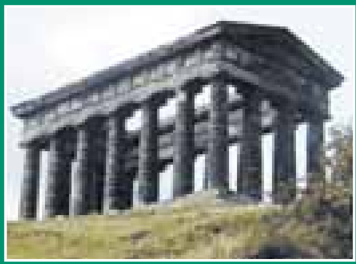
Tyne and Wear Pension Fund

Report and Accounts 2003/04



Administered by South Tyneside Council

Contents

Members of the Pensions Committee, Investment Managers, Advisors and Officers

Committee Members

South Tyneside Council	Councillor R.S. Haws (Chair) Councillor S. Stratford (Vice-chair) Councillor E. Battye Councillor J.F. Harper Councillor W. Lynch Councillor J.N. McKie Councillor W. Moad
Gateshead Council	Councillor N. O'Neil (Substitute: Councillor K. Childs)
Newcastle City Council	Councillor G. Bell (Substitute: Councillor A. Bell)
North Tyneside Council	Councillor K.I. Fairs (Substitute: Councillor M. Madden)
City of Sunderland Council	Councillor J. Heron (Substitute: Councillor P. Young)
Trades Union Representatives	G. Clements – UNISON W. Flynn – UCATT S. Forster – UNISON

Investment Managers

Indexation	Legal and General Investment Management
Global Equities	Capital International
Emerging Market Equities	Capital International
Pan European Equities	UBS Global Asset Management
UK Equities	Fidelity Pensions Management
Far East Equities	Schroder Investment Management
Corporate Bonds	Prudential M&G
Global Government Bonds	Henderson Global Investors
Property Manager	Arlington Property Investors
Private Equity	HarbourVest

AVC Providers	The Prudential Assurance Company Equitable Life Assurance Society
Actuary	Hewitt Bacon and Woodrow Limited
Investment Advisor	Hymans Robertson Consultants and Actuaries
Executive Director Resources	J. Alderson
Head of Pensions	S. Moore
Head of Corporate Governance	B.T. Scott
Pensions Manager	D. Smith
Investment Manager	I. Bainbridge

Vision Statement

Our goal is to provide an attractive and affordable pension arrangement that is seen by employers and members as an important and valued part of the employment package.

We will:

- promote membership of the Fund;
- keep employers' contributions as low and stable as possible through effective management of the Fund;
- work with our partners to provide high quality services to employers and members;
- make pensions issues understandable to all.

We will know we are succeeding when:

- we are consistently achieving our investment objective;
- there are sufficient assets to meet the liabilities;
- we are consistently achieving our service standards;
- we are recognised as being amongst the leading UK pension funds.

Introduction

We are pleased to present the 2003/04 Annual Report and Accounts for the Tyne and Wear Pension Fund.

This is the first year since 1999/00 that pension funds have been able to report strong positive returns. Increased confidence that the global economy was starting to improve led to a rise in Equity markets. With the exception of the US market, all of the major Equity markets posted annual returns in excess of 30%. Whilst the US lagged behind the other markets, it still returned over 15%.

Against this background, the Fund increased in value from £1.865 billion to £2.356 billion. The return for the year was 23.7% and, because the Fund was positioned for a strong rise in Equities, it outperformed its benchmark return of 23.0% by 0.7%.

In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. The Fund's annual return over the last five years has been 2.2% per annum. The decline in Equity markets from March 2000 to March 2003 is the main reason for this low return.

Whilst this return is disappointing in absolute terms and lags both inflation and the increase in average earnings over the period, it is pleasing to note that it is above our benchmark return of 1.1% per annum.

In order to advise employers of the effect that investment conditions have had on funding levels, an indicative interim valuation was carried out as at 30th September 2003. This showed that the overall funding level had fallen from 82% at the 2001 valuation to 63%. The fall in the funding level is largely attributable to the collapse in Equity markets that took place between 2000 and 2003, and to movements in interest rates. This experience is typical of that of many pension funds over this period.

At the time of writing, preparations are in hand for the 2004 valuation. This will set employers' contributions for the three year period commencing on 1st April 2005. This work is being undertaken by Hewitt Bacon and Woodrow, as was the 2003 interim valuation. They were appointed as the Fund Actuary in July 2003 following a decision by Watson Wyatt to withdraw from the local authority actuarial market.

The arrangements for the provision of investment advice were also reviewed during the year. This has led to the appointment of Hymans Robertson to that role.

The Fund has continued to work to improve the service we offer to employers and members.

We continue to offer training courses to employers on pensions matters and working procedures, and have introduced a programme of regular meetings with all employers that will assist us all to improve the quality of pensions administration.

About 5,000 of our deferred members, who had registered with us following an earlier communication exercise, received an annual benefit statement for the first time. We have been providing annual benefit statements to active members for a number of years and this leaves the Fund well placed to meet the new statutory requirement for the provision of statements to all active and deferred members from 2004/05.

We have also been working to improve the content and appearance of the annual mailing to pensioners.

During the year, we issued customer surveys to samples of our deferred members and pensioners. We are pleased to note that 89% of our deferred members and 98% of our pensioners are satisfied with the service they receive from the Fund.

S. Stratford

Councillor Shirley Stratford
Chair of Pensions Committee

J Alderson

Julie Alderson
Executive Director Resources

Statement of Responsibilities

The Council is required:

- To make arrangements for the proper administration of the financial affairs of the Tyne and Wear Pension Fund and to ensure that one of its Officers has the responsibility for the administration of those affairs. For Tyne and Wear Pension Fund, that Officer is the Executive Director Resources.
- To manage the affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The responsibilities of the Executive Director Resources

The Executive Director Resources is responsible for the preparation of the Pension Fund's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31st March 2004.

In preparing this Statement of Accounts, the Executive Director Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.

The Executive Director Resources has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31st March 2004 set out in the following pages presents fairly the financial position of the Tyne and Wear Pension Fund at 31st March 2004 and its income and expenditure for the year ended 31st March 2004.

Signed: J Alderson .... Date: 9/9/04 ....

Julie Alderson, Executive Director Resources

Chair of Pensions Committee's Certificate

I can confirm that these accounts were approved by the Pensions Committee at its meeting held on 9th September 2004.

Signed: S. Stratford .... Date: 9/9/04 ....

Councillor Shirley Stratford, Chair of Pensions Committee

Independent Auditor's Report to the Tyne and Wear Pension Fund

I have audited the Statement of Accounts on pages 28 to 29 which have been prepared in accordance with the accounting policies applicable to pension funds as set out on pages 30 to 31.

This report is made solely to the Tyne and Wear Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page 4, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly the financial transactions of the Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I read the other information published with the Statement of Accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts.

Basis of Audit Opinion

I conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosure in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Fund's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Statement of Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In my opinion, the financial statements present fairly the financial transactions of the Tyne and Wear Pension Fund during the year ended 31st March 2004, and 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 scheme year.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: C Banks Date: 28 September 2004

Name: C. Banks Address: Nickalls House, Metro Centre, Gateshead

Fund Report

Governance

South Tyneside Council is the administering authority for the local government pension fund for the Tyne and Wear County area. The Fund is set up in accordance with the provisions of the Local Government Pension Scheme.

The Council has established a Pensions Committee to deal with all matters arising from the Council's function and responsibilities as the administering authority for the Tyne and Wear Pension Fund.

The Council's Constitution states:

" The role of the Pensions Committee will be to control and resolve all matters relating to the administration of the Tyne and Wear Pension Fund and the management and investment of the assets of the Fund.

The responsibilities to be discharged by the Committee include:

- Ensuring that the Fund complies with the Local Government Pension Scheme Regulations 1997, the Local Government (Management and Investment of Funds) Regulations 1998 and all other legislation governing the administration of the Fund.
- Ensuring the Fund is valued as required and receiving and considering reports on each valuation.
- Ensuring appropriate arrangements for the administration of benefits are in place.
- Setting the admissions policy.
- Setting the strategy for communication with scheme employers and members.
- Ensuring appropriate AVC arrangements are in place.
- Setting the investment objectives and policy and the strategic asset allocation.
- Appointing, dismissing and assessing the performance of Investment Managers and Custodians.
- Preparing, approving and reviewing the Statement of Investment Principles."

The Committee consists of fifteen members. South Tyneside Council nominates eight of the members and the other four district councils within the County area nominate one member each. Three representatives nominated by the trades unions also attend Committee meetings.

The Committee meets quarterly to consider all pension matters. Additional meetings are called should an aspect of the Fund require an in-depth review.

Annual meetings are held for the employers and the trades unions. The agenda for these meetings covers the actuarial position, investment performance and the benefits structure, and includes presentations by the Actuary, the Investment Advisor and an investment manager.

The Committee has an Investment Panel to provide a greater focus on, and scrutiny over, the performance and strategy of investment managers. The Panel consists of three members of the Pensions Committee, the Investment Advisor, the Executive Director Resources and the Head of Pensions. It meets in advance of the Committee and reports back on its findings and makes recommendations on any action that is required.

The Service Plan

The vision and aims of the Pension Fund are set out in the Service Plan. This is a three year rolling plan that is revised annually. It contains the aims and actions that the Pensions Service must concentrate on to achieve the vision.

The Service Plan may be viewed on the Fund's website, for which the address is **www.twpf.info** .

Membership

As at 31st March 2004, there were 113 employers participating in the Fund. This includes the five district councils and a wide range of other organisations that provide a public service within the County area. These organisations are listed on pages 14 to 16 of this report.

A number of employers have outsourced parts of their functions during the year. The transferred employees have continued to be Scheme members where the contractor has been admitted to the Fund. Membership of the Fund has grown by 3,939 over the year, as set out below:

	2003/04	2002/03
Contributors	49,075	46,520
Deferreds	14,375	13,399
Pensioners	28,462	28,054
Total Membership	**91,912**	**87,973**
Employers	113	107

Legal Framework

The framework of the Scheme is contained in Regulations that are made by the Office of the Deputy Prime Minister. These Regulations apply nationally to all local authorities in England and Wales.

The Local Government Pension Scheme Regulations 1997, as amended, set out the rates of contribution and the method of calculation of benefits.

A number of modifications were made to the Regulations during the year, including:

- A requirement to take account of new entitlements to paternity and adoption leave provided for by the Employment Act 2002.
- A provision for councillors to join the Scheme.
- A simplification of the circumstances in which non-local government bodies may enter into admission agreements.

Further changes to the Regulations are taking place from 1st April 2004 as a result of the stocktake. These are set out later in this Fund Report.

The legal framework for the investment of the Fund is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended. These Regulations set out the types of investments which can be made, which include company and government securities, property and unit trusts, and set out restrictions on the proportion of the Fund which can be held in different types of investment. These restrictions were amended in 2003/04 in order to provide the opportunity to increase exposure to certain types of investments, subject to proper advice having been taken.

The Investment Regulations also require that a Statement of Investment Principles be prepared and published. The Fund's Statement is shown on pages 39 to 47 of this Annual Report.

Benefits

The Scheme provides an extensive range of guaranteed benefits for members and their dependents, including:

- A pension and tax free lump sum on retirement.
- Widows' and widowers' benefits.
- Children's pensions.
- Index-linking of all pensions.
- A lump sum on death in service and sometimes on death after retirement.
- Transfer values to other pension arrangements or index-linked preserved benefits for early leavers.
- A refund of contributions where no other benefit is due.
- Facilities for paying additional contributions to provide additional benefits.

Employees' Contributions

The 1997 Regulations introduced a common contribution rate of 6% for all members. Manual workers who were members of the Scheme prior to 1st April 1998 have retained the right to pay 5% for as long as they remain in the Scheme, in continuous employment and in the same capacity.

Employers' Contributions and the Valuation Process

Employees' contributions and investment returns do not cover the total cost of benefits. Employers participating in the Fund meet the balance of the cost with their contributions. The Fund's Actuary must value the Fund every third year in order to assess each employer's share of the cost.

The Fund has had a funding deficit since the mid-nineties. The valuation carried out in 1998 revealed a funding level of 87%, which was largely attributable to a pensions holiday that the major employers in the Fund agreed to take in the late 1980s/early 1990s. A number of local authority pension funds took a pensions holiday at that time, as did many private sector funds. This pensions holiday was taken in order to free up resources for front line services. The cost associated with this decision has had to be met in later years.

