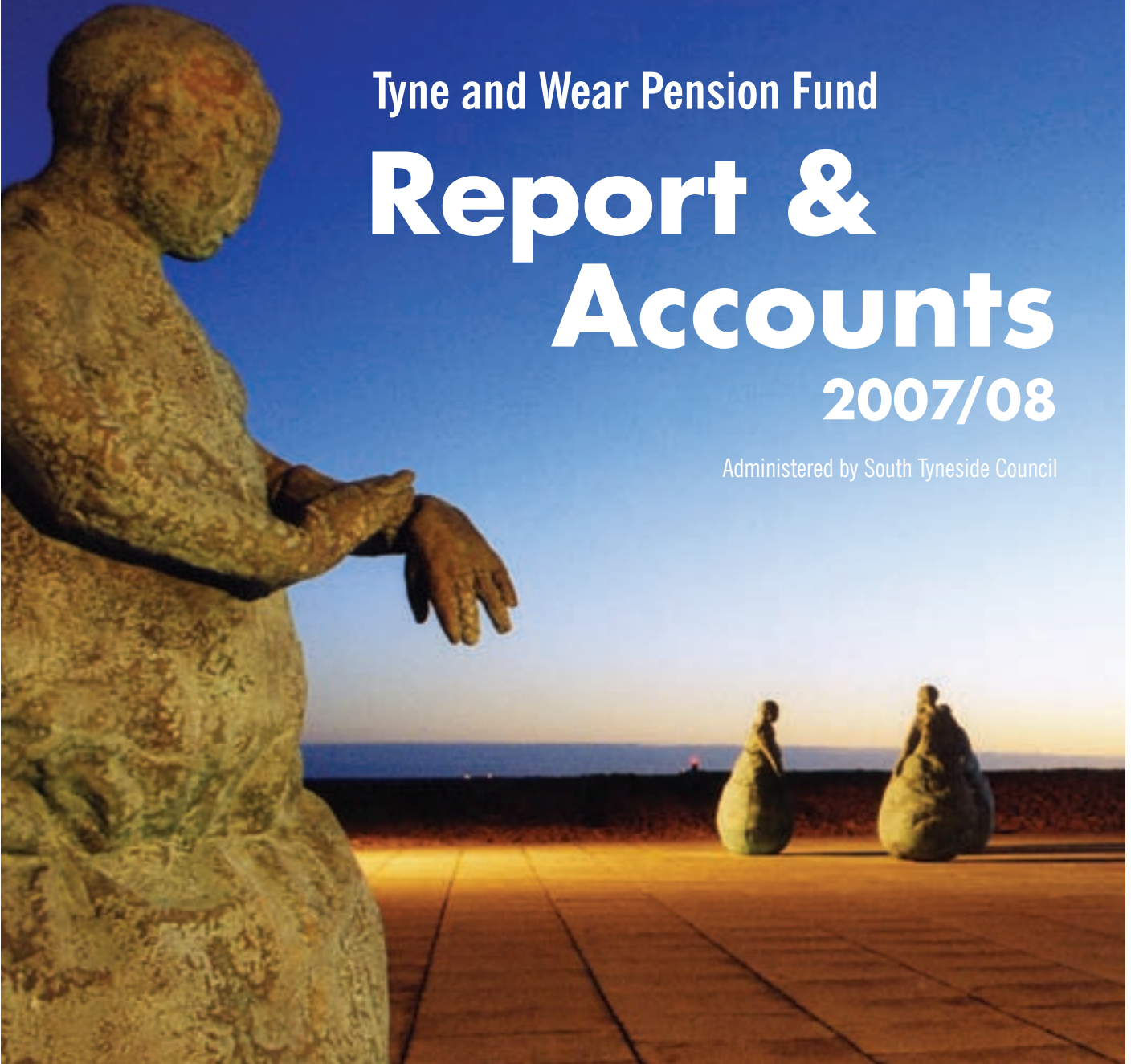


Tyne and Wear Pension Fund

Report & Accounts

2007/08

Administered by South Tyneside Council





Contents

	Page
Committee Members, Managers, Advisors and Officers	4
Review of the Year	6
Governance Arrangements	8
Vision Statement	10
Service Plan	11
Legal Framework	12
Additional Voluntary Contributions	15
Employers' Contributions and the Valuation Process	16
Statement of the Actuary	18
Membership of the Fund	20
Working with Members and Employers	25
Investment Report	30
Investment Policies	38
Financial Statements	44
Notes to the Financial Statements	46
Audit Report	58

Committee Members, Managers, Advisors and Officers

Committee Members

South Tyneside Council

Councillor E. Leask (Chair)
Councillor B. Brady (Vice Chair)
Councillor T.W. Defty
Councillor G.R.W. Elsom
Councillor E.M. Gibson
Councillor J.N. McKie
Councillor J. Perry
Councillor O. Punchion

Gateshead Council

Councillor J.I. Mearns
(substitute – Councillor B. Goldsworthy)

Newcastle City Council

Councillor D. Slesenger
(substitute – Councillor B. Renton)

North Tyneside Council

Councillor R. Glindon
(substitute – Councillor C. Gambling)

Sunderland City Council

Councillor P. Young
(substitute – Councillor J. Stephenson)

Trades Union Representatives

G. Clements – UNISON
W. Flynn – UCATT
S. Forster – UNISON

Employers' Representatives

J. Fenwick – National Probation Service Northumbria
G. Foster – Northumbria University
D. Scott – Stagecoach Travel Services

Investment Managers

Indexation	Legal and General Investment Management
Global Equities	Capital International
Emerging Market Equities	Capital International
Pan European Equities	UBS Global Asset Management
UK Equities	Fidelity Pensions Management
Far East Equities	Schroder Investment Management
Corporate Bonds	M&G Investments
Global Government Bonds	Henderson Global Investors
Property Manager	Aberdeen Property Investors

AVC Managers

The Prudential Assurance Company
Equitable Life Assurance Society

Advisors

Actuary	Hewitt Associates Limited
Investment Advisor	Hymans Robertson Consultants and Actuaries

Officers

Executive Director Regeneration and Resources	P. Melia
Head of Pensions	S. Moore
Assistant Head of Pensions	D. Smith
Assistant Head of Pensions (Investments)	I. Bainbridge
Head of Corporate Governance	B.T. Scott

Review of the Year

We are pleased to present the 2007/08 Report and Accounts for the Tyne and Wear Pension Fund.

The Fund's programme of work has continued to be heavily influenced by legislative change. There have been several consultation exercises and amendments to Scheme benefits, including those for the new Scheme that will take effect from 1st April 2008.

We considered the future provision of our pensions administration system and decided to renew the contract with our current provider, Civica. We worked towards introducing an improved, new Scheme compliant, system from April 2008. However, delays in receiving the new Scheme regulations meant that the new system could not go live until later in 2008. We continued to maintain members' pension records and to process benefits by adapting the old system and adopting some temporary manual procedures.

We are committed to improving the services we offer and we seek the views of members and employers to assist with this. We issued surveys to our deferred members and to employers in 2007/08. We were pleased to see that 99% of our members who responded stated that they were satisfied with the service we provide, as did 91% of the employers who responded. A number of helpful comments were made on service provision, which have received consideration.

The contributions paid by employers in 2007/08 were set by the 2004 valuation. The average future service rate was 240% of employees' contributions, whilst the contribution to address the funding deficit was 105%. The total rate of contribution is 345%, equal to 20.1% of pay.

We undertook a valuation in 2007/08, based on the position as at March 2007.

The funding level improved from 64% at the 2004 valuation to 79%. This was due to investment market returns exceeding the levels assumed at the 2004 valuation and to an increase in the rate used to discount liabilities.

However, there was upward pressure on contribution rates from inflation and from improvements in mortality.

The average future service rate was set at 15.1% of pay and the contribution to address the deficit at 6% of pay, leading to a total contribution of 21.1% of pay.

This is an increase of 1% over the rate that was set at the 2004 valuation. The new rates are payable from April 2008.

The strategy for the 2007 valuation is set out in the Valuation Report and in the Funding Strategy Statement, which is on the Fund's website.

The strategy has taken account of the new Scheme and has used updated financial, inflation and salary assumptions. The mortality assumptions were increased in the light of new national data and the Fund's own experience.

The Fund has used a number of measures to assist employers to manage the cost of the Scheme, the most significant being the continued use of long deficit recovery periods for employers with a suitably strong covenant. The periods for most employers were set within a range from twenty two years for employers with the strongest covenant to around ten years. For most contractors, the recovery period did not exceed the remainder of the contract period.

The experience for the funding level has been very poor since the 2007 valuation, principally due to negative market returns and a fall in the discount rates that are used to calculate liabilities. Our monitoring was showing a fall in the estimated funding level to about 65% as at March 2008. This does not affect the contributions that are being paid by the existing employers in the Fund,

as their rates were set by the 2007 valuation. However, it will affect rates quoted for new employers and for terminal valuations.

The current investment strategy is derived largely from an asset liability study undertaken in 2005. The asset allocation is 59.5% in quoted equities, 21% in bonds, 10% in property and 9.5% in alternative investments.

We undertook a review of investment strategy and the management structure in 2007/08. This has included an update of the asset liability study, using data from the 2007 valuation. It was concluded that there should be further investment in alternative investments, to be financed by decreased investment in bonds and equities. The future strategy will be 55.5% in quoted equities, 16.5% in bonds, 10% in property and 18% in alternative investments.

The service provided by our global custodian, Northern Trust, was market tested early in 2008. It was concluded that the service was satisfactory and competitive.

With regard to investment markets, the rise in equity markets that began in 2003 ended in May 2007 and has been followed by a period of high volatility. This was triggered by uncertainty created by the sub-prime crisis in the US. There are concerns over the size of losses and the impact this is having on the real economy.

The UK Equity market fell by 7.7% during 2007/08, which was worse than the fall suffered by most other developed equity markets. Pacific Rim and Emerging Market Equities bucked this trend and produced strong returns.

In this environment, investors sought the safe haven of government bonds. Gilts rose by over 7% and Index-Linked Gilts rose by over 13% over the year.

Property had been a strong performer for over a decade but it also suffered a market correction in the year, with a fall of nearly 11%.

Against this background, the value of UK pension fund assets fell, ending a four year run of positive returns.

The Fund's return for the year was -3.5%, which was -1.7% below its benchmark return of -1.8%. Inflation, as measured by the Retail Price Index, rose by 3.8% and average earnings increased by 4.3%.

Pension fund returns are generally assessed over at least five year periods in order to avoid taking too short term a view of investment performance. The five year return is 12.1% per annum, which is 0.4% below the benchmark return of 12.5% per annum. The ten year return is 5.4% per annum, which is 0.3% above the benchmark return of 5.1% per annum. The returns for both periods are above both inflation and the increase in average earnings.

The weaker returns relative to benchmark in recent years are attributable to poor performance from certain active equity managers. The Pensions Committee has been closely monitoring this position.

In 2008/09, we will complete the implementation of the new Scheme compliant pensions administration system and introduce the updated investment strategy and structure.

Councillor Eileen Leask
Chair Of Pensions Committee

Stephen Moore
Head Of Pensions



The Fund has used a number of measures to assist employers to manage the cost of the Scheme, the most significant being the continued use of long deficit recovery periods for employers with a suitably strong covenant.

Governance Arrangements

South Tyneside Council is the administering authority of the local government pension fund for the Tyne and Wear County area.

The Council has set up a Pensions Committee to control and resolve all matters relating to the Fund. The Council's Constitution requires the Committee to:

- Prepare, maintain and publish the Governance Compliance Statement.

- Ensure that the Fund complies with legislation.

- Prepare, maintain and publish the Funding Strategy Statement.

- Ensure that the Fund is valued as required and receive and consider reports on each valuation.

- Ensure appropriate arrangements are in place for the administration of benefits.

- Set the admissions policy.

- Prepare, maintain and publish the Communications Policy Statement.

- Ensure appropriate additional voluntary contributions arrangements are in place.

- Prepare, maintain and publish the Statement of Investment Principles.

- Set the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.

- Appoint, dismiss and assess the performance of investment managers and custodians.

The Committee has eighteen members. South Tyneside Council nominates eight members and the other four district councils within the County area nominate one member each. The trades unions and the employers collectively nominate three members each, who sit on the Committee in an advisory capacity.

The Committee has a training policy that recognises the requirements of the Myners' Report. The training programme is designed to meet the Fund's specific training needs and includes aspects of the Pensions Regulator's Code of Practice on Trustee Knowledge and Understanding that are relevant to the Scheme. Around ten training days are offered each year.

The Committee meets quarterly to consider pension matters. Additional meetings are called should any matter require an in-depth review.

Annual meetings are held for the employers and for the trades unions. The agenda for these meetings includes presentations by the Actuary and the Investment Advisor and covers the actuarial position, the benefits structure and investment performance.

