TYNE AND WEAR
PENSION FUND

Annual Report and Accounts 2013/14

Administered by South Tyneside Council

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MEMBERS OF PENSIONS COMMITTEE, ADVISORS, OFFICERS

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South Tyneside Council

Councillor J. Perry (Chair)
Councillor A. Donaldson (Vice Chair)
Councillor M. Butler
Councillor P. Hay
Councillor D. Purvis
Councillor J. Milburn
Councillor B. Watters
Councillor A. West

Gateshead Council

Councillor B. Goldsworthy
(substitute – Councillor G. Haley)

Newcastle City Council

Councillor G. Bell
(substitute – Councillor D. Wood)

North Tyneside Council

Councillor R. Glindon
(substitute – Councillor M. Rankin)

Sunderland City Council

Councillor T. Wright
(substitute – Councillor L. Farthing)

Trades Union Representatives

C. Nobbs – Unison
W. Flynn – UCATT
S. Forster – Unison

Employers' Representatives

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G. Foster – Northumbria University
R. Turnbull – TT2

ADVISORS

Actuary

Aon Hewitt

Investment Advisor

Hymans Robertson

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Corporate Director Business and Resources

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S. Reid

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S. Moore

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REVIEW OF THE YEAR

We are pleased to present the 2013/14 Report and Accounts for the Tyne and Wear Pension Fund.

The new Local Government Pension Scheme was introduced from April 2014. This is a career average scheme based on an accrual rate of 1/49th of salary for each year of pensionable service, with accrued benefits re-valued in line with increases in the Consumer Price Index. The Normal Retirement Age is the member's State Pension Age. Changes have been made to the member contribution rates. Benefits earned before April 2014 are protected.

In order to assist with affordability for members, a "50/50" option has been introduced, where the member can elect to pay half the member contribution rate for half the accrual rate.

We have participated in working groups set up by the Local Government Association to develop the communication strategy and other material for the new Scheme. We have also been working with our software provider and other users to develop the new systems that we require.

It was intended that the Department for Communities and Local Government (CLG) would have issued the new regulations a year in advance of the start date. However, certain of the regulations were not available until March 2014 and we still require guidance and amending regulations.

Consequently, our preparations and those of other administering authorities and the employers have been materially delayed. We expect that we will be continuing to develop systems through 2014/15.

CLG has been running separate consultations on the future governance arrangements for the new Scheme, which will be designed to meet the requirements of the Public Service Pensions Act 2013. A consultation that concluded in August 2014 will provide the basis for these arrangements which will commence in April 2015.

In May 2013, CLG launched a "Call for Evidence" to review the approach to the investment of Scheme assets and the future number of administering authorities. This led to a consultation in early 2014/15 entitled "Opportunities for Collaboration, Cost Savings and Efficiencies". This consultation noted that fund mergers would not be pursued at this time and focused on the approach to investment. Views were also invited on the management of deficits and the content of the investment regulations. At the time of writing, we await the response from CLG and the next stages in this process.

With regard to the funding strategy, the contributions paid by employers in 2013/14 were set by the 2010 valuation where the reported funding level was 79%, based on the ongoing assumptions. The average future service rate was 15.3% of pay and the contribution to address the deficit was 5.9% of pay, leading to a total average contribution of 21.2% of pay.

The contributions payable for the three years from 2014/15 have been set by the 2013 valuation, which we carried out through 2013/14. This valuation has included a positive impact from the introduction of the new Scheme.

The outcome is a funding level of 81%, based on the ongoing assumptions adopted for this valuation. This is a slight improvement from the figure of 79% at the 2010 valuation. The low risk funding level, based on gilt yields, was 57% against a figure of 53% at the 2010 valuation.

The average future service rate was 16.1% of pay and the contribution to address the deficit was 7.5% of pay, leading to a total average contribution of 23.6% of pay.

Part of the upward pressure on the employer contributions is due to falling payrolls, in particular at a number of the larger employers in the Fund. This leads to an increase in a percentage based deficit contribution. In practice, the Fund manages this issue by setting most deficit contributions as a cash sum to maintain their value and ensure recovery.

When carrying out a valuation, an actuary must have regard to the desirability of maintaining as nearly constant a common rate, i.e. the total rate, as possible. The Fund Actuary believes that this has been achieved at the Total Fund level, after allowing for payroll changes and inter valuation increases in the past service deficiency payments.

The investment strategy in place at the beginning of 2013/14 was based largely on an asset liability study carried out in 2007/08 that used the liability data from the 2007 valuation.

An asset liability study was carried out in 2013/14 using the liability data from the 2013 valuation. Apart from a 4% shift from UK to overseas equities, the suitability of the existing strategy was confirmed.

The current strategy is to invest 66% in equities, 19% in bonds and cash, 12.5% in property and 2.5% in infrastructure. Within this strategy, there is a 7.5% allocation to private equity and an overlay of up to 3% that provides exposure to active currency positions.

Reviews were progressed on certain of the Fund's mandates in 2013/14.

In 2012, it became apparent that the structure of the UK property portfolio could lead to below benchmark returns for a number of years. The Fund reviewed the approach to investment and began a restructuring of the portfolio. This was taken forward in 2013/14 and continues into 2014/15.

The outcome of a review on investment into Emerging Markets equities was implemented in 2013/14. This resulted in the termination of an active manager's mandate and its replacement by a smaller active mandate and an allocation to a passive mandate.

Changes were implemented to the bonds investments in the light of concerns over the prospects for government bonds. This included switching an investment in a UK Gilt based fund into a total return bond fund and a partial switch of a UK Index-Linked investment into Emerging Markets bonds.

We have continued to partially de-risk the Fund by backing orphan pension liabilities where a cessation valuation has been carried out with Index-Linked gilts.

We continued to develop the global property and infrastructure programmes. The global property programme achieved its 4.5% target weighting early in 2014 and the infrastructure programme is expected to have achieved its 2.5% target weighting by the end of 2014.

With regard to investment returns, there was a wide range of returns from the main asset classes during the year. The strongest performing markets were European ex UK equities with a return of 17.3%, followed by UK property at 14.2%. The poorest performer was Emerging Markets bonds which fell by 15.5%, followed by Emerging Market equities and Asia ex Japan equities with negative returns of 9.7% and 5.8% respectively.

The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned 8.8%.

The Fund's return in this year was 5.2%, which was 0.7% below its benchmark return of 5.9%. Inflation as measured by the Consumer Price Index, which has become the more important measure for the Scheme, rose by 1.6% and Average Earnings increased by 1.7%.

The underperformance during the year was primarily due to poor performance by certain of the Fund's active equity managers, alongside poor returns from the currency programme. The active bonds managers delivered respectable returns.

The Fund's five year return is 12.2% per annum, which is 0.2% below the benchmark return of 12.4% per annum. The ten year return is 7.7% per annum, which is 0.3% below the benchmark return of 8.0% per annum.

These below benchmark returns are attributable in part to the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy. Poor performance from the UK property portfolio in the period up to and including 2012/13 also detracted from returns. Performance on this portfolio has improved in 2013/14 as a result of the ongoing restructuring of the portfolio.

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

Whilst systems work on the new Scheme required most of our ICT resources in 2013/14, we remain committed to developing the use of email, electronic communication and our website as an important and cost effective part of the service delivery package. Work on online services for employers will continue to allow for more data to be transferred electronically. A system will be introduced to allow members to view their personal record and calculate estimates of their benefits.

We have continued to warn members of the risk of Pension Liberation Fraud and we have worked alongside the Pensions Regulator's high profile campaign to combat such fraud. Our processing practices and documentation have been reviewed to seek to ensure that members are making fully informed decisions when transferring benefits out of the Fund

Councillor Eddie McAtominey
Chair of Pensions Committee

Stephen Moore
Head of Pensions

GOVERNANCE ARRANGEMENTS

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

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

- Prepare, maintain and publish the Governance Compliance Statement
- Ensure that the Fund complies with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the Fund
- Prepare, maintain and publish the Funding Strategy Statement
- Ensure that the Fund is valued as required and receive and consider reports on each valuation
- Prepare, maintain and publish the Pensions Administration Strategy
- 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
- Prepare, maintain and publish the Corporate Governance Policy.

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 2014 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 Principal Investment Manager. It reports its findings to the Committee and makes recommendations on any action that is required.

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 held on the Fund's website at **www.twpf.info**.

The information that is available 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 Actuary's Report on the 2013 valuation and the Funding Strategy Statement
- 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.

THE TRAINING POLICY AND PROGRAMME

The Pensions Committee has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

The Pensions Panel of the Institute has prepared 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.

COMMITTEE TRAINING

The Committee has adopted the Pensions Panel Framework for Elected Representatives and Non Executives as the basis of its Training Policy and Programme. This recognises the Institute's Code of Practice and the requirements of the Investment Principles. It also includes aspects of the Pensions Regulator's Code of Practice on Trustee Knowledge and Understanding that are relevant to the Scheme.

The Committee considers its training requirements at each of its quarterly meetings and devises a programme that builds on the training previously delivered to address the issues that will arise in coming years.

The programme in 2013/14 was based around three residential training seminars. The investment managers, the Investment Advisor and the Actuary assisted with the delivery of this programme.

Selected training seminars and conferences that were offered by industry wide bodies were attended by the Committee Members that sat on the Investment Panel. This recognises the higher governance duties placed upon those Members.

New members were invited to attend individual briefing sessions with the Fund's Officers that included an assessment of their individual training needs.

The programme for 2013/14 covered topics such as:

- The governance structure and the responsibilities of Committee Members
- Service planning and budgeting
- The 2014 Scheme
- Funding strategy, with a focus on the strategy for the 2013 valuation
- Risk Management
- The global economic outlook
- The investment management structure
- The asset classes that the Fund invests in
- Corporate Governance and Socially Responsible Investment
- Detailed work on the Fund's UK Property Programme.

The programme for 2014/15 will include:

- Service planning and budgeting
- The implementation of the new Scheme, including the work of the National Scheme Board and the Pensions Regulator
- Funding Strategy
- Implementation of the outcome of the Government's consultation on investment
- The asset classes that the Fund invests in
- Corporate Governance
- Further, detailed work on the Fund's UK Property Programme.

OFFICER TRAINING

The Pensions Service participates in South Tyneside Council's approach to officer training and development, which is the Employee Performance Management system.

The main objectives of Employee Performance Management are to:

- Improve individual performance by ensuring that all staff understand what they are expected to deliver and what support is available to help them do this
- Improve organisational performance by ensuring that all staff have individual objectives linked to service plans, priorities and our overall vision
- Expand and develop skills and capabilities by identifying and supporting the development of individuals, teams and the organisation as a whole, enabling staff to make more effective contributions
- Give recognition by investing time in each member of staff providing support and giving feedback on their contribution
- Develop and identify talent to grow the managers and leaders of the future.

The requirement for pension specific training has been addressed through the adoption of the Pensions Panel Framework for Pensions Practitioners.

Our training initiatives include:

- Career grades, where advancement is geared to an ongoing assessment of knowledge and capability
- Attendance at a range of seminars and conferences that are offered by industry wide bodies
- Access to the guidance, circulars and training sessions that are available through the Local Government Employers organisation
- A "buddy system" is in place to train and support staff who are learning about new areas of work and to provide ongoing support
- Officers participate in the pension administration software supplier's user groups and technical development groups
- The pension administration software has been developed to include processing guidance notes and links to internal policies, external key documents and websites.

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 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 2013/14, we have:

- Delivered the Pensions Committee's Training Programme that is based on the Knowledge and Skills Framework prepared by the Institute's Pensions Panel
- Responded to consultations on the Scheme and advised employers and members of developments and regulatory changes
- Prepared for the introduction of the 2014 Scheme
- Developed the Funding Strategy and implemented this through the delivery of the 2013 valuation
- Managed the admission of new employers and the withdrawal from the Fund of some existing employers
- Carried out asset liability modelling on the strategic investment benchmark and investment management structure to ensure that the Fund has an optimal allocation between growth assets, such as equities, and low risk assets such as government bonds
- Completed a change to the Fund's approach to investments in bonds through a sale of fixed interest gilts and an investment in a total return instrument
- Implemented the outcome of a review of investment in emerging market equities
- Continued with the implementation of a review of investment in UK property and progressed with a restructuring of the portfolio of properties
- Continued to develop the private equity, global property and infrastructure programmes.

In 2014/15, we will:

- Complete the introduction of the 2014 Scheme
- Implement the outcome of the 2013/14 asset liability work and progress with other work on the investment structure, including the continuation of the restructuring of the UK property portfolio
- Implement the outcome of the Government's consultation on Opportunities for Collaboration, Cost Savings and Efficiencies
- Implement the new governance structure for the Fund that arises from the Public Sector Pensions Act 2013.

REFORM OF THE SCHEME AND 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.

SCHEME REGULATIONS FROM 1st APRIL 2014

A new, career average, Scheme was introduced from April 2014.

The rules for the administration and governance of the new Scheme are to be contained in three sets of regulations. At the time of writing, the following regulations have been made and laid.

The Local Government Pension Scheme Regulations 2013, describe how rights accrue and how benefits are calculated with effect from 1st April 2014. The regulations also contain the administrative provisions for the Scheme.

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 set out how membership accrued prior to 1st April 2014 counts. These regulations also removed the ability of Councillors in England and Wales to continue their participation in the Scheme.

The main provisions of the new Scheme are:

- Tiered employee contribution rates
- A Career Average Revalued Earnings pension based on 1/49th of salary for each year of pensionable service
- A "50:50" arrangement that allows members to opt to pay 50% of their standard contribution rate. Where this is exercised, the member will accrue pension based on 1/98th of salary for each year of pensionable service
- A normal retirement age of the member's State Pension Age for the release of unreduced benefits
- A three level ill-health retirement package, payable from any age;
  - 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
- The earliest age that the member may choose to release their pension is 55. If the member chooses to access before Normal Pension Age then their pension will be subject to reduction
- Immediate payment of retirement benefits on grounds of redundancy or business efficiency if the member has attained age 55
- 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 indexed in line with the Consumer Price Index
- Pensions must come into payment before the 75th birthday
- Survivor benefits for life, payable to spouses, civil partners and dependant partners (opposite and same sex) at a 1/160th accrual rate

- Survivor benefits payable to children
- A death-in-service tax-free lump sum of three times assumed pensionable pay
- 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.

MANAGEMENT AND GOVERNANCE

The third set of regulations, covering the management and governance of the new Scheme, are currently awaited. It is understood that the regulations will follow the management and governance principles that have already been agreed. These are:

- The value of the ongoing Scheme, and the employer contribution cap within that value, are to be agreed between the principal stakeholders
- The employer contribution cap is to contain both ceiling and floor values, referred to as a cap and collar
- The mechanisms to keep employer contributions within the cap and collar are to be set by regulation, will be under the control of the stakeholders and will use model fund data
- The mechanisms will allow changes to the benefit structure and / or employee contribution rates, and include a default position should agreement not be reached
- A mechanism to translate the effect of the cap and collar to individual employers in the Scheme, including circumstances when rates can be set outside of the cap and collar
- Cap and collar individual funding levels are to be monitored and kept within an acceptable range.

Under the Public Service Pension Act 2013, CLG will continue to be responsible for policy and the making of regulations. There will be a national Scheme Advisory Board to advise CLG on regulatory changes it considers to be appropriate.

