

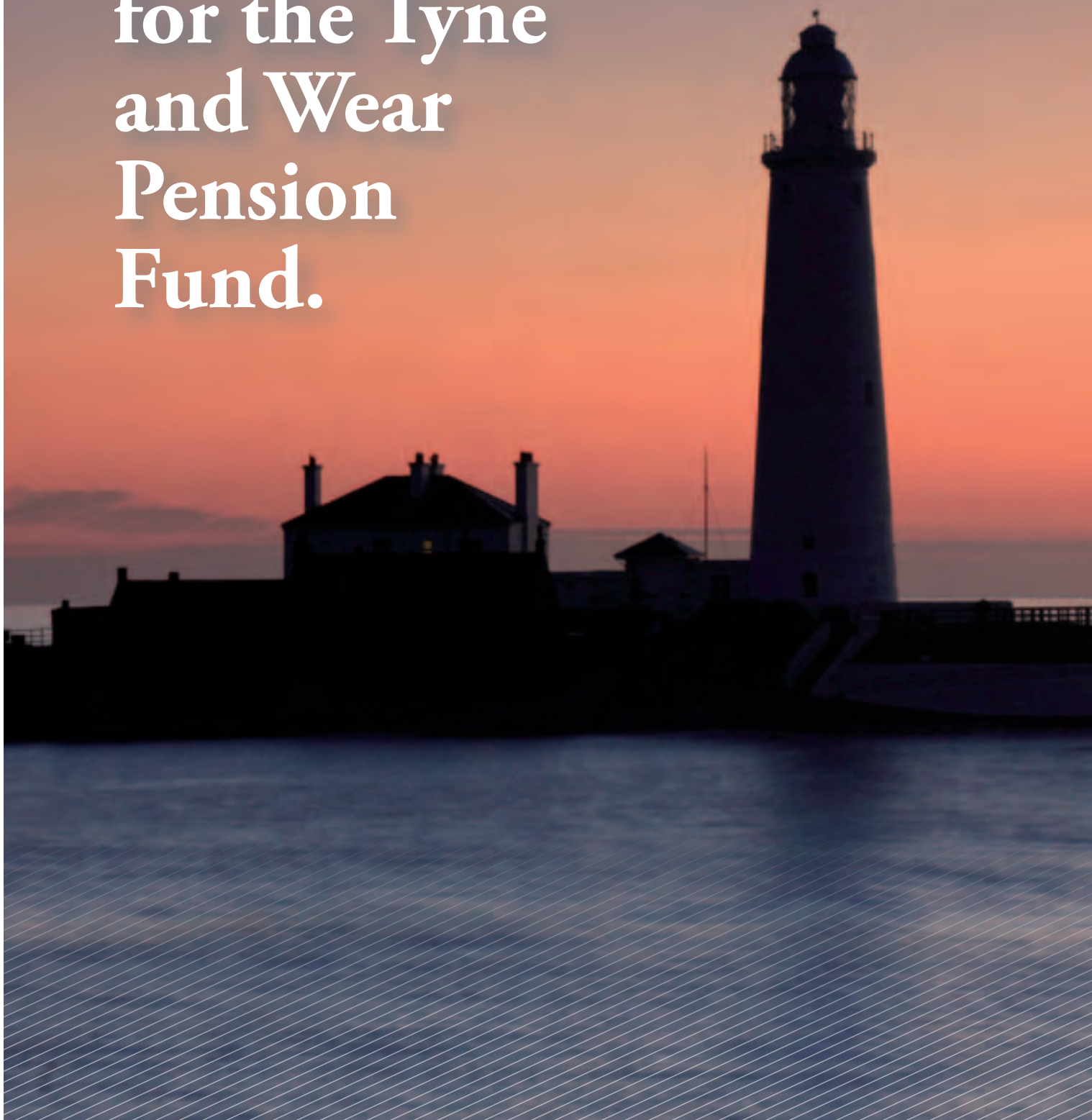
TYNE AND WEAR PENSION FUND  
REPORT AND ACCOUNTS

Administered by South Tyneside Council

09/10



**We are pleased to  
present the 2009/10  
Report and Accounts  
for the Tyne  
and Wear  
Pension  
Fund.**



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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 N.D. Clothier  
(substitute – Councillor G.M. Partis)

### 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  
S. Tertrais – TT2 Limited



## 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

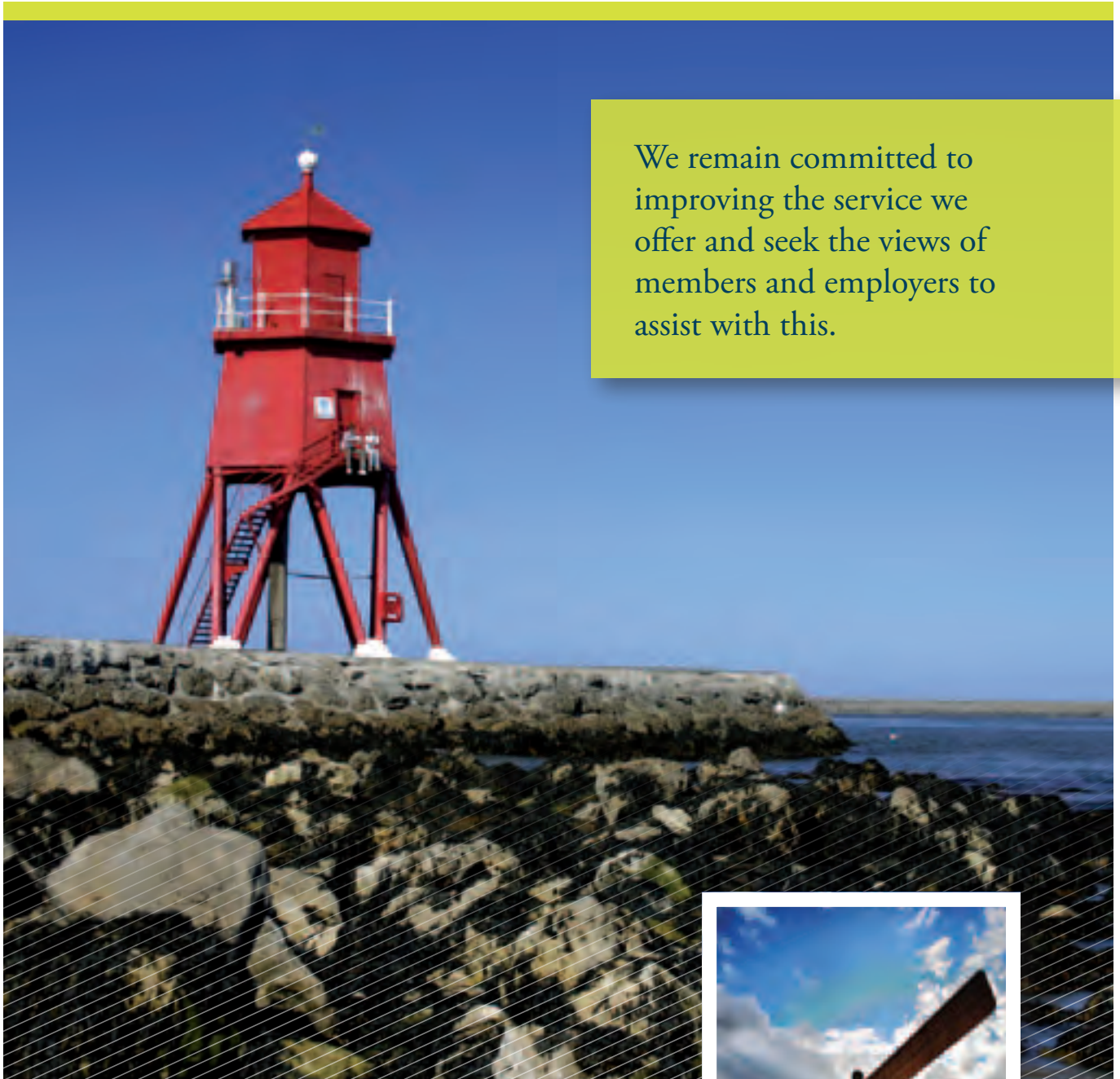
### Bonds

Henderson Global Investors

### Property Manager

Aberdeen Property Investors

We remain committed to improving the service we offer and seek the views of members and employers to assist with this.



## AVC Managers

The Prudential Assurance Company  
Equitable Life Assurance Society

## Advisors

Actuary	Hewitt Associates Limited
Investment Advisor	Hymans Robertson Consultants and Actuaries

## Officers

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



# Review of the Year

We are pleased to present the 2009/10 Report and Accounts for the Tyne and Wear Pension Fund.

A notable event in the year is the market recovery that has followed on from the falls in 2008 and early 2009 that were triggered by the global economic crisis.

**Notwithstanding this recovery, there has been 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 2009/10 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 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 low investment returns and a fall in the nominal and real gilt yields that set the discount rates that are used to calculate liabilities.

This scenario has not affected the contributions that are being paid by most 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.

We have suggested to employers that have outsourced services 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, a straight application of the strategy used at the 2007 valuation would lead to unaffordable increases in the employers' contributions. The Pensions Committee has recognised this position and is reviewing the assumptions and strategy for the next valuation.

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 would take effect from April 2011 through the 2010 valuation certificate, or from April 2012 through a statutory amendment to that certificate.

The investment strategy is derived from asset liability modelling that uses data from the triennial valuations. The asset allocation in place through 2009/10 was 60% in quoted equity, 21% in bonds, 10% in UK property and 9% in alternative investments.

We undertook a review of investment strategy and the management structure in 2008. It was concluded that the Fund should restructure its quoted equity mandates to manage a greater proportion on a global basis and increase the allocation to alternative investments, at the expense of the allocations to quoted equity and bonds.

The initial intention was to introduce this new strategy during 2008/09. However, implementation was largely put on hold as a result of the events in markets during 2008/09 and into 2009/10. There were concerns over market stability, difficulty in effecting transitions and issues over the future viability and ownership of a number of investment managers, many of whom were reappraising their processes, product offerings and downsizing teams.

The new strategy is being put into place in 2010/11, following a review to ensure that it remains appropriate.

As noted above, markets have recovered in 2009/10 following the falls in 2008 and early 2009 that were triggered by the global economic crisis. There were very strong rises in quoted equity markets, although private equity has yet to recover.





Property, corporate bonds and index-linked gilts delivered good returns, whilst returns from gilts were low. Consequently, the value of UK pension fund assets rose in 2009/10 for the first time in three years.

The Fund's return for the year was 36.7%, which was 0.9% below its benchmark return of 37.6%. Inflation, as measured by the Retail Price Index, rose by 4.4% and Average Earnings increased by 1.7%.

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 7.7% per annum, which is 0.3% below the benchmark return of 8.0% per annum. The ten year return is 4.8% per annum, which is 0.6% above the benchmark return of 4.2% per annum.

The returns for both periods are above the increases in Retail Price Inflation and in Average Earnings.

The below benchmark return over the five year period is due to poor performance from certain active equity managers and from active currency. The Pensions Committee has been closely monitoring the position and the implementation of the new strategy in 2009/10 will provide an opportunity to redress the position.

HM Treasury has sponsored a review of the Myners Investment Principles that were first

introduced in 2001. There were ten Principles contained in that Code and, whilst compliance was voluntary, legislation required local government pension funds to state the extent of their compliance. The Fund was fully compliant with the ten original Principles.

The outcome of the review is a consolidation of the ten Principles into six, higher level Principles. In December 2009, the Pensions Panel of the Chartered Institute of Public Finance and Accountancy issued guidance on the key issues for compliance with the new Principles that is endorsed by the Department of Communities and Local Government. The Pensions Committee benchmarked its practices and procedures against the guidance and concluded that the Fund is compliant with the six new Principles.

The Pensions Panel has also introduced a Knowledge and Skills Framework for persons involved with the Local Government Scheme. Two frameworks have been produced, for Elected Representatives and Non Executives and for Pensions Practitioners. The Committee has adopted the Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme, whilst the Framework for Pensions Practitioners has been adopted by the Fund's Officers as part of their training requirements.

