

Tyne and Wear Pension Fund

Report & Accounts

2008/09

Administered by South Tyneside Council





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Committee Members, Managers, Advisors and Officers

Committee Members

South Tyneside Council

Councillor E. Leask (Chair)
 Councillor G.R.W. Elsom (Vice Chair)
 Councillor B. Brady
 Councillor T.W. Defty
 Councillor G. H. Finch
 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 T. Wright
 (substitute – Councillor J. Stephenson)

Trades Union Representatives

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

Employers' Representatives

J. Cairns – University of Sunderland
 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
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 Finance (Section 151 Officer)	S. Reid
Head of Corporate Governance	B.T. Scott



Review of the Year

We are pleased to present the 2008/09 Report and Accounts for the Tyne and Wear Pension Fund.

The most significant event of the year has been a continuation of the fall in value of, and volatility in, investment markets that began in 2007. This began with the sub-prime crisis in the US, which was followed by a global economic crisis.

This has had a material impact on the value of the Fund and therefore on the funding level, as discussed throughout this Report.

The contributions paid by employers in 2008/09 were set by the 2007 valuation. The funding level at that valuation was 79%, an increase from 64% at the 2004 valuation. This improvement was due to investment market returns exceeding the levels assumed at the 2004 valuation and to a small increase in the rate used to discount liabilities.

However, there was upward pressure on contribution rates from inflation and from improvements in longevity. 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 was an increase of 1% from the average rate of 20.1% set at the 2004 valuation.

The experience for the funding level has been very poor since the 2007 valuation, principally due to very poor investment market returns and a fall in the discount rates that are used to calculate liabilities.

This scenario has not affected the contributions that are being paid by the scheduled employers in the Fund, as their rates are set by the 2007 valuation. However, it has materially

increased both the rates set for new employers and the cost of terminal valuations.

The position is more complicated for transferee admission bodies and community admission bodies as their rates may be varied between valuations. We are considering the position on admitted bodies to see whether any are in a position where a revaluation might be advisable, particularly those with a known, near term, termination date.

We have also suggested to employers that they may wish to review the position on bond cover and covenant strength of bond providers for their transferee admission bodies.

For the 2010 valuation, an application of the strategy used at the 2007 valuation could lead to unaffordable increases in employers' contribution rates. The Pensions Committee will review the assumptions and strategy if the current extreme conditions persist.

A cost sharing mechanism has been introduced into the Scheme that will share out future cost changes between employers and members by adjusting the benefits

package and members' contributions. Any changes to the benefits package or members' contributions are expected to take effect from April 2012, through a statutory amendment to the 2010 valuation certificate.

In June 2009, the Department of Communities and Local Government began a series of consultation exercises to consider the future of the Scheme. This is being taken forward under the heading of "Local Government Pension Scheme: Delivering Affordability, Viability and Fairness".

The initial exercise considers possible changes to the regulatory framework that would impact beneficially on the outcome of the 2010 valuation and assist in maintaining the viability of the Scheme. It looks at the relationship between solvency and liquidity and how this might affect the employer contribution rates to be set at the 2010 valuation. The level of employee contributions is also under consideration.

A parallel, separate exercise on the longer term future of the Scheme and how it might best respond to changes in the workplace, workforce and the economy was announced. This will consider new ways in which the Scheme might possibly be reformed to provide more workforce-focused pension provision for the 21st century.

We undertook a review of investment strategy and the management structure in 2007/08, based on an asset liability study that used data from the 2007 valuation. It was concluded that there should be further investment in alternative investments, to be financed by a lower allocation to bonds and equities.

It was intended that the new investment strategy would be introduced during 2008/09. However, this approach was put on hold as a result of the events in financial markets. There are continuing concerns over the stability of markets, leading to difficulties in effecting transitions. In addition there are issues over the future viability and ownership of a number of investment managers, many of whom are reappraising their investment processes, product offerings and downsizing investment teams.

Prior to the review being taken forward, the revised strategy will be checked to ensure that it remains appropriate in the changed environment.

The investment strategy in place through 2008/09 was derived largely from an asset liability study undertaken in 2005. The asset allocation was 59.5% in quoted equities, 21% in bonds, 10% in property and 9.5% in alternative investments.

As noted above, the rise in equity markets that began in 2003 ended in May 2007 and has been followed by a period of high volatility and falling markets.

In sterling terms, the major equity markets fell by between 10% and 30% during 2008/09. The UK market fell by 29.3%, which is of particular importance to most UK pension funds as they have a large proportion of assets invested there.

In this environment, investors sought the safe haven of gilts, which returned 10.3%.

The Fund's return for the year was -17.8%, which was 1.3% above its benchmark return of -19.1%. Inflation, as measured by the Retail Price Index, fell by 0.4% and Average Earnings increased by 3.0%.

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 3.3% per annum, which is 0.1% below the benchmark return of 3.4% per annum. The ten year return is 2.7% per annum, which is 0.5% above the benchmark return of 2.2% per annum.

The returns for both periods are above Retail Price Inflation but below Average Earnings.

The below benchmark return over the five year period is due to poor performance from certain active equity managers and from the active currency managers. The Pensions Committee has been closely monitoring the position.

The Fund's programme of work has continued to be heavily influenced by the legislative

change associated with the introduction of the new Scheme from April 2008.

Working with our software 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. Development work on the new system continues in 2009/10.

We are committed to improving the service we offer and seek the views of members and employers to assist with this. Our latest surveys of our active members, pensioners and employers were issued in 2008/09. We were pleased to see that 98% of our members who responded stated that they were satisfied with the service we provide, as did 94% of the employers who responded. A number of helpful comments were made on service provision, which have received consideration.

In 2009/10, we will be looking to complete the implementation of the pensions administration system and to introduce an updated investment strategy and structure.

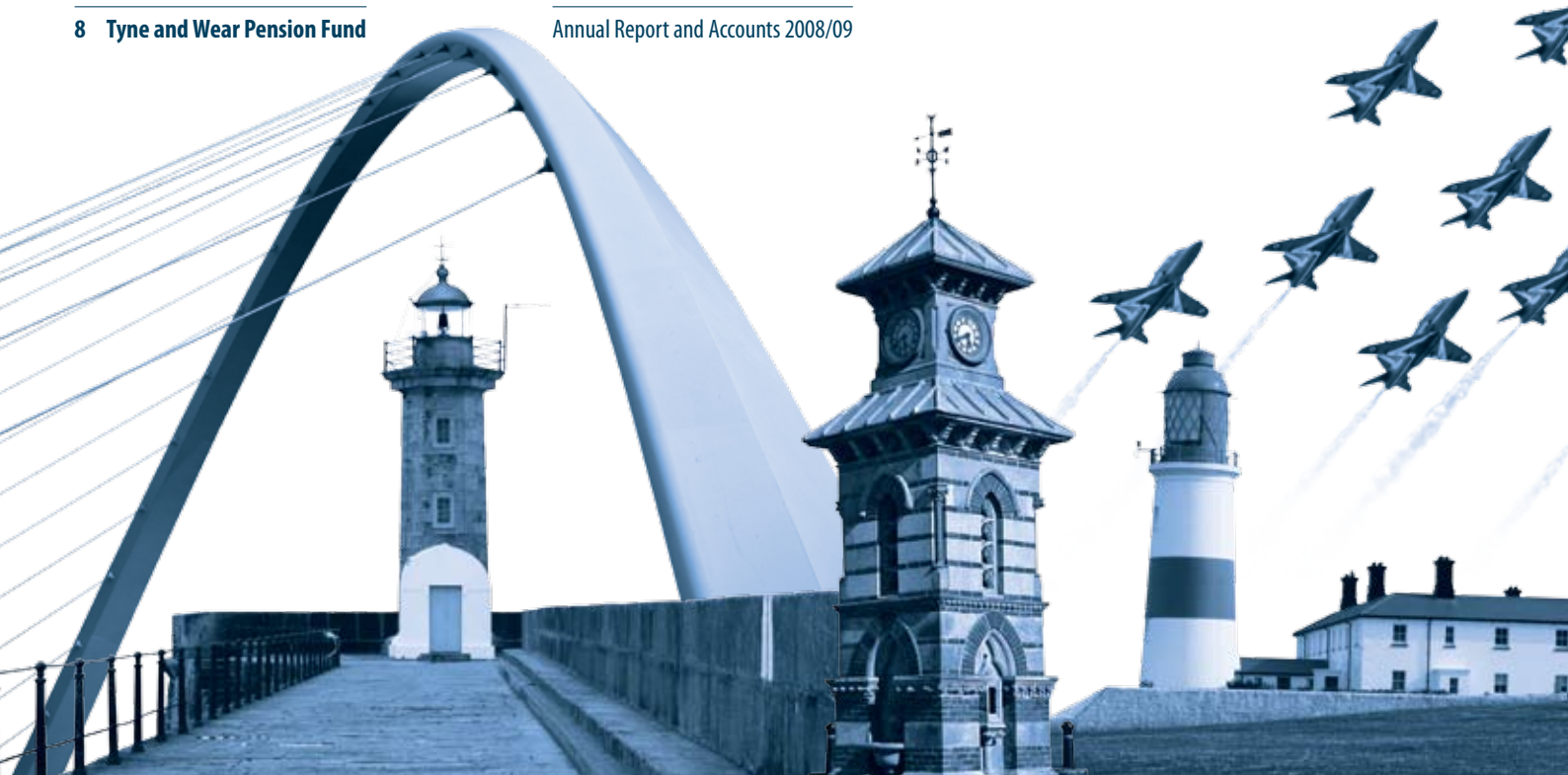
Also, we will respond to CLG's consultation exercises on the future of the Scheme and prepare for the 2010 valuation of the Fund.



Councillor Eileen Leask
Chair Of Pensions Committee



Stephen Moore
Head Of Pensions



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

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 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.

Information on the Fund is available on our website at www.twpf.info This includes:

- The agenda and minutes of the Committee meetings.
- The Governance Compliance Statement, which sets out the governance arrangements.
- The Funding Strategy Statement, which contains the strategy for the 2007 valuation and will provide the basis of the approach to the 2010 valuation.
- The Statement of Investment Principles, concerning the approach to the investment of the Fund.
- The Policy on Socially Responsible Investment, The Exercise of Rights and Corporate Governance.
- The Communications Policy Statement, which sets out the services we provide to members, prospective members and employers.
- The Service Plan, which presents the Fund's aims and objectives over three year rolling periods.



