

# TfL Pension Fund

## Report and Accounts

for the year to 31 March 2011



### 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.



# TfL Pension Fund

## Report and Accounts for the year to 31 March 2011

### Contents

#### Page

2	Organisation and Advisers as at 31 March 2011
3	Chairman's Introduction
4	Trustee's Report
13	Investment Report
18	Independent Auditor's Report to the Trustee of TfL Pension Fund
19	Fund Account and Net Assets Statement
20	Notes to the Accounts
29	Trustee's Summary of Contributions payable
30	Summary Funding Statements and Actuary's Certificates
49	Independent Auditor's Statement about Contributions
50	Participating Employers' Unit Holdings and Asset Values Statement
51	Compliance Statement

#### **Administration Office:**

TfL Pension Fund  
Wing Over Station  
55 Broadway  
London SW1H 0BD

Telephone (020) 7918 3733

Requests for a copy of the Trust Deed and Rules of the Fund and enquiries about the Fund generally, or about an individual's entitlement to benefit, should be addressed to the TfL Pension Fund Office at the above address. The Report and Accounts and Trust Deed and Rules may be viewed on the TfL Pension Fund's Website, [www.tflpensionfund.co.uk](http://www.tflpensionfund.co.uk).

**Pension Schemes Registry scheme reference number:** 101653517

# TfL Pension Fund

## Organisation and Advisers as at 31 March 2011

### Trustee

TfL Trustee Company Limited

### Board of Directors of TfL Trustee Company Limited

(Nominating bodies are shown in brackets)

Ms M Antoniou (Chairman)	External Appointment, Transport for London (TfL)
Ms LJ Arwood	Pensioner (PCC)
Mr ME Binnington	Principal, Corporate Finance, Transport for London (TfL)
Mr LP Brown	ERecruitment Analyst, Transport for London (Unite the Union (T&GWU))
Mr HP Collins	Chief Operating Officer, London Underground Limited (TfL)
Mr SR Critchley	Chief Finance Officer, Transport for London (TfL)
Mr GF Duffy	Director of Employee Relations, London Underground Limited (TfL)
Mr SW Ellaby	Corporate HSE Adviser, Transport for London (PCC)
Mr S Grant	District Organiser, ASLEF (ASLEF)
Ms JV Hart	Senior Disputes Resolution Lawyer, Transport for London (TfL)
Ms C Kavanagh	Director of Performance – Surface Transport, Transport for London (TfL)
Mr JH Knowles	Station & Revenue Functional Council Representative, London Underground Limited (TSSA)
Mr CA Miller	Pensioner (PCC)
Mr SI Munro	Director of Finance, Tube Lines Limited (TfL)
Mr PJ Murphy	Train Instructor, Acton Town, London Underground Limited (PCC)
Mr DJ O'Brien	Head of Business Planning and Controls, Tube Lines Limited (TfL)
Mr PW Sikorski	Assistant General Secretary, RMT (RMT)
Mr JB Timbrell	Project Engineer, London Underground Limited (Unite the Union (Amicus))

### Principal Employer

Transport for London

### Bankers

The Royal Bank of Scotland plc

### Participating Employers

Transport for London  
Docklands Light Railway Limited  
London Bus Services Limited  
London Buses Limited  
London River Services Limited  
London Transport Museum Limited  
London Underground Limited  
Transport Trading Limited  
Tube Lines Limited  
Victoria Coach Station Limited  
British Transport Police Authority  
Cadbury Limited  
Capgemini UK plc  
Cubic Transportation Systems Limited  
Dalkia Energy & Technical Services Limited  
HP Enterprise Services UK Limited  
Thales Transport and Security Limited  
Tribal Technology Limited  
UK Power Networks Services Powerlink Limited

### Communications Advisers

Hughes Communications

### Investment Adviser

Mercer Investment Consulting to 31 March 2011  
Towers Watson Limited from 1 April 2011

### Investment Managers

Investment Managers	Date of Appointment
Blue Crest Capital Management (UK) LLP	30 July 2010
Bridgewater Associates, Inc.	2 November 2005
Burgundy Asset Management	14 October 2010
Colonial First State Global Asset Mgt	15 December 2009
Davidson Kempner	17 November 2009
Goldman Sachs Asset Management	15 June 2005
IronBridge Capital Management LP	24 December 2009
JO Hambro Capital Management Limited	5 January 2010
Legal & General Investment Management	14 June 2006
Nomura Asset Management UK Limited	1 September 2004
Partners Group (UK) Limited	4 June 2010
Semperian PPP Investment Partners Holdings Limited	18 February 2008
Siguler Guff & Company	10 December 2009
Taube Hodson Stonex Partners LLP	11 January 2010

### Secretary to the Trustee

Mr S Field

### Auditor

KPMG LLP

### Custodian

JP Morgan Chase Bank

### Legal Advisers

Sacker & Partners LLP

### Investment Performance Monitoring

BNY Mellon Asset Servicing

### Scheme Actuary

Mr RV Williams, Towers Watson Limited

### AVC Providers

Clerical Medical  
Equitable Life  
Standard Life

### Independent Medical Adviser

Dr S Sheard

# TfL Pension Fund

## Chairman's Introduction

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 £5.7 billion 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 £5.098 billion to £5.699 billion. This year's investment performance has been ahead of the benchmark by 0.3%, with performance over three and five years below benchmark by 0.1% and 0.2% respectively. More information is contained in the Investment Report starting on page 13.

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.

Chairman  
6 July 2011

# TfL Pension Fund

## Trustee's Report

The Directors of TfL Trustee Company Limited, the Trustee of TfL Pension Fund, have pleasure in submitting their Annual Report on the operations of the Fund, together with the Accounts of the Fund for the year ended 31 March 2011.

### 1. Management of the Fund

#### (a) The Trustee

The Trustee is required to act in accordance with the Trust Deed and Rules of the Fund, within the framework of pension and trust law. It is responsible for safeguarding the assets of the Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### (b) Board of Directors

The Board of the Trustee is made up of 18 Directors as set out on page 2. Full details of how Directors are nominated are also shown on page 7.

Directors serve for such period as their nominating body determines, or until that body withdraws their nomination or additionally, in the case of a nominee from the TfL Pension Consultative Council (PCC), they cease to be a member of the PCC.

The following changes to directors occurred during the year to 31 March 2011:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Mr M F O'Connell	29 September 2010	Mr DJ O'Brien	29 September 2010	TfL
-	-	Mr LP Brown	7 December 2010	Unite the Union
Mr P Regan	16 March 2011	Mr ME Binnington	17 March 2011	TfL

The table below shows the number of scheduled Trustee Board and Committee meetings attended by each Director in the year to 31 March 2011 against the total number that they were eligible to attend.

TfL Nominated Directors	No. of meetings	No. of attendances	Non-TfL Nominated Directors	No. of meetings	No. of attendances
Ms M Antoniou	13	11	Ms LJ Arwood	13	13
Mr ME Binnington	1	1	Mr LP Brown	4	4
Mr HP Collins	17	10	Mr SW Ellaby	10	9
Mr SR Critchley	15	14	Mr S Grant	11	9
Mr GF Duffy	9	9	Mr JH Knowles	8	3
Ms JV Hart	13	7	Mr CA Miller	22	21
Ms C Kavanagh	10	10	Mr PJ Murphy	12	11
Mr SI Munro	13	12	Mr PW Sikorski	10	4
Mr DJ O'Brien	5	5	Mr JB Timbrell	17	16
Mr MF O'Connell	8	5			
Mr P Regan	11	7			

The average attendance at scheduled Trustee Board and Committee meetings was 84% and 81% respectively.

# TfL Pension Fund

## Trustee's Report (continued)

### 2. Committees of the Board of Directors

Whilst the Board of the Trustee decides all policy matters, it has recognised that committees are necessary in carrying out its functions in respect of the TfL Pension Fund efficiently and that the exercise of all delegated authority, when not directly supervised by the Board, shall be supervised by a committee.

For this purpose the Board has set up six committees which comprise either four, six or eight Directors of the Trustee, half of whom are TfL nominated Directors and half of whom are non-TfL nominated Directors. Membership of each committee is shown below.

Committee	TfL Nominated	Non TfL Nominated
Investment	Mr ME Binnington Mr HP Collins Mr SR Critchley Mr GF Duffy	Mr LP Brown Mr CA Miller Mr PJ Murphy Mr JB Timbrell
Alternatives & Liability Hedging	Mr ME Binnington Mr SR Critchley	Mr CA Miller Mr JB Timbrell
Operations	Ms JV Hart Ms C Kavanagh Mr SI Munro Mr DJ O'Brien	Ms LJ Arwood Mr SW Ellaby Mr CA Miller Mr PW Sikorski
Audit	Ms JV Hart Mr SI Munro Mr DJ O'Brien	Mr LP Brown Mr S Grant Mr JH Knowles
Appeals	Ms M Antoniou Mr HP Collins Mr SR Critchley	Ms LJ Arwood Mr S Grant Mr PJ Murphy
Actuarial Valuation	Ms M Antoniou Mr SI Munro	Mr CA Miller Mr JB Timbrell

### 3. Committee Remits

#### Investment Committee

Covers investment matters concerning equities and bonds, including strategy and the appointment and monitoring of investment managers and the custodian.

