

TfL Pension Fund

Annual Review 2014



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 3792 for your copy.



From the Chairman

I am pleased to present my review as Chairman for the year ended 31 March 2014. Through the year pensions has continued to be the subject of activity by government and to receive the frequent attention of the media. The Fund has and will respond to these developments as well as to the global financial and economic events.

The Fund's assets have continued the steady progress in increasing their value as during the previous year, with the Fund's net assets exceeding £7.3bn at 31 March 2014. The value of the Fund's liabilities (the value of all benefits accrued) has also seen a corresponding increase which has meant no improvement in the overall funding position and thus emphasises the continued importance of employer support. The Trustees remain focused on both the Fund's asset and liability components in seeking to ensure the security of member benefits.

The Alternatives and Liability Hedging Committee and the Investment Committee have been continuing their work in implementing the Fund's investment strategy, as well as continuing to ensure good governance across the Fund's diverse investment holdings and expanded Investment Manager base. A number of investment proposals have been considered, but only those which met the Fund's reward and risk criteria have been pursued further. As a result of these activities there have been four new Investment Manager appointments made during the year as well as a re-organisation of parts of the existing portfolio. Through the greater diversity of investment holdings and exposure to new investment opportunities, the Fund is seeking to maximise the probability of it achieving its return objectives, while managing the overall risk in the portfolio. One Investment Manager mandate was terminated during the year.

The Fund has twenty eight Investment Managers and the increase in their number in recent years in line with the investment strategy has brought new challenges in carrying out effective investment governance. Both the Investment Committee and Alternatives & Liability Hedging Committee continue to refine their approach using the resources of the Fund Office and their investment advisers to support them. In particular this includes keeping under review the fees paid to managers to ensure they are providing value for money for the investment returns or risk mitigation achieved.

In my report last year I noted the Fund's successful completion in May 2013 of the triennial valuation as at 31 March 2012. We are now less than 12 months from the next valuation date of 31 March 2015 and preparatory work to ensure that the process runs smoothly and efficiently will begin soon.

The Fund is a segregated scheme with a number of sections each requiring its own valuation, summary funding statement and audited accounts. During the year the number of sections has reduced by two to six as a

result of staff transfers. UK Power Networks Services Powerlink Limited employees rejoined TfL and HP Enterprise Services UK Limited employees transferred to Cubic Transportation Systems Limited, joining that employer's section of the Fund.

On investment performance, the market recovery during the year, primarily in equities, has seen the overall assets of the Fund increased over the past 12 months from £6.870bn to £7.312bn. This year's investment performance was ahead of the benchmark by 1.7 per cent, while over the longer period of three years it was ahead by 0.4 per cent and over five years it was ahead by 1.0 per cent.

Mention is also deserved of the work of the other Committees (Operations, Audit and Appeals) and the Trustee Board itself in ensuring good governance prevails in all the Fund's activities.

With a membership of over 83,000, the day to day administration of the Fund is a significant undertaking. Just over 45,000 tasks were completed by the Fund Office during the year. Their service level agreement targets were met 100 per cent in three out of the four quarters of the year and 99.99 per cent in the other quarter.

During the year we welcomed Angela Back, Emanuela Cernoia, Paul Kilius-Smith and Mike Weston to the Trustee Board and at year-end the Trustee Board was at full strength. The fresh insight that can be offered by these new Trustees is appreciated in equal measure to the continuity that is 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.

Finally, on your behalf, I would like to record my thanks to all involved with the continued operations and development of the Fund: the Trustee Directors, Scheme Actuary, Investment and Legal Advisers, Investment Managers, Custodian, Auditors and not least the Fund Office and Fund Secretary for their support. I remain confident that, with these resources, we can meet the current challenges and those which lie ahead of us.

Maria Antoniou
Chairman of the
TfL Pension Fund Trustees

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Membership review

The chart below compares the membership numbers between the 2013 and 2014 Fund years.

