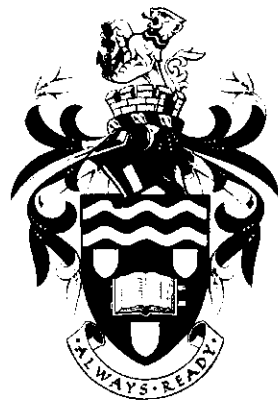


TYNE & WEAR PENSION FUND

**Report & Accounts
1999/2000**



**Administered by
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL**

REPORT and ACCOUNTS

1999/2000

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**MEMBERS OF THE PENSIONS COMMITTEE,
INVESTMENT MANAGERS, ADVISORS AND OFFICERS**

Committee Members

Chairman	Councillor R. S. Haws, J.P.
Vice Chairman	Councillor Mrs S. Stratford
South Tyneside M.B.C.	Councillor T.A. Bamford Councillor Mrs E. Battye Councillor C. Bonnar, J.P. Councillor J.F. Harper Councillor J. McKie Councillor Mrs L. Waggott
Gateshead M.B.C.	Councillor W. Gordon (substitute – Councillor H. Smiles)
Newcastle upon Tyne City Council	Councillor G. Bell (substitute – Councillor C. Gray)
North Tyneside M.B.C.	Councillor Ms A. Richardson (substitute – Councillor R.A. Usher)
City of Sunderland Council	Councillor Mrs L.A.F. Farthing (substitute – Councillor P. Young)

Trade Union Representatives

G. Brown – UNISON
W. Flynn – UCATT
I. Rossiter – RMT

Investment Managers

Balanced Managers	Phillips and Drew Fidelity Pensions Management
Specialist Managers UK Equities Japan and Pacific Basin North America Continental Europe Global Bonds	Morley Fund Management Schroder Investment Management J.P. Morgan Investment Management Capital International Prudential M & G
Indexation	Barclays Global Investors
Property Manager	RREEF
Actuary and Investment Advisor	Watson Wyatt Partners
Director of Finance	B. M. Welsh
Head of Pensions	S. Moore
Head of Legal Services	C.G.D. Bradley
Pensions Manager	D. Smith

INTRODUCTION

Welcome to the 1999/2000 Annual Report and Accounts.

During the year, the Fund's membership rose by 2,352 to 78,630. This total is comprised of 41,808 contributors, 25,961 pensioners and 10,861 deferred members.

Communicating with our members is an important aspect of managing the Fund and we aim to do this in a clear, concise and informative manner. To assist with this, a telephone helpline has been set up and a dedicated web site is under development.

The Fund has increased in value by £251 million, from £1,975 million to £2,226 million. The investment return was 12.1%, which was 0.9% below the median UK pension fund return of 13.0%.

In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. This Fund's average annual return over the last five years has been 14.3%, which is comfortably above the rate of inflation and the increase in wages over the period, although it is below the median UK pension fund return for the period of 15.4%.

The underperformance over the period has arisen out of that part of the Fund which was under balanced management, which represents approximately half of the total Fund. The most recent review of the investment management structure was undertaken in 1998 and, whilst this reduced the amount of assets under balanced management, performance has continued to be affected. We remain concerned by the investment performance of the Fund and an Investment Panel has been set up with the intention of providing a greater focus on, and scrutiny over, the performance and strategy of managers.

A frequently debated topic in the pensions industry over recent months has been the issue of Socially Responsible Investment (SRI). This debate was triggered by legislation that required all pension funds to document formally the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments. The Tyne and Wear Pension Fund takes its responsibility in this area very seriously and has developed a policy which requires the investment managers to actively engage with companies on these issues and, where necessary, to seek improvements.

In terms of other legislative changes, probably the most important in relation to the administration of the Fund is the extension to the list of non local government bodies who are now able to join the Fund. Most notable are those organisations designated as "best value authorities", whose employees have the opportunity to remain in the Fund should their function be outsourced.



**BRIAN M WELSH
DIRECTOR OF FINANCE**

FUND REPORT

ADMINISTRATION

South Tyneside Metropolitan Borough 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 which is required to control and resolve all matters relating to the administration and investment of the Fund.

The Committee consists of fifteen members. Eight of the members are nominated by South Tyneside Metropolitan Borough Council 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 investment of the Fund require an in depth review.

The Committee also has an annual meeting at which it considers the Report and Accounts.

Annual meetings are held for the trades unions whose members participate in the Fund and for employing organisations. The agenda for these meetings covers the actuarial position, investment performance and the benefits structure, and includes presentations by the Actuary and by an investment manager.

In April 1999 the Committee set up an Investment Panel to provide a greater focus on, and scrutiny over, the performance and strategy of investment managers. The Panel consists of two members of the Pensions Committee, the Investment Advisor, the Director of Finance and the Head of Pensions. It meets in advance of the Committee, reports back on its findings and makes recommendations on any action that is required.

MEMBERSHIP

As at 31st March 2000, there were 85 employing bodies 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. A full list of these organisations is given on pages 30 and 31.

Membership of the Fund has grown by 2,352 over the year, as set out below:

	1999/2000	1998/1999
Current Contributors	41,808	41,043
Deferred Members	10,861	9,879
Pensioners	25,961	25,356
Total Membership	78,630	76,278
Number of Employers	85	84

Deferred members are either former employees who left their employing organisation before retirement age or employees who opted out of the Scheme whilst continuing to be employed. As and when they reach retirement, they are entitled to the payment of pension benefits based on their accrued service.

COMMUNICATIONS STRATEGY WITH FUND MEMBERS

Membership of the Local Government Pension Scheme continues to be promoted as being in the best interests of local government employees.

The Fund aims to communicate with all members in a clear, concise and informative manner. A telephone helpline has been introduced to deal with enquiries and a dedicated Pension Fund web site is under development. These initiatives will support both our written communication with members and our comprehensive range of information leaflets, which continue to be available. We provide an information pack to new contributors, to advise them about the Scheme. We also provide presentations to groups of scheme members on request.

1999/2000 was the first year in which current contributors were provided with an annual benefit statement. This summarises the benefits earned to date and, from next year, will be accompanied by a newsletter and the Members Annual Report.

A newsletter and the Members Report are also provided to pensioners.

BENEFITS

The Scheme provides its members with an extensive range of guaranteed benefits for employees and their dependants, 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.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

Whilst the Local Government Pension Scheme provides an excellent benefits package, it is normally possible to increase benefits and take full advantage of the tax relief which 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.

This Fund's AVC plan is arranged with Equitable Life. In addition to allowing members to boost their pension up to the maximum allowed under Inland Revenue rules, it can also be used to provide extra life assurance.

LEGAL FRAMEWORK

The provisions of the Local Government Pension Scheme are contained in statutory regulations that are made by the Department of the Environment, Transport and the Regions, and are ultimately approved by Parliament. These regulations apply nationally to all local authorities in England and Wales.

The Local Government Pension Scheme Regulations 1997, as amended, which were introduced with effect from 1st April 1998, set out the current rates of contribution and the method of calculation of benefits.

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 certain types of investment.

AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 1997

The 1997 Regulations were modified during the year in order to improve and adapt them to meet new requirements. The changes that have been introduced are summarised below.