Employers' contributions for 2003/04 were set by the 2001 valuation, which showed that the funding level had fallen to 82%. The main reason for the fall was poor investment returns in the inter valuation period, although this was partially offset by the Fund's return being better than that of the average fund.

The strategy adopted at the 1998 and 2001 valuations was to eliminate the deficit over the average future working lifetime of active members. For most employers, this is a period of thirteen years.

The Fund has introduced a programme of annual interim valuations that are carried out in the years between the triennial valuations. This allows each employer to improve their business planning through an understanding of how their future contributions may be influenced by movements in investment markets and by the planning decisions they take in relation to staffing.

An interim valuation carried out as at 30th September 2003 revealed an overall funding level of 63%, which is a fall of 19% from the level of 82% shown by the 2001 valuation. The fall in the funding level is largely attributable to the collapse in equity markets that took place between 2000 and 2003, and to movements in interest rates. This experience is typical of that of many pension funds over this period.

At the time of writing, preparations are in hand for the 2004 valuation which will set employers' contributions for the three year period commencing 1st April 2005. This work is being undertaken by Hewitt Bacon and Woodrow, as was the 2003 interim valuation. They were appointed as the Fund Actuary in July 2003 following a decision by Watson Wyatt to withdraw from the local authority actuarial market.

Further information on the actuarial position of the Fund and the employers' contributions is set out in the Actuary's Reports, which are on pages 26 to 27.

The Stocktake

In July 2001, Ministers authorised a review, or "Stocktake", of the Scheme in order to ensure that it is operating effectively, efficiently, and that it continues to provide value for money. This Stocktake follows a similar exercise for the Principal Civil Service Pension Scheme.

A discussion paper published by the Office of the Deputy Prime Minister in 2002 suggested that the Scheme is a reasonable one for the many employees who stay in local government throughout their career, but that it does not serve the pension needs of others, such as part-timers, career break workers, low paid workers and contract workers, so well. This paper, and others that followed it, invited comments on a number of possible changes.

The Local Government Pensions Committee has acted as the primary respondent for local government employers and administering authorities. The Office of the Deputy Prime Minister has also encouraged employers and administering authorities to comment on an individual basis.

The Fund has submitted its own comments, as an administering authority, on the discussion papers. We have kept employers advised of progress and have encouraged them to submit their own views.

The Stocktake is resulting in a number of amendments to the Scheme, which are being introduced on a phased basis. Regulations that take forward the first phase have been introduced from April and June 2004. The principal amendments introduced by these Regulations are:

- A requirement for administering authorities to prepare, publish and maintain a Funding Strategy Statement and for actuaries to take the strategy into account when setting the employers' contribution rates within the valuation process. This is a key policy step that is intended to allow employers to take appropriate advantage of the statutory nature of the Scheme and their own status. It enables each administering authority to determine its funding strategy in consultation with stakeholders and to take a prudent long-term view of funding liabilities.
- The minimum membership period giving rise to entitlement to Scheme benefits is reduced from two years to three months.
- A requirement for annual benefit statements to be provided to all active, deferred and pension credit members. The Fund is already largely compliant with this provision.
- A change to the Internal Dispute Resolution Procedure will make administering authorities responsible for the second stage of the process with effect from 1st June 2004. This amendment has been introduced to reflect more properly the need for employers, in the first instance, to deal directly with disputes at the appropriate level, to filter out easily resolved complaints and misunderstandings and to leave the latter stages of the process for more difficult and contentious cases.

Comments on draft regulations that will take forward the second phase of the amendments were required by 30th June 2004. The draft regulations contain proposals to change the earliest retirement age for early retirement on grounds other than permanent ill health from 50 to 55 years and to remove the 85 year rule voluntary early retirement provision in respect of service accrued after 1st April 2005. It is proposed that limited protection will be provided for employees close to retirement in respect of both changes.

Pension Rights for Part-time Workers

The Scheme offers membership to all employees regardless of the number of hours worked. However, prior to January 1993, some part-time employees were excluded from membership.

The House of Lords ruled that such employees suffered discrimination and can backdate their membership to the later of 8th April 1976 and the date of commencement of employment. This will only be permitted where appropriate pension contributions are paid.

Employees who believed that they were affected by this judgement and would like to secure Scheme membership had an opportunity to pursue their claim through an Employment Tribunal. A method of calculating arrears of contributions has been agreed and a procedure is in place to settle valid claims. It is important to note that this procedure only applies in respect of those cases where the claimant has lodged an Employment Tribunal claim. These cases represent a small minority of all potential claimants. Amendments to the Scheme Regulations are not necessary to grant retrospective membership to those members who have submitted a valid Tribunal claim.

Those cases where a claim has not been submitted cannot be settled at this time and must await future amendments to Scheme Regulations.

Additional Voluntary Contributions

Whilst the Scheme provides an excellent benefits package, it is normally possible to increase benefits and thereby take full advantage of the tax relief that is available. This can be done either by purchasing added years of service within the Scheme or by paying into an Additional Voluntary Contributions (AVC) plan.

As well as allowing members to boost their pension up to the maximum allowed under Inland Revenue rules, an AVC plan can also be used to provide extra life assurance.

The Fund has an AVC plan arranged with The Prudential that offers a comprehensive range of funds, including with-profits, unit-linked and deposit funds. The unit-linked fund includes a lifestyle option and a socially responsible option.

The Fund carries out an annual review of its AVC provision. The most recent review was carried out in October 2003 and concluded that The Prudential should remain as the sole AVC provider.

Equitable Life

With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members and transfers. Acting on advice from its legal and financial advisors, the Fund has conducted a bulk transfer exercise. This involved the transfer of the majority of members' Equitable Life AVC funds to comparable funds with The Prudential.

A number of members who have with-profits investments still remain with Equitable Life. This is because it is believed currently that future investment returns will not make up the financial adjustment on transfer for these members.

The Fund will continue to monitor the position and keep members informed.

Services to Members and Employers

The provision of a pensions service to almost 92,000 members and over 100 employers is a substantial undertaking. In order to provide this service, the Pensions Office is organised into five teams that are comprised of experienced officers who all have the opportunity and are encouraged to obtain a recognised professional pensions qualification.

We have three dedicated Operations Teams that undertake the day to day administration of members' records. They maintain and ensure the accuracy of records from the member joining the Fund through to the arrangement and payment of benefits. A Communications Team prepares and provides Scheme and Fund specific information and manages contact with employers and members. Our Technical Team provides support to these four teams, with particular regard to the Scheme's regulatory background, financial control and I.T. systems and solutions.

We have prepared and published a set of Service Standards that set out the services we provide to members and employers. These are included in this Annual Report on pages 12 to 13.

Services to Members

Some of the features of the service we provide to members are set out below:

- We maintain a website, for which the address is **www.twpf.info** . Further details on the website are set out below.
- We provide a dedicated telephone helpline, which received almost 36,000 calls in the past year.
- We provide an annual benefit statement for active members. This is sent direct to their home address, accompanied by the Members Annual Report and a newsletter.
- In 2002 we sent our first annual mailshot to deferred members. This included the Members Annual Report and a newsletter. We encouraged members to register with the Fund to receive an annual benefit statement in future years. As a result of this initiative, 5,000 deferred members received a benefits statement in 2003.
- We send a letter to our pensioners detailing the annual increase to their pension. The Members Annual Report is also provided. In 2004, we improved the content and appearance of this mailing.
- We offer seminars to groups of members, on request. Over 450 employees attended the 35 seminars that were held at various employer locations throughout the year.
- We provide a comprehensive range of information booklets. These are available in a variety of formats for people with special needs, such as large print, Braille and foreign languages.

The Fund is committed to continually improving services to members. As part of this process we issued customer surveys to samples of our deferred members and pensioners during the year. We are pleased to note that 89% of our deferred members and 98% of our pensioners are satisfied with the service they receive from the Fund.

We intend to survey our active members in 2004.

Services to Employers

The service that we provide to employers includes the following initiatives:

- We provide each employer with a client manager whose role it is to ensure efficient processing and communication.
- We have introduced a programme of regular meetings for all employers at which issues related to pensions administration are discussed.
- We provide an Employers Guide to the administration of the Fund.
- We offer training courses that aim to educate and inform staff on pension matters and working procedures. In the past year, we provided training to 59 representatives from 7 employers.
- We provide a Partnership Agreement that sets out our respective roles and responsibilities.
- We host an Annual General Meeting.
- We send out mailshots to advise employers of developments.
- The website has a dedicated password protected area for employers. So far, the 5 local authorities and a further 21 employers have registered to use our on-line services. Further details are given below.

The Website and Electronic Communications

The Fund's website **www.twpf.info** is becoming increasingly important to our service delivery package. We are committed to continually developing and improving this means of communication.

Members now have access to:

- Details on how to contact the Fund.
- General comment about the Fund.
- Latest news and topical issues.
- Links to other useful websites.
- Pensions Committee reports.
- Current and previous years' Annual Report and Accounts.
- The Statement of Investment Principles and the Policy on Socially Responsible Investment.
- Information booklets.
- Pension payment dates and details of pension inflation proofing.

The Fund has a password protected area for employers that is accessed via the main website. After an initial registration process, employers have access to:

- The pension records of their own employees.
- The Employers Guide.
- Templates of administration forms.
- Pensions Committee reports.
- Latest news and topical issues.

The Fund is working to expand the interactive nature of the website. We intend to introduce systems that will allow members to view their personal record and to calculate estimates of existing benefits and possible improvements to their benefits. We are also looking to introduce on-line automated data transmission and processing for employers.

The Fund also promotes and encourages the use of e-mail as a means of communication. New, shorter e-mail addresses have been introduced for enquiries relating to pensions administration and to the investment of the Fund. We can be contacted at **pensions@twpf.info** and **investments@twpf.info** .

Service Standards

We have prepared and published a set of Service Standards that set out the services we provide to members and employers.

We will:

- Provide you with a prompt, fair and efficient service.
- Maintain high standards of financial control and security.
- Maximise efficiency and minimise cost.
- Be accountable for the service we provide.
- Promote equality and diversity in the delivery of our services and in our employment practices.
- Train and develop our staff so that they can provide you with an excellent service.
- Seek your views on how well we are meeting your needs and how we might improve the service.

Services for Members

We will:

- Provide a welcome pack to new members.
- Provide a comprehensive range of leaflets that explain the benefits and options available.
- Provide a helpline to answer your questions about pension rights or options.
- Provide a members' website.
- Welcome visits from members who need to discuss pensions issues with us – no appointment is needed.
- On request, provide presentations on pensions issues to groups of members.
- Provide an annual fund report to all members.
- Provide contributing members with a newsletter and, where we hold the necessary information, an annual benefit statement.
- Provide contributing members with opportunities to obtain additional pension benefits by making additional voluntary contributions.
- Provide deferred members with a newsletter and, where we hold the current address, an annual deferred benefit statement.
- Advise pensioners, each April, of the annual statutory increase in the local government pension.
- For pensioners, acknowledge any notification of change of address or banking details and ensure that your payroll record is updated at the earliest opportunity.

Services for Employers

We will:

- Encourage employers to enter into a Partnership Agreement that sets out the respective roles and responsibilities of employers and of the Fund.
- Provide an Employers Guide that sets out guidance on pension matters.
- Assist with your financial planning by undertaking interim valuations in the years between the statutory triennial valuations.
- Provide you with a client manager who will be your first point of contact for any matters that you wish to raise.
- Provide training for your staff who are involved in pensions administration.
- Advise you of amendments to regulations and of other developments that may impact on you or your employees.
- Host an annual meeting to report on the Fund's strategic position and to provide an opportunity for you to raise your concerns and issues.
- Host an employers' forum to promote an ongoing discussion on investment and funding issues and provide this forum with representation on the Pensions Committee.
- Host regular meetings with groups of employers to assist us all to administer the Fund efficiently.
- Provide an employers' website through which you may link into the pensions administrative system.
- Work with you to improve the service offered to you and your employees.
- Welcome visits from employers that need to discuss pensions issues with us.
- Encourage prospective employers to join the Fund.
- Advise you of consultation exercises and encourage you to make your views known.

