



Tyne and Wear  
Pension Fund

administered by South Tyneside MBC

**Members Annual Report**  
**2001/02**

**LOCAL GOVERNMENT PENSION SCHEME**



## Tyne and Wear Pension Fund

administered by South Tyneside MBC

Dear Member,

Welcome to the Members Annual Report for 2001/02.

The year proved to be another difficult one for UK pension funds, with world equity markets falling for the second year running. Despite this, strong relative investment performance has meant that the Fund has increased slightly in value during the year, from £2,190 million to £2,214 million.

This report outlines the key issues affecting the Fund, and summarises the financial position and investment performance.

### **Vision Statement**

We have developed a Vision Statement to help us improve the service we provide.

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

We will:

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

We will know we are succeeding when:

- we are consistently achieving our investment objective
- there are sufficient assets to meet the liabilities, without a need for additional contributions from employers
- employers and members tell us they are highly satisfied with the services we provide
- we are recognised as being amongst the leading UK pension funds.

### **Administration**

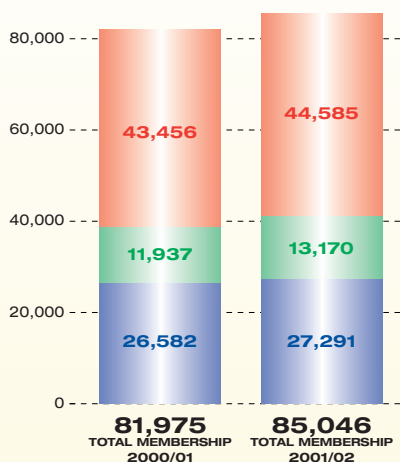
A Pensions Committee is responsible for the control of the Fund. It is made up of twelve elected councillors, eight from South Tyneside Council and one from each of the other four district councils in Tyne and Wear. Three representatives from the trades unions also attend the Committee meetings. The Committee meets quarterly to consider all pension matters.

Detailed monitoring of investment performance is undertaken by an Investment Panel, which consists of three members of the Pensions Committee, the Fund's external advisor and two officers. The Panel reports to the Pensions Committee.

We hold annual meetings for our employers and for the trades unions whose members participate in the Fund. The issues discussed at these meetings include investment performance, scheme members' benefits and employers' contribution rates.

## Membership

As at 31st March 2002, there were 101 employing bodies and 85,046 persons participating in the Fund. The table below shows how the membership of the Fund has grown over the year:



### Current Members

The number of employees contributing to the Fund has increased by 1129.

### Deferred Members

Deferred members are former contributors who have left their pension rights in the Fund until these become payable at normal retirement age.

### Pensioners

We are paying pensions to 709 more pensioners than at the end of the previous year. We have paid out benefits to the value of £100.4m to our pensioners during the year.

## Actuarial Valuation

Watson Wyatt Consulting Actuaries provide the Fund with actuarial services. This includes carrying out a valuation of the Fund every three years. It is the actuary's job to make sure that there is enough money in the Fund to meet all promised benefits - both now and in the future.

During the year we carried out an actuarial valuation to assess the Fund's position as at 31st March 2001. This showed that, in common with many other funds, the position had deteriorated. Accordingly the Actuary has increased the employer's contribution rates to cover the situation. These new rates have been introduced from 1st April 2002.

**The Local Government Pension Scheme, of which the Tyne and Wear Pension Fund is a participant, is a defined benefit scheme. The Regulations that govern the Scheme guarantee that your Fund benefits will be paid.**

