



South Tyneside Council

Local Pension Board

Date: 21st December 2016

Training for Local Pension Board

Report of the Corporate Director Business and Resources

Purpose of Report

1. This report addresses the training requirements of the Local Pension Board.
2. The Local Pension Board is asked
 - to continue to suggest subjects that they wish to have covered in later training sessions
 - to note the report.

Training Policy

3. The Local Pension Board has used the Chartered Institute of Public Finance and Accountancy (CIPFA) Technical Knowledge and Skills Framework for Local Pension Boards to benchmark their training requirements.
4. The Committee has also adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills and the CIPFA Knowledge and Skills Framework for Elected Representatives and Non Executives in the Public Sector as the basis of its Training Policy and Programme.
5. It is understood that CIPFA is working on an update to the existing Frameworks.

Training Policy

6. The Committee and the Local Pension Board have approved a joint Training Policy and operate a joint approach to the delivery of training.
7. The joint Training Policy was approved by Committee in June 2016 and by the Local Pension Board in July 2016. A copy of the training policy is attached as an Appendix.
8. The Training Policy and Programme must also take account of:
 - the training requirements set out the Pensions Regulator's Code of Practice Number 14 on the Governance and Administration of Public Sector Pension Schemes
 - the requirements of the Investment Principles
 - any specific requirements.

CIPFA Framework

9. The Framework is intended to have two primary uses:
 - As a tool for organisations to determine whether they have the right skill mix to meet their fund's financial management needs
 - As an assessment tool for individuals to measure their progress and plan their development.
10. Towards the end of 2015, Local Pension Board members benchmarked their training requirements against the CIPFA Framework.
11. Attached as an Appendix is a copy of CIPFA Framework. The column headed "Current Position" shows details of the training that has been

delivered or information provided by the Fund. The column headed "Action Required" is intended to highlight future training needs on those areas of knowledge where information or training has not yet been provided.

12. The views of the Local Pension Board are sought on this Appendix in order to help inform future training.

Fund Documents and Training Material

13. The Fund's website at www.twpf.info holds documents that set out the Fund's policies and working practices in its publicly accessible area.
14. There is also a password protected area that has been set up to hold training material and exempt and commercially sensitive documents.

Pensions Regulator Training Toolkit

15. The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes.
16. This is accessed via a "Trustee Toolkit" link on its website.
17. It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes. Each module provides an option to complete an interactive tutorial online and an assessment to test knowledge.
18. The modules are:
 - Conflicts of interest
 - Managing risk and internal controls
 - Maintaining accurate member data
 - Maintaining member contributions
 - Providing information to members and others
 - Resolving internal disputes
 - Reporting breaches of the law.
19. The Regulator suggests that each module's tutorial should take no more than 30 minutes to complete.
20. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice, but would not meet the knowledge and skills requirements in

other areas such as Scheme regulations, the Fund's specific policies and the more general pensions legislation.

21. Therefore, this toolkit should be used to supplement the existing training plans.

Training Programme for 2016/17

22. The diary for 2016/17 includes provision for two offsite training events which are offered to the Committee and the Local Pension Board.
23. Short training sessions may be included in the quarterly meetings.
24. Induction and refresher sessions can be arranged, as required.
25. Local Pensions Board Members may arrange a meeting with the Fund's Officers to discuss their individual training requirements, which may then be incorporated into Personal Development Plans.

March 2017 Training

26. The next training event is due to take place from 1st to 3rd March 2017. Historically, this usually has a bias towards property. Partly because of the long term issues with Aberdeen but also because this is the only occasion that the Committee gets exposure to Aberdeen.
27. The topics that are usually covered with Aberdeen include an overview of the property market, the investment process, the investment and asset management plan for each property and an update on the commitment to residential property.
28. Whilst the March training usually has a bias towards property other issues are covered. Topics which should be considered at this training, include:
 - Committee and Local Board Self-Assessment. If this is not done at the training it will need to be covered at another meeting
 - An update on pooling. The training event gives an opportunity to cover issues in greater detail. Updates will continue to be presented to the Committee
 - New Investment Regulations and the Investment Strategy Statement
29. Other topics which could be considered include
 - Infrastructure
 - Benchmarking of Investment and Administration Costs

- De-risking of the Investment Strategy
 - Employer related issues, including admissions, exiting, outsourcing and bulk transfers
30. The Local Pension Board is asked for its views on the format and content of the March training and to suggest any other topics for future training.

