



# Tyne and Wear Pension Fund

Administered by South Tyneside Council

## Members' Annual Report 2017/18

# Governance

Our Pensions Committee is responsible for the control of the Fund and meets quarterly to consider all pension matters. The Committee has eighteen members. South Tyneside Council has legal responsibility for the Fund and nominates eight members, whilst the other four district councils within the Tyne and Wear county area each nominate one member. The trades unions and the employers nominate three members each, who sit on the Committee in an advisory capacity.

The Council has established the Local Pension Board to assist the Pensions Committee in governance and administration matters of the Fund. It consists of four member representatives and four employer representatives.

An Investment Panel undertakes a detailed, ongoing, review of investment matters. This Panel consists of three members of the Pensions Committee, the Fund's external Investment Advisor and two Officers. The Panel reports to the Pensions Committee.

We hold annual meetings for the employers and trades unions. The issues discussed include the investment strategy and performance, benefits and employers' contribution rates.

# Membership

As at 31 March 2018, there were 260 employing bodies and 134,035 members in the Fund. A comparison with the previous year is shown below:

	<b>March 2017</b>	<b>March 2018</b>
<b>Active Members</b>	<b>44,955</b>	<b>45,464</b>
<b>Deferred Members</b>	<b>40,585</b>	<b>41,084</b>
<b>Pensioners</b>	<b>45,924</b>	<b>47,487</b>
<b>Total Membership</b>	<b>131,464</b>	<b>134,035</b>
<b>Employers</b>	<b>238</b>	<b>260</b>

# Funding Strategy

The Fund is valued every three years to ensure that there will be enough money to meet all the pension benefits.

The latest valuation was undertaken as at 31 March 2016. The assumptions used to value liabilities, including inflation and pay awards were updated as appropriate. The Pensions Committee considered the continuing suitability of the strategy and concluded that no significant changes were required.

The valuation outcome was that the Fund has assets to meet 85% of the estimated value of pension benefits. This is an improvement from the position at the 2013 valuation, which was 81%. The investment strategy, supplemented by deficit contributions from employers is expected to address the shortfall over future years.

# Summary of Accounts for 2017/18

The statement below shows the Fund's Income and Expenditure for 2017/18.

## Income and Expenditure

<b>Income</b>	<b>£'m</b>
Employers' Contributions	291
Employees' Contributions	54
Transfer Values Received	13
Net Investment Income	89
<b>Total Income</b>	<b>447</b>

<b>Expenditure</b>	<b>£'m</b>
Pensions	231
Lump Sum Retiring Allowances	49
Death Grants	6
Transfer Values and Refunds	22
Management Expenses	49
<b>Total Expenditure</b>	<b>357</b>

<b>Net Income/(Expenditure)</b>	<b>90</b>
<b>Increase in the value of investments</b>	<b>323</b>
<b>Value of the Fund as at 31 March 2017</b>	<b>7,951</b>
<b>Value of the Fund as at 31 March 2018</b>	<b>8,274</b>

# Summary of Accounts for 2017/18 continued

The value of the Fund as at 31 March 2018 was £8,274 million. This is invested into a range of UK and overseas assets, as shown below:

<b>Investment</b>	<b>Value £'m</b>
Overseas Equities	3,146
UK Equities	1,782
UK Fixed Interest Bonds	1,363
Private Equity	534
UK Property	383
Global Property	343
Index-Linked Bonds	185
Infrastructure	141
Overseas Fixed Interest Bonds	83
Cash and other current assets	314
<b>Total</b>	<b>8,274</b>

Our ten largest holdings (excluding managed and unitised funds) at the year end were:

<b>Holding</b>	<b>Value £'m</b>
Ferguson	53
Royal Dutch Shell (B share)	44
RELX	43
Compass Group	42
British American Tobacco	31
Shire Ltd	29
Reckitt Benckiser Group	28
Prudential	25
Alphabet Inc.	23
Rio Tinto	22

# Additional Voluntary Contributions

The Fund has two Additional Voluntary Contribution (AVC) providers, Prudential and Equitable Life. The total value of AVC funds at the year-end was £12.4 million. These monies are invested separately and are not included in the figures above.

## Investment Framework and the Investment Strategy Statement

Our approach to investing the Fund is set out in a document called the Investment Strategy Statement. This is available on our website at:

**<http://www.twpf.info/article/11843/Investments>**

The Statement is fully compliant with the new investment regulations and associated guidance which came into force in November 2016.

