

# TfL Pension Fund

## Report and Accounts

for the year to 31 March 2013



### 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 2013

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#### **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:** 10165351

# TfL Pension Fund

## Organisation and Advisers as at 31 March 2013

### 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	Senior Principal, Commercial Finance, Transport for London (TfL)
Mr LP Brown	IM Problem Manager, Transport for London (Unite the Union (T&GWU))
Mr HP Collins	Chief Operating Officer, London Underground Limited (TfL)
Mr G Dean	Train Operator, London Underground Limited (ASLEF)
Mr GF Duffy	Director of Employee Relations, London Underground Limited (TfL)
Mr SW Ellaby	HSE Manager, Specialist Services, Transport for London (PCC)
Ms JV Hart	Principal Lawyer, Health, Safety and Environment, Transport for London (TfL)
Mr S Hedley	Assistant General Secretary, RMT (RMT)
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	Finance and Commercial Director, Tube Lines (TfL)
Mr PJ Murphy	Train Instructor, Acton Town, London Underground Limited (PCC)
Mr DJ O'Brien	Head of Risk Management and Audit, Tube Lines (TfL)
Mr AM Pollins	Director of Finance, Rail & Underground, London Underground Limited (TfL)
Mr JB Timbrell	Project Engineer, London Underground Limited (Unite the Union (Amicus))

# TfL Pension Fund

## Organisation and Advisers as at 31 March 2013 (continued)

### Principal Employer

Transport for London

### 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  
Capgemini UK plc  
Cubic Transportation Systems Limited  
HP Enterprise Services UK Limited  
Thales Transport and Security Limited  
Tribal Technology Limited  
UK Power Networks Services Powerlink Limited

### Secretary to the Trustee

Mr S Field

### Auditor

KPMG LLP

### Scheme Actuary

Mr RV Williams, Towers Watson Limited

### Investment Managers

Arrowgrass Capital Partners, LLP  
BlueCrest Capital Management (UK), LLP  
Brevan Howard Asset Management, LLP  
Bridgewater Associates, Inc.  
Brigade Capital Management, LLC  
Burgundy Asset Management  
Colonial First State Global Asset Management  
Davidson Kempner Capital Management, LLC  
Goldman Sachs Asset Management  
Gresham Investment Management, LLC  
IFC Global Infrastructure Fund, LP  
IronBridge Capital Management, LP  
JO Hambro Capital Management Limited  
Legal & General Investment Management  
Nephila Capital Limited  
Nomura Asset Management UK Limited  
Oak Hill Advisors, LP  
OZ Management LP  
Partners Group (UK) Limited  
Rogge Global Partners Plc  
Russell Implementation Services Limited  
Semperian PPP Investment Partners Holdings Limited  
Siguler Guff & Company, LP  
Taube Hodson Stonex Partners, LLP  
Wellington Management Company, LLP

### Legal Advisers

Sacker & Partners LLP

### Communications Advisers

Hughes Communications

### Independent Medical Adviser

Dr S Sheard

### Scheme Employer Covenant Reviewer

Penfida Partners LLP

### Bankers

The Royal Bank of Scotland plc

### Investment Adviser

Towers Watson Limited

### Custodian

JP Morgan Investor Services

### Investment Performance Monitoring

BNY Mellon Asset Servicing – to 31 December 2012

JP Morgan Investor Services – from 1 January 2013

### AVC Providers

Clerical Medical

Equitable Life

Standard Life

### Date of Appointment

13 December 2012

30 July 2010

18 February 2013

2 November 2005

1 August 2012

14 October 2010

15 December 2009

17 November 2009

15 June 2005

20 September 2012

15 March 2013

24 December 2009

5 January 2010

14 June 2006

23 March 2012

1 September 2004

1 August 2012

13 December 2012

4 June 2010

22 March 2012

8 December 2011

18 February 2008

10 December 2009

11 January 2010

5 November 2012

# TfL Pension Fund

## Chairman's Introduction

I am pleased to present my review as Chairman for the year ended 31 March 2013. As in previous years, the subject of pensions has maintained a strong presence in the news media. Pensions have also been one of the key areas for government activity and the Fund has continued to respond to any legislative changes that have arisen or are proposed. Global financial and economic events have also continued to affect pensions. While there has been no single standout event or theme during the year, it is unlikely that we will enter a period of more settled activity or returns in financial markets in the near future.

The Fund's assets have continued the steady progress in increasing their value as during the previous year. Net assets exceeded £6.8 billion at 31 March 2013. While the value of the Fund's liabilities has also seen a near corresponding increase, overall there has been a modest improvement in the overall funding and thus underlining the importance of employer support. The Trustees have had to remain focused on both the Fund's asset and liability components in seeking to ensure the security of member benefits.

The Alternatives and Liability Hedging Committee and the Investment Committee have been continuing their work of reviewing the Fund's investment strategy, as well as ensuring good governance across the Fund's diverse investment holdings and expanded investment manager base. A number of investment proposals have been considered, and those which met the Fund's reward and risk criteria have been pursued further. As a result of these activities, eight new investment manager appointments were made during the year as well as a re-organisation of parts of the existing portfolio. Through the greater diversity of investment holdings and exposure to new investment opportunities, the Fund is seeking to maximise the probability of achieving its return objectives, while managing the overall risk in the portfolio. No investment manager mandates were terminated during the year.

The focus on the Fund assets and liabilities is also evidenced by the Fund's successful completion in May 2013 of the triennial valuation as at 31 March 2012, ahead of the statutory deadline of 30 June. As part of this, the Trustees have secured the participating employers' agreement to funding the combined deficit of £736 million across the eight sections of the Fund. The Actuarial Valuation Committee has led the review of the valuations and carried out the negotiations on the technical provisions and in respect of the recovery plans with the Principal Employer, acting on behalf of all the participating employers. The results can be seen in the extracts from the Summary Funding Statements which form part of this report.

During the year BNY Mellon were replaced by JP Morgan as managers of the Fund's independent investment performance monitoring programme.

On investment performance, the market recovery during the year, primarily in equities, has seen the overall assets of the Fund increase over the past 12 months from £6.027 billion to £6.870 billion. This year's investment performance was ahead of the benchmark by 0.2%, while over three years it was ahead by 0.6% and over five years it was ahead by 0.2%. More information is contained in the Investment Report starting on page 14.

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

With a membership of over 82,000, the day to day administration of the Fund is a significant undertaking. Just under 40,000 tasks were completed by the Fund Office during the year. All the service level agreement targets were met in all four quarters of the year.

During the year we welcomed Graham Dean, Andrew Pollins and Steve Hedley to the Trustee Board and at year-end the Trustee Board was at full strength. The fresh insight offered by these new trustees has been 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 all trustees comply with the requirements regarding trust knowledge and understanding.

Finally, on your behalf, I would like to record my thanks to all involved with the continued operations and development of the Fund: the Trustee Directors, Scheme Actuary, Investment and Legal Advisers, Investment Managers, Custodian, Auditors, Independent Medical Adviser and not least the Fund Office and Fund Secretary for their support.