Training Session as part of the Local Pension Board Meeting

31. At the Pension Board meeting in October 2016, it was suggested that it may be appropriate for a short training session take place as part of the meeting.
32. One area which has previously been suggested as an area which the Local Pension Board would be interested in is passive investment.
33. A short presentation is attached to this agenda to cover this topic.

Recommendations

34. Local Pensions Board Members are asked
- for their views on the CIPFA Framework attached to the report and whether other areas for training should be added
 - for their views on topics for the training event in March 2017
 - to continue to suggest subjects that they wish to have covered in later training sessions
 - to note the report.

Reason for Recommendations

35. To ensure that an appropriate approach to training is in place.

THE LOCAL PENSION BOARD TECHNICAL KNOWLEDGE AND SKILLS FRAMEWORK

Section	Current Position	Action Required
1 – Pensions legislation		
A general understanding of the pensions legislative framework in the UK.	Governance arrangements and broad legislation covered at training in September 2015 and September 2016	
An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.	The Committee and the LPB receive reports on proposed and enacted legislation. Benefits Regulations reviewed at the September 2015 Seminar.	New Investment Regulations issued and due to be implemented by 1st April 2016. Reports will be presented to Pensions Committee and the Local Pension Board
An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.	The Committee reviews discretions and approves the administering authority discretions as changes arise. They were last considered in February 2016. The Committee received an annual report on the discretions exercised by employers. The LPB received copies of these reports.	
A regularly updated appreciation of the latest changes to the scheme rules.	The Committee and the LPB receive reports on proposed and enacted legislation.	
2 – Pensions governance		
Knowledge of the role of the administering authority in relation to the LGPS.	The Committee considers its Governance Compliance Statement at least annually. The Statement is included in the Members' Handbook. The LPB also received copies of these reports. The Governance Arrangements and responsibilities of the LPB were covered at the training in September.	

<p>An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.</p>	<p>The Public Service Pensions Act and the roles of DCLG, The Pensions Regulator and Treasury was covered at the training in September</p>	<p>Further training on the Pensions Advisory Service and the Ombudsman is needed</p>
<p>Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.</p>	<p>The Public Service Pensions Act and the role of the Scheme Advisory Board was covered at the training in September</p>	
<p>A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers.</p>	<p>The Committee considers it's Governance Compliance Statement at least annually. The Governance Compliance Statement is included in the Members' Handbook. This information is also available to the LPB. This was covered in the training in September 2016</p>	
<p>An awareness of the role and statutory responsibilities of the treasurer and monitoring officer.</p>		<p>Training and advice on this area is required</p>
<p>Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.</p>	<p>A copy of the Statement of Investment Principles is available on the Website.</p> <p>A report on the Investment Principles is considered each year. This is also reported to the LPB.</p> <p>Training on the Investment Principles was provided at the September 2015 seminar.</p>	

<p>A detailed knowledge of the duties and responsibilities of pension board members.</p>	<p>The LPB received a report at its first meeting in June 2015 with a Governance Statement for the LPB which also set out the roles and responsibilities. A brief update on this was included in the Committee training in September 2016</p>	
<p>Knowledge of the stakeholders of the pension fund and the nature of their interests.</p>	<p>Training on the stakeholders in relation to Scheme governance was provided at the September 2015 seminar.</p>	
<p>Knowledge of consultation, communication and involvement options relevant to the stakeholders.</p>	<p>This is covered in the Communications Policy Statement, which is reviewed periodically by the Committee. This will be available to the LPB</p>	<p>Details of the latest Communications Policy Statement to be advised to the Committee</p>
<p>Knowledge of how pension fund management risk is monitored and managed.</p>	<p>This is covered in the Statement of Investment Principles. This is reported annually to Committee and is made available to the LPB.</p>	
<p>An understanding of how conflicts of interest are identified and managed.</p>	<p>A conflicts of interest policy has been developed for the Committee and LPB. A copy of the policy is available on the Funds website. The LPB received a copy in June 2015.</p>	
<p>An understanding of how breaches in law are reported.</p>	<p>A policy on breaches in law was presented to the Local Pension Board in October 2015.</p>	

3 – Pensions administration		
An understanding of best practice in pensions administration e.g. performance and cost measures.		Training on this was schedule for the March 2016 training but this was postponed for an additional session on Pooling. Training to be arranged.
Understanding of the required and adopted scheme policies and procedures relating to: <ul style="list-style-type: none"> •member data maintenance and record-keeping processes •internal dispute resolution • contributions collection •scheme communication and materials. 	This is summarised in the Fund's Annual Report and Accounts, which are presented to the LPB	
Knowledge of how discretionary powers operate.	A report on administering authority discretionary powers was last considered by Committee in February 2016. This report was made available to the LPB.	
Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).		Training to be considered
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.		Training to be considered