#### Alternatives and Liability Hedging

Covers investment matters concerning alternative assets and liability hedging, including strategy, the appointment and monitoring of investment managers and monitoring the overall benchmark for the Fund's portfolio.

#### Operations Committee

Monitoring the Service Provider's (Transport for London) performance under the Administration Agreement and Fund Rules; monitoring quarterly cash flow, income/expenditure and capital expenditure budgets, instructing the Fund Secretary to prepare the brief to professional advisers to the Fund and to monitor their performance; devising the Fund's communications strategy.

# TfL Pension Fund

## Trustee's Report (continued)

### **Audit Committee**

To ensure that the rules relating to finance and corporate governance matters are properly applied, the Fund's financial affairs are properly conducted in accordance with best practice and the Fund's accounting policies, and to ensure that there are processes in place for the Fund and the Trustee to comply with the Trust Deed and Fund Rules, Articles of Association, legislation and regulation, corporate governance and all relevant internal procedures and policies.

### **Appeals Committee**

To hear appeals as the second stage adjudicator under the Internal Disputes Resolution Procedure as approved from time to time by the Board.

### **Actuarial Valuation Committee**

To liaise with the Actuary and negotiate with the Principal Employer on matters relating to scheme specific funding and actuarial factors for benefit calculations. The committee ensures compliance with the statutory funding requirements.

## **4. Governance**

### **Introduction**

The Fund was established with effect from 1 April 1989 to provide retirement and death benefits for all eligible employees of Transport for London, its subsidiaries and associated companies, in accordance with the Rules of the Fund and Definitive Trust Deeds.

During the year ended 31 March 2011 there were no changes to the number of participating employers, but EDF Energy Powerlink Limited changed its name to UK Power Networks Services Powerlink Limited.

Up to 5 April 2006 the Fund was approved by HM Revenue and Customs as an exempt approved scheme under the provisions of Chapter I Part XIV of the Income and Corporation Taxes Act 1988. From 6 April 2006 the Fund automatically became a "registered pension scheme" for tax purposes under the Finance Act 2004.

Members of the Fund are contracted out of the earnings-related element of the state pension scheme.

### **Changes to the Trust Deed and Rules of the Fund**

During the year there have been no changes to the Trust Deed and Rules.

### **Management of the Fund**

#### **(a) Trustee's responsibility for preparing Accounts**

Under the Rules of the Fund and the Pensions Act 1995, the Trustee is required to prepare Accounts for each Fund year which show a true and fair view of the financial transactions of the Fund during the Fund year and of the disposition, at the end of the Fund year, of the assets and liabilities. Assets do not include insurance policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the Fund to, particular members; liabilities do not include liabilities to pay pensions and benefits after the end of the year.

## TfL Pension Fund

### Trustee's Report (continued)

#### (b) Statement of trustee's responsibilities for the financial statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited financial statements for each Fund year which:

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. The Trustee is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Fund prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of trustee responsibilities accompanying the Trustee's summary of contributions.

The Trustee also has general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

#### (c) Board of Directors

The Directors of the Trustee are nominated as follows:

- Nine persons by TfL of whom at least five must be members of the Fund.
- One person each by: - Unite the Union; the National Union of Rail, Maritime and Transport Workers; the Associated Society of Locomotive Engineers & Firemen; the London Transport Joint Trades Committee; the Transport Salaried Staffs' Association (or any successor body).
- Two persons by and from Section One of the TfL Pension Consultative Council.
- One person by and from each of Sections Two and Three of the TfL Pension Consultative Council.

Members of the TfL Pension Consultative Council are Fund Members elected by their fellow members. Section One members are pensioners or deferred pensioners. Sections Two and Three are contributing members of the Fund.

The Directors of the Trustee are committed to high standards of governance for all aspects of the Fund's operations. Although the Trustee is not governed by the Combined Code, which applies to UK fully listed companies, the Directors of the Trustee believe that the internal control aspects of the Code help demonstrate good governance and therefore the Trustee has followed the principles of the Code in relation to internal controls.

The Pensions Act 2004 established the Pensions Regulator and amongst its objectives is the promotion of good administration of work-based pension schemes. This has included the publication of codes of practice and accompanying guidance to support trustees in their responsibilities, in particular those covering trustee knowledge and understanding and internal controls. In November 2009 the Pensions Regulator launched a campaign aimed at encouraging good governance and administration which has continued into 2010. The Trustee has taken steps to follow the Pensions Regulator's guidance as it has developed.



## TfL Pension Fund

### Trustee's Report (continued)

The Directors of the Trustee acknowledge their responsibility for the Fund's system of internal controls and for reviewing its effectiveness. The internal controls are designed to manage risk and control the Fund's business and financial activities in a manner that enables it to:

- avoid or reduce risks that can cause loss of the Fund's assets or reputational damage,
- ensure compliance with applicable laws and regulations; and
- enhance resilience to external events.

To achieve this the Trustee has developed a Governance Framework that includes an annual risk review carried out by the Chairs of Committees, which identifies the key risks facing the Fund and the controls in place to manage these risks. These risks and controls are set out in a Risk Register which is considered by the Audit Committee and the Board who, together with the relevant committees, regularly review the effectiveness of the internal controls contained therein. The planned work and audit findings of Internal and External Audit are considered by the Audit Committee throughout the year and reported to the Board annually. It should be recognised, however, that such a process can only provide reasonable, not absolute, assurance against material misstatements or loss.

The Trustee has established a management structure that clearly defines roles, responsibilities and reporting lines. Delegated authorities are clearly documented and reviewed regularly.

The performance of the Fund's operations and of the Trustee's Investment Managers is reported regularly to the Fund Secretary and the relevant Committees and, where appropriate, the Trustee Board itself. Performance trends and forecasts, as well as actual performance against budgets, are closely monitored. Financial information is prepared using appropriate accounting policies that are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions, communications to members and the safeguarding of the Fund's assets.

#### **Governance Plan**

Following the Risk Review the Trustee has established a 1 year Governance Plan which is updated annually to use in operating and managing the Fund, covering three main areas:

(i) Mission and Goals

Setting out the main goals of the Trustee and the main resources available and the Trustee's key success criteria and performance measures.

(ii) Review and Monitoring Goals, Risks and Performance

Setting up main areas which the Trustee will review and measure in order to evaluate various aspects of the Fund arrangements.

(iii) Specific Actions and Year Plan

Identifying specific actions with a target date for the completion of each action.

#### **Strength of Employer Covenant**

The Trustee monitors the credit rating of the Participating Employers by taking advice from its professional advisers and by having good communication and exchange of information.

#### **Quarterly Investment Updates**

The Trustee monitors the financial strength of the Fund by receiving quarterly updates from the Fund Actuaries and Investment Advisers.

## TfL Pension Fund

### Trustee's Report (continued)

The Trustee monitors the performance of the investment managers each quarter. In order to increase the diversification of assets, the Trustee funded investment mandates in private equity, multi strategy and North American small cap equities during the year.

#### 5. Financial review

The Accounts of the Fund for the year to 31 March 2011 have been drawn up in compliance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

The net assets of the Fund, that is the investment assets including the AVC scheme, the fixed assets held for own use, and the net current assets, amounted to £5,699.0m at 31 March 2011. The increase of £601.2m, compared with the value at 31 March 2010 of £5,097.8m, was made up as follows:

	<u>2011</u> £m	<u>2010</u> £m
Net returns on investments	488.9	1,213.7
Net additions from dealings with members	<u>112.3</u>	<u>55.1</u>
	<u>601.2</u>	<u>1,268.8</u>

Net returns on investments comprised increased market value of investments of £418.9m (2010: £1,154.8m), investment income of £77.5m (2010: £62.9m) offset by investment management expenses of £7.5m (2010: £4.0m). The increase in market value of investments was made up of realised investment gains of £151.8m (2010: £86.8m) and unrealised investment gains of £267.1m (2010: £1,068.0m).

The net additions from dealings with members were £112.3m (2010: £55.1m). This increase in the amount of net additions was mainly due to an increase in contributions of £27.6m as a result of changes in the employer contributions following the 2009 triennial valuation which took effect from April 2010, and transfers in from other schemes which increased by £48.0m. Under the Rules of the Fund the administrative costs of the Fund are borne by the Fund itself. Administrative costs and pension levies decreased by £5.4m primarily due to the reduction in Pension Protection Fund levies. This is offset by benefits and other payments which increased by £23.6m, mainly as a result of increases in pensions and lump sum retirement benefit payments. Payments to and on account of leavers increased by £0.2m.

Further details of the financial movements of the Fund may be found in the audited Accounts on pages 19 to 28.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 50. Unitisation is subject to a separate audit, following the audit of the main report and accounts.

#### 6. Actuarial valuations and actuarial reports

Fund Rule 43, together with recent legislation, requires the Scheme Actuary to carry out a formal actuarial valuation of each section of the Fund at least every three years. The valuations reveal the extent to which the sections' existing assets are sufficient to meet their liabilities for benefits that have been earned for service up to the valuation date. They also establish the levels of contributions required in future to provide an appropriate level of funding when account is taken of benefits to be earned in the future.