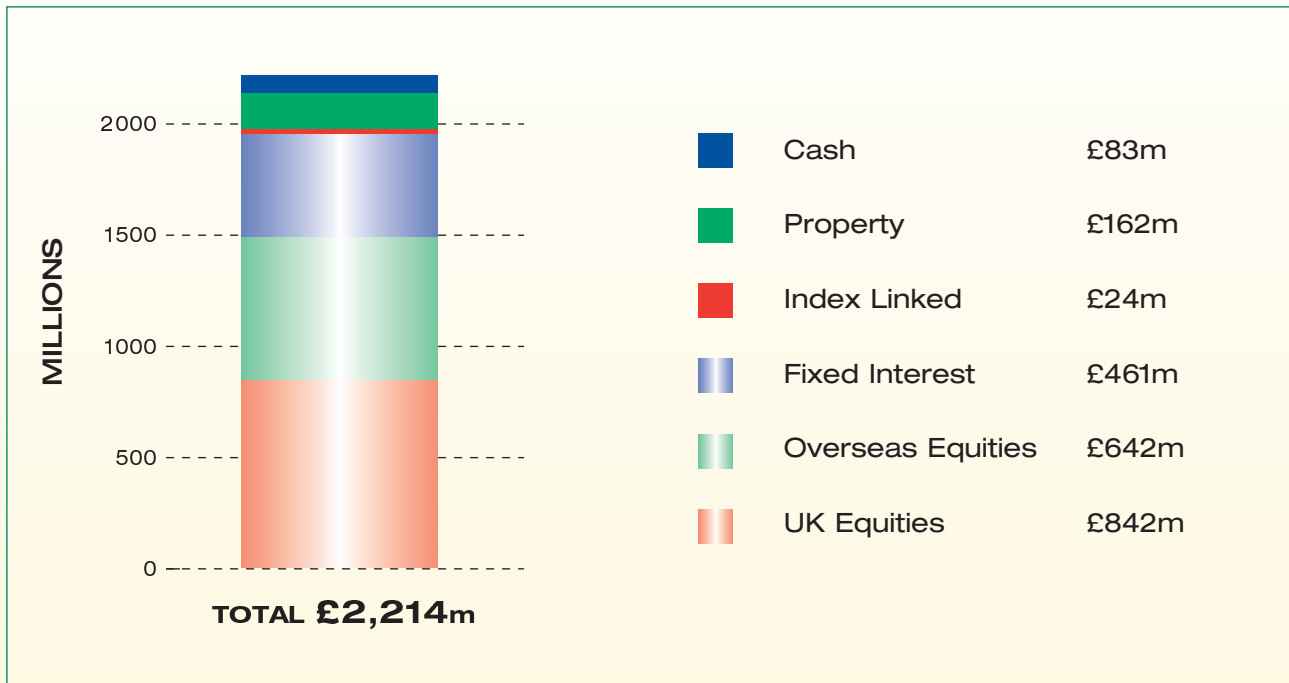
## Summary of the Accounts for 2001/02

The statements below show the Fund's Income and Expenditure for 2001/02 and its value at the end of the year. Please note that all these figures are subject to review by our Auditors.

Income	£'m	Expenditure	£'m
Employers' Contributions	95.9	Pensions	86.4
Employees' Contributions	37.1	Lump Sum Retiring Allowances	14.0
Transfer Values	11.8	Death Grants	2.4
Investment Income	62.8	Transfer Values and Refunds	20.2
		Administration Costs	1.9
<b>Total Income</b>	<b>207.6</b>	<b>Total Expenditure</b>	<b>124.9</b>
<b>Net Income</b>			<b>82.7</b>
<b>Decrease in value of Investments</b>			<b>(58.5)</b>
<b>Total Increase in value of the Fund</b>			<b>24.2</b>

In addition, income was also received from Fund members who have taken out additional voluntary contributions (AVCs) with the Fund's two external AVC providers, The Prudential and Equitable Life. The total value of member's AVC funds was £5.8m at the year end.

The Fund is invested into a range of UK and overseas assets, as shown below:-



Our ten largest single holdings at the year end were:-

Vodafone	£31m	ENI	£15m
GlaxoSmithKline	£30m	UK Treasury 7.5% 7/12/2006	£13m
BP	£24m	Royal Dutch Petroleum	£13m
Lloyds TSB	£21m	Shell	£12m
AstraZeneca	£15m	France Govt Bond 5.75% 25/10/2032	£12m

NB - This excludes holdings in unit trusts.