Chairman  
9 July 2013

# 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 2013.

### 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 8.

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 2013:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Mr S Grant	12 June 2012	Mr G Dean	12 June 2012	ASLEF
Mr S R Critchley	31 July 2012	Mr A M Pollins	25 September 2012	TfL
Mr P W Sikorski	3 September 2012	Mr S Hedley	25 September 2012	RMT

The table below shows the number of scheduled Trustee Board and Committee meetings attended by each Director listed below, in the year to 31 March 2013, 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	14	14	Ms LJ Arwood	13	12
Mr ME Binnington	22	21	Mr LP Brown	17	14
Mr HP Collins	15	10	Mr G Dean	11	8
Mr GF Duffy	12	9	Mr SW Ellaby	11	11
Ms JV Hart	13	9	Mr S Hedley	6	3
Ms C Kavanagh	10	9	Mr JH Knowles	8	5
Mr SI Munro	19	16	Mr CA Miller	28	21
Mr DJ O'Brien	13	12	Mr PJ Murphy	20	14
Mr AM Pollins	14	10	Mr JB Timbrell	22	18

The average attendance for the Directors listed above at scheduled Trustee Board and Committee meetings was 77% and 84% 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 GF Duffy Mr AM Pollins	Mr LP Brown Mr CA Miller Mr PJ Murphy Mr JB Timbrell
Alternatives and Liability Hedging	Mr ME Binnington Mr AM Pollins	Mr CA Miller Mr JB Timbrell
Operations	Ms JV Hart Ms C Kavanagh Mr SI Munro Mr DJ O'Brien	Ms LJ Arwood Mr LP Brown Mr PJ Murphy Mr S Hedley
Audit	Ms JV Hart Mr SI Munro Mr DJ O'Brien	Mr LP Brown Mr G Dean Mr JH Knowles
Appeals	Ms M Antoniou Mr HP Collins Mr AM Pollins	Ms LJ Arwood Mr G Dean Mr PJ Murphy
Actuarial Valuation	Ms M Antoniou Mr SI Munro	Mr SW Ellaby Mr CA Miller

### 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 Committee

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 and 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; 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.

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 the Trustees and TfL agreed to changes to the Trust Deed and Rules of the Fund to ensure the Fund was compliant under the new legal obligations covering automatic enrolment of employees into a "qualifying" pension scheme. The principal change has been to extend the age eligibility for new members which is now from age 16 to age 75. The position of employees who have opted for fixed protection or enhanced protection has also been safeguarded so that they do not inadvertently lose this protection if statutorily enrolled.

Also provision has been made for additional paternity leave and for when the scheme must pay a member's annual allowance charge in certain circumstances and deduct this amount from the member's benefits. Both these amendments are in response to legislative change.

### **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. 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 rolling 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, the taking of advice from its professional advisers and by having good communication and exchange of information. As part of the 2012 actuarial valuation, the Trustee commissioned an independent review of the employer covenant of Transport for London and of the private sector section Participating Employers by Penfida.

#### **Quarterly Investment Updates**

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

The Trustee monitors the performance of the investment managers each quarter.

# TfL Pension Fund

## Trustee's Report (continued)

### 5. Financial review

The Accounts of the Fund for the year to 31 March 2013 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 £6,870m at 31 March 2013. The increase of £842.6m, compared with the value at 31 March 2012 of £6,027m, was made up as follows:

	2013 £m	2012 £m
Net returns on investments	816.8	294.2
Net additions from dealings with members	25.8	33.8
	<u>842.6</u>	<u>328.0</u>

Net returns on investments comprised of changes in the market value of investments of £751.8m (2012: £218.5m) and investment income of £76.8m (2012: £85.2m) which were partly offset by investment management expenses of £11.8m (2012: £9.5m). The increase in market value of investments was made up of realised investment gains of £251.4m (2012: £105.9m) and unrealised investment gains of £500.4m (2012: £112.6m).

The increase in the value of investments together with the net additions from dealings with members, as contributions receivable plus transfers in from other schemes exceeded benefits payable, payments to and on account of leavers, administrative expenses and pension levies.

The decrease in the amount of net additions of £8.0m was mainly due to an increase in benefits payable of £10.8m, a fall in transfers in from other schemes of £1.8m offset by a increase of contributions receivable of £3.8 million and lower pension levies of £1.3m. Under the Rules of the Fund the administrative costs of the Fund are borne by the Fund itself. Payments to and on account of leavers, administrative expenses and other payments increased by £0.5m.

Further details of the financial movements of the Fund may be found in the audited Accounts on pages 21 to 30.

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 2012 of each of the eight sections that were still in existence on 31 March 2012. 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 will therefore be provided in due course for the three largest sections as at 31 March 2013.

Following completion of the formal valuation, a Summary Funding Statement will be sent to each member of the Fund which summarise the valuation results for their section. Further Summary Funding Statements will be sent annually including, where applicable, information from the actuarial reports. Extracts from the 2013 Summary Funding Statements for each section are shown on pages 33 to 40.

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. The April 2013 pension increase is based on the increase in the Retail Price Index over the 12 months to September 2012. Members of the Fund fall into one of two categories; *Existing Members* are those who joined the Fund when it was formed in April 1989 and *New Members* are those who joined on or after 2 April 1989 whose increase is capped at 5%. The full year's increase is 2.6% for both Existing Members and New Members.

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

	Existing Members	New Members
April 2009	5.0%	5.0%
April 2010	0.0%	0.0%
April 2011	4.6%	4.6%
April 2012	5.6%	5.0%
April 2013	2.6%	2.6%

#### 8. Fund's advisers

A competitive tender was carried out for the provision of custodian and investment performance monitoring services which resulted in the appointment of JP Morgan Investor Services. JP Morgan Investor Services have replaced BNY Mellon Asset Servicing for investment performance monitoring with effect from 1 January 2013.

The Trustee commissioned Penfida Partners LLP to undertake an independent review of the employer covenant of Transport for London and of the private sector section Participating Employers.

# TfL Pension Fund

## Trustee's Report (continued)

### 9. Changes in membership during the year

The table below summarises the movement in membership during the year to 31 March 2013. In addition, the Fund has 130 (2012: 117) pension credit members comprising 85 deferred pensioners (2012: 81) and 45 pensioners (2012: 36).

