

TfL Pension Fund

Report and Accounts for the year to 31 March 2017



Notice for the visually impaired

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TfL Pension Fund

Report and Accounts for the year to 31 March 2017

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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.

Pension Schemes Registry scheme reference number: 10165351

TfL Pension Fund

Organisation and Advisers as at 31 March 2017

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 T Ashton	General Manager, Victoria Line, 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 T Coff	Finance Director, London Underground Limited (TfL)
Ms J Collis	Director of Health, Safety & Environment, Transport for London (TfL)
Ms N Cox	Principal, Commercial Finance, Transport for London (TfL)
Ms C Davies	Borough Engagement Manager, Public Affairs, Transport for London (PCC)
Mr G Dean	Train Operator, London Underground Limited (ASLEF)
Mr SW Ellaby	HSE Manager, HSE Rail and Corporate, Transport for London (TSSA)
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 JB Timbrell	Project Engineer, London Underground Limited (Unite the Union (Amicus))
Mr S White	Operations Director, SSL, London Underground Limited (TfL)

TfL Pension Fund

Organisation and Advisers as at 31 March 2017 (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
Rail for London (Infrastructure) 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

Investment Managers

AQR Capital Management, LLC
Ardevora Asset Management LLP
Arrowgrass Capital Partners, LLP
Blackrock Investment Management (UK) Limited
Brevan Howard Asset Management, LLP
Bridgewater Associates, Inc.
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
IFC Asset Management Company, LLC
Industry Funds Management Pty Limited
J O Hambro Capital Management 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
Russell Implementation Services Limited
Semperian PPP Investment Partners Holdings Limited
Siguler Guff & Company, LP
Veritas Asset Management LLP
Wellington Management Company, LLP

Legal Advisers

Sacker & Partners LLP

Communications Advisers

Hughes Communications

Independent Medical Adviser

Dr S Sheard

Scheme Employer Covenant Reviewer

Penfida 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

Date of Appointment

2 September 2014
29 June 2015
13 December 2012
1 September 2014
18 February 2013
2 November 2005
14 October 2010
11 September 2013
15 December 2009
24 July 2013
9 December 2015
15 June 2005
15 March 2013
24 May 2013
5 January 2010
24 October 2014
1 September 2004
1 August 2012
13 December 2012
24 June 2014
4 June 2010
24 June 2013
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 Chairman for the year ended 31 March 2017. As has become customary, I can note at the outset that throughout the year pension matters have continued to attract widespread interest from the media alongside governmental, parliamentary and regulatory attention.

Focusing on our own Fund, the steady increase in the value of its assets has resumed after last year's small reduction with net assets now exceeding £9.8 billion at 31 March 2017. The Fund's liabilities have continued their general trend of increasing, although unlike last year their growth during this year has not outpaced that of the Fund's assets. The next formal review of assets and liabilities will be the actuarial valuation at 31 March 2018.

Following the completion of the review of the Fund's investment strategy last year, the focus of both the Alternatives and Liability Hedging Committee and the Investment Committee has been carrying through the implementation in conjunction with our investment advisers, Willis Towers Watson. This has included consideration of the structure of the equity, bond and alternative asset portfolios, the introduction of new asset classes and an increase in investment with some existing managers (including new portfolios). As a result of these activities decisions to terminate four investment managers were taken during the year, although where disinvestment has not yet been completed, they are still included in the listing of Investment Managers in the accounts. No new investment manager appointments have been made during the year, but some new appointments are expected to be finalised shortly.

This year's investment performance was 20.2%, behind the benchmark return of 21.0% by 0.8%, while over the longer period of three years the return was 10.3% per year, below the benchmark by 0.6%. Over five years returns were 9.9% per year, 0.1% behind the benchmark. More information is contained in the Investment Report starting on page 13.

The Fund continued to use greater diversity to maximise the probability of achieving its return objectives, while managing the overall risk in the portfolio. Recognising the importance of employer support in ensuring the security of member benefits, the Trustee consults with TfL as Principal Employer on investment strategy, in particular at the options available to help mitigate the level of risk with a view to optimising the risk/return profile of the assets in the Fund.

The Fund has reviewed its investment beliefs during the year and these are now incorporated into its Statement of Investment Principles. Also having decided to become a signatory of the UN Principles of Responsible Investment, the Fund is evidencing its existing stewardship activities as an active and long term institutional investor.

The Fund is a segregated scheme which now only has two sections. These are the Public Sector Section comprising TfL's employing companies and the Composite section comprising Cubic Transportation Systems Limited, Thales Transport and Security Limited and the British Transport Police Authority. During the year a new TfL subsidiary, Rail for London (Infrastructure) Limited, became a participating employer in the Public Sector Section of the Fund. This company's employees are covering roles that TfL is undertaking for the Elizabeth Line.

It is noteworthy that during the calendar year 2016 there were no meetings of the Appeals Committee required and up to the end of the scheme year it has only had to convene once to consider one appeal. Mention is also deserved of the work of the other Committees (Operations, Audit and Actuarial) and the Trustee Board itself in diligently carrying out their respective responsibilities in supporting good governance in all the Fund's activities.

With a membership of almost 86,000, the day to day administration of the Fund is a significant undertaking. Over 43,000 tasks were completed by the Fund Office during the year. Alongside introducing a new administrative system, they still managed to achieve service level agreement targets of 99.9% in three out of four quarters of the year. Whilst the non availability of Member Self Service has resulted in additional call volumes to the Fund office, I am pleased to report the service has now been launched.

During the year we welcomed Tricia Ashton, Tanya Coff, Nicola Cox and Carole Davies to the Trustee Board and at year-end the Trustee Board was at full strength. 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 trust knowledge and understanding.

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

Chair
7 July 2017

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 2017.