The Local Government Pension Scheme (Miscellaneous Provisions) Regulations 1999 formally introduced the principle of employers' looking at the availability of "comparable employment" during the process of determining whether an employee can be retired due to permanent ill health. They also prescribed that certificates of permanent ill health should state that incapacity would continue until at least the employee's 65th birthday. Only independent medical practitioners qualified in occupational health medicine should sign such certificates.

The Local Government Pension Scheme (Amendment etc) Regulations 1999 have introduced an extended list of non local government bodies who, subject to meeting specified criteria, could now seek to join the Pension Fund by virtue of an admission agreement. Most notable of these are those designated as "best value authorities", whose employees' have the opportunity to remain within the Local Government Pension Scheme should their function be outsourced. It is important to note that these provisions only covered formal arrangements as laid down in the Local Government Act 1999 and the Education Act 1996. Other types of arrangement, entered into with outside bodies as a way of improving service provision, are currently the subject of draft admission regulations, which if made law, could probably allow some form of back service purchase. Admission of such outside bodies to the Fund will be the subject of warranties, undertakings and indemnities that will protect the Fund in the event of loss.

EMPLOYEES CONTRIBUTIONS

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

EMPLOYERS CONTRIBUTIONS AND THE FUND VALUATION

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

The employers' contributions for the 1999/2000 year were set by the 1998 valuation. This has shown that, as at 31st March 1998, the funding level, which is the relationship between the assets and liabilities as at the valuation date, was 86.7%. This is a decrease of 0.7% from the level of 87.4% revealed by the previous valuation in 1995. The performance of investment markets over the three year period had been better than that assumed at the time of the 1995 valuation and this was a large positive factor for the funding level. However, this was cancelled out by a range of negative factors, of which the most significant by far was the removal of the tax credit on UK equity dividends, which occurred as part of the measures included in the July 1997 budget. The strategy is to make good this deficiency over a period of thirteen years.

The 1998 valuation also revealed that an increase was required to the average future service contribution rates of the district councils. This is the contribution required to meet the cost of the ongoing accrual of future benefits. Again, the largest factor behind this increase was the loss of the tax credit on UK dividends.

Information on the actuarial position of the Fund and the employers' contributions is set out in the Actuary's reports, which are on pages 18 and 19.

INVESTMENT REPORT

ARRANGEMENTS

The Pensions Committee is required to make arrangements for the investment of the Fund. Acting within the requirements of legislation, and having taken appropriate advice, the Committee has set investment objectives and an investment policy. It has then set up an investment management structure which provides exposure to a suitably diversified, but complementary, range of investment styles and processes. Investment managers have been appointed to operate within this structure and the responsibility for the selection of individual investments has been delegated to these managers.

In April 1999, the Committee set up an Investment Panel to provide a greater focus on, and scrutiny over, the performance and strategy of investment managers. The Panel consists of two members of the Pensions Committee, the Investment Advisor, the Director of Finance 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.

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, and
- minimise the long term costs of the Fund by maximising the return on the assets, whilst having regard to the objective set out above.

INVESTMENT POLICY

Having regard to the Fund's financial position, statutory status and liability profile, it is believed to be appropriate to focus on maximising the long term return from the assets. It is regarded as inappropriate to be overly concerned about shorter term fluctuations in the value of the assets.

Accordingly, it is considered that a diversified portfolio of UK and overseas stock market securities and property, with a strong bias towards "real" assets, currently represents a suitable strategic asset allocation benchmark for the Fund. The benchmark would typically be represented by the average, or consensus, asset allocation within the CAPS (Combined Actuarial Performance Services) survey.

MANAGEMENT STRUCTURE

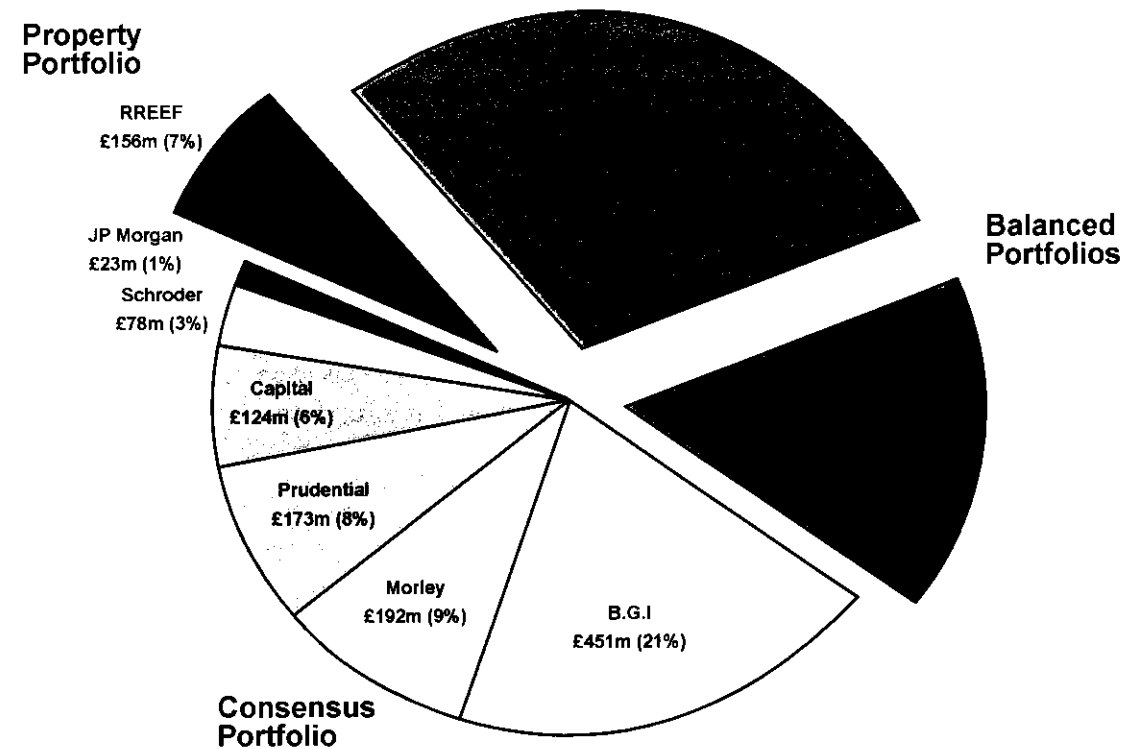
At the year end, the Fund was valued at £2,226 million. This is managed in a broadly based structure that employs nine different investment managers to invest in the world's stock markets.

Almost half of the Fund is managed on a balanced basis by Phillips and Drew and Fidelity Pensions Management. The remainder of the Fund, excluding Property, is referred to collectively as the "Consensus Portfolio". It is managed by six specialist managers, operating within a consensus asset allocation. The managers who have been appointed to the Consensus Portfolio are:

- | | | |
|---------------------------------|---|--|
| Barclays Global Investors (BGI) | - | Asset allocation and indexed UK equity portfolio |
| Morley Fund Management | - | Active UK equity portfolio |
| Prudential M&G | - | Global bonds |
| JP Morgan Investment Management | - | US equities |
| Capital International | - | European equities |
| Schroder Investment Management | - | Far Eastern equities |

The remaining part of the Fund is managed on an advisory basis by RREEF, a specialist property manager.