The Fund has continued to improve its arrangements for the administration of pensions. A Pensions Administration Strategy that sets out the role and responsibilities of the

employers has been introduced. Workshops and training events were held to support this. Work is in hand to increase the amount of data that can be taken electronically from employers, which will produce efficiencies for the employers and for the Fund. In addition, the Fund is introducing a new pension payroll as part of a Council wide upgrade of systems. The Civica Pension Payroll has been selected as the most suitable system. Implementation is in hand and the project will go live early in 2011.

We remain committed to improving the service we offer and seek the views of members and employers to assist with this. The deferred members and employers were surveyed in 2009/10. It was pleasing to find that 97% of the members and 100% of the employers who responded were satisfied with the service provided.

**Councillor Eileen Leask**  
Chair of Pensions Committee

**Stephen Moore**  
Head of Pensions

# Governance Arrangements

The Committee has adopted the Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme.





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 overall governance structure, including the wider responsibilities of the Committee, is set out in the Governance Compliance Statement that the Fund has to prepare, maintain and publish under the Local Government Pension Scheme (Administration) Regulations 2008. The Statement was last reviewed by the Committee in February 2010 and demonstrates that the Fund is compliant with guidance provided by the Secretary of State for Communities and Local Government.**

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

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 managers. The Panel consists of three members of the Committee, the Investment Advisor, the Head of Pensions and the Assistant Head of Pensions

(Investments). It reports its findings to the Committee and makes recommendations on any action that is required.

The Committee has a Training Policy and Programme designed to meet its specific training needs. The Programme provides about ten training days each year to all Committee Members. Additional training is provided to Members that sit on the Investment Panel.

The Pensions Panel of the Chartered Institute of Public Finance and Accountancy has introduced a Knowledge and Skills Framework for persons involved with the Local Government Scheme. Two frameworks have been produced, for Elected Representatives and Non Executives and for Pensions Practitioners.

The Committee has adopted the Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme.

The Framework for Pensions Practitioners has been adopted by the Fund's Officers as part of their training requirements.

The Training Policy and Programme also recognise the requirements of the Investment Principles and include aspects of the Pensions Regulator's Code of Practice on Trustee Knowledge and Understanding that are relevant to the Scheme.

The Fund holds annual meetings 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.

**Information on the Fund is available on the Fund's website at [www.twpf.info](http://www.twpf.info). This includes:**

- The agenda and minutes of the Committee meetings.
- The Service Plan, which presents the Fund's aims and objectives over three year rolling periods.
- 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 Corporate Governance Policy, which sets out the Fund's approach to environmental, social and governance issues.
- The Communications Policy Statement, which sets out the services we provide to members, prospective members and employers.
- The Pension Administration Strategy, which is designed to assist the Fund and the employers to work effectively together to fulfil their joint responsibilities.

# Vision Statement

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

**We will:**

- Promote membership of the Fund.
- Keep employers' contributions as low and as stable as possible through effective management of the Fund.
- Work with our partners to provide high quality services to employers and members.
- Make pensions issues understandable to all.

**We will know we are succeeding when:**

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



# Service Plan

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

The Pensions Committee approves the Plan at a special meeting in February of each year.

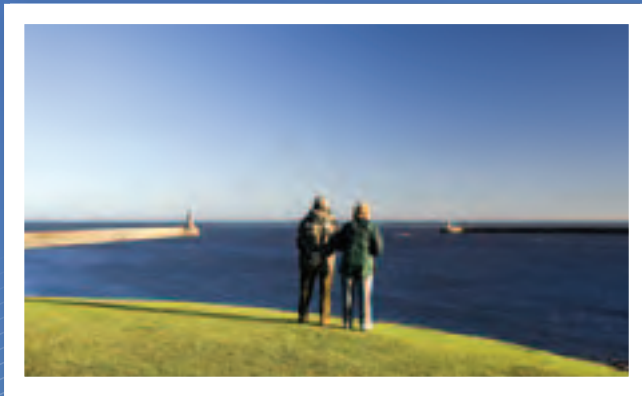
The Plan can be viewed on the Fund's website.

## In 2009/10, we have:

- Delivered the Pensions Committee's Training Programme and adopted the Knowledge and Skills Framework that has been produced by the Pensions Panel of the Chartered Institute of Public Finance and Accountancy as the basis of the Programme.
- Prepared Performance Development Plans for Pensions Service staff.
- Responded to consultations on the Scheme and advised employers and members of changes.
- Introduced a Pensions Administration Strategy.
- Continued to develop the pension administration system and begun work on an improved pension payroll that will go live in 2011/12.
- Managed the admission of new employers and the withdrawal from the Fund of some existing employers.
- Taken forward the introduction of a new investment strategy and management structure that will increase the exposure to alternative investments and the proportion of quoted equity that is managed in global mandates.



# Legal Framework



# Introduction

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

## Investment Regulations

The framework for investment is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These Regulations set out the types of investments that can be made, which include company and government securities, property and unit trusts. The Regulations also set out restrictions on the proportion of a fund that can be held in different types of investment.

The 2009 Regulations consolidated Regulations made in 1998 with subsequent amendments. They also introduced some new provisions, including the following:

- Pension fund money has to be kept in a separate bank account held by the administering authority from 1st April 2011. This has been the Fund's practice for a number of years.
- From 1st April 2010, the ability of the administering authority to borrow money from the pension fund for any purpose for which it has a statutory right to borrow will be removed. This has not been the Fund's practice.
- A limited power has been introduced for a pension fund to borrow money for cash flow management purposes, provided the sum borrowed and the interest can be repaid from the pension fund within 90 days. This is a welcome change that will assist with managing cash flow.
- Information on stock-lending activities and on the way that investment-related risks are measured and managed has to be included in a fund's statement of investment principles from 1st July 2010. The Fund is compliant with this requirement.

## Scheme Regulations

The rules for the administration 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.

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

## Scheme Benefits

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 years, before retirement.
- A normal retirement age of 65 for the release of unreduced benefits.
- A three level ill-health retirement package:
  - 100% enhancement of benefits for total incapacity.
  - 25% enhancement where there is a prospect of return to gainful employment after three years but before normal retirement age.



- No enhancement where there is a prospect of return to gainful employment within three years. This level of ill-health pension ceases on re-employment or after three years in payment.
- Except on grounds of ill-health, the earliest age for release of pension is 55. This came into effect in 2010 for current members.
- Early release of pension from age 55 on grounds of redundancy or business efficiency. This came into effect in 2010 for current members.
- 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.
- An option to commute pension to lump sum, at the rate of one pound of annual pension for twelve pounds of lump sum, up to a maximum tax free lump sum of 25% of capital value of accrued benefit rights at date of retirement.
- Pensions are indexed in line with the Retail Price Index and must come into payment before the 75th birthday.
- Survivor benefits for life, payable to spouses, civil partners and nominated dependent partners (opposite and same sex) at a 1/160th accrual rate.

- Survivor benefits payable to children.
- A death-in-service tax-free lump sum of three times salary.
- A post-retirement lump sum death benefit where death occurs before age 75 of up to a maximum of ten years pension.
- 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.

## Cost Sharing Mechanism

### In April 2009, CLG issued the Local Government Pension Scheme (Amendment) Regulations 2009.

These Regulations put in place the mechanism 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, and produce an overall future service cost certificate for the Scheme which 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 2007, administering authorities must consider whether their

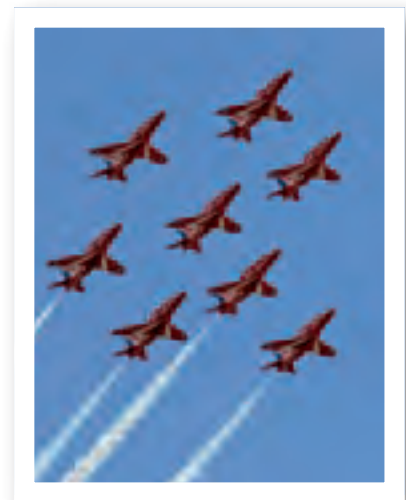
triennial valuation rates and adjustments certificate needs to be revised.

- If the rates and adjustments certificate does need to be revised then this must be done as soon as possible and the revised certificate must cover the period beginning with 1st April in the second year following the valuation date.

## Other Developments in 2009/10

During the year, CLG issued a range of other regulations and guidance, including:

- An informal consultation document entitled "The Local Government Pension Scheme – Delivering Affordability, Viability and Fairness". The document invited comment on options that CLG believe will reduce the likelihood of the 2010 valuation producing unaffordable increases in employer contribution rates.
- Regulatory changes required for staff transferring from the Learning and Skills Council to local education authorities.
- Regulatory changes to manage the transfer of assets and liabilities between



funds affected by the merger of Probation Boards to Probation Trusts:

- Proposals that would allow the backdating of admission agreements, require foundation schools to provide access to the Scheme, allow members who rejoin to aggregate any earlier period of membership and allow pension credit members to take benefits from age 60 with an actuarial reduction.
- A range of other minor administrative changes.



# 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.

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.

HM Revenue and Customs 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 dependent 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.**

The Fund carries out an annual review of the AVC provision. The 2009 review was undertaken with the assistance of Hymans Robertson. It was concluded that The Prudential should remain as the sole provider.

The Fund continues to monitor the position on with-profits investment. This option was closed to new investors following the 2006 review. The position for current investors was put on hold whilst The Prudential reviewed its stance 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. It has been decided not to take further action in the current investment climate but the Fund will continue to monitor the position.

## Equitable Life

**The AVC plan with Equitable Life has been closed to new members and transfers.**

A bulk transfer exercise was conducted in 2003, 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 remain 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.

The Fund will 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 have been set by the Regulations, with employers' contributions being adjusted in triennial valuations to ensure that the Fund will have sufficient assets to meet its liabilities.

From the 2010 valuation, the cost sharing mechanism may also influence the Scheme benefits and the levels of employer and employee contributions.

## History of the Funding Level

**A measure of the financial health of a pension fund is its "funding level", which is the ratio between its assets and liabilities. A pension fund that holds sufficient assets to meet all its projected liabilities would have a funding level of 100%. A fund with a funding level below 100% is described as being in deficit.**

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 contribution holiday, alongside a policy change that led to the index-linked element of pensions being charged to pension funds rather than directly to employers, eroded the surplus and led to a funding level of 98% at the 1992 valuation. 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.

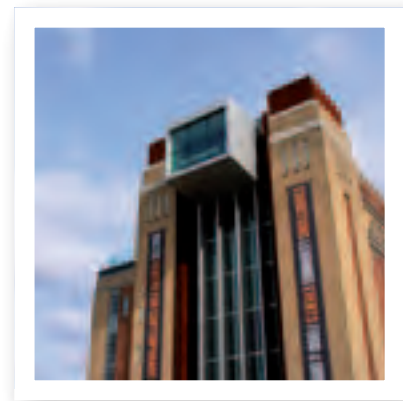
The 2004 valuation showed that the funding level had fallen to 64%. This fall was largely attributable to investment market returns being below the levels assumed in the 2001 valuation, although a reduction in the discount rates used to calculate liabilities also contributed to the fall.