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.

In 2008/09 we have introduced an improved pensions administration system that administers the new Scheme

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 can be viewed on the Fund's website.

In 2008/09, we have:

- Delivered the Pension Committee's Training Programme.
- Introduced a new approach to our individual Performance Development Plans.
- Responded to consultations on the new Scheme and advised employers and members of the changes.
- Introduced an improved pensions administration system that administers the new Scheme.
- Managed the admission of new employers and the withdrawal from the Fund of some existing employers.
- Appointed Deloitte as our internal audit partner.
- Advised employers about the impact on the Fund of the global economic crisis and the actions that they should take.
- Made interim changes to the investment management structure, pending the introduction of a new benchmark and management structure when market conditions are more stable.



Legal Framework

Introduction

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

Scheme Regulations

In June 2006, CLG consulted on the structure of a new scheme. In November of that year, the Minister for Local Government announced that the new Scheme would start in April 2008.

The rules of the Scheme are set out in three sets of regulations.

The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, describe how rights accrue and how benefits are calculated with effect from 1st April 2008.

The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 set out how membership accrued prior to 1st April 2008 counts towards benefits.

The Local Government Pension Scheme (Administration) Regulations 2008 set out the Scheme's administrative provisions.

The main provisions of the Scheme are:

- Tiered employee contribution rates.
- A final salary pension based on 1/60th of salary for each year of pensionable service.
- Pensions are based upon the best actual pensionable pay in the last three years or an averaging of three financial years within the last ten before 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 the capital value of accrued benefit rights at the date of retirement.
- Pensions are indexed in line with the Retail Price Index and must come into payment before the 75th birthday.



A final salary pension based on 1/60th of salary for each year of pensionable service.

- Survivor benefits for life, payable to spouses, civil partners and nominated dependant partners (opposite or 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 revised 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.
- 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.

Investment Regulations

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.

In 2008/09, CLG consulted on a proposal to consolidate the Investment Regulations. The consultation document has also proposed several new provisions, including:

- A requirement that a fund has a separate bank account.
- Temporary borrowing requirements to facilitate the payment of benefits or to meet transitional investment commitments.
- A requirement that the Statement of Investment Principles includes information on the policy on stock lending and details of the policy on risk.

The changes are expected to take effect in 2009/10.

Developments in 2008/09

During 2008/09, CLG issued a range of regulations and guidance including:

- Regulations that introduced the third level of ill-health retirement benefits. This covers cases 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.
- Guidance regarding the new ill-health retirement provisions.
- Regulations that have introduced a number of minor and technical amendments.
- Statutory guidance on the completion of the Governance Compliance Statement.

Rule of 85

In 2007, CLG consulted on proposals to extend the levels of protection against the removal of the Rule of 85 voluntary early retirement provision for older members. No decision has been announced.

Cost Sharing Mechanism

In April 2009, CLG issued the Local Government Pension Scheme (Amendment) Regulations 2009. These regulations have put a mechanism in place for sharing future increases in the cost of the Scheme between employers and members.

The mechanism requires that:

- By 31st August 2010 and every three years thereafter, administering authorities will provide CLG with a copy of the financial and other data supplied to their own fund actuary for their triennial valuation.

- By 31st December 2010 and every three years thereafter, the Government Actuary's Department will carry out an actuarial valuation of the combined English and Welsh funds. This will produce an overall future service cost certificate for the Scheme that sets out the cost of future accrual of pension liabilities for the next three years.
- Where, as a result of the cost sharing exercise, CLG amends the Benefits, Membership and Contributions Regulations, administering authorities must consider whether their triennial valuation rates and adjustments certificate needs to be revised.
- Any revision to the rates and adjustments certificate must be done as soon as possible. The revised certificate must cover the period beginning on 1st April in the second year following the valuation date.

Developments in 2009/10

In June 2009, CLG began a series of consultation exercises to consider the future of the Scheme. This is being taken forward under the heading of "Local Government Pension Scheme: Delivering Affordability, Viability and Fairness".

The initial exercise considers possible changes to the regulatory framework that would impact beneficially on the outcome of the 2010 valuation and assist in maintaining the viability of the Scheme. It looks at the relationship between solvency and liquidity and how this might affect the employer contribution rates to be set at the 2010 valuation. The level of employees' contribution rates is also considered.

A parallel, separate exercise on the longer term future of the Scheme and how it might best respond to changes in the workplace, workforce and the economy was announced. This will consider new ways in which the Scheme might possibly be reformed to provide more workforce-focused pension provision for the 21st century.

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 plan.

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

- Pay Additional Regular Contributions 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 dependants.

or

- Pay into the Fund's in-house AVC plan.

As well as allowing members to increase their pension benefits up to the maximum allowable under HM Revenue and Customs rules and the 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 of this is dependant on whether the member draws their AVC benefits at the same time as their Scheme benefits.

In general, each year, members can contribute up to half of their pay to 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 seventeen funds, including a diversified growth fund that was added in 2008.

We carry out an annual review of AVC provision with the assistance of Hewitt Associates Limited. The 2008 review concluded that The Prudential should remain as the sole provider.

The 2006 review had concluded that the with-profits investment option should be withdrawn from the Fund's plan. Accordingly, this option was closed to new investors. The position for current investors was put on hold whilst The Prudential reviewed its position on any redistribution of the Inherited Estate within its with-profits fund. The Prudential announced in June 2008 that it would not proceed with a redistribution of the Inherited Estate. We have decided not to take action in the current investment climate but will continue to monitor the position.

Equitable Life

We have closed the AVC plan with Equitable Life to new members and transfers.

We conducted a bulk transfer exercise in 2003, acting in the light of advice from legal and financial advisors. 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 believed not to be in the individual member's best interests to transfer, as the withdrawal penalty applied on transfer may not be made up by future investment returns.

The position of these members was re-examined in 2006. This resulted in more members' investments being moved 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. 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 longevity 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 strategy at the 2007 valuation is set out in the Valuation Report and in the Funding Strategy Statement, which is on the Fund's website.

The 2007 Valuation

The latest valuation was carried out as at March 2007. The funding level had improved to 79% due to investment market returns exceeding the levels assumed at the 2004 valuation and to a small increase in the rate used to discount liabilities.

However, there was upward pressure on contribution rates from inflation and from improvements in longevity, which led to increased employers' contributions from April 2008.

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 was an increase of 1% over the rate of 20.1% that was set at the 2004 valuation.

Valuation Strategy

The strategy at 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 took account of the new Scheme and 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.

We 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. We 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 community 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 from the employer.

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 transferee admission bodies, 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:

- Markets falling as a result of the global economic climate. For example, the return on UK equities was -34.8% from March 2007 to March 2009.
- Pension increases being above the valuation assumption. The 2008 and 2009 increases were 3.9% and 5.0% respectively, against a valuation assumption of 3.2%. However, at the time of writing, RPI is falling.
- Salary growth likely to be above assumptions.
- A reduction in long term nominal and real gilt yields that are used to set the discount rates for the valuation.

All four of these factors impact negatively on the funding position, which has deteriorated significantly and has been extremely volatile.

This has not affected the contributions that are being paid by the scheduled employers in the Fund as their rates are set in the triennial valuations. However, it has increased both the rates set for new employers and the cost of terminal valuations.

The position is more complicated for transferee admission bodies and community admission bodies as their rates may be varied between valuations.

We are considering the position on admitted bodies to see whether any are in a position where a revaluation might be advisable. This may particularly be the case where the termination date is in the shorter term, perhaps in the next three years, and there are any doubts about the ability of the employer to meet any material terminal deficiency.

We have suggested to employers that they may wish to review the position on bond cover and covenant strength of bond providers for their transferee admission bodies.

The 2010 Valuation

For the 2010 valuation, a straight application of the strategy used at the 2007 valuation could lead to unaffordable increases in the employers' contributions. The Pensions Committee will review the assumptions and strategy if the current extreme conditions persist.

A cost sharing mechanism has been introduced into the Scheme that will share out future cost changes between employers and members by adjusting the benefits package and members' contribution rates. Any changes to the benefits package or members' contributions are expected to take effect from April 2012, through a statutory amendment to the 2010 valuation certificate.

In June 2009, CLG began a further series of consultation exercises that will consider the future of the Scheme. The initial exercise considers possible changes to the regulatory framework that would impact beneficially on the outcome of the 2010 valuation and assist in maintaining the viability of the Scheme. It looks at the relationship between solvency and liquidity and how this might affect the employer contributions to be set at the 2010 valuation. The level of employee contributions is also considered.



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 2008/09 were based on the actuarial valuation carried out as at 31 March 2007.
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. The main reasons for the improvement in the funding ratio since 31 March 2004 were higher than expected investment returns on the Fund's assets and additional employer contributions paid to reduce the deficit revealed at the 2004 valuation. These had been partially offset by the impact of changes in the actuarial assumptions used to reflect higher price inflation expectations, the removal of a smoothing adjustment to the asset value used at the previous valuation and longevity improvements.
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 were 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 had 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.

Contribution rates will be reviewed at the next actuarial valuation which is due to be carried out as at 31 March 2010.

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:	6.6% a year
Post-retirement Discount rate:	5.6% a year
Admitted Bodies	
In service Discount rate:	6.2% a year
Left service Discount rate:	5.2% a year
Rate of general pay increases	4.7% a year
Rate of increases to pensions in payment	3.2% 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, South Tyneside Council, in respect of this statement.

