

# TfL Pension Fund

## Report and Accounts

for the year to 31 March 2016



### Notice for the visually impaired

Copies of this document 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 2016

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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 2016

### Trustee

TfL Trustee Company Limited

### Board of Directors of TfL Trustee Company Limited

(Nominating bodies are shown in brackets)

Ms M Antoniou (Chair)	External Appointment (TfL)
Ms A Back	Head of Health, Safety & Environment for COO, London Underground Limited (TfL)
Mr ME Binnington	Senior Principal, Commercial Finance, Transport for London (TfL)
Mr LP Brown	IM Service Analyst Team Leader, Transport for London (Unite the Union (T&GWU))
Ms E Cernoia	Assistant Treasurer, Finance, Transport for London (TfL)
Ms J Collis	Director of Health, Safety & Environment, Transport for London (TfL)
Mr G Dean	Train Operator, London Underground Limited (ASLEF)
Mr SW Ellaby	HSE Manager, HSE Rail and Corporate, Transport for London (PCC)
Mr S Hedley	Senior Assistant General Secretary, RMT (RMT)
Ms R Kerry	Head of HR, Transport for London (TfL)
Mr P Kilius-Smith	Pensioner (PCC)
Mr CA Miller	Pensioner (PCC)
Mr PJ Murphy	Train Instructor, Northfields, London Underground Limited (PCC)
Mr DJ O'Brien	Head of Risk Management, Rail & Underground, Transport for London (TfL)
Mr JB Timbrell	Project Engineer, London Underground Limited (Unite the Union (Amicus))
Mr MJ Weston	Director of Buses, Surface Transport, Transport for London (TfL)
Mr S White	Operations Director, SSL, London Underground Limited (TfL)

# TfL Pension Fund

## Organisation and Advisers as at 31 March 2016 (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  
Cubic Transportation Systems Limited  
Thales Transport and Security Limited

### Secretary to the Trustee

Mr S Field

### Auditor

KPMG LLP

### Scheme Actuary

Mr G Oxtoby, Willis Towers Watson

### Legal Advisers

Sacker & Partners LLP

### Communications Advisers

Hughes Communications

### Independent Medical Adviser

Dr S Sheard

### Scheme Employer Covenant Reviewer

Penfida Limited

### Bankers

The Royal Bank of Scotland plc

### Investment Adviser

Willis Towers Watson

### Custodian & Investment Performance Monitoring

JP Morgan Investor Services

### AVC Providers

Clerical Medical

Equitable Life

Standard Life

### Transition Investment Manager

Citigroup Global Markets Limited

### Investment Managers

Ardevora Asset Management LLP  
Arrowgrass Capital Partners, LLP  
Blackrock Investment Management (UK) Limited  
AQR Capital Management, LLC  
Brevan Howard Asset Management, LLP  
Bridgewater Associates, Inc.  
Brigade Capital Management, LLC  
Burgundy Asset Management Limited  
CBRE Global Collective Investors UK Limited  
Colonial First State Global Asset Management  
Coronation International Limited  
Credit Suisse IRIS ALHC Fund Limited  
Goldman Sachs  
Gresham Investment Management, LLC  
IFC Asset Management Company, LLC  
Industry Funds Management Pty Limited  
J O Hambro Capital Management Limited  
Nephila Capital Limited  
Neuberger Berman Alternatives Advisers LLC  
Nomura Asset Management UK Limited  
Oak Hill Advisors, LP  
OZ Management LP  
Paradice Investment Management Pty Limited  
Partners Group (UK) Limited  
Pzena Investment Management, LLC  
Rogge Global Partners Plc  
Russell Implementation Services Limited  
Semperian PPP Investment Partners Holdings Limited  
Siguler Guff & Company, LP  
Veritas Asset Management LLP  
Wellington Management Company, LLP

### Date of Appointment

29 June 2015  
13 December 2012  
1 September 2014  
2 September 2014  
18 February 2013  
2 November 2005  
1 August 2012  
14 October 2010  
11 September 2013  
15 December 2009  
24 July 2013  
9 December 2015  
15 June 2005  
20 September 2012  
15 March 2013  
24 May 2013  
5 January 2010  
23 March 2012  
24 October 2014  
1 September 2004  
1 August 2012  
13 December 2012  
24 June 2014  
4 June 2010  
24 June 2013  
22 March 2012  
8 December 2011  
18 February 2008  
10 December 2009  
7 July 2015  
5 November 2012

# TfL Pension Fund

## Chair's Introduction

I am pleased to present my review as Chair for the year ended 31 March 2016. It has been another year where pensions has rarely been absent from press coverage and from Governmental and regulatory attention.

After the steady increase in the Fund's assets seen in recent years, the experience this year has been of both rises and falls with the Fund's net assets exceeding £8.2 billion at 31 March 2016, a small reduction compared with last year. The Fund's liabilities have continued their general trend of increasing, although with the results of the 31 March 2015 valuation now completed these have been adjusted following that detailed review to reflect the experience of the Fund since the last valuation and revised assumptions. As part of the successful completion in May 2016 of the triennial valuation, the Trustee secured the participating employers' agreement to funding the deficit of £396 million in the Public Sector section, while the Composite section recorded a surplus. The importance of employer support and the Trustee's attention on both the Fund's asset and liability components remains key in seeking to ensure the security of member benefits.

The Alternatives and Liability Hedging Committee and the Investment Committee have undertaken a review of the Fund's investment strategy during the year in conjunction with our investment advisers, Willis Towers Watson and have commenced work on its implementation. A number of investment proposals have been considered, with only those which met the Fund's reward and risk criteria being pursued further. As a result of these activities during the year there have been three new investment manager appointments as well as the termination of three investment manager mandates.

This year's investment performance was behind the benchmark return of -0.8% by 0.6%, while over the longer period of three years the return was 5.7% per year, below the benchmark by 0.2% and over five years returns were 7.2% per year, again 0.2% behind the benchmark. This benchmark is specific to our investments and the targets we set our investment managers. More information is contained in the Investment Report starting on page 14.

The Fund has 31 investment managers (some with more than one mandate) and this number is a consequence of the overall objective of using greater diversity to maximise the probability of achieving our return objectives, while managing the overall risk in the total portfolio. The Investment Committee and Alternatives & Liability Hedging Committee continue to meet the challenges this brings in carrying out effective investment governance and use both the resources of the Fund Office and their investment advisers to support them. This includes keeping under review the fees paid to managers to ensure they are providing value for money. Part of this process is the additional disclosure in the accounts which commenced last year, so that manager fees which are charged to the funds they manage, as well as those settled by a separate payment from the Fund, are given equal prominence.

The Fund is a segregated scheme with a number of sections each requiring its own scheme return to the Pension Regulator, valuation, summary funding statement and audited accounts. Just prior to the end of the year a rationalisation of the sections was achieved with the Tube Lines Limited section joining the Public Sector section and Cubic Transportation Systems Limited and Thales Transport and Security Limited sections joining the Composite section. This means the Fund now has only two sections with corresponding benefits for governance and the efficient management of the Fund.

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

With a membership of over 84,000, the day to day administration of the Fund is a significant undertaking. Over 46,000 tasks were completed by the Fund Office during the year. Their service level agreement targets were met by over 99.9% in each of the four quarters of the year.

During the year we welcomed Jill Collis and Rachel Kerry to the Trustee Board. The Trustee Directors continued to attend regular training sessions throughout the year to ensure that they remain up to date with legislative changes as well as best practices, and that the Trustee complies with the requirements regarding trustee knowledge and understanding.

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

Chair  
8 July 2016

# TfL Pension Fund

## Trustee's Report

The Directors of TfL Trustee Company Limited, the Trustee of TfL Pension Fund, have the pleasure of submitting their Annual Report on the operations of the Fund, together with the Accounts of the Fund for the year ended 31 March 2016.

### 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 2016:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Ms JV Hart	27 May 2015	Ms J Collis	11 July 2015	TfL
Mr AM Pollins	10 July 2015	Ms R Kerry	11 July 2015	TfL
Mr JH Knowles	11 December 2015			

As at 31 March 2016 one Director vacancy remained and an appointment is expected to be completed during the coming months.