## The 2007 Valuation

**Contributions paid by employers in 2009/10 were set at the 2007 valuation. At this stage, 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 discount rate.**

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

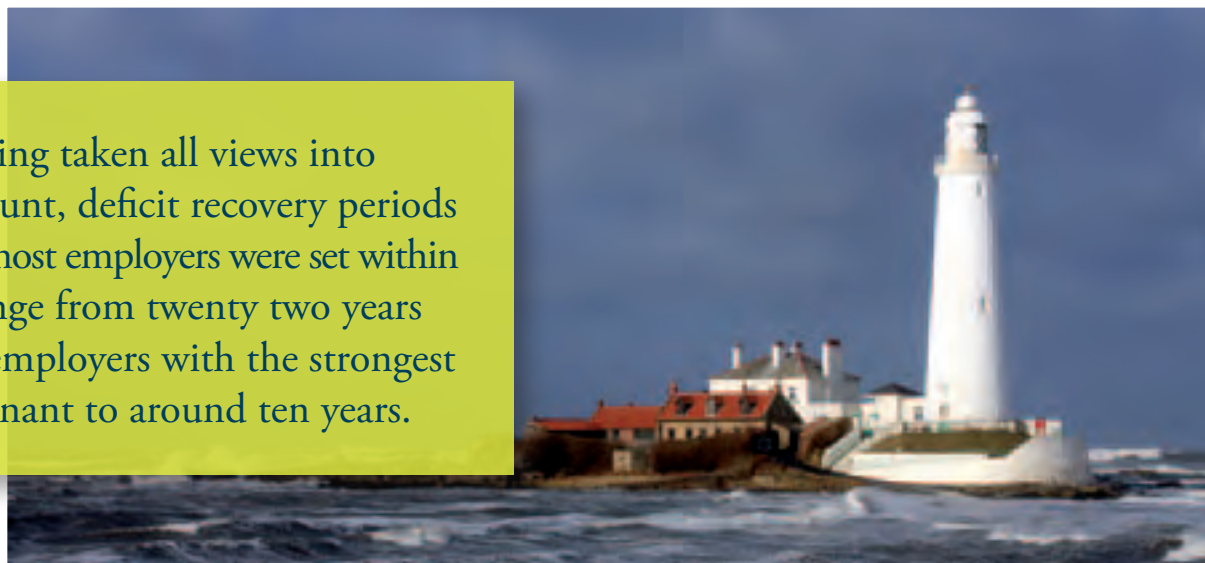
**The strategy at the 2007 valuation is set out in the Statement of the Actuary and in the Funding Strategy Statement, which is on the Fund's website.**

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.

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

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

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.



- 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 or legal 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 selective use of up to six annual steps in the phasing in of deficit payments and the grouping of some smaller employers for setting contribution rates, which protects such employers from the risk of high volatility of rates.

## Events since the 2007 Valuation

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

- Investment markets falling as a result of the global economic climate. For example, the return on UK equities was -0.7% from March 2007 to March 2010.
- A reduction in the long term nominal and real gilt yields that are used to set the discount rates for the valuation.

These factors have impacted negatively on the funding position, which has been extremely volatile and has deteriorated significantly. An application of the assumptions and strategy from the 2007 valuation leads to an estimated funding level of 67% as at March 2010, before any allowance for improved longevity or other factors.

This deterioration has not yet affected the contributions that are paid by most employers as the rates set at the 2007 valuation have been held. However, it has increased the rates set for new employers and the cost of terminal valuations.

We have suggested to employers that have outsourced services 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 would lead to unaffordable increases in the employers' contributions. The Pensions Committee has recognised this position and is reviewing the assumptions and strategy for the next valuation.

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 would take effect from April 2011 through the 2010 valuation certificate, or from April 2012 through a statutory amendment to that certificate.

In June 2009, CLG undertook a consultation exercise that considered 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. This exercise examined 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 was also considered. At the time of writing, no changes to the Scheme have been brought forward from that exercise.

# Statement of the Actuary

## for the year ended 31 March 2010

### 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 2009/10 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, including changes to reflect higher price inflation expectations 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.
6. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.



7. The main actuarial assumptions were as follows:

Discount rate	
<b>Scheduled Bodies</b>	
Pre retirement:	6.6% a year
Post retirement:	5.6% a year
<b>Admitted Bodies</b>	
In service:	6.2% a year
Left service:	5.2% a year
<b>Rate of general pay increases</b>	4.7% a year
<b>Rate of increases to pensions in payment</b>	3.2% a year
<b>Valuation of assets</b>	market value

8. Annual reviews to monitor the level of ill-health retirements are carried out in respect of participating Employers and, where appropriate, Employer contribution rates may be increased. Since the actuarial valuation as at 31 March 2007 two such reviews have been carried out with effective dates of 31 March 2008 and 31 March 2009. A revised Rates and Adjustments Certificate was signed on 10 March 2009.

9. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2010 which is currently underway. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2011 to 31 March 2014 are required by the Regulations to be signed by 31 March 2011.

10. This statement has been prepared by the Actuary to the Fund, Hewitt Associates 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.

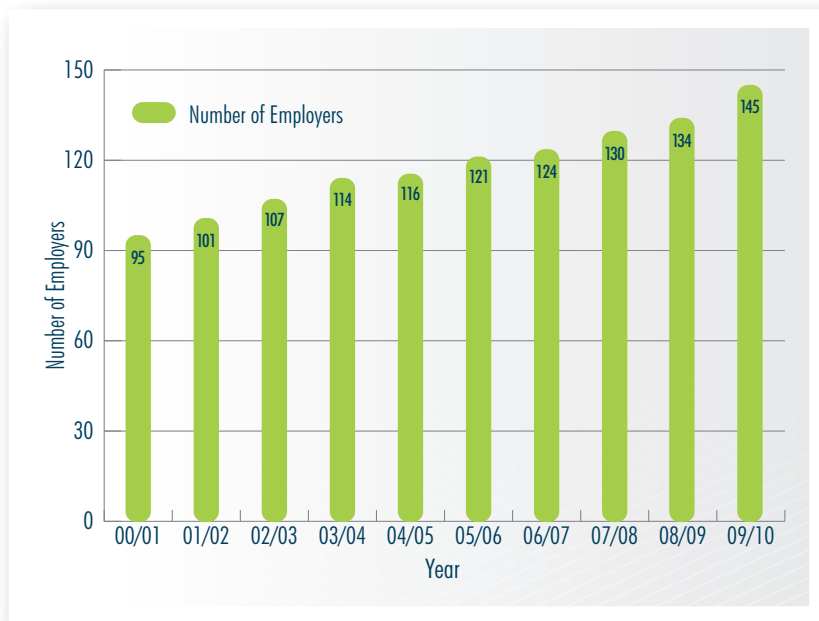
**Hewitt Associates Limited**  
27 May 2010



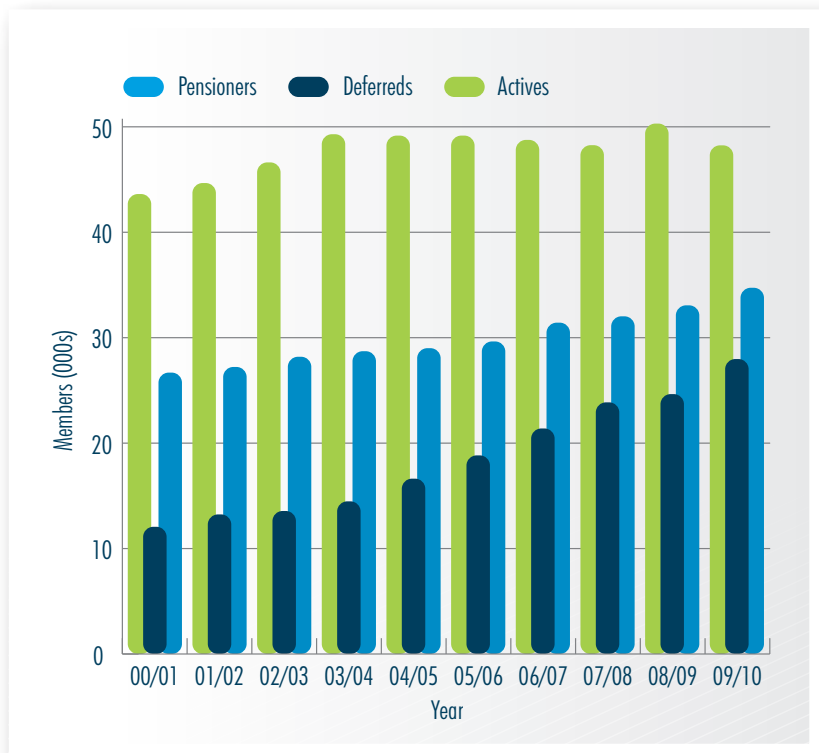
# Membership of the Fund

As at 31st March 2010, there were 145 employers participating in the Fund. This includes the five district councils and a wide range of other organisations that provide a public service within the Tyne and Wear County area.

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



The Fund had 110,455 members as at 31st March 2010 and the chart right shows the change in membership over the past ten years.



## The Employers in the Fund and their Members as at 31st March 2010

District Councils	Actives	Deferreds	Pensioners
Gateshead Council	6,915	4,307	5,297
Newcastle City Council	8,372	5,065	7,589
North Tyneside Council	5,404	3,256	4,552
South Tyneside Council	4,808	3,132	3,762
Sunderland City Council	8,388	5,175	6,095
<b>Sub Totals</b>	<b>33,887</b>	<b>20,935</b>	<b>27,295</b>

Schedule 2 Part 1 Employers	Actives	Deferreds	Pensioners
Academy 360	52	6	1
Castle View Academy	29	1	0
Castle View Leisure	8	0	0
City of Sunderland College	449	232	105
Excelsior Academy	78	6	0
Former North East Regional Airport Committee	0	0	21
Former Tyne and Wear County Council	0	68	274
Former Tyne and Wear Residuary Body	0	5	29
Gateshead College	278	199	70
Gateshead Housing Company	365	98	34
Monkwearmouth College	0	1	5
National Probation Service - Northumbria	598	223	353
Newcastle College	1,032	675	180
Newcastle Education Action Zone	0	2	2
North Tyneside College	3	61	23
Northumberland Magistrates Court	0	37	83
Northumbria Police Authority	2,361	953	1,027
Redhouse Academy	36	0	0
South Tyneside College	253	160	136
South Tyneside Education Action Zone	0	2	0
South Tyneside Homes	607	103	85
Sunderland Education Action Zone	0	0	1
Tyne and Wear Fire and Rescue Service	353	129	195
Tyne and Wear Passenger Transport Authority	1	32	95
Tyne Metropolitan College	167	107	26
Tynemouth College	2	28	20
University of Northumbria	1,531	873	661
University of Sunderland	799	603	381
Wearside College	0	4	10
Your Homes Newcastle	688	166	105
<b>Sub Totals</b>	<b>9,690</b>	<b>4,774</b>	<b>3,922</b>

Schedule 2 Part 2 Employers	Actives	Deferreds	Pensioners
Birtley Town Council	0	4	4
Blakelaw and North Fenham Parish Council	0	0	0
Nexus	994	470	1,399
Learning World	0	7	0
Blue Square Trading Limited	1	8	3
<b>Sub Totals</b>	<b>995</b>	<b>489</b>	<b>1,406</b>

Admitted Bodies	Actives	Deferreds	Pensioners
Age Concern Newcastle	35	31	35
Assessment and Qualification Alliance	0	2	13
Association of North East Councils	35	27	8
Balfour Beatty	21	2	1
Baltic Arts Flour Mills	3	5	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	389	14	5
Bullough Contract Services	2	0	0
Carillion (Jarrow School)	12	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	6	4	0
Compass Group UK and Ireland	4	0	1
Disability North	6	22	8
Gateshead Law Centre	0	13	3
Gentoo Group Limited	1,497	385	259
Hebburn Neighbourhood Advice Centre	3	3	0
Higher Education Funding Council for England	0	1	9
Information North (North Regional Library System)	0	0	3
Insitu Cleaning	10	1	0
International Centre for Life	9	5	9
Jarvis Accommodation Services Limited	5	0	1
Jarvis-Sandhill View	3	1	3
Kenton Park Sports Centre	4	7	0
Kier North Tyneside Limited	436	1	8
Managed Business Space Limited	1	0	2
Maxim Cleaning Services	1	0	0
Mitie Cleaning (North) Limited	0	1	0
Mitie PFI (Boldon)	8	0	0
Mitie PFI Limited	1	0	0
Morrison Facilities Services Limited 1	48	4	16
Morrison Facilities Services Limited 2	273	20	40
Morse	8	0	0
Museums Libraries and Archives North East	0	20	5

