

REPORT and ACCOUNTS

2000/2001

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TYNE AND WEAR PENSION FUND

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MEMBERS OF 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. Batty 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 N. O’Neill)
Newcastle City Council	Councillor G. Bell (substitute – Councillor C. Gray)
North Tyneside M.B.C.	Councillor Ms A. Richardson (substitute – Councillor J.L. Carter)
City of Sunderland Council	Councillor Mrs J. Heron (substitute – Councillor P. Young)

Trades Union Representatives

G. Brown – UNISON (until January 2001)
G. Clements – UNISON (from March 2001)
W. Flynn – UCATT
I. Rossiter – RMT (until June 2000)
Mrs S. Forster – UNISON (from August 2000)

Investment Managers

Balanced Managers	Phillips and Drew Fidelity Pensions Management
Specialist Managers	Morley Fund Management Schroder Investment Management J.P. Morgan Fleming Asset Management Capital International Prudential M & G
UK Equities	
Japan and Pacific Basin	
North America	
Continental Europe	
Global Bonds	
Indexation	Barclays Global Investors
Property Manager	Aberdeen Property Asset Managers
AVC Providers	Equitable Life Assurance Society The Prudential Assurance Company
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

TYNE AND WEAR PENSION FUND

INTRODUCTION

Welcome to the 2000/2001 Annual Report and Accounts.

The year proved to be a difficult one for the Fund. The world's stock markets fell in value and one of our Additional Voluntary Contribution (AVC) providers, Equitable Life, was found to be experiencing severe financial problems.

Whilst the Fund fell in value by £36 million, from £2,226 million to £2,190 million, this proved to be a good performance given the market environment and one that was comfortably ahead of the returns of many other pension funds. The investment return was -2.6%, which was 4.6% better than the average UK pension fund return of -7.2%. The outperformance for the year is attributable to the defensive structure of the Fund, which had resulted from concerns about the high levels that the world's stock markets had risen to. This cautious approach had detracted from returns in previous years, but proved to be beneficial in a falling market.

The good performance for the year has turned around the five year return which, at 9.4% per annum, is 0.1% ahead of the average pension fund return of 9.3% per annum. Pension fund returns are generally assessed over five year periods therefore this improvement in performance is very satisfying.

We are currently reviewing the investment management structure to ensure that the Fund continues to be properly positioned in relation to its pensions liabilities and to future opportunities in investment markets.

The problems with Equitable Life have been well documented in the press and, whilst the Fund has no direct control over the events, we have done our best to monitor the situation and to keep contributors informed of the position. During the year we reviewed our AVC provision and decided to appoint The Prudential as a second provider.

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. We are continuing to work on the development of the Fund's website, which we envisage will become a major element in our service delivery package.

An important legislative change during the year was the introduction of the sharing of pension rights following a divorce or annulment.

In summary, there has been no let up in the pace of change during the year and 2001/2002 is expected to be no different.

BRIAN M WELSH

DIRECTOR OF FINANCE

TYNE AND WEAR PENSION FUND

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FUND REPORT

ADMINISTRATION

South Tyneside Metropolitan Borough Council (MBC) 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 MBC 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.

The Committee has an Investment Panel to provide a greater focus on, and scrutiny over, the performance and strategy of investment managers. The Panel consists of two members of the Pensions Committee, the Actuary, 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.

MEMBERSHIP

As at 31st March 2001, there were 95 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. These organisations are listed on pages 38 and 39.

Membership of the Fund has grown by 3,345 over the year, as set out below:

	2000/2001	1999/2000
Current Contributors	43,456	41,808
Deferred Members	11,937	10,861
Pensioners	26,582	25,961
Total Membership	81,975	78,630
Number of Employers	95	85

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.

TYNE AND WEAR PENSION FUND

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. The major features of our strategy are outlined below:

- To provide a pensions telephone helpline for our members.
- To provide annual benefit statements for all active members, direct to their home address. These statements were produced for the second year running, accompanied by a summarised version of the Report and Accounts, a newsletter and a customer survey. The survey results indicate that members are generally satisfied with the service provided by the Fund.
- Our pensioners were also provided with a letter detailing the annual increase to their pension, together with a summarised version of the Report and Accounts. Our pensioners will receive a customer survey during the current year.
- To provide pensions seminars to groups of members, on request. Almost 600 employees attended 35 seminars held at various employer locations throughout the year.
- To ensure that a comprehensive range of information leaflets are available. These are provided in a variety of formats for people with special needs, such as large print, Braille and foreign languages.

We are continuing to work on the development of the Fund's website, which we envisage will become a major element in our service delivery package.

Initially, through the Fund's website pages, members will be able to gain access to:

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

Further releases will allow members to carry out the following online:

- Request estimate of benefits.
- Request information on increasing their standard benefit package.
- Change personal details.
- Request general information.
- Comment about the Fund.

A proposed longer term development will allow members to view their personal record and calculate estimates of existing benefits and possible improvements to their benefits.

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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 thereby 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.

In addition to allowing members to boost their pension up to the maximum allowed under Inland Revenue rules, AVC plans can also be used to provide extra life assurance.

This Fund has AVC plans arranged with Equitable Life and, following a review of AVC provision carried out within the year, The Prudential. Members may choose to invest with either company, but recent problems involving Equitable Life have meant that almost all investors are now choosing The Prudential.

Equitable Life is experiencing financial difficulties due to obligations that arise from some of its financial products that carry guaranteed returns. These problems primarily effect its With-Profits Fund. Although certain elements of Equitable Life have been sold to the Halifax, the With-Profits Fund remains with Equitable Life.

Whilst Equitable Life remains solvent and continues to pay out benefits, bonuses have been removed from With-Profits AVC payers for the period from 1st January to 31st July 2001. Additionally, Equitable Life has applied a market value adjustment (reduction) where a member transfers their accumulated fund out prior to retirement.

Since the end of the financial year, Equitable Life has imposed a reduction on the accrued fund values of With-Profits AVC payers of 16% of the total value as at 31st December 2000. On retirement or death, however, a minimum of the guaranteed value as at 31st December 2000 will be paid.

OUTSOURCING

The first major outsourcing by a Fund employer took place during the year. Over 1,250 City of Sunderland staff were transferred to a new employer, Sunderland Housing Group, which has been admitted to the Tyne and Wear Pension Fund.