## Investment Strategy

The investment strategy in place during the year was to invest 58.5% of the Fund into equities, 19% into bonds, 12.5% into UK and global property, 7.5% into private equity and 2.5% into infrastructure.

The strategy was reviewed towards the end of 2016/17 and some changes were agreed. The changes are:

- A reduction in the allocation to UK equities of 3%, from 58.5% to 55.5%. The reduction will be used to part fund an allocation of 3.5% to private debt.
- A decrease of 0.5% in the allocation to property to 12%. The reduction will be used to complete the funding to private debt. It was also agreed that 1% of the allocation to property will be in UK residential property.

We continue to develop the private equity, global property and infrastructure programmes.

# Investment Management Structure

To deliver the investment strategy, the Fund has appointed ten public markets investment managers to work on a range of investment mandates. Each manager is a specialist in the market in which they invest.

In addition, money has been allocated into funds that are invested into private equity, infrastructure and global property. This broadly based management structure seeks to ensure that investment returns should not be overly influenced by the performance of any one strategy or manager.

The structure in place at the end of the year was:

<b>Manager</b>	<b>Value £'m</b>	<b>% of Assets</b>
Legal and General (tracker funds for UK Equities, US Equities, European Equities, Emerging Market Equities, Japanese Equities, Asia ex Japan Equities, Fundamental Global Equities, Index-Linked Gilts, Emerging Market Local Currency Government Bonds)	3,495	42.2
M&G (Corporate Bonds)	788	9.5
JP Morgan (Global and Emerging Market Equities)	704	8.5
Janus Henderson (Bonds)	658	8.0
Aberdeen Standard Property Investors (Property)	383	4.6
Mirabaud (UK Equities)	342	4.1
BlackRock (UK Equities)	340	4.1
Lazard (Japanese Equities)	190	2.3
TT International (Asia Pacific ex Japan Equities)	101	1.2
Private Equity	534	6.5
Global Property	343	4.2
Infrastructure	141	1.7
In House (cash) and other current assets	255	3.1
<b>Total</b>	<b>8,274</b>	<b>100.0</b>

# Market Environment

It was a positive year for most asset classes, albeit that the returns were much more modest than during the previous year. Within equity markets there was wide dispersion of returns.

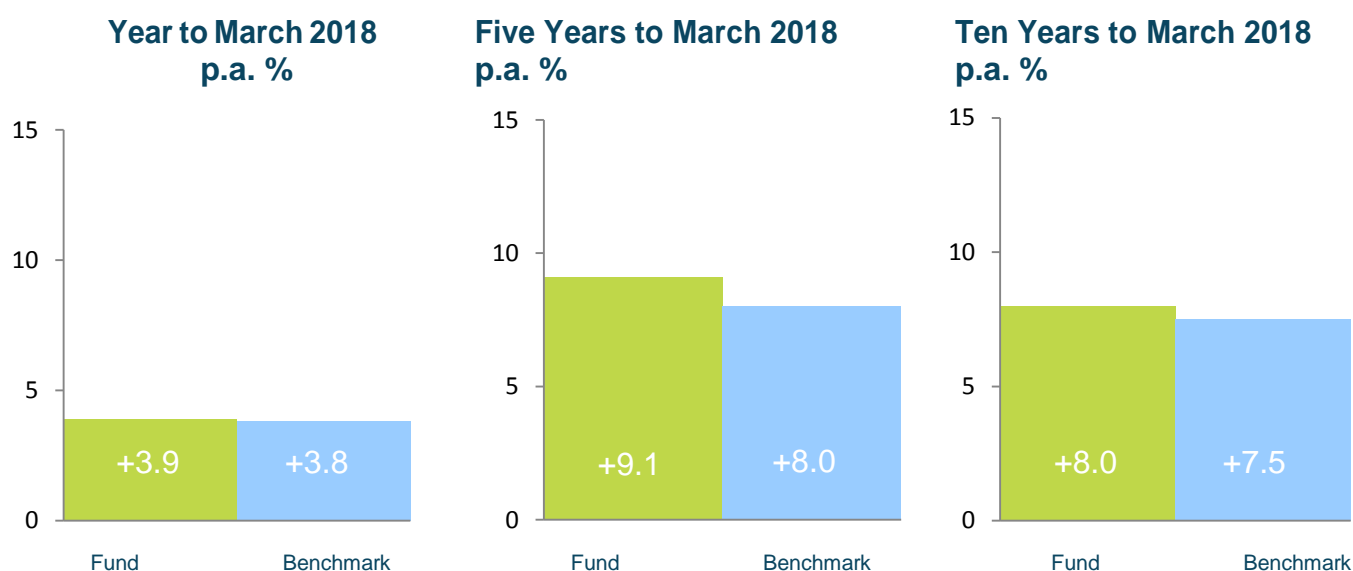
The strongest performing listed markets were Emerging Market equities and UK Property, with returns of 11.8% and 11.3% respectively. The poorest performer was Cash, which returned a gain of 0.4%.