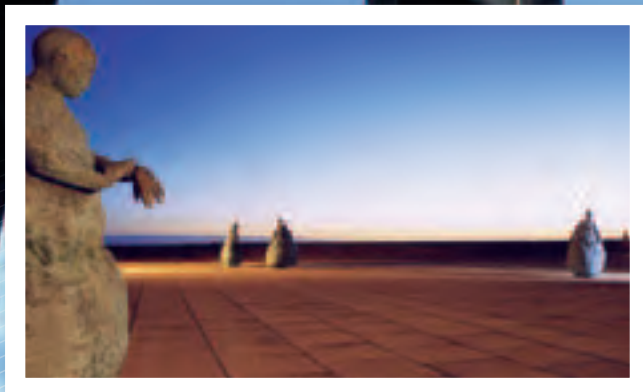
Admitted Bodies	Actives	Deferreds	Pensioners
National Car Parks	0	3	3
National Glass Centre	0	2	1
Newcastle Law Centre	9	7	2
Newcastle Family Service Unit	0	2	5
Newcastle Health City Project	12	10	5
Newcastle International Airport	159	281	315
Newcastle Tenants Federation	4	2	2
Newcastle Theatre Royal Trust	57	31	16
Newcastle West End Partnership	0	2	0
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	17	13
North East Regional Employers Association	5	2	7
North Tyneside Child Care Enterprise	1	17	1
North Tyneside City Challenge	0	3	1
North Tyneside Disability Advice	0	0	1
Northern Arts Association	1	31	13
Northern Council for Further Education	0	14	13
Northern Counties School for the Deaf	1	18	21
Northern Grid for Learning	9	2	0
Northumbria Tourist Board	0	22	13
NSL Limited	5	0	0
One North East	0	0	9
Ouseburn Trust	0	1	0
Parsons Brinkerhoff	11	4	1
Passenger Transport Company	0	0	96
Percy Hedley Foundation	26	2	2
Port of Tyne Authority	0	0	4
Praxis Service	2	3	1
Raich Carter Sports Complex	30	25	0
RM Education	4	0	0
Robertson Facilities Management Limited	11	0	0
Saint Mary Magdalene & Holy Jesus	7	7	4
Saint Mary the Virgin Estate Management Charity	0	0	1
Scolarest	21	4	3
Scolarest PFI Boldon	4	0	0
Search Project	2	1	2
Simonside Community Centre	1	0	0
South Tyne Football Trust	1	0	0
South Tyneside Groundwork Trust	1	5	4
South Tyneside Victim Support	0	2	0
Southern Electric Contracting Limited	20	5	9
Stagecoach Travel Services	154	188	630
Sunderland City Training and Enterprise Council	0	42	26
Sunderland Empire Theatre Trust	0	5	3



Admitted Bodies	Actives	Deferreds	Pensioners
Sunderland Outdoor Activities	0	3	0
Sunderland Streetlighting Limited	26	21	23
Taylor Shaw (Sunderland)	10	0	0
The Ozanam House Probation Hostel Committee	15	18	7
Thomas Gaughan Community Association	1	1	0
TT2 Limited	81	5	9
Tyne and Wear Development Company Limited	14	11	6
Tyne and Wear Development Corporation	0	23	26
Tyne and Wear Enterprise Trust	7	17	16
Tyne and Wear Play Association	1	0	0
Tyne and Wear Small Business Service	0	36	9
Tyne Waste Limited	0	8	12
Tyneside Deaf Youth Project	0	3	0
Tyneside Training and Enterprise Council	0	40	36
Valley Citizens Advice Bureau	0	1	1
Walker Profiles (North East) Limited	25	1	3
Wallsend Citizens Advice Bureau	0	1	2
Wallsend Peoples Centre	1	2	2
Workshops for the Adult Blind	0	12	81
<b>Sub Totals</b>	<b>3,575</b>	<b>1,559</b>	<b>1,928</b>
<b>GRAND TOTALS</b>	<b>48,147</b>	<b>27,757</b>	<b>34,551</b>



# Working with Members and Employers



# Introduction

The provision of a statutory pensions service to the 110,455 members and 145 employers that participate in the Fund 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 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.

The 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.

The Technical Team manages the actuarial valuations and provides support to the other four teams, with particular regard to IT systems and solutions 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.

The Fund has worked with employers to help them understand the new Scheme and to put appropriate administration processes in place.

A Pensions Administration Strategy has been introduced that sets out the role and responsibilities of the employers. Workshops and training events have been held to support this.

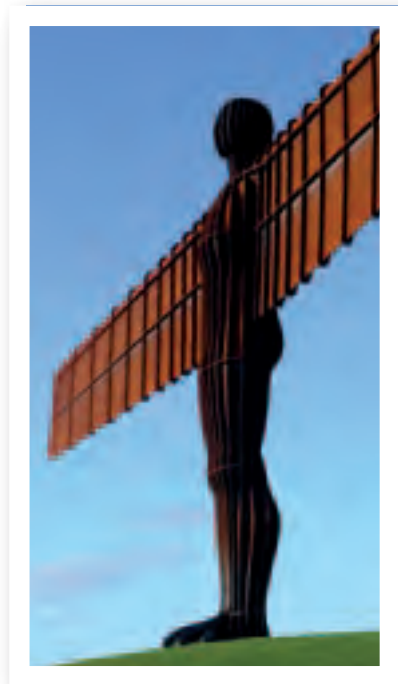
The Fund has monitored and updated its Scheme booklets to help members understand the new and old Scheme.

A range of presentations have been provided to members covering topics such as induction, transferring employer and midlife and pre-retirement planning. Seventeen events were held in 2009/10 that were attended by 474 people.

## Surveys

**The views of members and employers are sought to assess their perception of the service provided by the Fund. The deferred members and employers were surveyed in 2009/10.**

It was pleasing to find that 97% of the members and 100% of the employers who responded were satisfied with the service provided.



## Systems

**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.**

The Fund upgraded to the latest version of UPM in September 2008 in order to be compliant with the new Scheme and to improve functionality. The upgrade allowed for improved web access facilities for employers, including enhanced "what if" calculations.

Employer web forms are currently in development, which will provide more efficient and secure transmission of data and assist with the effective management of queries.

The Fund is also working to develop a new facility that will allow downloads of information directly from an employer's payroll into UPM. This offers significant efficiency and accuracy advantages over the existing arrangements.

South Tyneside Council is upgrading its financial systems. As part of this project, the Fund is introducing a pension specific payroll. The Civica Pension Payroll has been selected as the most suitable system. Implementation is in hand and the project is on schedule to go live early in 2011.



## Communications Policy Statement

The vision statement sets out the Fund's aim of making pensions issues understandable to all its stakeholders. The Communications Policy Statement sets out:

- How the Fund communicates with its stakeholders.
- The format, frequency and method of communications.
- How the Scheme is promoted to prospective members and employers.

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



## Services to Members

The main services provided to members are:

- A website.
- A Helpline that allows members to request leaflets and information, change certain personal and bank details, and track progress of payments and transfers. Over 50,000 calls were taken last year. There is a call back service for out of office hours and busy times.
- Personal callers are welcomed. There were 778 visitors to the Fund's offices last year. An appointment is not necessary.
- Combined pension forecasts are provided for active members and annual benefit statements for deferred members. Pensioners receive an annual update and details of any pensions increase.
- A members' annual report is published on the website, with hard copy available on request.
- Newsletters are provided to keep members informed of changes to the Scheme.
- Seminars are provided on request.
- A comprehensive range of leaflets is available from the website or through the Helpline.
- The trades unions that represent the members are invited to an annual meeting.

Further details of these services are set out as follows.

## Making Pensions Accessible to Members

The Fund adopts the principles of plain English in its documents. A recent survey showed that 89.9% of members who responded understood the Fund's literature. However, this is a fall from 96.6% in the previous survey. This is largely the result of the increased complexity of the information which had to be provided to members during the year as part of the move to the new Scheme. We will look to address this with future communications.

All information provided by the Fund is available in a range of formats including other languages, large print and Braille. Access is available to audio aids and British Sign Language interpretation services. Members can register to receive information in their required format when they join the Fund.

Surveys show that members' preferred method of contacting the Fund 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. The aim is to respond within five working hours or earlier, which was achieved for 94% of messages in 2009/10.

In addition to the main Helpline number of 0191 424 4141, the Fund has 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 the emergency planning and can be used if problems are experienced with the main telephone system.

## Annual Benefit Statements

Since 1999, the Fund has produced annual benefit statements for active members that set out their current and projected Scheme benefits.

The Fund and the employers work together to ensure that members' records are up to date. In 2009, 98.8% of active members were provided with a complete benefit statement, an increase from 96.4% in the previous year.

Since 2003, the Fund has issued a benefit statement to every deferred member where a current address is held. About 22,250 statements were sent out in 2009/10.



- The Fund hosts an annual meeting.
- Mailshots are provided to advise employers of developments.

Policy, the Pensions Administration Strategy, the Communications Policy Statement and the Service Plan.

## Combined Pension Forecasts

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

## Services to Employers

The main services that we provide to employers are:

- A client manager, whose role is to ensure efficient processing and communication.
- There is a programme of meetings to discuss issues related to pensions administration and regulatory changes.
- A Pensions Administration Strategy has been introduced that sets out the role and responsibilities of the employers.
- There is an online Employers' Guide to the administration of the Fund.
- Training courses are provided that educate and inform staff on pensions matters and working procedures. These are well received.

## Website and Electronic Communications

The use of email, electronic communication and the website is an increasingly important part of the service delivery package. The Fund is committed to develop and improve these approaches to communication.

Members, prospective members and their representatives are encouraged to contact the Fund by email at [pensions@twpf.info](mailto:pensions@twpf.info).

Through the website, members have access to:

- Details on how to contact the Fund.
- Latest news and topical issues.
- The 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 Corporate Governance

In addition to the main website, there is a password-protected area for employers. Sixty four 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.

An email alert facility has been developed to provide important news and latest information to employers. Almost all 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.

The Fund is working to expand the interactive nature of the website. Systems will be introduced to allow members to view their personal record and calculate estimates of their benefits. The Fund is also working to introduce online automated data transmission and processing for employers.

# Investment Report

## Introduction

The Investment Office of the Pensions Service manages the investment and financial control of the Fund.

The formal investment objectives are:

- To invest the Fund money in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits.
- To keep contributions as low and as stable as possible through effective management of the assets.

### Investment Strategy

The investment strategy is derived from asset liability modelling that uses data from the triennial valuations. 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 asset allocation in place through 2009/10 was 60% in quoted equity, 21% in bonds, 10% in UK property and 9% in alternative investments.

The investment in alternatives provides diversification and the potential for additional returns. It comprised a 7.5% allocation to private equity and a 1.5% holding in infrastructure funds. In addition, an overlay provided exposure to active currency positions equal to 3% of the Fund.



### Review of Investment Strategy

An asset liability modelling study was undertaken in 2007/08 using the liability data prepared from the 2007 valuation. It was concluded that the Fund should:

- Restructure its quoted equity mandates to manage a greater proportion on a global basis.
- Increase the allocation to alternative investments, at the expense of the allocations to quoted equity and bonds.

The allocation to property and alternatives is increased from 19% to 25% by:

- Increasing the private equity allocation by 2.5% to 7.5%, which was implemented in 2008/09.
- Increasing the allocation to property by 2.5% to 12.5% and restructuring to provide new exposure to global property, alongside the existing UK exposure.
- Increasing the allocation to infrastructure by 1% to 2.5%.
- A proposed new allocation of 2.5% to absolute return strategies.

The overall strategy will become 58.5% in quoted equity, 16.5% in bonds, 12.5% in UK and global property and 12.5% in other alternative investments. In addition, the overlay that provides exposure to active currency positions at 3% of the Fund is retained.



The asset allocation in place through 2009/10 was 60% in quoted equity, 21% in bonds, 10% in UK property and 9% in alternative investments.

## Implementation of the Strategy Review

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

The increase in the private equity allocation by 2.5% to 7.5% was put into place in that year. However, implementation of the remainder of the strategy was put on hold as a result of the events in markets during 2008/09 and into 2009/10. There were concerns over the stability of markets, difficulty in effecting transitions and issues over the future viability and ownership of a number of investment managers, many of whom were reappraising their investment processes, product offerings and downsizing investment teams.