At individual Fund level, each Fund will continue to be administered by its designated administering authority. However, for each Fund there will also be a Pension Board that will be tasked with assisting the administering authority in securing compliance with regulations, other legislation and the requirements of the Pensions Regulator.

These proposals are all subject to consultation and ratification.

INVESTMENT REGULATIONS

The framework for investment continues to be 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.

SCHEME REGULATIONS TO 31st MARCH 2014

The rules of the Scheme to March 2014 were 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 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.

The main provisions of the Scheme were:

- Tiered employee contribution rates
- A final salary pension based on 1/60th of salary for each year of pensionable service
- Pensions based upon the best actual pensionable pay in the last three years or an averaging of three financial years within the last ten before retirement
- 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 was a prospect of return to gainful employment after three years but before normal retirement age
  - No enhancement where there was a prospect of return to gainful employment within three years. This level of ill health pension ceased on re-employment or after three years in payment
- The earliest age for release of pension was 55, except on grounds of ill-health
- Early release from age 55 on grounds of redundancy or business efficiency
- Phased retirement arrangements that enabled 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 indexed in line with the Consumer Price Index
- Pensions must have come into payment before the 75th birthday
- Survivor benefits for life, payable to spouses, civil partners and nominated dependant partners (opposite and same sex) at a 1/160th accrual rate
- Survivor benefits payable to children
- A death-in-service tax-free lump sum of three times salary
- A post-retirement lump sum death benefit where death occurred 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 was due
- Facilities for paying additional voluntary contributions to provide benefits.

ADDITIONAL VOLUNTARY CONTRIBUTIONS

INTRODUCTION

Whilst the Scheme provides a good benefits package, it is normally possible for a member to increase their benefits.

The Scheme Regulations changed on 1st April 2014 and from this date Members can:

• PAY INTO THE FUND'S IN-HOUSE AVC PLAN

An AVC plan can provide extra life assurance 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.

Subject to the above rules for new AVC plans, it is intended that members can contribute up to 100% of their pay each month and take up to 25% of their in-house AVC fund as a tax-free lump sum at retirement. Contributions must be deducted from pay and tax relief may apply.

• TAKE OUT AN ADDITIONAL PENSION CONTRACT

Again, subject to limits, a member can purchase annual pension up to a maximum of £6,500, which is an increase from the previous maximum of £5,000.

The contract can be taken with or without a contribution from the employer and can be used to buy extra pension or lost pension arising from authorised unpaid leave of absence . Subject to the Fund's policy, members may choose to make a one off payment or regular contributions. Tax relief may apply.

All contracts taken out for Added Years, AVCs or Additional Regular Contributions prior to 1st April 2014 are protected and fall under earlier rules.

THE PRUDENTIAL

The Fund has an AVC plan arranged with The Prudential that offers a comprehensive range of seventeen funds.

Regular meetings are held with The Prudential to discuss the running of the plan.

The Prudential works with the Fund's employers to provide educational seminars to members.

The Fund carries out an annual review of the AVC provision. The 2013 review was undertaken in October 2013 with the assistance of Hymans Robertson.

The review considered the fund range and the impact of the new charging structure introduced by The Prudential in August 2012.

It was concluded that The Prudential should remain as the sole provider for now.

The Fund has continued to review its position on with-profits investment. This option was closed to new investors following the 2006 review. It has been decided not to take further action in the current investment climate and the Fund will continue to monitor the position.

EQUITABLE LIFE

The AVC plan with Equitable Life is closed to new members and transfers.

This is a group scheme with the Fund being the policyholder for individual member investments.

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 small number of members who have with–profits investments have remained with Equitable Life. This is because it is 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.

EQUITABLE LIFE PAYMENT SCHEME

As part of the 2010 Spending Review, the Government announced that £775 million would be made available for distribution to policyholders who had suffered a relative loss. The Independent Commission on Equitable Life payments was set up and was asked to provide advice on how the amount should be allocated fairly. The Commission published its final report in January 2011.

The Government published a document entitled "Scheme Design for Parliamentary Review". This sets out the design of the compensation scheme, including the allocation to members within group schemes.

The Equitable Life Payment Scheme was set up by the Government to make payments to policyholders. Payments to individual investors commenced in June 2011 with group scheme members to be dealt with by a now extended deadline of mid 2015.

In July 2013, the Fund supplied Equitable Life with all the required information and contact details to enable payments to be made. It is understood that Equitable Life has contacted all eligible members and provided details of the value of their payment and how it would be paid.

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.

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. This led to the scheduled employers agreeing to take a contribution holiday. This contribution holiday, alongside a government 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 back 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 revealed an improvement in the funding level to 79%, which was 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. This led to increased employers' contributions from April 2008.

THE 2010 VALUATION

The contributions paid by employers in 2013/14 were set in the 2010 valuation.

Experience had been very poor between the 2007 and 2010 valuations, 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 gilt yields that were used to set the discount rates for the valuation.

These factors impacted negatively on the funding position, which had been extremely volatile and had deteriorated significantly.

For the 2010 valuation, a straight application of the strategy used at the 2007 valuation would have led to significant increases in the contributions for most employers. The Pensions Committee recognised this position and reviewed the assumptions and strategy for the valuation.

All employers were asked for their views on strategy as part of the consultation exercise on the Funding Strategy Statement.

The strategy included updated financial, inflation and salary assumptions. The mortality assumptions were increased in the light of national data and the Fund's own experience.

In order to prevent some employers' contribution rates rising to unaffordable levels, the Committee adopted a less prudent strategy for employers with a strong covenant by increasing the discount rate used to calculate the liabilities. It was intended that a more prudent strategy would be restored at future valuations.

The position for some employers with a weaker covenant, mainly the transferee admission bodies and community admission bodies, was very serious both nationally and locally. Therefore, discussions were held with the five district councils, as the major stakeholders in the Fund, to establish the extent to which they wished to:

- Have existing guarantees relied upon at this valuation
- Support directly those employers that did not then have a formal guarantee from the councils.

Constructive discussions took place that led to some new guarantee arrangements being put into place and to manageable contributions being set for the majority of the affected employers.

Since the 2007 valuation, the Fund has used longer deficit recovery periods for employers with a suitably strong covenant. Information supplied by employers in response to the Fund's annual employer survey is taken into account in setting recovery periods.

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
- The grouping of some smaller employers for setting contribution rates which protects such employers from the risk of high volatility of rates.

These measures led to a reported funding level at the 2010 valuation of 79%, the same as at the 2007 valuation. However, the 2010 low risk funding level, based on gilt yields, was 53%. The comparable figure at the 2007 valuation was 63%.

The average future service rate was 15.3% of pay and the contribution to address the deficit was 5.9% of pay, leading to a total average contribution of 21.2% of pay.

THE 2013 VALUATION

The Scheme Regulations required a valuation to be carried out as at 31st March 2013, which has led to revised employer contribution rates being set from 1st April 2014.

This valuation includes the impact of the new Scheme, which commenced on 1st April 2014 and produced a saving in the average employers' contribution of about 2% of pay.

Experience between the 2010 and 2013 valuations was mixed. The actual investment return was 7.5% per annum and this exceeded the assumed return of 6.8% per annum so this was a positive factor. It was also reasonable to adopt lower assumptions for the long term impact of inflation and pay awards, which were also positive factors for the outcome. On the negative side, it was necessary to strengthen the assumptions for longevity and there had been a further fall in the gilt yields that had previously been used to set the discount rates for the valuation.

Aon Hewitt, the Fund Actuary, proposed an alternative approach to deriving and justifying the discount rates that involved setting these by closer reference to the forecast return on the assets actually held by the Fund, rather than by reference to the return on gilts. Aon Hewitt's Capital Market Assumptions provide the return assumptions for this approach, which also sets a "Probability of Funding Success", which is the likelihood that the strategy would return the Fund to full funding over the recovery period.

This approach set a discount rate of 5.15% for employers with a stronger covenant. The rate for employers with orphan liabilities was set at about 4.4%, depending on the mix between in service and left service liabilities.

The approach to recovery periods and grouping was left unchanged from the 2010 valuation. The use of stepping was reduced to three annual steps.

Overall, this represented a tightening of the basis used at the 2010 valuation, which had been a stated objective at this valuation. The strategy was discussed with employers at the annual meeting and as part of the consultation exercise on the Funding Strategy Statement.

The outcome is a reported funding level of 81%, a slight improvement from the figure of 79% at the 2010 valuation. The low risk funding level, based on gilt yields, was 57% against a figure of 53% at the 2010 valuation.

The average future service rate was 16.1% of pay and the contribution to address the deficit was 7.5% of pay, leading to a total average contribution of 23.6% of pay, as against 21.1% of pay at the 2010 valuation.

Part of the upward pressure on the employer contributions is due to falling payrolls, in particular at a number of the larger employers in the Fund. This leads to an increase in a percentage based deficit contribution. This is because the deficit amount is driven by the higher, historic payroll and the percentage based levy on the lower, current payroll has to be increased to maintain the contribution towards the deficit.

In practice, the Fund manages this issue by setting most deficit contributions as a cash sum to maintain their value and ensure recovery.

When carrying out a valuation, an actuary must have regard to the desirability of maintaining as nearly constant a common rate, i.e. the total rate, as possible. The Fund Actuary believes that this has been achieved at the Total Fund level, after allowing for payroll changes and inter valuation increases in the past service deficiency payments.

Further information on the valuation is contained in the Statement of the Actuary, which is contained in this Report and Accounts, and in the Funding Strategy Statement and the Actuary's Valuation Report which are available on the Fund's website.

STATEMENT OF THE ACTUARY FOR THE YEAR ENDED 31 MARCH 2014

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 latest full actuarial investigation into the financial position of the Fund was completed as at 31 March 2013 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

ACTUARIAL POSITION

1. The valuation as at 31 March 2013 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets at that date (of £5,432.3M) covering 81% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable pay.
2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2014 is:
   - 16.1% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date.

   Plus

   - Monetary amounts 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 2014, amounting to £64.1M in 2014/15, and increasing by 3.9% p.a. thereafter.
3. In practice, each individual employer's position is assessed separately and contributions are set out in the certificate attached to Aon Hewitt Limited's report dated 28 March 2014 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.
4. The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement. Different approaches adopted in implementing contribution increases and individual employers' recovery periods are set out in the actuarial valuation report.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service **Scheduled Bodies** **Admission Bodies**	 5.15% p.a. 5.10% p.a.
Discount rate for periods after leaving service **Scheduled Bodies** **Admission Bodies**	 5.15% p.a. 3.70% p.a.
Rate of inflationary pay increases (additional allowance made for promotional increases)	3.90% p.a.
Rate of increase to pension accounts	2.40% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.40% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2013. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2014 to 31 March 2017 were signed on 28 March 2014. Contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2016.

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. The first such review since the actuarial valuation as at 31 March 2013 is due to be carried out with an effective date of 31 March 2014.

9. This Statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as at 31 March 2013. 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 actuarial valuation report which details fully the context and limitations of the actuarial valuation.

   Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, South Tyneside Council, the Administering Authority of the Fund, in respect of this Statement.

10. The actuarial valuation report is available on the Fund's website at the following address:

    http://www.twpf.info/article/11978/Fund-Valuation-Reports

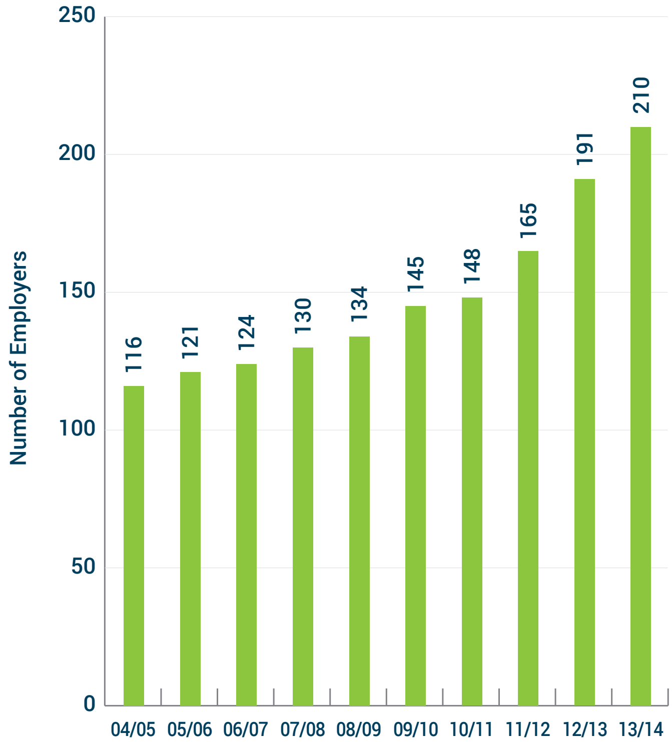
Aon Hewitt Limited
14 May 2014

MEMBERSHIP OF THE FUND

As at 31st March 2014, there were 210 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.

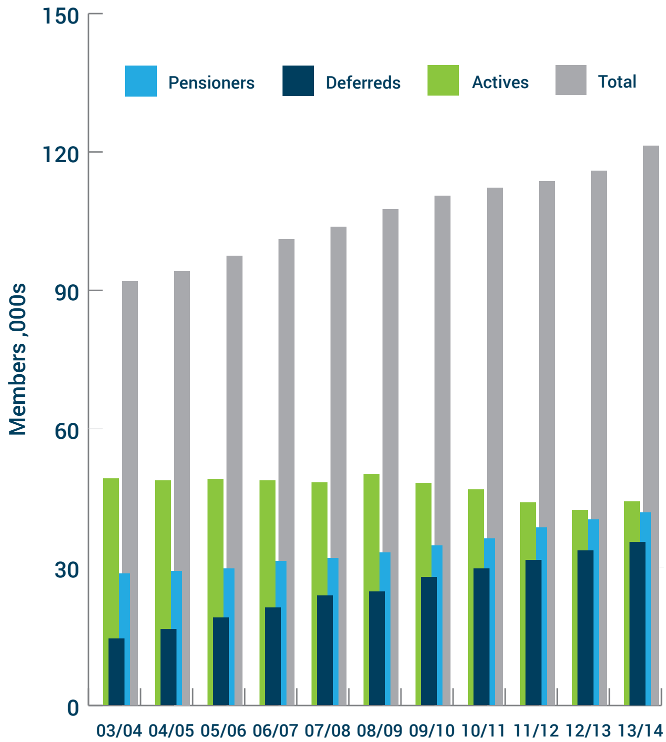
The increase in the number of participating employers over the past ten years is shown in the chart below:

The increase was initially caused by the five councils outsourcing work to contractors that take up admitted body status in the Fund. More recently, the increase has been driven by schools converting to academy status and seeking to take up scheduled body status in the Fund.



The Fund had 121,294 members as at 31st March 2014. The chart below shows the movement in membership over the past ten years.

Whilst total membership has continued to increase, the number of active members peaked in 2008/09. The Fund has since seen an increase in deferred and pensioner members and a decrease in active membership.



Auto enrolment has generated a small net increase in the number of active members. However, the full impact will not be known until 2017 as most of our large employers have exercised transitional delay for members who had previously opted out of the Scheme.

