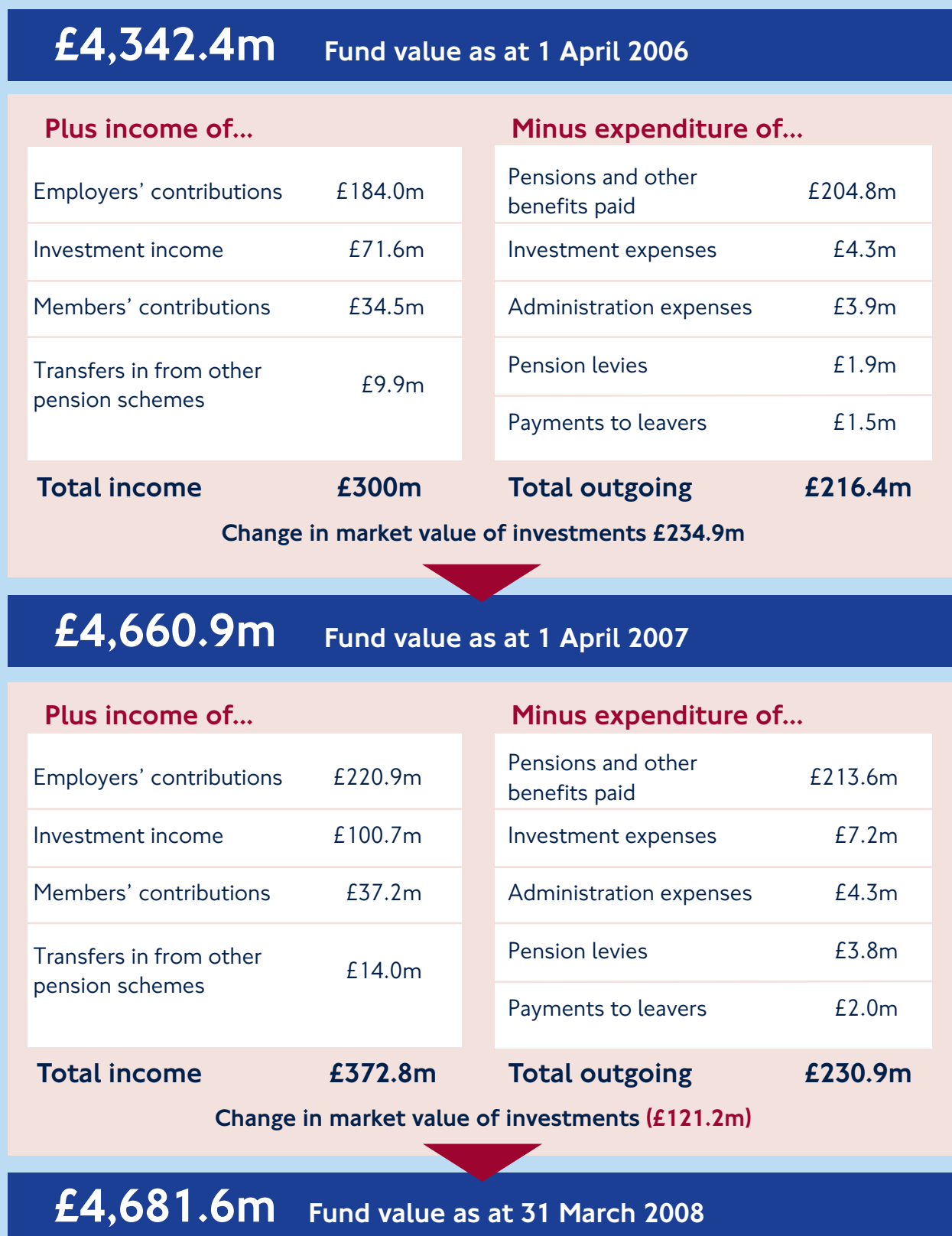
* These sections were closed to new members as at 31 March 2008. However, following the transfer out of administration and the change to corporate ownership, they are available to new members once again.

