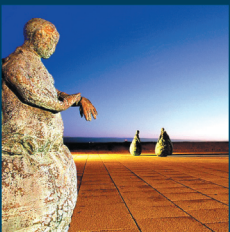


Tyne and Wear Pension Fund

# Members' Annual Report 2008/09

Administered by South Tyneside Council



We are pleased to present the 2008/09 Members' Report and Accounts for the Tyne and Wear Pension Fund. This is a summarised version of the Fund's Report and Accounts, which is available on our website, [www.twpf.info](http://www.twpf.info).

## 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.

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 March 2009, there were 134 employing bodies and 107,554 members in the Fund. This is an increase of 3,792 over the membership of 103,762 as at March 2008.

	March 2009	March 2008
Active Members	50,008	48,185
Deferred Members	24,526	23,696
Pensioners	33,020	31,881
<b>Total Membership</b>	<b>107,554</b>	<b>103,762</b>
<b>Employer Organisations</b>	<b>134</b>	<b>130</b>

## 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 our members living longer.

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. The strategy will be reviewed for the 2010 valuation.

We have been monitoring the estimated movements in the funding level since the 2007

valuation. As at March 2009, the funding level has fallen to about 55%, mostly because of the global financial crisis which has led to a severe fall in the value of the Fund's investments.

**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 the funding level, but are defined in law.**

## Summary of Accounts for 2008/09

The statement below shows the Fund's Income and Expenditure for 2008/09.

### Income and Expenditure

Income	£'m
Employers' Contributions	209
Employees' Contributions	60
Transfer Values	11
Investment Income	75
<b>Total Income</b>	<b>355</b>
Expenditure	
Pensions	128
Lump Sum Retiring Allowances	34
Death Grants	4
Transfer Values and Refunds	7
Administration Costs	3
<b>Total Expenditure</b>	<b>176</b>
<b>Net Income</b>	<b>179</b>
<b>Decrease in the value of Investments</b>	<b>-754</b>
<b>Total Decrease in the value of the Fund</b>	<b>-575</b>
<b>Value of the Fund as at 31 March 2008 (restated *)</b>	<b>3,678</b>
<b>Value of the Fund as at 31 March 2009</b>	<b>3,103</b>

\* The basis of valuing the Fund's assets changed in 2008/09 to comply with international financial accounting standards. This resulted in the March 2008 value being revised down from £3,683 million to £3,678 million.

The value of the Fund as at 31 March 2009 was £3,103 million. This is invested into a range of UK and overseas assets, as shown below:

Investment	£'m
UK Equities	839
Overseas Equities	927
Private Equity	273
Active Currency	64
UK Fixed Interest Bonds	571
Index-Linked Bonds	91
Infrastructure	32
Property	260
Cash and other current assets	46
<b>Total</b>	<b>3,103</b>

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

	Value £'m
Roche	29
BP	27
Vodafone	25
Total	17
BNP Paribas	15
Societe Generale	14
Novartis	12
Nokia (AB)	11
Telecom Austria	11
Telenor ASA	10

## 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 £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 our 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 these Principles.

## Investment Strategy

At the start of 2008/09, 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 was comprised of 5% to private equity, 3% to active currency and 1.5% to infrastructure.

As part of the development of the investment strategy, the Pensions Committee decided to increase the allocation to alternative investments and reduce the allocation to quoted equity and bond investments.

The Committee intended to introduce the new strategy during 2008/09. However, this approach was largely put on hold because of concerns over the stability of investment markets.

An increase in the allocation to private equity from 5% to 7.5% was put in place during the year. Therefore, the strategy in place at the end of the year is 57% in quoted equities, 21% in bonds, 10% in property and 12% in alternatives.

The remainder of the review will be implemented when normal conditions return to markets.