The return from UK equities is of particular importance to UK pension funds, as typically a large proportion of their assets tend to be invested there. This market returned a gain of 1.2%.

## Investment Performance

The Fund's total return in this year was 3.9%, which was 0.1% above its benchmark return of 3.8%. This level of absolute return reflects the modest return from financial markets during the year.

Pension fund returns are generally assessed over at least five year periods in order to avoid taking too short term a view of investment performance. The chart below shows the Fund's annual return over one, five and ten year periods.



The five year return was 1.1% per annum above the benchmark return. The ten year return was 0.5% per annum above the benchmark return.

The returns over the longer term include the period of the financial crisis, when market conditions were particularly challenging for all investment managers.

# Corporate Governance

This is an important issue and the Pensions Committee takes its responsibilities in this area very seriously. The policy, which was last reviewed in November 2017, sets out how environmental, social and governance considerations are taken into account in the buying, holding and selling of investments and in the use of rights, such as votes, that attach to investments.

The policy is available on our website at: <http://www.twpf.info/article/11843/Investments>

# Pooling of Investments

In 2015 the Government brought in the requirement for all LGPS Funds to collectively pool their investments. This was in the expectation that savings could be made and net investment returns improved.

In early 2016 we decided to join the Border to Coast Pensions Partnership (BCPP), a group of 12 LGPS Funds, based primarily but not entirely in the North of England. At the end of 2017/18 the total value of assets in these Funds was £44 billion.

The BCPP Funds submitted a proposal to Government in July 2016 on how we planned to meet the Government's requirements and formal acceptance was received in December of that year. There have since been six monthly update meetings with the Government, after which BCPP have received confirmation that they are satisfied with progress to date.

These assets will still be owned by the funds but will be invested on their behalf by BCPP. The governance arrangements for BCPP have been established and a new company created. A Joint Committee will oversee arrangements as they develop. Although work is well underway, there is a vast amount still to do before this new company is operational. It is expected that the first asset transfers to the new company take place in the second half of 2018.

# Pensions Administration – Our Shared Service Arrangement

During 2017/18 the Fund worked with Northumberland County Council Pension Fund to create a pensions administration shared service. The new combined service operates from South Tyneside Council offices, with Northumberland being absorbed into the processes, operations and management of the Tyne and Wear Fund.

It was a large and complex exercise to create this combined operation, which went live in January 2018. One of the main challenges was to bring the Northumberland employers and members on board, whilst maintaining the service delivery to the Tyne and Wear stakeholders.



This is an exciting time for both funds and provides the opportunity to combine resources to improve operational efficiencies and at the same time to make us more resilient for any future challenges that lie ahead. Whilst a combined service is now being delivered, work on aligning other areas of operation and policies continued to take place.

Each Fund will retain its own identity and statutory obligations.



Councillor Eileen Leask  
Chair of Pensions Committee



Ian Bainbridge  
Head of Pensions

# 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**



**Pensions Helpline: Tel: 0191 424 4141**

If you want to talk to us, please call the Pensions Helpline, Monday to Thursday 8.30am to 5.00pm, and on Friday 8.30am to 4.30pm.

Outside of office hours and during busy times, you can leave us a message and a convenient day time telephone number and we will contact you. We aim to call you back within 5 working hours.

You will need to provide three forms of identification before we can provide any personal details.

We will not be able to provide information to anyone else on your behalf unless you are present during the call and authorise us to do so.



**Web: [www.twpf.info](http://www.twpf.info)  
mypension: [www.twpf.info/mypension](http://www.twpf.info/mypension)**