A formal valuation was carried out by the Scheme Actuary as at 31 March 2009 of each of the nine sections that were still in existence on 31 March 2010 (as at 30 March 2010 the assets and liabilities of the LUL BCV and LUL SSL sections were transferred to the Public Sector Section so that valuations were not required for these two sections). As required by legislation and the Fund's governing documents, the assumptions that the Actuary needed to make regarding such matters as future investment returns and members' longevity were agreed between the Trustee and TfL and are recorded in formal documents called Statements of Funding Principles. The process of agreeing assumptions was carried out separately for each section.

## TfL Pension Fund

### Trustee's Report (continued)

As required by legislation and the Fund's governing documents, for each of the sections that had a funding deficit the Trustee and TfL agreed a Recovery Plan which sets out how the deficit is to be made good. They also agreed a schedule of contributions for each of the sections which shows the contributions that are to be paid for the next five years or, if longer, until the funding deficit was expected to be eliminated. They show separately the contributions required to meet future accruing benefit costs and the additional contributions that are planned to finance the funding deficits.

For each section with 100 or more members, legislation requires the Scheme Actuary to provide an actuarial report in each year between formal actuarial valuations to give the Trustee an approximate update of the section's funding position. Actuarial reports have therefore been provided for the three largest sections as at 31 March 2010 and will be provided as at 31 March 2011.

Following completion of the formal valuation, a Summary Funding Statement was sent to each member of the Fund which summarises the valuation results for his or her section. Further Summary Funding Statements will be sent annually including, where applicable, information from the actuarial reports. Extracts from the 2011 Summary Funding Statements for each section are shown on pages 31 to 39.

Copies of the Actuary's reports on the valuations and the actuarial reports referred to above are available on application to the Fund Secretary at the address given on the Contents page at the front of the Report and Accounts.

#### 7. Pension increases

Deferred members and pensioners receive increases in accordance with the Fund Rules based on the increase in the Retail Price Index over the year to the previous September. Those members whose pension commenced on or before 1 April 2009 received no increase with effect from 1 April 2010.

Based on the increase in the Retail Price Index over the year to September 2010, deferred members and pensioners received an increase of 4.6% from 1 April 2011.

Increases to pensions in payment and deferred pensions over the past five years have been as follows:

April 2007	3.6%
April 2008	3.9%
April 2009	5.0%
April 2010	0.0%
April 2011	4.6%

#### 8. Tube Lines

Tube Lines Limited became a subsidiary of TfL following its acquisition on 27 June 2010. The Tube Lines section remains as a "New Section" separate from the Public Sector Section.

#### 9. Fund's advisers

Dr S Sheard was appointed during the year as the Fund's independent medical adviser replacing Professor K. Holland-Elliott.

In advance of the 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.

Following a competitive tendering exercise Towers Watson were appointed the Trustee's investment adviser from 1 April 2011 replacing Mercer Investment Consulting.

# TfL Pension Fund

## Trustee's Report (continued)

### 10. Changes in membership during the year

The table below summarises the movement in membership during the year to 31 March 2011. In addition, the Fund has 92 pension credit members comprising 69 deferred pensioners and 23 pensioners

	2010/ 2011	2010/ 2011	2009/ 2010	2009/ 2010	Change
<b>Contributing members as at 1 April 2010</b>	24,430		24,975		
Joiners	674		1,088		
	25,104		26,063		
Contributing members retiring	(729)		(599)		
Leavers taking a refund of contributions	(133)		(263)		
Leavers becoming deferred pensioners	(599)		(719)		
Leavers with less than two years service – member option decision pending	(12)		(19)		
Leavers taking a trivial commutation lump sum	(2)		-		
Deaths in service	(23)		(33)		
<b>Contributing members as at 31 March 2011</b>		23,606		24,430	-824
<b>Deferred pensioners as at 1 April 2010</b>	18,456		18,626		
Leavers becoming deferred pensioners	599		719		
	19,055		19,345		
Deferred pensions coming into payment	(673)		(741)		
Deferred pensioners taking a trivial commutation lump sum	(6)		(6)		
Deferred pensioners transferring to other schemes	(80)		(72)		
Deferred pensioner deaths	(52)		(70)		
<b>Deferred pensioners as at 31 March 2011</b>		18,244		18,456	-212
<b>Pensioners as at 1 April 2010</b>	30,708		30,398		
Contributing members retiring	729		599		
Deferred pensions coming into payment	673		741		
	32,110		31,738		
Pensioner deaths	(1,112)		(1,030)		
Pensioner ceasing to be eligible for a pension	(1)		-		
<b>Pensioners as at 31 March 2011</b>		30,997		30,708	+289
<b>Dependants as at 1 April 2010</b>	10,247		10,224		
Dependants becoming entitled to pensions	553		560		
	10,800		10,784		
Dependant deaths	(613)		(537)		
Dependants taking a trivial commutation lump sum	(3)		-		
<b>Dependants as at 31 March 2011</b>		10,184		10,247	-63
<b>Eligible children as at 1 April 2010</b>	597		584		
Children becoming entitled to pensions	91		103		
	688		687		
Children ceasing to be eligible	(46)		(90)		
Child deaths	(1)		-		
<b>Eligible children as at 31 March 2011</b>		641		597	+44
<b>Total membership as at 31 March 2011</b>		<u>83,672</u>		<u>84,438</u>	<u>-766</u>

## TfL Pension Fund

### Trustee's Report (continued)

Details of contributing members by section as at 31 March 2011 were as follows:

	<u>2010/</u> <u>2011</u>	<u>2010/</u> <u>2011</u>	<u>2009/</u> <u>2010</u>	<u>2009/</u> <u>2010</u>	<u>Change</u>
	%		%		
Transport for London	22,384	94.82	23,066	94.41	-682
Tube Lines Limited	1,055	4.47	1,183	4.84	-128
UK Power Networks Services Powerlink Limited	112	0.47	121	0.49	-9
Cubic Transportation Systems Limited	27	0.11	27	0.11	-
HP Enterprise Services UK Limited	19	0.08	22	0.09	-3
Composite section	5	0.02	7	0.03	-2
Thales Transport and Security Limited	2	0.01	2	0.01	-
Cadbury Limited	1	0.01	1	0.01	-
Capgemini UK plc	1	0.01	1	0.01	-
<b>Total</b>	<u>23,606</u>	<u>100.00</u>	<u>24,430</u>	<u>100.00</u>	<u>-824</u>

#### 11. Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

# TfL Pension Fund

## Investment Report

### 1. Investment policy (excluding AVC investments)

Most of the Fund's investment assets were invested and administered by the investment managers, whose names appear on page 2. The investment managers employed during the financial year ended 31 March 2011 had discretion to invest as they saw fit within the asset classes and geographical limitations of their benchmarks, as agreed by the Directors. Certain legacy investments amounting to no more than 1% of total assets are administered in-house but the Directors take appropriate investment advice in the disposition of these assets.

Investment managers' fees are primarily based on the market value of the Fund and, in the case of the active managers, performance (subject to upper and lower limits and achieving investment hurdle rates, in most cases), but commissions and fees are also charged on investment transactions.

The Directors measure the Fund's performance against the benchmark below which is based on the long-term strategic asset allocation.

#### Benchmark Summary at 31 March 2011

Sector	Weight (%)	Comparison Basis
UK Equities	16.80	FTSE All-Share Index
Overseas Equities	39.20	FTSE AW All World ex UK (Hed) Index
		FTSE AW All World ex UK Index
UK Index-Linked Gilts	16.80	FTSE A ILG (Over 5 Years) Index
UK Gilts	5.70	FTSE A Over 15 Years Gilts Index
UK Non Gilt Bonds	6.90	ML Sterling NonGilt 10+ Index
Overseas Bonds	4.60	Barclays Global Aggregate
UK Cash Balances	10.00	LIBID 7 day Sterling
	<u>100.00</u>	

Each of the active managers is financially incentivised to out-perform a benchmark over rolling three-year periods. The Directors believe the investment mix set out below will maintain an appropriate balance between risk minimisation and return maximisation given the current and future liabilities of the Fund. A review of the investment strategy is currently being undertaken.

Portfolio	% of Fund	Manager
<b>Core</b>		
Index tracking (all asset classes) and liability matching assets <sup>1</sup>	52.0	Legal & General Investment Management
<b>Active Specialist</b>		
Bonds	15.9	Goldman Sachs Asset Management
Global equities 1	6.0	IronBridge Capital Management LP
Global equities 2	6.0	Taube Hodson Stonex Partners LLP
Global equities 3	4.0	JO Hambro Capital Management Limited
North American equities	2.0	Burgundy Asset Management
Pacific Basin equities	4.0	Nomura Asset Management UK Limited
Currency overlay (equities)	-	JP Morgan
<b>Alternative Assets</b>		
Infrastructure assets	3.2	Semperian PPP Investment Partners Holdings Limited <sup>2</sup>
Infrastructure assets	1.2	Colonial First State Global Asset Mgt
Global tactical asset allocation	2.0	Bridgewater Associates, Inc
Multi strategy	2.0	Blue Crest Capital Management (UK) LLP
Private equity	0.7	Partners Group (UK) Limited
Distressed debt	0.6	Davidson Kempner
Distressed debt	0.4	Siguler Guff & Company
	<u>100.0</u>	

<sup>1</sup> Legal & General manage a portfolio of financial instruments which seeks to hedge a proportion of the Fund's liabilities interest rate and inflation risk.