Organisations Participating in the Fund

Members as at 31st March 2004

	Contributors	Deferred	Pensioners
District Councils			
City of Sunderland Council	8,985	2,842	5,312
Gateshead Council	8,280	1,855	4,567
Newcastle City Council	9,351	2,766	6,362
North Tyneside Council	5,792	1,755	3,586
South Tyneside Council	5,729	1,646	3,156
Sub Totals	**38,137**	**10,864**	**22,983**
Other Scheduled Bodies			
Birtley Town Council	7	2	3
City of Sunderland College	472	67	43
Former North East Regional Airport	0	0	41
Former Tyne and Wear County Council	0	113	296
Former Tyne and Wear Residuary Body	0	6	30
Gateshead College	282	62	31
Gateshead Housing Company	258	0	0
Gateshead Magistrates	0	10	15
Monkwearmouth College	0	1	5
Newcastle College	447	124	94
Newcastle Education Action Zone	2	5	2
Newcastle Magistrates	0	18	17
North Tyneside College	180	38	15
North Tyneside Magistrates	0	7	7
Northumbria Police Authority	1,655	524	876
Northumbria Probation and After Care Service	682	144	256
South Tyneside College	312	56	70
South Tyneside Education Action Zone	1	2	0
South Tyneside Magistrates	0	5	21
Sunderland Education Action Zone	5	0	0
Sunderland Magistrates	0	8	21
Tyne and Wear Fire and Civil Defence Authority	276	65	154
Tyne and Wear Passenger Transport Authority	94	28	81
Tynemouth College	58	16	6
University of Northumbria at Newcastle	1,525	482	391
University of Sunderland	900	351	241
Wearside College	0	5	8
Sub Totals	**7,156**	**2,139**	**2,724**
Resolution Bodies			
Blue Square Trading	18	2	0
Learning World	8	2	0
Nexus	974	410	1,401
Sub Totals	**1,000**	**414**	**1,401**

Organisations Participating in the Fund

Members as at 31st March 2004

	Contributors	Deferred	Pensioners
Admitted Bodies			
Age Concern Newcastle	88	16	18
Assessment and Qualifications Alliance	0	3	15
Association of North East Councils	26	4	2
Baltic Arts	8	0	0
Benton Grange School	0	0	9
Benwell Young People's Development Project	1	0	0
Blakelaw and North Fenham Parish	1	0	0
Bovis Lend Lease (BLL)	8	0	0
Brunswick Young People's Project	3	1	0
Catholic Care North East	0	28	23
Disability North	26	11	2
Gateshead Law Centre	9	5	0
Hebburn Neighbourhood Advice Centre	4	0	0
Higher Education Funding Council for England	0	2	8
Information North (Northern Regional Library System)	0	0	2
International Centre for Life Trust	13	7	2
Jarvis-Sandhill View	8	0	0
Managed Business Space Limited	3	0	0
Mitie (Newcastle)	0	0	0
Mitie (North Tyneside)	0	0	0
National Car Parks	10	0	0
National Glass Centre	1	0	1
Newcastle Community Law Centre	6	2	1
Newcastle Family Service Unit	0	4	3
Newcastle Healthy City Project	17	0	0
Newcastle International Airport Company Limited	321	205	287
Newcastle Tenants Federation	4	3	1
Newcastle West End Partnership	0	2	0
Newcastle Youth Congress	3	1	0
No Limits Theatre Company	0	0	0
Norcare	0	1	1
Norland Road Community Association	0	0	0
North East Innovation and Development Company Limited	14	9	7
North East Museums, Libraries and Archives Council	20	1	4
North East Regional Employers Organisation	8	1	4
North Tyneside Child Care Enterprise	4	15	1
North Tyneside City Challenge	7	3	0
North Tyneside Disability Advice Centre	0	0	1
Northern Arts Association	0	67	7
Northern Council for Further Education	1	14	13
Northern Counties School for the Deaf	46	13	19
Northern Infomatics Application Agency	0	0	0
Northumbria Tourist Board	33	18	9
One North East	0	3	6
Ouseburn Trust	0	2	0

Organisations Participating in the Fund

Members as at 31st March 2004

	Contributors	Deferred	Pensioners
Admitted Bodies (continued)			
Park View Sports Complex	3	3	0
Passenger Transport Company	0	0	98
Port of Tyne Authority	0	0	8
Praxis Service	3	2	0
Raich Carter Sports Complex	34	1	0
Saint Mary Magdalene and Holy Jesus Charity	10	2	3
Scolarest (Newcastle)	2	0	0
Search Project	4	0	2
Simonside Community Centre	1	0	0
South Tyneside Groundwork Trust	6	3	1
South Tyneside Victim Support	0	2	0
Stagecoach Travel Services (Busways)	272	209	517
Sunderland City Training and Enterprise Council	0	54	18
Sunderland Empire Theatre Trust Limited	0	9	4
Sunderland Housing Group	1,531	78	71
Sunderland Outdoor Activities Association	0	3	0
Sunderland Streetlighting Limited	54	0	0
The Hospital of Saint Mary the Virgin	0	0	1
The Ozanam House Probation Hostel Committee	19	8	4
Theatre Royal Trust Limited	54	15	14
Thomas Gaughan Community Centre	2	0	0
Tyne and Wear Development Company Limited	12	11	2
Tyne and Wear Development Corporation	0	32	21
Tyne and Wear Enterprise Trust Limited	22	12	9
Tyne and Wear Play Association	1	0	0
Tyne and Wear Small Business Service	51	1	2
Tyne Waste Limited	0	13	9
Tyneside Deaf Youth Project	3	0	0
Tyneside Training and Enterprise Council	0	37	29
Valley Citizens Advice Bureau	0	2	0
Wallsend Citizens Advice Centre	1	1	1
Wallsend People's Centre	4	1	1
Workshops for the Adult Blind (Palatine Products)	0	18	93
Sub Totals	**2,782**	**958**	**1,354**
Grand Totals	**49,075**	**14,375**	**28,462**

Investment Report

Investment Objectives

The formal investment objectives of the Fund are:

- To maintain securely, a portfolio of assets of appropriate liquidity which will generate income and capital growth which, together with employer and employee contributions, will meet the cost of current and future benefits which the Fund provides, as set out in the relevant statutory documentation.
- To minimise the long-term costs of the Fund by maximising the return on the assets, whilst having regard to the objective set out above.
- To comply with the regulations relating to the investment of local government pension funds.

Strategic Investment Policy

The strategic investment policy is derived from an asset liability study that was first undertaken in 2000. This study examined the Fund's financial position, the profile of its membership, the nature of its liabilities and included an analysis of the expected returns from differing investment policies. The outcome of the initial study has been tested against updated market and liability data in each successive year, and has been found to remain appropriate. This ongoing exercise ensures that the Fund is properly invested in relation to its liabilities and to opportunities in investment markets.

The study has indicated that a diversified portfolio invested 65% in Equities and 35% in Bonds and Property represents a suitable strategic benchmark for the Fund.

The previous benchmark was the consensus asset allocation within the Russell/Mellon survey. This provided an appropriate benchmark for the Fund for a number of years, but it became clear in 2000 that its suitability was diminishing.

The move to the new benchmark was largely completed by March 2002, although the final stages of the transition were not undertaken until after the 2001/02 year end. The new benchmark was fully operational from 1st July 2002 and is shown in the following table.

Asset Class	Strategic Benchmark %
UK Equities	**30.00**
Overseas Equities	
– USA	9.75
– Europe ex UK	12.25
– Japan	6.50
– Other Far East	3.25
– Emerging Markets	3.25
Total Overseas Equities	**35.00**
Total Equities	**65.00**
Fixed Interest	
– UK Gilts	8.75
– UK Index-Linked	5.00
– Sterling non-Government	11.00
– Overseas	2.75
Total Fixed Interest	**27.50**
Property	**7.50**

The new benchmark did not result in a significant change to the overall allocation to Equities. However, there was a move into UK Fixed Interest and Overseas Equities at the expense of UK Equities, Overseas Fixed Interest and Cash.

Up to 5% of the Fund is to be invested in Private Equity. This position will be built up over a period of years and will be resourced out of the allocation to Quoted Equities.

The Pensions Committee will continue to monitor the suitability of this policy in the light of the Fund's developing liabilities and finances.

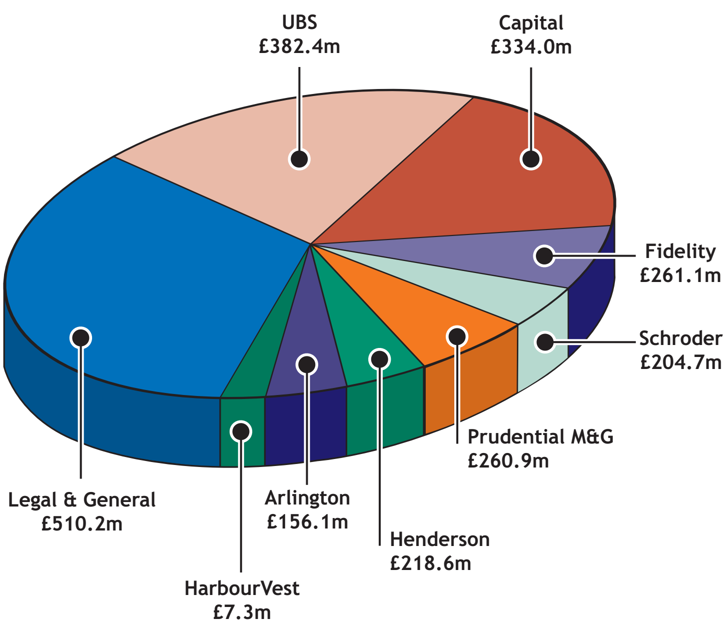
Investment Management Structure

The Fund employs nine specialist managers over a total of fourteen investment mandates. This broadly based structure ensures that investment returns are not overly influenced by the performance of any one manager.

The structure is set out in the following table:

Manager	Portfolio
Legal & General	Indexation – UK Equities – US Equities – Corporate Bonds – UK Index-Linked
Capital	Global Equities Emerging Market Equities
UBS	Pan European Equities
Fidelity	UK Equities
Schroder	Japanese Equities Pacific Rim ex Japan Equities
Prudential M&G	Corporate Bonds
Henderson	Global Government Bonds
Arlington	Property
HarbourVest	Private Equity

The value of assets with each manager at the year end is shown below:



Investment Managers' Objectives and Restrictions

The Pensions Committee has set objectives and restrictions for the investment mandates. These have been prepared with the aims of ensuring a prudent approach to investment and of allowing each manager to implement their natural investment style and process.

In addition to the specific restrictions on each mandate, all managers are required to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, as amended.

The managers have been set targets, based on appropriate indices, which generally require outperformance over three year rolling periods. Annual downside targets have also been set.

In addition to managing a range of indexed portfolios, Legal and General assists the Fund's Officers to maintain the asset allocation in line with the strategic benchmark.

Investment in Private Equity is made largely on a fund of funds basis. Whilst an outperformance target relative to quoted equity markets has been set, official measurement against this is not appropriate at this early stage of investment into this asset class.

The Property Portfolio, which is managed by Arlington Property Investors, has a target based on the Investment Property Databank (IPD) Index.

Custodians

When appointing an investment manager, the Committee is prepared to appoint that manager's in-house or recommended custodian providing that criteria on the security of assets and service standards can be met.

Where a manager does not recommend a custodian, the Committee will make the appropriate appointment. Under the current management structure there are four investment managers who do not recommend a custodian. Consequently, Northern Trust has been appointed to act as custodian for these managers.

The custodians for each manager are noted below:

Manager	Custodian
Legal & General	Northern Trust
Capital	Northern Trust
UBS	UBS
Fidelity	Northern Trust
Schroder	Schroder
Prudential M&G	Boston Safe Deposit & HSBC
Henderson	Northern Trust

A review has been undertaken of the Fund's approach to appointing custodians. This included an assessment of the potential benefits of appointing one global custodian for the Fund. It was concluded that the current arrangements provided best value for the Fund.