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 2016, 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	16	15	Mr LP Brown	19	18
Ms A Back	14	11	Mr G Dean	17	14
Mr ME Binnington	21	20	Mr SW Ellaby	16	13
Ms E Cernoia	21	19	Mr S Hedley	11	4
Ms J Collis	9	9	Mr P Kilius-Smith	14	14
Ms R Kerry	10	7	Mr CA Miller	13	10
Mr DJ O'Brien	14	11	Mr PJ Murphy	26	26
Mr MJ Weston	18	16	Mr JB Timbrell	21	21
Mr S White	11	11			

The average attendance for the Directors listed above at scheduled Trustee Board and Committee meetings was 86% and 82% 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.

<b>Committee</b>	<b>TfL Nominated</b>	<b>Non-TfL Nominated</b>
Investment	Ms A Back Mr ME Binnington Ms E Cernoia Mr S White	Mr LP Brown Mr P Kilius-Smith Mr PJ Murphy Mr JB Timbrell
Alternatives and Liability Hedging	Mr ME Binnington Ms E Cernoia	Mr PJ Murphy Mr JB Timbrell
Operations	Ms J Collis Ms R Kerry Mr DJ O'Brien Mr MJ Weston	Mr LP Brown Mr G Dean Mr S Hedley Mr PJ Murphy
Audit	Ms J Collis Ms R Kerry Mr DJ O'Brien	Mr LP Brown Mr G Dean Vacancy
Appeals	Ms M Antoniou Ms A Back Ms R Kerry	Mr G Dean Mr SW Ellaby Mr P Kilius-Smith
Actuarial Valuation	Ms M Antoniou Mr MJ Weston	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, Investment Adviser 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.

On 30 March 2016 the Tube Lines Limited section joined the Public Sector Section and the Cubic Transportation System Limited and Thales Transport and Security Limited sections joined the Composite Section.

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

The Fund Rules have been amended to:

- introduce an express power for the Trustee to appoint agents by power of attorney
- make changes to deal with the "Fixed Protection 2014" provisions as introduced by the Finance Act 2013 and other transitional tax protections from the lifetime allowance charge;
- make changes consequential to the introduction of employee rights to shared parental leave;
- allow non-associated employers to participate in the Fund subject to the Trustee's consent in each case and on such terms as the Trustee agrees;
- introduce a discretionary power for the Trustee to allow members to transfer their benefits out of the Fund;
- introduce an express power for the Trustee to put benefits into payment or buy them out when a Member reaches age 75;
- introduce an express power for the Trustee to operate "scheme pays" at their discretion in addition to the existing express power to operate it when required to by legislation;
- introduce an express power for the Trustee to pay an "uncrystallised funds pension lump sum" from certain legacy AVC benefits

Due to legislative change, the ability of sponsoring employers of salary-related occupational pension schemes to contract out their employees out of the additional State Pension ended on 5 April 2016. However past service contracted-out rights will be retained within schemes and will remain subject to the same statutory requirements as before. Rule changes have been made to recognise the ending of contracting out while ensuring the continuing requirements are met.

# TfL Pension Fund

## Trustee's Report (continued)

### 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.

#### (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 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: - Transport and General Workers' 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.

# TfL Pension Fund

## Trustee's Report (continued)

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.

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 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 both the 2012 and 2015 actuarial valuations, the Trustee commissioned an independent review of the employer covenant of Transport for London and of the private sector section Participating Employers by Penfida.

# TfL Pension Fund

## Trustee's Report (continued)

### Quarterly Investment Updates

The Trustee monitors the financial strength of the Fund by receiving quarterly updates from the Fund Actuary and Investment Adviser and has in place a Financial Management Plan which is reviewed quarterly.

The Trustee monitors the performance of the Investment Managers each quarter.

### 5. Financial review

The Accounts of the Fund for the year to 31 March 2016 have been drawn up in compliance with the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised November 2014).

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 £8,211.5m at 31 March 2016. The decrease of £92.7m, compared with the value at 31 March 2015 of £8,304.2m, was made up as follows:

	Movement in the year	
	2016	2015
	£m	£m
Net returns on investments	(123.4)	959.1
Net additions from dealings with members	30.7	33.2
	<u>(92.7)</u>	<u>992.3</u>

Net returns on investments comprised changes in the market value of investments of (£215.4m) (2015: £890.8m) and investment income of £104.8m (2015: £81.5m) which were partly offset by investment management expenses of £12.8m (2015: £13.2m). The decrease in market value of investments was made up of realised investment gains of £101.6m (2015: £1,329.9m) and unrealised investment losses of £317.0m (2015: losses of £439.1m).

The decrease 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 from dealings with members of £2.5m was mainly due to an increase in benefits payable of £27.6m, an increase in transfers in from other schemes of £1.2m, a decrease in pension levies of £0.2m offset by an increase of contributions receivable of £24.8m. 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 £1.1m.

Further details of the financial movements of the Fund can be found in the audited Accounts on pages 21 to 35.

Details of the participating employers' unit holdings and asset values are set out in the unaudited statement on page 42. 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 2015 of each of the two sections that were still in existence on 31 March 2016 and completed on 27 May 2016. 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)

For the Public Sector Section the funding shortfall of £396 million will be met through contributions from 1 April 2016 until 31 March 2022 equal to 5.45% of the total of the relevant pay definition for all Members of the section and a lump sum on or before 31 March 2018 of £37.8million increased in line with the increase in the RPI between September 2008 and September 2017.

For the Composite Sector Section there is a surplus of assets over liabilities of £2.7million.

As required by legislation and the Fund's governing documents, for the Public Sector section which 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 show 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 deficit.

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. An actuarial report for the Public Sector section will be produced as at 31 March 2016.

Following completion of the formal valuation, a Summary Funding Statement will be sent to each member of the Fund which summarises the valuation results for their section. Further Summary Funding Statements will be sent annually including, where applicable, information from the actuarial reports.

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 2016 pension increase is based on the increase in the Retail Price Index over the 12 months to September 2015. 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 0.8% 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 2012	5.6%	5.0%
April 2013	2.6%	2.6%
April 2014	3.2%	3.2%
April 2015	2.3%	2.3%
April 2016	0.8%	0.8%

#### 8. Fund's advisers

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

# 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 2016. In addition, the Fund has 185 (2015: 164) pension credit members comprising 125 deferred pensioners (2015: 111) and 60 pensioners (2015: 53).

	2015/ 2016	2015/ 2016	2014/ 2015	2014/ 2015	Change
<b>Contributing members as at 1 April 2015</b>	24,336		23,662		
Joiners	2,755		1,868		
	<u>27,091</u>		<u>25,530</u>		
Contributing members retiring	(639)		(499)		
Leavers taking a refund of contributions	(250)		(139)		
Leavers becoming deferred pensioners	(497)		(508)		
Leavers transferring to other schemes	(5)		-		
Leavers with less than two years service – member option decision pending	(22)		(16)		
Leavers taking a trivial commutation lump sum	(5)		(5)		
Deaths in service	(37)		(27)		
<b>Contributing members as at 31 March 2016</b>		25,636		24,336	+1,300
<b>Deferred pensioners as at 1 April 2015</b>	17,111		17,406		
Leavers becoming deferred pensioners	497		508		
	<u>17,608</u>		<u>17,914</u>		
Deferred pensions coming into payment	(737)		(676)		
Deferred pensioners transferring to other schemes	(52)		(71)		
Deferred pensioners taking a trivial commutation lump sum	(41)		-		
Deferred pensioner deaths	(46)		(56)		
<b>Deferred pensioners as at 31 March 2016</b>		16,732		17,111	-379
<b>Pensioners as at 1 April 2015</b>	31,394		31,310		
Contributing members retiring	639		499		
Pensions coming into payment	737		676		
	<u>32,770</u>		<u>32,485</u>		
Pensioner deaths	(1,122)		(1,091)		
Pensioners taking a trivial commutation lump sum	(1)		-		
<b>Pensioners as at 31 March 2016</b>		31,647		31,394	+253
<b>Dependants as at 1 April 2015</b>	10,011		10,084		
Dependants becoming entitled to pensions	615		558		
	<u>10,626</u>		<u>10,642</u>		
Dependant deaths	(612)		(624)		
Dependants taking a trivial commutation lump sum	(52)		(7)		
<b>Dependants as at 31 March 2016</b>		9,962		10,011	-49
<b>Eligible children as at 1 April 2015</b>	614		635		
Children becoming entitled to pensions	68		49		
	<u>682</u>		<u>684</u>		
Children ceasing to be eligible	(83)		(70)		
Children taking a trivial commutation lump sum	(1)		-		
Child deaths	(6)		-		
<b>Eligible children as at 31 March 2016</b>		592		614	-22
<b>Total membership as at 31 March 2016</b>		<u>84,569</u>		<u>83,466</u>	<u>+1,103</u>