The agendas and minutes may be viewed on the Fund's website, for which the address is www.twpf.info.

The Committee has set up an Investment Panel to provide a greater focus on, and scrutiny over, the investment strategy and the performance of the investment managers. The Panel consists of three members of the Committee, the Investment Advisor, the Head of Pensions and the Assistant Head of Pensions (Investments). It reports its findings to the Committee and makes recommendations on any action that is required.

The Governance Compliance Statement includes further information on the governance arrangements and can be found on the website.



Vision Statement

Our goal is to provide an attractive and affordable pension arrangement that is seen by employers and members as an important and valued part of the employment package.

We will:

- promote membership of the Fund
- keep employers' contributions as low and as stable as possible through effective management of the Fund
- work with our partners to provide high quality services to employers and members
- make pensions issues understandable to all.

We will know we are succeeding when:

- we are consistently achieving our investment objective
- there are sufficient assets to meet the liabilities
- we are consistently achieving our service standards
- we are recognised as being amongst the leading UK pension funds.

Service Plan

The vision and aims of the Fund are set out in our Service Plan. This is a three year rolling plan that is reviewed annually. It sets out the objectives and actions that we must concentrate on in order to achieve our vision.

The Pensions Committee approves the Plan at a special meeting in February of each year. The Plan may be viewed on the Fund's website.

In 2007/08, we have:

- Met the new requirement for a Governance Compliance Statement.
- Delivered the Pension Committee's Training Programme.
- Responded to consultations on the new Scheme and advised employers and members of the changes.
- Worked towards the introduction in 2008/09 of a new pensions administration system that will administer the new Scheme.
- Completed the 2007 valuation of the Fund.
- Completed asset liability modelling on the investment structure and devised a new benchmark and management structure for implementation in 2008/09.
- Introduced improved arrangements for class actions, cash management and commission recapture.

Legal Framework

Introduction

The Department for Communities and Local Government (CLG) sets out the framework for the Scheme in regulations that apply in England and Wales.

The framework for investment 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 that can be made, which include company and government securities, property and unit trusts. The Regulations also set out restrictions on the proportion of a fund that can be held in different types of investment.

The Local Government Pension Scheme Regulations 1997, as amended, set out the rates of contribution and the method of calculation of benefits.

These Regulations introduced a common contribution rate of 6% for all members. Manual workers who were members of the Scheme prior to 1st April 1998 retain the right to pay 5% for as long as they remain in the Scheme, in continuous employment and in the same capacity.

The Scheme provides an extensive range of benefits for members and their dependents, including:

- A pension and tax free lump sum on retirement.
- Widows', widowers' and civil partnership benefits.
- Children's pensions.
- Index-linking of all pensions.
- A lump sum on death in service and, sometimes, on death in retirement.
- Transfer values to other pension arrangements or index-linked deferred benefits for early leavers.
- A refund of contributions where no other benefit is due.
- Facilities for paying additional voluntary contributions to provide benefits.



“The Fund has submitted its own comments on CLG’s proposals. We have kept employers advised of progress and encouraged them to submit their own views.”

The Stocktake

A review, or “Stocktake”, of the Scheme commenced in 2001 to ensure that it operates effectively and efficiently and that it provides value for money.

CLG has published a number of discussion papers inviting comment on possible changes to the Scheme. The Local Government Pensions Committee acts as the primary respondent for local government employers.

The Fund has submitted its own comments on CLG’s proposals. We have kept employers advised of progress and encouraged them to submit their own views. We have also hosted meetings between employers and CLG to consider the possible changes.

The first changes, most of which were relatively minor, became effective from April 2004. The more significant changes were requirements for:

- **Administering authorities to produce funding strategy statements.**
- **Annual benefit statements to be produced for active, deferred and pension credit members. The Fund was already compliant with this requirement.**

Further changes became effective from April 2006, with the more significant being:

- **The introduction into the Scheme of the single tax regime.**
- **The removal of the Rule of 85 voluntary early retirement provision, with limited protection for members close to retirement.**
- **A provision allowing retiring members and some deferred beneficiaries to increase the amount of their benefits package taken as a lump sum to a maximum of 25% of the value of the package. The conversion rate is twelve pounds of lump sum for every pound of pension given up.**

CLG introduced a number of new administrative provisions in June 2007, including:

- **A requirement to publish a governance compliance statement that demonstrates compliance against a set of best practice principles that are issued by CLG.**
- **A power to prepare and publish a local administration strategy.**
- **A power to allow an administering authority to recover costs that have resulted from an employer’s poor performance.**
- **Requirements concerning the publication and content of annual reports.**

CLG also consulted on proposals to extend protection against the removal of the Rule of 85 voluntary early retirement provision.

The New Scheme

In June 2006, CLG consulted on the structure of a new Scheme that will be sustainable and affordable over the long term and that will meet the continuing needs of employers, members and taxpayers.

In November 2006, the Minister for Local Government announced that the new Scheme would start in April 2008.

The rules are set out in three sets of regulations. The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, describe how rights will accrue and how benefits will be calculated from 1st April 2008. The Local Government Pension Scheme (Administration) Regulations 2008 carry forward previous provisions into the new Scheme. The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 set out how membership in the old Scheme will count in the new Scheme.

The main provisions of the new Scheme are:

- Tiered employee contribution rates.
- A final salary pension based on 1/60th of salary for each year of pensionable service.
- Pensions are to be based upon the best actual pensionable pay in the last three years or an averaging of three financial years within the last ten before early retirement.
- An option to commute pension to lump sum, at the rate of one pound of annual pension for twelve pounds of lump sum, up to a maximum tax free lump sum of 25% of capital value of accrued benefit rights at date of retirement.
- Pensions are to be indexed in line with the Retail Price Index and must come into payment before the 75th birthday.
- Survivor benefits for life, payable to spouses, civil partners and "nominated" dependant partners (opposite and same sex) at a 1/160th accrual rate.
- Survivor benefits payable to children.
- A death-in-service tax-free lump sum of three times salary.
- A post-retirement lump sum death benefit where death occurs before age 75 of up to a maximum of ten years pension.
- A normal retirement age of 65 for the release of unreduced benefits.
- Phased retirement arrangements that enable members under specified circumstances to draw down some or all of their accrued pension rights from the Scheme while still continuing to work.
- Early release from age 55 on grounds of redundancy or business efficiency. This will come into effect in 2010 for current members.
- Except on grounds of ill-health, the earliest age for release of pension is 55. This will come into effect in 2010 for current members.
- A three level ill-health retirement package:
 - 100 % enhancement of benefits for total incapacity.
 - 25% enhancement where there is a prospect of return to gainful employment after three years but before normal retirement age.
 - No enhancement where there is a prospect of return to gainful employment within three years. This level of ill-health pension ceases on re-employment or after three years in payment.

Additional Voluntary Contributions

Introduction

Whilst the Scheme provides a good benefits package, it is normally possible to increase benefits and thereby take full advantage of the available tax relief.

Prior to 31st March 2008, members could:

- Pay additional contributions to purchase extra Scheme membership
- or
- Pay into the Fund's in-house additional voluntary contributions (AVC) plan.

The Scheme rules changed from 1st April 2008. From that date members can either:

- Pay Additional Regular Contributions (ARCs) to purchase additional Scheme pension in blocks of £250 up to a maximum of £5,000. Any extra pension purchased can either be for the member only or for the member and their dependents.
- or
- Pay into the Fund's in-house AVC plan.

As well as allowing members to increase benefits up to the maximum allowable under HM Revenue and Customs (HMRC) and Scheme rules, an AVC plan can provide extra life assurance.

HMRC rules allow members to take all or part of their in-house AVC fund as a tax-free lump sum at retirement. The value depends on whether the member draws their AVC benefits at the same time as their Scheme benefits.

In general, members can contribute up to half of their pay each year into an AVC plan. These contributions must be deducted from pay.

The Prudential

The Fund has an AVC plan arranged with The Prudential that offers a comprehensive range of funds, including a bespoke lifestyle option.

We carry out an annual review of the AVC plan with the assistance of Hewitt Associates Limited. The 2007 review concluded that The Prudential should remain as the sole provider.

In 2006, the Fund closed its with-profits option to new investors. The availability of this option to existing investors will be examined in our 2008 review following Prudential's announcement in June 2008 that it would not proceed with a reattribution of its Inherited Estate.

Equitable Life

The Fund has closed its AVC plan with Equitable Life to new members and transfers.

A bulk transfer exercise was undertaken in 2003 in the light of legal and financial advice. This involved the transfer of the majority of members' Equitable Life AVC funds to comparable funds with The Prudential.

A number of members who have with-profits investments remained with Equitable Life. This is because it was not believed to be in the member's best interests to transfer, as the withdrawal penalty may not be made up by future investment returns.

The position of these members was re-examined in 2006. This resulted in further transfers to The Prudential.

We continue to monitor the remaining investments.

Employers' Contributions and the Valuation Process

Introduction

The Scheme benefits are paid from investment income, employees' contributions and employers' contributions. The employees' contributions are set by regulations, whilst employers' contributions are adjusted in triennial valuations to ensure that the Fund will have sufficient assets to meet its liabilities.

History of the Funding Level

The Fund has been in deficit since 1992. It is important to understand the background to this position.

The 1989 valuation revealed a funding level of 118%, with this surplus arising from actual investment returns having greatly exceeded expected returns. The over-funded position led to the scheduled employers agreeing to take a contribution holiday. This eroded the surplus so that the funding level at the 1992 valuation was 98%. The contribution holiday was ended and an employers' contribution for the scheduled employers was phased in.

The 1995 and 1998 valuations both identified funding levels of 87%. The 1998 result was adversely affected by the removal of the tax credit on UK equity dividends at the July 1997 budget.

The 2001 valuation revealed a funding level of 82%. This reduction was attributable to improvements in mortality and to employer specific factors such as pay awards, restructurings and early retirements. Also, investment market returns were below the levels assumed in the 1998 valuation.

The worldwide bear market in equities between 2000 and 2003 led to a further and significant fall in the funding level.

The 2004 valuation showed that the funding level had fallen to 64%. This fall was largely attributable to investment market returns being below the levels assumed in the 2001 valuation, but a reduction in the interest rate used to discount liabilities also contributed to the fall.

The 2007 Valuation

The latest valuation was carried out as at March 2007 and has led to increased employer contributions from April 2008.

The funding level has improved to 79%. This was due to investment market returns exceeding the levels assumed at the 2004 valuation and to an increase in the rate used to discount liabilities.

However, there was upward pressure on contribution rates from inflation and from improvements in mortality.

The average future service rate was set at 15.1% of pay and the contribution to address the deficit at 6% of pay, leading to a total contribution of 21.1% of pay. This is an increase of 1% over the rate of 20.1% that was set at the 2004 valuation.

Valuation Strategy

The strategy for the 2007 valuation is set out in the Valuation Report and in the Funding Strategy Statement, which is on the Fund's website.

The strategy has taken account of the new Scheme and has used updated financial, inflation and salary assumptions. The mortality assumptions were increased in the light of new national data and the Fund's own experience.

The Fund has used a number of measures to assist employers to manage the cost of the Scheme, the most significant being the continued use of long deficit recovery periods for employers with a suitably strong covenant.

A recovery period of thirteen years, equal to the average future working lifetime of active members, was generally used at the 2001 valuation. It was accepted across the Scheme that longer periods had to be used from the 2004 valuation if increases in employer contributions were to be held at manageable levels. The Fund has used this approach selectively. It is an increased source of risk to the Fund and to individual employers because:

- **Some employers directly guarantee the deficit of certain admission bodies and transferee admission bodies.**
- **If an employer without a guarantee closes and does not meet any deficit for financial, legal or other reasons, all employers in the Fund are required to pay increased contributions to meet the shortfall.**

However, not extending a recovery period could impose an additional financial pressure on an employer that might, in extreme cases and for non-statutory bodies, lead to a wind up. This could lead to a loss of the service provided by that employer and leave the Fund with a deficit that cannot be recovered.

Information supplied by employers in response to the Fund's annual employer survey was taken into account in setting recovery periods. All employers were then asked for their views as part of the consultation exercise on the Funding Strategy Statement.

Having taken all views into account, deficit recovery periods for most employers were set within a range from twenty two years for employers with the strongest covenant to around ten years. For most contractors, the recovery period did not exceed the remainder of the contract period.

Two other measures used were the grouping of some smaller employers for setting contribution rates, which protects such employers from the risk of high volatility of rates, and allowing up to six annual steps in the phasing in of deficit payments.

Events since the 2007 Valuation

Experience has been very poor since the 2007 valuation due to:

- **Negative market returns.**
- **A fall in gilt yields and therefore in the discount rates that are used to calculate liabilities.**
- **Salary growth has been above the valuation assumption.**
- **The pension increase has been above the valuation assumption due to the level of the Retail Price Index.**

All four of these factors impact negatively on the funding position, which has deteriorated significantly. Our monitoring was showing a fall in the estimated funding level to about 65% as at March 2008.