Developments During the Year

The Fund is continually looking to develop its investment management arrangements and the mechanisms used to monitor and control activity. During the year, the following activity has taken place:

Review of Investment Consultant. The Fund tendered its Investment Consultancy contract and decided to appoint Hymans Robertson as Investment Advisor.

Risk and Performance Measurement. In 2002/03 the Fund appointed Portfolio Evaluation to provide a Risk Measurement Service. With effect from 1st April 2004, the Fund will use Portfolio Evaluation to provide a joint Risk and Performance Measurement Service. This is considered to be a significant enhancement to the Fund's control mechanisms.

Securities Lending. Arrangements have been made to introduce a securities lending programme. It is estimated that this may generate income of approximately £150,000 per annum.

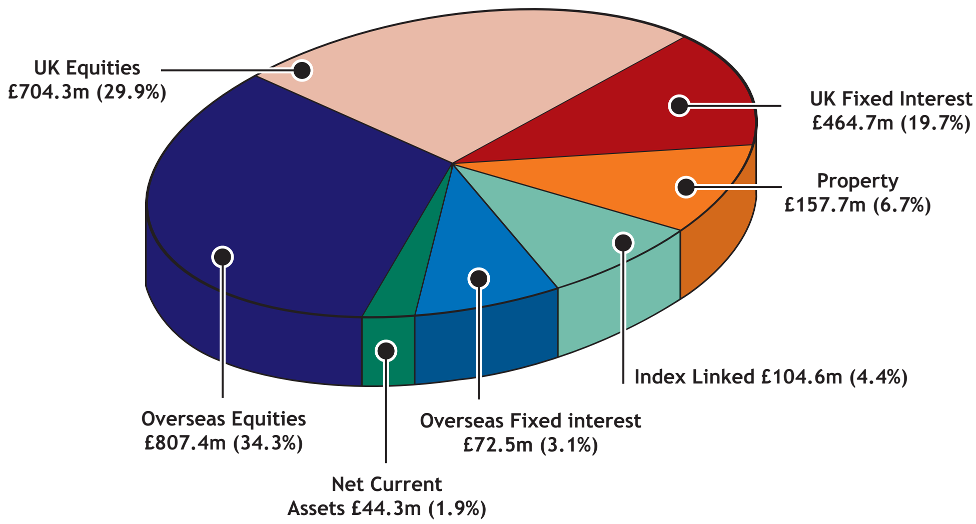
Investment Information Systems. A review of investment information requirements has been undertaken. It has been concluded that cost savings can be generated by moving to an internet based service provision from Bloomberg.

Investment Strategy

The asset allocation is maintained within pre-determined ranges around the strategic benchmark. When a range is breached, the Fund is rebalanced back within the ranges.

Equity and Bond managers that invest in more than one market are permitted to make tactical asset allocation decisions within their own portfolios. This does not impact on the Fund's overall strategy but provides additional scope for managers to outperform their targets.

The asset allocation as at 31st March 2004 is shown below.



Performance Measurement

2003/04 is the second year for which performance has been measured against the Fund specific strategic benchmark. A hybrid benchmark is used for longer periods that end on 31st March 2004. This is based on the median up to and including periods ending 31st January 2002 and on the strategic benchmark thereafter.

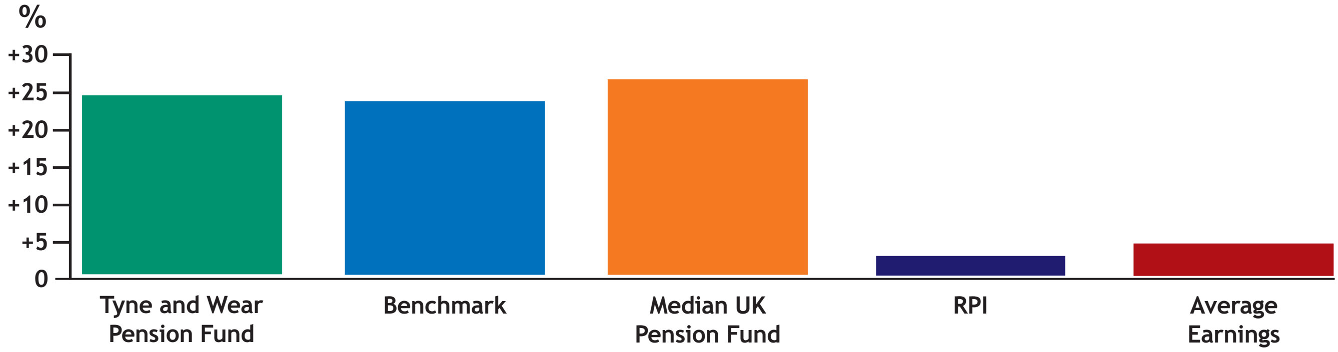
Returns for 2003/04

This is the first year since 1999/00 that pension funds have been able to post strong positive returns. Increased confidence that the global economy was starting to improve led to a rise in Equity markets. With the exception of the US market, all of the major Equity markets posted annual returns in excess of 30%. Whilst the US lagged the other markets, it still returned 15.8%.

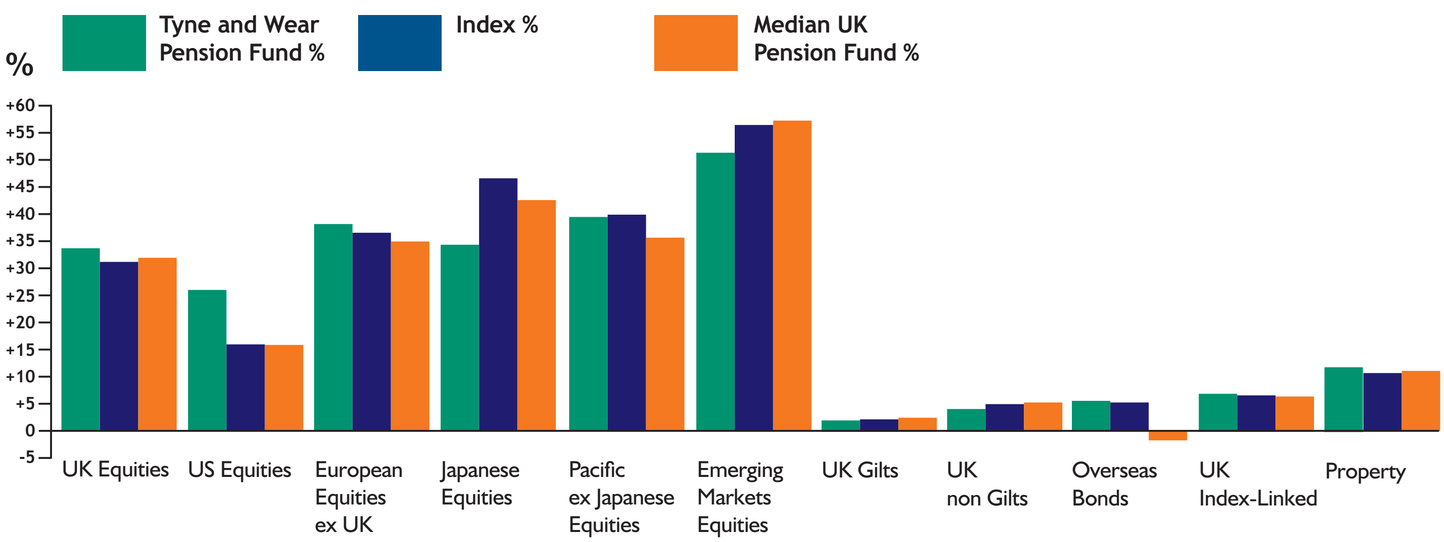
The Fund's return for the year was 23.7%, which was 0.7% above the benchmark return of 23.0%. The Fund was positioned for a strong rise in Equities and, consequently, it outperformed.

Whilst the Fund is no longer assessed against the median, it is interesting to see how it is performing against its peer group. The median return for the year was 25.9%. Therefore, whilst the Fund outperformed its benchmark, it underperformed the median. This is because the Fund's benchmark has a lower weighting in Equities than the median and this detracted from relative returns during this period of rising Equity markets.

The Fund's return for the year is above inflation and average earnings. This is shown in the chart below:



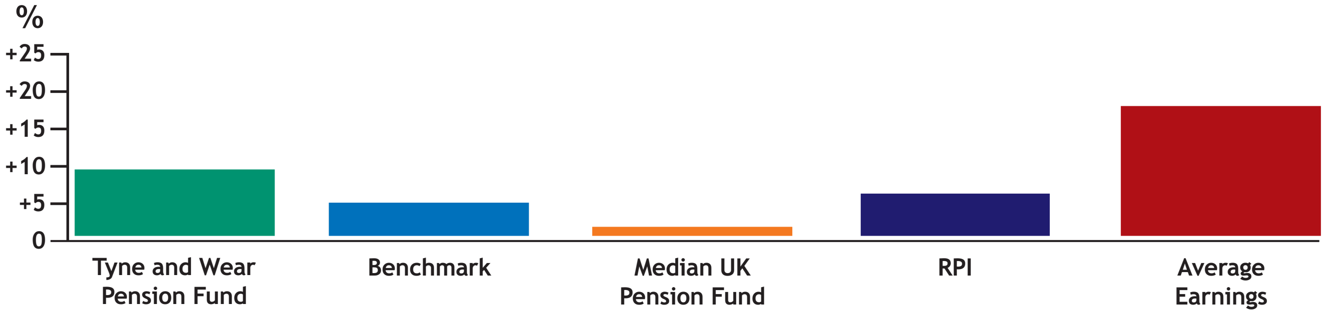
The chart below shows the Fund's return over the main investment markets for 2003/04 and compares it against the index and median returns:



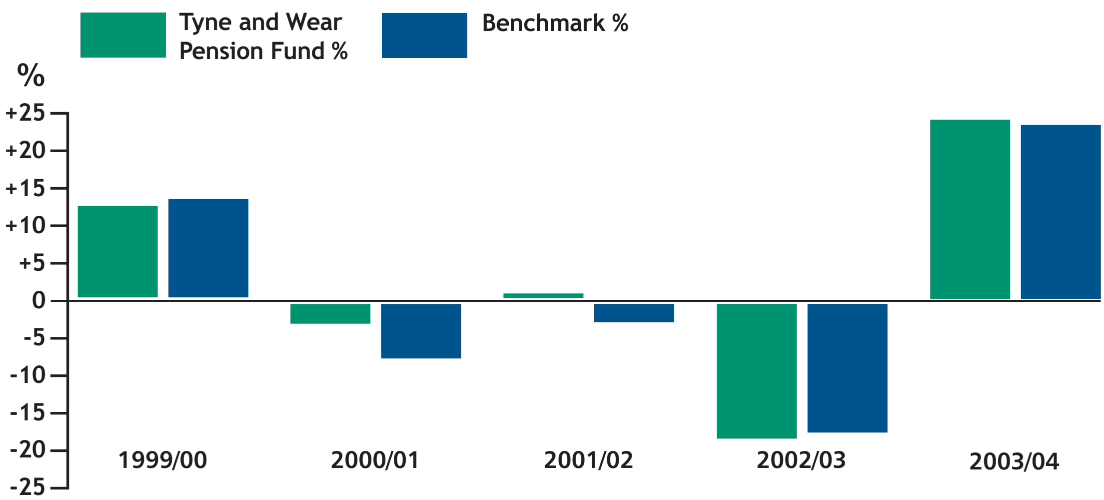
Five Year Performance

In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. The Fund's annual return over the last five years has been 2.2% per annum. The decline in Equity markets from March 2000 to March 2003 is the main reason for this low return.

