

### Pension Fund Risk Register 2022/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<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>	<p>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</p> <p>The 2022 initial triennial valuation results show a marginal improvement on the 2019 valuation.</p> <p><b><u>The strategy has been developed to be robust in volatile market conditions and as at December 2022 the fund value was £1b.</u></b></p> <p>The current position should be viewed with caution as there is still much uncertainty relating to economic growth and inflation, however the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term.</p> <p>Officers are closely monitoring developments and liaising with fund managers and advisors.</p> <p>Member cashflow continues to be monitored.</p>	<p>Strategic risk Likelihood = Significant Impact = Large <b>Rating = C2 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23
<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 assessed to ensure that long-term returns are being achieved and are kept in line with liabilities.</p> <p>In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight and scrutiny of Fund investments.</p> <p>A revised Investment Strategy Statement will be prepared in line with the triennial valuation process.</p>	<p>Strategic risk Likelihood = Low Impact = Large <b>Rating = E2 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23

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<b>PEN 03 - Active investment manager under-performance relative to benchmark</b>	<p>1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager.</p> <p>2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager.</p> <p>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.</p> <p>4. Investment managers would be changed following persistent or severe under-performance.</p>	<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. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented.</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> <p>Action is taken to remove under-performing managers where appropriate.</p>	<p>Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23
<b>PEN 04 - Inflation - Pay and price inflation significantly more than anticipated</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>5. Inter-valuation monitoring gives early warning.</p> <p>6. Investment in index-linked bonds helps to mitigate this risk.</p> <p>7. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position.</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>The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets.</p> <p>Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation.</p> <p>A PSG meeting was held on 5th October 2021 to discuss the risk, analyse potential impacts and explore mitigating actions. Currently the portfolio has an adequate allocation to inflation risk mitigating investments, however a watching brief will remain in place. A further Committee session was held 7th September 2022 to discuss various scenarios and subsequent impacts. Minor amendments were to be implemented in line with previous authorisations. Ongoing monitoring of forward indicators is in place to highlight if remedial action is required.</p> <p>The Fund's cashflow is constantly monitored and additional cash requirements will be factored into the revised Investment Strategy.</p>	<p>Strategic risk Likelihood = Significant Impact = Large <b>Rating = C2 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23

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<b>PEN 05 - 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>	<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> <p>Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.</p>	<p>Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23
<b>PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary</b>	<p>1. New partnership in place with HCC.</p> <p>2. Regular service meetings in place.</p> <p>3. Monthly 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 will be developed and implemented in 2022.</p>	<p>Transfer of pension administration services to a new partner, Hampshire County Council (HCC) has been in place since September 2021.</p> <p>Regular meetings will take place between HCC &amp; LBH to ensure the new partnership is working in accordance with expectations and that any issues are addressed. Performance against KPI's and other metrics are also discussed.</p> <p>KPI's have been at 100% since partnership inception and all other levels of service and interaction have been positive and pro-active.</p>	<p>Strategic risk Likelihood = Low Impact = Large <b>Rating = E2 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23
<b>PEN 7 - 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: 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 HCC and Hillingdon is sent via encryption software or via the employer portal.</p> <p>4. Data between the fund, HCC and Hymans is distributed via upload to an encrypted portal.</p> <p>5. Systems at Hillingdon and HCC are protected against viruses and other system threats.</p> <p>6. HCC are accredited to ISO27001:2013 and signed up to the Pensions Regulator Pensions Pledge. HCC currently undergoing penetration testing to ensure they are 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>A Data Mapping exercise has been carried out to understand data transfers and risks in this area. The results and undergone an Internal Audit assessment with a reasonable assessment level applied. Recommendations from the audit have been implemented.</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 is in place.</p> <p>The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted.</p> <p>HCC has in place a number of cyber controls in place, upgraded the member portal security in December 2021 and has produced a cyber compliance statement which sets out for all partners the controls they have in place and detailing areas of improvement.</p> <p>HCC apply a policy of continuous improvement as evidenced in their IT improvement road plan. Twice yearly PEN testing is due to be introduced in Q2 2023.</p>	<p>Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23