This does not affect the contributions that are being paid by the existing employers in the Fund as their rates were set by the 2007 valuation. However, it will affect rates quoted for new employers and for terminal valuations.



“The latest valuation was carried out as at March 2007 and has led to increased employer contributions from April 2008.”

Statement of the Actuary

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Tyne and Wear Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2007, in accordance with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997.

Actuarial Position

1. Rates of contributions paid by the participating employers during 2007/08 were based on the actuarial valuation carried out as at 31 March 2004.
2. The valuation as at 31 March 2007 showed that the funding ratio of the Fund had improved since the previous valuation with the market value of the Fund's assets at that date (of £3,726.5M) covering 79% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
3. The valuation also showed that the required level of contributions to be paid to the Fund by participating employers (in aggregate) with effect from 1 April 2008 was as set out below:

- 15.1% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

Plus

- 6.0% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date, over a recovery period of 22 years from 1 April 2008.

These figures are based on the Regulations in force, or enacted by Parliament and due to come into force, at the time of signing the valuation report and, in particular, allowed for the following changes to the Fund benefits since the previous valuation:

- The Rule of 85 retirement provisions were reinstated, and subsequently removed again. Transitional protections for some categories of member were extended to widen their coverage.

- Changes were made consistent with the Finance Act 2004.

- A new Scheme has been put in place which came into effect as at 1 April 2008. All existing members transferred to the new Scheme as at that date.

4. The majority of employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, and the recovery period agreed with the Administering Authority.
5. The rates of contributions payable by each participating employer over the period 1 April 2008 to 31 March 2011 are set out in a certificate dated 27 March 2008 which is appended to our report of the same date on the actuarial valuation.
6. The contribution rates were calculated using the projected unit actuarial method and taking account of the Fund's funding strategy as described in the Funding Strategy Statement.

7. The main actuarial assumptions were as follows:

Discount rate for periods	
Scheduled Bodies	
Pre-retirement discount rate	6.60% a year
Post-retirement discount rate	5.60% a year
Admitted Bodies	
In service discount rate	6.20% a year
Left service discount rate	5.20% a year
Rate of general pay increases	4.70% a year
Rate of increases to pensions in payment	3.20% a year
Valuation of assets	market value

8. This statement has been prepared by the Actuary to the Fund, Hewitt Associates Limited (previously Hewitt Bacon & Woodrow Limited), for inclusion in the accounts of the Council of the Borough of South Tyneside. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2007. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal valuation report which details fully the context and limitations of the actuarial valuation.

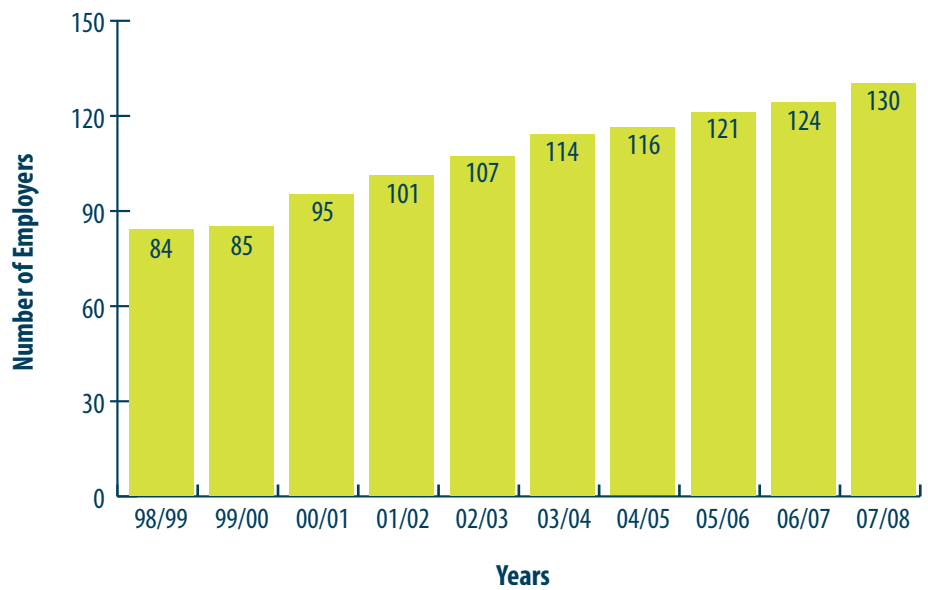
Hewitt Associates Limited does not accept any responsibility or liability to any party other than our client, the South Tyneside Council, in respect of this statement.

Hewitt Associates Limited
19 May 2008

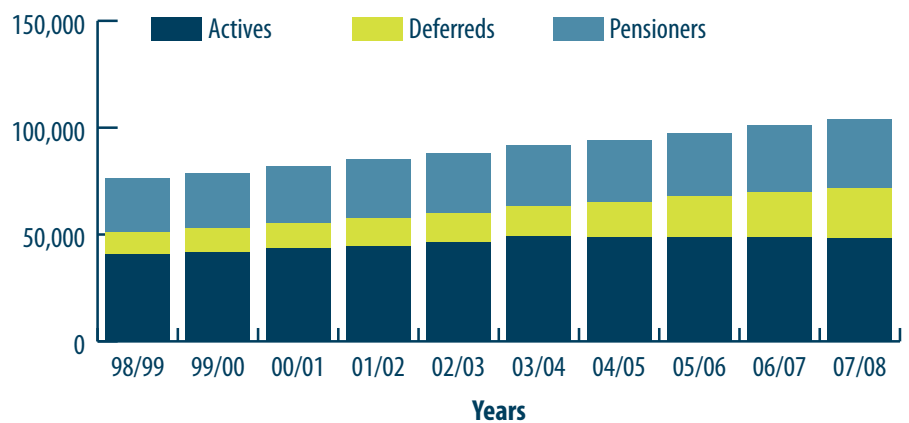
Membership of the Fund

As at 31st March 2008, there were 130 employers participating in the Fund. This includes the five district councils and a wide range of other organisations that provide a public service within the Tyne and Wear County area.

The gradual increase in employers over the past ten years is shown right.



The Fund had 103,762 members as at 31st March 2008. The chart right shows the change in membership over the past ten years.



The Employers in the Fund and their members as at 31st March 2008 are:

District Councils	Actives	Deferreds	Pensioners
Gateshead Council	6,781	3,783	5,061
Newcastle City Council	8,835	4,192	6,981
North Tyneside Council	6,043	2,838	3,978
South Tyneside Council	4,929	2,827	3,528
Sunderland City Council	8,544	4,341	5,841
Sub Totals	35,132	17,981	25,389

Other Scheduled Bodies	Actives	Deferreds	Pensioners
City of Sunderland College	446	184	73
Excelsior Academy	1	0	0
Former North East Regional Airport	0	0	30
Former Tyne and Wear County Council	0	84	274
Former Tyne and Wear Residuary Body	0	5	30
Gateshead College	218	160	65
Gateshead Housing Company	336	73	17
Monkwearmouth College	0	1	5
National Probation Service - Northumbria	656	181	300
Newcastle College	900	396	139
Newcastle Education Action Zone	0	2	2
North Tyneside College	0	63	23
Northumberland Magistrates Court	0	40	82
Northumbria Police Authority	2,228	771	966
Northumbria University	1,466	772	558
South Tyneside College	273	123	125
South Tyneside Education Action Zone	0	2	0
South Tyneside Homes	661	60	30
Sunderland Education Action Zone	0	0	1
Tyne and Wear Fire and Rescue Service	333	98	191
Tyne and Wear Passenger Transport Authority	1	34	93
Tyne Metropolitan College	193	66	14
Tynemouth College	0	29	7
University of Sunderland	796	557	342
Wearside College	0	4	10
Your Homes Newcastle	676	95	61
Sub Totals	9,184	3,800	3,438

Resolution Bodies	Actives	Deferreds	Pensioners
Birtley Town Council	0	4	4
Blakelaw and North Fenham Parish	0	0	0
Blue Square Trading	9	6	1
Learning World	0	8	0
Nexus	951	456	1,403
Sub Totals	960	474	1,408

Admitted Bodies	Actives	Deferreds	Pensioners
Age Concern Newcastle	44	32	28
Assessment and Qualifications Alliance	0	2	13
Association of North East Councils	36	12	6
Balfour Beatty	20	2	1
Baltic Arts Flour Mills Visual Arts Trust	5	3	1
Benton Grange School	0	0	9
Benwell Young Peoples Development Group	2	0	0
Bovis Lend Lease (BLL)	9	0	0
Brunswick Young Peoples Project	0	4	0
Bullough Contract Services	2	0	0
Catholic Care North East	0	20	26
CBS Outdoor Limited	0	2	0
Community Action on Health	7	2	0
Compass Group UK and Ireland Limited	4	0	1
Disability North	10	21	7
Gateshead Law Centre	6	9	1
Gentoo	1,450	325	192
Hebburn Neighbourhood Advice Centre	3	1	0
Higher Education Funding Council for England	0	1	9
Information North (Northern Regional Library System)	0	0	3
Insitu Cleaning	7	1	0
International Centre for Life	11	6	6
Jarvis Accommodation Services Limited	6	0	0
Jarvis-Sandhill View	5	1	1
Kenton Park Sports Centre	6	5	0
Managed Business Space Limited	2	0	1
Mitie Cleaning (North) Limited	0	1	0
Mitie PFI (Boldon)	8	0	0
Mitie PFI Limited	1	0	0
Morrison Facilities Services Limited 1	58	6	4
Morrison Facilities Services Limited 2	310	11	13
Museums Libraries and Archives North East	15	14	3
National Car Parks Limited	6	2	3

Admitted Bodies	Actives	Deferreds	Pensioners
National Glass Centre	1	1	1
Newcastle Family Service Unit	0	4	3
Newcastle Healthy City Project	20	6	1
Newcastle International Airport Company Limited	199	274	306
Newcastle Law Centre	9	4	2
Newcastle Tenants Federation	3	2	2
Newcastle Theatre Royal Trust Limited	54	25	15
Newcastle West End Partnership	0	2	0
Newcastle Youth Congress	0	2	0
No Limits Theatre	2	0	0
Norcare	0	1	1
Norland Road Community Centre	0	1	0
North East Innovation Centre Company Limited	0	19	12
North East Regional Employers Organisation	6	1	6
Northern Arts Association	0	33	11
Northern Council for Further Education	0	15	12
Northern Counties School	0	22	22
Northern Grid For Learning	8	2	0
North Tyneside Child Care Enterprise	1	17	1
North Tyneside City Challenge	0	4	1
North Tyneside Disability Advice Centre	0	0	1
Northumbria Tourist Board	0	29	9
One North East	0	1	7
Ouseburn Trust	0	1	0
Parsons Brinkerhoff	9	0	0
Passenger Transport Company	0	0	96
Percy Hedley Foundation	27	0	1
Port of Tyne Authority	0	0	5
Praxis Service	1	3	0
Raich Carter Sports Complex	32	19	0
Saint Mary Magdalene and Holy Jesus Trust	6	7	4
Saint Mary the Virgin Estate Management Charity	0	0	1
Scolarest	26	2	2
Scolarest PFI Boldon	2	0	0
Search Project	2	1	2
Simonside Community Centre	1	0	0
Southern Electric Contracting Limited	24	4	6
South Tyne Football Trust	1	0	0
South Tyneside Groundwork Trust	4	3	3
South Tyneside Victim Support	0	2	0
Stagecoach Travel Services (Busways)	216	201	562
Sunderland City Training and Enterprise Council	0	43	25

Admitted Bodies	Actives	Deferreds	Pensioners
Sunderland Empire Theatre Trust Limited	0	6	5
Sunderland Outdoor Activities Association	0	3	0
Sunderland Streetlighting Limited	53	11	5
The Ozanam House Probation Hostel Committee	19	17	7
Thomas Gaughan Community Association	1	1	0
TT2 Limited	93	0	0
Tyne and Wear Development Company Limited	14	12	4
Tyne and Wear Development Corporation	0	27	23
Tyne and Wear Enterprise Trust Limited	11	15	14
Tyne and Wear Play Association	1	0	0
Tyne and Wear Small Business Service	0	41	8
Tyneside Deaf Youth Project	0	3	0
Tyneside Training and Enterprise Council	0	43	30
Tyne Waste Limited	0	10	11
Valley Citizens Advice Centre	0	1	1
Walker Profiles (North East) Limited	28	1	2
Wallsend Citizens Advice Centre	0	1	2
Wallsend Peoples Centre	2	2	2
Workshops for the Adult Blind (Palatine Products)	0	13	84
Sub Totals	2,909	1,441	1,646
Grand Totals	48,185	23,696	31,881

Working with Members and Employers

Introduction

The provision of a statutory pensions service to our 104,000 members and 130 employers is a substantial task. This service is provided by the Pensions Office, which is organised into five teams of experienced officers who are encouraged to obtain a recognised professional qualification.