** These sections are closed to new members.

Year at a glance

As at 31 March 2008, the value of the Fund was £4,681.6m. This was an increase of £20.7m on the value at the end of the previous Fund year.

The diagram below shows the money coming into and going out of the Fund during the year.



The Fund's accounts are audited each year by independent auditors KPMG, who have confirmed that:

- the Fund's accounts show a true and fair view of the financial transactions during the 12 months to 31 March 2008.
- contributions were paid to the Fund in accordance with the schedules of contributions in force during the year.

Actuarial valuation

By law, the Fund requires the Scheme Actuary to carry out a formal actuarial valuation of each section of the Fund at least every three years. The valuations show whether the sections' existing assets are sufficient to meet their liabilities for benefits. They also establish the levels of contributions required in the future to provide an appropriate level of funding when taking account of benefits yet to be earned.

A formal valuation was carried out by the Scheme Actuary as at 31 March 2006 of each of the sections in existence at the valuation date. A Summary Funding Statement containing details of this valuation in respect of the Section of the Fund under which your benefits are held is included on pages 10 and 11.

Copies of the valuation reports are available on application to the Fund Secretary at the address given on page 9.

Headline news

On 18 July 2007, Metronet Rail BCV Limited and Metronet Rail SSL Limited went into administration. The first of a succession of special meetings between the Trustees and their advisers took place on 19 July 2007 to consider the implications and impact on members of the Metronet sections.

By early September 2007, after working with TfL and the administrators of the Metronet companies, the Trustees were able to implement a 'scheme rescue' for the Metronet sections. Following the rescue, the Metronet sections were, in effect, put back into the position they were in before administration.

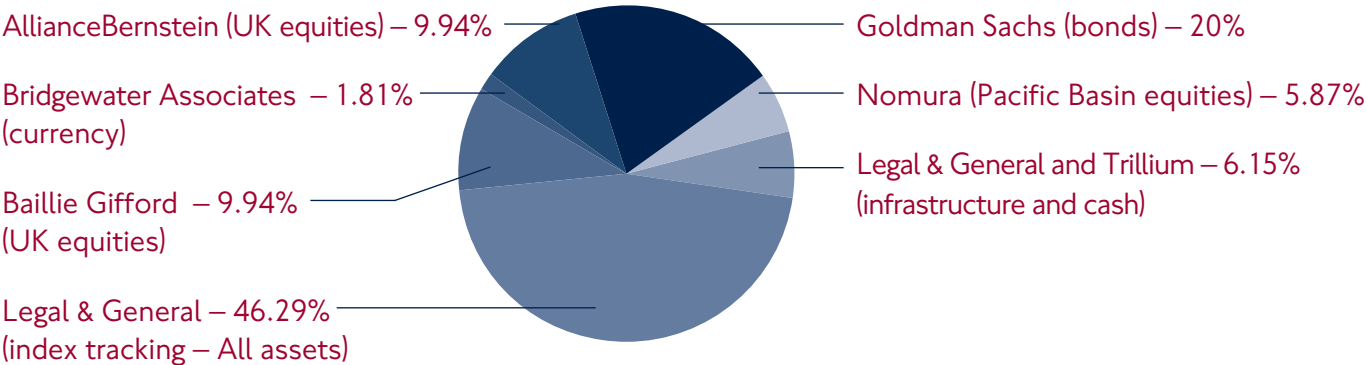
Arrangements were also put in place to ensure that a successful bidder for Metronet would assume responsibility for the existing Metronet sections. TfL then quickly emerged as the only serious bidder.

Actuarial valuations of the Metronet section had been delayed by the administration. But once the 31 March 2006 valuation was completed, it was determined that the Metronet sections were in deficit. The Trustees secured from TfL, as Principal Employer, an agreement to make lump sum payments to eliminate this deficit if its bid was successful. These payments have been made.

