

Tyne and Wear Pension Fund

Members' Annual Report 2009/10

Administered by South Tyneside Council

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.

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 2010, there were 145 employing bodies and 110,455 members in the Fund. This is an increase of 2,901 over the membership of 107,554 as at March 2009.

	March 2009	March 2010
Active Members	50,008	48,147
Deferred Members	24,526	27,757
Pensioners	33,020	34,551
Total Membership	107,554	110,455
Employer Organisations	134	145

Funding Strategy

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

The latest valuation was undertaken as at March 2007. This showed that there is a funding deficit, with the assets being sufficient to meet only 79% of the pension liabilities. This figure, known as the funding level, had improved by 15% since the previous valuation in 2004, largely due to actual investment returns being higher than those assumed in 2004. However, employer contribution rates had to increase due to higher than expected inflation and to our members living longer.

We have been monitoring the estimated movement in the funding level since the 2007 valuation. As at March 2010, the estimated funding level had fallen to about 67%, mostly because of the global financial crisis which has led to a severe fall in the value of the Fund's investments.

A new valuation is taking place as at March 2010. The Pensions Committee will review its strategy for closing the deficit. We will be consulting employers and considering their views as part of this process.

Please note that the Tyne and Wear Pension Fund is part of the Local Government Pension Scheme. Under the present legislation the benefits of the Scheme are not dependant upon the funding level, but are defined in law.

Summary of Accounts for 2009/10

The statement below shows the Fund's Income and Expenditure for 2009/10.

Income and Expenditure

Income	£'m
Employers' Contributions	239
Employees' Contributions	62
Transfer Values	17
Investment Income	58
Total Income	376

Expenditure	£'m
Pensions	141
Lump Sum Retiring Allowances	61
Death Grants	4
Transfer Values and Refunds	22
Administration Costs	3
Total Expenditure	231

Net Income	145
Increase in the value of Investments	1,054
Total Increase in the value of the Fund	1,199
Value of the Fund as at 31 March 2009	3,103
Value of the Fund as at 31 March 2010	4,302

Summary of Accounts for 2009/10

The value of the Fund as at 31 March 2009 was £4,302 million. This is invested into a range of UK and overseas assets, as shown below:

Investment	Value £'m
UK Equities	1,226
Overseas Equities	1,331
Private Equity	356
Active Currency	96
UK Fixed Interest Bonds	765
Index-Linked Bonds	112
Infrastructure	27
Property	321
Cash and other current assets	68
Total	4,302

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

	Value £'m
Vodafone	33
Royal Dutch Shell	28
Roche	27
Total	24
Barclays	22
Novartis	21
Nestle	21
Societe Generale	19
UBS	19
E.ON	18

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 £9.2 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:

www.twpf.info/documents/InvestmentPrinciples01062010.pdf

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

At the start of 2009/10, the investment strategy was to invest 60% of the assets into quoted equities, 21% into bonds, 10% into property and 9% into alternative investments. The allocation to alternative investments was comprised of 7.5% in private equity and 1.5% in infrastructure. The Fund also has money invested in overseas currencies.

In 2008, the Pensions Committee decided to increase the allocation to alternative investments and reduce the allocation to quoted equity and bond investments.

The Committee had intended to introduce the new strategy during 2008 and 2009. However, this was put on hold because of concerns over the stability of investment markets during the financial crisis. The new strategy is being put into place in 2010.

Investment Management Structure

To deliver the investment strategy, the Fund has employed seven investment managers who work on fourteen investment mandates. Each manager is a specialist in the market in which they invest.

In addition, a number of investments have been made into private equity funds offered by a range of providers. Two investments have been made in currency funds and two investments in infrastructure funds.

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

The investment management structure is being reviewed as the new strategy is introduced.