Each employer is allocated to one of our three administration teams, which are responsible for maintaining member records and calculating and paying benefits. These teams manage contact with the employers at an individual level.

Our Communications Team produces Scheme and Fund specific information for members and employers. It manages contact with members, mainly through the helpline, newsletters and annual benefit statements. It organises mailshots and meetings for employers. It is also responsible for maintaining the website.

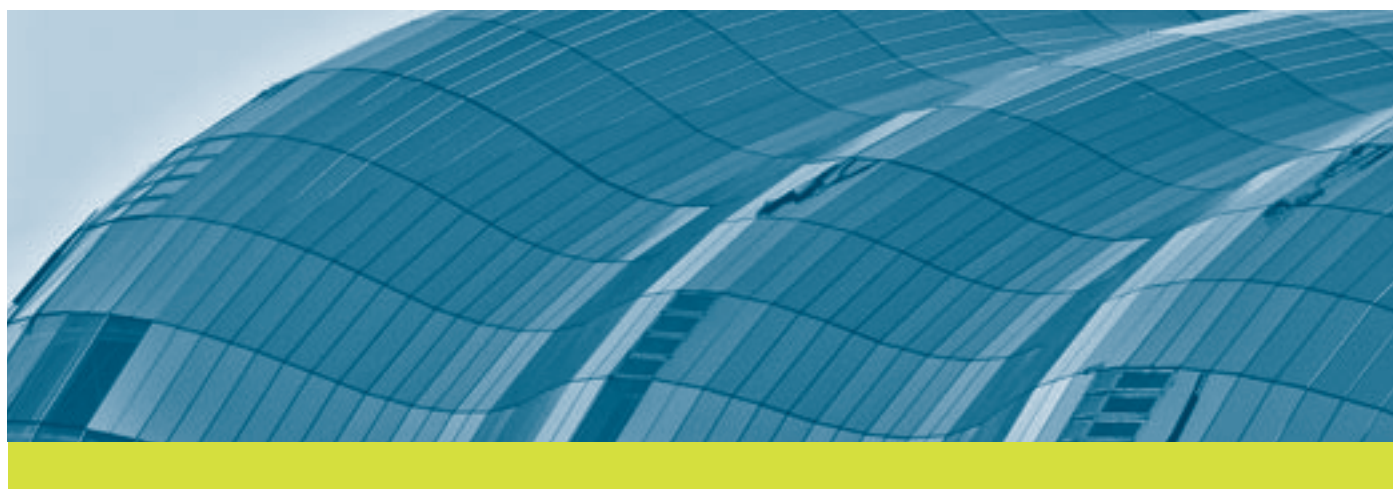
Our Technical Team manages the actuarial valuations and provides support to the other four teams, with particular regard to IT systems and solutions, financial control and information on the Scheme's regulatory background.

Events During the Year

This has been another very demanding year for the Pensions Office. There have been a number of consultation exercises, regulatory amendments and preparations for the introduction of the new Scheme in April 2008.

This has involved significant system changes, staff training and the communication of these changes to members and employers.

We considered the future provision of our pensions administration system and decided to renew the contract with our current provider, Civica. We worked towards introducing an improved, new Scheme compliant, system from April 2008. However, delays in receiving the new Scheme rules meant that the new system could not go live until later in the year. We continued to maintain members' pension records and process benefits by adapting the old system and putting in some temporary manual procedures.





Communications Policy

Our vision statement sets out our aim of making pensions issues understandable to all our stakeholders.

Effective communications and easy access to information is very important to us. The Fund has a Communications Policy Statement that sets out the services we provide to members, prospective members and employers.

The Statement outlines:

- **How we communicate with our stakeholders.**
- **The format, frequency and method of our communications.**
- **How we promote the Scheme to prospective members and employers.**

The Statement is published on our website and is available on request in other formats.

Surveys

We are committed to improving the services we offer and we seek the views of members and employers to assist with this. In 2007/08, we issued surveys to our deferred members and to employers. We were pleased to see that 99% of our members who responded stated that they were satisfied with the service we provide, as did 91% of the employers who responded.

A number of helpful comments were made on service provision, which have received consideration.



“We were pleased to see that 99% of our members who responded stated that they were satisfied with the service we provide, as did 91% of the employers who responded.”

Services to Members

The main services that we provide to our members are:

- We maintain a website.
- We provide a helpline that allows members to request leaflets and information, change certain personal and bank details, and track progress of payments and transfers.
- We welcome personal callers and were visited by almost 700 members last year.
- We provide combined pension forecasts for our active members and annual benefit statements for our deferred members. Pensioners receive an annual update and details of their pensions increase. These are sent directly to the member's address, accompanied by an annual report.
- We provide newsletters to keep members informed of changes to the Scheme.
- We provide seminars to members.
- We provide a comprehensive range of leaflets that are available from our website or on request from the helpline.

Making Pensions Accessible to Members

We adopt the principles of plain English in our documents and are pleased to see that our recent surveys show that:

- 97% of members who responded found their annual benefit statement easy to understand.
- 95% of members who responded found the annual report easy to understand.

All information supplied by the Fund is available in a range of formats including other languages, large print and Braille. We also have access to audio aids and British Sign Language interpretation services.

Members can register to receive all future information in their required format when they join the Fund.

Members tell us that their preferred method of contacting us is by telephone. Some members do not work standard office hours so we keep our helpline open 24 hours a day all year. During busy times and out of our normal office hours, members can call and leave a message and a convenient contact number for us to return the call. Our aim is to respond within five working hours.

During the year, we managed over 38,000 calls to the helpline and, on average, responded to 96% of the messages received within five hours.

In addition to our usual helpline number, 0191 424 4141, we introduced an alternative number, 0845 625 4141, for members calling from outside our area and for use should normal telephone services be interrupted.

In 2007/08, we provided a range of pensions presentations to members covering topics such as induction, transferring employer, midlife and pre-retirement planning. We arranged 19 events, which were attended by 660 people.



“We encourage our members, prospective members and their representatives to contact us by email at pensions@twpf.info”

New Scheme DVD

We have worked with the Local Government Employers Organisation on the production of a promotional DVD for the new look Scheme. This has been distributed to all employers in the Fund to allow them to host group presentations to members and to publish it on their intranet systems. The DVD is available on the Fund's website so it may be viewed by members at any time.

Annual Benefit Statements

Since 1999, we have produced annual benefit statements for our active members that set out their current and projected Scheme benefits. Statements for deferred members have been provided since 2003.

The employers supply most member information and we work with them to ensure that members' records are up to date. In 2007, we were able to provide 99.7% of active members with a completed benefit statement.

We issue benefit statements to every deferred member for whom we hold a current address. Should we lose touch with a member, we use the Department of Work and Pensions (DWP) bulk letter forwarding service to update the address we hold.

Combined Pension Forecasts

We work in partnership with the DWP to provide combined pension forecasts for our active members. These statements include information on the current and projected state pension entitlement.

Combined forecasts were not available in 2007 due to changes to the state pension. For that year, our statements provided contact details for the DWP, should a member have wished to obtain further information on the state pension.

Services to Employers

The main services that we provide to employers are:

- We provide each employer with a client manager whose role is to ensure efficient processing and communication.
- We have a programme of meetings to discuss issues related to pensions administration and regulatory changes.
- We have a partnership agreement that sets out our respective roles and responsibilities.
- We provide an online Employers' Guide to the administration of the Fund.
- We offer training courses that aim to educate and inform staff on pension matters and working procedures. In the past year, we have provided workshops and training for employers on the new Scheme. These events were very well received.
- We hold an annual general meeting.
- We send out mailshots to advise employers of developments.

Our Website and Electronic Communications

The use of email, electronic communication and our website is an increasingly important part of the service delivery package. We are committed to developing and improving these approaches to communication.

We encourage our members, prospective members and their representatives to contact us by email at pensions@twpf.info.

Through our website, members have access to:

- Details on how to contact the Fund.
- Latest news and topical issues.
- Our range of leaflets.
- Pension payment dates and details of pension inflation proofing.
- Links to other useful websites.
- The Report and Accounts.
- The Fund's main policies, including the Funding Strategy Statement, the Communications Policy, the Governance Compliance Statement, the Statement of Investment Principles and the Policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance.

In addition to the main website, there is a password-protected area for employers. The number of employers using this facility continues to increase each year. Forty seven organisations have now registered to use this service, which provides access to:

- The pension records of their own employees.
- The Employers' Guide and templates of administration forms.
- Latest news and topical issues.
- Pensions Committee Reports.

We have developed an email alert facility to provide important news and latest information to employers. Almost all of our mailshots are now sent out electronically. This facility has greatly improved the efficiency of keeping employers informed and allows them to distribute information within their own organisation.

We are working towards expanding the interactive nature of the website.

We will be introducing systems that will allow members to view their personal record and calculate estimates of their benefits. We are also looking to introduce online automated data transmission and processing for employers.



Investment Report

Introduction

The Investment Office of the Pensions Service manages the investment of the Fund.

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

Current Strategy

The investment strategy is derived from asset liability modelling. This examines the Fund's financial position, the profile of its membership, the nature of its liabilities and includes an analysis of projected returns from differing investment strategies. This exercise is undertaken by the Investment Advisor, Hymans Robertson.

The strategy during 2007/08 was designed using the liability data from the 2004 valuation and has been in place since 2005/06. The asset allocation is 59.5% in equities, 21% in bonds, 10% in property and 9.5% in alternative investments.

The investment in alternatives provides diversification and the potential for additional returns. It is comprised of a 5% allocation to private equity, a 3% holding in active currency funds and a 1.5% holding in infrastructure funds.



Future Strategy

The liability data prepared for the 2007 valuation has been used to update the asset liability modelling and to undertake a fundamental review of the strategy.

This review has concluded that the Fund should increase its allocation to alternative investments. There will be a 2.5% increase in private equity investment, a 1% increase in the allocation to infrastructure and allocations of 2.5% each are to be made in absolute return strategies and in overseas property.

This is an increase in investment in alternative assets of 8.5%, from 9.5% to 18.0%. It will be financed by a reduction in the quoted equity and bond allocations.

The overall strategy will become 55.5% in equities, 16.5% in bonds, 10% in property and 18% in alternative investments.

The changes to the strategy are being phased in as appropriate investment opportunities are identified.

Investment Management Structure

The Fund employs eight specialist managers over fourteen investment mandates. This broadly-based structure seeks to ensure that investment returns should not be overly influenced by the performance of any one manager.

The structure is set out in the following table:

Manager	Portfolio
Legal and General	Indexation
	- UK Equities
	- US Equities
	- UK Gilts
	- Corporate Bonds
Capital International	- UK Index-Linked Gilts
	Global Equities
UBS	Emerging Market Equities
	Pan European Equities
Fidelity	UK Equities
Schroder	Japanese Equities
	Pacific Rim ex Japan Equities
M&G	Corporate Bonds
Henderson	Global Bonds
Aberdeen	Property

The revised investment strategy will lead to changes to the investment management structure. In particular, a second global equity mandate is to be introduced, financed by reductions in the existing regional equity mandates.



Private Equity

The Fund initiated its private equity programme in 2002 with a target allocation of 5%. This has been increased to 7.5% following the recent review of strategy.

The early programme was comprised largely of investment into fund of funds managed by HarbourVest. In order to diversify this exposure and to speed up progress towards attaining the target weighting, commitments have been made to fund of funds managed by Pantheon Ventures, secondary funds managed by Lexington Partners and Collier Capital and direct funds with HarbourVest, Capital International, Partners Group and Lexington. These additional providers complement the fund of funds programme offered by HarbourVest.

As at March 2008, £217 million, equal to 6% of the Fund, was invested in private equity. This represents an increase of over £100 million, or 3% of the Fund, over the position at the previous year end.

Three new commitments were made during the year:

- **\$30 million to the HarbourVest Partners 2007 Direct Fund, which invests directly in companies in the US and Western Europe.**
- **\$35 million to Pantheon USA Fund VIII.**
- **\$30 million to the Lexington Co-investment Partners Europe Fund, which invests directly in companies in Western Europe.**

We will continue to consider making commitments to private equity investments. Our current projections suggest that the target allocation should be achieved in 2009.

Active Currency

The Fund has allocated 3% to active currency strategies. This is invested in funds managed by Barclays Global Investors and Record Currency Management.

Infrastructure

The Fund made its first investment into an infrastructure fund in 2006 through a £15 million commitment to the Henderson PFI Secondary Fund II, which is now fully invested.