The percentage and value of assets with each organisation is shown below:



INVESTMENT MANAGERS OBJECTIVES AND RESTRICTIONS

The 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, which are set out in the individual investment management agreements, 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 two balanced managers, Phillips and Drew and Fidelity, are required to maintain well diversified portfolios which cover all major asset classes, with the exception of Property. With regard to asset allocation, broad guidelines have been set within which they must invest. These guidelines are reviewed at regular intervals in the light of prevailing economic and stockmarket conditions, after taking account of the future benefits liabilities of the Fund and of the views of the Investment Advisor and managers.

The objective for each balanced manager is to produce a return over five year rolling periods which exceeds the CAPS median return (excluding Property), with the return in any individual year not falling significantly below that benchmark.

The managers within the Consensus Portfolio have been set targets, based on appropriate indices, which require outperformance over three year rolling periods. Annual downside targets have also been set. In addition to managing an indexed UK equity portfolio, BGI is required to maintain the asset allocation of the Consensus Portfolio in line with that of the average UK pension fund.

The Property Portfolio, managed by RREEF, has a target based on the Investment Property Databank (IPD) Index. RREEF is also responsible for advising the Committee on the proportion of the Fund's assets that should be invested in Property.

THE STATEMENT OF INVESTMENT PRINCIPLES

The Pensions Committee first approved a Statement of Investment Principles (SIP) in October 1997. At this time, the 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.

During the year, the DETR issued the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. These Regulations required local government funds to produce a SIP by July 2000 that sets out policy in the following areas:

- the type of investments to be held
- the balance between different types of investments
- risk
- the realisation of investments
- the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments
- the exercise of the rights (including voting rights) attaching to investments.

In order to ensure that it complied with the revised Regulations, the Pensions Committee reviewed and agreed the SIP for the Fund in June 2000.

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 33 to 36.

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 on the 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
- the approach towards companies outside the UK to take account of the practices of the home nation
- voting rights to be exercised in a manner which establishes a consistent approach to both routine and exceptional issues, in order that company directors fully understand the managers' 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 which sets out their policy and the manner in which it has been implemented
- provide a quarterly report which sets out their voting record.

SOCIALLY RESPONSIBLE INVESTMENT

The Pension 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 requirement is known as Socially Responsible Investment (SRI).

The policy on SRI 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 adopted by the Pensions Committee in June 2000. A copy is shown on pages 37 to 38.

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.

CUSTODIANS

The Committee is prepared to appoint each manager's in-house or recommended custodian to act as custodian for each investment mandate, providing that criteria on security of assets and service standards can be met. Where a manager does not recommend a custodian, the Committee will make the appointment.

The custodians for the portfolios are:

Manager	Custodian
Phillips and Drew	UBS Asset Administration
Fidelity Pensions Management	Bank of New York
Barclays Global Investors	Chase Manhattan
Morley Fund Management	Citibank
Prudential M&G	Boston Safe Deposit and Trust Company and HSBC Bank
J.P.Morgan Investment Management	Bank of New York
Capital International	Deutsche Bank
Schroder Investment Management	Schroder Investment Management.

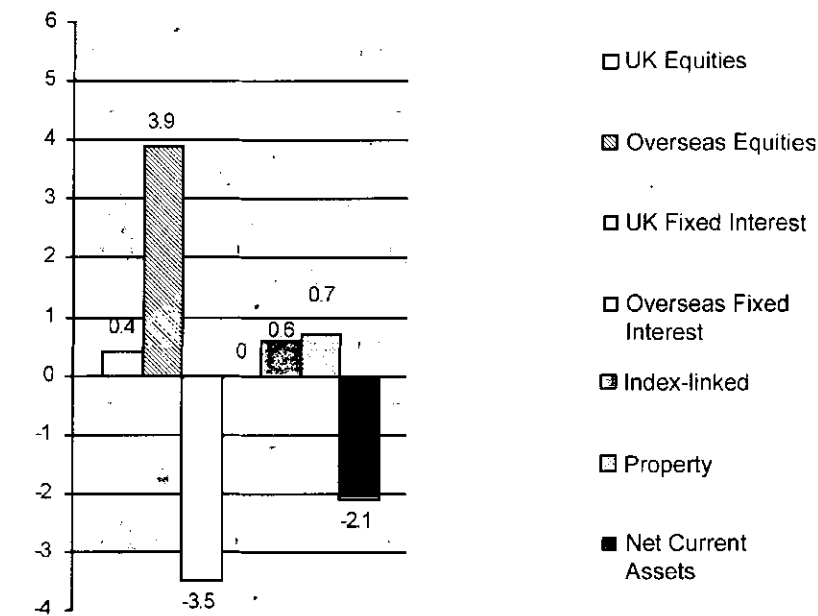
INVESTMENT STRATEGY AND PERFORMANCE

Strategy

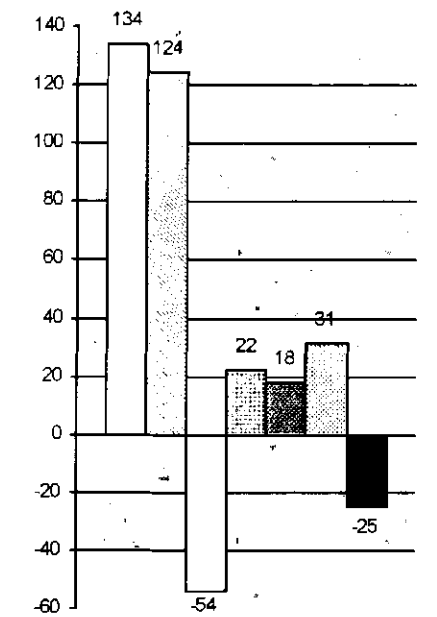
The Fund's balanced managers have discretion to implement their own asset allocation, subject to complying with broad guidelines, whilst the asset allocation within which the specialist managers operate is set in line with the consensus. The allocation to property is set by the Pensions Committee, in the light of advice from the Property Manager and the Investment Advisor.

The changes to the asset allocation over the year, including the impact of market movements, are illustrated in the following charts:

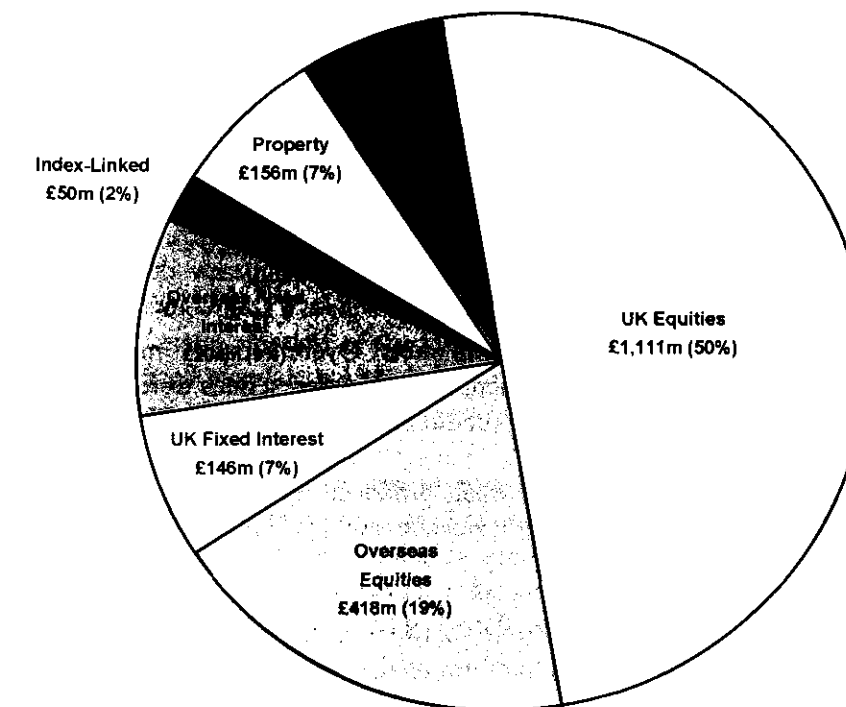
Changes to asset allocation in %



Changes to asset allocation in £m



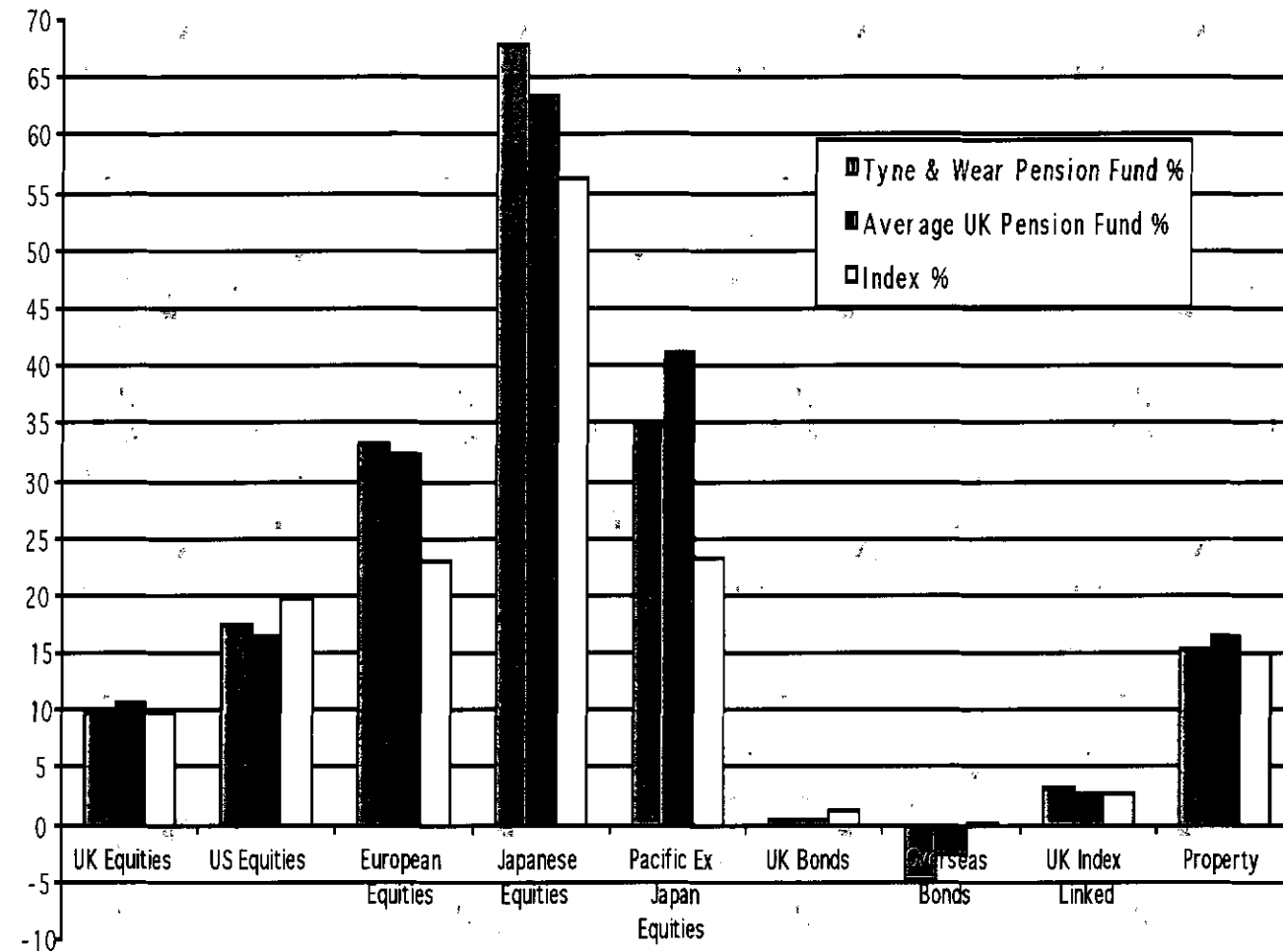
The asset allocation at the year end is shown below:



Returns for 1999/2000

The Fund's total return for 1999/2000 was 12.1%. This was well above the rate of inflation and increase in wages over the year, but was 0.9% below the median UK pension fund return of 13.0%

The chart below shows the Fund's return over the main investment markets and compares it against the CAPS median and index returns.



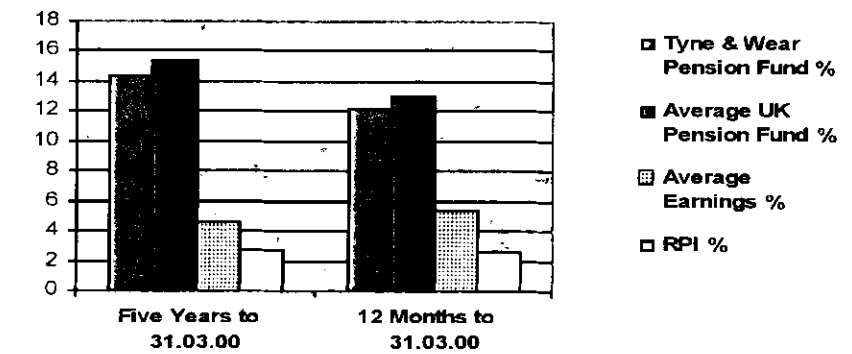
1999/2000 proved to be a very volatile year for stock markets. Overall, equity markets showed very strong performance whilst bond markets suffered in an environment in which interest rates were rising. Property produced a return that outperformed bonds and UK equities, although it did lag the returns from overseas equity markets.

The best performing market was Japanese equities, which produced an index return in excess of 56%. This spectacular return has followed an extended period of poor stock market performance in Japan. The worst performing market was overseas bonds, which returned less than 1%.

