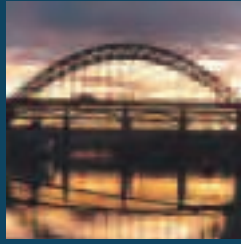
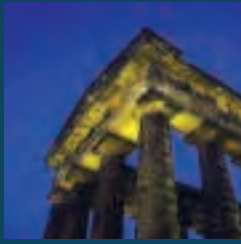
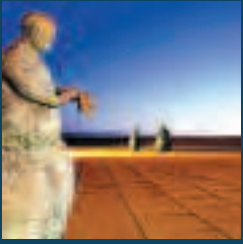


# Tyne and Wear Pension Fund

Administered by South Tyneside Council



## Members Fund Report 2007/08

# About The Fund

## Governance

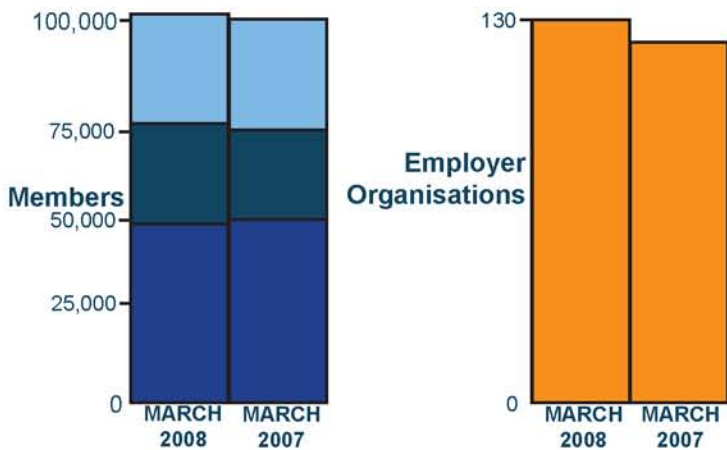
Our Pensions Committee is responsible for the control of the Fund and meets quarterly to consider all pension matters. The Committee has eighteen members. South Tyneside Council has legal responsibility for the Fund and nominates eight members, whilst the other four district councils within the County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

An Investment Panel undertakes an ongoing, detailed 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 investment performance, benefits and employers' contribution rates.

## Membership

As at March 2008, there were 130 employer organisations and 103,762 members in the Fund. This is an increase of 2,743 over the membership of 101,019 as at March 2007.



|                         | March 2008     | March 2007     | Key        |
|-------------------------|----------------|----------------|------------|
| Active Members          | 48,185         | 48,647         | Dark Blue  |
| Deferred Members        | 23,696         | 21,151         | Dark Blue  |
| Pensioners              | 31,881         | 31,221         | Light Blue |
| <b>Total Membership</b> | <b>103,762</b> | <b>101,019</b> |            |
| Employer Organisations  | 130            | 124            | Orange     |

## Funding Strategy

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

The latest valuation was undertaken as at March 2007. This showed that there is a funding deficit, with the assets being sufficient to meet only 79% of the pension liabilities. This figure, known as the funding level, had improved by 15% since the previous valuation in 2004, largely due to actual investment returns being higher than those assumed in 2004. However, employer contribution rates had to increase due to higher than expected inflation and to people living longer.

We have been monitoring the estimated movements in the funding level since the 2007 valuation. As at March 2008, this monitoring was showing a fall in the funding level to about 65%, due to falls in investment markets over the past year.

The long term strategy for closing the deficit is set out in our Funding Strategy Statement, which is on our website. We consulted employers and considered their views when preparing the strategy. For employers with the strongest covenant, the strategy is to recover the deficit over a period of up to 22 years.

**Please note that the Tyne and Wear Pension Fund is part of the Local Government Pension Scheme. Under the present legislation the benefits of the Scheme are not dependant upon investment returns and the funding level, but are defined in law.**











## Summary of Accounts for 2007/08

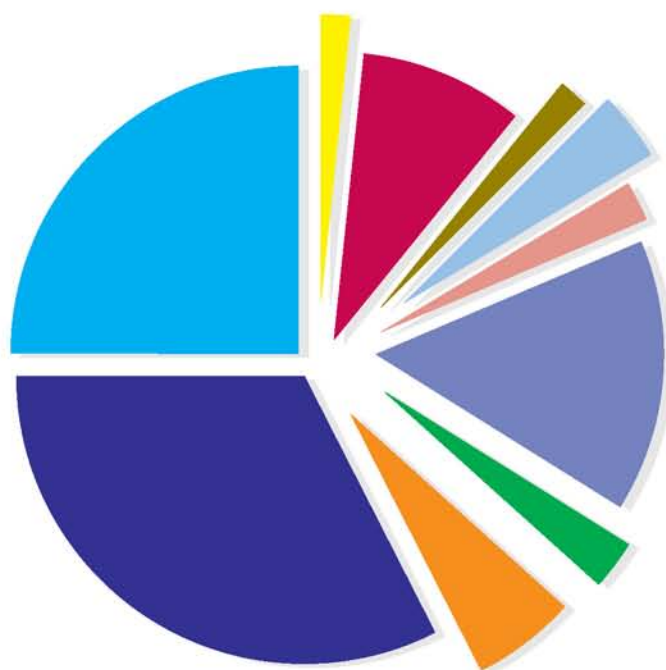
The statement below shows the Fund's Income and Expenditure for 2007/08.