The strategy is being put into place in 2010/11, following a check to ensure that it remains appropriate. However, the proposed allocation to absolute return remains on hold.

## Investment Management Structure

Through 2009/10, the Fund employed seven specialist managers over thirteen 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:

Implementation of the revised investment strategy will lead to changes to the investment management structure.

MANAGER	PORTFOLIO
Legal and General	Indexation - UK Equities - US 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	Bonds
Aberdeen	Property



## 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 £24.3 million having been called up to March 2010.

At the year end, the total investment in infrastructure was valued at £27.3 million, representing 0.6% of the Fund.

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

## 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 in 2008 and 2009 led to the programme becoming potentially overcommitted and the Fund, at times, overweight against its target allocation. This was a common position amongst investors in this asset class. Consequently, no new commitments were made to funds in 2009/10.

As at March 2010, £355.7 million, equal to 8.3% of the Fund, was invested in private equity. This is an increase of £82.8 million, or 1.9% of the Fund, over the position at the previous year end.

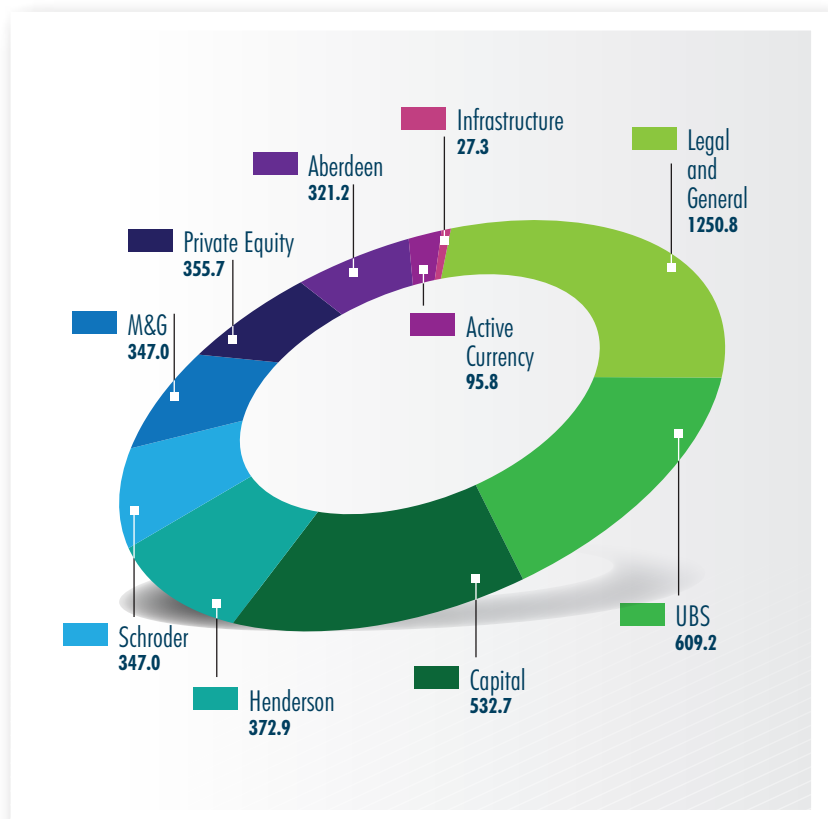
## Active Currency

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

As at March 2010, the value of these investments was £95.8 million, or 2.2% of the Fund.

## 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 2009.

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, as the collateral is invested in the Index Future.

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.

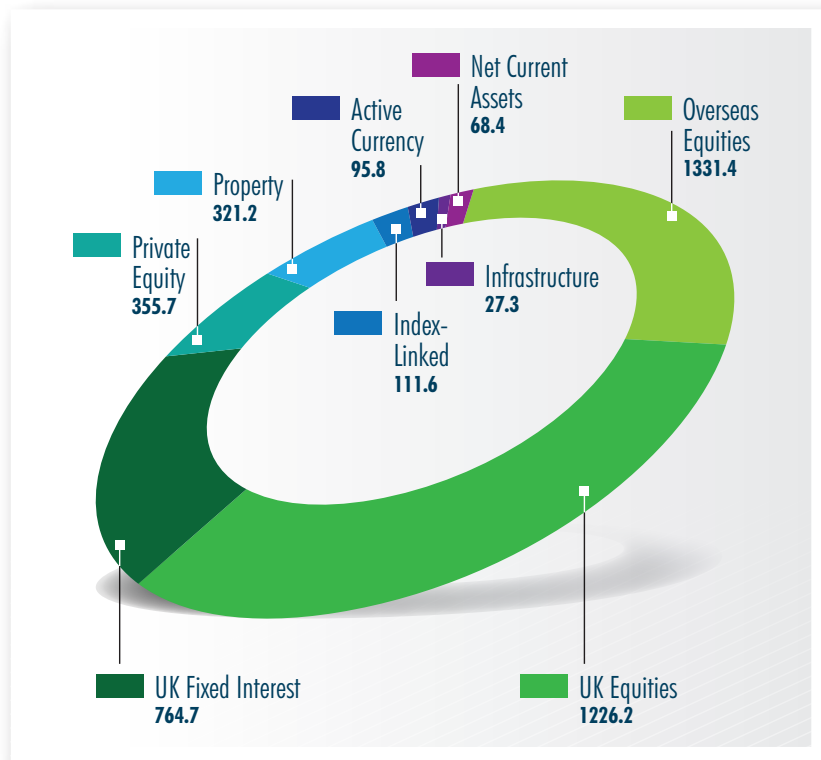
As at March 2010, Northern Trust was providing custody for approximately £1,354 million of assets held in five mandates.

## Asset Allocation

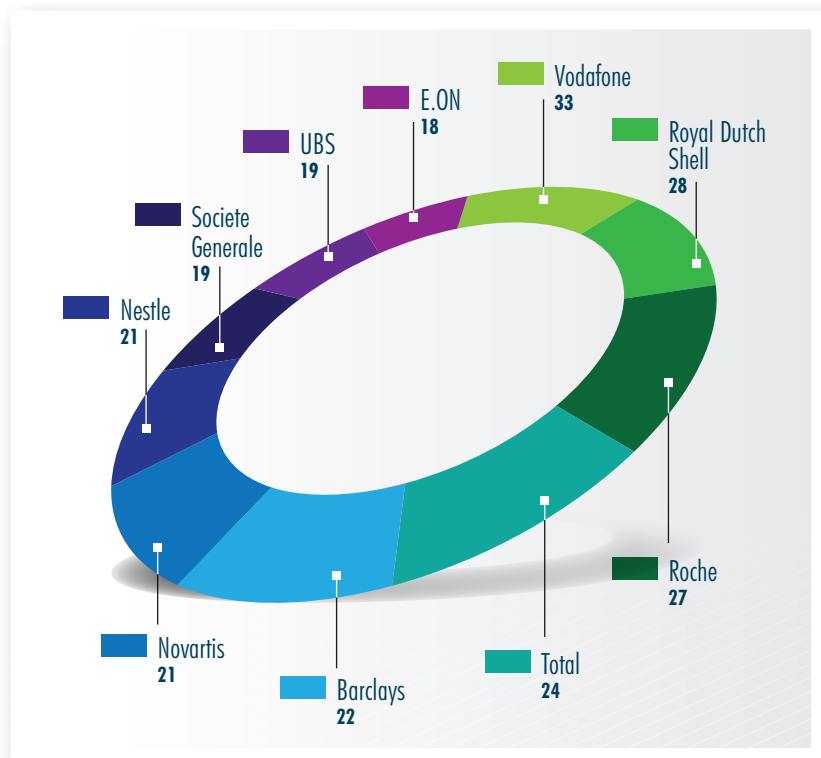
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provides management information that assists with this process.

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 2010 is shown below.



The top ten individual investments in companies are:



## 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 2009/10

The main asset classes have risen in value during 2009/10, with sharp rises in equity markets.

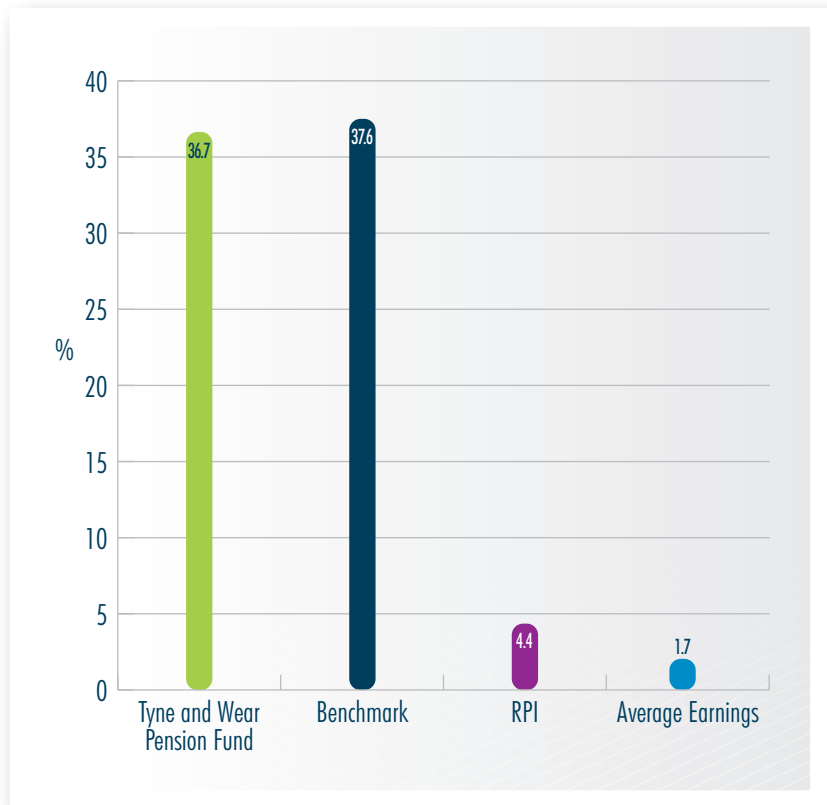
The Emerging Market and Pacific ex Japan equity markets achieved the highest returns of 75.0% and 64.9% respectively, whilst the UK market returned 52.3%.

The rise in equity markets led investors to move away from the safer haven of gilts, which rose by only 0.8% over the year.

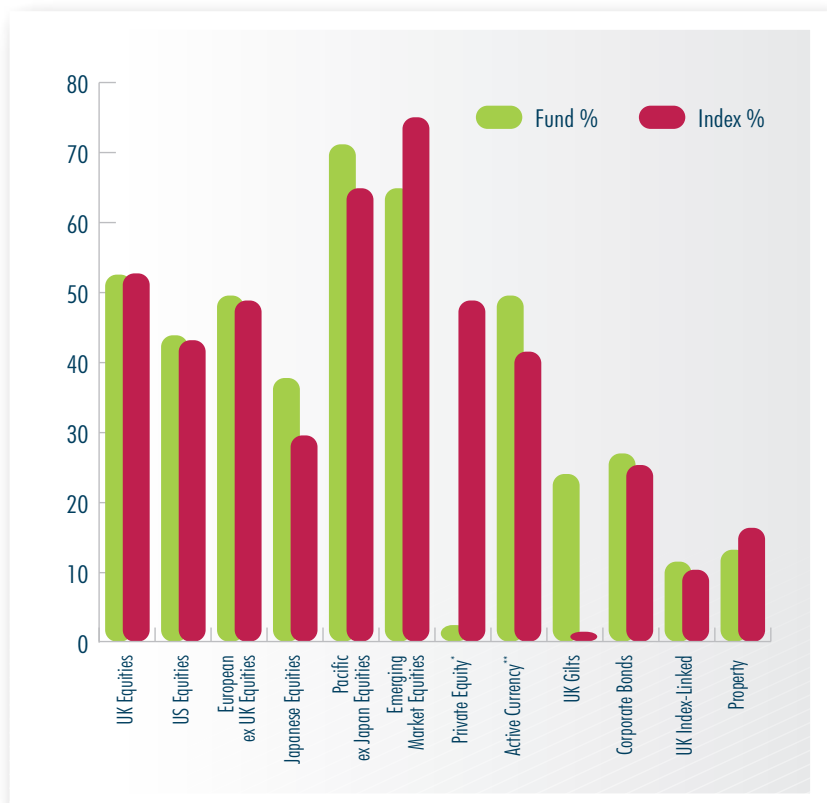
Property started to rally from the middle of the year and finished up by 16.4%.