## TfL Pension Fund

### Trustee's Report (continued)

Details of contributing members by section as at 31 March 2016 were as follows:

	<u>2015/ 2016</u>	<u>2015/ 2016</u>	<u>2014/ 2015</u>	<u>2014/ 2015</u>	<u>Change</u>
	%		%		
Transport for London	25,599	99.86	23,410	96.20	+2,189
Tube Lines Limited	-	0.00	886	3.64	-886
Cubic Transportation Systems Limited	-	0.00	35	0.14	-35
Composite section	37	0.14	3	0.01	+34
Thales Transport and Security Limited	-	0.00	2	0.01	-2
	<u>25,636</u>	<u>100.00</u>	<u>24,336</u>	<u>100.00</u>	<u>+1,300</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 2016 had discretion to invest as they saw fit within the asset classes and geographical limitations of their benchmarks, as agreed by the Directors (including any restrictions) following advice from Willis Towers Watson. 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.

### 2. Investment overview

The investment assets of the Fund as at 31 March 2016, including AVC investments, had a value of £8,191.3m a decrease of £103.2m compared with their value, including AVC investments, of £8,294.5m as at 31 March 2015. Investment income (i.e. dividends and interest) amounted to £104.8m for the year to 31 March 2016 compared with £81.5m for the year to 31 March 2015.

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 Blackrock are also highly marketable. A small proportion of the Fund's assets are less readily marketable.

#### Benchmark Summary at 31 March 2016

The Directors measure the Fund's performance against the benchmark below which is based on the current asset allocation and is reviewed regularly as the Fund moves towards the long-term strategic target allocation.

Allocation	Weight (%)	Comparison Basis
UK equities	7.0	FTSE All Share
Overseas developed equities	13.5	FTSE Developed World ex UK (unhedged)
Overseas developed equities	20.5	FTSE Developed World ex UK (GBP hedged)
Emerging market (EM) equities	7.0	FTSE Emerging
Fundamental equities	6.0	FTSE RAFI All World 3000 Index
Developed equities with EM tilt	2.0	Russell GeoExposure
Fixed interest gilts	0.5	FTSE Over 15 Year Gilts
Index-linked gilts	14.5	FTSE ILG Over 5 Year
Global bonds	3.0	BarCap 60/40 Sovereign Credit Index
Global bonds	4.0	BarCap Global Agg Corporate Bmk 1% Constrained
Alternative credit	1.2	ML US High Yield Master II Constrained Index
Alternative credit	1.2	Credit Suisse Leveraged Loan Index
Alternative credit	1.0	ML US T-Bills +3% pa
Liquid alternatives	8.0	GBP 3 Month LIBOR +3% pa
Infrastructure and Real Estate	6.0	Absolute return of 9% pa
Private equity	3.0	MSCI World +3% pa
Commodities	0.9	DJ UBS Commodity 3 Month Forward
Real estate	0.7	FTSE EPRA/NAREIT Developed
	<u>100.0</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 on the following page will maintain an appropriate balance between risk minimisation and return maximisation given the current and future liabilities of the Fund.

# TfL Pension Fund

## Investment Report (continued)

Actual Asset Allocation Summary as at 31 March 2016

Portfolio	% of Manager Fund
<b>Core</b>	
Index tracking (all asset classes) and liability matching assets	44.1 Blackrock Investment Management (UK) Limited <sup>1</sup>
<b>Active Specialist</b>	
Global bonds	7.4 Goldman Sachs Asset Management
Global equities 1	2.0 Ardevora Asset Management LLP
Global equities 2	5.7 Pzena Investment Management LLC
Global equities 3	5.0 JO Hambro Capital Management Limited
Global equities 4	4.8 Veritas Asset Management LLP
Pacific Basin equities	2.4 Nomura Asset Management UK Limited
North American Small Cap equities	2.2 Burgundy Asset Management Limited
Global emerging market equities	1.1 Coronation International Limited
Alternative Credit	1.1 Oak Hill Advisors, LP <sup>2</sup>
Alternative Credit	1.1 Brigade Capital Management, LLC
Global Small Cap equities	1.1 Paradice Investment Management Pty Limited
Alternative credit	1.0 Wellington Management Company, LLP
Asia (ex Japan) equities	1.2 JO Hambro Capital Management Limited
Currency overlay	(0.7) Russell Implementation Services Limited
<b>Alternative Assets</b>	
Global Macro Systematic Hedge Fund	3.0 Bridgewater Associates, Inc
Infrastructure Investment	2.9 Semperian PPP Investment Partners Holdings Ltd <sup>3</sup>
Private Equity Fund of Funds	1.6 Partners Group (UK) Limited
Reinsurance Hedge Fund	1.5 Credit Suisse IRIS ALHC Fund Limited
Alternative Risk Premium Hedge Fund	0.7 Goldman Sachs Asset Management
Distressed & Structured PE Credit	1.0 Siguler Guff & Company, LP
Infrastructure Private Equity Fund	1.2 Colonial First State Global Asset Management
Managed Futures Hedge Fund	0.9 AQR Capital Management, LLC
Commodities Smart Beta Fund	0.7 Gresham Investment Management, LLC
Real Estate (Fund of Funds Exposure)	1.5 CBRE Global Collective Investors UK Limited
Global Multi-Strategy Hedge Fund	0.8 Arrowgrass Capital Partners, LLP
Global Macro Discretionary Hedge Fund	0.5 Brevan Howard Asset Management, LLP
Global Multi-Strategy Hedge Fund	0.4 OZ Management, LP
Segregated Infrastructure Debt Portfolio	0.8 Industry Funds Management Pty Limited
Global Private Equity Fund of Funds	0.9 Neuberger Berman Alternatives Advisers LLC
Private Mezzanine Debt	0.6 GS Mezzanine Partners
Emerging Market Infrastructure Fund	0.3 IFC Asset Management Company, LLC
Emerging Market Currencies	0.1 Rogge Global Partners Plc
UK Renewables Private Equity	1.1 Blackrock Renewable Income UK Fund
	100.0

<sup>1</sup> Blackrock manages 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 6.3% economic interest in Oakhill Diversified Credit Strategies Fund (Offshore) Ltd.

<sup>3</sup> The Fund has a 29.1215% economic interest in Semperian PPP Investment Partners Holdings Limited.

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.

# TfL Pension Fund

## Investment Report (continued)

### 3. Analysis of investments

The 10 largest direct quoted equity holdings of the Fund as at 31 March 2016 are shown below.

	Value	% of Fund's quoted equity holdings	Country	Sector
	£m	%		
Oracle	34.6	1.8	USA	Technology
Microsoft	32.7	1.7	USA	Technology
Comcast	23.2	1.2	USA	Media
Time Warner Cable	23.0	1.2	USA	Telecommunications
Total SA	19.9	1.0	France	Oil and Gas
Allergan	19.3	1.0	Ireland	Pharmaceutical
Tencent Holdings	18.2	0.9	China	Technology
Unitedhealth Group	18.1	0.9	USA	Healthcare
Capita	17.5	0.9	UK	Business Solutions
British American Tobacco	17.3	0.9	UK	Tobacco
	<u>223.8</u>	<u>11.5</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
Abbotstone Property Unit Trust	2,575	56.3	1.599

### 4. Investment performance

The Fund participates in an independent investment performance measurement scheme organised by JP Morgan Investor Services 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 Fund has underperformed its benchmark by a very small margin due to a combination of factors. The benchmark targets for the Fund are ambitious across the alternative investments part of the portfolio and for some of this outperformance is expected to be concentrated more in the latter period of investment. Also some of the Fund's large equity and hedge fund mandates underperformed over the year, contributing to the shortfall against the benchmark. But in most cases their performance since inception has remained quite strong.

