

Tyne and Wear Pension Fund

Members Annual Report 2002/03



Administered by South Tyneside Council

Tyne and Wear Pension Fund

Members Annual Report 2002/03

Dear Member

The Fund is pleased to present this Members Annual Report for 2002/03.

This report is a summarised version of the Fund's formal Report and Accounts, which is available on the Fund's website @ www.twpf.info .

This report sets out how the Fund is governed and it's financial position. It also outlines the investment structure, describes the overall market environment during the year and shows how the Fund has performed. Finally, there is a brief summary of the main investment policies and the framework within which the Fund operates.

It is hoped that you will find this report informative and that it will improve your understanding of how we provide for your pension.

Vision Statement

We have a Vision Statement to help us to 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.

Governance

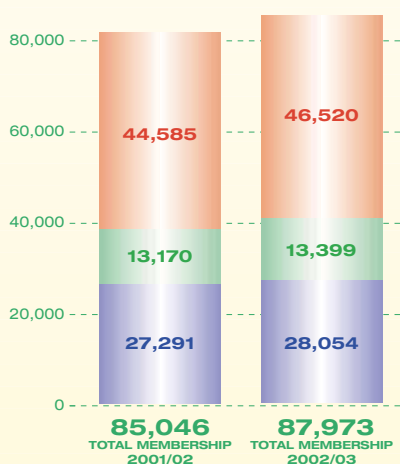
A Pensions Committee is responsible for the control of the Fund. It is made up of twelve elected councillors, eight from South Tyneside Council and one from each of the other four district councils in Tyne and Wear. Three representatives from the trades unions also attend the committee meetings. The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

An Investment Panel undertakes the detailed monitoring of investment performance. 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 our employers and for the trades unions whose members participate in the Fund. The issues discussed at these meetings include investment performance, benefits and employers' contribution rates.

Membership

As at 31st March 2003, there were 107 employing bodies and 87,973 members 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 1,935.

Deferred Members

Deferred members are former contributors who have left their pension rights in the Fund until these become payable at normal retirement age. The number of deferred members increased by 229.

Pensioners

We are paying pensions to 763 more pensioners than at the end of the previous year. We paid benefits valued at £110 million during the year.

Funding Level

The Fund employs an Actuary to undertake a formal 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.

The latest full actuarial valuation was undertaken as at 31st March 2001. This showed that the Fund was in deficit and contained assets sufficient to meet only 82% of the pension liabilities. This figure is known as the funding level.

Following the significant fall in equity markets in 2002, an interim valuation was carried out as at 31st December 2002. This showed that the funding level had fallen further to 67%. This position is likely to have improved since the financial year end because there has been a partial recovery in equity markets. However, the funding level is still expected to be below the level reported in the 2001 valuation.

The Actuary will consider what action may be taken to address the deficit at the next full valuation, which will take place as at 31st March 2004.

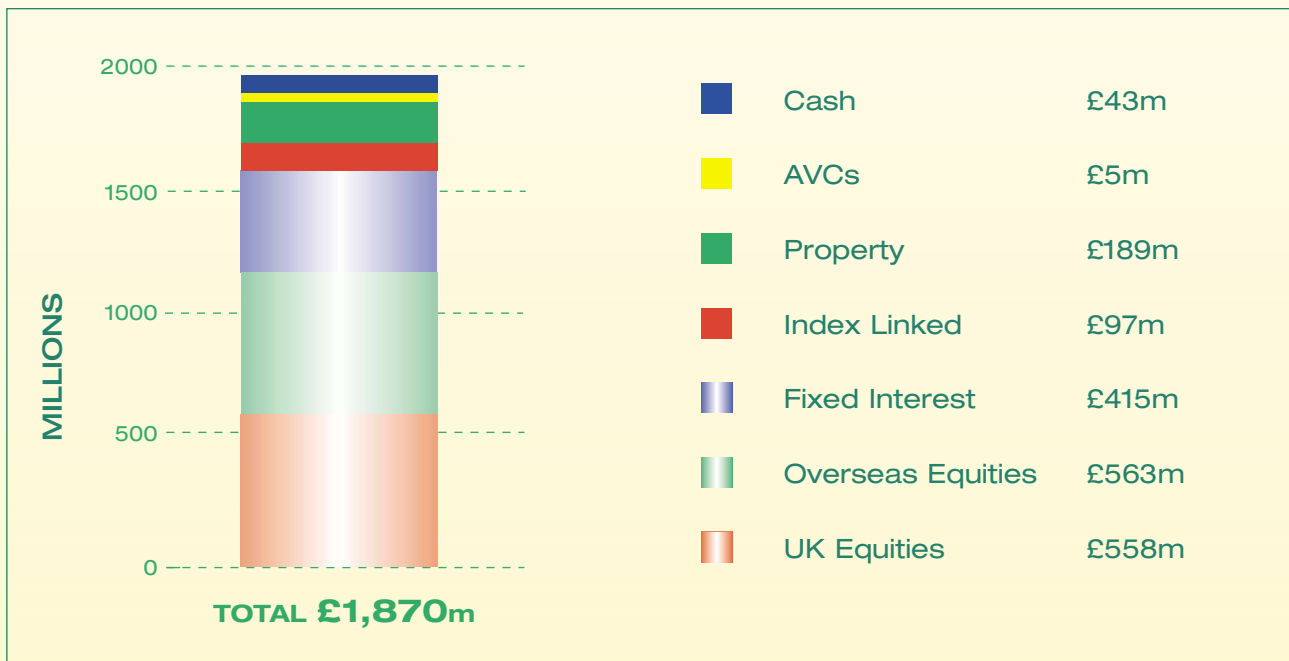
Please note that the Tyne and Wear Pension Fund is part of the Local Government Pension Scheme. This is a defined benefit scheme and the regulations that govern it guarantee that your Scheme benefits will be paid.