2013 - Total members: 82,772

23,012	17,812	31,228	10,720
Contributing members	Deferred pensioners	Pensioners	Dependants and children
23,662	17,406	31,310	10,719

2014 - Total members: 83,097

The 23,662 contributing members are spread across the Participating Employers

	As at 31 March 2014	As at 31 March 2013
Transport for London	22,680	21,883
Tube Lines Limited	939	980
Other employers	43	149
Total Members	23,662	23,012

Year at a glance

As at 31 March 2014, the value of the Fund was £7,311.9m. This is an increase of £442.2m on the value at the end of the previous Fund year.

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

£6,027.0m		Fund value as at 31 March 2012	
Plus income of....		Minus expenditure of....	
Employers' contributions	£266.1m	Pensions and other benefits paid	£274.7m
Investment income	£76.8m	Investment management	£11.8m
Members' contributions	£47.0m	Other payments	£4.6m
Transfers in from other pension schemes	£0.4m	Administration	£3.9m
		Payment in respect of leavers	£2.8m
		Pension levies	£1.6m
Total income	£390.3m	Total outgoing	£299.4m
Change in value of investments £751.8m			

£6,869.7m		Fund value as at 31 March 2013	
Plus income of....		Minus expenditure of....	
Employers' contributions	£284.4m	Pensions and other benefits paid	£282.7m
Investment income	£80.7m	Investment management	£10.9m
Members' contributions	£50.2m	Other payments	£3.9m
Transfers in from other pension schemes	£5.6m	Administration	£3.8m
		Payment in respect of leavers	£3.0m
		Pension levies	£5.9m
Total income	£420.9m	Total outgoing	£310.2m
Change in value of investments £331.5m			

£7,311.9m		Fund value as at 31 March 2014	
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The Fund's accounts are audited each year by independent auditors KPMG LLP, who have confirmed that:

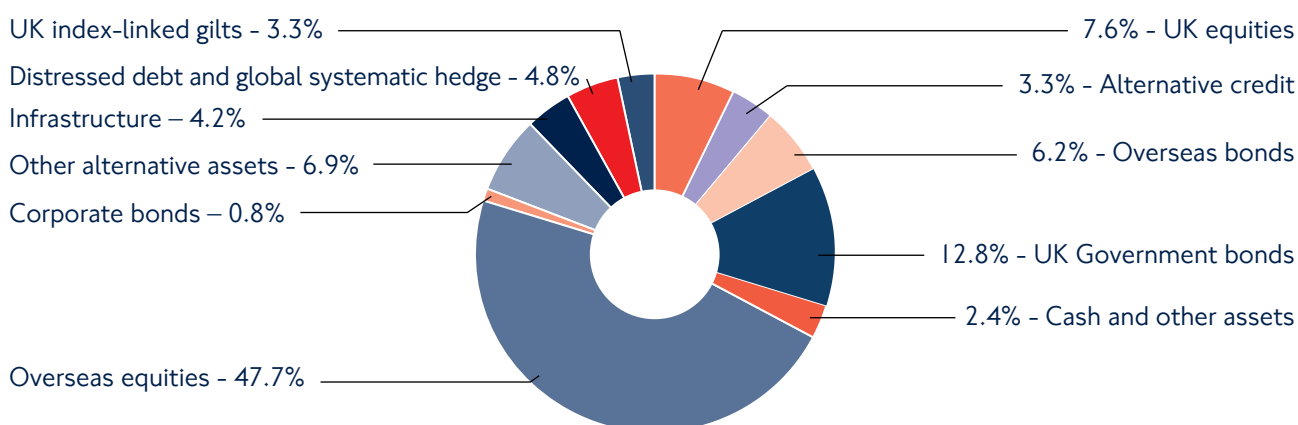
- The Fund's accounts show a true and fair view of the financial transactions during the year ending 31 March 2014 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year
- Contributions were paid to the Fund in accordance with the schedules of contributions in force during the year.

How the Fund is invested

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 table shows the allocation of the Fund's assets between investment managers as at 31 March 2014.