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 2016 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 %	-1.4	-0.8	5.7	5.9	7.2	7.4

The Fund assets returned -1.4% for the year ending 31 March 2016, 0.6% below its benchmark returns of -0.8%.

# TfL Pension Fund

## Investment Report (continued)

Details of the performance of the individual portfolios in the year to 31 March 2016 gross of fees, unless shown otherwise, compared with the previous year are shown below:

	Year to 31 March 2016		Year to 31 March 2015	
	Fund %	Benchmark %	Fund %	Benchmark %
Index-Tracking – Blackrock				
UK equities	(3.9)	(3.9)	(1.0) <sup>1</sup>	(1.0) <sup>1</sup>
North American equities	4.2	4.2	5.9 <sup>1</sup>	5.9 <sup>1</sup>
Canadian equities	(6.2)	(6.3)	-	-
European equities (ex. UK)	(4.4)	(4.5)	10.9 <sup>1</sup>	10.9 <sup>1</sup>
Japan equities	(3.5)	(3.5)	16.3 <sup>1</sup>	16.3 <sup>1</sup>
Pacific Basin (ex. Japan) equities	(5.3)	(5.5)	8.5 <sup>1</sup>	8.6 <sup>1</sup>
Middle East/Africa equities	(4.3)	(4.5)	14.5 <sup>1</sup>	14.5 <sup>1</sup>
Emerging Market equities	(9.1)	(9.1)	8.8 <sup>1</sup>	7.4 <sup>1</sup>
Over 15 year Gilts	4.2	4.0	4.2 <sup>1</sup>	4.1 <sup>1</sup>
FTSE RAFI All World 3000	(2.5)	(3.9)	7.5 <sup>1</sup>	9.9 <sup>1</sup>
GeoExposure <sup>4</sup>	(4.9)	(4.7)	7.1 <sup>1</sup>	10.6 <sup>1</sup>
LDI – Blackrock QIF	(0.5)	N/A	3.5 <sup>1</sup>	N/A
Equities				
Adevora - Global equities	2.8 <sup>1</sup>	2.8 <sup>1</sup>	-	-
Blackrock – EM equity futures	(9.8)	(9.1)	8.0 <sup>1</sup>	7.4 <sup>1</sup>
Burgundy – North American equities	2.0	(6.6)	19.4	21.5
Coronation – Global EM equities	(11.0)	(9.1)	4.9 <sup>2</sup>	12.8
J O Hambro – Asia (ex Japan) equities	(7.1)	(9.0)	24.2 <sup>3</sup>	19.4 <sup>3</sup>
J O Hambro - Global equities	(11.7)	(1.2)	31.2	18.4
Nomura - Far East equities	(4.6)	(6.0)	22.5	24.1
Paradice -Global Small Cap equities	(0.3)	(1.2)	17.6 <sup>2</sup>	17.6 <sup>2</sup>
Pzena -Global equities	(2.8)	(0.3)	12.5	19.1
Veritas - Global equities	5.1 <sup>1</sup>	2.8 <sup>1</sup>	-	-
Bonds				
Blackrock - Network Rail bonds <sup>4</sup>	(0.4)	1.9	25.7 <sup>1</sup>	21.0 <sup>1</sup>
Brigade <sup>4</sup>	(6.2)	0.7	13.8	15.1
Goldman Sachs – Asset Backed	2.0	0.6	12.1	0.5
Goldman Sachs – Corporate Credit	1.6	1.1	6.9	7.5
Goldman Sachs – Sovereign Credit	1.8	1.1	2.3	4.5
Industry Funds Management	10.8	4.6	18.7	4.6
Oak Hill <sup>4</sup>	(3.9)	0.7	15.9	15.1
Wellington	0.5	3.3	3.6	3.3
Other assets				
AQR Capital Management <sup>4</sup>	4.2	3.6	21.0 <sup>2</sup>	1.8 <sup>2</sup>
Arrowgrass <sup>4</sup>	4.0	3.6	4.1	3.6
Blackrock Real Estate <sup>4</sup>	3.7	4.6	19.5 <sup>1</sup>	22.9 <sup>1</sup>
Blackrock Renewable <sup>4</sup>	(5.7)	7.5	0.0 <sup>1</sup>	1.8 <sup>1</sup>
Brevan Howard : Fund <sup>4</sup>	(2.7)	3.6	5.2	3.6
Brevan Howard: Multi Strategy <sup>4</sup>	0.3	0.6	5.8	3.6
Bridgewater Pure Alpha Sterling <sup>4</sup>	(13.6)	5.6	15.5	5.6
Bridgewater Pure Alpha Major Markets <sup>4</sup>	(12.8)	5.6	21.6	5.6
CBRE	16.1	10.0	17.9	10.0
Colonial First State Global Asset Mgt	19.9	12.5	(3.2)	12.5
Credit Suisse	3.5 <sup>1</sup>	3.5 <sup>1</sup>		
Goldman Sachs Mezzanine	14.6	4.6	1.4 <sup>1</sup>	3.0 <sup>1</sup>
Gresham <sup>4</sup>	(17.7)	(17.5)	(25.8)	(27.5)
IFC Global Infrastructure	(6.1)	12.0	12.8	12.0
Neuberger Berman	24.6	7.9	3.4 <sup>1</sup>	2.8 <sup>1</sup>
Och-Ziff <sup>4</sup>	(6.9)	3.6	9.6	3.6
Partners Group	22.6	3.3	13.8	23.3
Rogge	(14.5)	0.6	30.9	0.5
Semperian	12.3	8.4	14.6	8.4
Siguler Guff	11.0	3.3	22.0	23.3

<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

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

# TfL Pension Fund

## Investment Report (continued)

### 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 2016  £m	% of total	Reported returns (where declared) Year to 31 March 2016
<b>Equitable Life</b>			
With Profits	2.7	4.5	N/A
Unit-linked funds			
Managed	3.3	5.5	(2.2)%
UK FTSE Tracking	1.3	2.2	(6.8)%
UK FTSE Tracking Lifestyle	0.4	0.7	(6.8)%
Deposit Account Fund	0.6	1.0	N/A
	<u>8.3</u>	<u>13.9</u>	
 <b>Clerical Medical</b>			
With Profits	6.0	10.0	N/A
Unit-linked funds	1.0	1.7	N/A
	<u>7.0</u>	<u>11.7</u>	
 <b>Standard Life</b>			
Managed Pension Fund	21.0	34.7	(3.2)%
International Equity Pension Fund	3.7	6.1	(3.5)%
Annuity Purchase Fund	4.0	6.6	2.8%
Ethical Pension Fund	2.0	3.3	2.1%
Deposit and Treasury Pension Fund	7.0	11.6	0.5%
Blackrock Aquila HP Over 5 year Index-linked	1.7	2.8	2.0%
Blackrock Aquila HP World (ex UK) Equity Fund	1.4	2.3	0.7%
Vanguard FTSE UK All Share Ind Pension Fund	3.4	5.6	(4.0)%
HSBC Amanah Pension Fund	0.4	0.7	3.5%
Pension With Profits One Fund	0.4	0.7	N/A
	<u>45.0</u>	<u>74.4</u>	
	<u>60.3</u>	<u>100.0</u>	

### 6. Custodial arrangements

During the year the Trustee was Custodian of certain property unit trusts 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 interests are held under managed fund policies in the name of the Trustee and the policy documents are held by Blackrock Investment Management (UK) Limited and other custodians.

