

# Tyne and Wear Pension Fund

Administered by South Tyneside Council



## Members' Annual Report 2015/16



# Governance

Our Pensions Committee is responsible for the control of the Fund and meets quarterly to consider all pension matters. The Committee has eighteen members. South Tyneside Council has legal responsibility for the Fund and nominates eight members, whilst the other four district councils within the Tyne and Wear County area each nominate one member. The trades unions and the employers nominate three members each, who sit on the Committee in an advisory capacity.

In 2015, the Council established the Local Pension Board. The Board will assist the Pensions Committee in the good governance of the Fund. It consists of eight voting members, four member representatives and four employer representatives.

An Investment Panel undertakes a detailed, ongoing, review of investment matters. This Panel consists of three members of the Pensions Committee, the Fund's external Investment Advisor and two Officers. The Panel reports to the Pensions Committee.

We hold annual meetings for the employers and trades unions. The issues discussed include the investment strategy and performance, benefits and employers' contribution rates.

# Membership

As at March 2016, there were 230 employing bodies and 129,222 members in the Fund. The increases from the previous year are shown below:

	<b>March 2015</b>	<b>March 2016</b>
Active Members	46,900	47,360
Deferred Members	36,367	38,003
Pensioners	42,469	43,859
<b>Total Membership</b>	<b>125,736</b>	<b>129,222</b>
<b>Employers</b>	<b>223</b>	<b>230</b>

# Funding Strategy

The Fund is valued every three years to ensure that there will be enough money to meet all the pension benefits.

The latest valuation was undertaken as at March 2013. The Pensions Committee considered the strategy against that adopted for the previous valuation in 2010 and concluded that it was reasonable to adopt lower assumptions for the long term impact of inflation and pay awards. These changes, alongside the introduction of the new Scheme from April 2014, were positive factors for the outcome. On the negative side, it was necessary to strengthen the assumptions for longevity and a lower discount rate was used to reflect lower assumptions for future investment returns.

The outcome was a funding deficit, with the assets being sufficient to meet only 81% of the benefits. However, this is a small improvement from the position at the 2010 valuation. The Pensions Committee has a long term strategy in place to clear the deficit over future valuations.

An updated valuation is currently taking place as at March 2016. When the results are available the Pensions Committee will review its strategy for clearing the deficit. We will be consulting employers and considering their views as part of this process.

# Summary of Accounts for 2015/16

The statement below shows the Fund's Income and Expenditure for 2015/16:

## Income and Expenditure

<b>Income</b>	<b>£'m</b>
Employers' Contributions	234
Employees' Contributions	56
Transfer Values Received	8
Net Investment Income	89
<b>Total Income</b>	<b>387</b>

<b>Expenditure</b>	<b>£'m</b>
Pensions	213
Lump Sum Retiring Allowances	48
Death Grants	5
Transfer Values and Refunds	7
Management Expenses	43
<b>Total Expenditure</b>	<b>316</b>

<b>Net Income/(Expenditure)</b>	<b>71</b>
<b>(Decrease) in the value of investments</b>	<b>(22)</b>
<b>Value of the Fund as at 31 March 2015</b>	<b>6,378</b>
<b>Value of the Fund as at 31 March 2016</b>	<b>6,427</b>

# Summary of Accounts for 2015/16 continued

The value of the Fund as at 31 March 2016 was £6,427 million. This is invested into a range of UK and overseas assets, as shown below:

<b>Investment</b>	<b>Value £'m</b>
UK Equities	1,438
Overseas Equities	2,273
Private Equity	549
UK Fixed Interest Bonds	996
Overseas Fixed Interest Bonds	37
Index-Linked Bonds	143
Infrastructure	156
UK Property	311
Global Property	349
Cash and other current assets	175
<b>Total</b>	<b>6,427</b>

Our ten largest holdings (excluding managed and unitised funds) at the year end were:

<b>Holding</b>	<b>Value £'m</b>
Shire Ltd	52
Reckitt Benckiser Group	45
RELX	38
Wolseley	37
Royal Dutch Shell (B Share)	34
Roche	32
British American Tobacco	28
Next Plc	27
Compass Group	25
Vodafone Group	25

# Additional Voluntary Contributions

The Fund has two Additional Voluntary Contribution (AVC) providers, Prudential and Equitable Life. The total value of AVC funds at the year-end was £10.9 million. These monies are invested separately and are not included in the figures above.

## Investment Framework and the Statement of Investment Principles

Our approach to investing the Fund is set out in a document called the Statement of Investment Principles. This is available on our website at:

<http://www.twpf.info/CHttpHandler.ashx?id=12635&p=0>

The Statement shows our level of compliance with a Code of Investment Principles prepared by the Government. We are pleased to report that we are compliant with these Principles.

## Investment Strategy

The investment strategy is to invest 66% of the Fund into equities, 19% into bonds, 12.5% into UK and global property and 2.5% into infrastructure. Within this structure, there is a 7.5% allocation to private equity.

The strategy was reviewed in 2015/16 and it was concluded that while it remains appropriate for the Fund, a number of tactical changes were agreed but were not fully implemented at the end of March 2016 as follows:

- A reduction in the allocation to UK Property of 1%, from 8% to 7%. In addition, it was agreed that 1% of the remaining 7% allocation will be in UK residential property
- A 0.5% increase in the allocation to global property to take this to 5%
- A 0.5% allocation to a trade finance fund

We continue to develop the private equity, global property and infrastructure programmes.

