

TfL Pension Fund

Annual Review 2011



Notice for the visually impaired

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From the Chairman

I am pleased to present my second review as Chairman for the year ended 31 March 2011. As in previous years, the pensions world has experienced much change, with the prospect of more to come. While financial and economic events have been less dramatic than those seen in recent years, a shadow of uncertainty still threatens.

Following the significant recovery in the value of the Fund's assets reported last year, there has continued to be steady progress, with the net assets of the Fund amounting to £5.7bn at year end. The corresponding value of the Fund's liabilities has also increased to almost the same extent resulting in only a modest improvement in the overall funding and thus underlying the continued importance of employer support. The Trustees have therefore had to remain focused on both the Fund's asset and liability components in seeking to ensure the security of member benefits.

A strengthening of this strategic focus has been achieved through establishing the new Alternatives and Liability Hedging Committee to work alongside the existing Investment Committee. Together, these two committees ensure good governance across the Fund's diverse investment holdings and expanded investment manager base. In addition to monitoring investment performance of the underlying managers, there have been changes to the overall investment strategy of the Fund and its risk and reward parameters.

The Fund continues to be cash positive and with income exceeding expenditure, the Trustees are able to focus on the longer term seeking to take advantage of appropriate investment opportunities. The Fund has appointed a new equity manager, specialising in smaller North American companies, as well as a private equity manager and a multi-strategy manager as part of the Fund's expanding 'alternatives' portfolio.

Following a competitive tender process, from 1 April 2011, Towers Watson has replaced Mercer as the Fund's investment adviser. The Trustees are currently working with the new advisers to review investment strategy and identify the investment priorities and opportunities for the coming year. In advance of the next actuarial valuation as at 31 March 2012, a competitive tender was carried out for the provision of actuarial services, including the Scheme Actuary appointment. This resulted in the reappointment of Towers Watson as actuarial advisers and of Richard Williams as Scheme Actuary. The Trustees expect to commence the implementation of any new investment strategy prior to the forthcoming actuarial valuation due in 2012. The Trustees were comfortable to appoint Towers Watson as both its actuarial adviser and investment adviser, which is not unusual, as it is becoming more common among pension schemes to appoint one company to provide both services.

The market recovery during the year has seen the overall assets of the Fund increase from £5.098bn to £5.699bn. This year's investment performance has been ahead of the benchmark by 0.3 per cent, with performance over three and five years below benchmark by 0.1 per cent and 0.2 per cent respectively.

There have been a number of changes on the Trustee Board during the year, with the fresh insight offered by newer Trustees being balanced by the continuity provided by those with longer service. The Trustee Directors continued to attend regular training sessions throughout the year to ensure that they remain up to date with legislative changes as well as best practices, and that the Trustee complies with the requirements regarding trustee knowledge and understanding.

Throughout 2010, the Fund was recognised as a high performing and innovative scheme.



At the Engaged Investor Trustee Awards, the Fund was highly commended in the award for Best Scheme Governance (Public Sector). At the Pension Scheme of The Year Awards, the Fund won an award for Best Use of IT for the second year running. The Fund Secretary was also recognised for his efforts and won Pensions Manager of the Year at the Engaged Investor Trustee Awards. In addition, he won Scheme Manager of the Year at the Pensions and Investment UK Schemes Awards.

Finally, I would like to thank my fellow Directors, the Fund Secretary and his staff for their tireless efforts in ensuring that the governance of the Fund is of the highest standard and that members' benefits are secure.

Maria Antoniou
Chairman of the TfL Pension Fund Trustees

Membership review

The chart below compares the membership numbers between the 2010 and 2011 Fund years.

2010 - Total members: 84,438

| | | | |
|----------------------|---------------------|---------------|-------------------------|
| 24,430 | 18,456 | 30,708 | 10,844 |
| Contributing members | Deferred pensioners | Pensioners | Dependants and children |
| 23,606 | 18,244 | 30,997 | 10,825 |

2011 - Total members: 83,672

The 23,606 contributing members are spread across the Participating Employers.

| | As at 31 March 2010 | As at 31 March 2011 |
|----------------------|---------------------|---------------------|
| Transport for London | 23,066 | 22,384 |
| Tube Lines Limited* | 1,183 | 1,055 |
| Other employers* | 181 | 167 |

* These sections are closed to new members.