Summary of the Accounts for 2002/03

The statements below show the Fund's Income and Expenditure for 2002/03:

Income	£'m	Expenditure	£'m
Employers' Contributions	126	Pensions	92
Employees' Contributions	40	Lump Sum Retiring Allowances	18
Transfer Values	14	Death Grants	2
Investment Income	37	Transfer Values and Refunds	18
		Administration Costs	2
Total Income	217	Total Expenditure	132
Net Income			85
Decrease in value of Investments			-435
Total Decrease in value of the Fund			-350
Value of the Fund as at 31st March 2002			2,220
Value of the Fund as at 31st March 2003			1,870

The value of the Fund as at 31st March 2003 was £1,870 million. This represents a fall in value of £350m during the year. The Fund is invested into a range of UK and overseas assets, as shown below:

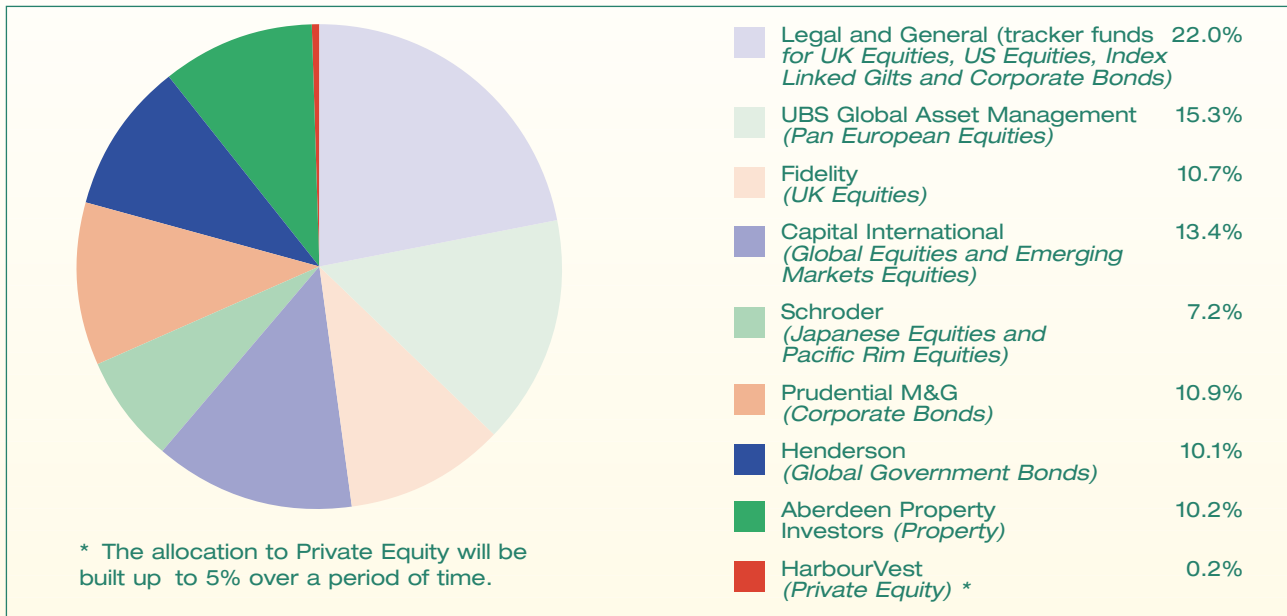


Our ten largest holdings at the year end were:

Vodafone	£37m	Japanese Govt Bond 0.5% 20/06/2006	£11m
BP	£28m	Gallaher Group	£10m
GlaxoSmithKline	£23m	ENI	£9m
AstraZeneca	£17m	BNP Paribas	£9m
Royal Dutch Petroleum	£12m	HSBC	£9m

