

## Pension Fund Risk Register 2019/20

| Description   | Actions in Place  | Progress Comment   | Risk Category / Rating / DOT   | Lead Officer / Cabinet Member      |
|---|---|--|--|------------------------------------|
| <b>PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term</b> | <ol style="list-style-type: none"> <li>1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target.</li> <li>2. Analyse progress at three yearly valuations for all employers.</li> <li>3. Undertake Inter-valuation monitoring.</li> </ol>  | With the assistance of Hymans Quarterly funding report the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level  | Strategic risk<br>Likelihood = Medium<br>Impact = Large<br><b>Rating = D2 (Static)</b> | Sian Kunert /<br>Cllr M<br>Goddard |
| <b>PEN 02 - Inappropriate long-term investment strategy</b>   | <ol style="list-style-type: none"> <li>1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data.</li> <li>2. Keep risk and expected reward from strategic asset allocation under review.</li> <li>3. Review asset allocation formally on an annual basis.</li> <li>4. Asset allocation reported quarterly to committee</li> <li>5. Officer and Advisers actively monitors this risk.</li> </ol>  | <p>A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration.</p> <p>The impact of each decision is carefully tracked against the risk budget for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.</p>   | Strategic risk<br>Likelihood = Low<br>Impact = Large<br><b>Rating = E2 (Static)</b>    | Sian Kunert /<br>Cllr M<br>Goddard |
| <b>PEN 03 - Active investment manager under-performance relative to benchmark</b>   | <ol style="list-style-type: none"> <li>1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager.</li> <li>2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager.</li> <li>3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation.</li> <li>4. Investment managers would be changed following persistent or severe under-performance.</li> </ol> | <p>The Fund is widely diversified, limiting the impact of any single manager on the Fund.</p> <p>Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly.</p> <p>The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation, however transparency and reporting is less controlled by the fund. Improvements in communication from the pool have been requested over performance transparency of the managers to inform swift action.</p> <p>Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed.</p> | Strategic risk<br>Likelihood = Low<br>Impact = Small<br><b>Rating = E4 (Static)</b>    | Sian Kunert /<br>Cllr M<br>Goddard |

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| <b>PEN 04 - Pay and price inflation significantly more than anticipated impacting the ability for employers to afford contributions</b>        | <p>1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based.</p> <p>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</p> <p>3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> <p>4. Covenant's are in place with security of a guarantee or bond for admission agreements.</p> | <p>The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position.</p> <p>The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities.</p> | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Medium<br/><b>Rating = E3 (Static)</b></p>   | Sian Kunert / Cllr M Goddard  |
| <b>PEN 05 - Inflation significantly more than anticipated</b>  | <p>1. Inter-valuation monitoring gives early warning.</p> <p>2. Investment in index-linked bonds helps to mitigate this risk.</p> <p>3. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018.</p> <p>4. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position</p>   | The impact of inflation is reviewed through all strategic investment decision making.   | <p>Strategic risk<br/>Likelihood = Medium<br/>Impact = Large<br/><b>Rating = D2 (Static)</b></p> | Sian Kunert / Cllr M Goddard  |
| <b>PEN 06 - Pensioners living longer.</b>  | <p>1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.</p> <p>2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.</p>  | The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.   | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Small<br/><b>Rating = E4 (Static)</b></p>    | Sian Kunert / Cllr M Goddard  |
| <b>PEN 07 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary</b> | <p>1. Quarterly review meetings held</p> <p>2. Weekly update calls with officers</p> <p>3. Quarterly KPI reports are provided to track and monitor performance</p> <p>4. Critical errors cleared prior to transfer of valuation data to actuary</p> <p>5. Data Improvement plan in place to improve</p>   | New cases are being dealt with and improvements in processes within the contract. There are signs of improvement in the quality of data inherited by SCC from Capita.   | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Large<br/><b>Rating = E2 (Static)</b></p>    | Sian Kunert / Cllr M Goddard  |