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LEGAL FRAMEWORK

The provisions of the Local Government Pension Scheme are contained in statutory regulations that are made by the Department for Transport, Local Government 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 (Amendment) Regulations 2000 extend the definition of an “authorised insurer”. A contractor wishing to be admitted to the Local Government Pension Scheme must obtain a bond, from an “authorised insurer”, that covers potential pension fund liabilities occurring on premature termination of contract. The regulations also correct errors in the definitions in Schedule 1 of the 1997 Regulations.

The Local Government Pension Scheme (Pension Sharing on Divorce) Regulations 2000 amend the Local Government Pension Scheme to deal with Pension Sharing on Divorce or Annulment.

PENSION RIGHTS FOR PART TIMERS

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

The House of Lords has since ruled that such employees suffered from discrimination and can backdate their membership as far back as 8th April 1976. This will only be permitted where the appropriate pension contributions are paid.

Any employees who believe they are affected by this judgement and who would like to secure Scheme membership must pursue their claim through an employment tribunal. These tribunals are currently “stayed” pending the outcome of a number of test cases.

Once the results of the test cases are known, the Local Government Pension Scheme Regulations may be amended to cover this situation.

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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 2000/2001 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 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.

The next valuation of the Fund will take place as at 31st March 2001, with the resulting contribution rates taking effect from 1st April 2002. The second half of this financial year has seen a major data improvement exercise undertaken in preparation for this forthcoming valuation. It is envisaged that the resulting improvements will considerably diminish the number of requests for clarification received from the Actuary during the valuation, and thereby allow an earlier completion of the valuation process.

Information on the actuarial position of the Fund and the employers' contributions is set out in the Actuary's reports, which are on pages 22 to 25.

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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 advice from the Investment Advisor, 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, an Investment Panel was established in order to provide a greater focus on and scrutiny over the performance and strategy of investment managers. The Panel reports its findings and recommendations to the Pensions Committee.

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

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.

Whilst the CAPS data has provided an appropriate benchmark for the asset allocation of the Fund, it has become increasingly clear that its suitability is diminishing. In order to ensure that the Fund continues to be properly positioned in relation to its pensions liabilities and to future opportunities in investment markets, an asset liability study has been undertaken which will result in a fund specific benchmark being adopted.

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The results of the study have not shown a significant change from the current position. However, there will be a move into fixed interest, overseas equities and private equity at the expense of UK equities and cash.

MANAGEMENT STRUCTURE

The Fund is managed in a broadly based structure that employs nine different investment managers to invest in the world's stock markets.

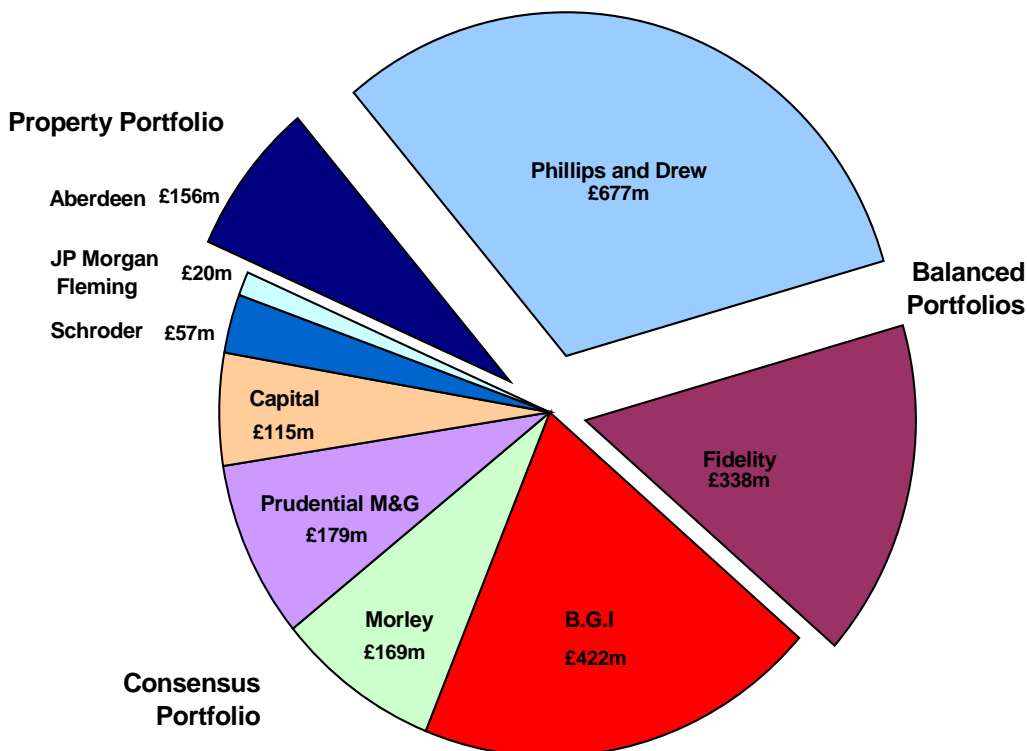
Almost half of the Fund is managed on a balanced basis by Phillips and Drew and Fidelity Pensions Management.

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 UK equity indexed portfolio
- Morley Fund Management - UK equity active portfolio
- Prudential M&G - Global Bonds
- JP Morgan Fleming - US equities
- Capital International - European equities
- Schroder Investment Management - Far Eastern equities

The Fund has a property portfolio which is managed on an advisory basis by Aberdeen Property Asset Managers, a specialist property manager.

The value of assets with each organisation is shown below :



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The move to a Fund specific benchmark will result in a significant change to the management structure. All of the assets in the Fund will, in future, be managed on a specialist basis. A wide ranging review of the Fund structure is currently underway and will be completed by the start of 2002/2003. The new structure will continue to be broadly based, with nine or ten investment managers being appointed to invest in specific markets.

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 a UK indexed 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 Aberdeen Property Asset Managers, has a target based on the Investment Property Databank (IPD) Index. Aberdeen 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 legal requirement to have such a document applied only to private sector schemes, but it was considered to be good practice for local government funds to prepare one.

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With the introduction of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999, the need to produce a SIP was extended to local government funds. These regulations require funds to set out their 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.

The Pensions Committee reviews and updates the SIP on an annual basis with the latest review taking place in June 2001. The SIP now reflects the results of the asset liability study and the proposed move to a new investment management structure.

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 41 to 45.

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 manager's views and intentions.

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

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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 reviewed and updated by the Pensions Committee in June 2001. A copy is shown on pages 47 to 49.