## Investment Management Structure

To deliver the investment strategy, we employ seven 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 investment management structure will be reviewed as the new strategy is introduced. The structure in place at the end of the year is:

Manager	Value £m	% of Assets
Legal and General (tracker funds for UK Equities, US Equities, European Equities, Gilts, Index Linked Gilts and Corporate Bonds)	904	29
UBS Global Asset Management (Pan European Equities)	393	13
Capital International (Global Equities and Emerging Markets Equities)	356	11
Schroder (Japanese Equities and Pacific Rim Equities)	248	8
Henderson (Global Bonds)	320	11
M&G (Corporate Bonds)	216	7
Aberdeen Property Investors (Property)	260	8
Active Currency	64	2
Private Equity	272	9
Infrastructure	31	1
In House (Cash)	39	1
<b>Total</b>	<b>3,103</b>	<b>100</b>

## Market Environment

The steady rise in equity markets from March 2003 came to a halt in May 2007. This downturn was initially caused by defaults on sub-prime mortgages in the US.

Markets struggled from May 2007 onwards. The crisis came to a head in the autumn of 2008 when concerns over the stability of financial institutions meant that governments had to support individual institutions and the financial markets generally.

There are now signs of stability within institutions and markets but concerns continue over the slowdown in economic activity.

Markets conditions were extremely volatile during 2008/09. The global equity markets fell sharply in value, with the European and UK markets being amongst the worst affected. Property values also fell sharply. In this environment, investors sought the safer haven of government bonds, which rose in value.

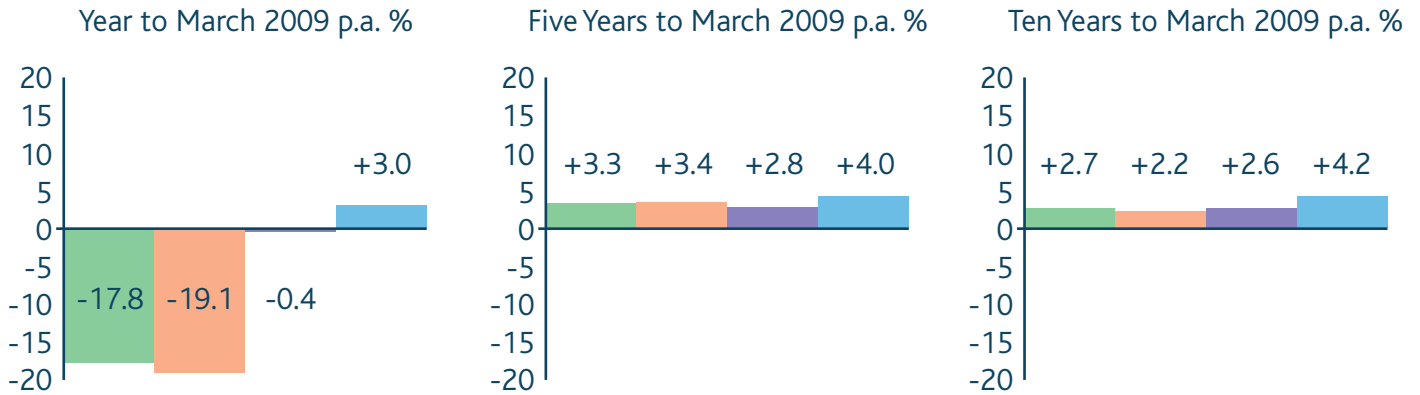
# Investment Performance

The value of UK pension funds fell for the second year running in 2008/09.

Our investment return for the year was -17.8%, which was 1.3% above the benchmark return of -19.1%.

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.



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



The returns over five and ten years are above inflation, but below 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 2009. 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.

Councillor Eileen Leask  
Chair of Pensions Committee

Stephen Moore  
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 143, HEBBURN NE31 2WT**



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



**Fax: 0191 424 4171**



**Email: [pensions@twpf.info](mailto:pensions@twpf.info)**



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



### Personal callers

You can visit us during office hours at the Civic Centre,  
Campbell Park Road, Hebburn, Tyne and Wear, NE31 2SW.

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.