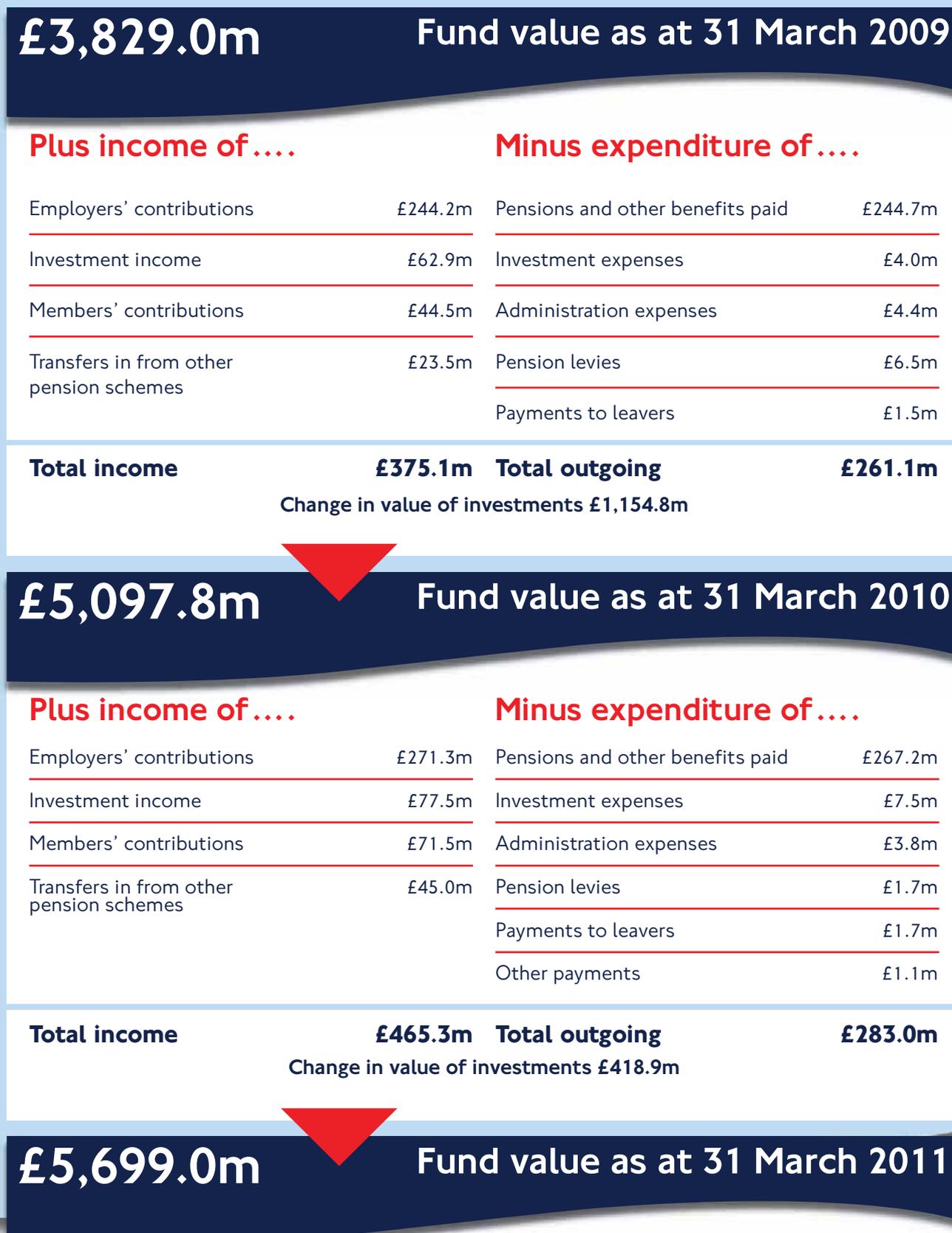
In this year's review

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Year at a glance

As at 31 March 2011, the value of the Fund was £5,699.0m. This is an increase of £601.2m 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 over the last two years.