Consequently, the value of UK pension fund assets rose in 2009/10 for the first time in three years.

The Fund's return for the year was 36.7%, which was 0.9% below its benchmark return of 37.6%. Inflation, as measured by the Retail Price Index, rose by 4.4% and Average Earnings increased by 1.7%.



The chart below shows the Fund's returns over the main investment markets for 2009/10.



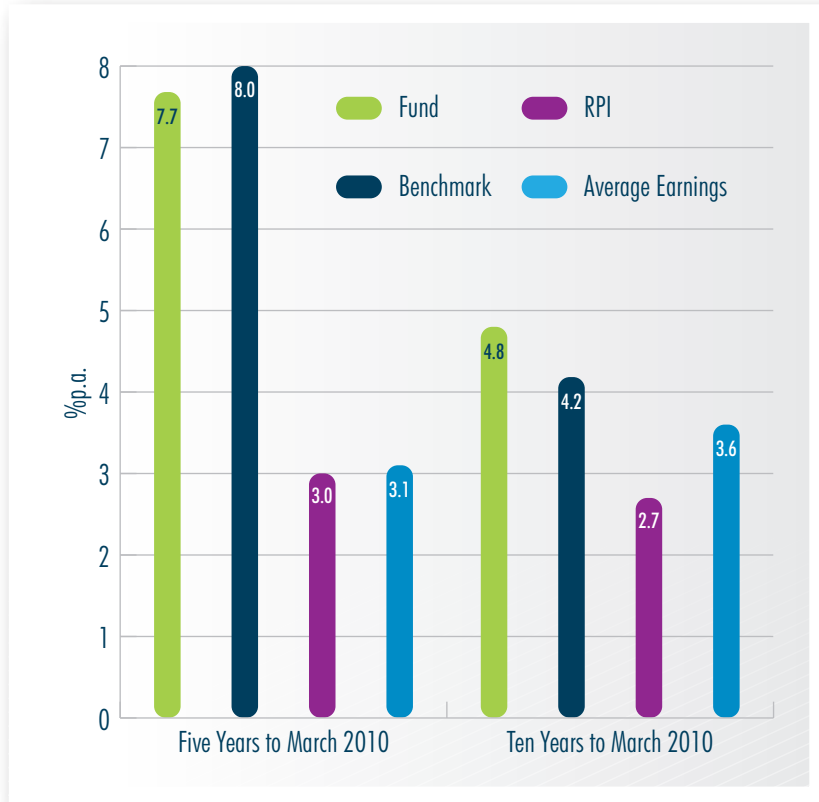
\* The return for private equity is shown relative to the FTSE All World Index.

\*\* The return for active currency is shown relative to the S&P 500 Index as the collateral is invested in the S&P 500 future.

## 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.

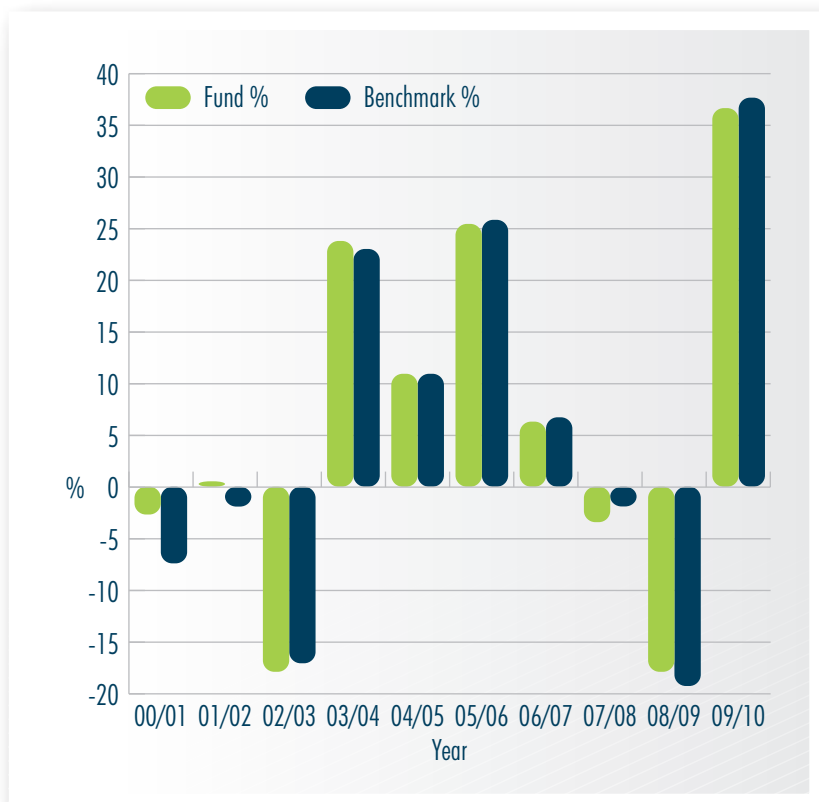
The chart shows the Fund's annual returns over five year and ten year periods against Retail Price Inflation and Average Earnings.



The five year return is 7.7% per annum, which is 0.3% below the benchmark return of 8.0% per annum. The ten year return is 4.8% per annum, which is 0.6% above the benchmark return of 4.2% per annum.

The returns for both periods are above the increases in Retail Price Inflation and in Average Earnings.

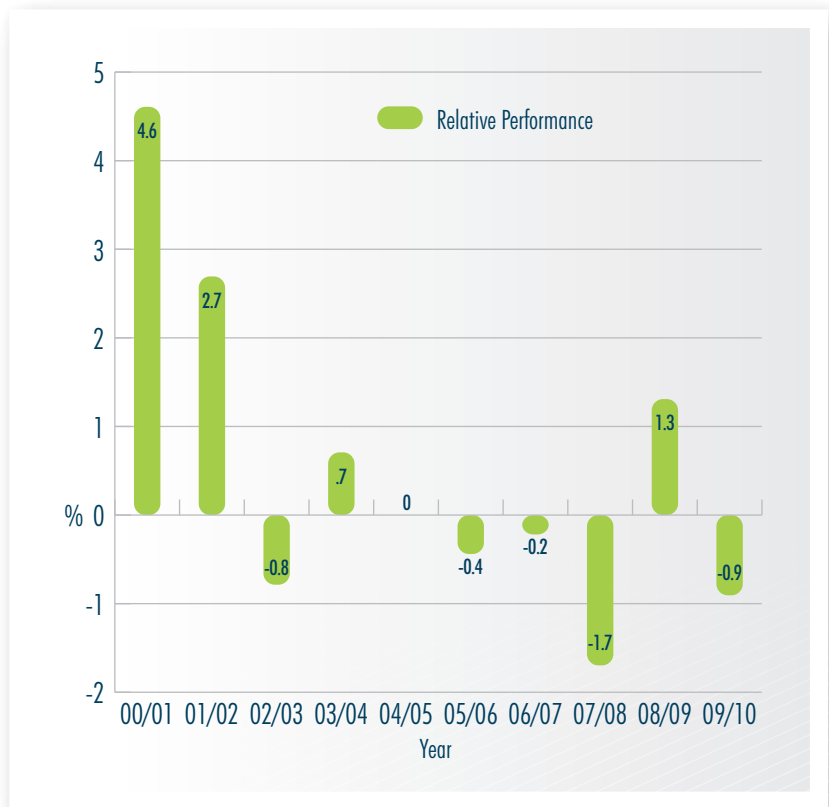
The annual performance of the Fund over ten years is shown in the following charts.



The charts show that the Fund's relative performance was good in 2000/01 and 2001/02. This was a time when markets were correcting following a period of strong equity market performance and the Fund benefited from its defensive positioning. The Fund's performance was negative in 2002/03, although markets continued to correct.

As equity markets recovered and started to rise from 2003 onwards, the Fund initially outperformed. However, the relative 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, before turning positive again in 2008/09.

In the strong market recovery in 2009/10, the Fund underperformed its benchmark by 0.9% due to poor relative performance by some investment managers and in certain alternatives.



# 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, then of Gartmore Investment Management, 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 were ten Principles contained in the Code and, whilst compliance was voluntary, legislation required 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 had been an improvement in compliance and in trustees' knowledge and understanding since the 2004 review, and that governance issues

had become more complex since the initial review was commissioned. It was concluded that the Principles were still relevant, although 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 was given the task of implementing the new Principles across all UK pension funds.

An Investment Governance Sub-Group for the Local Government Pension Scheme, which includes representation from CLG and the Chartered Institute of Public Finance and Accountancy, has considered how the Scheme can fit with the new Principles.

The Pensions Panel of the Chartered Institute of Public Finance and Accountancy has issued

CLG endorsed guidance on the key issues for compliance with the new Principles. This was published in mid December 2009 in a document called "Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles".

Each administering authority is required by Regulation to set out in its Statement of Investment Principles the extent to which the authority's policy complies with the guidance. To the extent that it does not comply with the guidance, an authority must also give the reasons for that non-compliance in its Statement. CLG will keep the guidance under review and will reissue it, as necessary, in the light of developments.

**The Fund was fully compliant with the ten original Principles.**

**The Pensions Committee benchmarked its practices and procedures against the guidance on 1st June 2010 and concluded that the Fund is compliant with the six new Principles. The position at that date is outlined as follows:**

## Principle 1 – Effective Decision Making

The Fund has a governance structure and Training Policy and Programme in place that ensures that:

- Decisions are taken by persons with the skills, knowledge, advice and resources necessary to make them effectively and to monitor their implementation.
- There is the necessary expertise to evaluate and challenge advice, and manage conflicts of interest.

## Principle 2 – Clear Objectives

Asset liability modelling, informed by the triennial valuation data and report, is applied to set an investment objective for the Fund that takes account of its liabilities, the potential impact on local tax payers, the strength of the covenant for non local authority employers, and the attitude to risk of the administering authority and employers. The outcome of the modelling and the resultant investment management strategy are clearly communicated to advisors and investment managers.

## Principle 3 – Risk and Liabilities

The investment strategy takes account of the form and structure of liabilities. This includes the implications for local tax payers, the strength of covenant of employers, default risk and longevity risk.

## Principle 4 – Performance Assessment

Arrangements are in place for the formal measurement of performance of the investments, investment managers and advisors.

The Pensions Committee undertakes an annual assessment of its effectiveness as a decision-making body. It also assesses the effectiveness of its investment advisors and the Fund's Officers.

Consideration is being given to including a summary of the assessment in future annual reports.

## Principle 5 – Responsible Ownership

The Fund:

- Has adopted and required its investment managers to adopt the principles contained in the Institutional Shareholders' Committee Statement of Principles on the Responsibilities of Institutional Investors.
- Includes a statement on its policy on responsible ownership in its Statement of Investment Principles and Corporate Governance Policy.
- Reports annually to members on the discharge of such responsibilities.

At the time of writing, the Financial Reporting Council produced the Institutional Stewardship Code that replaces the ISC Statement of Principles. The Fund is in the process of amending its policies and procedures in the light of the new Code.

## Principle 6 – Transparency and Reporting

The Fund's policy documents, in particular the Governance Compliance Statement, Communication Policy Statement and Statement of Investment Principles demonstrate how it:

- Acts in a transparent manner, communicating with stakeholders on issues relating to the management of investment, its governance and risks, including performance against stated objectives.
- Provides regular communication to members.

## The Statement of Investment Principles

The Fund is required by Regulations to prepare and maintain a written "Statement of Investment Principles" that sets out the decisions that have been taken on its investment policies.