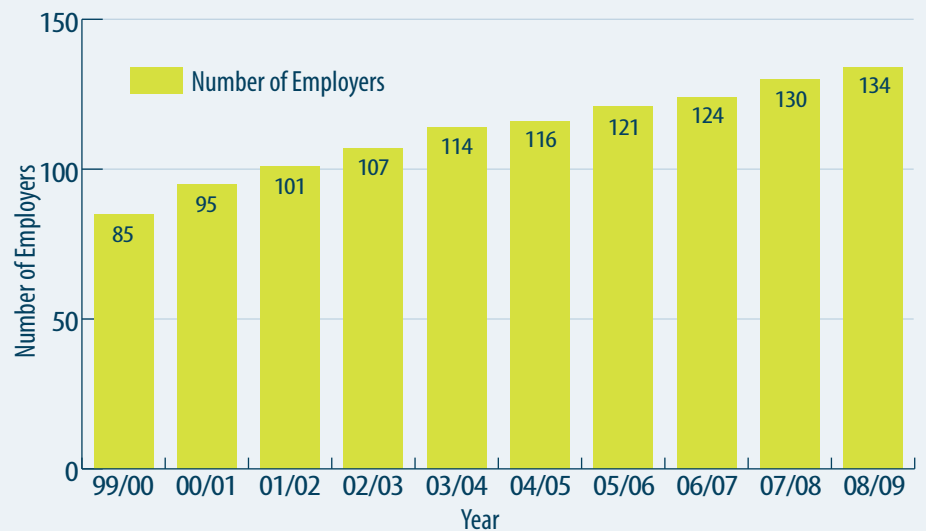
Hewitt Associates Limited

22 May 2009

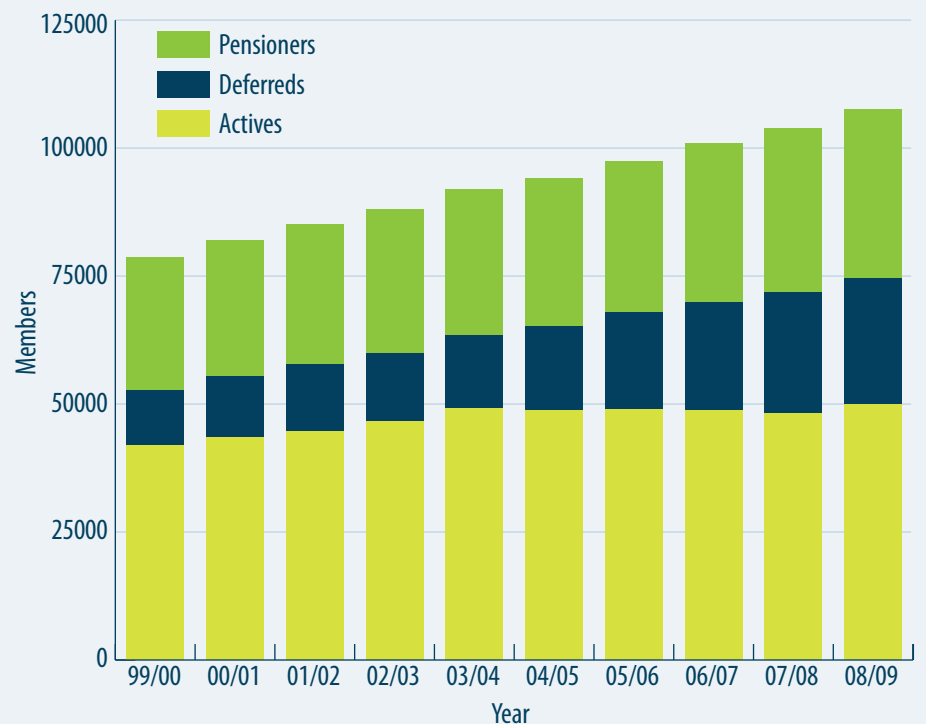
Membership of the Fund

As at 31st March 2009, there were 134 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 opposite:



The Fund had 107,554 members as at the 31st March 2009 and the chart opposite shows the change in membership over the past ten years.



The Employers in the Fund and their members as at 31st March 2009 are:

DISTRICT COUNCILS	Actives	Deferreds	Pensioners
Gateshead Council	7,115	3,926	5,158
Newcastle City Council	9,209	4,285	7,157
North Tyneside Council	6,014	2,945	4,275
South Tyneside Council	4,739	2,902	3,641
Sunderland City Council	8,774	4,506	5,935
SUB TOTALS	35,851	18,564	26,166

OTHER PART 1 SCHEDULED BODIES	Actives	Deferreds	Pensioners
Academy 360	45	1	1
City of Sunderland College	482	195	83
Excelsior Academy	46	0	0
Former North East Regional Airport Committee	0	0	24
Former Tyne and Wear County Council	0	78	271
Former Tyne and Wear Residuary Body	0	5	29
Gateshead College	265	165	69
Gateshead Housing Company	381	77	23
Monkwearmouth College	0	1	5
National Probation Service - Northumbria	666	189	323
Newcastle College	1,079	436	154
Newcastle Education Action Zone	0	2	2
North Tyneside College	0	63	24
Northumberland Magistrates Court	0	38	83
Northumbria Police Authority	2,436	854	996
South Tyneside College	286	124	135
South Tyneside Education Action Zone	0	2	0
South Tyneside Homes	620	81	67
Sunderland Education Action Zone	0	0	1
Tyne and Wear Fire and Rescue Service	351	110	189
Tyne and Wear Passenger Transport Authority	1	35	95
Tyne Metropolitan College	198	76	16
Tynemouth College	0	29	7
University of Northumbria	1,527	794	612
University of Sunderland	798	564	361
Wearside College	0	4	10
Your Homes Newcastle	717	106	85
SUB TOTALS	9,898	4,029	3,665

PART 2 SCHEDULED BODIES	Actives	Deferreds	Pensioners
Birtley Town Council	0	4	4
Blakelaw and North Fenham Parish Council	0	0	0
Blue Square Trading Limited	9	7	1
Learning World	0	7	0
Nexus	1,005	441	1,395
SUB TOTALS	1,014	459	1,400

ADMITTED BODIES	Actives	Deferreds	Pensioners
Age Concern Newcastle	39	32	32
Assessment and Qualification Alliance	0	2	13
Association of North East Councils	33	21	7
Balfour Beatty	22	2	1
Baltic Arts Flour Mills	4	4	1
Benton Grange School	0	0	9
Benwell Young Peoples Development Project	3	0	0
Bovis Lend Lease (BLL)	8	0	1
Brunswick Young Peoples Project	0	3	0
BT South Tyneside Limited	371	0	2
Bullough Contract Services	2	0	0
Carillion Services Limited	3	0	0
Catholic Care North East	0	19	26
CBS Outdoor Limited	0	2	0
Community Action on Health	7	3	0
Compass Group UK and Ireland	4	0	1
Disability North	9	21	8
Gateshead Law Centre	0	13	3
Gentoo Group Limited	1,515	343	226
Hebburn Neighbourhood Advice Centre	5	1	0
Higher Education Funding Council for England	0	1	9
Information North (North Regional Library System)	0	0	3
Insitu Cleaning	7	1	0
International Centre for Life	10	6	7
Jarvis Accommodation Services Limited	5	0	1
Jarvis-Sandhill View	5	1	1
Kenton Park Sports Centre	6	5	0
Managed Business Space Limited	1	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	56	5	6

ADMITTED BODIES continued	Actives	Deferreds	Pensioners
Morrison Facilities Services Limited 2	298	13	23
Morse	6	0	0
Museums Libraries and Archives North East	2	23	4
National Car Parks	6	2	3
National Glass Centre	1	1	1
Newcastle Family Service Unit	0	3	4
Newcastle Healthy City Project	17	7	4
Newcastle International Airport	188	278	305
Newcastle Law Centre	9	5	2
Newcastle Tenants Federation	4	1	2
Newcastle Theatre Royal Trust	56	27	17
Newcastle West End Partnership	0	2	1
Newcastle Youth Congress	0	1	1
No Limits Theatre Company	2	0	0
Norcare	0	1	1
Norland Road Community Centre	0	1	0
North East Innovation Centre	0	18	13
North East Regional Employers Organisation	6	1	7
Northern Arts Association	0	33	11
Northern Council for Further Education	0	15	12
Northern Counties School	0	22	21
Northern Grid for Learning	8	2	0
North Tyneside Child Care Enterprise	1	17	1
North Tyneside City Challenge	0	4	0
North Tyneside Disability Advice Centre	0	0	1
Northumbria Tourist Board	0	27	10
One North East	0	0	8
Ouseburn Trust	0	1	0
Parsons Brinkerhoff	14	3	1
Passenger Transport Company	0	0	96
Percy Hedley Foundation	27	0	1
Port of Tyne Authority	0	0	4
Praxis Service	0	3	1
Raich Carter Sports Complex	37	22	0
Saint Mary Magdalene and Holy Jesus Trust	7	7	4
Saint Mary the Virgin Estate Management Charity	0	0	1
Scolarest	26	1	2
Scolarest PFI Boldon	3	0	0
Search Project	2	1	2
Simonside Community Centre	1	0	0

ADMITTED BODIES continued	Actives	Deferreds	Pensioners
Southern Electric Contracting Limited	22	4	8
South Tyne Football Trust	1	0	0
South Tyneside Groundwork Trust	4	3	3
South Tyneside Victim Support	0	2	0
Stagecoach Travel Services	178	191	606
Sunderland City Training and Enterprise Council	0	43	25
Sunderland Empire Theatre Trust	0	5	3
Sunderland Outdoor Activities	0	3	0
Sunderland Streetlighting Limited	34	15	20
The Ozanam House Probation Hostel Committee	17	17	8
Thomas Gaughan Community Association	1	1	0
TT2 Limited	88	2	4
Tyne and Wear Development Company Limited	14	11	5
Tyne and Wear Development Corporation	0	26	24
Tyne and Wear Enterprise Trust	10	15	16
Tyne and Wear Play Association	1	0	0
Tyne and Wear Small Business Service	0	37	8
Tyneside Deaf Youth Project	0	3	0
Tyneside Training and Enterprise Council	0	41	36
Tyne Waste Limited	0	9	11
Valley Citizens Advice Bureau	0	1	1
Walker Profiles (North East) Limited	28	1	2
Wallsend Citizens Advice Bureau	0	1	2
Wallsend Peoples Centre	2	2	2
Workshops for the Adult Blind	0	13	83
SUB TOTALS	3,245	1,474	1,789
GRAND TOTALS	50,008	24,526	33,020



Working with Members and Employers

Introduction

The provision of a statutory pensions service to our 107,554 members and 134 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 prepares mailshots for employers and runs meetings with groups of 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

Following the introduction of the new Scheme from April 2008, there have been further consultation exercises, regulatory amendments and analysis of the cost sharing mechanism and the revised ill-health retirement provisions.