Whilst this return is disappointing in absolute terms and lags behind both inflation and the increase in average earnings over the period, it is pleasing to note that it is above the benchmark return of 1.1% per annum and ahead of the median return of 0.3% per annum. This is shown in the chart below:



The annual performance of the Fund, relative to the benchmark, can be broken down into individual years and is shown in the following chart:

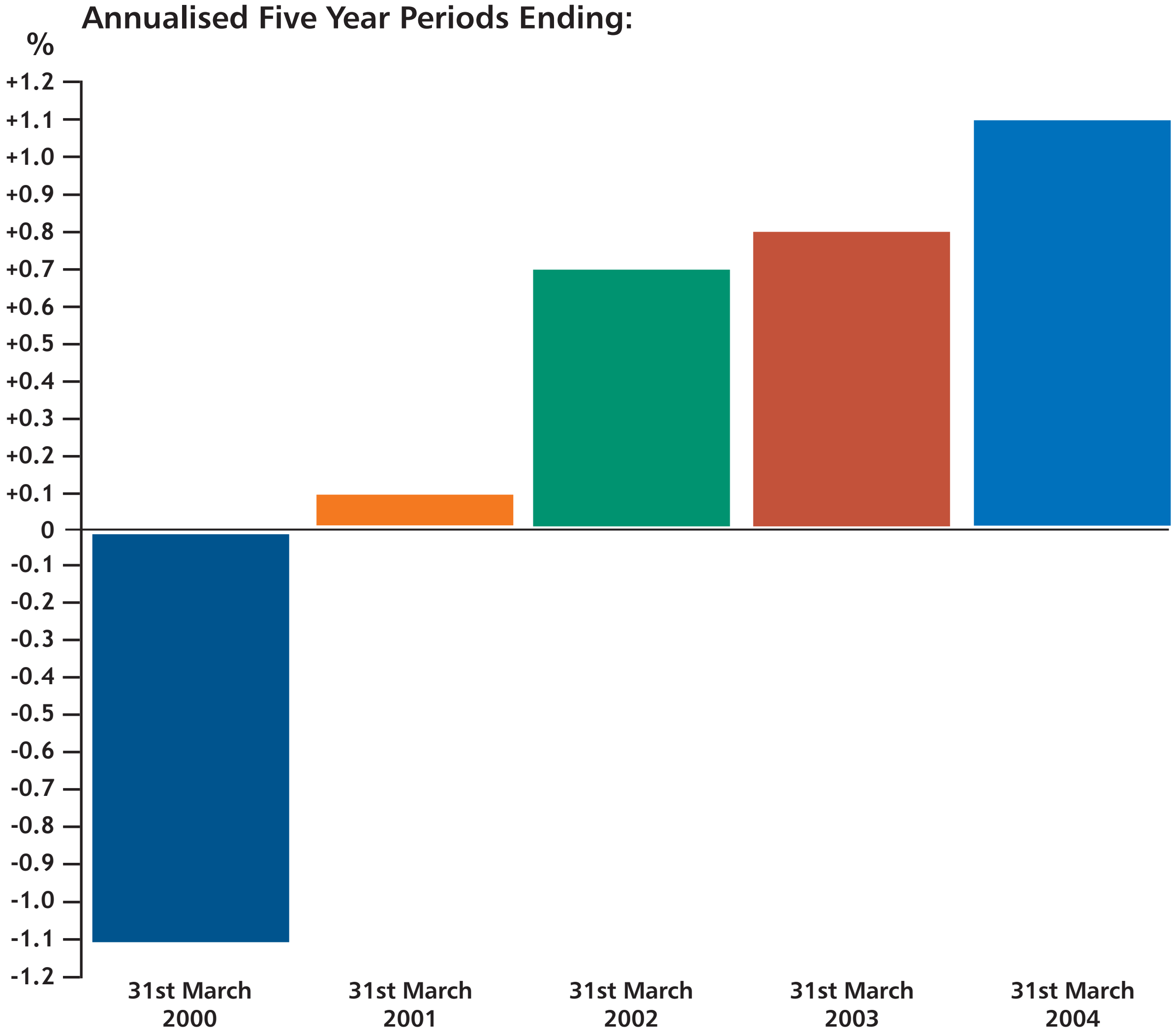


The chart above shows that the Fund underperformed for the first year of the period. At that time, the Fund had a defensive asset allocation that resulted from an investment view that Equities were overvalued. Financial markets performed very strongly during this year and this defensive stance detracted from returns. However, the market environment changed considerably in 2000/01 and Equity markets began to fall. This fall in Equity markets continued through to 2002/03. Overall, the Fund performed well during this period.

In 2002/03, the Fund's managers started to reposition their portfolios for an Equity market recovery. This did not come through in that year so the Fund underperformed. However, the expected recovery has come through in 2003/04, which has led to an improvement in the Fund's return.

The five year rolling performance has been showing a steady improvement since March 2000. The chart below shows this improvement, with the Fund outperforming in each of the last four rolling periods:

Annualised Five Year Periods Ending:



Investment Policies

The Statement of Investment Principles

The Pensions Committee first approved a Statement of Investment Principles (SIP) in October 1997. At this time, the legal requirement to have such a document applied only to private sector schemes, but it was considered to be good practice for local government funds to prepare one. With the introduction of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999, the need to produce a SIP was extended to local government funds.

The Fund's SIP is a key document. It sets out the investment framework for the Fund and provides an up to date assessment of compliance with the Investment Principles. The document is reviewed as new developments take place and was last updated as at 28th May 2004.

The SIP sets out the following details:

- Who is taking which decisions and why this structure has been selected.
- The Fund's investment objective.
- The Fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at.
- The mandates given to all advisors and managers.
- The nature of the fee structures in place for all advisors and managers and why this set of structures has been selected.
- The extent to which the Fund complies with the Myners Principles.

As would be expected, the contents of the SIP reflect the detail contained in this Annual Report and Accounts. A copy of the SIP is shown on pages 39 to 47.

Corporate Governance and Voting

The Pensions Committee believes that good corporate governance and the informed use of voting rights are an integral part of the investment process, which should improve the long-term performance of the companies in which the Fund is invested. Voting rights are regarded as an asset that needs managing with the same duty of care as any other asset.

The use of these rights is essential to protect the interests of the organisations participating in the Fund and the beneficiaries of the Fund.

It is important that this process is carried out in an informed manner, and for this reason the Committee believes that the Fund's investment managers are best placed to undertake it.

The Committee requires each manager to prepare a document that sets out their policy on corporate governance and their use of voting rights.

This policy has to provide for:

- The approach towards UK quoted companies to take account of the strong guidance offered by the Combined Code produced by the Hampel Committee and the Responsibilities of Institutional Shareholders and Agents – Statement of Principles prepared by the Institutional Shareholders Committee in 2002.
- The approach towards companies outside the UK to take account of the practices of the home nation.
- The approach towards unquoted companies to be consistent with the approach adopted for quoted companies, to the extent that this is practicable.
- Voting rights to be exercised in a manner that establishes a consistent approach to both routine and exceptional issues, in order that company directors fully understand the manager's views and intentions.

Whilst the Committee requires each manager to exercise voting rights in accordance with their individual policy, it retains the right to direct the manager in respect of any particular issue should such action be considered appropriate.

Each manager is required to:

- Report any material change to their policy immediately.
- Provide an annual report that sets out their policy and the manner in which it has been implemented.
- Provide a quarterly report that sets out their voting record.

Socially Responsible Investment

The Fund's SIP covers the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. This area is known as Socially Responsible Investment (SRI).

The policy on SRI is combined with the policy on voting and corporate governance in a document entitled "Policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance". It requires that each manager must:

- Develop and co-ordinate policies on SRI, corporate governance and voting.
- When buying and selling investments, take into account how SRI factors might affect their value.
- For each company in which they invest, review that company's approach to social, environmental and ethical factors, and where necessary, approach company management to seek improvements.

This policy was reviewed and updated by the Pensions Committee in February 2004. A copy is shown on pages 48 to 49.

SRI is an important issue and the Pensions Committee takes its responsibility in this area very seriously. Investment managers are required to report on the implementation of this policy in their quarterly performance report, and it is on the agenda for meetings with investment managers.

Myners Report

In March 2000, the Chancellor of the Exchequer commissioned a review into institutional investment in the UK. He invited Paul Myners of Gartmore Investment Management to lead the review.

One year later, on 6th March 2001, the "Myners Report" was produced. In October 2001, the Government published a Code of Investment Principles that reflected the proposals of the Myners Report. There are ten Principles contained in the Code and, whilst compliance is voluntary, legislation requires local government pension funds to state the extent of compliance.

Last year, the Fund was able to report full compliance with seven of the ten Principles and partial compliance with the remaining three. This year, the Fund is delighted to report that it is fully compliant with all ten of the Myners Principles.

A summary of the Principles and the Fund's compliance is shown below.

Principle 1 Decisions should only be taken by those with sufficient expertise.	Fully compliant. An Investment Panel provides increased focus and scrutiny over investment decisions. A comprehensive training programme is in place for Pensions Committee Members and a Committee Members' handbook has been issued.
Principle 2 Clear investment objectives should be set.	Fully compliant. The Fund has set formal investment objectives.
Principle 3 Strategic asset allocation decisions should receive sufficient attention.	Fully compliant. The Fund has undertaken an asset liability study and tests the results annually in the light of changing market and liability data.
Principle 4 Contracts for acturial services and investment advice should be open to separate competition.	Fully compliant. Both the actuarial services contract and the investment advisory contract have been separately tendered in 2003/04.

Principle 5 An explicit written mandate should be agreed between the Fund and the investment managers, and transaction related costs should be monitored.	Fully compliant. Written mandates have been agreed with all investment managers and arrangements have been put in place to monitor transaction costs.
Principle 6 The Fund should play an active role in Corporate Governance.	Fully compliant. The Fund has an agreed policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance.
Principle 7 The Fund should set appropriate investment benchmarks.	Fully compliant. Investment benchmarks have been set for the Total Fund and for individual investment mandates.
Principle 8 Arrangements should be made to measure the performance of the Fund, the Committee, Advisors and Managers.	Fully compliant. A risk and return service provider has been appointed to measure the overall performance of the Fund and individual managers. An approach to the formal assessment of decisions taken by the Committee and the Advisor is now in place, and the decision making process has been subject to audit review.
Principle 9 The Statement of Investment Principles should be strengthened.	Fully compliant. The Fund's Statement of Investment Principles has been expanded to include all of the areas required by The Myners Report.
Principle 10 The Fund should publish its Statement of Investment Principles (SIP) and the results of monitoring.	Fully compliant. The Fund's SIP is published in the Annual Report and Accounts and is available on the Fund's website **www.twpf.info** .

Actuarial Information

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Fund is able to meet its liabilities to past and present contributors.

Change in Actuary

In July 2003 Hewitt Bacon and Woodrow were appointed as the Fund Actuary following a decision by Watson Wyatt LLP to withdraw from the local authority actuarial market.

The outgoing Actuary, Robert Ashurst of Watson Wyatt LLP, wrote to the incoming Actuary, Elizabeth Treherne of Hewitt Bacon and Woodrow, on 25th July 2003 to confirm that he was not aware of any professional reasons why the incoming Actuary should not accept the appointment to that role. He also commented on developments affecting the Fund since the 2001 valuation and identified the specific items of work in progress which Tyne and Wear Pension Fund had requested Watson Wyatt to complete: all of these items of work have since been finalised.

Actuarial Position

1. Rates of contributions paid by the participating employers during 2003/04 were based on the actuarial valuation carried out as at 31st March 2001.

2. This valuation showed that the required level of contributions to be paid to the Fund by participating employers (in aggregate) with effect from 1st April 2002 was as set out below:
   - 210% of members' contributions to meet the liabilities arising in respect of service after the valuation date.

   Plus
   - 125% of members' contributions over a period of 13 years (the members' average future service lifetime) to reflect the shortfall of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

   Less
   - 20% of members' contributions to reflect anticipated outperformance on the Fund's equity holdings.

3. The contributions actually required from each participating employer over the period 1st April 2002 to 31st March 2005 are set out in a certificate appended to a separate report on the actuarial valuation.

4. The market value of the Fund's assets at the valuation date was £2,190 million and this represented 81.7% of the Fund's accrued liabilities, allowing for future pay increases.

5. The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:

Discount rate for periods	
– after retirement:	5.90% per annum
– before retirement:	6.75% per annum
Rate of general pay increases:	4.25% per annum
Rate of increases to pensions in payment	
(in excess of Guaranteed Minimum Pensions):	2.50% per annum
Valuation of assets:	Assets are taken at their market value.