## Review of the Management Structure

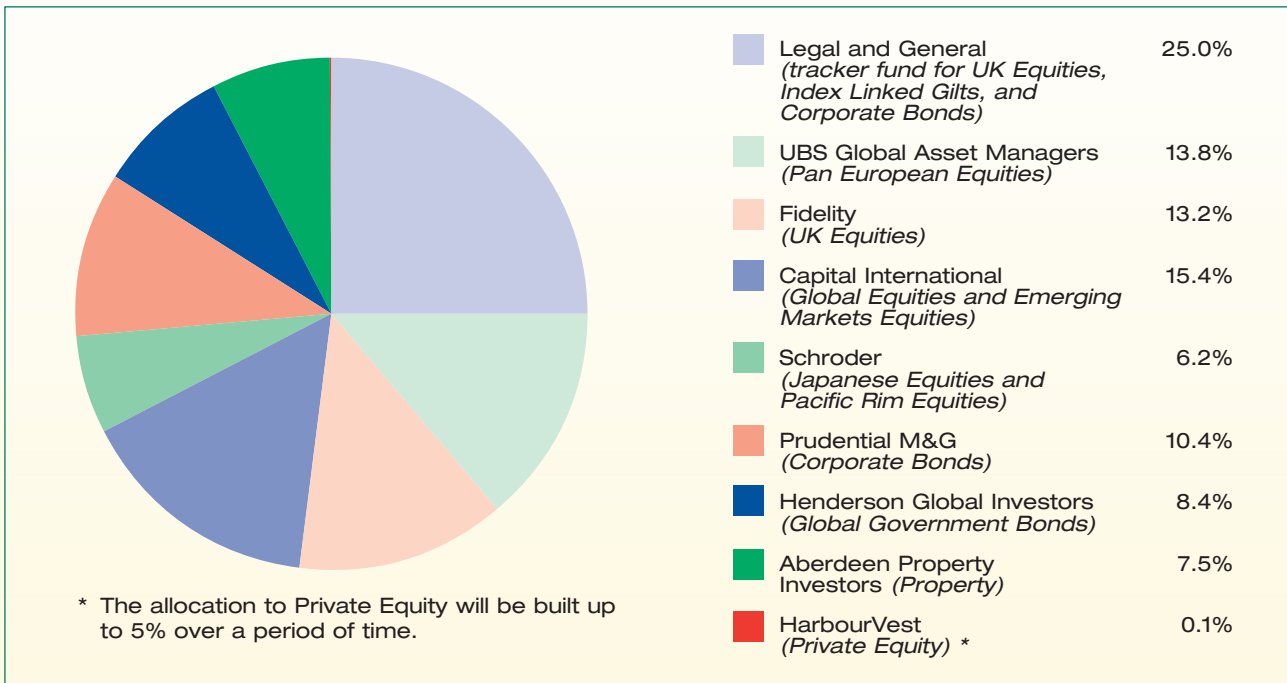
During the year the Investment Management Structure was reviewed and amended to ensure that the Fund is properly invested in relation to its pensions liabilities and to opportunities in investment markets.

A detailed study was undertaken to decide the amounts to be held in each type of investment. This resulted in more of the Fund being invested in Fixed Interest and Overseas Equities and less into UK Equities and Cash. Over time there will also be an increased allocation to Private Equity (companies which are privately owned and not quoted on the stock market).

This review commenced in 2000/01 and was largely completed by the end of this financial year.