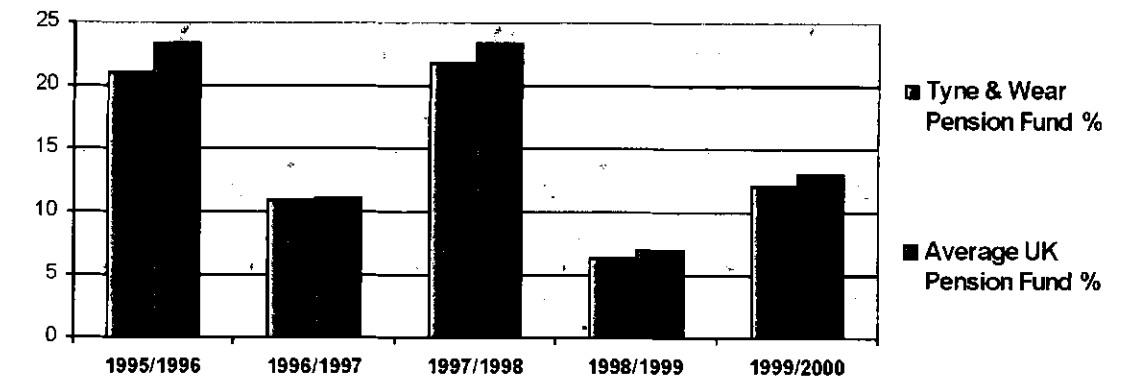
Within equity markets, there was a wide dispersion of returns between sectors, with shares in the telecommunications, media and technology (TMT) sectors substantially outperforming the rest of the market.

Five Year Performance

To avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. This Fund's average annual return over the last five years has been 14.3%. As the chart below illustrates, this again was comfortably ahead of wage and price inflation over the period but was below the median UK pension fund return of 15.4%.



The annual performance relative to the average UK pension fund over the five year period is shown below:



The underperformance over the five year period has arisen largely out of that part of the Fund which has been under balanced management. The asset allocation during this time has been overly defensive at a time when financial markets have, in the main, performed strongly. Furthermore, stock selection has been weak in certain areas.

Prior to 1999, almost two-thirds of the Fund had been under balanced management. By contrast, the remaining one third of the Fund, which was under specialist management, had performed well. The Pensions Committee recognised this situation and undertook a review of the investment management structure. The outcome was to adjust the structure so that broadly equal amounts of the Fund were put under balanced and specialist management. This included terminating a balanced mandate held by Mercury Asset Management and awarding a smaller mandate to Fidelity Pensions Management. These revised arrangements were in full operation by January 1999.

Despite the move to increased specialist management, performance has continued to be pulled down by poor returns from Phillips and Drew, which manages almost a third of the Fund's assets in a balanced portfolio. In 1999/2000 the Fund underperformed by 0.9% relative to the median pension fund. Most of this underperformance came in the third quarter of the year when share prices, and in particular those of shares in the TMT sectors, experienced spectacular rises. In general, Phillips and Drew had believed that such shares were overvalued and, consequently, its portfolio was significantly underweight in them.

However, it should be noted that during the first quarter of 2000/2001, there was a sharp turnaround in the performance of TMT shares. Consequently, the Phillips and Drew portfolio performed strongly in that quarter and recovered much of the losses that it incurred in 1999/2000.

The Pensions Committee remains concerned about the overall performance of the Fund. The management structure and the performance of individual managers remains under close scrutiny.

ACTUARIAL INFORMATION

Introduction

The Regulations require that an 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.

Actuarial position

1. Rates of contributions paid by the participating employees during 1999/2000 were based on the actuarial valuation carried out as at 31st March 1998.
2. This valuation showed that the required level of contributions to be paid to the Fund by the Metropolitan District Councils with effect from 1st April 1999 was as set out in the following schedule:

Metropolitan District Council	1 April 1999 to 31 March 2000		1 April 2000 to 31 March 2001		1 April 2001 to 31 March 2002	
	%	+ £'000	%	+ £'000	%	+ £'000
Gateshead	145	3,156	172	3,546	172	3,936
Newcastle	145	2,744	168	3,422	168	4,100
North Tyneside	140	1,701	163	2,155	163	2,609
South Tyneside	140	2,469	167	3,028	167	3,587
Sunderland	145	4,032	160	5,059	160	6,086

Percentages shown are percentages of members' contributions.

Monetary amounts shown are payable in addition to the percentages of members' contributions.

3. These rates of contribution are the rates which, in addition to the contributions paid by the members, are sufficient to meet:
 - 100% of the liabilities arising in respect of service after the valuation date, plus
 - an adjustment over the members' average future service lifetime to reflect the shortfall of the value of each participating employer's notional share of the Fund's assets over 100% of its accrued liabilities, allowing, in the case of members in service, for future pay increases.

The large increase in rates found to be necessary is being phased in over a period of years.

4. The market value of the Fund's assets at the valuation date was £1,858 million and the actuarial value of £1,618 million represented 86.75% 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:

Rate of return on investments	7 ½ % per annum
Rate of general pay increases	5 ¼ % per annum
Rate of increases to pensions in payment (in excess of GMPs)	3 ½ % per annum
Valuation of assets	discounted value of future income, based on an asset model of 50% in UK equities and 50% in index-linked gilts, assuming that that part of the assets notionally reinvested in the FT All-Share Index will achieve 4 ½% per annum dividend growth.
6. An actuarial valuation will be carried out as at 31st March 2001 and changes in the contribution rates as a result of that valuation will become effective from 1st April 2002.

REPORT OF THE ACTUARY FOR THE YEAR ENDED 31ST MARCH 2000

1. 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 1998. The results showed that the financial position of the Fund had deteriorated since the previous valuation with the assets covering 86.7% of the liabilities, allowing for future pay increases in pensionable remuneration.
2. We recommended revised rates of contributions to be paid by the participating employers with effect from 1st April 1999. A formal Certificate of these contribution rates to be paid from 1st April 1999 was issued to the Director of Corporate Services of the South Tyneside Metropolitan Borough Council as part of our formal report on the valuation of the Fund as at 31st March 1998.
3. Having regard to the results of the actuarial valuation as at 31st March 1998 and the rates of contribution in payment from 1st April 1999, together with the stepped increases recommended to apply in future years, the assets of the Fund as at 31st March 2000 will be sufficient, on the basis of the assumptions adopted for the valuation as at 31st March 1998, to meet the ongoing 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 deferment, taking into account the gradual amortisation of the deficiency disclosed by the valuation as at 31st March 1998.
4. The next actuarial valuation of the Pension Fund will be carried out as at 31st March 2001 and the results will be reported in the accounts for the year ending 31st March 2002.

R.G. Ashurst

Fellow of the Institute of Actuaries
Watson Wyatt Partners

FINANCIAL STATEMENTS
FUND ACCOUNT

1998/1999		Note	1999/2000	
£'000	£'000		£'000	£'000
Contributions and Benefits				
87,673		3	97,306	
<u>14,248</u>		4	<u>14,620</u>	
	101,921			111,926
89,018		5	91,452	
6,355		6	5,811	
<u>1,292</u>		7	<u>1,638</u>	
	<u>96,665</u>			<u>98,901</u>
	5,256			13,025
Net additions from dealings with members				
Returns on investments				
77,100		8	78,573	
-4,314		8	-3,501	
42,334		9	165,936	
<u>-2,913</u>		10	<u>-3,368</u>	
	<u>112,207</u>			<u>237,640</u>
	117,463			250,665
	<u>1,858,022</u>			<u>1,975,485</u>
	<u>1,975,485</u>			<u>2,226,150</u>

FINANCIAL STATEMENTS
NET ASSETS STATEMENT

1998/1999		Note	1999/2000	
£'000	£'000		£'000	£'000
Investments				
		9		
290,696				281,028
1,183,622				1,389,858
65,487				46,025
147,944				215,958
122,231				152,412
50				0
150,276				135,049
<u>-361</u>				<u>-9,200</u>
	1,959,945			2,211,130
	<u>15,540</u>			<u>15,020</u>
	1,975,485			2,226,150
Current assets and liabilities				
		11		
Net assets of the Fund at 31st March				

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 1999 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 which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in statements prepared by the Actuary, which are shown on pages 18 and 19. The financial statements should be read in conjunction with the Actuary's statements.