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 2017:

Retiring Director	Date of Retirement	New Appointment	Date of Appointment	Nominating Body
Ms A Back	30 September 2016	Ms T Ashton	9 December 2016	TfL
Mr DJ O'Brien	30 September 2016	Ms T Coff	9 December 2016	TfL
Mr MJ Weston	30 September 2016	Ms N Cox	9 December 2016	TfL
		Ms C Davies	9 December 2016	PCC

Mr S Ellaby, previously nominated by the PCC, was nominated as TSSA's representative to replace Mr J Knowles as a Director effective 11 June 2016.

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 2017, 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	11	11	Mr LP Brown	17	15
Ms T Ashton	4	4	Ms C Davies	3	2
Mr ME Binnington	20	17	Mr G Dean	14	14
Ms E Cernoia	20	20	Mr SW Ellaby	12	12
Ms T Coff	4	4	Mr S Hedley	10	3
Ms J Collis	13	8	Mr P Kilius-Smith	10	8
Ms N Cox	4	3	Mr CA Miller	11	9
Ms R Kerry	15	14	Mr PJ Murphy	25	23
Mr S White	10	8	Mr JB Timbrell	20	19

The average attendance for the Directors listed above at scheduled Trustee Board and Committee meetings was 88% TfL nominated and 83% non-TfL nominated respectively.

TfL Pension Fund

Trustee's Report (continued)

2. Committees of the Board of Directors

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

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

Committee	TfL Nominated	Non-TfL Nominated
Investment	Mr ME Binnington Ms E Cernoia Ms N Cox 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 T Ashton Ms J Collis Ms N Cox Ms R Kerry	Mr LP Brown Ms C Davies Mr G Dean Mr PJ Murphy
Audit	Ms T Coff Ms J Collis Mr S White	Mr LP Brown Mr G Dean Mr S Hedley
Appeals	Ms T Ashton Ms T Coff Ms R Kerry	Mr G Dean Mr SW Ellaby Mr P Kilius-Smith
Actuarial Valuation	Ms M Antoniou Ms R Kerry	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.

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.

TfL Pension Fund

Trustee's Report (continued)

Appeals Committee

To hear appeals as the second stage adjudicator under the Internal Disputes Resolution Procedure.

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.

With effect from 1 December 2016, Rail for London (Infrastructure) Limited became a participating employer in the Public Sector Section.

Changes to the Trust Deed and Rules of the Fund

There have been no changes to the Fund Rules.

Management of the Fund

(a) Trustee's responsibility for preparing accounts

Under the Rules of the Fund and the Pensions Act 1995, the Trustee is required to prepare accounts for each Fund year which show a true and fair view of the financial transactions 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 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.

TfL Pension Fund

Trustee's Report (continued)

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.

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

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

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

TfL Pension Fund

Trustee's Report (continued)

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. This was updated in March 2017 following the publication of the TfL Business Plan.

Quarterly Investment Updates

The Trustee continually 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 2017 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 £9,867.8m at 31 March 2017. The increase of £1,656.4m, compared with the value at 31 March 2016 of £8,211.4m, was made up as follows:

	Movement in the year	
	2017	2016
	£m	£m
Net returns on investments	1,653.9	(123.4)
Net additions from dealings with members	2.5	30.7
	<u>1,656.4</u>	<u>(92.7)</u>

Net returns on investments comprised changes in the market value of investments of £1,549.9m (2016: (£215.4m)) and investment income of £119.9m (2016: £104.8m) which were partly offset by investment management expenses of £15.9m (2016: £12.8m). The increase in market value of investments was made up of realised investment losses of £63.3m (2016: £101.6m) and unrealised investment gains of £1,613.2m (2016: losses of £317.0m).

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

TfL Pension Fund

Trustee's Report (continued)

The decrease in the amount of net additions from dealings with members of £28.2m was mainly due to an increase in benefits payable of £40.6m, an increase in transfers in from other schemes of £4.3m, a increase in pension levies of £1.7m offset by an increase of contributions receivable of £11.9m. 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 increased by £2.6m with administration expenses and other payments showing a reduction on the previous year.

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 2015 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.

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 2017.

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.

Correspondence with the Pension Regulator has continued throughout the year following the completion of the 2015 valuation. This remains an ongoing activity.

TfL Pension Fund

Trustee's Report (continued)

7. Changes in membership during the year

The table below summarises the movement in membership during the year to 31 March 2017. In addition, the Fund has 201 (2016: 185) pension credit members comprising 136 deferred pensioners (2016: 125) and 65 pensioners (2016: 60).

	<u>2016/ 2017</u>	<u>2016/ 2017</u>	<u>2015/ 2016</u>	<u>2015/ 2016</u>	<u>Change</u>
Contributing members as at 1 April 2016	25,636		24,336		
Joiners*	3,034		2,755		
	<u>28,670</u>		<u>27,091</u>		
Contributing members retiring	(1,015)		(639)		
Leavers taking a refund of contributions	(283)		(250)		
Leavers becoming deferred pensioners	(723)		(497)		
Leavers transferring to other schemes	(3)		(5)		
Leavers with less than two years service – member option decision pending	5		(22)		
Leavers taking a trivial commutation lump sum	(5)		(5)		
Deaths in service	(23)		(37)		
Contributing members as at 31 March 2017		26,623		25,636	+987
Deferred pensioners as at 1 April 2016	16,732		17,111		
Leavers becoming deferred pensioners	723		497		
	<u>17,455</u>		<u>17,608</u>		
Deferred pensions coming into payment	(681)		(737)		
Deferred pensioners transferring to other schemes	(59)		(52)		
Deferred pensioners taking a trivial commutation lump sum	(65)		(41)		
Deferred pensioner deaths	(32)		(46)		
Deferred pensioners as at 31 March 2017		16,618		16,732	-114
Pensioners as at 1 April 2016	31,647		31,394		
Contributing members retiring	1,015		639		
Pensions coming into payment	681		737		
	<u>33,343</u>		<u>32,770</u>		
Pensioner deaths	(1,145)		(1,122)		
Pensioners taking a trivial commutation lump sum	(15)		(1)		
Pensioners as at 31 March 2017		32,183		31,647	+536
Dependants as at 1 April 2016	9,962		10,011		
Dependants becoming entitled to pensions	621		615		
	<u>10,583</u>		<u>10,626</u>		
Dependant deaths	(611)		(612)		
Dependants taking a trivial commutation lump sum	(96)		(52)		
Dependants as at 31 March 2017		9,876		9,962	-86
Eligible children as at 1 April 2016	592		614		
Children becoming entitled to pensions	45		68		
	<u>637</u>		<u>682</u>		
Children ceasing to be eligible	(51)		(83)		
Children taking a trivial commutation lump sum	(-)		(1)		
Child deaths	(3)		(6)		
Eligible children as at 31 March 2017		583		592	-9
Total membership as at 31 March 2017		<u>85,883</u>		<u>84,569</u>	<u>1,314</u>