# TfL Pension Fund

## Investment Report (continued)

### 7. Activism

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

For companies in the Fund's actively managed equity portfolios there were 422 annual general meetings or extraordinary general meetings held in the year to 31 March 2016 and at 166 of these there were votes for the Fund's portfolio cast against management. Because of the nature of the active portfolio the number of companies in which the Fund has direct shareholdings is relatively small. By contrast as an index tracker, the Fund's passive equity manager, Blackrock holds a wider number of shareholdings.

With respect to passive equity management, because the Fund holds units rather than the underlying shares, its manager BlackRock acts independently but has a strong track record of activism both at meetings with and in their engagement with management. During the year BlackRock voted at 16,473 shareholder meetings and at 6,396 of these they cast votes against management.

The Fund is a signatory of the Carbon Disclosure Project, now known as CDP, which works with shareholders and corporations to disclose environmental matters such as the greenhouse gas emissions of major corporations.

Following the Law Commission's report on the Fiduciary Duties of Investment Intermediaries, the Government issued a consultation on changes to the Investment Regulations which closed on 24 April 2015.

The Government's response was that no changes should be made as there was no consensus on the questions it raised. It also felt that guidance from the Pensions Regulator would be a more effective route than regulation. The Trustee will continue to monitor the developments on environment, social and governance issues, but has made no change in the Statement of Investment Principles to its current coverage of these matters.

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

The Trustee receives regular reports on governance and compliance matters, as well as voting information.

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

The Compliance Statement on page 43 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 8 July 2016 and was signed on their behalf by:

M Antoniou

G Dean

Directors  
TfL Trustee Company Limited

## TfL Pension Fund

# 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 2016 set out on pages 21 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 page 8, the Fund's Trustee is responsible for supervising the preparation of financial statements which show 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 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 Financial Reporting Council'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 2016 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 the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Kevin Clark  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

15 Canada Square  
Canada Wharf  
London E14 5GL

8 July 2016

# TfL Pension Fund Fund Account

For the year ended 31 March 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
<b>Dealings with members</b>					
Contributions receivable	3				
Employer		317,250		298,002	
Employee		59,149		53,601	
Individual transfers in from other schemes		1,385		214	
		<u>377,784</u>		<u>351,817</u>	
Benefits payable	4	(327,953)		(300,400)	
Payments to and on account of leavers	5	(3,276)		(3,549)	
Other payments	6	(4,533)		(3,720)	
Administrative expenses	7	(4,210)		(3,675)	
Pension levies	8	(7,116)		(7,327)	
		<u>(347,088)</u>		<u>(318,671)</u>	
<b>Net additions from dealings with members</b>			<b>30,696</b>		<b>33,146</b>
<b>Returns on investments</b>					
Investment income	9	104,757		81,482	
Change in market value of investments	11a	(215,358)		890,811	
Investment management expenses	12	(12,809)		(13,155)	
<b>Net returns on investments</b>			<b>(123,410)</b>		<b>959,138</b>
<b>Net (decrease)/increase in the fund during year</b>			<b>(92,714)</b>		<b>992,284</b>
<b>Net assets at beginning of year</b>			<b>8,304,157</b>		<b>7,311,873</b>
<b>Net assets at end of year</b>			<b>8,211,443</b>		<b>8,304,157</b>

The Notes on Pages 23 to 35 form part of these Accounts.

# TfL Pension Fund

## Statement of Net Assets (available for benefits)

As at 31 March 2016

	Note	2016 £'000	2015 £'000
<b>Investment assets</b>	11		
Bonds		601,296	595,507
Equities		1,949,084	2,052,215
Loans		65,207	31,257
Pooled investment vehicles	11b	5,214,627	5,214,372
Derivatives	11c	43,953	22,859
AVC investments		60,281	58,192
Cash		335,845	382,194
Other investment balances		<u>35,386</u>	<u>32,595</u>
		<b>8,305,679</b>	<b>8,389,191</b>
<b>Investment liabilities</b>	11		
Derivatives	11c	(93,188)	(70,783)
Other investment balances		<u>(24,647)</u>	<u>(23,879)</u>
		<b>(117,835)</b>	<b>(94,662)</b>
<b>Total net investments</b>		<b>8,187,844</b>	<b>8,294,529</b>
<b>Fixed assets held for own use</b>	13	<b>149</b>	<b>218</b>
<b>Current assets</b>	14	<b>35,004</b>	<b>18,914</b>
<b>Current liabilities</b>	15	<b>(11,554)</b>	<b>(9,504)</b>
<b>Net assets at end of year</b>		<b><u>8,211,443</u></b>	<b><u>8,304,157</u></b>

The Notes on Pages 23 to 35 form part of these Accounts.

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 Report on Actuarial Liabilities included on page 40 and these Accounts should be read in conjunction with that Report.

These Accounts were approved by the Board of Directors of the TfL Trustee Company Limited on 8 July 2016 and were signed on their behalf by:

M Antoniou

G Dean

Directors  
TfL Trustee Company Limited

# TfL Pension Fund

## Notes to the Accounts

### 1. Basis of preparation

The Accounts have been prepared in accordance with Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014). This is the first year FRS 102 and the Revised SORP have applied to the Fund's financial statements. The Trustee has taken advantage of the option to adopt the revised Fair Value Hierarchy outlined in the amendment to FRS 102 (March 2016) for an accounting period earlier than that required in the Standard.

### 2. Accounting policies

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

##### (i) Contributions

Employers' and Employees' 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 Statement of Net Assets 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 the translation of investment balances are accounted for in the change in market value of investments during the year.

##### (vii) Additional voluntary contributions (AVCs)

AVCs are accounted for on an accruals basis, in the same way as other contributions. 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 which is 5 years for computer equipment and furniture.

# TfL Pension Fund

## Notes to the Accounts (continued)

### (b) Investments

- (i) Investments are included at fair value.
- (ii) The majority of listed investments are stated at the bid price at the date of the Statement of Net Assets.
- (iii) Fixed interest securities are stated at their clean prices (i.e. excluding accrued income). Accrued income is accounted for within investment income;
- (iv) 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;
- (v) Unquoted securities are included at fair value estimated by the Trustee based on the advice from the Investment Manager;
- (vi) Derivatives are stated at fair value.
  - Exchange traded derivatives are stated at fair value determined using market quoted prices.
  - Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
  - Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date
  - Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
  - All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.
  - Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.
- (vii) Short-term deposits are valued at cost at 31 March 2016 taking into account gains or losses on foreign currencies;
- (viii) AVC investments are shown at the values advised by the AVC providers.

### 3. Contributions receivable

	2016 £'000	2015 £'000
<i>Employers</i>		
Normal	207,102	191,107
Deficit funding	110,148	106,895
	<u>317,250</u>	<u>298,002</u>
<i>Members</i>		
Normal	50,410	46,488
Additional voluntary contributions	8,739	7,113
	<u>59,149</u>	<u>53,601</u>
	<u>376,399</u>	<u>351,603</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 2013.

All employers paid their respective contributions in accordance with the Schedules of Contributions

# TfL Pension Fund

## Notes to the Accounts (continued)

### 4. Benefits payable

	2016	2015
	£'000	£'000
Pensions	256,466	246,878
Commutations and lump sum retirement benefits	69,508	52,398
Lump sum death benefits (net of those insured)	1,652	796
Taxation where lifetime or annual allowance exceeded	327	328
	<u>327,953</u>	<u>300,400</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

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

	2016	2015
	£'000	£'000
Individual transfers to other schemes	2,923	3,331
Refunds to members leaving service	237	137
Payments for members joining state scheme	116	81
	<u>3,276</u>	<u>3,549</u>

### 6. Other payments

	2016	2015
	£'000	£'000
Premiums on term insurance policies	4,533	3,720

### 7. Administrative expenses

	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
<i>Staff costs</i>				
Payroll	2,218		2,133	
Recruitment and training (incl. Trustee)	<u>32</u>		<u>20</u>	
		2,250		2,153
<i>Establishment costs</i>				
Accommodation	88		84	
Computer costs	656		459	
Telecommunications	1		1	
Depreciation	<u>77</u>		<u>81</u>	
		822		625
<i>Professional fees</i>				
Legal fees	209		224	
Audit fees	90		91	
KPMG non-audit fees	22		22	
Actuarial fees	445		212	
Medical fees	46		49	
Covenant review	58		15	
Other professional fees	<u>19</u>		<u>29</u>	
		889		642
<i>Communication</i>				
Distribution	98		106	
Printing	<u>111</u>		<u>104</u>	
		209		210
<i>Consumables</i>				
Stationery	9		7	
General	<u>31</u>		<u>38</u>	
		40		45
		<u>4,210</u>		<u>3,675</u>

Administrative expenses include recharges by Transport for London of £2,330,000 for staff and other costs.