THE EMPLOYERS IN THE FUND AND THEIR MEMBERS AS AT 31st MARCH 2014

DISTRICT COUNCILS	ACTIVES	DEFERRED	PENSIONERS
Gateshead Council	6,428	5,319	6,471
Newcastle City Council	7,027	6,307	8,761
North Tyneside Council	5,071	3,912	5,176
South Tyneside Council	3,926	4,168	4,402
Sunderland City Council	5,640	6,153	7,265
SUB TOTALS	**28,092**	**25,859**	**32,075**

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS
Academy 360	41	18	8
Aim High Academy Trust	36	0	0
Benedict Biscop Church of England Academy	17	3	0
Biddick Academy Trust	55	5	1
Brighter Academy Trust	65	1	1
Cardinal Hume Catholic School	33	5	3
Castle View Enterprise Academy	45	21	2
City of Sunderland College	270	376	183
Diamond Hall Infant Academy	35	2	0
Discover Learning Trust	57	1	0
Discovery Learning Limited	1	0	0
East Herrington Primary Academy	38	3	1
Eppleton Academy Primary School	11	1	1
Former North East Regional Airport Committee	0	0	15
Former Tyne and Wear County Council	0	34	264
Former Tyne and Wear Residuary Body	0	2	30
Fulwell Infants School Academy	26	0	0
Gateshead College	349	319	111
Gateshead Housing Company	303	164	106
Gosforth Federated Academies Limited	100	22	3
Grasmere Academy	13	0	1
Grindon Hall Christian School	17	0	0
Holley Park Academy	16	1	0
Houghton Kepier Sports College Academy Trust	52	7	3
Inspire Multi Academy Trust	58	4	0
Joseph Swan Academy	52	20	1
Kenton School Newcastle	149	22	1
Kibblesworth Academy	21	3	0
Lord Lawson of Beamish Academy	41	11	2
Monkton Infants School	12	0	0
Monkton Junior School	5	0	0

SCHEDULE 2 PART 1 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS
Monkwearmouth College	0	1	3
Newcastle College	1,092	1,255	289
Newcastle Education Action Zone	0	2	2
North Tyneside College	0	53	25
Northumberland Magistrates Court	0	31	78
Northumbria Police Authority	0	1,217	1,365
Northumbria Probation Trust	522	231	463
Northumbria University	1,491	1,167	941
Police and Crime Commissioner for Northumbria	1,645	124	25
Red House Academy	38	14	2
Redby Primary Academy	30	4	1
Riverside Primary Academy	20	4	1
Sacred Heart Catholic High School	38	15	2
South Tyneside College	184	202	210
South Tyneside College Academy Trust	15	0	0
South Tyneside Education Action Zone	0	1	1
South Tyneside Homes	560	193	176
Southmooor Academy	41	2	0
St Aidan's Education Trust	52	6	1
St Anthony's Girls' Catholic Academy	43	7	2
St Cuthbert's Catholic High School	32	7	3
St Joseph's Catholic Education Trust	88	0	0
St Mary's Catholic School Trust	47	1	1
St Thomas More Partnership of Schools	55	10	0
St Thomas More Roman Catholic Academy	53	3	4
Sunderland Education Action Zone	0	0	1
The Ascent Academies Trust	111	11	3
The Cedars Academy Trust	23	6	0
The Laidlaw Schools Trust	108	33	6
The Northern Education Trust	60	0	0
Tyne and Wear Fire and Rescue Services	264	171	235
Tyne and Wear Integrated Transport Authority	1	26	93
Tyne Metropolitan College	155	169	50
Tynemouth College	0	22	11
University of Sunderland	866	701	552
Venerable Bede C of E Academy	34	3	0
Wearmouth Learning Trust	46	0	0
Wearside College	0	4	8
West Newcastle Academy	7	1	0
Whickham School and Sports College	58	18	4
Whitburn Church of England Academy	46	2	7
Wise Academies	82	19	3
Woodard Academies Trust	34	0	0
Your Homes Newcastle	763	358	198
SUB TOTALS	**10,622**	**7,139**	**5,503**

SCHEDULE 2 PART 2 EMPLOYERS	ACTIVES	DEFERRED	PENSIONERS
Birtley Town Council	0	3	3
Blakelaw and North Fenham Parish Council	0	0	0
Blue Square Trading Limited	0	7	5
Care and Support Sunderland Limited	117	2	1
Castle View Fitness Centre	1	6	1
Charge Your Car (North) Limited	4	0	0
Learning World	0	6	1
Nexus	567	450	1,400
Northumbria University Nursery Limited	8	0	1
Sunderland Care and Support Limited (SCSL)	676	1	0
Sunderland Live Limited	17	0	0
The Intraining Group Limited	45	5	1
SUB TOTALS	**1,435**	**480**	**1,413**

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS
Age Concern Newcastle	15	34	52
Assessment and Qualification Alliance	0	2	9
Association of North East Councils	10	38	10
Balfour Beatty Power Networks Limited	14	3	6
Balfour Beatty Power Networks Limited (PB)	9	1	1
Baltic Flour Mills Visual Arts Trust	3	5	1
Bell Decorating Group Limited	1	0	0
Benton Grange School	0	0	8
Benwell Young Peoples Development Project	2	1	0
Brunswick Young Peoples Project	0	3	0
BT South Tyneside Limited	291	51	67
Bullough Cleaning Services	0	0	1
Bullough Contract Services	0	1	0
Byker Community Trust	5	0	0
Capita Symonds Limited	198	5	7
Carillion Services Limited (Jarrow School)	9	0	2
Carillion Services Limited (Lord Lawson Academy)	3	0	0
Carillion Services Limited (SSCS)	4	0	0
Catholic Care North East	0	19	26
CBS Outdoor Limited	0	2	0
Child Care Enterprise Limited	1	18	1
Churchill Contract Services Limited (Parkhead)	2	0	0
Cofely Workplace Limited	376	35	5
Compass Group UK and Ireland	4	0	1
DB Regio Tyne and Wear Limited	469	68	76
Disability North	4	18	12
Gateshead Law Centre	0	11	3
Gentoo Group Limited	1,422	555	526
Groundwork South Tyneside and Newcastle	1	5	4
Hebburn Neighbourhood Advice Centre	0	3	1

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS
Higher Education Funding Council for England	0	1	9
Information North (North Regional Library System)	0	0	3
Insitu Cleaning	6	4	1
International Centre for Life	8	6	9
Involve North East	6	5	0
Jarvis Accommodation Services Limited	0	3	4
Jarvis Workspace Facilities Management Limited	0	3	4
John Laing Integrated Services	2	0	0
Kenton Park Sports Centre	3	10	1
KGB Cleaning and Support Services Limited	8	0	0
Kier North Tyneside Limited	309	32	103
Lend Lease Facilities Management (EMEA) Ltd	6	0	0
Lovell Partnership Limited	21	0	0
Managed Business Space Limited	1	0	2
Mears Limited	217	2	22
Mitie Cleaning (North) Limited	0	1	0
Mitie PFI Limited (Boldon School)	5	2	1
Mitie PFI Limited (North Tyneside)	0	0	1
Morrison Facilities Services Limited 1	0	13	20
Morrison Facilities Services Limited 2	0	69	58
Morse	0	14	0
Museums Libraries and Archives North East	0	16	7
National Car Parks	0	3	3
National Glass Centre	0	1	1
Newcastle Law Centre	1	13	3
Newcastle Family Service Unit	0	1	6
Newcastle Health City Project	0	18	9
Newcastle International Airport	118	262	360
Newcastle Tenants and Residents Federation (NTRF)	2	0	0
Newcastle Tenants Federation	0	3	2
Newcastle Theatre Royal Trust	67	48	27
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	13	16
North East Regional Employers Organisation	5	3	8
North Tyneside City Challenge	0	3	1
North Tyneside Disability Advice	0	0	1
Northern Arts Association	0	24	20
Northern Council for Further Education	0	12	15
Northern Counties School for the Deaf	0	15	24
Northern Grid for Learning	3	4	4
Northumbria Tourist Board	0	18	18

ADMITTED BODIES	ACTIVES	DEFERRED	PENSIONERS
One North East	0	0	8
Ouseburn Trust	0	1	0
Parsons Brinkerhoff	0	4	2
Passenger Transport Company	0	0	92
Percy Hedley Foundation	20	4	6
Port of Tyne Authority	0	0	2
Praxis Service	2	2	2
Raich Carter Sports Centre	33	27	2
RM Education	3	3	3
Robertson Facilities Management Limited	9	0	2
Robertson Facilities Management Limited (Newcastle Phase 2)	2	0	2
Saint Mary Magdalene and Holy Jesus Trust	5	6	5
Saint Mary the Estate Management Charity	0	0	1
Scolarest (Newcastle Schools)	10	7	8
Scolarest PFI (Boldon School)	0	0	1
Search Project	1	1	2
Simonside Community Centre	1	2	0
Sodexo Limited	10	0	1
South Tyneside Football Trust	1	0	0
South Tyneside Victim Support	0	1	1
Southern Electric Contracting Limited	14	9	12
Stagecoach Services Limited	87	149	718
Sunderland City Training and Enterprise Council	0	32	35
Sunderland Empire Theatre Trust	0	2	5
Sunderland Outdoor Activities	0	2	1
Sunderland Streetlighting Limited	21	20	29
Taylor Shaw	0	4	2
The Ozanam House Probation Hostel Committee	29	18	10
Thomas Gaughan Community Association	0	2	0
TT2 Limited	42	21	34
Tyne and Wear Development Company Limited	0	20	10
Tyne and Wear Development Corporation	0	17	33
Tyne and Wear Enterprise Trust	3	13	23
Tyne and Wear Play Association	1	0	0
Tyne and Wear Small Business Service	0	10	13
Tyne Waste Limited	0	7	12
Tyneside Deaf Youth Project	0	2	1
Tyneside Training and Enterprise Council	0	32	40
Valley Citizens Advice Bureau	0	1	1
Walker Profiles (North East) Limited	0	25	5
Wallsend Citizens Advice Bureau	0	0	3
Wallsend Hall Enterprises Limited	1	2	3
Workshops for the Adult Blind	0	10	73
SUB TOTALS	**3,928**	**1,961**	**2,787**
GRAND TOTALS	**44,077**	**35,439**	**41,778**

WORKING WITH MEMBERS AND EMPLOYERS

INTRODUCTION

The pension service to our 121,294 members and 210 employers is provided by the Pensions Office, which is organised into five teams of experienced officers.

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 and runs meetings for employers. It is also responsible for maintaining the website.

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

COMMUNICATIONS POLICY STATEMENT

Our vision statement sets out our aim of making pensions issues understandable to all our stakeholders. Effective communications and easy access to information is very important to us. Our Communications Policy Statement sets out:

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

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

Our approach is under review to reflect the increasing focus on electronic communications and the new Scheme.

SURVEYS

We seek the views of employers and employees to help us to deliver a service that suits their needs. We survey our employers annually and our active, deferred and pensioner members on a rolling programme.

SERVICES TO MEMBERS

The main services that we provide to our members are summarised below:

- We maintain a website that provides information on the Scheme and the Fund
- We run a Helpline that allows members to request leaflets and information, change certain personal and bank details, and track progress of payments and transfers. We handled calls from over 40,000 members in 2013/14
- We have a call back service for out of office hours and busy times.
- We welcome personal callers and were visited by over 900 members last year. An appointment is not necessary
- We provide a range of presentations that cover topics including induction, transferring between employers, midlife and pre retirement planning and leaving before retirement
- We provide annual benefit statements for our active and deferred members. Pensioners receive an annual update and details of any pensions increase. These are sent directly to the member's address
- We work with the Local Government Association to provide a range of booklets that help members to understand the Scheme rules. These are available on our website or on request from our Helpline
- We publish a Members' Annual Report on our website and provide a paper copy on request
- We provide newsletters to keep members informed of changes to the Scheme.

MAKING PENSIONS ACCESSIBLE TO MEMBERS

We adopt the principles of plain English in our documents.

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

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

Members tell us that their preferred method of contacting us is by telephone. A voicemail service is available during busy times and out of office hours on which members can leave a message and a convenient contact number for us to return the call. Our aim is to respond within five working hours or earlier, which was achieved for 99.0% of messages in 2013/14.

In addition to the main Helpline number of 0191 424 4141, we have an alternative number for members calling from outside our area that may be more cost effective for some members, depending on their tariff. This number is 0845 625 4141. This number also forms part of our emergency planning and can be used if we experience problems with our main telephone system.

ANNUAL BENEFIT STATEMENTS

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

The employers supply most member information and we work with them to ensure that members' records are up to date. We were able to provide 99.8% of active members with a complete benefit statement in September 2013.

We issue benefit statements to every deferred member for whom we hold a current address. About 31,400 statements were mailed out in June 2013.

COMMUNICATING THE NEW SCHEME

We are participating in working groups set up by the Local Government Association to develop the communication strategy and materials for the new Scheme.

We also participate in regional communications groups to share good practice, documents and resources.

We have alerted members to the Scheme's national website at www.lgps2014.org and have made extensive use of the material and resources available.

We are working with our software provider to update our systems. This will not be achieved until later in 2014/15 because of the late release of the new Scheme Regulations.

COMBINED PENSION FORECASTS

We work in partnership with the Department for Work and Pensions to provide state pensions information for our active members. Whenever possible, we provide a combined pension forecast that includes information on the current and projected state pension entitlement.

PENSION LIBERATION FRAUD

For a number of years the Fund has been warning members of the risk of Pension Liberation Fraud. The Pensions Regulator is concerned about the increase in such activity and, in association with HMRC, has launched a high profile campaign to combat fraud.

The Fund has taken a number of actions to reduce the risk of fraud and to comply with the Pensions Regulator's recommendations. All processing and documentation has been reviewed and amended to seek to ensure that members are making fully informed decisions when transferring benefits out of the Fund.

SERVICES TO EMPLOYERS

The main services that we provide to employers are summarised below:

- We have a Pensions Administration Strategy that sets out the roles and responsibilities of the Fund and the employers
- We provide each employer with a client manager whose role is to ensure efficient processing and communication
- We have a programme of meetings to discuss issues related to administration and regulatory change
- We provide an online Employers' Guide to the administration of the Fund
- We offer training courses that aim to educate and inform staff on pension matters and working procedures
- We host an annual training event in October and arrange one off workshops as required
- We hold an annual general meeting
- We send out mailshots to advise employers of developments.

NEW SCHEME

We helped our employers prepare for the new Scheme by providing guidance notes, updates and links to material produced by the Local Government Association. We hosted employer training sessions in November 2013 and March 2014. These were well attended and notes were circulated to all employers in the Fund.

We have updated our administration forms and our Employers Guide has also been updated to reflect the changes.

AUTO ENROLMENT

We have helped our employers prepare for auto enrolment by providing guidance, updates and training sessions.

SYSTEMS

The Pensions Service has used the Civica UPM pension administration system since 2003. In 2008, we upgraded to the latest version of the system and in 2011 we completed the introduction and integration of the Civica pension payroll system.

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

Where possible we encourage our members, prospective members and their representatives to contact us by email at **pensions@twpf.info**.

Through our website, members have access to:

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

In addition to the main website, there is a password-protected area for employers. The majority of employers have registered to use this service, which provides access to:

- Pensions Committee Reports
- Latest news and topical issues
- The Employers' Guide and templates of administration forms
- The pension records of their employees
- The ability to carry out pension estimates and calculations.