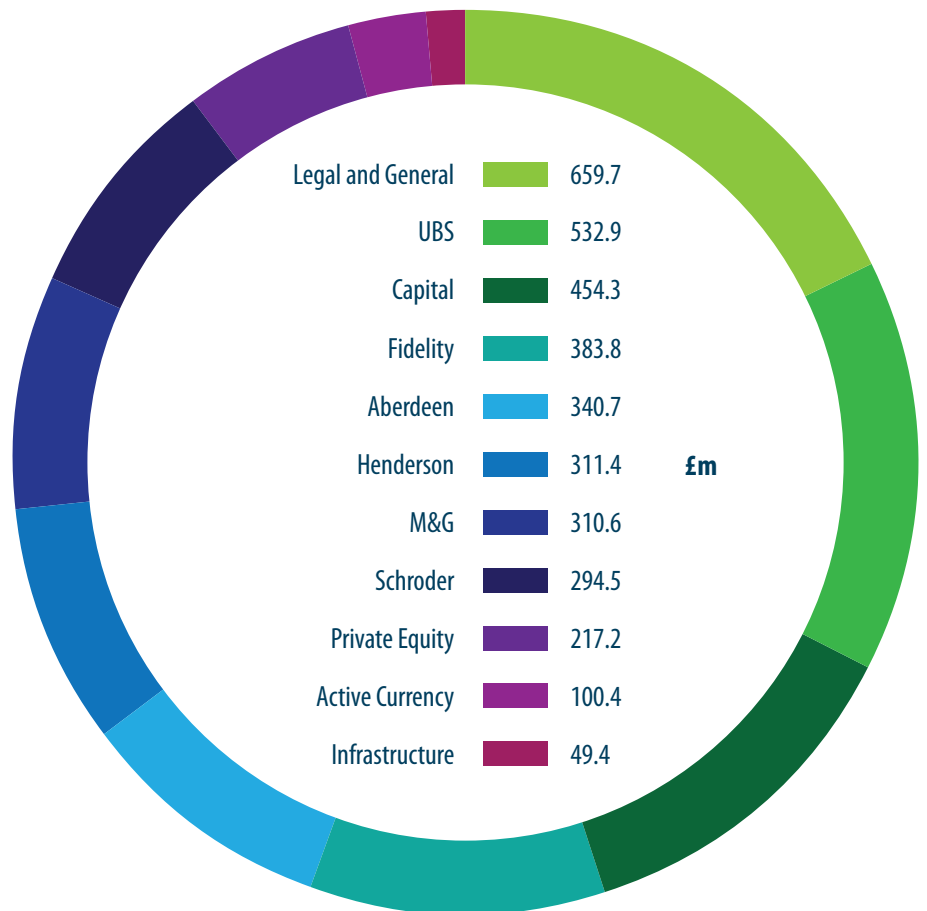
In 2007, this was followed up with a £35 million commitment to the Infracapital fund, managed by M&G. This fund is being invested in UK and Europe, with £30 million having been called by March 2008.

At the year end, the total investment in infrastructure assets was valued at £49 million, representing 1.3% of the Fund.

The revised investment strategy provides for an allocation of 2.5% in this asset class. It is expected that the increased allocation will be built up during 2008/09.

Assets Under Management

The value of assets with each manager and invested in currency funds, private equity and infrastructure at the year end is shown right:



Investment Managers' Objectives and Restrictions

The Pensions Committee has set objectives and restrictions for the investment mandates with the aims of ensuring a prudent approach to investment and allowing each manager to implement their natural investment style and process.

In addition to the specific restrictions on each mandate, all managers are required to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

The investment managers have been set targets, based on appropriate indices, which generally require outperformance over three

year rolling periods. Annual downside targets or tracking error targets have also been set.

The property portfolio has a target based on the Investment Property Databank Index.

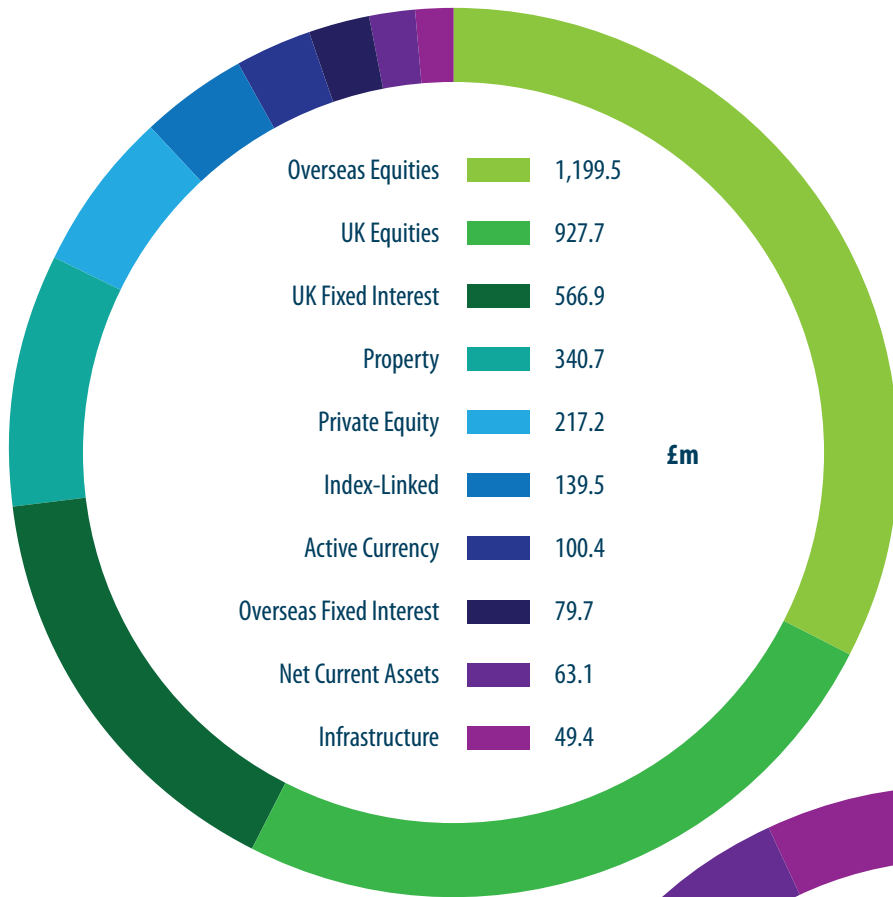
The performance targets for the active currency funds are based on an agreed level of outperformance relative to the Standard and Poors 500 Index, against which the exposure is equitised.

An outperformance target of 5%, net of fees, over the FTSE All World Index has been set for private equity.

A formal performance target for the infrastructure assets has not yet been set due to the very early stage of these investments.

Custody

Northern Trust was appointed in 2002 to provide custody services for four segregated mandates. In early 2005, the remit was widened to cover all segregated assets in the Fund. The service was market tested in early 2008, when it was concluded that it was satisfactory and competitive. As at March 2008, Northern Trust was providing custody for approximately £1,700 million of assets held in seven mandates.

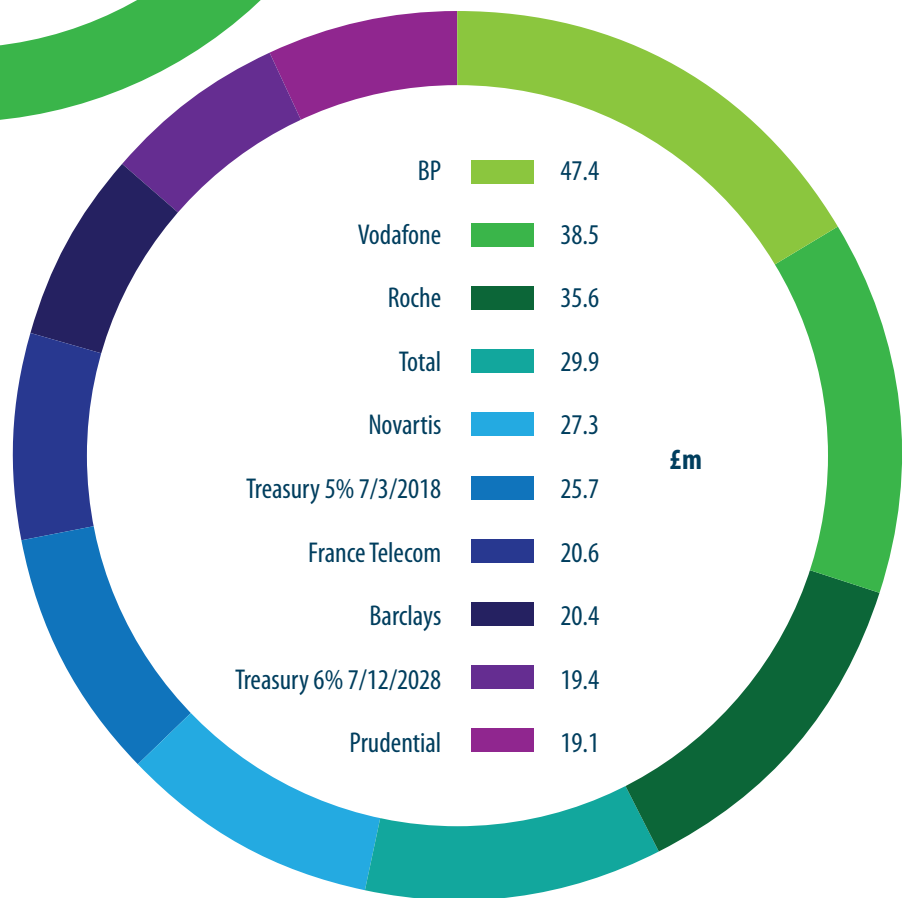


Asset Allocation

The asset allocation is maintained within pre-determined ranges around the strategic benchmark. When a range is breached, the Fund is rebalanced back within the range. Legal and General provides management information that assists with this process.

The active managers that invest in more than one market are permitted to take tactical asset allocation decisions within their portfolios. This provides additional scope for managers to outperform their targets.

The asset allocation as at March 2008 is shown left:



Top Ten Holdings

The Top Ten Holdings are shown right:



Performance Measurement

The Fund has used a fund specific benchmark for performance measurement since January 2002. A hybrid benchmark is used for periods that extend earlier than this date. This is based on a median up to and including periods ending on January 2002 and on the strategic benchmark thereafter.

Returns for 2007/08

The steady rise in global equity markets from March 2003 came to a halt in May 2007 and has been followed by a period of high volatility.

This was triggered by uncertainty created by the sub-prime crisis in the US. There are concerns over the size of losses and the impact this is having on the real economy.

The UK Equity market fell by 7.7% during 2007/08, which was worse than the

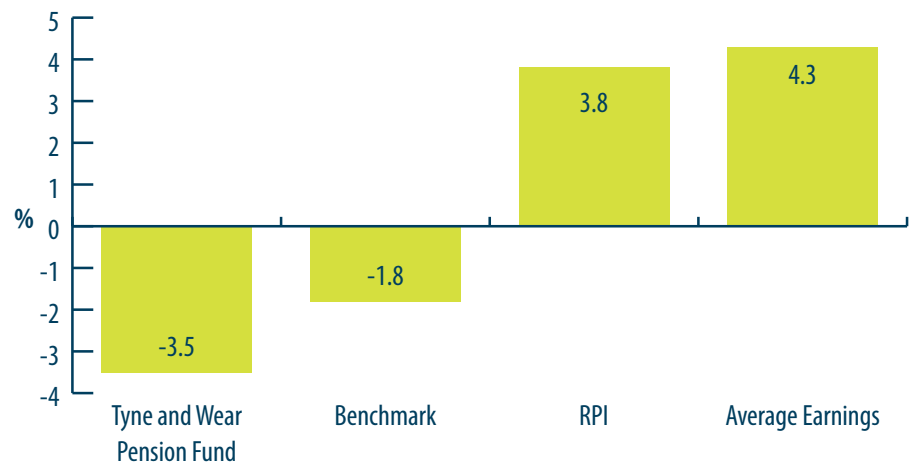
fall suffered by most other developed equity markets. Pacific Rim and Emerging Market Equities bucked this trend and produced strong returns.

In this environment, investors sought the safe haven of government bonds. Gilts rose by over 7% and Index-Linked Gilts rose by over 13% over the year.