We have worked with employers to help them understand the new Scheme and to put appropriate administration processes in place. We have held employer workshops and together are identifying how we can improve our processing.

We have revised our Scheme booklets to help members understand the new Scheme.

We provided a range of presentations to members covering topics such as induction,



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.

transferring employer and midlife and pre-retirement planning. We took part in 14 events attended by 315 people and also held two roadshows at employers' offices.

Surveys

The service we provide is very important to us and we regularly seek the views of members and employers. In 2008/09 we surveyed our pensioners, active members and employers.

We are pleased to say that 97.8% of members who responded were satisfied with the service we provide, as were 94% of employers.

Upgrading the Pensions Administration System

The Pensions Service has used the Civica UPM pensions administration system since 2003. UPM has operated successfully over the years, delivering efficient integrated working methods, but the introduction of the new

Scheme meant that it required significant reworking to reflect the changes that were introduced.

After careful consideration, it was decided that it would be more cost effective to upgrade to the latest version of the UPM software, which is new Scheme compliant and offers additional and improved functionality compared to the original version. This will allow us to improve the service we provide to members and employers and become more efficient.

The latest version of UPM went live in September 2008. Since then, we have developed and introduced improvements to the web access facilities for employers, including enhanced "what if" calculations.

We have also been working to develop a new facility that will allow us to load information taken directly from an employer's payroll into UPM. This offers significant efficiency and accuracy advantages over the existing arrangements. Currently, employers complete paper forms and send them through the post. On receipt, Pensions Officers scan and index the forms and then manually punch in the data. The delays and transcription errors that can occur with the current procedures will be removed for employers adopting the new data loading facility.

Development work on the system will continue through 2009/10.

Communications Policy Statement

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.

Our Communications Policy Statement sets out:

- 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 available on our website and in other formats on request.

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 handled calls from 47,909 members last year.
- We have a call back service for out of office hours and busy times.
- We welcome personal callers and were visited by 773 members last year. An appointment is not necessary.
- 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.
- We publish a members' annual report on our website and provide a paper copy on request.
- We provide newsletters to keep members informed of changes to the Scheme.
- On request, 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 say that our recent survey showed that 96.9% of members understand our literature.

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

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

Members tell us that their preferred method of contacting us is by telephone. A voicemail service is available during busy times and out of office hours on which members can leave a message and a convenient contact number for us to return the call. Our aim is to respond within five working hours or earlier, which was achieved for 94.3% of messages in 2008/09.

In addition to the main Helpline number of 0191 424 4141, we have an alternative number for members calling from outside our area. This number is 0845 625 4141 and is being well used. It also forms part of our emergency planning and can be used if we experience problems with our main telephone system.

Scheme DVD

We worked with the Local Government Employers Organisation on the production of a promotional DVD for the new Scheme.

Members may view this on the Fund's website. It is also used by employers to promote the Scheme to prospective and new members.

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 2008, we were able to provide 96.4% of active members with a complete benefit statement. This was down slightly from the

very high figure of 99.7% achieved in the previous year. This fall is due to there being less capacity for data cleansing because of work resulting from the introduction of the new Scheme and the new administration system.

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 bulk letter forwarding service to update the address we hold. About 22,600 statements were sent out in 2008/09 and we sought to update about 480 out of date addresses.

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 2008 due to changes to the state pension. We provided contact details for the DWP, should a member wish to obtain further information on the State Scheme.

We hope to include state pension forecasts in our 2009 statements.

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 Employers' Guide to the administration of the Fund. This is available online.
- We offer training courses that aim to educate and inform staff on pensions matters and working procedures. These are 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 Annual Report and Accounts.
- The Fund's main policies, including the Governance Compliance Statement, the Funding Strategy Statement, the Statement of Investment Principles, the Policy on Socially Responsible Investment, the Exercise of Rights and Corporate Governance, the Communications Policy Statement and the Service Plan.

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.

Fifty three employers have registered to use this service, which provides access to:

- The pension records of their own employees.
- The ability to carry out pension estimates and "what if" calculations.
- 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.

Investment 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 in place at the start of 2008/09 was designed using the liability data from the 2004 valuation and had been in place since 2005/06. The asset allocation was 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 was comprised of a 5% allocation to private equity, a 3% holding in active currency funds and a 1.5% holding in infrastructure funds.

Review of Investment 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 concluded that the Fund should increase its allocation to alternative investments. There is a 2.5% increase in private equity investment, a 1% increase in the allocation to infrastructure and new allocations of 2.5% each 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%. 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 strategy in place at the start of 2008/09 was designed using the liability data from the 2004 valuation and had been in place since 2005/06.

Suspension of the Strategy Review

The initial intention was to introduce the new investment strategy during 2008/09.

However, this approach was put on hold as a result of the events in financial markets during 2008/09. There are concerns over the stability of markets and difficulties in effecting transitions. In addition there are issues over the future viability and ownership of a number of investment managers, many of whom are reappraising their investment processes, product offerings and downsizing investment teams.

Prior to the review being taken forward, the revised strategy will be checked to ensure that it remains appropriate in the changed environment.

Changes to the Investment Strategy during 2008/09

The increase in the allocation to private equity from 5% to 7.5% has been implemented. Therefore the strategy in place at the end of the year is 57% in equities, 21% in bonds, 10% in property and 12% in alternatives.

Investment Management Structure

The Fund employs seven 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 - European ex UK Equities - UK Gilts - Corporate Bonds - UK Index-Linked Gilts
Capital International	Global Equities Emerging Market Equities
UBS	Pan European Equities
Schroder	Japanese Equities Pacific Rim ex Japan Equities
M&G	Corporate Bonds
Henderson	Global Bonds
Aberdeen	Property

The Fund terminated its UK equity mandate with Fidelity during the year.

It is likely that any revisions to the investment strategy will lead to changes to the investment management structure.

Private Equity

The Fund began its private equity programme in 2002 with a target allocation of 5%. This was increased to 7.5% from 2008/09.

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 Coller Capital and direct funds with HarbourVest, Capital International, Partners Group and Lexington. These additional providers complement the fund of funds programme offered by HarbourVest.

The events in financial markets have led to the programme becoming overcommitted and the Fund overweight against its target weighting. This is a common position amongst investors in this asset class. As at March 2009, £272.9 million, equal to 8.9% of the Fund, was invested in private equity. This is an increase of £56 million, or 3.0% of the Fund, over the position at the previous year end.

Because the programme was becoming overcommitted, only one new commitment was made during the year. This is an agreement to subscribe for £10 million of standby redeemable share commitments in Pantheon International Participations PLC.

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.

As at March 2009, the value of these investments was £64 million, or 2.1% of the Fund.

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 by a £35 million commitment to the Infracapital Fund, managed by M&G. This fund is being invested in UK and Europe, with £23.5 million having been called up to March 2009.

At the year end, the total investment in infrastructure was valued at £31.5 million, representing 1% of the Fund.

At the present time the Fund has a strategic allocation of 1.5% to infrastructure. The revised strategy includes an allocation of 2.5%.

Assets under Management

The value of assets in each manager's segregated mandate and in currency funds, private equity and infrastructure at the year end is shown below:

Investment Managers' Objectives and Restrictions

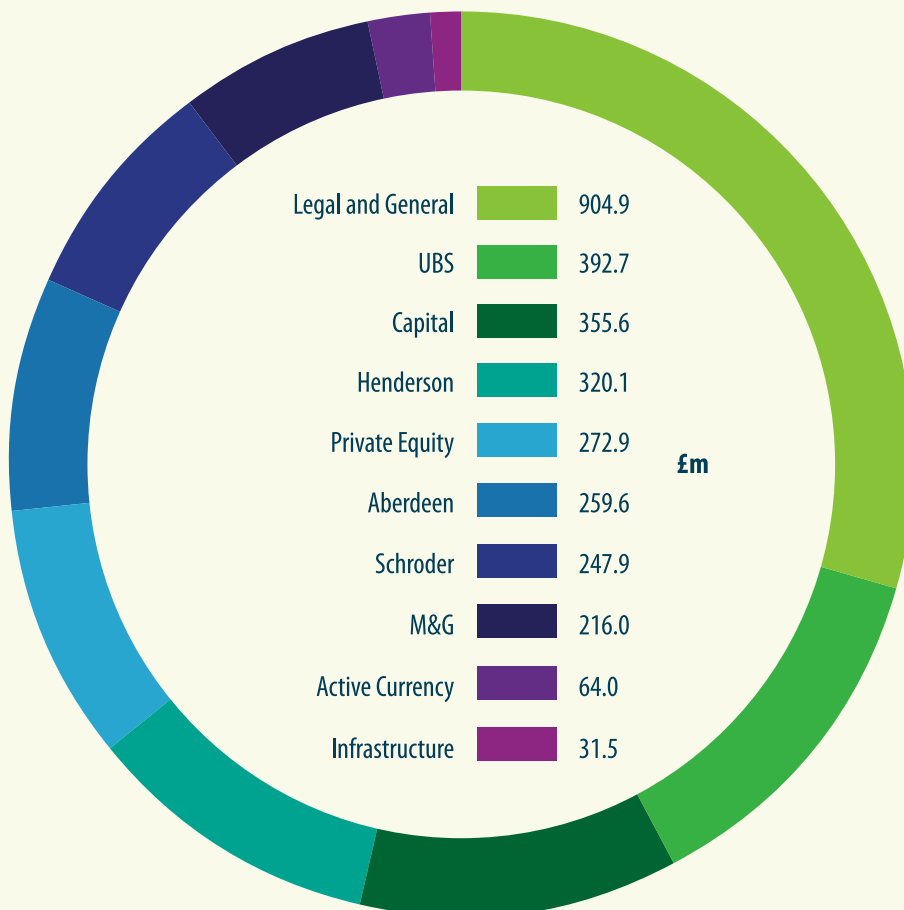
The Pensions Committee has set objectives and restrictions for the investment mandates with the aims of ensuring a prudent approach to investment and allowing each manager to implement their natural investment style and process.