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<b>PEN 8 - ESG - Risk of financial loss through the negative impact of ESG matters</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> <li>7. The Fund submitted its application report for the new 2020 UK Stewardship Code ahead of the April 2022 deadline.</li> <li>8. The Fund has signed up to support TCFD.</li> </ol>	<p>The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is due to be updated through the Stewardship Code 2020 sign-up process. A revised policy was approved by Committee in June 2021.</p> <p>Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials.</p> <p>The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerably reduced the carbon metric of the Fund.</p> <p>The Fund aims to work towards UN SDG 7 &amp; 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate and has signed up to TCFD. The Fund has agreed to being reporting against TCFD.</p> <p>The Fund was granted UK Stewardship Code signatory status in September 2022. Work has begun on the annual submission for 2023 with a plan in place to meet the May 2023 deadline.</p>	<p>Strategic risk Likelihood = Medium Impact = Medium <b>Rating = D3 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23
<b>PEN 9 - Liquidity on asset management 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 any drawdown requirements.</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. This is signed off daily to ensure liquidity.</p> <p>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 has sufficient liquidity should it need to draw on investments or divert income to settle trades.</p>	<p>Strategic risk Likelihood =Low Impact = Large <b>Rating = E2 (Stable)</b></p>	James Lake / Cllr Mathers	22/03/23
<b>Pen 10 - Liquidity on members dealings - risk that the fund is unable to settle member payments</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. The fund is significantly diversified in different asset classes with the option of distribution portfolios.</li> </ol>	<p>There is a detailed cash management process in place. This is signed off daily to ensure liquidity.</p> <p>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 has sufficient liquidity should it need to draw on investments or divert income.</p> <p>As part of the Investment Strategy Review options are being discussed to bolster operational income and set out funding streams for any changes in the investment portfolio.</p>	<p>Strategic risk Likelihood =Low Impact = Medium <b>Rating = E3 (New)</b></p>	James Lake / Cllr Mathers	22/03/23

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<b>PEN 11 - Failure of the pool in management 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 selection 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>LCIV staff turnover has stabilised with all key post now in place. The team is steadily building to cover ESG, new markets and reporting requirements, as the underlying portfolio grows.</p> <p>Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented.</p> <p>The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with action being taken when necessary.</p> <p>LCIV continue to develop a pipeline of investment offerings based on client demand.</p>	<p>Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b></p>	James Lake / Cllr Mathers	22/03/23
<b>PEN 12 - Threat of COVID 19 to Business Continuity</b>	<ol style="list-style-type: none"> <li>1. The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resources required to carry them out.</li> <li>2. Communication to key 3rd party providers HCC to co-ordinate business continuity plans.</li> <li>3. Active monitoring of developments, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required.</li> <li>4. Non-essential external meetings have been cancelled to reduce contact.</li> <li>5. Checks being done to ensure staff have facilities to work from home.</li> <li>6. Vulnerable staff are being kept out of the office as much as possible.</li> </ol>	<p>Since the Covid emergency was enacted in March 2020, the business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services.</p> <p>Business continuity plans have been obtained from the Hampshire to ensure continuity of essential member services. Staff have been principally working from home.</p> <p>With the success of the vaccine programme resulting in significantly reduced Covid cases in the UK, the government has removed restrictions albeit whilst still exercising the need for caution.</p> <p>Service delivery has been maintained through a hybrid arrangement of actual and virtual meetings and office and home working. Officers continue to monitor and follow government and Council advice.</p>	<p>Strategic risk Likelihood = Very Low Impact = Large Rating = F2 (Static)</p>	James Lake / Cllr Mathers	22/03/23

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<p><b>PEN 13 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including:</b></p> <p><b>Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements</b></p> <p><b>Failure to ensure that the Pension Board is effective in carrying out its role</b></p>	<ol style="list-style-type: none"> <li>1. Governance Policy Statement, reviewed every 3 years.</li> <li>2. Policies on range of issues, reviewed regularly.</li> <li>3. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills.</li> <li>4. Programme of training sessions and access to external events.</li> <li>5. Use of Regulator's on-line toolkit.</li> <li>6. A knowledge self-assessment framework for Committee and Board members to identify training requirements.</li> <li>7. The Fund's Annual Report includes details of Committee and Board members' training activities.</li> <li>8. Fund Governance Adviser in place.</li> <li>9. Access is provided to CIPFA K&amp;S Framework training modules.</li> </ol>	<p>The Fund has undergone a COP14 Governance review and has been implementing changes to be either fully or partially compliant. Regular reports and updates are presented at Pensions Board.</p> <p>Committee and Board members receive regular training and specific training aligned with decision making where required. Training logs are to be brought to Pensions Committee &amp; Board with a mandatory Committee training programme in place.</p> <p>Mandatory training, in line with the CIPFA K&amp;S Framework, is to be undertaken by all Committee members.</p> <p>The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals.</p> <p>Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed. Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning.</p> <p>The Fund will monitor progress on the Regulator's new combined Code of Practice and implications of Scheme Advisory Board's Good Governance recommendations. Following the outcome update relevant policies which cover all aspects of the Fund's governance.</p>	<p>Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)</p>	James Lake / Cllr Mathers	22/03/23
<p><b>PEN 14 - Key officer risk - small team with specialists knowledge in key roles results in the Fund being vulnerable if staff leave</b></p>	<ol style="list-style-type: none"> <li>1. The team endeavours to maintain a broad knowledge across the pension function.</li> <li>2. The Fund has access to specialist support should it be required.</li> <li>3. The Fund has access to the interim employment market should it be required.</li> </ol>	<p>Succession planning is underway to bolster knowledge. Addition team ar4 being considered to expand the workforce.</p>	<p>Strategic risk Likelihood = Medium Impact = Small Rating = D4 (New)</p>	James Lake / Cllr Mathers	22/03/23