<p>An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.</p>		<p>Training to be considered</p>
<p>4 – Pensions accounting and auditing standards</p>		
<p>An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.</p>	<p>The LPB receives presentations and reports from the internal and external auditors on the audit programme and the Annual Report and Accounts</p>	
<p>An understanding of the role of both internal and external audit in the governance and assurance process.</p>	<p>The LPB receives presentations and reports from the internal and external auditors on the audit programme and the Annual Report and Accounts</p>	
<p>An understanding of the role played by third party assurance providers.</p>	<p>The LPB receives presentations and reports from the internal and external auditors on the audit programme and the Annual Report and Accounts</p>	
<p>5 – Pensions services procurement and relationship management</p>		
<p>An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations.</p>	<p>Procurement requirement and options are reported to the Committee and LPB.</p>	

A general understanding of the main public procurement requirements of UK and EU legislation.	Procurement requirement and options are reported to the Committee and LPB.	
An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.	Risk workshop training undertaken at the training in September 2016. The risk register is reported to the LPB quarterly and the Committee annually	
An understanding of how the pension fund monitors and manages the performance of their outsourced providers.	Quarterly reports are presented to Committee and are available to the LPB on the investment managers. There is an annual report on the performance of the Custodian and the performance of the Investment Advisor is subject to an assessment by the Committee and the LPB.	
6 – Investment performance and risk management		
An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.	Training on Asset Liability Modelling was presented in September 2016	

<p>An awareness of the Myners principles of performance management and the approach adopted by the administering authority.</p>	<p>The Committee and LPB carried out an annual assessment exercise on their own performance in compliance with the Myners principles. The principles are covered in the Annual Report and Accounts. Training on the Investment Principles was delivered in September 2015. The Fund uses an independent performance measurer and the results are reported to Committee and are available to the LPB quarterly.</p>	
<p>Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.</p>	<p>Annual reports are considered on the performance of the providers of support services.</p>	
<p>7 – Financial markets and products knowledge</p>		
<p>An understanding of the risk and return characteristics of the main asset classes (equities, bonds, property etc.).</p>	<p>The main asset classes were covered in the training in September 2015 and September 2016. Property training was undertaken in March 2016</p>	
<p>An understanding of the role of these asset classes in long-term pension fund investing.</p>	<p>The main asset classes were covered in the training in September 2015 and September 2016. Property training was undertaken in March 2016.</p>	<p>This will be covered in the review of the Investment strategy in early 2017.</p>
<p>An understanding of the primary importance of the fund’s statement of investment principles and the investment strategy decision.</p>	<p>Training on Statement of Investment Principles delivered in September 2015</p>	<p>The Statement of Investment Principles is to be replaced with an Investment Strategy Statement, by 1st April 2017. Reports on this will be presented to the Committee and the LPB.</p>

A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	Training on the economic environment and the main asset classes was delivered in September 2015 and September 2016	Consideration given to providing more detail on investment vehicles
An understanding of the limits placed by regulation on the investment activities of local government pension funds.	Training on Investment Principles including limits delivered in September 2016	These limits will no longer apply with the new 2016 Investment Regulations
An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.		Further information on this to be provided
8 – Actuarial methods, standards and practices		
A general understanding of the role of the fund actuary.	This was covered in Training in March 2016	
Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.	This was covered in the September 2016 Training	
An awareness of the importance of monitoring early and ill health retirement strain costs.	Ill Health retirement costs form an important part of the valuation. This was covered in the training delivered by the Actuary in March 2016.	Training in this area to be considered
A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.		Training in this area to be considered
A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.		Training in this area to be considered

A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.

Reports on the 2016 valuation include employer covenant. Information on employer covenant was also presented at the training in March 2016.

Other Areas of Training Previously Requested by the Local Pension Board

- **Passive Investment**
- **Governance – Covered in September 2016**
- **Investment Strategy – Covered in September 2016**
- **Covenant Assessment**

TYNE AND WEAR PENSION FUND

TRAINING POLICY FOR THE PENSIONS COMMITTEE AND THE LOCAL PENSION BOARD

APPROVED BY PENSIONS COMMITTEE IN JUNE 2016 AND BY THE LOCAL PENSION BOARD IN JULY 2016

Introduction

1. South Tyneside Council, as the administering authority for the Tyne and Wear Pension Fund, has adopted a recommendation from CIPFA on knowledge and skills. This states:
 - The Council has adopted the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
 - The Council recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.
 - Accordingly, the Council requires the Pensions Committee and the Local Pension Board to ensure that they have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the Local Government Pension Scheme finance knowledge and skills for those responsible for financial administration and decision-making.
 - These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
 - The Pensions Committee and the Local Pension Board will report on an annual basis how these policies have been put into practice throughout the financial year.
 - The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Corporate Director Business and Resources, who will act in accordance with the Council's practices and, where he/she is a CIPFA member, with CIPFA Standards of Professional Practice.
2. The Pensions Committee has adopted the CIPFA Knowledge and Skills Framework for Elected Representatives and Non Executives in the Public Sector as the basis of its approach to training.