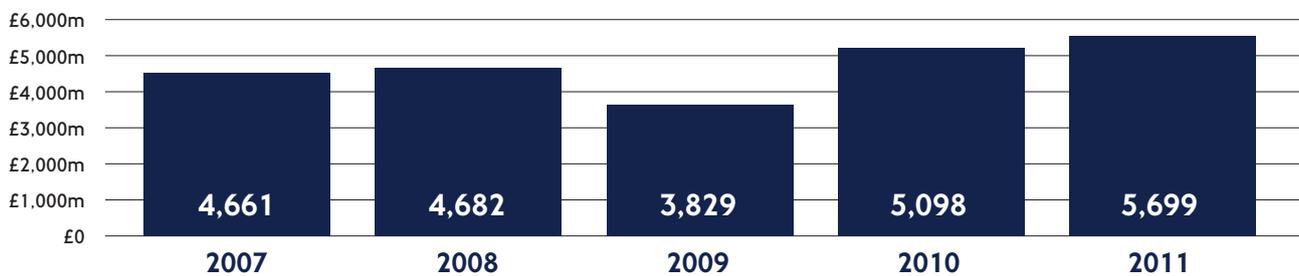


The Fund's accounts are audited each year by independent auditors KPMG, who have confirmed that:

- The Fund's accounts show a true and fair view of the financial transactions during the 12 months to 31 March 2011 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year
- Contributions were paid to the Fund in accordance with the schedules of contributions in force during the year.

Value of the Fund

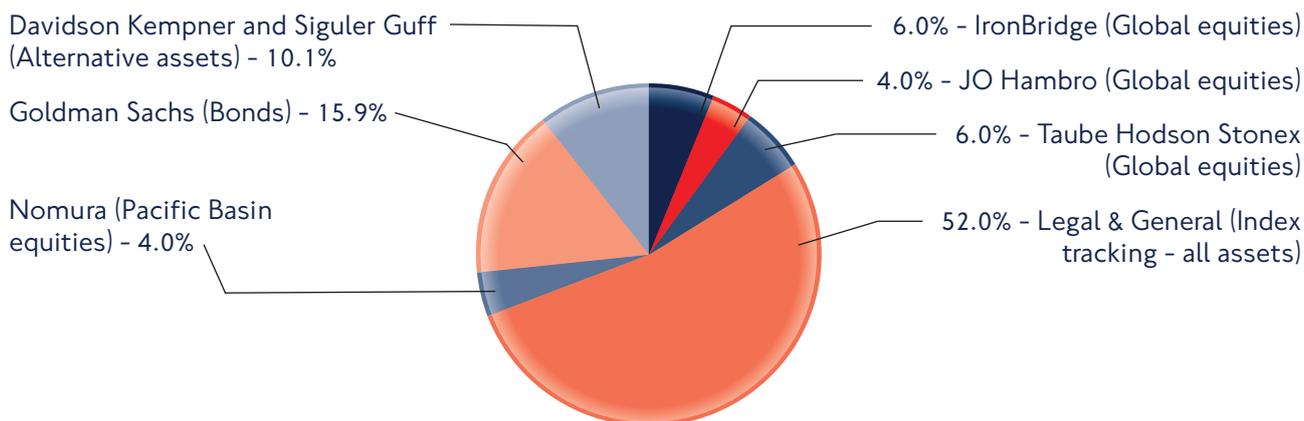
Over the year to 31 March 2011, the total value of the Fund's assets increased by £601m to £5,699m. The chart below shows how the Fund's assets have changed over the last five years.



