

Tyne and Wear Pension Fund

Administered by South Tyneside Council



# Members' Annual Report 2013/14



# 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 2014, there were 210 employing bodies and 121,294 members in the Fund. This is an increase of 5,402 over the membership of 115,892 as at March 2013.

	March 2013	March 2014
Active Members	42,220	44,077
Deferred Members	33,456	35,439
Pensioners	40,216	41,778
<b>Total Membership</b>	<b>115,892</b>	<b>121,294</b>
<b>Employers</b>	<b>191</b>	<b>210</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 2013. The Pensions Committee considered the strategy against that adopted for the previous valuation in 2010 and concluded that it was reasonable to adopt lower assumptions for the long term impact of inflation and pay awards. These changes, alongside the introduction of the new Scheme from April 2014, were positive factors for the outcome. On the negative side, it was necessary to strengthen the assumptions for longevity and a lower discount rate was used to reflect lower assumptions for future investment returns.

The outcome was a funding deficit, with the assets being sufficient to meet only 81% of the benefits. However, this is a small improvement from the position at the 2010 valuation. The Pensions Committee has a long term strategy in place to clear the deficit over future valuations.

The next valuation is taking place as at March 2016, 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.

# Summary of Accounts for 2013/14

The statement below shows the Fund's Income and Expenditure for 2013/14:

## Income and Expenditure

<b>Income</b>	<b>£'m</b>
Employers' Contributions	231
Employees' Contributions	54
Transfer Values	4
Net Investment Income	86
<b>Total Income</b>	<b>375</b>

<b>Expenditure</b>	<b>£'m</b>
Pensions	197
Lump Sum Retiring Allowances	49
Death Grants	6
Transfer Values and Refunds	10
Administration Costs	2
<b>Total Expenditure</b>	<b>264</b>

<b>Net Income</b>	<b>111</b>
<b>Increase in the value of Investments</b>	<b>193</b>
<b>Total Increase in the value of the Fund</b>	<b>304</b>
<b>Value of the Fund as at 31 March 2013</b>	<b>5,432</b>
<b>Value of the Fund as at 31 March 2014</b>	<b>5,736</b>

# Summary of Accounts for 2013/14

The value of the Fund as at 31 March 2014 was £5,736 million. This is invested into a range of UK and overseas assets, as shown below:

<b>Investment</b>	<b>Value £'m</b>
UK Equities	1,574
Overseas Equities	1,707
Private Equity	548
Active Currency	93
UK Fixed Interest Bonds	894
Overseas Fixed Interest Bonds	37
Index-Linked Bonds	116
Infrastructure	108
UK Property	263
Global Property	247
Cash and other current assets	149
<b>Total</b>	<b>5,736</b>

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

<b>Holding</b>	<b>Value £'m</b>
BG Group	56
Roche	44
Rio Tinto	36
HSBC	33
Compass Group	33
Shire Ltd	33
Novartis	32
Reckitt Benckiser Group	31
Diageo Corporation	29
Google	29

# 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 £9.2 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 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

The investment strategy is to invest 66% of the Fund in equities, 19% in bonds and cash, 12.5% in UK and global property and 2.5% in infrastructure. Within this structure, there is a 7.5% allocation to private equity and 3% in currency.

The strategy was reviewed in 2013/14 and it was concluded that it remains appropriate for the Fund, with the only change being a 4% switch from UK equities to overseas equities. We continue to develop the private equity, global property and infrastructure programmes whilst reducing exposure to active currency in the light of continued uncertainty in currency markets.

# Investment Management Structure

To deliver the investment strategy, the Fund has appointed twelve investment managers to work on a range of 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, Emerging Market Local Currency Government Bonds)	935	16.3
JP Morgan (Global and Emerging Market Equities)	658	11.5
Sarasin (Global Equities)	580	10.1
UBS Global Asset Management (Pan European Equities)	551	9.6
M&G (Corporate Bonds)	497	8.7
Henderson (Bonds)	444	7.7
Aberdeen Property Investors (Property)	263	4.6
Mirabaud (UK Equities)	262	4.6
BlackRock (UK Equities)	257	4.5
Lazard (Japanese Equities)	129	2.2
TT International (Asia Pacific ex Japan Equities)	51	0.9
Private Equity	548	9.5
Active Currency	92	1.6
Global Property	247	4.3
Infrastructure	108	1.9
In House (cash) and other current assets	114	2.0
<b>Total</b>	<b>5,736</b>	<b>100.0</b>

# Market Environment

There was a wide range of returns from the main asset classes during the year.

The strongest performing markets were European ex UK equities with a return of 17.3%, followed by UK property at 14.2%.

A number of asset classes ended the year down. The poorest performer was Emerging Markets bonds which fell by 15.5%, followed by Emerging Market equities and Asia ex Japan equities with negative returns of 9.7% and 5.8% respectively.

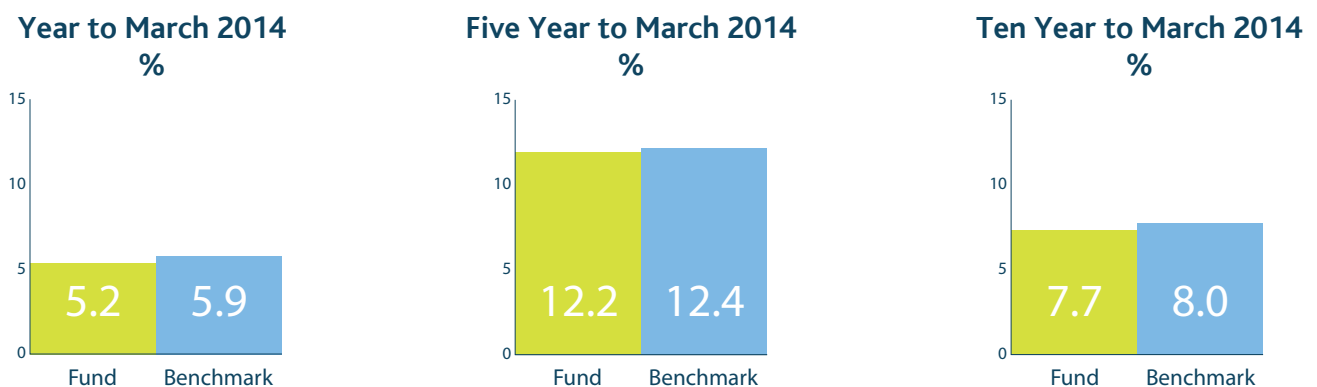
The return from UK equities is of particular importance to UK pension funds as a large proportion of their assets tend to be invested there. This market returned 8.8%.

## Investment Performance

Our investment return for the year was 5.2%, which was 0.7% below the benchmark return of 5.9%.

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 five year return is 12.2% per annum, which is 0.2% below the benchmark return of 12.4% per annum. The ten year return is 7.7% per annum, which is 0.3% below the benchmark return of 8.0% per annum.

The below benchmark returns are attributable in part to the volatile market conditions that have made it difficult for investment managers to apply a consistent strategy. Poor performance from the UK property portfolio has also detracted from returns.

## 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 July 2014, 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 Eddie McAtominey  
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 212,  
South Shields, NE33 9ER**



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



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



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



**Postcode for 'sat nav' systems **NE33 2RL****

## Walk in Service

You can visit us during office hours at Town Hall and Civic  
Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL  
**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.