### Income and Expenditure

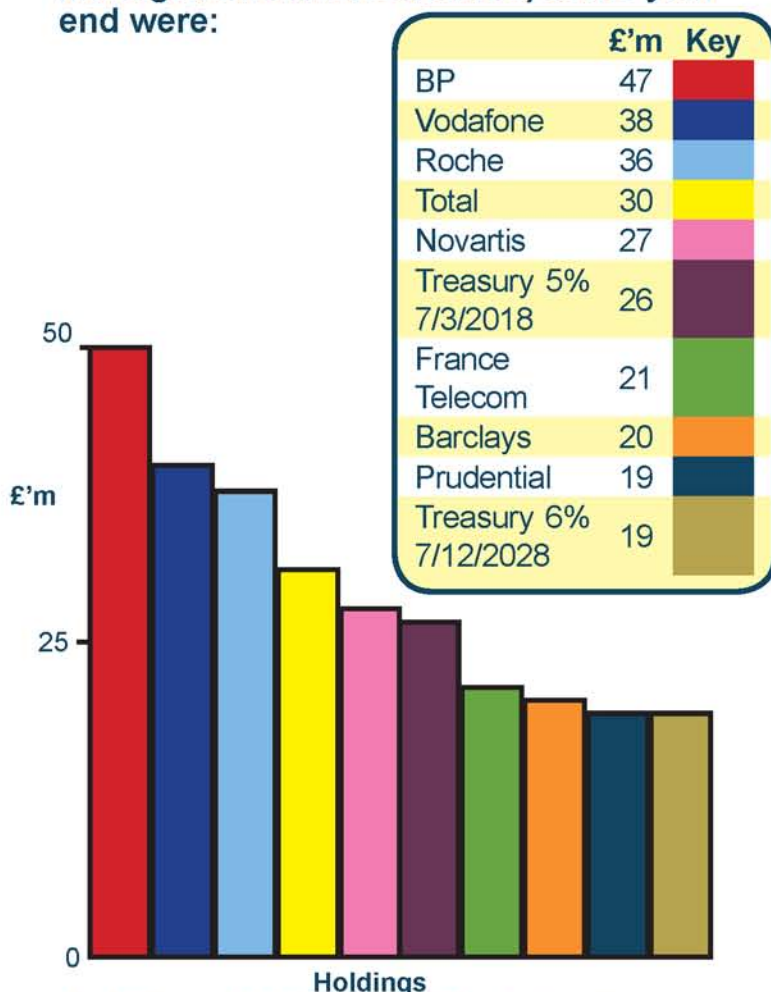
| <b>Income</b>                                  | <b>£'m</b>   |
|--|--------------|
| Employers' Contributions                       | 195          |
| Employees' Contributions                       | 53           |
| Transfer Values                                | 11           |
| Investment Income                              | 77           |
| <b>Total Income</b>                            | <b>336</b>   |
| <b>Expenditure</b>                             |              |
| Pensions                                       | 121          |
| Lump Sum Retiring Allowances                   | 36           |
| Death Grants                                   | 3            |
| Transfer Values and Refunds                    | 11           |
| Administration Costs                           | 3            |
| <b>Total Expenditure</b>                       | <b>174</b>   |
| <b>Net Income</b>                              | <b>162</b>   |
| <b>Decrease in the value of Investments</b>    | <b>-206</b>  |
| <b>Total Decrease in the value of the Fund</b> | <b>-44</b>   |
| <b>Value of the Fund as at 31 March 2007</b>   | <b>3,727</b> |
| <b>Value of the Fund as at 31 March 2008</b>   | <b>3,683</b> |

The value of the Fund as at 31 March 2008 was £3,683 million. This is invested into a range of UK and overseas assets, as shown below:

|                         | <b>Value<br/>£'m</b> | <b>Key</b>  |
|-------------------------|----------------------|---|
| UK Equities             | 928                  |  |
| Overseas Equities       | 1,200                |  |
| Private Equity          | 216                  |  |
| Active Currency         | 100                  |  |
| UK Fixed Interest       | 567                  |  |
| Overseas Fixed Interest | 80                   |  |
| Index-Linked            | 139                  |  |
| Infrastructure          | 49                   |  |
| Property                | 341                  |  |
| Cash                    | 63                   |  |
| <b>Total</b>            | <b>3,683</b>         |   |



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



### Additional Voluntary Contributions

The Fund has two Additional Voluntary Contributions (AVC) providers, The Prudential and Equitable Life. The total value of AVC funds at the year end was £8.2 million. These monies are invested separately and are not included in the figures above.