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

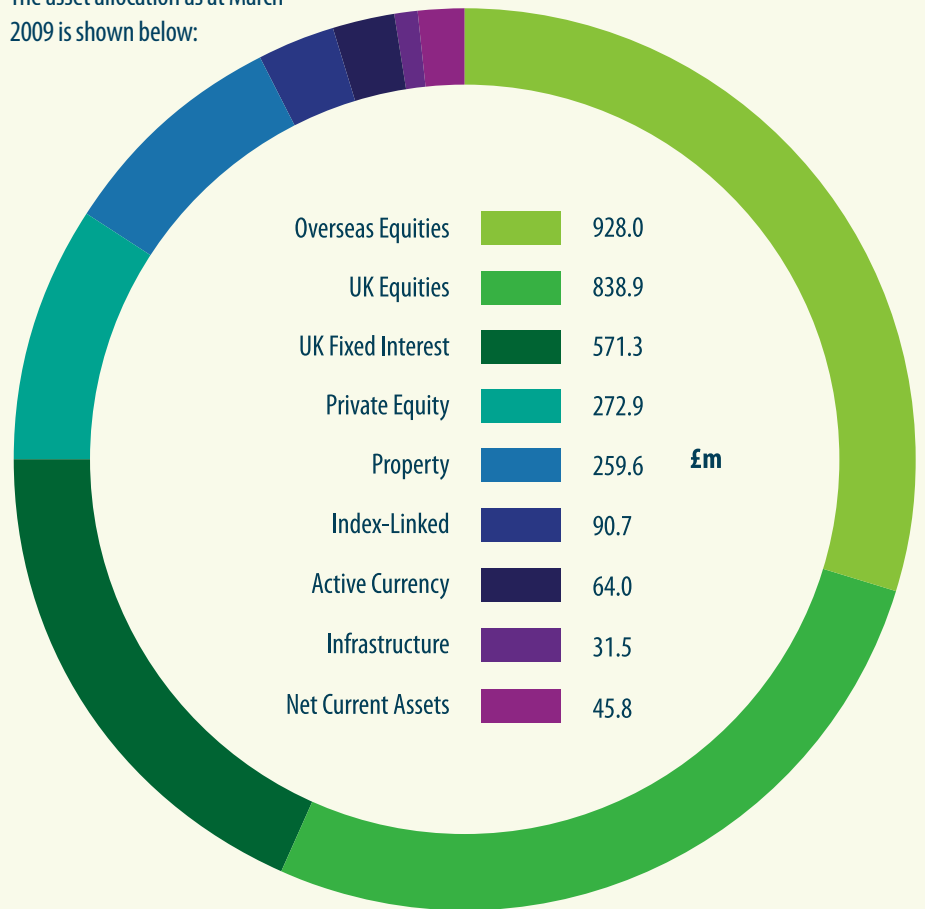
Northern Trust was appointed in 2002 to provide custody services for four segregated mandates. In early 2005, the remit was widened to cover all segregated assets in the Fund. The service was market tested in 2008, when it was concluded that it was satisfactory and competitive. As at March 2009, Northern Trust was providing custody for approximately £911 million of assets held in seven mandates.

Asset Allocation

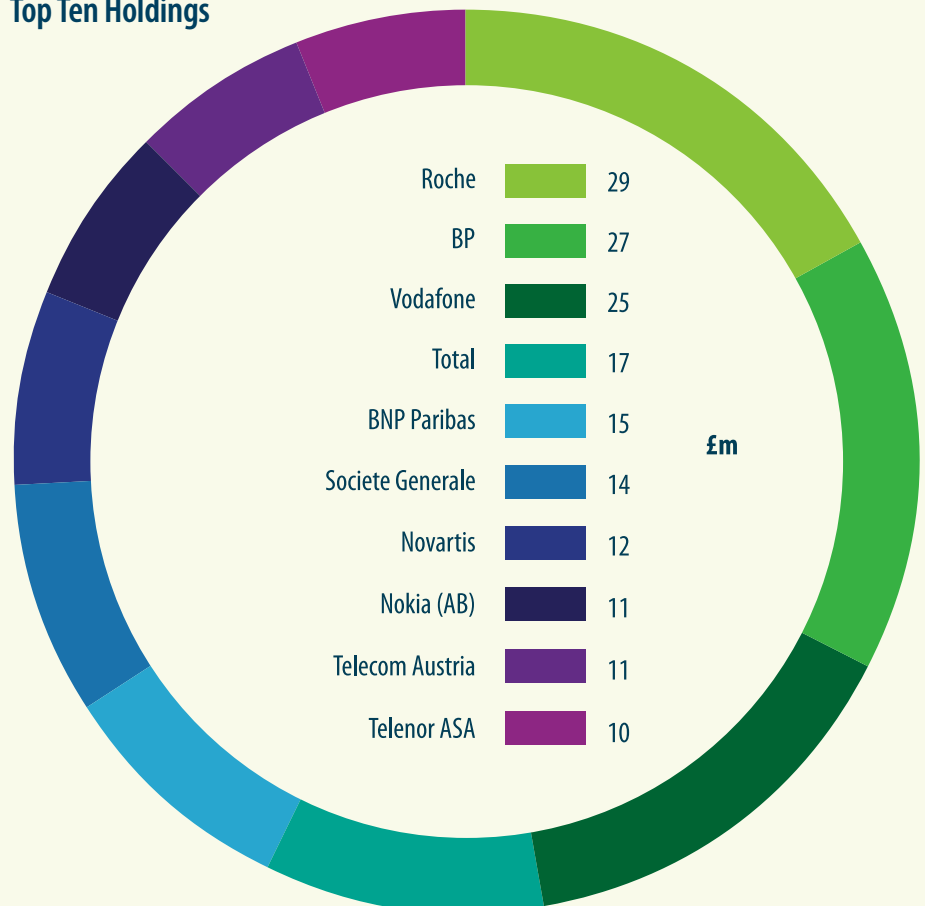
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. When a range is breached, the Fund is rebalanced back within the range. Legal and General provides management information that assists with this process.

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 2009 is shown below:



Top Ten Holdings



Performance Measurement

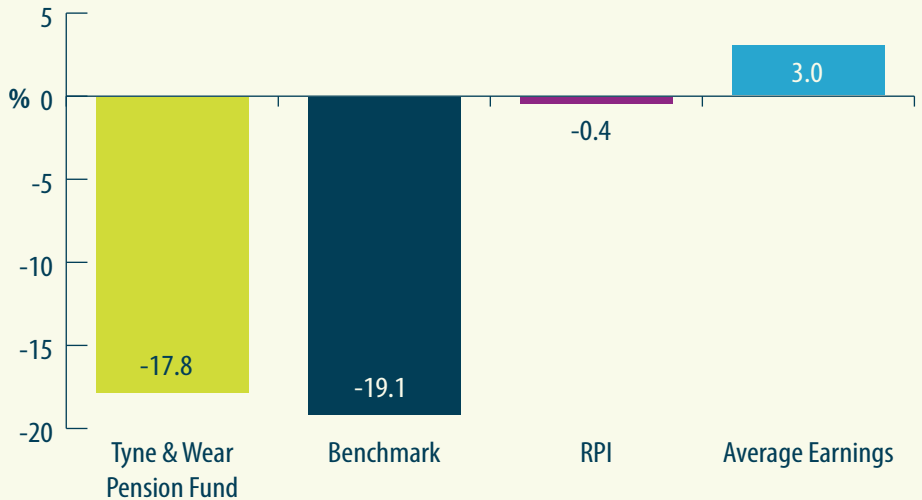
The Fund has used a fund specific benchmark for performance measurement since January 2002. A hybrid benchmark is used for periods that extend earlier than this date. This is based on a median up to and including periods ending on January 2002 and on the strategic benchmark thereafter.

Returns for 2008/09

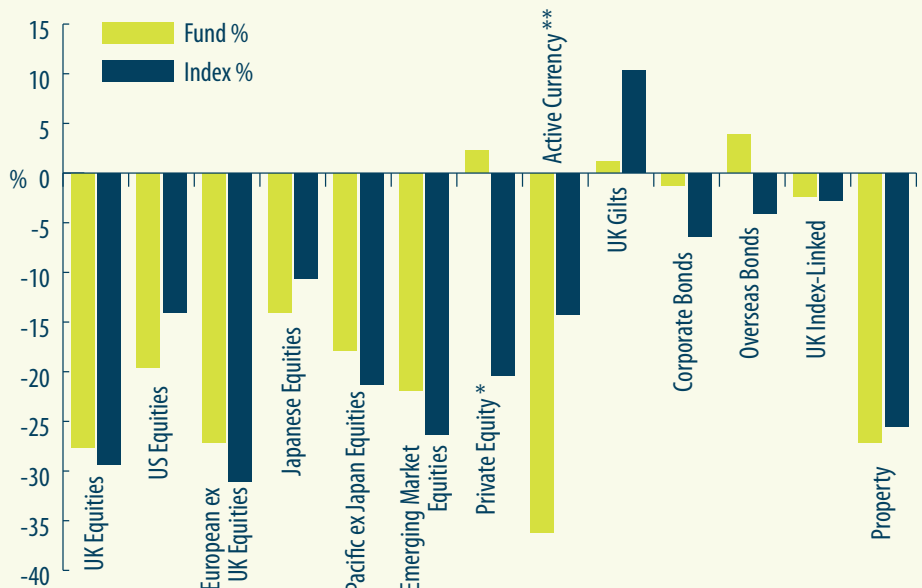
The credit crisis led to extreme market volatility in 2008/09, with global equity markets falling sharply in value. The European and UK markets were the worst affected, falling by 31.1% and 29.3% respectively.

The fall in equity markets led investors to seek the safer haven of gilts, which rose by 10.3%. Index-linked gilts fell by 2.8%. Property continued to suffer a strong market correction, with a fall of 25.5% in the year. Consequently, the value of UK pension fund assets fell in 2008/09 for the second year running.

The Fund's return for the year was -17.8%, which was 1.3% above its benchmark return of -19.1%. Inflation, as measured by the Retail Price Index, fell by 0.4% and Average Earnings increased by 3%.



The chart below shows the Fund's returns over the main investment markets for 2008/09.