*This includes 1,363 Tube Lines and former Metronet employees who became eligible to join the Fund in the year to 31 March 2017.

TfL Pension Fund

Trustee's Report (continued)

Details of contributing members by section as at 31 March 2017 were as follows:

	<u>2016/ 2017</u>	<u>2016/ 2017</u>	<u>2015/ 2016</u>	<u>2015/ 2016</u>	<u>Change</u>
	%	%	%	%	
Transport for London	26,587	99.86	25,599	99.86	+988
Composite section	36	0.14	37	0.14	-1
	<u>26,623</u>	<u>100.00</u>	<u>25,636</u>	<u>100.00</u>	<u>+987</u>

8. Pension increases

Deferred members and pensioners receive increases in accordance with the Fund Rules. The April 2017 pension increase is based on the increase in the Retail Price Index over the 12 months to September 2016. Members of the Fund fall into one of two categories; *Existing Members* are those who joined the Fund when it was formed in April 1989 and *New Members* are those who joined on or after 2 April 1989 whose increase is capped at 5%. The full year's increase is 2% 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%
April 2017	2.0%	2.0%

9. Fund's advisers

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

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 2017 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. Termination notices have been served on Arrowgrass Capital Partners, LLP and OZ Management LP after the year end. 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 2017, including AVC investments, had a value of £9,830.1m an increase of £1,642.3m compared with their value, including AVC investments, of £8,187.8m as at 31 March 2016. Investment income (i.e. dividends and interest) amounted to £119.9m for the year to 31 March 2017 compared with £104.8m for the year to 31 March 2016.

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 2017

The Directors measure the Fund's performance against a composite benchmark based upon the current asset allocation. For each active manager the Directors select a portfolio performance measure and for passive managers the performance measure is that of the relevant index being tracked. While the Fund is moving towards its current long-term strategic target allocation, the weightings given to the individual manager benchmarks are their current portfolio valuations, updated on a quarterly basis. The approximate benchmark weights as at 31 March 2017 are set out below (the table has been simplified due to the large number of managers).

Allocation	Weight (%)	Comparison Basis
UK equities	6.4	FTSE All Share/MSCI UK
Overseas developed equities	33.8	FTSE Developed World ex UK/MSCI World ex UK
Emerging market equities	8.8	MSCI EM/ Russell EM
Fundamental equities	5.6	FTSE RAFI All World 3000 Index
Developed equities with EM tilt	2.2	Russell GeoExposure
Fixed interest gilts	0.4	FTSE Over 15 Year Gilts
Index-linked gilts	12.5	FTSE ILG Over 5 Year
Global bonds	2.9	BarCap 60/40 Sovereign Credit Index
Global bonds	3.6	BarCap Global Agg Corp 1% Constrained
Alternative credit	1.3	CS Leveraged Loan/BoAML US High Yield
Alternative credit	0.8	BoAML US T-bills +2%
Alternative credit/ Liquid alternatives	9.0	LIBOR +3% pa/LIBOR +5% pa
Renewables	1.0	Absolute return of 6.5% pa
Infrastructure and real estate	2.4	UK RPI +5% pa
Infrastructure	1.2	European CPI +5%
Infrastructure	0.4	MSCI Emerging Markets +2%
Private equity	3.6	MSCI World +3% pa
Private equity	0.6	BoAML Global High Yield +2% pa
Commodities	0.5	Bloomberg Commodity 3 Month Forward
Real estate	3.0	FTSE EPRA/NAREIT Developed +1%
Currency hedging	-	Adjustment for currency hedging impact
	<u>100.0</u>	

The majority of active managers are 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 2017

Portfolio	% of Manager Fund
Core	
Index tracking (all asset classes) and liability matching assets	40.6 Blackrock Investment Management (UK) Limited ¹
Active Specialist	
Global bonds	6.6 Goldman Sachs Asset Management
Global equities 1	2.3 Ardevora Asset Management LLP
Global equities 2	6.7 Pzena Investment Management LLC
Global equities 3	5.2 JO Hambro Capital Management Limited
Global equities 4	5.1 Veritas Asset Management LLP
Pacific Basin equities	2.7 Nomura Asset Management UK Limited
North American Small Cap equities	2.3 Burgundy Asset Management Limited
Global emerging market equities	1.3 Coronation International Limited
Global emerging market equities	2.1 Russell Implementation Services Limited
Alternative Credit	1.3 Oak Hill Advisors, LP ²
Global Small Cap equities	1.2 Paradice Investment Management Pty Limited
Alternative credit	0.8 Wellington Management Company, LLP
Asia (ex Japan) equities	1.4 JO Hambro Capital Management Limited
Currency overlay	0.2 Russell Implementation Services Limited
Alternative Assets	
Global Macro Systematic Hedge Fund	2.8 Bridgewater Associates, Inc
Infrastructure Investment	2.4 Semperian PPP Investment Partners Holdings Ltd ³
Private Equity Fund of Funds	1.4 Partners Group (UK) Limited
Reinsurance Hedge Fund	1.7 Credit Suisse IRIS ALHC Fund Limited
Alternative Risk Premium Hedge Fund	0.6 Goldman Sachs Asset Management
Distressed & Structured PE Credit	0.7 Siguler Guff & Company, LP
Infrastructure Private Equity Fund	1.2 Colonial First State Global Asset Management
Managed Futures Hedge Fund	0.7 AQR Capital Management, LLC
Real Estate (Fund of Funds Exposure)	2.3 CBRE Global Collective Investors UK Limited
Global Multi-Strategy Hedge Fund	0.7 Arrowgrass Capital Partners, LLP
Global Macro Discretionary Hedge Fund	1.0 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	1.5 Neuberger Berman Alternatives Advisers LLC
Private Mezzanine Debt	0.6 GS Mezzanine Partners
Emerging Market Infrastructure Fund	0.4 IFC Asset Management Company, LLC
UK Renewables Private Equity	1.0 Blackrock Renewable Income UK Fund
	100.0