Investment Management Structure

The Fund employs nine investment managers who work on fourteen 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. The structure as at 31st March 2003 is:



Market Environment

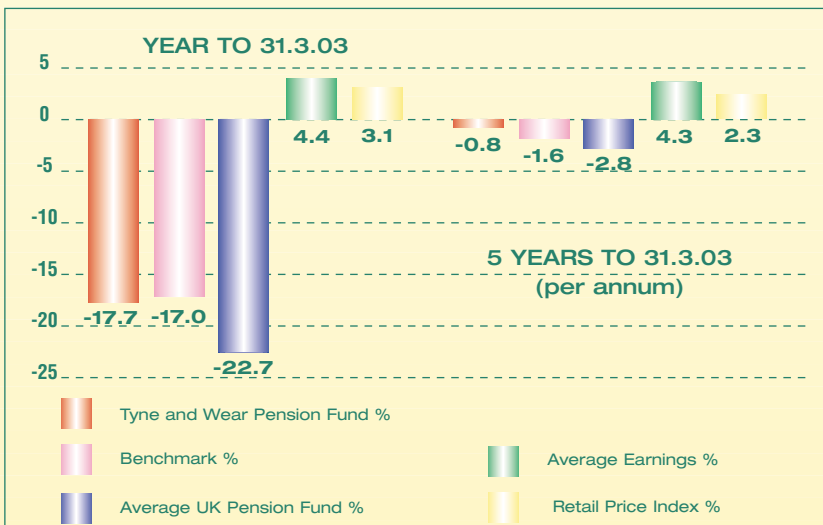
The year was dominated by a global economic slowdown caused, in part, by the concerns over terrorism and the Iraqi situation. Against this background, equities fell by about 30% and posted negative returns for the third year in succession. In contrast, the defensive nature of bonds and property meant that they performed relatively strongly.

We will keep our investment strategy under close scrutiny to be able to respond to opportunities in markets.

Investment Performance

The Fund's investment return for the year was -17.7%, which was 0.7% below its benchmark return of -17.0%. In general, the Fund was positioned for an equity market recovery and this detracted from returns.

The average return of UK pension funds was -22.7%. Therefore, whilst the Fund underperformed its benchmark, it performed well relative to its peers. This is because the Fund's benchmark has higher weightings in bonds and property than the average fund, which provided a measure of protection during a period of falling equity markets.



In order 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 return over the last five years has been -0.8%. Whilst this negative return is disappointing, it is above the benchmark return of -1.6% per annum and comfortably ahead of the average return of UK pension funds of -2.8%. Unfortunately, the five year return now lags the rate of inflation and wages over the period.

The Myners Report

In 2001, a review of institutional investment in the UK was undertaken by Paul Myners, a leading investment manager. One of the outcomes of the Myners Report was the establishment of ten Investment Principles.

Whilst compliance with the Principles is voluntary, local government pension funds are required to state the extent to which they are compliant.

The Principles cover issues such as effective decision making, setting clear objectives and performance measurement. The Fund complies fully with eight of the ten Principles and is partially compliant with the remaining two. Over the coming year, the Pensions Committee will be working to comply with all aspects of the Principles. Where we do not achieve compliance, the reasons for this will be explained.

The position on compliance with the Principles is set out in the Statement of Investment Principles, which may be viewed on the Fund's website @ www.twpf.info .

Statement of Investment Principles (SIP)

The SIP is a key document that sets out the investment framework for the Fund and provides an up to date assessment of our compliance with the Investment Principles. The document is continually being updated as new developments take place.

The SIP sets out the following details:

- who is taking which decisions and why this structure has been selected
- the investment objective
- the 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 advisors and managers
- the nature of the fee structures in place for all advisors and managers, and why this set of structures has been selected
- the extent to which the Fund is compliant with the ten Investment Principles.

Corporate Governance and 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 last reviewed in June 2003, 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 the subject is discussed regularly at meetings with them. 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.

The investment industry is currently considering a new Statement of Corporate Governance Principles. Many of these Principles are already contained in the Fund's Policy. However, there may be a need to make the Policy more prescriptive and this is under discussion with the investment managers.

A copy of the Policy on SRI is available on the Fund's website @ www.twpf.info.

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 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

**Through this website you can access pension information
24 hours a day, 365 days a year.**

The following information is available on the website

-  The Statement of Investment Principles
-  The Policy on Socially Responsible Investment
-  The full Report and Accounts for 2002/03
-  The Service Plan for 2003/04 - 2005/06

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



The Pensions Office

Tyne and Wear Pension Fund
Hebburn Civic Centre
Campbell Park Road
Hebburn
Tyne and Wear
NE31 2SW



Pensions Helpline

0191 424 4141



Fax

0191 424 4171



Email

Pensions@s-tyneside-mbc.gov.uk