# TfL Pension Fund

## Notes to the Accounts (continued)

### 8. Pension levies

	2016	2015
	£'000	£'000
Pension Protection Fund	6,948	7,172
Pension Regulator levies	168	155
	<u>7,116</u>	<u>7,327</u>

### 9. Investment income

	2016	2015
	£'000	£'000
Income from bonds	23,585	23,443
Dividends from equities	40,005	37,550
Income from pooled investment vehicles	35,637	19,986
Income from loans	3,089	655
Income from derivatives	812	(1,034)
Interest on cash deposits	965	306
Income from securities lending	664	551
Other investment income	-	25
	<u>104,757</u>	<u>81,482</u>

Overseas investment income is stated gross of withholding taxes.

### 10. Tax

TfL Pension Fund is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate (see Note 9 above).

### 11. Investments

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

	Value at 1 April 2015	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Value at 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Bonds	595,507	423,708	425,669	7,750	601,296
Equities	2,052,215	1,678,396	1,681,409	(100,118)	1,949,084
Loans	31,257	33,040	2,042	2,952	65,207
Pooled investment vehicles	5,214,372	411,214	379,033	(31,926)	5,214,627
Derivative contracts	(47,924)	91,824	-	(93,135)	(49,235)
AVC investments	58,192	8,752	5,782	(881)	60,281
	<u>7,903,619</u>	<u>2,646,934</u>	<u>2,493,935</u>	<u>(215,358)</u>	<u>7,841,260</u>
Cash deposits	382,194				335,845
Other investment assets	32,595				35,386
Other investment liabilities	(23,879)				(24,647)
<b>Total net investments</b>	<u>8,294,529</u>				<u>8,187,844</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.

# TfL Pension Fund

## Notes to the Accounts (continued)

### b) Pooled investment vehicles (PIVs)

The Fund's holdings of PIVs are analysed below:

	2016	2015
	£'000	£'000
Absolute Return funds	450,678	494,599
Commodities funds	59,587	72,380
Equity funds	2,266,190	2,409,779
Fixed Interest funds	291,461	295,449
Private Equity funds	908,747	644,706
Property funds	56,774	54,797
Qualifying Investor fund	1,068,127	1,123,856
Reinsurance funds	113,063	118,806
	<u>5,214,627</u>	<u>5,214,372</u>

The Fund is the sole investor in the Qualifying Investor fund. The assets underlying this PIV are:

	2016	2015
	£'000	£'000
Government Bonds	756,518	760,211
Network Rail Bonds	294,262	297,994
Options	42,849	35,195
Swaps	(33,616)	(24,095)
Other	8,114	54,551
	<u>1,068,127</u>	<u>1,123,856</u>

### c) Derivatives

The Trustee has authorised the use of derivatives by some of their Investment Managers as part of the Fund's investment strategy. The main objectives for the use of key classes of derivatives and the policies followed during the year are summarised as follows:

#### Total derivatives

	2016		2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Swaps	25,978	(15,487)	1,046	(1,004)
Futures	1,729	(2,121)	254	(474)
Foreign exchange	16,246	(75,580)	21,559	(69,305)
	<u>43,953</u>	<u>(93,188)</u>	<u>22,859</u>	<u>(70,783)</u>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### c) Derivatives (continued)

##### Swaps

Swaps comprising interest rate swaps, credit default swaps, total return swaps and basis swaps have been implemented 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 and exchange traded. The details are:

Nature	Nominal amount	Duration	Asset value at year end £'000	Liability value at year end £'000
Interest rate swaps	108,900,720	Expires 2016-2020	814	-
	50,615,790	Expires 2016-2020	-	(476)
	95,307,940	Expires 2021-2025	1,833	-
	88,116,818	Expires 2021-2025	-	(2,647)
	71,286,766	Expires 2026-2030	2,345	-
	21,584,973	Expires 2026-2030	-	(894)
	5,011,467	Expires 2031-2035	203	-
	21,378,684	Expires 2031-2035	-	(1,132)
	13,861,929	Expires 2036-2040	761	-
	5,919,219	Expires 2041-2045	104	-
	5,324,195	Expires 2041-2045	-	(516)
	447,677	Expires 2046-2050	41	-
	14,220,342	Expires 2046-2050	-	(1,081)
Credit default swaps	12,523,464	Expires 2016	28	-
	17,438,648	Expires 2019	-	(10)
	47,415,850	Expires 2020	474	-
	351,561,407	Expires 2021	4,375	-
	198,323,989	Expires 2026	2,153	-
Total return swaps	47,954,200	Expires 2016	1,626	-
	142,157,983	Expires 2017	11,221	-
	141,046,969	Expires 2017	-	(8,731)
<b>Total 2016</b>			<b>25,978</b>	<b>(15,487)</b>
<i>Total 2015</i>			<i>1,046</i>	<i>(1,004)</i>

# TfL Pension Fund

## Notes to the Accounts (continued)

### c) Derivatives (continued)

#### Futures

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

Nature	Nominal amount	Duration	Asset	Liability
			value at year end	value at year end
			£'000	£'000
Commodity	21,709,037	Expires 2016	570	-
Commodity	19,739,307	Expires 2016	-	(620)
Eurodollars	13,209,313	Expires 2016	-	(10)
Eurodollars	16,102,792	Expires 2017	-	(23)
Australian Bonds	14,698,664	June 2016	160	-
Canadian Bonds	5,112,772	June 2016	-	(33)
German Bonds	10,421,471	June 2016	22	-
German Bonds	60,289,056	June 2016	-	(42)
Japanese Bonds	41,209,427	June 2016	69	-
US Bonds	354,500,355	June 2016	896	-
US Bonds	78,576,646	June 2016	-	(595)
UK Long Gilt	17,934,938	June 2016	12	-
UK Long Gilt	598,944	June 2016	-	(7)
Emerging Market Stock Equities	140,913,952	June 2016	-	(791)
<b>Total 2016</b>			<b>1,729</b>	<b>(2,121)</b>
<i>Total 2015</i>			<i>254</i>	<i>(474)</i>

#### 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 a targeted level.

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

Contract	Settlement date	Currency bought	Currency sold	Asset value	Liability
				at year end	value at year end
				£'000	£'000
Forward OTC	1 month	Various	Various	7,264	(23,554)
Forward OTC	2 months	Various	Various	1,567	(25,112)
Forward OTC	3 months	Various	Various	3,979	(19,739)
Forward OTC	4 months	Various	Various	454	(2,730)
Forward OTC	5 months	Various	Various	850	(2,851)
Forward OTC	6 months	Various	Various	459	(1,134)
Forward OTC	7 months	Various	Various	875	(414)
Forward OTC	10 months	Various	Various	798	(46)
<b>Total 2016</b>				<b>16,246</b>	<b>(75,580)</b>
<i>Total 2015</i>				<i>21,559</i>	<i>(69,305)</i>

## TfL Pension Fund

### Notes to the Accounts (continued)

#### d) 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 benefits, within the Fund 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:

	2016	2015
	<i>£'000</i>	<i>£'000</i>
Standard Life	45,039	40,483
Equitable Life	8,287	9,646
Clerical Medical	6,955	8,063
	<u>60,281</u>	<u>58,192</u>

#### e) Transaction costs

Included within purchases and sales are direct transaction costs of £3,611,000 (2015: £2,979,000) comprising commissions, fees and stamp duty. These costs are attributable to the key asset classes as follows:

	Commission	Fees and Stamp Duty	2016 Total	2015 Total
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>2016</b>				
Equities	2,357	1,254	3,611	-
<b>2015</b>				
Equities	1,785	1,194	-	2,979

# TfL Pension Fund

## Notes to the Accounts (continued)

### f) Investment fair value hierarchy

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 which are observable (ie developed using market data) for the asset or liability, either directly or indirectly;

Level 3: inputs which are unobservable (ie for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Fund's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>At 31 March 2016</b>				
Bonds	11,654	589,642	-	601,296
Equities	1,948,842	242	-	1,949,084
Loans (IFM)	-	-	65,207	65,207
Pooled investment vehicles	9,589	3,489,176	1,715,862	5,214,627
Derivatives	(392)	(48,843)	-	(49,235)
AVC investments	-	51,107	9,174	60,281
Cash	335,845	-	-	335,845
Other investment balances	10,739	-	-	10,739
	<u>2,316,277</u>	<u>4,081,324</u>	<u>1,790,243</u>	<u>8,187,844</u>
<i>At 31 March 2015</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Bonds</i>	<i>11,483</i>	<i>582,495</i>	<i>1,529</i>	<i>595,507</i>
<i>Equities</i>	<i>2,052,215</i>	<i>-</i>	<i>-</i>	<i>2,052,215</i>
<i>Loans (IFM)</i>	<i>-</i>	<i>-</i>	<i>31,257</i>	<i>31,257</i>
<i>Pooled investment vehicles</i>	<i>6,259</i>	<i>3,688,204</i>	<i>1,519,909</i>	<i>5,214,372</i>
<i>Derivatives</i>	<i>(220)</i>	<i>(47,704)</i>	<i>-</i>	<i>(47,924)</i>
<i>AVC investments</i>	<i>-</i>	<i>47,718</i>	<i>10,474</i>	<i>58,192</i>
<i>Cash</i>	<i>382,194</i>	<i>-</i>	<i>-</i>	<i>382,194</i>
<i>Other investment balances</i>	<i>8,716</i>	<i>-</i>	<i>-</i>	<i>8,716</i>
	<u><i>2,460,647</i></u>	<u><i>4,270,713</i></u>	<u><i>1,563,169</i></u>	<u><i>8,294,529</i></u>

### g) Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

## TfL Pension Fund

### Notes to the Accounts (continued)

The fund has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed limits which are set taking into account the Fund's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Fund's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Fund's exposures to credit and market risks are set out below. This does not include annuity insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Fund.

#### (i) Credit risk

The Fund is subject to credit risk as it invests in bonds, OTC derivatives, has cash balances, undertakes stock lending activities and enters into repurchases agreements. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

	Investment grade	Non- investment grade	Unrated	Total
	£'000	£'000	£'000	£'000
<b>At 31 March 2016</b>				
Bonds	1,612,129	23,576	13,300	1,649,005
Loans	-	-	65,207	65,207
OTC Derivatives	(45,297)	-	-	(45,297)
Cash	380,381	-	-	380,381
Other investment balances	(22,959)	213	134	(22,612)
Stock lending	247,700	-	-	247,700
Repos	43,993	-	-	43,993
Time deposits	4,111	-	-	4,111
PIVs	-	-	4,146,499	4,146,499
	<u>2,220,058</u>	<u>23,789</u>	<u>4,225,140</u>	<u>6,468,987</u>
	<i>Investment grade</i>	<i>Non- investment grade</i>	<i>Unrated</i>	<i>Total</i>
	£'000	£'000	£'000	£'000
<b>At 31 March 2015</b>				
Bonds	1,600,657	36,190	13,843	1,650,690
Loans	-	-	31,257	31,257
OTC Derivatives	(36,605)	-	-	(36,605)
Cash	450,362	-	-	450,362
Other investment balances	(2,441)	419	139	(1,883)
Stock lending	104,000	-	-	104,000
Repos	13,253	-	-	13,253
Time deposits	1,447	-	-	1,447
PIVs	-	-	4,090,514	4,090,514
	<u>2,130,673</u>	<u>36,609</u>	<u>4,135,753</u>	<u>6,303,035</u>

The Fund has Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles of £291.5m (2015: £295.4m).

## TfL Pension Fund

### Notes to the Accounts (continued)

A summary of pooled investment vehicles by type of arrangement is as follows:

	2016 £'000	2015 £'000
Open ended investment fund	2,275,560	2,289,473
Qualifying Investor Fund	1,068,127	1,123,856
Open ended investment companies	539,991	600,660
Closed ended investment companies	419,997	442,856
Shares of limited partnerships	337,112	254,531
Shares of UK limited companies	236,845	231,247
Unit trusts	222,123	228,776
Other	114,872	42,973
	<u>5,214,627</u>	<u>5,214,372</u>

#### (ii) Currency risk

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy.

The Fund's total net unhedged exposure by major currency at the year end was as follows:

Total direct exposure by major currency

	2016 £'000	2015 £'000
US Dollar	1,966,200	2,041,384
Euro	509,229	432,987
Japanese Yen	214,544	261,451
Other	698,637	720,191
	<u>3,388,610</u>	<u>3,456,013</u>

Breakdown of currency exposure in index funds

	2016 £'000	2015 £'000
US Dollar	1,230,126	1,202,400
Euro	249,117	255,457
Japanese Yen	89,008	93,973
Other	408,232	391,686
	<u>1,976,483</u>	<u>1,943,516</u>

Total amount hedged in Currency Overlay

	2016 £'000	2015 £'000
US Dollar	1,223,039	1,252,472
Euro	248,809	226,669
Japanese Yen	149,438	159,481
	<u>1,621,286</u>	<u>1,638,622</u>

#### (iii) Interest rate risk

The Fund is subject to interest rate risk on the LDI investments comprising bonds and interest rate swaps held either as segregated investments or through pooled vehicles and cash. At the year end the LDI portfolio comprised:

	2016 £'000	2015 £'000
<b>Direct</b>		
Bonds	1,649,005	1,650,690
Loans	65,207	31,257
Swaps	(28,813)	(24,053)
<b>Indirect</b>		
Bond PIV	291,461	295,449
	<u>1,976,860</u>	<u>1,953,343</u>

# TfL Pension Fund

## Notes to the Accounts (continued)

### (iv) Other price risk

Other price risk arises principally in relation to the Fund's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, private equity and investment properties.

The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

At the year end, the Fund's exposure to investments subject to other price risk was:

	2016 £'000	2015 £'000
<b>Direct</b>		
Equities	1,949,084	2,052,215
Equity futures	(124)	(403)
Equity options	42,849	35,195
<b>Indirect</b>		
Equity PIVs	2,266,190	2,409,779
Hedge funds	450,678	494,599
PE funds	908,747	644,706
Commodities	59,587	72,380
Reinsurance	113,063	118,806
Real estate	56,774	54,797
	<u>5,846,848</u>	<u>5,882,074</u>

### h) Securities lending

The Fund lends certain fixed interest and equity securities under a Trustee approved securities lending programme. At the 31 March 2016 £247.7m of investments were loaned comprising £191.7m overseas equities, £25.8m overseas fixed interest securities £29.4 UK equities and £0.8m UK fixed interest securities. Collateral of £269.5m was held at the 31 March 2016 in the form of cash of £16.1m and non-cash of £253.4m (2015: £104.0m loaned against £111.8m collateral).

### i) Self investment

There were no employer-related investments at any time during the year ended 31 March 2016.

### j) Commitments

At the 31 March 2016 the Fund had contractual commitments of £570.8m (2015 £675.3m) to pay calls on outstanding drawdowns for alternative Investments in pooled investment vehicles, unquoted equities and loans.

## 12. Investment management expenses

	2016 £'000	2015 £'000
Administration, management and custody	11,971	12,425
Performance measurement services	73	60
Other advisory services	765	670
	<u>12,809</u>	<u>13,155</u>

The total investment management expenses incurred during the year was £32.3m (2015:£47.6m) of which only £12.8m (2015:£13.2m) was actually remitted; the balance was deducted as part of the daily pricing of the individual asset portfolios.