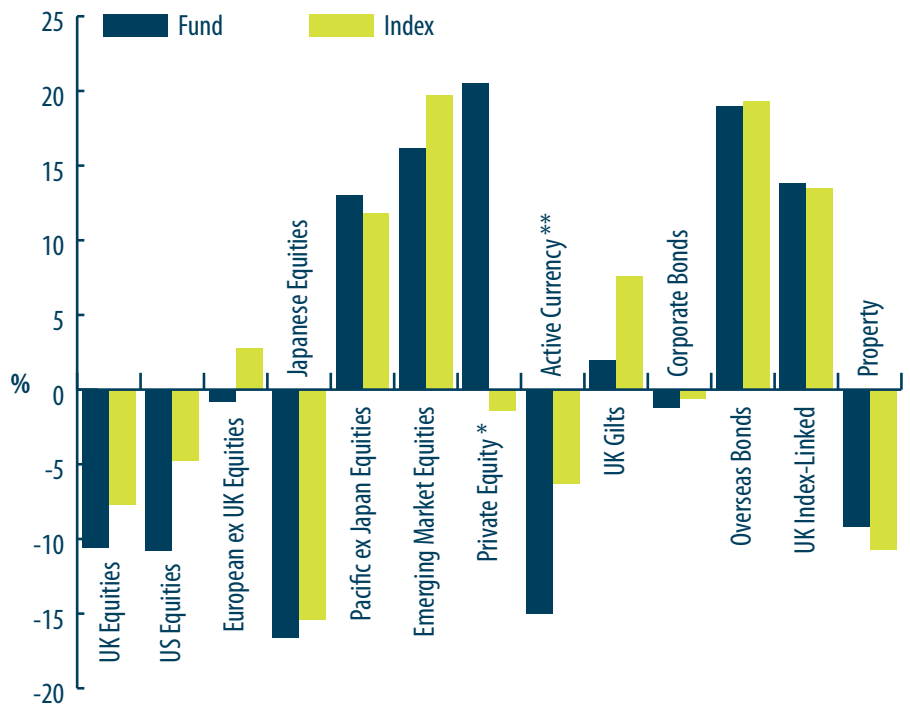
Property had been a strong performer for over a decade but it also suffered a market correction in the year, with a fall of nearly 11%.

Against this background, the value of UK pension fund assets fell, ending a four year run of positive returns.

The Fund's return for the year was -3.5%, which was -1.7% below its benchmark return of -1.8%. Inflation, as measured by the Retail Price Index (RPI), rose by 3.8% and average earnings increased by 4.3%.



The chart below shows the Fund's returns over the main investment markets for 2007/08.



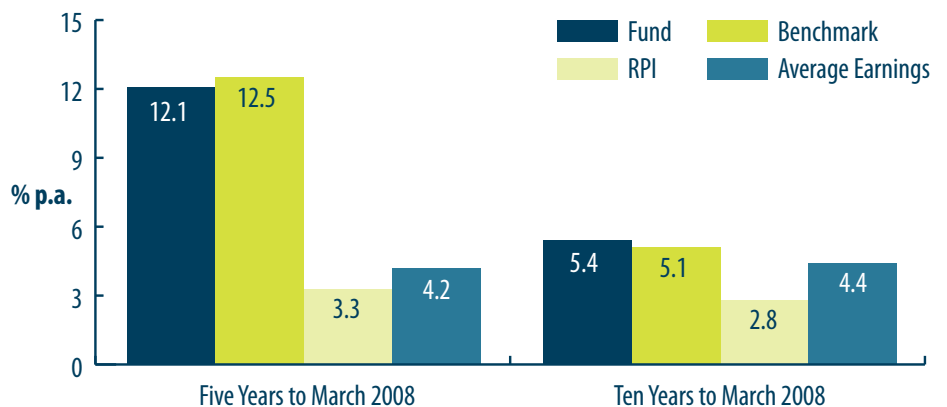
* The return for private equity is shown relative to the FTSE All World Index

** The return for active currency is shown relative to the S&P 500 Index

Longer Term Performance

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

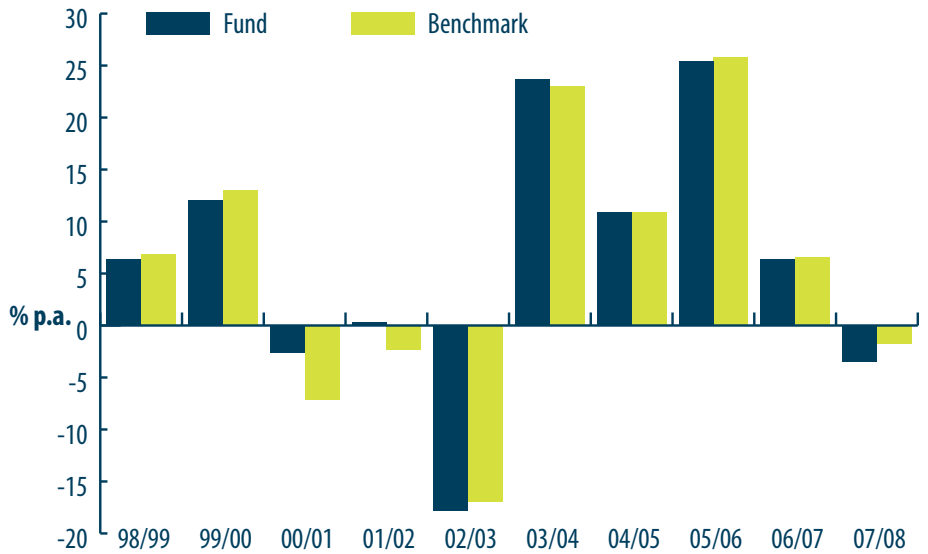
The chart below shows the Fund's annual return over five year and ten year periods.



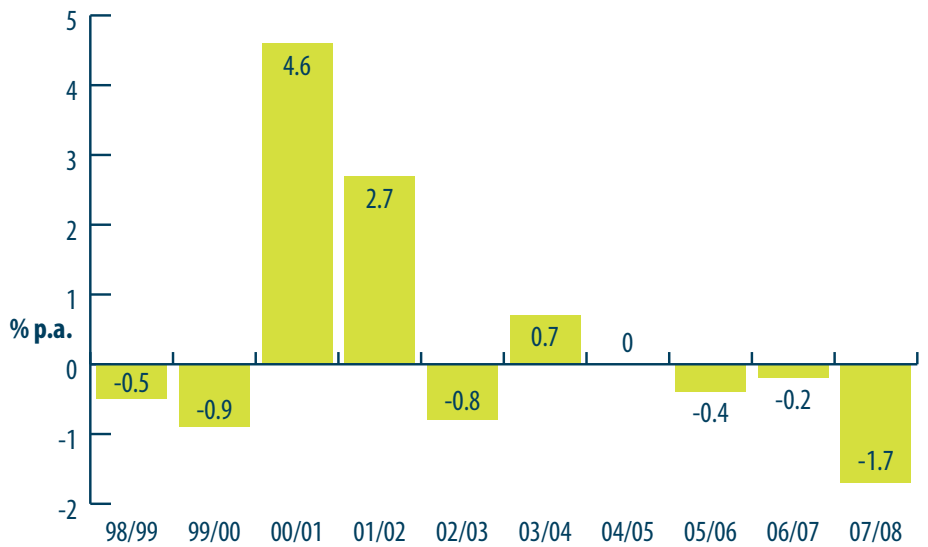
The five year return is 12.1% per annum, which is 0.4% below the benchmark return of 12.5% per annum. The ten year return is 5.4% per annum, which is 0.3% above the benchmark return of 5.1% per annum.

The returns for both periods are above both inflation and the increase in average earnings.

The annual performance of the Fund over ten years is shown in the following charts.



Relative Performance



The charts show that the Fund's relative performance was poor in the late 1990s. This was a time of strong equity markets and performance suffered because the Fund was positioned for a downturn in equity markets.

When markets corrected in 2000 through to 2003, the Fund benefited from its defensive positioning and outperformed strongly for two years, although performance in 2002/03 was negative.

As equity markets recovered and started to rise from 2003 onwards, the Fund initially outperformed. However, performance has been negative for the last three years due to poor performance from certain active equity managers

Investment Policies

Myners Principles

In March 2000, the Chancellor of the Exchequer commissioned a review into institutional investment in the UK which he invited Paul Myners to lead.

The Myners' Report was produced in March 2001. In October 2001, the Government published a Code of Investment Principles that reflected the proposals contained in that Report. There are ten Principles contained in the Code and, whilst compliance is voluntary, legislation requires local government pension funds to state the extent of their compliance.

Follow up reviews have taken place in 2004 and 2007.

The National Association of Pension Funds (NAPF) undertook the 2007 review. The Fund provided a full response to a discussion paper and attended a round table meeting.

The review was completed in November 2007. It was acknowledged that there has been an improvement in compliance and in trustees' knowledge and understanding since the 2004 review. It was concluded that governance issues had become more complex since the

initial review was commissioned. Despite this, the Principles were considered to still be relevant, although it was accepted that there was a need to simplify and consolidate.

The NAPF has recommended to HM Treasury that the Principles should be trimmed down from the current ten to six, higher level, Principles and that the voluntary approach should continue, but with additional comply or explain reporting.

The Fund has been fully compliant with the ten current Principles since 2003/04. The Fund is also largely compliant with the six new proposed Principles. A formal judgement against the proposed new Principles has not been provided because HM Treasury is considering the NAPF's conclusions and the final outcome is not yet known.

A summary of the ten Principles and the Fund's compliance is shown on the following page:



Principle 1 – Decisions should only be taken by those with sufficient expertise.

Fully Compliant. An Investment Panel provides increased focus and scrutiny over investment decisions. A comprehensive training programme is in place for the Pensions Committee. A Committee Handbook is issued.

Principle 2 – Clear investment objectives should be set.

Fully Compliant. The Fund has set formal investment objectives.

Principle 3 – Strategic asset allocation decisions should receive sufficient attention.

Fully Compliant. The Fund has undertaken an asset liability study and tests the results in the light of changing market and liability data. Risk budgeting and modelling work has also been undertaken.

Principle 4 – Contracts for actuarial services and investment advice should be open to separate competition.

Fully Compliant. The actuarial services contract and the investment advisory contract were separately tendered in 2003/04.

Principle 5 – An explicit written mandate should be agreed between the Fund and the investment managers and transaction related costs should be monitored.

Fully Compliant. Written mandates have been agreed with all investment managers and arrangements are in place to monitor transaction costs and foreign exchange costs.

Principle 6 – The Fund should play an active role in corporate governance.

Fully Compliant. The Fund's approach to corporate governance is covered in the Statement of Investment Principles and there is a further policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance. The Fund is a member of the Local Authority Pension Fund Forum, which promotes corporate governance and corporate social responsibility.

Principle 7 – The Fund should set appropriate investment benchmarks.

Fully Compliant. Investment benchmarks have been set for the Fund and for individual investment mandates.

Principle 8 – Arrangements should be made to measure the performance of the Fund, the Committee, Advisors and Managers.

Fully Compliant. The risk and return of the Fund and of individual managers is measured. A formal assessment of the effectiveness of decisions taken by the Committee, the Investment Advisor and the Officers takes place. The decision making process is subject to independent review.

Principle 9 – The Statement of Investment Principles should be strengthened.

Fully Compliant. The Fund's Statement of Investment Principles has been expanded to include all of the areas required by the Myners' Report.

Principle 10 – The Fund should publish its Statement of Investment Principles and the results of monitoring.

Fully Compliant. The Fund's Statement is available on the Fund's website.



“It is important that this process is carried out in an informed manner and, for this reason, it is believed that the investment managers are best placed to undertake it.”

The Statement of Investment Principles

The Statement of Investment Principles (SIP) is a key document. It sets out the investment framework and provides an up to date assessment of compliance with the Myners' Investment Principles. The document is reviewed as new developments take place and was last updated as at 3rd June 2008.

The SIP sets out:

- Who is taking which decisions and why this structure has been selected.
- The investment objectives.
- The asset allocation, including projected investment returns on each asset class, and how the strategy has been arrived at.
- The mandates given to all advisors and managers.
- The nature of the fee structures in place for advisors and managers and why this set of structures has been selected.
- The extent to which the Fund complies with the Investment Principles.

A copy of the SIP is available from the Fund's website www.twpf.info.

Corporate Governance and Voting

The Committee believes that good corporate governance and the informed use of voting rights are an integral part of the investment process that 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, it is believed that the investment managers are best placed to undertake it.

Each manager is required 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 and by the Responsibilities of Institutional Shareholders and Agents – Statement of Principles, that has been prepared by the Institutional Shareholders Committee.
- The approach towards companies outside the UK to take account of the practices of the home nation.
- The approach towards unquoted companies to be consistent with the approach adopted for quoted companies, to the extent that this is practicable.
- Voting rights to 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.

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.