3. The Local Pension Board has adopted the CIPFA Pensions Panel Technical Knowledge and Skills Framework for Local Pension Boards as the basis of its approach to training.
4. The Myners Review recommended that there should be a legal requirement that where trustees are taking a decision, they should be able to take it with the skill and care of someone familiar with the issues concerned.
5. Investment Principle 1 concerns “Effective Decision Making”. As adapted for the Local Government Pension Scheme, it states:
 - “Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
 - Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.”
6. The recommendations from the Myners Review were taken forward by the Pensions Act 2004, which the Fund has followed as best practice.
7. The Training Policy and Programme takes account of the training requirements set out in the Pensions Regulator’s Code of Practice Number 14 on the Governance and Administration of Public Sector Pension Schemes that took effect from April 2015.
8. The Training Policy and Programme takes account of the ongoing specific requirements of the Pension Committee and the Local Pensions Board.

Delivery of Training

9. The training programme is based around two residential training seminars, each lasting up to three days, which are held every year.
10. In addition to the seminars, extra half or one day sessions are arranged, as required.
11. The investment managers, the Investment Advisor and the Actuary assist with training. They offer their own training seminars and provide speakers for the training programme.
12. Training seminars and conferences that are offered by industry wide bodies are attended.
13. The Fund’s website includes training information.

14. Committee and Board Members are encouraged to use the Pensions Regulator's on-line training resource that assists those involved with the public sector pension schemes.
15. Members receive mailings of relevant publications.
16. The Fund's Officers are available to assist with each Member's individual training requirements.

Training for New Members

17. A new Member is invited to attend a briefing session with the Head of Pensions. This session can include an assessment of the individual training needs.
18. In house induction sessions are available as required.
19. A new Member may also attend induction courses that are offered by the Fund's investment managers.

Additional Training for the Investment Panel

20. Three Committee Members, including the Chair and Vice Chair of the Committee, sit on the Investment Panel. The Panel carries out detailed monitoring of the investment management strategy and structure and of the performance of the individual managers. It makes recommendations to the Committee on changes to the structure. Additional training is arranged for the Members who sit on the Panel.
21. The additional training is also provided in recognition of the more onerous roles of Chair and Vice Chair of the Committee.

Additional Training for the Chair and Vice Chair of the Local Pension Board

22. The Chair and Vice Chair of the Board attend additional training in recognition of the more onerous roles of Chair and Vice Chair of the Board.

Monitoring and Reporting of Training

23. Members assess their own training needs against the programme that is available.
24. A log is maintained of training offered and undertaken.
25. A report on training is included in the Fund's Annual report and Accounts.

Arrangements for Review of the Policy and Programme

25. The Policy is reviewed and updated at least annually.
26. The Committee and Board review the content and delivery of the training programme at each quarterly meeting.

Training for Local Pension Board

The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:

Background Paper	File Ref:	File Location
Members Training File		Investments Office, South Shields Town Hall

Passive Management (Index Tracking)

Ian Bainbridge
September 2016



South Tyneside Council

What is passive management?

- **Passive Management** - A style of management where a fund's portfolio mirrors a market index. Once established, this strategy should require little intervention.
- **Active Management** - A style of management which utilises a manager or a team of managers to actively manage a fund's portfolio. Active managers rely on analytical research, forecasts and their own judgement and experience to make investment decisions to enhance the overall return of the fund.



What is an index?