¹ Blackrock manages a portfolio of financial instruments which seeks to hedge a proportion of the Fund's liabilities interest rate and inflation risk.

² The Fund has 6.3% economic interest in Oakhill Diversified Credit Strategies Fund (Offshore) Ltd.

³ 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 2017 are shown below.

	Value	% of Fund's quoted equity holdings	Country	Sector
	£m	%		
Oracle	43.3	1.6	USA	Technology
Charter	35.0	1.3	USA	Telecommunications
Comcast	32.8	1.2	USA	Media
Microsoft	28.7	1.1	USA	Technology
Tencent Holdings	24.7	0.9	China	Technology
Unitedhealth Group	23.8	0.9	USA	Healthcare
Posco	23.6	0.9	S Korea	Steel
Total SA	23.4	0.9	France	Oil and Gas
Allergan	23.3	0.9	Ireland	Pharmaceutical
British American Tobacco	22.4	0.8	UK	Tobacco
	<u>281.0</u>	<u>10.5</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	1.593

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, net of fees, (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 2017 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 %	20.2	21.0	10.3	10.9	9.9	10.0
Ex currency hedging	23.2	24.0	11.8	12.5	10.6	10.5

The Fund assets returned 20.2% for the year ending 31 March 2017, 0.8% below its benchmark returns of 21.0%.

Since 1 April 2016, the Total Fund ex Currency Hedging Benchmark is calculated by the Fund's performance measurer as a weighted average of the underlying manager benchmarks. This has then been adjusted to estimate the impact of the currency overlay portfolio to produce the Total Fund Benchmark. The currency impact has been estimated as the difference in performance between the Total Fund ex Currency Hedging and the Total Fund.

TfL Pension Fund

Investment Report (continued)

Details of the performance of the individual portfolios in the year to 31 March 2017 gross of fees, unless shown otherwise, compared with the previous year are shown below:

	Year to 31 March 2017		Year to 31 March 2016	
	Fund %	Benchmark %	Fund %	Benchmark %
Index-Tracking – Blackrock				
UK equities	22.1	22.0	(3.9)	(3.9)
North American equities	35.1	35.2	4.2	4.2
Canadian equities	31.6	31.2	(6.2)	(6.3)
European equities (ex. UK)	28.0	28.0	(4.4)	(4.5)
Japan equities	32.7	32.5	(3.5)	(3.5)
Pacific Basin (ex. Japan) equities	37.4	37.3	(5.3)	(5.5)
Middle East/Africa equities	0.1	(0.2)	(4.3)	(4.5)
Emerging Market equities	34.7	34.7	(9.1)	(9.1)
Over 15 year Gilts	12.4	12.4	4.2	4.0
FTSE RAFI All World 3000	35.9	35.5	(2.5)	(3.9)
GeoExposure ³	39.9	40.4	(4.9)	(4.7)
LDI – Blackrock QIF	10.0	N/A	(0.5)	N/A
Equities				
Adevora - Global equities	34.9	32.2	2.8 ¹	2.8 ¹
Blackrock – EM equity futures	(6.1)	(4.4)	(9.8)	(9.1)
Burgundy - North American equities	39.4	45.1	2.0	(6.6)
Coronation – Global EM equities	37.1	34.7	(11.0)	(9.1)
J O Hambro – Asia (ex Japan) equities	35.0	35.0	(7.1)	(9.0)
J O Hambro - Global equities	27.2	32.2	(11.7)	(1.2)
Nomura - Far East equities	37.7	34.1	(4.6)	(6.0)
Paradice -Global Small Cap equities	35.2	32.5	(0.3)	(1.2)
Pzena -Global equities	39.3	31.9	(2.8)	(0.3)
Russell EM equities	43.4	43.7	(2.8)	(0.3)
Veritas - Global equities	27.4	32.2	5.1 ¹	2.8 ¹
Bonds				
Blackrock - Network Rail bonds ³	21.9	21.9	(0.4)	1.9
Goldman Sachs - Asset Backed	23.3	0.4	2.0	0.6
Goldman Sachs - Corporate Credit	3.8	3.5	1.6	1.1
Goldman Sachs - Sovereign Credit	10.7	9.6	1.8	1.1
Industry Funds Management	22.2	3.5	10.8	4.6
IFM – Enhanced Credit	(1.4) ²	0.1 ²	-	-
Oak Hill ³	36.3	31.4	(3.9)	0.7
Wellington	(1.5)	1.7	0.5	3.3
Other assets				
AQR Capital Management ³	(11.1)	3.5	4.2	3.6
Arrowgrass ³	1.7	3.5	4.0	3.6
Blackrock Commodities ³	21.4 ²	21.4 ²	-	-
Blackrock Real Estate ³	17.1	17.1	3.7	4.6
Blackrock Renewable ³	2.9	6.5	(5.7)	7.5
Brevan Howard : Fund ³	0.2	3.5	(2.7)	3.6
Bridgewater Pure Alpha Sterling ³	13.1	5.5	(13.6)	5.6
Bridgewater Pure Alpha Major Markets ³	17.2	5.5	(12.8)	5.6
CBRE	18.1	18.3	16.1	10.0
Colonial First State Global Asset Mgt ³	20.6	14.9	19.9	12.5
Credit Suisse ³	18.8	19.4	3.5 ¹	3.5 ¹
Goldman Sachs - ARP	(27.4)	3.5	-	-
Goldman Sachs Mezzanine	38.1	33.4	14.6	4.6
IFC Global Infrastructure	19.4	37.4	(6.1)	12.0
Neuberger Berman	23.3	36.9	24.6	7.9
Och-Ziff ³	11.8	3.4	(6.9)	3.6
Partners Group	14.1	36.7	22.6	3.3
Semperian	3.3	8.3	12.3	8.4
Siguler Guff	31.0	36.7	11.0	3.3