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

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 & Trust Co. and HSBC Bank
J.P.Morgan Fleming	Bank of New York
Capital International	Deutsche Bank
Schroder Investment Management	Schroder Investment Management.

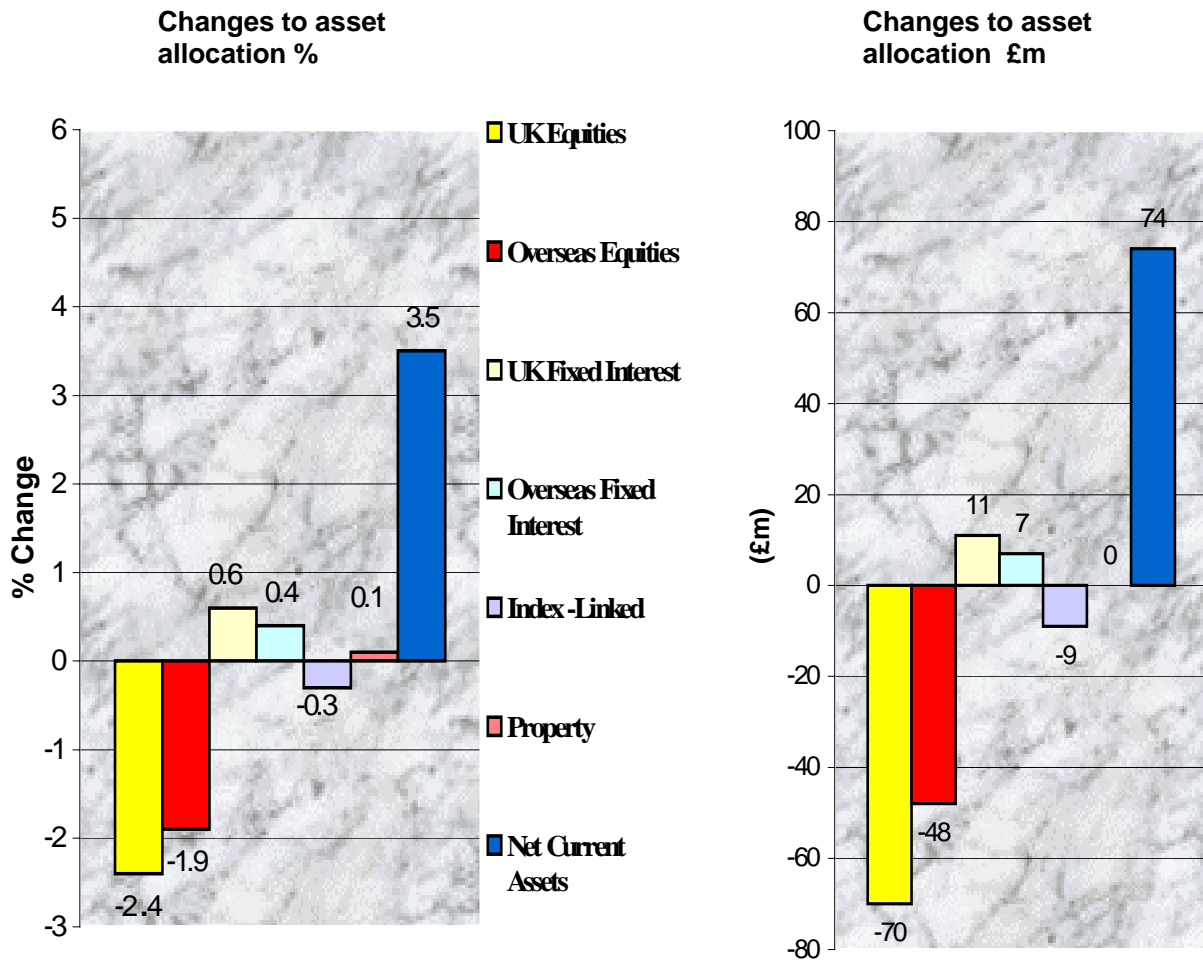
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INVESTMENT STRATEGY AND PERFORMANCE

Strategy

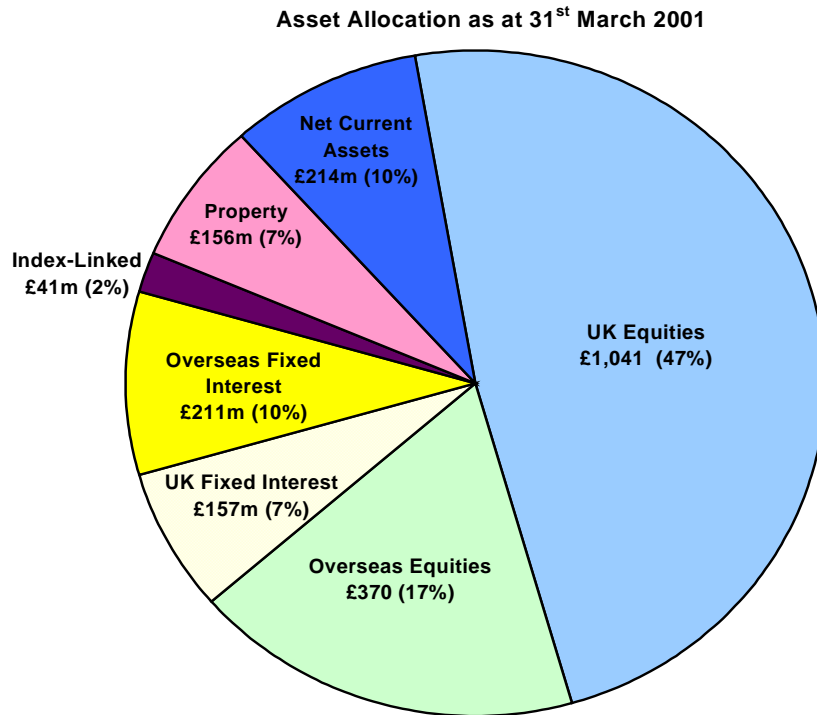
The Fund's balanced managers have discretion to implement their own asset allocation, subject to complying with broad guidelines, whilst the asset allocation within which the specialist managers operate is set in line with the consensus. The allocation to Property is set by the Pensions Committee, in 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:



TYNE AND WEAR PENSION FUND

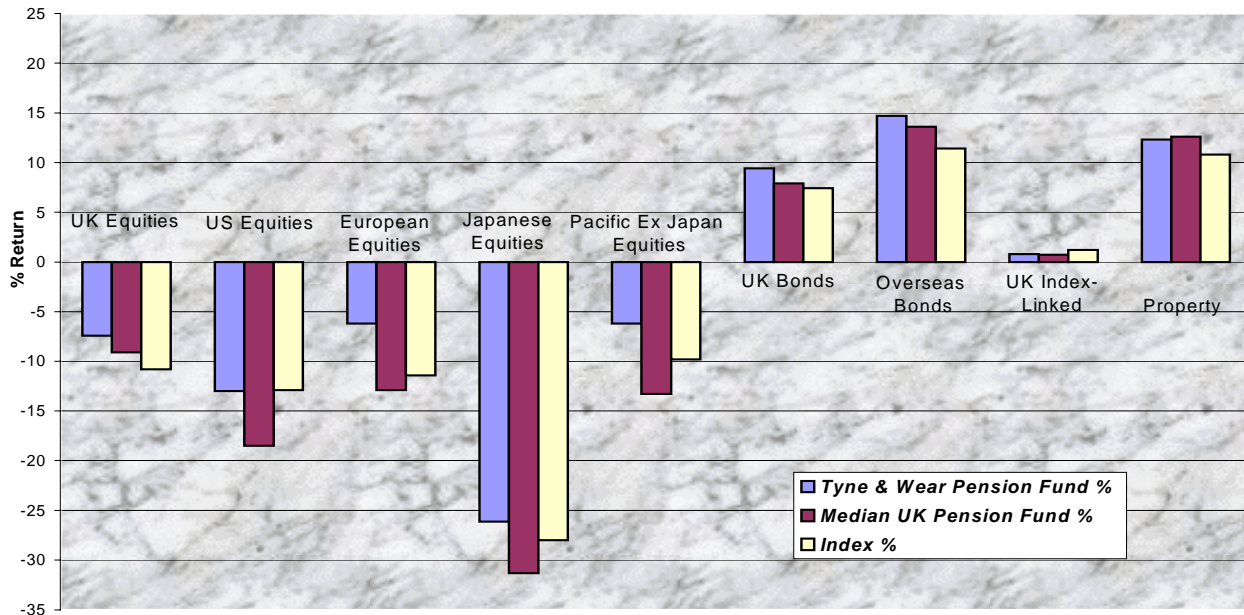
The asset allocation at the year end is shown below:



Returns for 2000/01

The Fund's total return for 2000/2001 was -2.6% . Whilst this was a negative return it was comfortably ahead of the median pension fund return of -7.2% .

The chart below shows the Fund's returns in the main investment markets and compares them against the CAPS median and index returns.



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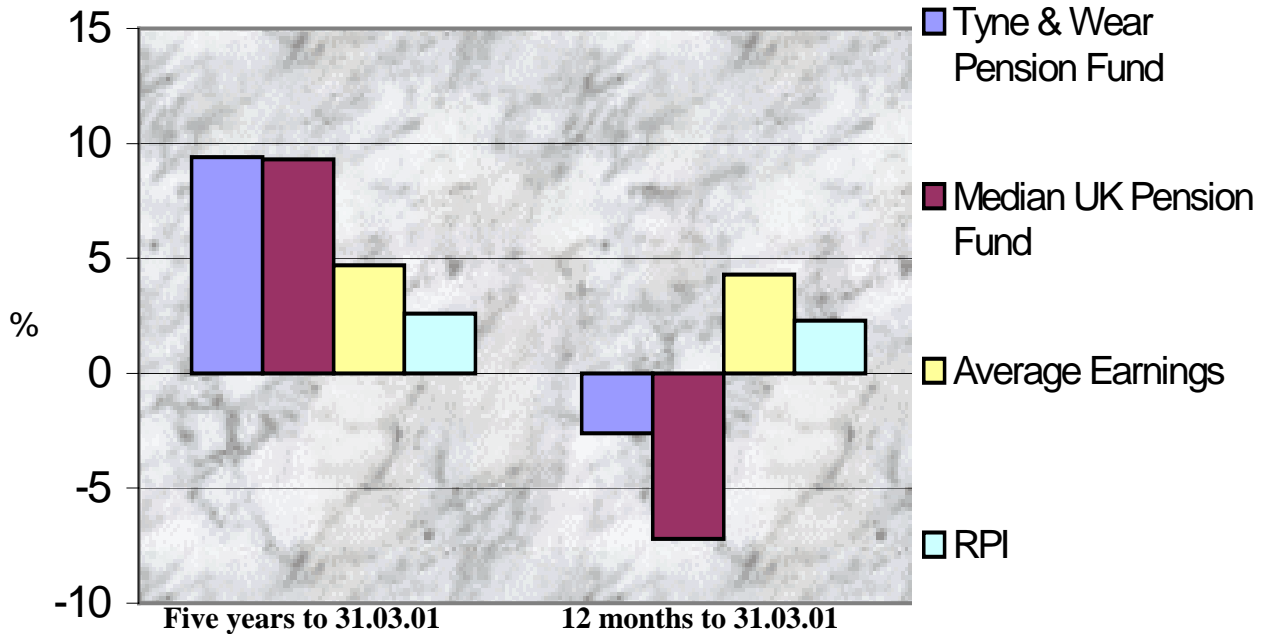
2000/2001 proved to be a very difficult year for stock market investors with all of the equity markets falling during the period. This was a reversal of the very strong performance of equity markets in the previous twelve months and was driven by a slowdown in world economic activity. However, bonds and property performed very well during the year as investors moved out of equities and into these two asset classes.

The best performing market was overseas bonds, which produced an index return in excess of 11.4%. The worst performing market was Japanese equities, which fell 28% in the year. Japanese equities had been the strongest performing asset class in the previous year.

Within equity markets, there was a wide dispersion of returns between sectors, with shares in the telecommunications, media and technology (TMT) sectors substantially underperforming the rest of the market. This was a complete reversal of the performance in 1999/2000 when strong performance by these stocks had driven markets to record highs.