	<u>2012/ 2013</u>	<u>2012/ 2013</u>	<u>2011/ 2012</u>	<u>2011/ 2012</u>	<u>Change</u>
<b>Contributing members as at 1 April 2012</b>	22,680		23,606		
Joiners	1,267		611		
	<u>23,947</u>		<u>24,217</u>		
Contributing members retiring	(353)		(556)		
Leavers taking a refund of contributions	(100)		(133)		
Leavers becoming deferred pensioners	(453)		(823)		
Leavers with less than two years service – member option decision pending	4		-		
Leavers taking a trivial commutation lump sum	(2)		-		
Deaths in service	(31)		(25)		
<b>Contributing members as at 31 March 2013</b>		23,012		22,680	+332
<b>Deferred pensioners as at 1 April 2012</b>	18,292		18,244		
Leavers becoming deferred pensioners	453		823		
	<u>18,745</u>		<u>19,067</u>		
Deferred pensions coming into payment	(817)		(668)		
Deferred pensioners transferring to other schemes	(60)		(59)		
Deferred pensioner deaths	(56)		(48)		
<b>Deferred pensioners as at 31 March 2013</b>		17,812		18,292	-480
<b>Pensioners as at 1 April 2012</b>	31,111		30,997		
Contributing members retiring	353		556		
Deferred pensions coming into payment	817		668		
	<u>32,281</u>		<u>32,221</u>		
Pensioner deaths	(1,047)		(1,103)		
Pensioners taking a trivial commutation lump sum	(5)		(3)		
Pensioners ceasing to be eligible for a pension	(1)		(4)		
<b>Pensioners as at 31 March 2013</b>		31,228		31,111	+117
<b>Dependants as at 1 April 2012</b>	10,156		10,184		
Dependants becoming entitled to pensions	546		565		
	<u>10,702</u>		<u>10,749</u>		
Dependant deaths	(599)		(591)		
Dependants taking a trivial commutation lump sum	-		(2)		
<b>Dependants as at 31 March 2013</b>		10,103		10,156	-53
<b>Eligible children as at 1 April 2012</b>	631		641		
Children becoming entitled to pensions	47		67		
	<u>678</u>		<u>708</u>		
Children ceasing to be eligible	(60)		(76)		
Child deaths	(1)		(1)		
<b>Eligible children as at 31 March 2013</b>		617		631	-14
<b>Total membership as at 31 March 2013</b>		<u>82,772</u>		<u>82,870</u>	<u>-98</u>

## TfL Pension Fund

### Trustee's Report (continued)

Details of contributing members by section as at 31 March 2013 were as follows:

	<u>2012/ 2013</u>	<u>2012/ 2013</u>	<u>2011/ 2012</u>	<u>2011/ 2012</u>	<u>Change</u>
	%		%		
Transport for London	21,883	95.09	21,519	94.88	+364
Tube Lines Limited	980	4.26	1,005	4.43	-25
UK Power Networks Services Powerlink Limited	103	0.45	108	0.47	-5
Cubic Transportation Systems Limited	24	0.10	24	0.11	-
HP Enterprise Services UK Limited	16	0.07	17	0.07	-1
Composite Section	3	0.01	4	0.02	-1
Thales Transport and Security Limited	2	0.01	2	0.01	-
Capgemini UK plc	1	0.01	1	0.01	-
	<u>23,012</u>	<u>100.00</u>	<u>22,680</u>	<u>100.00</u>	<u>+332</u>

#### 10 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 3. The investment managers employed during the financial year ended 31 March 2013 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 some 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 2013

Sector	Weight (%)	Comparison Basis
Overseas developed equities	16.0	FTSE Developed World ex UK (unhedged)
Overseas developed equities	16.0	FTSE Developed World ex UK (GBP hedged)
UK equities	14.5	FTSE All Share
Index-linked gilts	14.5	FTSE ILG Over 5 Year
Liquid alternatives	8.5	GBP 3 Month LIBOR +3% pa
Emerging market equities	8.0	FTSE Emerging
Global corporate credit	4.8	BarCap Global Agg Corporate 1% Constrained
Global sovereign credit	4.3	BarCap 60/40 Sovereign Credit
Infrastructure	4.0	Absolute return of 9% pa
Private equity	1.8	MSCI World +3% pa
Economically weighted equities	1.5	FTSE RAFI All World 3000
Alternative credit	1.4	BofAML US High Yield Master II Constrained
Alternative credit	1.4	Credit Suisse Leveraged Loan Index
Alternative credit	1.1	BofAML US T-Bills +3% pa
Commodities	1.0	DJ UBS Commodity 3 Month Forward
Real estate	0.7	FTSE EPRA/NAREIT Developed
Fixed interest gilts	0.5	FTSE Over 15 Year Gilts
	<u>100.00</u>	

Each of the active managers is financially incentivised to out-perform a relevant index 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.

#### Actual Asset Allocation Summary as at 31 March 2013

Portfolio	% of Manager Fund
<b>Core</b>	
Index tracking (all asset classes) and liability matching assets	50.4 Legal & General Investment Management <sup>1</sup>
<b>Active Specialist</b>	
Global bonds	8.7 Goldman Sachs Asset Management
Global equities 1	6.1 IronBridge Capital Management LP
Global equities 2	5.5 Taube Hodson Stonex Partners LLP
Global equities 3	4.4 JO Hambro Capital Management Limited
Pacific Basin equities	3.9 Nomura Asset Management UK Limited
North American equities	2.5 Burgundy Asset Management
Alternative credit	1.2 Brigade Capital Management, LLC
Alternative credit	1.2 Oak Hill Advisors, LP <sup>2</sup>
Alternative credit	1.1 Wellington Management Company, LLP
Currency overlay	(0.4) Russell Implementation Services Limited

# TfL Pension Fund

## Investment Report (continued)

### Alternative Assets

Global Macro Systematic Hedge Fund	3.2	Bridgewater Associates, Inc
Infrastructure assets	2.7	Semperian PPP Investment Partners Holdings Limited <sup>3</sup>
Reinsurance Hedge Fund	1.5	Nephila Capital Limited
Infrastructure assets	1.4	Colonial First State Global Asset Mgt
Private equity Fund of Funds	1.4	Partners Group (UK) Limited
Managed Futures/Global Macro	1.0	BlueCrest Capital Management (UK) LLP
Commodities	0.8	Gresham Investment Management, LLC
Distressed Debt Private Equity	0.8	Siguler Guff & Company, LLC
Distressed Debt Hedge Fund	0.6	Davidson Kempner Capital Management, LLC
Global Macro Discretionary Hedge Fund	0.6	Brevan Howard Asset Management, LLP
Multi-Strategy Hedge Fund	0.5	Arrowgrass Capital Partners, LLP
Multi-Strategy Hedge Fund	0.5	OZ Management, LP
Emerging Market Currencies	0.4	Rogge Global Partners Plc
	<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 96% economic interest in Oak Hill Diversified Credit Strategies Fund (Offshore) Ltd.

<sup>3</sup> The Fund has a 25.8828% economic interest in Semperian PPP Investment Partners Holdings Limited.

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. Investment overview

The investment assets of the Fund as at 31 March 2013, including AVC investments, had a value of £6,857.6m an increase of £854.1m compared with their value, including AVC investments, of £6,003.5m as at 31 March 2012. Investment income (i.e. dividends and interest) amounted to £76.8m for the year to 31 March 2013 compared with £85.2m for the year to 31 March 2012.

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 highly marketable. A small 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.

## 3. Analysis of investments

A detailed analysis of the investment assets of the Fund at 31 March 2013 is shown below.

	2013		2012	
	£m	%	£m	%
Fixed interest securities	572.6	8.3	643.8	10.7
Equities - UK	107.6	1.6	119.0	2.0
- Overseas	1,313.1	19.1	1,084.1	18.1
Index-linked securities	2.0	-	119.6	2.0
Pooled investment vehicles				
Fixed interest securities	1,192.4	17.4	903.6	15.0
Index-linked securities	240.2	3.5	222.4	3.7
Equities	2,228.7	32.6	2,094.6	34.9
Other	1,056.9	15.4	680.2	11.3
Derivatives	(25.2)	(0.4)	28.8	0.5
Cash deposits	107.9	1.6	69.8	1.2
Other investment balances	16.0	0.2	(3.3)	(0.1)
AVC scheme investments	45.4	0.7	40.9	0.7
	<u>6,857.6</u>	<u>100.0</u>	<u>6,003.5</u>	<u>100.0</u>



# TfL Pension Fund

## Investment Report (continued)

The 10 largest direct quoted equity holdings of the Fund as at 31 March 2013 are shown below.