<sup>2</sup> The Fund has a 25.8828% economic interest in Semperian PPP Investment Partners Holdings Limited.

## TfL Pension Fund

### Investment Report (continued)

The allocation of index tracking funds to market categories is regularly rebalanced to ensure that the total fund is allocated in accordance with the strategic guidelines. The Directors maintain a Statement of Investment Principles as required by the Pensions Act 1995 and the latest version is available on request from the Fund Office at TfL Pension Fund, Wing Over Station, 55 Broadway, London SW1H 0BD or from the Fund's website.

#### 2. Custodial arrangements

During the year the Trustee was custodian of certain property unit trusts, venture capital funds and cash. Various brokers hold cash in connection with the Goldman Sachs forward foreign exchange contracts and interest rate swaps. The rest of the Fund's investments, comprising those assets managed by the Fund's investment managers, were held in the names of nominees by JP Morgan Chase Bank. The Fund's pooled investment managed fund units are held under managed fund policies in the name of the Trustee and the policy documents are held by Legal & General Investment Management Limited and BNY Mellon Asset Management.

#### 3. Investment overview

The investment assets of the Fund as at 31 March 2011, including AVC investments, had a market value of £5,684.5m, an increase of £596.9m compared with their market value, including AVC investments, of £5,087.6m as at 31 March 2010. Investment income (i.e. dividends and interest) amounted to £77.5m for the year to 31 March 2011 compared with £62.9m for the year to 31 March 2010.

The bulk of the assets held by the active managers are quoted on the main worldwide stock exchanges and are marketable. The assets held with Legal & General are also marketable. A proportion of the Fund's assets are less readily marketable.

The income and maturity values of the holdings in UK government stocks are secure but capital values may fluctuate. The other assets have less secure income streams and capital values may also fluctuate.

#### 4. Analysis of investments

A detailed analysis of the investment assets of the Fund at 31 March 2011 is shown below.

	2011		2010	
	£m	%	£m	%
Fixed interest securities	535.5	9.4	606.0	11.9
Equities - UK	112.7	2.0	90.8	1.8
- Overseas	1,140.2	20.1	821.3	16.1
Index-linked securities	123.3	2.2	126.0	2.5
Pooled investment vehicles				
Fixed interest securities	829.7	14.6	808.4	15.9
Index-linked securities	195.4	3.4	188.5	3.7
Equities	2,016.3	35.5	1,988.1	39.1
Other	638.5	11.2	349.9	6.9
Derivatives	(28.6)	(0.5)	5.8	0.1
Cash deposits	62.7	1.1	51.4	1.0
Other investment balances	20.2	0.3	16.5	0.3
AVC scheme investments	38.6	0.7	34.9	0.7
	<u>5,684.5</u>	<u>100.0</u>	<u>5,087.6</u>	<u>100.0</u>

# TfL Pension Fund

## Investment Report (continued)

A geographical analysis of the Fund's worldwide equity and alternative asset holdings is given below.

	Total		UK	North America	Europe	Japan	Other
	%	£m	£m	£m	£m	£m	£m
Direct quoted	32.1	1,252.9	112.7	470.5	248.3	139.2	282.2
Pooled investment vehicles	67.9	2,653.1	999.5	997.5	364.1	31.6	260.4
Total	100.0	3,906.0	1,112.2	1,468.0	612.4	170.8	542.6

The 10 largest direct quoted equity holdings of the Fund as at 31 March 2011 are shown below.

	Market value	% of total quoted equity holdings	Country
	£m	%	
Nestle	18.7	1.4	Switzerland
Occidental Petrol	15.4	1.2	USA
Union Pacific	15.3	1.2	USA
National Oilwell Varco	14.6	1.2	USA
Svenska Handelsbanken	14.3	1.1	Sweden
Oracle	14.2	1.1	USA
Apple Computer	12.3	1.0	USA
Hutchinson Whampoa	12.1	1.0	Hong Kong
Samsung Electronics	11.9	1.0	South Korea
Exxon Mobil	10.7	0.9	USA
	<u>139.5</u>	<u>11.1</u>	

The foregoing excludes exposure to individual stocks through the Fund's holdings of units in pooled investment vehicles.

The Fund's investment in the following unit trusts represents more than 5% of the units in issue of these trusts.

	No of units held by the Fund	% of units in issue	Market value of units £m
Midlands Growth Fund	14,055	25.4	0.1
Abbotstone Property Unit Trust	2,575	56.3	1.7

## 5. Investment performance

The Fund participates in an investment performance measurement scheme organised by BNY Mellon Asset Servicing which provides comparative information for assessing investment performance. BNY Mellon Asset Servicing calculates both the overall investment returns obtained on the Fund's assets and the returns obtained by the individual investment managers.

The table below shows the total investment returns (including both capital and income) obtained on the Fund's assets (including property but excluding AVCs) for the one, three and five years to 31 March 2011 and the corresponding composite benchmark established by the Trustee as the prime performance comparator. The benchmark quoted is a weighted average of indices relevant to the structure and is relevant throughout the time periods shown.



# TfL Pension Fund

## Investment Report (continued)

	One Year		Three Year Average		Five Year Average	
	Total Fund	Benchmark	Total Fund	Benchmark	Total Fund	Benchmark
Annual Return %	8.2	7.9	6.2	6.3	4.9	5.1

The Fund assets returned 8.2% for the year ending 31 March 2011, 0.3% above its benchmark return of 7.9%.

Details of the performance of the individual portfolios in the year to 31 March 2011 compared with the previous year are shown below:

	Year to 31 March 2011		Year to 31 March 2010	
	Fund %	Benchmark %	Fund %	Benchmark %
Index-Tracking – Legal & General	8.9	N/A	49.7	N/A
UK Equities	8.9	8.7	53.0	52.3
North American Equities	9.6	9.5	43.5	43.2
European Equities (ex. UK)	7.4	7.0	47.9	47.5
Japan Equities <sup>1</sup>	(3.8)	(4.0)	29.8	29.6
Pacific Basin (ex. Japan) Equities	14.4	14.0	70.2	69.1
Middle/Africa Equity	(10.3)	(10.7)	-	-
Emerging Market Equities <sup>1</sup>	11.9	11.7	-	-
UK Fixed Interest	7.0	6.9	(0.1)	(0.2)
Index-linked Gilts	6.8	6.7	10.4	10.4
LDI – Legal & General	5.9	4.2	9.4	11.1
Global Equities				
Ironbridge	8.2	7.4	-	-
J O Hambro	25.0	8.0	-	-
Taube Hodson Stonex	8.9	7.4	-	-
UK Equities				
Alliance Bernstein	-	-	9.8 <sup>2</sup>	10.9 <sup>2</sup>
Baillie Gifford	-	-	5.7 <sup>2</sup>	10.9 <sup>2</sup>
North American Equities				
Burgundy	4.1 <sup>3</sup>	5.4 <sup>3</sup>	-	-
Far East Equities				
Nomura	10.1	6.1	49.9	50.7
Bonds				
Goldman Sachs	6.0	5.2	23.5	13.8
Legal & General – Network Rail Bonds	4.7	6.7	10.4 <sup>4</sup>	6.6 <sup>4</sup>
Other assets				
Blue Crest Capital Management <sup>1</sup>	4.4 <sup>3</sup>	0.2 <sup>3</sup>	-	-
Bridgewater <sup>1</sup>	36.5	0.1	6.6	0.1
Colonial First State Global Asset Mgt <sup>1</sup>	3.8 <sup>3</sup>	0.2 <sup>3</sup>	-	-
Davidson Kempner <sup>1</sup>	9.4	0.4	14.1 <sup>2</sup>	0.1 <sup>2</sup>
Partners Group <sup>1</sup>	1.6 <sup>4</sup>	0.3 <sup>4</sup>	-	-
Semperian <sup>1</sup>	(2.6)	0.4	(7.9)	0.5
Siguler Guff <sup>1</sup>	(13.6) <sup>3</sup>	0.2 <sup>3</sup>	-	-

<sup>1</sup> Performance shown net of fees

<sup>2</sup> One quarter's results (not annualised)

<sup>3</sup> Two quarter's results (not annualised)

<sup>4</sup> Three quarter's results (not annualised)

The active managers (all of the above except Legal & General) have been set targets to achieve, measured as out-performance of the relevant benchmarks over 3 year rolling periods, with the extent of out-performance depending on the portfolio.