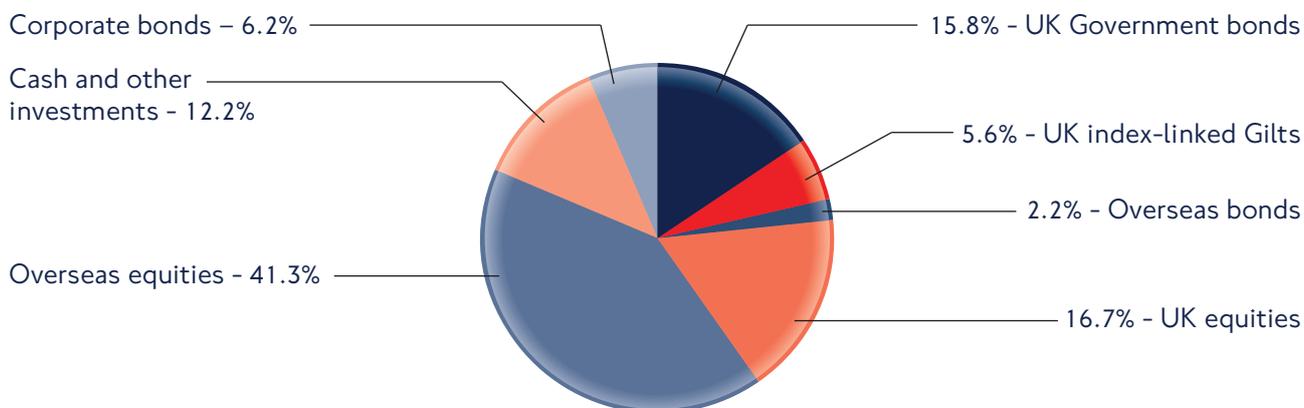
How the Fund is invested

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 allocation of the Fund's assets between investment managers.



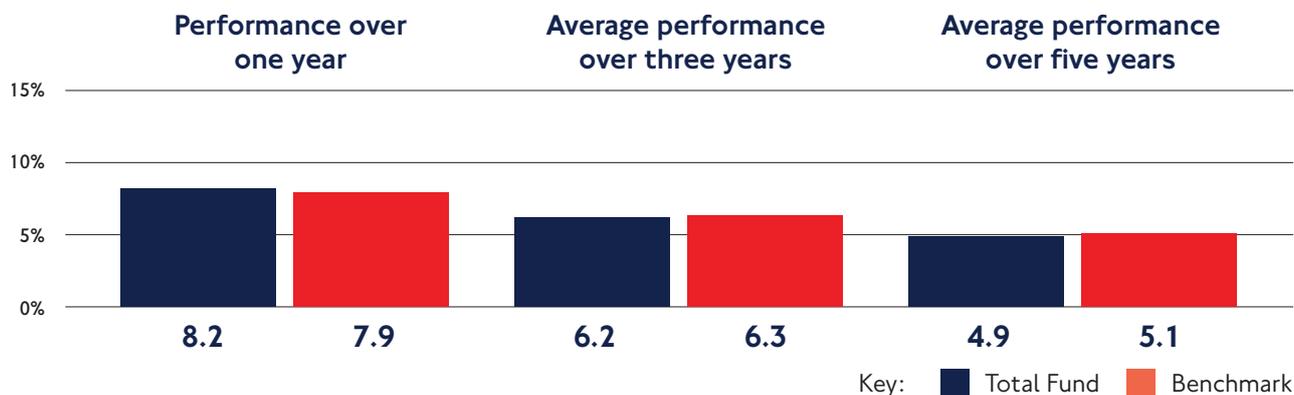
The Fund is held in a range of different investments (assets) in the UK and overseas.



| Top 10 shares | Company | Market Value £m | Country |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------|-------------|
| The Fund has significant holdings in shares (equities) of a number of major quoted companies. The ten largest holdings as at 31 March 2011 were: | Nestle | 18.7 | Switzerland |
| | Occidental Petrol | 15.4 | USA |
| | Union Pacific | 15.3 | USA |
| | National Oilwell Varco | 14.6 | USA |
| | Svenska Handelsbanken | 14.3 | Sweden |
| | Oracle | 14.2 | USA |
| | Apple Computer | 12.3 | USA |
| | Hutchinson Whampoa | 12.1 | Hong Kong |
| | Samsung Electronics | 11.9 | South Korea |
| | Exxon Mobil | 10.7 | USA |

Investment performance

The chart below shows that the investment return was 0.3 per cent above the Fund's performance benchmark (the comparator set by the Trustees) for the year to 31 March 2011. Over the longer periods of three and five years, investment performance was 0.1 and 0.2 per cent below benchmark.



The Fund's assets

The Fund's assets total £5,699.0m. The amount held by each section on 31 March 2011 is shown in the list below

| Section | £m | Section | £m |
|----------------------------------------------|----------|---------------------------------------|------|
| Public Sector | 5,489.78 | HP Enterprise Services UK Limited | 3.02 |
| Tube Lines Limited | 155.19 | Composite Section | 0.80 |
| UK Power Networks Services Powerlink Limited | 42.22 | Capgemini UK plc | 0.68 |
| Cubic Transportation Systems Ltd | 6.56 | Thales Transport and Security Limited | 0.49 |
| | | Cadbury Limited | 0.26 |



The Fund's Trustees

The Fund is managed by a board of directors, known as the Trustees. Individual Trustees are nominated by Transport for London (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 six sub-committees: operations, investment, alternatives & liability hedging, audit, actuarial valuation and appeals, each of which deals with a specific aspect of Fund management.