	Value	% of Fund's quoted equity holdings	Country
	£m	%	
Nestle	24.8	1.7	Switzerland
HSBC Holdings	17.1	1.2	United Kingdom
Sumitomo Mitsui Financial Group	16.3	1.1	Japan
Google	15.4	1.1	USA
Svenska Handelsbanken	15.1	1.1	Sweden
Exxon Mobil	14.5	1.0	USA
Occidental Petrol	13.6	1.0	USA
Adidas	13.0	0.9	Germany
Walt Disney	12.7	0.9	USA
Roche Holdings	12.5	0.9	Switzerland
	<u>155.0</u>	<u>10.9</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	Value of units £m
Midlands Growth Fund	14,055	25.4	0.052
Abbotstone Property Unit Trust	2,575	56.3	1.622

### 4. Investment performance

The Fund participates in an independent investment performance measurement scheme organised by JP Morgan Investor Services (who replaced BNY Mellon Asset Servicing from January 2013) which provides comparative information for assessing investment performance. JP Morgan Investor Services 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 2013 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.

	One Year		Three Year Average		Five Year Average	
	Total Fund	Benchmark	Total Fund	Benchmark	Total Fund	Benchmark
Annual Return %	13.2	13.0	9.7	9.1	7.9	7.7

The Fund assets returned 13.2% for the year ending 31 March 2013, 0.2% above its benchmark return of 13.0%.

# TfL Pension Fund

## Investment Report (continued)

Details of the performance of the individual portfolios in the year to 31 March 2013 gross of fees, unless shown otherwise, compared with the previous year are shown below:

	Year to 31 March 2013		Year to 31 March 2012	
	Fund %	Benchmark %	Fund %	Benchmark %
Index-Tracking – Legal & General	16.2	N/A	0.7	N/A
UK equities	16.9	16.8	1.5	1.4
North American equities	19.3	19.2	6.9	6.8
European equities (ex. UK)	17.6	17.4	(11.3)	(11.5)
Japan equities	14.4	14.3	1.0	0.9
Pacific Basin (ex. Japan) equities	20.1	19.9	(5.1)	(5.1)
Middle/Africa equities	5.3	5.1	(20.0)	(20.2)
Emerging Market equities	7.3	7.1	(8.7)	(8.8)
UK Fixed interest	8.1	8.1	22.6	22.6
FTSE RAFI All World 3000	5.5 <sup>5</sup>	5.4 <sup>5</sup>	-	-
LDI – Legal & General	12.8	N/A	15.1	N/A
Equities				
Ironbridge - Global equities	15.2	17.8	1.5	0.9
J O Hambro - Global equities	20.3	16.5	(2.4)	(0.4)
Taube Hodson Stonex - Global equities	17.8	17.8	(7.4)	0.9
Burgundy - North American equities	30.5	22.4	10.8	0.1
Nomura - Far East equities	15.6	15.8	(5.1)	(5.2)
Bonds				
Brigade <sup>4</sup>	15.4 <sup>2</sup>	11.7 <sup>2</sup>	-	-
Goldman Sachs	2.8 <sup>6</sup>	2.7 <sup>6</sup>	13.3	12.4
Goldman Sachs - Sovereign Credit	9.4 <sup>3</sup>	8.6 <sup>3</sup>	-	-
Goldman Sachs - Corporate Credit	7.2 <sup>3</sup>	5.9 <sup>3</sup>	-	-
Goldman Sachs - Asset Backed	28.9 <sup>3</sup>	0.5 <sup>3</sup>	-	-
Legal & General - Network Rail bonds	8.7	11.7	22.5	21.1
Oak Hill <sup>4</sup>	11.9 <sup>2</sup>	11.7 <sup>2</sup>	-	-
Wellington	(0.6) <sup>1</sup>	0.8 <sup>1</sup>	-	-
Other assets				
Arrowgrass <sup>4</sup>	3.5 <sup>1</sup>	0.9 <sup>1</sup>	-	-
BlueCrest Capital Management <sup>4</sup>	-	-	1.6	3.9
BlueCrest: Blue Trend <sup>4</sup>	4.4	0.9	-	-
BlueCrest: Capital <sup>4</sup>	0.2	0.9	-	-
Bridgewater Pure Alpha Sterling <sup>4</sup>	2.1	5.8	18.5	6.0
Bridgewater Pure Alpha Major Markets <sup>4</sup>	4.6	5.8	14.4	6.0
Colonial First State Global Asset Mgt <sup>4</sup>	11.7	12.5	12.0	12.5
Davidson Kempner <sup>4</sup>	20.0	6.5	(1.9)	0.6
Gresham <sup>4</sup>	(9.3) <sup>2</sup>	(0.5) <sup>7</sup>	-	-
Legal & General : REITS	27.6 <sup>3</sup>	26.7 <sup>3</sup>	-	-
Nephila <sup>4</sup>	12.3	5.6	-	-
Partners Group <sup>4</sup>	5.4	21.4	9.1	3.9
Och-Ziff <sup>4</sup>	10.0 <sup>1</sup>	0.9 <sup>1</sup>	-	-
Rogge <sup>4</sup>	31.7	0.5	-	-
Semperian <sup>4</sup>	1.9	8.4	1.9	9.2
Siguler Guff <sup>4</sup>	19.2	21.4	(7.2)	3.9

<sup>1</sup> One quarter's results (not annualised)

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

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

<sup>4</sup> Performance shown net of fees

<sup>5</sup> Two months's results (not annualised)

<sup>6</sup> One quarter's results to 30 June 2012 (not annualised)

<sup>7</sup> Benchmark returns to be confirmed

## TfL Pension Fund

### Investment Report (continued)

The active managers (all the managers shown above with the exception of 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.

#### 5. 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 2013	% of total	Reported returns (where declared) Year to 31 March 2013
	£m		
<b>Equitable Life</b>			
With Profits	3.5	7.7	N/A
Unit-linked funds			
Managed	3.9	8.6	13.0%
UK FTSE Tracking	1.6	3.5	13.7%
UK FTSE Tracking Lifestyle	0.5	1.1	13.7%
Deposit Account Fund	0.7	1.5	N/A
	<u>10.2</u>	<u>22.4</u>	
<b>Clerical Medical</b>			
With Profits	6.9	15.2	0.4%
Unit-linked funds	0.7	1.5	N/A
	<u>7.6</u>	<u>16.7</u>	
<b>Standard Life</b>			
Managed Pension Fund	12.4	27.3	13.0%
International Equity Pension Fund	2.3	5.1	16.1%
Annuity Purchase Fund	5.4	11.9	5.1%
Money Market Pension Fund	0.9	2.0	0.1%
FTSE Tracker Pension Fund	2.3	5.0	14.7%
Ethical Pension Fund	1.0	2.2	17.9%
Deposit and Treasury Pension Fund	1.3	2.9	(0.5)%
Blackrock Aquila HP Over 15 year Gilts Fund	0.2	0.5	7.4%
Blackrock Aquila HP Over 5 year Index-linked	0.7	1.5	10.0%
Blackrock Aquila HP World (ex UK) Equity Fund	0.5	1.1	17.4%
Amanah Pension Fund	0.1	0.3	5.9%
Pension With Profits One Fund	0.5	1.1	1.0%
	<u>27.6</u>	<u>60.9</u>	
	<u>45.4</u>	<u>100.0</u>	

#### 6. 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 forward foreign exchange contracts, futures and interest rate swaps. The rest of the Fund's investments, comprising those assets managed by the Fund's investment managers, were held by JP Morgan Investor Services as nominee. 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 other custodians'.