# TfL Pension Fund

## Investment Report (continued)

### 6. AVCs

The distribution of the AVCs invested with the three providers as at the year end is set out below:

	Value of fund at 31 March 2011	% of total	Reported returns (where declared) Year to 31 March 2011
	£m		
<b>Equitable Life</b>			
With Profits	4.3	11.1	N/A
Unit-linked funds			
Managed	4.0	10.4	8.2%
UK Tracking	1.4	3.6	7.2%
Lifestyle	0.6	1.6	7.2%
Building Society funds	0.9	2.3	N/A
	<u>11.2</u>	<u>29.0</u>	
<b>Clerical Medical</b>			
With Profits	7.1	18.4	0.5%
Unit-linked funds	0.6	1.6	N/A
	<u>7.7</u>	<u>20.0</u>	
<b>Standard Life</b>			
Managed	9.1	23.6	6.5%
International	1.5	3.9	7.2%
Protection	3.9	10.1	6.1%
Sterling	0.7	1.8	0.9%
FTSE Tracker	1.6	4.1	8.3%
Ethical	0.6	1.6	13.0%
With Profits	0.5	1.3	1.9%
Amanah Fund	0.1	0.2	2.1%
Managed cash	1.0	2.6	(0.4)%
Blackrock Aquila Gilts	0.7	1.8	N/A
	<u>19.7</u>	<u>51.0</u>	
	<u>38.6</u>	<u>100.0</u>	

### 7. Approval of the Report of the Directors of the Trustee

The Compliance Statement on page 51 forms part of this Report of the Directors of the Trustee.

This Report was approved by the Board of Directors of TfL Trustee Company Limited on 6 July 2011 and was signed on their behalf by:

M Antoniou

LJ Arwood

Directors  
TfL Trustee Company Limited

# Independent Auditor's Report to the Trustee of TfL Pension Fund

We have audited the Financial Statements of the TfL Pension Fund for the year ended 31 March 2011 set out on pages 19 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Fund's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder.

Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Trustee and Auditor

As explained more fully in the Statement of Trustee's responsibilities on pages 6 and 7, the Fund's Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Fund during the Fund year ended 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;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Richard Hinton  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
London  
6 July 2011

# TfL Pension Fund

## Fund Account

For the year ended 31 March 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<b>Dealings with members</b>					
Contributions receivable	3	316,281		288,704	
Individual transfers in from other schemes		71,520		23,484	
		<u>387,801</u>		<u>312,188</u>	
Benefits payable	4	(267,246)		(244,736)	
Payments to and on account of leavers	5	(1,681)		(1,484)	
Other payments	6	(1,122)		-	
Administrative expenses	7	(3,833)		(4,374)	
Pension levies	8	(1,670)		(6,502)	
		<u>(275,552)</u>		<u>(257,096)</u>	
<b>Net additions from dealings with members</b>			112,249		55,092
<b>Returns on investments</b>					
Investment income	9	77,468		62,921	
Change in market value of investments	10	418,891		1,154,810	
Investment management expenses	11	(7,452)		(3,967)	
<b>Net returns on investments</b>			488,907		1,213,764
<b>Net increase in the fund during year</b>			601,156		1,268,856
<b>Net assets at beginning of year</b>			5,097,848		3,828,992
<b>Net assets at end of year</b>			<u>5,699,004</u>		<u>5,097,848</u>

## Net Assets Statement

As at 31 March 2011

	Note	2011 £'000	2010 £'000
<b>Investment assets</b>	10b	5,735,502	5,100,081
<b>Investment liabilities</b>	10b	(51,015)	(12,513)
<b>Total net investments</b>		<u>5,684,487</u>	<u>5,087,568</u>
<b>Fixed assets held for own use</b>	12	362	562
<b>Current assets</b>	13	34,678	39,112
<b>Current liabilities</b>	14	(20,523)	(29,394)
<b>Net assets at end of year</b>		<u>5,699,004</u>	<u>5,097,848</u>

The Notes on Pages 20 to 28 form part of these Accounts.

These Accounts were approved by the Board of Directors of TfL Trustee Company Limited on 6 July 2011 and were signed on their behalf by:

M Antoniou

LJ Arwood

Directors  
TfL Trustee Company Limited

# TfL Pension Fund

## Notes to the Accounts

### 1. Basis of preparation

The Accounts have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

The Accounts summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. The Accounts do not take account of the obligations to pay pensions and other benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the extracts from the Summary Funding Statements and certificates by the Actuary on pages 30 to 48 and these Accounts should be read in conjunction with those statements.

### 2. Accounting policies

#### (a) Inclusion of income and expenditure

(i) *Contributions*

Employers' contributions are accounted for in the period to which the corresponding pay relates. Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the schedules of contributions and Recovery Plan under which they are paid.

(ii) *Transfers to and from other schemes*

Transfer payments in respect of members transferred to and from the Fund during the year are included in the Accounts in accordance with the transfer agreement.

(iii) *Benefits payable*

Benefits payable are accounted for on the basis of entitlement during the year in accordance with the Rules of the Fund. Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the Trustee of his or her decision as to what form of benefit they will take.

(iv) *Investment income*

Dividends from quoted securities are credited to income when the investments are declared ex-dividend. Other investment income is accounted for on an accruals basis. Dividends and interest are grossed up for the amount of any taxation recoverable. Investment income arising from the underlying investments of pooled investment vehicles is reinvested within the pooled investment vehicles and reflected in the unit price.

(v) *Investment management expenses*

Investment management expenses are accounted for on an accruals basis. Performance related investment management expenses are accounted for at the time they become due for payment under the terms of the appropriate Investment Management Agreement.

(vi) *Foreign currencies*

Balances denominated in foreign currencies are translated using the rate of exchange ruling at the Net Assets Statement date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction. Differences arising on investment balances translation are accounted for in the change in market value of investments during the year.

(vii) *Additional voluntary contributions (AVCs)*

AVCs are accounted for on an accruals basis, in the same way as other contributions, and the resulting investments are included in the net assets statement.

(viii) *Depreciation*

Expenditure on fixed assets held for own use has been capitalised to reflect the economic usefulness of the assets to the Fund. Depreciation of fixed assets held for own use is provided on a straight-line basis over their estimated useful lives as follows:

Computer equipment	-	5 years
Furniture	-	5 years

# TfL Pension Fund

## Notes to the Accounts (continued)

### (b) Valuation of investments

Investments are included at values which are determined as follows:

- (i) UK and foreign securities quoted on a recognised stock exchange are stated at the bid price or last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the Net Assets Statement;
- (ii) fixed interest securities are stated at their clean prices (i.e. excluding accrued income). Accrued income is accounted for within investment income;
- (iii) pooled investment vehicles (managed funds and unit trusts) are stated at the bid price for funds with bid/offer spreads as provided by the investment managers;
- (iv) unquoted securities are included at fair value estimated by the Trustee based on the advice from the investment manager;
- (v) derivatives are stated at market value. All gains and losses arising on derivatives contracts are reported with the Change in Market Value of investments.

Exchange traded derivatives are stated at market values determined using market quoted prices. For exchange traded derivative contracts which are assets, market value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, market value is based on quoted offer prices.

Over the counter (OTC) derivatives are stated at market value using pricing models and relevant data as at the year-end date

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing the contract at the reporting date by entering into an equal and opposite contract at that date;

- (vi) short-term deposits are valued at cost at 31 March 2011 taking into account gains or losses on foreign currencies;
- (vii) AVC investments are shown at the values advised by the AVC providers.

### 3. Contributions receivable

	2011 £'000	2010 £'000
<b>Employers</b>		
Normal	150,990	186,370
Deficit funding	120,333	57,856
	<u>271,323</u>	<u>244,226</u>
<b>Members</b>		
Normal	41,189	41,212
Additional voluntary contributions	3,769	3,266
	<u>44,958</u>	<u>44,478</u>
	<u>316,281</u>	<u>288,704</u>

Members' contributions are 5% of their contributory pensionable salary and are accounted for when deducted from members' pay. Employers' contributions are a multiple of the members' contributions, subject to fixed cash additions or deductions. Employer contributions are agreed between the Trustee, on the advice of the Actuary, and the Principal Employer following the actuarial valuation which resulted in a change of normal and deficit contributions which took effect from 1 April 2011.

All employers paid their respective contributions in accordance with the schedules of contributions.

# TfL Pension Fund

## Notes to the Accounts (continued)

### 4. Benefits payable

	2011 £'000	2010 £'000
Pensions	202,893	197,467
Commutations and lump sum retirement benefits	59,386	40,367
Lump sum death benefits	4,967	6,902
	<u>267,246</u>	<u>244,736</u>

### 5. Payments to and on account of leavers

	2011 £'000	2010 £'000
Individual transfers to other schemes	1,381	936
Refunds to members leaving service	191	314
Payments for members joining state scheme	109	234
	<u>1,681</u>	<u>1,484</u>

### 6. Other payments

	2011 £'000	2010 £'000
Premiums on term insurance policies	1,122	-
	<u>1,122</u>	<u>-</u>

### 7. Administrative expenses

	2011 £'000	2011 £'000	2010 £'000	2010 £'000
<b>Staff costs</b>				
Payroll	1,958		1,981	
Recruitment and training (incl. trustee)	15		16	
		1,973		1,997
<b>Establishment costs</b>				
Accommodation	187		181	
Computer costs	410		442	
Telecommunications	18		15	
Depreciation	289		294	
		904		932
<b>Professional fees</b>				
Legal fees	163		340	
Audit fees	93		90	
KPMG non-audit fees	11		28	
Actuarial fees	426		669	
Medical fees	32		32	
Other professional fees	37		42	
		762		1,201
<b>Communication</b>				
Distribution	72		96	
Printing	90		99	
		162		195
<b>Consumables</b>				
Stationery	17		10	
Microfilm	1		6	
General	14		33	
		<u>32</u>		<u>49</u>
		<u>3,833</u>		<u>4,374</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### 8. Pension levies

	2011 £'000	2010 £'000
Pension Protection Fund	1,441	6,298
Pension Regulator levies	229	204
	<u>1,670</u>	<u>6,502</u>

The reduction in the Pension Protection Fund levies is mainly attributed to the LUL BCV Section and LUL SSL Section transferring to the Public Sector Section and benefiting from TfL's credit rating.