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| <b>PEN 08 - Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 January 2018</b>                     | <p>1. Applications have been made to sustain "Professional Status" of the pension fund to enable continuation of the existing investment strategy.</p> <p>2. All current application's have successfully been resolved confirming professional status</p>  | <p>This is a risk identified as a result of regulatory changes and is continually assessed. The fund is required to show an appropriate level of knowledge and skills for investment decision markers. Changes in circumstances including committee membership or change in officers must be reported and could effect the ongoing investment relationship.</p>   | <p>Strategic risk<br/>Likelihood = Very Low<br/>Impact = Large<br/><b>Rating = F2 (Static)</b></p> | Sian Kunert / Cllr M Goddard  |
| <b>PEN 09 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals</b> | <p>1. Council wide policies and processes in place around:<br/>acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data</p> <p>2. Risk is on the Corporate risk register with risk mitigation in place.</p> <p>3. All member and transactional data flowing from SCC and Hillingdon is sent via encryption software</p> <p>4. Data between the fund, SCC and Hymans is distributed via upload to an encrypted portal</p> <p>5. Systems at Hillingdon and SCC are protected against viruses and other system threats</p> <p>6. SCC are accredited to ISO27001:2013 and Cyber Essentials Plus accreditation. SCC are also PSN compliant.</p> | <p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board</p> <p>Certificates on SCC accreditation received</p> <p>SCC have an incident response plan which is required to develop mitigation of this risk. A copy will be sent to the fund.</p> <p>Data Mapping has been carried out to understand the data transfers and risks in this area including potential for treat through other employers.</p> <p>As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan in place in the case of a breach within the fund.</p> | <p>Strategic risk<br/>Likelihood = Medium<br/>Impact = Large<br/><b>Rating = D2 (Static)</b></p>   | Sian Kunert / Cllr M Goddard  |

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| <b>PEN 10 - Climate Change - Risk of financial lose through Climate change impacts</b>           | <ol style="list-style-type: none"> <li>1. The fund have an ESG policy in place as part of the ISS.</li> <li>2. Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world.</li> <li>3. Manger selections take into account ESG policy</li> <li>4. Mangers are expected to be signed up to the stewardship Code</li> <li>5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI)</li> <li>6. ESG Issues are discussed with managers at review meetings</li> </ol>  | <p>The investment strategy will be updated with a statement on climate change risk on next revision.</p> <p>The fund biggest risk exposure to poorly managed companies in respect of carbon emissions will be through the passive allocation. Tilts on this allocation will be reviewed and considered to reduce this risk.</p> <p>Pensions Committee are currently in the process of creating a stand alone RI policy which will support principles and implimentation.</p>  | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Large<br/><b>Rating = E2 (Static)</b></p>  | Sian Kunert / Cllr M Goddard  |
| <b>PEN 11 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls</b> | <ol style="list-style-type: none"> <li>1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments.</li> <li>2. Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls</li> <li>3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales</li> <li>4. The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal.</li> </ol> | <p>There is a detailed cash management process in place and have been developed over the past 2 years. This is signed off daily to ensure liquidity. The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The fund is still boarderline cashflow positive / breakeven on member dealings and should remain so in 2019/20 with increased contribution rate for the majoriity of employers in year and increased active members from autoenrolment in year.</p> | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Medium<br/><b>Rating = E3 (Static)</b></p> | Sian Kunert / Cllr M Goddard  |
| <b>PEN 12 - Failure of the pool in mangement of funds / access to funds</b>                      | <ol style="list-style-type: none"> <li>1. Quarterly review meetings held with the pool</li> <li>2.Regular reporting out of the pool informing the fund of manager performance</li> <li>3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware.</li> <li>4. Independent adviser carried out a review of governance for manager selction and manager monitoring to add assurance and discussion points with the pool</li> <li>5. Active Shareholder representation at General meeting and AGM.</li> <li>6. Pool to attend Committee meetings where required, to provide assurance over progress and activity.</li> </ol>                                     | <p>Concerns over staff turnover in senior posts and withdrawal of an imminent fund have raised the level of this risk to enter the register.</p> <p>Work will need to be carried out with the pool to address governace concerns arising from Independent Adviser review.</p> <p>Keen interest in recuitment to vacant positions and support given to those staff still in post while recruitment takes place to ensure retention.</p>  | <p>Strategic risk<br/>Likelihood = Low<br/>Impact = Medium<br/><b>Rating = D2 (New)</b></p>    | Sian Kunert / Cllr M Goddard  |