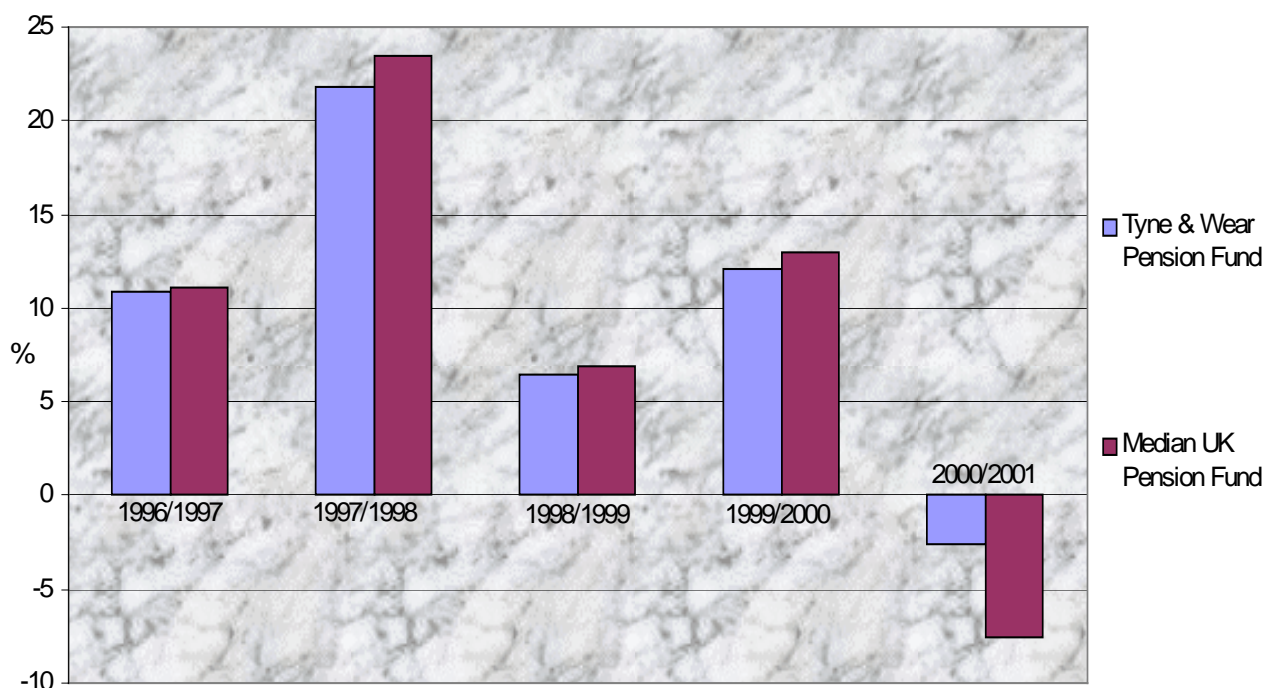
Five Year Performance

In order to avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. The Fund's average annual return over the five year period to 2000/2001 has been 9.4% p.a., which was slightly ahead of the median pension fund return for the period of 9.3% p.a. It was also comfortably above the rate of inflation and the increase in wages over the period, as shown below:



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The annual performance relative to the median UK pension fund over the five year period is shown in the following chart:



For most of this period, the Fund has had a defensive asset allocation, mainly because of the investment views of Phillips and Drew, who manage the largest single portfolio in the Fund. During the early part of the five year period, financial markets performed very strongly and the defensive stance adopted by this manager detracted from returns. However, in 2000/2001 the market environment changed considerably with equity markets falling in value. In this environment, the Fund and Phillips and Drew performed extremely well in relative terms and reversed the losses of the previous years. During 2000/2001 the Fund returned -2.6% and outperformed the median pension fund by 4.6%.

As stated earlier in this report, the investment management structure is being reviewed in order to ensure that the Fund is properly positioned in relation to both its liabilities and to opportunities in investment markets. An asset liability study has been undertaken to determine an appropriate strategic asset allocation. The outcome of this review will be to move from the current structure in which broadly equal amounts of the Fund are managed on a balanced and a specialist basis, to an approach where all of the Fund will be managed in specialist portfolios. It is intended that this review will be completed by the end of 2001/2002.

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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 employers during 2000/2001 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 below.

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.

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

The amounts are in 1999/2000 terms and should be increased by 1 ¾% per annum plus the accumulative increase in inflation (as measured by pension increase orders).

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

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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 86.7% of the Fund's accrued liabilities, allowing for future pay increases.
5. The contribution rates have been calculated using the projected unit actuarial method and the main actuarial assumptions were as follows:

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 4½% 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.

TYNE AND WEAR PENSION FUND

TYNE AND WEAR PENSION FUND

REPORT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2001

- 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 show 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 2001 will be sufficient, on the basis of the assumptions adopted for the valuation as at 31st March 1998, to meet the on-going liabilities of the Fund under the Regulations associated with both the accrued service and the currently accruing service, increasing levels of pensionable remuneration and increases to pensions both in payment and in deferment, taking into account the gradual amortisation of the deficiency disclosed by the valuation as at 31st March 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, although the contribution rates found to be required as part of that valuation become effective from 1st April 2002.

R G Ashurst

**Fellow of the Institute of Actuaries
Watson Wyatt Partners**

TYNE AND WEAR PENSION FUND

FUND ACCOUNT

1999/2000	£'000		Note	2000/2001	£'000
		Contributions and Benefits			
97,306		Contributions receivable	3	114,050	
<u>14,620</u>		Transfers in	4	<u>18,940</u>	
	111,926				132,990
91,452		Benefits payable	5	96,799	
5,811		Leavers	6	9,323	
<u>1,638</u>		Administrative expenses	7	<u>1,556</u>	
	<u>98,901</u>				<u>107,678</u>
	13,025	Net additions from dealings with members			25,312
		Returns on investments			
78,573		Investment income	8	76,070	
-3,501		Non-recoverable tax	8	-3,482	
165,936		Change in market value of investments	9	-130,490	
-3,368		Investment management expenses	10	-3,303	
	<u>237,640</u>	Net returns on investments			<u>-61,205</u>
	250,665	Net increase/(decrease) in the Fund during the year			-35,893
	<u>1,975,485</u>	Net assets of the Fund at 1st April			<u>2,226,150</u>
	<u>2,226,150</u>	Net assets of the Fund at 31st March			<u>2,190,257</u>

TYNE AND WEAR PENSION FUND

NET ASSETS STATEMENT

1999/2000			Note	2000/2001	
£'000	£'000			£'000	£'000
		Investments	9		
281,028		Fixed interest securities		259,544	
1,389,858		Equities		1,291,103	
46,025		Index-linked securities		38,494	
215,958		Managed and unitised funds		235,547	
152,412		Properties		152,498	
135,049		Cash deposits		205,450	
<u>-9,200</u>		Other investment balances		<u>-6,584</u>	
	2,211,130				2,176,052
	<u>15,020</u>	Current assets and liabilities	11		<u>14,205</u>
	<u>2,226,150</u>	Net assets of the Fund at 31st March			<u>2,190,257</u>

TYNE AND WEAR PENSION FUND

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 2000 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council. They do not take account of obligations to pay pensions and benefits that fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in statements prepared by the Actuary, which are shown on pages 22 to 25. 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 30th March 2001. The 31st March 2001 was a non business day and therefore the valuations are based on the closing price on the last business day of the reporting period.