#### 9. Investment income

	2011 £'000	2010 £'000
Income from fixed interest securities	26,760	32,771
Dividends from equities	23,775	20,220
Income from index-linked securities	4,110	2,378
Income from pooled investment vehicles	10,404	6,395
Income from derivatives	11,587	384
Interest on cash deposits	257	172
Income from securities lending	503	270
Other investment income	72	331
	<u>77,468</u>	<u>62,921</u>

#### 10. Investments

##### a) Reconciliation of investments held at beginning and end of year

	Value at 1 April 2010 £'000	Purchases at cost & derivative payments £'000	Sale proceeds & derivative receipts £'000	Change in Market Value £'000	Value at 31 March 2011 £'000
Fixed interest securities	605,984	216,332	296,418	9,597	535,495
Equities	912,031	647,774	421,921	114,968	1,252,852
Index-linked securities	125,979	32,621	40,242	4,928	123,286
Pooled investment vehicles	3,334,907	324,863	265,646	285,768	3,679,892
Derivative contracts	5,852	42,080	77,265	721	(28,612)
AVC investments	34,892	4,815	3,986	2,909	38,630
	<u>5,019,645</u>	<u>1,268,485</u>	<u>1,105,478</u>	<u>418,891</u>	<u>5,601,543</u>
Cash deposits	51,401				62,709
Other investment assets	20,894				33,135
Other investment liabilities	(4,372)				(12,900)
<b>Total net investments</b>	<u>5,087,568</u>				<u>5,684,487</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions and stamp duty. Transaction costs incurred during the year amounted to £1,559,000 (2010: £1,043,000). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investment within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.



# TfL Pension Fund

## Notes to the Accounts (continued)

### b) Details of investments held at year end

	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Fixed interest securities				
UK public sector quoted	62,399		75,742	
UK corporate quoted	351,560		333,572	
Overseas public sector quoted	44,497		84,333	
Overseas corporate quoted	<u>77,039</u>		<u>112,337</u>	
		535,495		605,984
Equities				
UK quoted	112,676		90,778	
Overseas quoted	<u>1,140,176</u>		<u>821,253</u>	
		1,252,852		912,031
Index-linked securities				
UK public sector quoted	<u>123,286</u>		<u>125,979</u>	
		123,286		125,979
Pooled investment vehicles				
Managed funds				
Fixed interest - UK	829,694		796,796	
Fixed interest - Overseas	9		11,602	
Index-linked - UK	195,370		188,505	
Equities - UK	2,016,359		1,988,058	
Cash - UK	-		916	
Other - UK	173,647		171,422	
Other - Overseas	463,077		175,815	
Unit trusts				
Other - UK	49		106	
Property - UK	<u>1,687</u>		<u>1,687</u>	
		3,679,892		3,334,907
Derivative assets				
Swaps - OTC	6,729		6,298	
Futures - exchange traded	350		244	
FX - OTC	<u>2,424</u>		<u>7,451</u>	
		9,503		13,993
Cash deposits				
Sterling deposits	52,047		26,963	
Foreign currency deposits	<u>10,662</u>		<u>24,438</u>	
		62,709		51,401
Other investment asset balances				
Amounts due from broker	10,809		-	
Outstanding trades	5,169		2,521	
Outstanding dividend entitlements and recoverable withholding tax	<u>17,157</u>		<u>18,373</u>	
		33,135		20,894
AVC investments		38,630		34,892
<b>Total investment assets</b>		<u>5,735,502</u>		<u>5,100,081</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Derivative liabilities				
Swaps – OTC	(10,258)		(3,482)	
Futures – exchange traded	(1,049)		(533)	
FX – OTC	(26,808)		(4,126)	
		(38,115)		(8,141)
Other investment liability balances				
Amounts due to broker	(3,366)		(629)	
Outstanding trades	(7,379)		(2,418)	
Accrued expenses	(2,155)		(1,325)	
		(12,900)		(4,372)
<b>Total investment liabilities</b>		<u>(51,015)</u>		<u>(12,513)</u>
<b>Total net investments</b>		<u>5,684,487</u>		<u>5,087,568</u>

#### c) Pooled investment vehicles

The Fund's investment in the following managed funds represented more than 5% of the net assets at the 31 March 2011:

	£'000	% of Net Assets
Legal & General LDI Portfolio implementation	993,611	17%
Legal & General UK Equity Index	825,841	15%
Legal & General North America Equity Index	648,512	11%

The investments in pooled investment vehicles are managed by companies registered in the UK with the exception of Bridgewater Associates and Davidson Kempner which are US registered.

#### d) Derivative assets

The Trustee has authorised the use of derivatives by some of their investment managers as part of their investment strategy for the pension scheme. The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

##### Interest rate and credit default swaps

Interest rate swaps to hedge the interest rate risk were undertaken as part of the Fund's investment strategy to enhance returns and facilitate efficient portfolio management. The Fund had derivative contracts outstanding at the year end relating to its fixed interest investment portfolio. These contracts are traded over the counter. The details are:

Nature	Country	Nominal amount	Currency	Duration	Asset value	Liability
					at year end	value at year end
					£'000	£'000
Interest rate swaps	Canada	41,480,000	CAD	2015-2041	542	(116)
	Europe	484,050,000	EUR	2014-2040	2,170	(4,201)
	Japan	9,429,000,000	JPY	2013-2019	41	(61)
	Korea	45,138,509,000	KRW	2011	44	-
	New Zealand	18,925,000	NZD	2016	-	(111)
	UK	204,825,000	GBP	2012-2041	357	(1,408)
	USA	634,045,000	USD	2012-2041	3,446	(4,361)
Credit default swaps	Europe	6,800,000	EUR	2016	129	-
					<u>6,729</u>	<u>(10,258)</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### Futures

The Fund had exchange-traded UK and overseas bond index futures outstanding at the year end as follows.

Nature	Bought /Sold	Nominal amount	Duration	Asset value at year end	Liability value at year end
				£'000	£'000
UK Long Gilt	Sold	(90)	June 2011	-	(95)
UK Bonds	Bought	393	June 2011	-	(141)
UK Bonds	Bought	215	December 2011	-	(171)
German Bonds	Bought	650	June 2011	8	(25)
Japanese Bonds	Bought	15	June 2011	-	(160)
US Treasury Bonds	Sold	(401)	June 2011	-	(53)
US Treasury Bonds	Sold	(73)	December 2011	-	(34)
US Treasury Bonds	Sold	(86)	March 2012	-	(15)
US Treasury Bonds	Sold	(73)	June 2012	4	-
US Treasury Bonds	Sold	(1,068)	September 2012	91	-
US Treasury Bonds	Bought	3,718	June 2011	247	(355)
				<u>350</u>	<u>(1,049)</u>

#### Forward foreign exchange

In order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investment to the targeted level.

The Fund had open FX contracts at the year end as follows:

Contract	Settlement date	Currency bought	Currency sold	Asset value at year end	Liability value at year end
				£'000	£'000
Forward OTC	1 month	Various	Various	880	(3,245)
Forward OTC	2 months	Various	Various	-	(468)
Forward OTC	3 months	Various	Various	1,544	(23,095)
				<u>2,424</u>	<u>(26,808)</u>

#### e) AVC investments

During the year Standard Life, Clerical Medical and Equitable Life had delegated responsibility for the investment and administration of the Fund's Additional Voluntary Contribution (AVC) plan. Members' contributions are deducted from their pay by the employers and are paid directly to the providers, where they are invested on behalf of the individuals concerned and in accordance with their instructions to provide additional pension benefits, within the Scheme limits. Each member contributing to the AVC plan receives an annual benefit statement of their account. The aggregate amounts of AVC investments at the year end are as follows:

	2011 £'000	2010 £'000
Standard Life	19,690	15,846
Equitable Life	11,237	11,784
Clerical Medical	7,703	7,262
	<u>38,630</u>	<u>34,892</u>

# TfL Pension Fund

## Notes to the Accounts (continued)

### f) Securities lending

The Fund lends certain fixed interest and equity securities under a Trustee approved securities lending programme. At the 31 March 2011 £118.1m of investments were loaned under a securities lending programme against collateral of £124.6m comprising £50.5m overseas equities, £14.1m cash, £53.4m overseas bonds, and UK Gilts of £6.6m (2010: £71.5m loaned against £76.6m collateral).