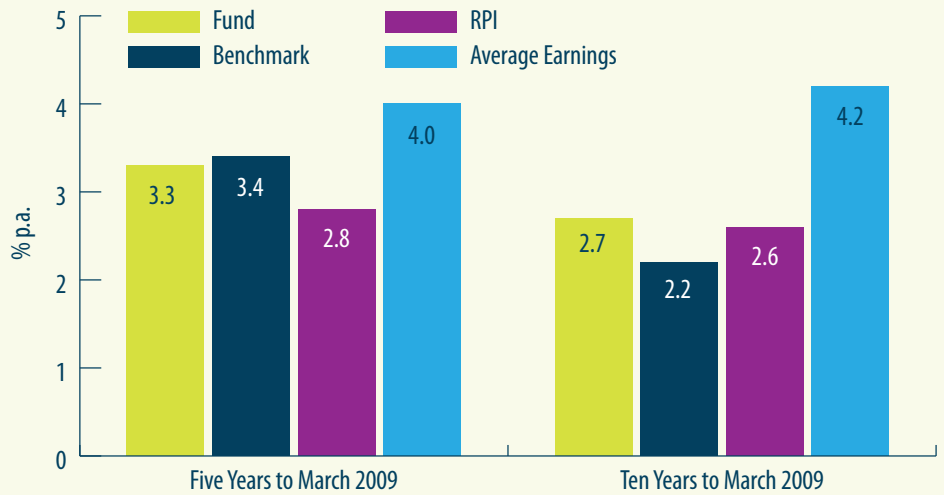


* The return for private equity is shown relative to the FTSE All World Index
 ** The return for active currency is shown relative to the S&P 500 Index

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.

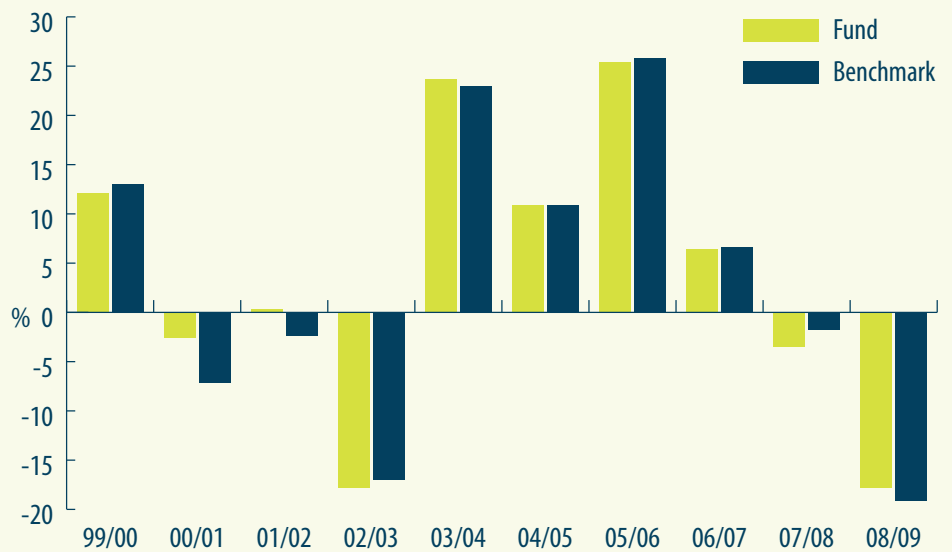
The chart below shows the Fund's annual returns over five year and ten year periods against Retail Price Inflation and Average Earnings.

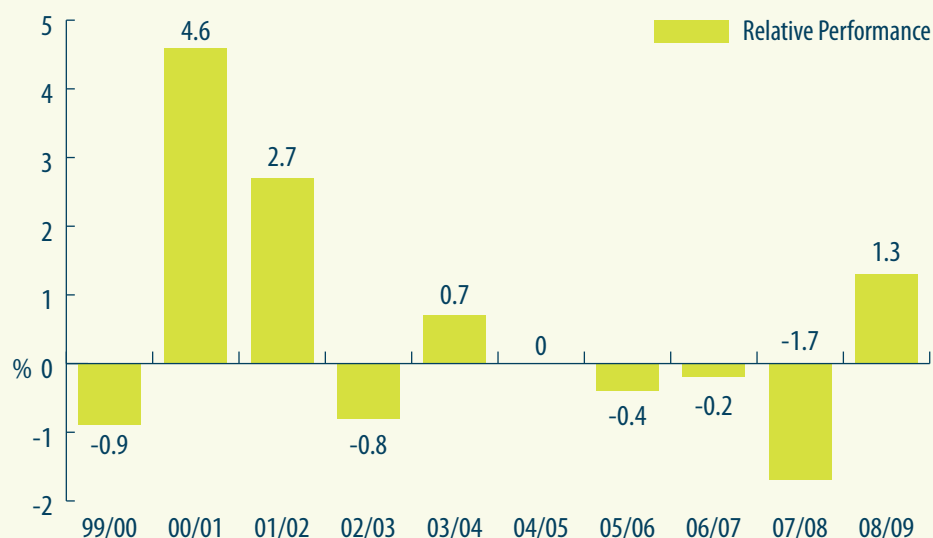


The five year return is 3.3% per annum, which is 0.1% below the benchmark return of 3.4% per annum. The ten year return is 2.7% per annum, which is 0.5% above the benchmark return of 2.2% per annum.

The returns for both periods are above the increase in Retail Price Inflation but below the increase in Average Earnings.

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





The charts show that the Fund's relative performance was poor in 1999/2000. 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 turned negative for the three year period to March 2008 due to poor performance from certain active equity managers and from the active currency managers. In 2008/09, the relative performance has been good with the Fund outperforming by 1.3% against its benchmark.



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.

A follow up review took place in 2004, although no amendments were made to the Principles.

In 2007, HM Treasury sponsored the National Association of Pension Funds to conduct a review of progress made throughout the pensions industry since the introduction of the Principles in 2001.

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 resultant report, "Institutional Investment in the UK: Six Years On" was followed by a wide consultation exercise culminating in the original ten Principles being replaced by six new Principles.

The new Principles were launched in October 2008. HM Treasury and the Department for Work and Pensions jointly commissioned The Pensions Regulator to oversee an Investment Governance Group that has been given the task of implementing the new Principles across all UK pension funds.

There is an Investment Governance Sub-Group specifically for the Local Government Pension Scheme, which includes representation from CLG and the Chartered Institute of Public Finance and Accountancy, which is amending the Principles to fit the Scheme. Until these amendments are agreed and there is an appropriate consultation period, followed by revision of the regulations, it is a statutory requirement to continue reporting against the original ten Principles until instructed otherwise by CLG.

The Fund has been fully compliant with the ten current Principles since 2003/04.

The Fund has benchmarked its practices and procedures against early guidance from the CIPFA Pensions Panel on the application of the new Principles to the Scheme. It is believed that the Fund is largely compliant with the six new Principles. The precise position will be assessed and any action required to achieve full compliance will be taken when the guidance and regulatory changes are completed.

A summary of the original 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.

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 ten Investment Principles. The document is reviewed as new developments take place and was last updated as at 2nd June 2009.

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.

The SIP may be viewed on the Fund's website.

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 2008/09 is shown below:

	Global	UK Only
Annual general meetings	1,132	700
Extraordinary general meetings	334	262
Resolutions	15,468	10,751
Votes for management	14,410	10,347
Votes against management	361	201
Abstentions	90	59
Resolutions where no vote was cast	609	144

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 lack of independence of non-executive directors and length of directors' contracts.
- Concerns about a reduction in shareholders' rights from resolutions such as the issue of new shares without pre-emptive rights.

The table shows that there were 609 resolutions where votes were not cast. The two 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 62% of the occasions where votes were not 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 38% of the occasions where votes were not cast.



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.

The Fund is a member of the Local Authority Pension Fund Forum. The Forum is comprised of forty nine local authority funds with total assets of approximately £75 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 2nd June 2009. The policy may be viewed on the Fund's website.

The 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.

Financial Statements

Fund Account

The comparative figures for 2007/08 have been restated to take account of the requirement of the Statement of Recommended Practice 2008 to value investments on a bid price or fair value basis and not mid price or economic exposure basis from the 1st April 2008.

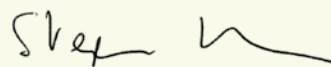
2007/08 restated £m		Note	2008/09 £m
Contributions and Benefits			
(195.342)	Contributions Receivable - Employers	3	(208.638)
(52.576)	Contributions Receivable - Employees	3	(59.806)
(11.221)	Transfers In	4	(11.055)
(259.139)	Total Contributions		(279.499)
159.087	Benefits Payable	5	166.472
11.494	Leavers	6	6.774
2.713	Administrative Expenses	7	2.680
173.294	Total Benefits		175.926
(85.845)	Net Additions from Dealings with Members		(103.573)
Returns on Investments			
(88.102)	Investment Income	8	(85.268)
4.367	Non-Recoverable Tax	8	3.929
211.292	Change in Market Value of Investments	9	754.000
7.102	Investment Management Expenses	10	5.865
134.659	Net Returns on Investments		678.526
48.814	Net (Increase) / Decrease in the Fund During the Year		574.953
3,726.505	Net Assets of the Fund at 1st April		3,677.691
3,677.691	Net Assets of the Fund at 31st March		3,102.738

Net Assets Statement

31st March restated 2008 £m		Note	31st March 2009 £m
Investments			
3,677.528	Investment Assets	9	3,092.885
(11.247)	Investment Liabilities	9	(11.263)
25.116	Current Assets	11	28.220
(13.706)	Current Liabilities	11	(7.104)
3,677.691	Net Assets of the Fund at 31st March		3,102.738

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 on pages 19 and 20. The financial statements should be read in conjunction with the Actuary's statement.

We certify that the financial statements, along with the notes to the financial statements, for the year ended 31st March 2009 set out on pages 42 to 58, present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2009 and its income and expenditure for the year ended 31st March 2009.



Stephen Moore
Head of Pensions
30th September 2009



Stuart Reid
Head of Finance (Section 151 Officer)
30th September 2009

These accounts were approved by the Pensions Committee at its meeting on 16th September 2009.



Councillor Eileen Leask
Chair of Pensions Committee

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 May 2007, and subject to note 5 follow the 2008 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2. Accounting Policies

Change in Accounting Policy

The 2008 Code of Practice on Local Authority Accounting introduced the requirement to value investment assets, including derivatives, on a bid or fair value basis rather than on the mid market price or economic exposure basis.