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

The UPM system is being developed to improve the web access facilities for employers. This has allowed us to expand the interactive nature of the website. We have developed online employer web forms for high volume processes. A pilot exercise took place in 2011 and the service was expanded in 2013/14. In 2014/15, we will be increasing the number of processes available via web forms and bringing more employers on board. We intend to remove all paper by the end of the year.

Work on online services for members started in 2013/14. Systems will be introduced to allow members to view their personal record and calculate estimates of their benefits.

The UPM system provides for the bulk import and automated processing of data from employers. This reduces the risk of passing incorrect data, provides significant efficiencies in administration and processing and reduces the cost for both employers and the Fund.

We have developed this bulk processing system for high volume areas such as changes to personal data and working hours. This has been piloted with a small number of large employers and is available to all employers. Further developments, including a system for members joining the Fund, are planned for 2014/15.

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 strategy in place at the beginning of 2013/14 was based largely on an asset liability study carried out in 2007/08 using the liability data from the 2007 valuation. Implementation of the strategy was delayed until 2010 due to poor market conditions in 2008 and 2009.

An asset liability study was carried out in 2013/14 using the liability data from the 2013 valuation. Apart from a 4% shift from UK to overseas equities, the suitability of the existing strategy was confirmed.

The current strategy is to invest 66% in equities, 19% in bonds and cash, 12.5% in property and 2.5% in infrastructure. Within this strategy, there is a 7.5% allocation to private equity and an overlay of up to 3% that provides exposure to active currency positions.

Reviews were progressed on certain of the Fund's mandates in 2013/14.

In 2012, it became apparent that the structure of the UK property portfolio could lead to below benchmark returns for a number of years. The Fund reviewed the approach to investment and began a restructuring of the portfolio. This was taken forward in 2013/14 and continues into 2014/15.

A review was carried out on the Emerging Markets equity mandate in 2012/13. The outcome was implemented in 2013/14 and has resulted in the termination of an active manager's mandate and its replacement by a smaller active mandate and an allocation to a passive mandate.

Limited changes were implemented to the Fund's bonds investments in the light of concerns over the prospects for government bonds. This included:

- Switching an investment in a UK Gilt based fund into a total return bond fund
- A partial switch of a UK Index-Linked investment into Emerging Markets bonds, denominated in local currencies
- De-risking the Fund by continuing to back orphan pension liabilities where a cessation valuation has been carried out with Index-Linked gilts.

QUOTED EQUITIES AND BONDS

The Fund has appointed ten external investment managers to its range of quoted equity and bond mandates.

Most of the equity managers were appointed in 2010 when the current investment strategy was implemented.

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 one manager.

The managers and mandates are set out in the following table:

MANAGER	PORTFOLIO
Legal and General	Indexation - UK Equities - Europe ex UK Equities - US Equities - Emerging Market Equities - UK Index-Linked Gilts - Emerging Markets Bonds
JP Morgan	- Global Equities - Emerging Market Equities
Sarasin	Global Equities
UBS	Pan European Equities
BlackRock	UK Equities
Mirabaud	UK Equities
Lazard	Japanese Equities
TT International	Asia Pacific ex Japan Equities
M&G	Corporate Bonds
Henderson	Bonds

PROPERTY

The 12.5% allocation is comprised of 8% to UK direct property and 4.5% to global property.

The UK mandate is managed by Aberdeen Property Investors. This was valued at £263.2 million at the year end, representing 4.6% of the Fund. The underweight position is attributable to a net disinvestment in 2013/14 following the review of the mandate in 2012/13.

The 4.5% allocation to global property was set in 2010 and is being built up to the target level through investment into funds provided by Partners Group. This programme includes fund of funds, direct and secondary investments. This programme was valued at £246.8 million, or 4.3% of the Fund, at the year end.

INFRASTRUCTURE

The Fund made its first investment into infrastructure in 2006. A review of our approach in 2010 set an allocation of 2.5% which is to be provided largely through investment in funds offered by Partners Group. This will allow the Fund to diversify the programme globally and by industry and financing type.

At the year end, the total investment was valued at £108.4 million, representing 1.9% of the Fund.

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 programme is now well developed and diversified across providers, geography, industry and vintage years. The main focus of the programme is investment into fund of funds with HarbourVest and Pantheon. The Fund has also made investments into secondary funds managed by Lexington Partners and Coller Capital and direct funds with HarbourVest, Capital International, Partners Group and Lexington.

At the year end, £547.9 million, equal to 9.6% of the Fund, was invested in private equity. The overweight position is attributable to the growth in the Fund value being slower than projected following the global financial crisis.

ACTIVE CURRENCY

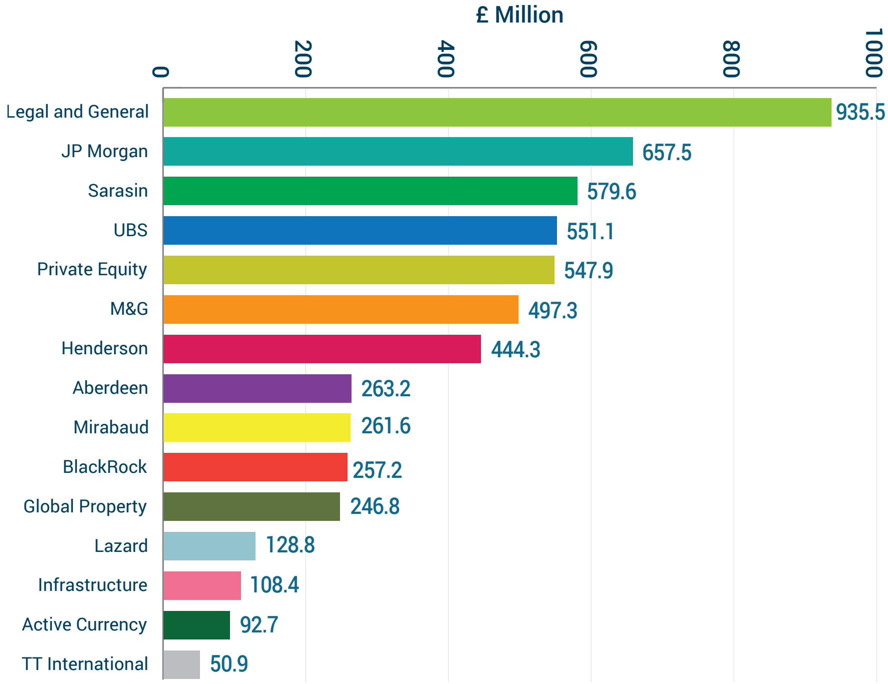
The Fund has allocated 3% to active currency strategies, which was initially held in four investments.

The Fund has kept the approach to active currency under review in the light of the returns, overall, moving materially below benchmark. A decision was taken in 2011/12 to reduce temporarily one of the four investments until market conditions improved for that strategy. A further investment was terminated early in 2014/15.

At the year end, the value of the investment in active currency was £92.7 million, or 1.6% of the Fund.

ASSETS UNDER MANAGEMENT

The value of assets with each manager and in the alternative investment programmes 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, mostly 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 UK property portfolio has a target based on a return of Retail Price Index plus 4%.

Absolute return targets are in place for the Private Equity, Infrastructure and Global Property programmes. These targets are developed as the programmes move out of J-curve and mature.

A total return target is in place for part of the fixed interest investment.

CUSTODY

Northern Trust was appointed in 2002 to provide custody services for certain of the Fund's segregated mandates. The remit was then widened from 2005 to cover all segregated assets. The service has been market tested and benchmarked regularly to ensure that it remains competitive.

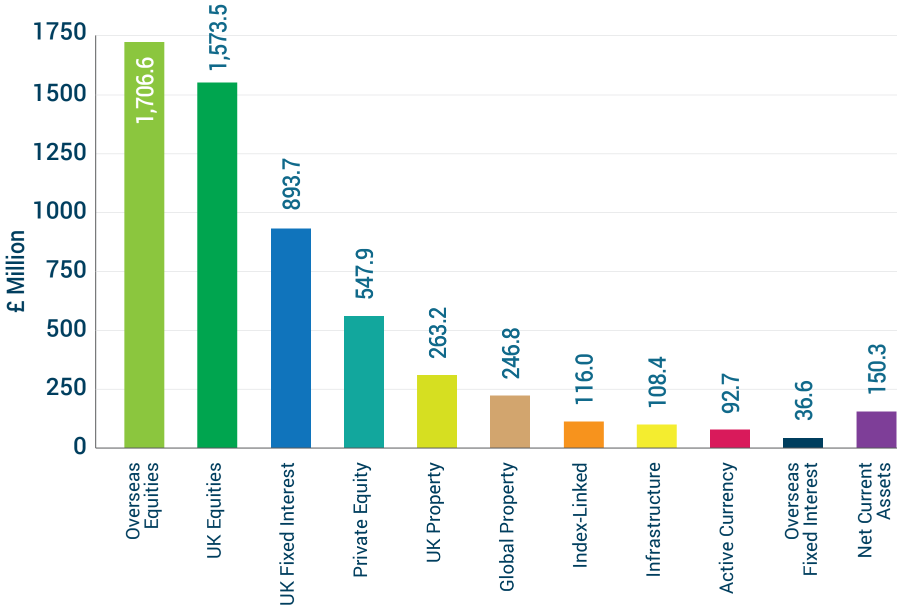
As at March 2014, Northern Trust was providing custody for approximately £2.5 billion of assets held in seven mandates.

ASSET ALLOCATION

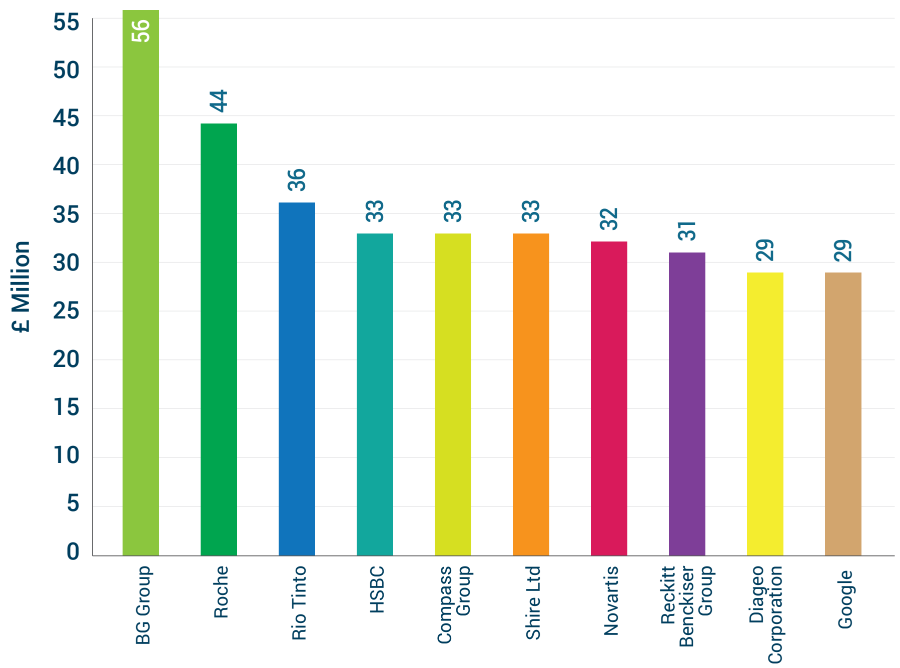
The asset allocation is maintained within pre-determined ranges around the strategic benchmark. Action is taken to bring the Fund back within range when a breach occurs. Legal and General provides management information that assists with this process.

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 2014 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 return up to and including periods ending on January 2002 and on the strategic benchmark thereafter.

In 2013/14, the Fund reviewed its approach to measuring private equity performance and moved from a benchmark based on a global equity index to an absolute return benchmark of 8% per annum net of fees. This change has been backdated to the start of the private equity programme and has led to small changes to the historic performance numbers.

MARKET CONDITIONS AND INVESTMENT RETURNS FOR 2013/14

There was a wide range of returns from the main asset classes during the year.

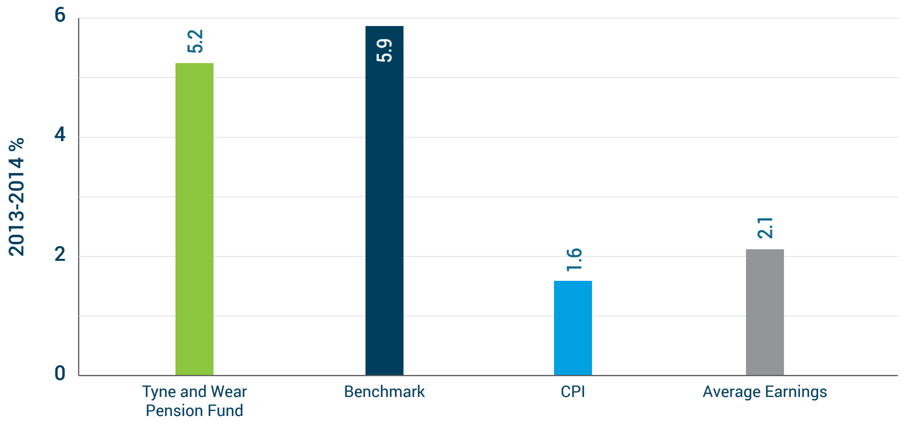
The strongest performing markets were European ex UK equities with a return of 17.3%, followed by UK property at 14.2%.

A number of asset classes ended the year down. The poorest performer was Emerging Markets bonds which fell by 15.5%, followed by Emerging Market equities and Asia ex Japan equities with negative returns of 9.7% and 5.8% respectively.

The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned 8.8%.

The Fund's return in this year was 5.2%, which was 0.7% below its benchmark return of 5.9%.

Inflation as measured by the Consumer Price Index, which has become the more important measure for the Scheme, rose by 1.6% and Average Earnings increased by 1.7%.

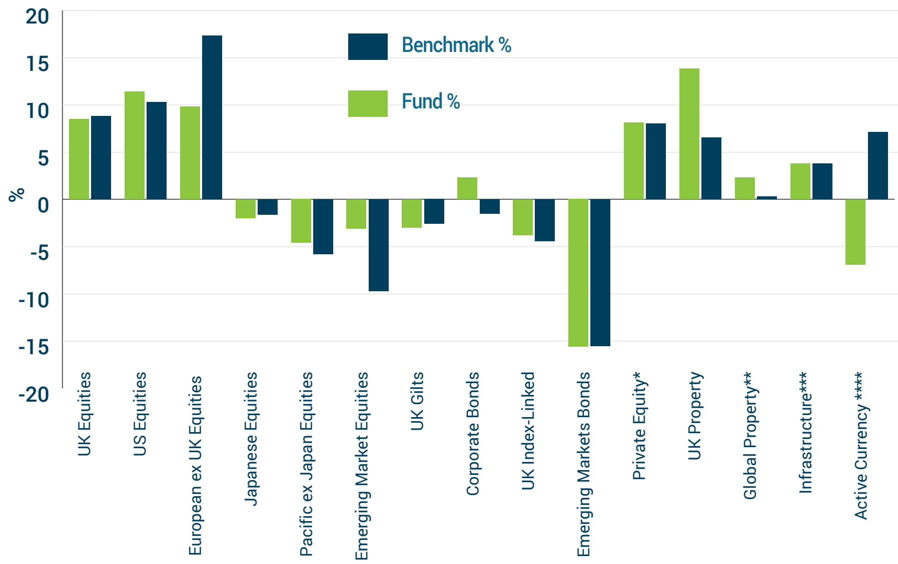


The underperformance during the year was primarily due to poor performance by two of the Fund's active equity managers, in particular UBS on the Pan European Equity mandate, and poor returns from the currency programme. The active bonds managers delivered respectable returns.