## TfL Pension Fund

### 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 9 July 2013 and was signed on their behalf by:

M Antoniou

JH Knowles

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 2013 set out on pages 21 to 30. 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 7 and 8, 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/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

## 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 2013 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.

Gareth Horner  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

15 Canada Square  
Canada Wharf  
London E14 5GL

9 July 2013

# TfL Pension Fund

## Fund Account

For the year ended 31 March 2013

	Note	2013 £'000	2013 £'000	2012 £'000	2012 £'000
<b>Dealings with members</b>					
Contributions receivable	3	313,066		309,228	
Individual transfers in from other schemes		385		2,232	
		<u>313,451</u>		<u>311,460</u>	
Benefits payable	4	(274,699)		(263,944)	
Payments to and on account of leavers	5	(2,827)		(2,712)	
Other payments	6	(4,558)		(4,491)	
Administrative expenses	7	(3,936)		(3,577)	
Pension levies	8	(1,639)		(2,943)	
		<u>(287,659)</u>		<u>(277,667)</u>	
<b>Net additions from dealings with members</b>			25,792		33,793
<b>Returns on investments</b>					
Investment income	9	76,812		85,227	
Change in market value of investments	10	751,826		218,556	
Investment management expenses	11	(11,808)		(9,539)	
<b>Net returns on investments</b>			816,830		294,244
<b>Net increase in the fund during year</b>			842,622		328,037
<b>Net assets at beginning of year</b>			6,027,041		5,699,004
<b>Net assets at end of year</b>			<u>6,869,663</u>		<u>6,027,041</u>

## Net Assets Statement

As at 31 March 2013

	Note	2013 £'000	2012 £'000
<b>Investment assets</b>	10b	6,913,405	6,045,445
<b>Investment liabilities</b>	10b	(55,778)	(41,935)
<b>Total net investments</b>		<u>6,857,627</u>	<u>6,003,510</u>
<b>Fixed assets held for own use</b>	12	184	306
<b>Current assets</b>	13	19,879	40,208
<b>Current liabilities</b>	14	(8,027)	(16,983)
<b>Net assets at end of year</b>		<u>6,869,663</u>	<u>6,027,041</u>

The Notes on Pages 22 to 30 form part of these Accounts.

These Accounts were approved by the Board of Directors of the TfL Trustee Company Limited on 9 July 2013 and were signed on their behalf by:

M Antoniou  
Directors  
TfL Trustee Company Limited

JH Knowles

# 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 32 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 then 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 2013 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

	2013 £'000	2012 £'000
<b>Employers</b>		
Normal	150,565	152,057
Deficit funding	115,507	111,973
	<u>266,072</u>	<u>264,030</u>
<b>Members</b>		
Normal	42,276	41,123
Additional voluntary contributions	4,718	4,075
	<u>46,994</u>	<u>45,198</u>
	<u>313,066</u>	<u>309,228</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 2010.

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



# TfL Pension Fund

## Notes to the Accounts (continued)

### 4. Benefits payable

	2013 £'000	2012 £'000
Pensions	229,681	217,556
Commutations and lump sum retirement benefits	43,866	44,659
Lump sum death benefits (net of those insured)	1,152	1,729
	<u>274,699</u>	<u>263,944</u>

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

	2013 £'000	2012 £'000
Individual transfers to other schemes	2,688	2,396
Refunds to members leaving service	80	176
Payments for members joining state scheme	59	140
	<u>2,827</u>	<u>2,712</u>

### 6. Other payments

	2013 £'000	2012 £'000
Premiums on term insurance policies	4,558	4,491

### 7. Administrative expenses

	2013 £'000	2013 £'000	2012 £'000	2012 £'000
<b>Staff costs</b>				
Payroll	1,951		1,924	
Recruitment and training (incl. trustee)	17		14	
		1,968		1,938
<b>Establishment costs</b>				
Accommodation	167		186	
Computer costs	450		394	
Telecommunications	17		19	
Depreciation	125		155	
		759		754
<b>Professional fees</b>				
Legal fees	190		223	
Audit fees	92		93	
KPMG non-audit fees	-		90	
Actuarial fees	557		209	
Medical fees	44		39	
Other professional fees	86		44	
		969		698
<b>Communication</b>				
Distribution	92		71	
Printing	104		91	
		196		162
<b>Consumables</b>				
Stationery	9		7	
General	35		18	
		44		25
		<u>3,936</u>		<u>3,577</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### 8. Pension levies

	2013 £'000	2012 £'000
Pension Protection Fund	1,460	2,722
Pension Regulator levies	179	221
	<u>1,639</u>	<u>2,943</u>

#### 9. Investment income

	2013 £'000	2012 £'000
Income from fixed interest securities	23,789	28,910
Dividends from equities	31,303	28,894
Income from index-linked securities	2,718	3,718
Income from pooled investment vehicles	15,646	12,737
Income from derivatives	1,707	9,736
Interest on cash deposits	328	419
Income from securities lending	1,309	798
Other investment income	12	15
	<u>76,812</u>	<u>85,227</u>

#### 10. Investments

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

	Value at 1 April 2012 £'000	Purchases at cost & derivative payments £'000	Sale proceeds & derivative receipts £'000	Change in Market Value £'000	Value at 31 March 2013 £'000
Fixed interest securities	643,821	1,174,950	1,291,028	44,824	572,567
Equities	1,203,085	626,068	611,589	203,207	1,420,771
Index-linked securities	119,619	10,790	128,699	260	1,970
Pooled investment vehicles	3,900,734	1,299,555	1,019,936	537,891	4,718,244
Derivative contracts	28,819	-	15,919	(38,110)	(25,210)
AVC investments	40,932	4,777	4,079	3,754	45,384
	<u>5,937,010</u>	<u>3,116,140</u>	<u>3,071,250</u>	<u>751,826</u>	<u>6,733,726</u>
Cash deposits	69,848				107,861
Other investment assets	29,980				26,110
Other investment liabilities	(33,328)				(10,070)
<b>Total net investments</b>	<u>6,003,510</u>				<u>6,857,627</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 £1,715,000 (2012: £1,939,000). 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 identified.