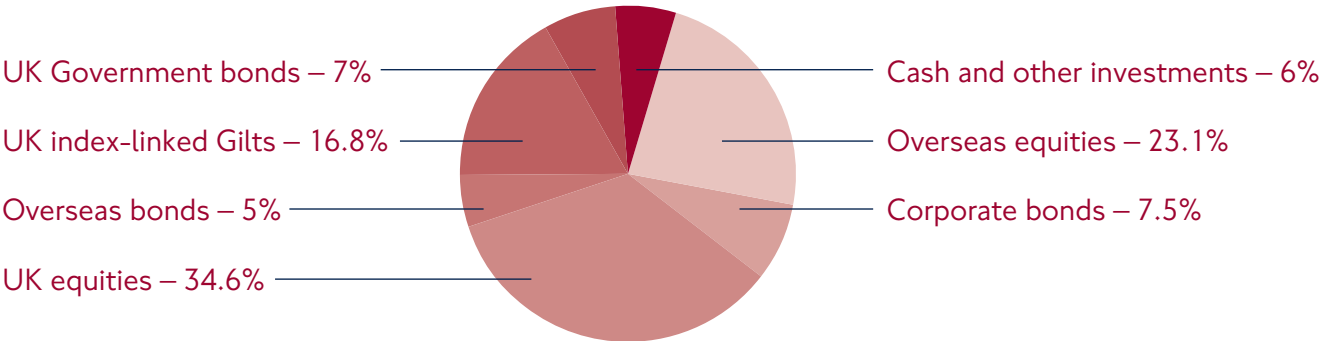
How the Fund is invested

Managing investments

The Trustees are ultimately responsible for deciding how to invest the money building up in the Fund in relation to members' benefits. They appoint specialised investment managers, who are given specific instructions and benchmarks to follow by the Trustees. The following pie chart shows the target allocation of the Fund's assets between investment managers.



The Fund is held in a range of different investments (assets) in the UK and overseas.



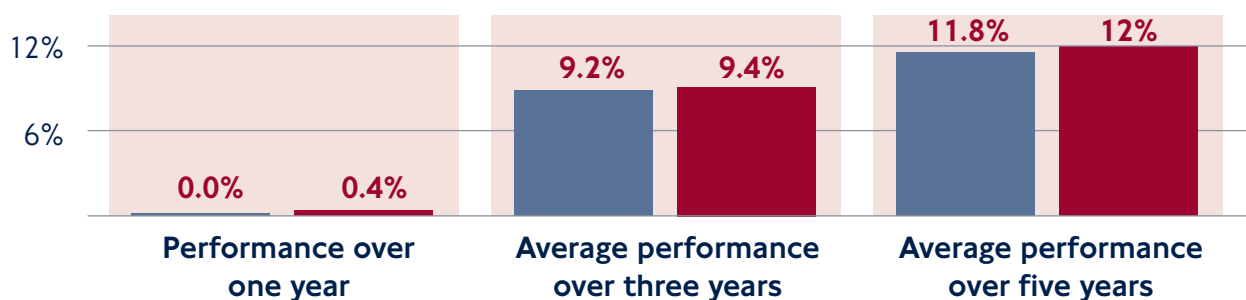
Top 10 shares

The Fund has significant holdings in shares (equities) of a number of major UK quoted companies. The ten largest holdings as at 31 March 2008 were:

	£m		£m
Royal Dutch Shell	60.8	HSBC	42.5
Vodafone	59.3	BP	39.4
BG Group	52.7	BHP Billiton	36.7
GlaxoSmithKline	48.0	Barclays Bank	27.1
Royal Bank of Scotland	46.7	British American Tobacco	24.9

Investment performance

The chart below shows that the investment return was 0.4 per cent below the Fund's performance benchmark (the comparator set by the Trustees). Over the longer periods of three and five years, investment performance was 0.2 per cent below the benchmark.