Report of the Actuary for the Year Ended 31st March 2004

The last full actuarial investigation into the financial position of the Tyne and Wear Pension Fund in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997 was completed as at 31st March 2001 by the Fund's previous actuaries, Watson Wyatt LLP. The results showed that the financial position of the Fund had deteriorated since the previous valuation with the assets covering 81.7% of the liabilities, allowing for future pay increases in pensionable remuneration.

Revised rates of contributions were recommended to be paid by the participating employers with effect from 1st April 2002. A formal Certificate of these contribution rates to be paid from 1st April 2002 was issued to the Director of Finance of South Tyneside Council as part of Watson Wyatt's formal report on the valuation of the Fund as at 31st March 2001.

Having regard to the results of the actuarial valuation as at 31st March 2001 and the rates of contribution in payment from 1st April 2002, together with the stepped increases recommended to apply in future years, the assets of the Fund as at 31st March 2004 were considered sufficient, on the basis that the assumptions adopted for the valuation as at 31st March 2001 are borne out in practice (over the long-term starting from the valuation date) to meet the on-going liabilities of the Fund under the Regulations associated with both the accrued service and the currently accruing service, increasing levels of pensionable remuneration and increases to pensions both in payment and in deferment, taking into account the gradual amortisation of the deficiency disclosed by the valuation as at 31st March 2001. However, in the absence of enhanced future returns to offset the effects of Equity market falls since 31st March 2001, employers' contributions will need to increase further in future.

The next actuarial valuation of the Pension Fund will be carried out as at 31st March 2004 by Hewitt Bacon and Woodrow and the results will be reported in the accounts for the year ending 31st March 2005. The contribution rates found to be required as part of that valuation become effective from 1st April 2005.

E.A. Treherne

Fellow of the Institute of Actuaries
Hewitt Bacon and Woodrow

Financial Statements

Fund Account

2002/03 £000	2002/03 £000		Note	2003/04 £000	2003/04 £000
		Contributions and Benefits			
165,087		Contributions Receivable	3	172,573	
11,818		Transfers In	4	14,875	
	176,905				187,448
111,265		Benefits Payable	5	113,889	
15,816		Leavers	6	16,110	
2,445		Administrative Expenses	7	2,112	
	129,526				132,111
	47,379	**Net Additions from Dealings with Members**			55,337
		Returns on Investments			
43,816		Investment Income	8	50,060	
-2,332		Non-Recoverable Tax	8	-2,435	
-433,859		Change in Market Value of Investments	9	392,353	
-4,342		Investment Management Expenses	10	-4,755	
	-396,717	**Net Returns on Investments**			435,223
	-349,338	**Net Increase/Decrease in the Fund During the Year**			490,560
	2,214,454	**Net Assets of the Fund at 1st April**			1,865,116
	1,865,116	**Net Assets of the Fund at 31st March**			2,355,676

Financial Statements

Net Assets Statement

2002/03 £000	2002/03 £000		Note	2003/04 £000	2003/04 £000
		Investments	9		
186,300		Fixed Interest Securities		237,482	
831,487		Equities		1,133,546	
29,839		Index-Linked Securities		15,271	
585,401		Pooled Investment Vehicles		767,307	
188,975		Properties		157,740	
33,053		Cash Deposits		25,274	
-1,222		Other Investment Balances		3,929	
	1,853,833				2,340,549
	11,283	**Current Assets and Liabilities**	11		15,127
	1,865,116	**Net Assets of the Fund at 31st March**			2,355,676

Notes to the Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with the main recommendations of the Statement of Recommended Practice (Financial Reports of Pension Schemes) and follow the 2003 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits that 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 statements prepared by the Actuary, which are shown on pages 26 to 27. The financial statements should be read in conjunction with the Actuary's statements.

2. Accounting Policies

Acquisition Cost of Investments

The acquisition cost of investments is based on the purchase price plus any additional costs associated with the purchase.

Valuation of Investments

Quoted securities have been valued at their mid-market closing price on 31st March 2004.

Unitised securities have been included at the average of their bid and offer prices on 31st March 2004.

Other unquoted investments have been valued with regard to latest dealings and other appropriate financial information.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2004.

Properties are shown as valued at 31st December 2003. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Lambert Smith Hampton.

Investment Transactions

Investment transactions that were not settled as at 31st March 2004 have been accrued.

Investment Income

Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for recoverable and non-recoverable tax. Non-recoverable tax has been shown as an expense.

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31st March 2004.

With regard to property rental income payable quarterly in advance, only the proportion of each payment attributable to the Fund from the due date to the 31st March 2004 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2004.

Investment Management Expenses

Investment management expenses payable as at 31st March 2004 have been accrued.

Debtors and Creditors

For Fund transactions, a system of income and converted payments is operated. Unless stated below, at the year-end, payments are converted to expenditure by the addition of unpaid creditors as at 31st March 2004. The accrual concept is in accordance with SSAP 24.

Contributions

Contributions represent the amounts receivable from the organisations participating in the Fund; these may be district councils, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The rate for employers is determined by the Actuary. Contributions due as at 31st March 2004 have been accrued.

Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Transfer Values

Transfer values are normally accounted for on a payment/receipts basis since not only do they frequently apply to several past years, but, in the case of transfer values due, information is not available at the year end on which to make an accrual. However, where a transfer value has been agreed prior to the year end but the payment has not been made, this has been accrued.

3. Contributions Receivable

Contributions receivable are analysed below:

	2003/04 £000	2002/03 £000
Employers	80,250	73,861
Normal	49,841	51,821
Additional		
Members	41,818	38,753
Normal	664	652
In-house AVCs	172,573	165,087

The contributions can be analysed by type of Member Body as follows:

	2003/04 £000	2002/03 £000
South Tyneside Council	18,737	17,100
Other Metropolitan District Councils	109,959	102,363
Other Scheduled Bodies	23,840	24,782
Resolution Bodies	6,693	6,189
Admitted Bodies	13,344	14,653
	172,573	165,087

4. Transfers In

During the year individual transfers in from other schemes amounted to £14.875 million (£11.818 million in 2002/03).

5. Benefits Payable

	2003/04 £000	2002/03 £000
Pensions	106,096	100,591
Commutations and Lump Sum Retirement Benefits	16,415	19,145
Lump Sum Death Benefits	1,883	1,961
Less: Recharges	-10,505	-10,432
	113,889	111,265

The analysis of benefits by type of member body is not available. In this respect, the accounts do not comply with the Statement of Recommended Practice (Financial Reports for Pension Schemes).

6. Payments To and On Account of Leavers

	2003/04 £000	2002/03 £000
Individual Transfers to Other Schemes	15,109	15,203
Refunds to Members Leaving Service	1,001	613
	16,110	15,816

7. Adminstration Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, permit costs incurred in connection with the administration of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

	2003/04 £000	2002/03 £000
Employee Expenses	1,121	1,010
Support Services Recharge	676	737
Audit Commission Fees	16	17
External ICT Costs	105	344
Printing/Publications	81	74
Actuarial Fees	88	168
Other Expenses	91	170
SIB Pension Review	-26	-35
Other Income	-40	-40
	2,112	2,445

Employee expenses have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

8. Investment Income

	2003/04 £000	2002/03 £000
Fixed Interest Securities	10,486	8,373
Equities	27,408	23,939
Index-Linked Securities	740	660
Pooled Investment Vehicles	44	171
Properties – Net Rents	10,131	8,915
Cash Deposits	952	1,703
Securities Lending	6	0
Commission Recapture	279	35
Underwriting Commission	14	20
Sub Total	50,060	43,816
Less: Non Recoverable Tax	-2,435	-2,332
Total Investment Income	47,625	41,484

9. Investments

	Value at 1.4.03	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31.3.04
	£000	£000	£000	£000	£000
Fixed Interest Securities	186,300	629,838	-572,168	-6,488	237,482
Equities	831,487	474,104	-438,056	266,011	1,133,546
Index-Linked Securities	29,839	24,483	-40,063	1,012	15,271
Pooled Investment Vehicles	585,401	88,033	-21,303	115,176	767,307
Properties	188,975	824	-43,935	11,876	157,740
	1,822,002	1,217,282	-1,115,525	387,587	2,311,346
Cash Deposits	33,053	512	-7,413	-878	25,274
Other Investment Balances	-1,222	3,425	-3,918	5,644	3,929
	1,853,833	1,221,219	-1,126,856	392,353	2,340,549

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.

	2003/04 £000	2002/03 £000
Fixed Interest Securities		
UK Public Sector	126,183	69,106
UK Other	38,764	47,598
Overseas Public Sector	72,535	69,596
	237,482	186,300

	2003/04 £000	2002/03 £000
Equities		
UK Quoted	432,183	341,765
UK Unquoted	2	3
Overseas Quoted	701,361	489,719
	1,133,546	831,487
Index-linked Securities		
UK Quoted	15,271	26,850
Overseas Quoted	0	2,989
	15,271	29,839
Pooled Investment Vehicles		
Unit Trusts – Property	0	2
– Other	8,581	6,511
Unitised Insurance Policies	653,186	507,417
Other Managed Funds	105,540	71,471
	767,307	585,401
Properties		
Freehold	139,600	154,325
Long Leasehold	18,140	34,650
	157,740	188,975
Cash Deposits		
Sterling	22,613	30,026
Foreign Currency	2,661	3,027
	25,274	33,053
Other Investment Balances		
Currency Hedging	1,629	-1,775
Debtors	8,827	10,505
Creditors	-6,527	-9,952
	3,929	-1,222

10. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

	2003/04 £000	2002/03 £000
Administration, Management and Custody	4,606	4,162
Performance and Risk Measurement Services	69	98
Other Advisory Fees	64	65
Audit Fees	16	17
	4,755	4,342

Administration includes employee expenses that have been charged to the Fund on a time basis. Office expenses and other overheads have also been charged.

11. Current Assets and Liabilities

	2003/04 £000	2002/03 £000
Contributions and Recharges Due	17,228	14,213
Inland Revenue	-1,897	-1,700
Investment Management Expenses	-1,156	-1,087
Other	952	-242
	15,127	11,184

12. Additional Voluntary Contributions (AVCs)

The Fund offers two types of AVC arrangements.

Additional years of service may be purchased within the Local Government Pension Scheme, with the contributions being invested as a part of the Fund's assets.

In addition, the Pensions Committee has appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets.

Equitable Life has been experiencing significant financial difficulties over the past few years. The problems arose from some of its financial products that carry guaranteed returns. This has been compounded by poor stock market performance over the past three years which has reduced Equitable Life's reserves and forced significant bonus reductions.

With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members and transfers. A significant proportion of investors in other funds operated by Equitable have had their balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable and is trying to establish the best way forward.

As at 31st March 2004, the AVC funds provided by The Prudential were valued at £4.457 million (£3.575 million as at 31st March 2003) and the funds operated by Equitable Life were valued at £1.331 million (£1.134 million as at 31st March 2003). The funds are valued by each of the providers and take no account of accruals.

13. Analysis of Investments by Investment Managers

The Fund employs external investment managers over a total of fourteen different investment mandates. Each manager is a specialist in the market in which they invest. This broadly based management structure ensures that investment returns are not overly influenced by the performance of any one manager.

The market value of investments in the hands of each manager is shown in the table below:

As at 31st March 2003 £000	%	Investment Managers	As at 31st March 2004 £000	%
187,119	10	Arlington Property Investors	156,091	7
194,894	10	Capital International – Global Equities	267,006	12
51,808	3	Capital International – Emerging Markets	67,033	3
197,442	11	Fidelity Pensions Management	261,061	11
3,513	0	HarbourVest	7,348	0
184,582	10	Henderson Global Investors	218,576	9
404,328	22	Legal and General Investment Management	510,239	22
199,832	11	Prudential M&G	260,936	11
132,378	7	Schroder Investment Management	204,713	9
280,893	15	UBS Global Asset Management	382,390	16
17,044	1	Managed In-house	5,156	0
1,853,833	**100**	**Total Investments**	**2,340,549**	**100**

14. Taxation

UK Tax

The Fund is an exempt approved fund and is not liable to income tax or capital gains tax.