Each manager is required to:

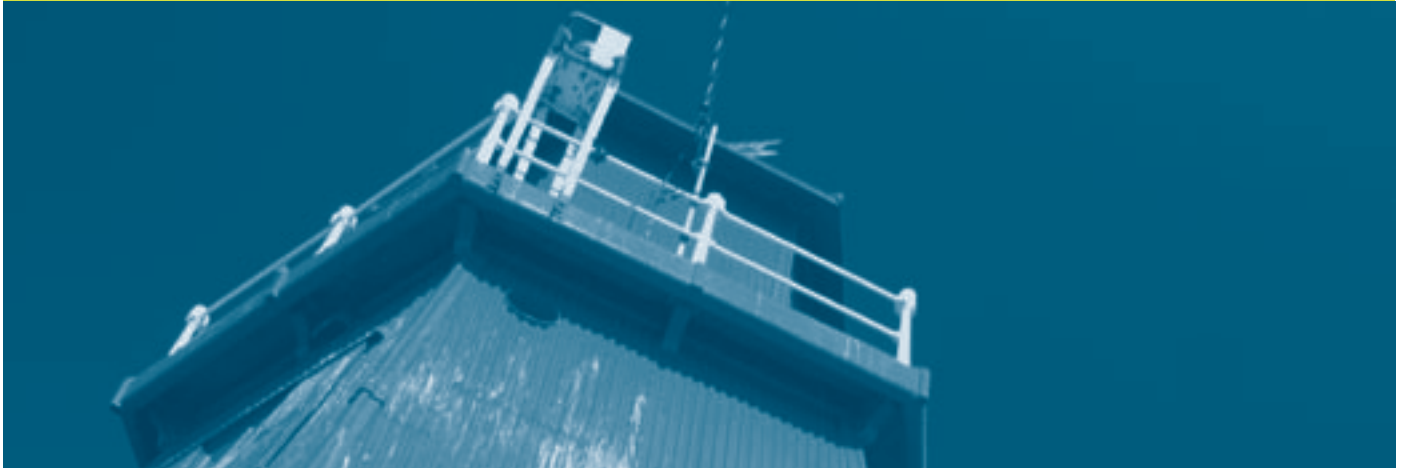
- Report any material change to their policy immediately.
- Provide an annual report that sets out their policy and the manner in which it has been implemented.
- Provide a report that sets out their voting record.

The voting record of the investment managers is recorded and monitored. The Fund votes globally for its segregated equity holdings. The holdings in companies in pooled funds are voted at the discretion of the manager concerned, subject to any direction by the Fund.

An analysis of the Fund's global and UK only voting record (including the UK pooled funds) for 2007/08 is shown below:

	Global	UK Only
Annual general meetings	1,361	893
Extraordinary general meetings	419	305
Resolutions	17,077	11,985
Votes for management	15,873	11,650
Votes against management	418	166
Abstentions	33	24
Resolutions where no vote was cast	753	145

The table shows that the Fund supported management on the vast majority of resolutions.



A resolution was opposed or an abstention was cast in just over 450 cases. The most common reasons for this were:

- **Overly generous executive compensation packages for mediocre performance.**
- **The length of directors' contracts and the lack of independence of non-executive directors.**
- **The issue of new shares without existing shareholders being given a pre-emptive right to subscribe for these new issues.**

The table shows that there were 753 resolutions where votes were not cast. The main reasons for this were:

- **Shareblocking, whereby shares cannot be sold until after the annual meeting if a vote has been cast by a shareholder. Therefore, shareholders are understandably reluctant to vote on non-contentious issues if this will prevent them from selling at any time. This accounts for nearly 65% of the instances where no votes were cast. Such resolutions remain subject to review before a decision is taken on whether to vote. It should be noted that this practice does not occur in the UK.**
- **Securities lending, where the Fund has lent its stock to a third party and, with it, the right to vote at any meetings. In such cases, the Fund will request the return of stock and vote if a resolution is considered to be contentious. This accounts for 25% of the reasons for votes not being cast.**
- **An occasional breakdown in communication between a manager and the voting agent. 10% of the votes not cast are due to this issue. It is disappointing to note that this is an increase from the previous year.**

The Fund is a member of the Local Authority Pension Fund Forum. The Forum is comprised of forty eight local authority funds with total assets of approximately £95 billion. The Forum is committed to actively encouraging companies to comply with good practice on corporate governance and socially responsible investment issues. By doing so, it believes that shareholder value is improved over the medium and longer term. The Forum also believes that a co-ordinated approach between funds will increase the level of effectiveness when seeking change.

Socially Responsible Investment

The Fund's Statement of Investment Principles covers the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments. This area is known as Socially Responsible Investment (SRI).

SRI is an important issue and the Committee takes its responsibility in this area very seriously.

The approach to SRI, voting and corporate governance is set out in a policy which was last reviewed and updated by the Committee on 3rd June 2008. A copy is available on the fund's website www.twpf.info.

The Fund's policy requires each manager to:

- **Develop and co-ordinate its 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 it invests, review that company's approach to social, environmental and ethical factors and, where necessary, approach company management to seek improvements.**

The managers are required to report on the implementation of this policy in their quarterly performance report. The subject is regularly covered in meetings with managers.



“The Fund's Statement of Investment Principles covers the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments. This area is known as Socially Responsible Investment (SRI).”

Financial Statements

Fund Account

2006/07 £m		Note	2007/08 £m
Contributions and Benefits			
(180.298)	Contributions Receivable - Employers	3	(195.342)
(50.929)	Contributions Receivable - Employees	3	(52.576)
(10.398)	Transfers In	4	(11.221)
(241.625)	Total Contributions		(259.139)
142.255	Benefits Payable	5	159.087
11.760	Payments To and On Account of Leavers	6	11.494
2.260	Administrative Expenses	7	2.713
156.275	Total Benefits		173.294
(85.350)	Net Additions from Dealings with Members		(85.845)
Returns on Investments			
(83.802)	Investment Income	8	(88.102)
4.881	Non-Recoverable Tax	8	4.367
(150.525)	Change in Market Value of Investments	9	205.761
7.989	Investment Management Expenses	10	7.102
(221.457)	Net Returns on Investments		129.128
(306.807)	Net (Increase) / Decrease in the Fund During the Year		43.283
3,419.698	Net Assets of the Fund at 1st April		3,726.505
3,726.505	Net Assets of the Fund at 31st March		3,683.222

Net Assets Statement

31st March 2007 £m		Note	31st March 2008 £m
	Investments	9	
194.175	Fixed Interest		196.999
1,656.063	Equities		1,513.652
36.057	Index-Linked		49.692
1,426.838	Pooled Investments		1,570.841
373.675	Properties		340.650
57.347	Cash Deposits		54.667
(31.665)	Other Investment Balances		(54.689)
3,712.490	Total Investments		3,671.812
14.015	Current Assets and Liabilities	11	11.410
3,726.505	Net Assets of the Fund at 31st March		3,683.222

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 (SORP) (Financial Reports of Pension Schemes), revised November 2002, and subject to note 5 follow the 2007 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

An updated version of the Statement of Recommended Practice (Financial Reports of Pension Schemes), revised May 2007, has been produced, the provisions of which will be adopted in the 2008 CIPFA Code of Practice on Local Authority Accounting and will apply to the 2008/09 financial statements. The main change relates to accounting policy where the value of investment assets, including derivatives, will be on a bid or fair value basis rather than on the mid market price. Whilst this revised accounting policy has not been adopted early by the Fund, the impact of this change is stated in note 9. This approach is consistent with guidance from the Council's auditor and CIPFA.

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 a statement prepared by the Actuary, which is shown on pages 18 and 19. The financial statements should be read in conjunction with the Actuary's statement.

2. Accounting Policies

Acquisition Cost of Investments

The acquisition cost of investments is based on the purchase price plus any additional costs associated with the purchase.

Valuation of Investments

Quoted securities have been valued at their mid-market closing price on 31st March 2008.

Pooled investment vehicles have been included at either the average of their bid and offer price, where a bid offer spread exists, or on the single unit price on 31st March 2008 as valued by the Investment Manager responsible for such vehicles.

Other unquoted investments have been valued with regard to latest dealings and other appropriate financial information as provided by the Investment Manager responsible for these investments.

The value of fixed income investments excludes interest earned but not paid over at the year-end. The interest earned has been accrued within investment income.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2008.

Futures have been valued on the basis of associated economic exposure as at 31st March 2008. This associated economic exposure has been incorporated into the value of the relevant asset class.

Properties are shown as valued at 31st March 2008. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Colliers CRE.

Investment Transactions

Investment transactions that were not settled as at 31st March 2008 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 2008.

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 2008 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2008.

Investment Management Expenses

Investment management expenses payable as at 31st March 2008 have been accrued.

Debtors and Creditors

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund; these may be district councils, other scheduled bodies, resolution bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31st March 2008 have been accrued.

Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment.

Transfer Values

Transfer values are accounted for on a payments/receipts basis.

3. Contributions Receivable

2006/07 £m		2007/08 £m
Employers		
(121.323)	Normal	(128.263)
(58.975)	Additional	(67.079)
(180.298)		(195.342)
Members		
(50.207)	Normal	(51.823)
(0.722)	In House Additional Voluntary Contributions	(0.753)
(50.929)		(52.576)
(231.227)	Total Contributions Receivable	(247.918)

The contributions can be analysed by type of member body as follows:

2006/07 £m		2007/08 £m
(22.661)	South Tyneside Council (Administering Authority)	(22.018)
(139.579)	Other Metropolitan Councils	(147.628)
(42.588)	Other Scheduled Bodies	(47.003)
(9.435)	Resolution Bodies	(10.864)
(16.964)	Admitted Bodies	(20.405)
(231.227)	Total Contributions Receivable	(247.918)

4. Transfers In

During the year, individual transfers in from other schemes amounted to £11.221m (£10.398m in 2006/07). There were no bulk transfers in during 2007/08 or 2006/07.

5. Benefits Payable

2006/07 £m		2007/08 £m
123.713	Pensions	131.132
27.289	Commutations and Lump Sum Retirement Benefits	35.741
2.009	Lump Sum Death Benefits	2.559
(10.756)	Recharges	(10.345)
142.255	Total Benefits Payable	159.087

The analysis of benefits by type of member body is not available. In this respect the accounts do not comply with the 2007 Code of Practice on Local Authority Accounting.

6. Payments To and On Account of Leavers

2006/07 £m		2007/08 £m
11.323	Individual Transfers to Other Schemes	11.462
0.329	Bulk Transfers to Other Schemes	0
0.105	Refunds to Members Leaving Service	0.048
0.003	State Scheme Premiums	(0.016)
11.760	Total Payments To and On Account of Leavers	11.494

7. Administration Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 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:

2006/07 £m		2007/08 £m
1.456	Employee Expenses	1.509
0.473	Support Services Recharge	0.437
0.043	Audit Fees	0.035
0.085	External Computing Costs	0.356
0.131	Printing / Publications	0.086
0.072	Professional Fees	0.255
0.052	Other Expenses	0.041
(0.052)	Income	(0.006)
2.260	Total Administration Expenses	2.713

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

8. Investment Income

2006/07 £m		2007/08 £m
(8.898)	Fixed Interest Securities	(7.360)
(50.067)	Equities	(50.640)
(0.714)	Index-Linked Securities	(0.941)
(3.335)	Pooled Investment Vehicles	(6.964)
(17.707)	Net Rents from Properties	(18.413)
(2.476)	Cash Deposits	(2.955)
(0.567)	Securities Lending	(0.746)
(0.033)	Commission Recapture	(0.083)
(0.005)	Underwriting Commission	0
(83.802)	Sub-Total	(88.102)
4.881	Non-Recoverable Tax	4.367
(78.921)	Total Investment Income	(83.735)

9. Investments

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.

	Value at 1st April 2007 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31st March 2008 £m
Fixed Interest Securities	194.175	889.475	(889.896)	3.245	196.999
Equities	1,656.063	994.215	(966.178)	(170.448)	1,513.652
Index-Linked Securities	36.057	43.596	(45.406)	15.445	49.692
Pooled Investment Vehicles	1,426.838	522.396	(386.060)	7.667	1,570.841
Properties	373.675	19.945	(0.500)	(52.470)	340.650
	3,686.808	2,469.627	(2,288.040)	(196.561)	3,671.834
Cash Deposits	57.347	5.649	(8.645)	0.316	54.667
Other Investment Balances	(31.665)	664.154	(677.662)	(9.516)	(54.689)
Total Investments	3,712.490	3,139.430	(2,974.347)	(205.761)	3,671.812

31st March 2007 £m		31st March 2008 £m
Fixed Interest Securities		
107.312	UK Public Sector	79.038
50.347	UK Gilt Futures	40.736
0	UK Other	3.930
51.454	Overseas Public Sector	55.532
(14.938)	Overseas Bond Futures	17.763
194.175	Total Fixed Interest Securities	196.999
Equities		
610.861	UK Quoted	536.782
1,034.723	Overseas Quoted	953.109
10.479	Overseas Unquoted	23.761
1,656.063	Total Equities	1,513.652
Index-Linked Securities		
30.422	UK Quoted	33.471
5.635	Overseas Quoted	16.221
36.057	Total Index-Linked Securities	49.692

31st March 2007 £m		31st March 2008 £m
Pooled Investment Vehicles		
130.852	Unit Trusts	106.507
873.666	Unitised Insurance Policies	921.029
422.320	Other Managed Funds	543.305
1,426.838	Total Pooled Investment Vehicles	1,570.841
Properties		
342.875	Freehold	311.850
30.800	Long Leasehold	28.800
373.675	Total Properties	340.650
Cash Deposits		
40.725	Sterling	32.080
16.622	Foreign Currency	22.587
57.347	Total Cash Deposits	54.667
Other Investment Balances		
(35.409)	Cash Backing Fixed Interest Futures	(58.499)
0	Currency Hedging	(1.804)
18.047	Debtors	19.956
(14.303)	Creditors	(14.342)
(31.665)	Total Other Investment Balances	(54.689)
3,712.490	Total Investments	3,671.812

The value of investments shown in the tables is on a mid basis, in accordance with the current Statement of Recommended Practice (SORP) (Financial Reports of Pension Schemes). Had the Fund revised its accounting policy and changed the valuation of the assets to a bid or fair value basis, in accordance with the May 2007 revised version of the SORP, the total value of the Fund's investments as at 31st March 2008 would be reduced in value by £5.531m, from £3,671.812m to £3,666.281m.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases. Transaction costs incurred during the year amounted to £5.560m. In addition to the transaction costs noted above, costs will be incurred within pooled investment vehicles. The amount of these costs is not provided separately to the Fund.