# Investment Management Structure

To deliver the investment strategy, the Fund has appointed eleven investment managers to work on a range of investment mandates. Each manager is a specialist in the market in which they invest.

In addition, money has been allocated into funds that are invested into private equity, infrastructure, global property and currencies.

This broadly based management structure seeks to ensure that investment returns should not be overly influenced by the performance of any one strategy or manager.

The structure in place at the end of the year was:

Manager	Value £'m	% of Assets
Legal and General (tracker funds for UK Equities, US Equities, European Equities, Emerging Market Equities, Japanese Equities, Asia ex Japan Equities, Fundamental Global Equities, Index-Linked Gilts, Emerging Market Local Currency Government Bonds)	1,854	28.9
JP Morgan (Global and Emerging Market Equities)	501	7.8
Sarasin (Global Equities)	411	6.4
UBS Global Asset Management (Pan European Equities)	392	6.1
M&G (Corporate Bonds)	568	8.9
Henderson (Bonds)	486	7.6
Aberdeen Property Investors (Property)	311	4.8
Mirabaud (UK Equities)	270	4.2
BlackRock (UK Equities)	286	4.4
Lazard (Japanese Equities)	121	1.9
TT International (Asia Pacific ex Japan Equities)	59	0.9
Private Equity	549	8.5
Global Property	349	5.4
Infrastructure	156	2.4
In House (cash) and other current assets	114	1.8
<b>Total</b>	<b>6,427</b>	<b>100.0</b>

# Market Environment

With the exception of US equities the major equity markets all suffered falls in value during the year. Overall market returns were lower than in the previous year. This made it a difficult year for pension funds to produce a positive absolute return. Bond markets generally produced positive returns as did alternatives.

The strongest performing markets were UK Property with a return of 10.7%, followed by US equities at 3.6%.

The poorest performer was Emerging Market equities, which returned a loss of 8.8%.

The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned a loss of 3.9%.

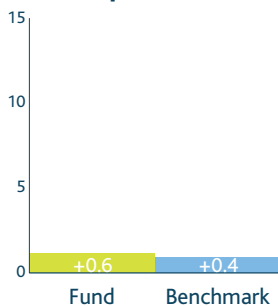
# Investment Performance

Our investment return for the year was 0.6%, which was 0.2% above the benchmark return of 0.4%.

Pension fund returns are generally assessed over at least five year periods in order to avoid taking too short term a view of investment performance.

The chart below shows the Fund's annual return over one year, five year and ten year periods.

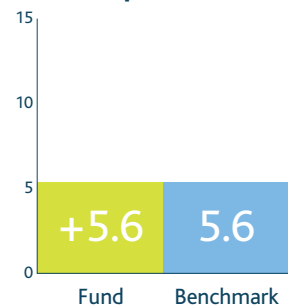
**Year to March 2016**  
p.a. %



**Five Years to March 2016**  
p.a. %



**Ten Years to March 2016**  
p.a. %



The five year return is 6.6% per annum, which was level with the benchmark return. The ten year return is 5.6% per annum, which was also level with the benchmark return.

The returns over the longer term have been influenced in part by the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy. Poor performance from the UK property portfolio has detracted from returns over these periods.

# Corporate Governance

This is an important issue and the Pensions Committee takes its responsibilities in this area very seriously. The policy, which was last reviewed in June 2016, sets out how environmental, social and governance considerations are taken into account in the buying, holding and selling of investments and in the use of rights, such as votes, that attach to investments.

The policy is available on our website at: <http://www.twpf.info/CHttpHandler.ashx?id=12636&p=0>

Councillor Eileen Leask  
**Chair of Pensions Committee**

Ian Bainbridge  
**Head of Pensions**

# How to Contact Us

Our information is available in other ways on request.  
We can provide information in other languages, Braille or large print.  
We also have access to audio aids and BSL (British Sign Language) interpreters.

There are a number of ways you can get in touch with us.  
If you need further information on the LGPS, please contact us at:



**Tyne and Wear Pension Fund, PO Box 212,  
South Shields, NE33 9ER**



**Pensions Helpline: Tel: 0191 424 4141**

If you want to talk to us, please call the Pensions Helpline,  
Monday to Thursday 8.30am to 5.00pm, and on Friday 8.30am  
to 4.30pm.

Outside of office hours and during busy times, you can leave us  
a message and a convenient day time telephone number and  
we will contact you. We aim to call you back within 5 working  
hours.

You will need to provide three forms of identification before we  
can provide any personal details.

We will not be able to provide information to anyone else on  
your behalf unless you are present during the call and authorise  
us to do so.



**Email: [pensions@twpf.info](mailto:pensions@twpf.info)**



**Web: [www.twpf.info](http://www.twpf.info)**



**Postcode for 'sat nav' systems NE33 2RL**

## Walk in Service

You can visit us at our offices from Monday to Thursday from  
8.30am to 4.30pm, and on Friday from 8.30am to 4.00pm, at the  
Town Hall and Civic Offices, Westoe Road, South Shields, Tyne  
and Wear, NE33 2RL.

You do not need to make an appointment, but we ask that you  
allow sufficient time to visit us before we close.