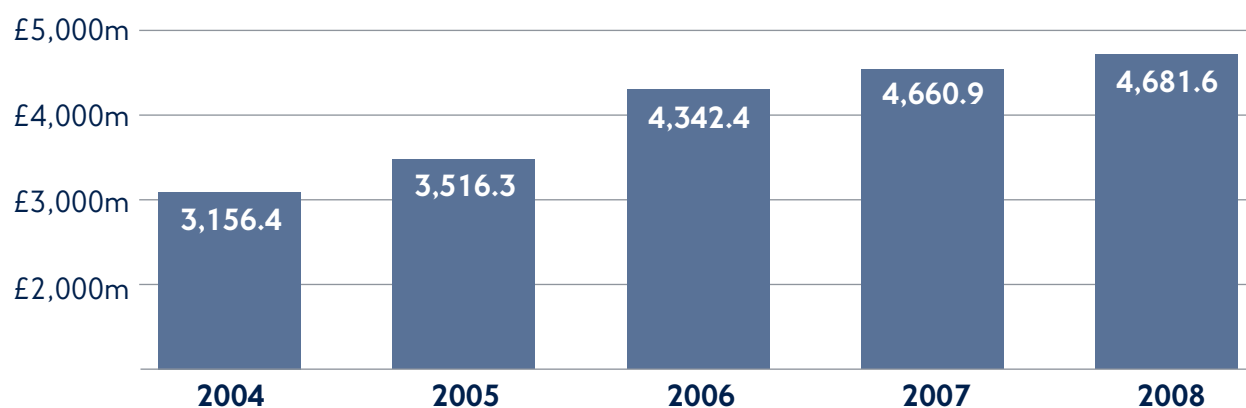
The Fund's assets

The Fund's assets total £4,681.57m. The amount held by each section on 31 March 2008 is shown in the list below.

Section	£m	Section	£m
Public Sector	4,121.20	Capgemini UK plc	0.47
Metronet Rail BCV Ltd	188.72	Tribal Technology Limited	0.47
Metronet Rail SSL Ltd	170.11	British Transport Police Authority	0.45
Tube Lines Ltd	160.39	Thales Communications Services Ltd	0.30
EDF Energy Powerlink Limited	32.30	Cadbury Limited	0.18
Cubic Transportation Systems Ltd	4.18	Dalkia Energy & Technical Services Ltd	0.13
Electronic Data Systems Limited	2.67		

Value of the Fund

Over the year to 31 March 2008, the total market value of the Fund's assets increased by £20.7m to £4,681.6m. The chart below shows how the value of the Fund's assets has changed over the last five years.



The Fund's Trustees

The Fund is managed by a board of directors, known as the Trustees. Individual Trustees are nominated by TfL (as Principal Employer), the trades unions and the TfL Pension Consultative Council (PCC), which is itself elected by and from the membership. The Trustees are responsible for all aspects of Fund management, both financial and administrative. As this is a complex process for a scheme as large as the TfL Fund, there are five sub-committees: operations, investment, audit, dispute resolution (disbanded on 31 March 2008) and appeals, each of which deals with a specific aspect of Fund management.

On 31 March 2008, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London
Stephen Critchley
(Chairman), Chief Finance
Officer, Transport for London

Maria Antoniou
Group HR Director,
Transport for London

Andrew Cleaves
Director of Periodic Review,
Tube Lines Limited

Howard Collins
Deputy Chief Operating
Officer, London
Underground Limited

Gerry Duffy
Director of Employee
Relations, London
Underground Limited

Jane Hart
Senior Disputes Resolution
Lawyer, TfL Legal,
Transport for London

Clare Kavanagh
Director of Performance -
Surface Transport,
Transport for London

Steve Perry
Vice President Asset
Performance Controller,
Metronet Rail

Peter Regan
Director of Corporate
Finance, Transport for London

Associated Society of
Locomotive Engineers and
Firemen

Steve Grant
District Organiser, ASLEF

London Transport Joint
Trades Committee
John Timbrell
Project Engineer, Metronet
Rail, Trains Division

National Union of Rail,
Maritime and Transport
Workers
Patrick Sikorski
Assistant General Secretary,
RMT

TfL Pension Consultative
Council

Chris Godbold
Director, Transport
Benevolent Fund

Chris Miller
pensioner

John Robson
Train Operator, Arnos Grove

Michael Swiggs
pensioner

Unite the Union
John Griffiths
Regional Industrial Organiser,
Unite the Union

Transport Salaried Staffs'
Association

Steve Gray
Group Reserve Station
Supervisor Class 1, London
Underground Limited

Trustee advisers and managers

The Trustees have appointed the following professional advisers and managers to assist with the running of the Fund.