### g) Self investment

There were no employer-related investments at any time during the year ended 31 March 2011.

## 11. Investment management expenses

	2011 £'000	2010 £'000
Administration, management and custody	6,843	3,441
Performance measurement services	30	23
Other advisory services	579	503
	<u>7,452</u>	<u>3,967</u>

Investment management expenses have increased following the implementation of revisions to the investment strategy which has resulted in an increase of managers and attributed fees.

## 12. Fixed assets held for own use

	Computer equipment £'000	Furniture £'000	Total £'000
<i>Cost at 1 April 2010</i>	1,676	72	1,748
Additions	89	-	89
<i>Cost at 31 March 2011</i>	<u>1,765</u>	<u>72</u>	<u>1,837</u>
<i>Accumulated depreciation at 1 April 2010</i>	(1,114)	(72)	(1,186)
Depreciation charge for the year	(289)	-	(289)
<i>Accumulated depreciation at 31 March 2011</i>	<u>(1,403)</u>	<u>(72)</u>	<u>(1,475)</u>
<b>Net book value at 1 April 2010</b>	<u>562</u>	<u>-</u>	<u>562</u>
<b>Net book value at 31 March 2011</b>	<u>362</u>	<u>-</u>	<u>362</u>

## 13. Current assets

	2011 £'000	2010 £'000
<b>Debtors</b>		
Contributions due from employer in respect of:		
Employer	11,571	12,641
Employee	14	-
Prepayments and accrued income	13,215	13,261
	<u>24,800</u>	<u>25,902</u>
Cash balances	9,878	13,210
	<u>34,678</u>	<u>39,112</u>

# TfL Pension Fund

## Notes to the Accounts (continued)

### 14. Current liabilities

	2011 £'000	2010 £'000
<i>Creditors</i>		
Unpaid benefits	4,186	3,485
Accrued expenses and deferred income	14,800	24,939
	<u>18,986</u>	<u>28,424</u>
Bank overdrafts	1,537	970
	<u>20,523</u>	<u>29,394</u>

Bank overdrafts represent cheques drawn but not presented for payment by 31 March 2011. Interest is not payable on these sums.

### 15. Related parties

The Fund has received contributions in respect of Directors of the Trustee who are also contributing members of the Fund. The Fund has paid benefits to Directors of the Trustee who are also beneficiaries of the Fund.

Transport for London pays administration and investment expenses on behalf of the Fund and subsequently recharges these to the Fund. At 31 March 2011, £428,000 (2010: £553,000) has been included in creditors in respect of administration expenses and fixed asset expenditure rechargeable to the Fund.

All of the above transactions are in accordance with the Trust Deed and Rules of the Fund.

## TfL Pension Fund

### Statement of Trustee's Responsibilities in respect of Contributions

The Fund's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, the schedules of contributions. This schedule shows the rates of contributions payable to the fund by or on behalf of the employer and the active members and the dates on or before which, such contributions are to be paid. The Fund's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the fund in accordance with the schedules.

### Trustee's Summary of Contributions payable under the Schedules in respect of the fund year ended 31 March 2011

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Fund's Trustee. It sets out the employer and member contributions payable to the Fund under the schedules of contributions certified by the Scheme Actuary on the 16 March 2010 and 19 May 2010 in respect of the Fund year ended 31 March 2011. The Fund auditor reports on contributions payable under the schedules in the Auditor's statement about contributions.

#### Contributions payable under the schedules in respect of the Fund year

	£'000
<b>Employers</b>	
Normal contributions	150,990
Deficit funding	120,333
<b>Members</b>	
Normal contributions	41,189
<b>Contributions payable under the schedules (as reported on by the Fund auditors)</b>	<u>312,512</u>

#### Reconciliation of contributions payable under the schedules of contributions reported in the Accounts in respect of the Fund year

	£'000
Contributions payable under the schedules (as above)	312,512
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditors)	
Member additional voluntary contributions	3,769
<b>Total contributions reported in the accounts</b>	<u>316,281</u>

This Report was approved by the Board of Directors of TfL Trustee Company Limited on 6 July 2011 and was signed on their behalf by:

M Antoniou

LJ Arwood

Directors  
TfL Trustee Company Limited

## TfL Pension Fund

### Summary Funding Statements and Actuary's Certificates

Pages 31 to 39 contain extracts from the 2011 Summary Funding Statements. There is a separate statement for each section of the Fund.

Pages 40 to 48 contain a formal certificate for each section provided by the Scheme Actuary to the effect that, in his opinion:

- when the certificates were given, the contributions shown in the section's schedule of contributions were expected to be sufficient to meet the "statutory funding objective" by the end of the period covered by the schedule;
- the schedule is consistent with the section's Statement of Funding Principles.

The "statutory funding objective" is that the value of the section's assets is at least equal to the value of its past service liabilities assessed as described in the section's Statement of Funding Principles.

## Cadbury Limited Section

### Extract from the 2011 Summary Funding Statement

#### 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	£0.153 million
Amount needed to provide benefits earned to 31 March 2009	£0.163 million
Shortfall	£0.010 million
Funding level	94%

As a result Cadbury Limited agreed to pay a one-off contribution of £0.021m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 25.1% of pensionable pay 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 £0.169 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.



## Capgemini UK plc Section

### Extract from the 2011 Summary Funding Statement

#### 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	£0.392 million
Amount needed to provide benefits earned to 31 March 2009	£0.459 million
Shortfall	£0.067 million
Funding level	85%

As a result Capgemini UK plc ("Capgemini") agreed to pay a one-off contribution of £0.069m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 23.55% of pensionable pay 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 £0.540 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## Composite Section

### Extract from the 2011 Summary Funding Statement

#### 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	£0.915 million
Amount needed to provide benefits earned to 31 March 2009	£1.169 million
Shortfall	£0.254 million
Funding level	78%

As a result Tribal Technology Limited agreed to pay a one-off contribution of £0.113m by 1 April 2010 and British Transport Police Authority the sum of £0.031 million each year (payable monthly at the rate of £2,583 per month) from 1 April 2010 to 31 March 2016 with the aim of eliminating the ongoing deficit. These amounts take 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 the 1 April 2010 are 22.05% of pensionable pay 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 £1.576 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.

#### Next funding valuation

The next formal valuation is as at 31 March 2012.

## TfL Pension Fund

### Cubic Transportation Systems Limited Section

#### Extract from the 2011 Summary Funding Statement

##### 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	£3.280 million
Amount needed to provide benefits earned to 31 March 2009	£4.175 million
Shortfall	£0.895 million
Funding level	79%

As a result Cubic Transportation Systems Limited ("CTS") agreed to pay a one-off contribution of £0.918m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 22.95% of pensionable pay 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 £5.615 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.

##### Next funding valuation

The next formal valuation is as at 31 March 2012.

## TfL Pension Fund

### HP Enterprise Services UK Limited Section

#### Extract from the 2011 Summary Funding Statement

##### 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	£1.795 million
Amount needed to provide benefits earned to 31 March 2009	£2.557 million
Shortfall	£0.762 million
Funding level	70%

As a result HP Enterprise Services UK Limited agreed to pay a one-off contribution of £0.798m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 21.4% of pensionable pay 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 £3.963 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.

##### Next funding valuation

The next formal valuation is as at 31 March 2012.

# TfL Pension Fund

## Public Sector Section

### Extract from the 2011 Summary Funding Statement

#### 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	£3,369 million
Amount needed to provide benefits earned to 31 March 2009	£4,575 million
Shortfall	£1,206 million
Funding level	74%

As a result TfL agreed to pay deficit contributions of 12.95% of pensionable pay 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 £107.4 million increased in line with the increase in RPI 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 the 1 April 2010 are 18.05% of pensionable pay 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 £4,963 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 position was last assessed as at 31 March 2010, when the Funding level was estimated to be 88% with a shortfall of £664 million. 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 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. 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 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 in the LUL BCV Section and the LUL SSL Section as at 31 March 2009 was £1,331 million. This total shortfall amount was used as the basis for determining the deficit payments described above.

## TfL Pension Fund

### Thales Transport and Security Limited Section

#### Extract from the 2011 Summary Funding Statement

##### 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	£0.274 million
Amount needed to provide benefits earned to 31 March 2009	£0.310 million
Shortfall	£0.036 million
Funding level	88%

As a result Thales Transport and Security Limited ("Thales") agreed to pay a one-off contribution of £0.035m by 1 April 2010 with the aim of eliminating the ongoing deficit. This amount took account of contributions, benefit accruals, expenses and interest after the valuation date. This deficit payment is 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 the 1 April 2010 are 19.25% of pensionable pay 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 £0.498 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.

##### Next funding valuation

The next formal valuation is as at 31 March 2012.