# TfL Pension Fund

## Notes to the Accounts (continued)

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

	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Fixed interest securities				
UK public sector quoted	29,214		82,068	
UK corporate quoted	73,358		386,499	
Overseas public sector quoted	233,648		70,775	
Overseas corporate quoted	<u>236,347</u>		<u>104,479</u>	
		572,567		643,821
Equities				
UK quoted	107,628		118,994	
Overseas quoted	<u>1,313,143</u>		<u>1,084,091</u>	
		1,420,771		1,203,085
Index-linked securities				
UK public sector quoted	-		119,619	
Overseas public sector quoted	<u>1,970</u>		<u>-</u>	
		1,970		119,619
Pooled investment vehicles				
Managed funds				
Fixed interest - UK	950,178		903,552	
Fixed interest - Overseas	242,239		10	
Index-linked - UK	240,253		222,378	
Equities - UK	2,228,672		2,094,648	
Other - UK	181,180		178,591	
Other - Overseas	874,048		499,884	
Unit trusts				
Other - UK	52		49	
Property - UK	<u>1,622</u>		<u>1,622</u>	
		4,718,244		3,900,734
Derivative assets				
Futures - exchange traded	520		426	
Swaps - OTC	2,277		2,190	
Forward FX - OTC	17,701		34,252	
Options - exchange traded	<u>-</u>		<u>558</u>	
		20,498		37,426
Cash deposits				
Sterling deposits	30,866		46,503	
Foreign currency deposits	<u>76,995</u>		<u>23,345</u>	
		107,861		69,848
Other investment asset balances				
Amounts due from broker	2,561		3,469	
Outstanding trades	9,125		7,786	
Outstanding dividend entitlements and recoverable withholding tax	<u>14,424</u>		<u>18,725</u>	
		26,110		29,980
AVC investments		45,384		40,932
<b>Total investment assets</b>		<u>6,913,405</u>		<u>6,045,445</u>

# TfL Pension Fund

## Notes to the Accounts (continued)

	2013 £'000	2013 £'000	2012 £'000	2012 £'000
Derivative liabilities				
Futures – exchange traded	(818)		(144)	
Swaps – OTC	(1,428)		(3,203)	
Forward FX – OTC	(43,462)		(5,077)	
Options – exchange traded	-		(183)	
		(45,708)		(8,607)
Other investment liability balances				
Amounts due to broker	(1,914)		(1,321)	
Outstanding trades	(5,461)		(29,110)	
Accrued expenses	(2,695)		(2,897)	
		(10,070)		(33,328)
<b>Total investment liabilities</b>		<u>(55,778)</u>		<u>(41,935)</u>
<b>Total net investments</b>		<u>6,857,627</u>		<u>6,003,510</u>

### c) Pooled investment vehicles

The Fund's investment in the following managed funds represented more than 5% of the net investment assets at the 31 March 2013:

	£'000	% of Net Assets
Legal & General North America Equity Index	792,282	12%
Legal & General LDI Portfolio implementation	744,018	11%
Legal & General UK Equity Index	640,325	9%
Legal & General World Emerging Markets Equity Index	342,818	5%

### 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:

#### 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	£'000
UK Long Gilt	Bought	48	June 2013	153	-
German Bonds	Bought	484	June 2013	199	(4)
German Bonds	Sold	(102)	June 2013	4	(128)
Japanese Bonds	Sold	(45)	June 2013	-	(106)
US Bonds	Bought	2,300	June 2013	137	(45)
US Bonds	Sold	(1,540)	June 2013	-	(521)
Euribor Interest Rate – 3 month	Bought	249	March 2014	-	(14)
Sterling Interest Rate – 3 month	Sold	(476)	March 2014	21	-
Eurodollar Time Deposit – 3 month	Bought	181	June 2016	6	-
				<u>520</u>	<u>(818)</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### 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 at year end	Liability value at year end
		£			£'000	£'000
Interest rate swaps	Australia	16,370,000	AUD	2018-2023	-	(172)
	Brazil	99,930,000	BRL	2014-2016	24	(109)
	Canada	51,500,000	CAD	2016-2035	165	(38)
	Europe	106,360,000	EUR	2015-2043	503	(414)
	Japan	2,893,290,000	JPY	2016-2023	20	(124)
	Mexico	44,690,000	MXN	2032	127	-
	New Zealand	7,950,000	NZD	2018-2023	53	(3)
	Norway	49,290,000	NOK	2018-2022	5	(2)
	South Africa	81,090,000	ZAR	2016	12	-
	South Korea	10,230,750,000	KRW	2022	-	(52)
	Sweden	49,030,000	SEK	2018-2023	17	(74)
	Switzerland	11,750,000	CHF	2022-2023	15	(39)
	UK	44,110,000	GBP	2016-2043	39	(96)
	USA	108,270,000	USD	2015-2023	667	(56)
Credit default swaps	USA	68,700,000	USD	2014-2017	630	(249)
					<u>2,277</u>	<u>(1,428)</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	5,094	(11,179)
Forward OTC	2 months	Various	Various	1,329	(8,072)
Forward OTC	3 months	Various	Various	5,095	(11,566)
Forward OTC	4 months	Various	Various	188	(8,462)
Forward OTC	5 months	Various	Various	712	(2,661)
Forward OTC	6 months	Various	Various	3,104	(73)
Forward OTC	9 months	Various	Various	2,179	(1,449)
				<u>17,701</u>	<u>(43,462)</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### 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:

	2013 £'000	2012 £'000
Standard Life	27,591	22,810
Equitable Life	10,232	10,468
Clerical Medical	7,561	7,654
	<u>45,384</u>	<u>40,932</u>

#### f) Securities lending

The Fund lends certain fixed interest and equity securities under a Trustee approved securities lending programme. At the 31 March 2013 £111.6m of investments were loaned comprising £71.8m overseas equities, £36.6m overseas fixed interest securities and £3.2m UK equities. Collateral of £120.3m was held at the 31 March 2013 in the form of cash of £45.4m and non-cash of £74.9m (2012: £131.7m loaned against £142.2m collateral).

#### g) Self investment

There were no employer-related investments at any time during the year ended 31 March 2013.

### 11. Investment management expenses

	2013 £'000	2012 £'000
Administration, management and custody	10,829	8,812
Performance measurement services	45	36
Other advisory services	934	691
	<u>11,808</u>	<u>9,539</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 and as a result of the increase in the value of investment assets.

### 12. Fixed assets held for own use

	Computer equipment £'000	Furniture £'000	Total £'000
<b>Cost at 1 April 2012</b>	1,864	72	1,936
Additions	3	-	3
Withdrawals	(29)	(27)	(56)
<b>Cost at 31 March 2013</b>	<u>1,838</u>	<u>45</u>	<u>1,883</u>
<b>Accumulated depreciation at 1 April 2012</b>	(1,558)	(72)	(1,630)
Depreciation charge for the year	(125)	-	(125)
Withdrawals	29	27	56
<b>Accumulated depreciation at 31 March 2013</b>	<u>(1,654)</u>	<u>(45)</u>	<u>(1,699)</u>
<b>Net book value at 1 April 2012</b>	<u>306</u>	<u>-</u>	<u>306</u>
<b>Net book value at 31 March 2013</b>	<u>184</u>	<u>-</u>	<u>184</u>

# TfL Pension Fund

## Notes to the Accounts (continued)

### 13. Current assets

	2013 £'000	2012 £'000
<i>Debtors</i>		
Contributions due from employer in respect of:		
Employer	554	11,862
Employee	-	13
Prepayments and accrued income	<u>13,154</u>	<u>12,712</u>
	13,708	24,587
Cash balances	<u>6,171</u>	<u>15,621</u>
	<u>19,879</u>	<u>40,208</u>