# TfL Pension Fund

## Notes to the Accounts (continued)

### 13. Fixed assets held for own use

	Computer equipment £'000	Furniture £'000	Total £'000
<i>Cost at 1 April 2015</i>	2,006	34	2,040
Additions	8	-	8
Withdrawals	-	-	-
<b><i>Cost at 31 March 2016</i></b>	<b><u>2,014</u></b>	<b><u>34</u></b>	<b><u>2,048</u></b>
<i>Accumulated depreciation at 1 April 2015</i>	(1,788)	(34)	(1,822)
Depreciation charge for the year	(77)	-	(77)
Withdrawals	-	-	-
<b><i>Accumulated depreciation at 31 March 2016</i></b>	<b><u>(1,865)</u></b>	<b><u>(34)</u></b>	<b><u>(1,899)</u></b>
<b>Net book value at 1 April 2015</b>	<b><u>218</u></b>	<b><u>-</u></b>	<b><u>218</u></b>
<b>Net book value at 31 March 2016</b>	<b><u>149</u></b>	<b><u>-</u></b>	<b><u>149</u></b>

### 14. Current assets

	2016 £'000	2015 £'000
<i>Debtors</i>		
Prepayments and accrued income	24,751	12,588
<i>Cash balances</i>		
	<u>10,253</u>	<u>6,326</u>
	<b><u>35,004</u></b>	<b><u>18,914</u></b>

### 15. Current liabilities

	2016 £'000	2015 £'000
<i>Creditors</i>		
Unpaid benefits	7,079	5,529
Accrued expenses and deferred income	<u>3,489</u>	<u>3,296</u>
	<b>10,568</b>	<b>8,825</b>
<i>Bank overdrafts</i>		
	<u>986</u>	<u>679</u>
	<b><u>11,554</u></b>	<b><u>9,504</u></b>

Bank overdrafts represent payments submitted and cheques drawn but not presented for payment by 31 March 2016. Interest is not payable on these sums.

### 16. 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 (TfL) pays administration expenses on behalf of the Fund and subsequently recharges these to the Fund. Administrative expenses recharged by TfL during the year end were £2,330,000 (2015: £2,317,000) and are included in Note 7 on page 25. At 31 March 2016, £166,000 (2015: £580,000) has been included in creditors in respect of administration expenses 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 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 2016

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 17 May 2013 in respect of the Fund year ended 31 March 2016. 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	207,102
Deficit funding	110,148
<b>Members</b>	
Normal contributions	50,410
<b>Contributions payable under the schedules (as reported on by the Fund auditor)</b>	<u>367,660</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)	367,660
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditors)	
Member additional voluntary contributions	8,739
<b>Total contributions reported in the accounts</b>	<u>376,399</u>

This Report was approved by the Board of Directors of the TfL Trustee Company Limited on 8 July 2016 and was signed on their behalf by:

M Antoniou

G Dean

Directors  
TfL Trustee Company Limited

## TfL Pension Fund Actuary's Certificates

Pages 38 to 39 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.

# TfL Pension Fund

## 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 2015 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 2016.

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.

G M Oxtoby  
Fellow of the Institute of and Faculty of Actuaries

Date 27 May 2016

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

# TfL Pension Fund

## 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 2015 to be met by the end of the period specified in the recovery plan dated 1 May 2016.

### 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 2016.

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.

G M Oxtoby  
Fellow of the Institute of and Faculty of Actuaries

Date 27 May 2016

Towers Watson Limited  
Watson House  
London Road  
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Surrey  
RH2 9PQ

## TfL Pension Fund

# Report on Actuarial Liabilities (forming part of the Trustees' report)

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Fund members on request.

The most recent full actuarial valuation of the Fund was carried out as at 31 March 2015. This showed that on that date:

The value of the Technical Provisions for the Public Sector section was £8,686m and for the Composite section was £11.4m

The value of the assets at that date was: £8,290m for the Public Sector section and £14.1m for the Composite section

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Statement of Funding Principles):

### Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

### Significant actuarial assumptions

#### Discount interest rate:

Public Sector section (PSS) = 5.31% pa

Composite section = 2.64% pa in-service, 5.31% pa post-transfer to PSS

#### Future retail price inflation:

Public Sector section (PSS) = 3.2% pa

Composite section = 2.7% pa in-service, 3.2% pa post-transfer to PSS

#### Future consumer price inflation:

Public Sector section (PSS) = 2.2% pa

Composite section = 1.7% pa in-service, 2.2% pa post-transfer to PSS

**Pension increases:** 3.2% pa for Existing Members, 3.0% pa for New Members

**Pay increases:** General pay increases of 0.5% pa above the assumed rate of future retail price inflation.

**Mortality** – current assumed mortality rates in deferment and in payment are based on standard 'S2' tables with different tables and different scaling factors adopted for males and females, and for members retiring in normal health or ill-health respectively. Allowance is made for improvements in longevity from 2015 in line with the CMI 2015 core projection model with an assumed long-term mortality improvement trend of 1.6% per annum.

# TfL Pension Fund

## 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 2016 which is set out on page 36.

This statement is made solely to the Fund's Trustee, as a body, 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, as a body, 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 2016 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 17 May 2013.

Kevin Clark  
for and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*

15 Canada Square  
Canada Wharf  
London E14 5GL

8 July 2016

## TfL Pension Fund

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

Historically the Fund is structured into a series of financially segregated sections, with the Public Sector section providing benefits for public sector employees and 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.

	Equity Fund			
	As at 31 March 2016		As at 31 March 2015	
	Units	£'000s	Units	£'000s
<b>Participating Employer</b>				
Public Sector Section	2,109,926,406	4,457,257	2,071,617,405	4,507,275
Tube Lines Limited	-	-	73,096,882	159,039
Capgemini UK plc	-	-	86,020	187
Cubic Transportation Systems Ltd	-	-	4,173,243	9,080
Composite section	4,530,116	9,570	203,575	443
Thales Transport and Security Ltd	-	-	272,207	592
	<b>2,114,456,522</b>	<b>4,466,827</b>	<b>2,149,449,332</b>	<b>4,676,616</b>

The Equity Fund unit price at the year end was £2.112517781 (2015 £2.1757277)

	Bond Fund			
	As at 31 March 2016		As at 31 March 2015	
	Units	£'000s	Units	£'000s
<b>Participating Employer</b>				
Public Sector Section	474,228,006	1,137,483	456,553,620	1,140,595
Tube Lines Limited	-	-	17,561,249	43,873
Capgemini UK plc	-	-	29,423	74
Cubic Transportation Systems Ltd	-	-	1,427,456	3,566
Composite section	1,478,026	3,545	69,633	174
Thales Transport and Security Ltd	-	-	93,108	233
	<b>475,706,032</b>	<b>1,141,028</b>	<b>475,734,489</b>	<b>1,188,515</b>

The Bond Fund unit price at the year end was £2.398598973 (2015 £2.498273512)

	Alternative and Liability Driven Assets Fund			
	As at 31 March 2016		As at 31 March 2015	
	Units	£'000s	Units	£'000s
<b>Participating Employer</b>				
Public Sector Section	1,768,191,268	2,488,607	1,656,271,672	2,276,173
Tube Lines Limited	-	-	51,877,017	71,293
	<b>1,768,191,268</b>	<b>2,488,607</b>	<b>1,708,148,689</b>	<b>2,347,466</b>

The Alternative Liability Driven Assets Fund unit price at the year end was £1.407430857 (2015 £1.374275349)

	31 March 2016	31 March 2015
	£'000s	£'000s
Equity Fund	4,466,827	4,676,616
Bond Fund	1,141,028	1,188,515
Alternative and Liability Driven Assets Fund	2,488,607	2,347,466
Other (non unitised assets allocated to Public Sector)	114,981	91,560
<b>Total Net Assets at end of year</b>	<b>8,211,443</b>	<b>8,304,157</b>

# 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

There have been no changes during the year.

## 4. Pension Tracing Service

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

The Pension Tracing Service can be contacted at:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU  
Telephone 0345 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 document.  
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)**