Legal & General (Index tracking and liability matching assets)	47.3%
Active Specialist	
Goldman Sachs (Global Bonds)	7.9%
IronBridge (Global equities)	6.3%
Pzena (Global equities)	5.9%
JO Hambro (Global equities)	4.9%
Nomura (Pacific Basin equities)	3.5%
Burgundy (North American Equities)	2.6%
Coronation (Global Equities)	1.4%
Brigade (Alternative credit)	1.1%
Oak Hill (Alternative credit)	1.1%
Wellington (Alternative credit)	1.0%
Currency overlay	0.6%
Alternative Assets	
Bridgewater (Global Macro Systematic Hedge Fund)	3.3%
Semperian (Infrastructure assets)	3.0%
Partners Group (Private Equity Fund of Funds)	1.4%
Nephila (Reinsurance Hedge Fund)	1.4%
Gresham (Commodities)	1.3%
Colonial First State (Infrastructure Assets)	1.3%
Siguler Guff (Distressed Debt Private Equity)	0.9%
BlueCrest (Managed Futures / Global Macro)	0.9%
Davidson Kempner (Distressed Debt Hedge Fund)	0.6%
Brevan Howard (Global Macro Discretionary Hedge Fund)	0.5%
Arrowgrass (Multi-Strategy Hedge Fund)	0.5%
OZ Management (Multi-Strategy Hedge Fund)	0.5%
CBRE (Real Estate (Fund of Funds exposure))	0.4%
Rogge (Emerging Market Currencies)	0.3%
IFC (Global Infrastructure Fund)	0.1%

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



How the Fund is invested (cont.)

Top 10 shares		Market Value £m	Country	Sector
The Fund has significant holdings in shares (equities) of a number of major quoted companies. The ten largest holdings as at 31 March 2014 were:	Nestle	21.3	Switzerland	Food Processing
	Continental	21.1	Germany	Automotive
	Givaudan	20.1	Switzerland	Chemicals
	Google	18.4	USA	Internet
	Microsoft	18.0	USA	Technology
	Citigroup	18.0	USA	Banking
	Occidental Petrol	17.3	USA	Oil & Gas
	Schneider	15.7	France	Electrical Equipment
	UBS	15.6	Switzerland	Banking
	Omnicom	15.2	USA	Advertising

Activism

The Trustee recognises the Fund's responsibility as an active and long term institutional investor to support and encourage good corporate governance practices in the companies in which it invests. Specifically within its arrangements with Investment Managers, the Trustee communicate with companies and exercises the rights attaching to its investments and these activities are reported back to the Trustee by these managers. The Trustee has asked the Investment Managers to exercise their voting and other rights as shareholders in a manner they believe to be consistent with best practice in relation to Corporate Governance and in accordance with the Institutional Shareholders' Committee's ("ISC") Statement of Principles on the Responsibilities of Institutional Shareholders and Agents. These Principles have been carried forward and adopted by the Financial Reporting Council ("FRC") in the UK Stewardship Code for institutional investors.

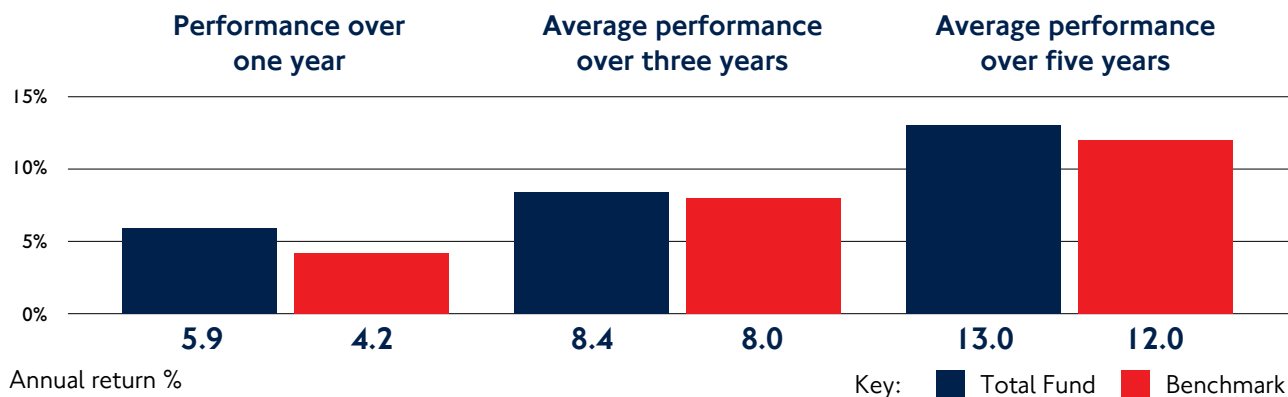
For companies in the Fund's actively managed equity portfolio there were 250 annual general meetings or extraordinary general meetings held in the year to 31 March 2014 and at 121 of these there were votes against management. Because of the nature of the active portfolio the number of companies in which the Fund has direct shareholdings is relatively small. By contrast as an index tracker, the Fund's passive equity manager, Legal & General holds a wider number of shareholdings. Because the Fund hold units rather than the underlying shares, Legal & General acts independently but has a strong track record of activism both at meetings and in its engagement with management outside of them. During the year to 31 March 2014 it voted at 2,663 shareholder meetings and of the 31,017 resolutions considered at them, voted against management for 2,989.