¹ One quarter's results (not annualised)

² Since inception

³ 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 2017	% of total	Reported returns (where declared) Year to 31 March 2017
	£m		
Equitable Life			
With Profits	2.4	3.5	N/A
Unit-linked funds			
Managed	3.4	4.9	18.2%
UK FTSE Tracking	1.3	1.9	21.3%
UK FTSE Tracking Lifestyle	0.5	0.7	21.0%
Money	0.5	0.7	0.0%
	<u>8.1</u>	<u>11.7</u>	
Clerical Medical			
With Profits	4.8	7.0	N/A
Unit-linked funds	0.9	1.3	N/A
	<u>5.7</u>	<u>8.3</u>	
Standard Life			
Passive Plus Pension Fund	26.0	37.7	22.0%
International Equity Pension Fund	5.0	7.2	28.9%
Annuity Purchase Fund	3.2	4.6	8.1%
Ethical Pension Fund	2.4	3.5	15.5%
Deposit and Treasury Pension Fund	8.0	11.6	0.3%
Blackrock Aquila Over 5 year Index-linked	2.2	3.2	22.0%
Blackrock Aquila World (ex UK) Equity Fund	2.5	3.6	33.5%
Vanguard FTSE UK All Share Ind Pension Fund	4.7	6.8	21.9%
HSBC Amanah Pension Fund	0.8	1.2	29.8%
Pension With Profits One Fund	0.4	0.6	N/A
	<u>55.2</u>	<u>80.0</u>	
	<u>69.0</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. Stewardship and activism

The Trustees recognise the Fund's responsibility as an active and long term institutional investor to support and encourage good corporate practices in the companies in which it invests. In the stewardship of assets this means paying regard to relevant environmental, social and governance, ("ESG") considerations when considering the purchase, retention or sale of investments. Following the Trustees' review of their investment beliefs that underpin the approach to investment strategy, in addition to the existing belief that active corporate governance can add value, they have included as a new belief that investment return and sustainability are not conflicting objectives.

Analysis of ESG factors may serve to highlight exposures that could harm a company over the longer term while companies which positively engage with ESG issues may achieve long-term value when compared with those which do not.

Through delegation to its investment managers the Trustees currently communicate with companies and exercise the rights attaching to its investments through shareholder voting.

In order to build on this investor activism, the Fund has become a signatory of the UN Principles of Responsible Investment ("PRI") which require the Fund to:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Be an active owner and incorporate ESG issues into ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which it invests.
- Promote acceptance and implementation of the Principles within the investment industry
- Work together to enhance our effectiveness in implementing the Principles.
- Report on activities and progress towards implementing the Principles.

Through this association with the PRI the Fund will gain support in developing its engagement with ESG issues and through the PRI reporting framework provide information on its activities and be able to assess progress. There are over 1600 PRI signatories worldwide comprising asset owners, such as the Fund, investment managers and service providers, representing over \$60 trillion in assets.

Signatories are not expected to achieve instant compliance, but they are required to start to incorporate the PRI into investment decision-making and ownership practices and report on their implementation. The Fund will be working on its compliance with the PRI using its existing resources and this will determine the scale and pace of the Fund's engagement.

The update to the Fund's investment beliefs and its becoming a signatory to UK PRI has been included in the Fund's Statement of Investment Principles.

The Fund is also 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.

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 578 annual general meetings or extraordinary general meetings held in the year to 31 March 2017 and at 205 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.

TfL Pension Fund

Investment Report (continued)

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 17,371 shareholder meetings and at 6,411 of these they cast votes against management.

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 together with engagement with companies by the investment managers.

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

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 Pensions Regulator has issued new investment guidance for defined benefit pension schemes in which it states that trustees should take environmental, social and governance factors into account if they believe they are financially significant.

The Trustee will continue to monitor the developments on environment, social and governance issues.

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 7 July 2017 and was signed on their behalf by:

M Antoniou

P Kilius-Smith

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 2017 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 7, 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.

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 2017 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

7 July 2017

TfL Pension Fund Fund Account

For the year ended 31 March 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Dealings with members					
Contributions receivable	3				
Employer		324,819		317,250	
Employee		63,469		59,149	
Individual transfers in from other schemes		5,649		1,385	
		<u>393,937</u>		<u>377,784</u>	
Benefits payable	4	(368,514)		(327,953)	
Payments to and on account of leavers	5	(5,869)		(3,276)	
Other payments	6	(4,137)		(4,533)	
Administrative expenses	7	(4,054)		(4,210)	
Pension levies	8	(8,847)		(7,116)	
		<u>(391,421)</u>		<u>(347,088)</u>	
Net additions from dealings with members			2,516		30,696
Returns on investments					
Investment income	9	119,910		104,757	
Change in market value of investments	11a	1,549,918		(215,358)	
Investment management expenses	12	(15,943)		(12,809)	
Net returns on investments			1,653,885		(123,410)
Net increase/(decrease) in the fund during year			1,656,401		(92,714)
Net assets at beginning of year			8,211,443		8,304,157
Net assets at end of year			9,867,844		8,211,443