2. Accounting Policies**Valuation of Investments**

Quoted securities have been valued at their mid-market closing price on 31st March 2000.

Unitised securities have been included at the average of their bid and offer prices on 31st March 2000.

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 2000.

Properties are shown as valued at 31st December 1999 by chartered surveyors, with the exception of five properties purchased after that date which have been valued at cost. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Drivers Jonas and Jones Lang Le Salle.

Investment Transactions

Investment transactions which were not settled as at 31st March 2000 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 2000.

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 2000 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2000.

Investment Management Expenses

Investment management expenses payable as at 31st March 2000 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 2000. The accrual concept is in accord 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 those of their pensionable employees. The rate for employers is determined by the Actuary. Contributions due as at 31st March 2000 have been accrued.

TYNE AND WEAR PENSION FUND

Benefits, Refunds and Transfer Values

Benefits and refunds are accounted for in the year in which they become due for payment. Transfer values are accounted for on a payments/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.

3. Contributions Receivable

	1999/2000 £'000	1998/1999 £'000
Employers		
Normal	49,917	45,927
Additional	14,722	10,659
Members		
Normal	32,649	31,076
Additional voluntary contributions	<u>18</u>	<u>11</u>
	<u>97,306</u>	<u>87,673</u>

4. Transfers In

During the year, individual transfers in from other schemes amounted to £14.620 million (£14.248 million in 1998/1999)

5. Benefits Payable

	1999/2000 £'000	1998/1999 £'000
Pensions	84,833	80,312
Commutations and lump sum retirement benefits	12,588	15,871
Lump sum death benefits	2,153	1,370
Less: Recharges	<u>-8,122</u>	<u>-8,535</u>
	<u>91,452</u>	<u>89,018</u>

6. Payments To And On Account Of Leavers

	1999/2000 £'000	1998/1999 £'000
Individual transfers to other schemes	5,815	5,906
Refunds to members leaving service	<u>-4</u>	<u>449</u>
	<u>5,811</u>	<u>6,355</u>

The 1999/2000 refunds figure reflects an adjustment to the accounts in relation to tax payable for earlier financial years.

7. Administration Expenses

The Local Government Pension Scheme Regulations 1997 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.

	1999/2000 £'000	1998/1999 £'000
Employee expenses	882	722
Support services recharge	552	561
External ICT costs	176	0
Printing/publications	34	36
Actuarial fees	27	62
Other expenses	102	105
SIB pension review	-99	-157
Other income	<u>-36</u>	<u>-37</u>
	<u>1,638</u>	<u>1,292</u>

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

TYNE AND WEAR PENSION FUND

8. Investment Income

	1999/2000 £'000	1998/1999 £'000
Fixed interest securities	18,116	16,754
Equities	35,426	34,565
Index-linked securities	1,834	2,075
Managed and unitised funds	3,629	3,544
Properties – net rents	11,260	9,394
Loans	1	11
Cash deposits	8,281	10,717
Underwriting commission	<u>26</u>	<u>40</u>
Sub-total	78,573	77,100
Less: Non-recoverable tax	<u>-3,501</u>	<u>-4,314</u>
Total investment income	<u>75,072</u>	<u>72,786</u>

9. Investments

	Value at 1.4.99 £'000	Purchase at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31.3.00 £'000
Fixed interest securities	290,696	303,388	-288,705	-24,351	281,028
Equities	1,183,622	520,336	-451,792	137,692	1,389,858
Index-linked securities	65,487	19,518	-40,883	1,903	46,025
Managed and unitised funds	147,944	59,789	-30,873	39,098	215,958
Properties	122,231	37,986	-14,964	7,159	152,412
Loans	<u>50</u>	<u>0</u>	<u>-50</u>	<u>0</u>	<u>0</u>
	1,810,030	941,017	-827,267	161,501	2,085,281
Cash deposits	150,276	6,111	-21,406	68	135,049
Other investment balances	<u>-361</u>	<u>-31,659</u>	<u>18,453</u>	<u>4,367</u>	<u>-9,200</u>
	<u>1,959,945</u>	<u>915,469</u>	<u>-830,220</u>	<u>165,936</u>	<u>2,211,130</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

	1999/2000 £'000	1998/1999 £'000
Fixed Interest Securities		
UK public sector	89,498	157,827
UK other	11,849	9,780
Overseas public sector	177,837	121,121
Overseas other	<u>1,844</u>	<u>1,968</u>
	<u>281,028</u>	<u>290,696</u>
Equities		
UK quoted	1,084,825	954,329
UK stock index futures	0	3,284
UK unquoted	76	380
Overseas quoted	304,949	225,616
Overseas unquoted	<u>8</u>	<u>13</u>
	<u>1,389,858</u>	<u>1,183,622</u>

TYNE AND WEAR PENSION FUND

Index-Linked Securities		
UK quoted	1,716	27,479
Overseas quoted	<u>44,309</u>	<u>38,008</u>
	<u>46,025</u>	<u>65,487</u>
Managed and Unitised Funds		
UK managed funds - Other	174,842	124,422
UK unit trusts - Property	3,197	2,913
- Other	33,854	19,219
Overseas unit trusts - Other	<u>4,065</u>	<u>1,390</u>
	<u>215,958</u>	<u>147,944</u>
Properties		
Freehold	130,402	107,611
Long leasehold	<u>22,010</u>	<u>14,620</u>
	<u>152,412</u>	<u>122,231</u>
Loans	<u>0</u>	<u>50</u>
Cash Deposits		
Sterling	124,777	146,183
Foreign currency	<u>10,272</u>	<u>4,093</u>
	<u>135,049</u>	<u>150,276</u>
Other Investment Balances		
Cash backing open stock index futures	0	-3,284
Currency hedging	883	199
Debtors	28,858	12,693
Creditors	<u>-38,941</u>	<u>-9,969</u>
	<u>-9,200</u>	<u>-361</u>

10. Investment Management Expenses

	1999/2000 £'000	1998/1999 £'000
Administration, management and custody	3,265	2,808
Performance measurement services	44	39
Other advisory fees	47	62
Audit fees	<u>12</u>	<u>4</u>
	<u>3,368</u>	<u>2,913</u>

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

11. Current Assets And Liabilities

	1999/2000 £'000	1998/1999 £'000
Contributions and recharges due	7,618	6,785
Inland Revenue	-1,259	-1,686
Other	1,198	975
Dividend accruals	7,879	9,995
Recoverable taxation	381	483
Investment management expenses	<u>-797</u>	<u>-1,012</u>
	<u>15,020</u>	<u>15,540</u>