The returns from the passive strategies were satisfactory.

As noted earlier in this report, the return from the private equity programme is now measured against an absolute return benchmark of 8% per annum net of fees. This long term benchmark has been adopted to seek to reduce the volatility of returns relative to the benchmark. It is believed that this approach reflects the approach to the valuation of the assets more appropriately than the use of an index based benchmark. The 8% return is in excess of the longer term return expected from global equities, which was the basis of the previous benchmark. Performance for the year is marginally above the new benchmark. Detailed discussions have been held with the managers and they believe

The chart below shows the Fund's returns over the main investment markets for 2013/14.



* The return for private equity is shown against an absolute return benchmark of 8% per annum net of fees.

** The benchmark for global property assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 8% per annum net of fees is then assumed.

*** The benchmark for infrastructure assumes that an individual fund will deliver a zero return for the first three years to allow for J-curve. An absolute return benchmark of 7% per annum net of fees is then assumed.

**** The return for active currency is shown relative to a combination of returns based on the S&P 500 Index, the FTSE 100 Index and cash returns. This reflects the underlying benchmarks of the individual currency funds.

that, overall, their funds are delivering good, long term performance.

The UK property market produced strong returns, leading to the Fund's portfolio delivering a return of 13.8% which was comfortably above its RPI based benchmark of 6.5%. Such relative performance is expected at times of strong market performance. As noted above, the portfolio is being restructured following a period of poor returns.

The global property and Infrastructure programmes have similar characteristics to the private equity programme so the returns can be expected to be volatile in their early years.

The global property programme was introduced in mid 2010 and is comprised of funds run by Partners Group. It outperformed its benchmark for the year. The programme is still in the early stages of development.

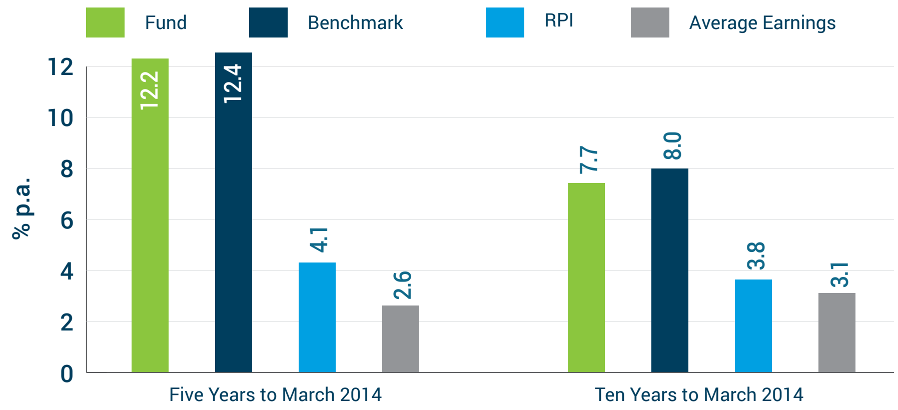
The infrastructure programme is a combination of funds run by Partners Group that were introduced from mid 2010 and two earlier investments in direct funds managed by Infracapital and Henderson. This programme is behind benchmark at what is also an early stage in its development.

The active currency programme is delivering below benchmark performance as certain strategies have not delivered in the recent, volatile currency markets. The Fund has reviewed its approach to active currency and two of the four original investments have been closed down.

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.

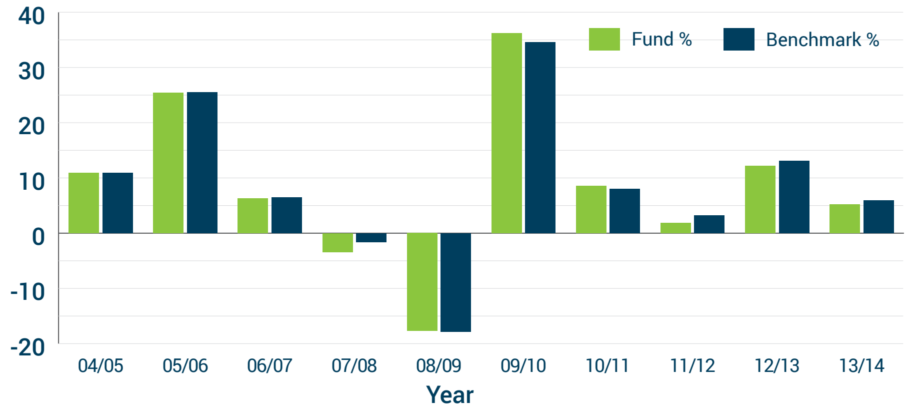
The chart on the right shows the Fund's annual returns over five year and ten year periods against the Retail Price Index and Average Earnings.

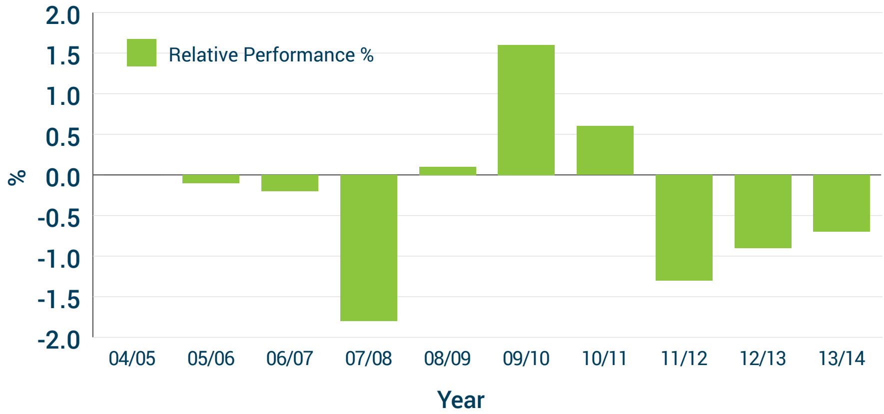


The five year return is 12.2% per annum, which is 0.2% below the benchmark return of 12.4% per annum. The ten year return is 7.7% per annum, which is 0.3% below the benchmark return of 8.0% per annum.

The below benchmark returns are attributable in part to the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy. Poor performance from the UK property portfolio has also detracted from returns.

The returns for both periods are above the increases in the Retail Price Index and in Average Earnings. The annual performance of the Fund over ten years is shown in the following chart.





The relative performance was 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 improving and flattening out in 2008/09.

In the market recovery in 2009/10, the Fund outperformed and recovered some of the loss from earlier years. There was a further outperformance in 2010/11. This was pleasing in the light of a significant amount of restructuring that took place when a number of new equity managers were appointed.

The disappointing performance in 2011/12 and 2012/13 was the result of the UK property mandate delivering returns materially below the benchmark. This resulted in a review of the approach to investing into UK property and a restructuring of the Portfolio.

Performance for 2013/14 has been discussed above.

DISCLOSURE FOR THE LOCAL GOVERNMENT PENSION SCHEME SHADOW ADVISORY BOARD

The Local Government Pension Scheme Shadow Advisory Board has been set up under Section 7 of the Public Service Pensions Act 2013. This body has responsibility to provide advice to CLG on the desirability of changes to the Scheme and to encourage best practice, increase transparency and coordinate technical and standards issues.

Part of the work programme is the compilation of a Scheme wide Report and Accounts.
To assist with this, the Fund has been asked to include the following information in its own Report and Accounts.

ANALYSIS OF EMPLOYERS

This shows the number of employers in the Fund analysed over active employers (those with active members) and ceased employers (those with no active members).

As at 31st March 2014	Active	Ceased	Total
Scheduled bodies	76	16	92
Admitted bodies	60	58	118
Total	**136**	**74**	**210**

ANALYSIS OF MEMBERSHIP

This is a breakdown of the members over the categories of active, deferred, pensioner and undecided leavers.

An undecided leaver is not officially a member of the Scheme as they are no longer accruing any service and are not entitled to benefits. They are, however, entitled to a refund of contributions or a transfer out.

Membership	As at 31st March 2014
Active	44,077
Deferred	35,439
Pensioner	41,778
Total Membership	**121,294**
Undecided Leavers	2,260

ANALYSIS OF ASSETS

The table below provides an analysis of the Fund's assets as at 31st March 2014 into categories set out by the Board.

	REGIONAL MANDATES		GLOBAL MANDATES	TOTAL
	UK £m	**Non-UK £m**	**£m**	**£m**
Equities	1,471.500	683.611	1,165.436	3,320.547
Bonds	978.221	68.710	0	1,046.931
Direct Property	263.969	0	0	263.969
Alternatives	0	0	995.804	995.804
Cash and Net Current Assets	98.951	9.527	0	108.478
Total	**2,812.641**	**761.848**	**2,161.240**	**5,735.729**

The assets shown in the Global column are held in global mandates or, in the case of the Alternatives, a global programme. The assets held in regional mandates have been split into UK or non-UK assets.

ANALYSIS OF INCOME

The table below provides an analysis of the investment income paid to the Fund in 2013/14.

	REGIONAL MANDATES		GLOBAL MANDATES	TOTAL
	UK £m	**Non-UK £m**	**£m**	**£m**
Equities	24.037	11.616	23.730	59.383
Bonds	17.707	0	0	17.707
Direct Property	17.703	0	0	17.703
Alternatives	0	0	0	0.000
Cash and Ancillary Items	0.611	0	0	0.611
Total	**60.058**	**11.616**	**23.730**	**95.404**

The income has been split on the same basis as the asset split shown above, with all income being allocated to the global or regional mandates.

The ancillary income arises from underwriting commissions, securities lending, commission recapture and class actions. This has not been analysed over individual mandates.

INVESTMENT POLICIES

INVESTMENT PRINCIPLES

In 2008, HM Treasury introduced six Investment Principles that replaced the original ten Principles from the Myners Report in 2001.

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 included representation from The Department for Communities and Local Government (CLG) and the Chartered Institute of Public Finance and Accountancy (CIPFA), considered how the Scheme could fit with the new Principles.

The Pensions Panel of CIPFA 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 is keeping 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 has benchmarked its practices and procedures against the guidance and has concluded that the Fund is compliant with the six new Principles. The position is outlined overleaf:

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 requires its investment managers to adopt the principles contained in the UK Stewardship Code • 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.
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" (SIP) that sets out the decisions that have been taken on its investment policies. The latest statement was approved by the Pensions Committee in July 2014.

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 ensures that the SIP is updated as the investment management structure is developed.

The SIP may be viewed on the Fund's website at **www.twpf.info**.

CORPORATE GOVERNANCE AND VOTING

The Committee believes that good corporate governance and the informed use of voting rights are an integral part of the investment process that will improve the performance of the companies in which the Fund is invested.

The Fund's approach is set out on the Corporate Governance Policy which was approved by the Committee in July 2014.

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 the UK Stewardship Code
- With regard to companies outside the UK, a manager to use its best efforts to apply the principles of the UK Stewardship Code. Other national or international standards must also be taken into account
- The policy 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 changes 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 ex UK and UK only voting record (including the UK pooled funds) for 2013/14 is shown below:

	Global ex UK	UK Only
Annual general meetings	2,219	711
Extraordinary general meetings	285	142
Resolutions	27,395	12,203
Votes for	23,602	11,888
Votes against	3,114	293
Abstentions	330	15
Votes not cast	349	7

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

A resolution was opposed or there was an abstention on 3,752 occasions. The most common reasons for this were:

- The lack of independence of non-executive directors and the length of directors' contracts
- Overly generous executive compensation packages for mediocre performance
- Concerns over the appointment of auditors for reasons including independence and the period of appointment
- Concerns about a reduction in shareholders' rights, such as the issue of new shares without pre-emptive rights
- Concerns over the resolutions being proposed by shareholders.

The table shows that there were 356 resolutions where votes were not cast.

For 133 of these resolutions, the votes were not cast due to a practice called share-blocking. This is where 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.

A further 192 resolutions were not voted as the country practice requires the holdings to be re-registered prior to voting. Again, shareholders are reluctant to vote due to the time taken to re-register shares which may result in these shares being unavailable for sale.

A further 28 resolutions were not voted as they required the shareholder to hold a power of attorney before votes could be cast and this was not held at the time of the meeting.

The remaining few resolutions not voted were due to the manager not voting in error.

Those resolutions not voted for share-blocking or re-registration reasons remain subject to review before a decision is taken on whether to vote. It should be noted that these practices do not occur in the UK and are diminishing elsewhere.

The Fund is a member of the Local Authority Pension Fund Forum. This is a voluntary association of over sixty 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 and to act accordingly where such issues 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 and to act accordingly 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 FOR THE YEAR ENDED

31st March 2013 £m		Note	31st March 2014 £m
	Dealings with members, employers and others directly involved in the Fund		
(221.010)	Contributions Receivable - Employers	3	(230.862)
(54.310)	Contributions Receivable - Members	3	(53.629)
(5.974)	Transfers In	4	(4.519)
(281.294)	**Total contributions**		**(289.010)**
252.151	Benefits Payable	5	251.495
14.436	Leavers	6	10.077
2.255	Administrative Expenses	7	2.380
268.842	**Total benefits**		**263.952**
(12.452)	**Net Additions from dealings with members**		**(25.058)**
	Returns on Investments		
(93.985)	Investment Income	8	(99.501)
3.535	Non-Recoverable Tax	8	4.097
(497.457)	Change in Market Value of Investments	9	(192.643)
9.480	Investment Management Expenses	12	9.717
(578.427)	**Net returns on investments**		**(278.330)**
(590.879)	**Increase in the net assets available for benefits during the year**		**(303.388)**
4,841.462	**Net assets of the Fund at 1st April**		**5,432.341**
5,432.341	**Net Assets of the Fund at 31st March**		**5,735.729**

NET ASSETS STATEMENT FOR THE YEAR ENDED

31st March 2013 £m		Note	31st March 2014 £m
5,425.461	Investment Assets	9	5,723.149
(12.613)	Investment Liabilities	9	(9.677)
33.391	Current Assets	13	37.519
(13.898)	Current Liabilities	13	(15.262)
5,432.341	**Net assets of the Fund at 31st March**		**5,735.729**

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 year end. The actuarial position of the Fund, which does take account of such obligations, is dealt with in a statement prepared by the Actuary on pages 21 and 22.

The actuarial present value of promised retirement benefits is disclosed at Note 25 which has been compiled under IAS26 and as such is based on different assumptions.

We certify that the financial statements, along with the notes to the financial statements, for the year ended 31st March 2014 set out in pages 42 to 65, present fairly the financial position of the Tyne and Wear Pension Fund as at 31st March 2014 and its income and expenditure for the year ended 31st March 2014.

Stephen Moore
Head of Pensions
September 2014

Stuart Reid
Head of Finance
(Section 151 Officer)
September 2014

The financial statements were approved by the Pensions Committee at its meeting on 5th September 2014.

Councillor Eddie McAtominey
Chair of the Pensions Committee

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The financial statements follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

2. ACCOUNTING POLICIES

The accounts have been prepared on an accruals basis. The exception to this practice is Transfer Values which are recognised when the liability is accepted by the receiving scheme.

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 2014.