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

Manager	Value £m	% of Assets
Legal and General (tracker funds for UK Equities, US Equities, European Equities, Gilts, Index Linked Gilts and Corporate Bonds)	1,251	29.1
UBS Global Asset Management (Pan European Equities)	609	14.2
Capital International (Global Equities and Emerging Markets Equities)	533	12.4
Schroder (Japanese Equities and Pacific Rim Equities)	347	8.1
Henderson (Bonds)	373	8.7
M&G (Corporate Bonds)	347	8.1
Aberdeen Property Investors (Property)	321	7.5
Active Currency	96	2.2
Private Equity	356	8.1
Infrastructure	27	0.6
In House (Cash) and other current assets	42	1.0
Total	4,302	100.0

Market Environment

A steady rise in equity markets from March 2003 ended in May 2007. Markets then fell dramatically, initially because of severe losses in US sub-prime mortgages.

The financial crisis came to a head in 2008 when concern over the stability of financial institutions meant that governments had to support individual institutions and the financial markets generally.

The economic outlook improved in 2009/10 and there has been a strong recovery in markets.

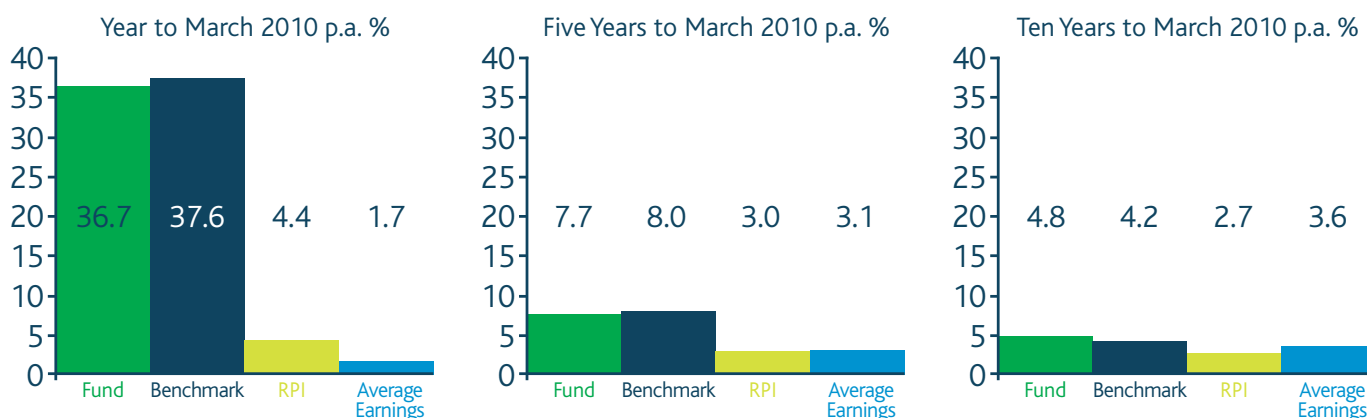
Investment Performance

The value of UK pension fund assets rose in 2009/10.

Our investment return for the year was 36.7%, which was 0.9% below the benchmark return of 37.6%.

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.



The underperformance over five years is due to poor performance from some of our equity and currency managers. The Investment Panel and the Pensions Committee have been closely monitoring this position and are addressing it as part of the new strategy.

The returns over one, five and ten years are above both inflation and the rise in average earnings.

Corporate Governance

This is an important issue and the Pensions Committee takes its responsibilities in this area very seriously. The policy was last reviewed in June 2010 and 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:

www.twpf.info/documents/CorporateGovernancePolicy01062010.pdf

Councillor Eileen Leask
Chair of Pensions Committee

Stephen Moore
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 143, HEBBURN NE31 2WT



Pensions Helpline: Tel: 0191 424 4141 or 0845 625 4141

If you live outside the Tyne and Wear area, it may be cheaper to call our 0845 number - please check with your telephone service provider.



Fax: 0191 424 4171



Email: pensions@twpf.info



Web: www.twpf.info



Personal callers

You can visit us during office hours at the Civic Centre,
Campbell Park Road, Hebburn, Tyne and Wear, NE31 2SW.

You don't need to make an appointment.



Office hours

Monday to Thursday 8.30am to 5.00pm Friday 8.30am to 4.30pm.

Please quote your National Insurance Number and your Membership ID Number so we can quickly trace your records.