

Tyne and Wear Pension Fund

Members Annual Report 2003/04



Administered by South Tyneside Council

Tyne and Wear Pension Fund

Members Annual Report 2003/04

Dear Member

We are pleased to present this Members Annual Report for 2003/04.

This report is a summarised version of the Fund's formal Report and Accounts, which is available on the Fund's website @ www.twpf.info .

This Report sets out how the Fund is governed, details of the membership and it's financial position. It also outlines the investment structure, describes the overall market environment during the year and shows how the Fund has performed. Finally, there is a brief summary of the main investment policies and the framework within which the Fund operates.

Vision Statement

We have a Vision Statement to help us to improve the service we provide.

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 as 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.

Governance

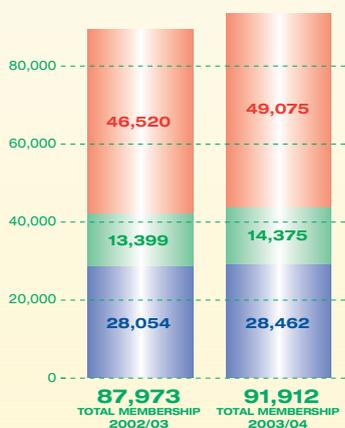
A Pensions Committee is responsible for the control of the Fund. It is made up of twelve elected councillors, eight from South Tyneside Council and one from each of the other four district councils in Tyne and Wear. Three representatives from the trades unions also attend the Committee meetings. The Committee meets quarterly to consider all pension matters.

An Investment Panel undertakes the detailed monitoring of investment performance. 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 our employers and for the trades unions whose members participate in the Fund. The issues discussed at these meetings include investment performance, benefits and employers' contribution rates.

Membership

As at 31st March 2004, there were 113 employing bodies and 91,912 members participating in the Fund. The table below shows how the membership of the Fund has grown over the year:



Current Members

The number of employees contributing to the Fund has increased by 2,555.

Deferred Members

Deferred members are former contributors who have left their pension rights in the Fund until these become payable at normal retirement age. The number of deferred members increased by 976.

Pensioners

We are paying pensions to 408 more pensioners than at the end of the previous year. We paid benefits valued at £114 million during the year.

Funding Level

We employ an Actuary to undertake a formal valuation of the Fund every three years. It is the Actuary's job to make sure that there will be enough money in the Fund to meet all promised benefits.

The latest full actuarial valuation was undertaken as at 31st March 2001. This showed that the Fund was in deficit and contained assets sufficient to meet only 82% of the pension liabilities. This figure is known as the funding level.

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 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 on 1st April 2005. It is expected that employers' contributions will have to rise as a result of the fall in the funding level.

Please note that the Tyne and Wear Pension Fund is part of the Local Government Pension Scheme. This is a defined benefit scheme and the regulations that govern it guarantee that your Scheme benefits will be paid.