### 14. Current liabilities

	2013 £'000	2012 £'000
<i>Creditors</i>		
Unpaid benefits	4,174	3,810
Accrued expenses and deferred income	<u>3,171</u>	<u>12,237</u>
	7,345	16,047
Bank overdrafts	<u>682</u>	<u>936</u>
	<u>8,027</u>	<u>16,983</u>

Bank overdrafts represent payments submitted and cheques drawn but not presented for payment by 31 March 2013. 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 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 expenses behalf of the Fund and subsequently recharges these to the Fund. At 31 March 2013, £585,000 (2012: £412,000) 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 showing the rates of contributions payable towards the fund by or on behalf of the employer and the active members of the fund 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 2013

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 2013. 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	150,565
Deficit funding	115,507
<b>Members</b>	
Normal contributions	42,276
<b>Contributions payable under the schedules (as reported on by the Fund auditors)</b>	<u>308,348</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)	308,348
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditors)	
Member additional voluntary contributions	4,718
<b>Total contributions reported in the accounts</b>	<u>313,066</u>

This Report was approved by the Board of Directors of the TfL Trustee Company Limited on 9 July 2013 and was signed on their behalf by:

M Antoniou

JH Knowles

Directors  
TfL Trustee Company Limited



## TfL Pension Fund

### Summary Funding Statements and Actuary's Certificates

Pages 33 to 40 contain extracts from the 2013 Summary Funding Statements. There is a separate statement for each section of the Fund.

Pages 41 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.

## Capgemini UK plc Section

### Extract from the 2013 Summary Funding Statement

#### The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2012, the funding position of the Section was as follows:

Assets	£0.740 million
Amount needed to provide benefits earned to 31 March 2012	£0.647 million
Surplus	£0.093 million
Funding level	114%

Regular contributions (from members and the employer) are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2013 are 27.65% of pensionable pay for all members of the Section. The surplus will be amortised by reducing employer contributions by £10,850 a year over a period of 10 years from 1 April 2013.

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2009 was 85% with a shortfall of £0.067 million. The improvement in the funding position between 31 March 2009 and 31 March 2012 was due primarily to good investment returns, contributions paid into the Section being more than the cost of new benefit accrual and lower salary increases than had been assumed, partly offset by the effect of changes to the valuation assumptions.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £0.426 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 2015.

## Composite Section

### Extract from the 2013 Summary Funding Statement

#### The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2012, the funding position of the Section was as follows:

Assets	£0.810 million
Amount needed to provide benefits earned to 31 March 2012	£0.753 million
Surplus	£0.057 million
Funding level	108%

Regular contributions (from members and the employers) are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2013 are 26.90% of pensionable pay for all members of the Section. The surplus will be amortised by reducing contributions paid by Tribal Technology Limited ("Tribal") by £12,700 a year over a period of 10 years from 1 April 2013 and by increasing the contributions paid by the British Transport Police Authority ("BTPA") by £2,583 a month during the period from 1 April 2013 to 31 October 2013.

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2009 was 78% with a shortfall of £0.254 million. The improvement in the funding position between 31 March 2009 and 31 March 2012 was due primarily to good investment returns, contributions paid into the Section being more than the cost of new benefit accrual and lower salary increases than had been assumed, partly offset by the effect of changes to the valuation assumptions.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £0.738 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 2015.

## TfL Pension Fund

### Cubic Transportation Systems Limited Section

#### Extract from the 2013 Summary Funding Statement

##### The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2012, the funding position of the Section was as follows:

Assets	£6.383 million
Amount needed to provide benefits earned to 31 March 2012	£6.009 million
Surplus	£0.374 million
Funding level	106%

Regular contributions (from members and the employer) are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2013 are 30.15% of pensionable pay for all members of the Section. The surplus will be amortised by reducing employer contributions by £41,800 a year over a period of 10 years from 1 April 2013.

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2009 was 79% with a shortfall of £0.895 million. The improvement in the funding position between 31 March 2009 and 31 March 2012 was due primarily to good investment returns, contributions paid into the Section being more than the cost of new benefit accrual and lower salary increases than had been assumed, partly offset by the effect of changes to the valuation assumptions.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £5.182 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 2015.

## TfL Pension Fund

### HP Enterprise Services UK Limited Section

#### Extract from the 2013 Summary Funding Statement

This section was formerly known as the Electronic Data Systems Limited Section

##### The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2012, the funding position of the Section was as follows:

Assets	£3.055 million
Amount needed to provide benefits earned to 31 March 2012	£2.373 million
Surplus	£0.682 million
Funding level	129%

Regular contributions (from members and the employer) are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2013 are 30.05% of pensionable pay for all members of the Section. The surplus will be amortised by reducing employer contributions by £86,200 a year over a period of 10 years from 1 April 2013.

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2009 was 70% with a shortfall of £0.762 million. The improvement in the funding position between 31 March 2009 and 31 March 2012 was due primarily to good investment returns, contributions paid into the Section being more than the cost of new benefit accrual and lower salary increases than had been assumed, partly offset by the effect of changes to the valuation assumptions.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £2.099 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 2015.

# TfL Pension Fund

## Public Sector Section

### Extract from the 2013 Summary Funding Statement

#### The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2012, the funding position of the Section was as follows:

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

As a result TfL agreed to pay deficit contributions of 10.60% of pensionable pay from 1 April 2013 to 31 March 2020 and, on or before 31 March 2018, a lump sum of £37.8 million increased in line with the increase in RPI between September 2008 and September 2017. These amounts took account of contributions, benefit accruals, expenses and interest after the valuation date. These deficit payments are in addition to regular contributions (from members and the employer) which are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2013 are 20.40% of pensionable pay for all members of the Section.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £7,288 million. This calculation assumes all benefits would be secured with an insurance company. The Trustee is required by law to provide you with this information. It does not imply that there is any intention of winding up the Section.

#### Change in funding position

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2011 was estimated to be 89% with a shortfall of £664 million. The deterioration in the funding position between 31 March 2011 and 31 March 2012 was due primarily to investment returns being lower than assumed and an increase in the value of liabilities that resulted from lower prospective investment returns, partly offset by contributions paid into the Section exceeding the estimated cost of new benefit accrual, lower than expected salary increases and the effect of changes to the valuation assumptions.

#### Next funding valuation

The next formal valuation is as at 31 March 2015.

## TfL Pension Fund

### Thales Transport and Security Limited Section

#### Extract from the 2013 Summary Funding Statement

##### The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2012, the funding position of the Section was as follows:

Assets	£0.545 million
Amount needed to provide benefits earned to 31 March 2012	£0.526 million
Surplus	£0.019 million
Funding level	104%

Regular contributions (from members and the employer) are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2013 are 24.25% of pensionable pay for all members of the Section. The surplus will be amortised by reducing employer contributions by £1,900 a year over a period of 10 years from 1 April 2013.

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2009 was 88% with a shortfall of £0.036 million. The improvement in the funding position between 31 March 2009 and 31 March 2012 was due primarily to good investment returns, contributions paid into the Section being more than the cost of new benefit accrual and lower salary increases than had been assumed, partly offset by the effect of changes to the valuation assumptions.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £0.604 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 2015.