Experience to date in the votes against management have rarely been sufficient to overturn management proposals. But such votes against may still have a role in influencing management behaviour going forward.



Investment performance

The chart below shows that the investment return was 1.7 per cent above the Fund's performance benchmark (the comparator set by the Trustees) for the year to 31 March 2014. Over the longer periods, investment performance was 0.4 per cent above the benchmark over three years and 1.0 per cent above the benchmark over five years.



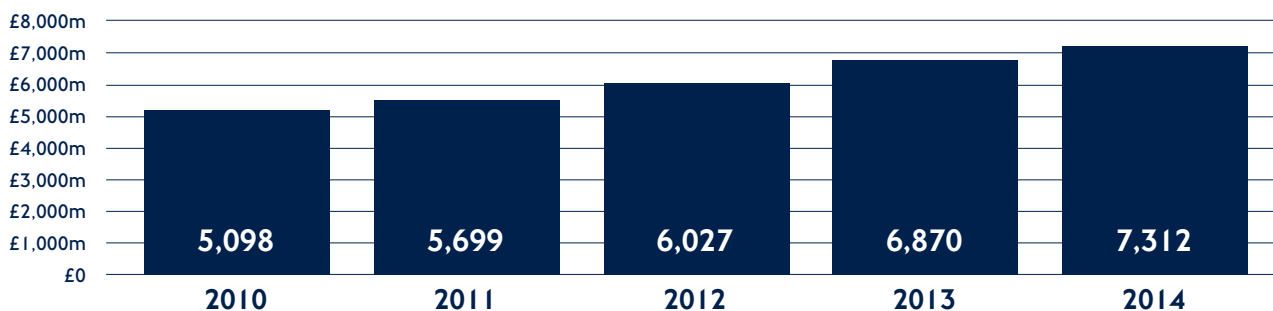
The Fund's assets

The Fund's assets total £7,311.9m. The amount held by each section on 31 March 2014 is shown below

Section	£m	Section	£m
Public Sector	7,058.8	Capgemini UK plc	0.9
Tube Lines Limited	239.5	Composite Section	0.7
Cubic Transportation Systems Ltd	11.3	Thales Transport and Security Limited	0.7

Value of the Fund

Over the year to 31 March 2014, the total value of the Fund's assets increased by £442m to £7.312bn. The chart below shows how the Fund's assets have 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 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 2014, the Trustees were as listed below, grouped by the nominating bodies.

Transport for London

Maria Antoniou

(Chairman)
External Appointment,
Transport for London

Angela Back

Head of HS&E for COO
London Underground Limited

Mike Binnington

Senior Principal
Commercial Finance,
Transport for London

Emanuela Cernoia

Senior Treasury Manager,
Transport for London

Gerry Duffy*

Director of
Employee Relations,
London Underground Limited

Jane Hart

Principal Solicitor
Health, Safety and
Environment,
Transport for London

Dave O'Brien

Head of Risk Management
Rail & Underground,
Transport for London

Andrew Pollins

Director of Finance
Rail & Underground,
Transport for London

Mike Weston

Director of Buses
Surface Transport,
Transport for London

Unite the Union (T&GWU)