The SIP provides evidence that administering authorities have considered the suitability of their fund's investment policy and the approach to implementing the policy.

The Regulations require the SIP to cover the policy on the following areas:

- The types of investments to be held.
- The balance between different types of investments.
- Risk, including the ways in which risks are to be measured and managed.
- The expected returns on investments.
- The realisation of investments.
- The extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.
- The exercise of the rights (including voting rights) attaching to investments, if there is such a policy.
- Stock lending.
- The extent to which the administering authority complies with guidance given by CLG (in relation to the Investment Principles), and, to the extent the authority does not comply, the reasons for not complying.
- The exercise of any discretion by the administering authority to increase the limits on various types of investment.

The Pensions Committee will ensure that the SIP is updated as the investment management structure is developed and the Corporate Governance Policy evolves in the light of the new Stewardship Code.

The SIP may be viewed on the Fund's website at [www.twpf.info/investment.asp](http://www.twpf.info/investment.asp).



## 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 will improve the 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. For this reason, it is believed that the investment managers are best placed to undertake it.

Each manager is required to prepare a 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 principles contained in the UK Corporate Governance Code and of the guidance offered by relevant organisations, including that contained in the UK Stewardship Code.
- The approach towards companies outside the UK to take account of the practices of the home nation.

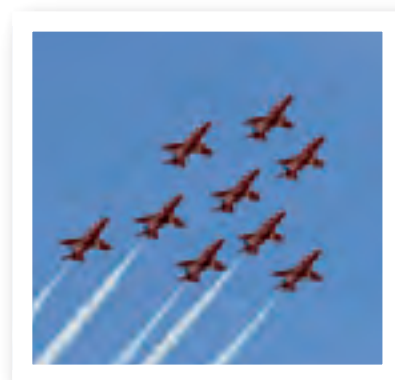
- The approach towards unquoted companies to be consistent with the approach adopted for quoted companies, to the extent that this is practicable.
- Voting rights to be exercised in a manner that establishes a consistent approach to both routine and exceptional issues, in order that company directors 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. In particular, a manager must seek direction from the Fund when a conflict of interest arises and when the Fund is involved in a class action.

Each manager is required to:

- Report any material change to their policy to the Fund for approval.
- Provide quarterly reports that set out how their policy has been implemented and their voting record.

The Fund votes globally for its segregated equity holdings. The holdings in companies in pooled funds are voted where the manager makes this possible.



An analysis of the Fund's global and UK only voting record (including the UK pooled funds) for 2009/10 is shown below:

	Global	UK Only
Annual general meetings	1,081	657
Extraordinary general meetings	296	208
Resolutions	14,836	9,111
Votes for	13,784	8,755
Votes against	654	296
Abstentions	191	60
Votes not cast	207	0

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







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.

A resolution was opposed or there was an abstention on 845 occasions. The most common reasons for this were:

- Overly generous executive compensation packages for mediocre performance.
- The lack of independence of non-executive directors and the length of directors' contracts.
- Concerns about a reduction in shareholders' rights, such as the issue of new shares without pre-emptive rights.

The table shows that there were 207 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 178 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 and is diminishing elsewhere.

- An occasional breakdown in communication between a manager and the voting agent, which accounted for 29 resolutions over 3 meetings when votes were not cast. It is disappointing to note this as it did not occur in 2008/09. It should be noted that there was only one occasion where the vote would have been against the management of the company.

The Fund is a member of the Local Authority Pension Fund Forum. This is a voluntary association of about fifty local authority pension funds that exists to promote the investment interest of the funds, and to maximise influence as shareholders in promoting corporate social responsibility and high standards of corporate governance among the companies invested in.



## Social, Environmental and Ethical Considerations

**The Fund's Statement of Investment Principles and Corporate Governance Policy cover the extent to which social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments.**

This is an important issue and the Fund takes its responsibility in this area very seriously.

The active managers are required to include consideration of social, environmental and ethical issues as an integral part of their investment process and corporate governance policy where these may have a financial impact on investment.

Part of the Fund's assets are invested on a passive basis. The passive manager is not required to take account of such issues in the selection, retention and realisation of investments but is required to consider them in its corporate governance policy where these may have a financial impact on investment.

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

2008/09 £m		Note	2009/10 £m
	<b>CONTRIBUTIONS AND BENEFITS</b>		
(208.638)	Contributions Receivable - Employers	3	(239.097)
(59.806)	Contributions Receivable - Employees	3	(61.716)
(11.055)	Transfers In	4	(17.283)
<b>(279.499)</b>	<b>Total Contributions</b>		<b>(318.096)</b>
166.472	Benefits Payable	5	206.584
6.774	Leavers	6	21.828
2.680	Administrative Expenses	7	2.665
<b>175.926</b>	<b>Total Benefits</b>		<b>231.077</b>
<b>(103.573)</b>	<b>Net Additions from Dealings with Members</b>		<b>(87.019)</b>
	<b>RETURNS ON INVESTMENTS</b>		
(85.268)	Investment Income	8	(68.276)
3.929	Non-Recoverable Tax	8	2.342
754.000	Change in Market Value of Investments	9	(1,054.399)
5.865	Investment Management Expenses	10	7.753
<b>678.526</b>	<b>Net Returns on Investments</b>		<b>(1,112.580)</b>
<b>574.953</b>	<b>Net (Increase) / Decrease in the Fund During the Year</b>		<b>(1,199.599)</b>
<b>3,677.691</b>	<b>Net Assets of the Fund at 1st April</b>		<b>3,102.738</b>
<b>3,102.738</b>	<b>Net Assets of the Fund at 31st March</b>		<b>4,302.337</b>

The financial statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Council.

## Net Assets Statement

31st March 2008/09 £m		Note	31st March 2009/10 £m
3,092.885	Investment Assets	9	4,281.152
(11.263)	Investment Liabilities	9	(7.890)
28.220	Current Assets	11	49.295
(7.104)	Current Liabilities	11	(20.220)
<b>3,102.738</b>	<b>Net Assets of the Fund at 31st March</b>		<b>4,302.337</b>

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 2010 set out in pages 42 to 55, present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2010 and its income and expenditure for the year ended 31st March 2010.



**Stephen Moore**  
Head of Pensions  
September 2010



**Patrick Melia**  
Corporate Director, Business and Area  
Management (Section 151 Officer)  
September 2010

These accounts were approved by the Pensions Committee at its meeting on 15th September 2010.



**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 2009 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

## 2 Accounting Policies

The accounts have been prepared on an accruals basis. The exception to this practice are Transfer Values which, in line with the SORP, are recognised when cash is transferred.

### 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 2010.

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 2010 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 2010.

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 2010.

Properties are shown as valued at 31st March 2010. 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 2010 have been accrued.

Transaction costs are included in the cost of purchases and in sale 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 2010.

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 2010 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2010.

### Investment Management Expenses

Investment management expenses payable as at 31st March 2010 have been accrued.

### Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2010.

### 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 2010 have been accrued.

### Benefits and Refunds

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

### Transfer Values

Transfer values 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.

### Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relevant manager. However, these have been included as a note to the accounts.



### 3 Contributions Receivable

2008/09 £m		2009/10 £m
	<b>Employers</b>	
(140.917)	Normal	(145.356)
(67.418)	Deficit Funding	(93.066)
(0.303)	Augmentation	(0.675)
<b>(208.638)</b>		<b>(239.097)</b>
	<b>Members</b>	
(59.051)	Normal	(61.051)
(0.755)	Additional Voluntary Contributions	(0.665)
<b>(59.806)</b>		<b>(61.716)</b>
<b>(268.444)</b>	<b>Total Contributions Receivable</b>	<b>(300.813)</b>

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

2008/09 £m		2009/10 £m
(23.666)	South Tyneside Council (Administering Authority)	(27.842)
(158.694)	District Councils	(179.117)
(52.759)	Schedule 2 Part 1 Employers	(56.102)
(10.232)	Schedule 2 Part 2 Employers	(11.528)
(23.093)	Admitted Bodies	(26.224)
<b>(268.444)</b>	<b>Total Contributions Receivable</b>	<b>(300.813)</b>

### 4 Transfers In

During the year, individual transfers in from other schemes amounted to £17.283m (£11.055m in 2008/09). There were no bulk transfers in during 2009/10 or 2008/09.

### 5 Benefits Payable

2008/09 £m		2009/10 £m
139.263	Pensions	152.174
34.064	Commutations and Lump Sum Retirement Benefits	61.663
3.685	Lump Sum Death Benefits	3.646
(10.540)	Recharges out	(10.899)
<b>166.472</b>	<b>Total Benefits Payable</b>	<b>206.584</b>

2008/09 £m		2009/10 £m
17.049	South Tyneside Council (Administering Authority)	21.029
109.327	District Councils	135.612
20.267	Schedule 2 Part 1 Employers	26.394
5.919	Schedule 2 Part 2 Employers	6.648
13.910	Admitted Bodies	16.901
<b>166.472</b>	<b>Total Benefits Payable</b>	<b>206.584</b>

## 6 Leavers

2008/09 £m		2009/10 £m
6.745	Individual Transfers to Other Schemes	21.803
0.042	Refunds to Members Leaving Service	0.029
(0.013)	State Scheme Premiums	(0.004)
<b>6.774</b>	<b>Total Leavers</b>	<b>21.828</b>

There were no bulk transfers out of the scheme in 2009/10 or 2008/09.

## 7 Administration Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 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:

2008/09 £m		2009/10 £m
1.590	Employee Expenses	1.622
0.441	Support Services Recharge	0.487
0.050	Audit Fees	0.090
0.136	External Computing Costs	0.119
0.115	Printing / Publications	0.088
0.314	Professional Fees	0.103
0.041	Other Expenses	0.161
(0.007)	Income	(0.005)
<b>2.680</b>	<b>Total Administration Expenses</b>	<b>2.665</b>

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

The Pension Fund is audited by PricewaterhouseCoopers LLP (PwC), the appointed auditors to South Tyneside Council. The audit fee in respect of the Pension Fund is charged by PwC to the Council, who then pass the cost on to the Pension Fund. The cost in 2009/10 of £90,000 in the Pension Fund financial statements consists of £70,000 in respect of the 2009/10 audit and £20,000 in respect of the 2008/09 audit; the fee of £20,000 in respect of 2008/09 was charged to the Pension Fund in 2009/10, hence its inclusion in the 2009/10 financial statements. The total fees payable by the Fund to the Council in respect of the audit of the Pension Fund financial statements is £70,000 for both 2008/09 and 2009/10.