Unitised securities have been included at the average of their bid and offer prices on 30th March 2001.

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 30th March 2001.

Properties are shown as valued at 31st December 2000, with the exception of one property purchased after that date which has been valued at cost. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Drivers Jonas.

Investment Transactions

Investment transactions that were not settled as at 31st March 2001 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 30th March 2001.

TYNE AND WEAR PENSION FUND

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 2001 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2001.

Investment Management Expenses

Investment management expenses payable as at 31st March 2001 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 2001. The accrual concept is in accordance with SSAP 24.

Contributions

Contributions represent the amounts receivable from the organisations participating in the Fund; these may be district councils, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The rate for employers is determined by the Actuary. Contributions due as at 31st March 2001 have been accrued.

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

	2000/2001	1999/2000
	£'000	£'000
Employers		
Normal	58,631	49,917
Additional	20,758	14,722
Members		
Normal	34,660	32,649
Additional voluntary contributions	<u>1</u>	<u>18</u>
	<u>114,050</u>	<u>97,306</u>

TYNE AND WEAR PENSION FUND

4. Transfers In

During the year, individual transfers in from other schemes amounted to £18.940 million (£14.620 million in 1999/2000)

5. Benefits Payable

	2000/2001	1999/2000
	£'000	£'000
Pensions	88,754	84,833
Commutations and lump sum retirement benefits	15,088	12,588
Lump sum death benefits	1,563	2,153
Less: Recharges	<u>-8,606</u>	<u>-8,122</u>
	<u>96,799</u>	<u>91,452</u>

6. Payments To And On Account Of Leavers

	2000/2001	1999/2000
	£'000	£'000
Individual transfers to other schemes	8,958	5,815
Refunds to members leaving service	<u>365</u>	<u>-4</u>
	<u>9,323</u>	<u>5,811</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.

	2000/2001	1999/2000
	£'000	£'000
Employee expenses	909	882
Support services recharge	509	552
External ICT costs	154	176
Printing/publications	80	34
Actuarial fees	40	27
Other expenses	78	102
SIB pension review	-178	-99
Other income	<u>-36</u>	<u>-36</u>
	<u>1,556</u>	<u>1,638</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

	2000/2001 £'000	1999/2000 £'000
Fixed interest securities	15,855	18,116
Equities	35,418	35,426
Index-linked securities	1,460	1,834
Managed and unitised funds	2,803	3,629
Properties – net rents	10,233	11,260
Loans	0	1
Cash deposits	10,298	8,281
Underwriting commission	<u>3</u>	<u>26</u>
Sub-total	76,070	78,573
Less: Non-recoverable tax	<u>-3,482</u>	<u>-3,501</u>
Total investment income	<u>72,588</u>	<u>75,072</u>

9. Investments

	Value at 1.4.00 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Value at 31.3.01 £'000
Fixed interest securities	281,028	179,931	-217,146	15,731	259,544
Equities	1,389,858	452,651	-416,711	-134,695	1,291,103
Index-linked securities	46,025	14,362	-30,623	8,730	38,494
Managed and unitised funds	215,958	114,764	-72,319	-22,856	235,547
Properties	<u>152,412</u>	<u>14,946</u>	<u>-22,155</u>	<u>7,295</u>	<u>152,498</u>
	2,085,281	776,654	-758,954	-125,795	1,977,186
Cash deposits	135,049	75,851	-5,043	-407	205,450
Other investment balances	<u>-9,200</u>	<u>-5,002</u>	<u>11,906</u>	<u>-4,288</u>	<u>-6,584</u>
	<u>2,211,130</u>	<u>847,503</u>	<u>-752,091</u>	<u>-130,490</u>	<u>2,176,052</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.

	2000/2001 £'000	1999/2000 £'000
Fixed Interest Securities		
UK public sector	74,353	89,498
UK other	6,906	11,849
Overseas public sector	177,750	177,837
Overseas other	<u>535</u>	<u>1,844</u>
	<u>259,544</u>	<u>281,028</u>

TYNE AND WEAR PENSION FUND

Equities		
UK quoted	1,003,024	1,084,825
UK stock index futures	1,749	0
UK unquoted	13	76
Overseas quoted	286,317	304,949
Overseas unquoted	<u>0</u>	<u>8</u>
	<u>1,291,103</u>	<u>1,389,858</u>
Index-Linked Securities		
UK quoted	3,378	1,716
Overseas quoted	<u>35,116</u>	<u>44,309</u>
	<u>38,494</u>	<u>46,025</u>
Managed and Unitised Funds		
UK managed funds - Other	206,863	174,842
UK unit trusts - Property	3,462	3,197
- Other	23,948	33,854
Overseas unit trusts - Other	<u>1,274</u>	<u>4,065</u>
	<u>235,547</u>	<u>215,958</u>
Properties		
Freehold	130,223	130,402
Long leasehold	<u>22,275</u>	<u>22,010</u>
	<u>152,498</u>	<u>152,412</u>
Cash Deposits		
Sterling	200,628	124,777
Foreign currency	<u>4,822</u>	<u>10,272</u>
	<u>205,450</u>	<u>135,049</u>
Other Investment Balances		
Cash backing open stock index futures	-1,749	0
Currency hedging	-96	883
Debtors	15,659	28,858
Creditors	<u>-20,398</u>	<u>-38,941</u>
	<u>-6,584</u>	<u>-9,200</u>

10. Investment Management Expenses

	2000/2001	1999/2000
	£'000	£'000
Administration, management and custody	3,170	3,265
Performance measurement services	50	44
Other advisory fees	71	47
Audit fees	<u>12</u>	<u>12</u>
	<u>3,303</u>	<u>3,368</u>

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

TYNE AND WEAR PENSION FUND

11. Current Assets And Liabilities

	2000/2001 £'000	1999/2000 £'000
Contributions and recharges due	9,135	7,618
Dividend accruals	7,760	7,879
Recoverable taxation	285	381
Inland Revenue	-1,401	-1,259
Investment management expenses	-869	-797
Other	<u>-705</u>	<u>1,198</u>
	<u>14,205</u>	<u>15,020</u>