On 31 March 2011, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Maria Antoniou

(Chairman), External
Appointment, Transport for
London

Mike Binnington

Principal
Corporate Finance
Transport for London

Howard Collins

Chief Operating Officer,
London Underground Limited

Stephen Critchley

Chief Finance Officer,
Transport for London

Gerry Duffy

Director of Employee
Relations, London
Underground Limited

Jane Hart

Senior Disputes Resolution
Lawyer, Transport for
London

Clare Kavanagh

Director of Performance -
Surface Transport,
Transport for London

Stuart Munro

Director of Finance,
Tube Lines Limited

Dave O'Brien

Head of Business Planning
& Controls
Tube Lines Limited

Unite the Union (T&GWU)

Lewis Brown

eRecruitment Analyst,
Transport for London

Associated Society of Locomotive Engineers and Firemen

Steve Grant

District Organiser,
ASLEF

Transport Salaried Staffs' Association

John Knowles

Station & Revenue
Functional Council
Representative,
London Underground
Limited, TSSA

National Union of Rail, Maritime and Transport Workers

Patrick Sikorski

Assistant General
Secretary, RMT

Unite the Union (Amicus)

John Timbrell

Project Engineer
London Underground Limited

TfL Pension Consultative Council

Linda Arwood

Pensioner

Stephen Ellaby

Corporate HSE Advisor,
Transport for London

Chris Miller

Pensioner

Paul Murphy

Train Instructor,
Acton Town,
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 | BlueCrest Capital Management (UK) LLP, Bridgewater Associates, Inc, Burgundy Asset Management, Colonial First State Global Asset Management, Davidson Kempner, Goldman Sachs Asset Management, IronBridge Capital Management LP, JO Hambro Capital Management Ltd, Legal & General Investment Management, Nomura Asset Management UK Ltd, Partners Group (UK) Limited, Semperian PPP Investment Partners Holdings Ltd, Siguler Guff & Company, Taube Hodson Stonex Partners LLP |
| Custodian | JP Morgan Chase Bank |
| Administration services | Transport for London |
| Investment adviser | Mercer Investment Consulting (until 31 March 2011)* |
| Scheme Actuary | RV Williams, Towers Watson Limited |
| Legal advisers | Sacker & Partners LLP |
| Auditor | KPMG LLP |
| Bankers | The Royal Bank of Scotland plc |
| Communications | Hughes Communications |
| Independent Medical adviser | Dr S Sheard |
| AVC providers | Standard Life**, Clerical Medical, Equitable Life |
| Secretary to the Trustee | S Field |

* Towers Watson from 1 April 2011; ** Current AVC provider

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, as well as specific details about your own pension through self-service. If you have not already registered, why not register for self service today. 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 2009 valuation. Reference to Transport for London (TfL) in this document 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 2009, the funding position of the Section was as follows:

| | |
|-----------------------------------------------------------|---------|
| Assets | £3,369m |
| Amount needed to provide benefits earned to 31 March 2009 | £4,575m |
| Shortfall | £1,206m |
| Funding level | 74% |

As a result TfL agreed to pay deficit contributions of 12.95 per cent of pensionable salary from 1 April 2010 to 31 March 2020 and, on or before each of 31 March 2018, 31 March 2019 and 31 March 2020, a lump sum of £107.4m increased in line with the increase in Retail Prices Index between September 2008 and the September before the payment is due in order to eliminate the shortfall by 31 March 2020. These amounts took account of contributions, benefit accruals, expenses and interest after the valuation date. These deficit payments are in addition to regular contributions (from members and the employer) which are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2010 are 18.05 per cent of pensionable salary for all members of the Section.