## 8 Investment Income

2008/09 £m		2009/10 £m
(1.104)	Fixed Interest Securities	(0.682)
(50.746)	Equities	(31.378)
(0.512)	Index-Linked Securities	(0.589)
(11.841)	Pooled Investment Vehicles	(16.023)
(18.517)	Net Rents from Properties	(19.265)
(1.688)	Cash Deposits	(0.179)
(0.597)	Securities Lending	-
(0.103)	Commission Recapture	(0.024)
(0.160)	Underwriting Commission	(0.136)
<b>(85.268)</b>	<b>Sub-Total</b>	<b>(68.276)</b>
3.929	Non-Recoverable Tax	2.342
<b>(81.339)</b>	<b>Total Investment Income</b>	<b>(65.934)</b>

## 9 Investments

31st March 2009 £m		31st March 2010 £m
	<b>Investment Assets</b>	
1.553	Fixed Interest Securities	30.887
891.996	Equities	1,310.835
19.930	Index-Linked Securities	33.363
1,858.658	Pooled Investment Vehicles	2,537.628
0.072	Derivative Contracts	0.209
259.610	Properties	321.235
51.689	Cash Deposits	36.126
9.377	Other Investment Balances	10.869
<b>3,092.885</b>	<b>Total Investment Assets</b>	<b>4,281.152</b>
	<b>Investment Liabilities</b>	
(0.264)	Derivative Contracts	-
(10.999)	Other Investment Balances	(7.890)
<b>(11.263)</b>	<b>Total Investment Liabilities</b>	<b>(7.890)</b>
<b>3,081.622</b>	<b>Net Investment Assets</b>	<b>4,273.262</b>

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 2009 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2010 £m
Fixed Interest Securities	1.553	96.416	(66.922)	(0.160)	30.887
Equities	891.996	695.755	(681.036)	404.120	1,310.835
Index-Linked Securities	19.930	65.571	(55.531)	3.393	33.363
Pooled Investment Vehicles	1,858.658	207.020	(159.302)	631.252	2,537.628
Derivative Contracts	(0.192)	1.771	(2.093)	0.723	0.209
Properties	259.610	53.360	(7.750)	16.015	321.235
	<b>3,031.555</b>	<b>1,119.893</b>	<b>(972.634)</b>	<b>1,055.343</b>	<b>4,234.157</b>
Cash Deposits	51.689	-	(14.501)	(1.062)	36.126
Other Investment Balances	(1.622)	6.243	(1.760)	0.118	2.979
<b>Total Investments</b>	<b>3,081.622</b>	<b>1,126.136</b>	<b>(988.895)</b>	<b>1,054.399</b>	<b>4,273.262</b>



31st March 2009 £m		31st March 2010 £m
	<b>Fixed Interest Securities</b>	
1.553	UK Public Sector	30.887
-	UK Other	-
-	Overseas Public Sector	-
<b>1.553</b>	<b>Total Fixed Interest Securities</b>	<b>30.887</b>
	<b>Equities</b>	
165.413	UK Quoted	266.657
690.921	Overseas Quoted	997.488
3.300	UK Unquoted	3.300
32.362	Overseas Unquoted	43.390
<b>891.996</b>	<b>Total Equities</b>	<b>1,310.835</b>
	<b>Index-Linked Securities</b>	
14.082	UK Public Sector	25.118
5.848	UK Non Public Sector	7.089
-	Overseas Public Sector	1.156
<b>19.930</b>	<b>Total Index-Linked Securities</b>	<b>33.363</b>
	<b>Pooled Investment Vehicles</b>	
69.621	Unit Trusts	103.848
1,090.465	Unitised Insurance Policies	1,529.485
698.572	Other Managed Funds	904.295
<b>1,858.658</b>	<b>Total Pooled Investment Vehicles</b>	<b>2,537.628</b>
	<b>Derivative Contracts</b>	
(0.264)	Futures Contracts	-
0.072	Forward Foreign Currency Contracts	0.209
<b>(0.192)</b>	<b>Total Derivative Contracts</b>	<b>0.209</b>
	<b>Properties</b>	
239.870	Freehold	279.845
19.740	Long Leasehold	41.390
<b>259.610</b>	<b>Total Properties</b>	<b>321.235</b>
	<b>Cash Deposits</b>	
36.301	Sterling	27.397
15.388	Foreign Currency	8.729
<b>51.689</b>	<b>Total Cash Deposits</b>	<b>36.126</b>
	<b>Other Investment Balances</b>	
0.264	Amounts Due for Variation Margin	-
(3.955)	Outstanding Trades	0.551
7.062	Outstanding Dividends & Tax Recoveries	8.045
2.051	Debtors	2.273
(7.044)	Creditors	(7.890)
<b>(1.622)</b>	<b>Total Other Investment Balances</b>	<b>2.979</b>
<b>3,081.622</b>	<b>Total Investments</b>	<b>4,273.262</b>

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 £4.846m (£6.756m in 2008/09). 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 2009 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:

2008/09 £m		2009/10 £m
5.718	Administration, Management and Custody	7.437
0.087	Performance and Risk Measurement Services	0.078
0.060	Other Advisory Fees	0.238
<b>5.865</b>	<b>Total Investment Management Expenses</b>	<b>7.753</b>

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

## 11 Current Assets and Liabilities

31st March 2009 £m		31st March 2010 £m
	<b>Current Assets</b>	
4.718	Contributions and Recharges Due - Employees	4.998
23.278	Contributions and Recharges Due - Employers	43.964
0.088	Investment Management Expenses	0.094
0.136	Other	0.239
<b>28.220</b>	<b>Total Current Assets</b>	<b>49.295</b>
	<b>Current Liabilities</b>	
(2.473)	Unpaid Benefits	(10.200)
(0.336)	Contributions and Recharges Due - Employers	-
(1.170)	Inland Revenue	(1.320)
(1.906)	Investment Management Expenses	(2.867)
(1.219)	Other	(5.833)
<b>(7.104)</b>	<b>Total Current Liabilities</b>	<b>(20.220)</b>

## 12 Additional Voluntary Contributions

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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, 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, to contributions from existing members and to 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 2009/10, £1.387m of contribution income was received into the AVC funds provided by The Prudential (£1.008m during 2008/09). As at 31st March 2010, these funds were valued at £8.765m (£7.653m as at 31st March 2009).

During 2009/10, £0.004m contribution income was received into the AVC funds operated by Equitable Life (£0.004m during 2008/09). As at 31st March 2010, these funds were valued at £0.427m (£0.576m as at 31st March 2009).

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 thirteen investment mandates as at 31st March 2010. 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.

A number of investments have been made in Private Equity funds. The Private Equity investment programme is well diversified across providers, geography, industry and vintage years. The Fund has made commitments to fund of funds managed by HarbourVest and Pantheon, secondary funds managed by Lexington Partners and Collier Capital and direct funds with HarbourVest, Capital International, Lexington Partners and Partners Group.

Investments have been made in two infrastructure funds managed by Henderson Global Investors and M&G.

The market values of investments with each manager were:



31st March 2009			31st March 2010	
£m	%		£m	%
		<b>Investment Managers</b>		
259.610	8.4	Aberdeen Property Investors	321.235	7.5
281.931	9.2	Capital International - Global Equities	410.111	9.6
73.656	2.4	Capital International - Emerging Markets	122.603	2.9
320.103	10.4	Henderson Global Investors	372.927	8.8
904.915	29.4	Legal and General Investment Management	1,250.824	29.3
215.996	7.0	M&G	346.956	8.1
247.890	8.0	Schroder Investment Management	346.969	8.1
392.677	12.7	UBS Global Asset Management	609.150	14.3
63.986	2.1	Active Currency	95.792	2.2
272.874	8.9	Private Equity	355.701	8.3
31.467	1.0	Infrastructure	27.337	0.6
16.517	0.5	Managed In-House	13.657	0.3
<b>3,081.622</b>	<b>100.0</b>	<b>Total Investments</b>	<b>4,273.262</b>	<b>100.0</b>

## 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 2010, the Fund did not hold any Futures contracts.

### 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 2010, the Fund held five positions in foreign currency that together showed an unrealised profit of £0.209m, as shown in the table below:

		Market Value £m
<b>Type of Forward Foreign Currency Contracts</b>		
One Month - Over the Counter	Bought US Dollar/Sold Swiss Franc	(0.076)
One Month - Over the Counter	Bought US Dollar/Sold Euro	0.043
One Month - Over the Counter	Bought US Dollar/Sold Yen	0.203
One Month - Over the Counter	Bought Euro/Sold Australian Dollar	0.035
One Month - Over the Counter	Bought US Dollar/Sold Sterling	0.004
		<b>0.209</b>

These positions were settled in April 2010 at an overall profit of £0.265m.

## 16 Securities Lending

The securities lending programme which is operated through the Fund's custodian, Northern Trust, was suspended from September 2008 due to market conditions and resulting concern over counterparty risk. As the programme was suspended for the whole of 2009/10, the Fund had no stock out on loan as at 31st March 2010 (Nil as at 31st March 2009). As the Fund did not have any assets on loan as at 31st March 2010, it did not hold any collateral.

## 17 Significant Holdings

As at 31st March 2010, 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 2010, this was valued at £1,250.823m and represented 29.1% of the total net assets of the Fund. During 2009/10, the European ex UK Equities fund was closed. This reduced the split in the insurance contract into five individual funds, each representing a different asset class, as follows:

31st March 2009 £m		31st March 2010 £m
673.515	UK Equities	956.228
23.559	European Equities	-
97.156	North American Equities	134.119
10.916	UK Gilts	52.075
28.946	AAA Fixed Interest	30.166
70.823	Index-Linked Gilts	78.235
<b>904.915</b>	<b>Total</b>	<b>1,250.823</b>

- M&G Limited – Corporate Bond All Stocks Fund. As at 31st March 2010, this was valued at £278.662m (£185.551m as at 31st March 2009) and represented 6.5% of the total net assets of the Fund.

## 18 Outstanding Commitments

As at 31st March 2010 the Fund had twenty-seven outstanding commitments to investments:

Name of Fund	Year	Value m	Drawdowns Made m	Commitment Outstanding	
				m	m
HarbourVest International Private Equity Partners IV	2002	\$55.0	\$50.6	\$4.4	£2.9
HarbourVest Partners VII Cayman Buyout Fund	2002	\$46.0	\$35.0	\$11.0	£7.3
HarbourVest Partners VII Cayman Mezzanine Fund	2002	\$8.0	\$6.5	\$1.5	£1.0
HarbourVest Partners VII Cayman Venture Fund	2002	\$28.0	\$22.1	\$5.9	£3.9
HarbourVest Partners 2004 Direct Fund	2004	\$30.0	\$29.6	\$0.4	£0.3
Capital International Private Equity Fund IV	2004	\$18.0	\$17.2	\$0.8	£0.5
HarbourVest International Private Equity Partners V - Partnership	2005	€100.0	€59.8	€40.2	£35.9
HarbourVest International Private Equity Partners V - Direct	2005	€30.0	€25.7	€4.3	£3.8
Pantheon Asia Fund IV	2005	\$20.0	\$11.2	\$8.8	£5.8
Pantheon Europe Fund IV	2005	€25.0	€16.4	€8.6	£7.7
Pantheon USA Fund VI	2005	\$30.0	\$21.9	\$8.1	£5.3
Lexington Capital Partners VI-B	2005	\$30.0	\$24.5	\$5.5	£3.6
HarbourVest Partners VIII Cayman Buyout Fund	2006	\$112.0	\$43.7	\$68.3	£45.0
HarbourVest Partners VIII Cayman Venture Fund	2006	\$56.0	\$27.7	\$28.3	£18.7
Pantheon Europe Fund V	2006	€35.0	€17.0	€18.0	£16.1
Pantheon USA Fund VII	2006	\$35.0	\$12.5	\$22.5	£14.8
Coller International Partners V	2006	\$30.0	\$16.4	\$13.6	£9.0
HarbourVest Partners 2007 Direct Fund	2007	\$30.0	\$12.1	\$17.9	£11.8
Pantheon Asia Fund V	2007	\$20.0	\$7.2	\$12.8	£8.4
Pantheon Europe Fund VI	2007	€40.0	€8.4	€31.6	£28.2
Pantheon USA Fund VIII	2007	\$35.0	\$5.6	\$29.4	£19.4
Capital International Private Equity Fund V	2007	\$35.0	\$25.4	\$9.6	£6.3
Co-Investment Partners Europe	2007	€30.0	€14.9	€15.1	£13.5
Partners Group 2006 Direct Fund	2007	€30.0	€26.4	€3.6	£3.2
Infracapital	2007	£35.0	£24.6	£10.4	£10.4
Pantheon International Participations	2008	£10.0	£3.3	£6.7	£6.7
<b>Total Outstanding Commitments</b>					<b>£289.5</b>

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2010.

## 19 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 2009/10, South Tyneside Council charged the Fund £0.698m (£0.719m in 2008/09) in respect of services provided, primarily financial, legal and information technology. The Fund charged South Tyneside Council £0.049m (£0.048m in 2008/09) 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 2010. 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 2009. 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 published by the Audit Commission in April 2008. 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of 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, referenced in the Pension Fund Annual Report as being published on the Fund's website, 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 give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009, of the financial transactions of the pension fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

### Paul Woolston (Engagement Lead)

For and on behalf of  
PricewaterhouseCoopers LLP  
Appointed auditors  
Newcastle upon Tyne  
30 September 2010

# 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](mailto:pensions@twpf.info)



Web: [www.twpf.info](http://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.