Lewis Brown

IM Problem Manager,
Transport for London

Associated Society of Locomotive Engineers and Firemen

Graham Dean

Train Operator,
London Underground Limited

National Union of Rail, Maritime and Transport Workers

Steve Hedley

Assistant General Secretary,
RMT

Transport Salaried Staffs' Association

John Knowles

Station & Revenue
Functional Council
Representative,
London Underground Limited

Unite the Union (Amicus)

John Timbrell

Project Engineer
London Underground Limited

TfL Pension Consultative Council

Stephen Ellaby

HSE Manager,
Specialist Services
Transport for London

Paul Kilius-Smith

Pensioner

Chris Miller

Pensioner

Paul Murphy

Train Instructor, Northfields,
London Underground Limited

*with effect from 6 June 2014, Steve White, Operations Director SSL, London Underground Limited replaced Gerry Duffy

Trustee advisers and managers

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

Investment managers

Arrowgrass Capital Partners LLP
BlueCrest Capital Management (UK) LLP
Brevan Howard Asset Management LLP
Bridgewater Associates, Inc
Brigade Capital Management LLC
Burgundy Asset Management
CBRE Global Investors
Colonial First State Global Asset Management
Coronation Fund Managers
Davidson Kempner Capital Management LLC
Goldman Sachs Asset Management
Gresham Investment Management LLC
IFC Global Infrastructure Fund LP
Industry Funds Management Pty Limited
IronBridge Capital Management LP
JO Hambro Capital Management Ltd
Legal & General Investment Management
Nephila Capital Limited
Nomura Asset Management UK Ltd
Oak Hill Advisors LP
OZ Management LP
Partners Group (UK) Limited
Pzena Investment Management LLC
Rogge Global Partners PLC
Russell Implementation Services Limited
Semperian PPP Investment Partners Holdings Ltd
Siguler Guff & Company
Wellington Management Company LLP

Custodian

JP Morgan Investor Services

Administration services

Transport for London

Investment adviser

Towers Watson Limited

Scheme Actuary

G Oxtoby, Towers Watson Limited

Legal advisers

Sacker & Partners LLP

Auditor

KPMG LLP

Bankers

The Royal Bank of Scotland plc

Independent Performance Monitoring

JP Morgan Investor Services

Communications

Hughes Communications

Independent Medical adviser

Dr S Sheard

Scheme Employer Covenant Reviewer

Penfida Partners LLP

AVC providers

Clerical Medical, Equitable Life, Standard Life

Secretary to the Trustee

S Field, FPMI

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 Director of Pensions & Reward 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 take great care to ensure that our website is helpful and easy to use and 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 2012 valuation. Reference to 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 2012, the funding position of the Section was as follows:

Assets	£5,796m
Amount needed to provide benefits earned to 31 March 2012	£6,495m
Shortfall	£699m
Funding level	89%

As a result TfL agreed to pay deficit contributions of 10.60 per cent of pensionable pay from 1 April 2013 to 31 March 2020 and, on or before 31 March 2018, a lump sum of £37.8 million increased in line with the increase in RPI between September 2008 and September 2017. 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 2013 are 20.40 per cent of pensionable pay for all members of the Section.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £7,288 million. 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 level was last assessed as at 31 March 2013 when the funding level was estimated to be 92 per cent with a shortfall of £546 million. The improvement in the funding position between 31 March 2012 and 31 March 2013 was due primarily to investment returns being higher than assumed, which more

than exceeded the increase in the value of liabilities that resulted from lower prospective investment returns. Also contributions paid into the Section exceeded the estimated cost of new benefit accrual.

Next funding valuation

The next formal valuation is at 31 March 2015.

Other matters

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, 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 Trustee in a variety of assets. At the current time the Trustee's investment policy is to hold about 25 per cent of the assets in bonds and about 55 per cent in equities and 20 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 2012* and *Actuarial Report* as at 31 March 2013.

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 Friday 24 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 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 Director of Pensions & Reward 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 year and roles and responsibilities of the Trustee
- Actuarial update over the last 12 months
- Legal developments
- Investment activities over the last 12 months and outlook
- 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.