Investment managers	AllianceBernstein Limited, Baillie Gifford & Co, Bridgewater Associates, Inc, Goldman Sachs Asset Management, Legal & General Investment Management, Nomura Asset Management UK Ltd, Trillium PPP Investment Partners LP
Custodian	JP Morgan Chase Bank
Administration services	Transport for London
Investment adviser	Mercer Investment Consulting
Scheme Actuary	RV Williams, Watson Wyatt Limited
Legal advisers	Sacker & Partners LLP
Auditors	KPMG LLP
Bankers	The Royal Bank of Scotland plc
Communications	Talking People, a Buck Consultants company
Medical adviser	Professor K Holland-Elliott
AVC providers	Clerical Medical, Equitable Life, Standard Life

Additional help or information

The financial information in this annual review is a summary of the full audited accounts.

If you would like a copy of the Annual Report and Accounts, please contact the Head of Pensions and Fund Secretary, at the following address:

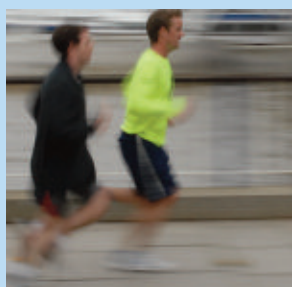
4th Floor, Wing over Station
55 Broadway
London SW1H 0BD

Visit the website

Whether you are a contributing member, a pensioner or have a deferred pension, you can use the website to find more information about the Fund. You can also download a full copy of the Annual Report and Accounts from our website at

www.tflpensionfund.co.uk

We continue to take great care to ensure that our website is helpful and easy to use. We hope that you will take the opportunity to visit the site – we always welcome your comments and ideas, which you can email to us via our website.



Summary Funding Statement

This statement provides members entitled to benefits from the Public Sector Section (the Section) of the Fund with an update of the financial position of the Section. It is based on the 31 March 2006 actuarial valuation. Reference to TfL in this statement means TfL and those of its subsidiaries that are Participating Employers in this Section.

The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2006, the funding position of this Section of the Fund was as follows:

Assets	£3,820m
Amount needed to provide benefits	£4,012m
Shortfall	£192m
Funding level	95%

As a result TfL agreed to pay deficit contributions of 9.25% of pensionable salaries from 1 April 2007 to 31 March 2010 and 0.75% of pensionable salaries from 1 April 2010 in order to eliminate the shortfall by 31 March 2017. These deficit payments are in addition to regular contributions (from members and TfL) which are intended to meet the cost of benefits for future service. TfL made an advance payment of £157m in respect of these contributions in August 2007.

The estimated additional amount needed on 31 March 2006 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £2,949m. This calculation assumes all benefits would be secured with an insurance company. The Trustees are required by law to provide you with this information. It does not imply that there is any intention of winding up the Section.

Change in funding position

The ongoing funding position was last assessed as at 31 March 2007, when the funding level was estimated to be 97% with a shortfall of £114m. This assessment was not a formal valuation, but measured the position in a manner consistent with that used for the 2006 valuation, taking account of membership changes since then. The improvement in the

funding position was due primarily to the contributions paid into the Section over the year exceeding the estimated cost of new benefit accrual. The next formal valuation will be as at 31 March 2009.

Other matters

The Trustees are required to tell you by law that there has not been any payment to TfL out of the funds of the TfL Pension Fund since the date of the last Summary Funding Statement sent to you. Also that the Pensions Regulator has not exercised its statutory powers to modify the Section's benefits or to determine the outcome of the actuarial valuation or the contributions to be paid to the Section.

How the Section operates

How is my pension paid for?

Both the members currently employed by companies participating in the Section, and those companies themselves pay contributions to the Section, so that it can pay pensions to members when they retire. The money to pay for members' pensions is held in a common fund. It is not held separately for each individual.

How do we calculate the amount the Section needs?

The Trustees obtain regular actuarial valuations – or financial “health checks” – of the Section. This process involves a comparison of the market value of the assets held by the Section with the estimated amount to be needed to pay the benefits built up to date, determined using the Trustees' chosen assumptions regarding future unknown events.