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 2014 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 those 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 2014.

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

The fair value of forward currency contracts is based on exchange rates at the year-end date and is determined as the gain or loss that would arise if the outstanding contracts were closed as at 31st March 2014.

Properties are shown as valued at 31st March 2014. 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 2014 have been accrued.

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

Investment Income

Investment income has been credited to the Fund on the ex-dividend date and is grossed up to allow for recoverable and non-recoverable tax. Non-recoverable tax has been shown as an expense.

Foreign income received during the year has been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31st March 2014.

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 2014 is credited to the Fund Account.

Interest on cash deposits has been accrued up to 31st March 2014.

Investment Management Expenses

Investment management expenses payable as at 31st March 2014 have been accrued. Performance related fees, where applicable, have not been accrued at that date, as they are not deemed to be earned until the end of the performance period when they are calculated and agreed.

Foreign Currencies

Assets and liabilities in foreign currencies have been converted into Sterling at the closing exchange rates on 31st March 2014.

Contributions

Contributions represent the amounts receivable from the organisations participating in the Fund. Such amounts relate both to their own employer contributions and to those of their pensionable members. The Actuary determines the rate for employers. Contributions due as at 31st March 2014 have been accrued.

Benefits and Refunds

Benefits and refunds are accounted for in the year in which they become due for payment. These become payable at the later of date of retirement or when requested by the member.

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 Fund. They are accounted for on a receipts/payments 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. These are shown in note 21.

Overheads and Expenses

Overheads and other management expenses are included in the accounts on an accruals basis.

3. CONTRIBUTIONS RECEIVABLE

2012/13 £m		2013/14 £m
	Employers	
(124.263)	Normal	(128.093)
(96.738)	Deficit Funding	(102.748)
(0.009)	Augmentation	(0.021)
(221.010)		(230.862)
	Members	
(53.883)	Normal	(53.235)
(0.427)	In-House Additional Voluntary Contributions	(0.394)
(54.310)		(53.629)
(275.320)	**Total contributions receivable**	**(284.491)**

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

2012/13 £m		2013/14 £m
(22.567)	South Tyneside Council (Administering Authority)	(21.398)
(155.483)	Other Metropolitan Councils	(147.815)
(57.438)	Other Part 1 Scheduled Bodies	(70.923)
(9.459)	Part 2 Scheduled Bodies	(11.034)
(30.373)	Admitted Bodies	(33.321)
(275.320)	**Total contributions receivable**	**(284.491)**

4. TRANSFERS IN

During the year, individual transfers in from other schemes amounted to £4.519m (£5.974m in 2012/13). There were no bulk transfers in to the Fund during 2013/14 or 2012/13.

5. BENEFITS PAYABLE

2012/13 £m		2013/14 £m
197.128	Pensions	208.200
60.968	Commutations and Lump Sum Retirement Benefits	48.966
5.245	Lump Sum Death Benefits	5.539
(11.190)	Recharges out	(11.210)
252.151	**Total Benefits Payable**	**251.495**

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

2012/13 £m		2013/14 £m
23.489	South Tyneside Council (Administering Authority)	23.296
158.116	Other Metropolitan Councils	158.821
38.561	Other Part 1 Scheduled Bodies	36.893
8.009	Part 2 Scheduled Bodies	7.552
23.976	Admitted Bodies	24.933
252.151	**Total Benefits Payable**	**251.495**

6. LEAVERS

2012/13 £m		2013/14 £m
14.429	Individual Transfers to Other Schemes	9.228
0.015	Refunds to Members Leaving Service	0.030
0	Group Transfers	0.825
(0.008)	State Scheme Premiums	(0.006)
14.436	**Total Leavers**	**10.077**

There was one bulk transfer out of the Fund in 2013/14 to Bristol City Council from Newcastle College. There were no bulk transfers out in 2012/13.

7. ADMINISTRATIVE 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:

2012/13 £m		2013/14 £m
1.472	Employee Expenses	1.517
0.538	Support Services Recharge	0.505
0.033	Audit Fees	0.031
0.024	External Computing Costs	0.100
0.086	Printing / Publications	0.063
0.076	Professional Fees	0.148
0.028	Other Expenses	0.023
(0.002)	Income	(0.007)
2.255	**Total Administrative Expenses**	**2.380**

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

8. INVESTMENT INCOME

2012/13 £m		2013/14 £m
(1.034)	Fixed Interest Securities	(1.515)
(58.010)	Equities	(67.921)
(0.428)	Index-Linked Securities	(0.351)
(14.196)	Pooled Investment Vehicles	(11.298)
(19.614)	Net Rents from Properties	(17.703)
(0.185)	Cash Deposits	(0.230)
(0.490)	Securities Lending	(0.463)
(0.004)	Commission Recapture	(0.003)
(0.024)	Underwriting Commission	(0.017)
(93.985)	**Sub-total**	**(99.501)**
3.535	Non-Recoverable Tax	4.097
(90.450)	**Total Investment Income**	**(95.404)**

Net rents from properties

Net rent from properties can be analysed further, as follows:

2012/13 £m		2013/14 £m
	Net Rent from Properties	
(22.474)	Rental Income	(21.492)
2.860	Direct Operating Expenses	3.789
(19.614)	**Net Income**	**(17.703)**

9. INVESTMENTS

31st March 2013 £m		31st March 2014 £m
	Investment Assets	
48.294	Fixed Interest Securities	51.221
2,451.632	Equities	2,649.607
49.704	Index-Linked Securities	47.268
2,496.675	Pooled Investment Vehicles	2,578.373
5.843	Derivative Contracts	1.709
306.920	Properties	263.155
50.891	Cash Deposits	118.321
15.502	Other Investment Balances	13.495
5,425.461	**Total Investment Assets**	**5,723.149**
	Investment Liabilities	
(2.780)	Derivative Contracts	(1.862)
(9.833)	Other Investment Balances	(7.815)
(12.613)	**Total Investment Liabilities**	**(9.677)**
5,412.848	**Net Investment Assets**	**5,713.472**

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.

2013/14	Value at 1st April 2013 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2014 £m
Fixed Interest Securities	48.294	213.521	(208.084)	(2.510)	51.221
Equities	2,451.632	1,365.839	(1,083.435)	(84.429)	2,649.607
Index-Linked Securities	49.704	178.247	(178.907)	(1.776)	47.268
Pooled Investment Vehicles	2,496.675	329.368	(517.598)	269.928	2,578.373
Derivative Contracts	3.063	14.048	(8.951)	(8.313)	(0.153)
Properties	306.920	31.971	(97.118)	21.382	263.155
	5,356.288	**2,132.994**	**(2,094.093)**	**194.282**	**5,589.471**
Cash Deposits	50.891	69.109	0	(1.679)	118.321
Other Investment Balances	5.669	3.420	(3.449)	0.040	5.680
Total Investments	**5,412.848**	**2,205.523**	**(2,097.542)**	**192.643**	**5,713.472**

2012/13	Value at 1st April 2012 £m	Purchases at Cost and Derivative Payments £m	Sales Proceeds and Derivative Receipts £m	Change in Market Value £m	Value at 31st March 2013 £m
Fixed Interest Securities	20.744	272.973	(245.361)	(0.062)	48.294
Equities	2,118.646	874.049	(853.679)	312.616	2,451.632
Index-Linked Securities	36.655	212.804	(204.840)	5.085	49.704
Pooled Investment Vehicles	2,245.571	211.799	(218.591)	257.896	2,496.675
Derivative Contracts	(1.545)	5.946	(6.029)	4.691	3.063
Properties	359.185	33.297	(2.850)	(82.712)	306.920
	4,779.256	**1,610.868**	**(1,531.350)**	**497.514**	**5,356.288**
Cash Deposits	40.851	9.777	0	0.263	50.891
Other Investment Balances	0.364	11.745	(6.120)	(0.320)	5.669
Total Investments	**4,820.471**	**1,632.390**	**(1,537.470)**	**497.457**	**5,412.848**

31st March 2013 £m		31st March 2014 £m
	Fixed Interest Securities	
48.294	UK Public Sector	51.221
48.294	**Total Fixed Interest Securities**	**51.221**
	Equities	
801.480	UK Quoted	834.884
1,380.288	Overseas Quoted	1,498.430
269.864	Overseas Unquoted	316.293
2,451.632	**Total Equities**	**2,649.607**
	Index-Linked Securities	
49.704	UK Public Sector	47.268
49.704	**Total Index-Linked Securities**	**47.268**
	Derivative contracts	
3.063	Forward Foreign Currency Contracts	(0.153)
3.063	**Total Derivative Contracts**	**(0.153)**
	Pooled Investment Vehicles	
45.732	Unit Trusts	37.682
1,250.572	Unitised Insurance Policies	1,333.609
1,200.371	Other Managed Funds	1,207.082
2,496.675	**Total Pooled Investment Vehicles**	**2,578.373**
	Properties	
222.725	Freehold	186.905
84.195	Long Leasehold	76.250
306.920	**Total Properties**	**263.155**
	Cash Deposits	
41.862	Sterling	107.606
9.029	Foreign Currency	10.715
50.891	**Total Cash Deposits**	**118.321**
	Other Investment Balances	
(0.236)	Outstanding Trades	(1.638)
12.578	Outstanding Dividends & Tax Recoveries	11.601
2.924	Debtors	1.894
(9.597)	Creditors	(6.177)
5.669	**Total Other Investment Balances**	**5.680**
5,412.848	**Total Investments**	**5,713.472**

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Fund such as commissions, stamp duty, taxes, and professional fees associated with property developments and purchases. Transaction costs incurred during the year amounted to £5.613m (£5.056m in 2012/13). 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. FINANCIAL INSTRUMENTS

a) Classification of Financial Instruments

Accounting policies describe how different asset cases of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The table below analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets have been reclassified during the financial year.

31st March 2013				31st March 2014		
Designated as Fair Value Through Profit and Loss £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m		Designated as Fair Value Through Profit and Loss £m	Loans and Receivables £m	Financial Liabilities at Amortised Cost £m
			Financial Assets			
48.294	0	0	Fixed Interest Securities	51.221	0	0
2,451.632	0	0	Equities	2,649.607	0	0
49.704	0	0	Index-Linked Securities	47.268	0	0
2,496.675	0	0	Pooled Investment Vehicles	2,578.373	0	0
5.843	0	0	Derivative Contracts	1.709	0	0
306.920	0	0	Properties	263.155	0	0
0	50.891	0	Cash Deposits	0	118.321	0
12.578	0	0	Other Investment Balances	11.601	0	0
0	36.315	0	Debtors	0	39.413	0
5,371.646	**87.206**	**0.00**	**Total Financial Assets**	**5,602.934**	**157.734**	**0**
			Financial Liabilities			
(2.780)	0	0	Derivative Contracts	(1.862)	0	0
(0.236)	0	0	Other Investment Balances	(1.638)	0	0
0	0	(23.495)	Creditors	0	0	(21.439)
(3.016)	**0.00**	**(23.495)**	**Total Financial Liabilities**	**(3.500)**	**0**	**(21.439)**
5,368.630	**87.206**	**(23.495)**	**Total Assets**	**5,599.434**	**157.734**	**(21.439)**

b) Net Gains and Losses on Financial Instruments

31st March 2013 £m		31st March 2014 £m
	Financial Assets	
497.514	Fair value through profit and loss	194.322
0.263	Loans and receivables	0
	Financial Liabilities	
(0.320)	Fair value through profit and loss	(1.679)
497.457	**Total**	**192.643**

c) Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and liabilities by class of instrument compared with their fair values:

31st March 2013 Carrying Value £m	31st March 2013 Fair Value £m		31st March 2014 Carrying Value £m	31st March 2014 Fair Value £m
		Financial Assets		
4,251.825	5,359.068	Fair value through profit and loss	4,516.515	5,591.333
99.836	99.784	Loans and receivables	169.416	169.335
4,351.661	**5,458.852**	**Total Financial Assets**	**4,685.931**	**5,760.668**
		Financial Liabilities		
0	(2.780)	Fair value through profit and loss	0	(1.862)
(23.731)	(23.731)	Financial liabilities at amortised cost	(23.077)	(23.077)
(23.731)	**(26.511)**	**Total Financial Liabilities**	**(23.077)**	**(24.939)**
4,327.930	**5,432.341**	**Net Assets**	**4,662.854**	**5,735.729**

d) Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments carried at fair value has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments are Level 1 where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets in this level are comprised of quoted equities, quoted fixed interest securities and unit trusts. Also included within this level are receivables and liabilities where the amount is known even where these are not quoted on active markets.

Listed investments are shown at bid prices. The bid value is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where valuation techniques are used to determine fair value and where the techniques use input that are based significantly on observable market data. Assets in this level are comprised of UK Property valued independently by professional valuers.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the value of the instrument is not based on observable market data.

Such instruments represent the Fund's private market investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The Fund's private market investments include private equity, private real estate and private infrastructure funds.

The values of the investments in private market funds are based on valuations provided by the investment manager of the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Guidelines and the valuation principles of IFRS and US GAAP. Valuations are undertaken on a mixture of a 31st March 2014 valuation and a 31st December 2013 valuation adjusted for cash flows and rolled forward to 31st March 2014 as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Fund into levels 1 to 3 at fair value.

Value at 31st March 2014	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,429.715	264.864	896.754	5,591.333
Loans and receivables	169.335	0	0	169.335
Total financial assets	**4,599.050**	**264.864**	**896.754**	**5,760.668**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(1.862)	0	(1.862)
Financial liabilities at amortised cost	(23.077)	0	0	(23.077)
Total financial liabilities	**(23.077)**	**(1.862)**	**0**	**(24.939)**
Net financial assets	**4,575.973**	**263.002**	**896.754**	**5,735.729**

Value at 31st March 2013	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	Total £m
Financial assets				
Financial assets at fair value through profit and loss	4,243.228	312.763	803.077	5,359.068
Loans and receivables	99.784	0	0	99.784
Total financial assets	**4,343.012**	**312.763**	**803.077**	**5,458.852**
Financial liabilities				
Financial liabilities at fair value through profit and loss	0	(2.780)	0	(2.780)
Borrowings	0	0	0	0
Financial liabilities at amortised cost	(23.731)	0	0	(23.731)
Total financial liabilities	**(23.731)**	**(2.780)**	**0**	**(26.511)**
Total net financial assets	**4,319.281**	**309.983**	**803.077**	**5,432.341**

11. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Fund's investment objective is:

To invest in assets of appropriate liquidity to produce income and capital growth that, together with employer and employee contributions, will meet the cost of benefits;

and

To keep contributions as low and as stable as possible through effective management of the assets.

The Fund's primary long term risk is that it will be unable to meet its liability to pay the promised benefits to members from the assets that it holds.

Therefore, the Fund seeks to maximise the investment return, whilst minimising the risk of loss. There is a well diversified investment structure in place that aims to reduce the risks arising from price, interest rate and currency movements, from manager risk and from credit risk, to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there are sufficient funds to meet the forecast cash flows.

The Pensions Committee is responsible for the management of risk. A summary of the approach to monitoring and controlling risk is set out in the Statement of Investment Principles.

Market Risk

Market risk is the risk of loss from changes to equity prices, interest rates, foreign exchange rates and credit spreads. The Fund is exposed to this risk through its investment activities, particularly through its equity holdings.