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 2017

	Note	2017 £'000	2016 £'000
Investment assets	11		
Bonds		606,283	601,296
Equities		2,602,793	1,949,084
Loans		76,375	65,207
Pooled investment vehicles	11b	6,121,285	5,214,627
Derivatives	11c	62,189	43,953
AVC investments		68,963	60,281
Cash		281,138	335,845
Other investment balances		63,219	35,386
		<u>9,882,245</u>	<u>8,305,679</u>
Investment liabilities	11		
Derivatives	11c	(27,068)	(93,188)
Other investment balances		(25,113)	(24,647)
		<u>(52,181)</u>	<u>(117,835)</u>
Total net investments		<u>9,830,064</u>	<u>8,187,844</u>
Fixed assets held for own use	13	88	149
Current assets	14	48,495	35,004
Current liabilities	15	(10,803)	(11,554)
Net assets at end of year		<u>9,867,844</u>	<u>8,211,443</u>

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 7 July 2017 and were signed on their behalf by:

M Antoniou
Directors
TfL Trustee Company Limited

P Kilius-Smith

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).

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 2017 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

	2017 £'000	2016 £'000
<i>Employers</i>		
Normal	267,708	207,102
Deficit funding	57,111	110,148
	<u>324,819</u>	<u>317,250</u>
<i>Members</i>		
Normal	52,364	50,410
Additional voluntary contributions	11,105	8,739
	<u>63,469</u>	<u>59,149</u>
	<u>388,288</u>	<u>376,399</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 2016.

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

TfL Pension Fund

Notes to the Accounts (continued)

4. Benefits payable

	2017	2016
	£'000	£'000
Pensions	269,110	256,466
Commutations and lump sum retirement benefits	97,186	69,508
Lump sum death benefits (net of those insured)	1,385	1,652
Taxation where lifetime or annual allowance exceeded	833	327
	<u>368,514</u>	<u>327,953</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

	2017	2016
	£'000	£'000
Individual transfers to other schemes	5,381	2,923
Refunds to members leaving service	333	237
Payments for members joining state scheme	155	116
	<u>5,869</u>	<u>3,276</u>

6. Other payments

	2017	2016
	£'000	£'000
Premiums on term insurance policies	4,137	4,533

7. Administrative expenses

	2017	2017	2016	2016
	£'000	£'000	£'000	£'000
<i>Staff costs</i>				
Payroll	2,393		2,218	
Recruitment and training (incl. Trustee)	<u>13</u>		<u>32</u>	
		2,406		2,250
<i>Establishment costs</i>				
Accommodation	88		88	
Computer costs	481		656	
Telecommunications	17		1	
Depreciation	<u>61</u>		<u>77</u>	
		647		822
<i>Professional fees</i>				
Legal fees	245		209	
Audit fees	84		90	
KPMG non-audit fees	3		22	
Actuarial fees	280		445	
Medical fees	42		46	
Covenant review	53		58	
Other professional fees	<u>37</u>		<u>19</u>	
		744		889
<i>Communication</i>				
Distribution	121		98	
Printing	<u>95</u>		<u>111</u>	
		216		209
<i>Consumables</i>				
Stationery	10		9	
General	<u>31</u>		<u>31</u>	
		41		40
		<u>4,054</u>		<u>4,210</u>

Administrative expenses include recharges by Transport for London of £2,527,158 for staff and other costs.

TfL Pension Fund

Notes to the Accounts (continued)

8. Pension levies

	2017	2016
	£'000	£'000
Pension Protection Fund	8,668	6,948
Pension Regulator levies	179	168
	<u>8,847</u>	<u>7,116</u>

9. Investment income

	2017	2016
	£'000	£'000
Income from bonds	25,500	23,585
Dividends from equities	50,708	40,005
Income from pooled investment vehicles	35,764	35,637
Income from loans	4,554	3,089
Income from derivatives	981	812
Interest on cash deposits	1,042	965
Income from securities lending	1,324	664
Other investment income	37	-
	<u>119,910</u>	<u>104,757</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 2016	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Value at 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Bonds	601,296	531,719	610,097	83,365	606,283
Equities	1,949,084	995,942	979,337	637,104	2,602,793
Loans	65,207	17,882	17,730	11,016	76,375
Pooled investment vehicles	5,214,627	575,276	796,320	1,127,702	6,121,285
Derivative contracts	(49,235)	402,008	-	(317,652)	35,121
AVC investments	60,281	11,105	10,806	8,383	68,963
	<u>7,841,260</u>	<u>2,533,932</u>	<u>2,414,290</u>	<u>1,549,918</u>	<u>9,510,820</u>
Cash deposits	335,845				281,138
Other investment assets	35,386				63,219
Other investment liabilities	(24,647)				(25,113)
Total net investments	<u>8,187,844</u>				<u>9,830,064</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:

	2017	2016
	£'000	£'000
Absolute Return funds	543,848	450,678
Commodities funds	-	59,587
Equity funds	2,767,156	2,266,190
Fixed Interest funds	235,258	291,461
Private Equity funds and infrastructure funds	1,132,757	908,747
Property funds	66,180	56,774
Qualifying Investor fund	1,208,766	1,068,127
Reinsurance funds	167,320	113,063
	<u>6,121,285</u>	<u>5,214,627</u>

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

	2017	2016
	£'000	£'000
Government Bonds	848,593	756,518
Network Rail Bonds	356,058	294,262
Options	14,916	42,849
Swaps	(19,398)	(33,616)
Other	8,597	8,114
	<u>1,208,766</u>	<u>1,068,127</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