# TfL Pension Fund

## Tube Lines Limited Section

### Extract from the 2011 Summary Funding Statement

#### 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	£113.5 million
Amount needed to provide benefits earned to 31 March 2009	£189.1 million
Shortfall	£75.6 million
Funding level	60%

As a result Tube Lines Limited ("Tube Lines") agreed to pay £0.34425m in the period 1 April 2010 to 30 June 2010, £0.923m per month in the period 1 July 2010 to 31 December 2017, increased each 1 April from 1 April 2011 by the percentage increase (if any) in the RPI over the year to the previous September with the aim of eliminating the ongoing deficit by 31 December 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 the 1 July 2010 are 20.95% of pensionable pay 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 £313.5 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.

#### Changes in funding position

The ongoing funding position was last assessed as at 31 March 2010, when the Funding level was estimated to be 72% with a shortfall of £64 million. 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 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. 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 next formal valuation is as at 31 March 2012.

## TfL Pension Fund

### UK Power Networks Services Powerlink Limited Section

#### Extract from the 2011 Summary Funding Statement

This section was formerly known as the EDF Energy Powerlink Limited 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	£22.40 million
Amount needed to provide benefits earned to 31 March 2009	£32.57 million
Shortfall	£10.17 million
Funding level	69%

As a result UK Power Networks Services Powerlink Limited (formerly EDF Energy Powerlink Limited) agreed to pay a one-off contribution of £9.74m by 1 April 2010 and 2.55% of pensionable pay for all members from 1 April 2010 to 31 March 2020 with the aim of eliminating the ongoing deficit. These amounts take 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 the 1 April 2010 are 23.45% of pensionable pay 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 £45.99 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 position was last assessed as at 31 March 2010, when the Funding level was estimated to be 82% with a shortfall of £6.6 million. 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 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. The market value of assets taken into account in the 31 March 2010 funding update (£31.1 million) excludes the deficit contribution of £9.74 million payable by 1 April 2010

##### Next funding valuation

The next formal valuation is as at 31 March 2012.



## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Cadbury Limited Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Capgemini UK plc Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Composite Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Cubic Transportation Systems Limited Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – EDF Energy Powerlink Limited Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

This section is now known as the UK Power Networks Services Powerlink Limited Section

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Electronic Data Systems Limited Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

This section is now known as the HP Enterprise Services UK Limited Section

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Public Sector Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 19 May 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 19 May 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Towers Watson Limited**

**Date 25 May 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Thales Transport and Security Limited Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 16 March 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 16 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Watson Wyatt Limited**

**Date 22 March 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**



## **Actuary's certification of schedule of contributions**

Name of section: **TfL Pension Fund – Tube Lines Limited Section**

### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 19 May 2010.

### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 19 May 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the section's liabilities by the purchase of annuities, if the section were to be wound up.

**R V Williams**  
**Fellow of the Institute of Actuaries**  
**Towers Watson Limited**

**Date 25 May 2010**

**Watson House**  
**London Road**  
**Reigate**  
**Surrey**  
**RH2 9PQ**

# Independent Auditor's Statement about Contributions to the Trustee of the TfL Pension Fund

We have examined the summary of contributions payable under the schedules of contributions to the TfL Pension Fund in respect of the Fund year ended 31 March 2011 which is set out on page 29.

This statement is made solely to the Fund's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee, for our work, for this statement, or for the opinions we have formed.

## **Respective responsibilities of the Trustee and Auditor**

As explained more fully in the Statement of Trustee's Responsibilities set out on page 7, the Fund's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund. The trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions to the Fund and to report our opinion to you.

## **Scope of work on statement about contributions**

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the schedule of contributions.

## **Statement about contributions payable under the schedules of contributions**

In our opinion contributions for the Fund year ended 31 March 2011 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedules of contributions certified by the actuary on the 16 March 2010 and 19 May 2010.

Richard Hinton  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
London  
6 July 2011

## TfL Pension Fund

### Participating Employers' Unit Holdings and Asset Values Statement

The Fund is structured into a series of financially segregated sections, comprising a composite section for the ongoing public sector employees (including responsibility for all pensioners and deferred pensioners) and individual sections for each of the private sector employees. The Fund's main investment portfolio is unitised for accounting purposes. The participating employers' unit entitlements and unit values as determined under Rule 2C of the Fund are shown below.

Participating Employer	Equity Fund			
	As at 31 March 2011		As at 31 March 2010	
	Units	£'000s	Units	£'000s
Public Sector Section	2,153,801,002	3,179,733.5	2,105,041,742	2,814,410.1
Tube Lines Limited	73,581,092	108,630.4	83,596,036	111,766.7
Cadbury Limited	111,913	165.2	133,289	178.2
Capgemini UK plc	289,225	427.0	222,496	297.5
Cubic Transportation Systems Ltd	2,800,535	4,134.5	2,176,656	2,910.2
Composite section	343,107	506.6	370,006	494.7
HP Enterprise Services UK Ltd	1,289,641	1,903.9	1,510,439	2,019.4
Thales Transport and Security Ltd	208,630	308.0	200,014	267.4
UK Power Networks Services	18,014,901	26,596.0	19,811,530	26,487.7
Powerlink Ltd				
	<u>2,250,440,046</u>	<u>3,322,405.1</u>	<u>2,213,062,208</u>	<u>2,958,831.9</u>

The Equity Fund unit price at the year-end was £1.476335777 (2010 £1.336985422)

Participating Employer	Bond Fund			
	As at 31 March 2011		As at 31 March 2010	
	Units	£'000s	Units	£'000s
Public Sector Section	459,681,053	824,575.3	534,072,482	902,969.8
Tube Lines Limited	25,953,794	46,555.9	28,331,043	47,900.0
Cadbury Limited	54,095	97.0	35,134	59.4
Capgemini UK plc	139,801	250.8	175,944	297.5
Cubic Transportation Systems Ltd	1,353,673	2,428.2	1,721,248	2,910.2
Composite section	165,845	297.5	157,549	266.4
HP Enterprise Services UK Ltd	623,364	1,118.2	398,140	673.1
Thales Transport and Security Ltd	100,844	180.9	67,786	114.6
UK Power Networks Services	8,707,720	15,619.9	8,435,802	14,262.6
Powerlink Ltd				
	<u>496,780,189</u>	<u>891,123.7</u>	<u>573,395,128</u>	<u>969,453.6</u>

The Bond Fund unit price at the year-end was £1.793798833 (2010 £1.690725160)

	31 March 2011	31 March 2010
	£'000s	£'000s
Equity Fund	3,322,405	2,958,832
Bond Fund	891,124	969,454
Alternative assets (allocated to Public Sector)	1,426,299	1,120,782
Other (non unitised assets allocated to Public Sector)	59,176	48,780
Total Net Assets at 31 March	<u>5,699,004</u>	<u>5,097,848</u>

# TfL Pension Fund Compliance Statement

## 1. Scheme Advisers

There are written agreements in place between the Trustee and each of the Scheme advisers listed on Page 2 of this report and also with the Principal Employer.

## 2. Transfers

All transfer values paid to or received from other pension schemes were calculated using formulae agreed by the Scheme Actuary and in accordance with statutory regulations. No transfers were made at less than their cash equivalent.

## 3. Changes to the Fund's advisers

There were no changes to the Fund's advisers during the year.

## 4. Pension Tracing Service

To help members of pension schemes trace past pension rights, the Department for Work and Pensions (DWP) has set up the Pension Tracing Service. The Fund is registered with the Pension Tracing Service and the registration number is 101653517.

The Pension Tracing Service can be contacted at:

The Pension Service  
Tyneview Park  
Whitely Road  
Newcastle upon Tyne  
NE98 1BA  
Telephone 0845 6002 537

## 5. Complaints Procedure

In the event of a complaint from a member or beneficiary of the Scheme, every effort will be made to fully investigate and resolve it on an informal basis. In the event that a complaint cannot be satisfactorily resolved, the Fund has an Internal Disputes Resolution Procedure, a copy of which is available from the Secretary to the Trustee.

Should any complaint still remain unresolved after using this procedure, it may be referred to the Pensions Advisory Service and the Pensions Ombudsman as follows:

The Pensions Advisory Service (TPAS)

The Service was established to assist members of schemes in clarifying their expectations and rights with present or past Schemes. TPAS can be contacted at:

The Pensions Advisory Service  
11 Belgrave Road  
London SW1V 1RB  
Telephone 0845 6012 923 (Calls charged at local rate)

Pensions Ombudsman

The Pensions Ombudsman was appointed to resolve issues and disputes that may arise between schemes and their members. The Ombudsman has powers similar to those of a County Court. The Ombudsman can be contacted at the same address as TPAS and has a separate telephone number:

Telephone 020 7630 2200

Scheme members should initially seek assistance through TPAS who, if unable to satisfactorily clarify matters, will refer appropriate cases to the Ombudsman.

## For further help or information

Please contact the Fund Office if you have any questions about this report.  
Contact details are shown below.

TfL Pension Fund  
4th floor  
Wing over Station  
55 Broadway  
London SW1H 0BD

**Telephone: 020 7918 3733**  
**Email: [helpdesk@tflpensionfund.co.uk](mailto:helpdesk@tflpensionfund.co.uk)**  
**Website: [www.tflpensionfund.co.uk](http://www.tflpensionfund.co.uk)**