12. Analysis Of Investments Over Fund Managers

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

As at 31 st March 2000			As at 31 st March 2001	
£'000	%		£'000	%
		Balanced Managers		
358,052	16	Fidelity Pensions Management	338,390	16
643,876	29	Phillips and Drew	677,284	31
		Specialist Managers		
155,609	7	Aberdeen Property Asset Managers	156,005	7
450,792	20	Barclays Global Investors	422,481	19
124,021	6	Capital International	115,039	5
22,617	1	JP Morgan Fleming Asset Management	19,531	1
192,471	9	Morley Fund Management	168,680	8
172,701	8	Prudential M&G	178,884	8
78,045	3	Schroder Investment Management	57,395	3
<u>12,946</u>	<u>1</u>	Managed In-House	<u>42,363</u>	<u>2</u>
<u>2,211,130</u>	<u>100</u>		<u>2,176,052</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 appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members.

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 £5.194 million as at 30th March 2001 (£4.455 million as at 30th March 2000).

TYNE AND WEAR PENSION FUND

The Prudential scheme also offers a range of funds to members. As at 31st March 2001, there had not been any payments into this scheme because the administration arrangements had not been finalised.

14. Taxation

UK Tax

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

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

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

Overseas Tax

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

15. Derivatives

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 2001, the Fund held 31 June 2001 contracts which, when valued on the basis of associated economic exposure, had a book value of £1,798,185 and a market value of £1,749,020. The net variation margin paid to 31st March 2001 was therefore £49,165. The position was unwound by 12th June 2001 at an overall profit of £9,305.

The Fund has used Forward Currency Contracts to hedge the currency exposure on overseas investments. As at 31st March 2001, the Fund held a range of positions which together showed an unrealised loss of £96,468. The positions showed an overall profit of £59,311 when unwound.

16. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2001, no commitments were outstanding.

17. Contingent Liability - Tax Credit On Share Buybacks

Between 1994 and 1996, share buybacks were made by a number of 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. 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 £2.6 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

TYNE AND WEAR PENSION FUND

ORGANISATIONS PARTICIPATING IN THE FUND

Metropolitan District Councils	Members as at 31st March 2001		
	Contributors	Deferred	Pensioners
Gateshead Metropolitan Borough Council	7,652	1,657	4,184
Newcastle City Council	8,757	2,145	5,878
North Tyneside Metropolitan Borough Council	5,521	1,380	3,302
South Tyneside Metropolitan Borough Council	5,167	1,309	2,983
City of Sunderland Council	6,977	2,528	5,250
Sub Total	34,074	9,019	21,597

Other Scheduled Bodies

Birtley Town Council	5	2	2
City of Sunderland College	377	29	39
Former North East Regional Airport	0	0	44
Former Tyne and Wear County Council	0	134	322
Former Tyne and Wear Residuary Body	0	9	30
Gateshead College	159	49	25
Gateshead Magistrates	0	0	16
Monkwearmouth College	0	1	0
Newcastle College	316	59	80
Newcastle Education Action Zone	11	0	0
Newcastle Magistrates	0	19	18
Nexus	926	407	1,446
North Tyneside College	124	23	13
North Tyneside Magistrates	0	8	8
Northumbria Police Authority	1,458	442	809
Northumbria Probation and After Care Service	510	101	223
South Tyneside College	275	39	52
South Tyneside Education Action Zone	2	0	0
South Tyneside Magistrates	0	5	20
Sunderland Magistrates	0	9	22
Tyne and Wear Fire and Civil Defence Authority	256	53	150
Tyne and Wear Passenger Transport Authority	116	23	60
Tynemouth College	50	10	3
University of Northumbria at Newcastle	1,354	374	289
University of Sunderland	898	222	191
Wearside College	0	6	0
Sub Total	6,837	2,024	3,862

Admitted Bodies

Age Concern Newcastle	52	10	15
Assessment and Qualification Alliance	0	4	15
Association of North East Councils	13	2	3
Benton Grange School	0	0	10
Brunswick Young Peoples Project	0	0	0
Catholic Care North East	0	32	24
Disability North	23	6	2
Gateshead Law Centre	4	5	0
Hebburn Neighbourhood Advice Centre	3	0	0
Higher Education Funding Council for England	0	2	8
Information North (Northern Regional Library System)	4	1	2
International Centre For Life Trust	15	5	2

TYNE AND WEAR PENSION FUND

Members as at 31st March 2001

	Contributors	Deferred	Pensioners
Learning World	3	4	0
National Glass Centre	0	1	0
Newcastle Community Law Centre	3	2	1
Newcastle Family Service Unit	0	6	3
Newcastle International Airport Company Limited	478	118	211
Newcastle Tenants Federation	5	3	1
Newcastle West End Partnership	0	2	0
Newcastle Youth Congress	0	1	0
Norcare	1	0	1
North East Innovation and Development Company Limited	14	7	5
North East Regional Employers Organisation	8	2	4
North Tyneside Child Care Enterprise	4	14	1
North Tyneside City Challenge	6	2	0
North Tyneside Disability Advice Centre	0	0	1
Northern Arts Association	41	26	6
Northern Council for Further Education	1	16	13
Northern Counties School for the Deaf	30	12	21
Northern Informatics Application Agency	0	0	0
Northumbria Tourist Board	24	20	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	2	2	0
Saint Mary Magdalene and Holy Jesus Charity	8	2	3
Search Project	4	0	1
Shiremoor Advice Centre	0	2	0
Simonside Community Centre	1	0	0
South Tyneside Groundwork Trust	4	3	0
South Tyneside Victim Support	2	0	0
Stagecoach Travel Services (Busways)	321	202	476
Sunderland Arts Centre	0	0	0
Sunderland City Training and Enterprise Council	15	93	9
Sunderland Empire Theatre Trust Limited	0	10	4
Sunderland Enterprise Agency	0	0	0
Sunderland Housing Group (New Staff)	2	0	0
Sunderland Housing Group (TUPE Staff)	1,257	0	0
Sunderland Outdoor Activities Association	0	3	0
Theatre Royal Trust Limited	46	10	14
The Hospital of Saint Mary the Virgin	0	0	1
The Ozanam House Probation Hostel Committee	16	4	3
Tyne and Wear Development Company Limited	8	11	2
Tyne and Wear Development Corporation	0	39	21
Tyne and Wear Enterprise Trust Limited	19	8	8
Tyne and Wear Play Association	1	0	0
Tyneside Training and Enterprise Council	31	166	15
Tyne Theatre Trust (Northern Stage Company)	0	0	0
Tyne Waste Limited	0	14	8
Wallsend Citizens Advice Centre	3	0	0
Wallsend Peoples Centre	4	0	0
Workshops for the Adult Blind (Palatine Products)	64	17	91
Sub Total	2,545	894	1,123
Grand Total	<u>43,456</u>	<u>11,937</u>	<u>26,582</u>