	2017		2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Swaps	15,959	(8,173)	25,978	(15,487)
Futures	6,862	(5,776)	1,729	(2,121)
Foreign exchange	39,368	(13,119)	16,246	(75,580)
	<u>62,189</u>	<u>(27,068)</u>	<u>43,953</u>	<u>(93,188)</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	2,592,418	Expires under 1 year	68	(54)
	376,156,878	Expires 1 to 5 years	491	(637)
	57,376,699	Expires 5 to 10 years	1,995	(1,744)
	17,899,122	Expires 10 to 15 years	511	(1,317)
	16,738,247	Expires 15 to 20 years	379	(56)
	1,525,001	Expires 20 to 25 years	-	(146)
	880,832	Expires 30 to 35 years	596	(706)
Credit default swaps	31,228,474	Expires 1 to 5 years	285	(698)
	379,772,410	Expires 5 to 10 years	6,037	(129)
	212,766,864	Expires 10 to 15 years	2,246	-
Total return swaps	21,789,981	Expires less than 1 year	3,351	(2,686)
Total 2017			15,959	(8,173)
<i>Total 2016</i>			<i>25,978</i>	<i>(15,487)</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 value at year end £'000	Liability value at year end £'000
Bonds	214,916,309	Expires under 1 year	1,264	(777)
Cash Instruments	10,030,557	Expires under 1 year	24	(5)
Cash Instruments	34,329,380	Expires 1 to 5 years	-	(21)
Commodities	100,562,128	Expires under 1 year	5,409	(4,932)
Equity	35,637,499	Expires under 1 year	165	(41)
Total 2017			6,862	(5,776)
<i>Total 2016</i>			<i>1,729</i>	<i>(2,121)</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 at year end £'000	Liability value at year end £'000
Forward OTC	1 month	Various	Various	18,019	(1,006)
Forward OTC	2 months	Various	Various	3,443	(1,823)
Forward OTC	3 months	Various	Various	603	(8,040)
Forward OTC	4 months	Various	Various	10,518	(231)
Forward OTC	5 months	Various	Various	1	(1,875)
Forward OTC	6 months	Various	Various	-	(1)
Forward OTC	7 months	Various	Various	6,739	(142)
Forward OTC	10 months	Various	Various	44	(1)
Forward OTC	12 months	Various	Various	1	-
Total 2017				39,368	(13,119)
<i>Total 2016</i>				<i>16,246</i>	<i>(75,580)</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:

	2017	2016
	<i>£'000</i>	<i>£'000</i>
Standard Life	55,150	45,039
Equitable Life	8,064	8,287
Clerical Medical	5,749	6,955
	<u>68,963</u>	<u>60,281</u>

e) Transaction costs

Included within purchases and sales are direct transaction costs of £2,495,000 (2016: £3,611,000) comprising commissions, fees and stamp duty. These costs are attributable to the key asset classes as follows:

	Commission	Fees and Stamp Duty	2017 Total	2016 Total
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
2017				
Equities	1,587	900	2,487	
Bonds	-	8	8	
2016				
Equities	2,357	1,254		3,611

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
At 31 March 2017				
Bonds	2,796	603,098	389	606,283
Equities	2,602,606	187	-	2,602,793
Loans (IFM)	-	-	76,375	76,375
Pooled investment vehicles	11,967	4,140,457	1,968,861	6,121,285
Derivatives	1,086	34,035	-	35,121
AVC investments	-	61,354	7,609	68,963
Cash	281,138	-	-	281,138
Other investment balances	38,106	-	-	38,106
	<u>2,937,699</u>	<u>4,839,131</u>	<u>2,053,234</u>	<u>9,830,064</u>
At 31 March 2016				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
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>

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
At 31 March 2017				
Bonds*	1,773,868	21,699	12,238	1,807,805
Loans	-	-	76,375	76,375
OTC Derivatives	21,862	-	-	21,862
Cash	304,352	-	-	304,352
Other investment balances	26,349	150	118	26,617
Stock lending	207,300	-	-	207,300
Repos	19,503	-	-	19,503
Time deposits	9,848	-	-	9,848
PIVs	-	-	4,912,519	4,912,519
	<u>2,363,082</u>	<u>21,849</u>	<u>5,001,250</u>	<u>7,386,181</u>
	<i>Investment grade</i>	<i>Non- investment grade</i>	<i>Unrated</i>	<i>Total</i>
	£'000	£'000	£'000	£'000
At 31 March 2016				
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>

* This includes bonds held in the Qualifying Investor fund.

The Fund has Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles of £235.3m (2016: £291.5m).

TfL Pension Fund

Notes to the Accounts (continued)

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

	2017	<i>Restated</i> 2016
	£'000	£'000
Open ended investment fund	2,723,357	2,233,344
Qualifying Investor Fund	1,208,766	1,068,127
Closed ended investment companies	555,103	461,028
Open ended investment companies	489,516	539,991
Shares of limited partnerships	417,511	342,055
Unit trusts	353,476	253,954
Shares of UK limited companies	301,075	271,526
Closed ended investment funds	58,924	33,415
Other	13,557	11,187
	<u>6,121,285</u>	<u>5,214,627</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		
	2017	2016
	£'000	£'000
US Dollar	2,421,243	1,966,200
Euro	614,213	509,229
Japanese Yen	343,813	214,544
Other	816,626	698,637
	<u>4,195,895</u>	<u>3,388,610</u>

Breakdown of currency exposure in index funds

	2017	2016
	£'000	£'000
US Dollar	1,235,959	1,230,126
Euro	295,608	249,117
Japanese Yen	123,362	89,008
Other	541,588	408,232
	<u>2,196,517</u>	<u>1,976,483</u>

Total amount hedged in Currency Overlay

	2017	2016
	£'000	£'000
US Dollar	1,453,436	1,223,039
Euro	278,386	248,809
Japanese Yen	224,913	149,438
	<u>1,956,735</u>	<u>1,621,286</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:

	2017	2016
	£'000	£'000
Direct		
Bonds	1,807,805	1,649,005
Loans	76,375	65,207
Swaps	(19,303)	(28,813)
Indirect		
Bond PIV	235,258	291,461
	<u>2,100,135</u>	<u>1,976,860</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:

	2017 £'000	2016 £'000
Direct		
Equities	2,602,793	1,949,084
Equity futures	-	(124)
Equity options	14,916	42,849
Commodities	42,576	-
Indirect		
Equity PIVs	2,767,156	2,266,190
Hedge funds	543,848	450,678
PE funds	680,312	483,011
Infrastructure	452,446	425,735
Commodities	-	59,587
Reinsurance	167,320	113,063
Real estate	66,180	56,774
	<u>7,337,547</u>	<u>5,846,847</u>

h) Securities lending

The Fund lends certain fixed interest and equity securities under a Trustee approved securities lending programme. As at 31 March 2017 £207.3m of investments were loaned comprising £125.3m Overseas equities, £24.0m Overseas fixed interest securities, £55.2m UK equities and £2.8m UK fixed interest securities. Collateral of £223.7m was held as at 31 March 2017 in the form of cash of £29.4m and non-cash of £194.3m (2016: £247.7m loaned against £269.5m collateral).

i) Self investment

There were no employer-related investments at any time during the year ended 31 March 2017.

j) Commitments

At the 31 March 2017 the Fund had contractual commitments of £583.4m (2016 £570.8m) to pay calls on outstanding drawdowns for alternative Investments in pooled investment vehicles, unquoted equities and loans.

12. Investment management expenses

	2017 £'000	2016 £'000
Administration, management and custody	15,171	11,971
Performance measurement services	76	73
Other advisory services	696	765
	<u>15,943</u>	<u>12,809</u>

The total investment management expenses incurred during the year was £42.0m (2016:£32.9m) of which only £15.9m (2016:£12.8m) 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 2016</i>	2,014	34	2,048
Additions	-	-	-
Withdrawals	-	-	-
<i>Cost at 31 March 2017</i>	<u>2,014</u>	<u>34</u>	<u>2,048</u>
<i>Accumulated depreciation at 1 April 2016</i>	(1,865)	(34)	(1,899)
Depreciation charge for the year	(61)	-	(61)
Withdrawals	-	-	-
<i>Accumulated depreciation at 31 March 2017</i>	<u>(1,926)</u>	<u>(34)</u>	<u>(1,960)</u>
Net book value at 1 April 2016	<u>149</u>	<u>-</u>	<u>149</u>
Net book value at 31 March 2017	<u>88</u>	<u>-</u>	<u>88</u>

14. Current assets

	2017 £'000	2016 £'000
<i>Debtors</i>		
Prepayments and accrued income	27,155	24,751
<i>Cash balances</i>	<u>21,340</u>	<u>10,253</u>
	<u>48,495</u>	<u>35,004</u>

15. Current liabilities

	2017 £'000	2016 £'000
<i>Creditors</i>		
Unpaid benefits	6,751	7,079
Accrued expenses and deferred income	<u>2,937</u>	<u>3,489</u>
	<u>9,688</u>	<u>10,568</u>
<i>Bank overdrafts</i>	<u>1,115</u>	<u>986</u>
	<u>10,803</u>	<u>11,554</u>

Bank overdrafts represent payments submitted and cheques drawn but not presented for payment by 31 March 2017. 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 £2,527,158 (2016: £2,330,000) and are included in Note 7 on page 25. At 31 March 2017, £596,002 (2016: £166,000) 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 2017

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 27 May 2016 in respect of the Fund year ended 31 March 2017. 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
Employers	
Normal contributions	267,708
Deficit funding	57,111
Members	
Normal contributions	52,364
Contributions payable under the schedules (as reported on by the Fund auditor)	<u>377,183</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)	377,183
Contributions payable in addition to those due under the schedules (and not reported on by the Fund auditors)	
Member additional voluntary contributions	11,105
Total contributions reported in the accounts	<u>388,288</u>

This Report was approved by the Board of Directors of the TfL Trustee Company Limited on 7 July 2017 and was signed on their behalf by:

M Antoniou

P Kilius-Smith

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
Reigate
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 2017 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 2017 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 27 May 2016.

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

15 Canada Square
Canada Wharf
London E14 5GL

7 July 2017

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 2017		As at 31 March 2016	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	2,055,979,308	5,476,974	2,109,926,406	4,457,257
Composite section	4,420,268	11,775	4,530,116	9,570
	<u>2,060,399,576</u>	<u>5,488,749</u>	<u>2,114,456,522</u>	<u>4,466,827</u>

The Equity Fund unit price at the year end was £2.663924686 (2016 £2.112517781)

	Bond Fund			
	As at 31 March 2017		As at 31 March 2016	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	442,409,870	1,230,337	474,228,006	1,137,483
Composite section	1,663,014	4,625	1,478,026	3,545
	<u>444,072,884</u>	<u>1,234,962</u>	<u>475,706,032</u>	<u>1,141,028</u>

The Bond Fund unit price at the year end was £2.780988756 (2016 £2.398598973)

	Alternative and Liability Driven Assets Fund			
	As at 31 March 2017		As at 31 March 2016	
	Units	£'000s	Units	£'000s
Participating Employer				
Public Sector Section	1,893,986,246	2,987,425	1,768,191,268	2,488,607
	<u>1,893,986,246</u>	<u>2,987,425</u>	<u>1,768,191,268</u>	<u>2,488,607</u>

The Alternative Liability Driven Assets Fund unit price at the year end was £1.577321342 (2016 £1.407430857)

	31 March 2017	31 March 2016
	£'000s	£'000s
Equity Fund	5,488,749	4,466,827
Bond Fund	1,234,962	1,141,028
Alternative and Liability Driven Assets Fund	2,987,425	2,488,607
Other (non unitised assets allocated to Public Sector)	156,708	114,981
<i>Total Net Assets at end of year</i>	<u>9,867,844</u>	<u>8,211,443</u>

TfL Pension Fund Compliance Statement

1. Scheme Advisers

There are written agreements in place between the Trustee and each of the Scheme advisers listed on Page 3 of this report and also with the Principal Employer.

2. Transfers

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

3. Changes to the Fund's advisers

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
Website: www.tfl.gov.uk/pensions