The objective of the Fund's risk management process is to identify, manage and control market risk exposure within acceptable parameters, whilst maximising the return on investment.

In general, the Fund manages excessive volatility in market risk by diversifying the portfolio in terms of geographic and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. Monitoring against a factor risk analysis aims to ensure that risk remains within tolerable levels at both Fund and individual investment manager level.

Risk on individual securities may also be managed by the use of equity futures and exchange traded options contracts at individual investment manager level.

Other Price Risk

Other price risk is the risk that the value of an investment will change as a result of changes in market prices, whether these changes are caused by factors specific to the individual investment or its issuer or to other factors that affect all such instruments in the market.

The Fund is exposed to share and derivative price risk arising from investments held for which the future price is uncertain. All investments present a risk of loss of capital which is limited, in general, to the fair value amount carried in the Fund's accounts, with the exception of any share sold "short" where the potential loss is unlimited.

Investment managers manage this risk on behalf of the Fund through diversification and selection of securities and other financial instruments. Each manager's process and portfolio is monitored by the Fund to ensure it is within the limits specified in their management agreement.

Other Price Risk – Sensitivity Analysis

In consultation with its investment advisors, the Fund has carried out an analysis of historic data and movements in expected investment returns during the financial year. It has been determined that the following movements in market price risk are reasonably possible for the 2014/15 financial year.

Asset Type	Potential Market Movements (+/-) %
UK Equities	17.0
Overseas Equities	19.0
UK Bonds	12.0
Overseas Bonds	10.4
Index-Linked Securities	7.0
UK Property	15.0
Overseas Property	20.0
Private Equity	28.0
Infrastructure Funds	15.0
Active Currency	20.0
Cash	1.0

The potential price changes highlighted above are broadly consistent with a one-standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain unchanged.

Had the market price of the Fund's investments increased or decreased in line with the above table, the change in the net assets available to pay benefits is as shown in the table below. The comparable figures for the previous year are also shown.

Asset Type	**Value as at 31st March 2014 £m**	**Percentage Change %**	**Value on Increase £m**	**Value on Decrease £m**
UK Equities	1,573.518	17.0	1,841.016	1,306.020
Overseas Equities	1,706.639	19.0	2,030.900	1,382.378
UK Bonds	893.703	12.0	1,000.947	786.459
Overseas Bonds	36.616	10.4	40.424	32.808
Index-Linked Securities	115.977	7.0	124.095	107.859
UK Property	263.155	15.0	302.628	223.682
Overseas Property	246.775	20.0	296.130	197.420
Private Equity	547.931	28.0	701.352	394.510
Infrastructure Funds	108.358	15.0	124.612	92.104
Active Currency	92.740	20.0	111.288	74.192
Cash and cash equivalents	122.533	1.0	123.758	121.308
Foreign Currency Contracts	(0.153)	0.0	(0.153)	(0.153)
Investment income due	11.601	0.0	11.601	11.601
Amounts due for sales	1.894	0.0	1.894	1.894
Amounts payable for purchases	(7.815)	0.0	(7.815)	(7.815)
Total	**5,713.472**		**6,702.677**	**4,724.267**

Asset Type	**Value as at 31st March 2013 £m**	**Percentage Change %**	**Value on Increase £m**	**Value on Decrease £m**
UK Equities	1,517.953	16.0	1,760.825	1,275.081
Overseas Equities	1,591.631	19.0	1,894.041	1,289.221
UK Bonds	874.555	7.9	943.645	805.465
Overseas Bonds	19.629	10.4	21.670	17.588
Index-Linked Securities	145.472	5.9	154.055	136.889
UK Property	306.920	14.5	351.423	262.417
Overseas Property	165.573	20.0	198.688	132.458
Private Equity	539.944	27.8	690.048	389.840
Infrastructure Funds	88.749	14.4	101.529	75.969
Active Currency	100.215	20.0	120.258	80.172
Cash and cash equivalents	53.474	0.0	53.474	53.474
Foreign Currency Contracts	3.063	0.0	3.063	3.063
Investment income due	12.578	0.0	12.578	12.578
Amounts due for sales	2.924	0.0	2.924	2.924
Amounts payable for purchases	(9.832)	0.0	(9.832)	(9.832)
Borrowings	0.000	0.0	0.000	0.000
Total	**5,412.848**		**6,298.389**	**4,527.307**

The analysis in the two tables above is on a look through basis. This differs from the analysis in note 9 and the tables below which are compiled under accounting standards.

Interest Rate Risk

The Fund invests in financial assets to obtain a return on the investment. These investments are subject to interest rate risk, which represents the risk that the fair value of future cash flows will fluctuate because of changes in market interest rates.

The Fund's direct exposures to interest rate movements as at 31st March 2014 and 31st March 2013 are set out below. These represent the interest rate risk based on underlying financial assets at fair value.

Asset Type	As at 31st March	
	2013 £m	2014 £m
Cash and Cash Equivalents	50.891	118.321
Fixed Interest Securities	48.294	51.221
Index-Linked Securities	49.704	47.268
Total	**148.889**	**216.810**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets held to pay benefits. Bond instruments tend to fall in value when interest rates rise and rise in value when interest rates fall. The following table shows the Fund's asset values that have direct exposure to these rate movements. It also shows the effect that a 100bp (1.0%) increase or decrease in the asset value would have on these assets. The comparable figures for the previous year are also shown.

	Asset Value as at 31st March 2014	Change in Net Asset Values	
	£m	+1.0% £m	-1.0% £m
Cash and Cash Equivalents	118.321	119.504	117.138
Fixed Interest Securities	51.221	51.733	50.709
Index-Linked Securities	47.268	47.741	46.795
Total	**216.810**	**218.978**	**214.642**

	Asset Value as at 31st March 2013	Change in Net Asset Values	
	£m	+1.0% £m	-1.0% £m
Cash and Cash Equivalents	50.891	51.400	50.382
Fixed Interest Securities	48.294	48.777	47.811
Index-Linked Securities	49.704	50.201	49.207
Total	**148.889**	**150.378**	**147.400**

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates. The Fund is exposed to this risk on investments denominated in any currency other than Sterling. The Fund holds both monetary and non-monetary assets denominated in overseas currencies.

The following table shows the Fund's currency exposures as at 31st March 2014 and at 31st March 2013:

Asset Type	Asset Value as at 31st March	
	2013 £m (as restated)	2014 £m
Overseas Quoted Equities	1,591.631	1,896.159
Overseas Unquoted Equities	536.469	526.706
Overseas Pooled Investment Vehicles	254.323	355.025
Forward Currency Contracts	3.063	(0.153)
Overseas Currency	9.029	10.715
Total	**2,394.515**	**2,788.452**

Currency Risk – Sensitivity Analysis

Following an analysis of historical data that was carried out in consultation with the investment advisor, the Fund considers the likely volatility associated with foreign exchange to be 13%.

The following table shows the impact of a 13% increase or decrease in the net asset value of those assets exposed to currency risk. The value of the Fund's assets in Sterling terms will increase as Sterling weakens and decrease as Sterling strengthens.

The comparable figures for the previous year are also shown.

Asset Type	Asset Value as at 31st March 2014	Change in Net Asset Values	
	£m	+13.0% £m	-13.0% £m
Overseas Quoted Equities	1,896.159	2,142.660	1,649.658
Overseas Unquoted Equities	526.706	595.178	458.234
Overseas Pooled Investment Vehicles	355.025	401.178	308.872
Forward Currency Contracts	(0.153)	(0.173)	(0.133)
Overseas Currency	10.715	12.108	9.322
Total	**2,788.452**	**3,150.951**	**2,425.953**

Asset Type	Asset Value as at 31st March 2013	Change in Net Asset Values	
	£m	+13.0% £m	-13.0% £m
Overseas Quoted Equities	1,591.631	1,798.543	1,384.719
Overseas Unquoted Equities	536.469	606.210	466.728
Overseas Pooled Investment Vehicles	254.323	287.385	221.261
Forward Currency Contracts	3.063	3.461	2.665
Overseas Currency	9.029	10.203	7.855
Total	**2,394.515**	**2,705.802**	**2,083.228**

Manager Risk

Manager risk is the risk that the manager does not invest in a manner required by the Fund. This is controlled through the investment objectives and restrictions in each manager's agreement and through the ongoing monitoring of the managers.

The investment managers hold a diversified portfolio of investments that reflect their views, relative to their respective benchmarks.

The Pension Committee has considered and addressed the risk of underperformance by any single investment manager by appointing a range of investment managers.

Credit Risk

Credit risk is the risk that the counterparty to a transaction or investment fails to discharge its obligation and the Fund incurs a financial loss. Investments are usually valued by the market after this risk has been taken into account.

To this end, almost all of the Fund's investment portfolio is exposed to some level of credit risk, with the exception being derivatives where the risk equals the net market value of a positive derivative.

The Fund seeks to minimise this risk by investing in and through high quality counterparties, brokers and financial institutions.

Contractual credit risk is represented by the net payment or receipt outstanding and the cost of replacing the derivative position in the event of a default.

The Fund's cash holding under its internal treasury management arrangements as at 31st March 2014 was £76.630m (£12.362m 2012/13). The Fund sets its credit criteria in consultation with the Council's Treasury Management Advisor, Capita Asset Services. Deposits are only made with AAA rated money market funds and with banks and financial institutions that meet the Fund's credit criteria and are included on Capita Asset Services listing of approved institutions. The Fund seeks to further limit risk by restricting direct investments to UK financial institutions that are supported by the UK Government.

The internally managed cash was held with the following institutions:

	Rating	Value as at 31st March 2013 £m	Value as at 31st March 2014 £m
Money Market Funds			
Prime Rate	AAA	7.758	15.000
Insight	AAA	0	15.000
Goldman Sachs	AAA	0	14.000
Ignis	AAA	0	14.000
Deutsche Bank	AAA	0	2.400
Bank Deposit Accounts			
Nat West SIBA	A	4.072	1.230
Bank of Scotland	A	0.531	0
Royal Bank of Scotland	A	0.001	0
Nationwide Building Society	A	0	15.000
Total		**12.362**	**76.630**

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. This is controlled by estimating the net benefit outgo or inflow and ensuring that sufficient cash balances are available.

Weekly forecasts are carried out to understand and manage the timing of the Fund's cash flows.

The Fund takes steps to ensure that it has adequate cash resources to meet its commitments and has immediate access to cash.

All financial liabilities are due within twelve months of the 31st March 2014.

12. 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:

2012/13 £m		2013/14 £m
9.306	Administration, Management and Custody	9.547
0.072	Performance and Risk Measurement Services	0.061
0.102	Other Advisory Fees	0.109
9.480	**Total investment management expenses**	**9.717**

Administration includes employee expenses that have been charged to the Fund on a time basis, in line with accountancy standards. Office expenses and other overheads have also been charged. This line only includes the net external management costs and not expenses paid as part of a pooled investment fund.

13. CURRENT ASSETS AND LIABILITIES

31st March 2013 £m		31st March 2014 £m
	Current Assets	
4.852	Contributions and Recharges Due - Members	4.749
28.140	Contributions and Recharges Due - Employers	32.260
0.055	HM Revenue and Customs	0.012
0.336	Investment Management Expenses	0.493
0.008	Other	0.005
33.391	**Total Current Assets**	**37.519**
	Current Liabilities	
(8.096)	Unpaid Benefits	(9.057)
(0.066)	Contributions, Recharges and Refunds Due - Employers	(0.444)
(1.697)	HM Revenue and Customs	(2.318)
(2.931)	Investment Management Expenses	(3.417)
(1.108)	Other	(0.026)
(13.898)	**Total Current Liabilities**	**(15.262)**

14. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

The Fund offers two types of AVC arrangements.

Additional periods of membership can be purchased within the Local Government Pension Scheme, with the contributions being invested as part of the Fund's assets.

In addition, the Pensions Committee appointed Equitable Life Assurance Society in 1989 and The Prudential Assurance Company in 2001 for the investment of other AVCs specifically taken out by Fund members. Contributions to these external providers are invested separately from the Fund's own assets on a money purchase basis. In accordance with the 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 experienced financial difficulties that arose from some of its financial products that carry guaranteed returns. With the exception of existing life cover policies, the Fund has closed its AVC plan with Equitable Life to new members, contributions from existing members and transfers. A significant proportion of investors in funds operated by Equitable Life have their own balances transferred to The Prudential. The Fund continues to monitor the position of the remaining investors with Equitable Life.

During 2013/14, £1.337m of contribution income was received into the AVC funds provided by The Prudential (£1.160m during 2012/13). As at 31st March 2014, these funds were valued at £9.039m (£8.769m as at 31st March 2013).

During 2013/14, £0.002m of contribution income was received into the AVC funds provided by Equitable Life (£0.002m during 2012/13). As at 31st March 2014, these funds were valued at £0.113m (£0.158m as at 31st March 2013).

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

15. ANALYSIS OF INVESTMENTS OVER MANAGERS

The market value of the investments in the hands of each manager was:

31st March 2013 £m	31st March 2013 %	Investment Managers	31st March 2014 £m	31st March 2014 %
306.920	5.7	Aberdeen Property Investors	263.155	4.6
236.220	4.4	BlackRock	257.162	4.5
131.131	2.4	Capital International - Em Mkts	0	0.0
436.390	8.1	Henderson Global Investors	444.336	7.8
0	0.0	JP Morgan Asset Management Em Mklts	72.131	1.3
541.177	10.0	JP Morgan Asset Management Global Equities	585.387	10.2
137.853	2.5	Lazard Asset Management	128.777	2.3
860.703	15.9	Legal and General Investment Management	935.464	16.4
490.430	9.1	M&G Investment Management	497.270	8.7
239.625	4.4	Mirabaud Investment Management	261.563	4.6
549.666	10.1	Sarasin and Partners	579.640	10.1
54.856	1.0	TT International	50.883	0.9
511.406	9.4	UBS Global Asset Management	551.063	9.6
100.215	1.9	Active Currency	92.739	1.6
539.944	10.0	Private Equity	547.932	9.6
88.749	1.6	Infrastructure	108.358	1.9
165.573	3.1	Global Property	246.775	4.3
21.990	0.4	Managed in-house	90.837	1.6
5,412.848	**100.0%**	**Total Investments**	**5,713.472**	**100.0%**

16. 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.

17. DERIVATIVES

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

Futures

The Fund did not hold any Futures contracts as at 31st March 2014 and 31st March 2013.