10. Investment Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment of the Fund to be charged against the Fund. A breakdown of the costs is set out below:

2006/07 £m		2007/08 £m
7.781	Administration, Management and Custody	6.869
0.075	Performance and Risk Measurement Services	0.093
0.133	Other Advisory Fees	0.140
7.989	Total Investment Management Expenses	7.102

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

11. Current Assets and Liabilities

31st March 2007 £m		31st March 2008 £m
4.277	Contributions and Recharges Due - Employees	4.434
16.065	Contributions and Recharges Due - Employers	20.406
(0.918)	Inland Revenue	(1.120)
(2.653)	Investment Management Expenses	(2.803)
(2.756)	Other	(9.507)
14.015	Total Current Assets and Liabilities	11.410

12. Additional Voluntary Contributions (AVC)

The Fund offers two types of AVC arrangements.

Additional periods of membership can 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 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. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) these amounts are not credited to the Pension Fund and as such are excluded from the Fund's accounts.

Equitable Life has been experiencing financial difficulties in recent years, which arose from some of its financial products that carry guaranteed returns. With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members, contributions from existing members and transfers. A significant proportion of investors in funds operated by Equitable Life have had their balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2007/08, £0.908m of contribution income was received into the AVC funds provided by The Prudential (£0.813m during 2006/07). As at 31st March 2008 these funds were valued at £7.490m (£6.776m as at 31st March 2007).

During 2007/08, £0.006m of contribution income was received into the AVC funds operated by Equitable Life (£0.005m during 2006/07). As at 31st March 2008 these funds were valued at £0.663m (£0.743m as at 31st March 2007).

The funds are valued on a bid basis by each of the providers and take no account of accruals.

13. Analysis of Investments Over Managers

The Fund employs eight specialist external investment managers over a total of fourteen investment mandates. Each manager is a specialist in the market in which they invest. This broadly based management structure ensures that investment returns are not overly influenced by the performance of any one manager.

In addition to the appointment of investment managers, investments have been made in active currency funds, private equity and infrastructure funds.

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

31st March 2007		31st March 2008	
£m	%	£m	%
Investment Managers			
373.675	10.1	Aberdeen Property Investors	340.650 9.3
385.103	10.4	Capital International - Global Equities	358.596 9.8
110.417	3.0	Capital International - Emerging Markets	95.724 2.6
418.582	11.3	Fidelity Pensions Management	383.752 10.4
296.736	8.0	Henderson Global Investors	311.383 8.5
646.103	17.3	Legal and General Investment Management	659.727 18.0
294.324	7.9	M&G Investments	310.562 8.5
304.518	8.2	Schroder Investment Management	294.459 8.0
614.599	16.5	UBS Global Asset Management	532.894 14.5
123.515	3.3	Active Currency	100.401 2.7
113.907	3.1	Private Equity	216.411 5.9
13.949	0.4	Infrastructure	49.380 1.3
17.062	0.5	Managed In-House	17.873 0.5
3,712.490	100.0	Total Investments	3,671.812 100.0

14. Taxation

UK Tax

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

The Fund has used a number of futures instruments as part of its investment strategy and to assist with efficient portfolio management.

As at 31st March 2008, the Fund held 366 June 2008 Long Gilt Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £40.260m and a market value of £40.736m. The net variation margin received on these outstanding contracts as at 31st March 2008 was £0.476m.

As at 31st March 2008, the Fund held 22 June 2008 Short US Bond Futures and 226 June 2008 Long US Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £10.735m and a market value of £11.151m. The net variation margin received on these outstanding contracts as at 31st March 2008 was £0.416m.

As at 31st March 2008, the Fund held 99 June 2008 Short Euro Bond Futures and 299 June 2008 Long Euro Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of £19.587m and a market value of £19.399m. The net variation margin paid on these outstanding contracts as at 31st March 2008 was £0.188m.

As at 31st March 2008, the Fund held 18 June 2008 Short Japanese Yen Bond Futures contracts which, when valued on the basis of the associated economic exposure, had a book value of -£12.681m and a market value of -£12.786m. The net variation margin paid on these outstanding contracts as at 31st March 2008 was £0.105m.

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments and to take strategic foreign currency positions. As at 31st March 2008, the Fund held a range of positions that together showed an unrealised loss of £1.804m. As at 31st May 2008, two of the positions had been settled showing an overall loss of £0.970m, whilst the five that remained open were showing an unrealised profit of £2.232m.

16. Securities Lending

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £207.701m were out on loan as at 31st March 2008, against collateral of £225.140m. The breakdown of securities on loan as at 31st March 2008 is set out as follows:

31st March 2007 £m		31st March 2008 £m
80.229	Fixed Interest Securities	29.910
3.003	Index-Linked Securities	10.095
103.720	UK Equities	116.309
49.748	Overseas Equities	51.387
236.700	Total Securities Lending	207.701

The value of collateral against which the securities were lent out as at 31st March 2008 is set out below:

31st March 2007 £m		31st March 2008 £m
39.005	Cash	11.637
150.584	Fixed Interest	141.460
59.990	Equities	72.043
249.579	Total Collateral	225.140

17. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2008, no commitments were outstanding.

18. Significant Holdings

As at 31st March 2008, the Fund had two holdings that represented more than 5% of the total Fund value. Both of these holdings are without-profit insurance contracts that provide access to a pool of underlying assets. The values have been determined by reference to the underlying assets using price feeds from markets. These holdings are:

- Legal and General Assurance (Pensions Management) Limited – Managed Fund. As at 31st March 2008, this was valued at £659.727m and represented 17.9% of the total net assets of the Fund. This insurance contract can be split into five individual funds, representing five different asset classes, as follows:

31st March 2007 £m		31st March 2008 £m
	Fund Type	
329.035	UK Equities	390.960
127.473	North American Equities	113.102
35.994	UK Gilts	38.725
56.402	AAA Fixed Interest	27.107
97.199	Index-Linked Gilts	89.833

- Prudential Pensions Limited – Corporate Bond All Stocks Fund. As at 31st March 2008, this was valued at £261.303m and represented 7.1% of the total net assets of the Fund.

19. Outstanding Commitments

As at 31st March 2008 the Fund had twenty six outstanding commitments to investments:

Name of Fund	Initial Commitment		As at 31st March 2008		
	Year	Value	Drawdowns Made	Commitment Outstanding	
HarbourVest International Private Equity Partners IV	2002	\$55.0m	\$45.1m	\$9.9m	£5.0m
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0m	\$30.6m	\$15.4m	£7.7m
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0m	\$4.8m	\$3.2m	£1.6m
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0m	\$17.2m	\$10.8m	£5.4m
Capital North East	2002	£1.5m	£1.2m	£0.3m	£0.3m
HarbourVest Partners 2004 Direct Fund	2004	\$30.0m	\$29.3m	\$0.7m	£0.4m
Capital International Private Equity Fund IV	2004	\$18.0m	\$16.2m	\$1.8m	£0.9m
HarbourVest International Private Equity Partners V – Partnership	2005	€100.0m	€34.5m	€65.5m	£52.2m
HarbourVest International Private Equity Partners V – Direct	2005	€30.0m	€17.4m	€12.6m	£10.0m
Pantheon Asia Fund IV	2005	\$20.0m	\$6.0m	\$14.0m	£7.0m
Pantheon Europe Fund IV	2005	€25.0m	€10.6m	€14.4m	£11.5m
Pantheon USA Fund VI	2005	\$30.0m	\$16.3m	\$13.7m	£6.9m
Lexington Capital Partners VI-B	2005	\$30.0m	\$15.2m	\$14.8m	£7.4m
HarbourVest Partners VIII Cayman Buyout Fund	2006	\$112.0m	\$28.0m	\$84.0m	£42.3m
HarbourVest Partners VIII Cayman Venture Fund	2006	\$56.0m	\$11.8m	\$44.2m	£22.2m
Pantheon Europe Fund V	2006	€35.0m	€7.3m	€27.7m	£22.1m
Pantheon USA Fund VII	2006	\$35.0m	\$5.8m	\$29.2m	£14.7m
Coller International Partners V	2006	\$30.0m	\$5.2m	\$24.8m	£12.5m
HarbourVest Partners 2007 Direct Fund	2007	\$30.0m	\$5.4m	\$24.6m	£12.4m
Pantheon Asia Fund V	2007	\$20.0m	\$0.0m	\$20.0m	£10.1m
Pantheon Europe Fund VI	2007	€40.0m	€0.0m	€40.0m	£31.9m
Pantheon USA Fund VIII	2007	\$35.0m	\$0.7m	\$34.3m	£17.3m
Capital International Private Equity Fund V	2007	\$35.0m	\$10.2m	\$24.8m	£12.5m
Co-Investment Partners Europe	2007	€30.0m	€12.0m	€18.0m	£14.4m
Partners Group 2006 Direct Fund	2007	€30.0m	€21.1m	€8.9m	£7.1m
Infracapital	2007	£35.0m	£30.1m	£4.9m	£4.9m
Total Outstanding Commitments					£340.7m

The Sterling figures for these outstanding commitments are based on the exchange rate at the close of business on 31st March 2008.

20. Related Party Transactions

Under FRS8 "Related Party Disclosures", it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements.

Examinations of returns completed by Elected Members of the Pensions Committee and Senior Officers involved in the management of the Pension Fund have not identified any cases where disclosure is required.

During 2007/08, South Tyneside Council charged the Fund £0.713m (£0.725m in 2006/07) in respect of services provided, primarily financial, legal and information technology. The Fund charged South Tyneside Council £0.047m (£0.048m in 2006/07) in respect of Treasury Management services.

There were no material contributions due from employer bodies that were outstanding at the year-end.



Audit Report

Statement by the Appointed Auditor to the Members of South Tyneside Council.

We have examined the financial statements of the Pension Fund Annual Report for the period ended 31 March 2008 which comprise the Fund Account, the Net Assets Statement and the related notes.

This report is made solely to South Tyneside Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. We do not, in giving our opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective responsibilities of Chief Financial Officer and auditors

The Chief Financial Officer is responsible for preparing the Annual Report in accordance with the Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 (SI 2007/ 1561).

Our responsibility is to report to you our opinion on the consistency of the financial statements within the Annual Report with the statutory financial statements. We also read the other information contained in the Annual Report and consider the implications for our report if we become aware of any misstatements or material inconsistencies with the statutory financial statements.

Basis of opinion

We conducted our work in accordance with the principles expressed in paragraphs 15-18 of Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board, in so far as it is applicable to these financial statements.

Opinion

In our opinion the financial statements included in the Annual Report are consistent with the statutory financial statements of the Authority for the year ended 31 March 2008.

PricewaterhouseCoopers LLP
89 Sandyford Road,
Newcastle upon Tyne,
NE1 8HW

10th October 2008



How to contact us

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

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



**Tyne and Wear Pension Fund, PO Box
143, HEBBURN NE31 2WT**



Pensions Helpline: Tel: 0191 424 4141



Fax: 0191 424 4171



Email: pensions@twpf.info



Web: www.twpf.info



Personal callers

You can visit us during office hours at the Civic Centre, Campbell Park Road, Hebburn, Tyne and Wear, NE31 2SW.
You don't need to make an appointment.



Office hours

Monday to Thursday 8.30am to 5.00pm Friday 8.30am to 4.30pm.
Please quote your National Insurance Number and your Membership ID Number so we can quickly trace your records.