To ensure an appropriate comparison is made between the 2008/09 financial statements and those for 2007/08, the value of the 2007/08 investment assets has been restated on the new bid or fair value basis.

The one exception to this is the Net Assets of the Fund as at 1st April 2007, as shown in the Fund Account. This has been valued under the previous SORP valuation practices on a mid basis at £3,726.505m. This balance has not been restated owing to the difficulty in obtaining valuations for 1st April 2007 on a bid basis. From a review of information available, the Fund considers that there is no material difference between valuations on the mid and on the bid price basis.

The inability to restate the Net Assets as at 1st April 2007 means that the Change in Market Value of Investments on the Fund Account for 2007/08 includes the impact of moving from a mid valuation as at 1st April 2007 to a bid valuation as at 31st March 2008.

The overall impact of the restatement is to reduce the Net Assets of the Fund as at 31st March 2008 by £5.531m from £3,683.222m to £3,677.691m.

The table below shows the impact of this restatement on each category of investment:

31st March 2008 Mid £m		31st March 2008 Bid £m
Investments		
196.999	Fixed Interest Securities	138.419
1,513.652	Equities	1,511.121
49.692	Index-Linked Securities	49.580
1,570.841	Pooled Investment Vehicles	1,568.034
-	Derivative Contracts	(1.205)
340.650	Properties	340.650
54.667	Cash Deposits	54.667
(54.689)	Other Investment Balances	5.015
3,671.812		3,666.281
25.116	Current Assets	25.116
(13.706)	Current Liabilities	(13.706)
3,683.222	Net Assets of the Fund at 31st March	3,677.691

The most significant changes in the table above relate to the different accounting treatment for derivatives under the new SORP. This has impacted on the valuations for fixed interest securities, derivative contracts and other investment balances. Derivative contracts were previously presented using the economic exposure methodology, rather than at fair value. Prior year comparatives have been restated to remove the economic exposure amounts and replace them with fair value amounts, as follows:

	As previously reported £m	Adjustment £m	As restated £m
Fixed Interest Securities	196.999	(58.580)	138.419
Derivative Contracts	-	(1.205)	(1.205)
Other Investment Balances	(54.689)	59.704	5.015

Where assets have been restated as at 31st March 2008, this is clearly shown in the heading above the table.

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 bid price on 31st March 2009.

Pooled investment vehicles have been included at either the bid price, where a bid price exists, or on the single unit price on 31st March 2009 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 receivable.

Overseas investments and foreign currency balances have been converted into Sterling at the closing exchange rates on 31st March 2009.

Futures have been valued at fair value. The fair value is the unrealised profit or loss of the current bid or offer price of the contract. The variation margin is the amount due to or from the broker for this unrealised profit or loss at the period end.

The fair value of forward currency contracts is based on exchange rates at the year-end date and is determined as the gain or loss that would arise if the outstanding contracts were closed as at 31st March 2009.

Properties are shown as valued at 31st March 2009. The valuers are Fellows of the Royal Institute of Chartered Surveyors from Colliers CRE. No depreciation is provided on freehold buildings or long leasehold properties.

Investment Transactions

Investment transactions that were not settled as at 31st March 2009 have been accrued.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees.

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 2009.

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 2009 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2009.

Investment Management Expenses

Investment management expenses payable as at 31st March 2009 have been accrued.

Debtors and Creditors

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

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2009.

Contributions

Contributions represent the amounts received from the organisations participating in the Fund; these may be district councils, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. The Actuary determines the rate for employers. Contributions due as at 31st March 2009 have been accrued.

The presentation of the information on contributions in the prior year has been restated to be consistent with the current year and as required by the new SORP. Total contributions remain unchanged.

Benefits and Refunds

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

Transfer Values

Transfer values represent the capital sums either receivable in respect of new members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the Scheme. They are accounted for on a payments/receipts basis.

3. Contributions Receivable

2007/08 £m		2008/09 £m
Employers		
(128.263)	Normal	(140.917)
(66.661)	Deficit Funding	(67.418)
(0.418)	Augmentation	(0.303)
(195.342)		(208.638)
Members		
(51.823)	Normal	(59.051)
(0.753)	In-House Additional Voluntary Contributions	(0.755)
(52.576)		(59.806)
(247.918)	Total Contributions Receivable	(268.444)

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

2007/08 £m		2008/09 £m
(22.018)	South Tyneside Council (Administering Authority)	(23.666)
(147.628)	Other Metropolitan Councils	(158.694)
(47.003)	Other Part 1 Scheduled Bodies	(52.759)
(10.864)	Part 2 Scheduled Bodies	(10.232)
(20.405)	Admitted Bodies	(23.093)
(247.918)	Total Contributions Receivable	(268.444)

4. Transfers In

During the year, individual transfers in from other schemes amounted to £11.055m (£11.221m in 2007/08). There were no bulk transfers in during 2008/09 or 2007/08.

5. Benefits Payable

2007/08 £m		2008/09 £m
131.132	Pensions	139.263
35.741	Commutations and Lump Sum Retirement Benefits	34.064
2.559	Lump Sum Death Benefits	3.685
(10.345)	Recharges Out	(10.540)
159.087	Total Benefits Payable	166.472

The financial year 2008/09 is the first time that the Fund has been able to produce the analysis of benefits by type of member body, therefore the comparative figures for 2007/08 are not available. In this respect, the accounts do not comply with the 2008 Code of Practice on Local Authority Accounting.

2007/08 £m		2008/09 £m
-	South Tyneside Council (Administering Authority)	17.049
-	Other Metropolitan Councils	109.327
-	Other Part 1 Scheduled Bodies	20.267
-	Part 2 Scheduled Bodies	5.919
-	Admitted Bodies	13.910
-	Total Benefits Payable	166.472

6. Leavers

2007/08 £m		2008/09 £m
11.462	Individual Transfers to Other Schemes	6.745
0.048	Refunds to Members Leaving Service	0.042
(0.016)	State Scheme Premiums	(0.013)
11.494	Total Leavers	6.774

There were no bulk transfers out of the scheme in 2008/09 or 2007/08.

7. Administration Expenses

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

2007/08 £m		2008/09 £m
1.509	Employee Expenses	1.590
0.437	Support Services Recharge	0.441
0.035	Audit Fees	0.050
0.356	External Computing Costs	0.136
0.086	Printing / Publications	0.115
0.255	Professional Fees	0.314
0.041	Other Expenses	0.041
(0.006)	Income	(0.007)
2.713	Total Administration Expenses	2.680

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

8. Investment Income

2007/08 £m		2008/09 £m
(7.360)	Fixed Interest Securities	(1.104)
(50.640)	Equities	(50.746)
(0.941)	Index-Linked Securities	(0.512)
(6.964)	Pooled Investment Vehicles	(11.841)
(18.413)	Net Rents from Properties	(18.517)
(2.955)	Cash Deposits	(1.688)
(0.746)	Securities Lending	(0.597)
(0.083)	Commission Recapture	(0.103)
-	Underwriting Commission	(0.160)
(88.102)	Sub-Total	(85.268)
4.367	Non-Recoverable Tax	3.929
(83.735)	Total Investment Income	(81.339)

9. Investments

31st March 2008 restated £m		31st March 2009 £m
Investment Assets		
138.419	Fixed Interest Securities	1.553
1,511.121	Equities	891.996
49.580	Index-Linked Securities	19.930
1,568.034	Pooled Investment Vehicles	1,858.658
0.599	Derivative Contracts	0.072
340.650	Properties	259.610
54.667	Cash Deposits	51.689
14.458	Other Investment Balances	9.377
3,677.528	Total Investment Assets	3,092.885
Investment Liabilities		
(1.804)	Derivative Contracts	(0.264)
(9.443)	Other Investment Balances	(10.999)
(11.247)	Total Investment Liabilities	(11.263)
3,666.281	Net Investment Assets	3,081.622

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 2008 restated £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds & Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2009 £m
Fixed Interest Securities	138.419	52.181	(191.553)	2.506	1.553
Equities	1,511.121	1,180.255	(1,416.272)	(383.108)	891.996
Index-Linked Securities	49.580	60.550	(80.730)	(9.470)	19.930
Pooled Investment Vehicles	1,568.034	1,334.190	(787.804)	(255.762)	1,858.658
Derivative Contracts	(1.205)	5.335	(9.647)	5.325	(0.192)
Properties	340.650	34.877	-	(115.917)	259.610
	3,606.599	2,667.388	(2,486.006)	(756.426)	3,031.555
Cash Deposits	54.667	4.221	(10.375)	3.176	51.689
Other Investment Balances	5.015	5.089	(10.976)	(0.750)	(1.622)
Total Investments	3,666.281	2,676.698	(2,507.357)	(754.000)	3,081.622

31st March 2008 restated £m		31st March 2009 £m
Fixed Interest Securities		
78.992	UK Public Sector	1.553
3.915	UK Other	-
55.512	Overseas Public Sector	-
138.419	Total Fixed Interest Securities	1.553
Equities		
536.150	UK Quoted	165.413
951.210	Overseas Quoted	690.921
-	UK Unquoted	3.300
23.761	Overseas Unquoted	32.362
1,511.121	Total Equities	891.996
Index Linked Securities		
26.691	UK Public Sector	14.082
6.750	UK Other	5.848
16.139	Overseas Public Sector	-
49.580	Total Index-Linked Securities	19.930
Pooled Investment Vehicles		
106.361	Unit Trusts	69.621
918.368	Unitised Insurance Policies	1,090.465
543.305	Other Managed Funds	698.572
1,568.034	Total Pooled Investment Vehicles	1,858.658
Derivative Contracts		
0.599	Futures Contracts	(0.264)
(1.804)	Forward Foreign Currency Contracts	0.072
(1.205)	Total Derivative Contracts	(0.192)
Properties		
311.850	Freehold	239.870
28.800	Long Leasehold	19.740
340.650	Total Properties	259.610
Cash Deposits		
32.080	Sterling	36.301
22.587	Foreign Currency	15.388
54.667	Total Cash Deposits	51.689
Other Investment Balances		
(0.599)	Amounts Due for Variation Margin	0.264
(2.149)	Outstanding Trades	(3.955)
12.023	Outstanding Dividends and Tax Recoveries	7.062
2.435	Debtors	2.051
(6.695)	Creditors	(7.044)
5.015	Total Other Investment Balances	(1.622)
3,666.281	Total Investments	3,081.622

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 £6.756m (£5.560m in 2007/08). 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, as amended, 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:

2007/08 £m		2008/09 £m
6.869	Administration, Management and Custody	5.718
0.093	Performance and Risk Measurement Services	0.087
0.140	Other Advisory Fees	0.060
7.102	Total Investment Management Expenses	5.865

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

Previously current assets and liabilities have been disclosed as an overall net balance within the accounts. To comply with the 2007 SORP, this year the current assets and liabilities have been shown separately and the prior year comparatives have been restated.