Forward Currency Contracts

The Fund has used Forward Currency Contracts to hedge the currency exposure on certain overseas investments. As at 31st March 2014, the Fund held twenty-one positions in foreign currency that together showed an unrealised loss of £0.153m, as shown in the table below:

Type of Forward Foreign Currency Contracts				
Settlement	**Type of Contract**	**Currency Bought**	**Currency Sold**	**Market Value £m**
Three month	Over the Counter	Sterling	Australian Dollar	(0.176)
Three month	Over the Counter	Sterling	Swiss Franc	(0.089)
Three month	Over the Counter	Sterling	Euro	(0.013)
Three month	Over the Counter	Canadian Dollar	Sterling	(0.470)
Three month	Over the Counter	Swiss Franc	Sterling	(0.018)
Three month	Over the Counter	Danish Krone	Sterling	(0.009)
Three month	Over the Counter	Hong Kong Dollar	Sterling	(0.130)
Three month	Over the Counter	Yen	Sterling	(0.058)
Three month	Over the Counter	Swedish Krona	Sterling	(0.096)
Three month	Over the Counter	Singapore Dollar	Sterling	(0.020)
Three month	Over the Counter	US Dollar	Sterling	(0.783)
Loss/Liability Value as at 31st March 2014				**(1.862)**
Three month	Over the Counter	Sterling	Euro	0.168
Three month	Over the Counter	Sterling	Hong Kong Dollar	0.516
Three month	Over the Counter	Sterling	Yen	0.165
Three month	Over the Counter	Sterling	US Dollar	0.228
Three month	Over the Counter	Australian Dollar	Sterling	0.529
Three month	Over the Counter	Euro	Sterling	0.019
Three month	Over the Counter	Swiss Franc	Sterling	0.015
Three month	Over the Counter	Yen	Sterling	0.031
Three month	Over the Counter	Norwegian Krone	Sterling	0.028
Three month	Over the Counter	US Dollar	Sterling	0.010
Profit/Asset Value at 31st March 2014				**1.709**
Net Forward Currency Contracts as at 31st March 2014				**(0.153)**

The contracts were settled at a loss of £0.220m early in the 2014/15 financial year.

18. SECURITIES LENDING

The Fund operates a securities lending programme through its custodian, Northern Trust. Securities totalling £148.979m were out on loan as at 31st March 2014. The breakdown of securities on loan was:

31st March 2013 £m		31st March 2014 £m
3.706	Fixed Interest Securities	18.357
1.699	Index-Linked Securities	4.105
31.505	UK Equities	29.664
79.127	Overseas Equities	96.853
116.037	**Total Securities Lending**	**148.979**

The value of collateral against which the securities were lent out is £158.859m. This collateral consists of acceptable securities, government debt and obligations issued by supranational entities.

19. PROPERTY HOLDINGS

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

The Fund disposed of a portfolio of 18 properties and 2 individual properties during the year as part of the restructuring of the property portfolio the total value of which was £97.118m.

31st March 2013 £m		31st March 2014 £m
	Property Holdings	
359.185	Opening Balance	306.920
33.297	Additions	31.971
(2.850)	Disposals	(97.118)
(82.712)	Net Increase/(Decrease) in Market Value	21.382
0	Other Changes in Fair Value	0
306.920	**Closing Balance**	**263.155**

20. SIGNIFICANT HOLDINGS

As at 31st March 2014, the Fund had two holdings that each 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 2014, this was valued at £935.464m and represented 16.4% of the total net assets of the Fund. During 2013/14 the insurance contract was limited to six individual funds, each representing a different asset class, as follows:

31st March 2013 £m		31st March 2014 £m
719.948	UK Equities	744.945
0.000	Emerging Market Equities	80.732
1.627	European ex UK Equities	1.920
23.730	North America Equities	2.541
19.630	Emerging Market Passive Government Bond	36.616
95.768	Index-Linked Gilts	68.710
860.703	**Total**	**935.464**

- M & G Limited (formerly Prudential Pensions Limited) – Corporate Bond All Stocks Fund. As at 31st March 2014, this was valued at £398.146m (£389.870m as at 31st March 2013) and represented 6.9% of the total net assets of the Fund.

21. OUTSTANDING COMMITMENTS

As at 31st March 2014 the Fund had forty-eight outstanding commitments to investments, as shown below:

Name of Fund	Year	Value m	Drawdowns Made m	Commitment Outstanding m	m
HarbourVest International Private Equity Partners IV	2002	$55.0	$53.6	$1.4	£0.8
HarbourVest Partners VII Cayman Buyout Fund	2002	$46.0	$42.6	$3.4	£2.0
HarbourVest Partners VII Cayman Mezzanine Fund	2002	$8.0	$7.4	$0.6	£0.4
HarbourVest Partners VII Cayman Venture Fund	2002	$28.0	$26.8	$1.2	£0.7
Capital International Private Equity Fund IV	2004	$18.0	$17.8	$0.2	£0.1
HarbourVest International Private Equity Partners V - Partnership	2005	€100.0	€91.0	€9.0	£7.4
HarbourVest International Private Equity Partners V - Direct	2005	€ 30.0	€28.8	€1.2	£1.0
Pantheon Asia Fund IV	2005	$20.0	$17.1	$2.9	£1.7
Pantheon Europe Fund IV	2005	€25.0	€22.4	€2.6	£2.1
Pantheon USA Fund VI	2005	$30.0	$27.4	$2.6	£1.6
Lexington Capital Partners VI-B	2005	$30.0	$29.6	$0.4	£0.2
HarbourVest Partners VIII Cayman Buyout Fund	2006	$112.0	$90.7	$21.3	£12.8
HarbourVest Partners VIII Cayman Venture Fund	2006	$56.0	$50.1	$5.9	£3.5
Pantheon Europe Fund V	2006	€35.0	€29.6	€5.4	£4.5
Pantheon USA Fund VII	2006	$35.0	$28.4	$6.6	£4.0
Coller International Partners V	2006	$30.0	$23.5	$6.5	£3.9
HarbourVest Partners 2007 Direct Fund	2007	$30.0	$28.3	$1.7	£1.0
Pantheon Asia Fund V	2007	$20.0	$16.3	$3.7	£2.2
Pantheon Europe Fund VI	2007	€40.0	€24.6	€15.4	£12.7
Pantheon USA Fund VIII	2007	$35.0	$23.1	$11.9	£7.1
Capital International Private Equity Fund V	2007	$35.0	$28.8	$6.2	£3.7
Co-Investment Partners Europe	2007	€30.0	€27.9	€2.1	£1.7
Partners Group 2006 Direct Fund	2007	€ 30.0	€27.9	€ 2.1	£1.7
Infracapital	2007	£35.0	£32.6	£2.4	£2.4
Capital International Private Equity Fund VI	2010	$35.0	$16.3	$18.7	£11.2
Lexington Capital Partners VII	2010	$30.0	$21.2	$8.8	£5.3
Partners Asia-Pacific & Emerging Markets Real Estate 2009 LP	2010	$40.0	$29.7	$10.3	£6.2
Partners Group Real Estate Secondary 2009 (EURO)	2010	€60.0	€49.9	€10.1	£8.3
Partners Group Global Real Estate 2011 S.C.A., SICAR	2010	€145.0	€104.4	€40.6	£33.6
Partners Group Global Infrastructure 2009	2010	€70.0	€49.3	€20.7	£17.1
Partners Group Direct Infrastructure 2011	2011	€85.0	€35.3	€49.7	£41.1
Partners Group Direct Real Estate 2011 S.C.A., SICAR	2011	$100.0	$85.3	$14.7	£8.8
Partners Asia-Pacific Real Estate 2011 S.C.A., SICAR	2011	$65.0	$19.5	$45.5	£27.3
HarbourVest International Private Equity Partners VI - Partnership	2011	€50.0	€20.5	€29.5	£24.4
Coller International Partners VI	2012	$45.0	$15.9	$29.1	£17.5
Pantheon Asia Fund VI	2012	$40.0	$11.4	$28.6	£17.2
Pantheon Europe Fund VII	2012	€25.0	€7.1	€17.9	£14.8
Pantheon USA Fund IX	2012	$30.0	$8.9	$21.1	£12.7
Partners Group Global Infrastructure 2012	2013	€45.0	€6.7	€38.3	£31.7
Partners Group Real Estate 2014	2013	$64.0	$14.3	$49.7	£29.8
Partners Group Real Estate Income 2014	2013	€23.0	€4.6	€18.4	£15.2
Partners Group Global Real Estate 2013	2013	$130.0	$24.8	$105.2	£63.1
Partners Group Real Estate Secondary 2013	2013	$65.0	$6.9	$58.1	£34.8
HarbourVest Dover Street VIII Cayman Fund LP	2013	$30.0	$6.3	$23.7	£14.2
HarbourVest Partners IX - Cayman Buyout Fund	2013	$60.0	$9.7	$50.3	£30.2
HarbourVest Partners IX - Cayman Venture Fund	2013	$30.0	$8.1	$21.9	£13.1
HarbourVest Partners 2013 Cayman Direct Fund LP	2014	$30.0	$8.1	$21.9	£13.1
Lexington Capital Partners VIII	2014	$10.0	$0.0	$10.0	£6.0
Total Outstanding Commitments					**£575.9**

The Sterling figures for these outstanding commitments are based on the closing exchange rates on 31st March 2014.

22. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Unquoted Private Equity Investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. This is based on forward-looking estimates and judgements that involve many factors. Unquoted private equity is valued by the investment managers using the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. The value of private equity at 31st March 2014 was £533.017 million (£539.944 million at 31st March 2013).

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed Actuary of the Fund. The Fund does not update this liability in the intervening years. The methodology used to calculate the liability is in line with accepted guidelines and in accordance with IAS 26. The assumptions underpinning the valuation are agreed with the Actuary and are summarised in note 25. This estimate is subject to significant variances based on changes to the underlying assumptions.

23. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. As actual results cannot be predicted with certainty, they could be materially different from the assumptions and estimates.

The items in the net assets statement at 31st March 2014 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Receivables	At 31st March 2014, the Fund had a balance of sundry debtors of £4.333 million. The Fund makes a reducing percentage provision for bad debts based on the age of the debt, i.e. 100% for debt over three years of age, 75% for debt aged between one and three years and 50% for debt older than six months but less than a year. This equates to £0.137 million in the year.	If an additional allowance was made for debts older than 12 months to bring the provision up to 100%, an additional provision of £0.012 million would be required to increase the provision to £0.149 million.
Private Equity	Private equity investments are based on valuations provided by the manager of the funds in which the Fund has invested. These are based on the Private Equity Valuation Guidelines in the US and the International Private Equity and Venture Capital Valuation Guidelines outside the US as adopted by the British Venture Capital Association in the UK and the valuation principles of IFRS and US GAAP. These investments are not publicly listed and as such there is a degree of estimation in their valuation.	The Fund has a total of £533.017 million included for private equity investments. There is a risk that this could be under or over stated in the accounts.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of judgements, for example in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and the expected returns on pension fund assets. The Fund employs an Actuary to provide expert advice on these assumptions.	The judgements mentioned are all under review. Therefore there is a possibility that the valuation of £7,514.5 million in Note 25 for the "actuarial present value of the promised retirement benefits" could be under or over stated in the note.

24. 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.

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

During 2013/14 two employers within the Fund, namely South Tyneside Council and BT South Tyneside Limited, had related party transactions with the Fund totalling £0.808m split as follows:

- South Tyneside Council charged the Fund £0.450m (£0.432m in 2012/13) in respect of services provided, being primarily legal and building costs
- The Fund charged South Tyneside Council £0.055m (£0.052m in 2012/13) in respect of Treasury Management services
- BT South Tyneside Limited charged the Fund £0.303m (£0.312m in 2012/13) in respect of services provided, being primarily financial and information technology.

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

25. PENSION FUND DISCLOSURES UNDER IAS26

Under IAS26 the Fund is required to disclose the "actuarial present value of the promised retirement benefits", which were last valued at 31st March 2013 by the Actuary at £7,514.5m.

This figure was calculated using the following information supplied by the Actuary.

Information supplied by the Actuary

The information set out below relates to the actuarial present value of the promised retirement benefits in the Fund which is part of the Local Government Pension Scheme.

	Value as at 31st March 2013 £m	Value as at 31st March 2010 £m
Fair value of net assets	5,432.3	4,302.3
Actuarial present value of the promised retirement benefits	7,514.5	7,037.3
Surplus / (deficit) in the Fund as measured for IAS26 purposes	(2,082.2)	(2,735.0)

The principal assumptions used by the Actuary were:

	31st March 2013 (% p.a.)	31st March 2010 (% p.a.)
Discount rate	4.4	5.5
RPI Inflation	3.4	3.9
CPI Inflation	2.4	3.0
Rate of increase to pensions in payment*	2.4	3.9
Rate of increase to deferred pensions*	2.4	3.9
Rate of general increase in salaries **	3.9	5.4

* In excess of Guaranteed Minimum Pension increases in payment where appropriate.

** In addition, the Actuary has allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at the appropriate date.

Principal Demographic Assumptions

Post Retirement Mortality	31st March 2013	31st March 2010
Males		
Base table	Standard SAPS Normal Health Light Amounts (S1NMA_L)	Standard SAPS Normal Health All Amounts (S1NMA)
Scaling to above base table rates **	120%	110%
Allowance for future improvements	CMI 2012 with long term rate of improvement of 1.5% p.a.	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	22.9	21.3
Future lifetime from age 65 (currently aged 45)	24.9	23.2
Females		
Base table	Standard SAPS Normal Health Light Tables (S1NFA_L)	Standard SAPS Normal Health All Tables (S1NFA)
Scaling to above base table rates **	115%	110%
Allowance for future improvements	In line with CMI 2012 with long term improvement of 1.5% p.a.	In line with CMI 2009 with long term improvement of 1.25% p.a.
Future lifetime from age 65 (currently aged 65)	24.5	23.5
Future lifetime from age 65 (currently aged 45)	26.8	25.5

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older then them. The ratings shown apply to normal health retirements.

** The scaling factors shown apply to normal health retirements.

	31st March 2013	31st March 2010
Commutation	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the permitted maximum.	Each member is assumed to exchange 50% of the maximum amount permitted, of their past service pension rights on retirement, for additional lump sum. Each member is assumed to exchange 75% of the maximum amount permitted, of their future service pension rights on retirement, for additional lump sum.

There have been no changes in benefits during the accounting period. No allowance has been made in the Actuary's calculations for the new scheme benefits accruing from 1st April 2014.

These are taken from the report: Whole of Pension Fund Disclosures under IAS26 – Tyne and Wear Pension Fund – 16th May 2014. A full copy is available on request.

For figures relating to individual employers of the Fund please refer to each employer's final accounts.

Independent auditors' statement to the Members of South Tyneside Council (the "Authority") on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of the "Authority" for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by the "Authority", comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the South Tyneside Council's Head of Finance

As explained more fully in the Statement of Responsibilities set out on page 16 of the audited Statement of Accounts of the Authority, South Tyneside Council's Head of Finance is responsible for the preparation of financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of the "Authority". Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consist only of:

- the list of members of the Pensions Committee, Advisors, and Officers
- the list of external managers
- review of the year
- governance arrangements
- training policy and programme
- vision statement
- service plan
- reform of the scheme and legal framework
- information on additional voluntary contributions
- information on employers' contributions and the valuation process
- statement of the Actuary
- list of membership of the Fund
- information about working with members and employers
- investment report
- disclosure for the LGPS Shadow Advisory Board
- investment policies

This report, including the opinions, has been prepared for and only for the Authority'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 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, 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.

Other matter

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, and the date of this statement.

Greg Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

September 2014

(a) The maintenance and integrity of the Tyne and Wear Pension Fund website is the responsibility of the senior officers of the pension fund and the directors of South Tyneside Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the accounting statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of the accounting statements may differ from legislation in other jurisdictions.

TYNE AND WEAR
PENSION FUND

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 212, SOUTH SHIELDS NE33 9ER
[SAT NAV NE33 2RL]

PENSIONS HELPLINE:
TEL: 0191 424 4141

FAX: 0191 454 1796

EMAIL: PENSIONS@TWPF.INFO

WEB: WWW.TWPF.INFO

WALK IN SERVICE

You can visit us during office hours at the Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear NE33 2RL. 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.

lgps