The Fund is not registered separately from the Council for VAT and therefore can recover its input tax.

All investment income in the accounts has been shown gross of UK income tax and the non-recoverable element has been shown as an expense.

Overseas Tax

The Fund is subject to withholding tax in certain overseas countries. In all such cases, the investment income has been grossed up and non-recoverable tax has been shown as an expense.

15. Derivatives

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2004, the Fund held a range of positions which together showed an unrealised profit of £1.629 million. Of the 39 positions open as at 31st March 2004, 36 have been settled showing an overall profit of £1.929 million. At the time of finalising these accounts, 3 of these positions remain open. As at 31st May 2004, these positions were showing an unrealised profit of £0.049 million.

16. Securities Lending

2003/04 saw the start of the Fund's securities lending programme. The Fund's custodian, Northern Trust, acts as a securities lending manager and collateral manager. The Fund has also signed up to a securities lending programme with UBS, but this was not operational as at 31st March 2004.

Securities are lent in return for fee income. Security for the loan is obtained by holding collateral in the form of financial instruments.

Securities totalling £101.813 million were out on loan as at 31st March 2004, against collateral (in the form of financial instruments) of £110.818 million.

The breakdown of the securities on loan as at 31st March 2004 is as follows:

	£000
Fixed Interest Securities	58,979
UK Equities	38,682
Overseas Equities	4,152
	101,813

17. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2004, no commitments were outstanding.

18. Significant Holdings

As at 31st March 2004, the Fund had two holdings which represented more than 5% of the total Fund value. Both of these holdings are insurance contracts which provide access to a pool of underlying assets. These are:

- Legal and General Assurance (Pensions Management) Limited – Managed Fund – as at 31st March 2004, this was valued at £435.121 million and represented 18.5% of the total net assets of the Fund.
- Prudential Pensions Limited – Corporate Bond All Stocks Fund – as at 31st March 2004, this was valued at £208.666 million and represented 8.9% of the total net assets of the Fund.

19. Private Equity

As at 31st March 2004, the Fund had six outstanding commitments to Private Equity Investments:

- HarbourVest International Private Equity Partners IV – a total commitment of $55.000 million has been made with drawdowns to the value of $11.000 million having been made. At the year end, there was an outstanding commitment of $44.000 million (£23.941 million, based on the exchange rate as at 31st March 2004).
- HarbourVest Partners VII Cayman Buyout Fund – a total commitment of $46.000 million has been made with drawdowns to the value of $2.085 million having been made. At the year end there was an outstanding commitment of $43.915 million (£23.895 million, based on the exchange rate as at 31st March 2004).
- HarbourVest Partners VII Cayman Venture Fund – a total commitment of $28.000 million has been made with drawdowns to the value of $0.982 million having been made. At the year end there was an outstanding commitment of $27.018 million (£14.701 million, based on the exchange rate as at 31st March 2004).
- HarbourVest Partners VII Cayman Mezzanine Fund – a total commitment of $6.000 million has been made with drawdowns to the value of $0.360 million having been made. At the year end there was an outstanding commitment of $5.640 million (£3.069 million, based on the exchange rate as at 31st March 2004).
- Capital International Private Equity Fund IV – a total commitment of $18.000 million has been made to this fund (£9.794 million, based on the exchange rate as at 31st March 2004). Whilst the closing date for this commitment was 2nd April 2004, the first closure date for this fund was 7th October 2003. Consequently, the Fund is committed to any liabilities arising from 7th October 2003. At the year end no drawdowns had taken place.
- Capital North East – a total commitment of £1.500 million has been made with one drawdown to the value of £0.150 million having taken place. At the year end there was an outstanding commitment of £1.350 million.

20. Related Party Transactions

Under FRS8 "Related Party Disclosures" it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

Examinations of returns, completed by Elected Members of the Pensions Committee and Senior Officers involved in the management of the Pension Fund, have not identified any cases where disclosure is required.

During 2003/04, South Tyneside Council charged the Tyne and Wear Pension Fund £0.916 million (£1.151 million in 2002/03) in respect of services provided; primarily financial, legal and information technology.

There were no material contributions due from employer bodies outstanding at the year end.

Statement of Investment Principles

Adopted 28th May 2004

Introduction

1. The Local Government Pension Scheme Regulations require an administering authority to prepare, maintain and publish a written statement of the principles that govern their decisions about investment. This document forms that statement.

2. In the course of preparing this statement, the Pensions Committee (the Committee) has sought advice from the Fund's Actuary and Investment Advisor.

3. The Committee reviews the Statement annually, or more frequently if required.

4. The Statement is provided to the Fund's investment managers, who are required to follow the principles that it sets out and to report showing how they have done so.

Governance

5. South Tyneside Council (the Council) is the administering authority of the local government pension fund set up for the Tyne and Wear County area.

6. The Council has set up a Pensions Committee that is required to control and resolve all matters relating to the administration and investment of the Fund. The Committee has fifteen members. The Council nominates eight members and the other four district councils within the County area nominate one member each. The trades unions nominate three members, who sit in an advisory capacity.

7. The local authority members are remunerated in accordance with each council's scheme of allowances.

8. The Council has set up a Resources and Corporate Development Scrutiny Committee to review and scrutinise the decisions and actions of the Pensions Committee.

9. A training programme is provided for members of both committees.

10. Hewitt Bacon and Woodrow has been appointed as Actuary.

11. Hymans Robertson has been appointed as Investment Advisor.

12. The Committee meets quarterly to consider investment matters. It sets the investment objectives and policy, whilst responsibility for tactical asset allocation and for the selection, retention and realisation of specific investments has been delegated to external investment managers.

13. The performance of the managers is measured by independent external agencies.

14. The detailed formal monitoring of the investment of the Fund is undertaken by an Investment Panel, which is comprised of three Committee Members, two of the Fund's officers and the Investment Advisor. The Panel meets quarterly to consider the investment objectives and policy and each manager's performance and process. It reports to the Committee on its findings and makes recommendations on any action that is required.

15. If the Committee accepts a Panel recommendation to review and change the investment objectives or policy, or the management structure, or a manager's appointment, the Committee will require the Panel to implement that change. If a formal review of a manager's appointment is required, this will result in a tendering process, as required by law.

appointment, the Committee will require the Panel to implement that change. If a formal review of a manager's appointment is required, this will result in a tendering process, as required by law.

16. The Fund's officers undertake the day to day monitoring of the investment of the Fund.

17. The Fund has a business plan that sets out in detail the development of the structure and processes that govern the investment of the Fund.

Investment Objectives and Policy

18. The investment objectives of the Fund are:

    - To maintain securely a portfolio of assets of appropriate liquidity which will generate income and capital growth which, together with employer and employee contributions, will meet the cost of current and future benefits which the Fund provides, as set out in the statutory documentation.
    - To minimise the long term costs of the Fund by maximising the return on the assets, whilst having regard to the objective stated above.
    - To comply with the regulations relating to the investment of local government pension funds.

19. In order to assist in setting the Fund's strategic investment policy, an asset liability modelling study is carried out. This study examines the Fund's financial position, the profile of its membership, the nature of its liabilities and includes an analysis of the expected ranges of outcomes from differing investment policies.

20. The initial study was undertaken in 2000. Having considered the outcome of this initial study, the Committee concluded that a diversified portfolio, of which about 65% is invested in UK and overseas equities and about 35% is invested in bonds and property, represented a suitable strategic asset allocation benchmark for the Fund. The degree and nature of risks attaching to such a portfolio, when taken in conjunction with the expected returns, were considered by the Committee to be appropriate for the Fund.

21. This strategic benchmark was implemented from 1st July 2002.

22. The study is subject to periodic updating. The most recent update was carried out as at 30th September 2003 by Watson Wyatt and was based upon the liabilities shown by the 2001 valuation, rolled forward thirty months, together with adjustments to allow for asset changes and market conditions up to that date. The projected investment returns that were used in the update are shown in an appendix. It was concluded that the existing strategic benchmark continues to be suitable for the Fund.

23. An appendix is attached that sets out the detail of the strategic benchmark.

24. The Committee will continue to monitor the suitability of this policy in the light of the Fund's developing liabilities and finances.

The Investment Management Structure

25. The Committee considers that the Fund must have an investment management structure that provides exposure to a suitably diversified, but complementary, range of investment styles and processes.

26. It is the view of the Committee that the strategic benchmark is best implemented by investing the entire Fund on a specialist basis,

using passive asset allocation and a combination of active and passive stock selection.

27. The structure includes discretionary mandates for the active management of UK equities, Pan European equities, Global equities, Pacific equities, Emerging Market equities, Global bonds and Corporate bonds.

28. Following consideration of the efficiency, liquidity and level of transaction costs likely to prevail within each market, the Committee determined that about 25% of the Fund should be managed on a passive basis. The passive mandate includes a proportion of the total allocation to UK equities, US equities and UK Government bonds.

29. It is intended that up to 5% of the Fund is to be invested in Private Equity. This position will be built up over a period of years, largely by investment in funds of funds. The allocation will be top-sliced from the allocation to quoted equities.

30. The Fund's officers monitor the overall allocation of the Fund's assets, relative to the the strategic benchmark, with assistance from the passive manager. In the light of this monitoring, the actual asset allocation is maintained within agreed margins around the strategic benchmark by the direction of cash flow or by the reallocation of assets between portfolios, as appropriate.

31. Independent custodians have been appointed to take responsibility for the safe keeping of the assets within each of the Fund's stock market portfolios. The Fund's officers monitor the operation of the custodians.

32. The Property portfolio is managed on an advisory basis.

33. The Committee's expectations in respect of returns from the Fund's investments are expressed through achievable and prudent objectives and restrictions that have been set for each mandate. The objectives and restrictions have been discussed and agreed with each manager with the aims of ensuring a prudent approach to investment and of allowing each manager to implement their natural investment style and process. The use of any financial instruments is not prohibited, except where such prohibition is required by legislation or where it has been agreed with a manager that its use is inappropriate.

34. An appendix is attached that sets out details of the individual mandates.

35. The managers are remunerated by way of ad valorem fees. Performance fees have received consideration but none have been adopted because the fee structures were not found to be satisfactory.

36. The Investment Advisor is remunerated by reference to the time and resources expended in that role.

37. The managers are permitted to use soft commission arrangements within their broking transactions where the Committee believes this practice to be a satisfactory approach for the manager to access resources in the most cost efficient way to the Fund.

Diversification

38. The strategic asset allocation benchmark and the investment objectives and restrictions placed upon the managers are designed to ensure that the Fund's investments are adequately diversified.

39. Within each asset category in each portfolio, the manager concerned is responsible for appropriate diversification.

40. The restrictions ensure that, at a stock selection level, the Fund avoids undue concentration.

Suitability

41. The Committee has taken advice from the Actuary and Investment Advisor to ensure that the strategic asset allocation benchmark is suitable for the Fund, given its financial position, statutory status and liability profile.

42. Within each of the Fund's portfolios, and within each asset category in those portfolios, the manager concerned is responsible for the suitability of individual investments.

Realisation of Assets

43. The Fund maintains sufficient investment in liquid or readily realisable assets to meet the payment of benefits, together with a margin for unexpected cashflow requirements so that, whenever possible, the realisation of assets will not disrupt the overall investment policy. When the Committee requires assets to be realised out of a portfolio in order to meet cashflow requirements or to reinvest the proceeds elsewhere, the realisation of individual holdings is at the discretion of the manager of the portfolio.

Risk

44. The Committee recognises that there are a number of risks involved in the investment of the assets. The policy is to minimise these risks as far as possible, consistent with earning a satisfactory return on investments. In particular:

- Solvency risk and mismatching risk is controlled through the asset allocation strategy and through ongoing triennial actuarial valuations.
- Liquidity risk is controlled by estimating the annual net benefit outgo or inflow and liasing with the managers to ensure that sufficient cash balances are available.
- Manager risk is controlled through the investment objectives and restrictions set out in each manager's agreement and through the ongoing monitoring of the managers.
- Custodian risk is controlled through the restrictions set out in each custodian's agreement and through the ongoing monitoring of the custodial arrangements.
- Position, currency and political risks are controlled through the approach to diversification.
- Counterparty risk is controlled through the restrictions followed by the managers with respect to the trading of securities and cash management.