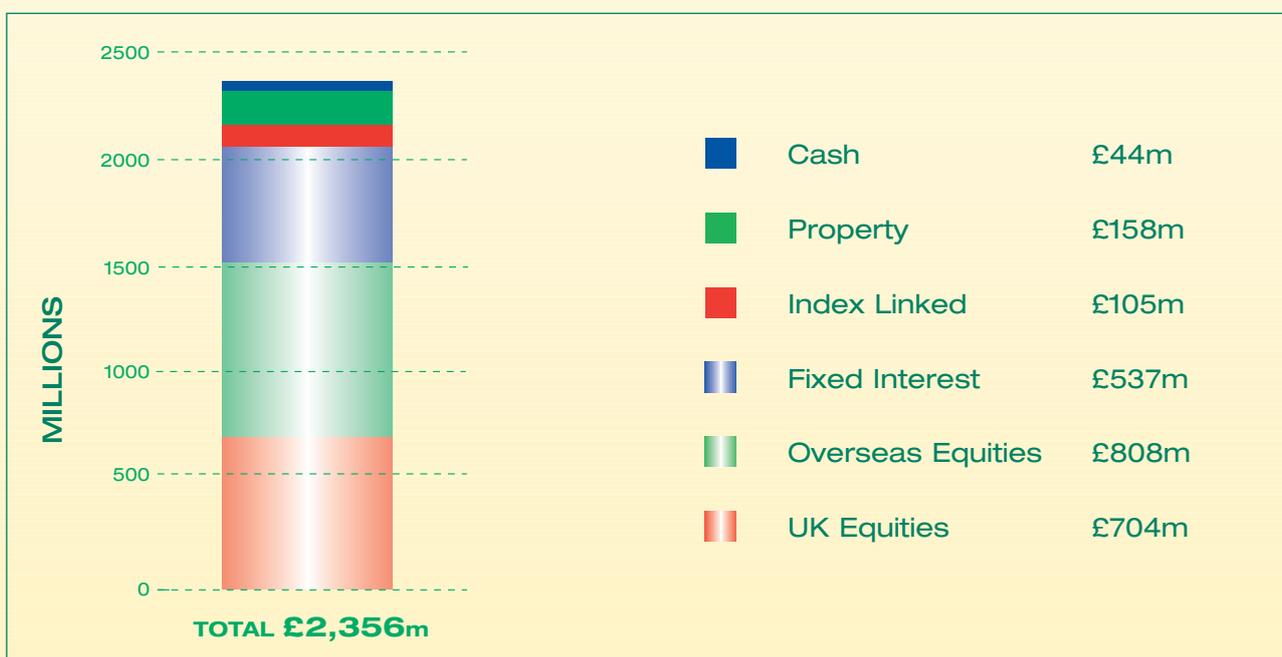
Summary of the Accounts for 2003/04

The statements below show the Fund's Income and Expenditure for 2003/04:

Income	£'m	Expenditure	£'m
Employers' Contributions	130	Pensions	96
Employees' Contributions	43	Lump Sum Retiring Allowances	16
Transfer Values	15	Death Grants	2
Investment Income	43	Transfer Values and Refunds	16
		Administration Costs	2
Total Income	231	Total Expenditure	132
Net Income			99
Increase in value of Investments			392
Total Increase in value of the Fund			491
Value of the Fund as at 31st March 2003			1,865
Value of the Fund as at 31st March 2004			2,356

In addition, income was also received from the Fund members who have taken out additional voluntary contributions (AVCs) with the Fund's two external providers, The Prudential and Equitable Life. The total value of the members' AVC funds was £5.8 million at the year end.

The value of the Fund as at 31st March 2004 was £2,356 million. This is invested into a range of UK and overseas assets, as shown below:

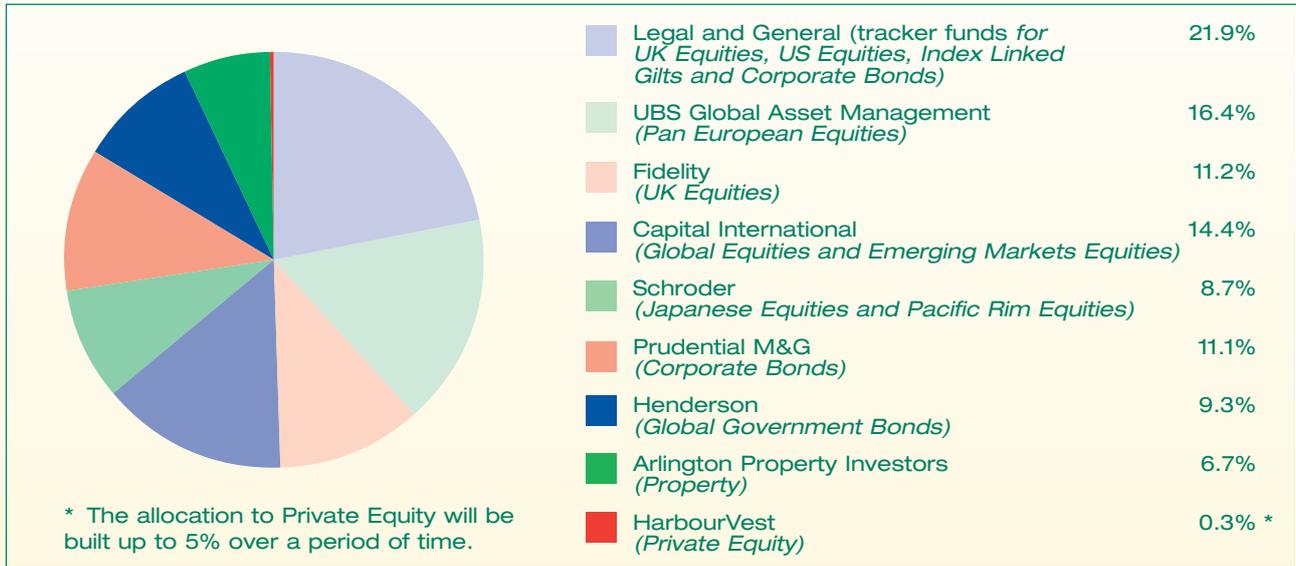


Our ten largest holdings (excluding managed and unitised funds) at the year end were:

Vodafone	£50m	Credit Suisse	£18m
Royal Dutch Petroleum	£22m	Royal Bank of Scotland	£17m
UK Treasury 6.75% 26/11/04	£21m	UK Treasury 8% 7/6/2021	£17m
AstraZeneca	£19m	UK Treasury 4% 7/3/2009	£17m
BP	£19m	Barclays	£16m

Investment Management Structure

We constantly keep our investment strategy under close scrutiny so we are able to respond to the changing market environment. At present we employ nine investment managers who work on fourteen 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 structure as at 31st March 2004 is:



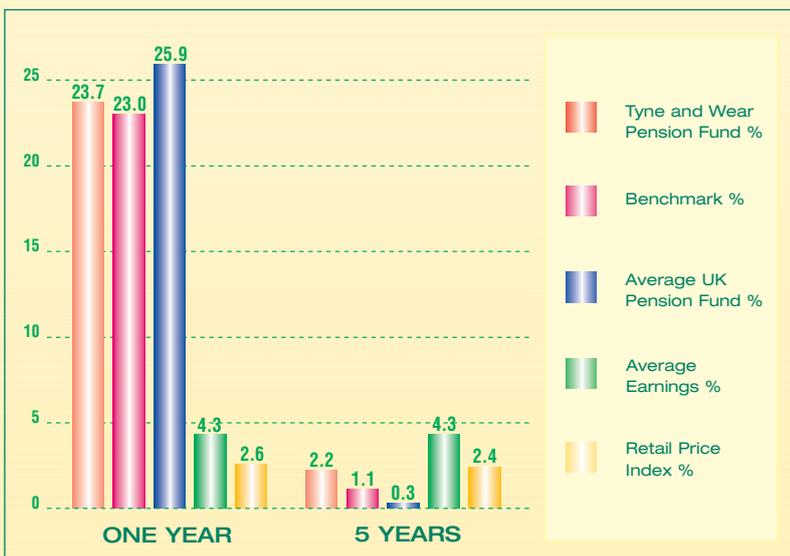
Market Environment

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 world's major Equity markets posted returns in excess of 30%. Whilst the US market lagged the other markets it still increased by nearly 16%. In this environment Property continued to perform well with a return in excess of 12%, whilst the worst performing asset class was UK Bonds at approximately 2%.

Investment Performance

This is the first year since 1999/2000 that pension funds have posted strong positive returns. Our investment return for the year was 23.7%, which was 0.7% above the benchmark return of 23.0%. We were positioned for a strong rise in Equities and, consequently, we outperformed.

Whilst we are no longer formally assessed against the average UK pension fund, it is interesting to see how we are performing against our peer group. The average return for the year was 25.9%. Therefore, whilst we outperformed our benchmark, we underperformed the average fund. This is because our benchmark has a lower weighting in Equities than average and this detracted from the relative returns during this period of rising Equity markets.



In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. Our 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 the benchmark return of 1.1% per annum and ahead of the average fund's return of 0.3% per annum.

Statement of Investment Principles (SIP)

The Statement of Investment Principles (SIP) is a key policy document which sets out the investment framework in which we operate. The document is continually updated as the Fund changes and evolves. It was last updated in May 2004.

The SIP sets out:

- who is taking which decisions and why this structure has been selected
- the investment objective
- the 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.

In the SIP we are required to state our level of compliance with a Government Published Code of Investment Principles. We are pleased to report that we are compliant with all ten of the Principles contained in the Code.

A full copy of the SIP is available on the Fund's website @ www.twpf.info

Corporate Governance, Voting and Socially Responsible Investment (SRI)

This is an important issue and the Pensions Committee takes its responsibility in this area very seriously. Our Policy, which was last reviewed in February 2004, sets out how social, environmental and ethical 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.

Our investment managers have to report on their implementation of this Policy in their quarterly performance report and the subject is discussed regularly at meetings with them.

Each manager is required:

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

A copy of the Policy is available on the Fund's website @ www.twpf.info



Councillor Shirley Stratford
Chair of Pensions Committee



Stephen Moore
Head of Pensions

Special Needs

If you have any special needs and would like to receive information in an alternative way, please let us know. We have access to an interpretation service, audio aids and documents in other formats, for example Braille, large print and electronic.



Website

The Tyne and Wear Pension Fund's website can be found at:

www.twpf.info

**Through this website you can access pension information
24 hours a day, 365 days a year.**

The following information is available on the website

-  The Statement of Investment Principles
-  The Policy on Socially Responsible Investment
-  The full Report and Accounts for 2003/04
-  The Service Plan for 2004/05 - 2006/07

**For any other information about the Tyne and Wear Pension Fund
please contact us at:**



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