The estimated additional amount needed on 31 March 2009 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £4,963m. This calculation assumes all benefits would be secured with an insurance company. The Trustee is 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 2010 when the funding level was estimated to be 88 per cent with a shortfall of £664m. This assessment was not a formal valuation, but measured the position in an approximate manner consistent with that used for the 2009 valuation, taking account of the membership changes since then. The improvement in the funding position since the

actuarial valuation as at 31 March 2009 was principally due to favourable investment returns since that date. This more than offset the increase in the value of liabilities that resulted from a reduction in prospective investment returns. Employee and employer contributions paid into the Section over the year exceeded the estimated cost of new benefit accrual which also helped to improve the funding position.

Next funding valuation

The assessment of the ongoing funding position as at 31 March 2011 is currently being undertaken and will be reported in the 2012 Annual Review. The next formal valuation is as at 31 March 2012.

Other matters

With effect from 30 March 2010 the assets, liabilities and members of the LUL SSL and LUL BCV sections have been transferred to the Public Sector Section. The total shortfall after including the shortfalls as at 31 March 2009 in the LUL BCV Section and the LUL SSL Section was £1,331m. This total shortfall amount was used as the basis for determining the deficit payments described above.

The Trustee is required to tell you by law that there has not been any payment to TfL out of the funds of TfL Pension Fund since the date of the last summary funding statement sent to you. The Trustee is also required to tell you 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 Trustee obtains 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 amount estimated to be needed to pay the benefits built up to date, determined using the Trustee's chosen assumptions regarding future unknown events. The Trustee, having taken the advice of the Scheme Actuary, then comes 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 Trustee on a range of matters, including funding issues).

The importance of TfL's support

The Trustee's 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 continuing to support 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

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, while 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 Trustee in a variety of assets. At the current time the Trustee's investment policy is to hold about 30 per cent of the assets in bonds and about 56 per cent in equities and 14 per cent 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.

Annual Benefit Statement

If you 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.

Additional documents available on request

*The Statement of Funding Principles**. This sets out the Section'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 Trustee invests 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 2009* and *Actuarial Report* as at 31 March 2010.

The *TfL Pension Fund Members'** or *Pensioners' Guide**. You should already have a copy but we can provide you with another if required.

*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 18 October. The exhibition starts at 10:30 when refreshments will be available. After the success of previous events we have again 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 the company and have deferred pension. Copies of the Funds Annual Report & Accounts will be available at the meeting.

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 & Fund Secretary, 4th Floor, Wing over Station, 55 Broadway, London SW1H 0BD, you can also submit a question via email to PensionFundAMM@tflpensionfund.co.uk. 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:

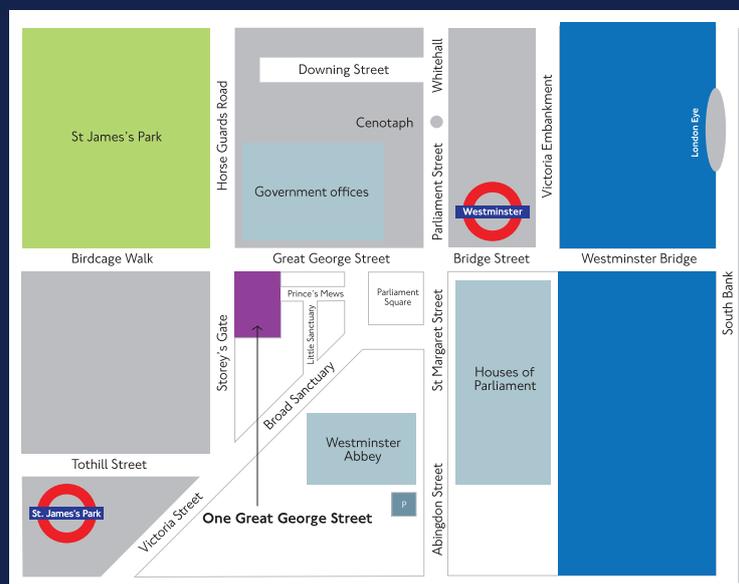
- Introduction at 11:00
- Review of the Annual Report & Accounts to 31 March 2011
- Actuarial update over the last 12 months
- Legal developments and changes to the TfL Pension Fund
- New investment strategy and implementation
- Open Forum – Questions & answers
- Adjourn for refreshments and informal discussions
- Close at 13:15

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 13:15. 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 via the main entrance. If you require further information please contact the Fund Office on 020 7918 2906.

Please note that, for security reasons, you may be asked for some form of identification on arrival.



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