Socially Responsible Investment

45. Responsibility for the selection, retention and realisation of investments is delegated to the managers.

46. The Committee has reviewed and will continue to review from time to time the policies operated by each of the Fund's managers in respect of social, environmental or ethical considerations. Having done so, the policy of the Committee is that the extent to which such considerations are taken into account in investment decisions is at the discretion of each manager. However, active managers must take such considerations into account where they may have a financial impact on the portfolio.

The passive manager is not required to take account of such considerations in the selection, retention and realisation of investments.

47. Each manager is urged to pursue a policy of engagement with companies and to take account of such considerations in its corporate governance and voting policy.

48. Each manager must continue to develop its policy and provide a quarterly report that sets out how it has been implemented.

Rights Attaching to Investments

49. Responsibility for the exercising of rights, including voting rights, attaching to investments is delegated to the managers.

Corporate Governance and Voting

50. Each manager is required to prepare and implement a policy on corporate governance and voting. The policy towards UK quoted companies should take account of the principles contained in the Combined Code and of the guidance offered by relevant organisations, including that contained in The Responsibilities of Institutional Shareholders and Agents – Statement of Principles, prepared by the Institutional Shareholders Committee in 2002. The policy towards companies outside the UK should take account of the practices of the home nation.

51. Voting rights must be exercised in a manner that establishes a consistent approach to both routine and exceptional issues in order that company directors fully understand the manager's views and intentions.

52. Whilst it has not been made compulsory for the managers to vote, they are strongly urged to do so.

53. Each manager must continue to develop its policy and provide a quarterly report that sets out how it has been implemented.

Additional Voluntary Contributions

54. The Fund provides a facility for members to pay additional voluntary contributions (AVCs) to enhance their benefits. Members have a choice between buying added years of service or accumulating their AVCs to purchase benefits on a money purchase basis. Investment of money purchase AVCs is undertaken through The Prudential Assurance Company. The Committee's intention is to offer a range of funds that are intended to provide a suitable long-term return for members, consistent with the degree of risk accepted. The Fund's Officers monitor the returns obtained on members' AVC investment and the Committee reviews annually the suitability of the AVC providers used.

55. The Fund also has an AVC facility with Equitable Life. Due to Equitable's well publicised difficulties, this facility is no longer promoted by the Fund and does not receive new investment contributions.

Compliance with Principles of Investment Practice

56. The Fund complies with all of the Principles of Investment Practice, as set out in the document called CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme.

Asset Liability Study

Projected Investment Returns

The asset liability modelling study involves ten year projections of the Fund's liabilities and of returns from the various asset classes, over a large number of scenarios. Implicit within that process is a distribution of expected returns for each asset class over the ten year period. The table below shows the median real returns (i.e. returns in excess of price inflation) from the distributions in respect of the main asset classes, as used in the update of the study carried out as at 30th September 2003.

Asset class	10 year median real return % pa
Global (ex UK) Equities (unhedged)	6.2
UK Equities	5.7
Property	4.5
AA Sterling Long-dated Corporate Bonds	2.6
Long-dated UK Gilts	2.2
UK Index-Linked Gilts	2.0
Foreign Bonds (unhedged)	2.5

The results of the asset liability modelling study reflect not only these median returns, but also more complex factors such as:

- The volatility of returns from each asset class.
- The degree to which returns from one asset class are linked to returns from other classes.
- The relationship between movements in assets and movements in liabilities.

The returns shown above were those projected from 30th September 2003 and hence would not necessarily apply at any subsequent date.

Strategic Benchmark

Asset Class	Allocation %	Index
UK Equities	**30.00**	FTSE All Share
Overseas Equities	**35.00**	
– US	9.75	FTSE All World US
– Europe ex UK	12.25	FTSE All World ex UK
– Japan	6.50	FTSE All World Japan
– Other Far East	3.25	MSCI All Country Pacific Free ex Japan inc. Malaysia
– Emerging Markets	3.25	MSCI Emerging Markets Free
Fixed Interest	**27.50**	
– UK Gilts	8.75	FTSE-A British Government All Stocks
– UK Index-Linked	5.00	FTSE-A British Government Over 5 Year IL
– Stering Non Government	11.00	ML Sterling Non Gilt All Stocks
– Overseas	2.75	JPM Global (non UK) Traded Bond Index, hedged into Sterling
Property	**7.50**	IPD Monthly Index

Note

Up to 5% of the Fund is to be invested in Private Equity. This position will be built up over a period of years and will be top-sliced from the allocation to quoted equities.

Management Structure

Manager	Mandate	Proportion of Fund %	Mandate
Fidelity	UK Equities	13	To aim to outperform the FTSE All Share Index by +1.5% pa over 3 year rolling periods with the return being no more than 4% below the Index in any one year.
UBS	Pan European Equities	13	To outperform the FTSE Europe (including UK) Index – Developed Series by 2% pa over 3 year rolling periods with the return being no more than 5% below the Index in any one year.
Capital International	Global Equities	13	To outperform the FTSE All World Index by 2% pa over 3 year rolling periods with the return being no more than 5% below the Index in any one year.
Capital International	Emerging Markets Equities	3	To outperform the MSCI Emerging Markets Free Index.
Schroders	Japanese Equities	5	To outperform the FTSE All World Japanese Index by 2% pa over 3 year rolling periods with the return being no more than 4% below the Index in any one year.
Schroders	Pacific ex Japan Equities	3	To outperform the MSCI All Countries Pacific Free ex Japan Index by 2% pa over 3 year rolling periods with the return being no more than 5% below the Index in any one year.
Various	Private Equity	Up to 5% of fund to be top-sliced from the equity allocation	Notionally, 5% above the returns on quoted equity.
Legal and General	UK Equities	11	To match the return on the FTSE All Share Index.
Legal and General	US Equities	3	To track the total return of the FTSE World North America Index within expected tolerances of +/- 0.5% in two years out of three.

Management Structure

Manager	Mandate	Proportion of Fund %	Mandate
Legal and General	UK Index-linked	4	To match the return on the FTSE-A British Government Over 5 Years Index-Linked Index
Legal and General	AAA Fixed Interest	4	To match the return on the iBoxx Sterling Non Gilt AAA Index.
Prudential M&G	Corporate Bonds	11	To outperform a composite benchmark by 0.75% pa over 3 year rolling periods with the return being no more than 2% below the Index in any one year. The benchmark is: 80% Merrill Lynch Sterling Non Gilt All Stocks. 15% FTSE-A British Government All Stocks. 5% FTSE-A British Government Over 5 Years Index-Linked.
Henderson	Government Bonds	9	To outperform a composite benchmark by 0.75% pa over 3 year rolling periods with the return being no more than 2% below the Index in any one year. The benchmark is: 37.5% FTSE-A British Government All Stocks. 7.5% FTSE-A British Government Over 5 Years Index-Linked. 25% Merrill Lynch Sterling Non Gilt All Stocks. 30% JP Morgan Global (Non UK) Traded Bond Index, hedged into Sterling.
Arlington Property Investors	Property	8	To outperform the IPD All Funds Universe by 0.5% pa over 3 year rolling periods.

Note

The column headed "Proportion of Fund" shows the approximate proportion of the Fund's assets that was placed in each mandate at inception. Over time, the actual proportions held in each mandate change as a result of the capital injections and withdrawals that take place to maintain the strategic benchmark and also due to differing investment returns.

Policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance

Approved by Pensions Committee on 11th February 2004

Introduction

1. This document sets out the Fund's policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance.

2. The Pensions Committee reviews the policy annually, or more frequently if required.

3. The Committee provides copies of this document to the Fund's investment managers, who are required to follow the principles that it sets out and to report showing how they have done so.

Development of a Manager's Policy

4. Each manager must prepare and implement a policy on Socially Responsible Investment, corporate governance and the principles that govern the way in which voting rights are exercised.

5. If a manager's policy is inconsistent with the requirements set out in this document, the issues will be discussed with the manager and an approach will be agreed.

6. Each manager must continue to develop its policy and report change as soon as practicable.

Socially Responsible Investment

7. Responsibility for the selection, retention and realisation of investments is delegated to the managers, who are required to act within specified guidelines and restrictions.

8. The extent to which social, environmental or ethical considerations are taken into account in this decision is at the discretion of each manager.

9. However, active managers must take such considerations into account when they may have a financial impact on a portfolio.

10. Part of the Fund's assets are invested on a passive basis. The passive manager is not required to take account of such considerations in the selection, retention and realisation of investments.

11. Each manager is urged to pursue a policy of engagement with companies and to take account of such considerations in its corporate governance and voting policy.

Rights Attaching to Investments

12. Responsibilty for the exercising of rights, including voting rights, attaching to investments is delegated to the managers.

Corporate Governance

13. The policy towards UK quoted companies should take account of the principles contained in the Combined Code and of the guidance offered by relevant organisations, including that contained in The Responsibilities of Institutional Shareholders and Agents – Statement of Principles, prepared by the Institutional Shareholders' Committee in 2002.

14. The policy towards companies outside the UK should take account of the practices of the home nation.

15. The policy towards unquoted companies should be consistent with the approach adopted for quoted companies, to the extent that this is practicable.

Voting Rights

16. Voting rights should be exercised in an informed manner. Therefore, in general, the managers are most appropriately placed to undertake this task.

17. Voting rights are regarded as an asset that needs managing with the same duty of care as any other asset. Exercising the rights attached to shares is essential to protect the interests of the organisations participating in the Fund, and the beneficiaries of the Fund.

18. Whilst it has not been made compulsory for the managers to vote, they are strongly urged to do so.

19. Voting rights must be exercised in a manner that establishes a consistent approach to both routine and exceptional issues in order that company directors fully understand the manager's views and intentions.

20. Whilst the responsibility is delegated to each manager to exercise voting rights in accordance with its own policy, the Committee retains the right to direct each manager in respect of any issue.

21. Prior to voting, each manager is required to use reasonable endeavours to consider whether, in their opinion, any issue could become controversial for the Fund or the organisations participating in the Fund. If this is the case, the issue should be referred to the Fund's officers for discussion and possibly direction. It is considered that this will happen infrequently. Whilst each manager should exercise their own discretion as to what may fall into this category, examples may be:

    - Where the manager intends to vote against directors on a major issue.
    - Matters affecting the local economy.
    - Political donations.

Review and Reporting Arrangements

22. Each manager's policy will be reviewed and its impact monitored on a regular basis.

23. Policy changes must be reported as soon as practicable.

24. Each manager must provide a quarterly report that sets out how its policies have been implemented.

25. The quarterly report must include:

    - The proportion and numbers of votes which were cast.
    - A summary and explanation of instances where:
      - Voting rights were exercised in a manner that was inconsistent with the normal policy.
      - Voting rights were exercised against management.
      - The manager abstained from voting.
      - Voting rights were not exercised.

Contacts

Please contact us if you require any further information about the Tyne and Wear Pension Fund.

For information about contributions or benefits please contact the Pensions Office.

For information about investments please contact the Investments Office.

Tyne and Wear Pension Fund
Hebburn Civic Centre
Campbell Park Road
Hebburn
Tyne and Wear
NE31 2SW

Website: www.twpf.info

Pensions Office

Helpline: 0191 424 4141

Fax: 0191 427 4171

E-mail: pensions@twpf.info

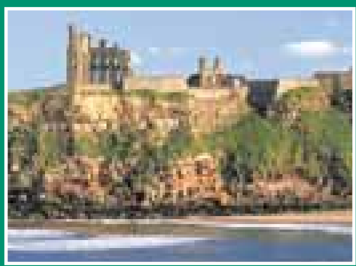
Investments Office

Telephone: 0191 424 4115

Fax: 0191 483 8660

E-mail: investments@twpf.info

Report and Accounts
2003/04



Tyne and Wear Pension Fund

Administered by South Tyneside Council