The Trustees, having taken the advice of the Scheme Actuary, then come to an agreement with TfL on the level of contributions to be paid to the Section in future. (The Scheme Actuary is responsible for providing advice to the Trustees on a range of matters, including funding issues.)

The importance of TfL's support

The Trustees' objective is to have enough money in the Section to pay pensions now and in the future. However, the success of the plan relies on TfL's continuing support of the Section, because:

- TfL will be paying the future expenses of running the Section on an annual basis;
- the funding level can fluctuate and, when there is a funding shortfall, TfL will usually need to put in more money;
- and the target funding level may be insufficient, in which case TfL will need to put in more money.

What would happen if the Section were to be wound up?

We are legally required to inform you what would happen if the Section were to be wound up. If this happens, you might not receive the full amount of pension you have built up, even if the Section is fully funded on an ongoing basis. However, whilst the Section continues to operate in its current form, even though the funding may temporarily be below target, benefits will continue to be paid in full.

If the Section were to wind up, TfL would be required to pay enough into the Section to enable members' benefits to be completely secured with an insurance company. It may be, however, that TfL would not be able to pay this full amount. If TfL was unable to pay this amount, the Pension Protection Fund might be able to take over the Section and pay compensation to members.

For further information on the Pension Protection Fund see the website at www.pensionprotectionfund.org.uk or write to the Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes TfL will continue in business and support the Section.

What is the Section invested in?

The contributions paid into the Section are invested by the Fund's Trustees in a variety of assets. Currently, the Trustees' long-term policy is to hold about 30% of the assets in bonds and about 56% in equities and 14% in other types of investment.

Important: If you are thinking of leaving the Section for any reason, you should consult a professional adviser before taking any action.

Additional documents available on request

[The Statement of Funding Principles*](#).

This sets out the scheme's funding plan.

[The Recovery Plan*](#). This explains how the funding shortfall is being made up.

[The Statement of Investment Principles*](#).

This explains how the Trustees invest the Section's assets.

[The Schedule of Contributions*](#). This shows the contributions being paid into the Section. The full report on the latest [Actuarial Valuation](#) as at 31 March 2006 and [Actuarial Report](#) as at 31 March 2007. [The TfL Pension Fund Members'*](#) or [Pensioners' Guide*](#). You should already have a copy but we can provide you with another if required.

An [Annual Benefit Statement](#). If you are not receiving a pension from the Fund and have not received a benefit statement in the last 12 months you can ask for a statement that provides an illustration of the pension you might receive from the Section.

*These documents are also available on the website: www.tflpensionfund.co.uk

You are invited to the Annual Members' Meeting and Exhibition

This year's TfL Pension Fund Annual Members' Meeting (AMM) will be at 11:00 on Tuesday, 7 October. The exhibition starts at 10:00, when refreshments will be available. After the success of last year's event, we have decided to go back to One Great George Street, Westminster, London SW1P 3AA.

The meeting and exhibition are open to all Fund members – contributing members, members in receipt of a pension (including dependants and children) and those who have left with a deferred pension.

You will be able to ask questions on the day, but if you cannot attend, you can submit a question to the Trustees by writing to the Head of Pensions and Fund Secretary, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD. You will receive a response as soon as possible after the AMM.

Please remember, we can only answer general questions about the Fund at the meeting, not those relating to your own benefits.

The programme for the meeting is:

- Introduction at 11:00
- Review of the Annual Report and Accounts 31 March 2008
- Keynote speech
- Investment update
- Questions and answers
- Adjourn for refreshments at 12:45
- Close at 13:00

For the exhibition, we have invited a number of external organisations to bring along information of interest to all our members. The exhibition will run throughout the meeting and will also close at 13:00. If you cannot attend the whole event, please feel free to pop in and find out what's going on. For members who have mobility considerations, access to the building is now via the main entrance. If you require further information, please contact the Fund Office on 020 7918 3733. Please note that for security reasons, you may be asked for some form of identification on arrival.