## Tube Lines Limited Section

### Extract from the 2013 Summary Funding Statement

#### The last ongoing funding valuation

The most recent funding valuation showed that, on 31 March 2012, the funding position of the Section was as follows:

Assets	£174.1 million
Amount needed to provide benefits earned to 31 March 2012	£215.0 million
Shortfall	£40.9 million
Funding level	81%

As a result Tube Lines Limited ("Tube Lines") agreed to pay £1.046 million per month in the period 1 April 2013 to 31 October 2015, increased each 1 April from 1 April 2014 by the percentage increase (if any) in the RPI over the year to the previous September. These amounts took account of contributions, benefit accruals, expenses and interest after the valuation date. These deficit payments are in addition to regular contributions (from members and the employer) which are intended to cover the cost of benefits for future service. Regular employer contributions from 1 April 2013 are 23.15% of pensionable pay for all members of the Section.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £335.3 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

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2011 was estimated to be 70% with a shortfall of £66 million. The improvement in the funding position between 31 March 2011 and 31 March 2012 was due primarily to contributions paid into the Section exceeding the estimated cost of new benefit accrual and investment returns exceeding the increase in the value of liabilities (that resulted from changes in financial conditions and valuation assumptions).

#### Next funding valuation

The next formal valuation is as at 31 March 2015.



## TfL Pension Fund

### UK Power Networks Services Powerlink Limited Section

#### Extract from the 2013 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 2012, the funding position of the Section was as follows:

Assets	£45.04 million
Amount needed to provide benefits earned to 31 March 2012	£42.04 million
Surplus	£3.00 million
Funding level	107%

Regular contributions (from members and the employer) are intended to cover the cost of benefits for future service. Regular employer contributions from 1 September 2013 are 26.60% of pensionable pay for all members of the Section. The surplus will be amortised by reducing employer contributions by £393,100 per year over a period of 10 years from 1 September 2013.

The estimated additional amount needed on 31 March 2012 to ensure that all members' benefits could have been paid in full if the Section had started winding up was around £40.13 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

In the last summary funding statement it was stated that the ongoing funding level as at 31 March 2011 was estimated to be 107% with a surplus of £2.6 million. The improvement in the funding position between 31 March 2011 and 31 March 2012 was due primarily to investment returns exceeding the increase in the value of liabilities (that resulted from changes in financial conditions and changes in valuation assumptions).

##### Next funding valuation

The next formal valuation is as at 31 March 2015.

## **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 2012 to continue to be met for the period for which the schedule is to be in force.

### **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 1 May 2013.

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 and Faculty of Actuaries**

**Date 17 May 2013**

**Towers Watson Limited**  
**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 2012 to continue to be met for the period for which the schedule is to be in force.

### **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 1 May 2013.

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 and Faculty of Actuaries**

**Date 17 May 2013**

**Towers Watson Limited**  
**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 2012 to continue to be met for the period for which the schedule is to be in force.

### **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 1 May 2013.

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.

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**Surrey**  
**RH2 9PQ**

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

Name of section: **TfL Pension Fund – HP Enterprise Services UK 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 2012 to continue to be met for the period for which the schedule is to be in force.

### **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 1 May 2013.

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**  
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**London Road**  
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**Surrey**  
**RH2 9PQ**

## **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 2012 to be met by the end of the period specified in the recovery plan dated 1 May 2013.

### **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 1 May 2013.

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 and Faculty of Actuaries**

**Date 17 May 2013**

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**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 2012 to continue to be met for the period for which the schedule is to be in force.

### **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 1 May 2013.

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 and Faculty of Actuaries**

**Date 17 May 2013**

**Towers Watson Limited**  
**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 2012 to be met by the end of the period specified in the recovery plan dated 1 May 2013.

### **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 1 May 2013.

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 and Faculty of Actuaries**

**Date 17 May 2013**

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



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

Name of section: **TfL Pension Fund – UK Power Networks Services 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 2012 to continue to be met for the period for which the schedule is to be in force.

### **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 1 May 2013.

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 and Faculty of Actuaries**

**Date 17 May 2013**

**Towers Watson Limited**  
**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 2013 which is set out on page 31.

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 8, 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 2013 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.

Gareth Horner  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

15 Canada Square  
Canada Wharf  
London E14 5GL

9 July 2013

## 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 2013		As at 31 March 2012	
	Units	£'000s	Units	£'000s
Public Sector Section	2,073,292,972	3,514,161	2,209,423,010	3,233,015
Tube Lines Limited	73,160,839	124,005	68,816,917	100,699
Capgemini UK plc	320,087	543	318,387	466
Cubic Transportation Systems Ltd	2,788,050	4,726	2,879,754	4,214
Composite Section	242,604	411	348,254	510
HP Enterprise Services UK Ltd	1,300,448	2,204	1,394,861	2,041
Thales Transport and Security Ltd	238,683	405	233,969	342
UK Power Networks Services	18,382,575	31,158	19,355,348	28,322
	<u>2,169,726,258</u>	<u>3,677,613</u>	<u>2,302,770,500</u>	<u>3,369,609</u>

The Equity Fund unit price at the year-end was £1.694966108 (2012 £1.463284604)

Participating Employer	Bond Fund			
	As at 31 March 2013		As at 31 March 2012	
	Units	£'000s	Units	£'000s
Public Sector Section	453,284,039	1,037,780	464,428,011	959,398
Tube Lines Limited	14,941,594	34,208	13,447,320	27,779
Capgemini UK plc	139,173	319	132,454	273
Cubic Transportation Systems Ltd	1,212,238	2,775	1,198,023	2,475
Composite Section	105,484	242	144,879	299
HP Enterprise Services UK Ltd	565,432	1,294	580,284	1,199
Thales Transport and Security Ltd	103,779	238	97,335	201
UK Power Networks Services	7,992,705	18,299	8,052,129	16,634
	<u>478,344,444</u>	<u>1,095,155</u>	<u>488,080,435</u>	<u>1,008,258</u>

The Bond Fund unit price at the year-end was £2.289468946 (2012 £2.065761877)

Participating Employer	Alternative and Liability Driven Assets Fund			
	As at 31 March 2013		As at 31 March 2012	
	Units	£'000s	Units	£'000s
Public Sector Section	1,586,053,536	1,978,971	1,363,810,214	1,535,954
Tube Lines Limited	44,551,618	55,588	40,082,832	45,142
	<u>1,630,605,154</u>	<u>2,034,559</u>	<u>1,403,893,046</u>	<u>1,581,096</u>

The Alternative Liability Driven Assets Fund unit price at the year-end was £1.247732734 (2012 £1.126222299)

	31 March 2013	31 March 2012
	£'000s	£'000s
Equity Fund	3,677,613	3,369,609
Bond Fund	1,095,155	1,008,258
Alternative and Liability Driven Assets Fund	2,034,559	1,581,096
Other (non unitised assets allocated to Public Sector)	62,336	68,078
<i>Total Net Assets at end of year</i>	<u>6,869,663</u>	<u>6,027,041</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 3 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

JP Morgan Investor Services replaced BNY Mellon Asset Servicing for investment performance monitoring services with effect from 1 January 2013.

## 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 10165351.

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.

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## 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)