TYNE AND WEAR PENSION FUND

12. Analysis of Investments Over Fund Managers

The market values of investments in the hands of each manager were: -

As at 31 st March 1999			As at 31 st March 2000	
£'000	%		£'000	%
		Balanced Managers		
305,278	16	Fidelity Pensions Management	358,052	16
596,941	31	Phillips and Drew	643,876	29
		Specialist Managers		
125,144	6	RREEF	155,609	7
432,719	22	Barclays Global Investors	450,792	20
100,551	5	Capital International	124,021	6
19,342	1	JP Morgan Investment Management	22,617	1
182,343	9	Morley Fund Management	192,471	9
162,398	8	Prudential M&G	172,701	8
34,718	2	Schroder Investment Management	78,045	3
511	-	Managed in-house	<u>12,946</u>	<u>1</u>
<u>1,959,945</u>	<u>100</u>		<u>2,211,130</u>	<u>100</u>

13. Additional Voluntary Contributions

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 chosen Equitable Life Assurance Society for the investment of other AVCs specifically taken out by Fund members. The Equitable Life scheme is a money purchase scheme and offers funding under three options; deposit, with profits or managed. This scheme, which is operated independently of the Fund, was valued at £4.455m as at 30th March 2000 (£2.953m as at 30th March 1999).

14. Taxation

UK Tax

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

With effect from 2nd July 1997, the Fund could not reclaim the tax credit on UK dividends.

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

A number of derivative instruments have been used by the Fund.

The Fund has used FT-SE 100 Index Futures to implement changes in asset allocation during the year. As at 31st March 2000, the Fund was not holding any open futures contracts.

The Fund has used Forward Currency Contracts to hedge the currency exposure on overseas investments. As at 31st March 2000, the Fund held a range of positions which together showed an unrealised profit of £882,672. The positions showed an overall loss of £2,751,884 when unwound.

16. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2000, no commitments were outstanding.

17. Contingent Liability - Tax Credit On Share Buybacks

Between 1994 and 1996, share buybacks were made by a significant number of major companies. Gross investors, including pension funds, received additional gains because an element of the buyback consideration could often be treated as a distribution of income rather than a return of capital and gross investors were, therefore, able to recover the tax credit involved.

The Inland Revenue's Compliance Division is seeking to establish the position under anti tax avoidance legislation. For this Fund, this could have the effect of denying recovery on tax credits totalling £2.8 million.

The technical considerations attaching to the anti avoidance legislation are complex and the position on recovery is unclear. Accordingly, any charge to the accounts will be taken in the year in which the position is clarified or is reasonably certain.

18. Audit

The accounts are presented subject to audit.

TYNE AND WEAR PENSION FUND

ORGANISATIONS PARTICIPATING IN THE FUND

	Members as at 31 st March 2000		
	Contributors	Deferred	Pensioners
Metropolitan District Councils			
Gateshead	7,293	1,580	4,070
Newcastle upon-Tyne	8,792	2,042	5,738
North Tyneside	5,028	1,264	3,227
South Tyneside	4,775	1,212	2,956
Sunderland	7,621	2,285	5,245
Sub Total	33,509	8,383	21,236
Other Scheduled Bodies			
Birtley Town Council	5	2	1
City of Sunderland College	370	18	31
Former North East Regional Airport	0	0	44
Former Tyne and Wear County Council	0	139	329
Former Tyne and Wear Residuary Body	0	10	30
Gateshead College	149	43	25
Monkwearmouth College	0	1	0
Newcastle College	338	45	53
Nexus	915	399	1,487
North Tyneside College	108	17	11
Northumbria Police Authority	1,482	418	777
Northumbria Probation and After Care Service	484	94	215
South Tyneside College	269	28	45
Tyne and Wear Fire and Civil Defense Authority	252	48	141
Tyne and Wear PTA	112	21	61
Tynemouth College	39	7	4
University of Northumbria at Newcastle	1,325	325	246
University of Sunderland	863	198	154
Wearside College	0	5	0
Sub Total	6,711	1,818	3,654
Admitted Bodies			
Age Concern Newcastle	47	8	12
Benton Grange School	0	1	9
Catholic Care North East	0	33	24
Disability North	19	6	2
Gateshead Law Centre	2	3	0
Higher Education Funding Council for England	0	2	8
Hebburn Neighbourhood Advice Centre	3	0	0
Information North (Northern Regional Library System)	4	1	2
International Centre for Life Trust	23	2	0
Learning World	5	2	0
North of England Assembly of Local Authorities	12	2	3
National Glass Centre	0	1	0
North East Innovation and Development Company Limited	11	6	6
Newcastle Community Law Centre	3	2	1
Newcastle Family Service Unit	0	6	3
Newcastle International Airport Company Limited	465	104	203

TYNE AND WEAR PENSION FUND

Members as at 31st March 2000
Contributors Deferred Pensioners

Newcastle Tenants Federation	3	1	1
Newcastle West End Partnership	0	2	0
Newcastle Youth Congress	0	1	0
Norcare	1	0	1
North Regional Examinations Board	0	4	15
North Tyneside Child Care Enterprise	3	13	1
North Tyneside City Challenge	5	4	0
North Tyneside Disability Advice Centre	0	0	1
Northern Arts Association	41	25	6
Northern Council for Further Education	3	16	13
Northern Counties School for the Deaf	39	11	20
Northern Informatics Application Agency	2	1	0
Northern Provincial Councils	8	2	4
Northumbria Tourist Board	22	19	6
One North East	0	3	6
Ouseburn Trust	4	0	0
Park View Sports Complex	1	2	0
Passenger Transport Company	0	0	98
Port Of Tyne Authority	0	0	8
Praxis Service	3	2	0
Sunderland City Training & Enterprise Council	124	22	5
Search Project	3	0	1
Shiremoor Advice Centre	0	4	0
Simonside Community Centre	1	0	0
South Tyneside Groundwork Trust	4	2	0
St. Mary Magdalene and Holy Jesus Charity	8	1	3
Stagecoach Travel Services (Busways)	359	200	443
Sunderland Arts Centre	0	0	0
Sunderland Empire Theatre Trust Limited	10	3	4
Sunderland Enterprise Agency	0	0	0
Sunderland Outdoor Activities Association	0	3	0
The Hospital of St. Mary the Virgin	0	0	1
The Ozanam House Probation Hostel Management Committee	16	4	4
Theatre Royal Trust Limited	47	8	14
Tyne and Wear Development Company Limited	6	12	2
Tyne and Wear Development Corporation	1	41	21
Tyne and Wear Enterprise Trust Limited	19	8	5
Tyne and Wear Play Association	1	0	0
Tyne Theatre Trust (Northern Stage Company)	0	0	0
Tyne Waste Limited	0	15	8
Tyneside Training and Enterprise Council	186	36	10
Wallsend Citizens Advice Centre	3	0	0
Wallsend Peoples Centre	4	0	1
Wellfield Middle School	2	0	0
Workshops for the Adult Blind (Palatine Products)	65	16	96
Sub Total	1,588	660	1,071
Grand Total	41,808	10,861	25,961

**STATEMENT OF INVESTMENT PRINCIPLES
APPROVED BY PENSIONS COMMITTEE ON 5TH JUNE 2000**

Introduction

1. The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 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 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 Committee provides copies of the Statement, as updated from time to time, to the Fund's investment managers, who are required to follow the principles which it sets out and to report showing how they have done so.