TYNE AND WEAR PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

APPROVED BY PENSIONS COMMITTEE ON 4TH JUNE 2001

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

12. The Fund's Officers undertake the day to day monitoring of the investment of the Fund.

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 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. In 2000, an Asset Liability Study was carried out in order to review the investment policy. This Study examined the Fund's financial position, the profile of its membership, the nature of its liabilities and included an analysis of the expected ranges of outcomes from differing investment policies.
15. Having considered the outcome of the Study, the Committee has concluded that a diversified portfolio, of which about 65% is invested in UK and overseas equities and about 35% is invested in bonds and property, currently represents a suitable strategic asset allocation benchmark for the Fund. The degree and nature of risks attaching to such a portfolio are considered by the Committee to be appropriate, when taken in conjunction with the expected returns, for the Fund. The Committee will continue to monitor the suitability of this policy in the light of the Fund's developing liabilities and finances.
16. The Committee has agreed to move from the previous peer group benchmark, which was the average asset allocation (including property) among discretionary portfolios within the CAPS survey, to the benchmark described in paragraph 15 on a phased basis. The Committee has also concluded that, in view of the change in investment benchmark, it is appropriate to change the investment management structure, as described below.

Investment Management Structure

17. 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.
18. Under its peer group benchmark, aside from its investment in property, half of the Fund has been invested on a balanced basis and half on a specialist basis. It is the view of the Committee that the new benchmark is best implemented by investing the entire Fund on a specialist basis, using passive asset allocation and a combination of active and passive stock selection.

TYNE AND WEAR PENSION FUND

19. The new structure includes discretionary mandates for the active management of Global bonds, UK equities, Pan European equities, Global equities, Pacific equities, Emerging Market equities and Global private equity. Each manager's discretion is subject to specified limits and extends to stock selection and, where appropriate, to tactical asset allocation. About 25% of the Fund is held in a passive mandate, which focuses on those markets that are considered to be more "perfect". It thus includes a proportion of the total allocation to UK equities, US equities and UK Government bonds.
20. Independent custodians are 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.
21. The property portfolio is managed on an advisory basis. The manager is also responsible for advising on the tactical allocation to property, for which purpose the benchmark is set at 7.5% of the Fund.
22. The revised structure is being implemented over a period, but is due to be fully operational by 31st March 2002.
23. In addition to the structure outlined above, the Committee has also approved a number of relatively small investments in local venture capital. The Fund's Officers take the ongoing investment decisions relating to these investments.
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.

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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, each active manager must take this into account.
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.

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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 that 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 undertaken through The Prudential Assurance Company Limited and the Equitable Life Assurance Society. The Committee's intention is to offer a range of funds that are intended to provide a suitable long-term return for members, consistent with the degree of risk accepted. The Fund's Officers monitor the returns obtained on members' AVC investment and, from time to time, the Committee reviews the suitability of the AVC providers used.

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

APPROVED BY PENSIONS COMMITTEE ON 4TH JUNE 2001

Introduction

1. This document sets out the Fund's policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance.
2. The Pensions Committee reviews the policy annually, or more frequently if required.
3. The Committee provides copies of the document to the Fund's investment managers, who are required to follow the principles that it sets out and to report showing how they have done so.

Development of a Manager's Policy

4. Each manager must prepare and implement policies on Socially Responsible Investment, corporate governance and the principles that govern the way in which voting rights are exercised.
5. 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.
6. Each manager must continue to develop and coordinate its policies and report change as soon as practicable.

Socially Responsible Investment

7. Responsibility for the selection, retention and realisation of investments is delegated to the managers, who are required to act within specified guidelines and restrictions.
8. The extent to which social, environmental or ethical considerations are taken into account in these decisions is at the discretion of each manager.
9. 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.
10. 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.
11. Each manager is urged to pursue a policy of engagement with companies and to take account of such considerations in its corporate governance and voting policy.

Rights Attaching to Investments

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

Corporate Governance

13. The policy towards UK quoted companies should take account of the principles contained in the Combined Code and of the guidance offered by relevant organisations.
14. The policy towards companies outside the UK should take account of the practices of the home nation.
15. The policy towards unquoted companies should be consistent with the approach adopted for quoted companies, to the extent that this is practicable.

Voting Rights

16. Voting rights should be exercised in an informed manner. Therefore, in general, the managers are most appropriately placed to undertake this task.
17. Voting rights are regarded as an asset that needs managing with the same duty of care as any other asset. Exercising the rights attached to shares is essential to protect the interests of the organisations participating in the Fund and the beneficiaries of the Fund.
18. Whilst it has not been made compulsory for the managers to vote, they are strongly urged to do so. In part, this is because a general failure to vote will devalue the worth of an abstention.
19. 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.
20. Whilst the responsibility is delegated to each manager to exercise voting rights in accordance with its own policy, the Committee retains the right to direct each manager in respect of any particular issue should such action be considered appropriate.
21. Prior to voting, each manager is required to use reasonable endeavours to consider whether, in their opinion, any issue could become controversial for the Fund or the organisations participating in the Fund. If this is the case, the issue should be referred to the Fund's officers for discussion and possibly direction. It is considered that this will happen infrequently. Whilst each manager should exercise their own discretion as to what may fall into this category, examples may be:
 - Where the manager intends to vote against directors on a major issue.
 - Matters affecting the local economy.
 - Political donations.

Review and Reporting Arrangements

22. Each manager's policies on these issues will be reviewed and their impact monitored on a regular basis.
23. Each manager must provide a quarterly report that sets out how its policies have been implemented.
24. The section of the report that relates to voting must set out:
 - The proportion and numbers of votes which were cast.
 - A summary and explanation of instances where:
 - Voting rights were exercised in a manner that was inconsistent with their normal policy.
 - Voting rights were exercised against management.
 - The manager abstained from voting.
 - Voting rights were not exercised.

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CONTACTS

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