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

# Management Structure as at 31st March 2002



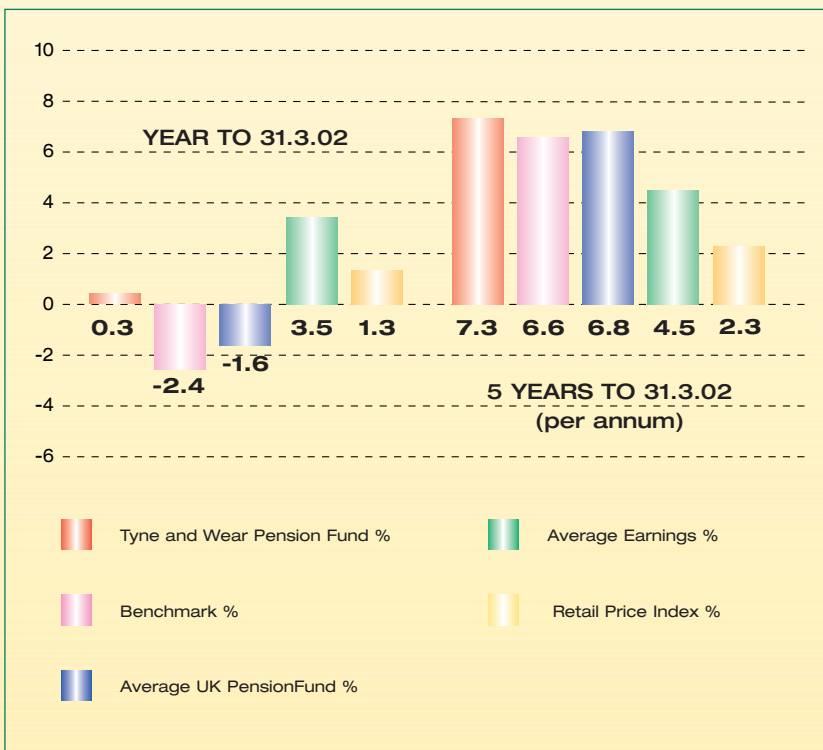
## Market Environment

Whilst the events of September 11th produced a sharp fall in equity markets and a slowdown in the global economy, the weakness in markets and the economic slowdown were already evident long before this date.

In this environment the defensive nature of Cash, Property and Bonds meant that they all performed relatively strongly. Equities performed poorly with most of the world's markets falling. The one exception to this was Pacific Rim ex Japan Equities which produced positive returns and was actually the best performing asset class over the year.

The high volatility of stock markets has continued beyond the year end. We will keep our investment strategy under close scrutiny as events develop.

## Investment Performance



The Fund's investment return for the year was +0.3%. This marginally positive return was satisfactory in the light of market conditions. It was ahead of the benchmark target return for the year of -2.4% and the average return of UK pension funds, which was -1.6%.

To avoid taking too short term a view of investment performance, pension fund returns are generally assessed over five year periods. This Fund's average annual return over the last five years has been 7.3%. This was above the benchmark target return of 6.6%, and the average return of UK pension funds of 6.8%. It was also comfortably ahead of wage and price inflation over the period.

## **Myners Report**

In March 2000, the Chancellor of the Exchequer commissioned a review into Institutional Investment in the UK. He invited Paul Myners of Gartmore Investment Management to lead the review.

One year later, on 6th March 2001, the “Myners Report” was produced. In October 2001, the Government published a Code of Investment Principles that reflect the proposals in the Myners Report. There are ten Principles contained in the Code and, whilst compliance is currently voluntary, legislation has recently been introduced which will require local government pension funds to state the extent to which they are complying with them.

The Principles cover issues such as effective decision making, setting clear objectives and performance measurement. The Fund already complies with many of the Principles. Over the coming year, the Pensions Committee will seek to comply with all aspects of the Code. If this does not happen, the reasons for the departure will be explained.

Updates on the Fund’s compliance with the Investment Principles will be available on the Fund’s website @ [www.twpf.info](http://www.twpf.info) .

## **Statement of Investment Principles (SIP)**

One of the Principles established by Myners is that a strengthened SIP should set out:

- who is taking which decisions and why this structure has been selected;
- the Funds investment objective;
- the Fund’s planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;
- the mandates given to all advisers and managers; and
- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected.

The latest version of our SIP was agreed by Pensions Committee in May 2002. It has been amended to comply with this Principle. Further changes will be required to comply with recent legislation arising out of the Myners Report.

## **Socially Responsible Investment (SRI)**

This is an important issue and the Pensions Committee takes its responsibility in this area very seriously. Our Policy, which was also last reviewed in May 2002, sets out how social, environmental and ethical 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.

Our investment managers have to report on their implementation of this Policy in their quarterly performance report and it is discussed at all meetings with managers. Each manager is required:

- to develop and co-ordinate policies on SRI, corporate governance and voting;
- when buying and selling investments, to take into account how SRI factors might affect their value;
- for each company in which they invest, to review that company’s approach to social, environmental and ethical factors and where necessary, approach company management to seek improvements;
- to exercise voting rights in an informed manner.

## Special Needs

If you have any special needs and would like to receive information in an alternative way, please let us know. We have access to an interpretation service, audio aids and to documents in other formats, for example Braille, large print and electronic.







### Website

The Tyne and Wear Pension Fund's website can be found at:

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

**Investment information is available on the website, including**

-  The Statement of Investment Principles
-  The Policy on Socially Responsible Investment
-  The full Report and Accounts for 2001/02 (available soon)
-  Service Plan 2002/03 - 2004/05

**For any other information about the Tyne and Wear Pension Fund please contact us at:-**



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