Investment Responsibilities

5. South Tyneside Metropolitan Borough 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, comprised of fifteen councillors and trades union representatives, to control and resolve all matters relating to the administration and investment of the Fund.
7. Watson Wyatt has been appointed to act as Actuary and Investment Advisor.
8. The Committee meets quarterly to consider investment matters. It sets the investment objectives and policy, whilst responsibility for the implementation of the asset allocation strategy and for the selection, retention and realisation of specific investments has been delegated to external investment managers.
9. The performance of the managers is measured by independent external agencies.
10. The detailed formal monitoring of the investment of the Fund is undertaken by an Investment Panel, which is comprised of two Committee Members, two of the Fund's Officers and the Investment Advisor. The Panel meets quarterly to consider the investment objectives and policy and the performance and process of the managers. It reports to the Committee on its findings and makes recommendations on any action that is required.
11. If the Committee accepts a Panel recommendation to change the investment objectives or policy, or the management structure, the Committee will then 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.
12. Day to day monitoring of the investment of the Fund is undertaken by the Fund's Officers.

Investment Objectives and Policy

13. 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 relevant statutory documentation.

- minimise the long term costs of the Fund by maximising the return on the assets, whilst having regard to the objective stated above.
- comply with the regulations relating to the investment of local government pension funds.

14. Having regard to the Fund's financial position, statutory status and liability profile, it is appropriate to focus on maximising the long term returns from the assets.
15. Accordingly, maintaining a diversified portfolio of UK and overseas stock market securities and property, with a strong bias towards "real" assets will ensure that the Fund includes suitable investments. The view of the Committee is that the average asset allocation within the CAPS survey currently represents a suitable strategic asset allocation benchmark.

Investment Management Structure

16. 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.
17. To achieve this, aside from its investment in property, half of the Fund is invested on a balanced basis and half on a specialist basis.
18. The part of the Fund that is managed on a balanced basis is allocated between two managers.
19. With regard to the asset allocation of the balanced portfolios, ranges have been set around the CAPS average asset allocation (ex property) within which the two managers must invest. These ranges are reviewed at regular intervals in the light of prevailing economic and stock market conditions, after taking account of the views of the Actuary and Investment Advisor, the two managers and the future benefits liabilities of the Fund.
20. With regard to that part that is invested on a specialist basis, the Committee considers it to be appropriate that the Fund is exposed to the management skills of both active and passive managers. Accordingly, this portion is operated on a consensus basis with the asset allocation closely following the CAPS average asset allocation (ex property). About two thirds of the UK equity content of this portfolio has been indexed against the FT All-Share Index, whilst the remaining one third is managed actively. Active specialist managers have been appointed to invest in US, Japanese, European and Pacific Basin equities, and in global bonds.
21. 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.
22. The property portfolio is managed on an advisory basis. The manager is also responsible for advising on the proportion of the Fund's assets that should be invested in property, for which purpose the benchmark is the consensus allocation of other large UK pension funds.
23. In addition to the structure outlined above, the Committee has also approved a number of relatively small investments in venture capital. The ongoing investment decisions relating to these investments are taken by the Fund's Officers.
24. The Committee's expectations in respect of returns from the Fund's investments are expressed through achievable and prudent objectives that have been set for each mandate.
25. Restrictions have been set for each mandate with the aim of ensuring a prudent approach to investment and of allowing each manager to implement their natural investment style and process.

Diversification

26. 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.

27. Within each asset category in each portfolio, the manager concerned is responsible for appropriate diversification.
28. The restrictions ensure that, at a stock selection level, the Fund avoids undue concentration.

Suitability

29. 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.
30. 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

31. 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

32. 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 liaising 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

33. Responsibility for the selection, retention and realisation of investments is delegated to the managers.
34. 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 these decisions is at the discretion of each manager. However, where such considerations may have a financial impact on the portfolio, this must be taken into account by each active manager.

35. Part of the Fund's assets are invested on a passive basis. It is not considered to be appropriate for the passive manager to take account of such considerations in the selection, retention and realisation of investments.
36. 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.
37. 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

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

Corporate Governance and Voting

39. 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, whilst the policy towards companies outside the UK should take account of the practices of the home nation.
40. Voting rights must be exercised in a manner which establishes a consistent approach to both routine and exceptional issues in order that company directors fully understand the manager's views and intentions.
41. Whilst it has not been made compulsory for the managers to vote, they are strongly urged to do so.
42. Each manager must continue to develop its policy and provide a quarterly report that sets out how it has been implemented.

Additional Voluntary Contributions

43. 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 currently undertaken through the Equitable Life Assurance Society. The Committee's intention is to offer a range of funds which 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, from time to time, the Committee reviews the suitability of the AVC providers used.

POLICY ON SOCIALLY RESPONSIBLE INVESTMENT, THE EXERCISE OF RIGHTS AND CORPORATE GOVERNANCE

Introduction

1. This policy was adopted by the Pensions Committee on 5th June 2000.
2. The policy will be reviewed annually or more frequently if required.

Development of a Manager's Policy

3. Each manager must prepare and implement policies on Socially Responsible Investment, corporate governance and the principles that govern the way in which voting rights are exercised.
4. If a manager's policies are inconsistent with the requirements set out in this document, the issues will be discussed with the manager and an approach will be agreed.
5. Each manager must continue to develop and coordinate its policies and report change as soon as practicable.

Socially Responsible Investment

6. Responsibility for the selection, retention and realisation of investments is delegated to the managers, who are required to act within specified guidelines and restrictions.
7. The extent to which social, environmental or ethical considerations are taken into account in these decisions is at the discretion of each manager.
8. However, where such considerations may have a financial impact on the portfolio, this must be taken into account by each active manager in the exercise of the delegated responsibility.
9. Part of the Fund's assets are invested on a passive basis. It is not considered to be appropriate for the passive manager to take account of such considerations in the selection, retention and realisation of investments.
10. 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

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

Corporate Governance

12. 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.
13. The policy towards companies outside the U.K. should take account of the practices of the home nation.
14. The policy towards unquoted companies should be consistent with the approach adopted for quoted companies, to the extent that this is practicable.

Voting Rights

15. Voting rights should be exercised in an informed manner. Therefore, in general, the managers are most appropriately placed to undertake this task.
16. 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.
17. Whilst it has not been made compulsory for the managers to vote, they are strongly urged to do so. In part, this is because a general failure to vote will devalue the worth of an abstention.
18. Voting rights must be exercised in a manner which establishes a consistent approach to both routine and exceptional issues in order that company directors fully understand the manager's views and intentions.
19. 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 particular issue should such action be considered appropriate.
20. 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

21. Each manager's policies on these issues will be reviewed and their impact monitored on a regular basis.
22. Each manager must provide a quarterly report that sets out how its policies have been implemented.
23. The section of the report that relates to voting must:
 - set out the proportion and numbers of votes which were cast
 - summarise and explain instances where
 - voting rights were exercised in a manner that was inconsistent with their 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.
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**TYNE & WEAR
PENSION FUND**

**Report & Accounts
1999/2000**



**Administered by
SOUTH TYNESIDE METROPOLITAN BOROUGH COUNCIL**