### Investment Framework and the Statement of Investment Principles

Our approach to investing the Fund is set out in a document called the Statement of Investment Principles. This is available on the Fund's website. The Statement shows our level of compliance with a Code of Investment Principles prepared by the Government. We are pleased to report that we are compliant with all the Principles.

### Investment Strategy and Management Structure

During 2007/08, our strategy was to invest 59.5% of the assets into quoted equities, 21% into bonds, 10% into property and 9.5% into alternative investments. The allocation to alternative investments included 5% to private equity, 3% to active currency and 1.5% to infrastructure.

To deliver this strategy, we employ eight investment managers who work on fourteen investment mandates. Each manager is a specialist in the market in which they invest.

In addition, a number of investments have been made into private equity funds offered by a range of providers. Two investments have been made in currency funds and two investments in infrastructure funds.

This broadly based management structure seeks to ensure that investment returns should not be overly influenced by the performance of any one manager.

The structure is:

| Manager   | Value £'m    | % of Assets |
|---|--------------|-------------|
| Legal and General (tracker funds for UK Equities, US Equities, Gilts, Index - Linked Gilts and Corporate Bonds) | 660          | 18          |
| UBS Global Asset Management (Pan European Equities)   | 533          | 14          |
| Capital International (Global Equities and Emerging Markets Equities)   | 454          | 12          |
| Fidelity (UK Equities)  | 384          | 10          |
| Schroder (Japanese Equities and Pacific Rim Ex Japan Equities)  | 295          | 8           |
| Henderson (Global Bonds)  | 311          | 9           |
| M&G (Corporate Bonds)   | 311          | 9           |
| Aberdeen Property Investors (Property)  | 341          | 9           |
| Active Currency   | 100          | 3           |
| Private Equity  | 216          | 6           |
| Infrastructure  | 49           | 1           |
| In House (Cash)   | 29           | 1           |
| <b>Total</b>  | <b>3,683</b> | <b>100</b>  |

## Development of the Investment Strategy

We reviewed the investment strategy in 2007/08 and decided to increase the assets allocated to alternative investments. The revised strategy is 55.5% to quoted equities, 16.5% to bonds, 10% to property and 18% to alternatives. Within the alternatives exposure, there are increased allocations to private equity and infrastructure and allocations to two new areas, which are overseas property and absolute return. This strategy will be phased in as appropriate investment opportunities are identified.

## Market Environment

The steady rise in equity markets from March 2003 came to a halt in May 2007. This was due to uncertainty caused by the sub-prime mortgage crisis in the US. There are concerns over the size of losses and the impact this is having on economies.

The UK, US and Japanese equity markets all performed poorly. European markets also fell in local currency terms but the returns for a UK investor were positive because of a rise in the value of the Euro. Pacific Rim and Emerging Market equities bucked the trend and produced good returns.

Property returns were negative, but government bonds performed well as investors looked for a safe home for their money.

## Investment Performance

In this market environment, the value of UK pension funds fell, ending a run of four years of positive returns.

Our investment return for the year was -3.5%, which was 1.7% below the benchmark return of -1.8%.

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 year, five year and ten year periods.

|                  | Year to March 2008 % | Five Years to March 2008 % p.a. | Ten Years to March 2008 % p.a. |
|------------------|----------------------|---------------------------------|--------------------------------|
| Fund             | -3.5                 | +12.1                           | +5.4                           |
| Benchmark        | -1.8                 | +12.5                           | +5.1                           |
| RPI              | +3.8                 | +3.3                            | +2.8                           |
| Average Earnings | +4.3                 | +4.2                            | +4.4                           |

The underperformance over one year and five years is due to poor performance from some of our equity managers. The Investment Panel and the Pensions Committee have been closely monitoring this position.

The returns over five and ten years are above both inflation and the increase in average earnings.

## Corporate Governance, Voting and Socially Responsible Investment (SRI)

This is an important issue and the Pensions Committee takes its responsibilities in this area very seriously. We last reviewed our approach in June 2008. We have a policy that 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.

The policy is available on our website.

**This booklet is a brief guide to the Scheme and cannot cover every personal circumstance. In the event of any dispute over your pension benefits, the appropriate legislation will prevail. This booklet does not confer any contractual or statutory rights and is provided for information purposes only.**