



**Tyne and Wear Pension Fund**

# Members' Annual Report 2010/11

Administered by South Tyneside Council

## 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 2011, there were 148 employing bodies and 112,234 members in the Fund. This is an increase of 1,779 over the membership of 110,455 as at March 2010.

	March 2010	March 2011
Active Members	48,147	46,671
Deferred Members	27,757	29,516
Pensioners	34,551	36,047
<b>Total Membership</b>	<b>110,455</b>	<b>112,234</b>
<b>Employer Organisations</b>	<b>145</b>	<b>148</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 March 2010. This showed that there is a funding deficit, with the assets being sufficient to meet only 79% of the benefits.

For the 2010 valuation, an application of the strategy used for the 2007 valuation would have led to significant increases in most employers' contributions. The Pensions Committee recognised this situation and reviewed the strategy. This led to the adoption of a relaxed strategy for employers with a strong covenant through an increase to the interest rate that is used to calculate the benefits.

The next valuation will take place as at March 2013, when the Pensions Committee will review its strategy for clearing the deficit. We will be consulting employers and considering their views as part of this process.

**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 2010/11

The statement below shows the Fund's Income and Expenditure for 2010/11:

### Income and Expenditure

<b>Income</b>	<b>£'m</b>
Employers' Contributions	226
Employees' Contributions	63
Transfer Values	16
Investment Income	71
<b>Total Income</b>	<b>376</b>

<b>Expenditure</b>	<b>£'m</b>
Pensions	150
Lump Sum Retiring Allowances	39
Death Grants	5
Transfer Values and Refunds	16
Administration Costs	3
<b>Total Expenditure</b>	<b>213</b>

<b>Net Income</b>	<b>163</b>
<b>Increase in the value of Investments</b>	<b>277</b>
<b>Total Increase in the value of the Fund</b>	<b>440</b>
<b>Value of the Fund as at 31 March 2010</b>	<b>4,302</b>
<b>Value of the Fund as at 31 March 2011</b>	<b>4,742</b>

## Summary of Accounts for 2010/11

The value of the Fund as at 31 March 2011 was £4,742 million. This is invested into a range of UK and overseas assets, as shown below:

Investment	Value £'m
UK Equities	1,253
Overseas Equities	1,503
Private Equity	469
Active Currency	143
UK Fixed Interest Bonds	737
Index-Linked Bonds	135
Infrastructure	51
Property	345
Global Property	41
Cash and other current assets	65
<b>Total</b>	<b>4,742</b>

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

	Value £'m
BG Group	45
Rio Tinto	34
Royal Dutch Shell	32
Standard Chartered	25
HSBC	23
Barclays	18
BP	17
British American Tobacco	17
Xstrata	16
Fresenius Medical Care	16

## 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 £9.7 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 at:

<http://www.twpf.info/CHttpHandler.ashx?id=12635&p=0>

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

In 2008, the Pensions Committee decided to change the investment strategy to increase the amounts invested in global property and infrastructure and reduce the amounts in quoted equity and bond investments.

It was intended to introduce the new strategy during 2008 and 2009. However, the process was put on hold because of concerns over the stability of investment markets during the global financial crisis. The Fund began to implement the new strategy in 2010 when market conditions were suitable.

The new strategy is to invest 58.5% of the assets into quoted equities, 18.7% into bonds, 12.5% into property and 10.3% into alternative investments. The allocation to alternatives includes investments in private equity, infrastructure and currency.

## Investment Management Structure

To deliver the investment strategy, the Fund has appointed twelve investment managers to work on fourteen 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, currencies, 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:

Manager	Value £m	% of Assets
Legal and General (tracker funds for UK Equities, US Equities, European Equities, Index Linked Gilts)	808	17.0
Sarasin (Global Equities)	483	10.2
JP Morgan (Global Equities)	471	9.9
UBS Global Asset Management (Pan European Equities)	456	9.6
M&G (Corporate Bonds)	403	8.5
Henderson (Bonds)	380	8.0
Aberdeen Property Investors (Property)	345	7.3
Mirabaud (UK Equities)	177	3.7
BlackRock (UK Equities)	175	3.7
Capital International (Emerging Markets Equities)	143	3.0
Lazard (Japanese Equities)	106	2.2
TT International (Asia Pacific ex Japan Equities)	55	1.2
Private Equity	469	9.9
Active Currency	143	3.0
Infrastructure	51	1.1
Global Property	41	0.9
In House (Cash) and other current assets	36	0.8
<b>Total</b>	<b>4,742</b>	<b>100.0</b>

## Market Environment

A steady rise in equity markets from March 2003 ended in May 2007. Markets then fell dramatically, initially because of severe losses in US sub-prime mortgages.

The financial crisis came to a head in 2008 when concern over the stability of financial institutions meant that governments had to support individual institutions and the financial markets generally.

The economic outlook started to improve in 2009/10 and this continued into 2010/11.

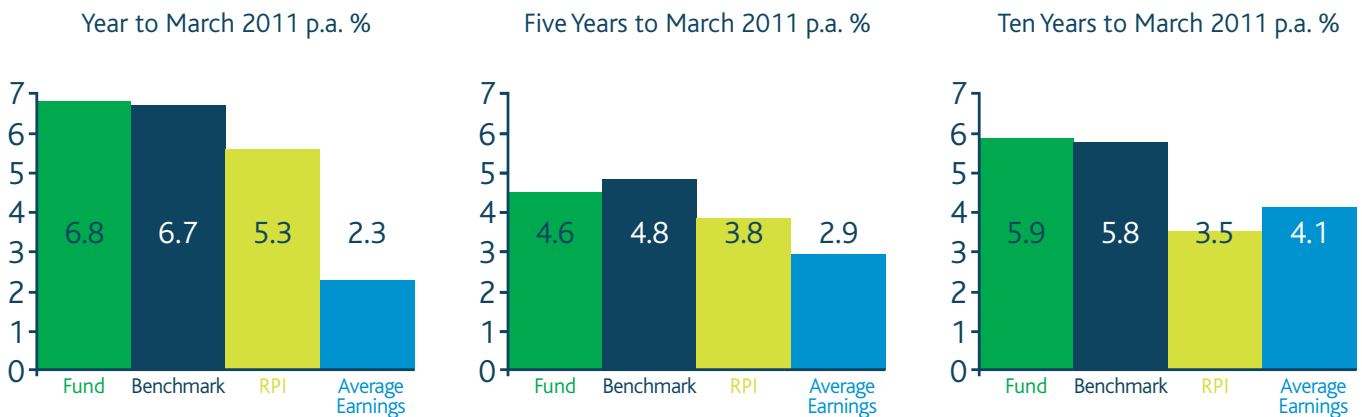
## Investment Performance

The value of UK pension fund assets rose in 2010/11.

Our investment return for the year was 6.8%, which was 0.1% above the benchmark return of 6.7%.

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 had been closely monitoring this position and have addressed it as part of the new strategy.

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

## 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 June 2011, 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/CHttpHandler.ashx?id=12636&p=0>

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 or 0845 625 4141**

If you live outside the Tyne and Wear area, it may be cheaper to call our 0845 number - please check with your telephone service provider.



**Fax: 0191 424 4171**



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



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



**Postcode for 'sat nav' systems NE31 2SW**



### 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.