- Represents a “market” or a smaller opportunity subset within the market:
 - FTSE 100 covers the 100 largest companies on the London Stock Exchange
 - DJIA is an average of the prices of the 30 largest stocks
 - Wiltshire 5000 covers the entire US market
 - FTSE Actuaries UK Government Index-Linked Index contains 24 securities
 - Barclays Global Aggregate Index is a global bond index with over 16,000 constituents



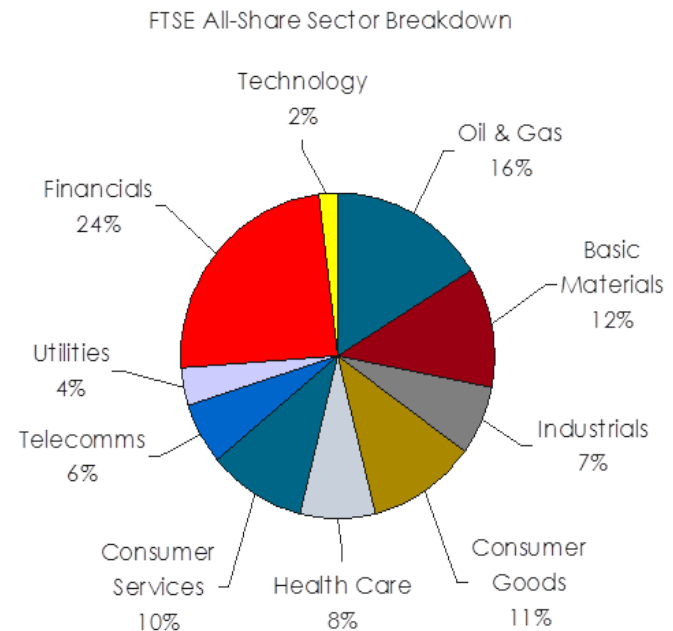
Constructing a Market Cap Index

Company	Market Value (£ million)	% of index
National Grid	15,000	25
International Power	15,000	25
Centrica	12,000	20
Scottish & Southern Energy	12,000	20
United Utilities Group	3,000	5
Severn Trent	3,000	5
	60,000	100



How do you construct an index fund?

- Full Replication
 - Replicate exact stock and sector weightings
 - Rebalance using cash flows
 - Minimise transaction costs
- Stratified Sampling
 - Replicate large stock weightings
 - Sample smaller stock weightings
 - Achieve exact sector weightings
- Optimisation
 - Computer based
 - Used quantitative model to construct sampled portfolio



Costs of Passive Management



Active	Fees & Costs	Passive
High	Fund Management Fees	Low
High	Portfolio Turnover	Low
High	Transaction Costs	Low
High	Scheme Portfolio Restructuring	Low

Active management – faces a strong “head wind” of costs



What index choices exist?



- Non-market capitalisation weighted indices
 - Fundamentally Weighted
 - Equally Weighted
- Sector specific indices
 - Real Estate
 - Infrastructure
 - Private Equity
 - USD & EUR Corporate Bonds
 - Emerging Market Debt
- Capped indices



Fundamental/Wealth/Value Weighted Indices

- Stocks weighted by fundamental accounting measures
- Share prices do not determine index weights
- Scalable and transparent
- Assumes long term investment horizon
- Higher turnover than market cap weighted indices
 - Higher transaction/rebalancing costs



Fundamental/Wealth/Value Weighted Indices

- Maintains key advantages of index management
 - Diversified exposure
 - Transparency & index oversight
 - Clearly published rules & underlying data
 - Free-float adjusted
- Higher portfolio turnover than a market capitalisation weighted index



Fundamental/Wealth/Value Weighted Indices

	Market Capitalisation Indices	MSCI Value Weighted	RAFI	GWA
Index weighting factors	Share price from the previous day x number of shares	Four factor model based on three year average data for : (i) sales (ii) cashflow (iii) book value (iv) earnings	Four factor model based on five year average data for: (i) sales (ii) cashflow (iii) book value (iv) dividends	Three factor model based on the latest quarter's data for: (i) net income (ii) cashflow (iii) book value
Rebalancing Frequency	Quarterly	Semi-annual	Annual	Quarterly
Turnover (linked to rebalancing frequency)	Low	Medium	Medium	High
Universe	MSCI / FTSE	MSCI	Bespoke	FTSE
Licence Fee (*)	-	Developed: 3.6 bps Emerging: 3.6 bps	Developed: 7.2 bps Emerging: 7.2bps	Developed: 9.6 bps Emerging: 14.4 bps



The role of index management

Change in P/E ratio	Current level	
+139.61	1,953.38	
-0.11	3.55	6.3
+321.89	1,889.50	
+34.74	7,850.29	
+70.59	835.32	3.0
-497.94	1,210.48	11.3
+216.12	8,529.51	1.3
+136.37	2,930.74	1.3
+29.10	2,902.27	14.5
-85.67	856.56	6.7
-17.12	8,965.70	6.9
-61.40	7,039.25	1.5
+3.05	2,883.00	16.2
	132.21	10.3
		3.4

- Core portfolio for investors
 - Broad low cost exposure
 - No surprises
 - Low governance
- Scheme benchmark management
- Minimisation of transaction costs