31st March 2008 restated £m		31st March 2009 £m
4.434	Contributions and Recharges Due - Employees	4.718
20.406	Contributions and Recharges Due - Employers	23.278
0.115	Investment Management Expenses	0.088
0.161	Other	0.136
25.116	Total Current Assets	28.220

31st March 2008 restated £m		31st March 2009 £m
(5.607)	Unpaid Benefits	(2.473)
-	Contributions and Recharges Due - Employers	(0.336)
(1.120)	Inland Revenue	(1.170)
(2.918)	Investment Management Expenses	(1.906)
(4.061)	Other	(1.219)
(13.706)	Total Current Liabilities	(7.104)

12. Additional Voluntary Contributions (AVCs)

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 part of the Fund's assets.

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. 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 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 2008/09, £1.008m of contribution income was received into the AVC funds provided by The Prudential (£0.908m during 2007/08). As at 31st March 2009, these funds were valued at £7.653m (£7.490m as at 31st March 2008).

During 2008/09, £0.004m contribution income was received into the AVC funds operated by Equitable Life (£0.006m during 2007/08). As at 31st March 2009, these funds were valued at £0.576m (£0.663m as at 31st March 2008).

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 employed seven specialist external investment managers on fourteen investment mandates as at 31st March 2009. Each manager is a specialist in the market in which they invest. This broadly based management structure seeks to ensure that investment returns are not overly influenced by the performance of any one manager. The UK Equity mandate with Fidelity was terminated during the year.

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 with each manager were:

31st March 2008 restated £m		31st March 2009 £m	
	%		%
Investment Managers			
340.650	9.3	Aberdeen Property Investors	259.610 8.4
358.056	9.8	Capital International - Global Equities	281.931 9.2
95.724	2.6	Capital International - Emerging Markets	73.656 2.4
383.237	10.5	Fidelity Pensions Management	- 0.0
311.241	8.5	Henderson Global Investors	320.103 10.4
658.337	18.0	Legal and General Investment Management	904.915 29.4
309.239	8.4	M&G	215.996 7.0
293.295	8.0	Schroder Investment Management	247.890 8.0
532.588	14.5	UBS Global Asset Management	392.677 12.7
100.255	2.7	Active Currency	63.986 2.1
216.412	5.9	Private Equity	272.874 8.9
49.380	1.3	Infrastructure	31.467 1.0
17.867	0.5	Managed In-House	16.517 0.5
3,666.281	100.0	Total Investments	3,081.622 100.0

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 derivative instruments as part of its investment strategy and to assist with efficient portfolio management.

Futures

As at 31st March 2009, the Fund held 147 June 2009 Long Gilt Futures contracts which had a book value of £18.071m and an economic exposure value of £18.112m.

As at 31st March 2009, the Fund held 386 June 2009 Long European Equity Futures which had a book value of £7.431m and an economic exposure value of £7.126m.

The overall futures position as at 31st March 2009 is shown below:

		31st March 2009	
		Economic Exposure Value	Market Value
		£m	£m
Type of Future	Expiration		
UK Gilt - exchange traded	June 2009	18.112	0.041
European Equities - exchange traded	June 2009	7.126	(0.305)
		25.238	(0.264)

Forward Currency Contracts

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 2009, the Fund held three positions in the Swiss Franc that together showed an unrealised profit of £0.072m, as shown in the table below:

		31st March 2009
		Market Value
		£m
Type of Forward Foreign Currency Contracts		
One Month - Over the Counter	Bought Sterling/Sold Swiss Franc	0.072
		0.072

These positions were settled in April 2009 at an overall profit of £0.213m.

16. Securities Lending

The securities lending programme is operated through the Fund's custodian, Northern Trust. The Fund suspended its programme in September 2008 due to market turmoil and resulting concern over counterparty risk. Therefore, the Fund had no stock out on loan as at 31st March 2009 (£207.701m as at 31st March 2008).

31st March 2008		31st March 2009
£m		£m
Securities on Loan		
29.910	Fixed Interest Securities	-
10.095	Index-Linked Securities	-
116.309	UK Equities	-
51.387	Overseas Equities	-
207.701	Total Securities Lending	-

As the Fund did not have any assets on loan as at 31st March 2009, it did not hold any collateral.

31st March 2008		31st March 2009
£m	Collateral	£m
11.637	Cash	-
141.460	Fixed Interest	-
72.043	Equities	-
225.140	Total Collateral	-

The value of the assets shown in the two tables above is on a mid basis and not on a restated bid basis. This is the standard methodology for valuing securities on loan so bid pricing is not available.

17. Underwriting

The Fund accepts a number of underwriting and placing propositions. As at 31st March 2009, there was one commitment outstanding which had a potential liability of £3.331m. The Fund was later released from this commitment without having to take up any shares.

18. Significant Holdings

As at 31st March 2009, the Fund had two holdings that represented more than 5% of the total Fund value. Both 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 2009, this was valued at £904.915m and represented 29.4% of the total net assets of the Fund. During 2008/09, a new fund was contracted into so as to split the insurance contract into six individual funds, representing six different asset classes, as follows:

31st March 2008 restated £m		31st March 2009 £m
Fund Type		
389.977	UK Equities	673.515
-	European Equities	23.559
112.819	North American Equities	97.156
38.725	UK Gilts	10.916
27.073	AAA Fixed Interest	28.946
89.743	Index-Linked Gilts	70.823
658.337	Total	904.915

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2009, this was valued at £185.551m (£260.033m as at 31st March 2008, restated) and represented 6% of the total net assets of the Fund.

19. Outstanding Commitments

As at 31st March 2009 the Fund had twenty-seven outstanding commitments to investments:

Name of Fund	Year	Value	Draw-downs Made	Commitment Outstanding	
		m	m	m	m
HarbourVest International Private Equity Partners IV	2002	\$55.0	\$48.4	\$6.6	£4.6
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0	\$32.9	\$13.1	£9.1
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0	\$6.0	\$2.0	£1.4
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0	\$20.3	\$7.7	£5.4
Capital North East	2002	£1.5	£1.4	£0.1	£0.1
HarbourVest Partners 2004 Direct Fund	2004	\$30.0	\$29.6	\$0.4	£0.3
Capital International Private Equity Fund IV	2004	\$18.0	\$16.9	\$1.1	£0.8
HarbourVest International Private Equity Partners V - Partnership	2005	€100.0	€52.5	€47.5	£44.0
HarbourVest International Private Equity Partners V - Direct	2005	€30.0	€23.4	€6.6	£6.1
Pantheon Asia Fund IV	2005	\$20.0	\$9.2	\$10.8	£7.5
Pantheon Europe Fund IV	2005	€25.0	€14.6	€10.4	£9.6
Pantheon USA Fund VI	2005	\$30.0	\$20.5	\$9.5	£6.6
Lexington Capital Partners VI-B	2005	\$30.0	\$22.5	\$7.5	£5.2
HarbourVest Partners VIII Cayman Buyout Fund	2006	\$112.0	\$37.0	\$75.0	£52.3
HarbourVest Partners VIII Cayman Venture Fund	2006	\$56.0	\$21.3	\$34.7	£24.2
Pantheon Europe Fund V	2006	€35.0	€12.4	€22.6	£20.9
Pantheon USA Fund VII	2006	\$35.0	\$10.0	\$25.0	£17.4
Coller International Partners V	2006	\$30.0	\$12.5	\$17.5	£12.2
HarbourVest Partners 2007 Direct Fund	2007	\$30.0	\$9.8	\$20.2	£14.1
Pantheon Asia Fund V	2007	\$20.0	\$4.2	\$15.8	£11.0
Pantheon Europe Fund VI	2007	€40.0	€6.4	€33.6	£31.1
Pantheon USA Fund VIII	2007	\$35.0	\$3.5	\$31.5	£22.0
Capital International Private Equity Fund V	2007	\$35.0	\$12.3	\$22.7	£15.8
Co-Investment Partners Europe	2007	€30.0	€12.6	€17.4	£16.1
Partners Group 2006 Direct Fund	2007	€30.0	€26.2	€3.8	£3.5
Infracapital	2007	£35.0	£23.5	£11.5	£11.5
Pantheon International Participations PLC	2008	£10.0	£3.3	£6.7	£6.7
Total Outstanding Commitments					£359.5

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2009.

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 2008/09, South Tyneside Council charged the Fund £0.719m (£0.713m in 2007/08) in respect of services provided, primarily financial, legal and information technology. The Fund charged South Tyneside Council £0.048m (£0.047m in 2007/08) in respect of Treasury Management services.

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

Audit Report

Independent auditor's report to the Members of South Tyneside Council

Opinion on the pension fund accounts as included in the Annual Report

We have audited the pension fund accounts of the Tyne and Wear Pension Fund (administered by South Tyneside Council) for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing the pension fund accounts, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimations that are reasonable and prudent;
- keeping proper accounting records which are up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for South Tyneside Council's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. We do not, in

giving this 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.

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008. We report if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

We read the other information published with the pension fund accounts and consider whether it is consistent with the audited pension fund accounts. This other information comprises:

- Committee Members, Managers, Advisors and Officers
- Review of the Year
- Governance Arrangements
- Vision Statement
- Service Plan
- Legal Framework
- Additional Voluntary Contributions
- Employers' Contributions and the Valuation Process
- Statement of the Actuary
- Membership of the Fund
- Working with Members and Employers
- Investment Report
- Investment Policies

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts.

Opinion

In our opinion the pension fund accounts present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

**PricewaterhouseCoopers LLP,
Newcastle upon Tyne.
89 Sandyford Road, Newcastle upon Tyne,
NE1 8HW
30th September 2009**

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.