

Investment														
Objective	High Level Risk	Detailed Risk	Impact	Likelihood	Pre-control Risk Score	Controls	Source of Assurance	Impact	Likelihood	Post-control risk Score	Review Date	Action Description	Outcome of Review /Actions made	Owner
2.1 The <u>actual</u> return of the Funds 'neutral' and / or 'tactical' Strategic Asset Allocation is capable of exceeding the return assumption (i.e. the Discount Rate / AOA) of the Actuary used in the triennial valuation.	2.1 Failure of the Strategic Asset Allocation (SAA) to meet the level of return underpinning the setting of contribution rates as determined in the valuation OR to take more risk than the level of risk assumed by the Actuary in setting contribution rates	Failure of the investment consultant to take account of the Actuarial assumptions in advising on the Strategic Asset Allocation	5	3	15	Strategic Asset Allocation review is being carried out in tandem with the funding strategy review to ensure the consistency of assumptions used by the actuary in setting contribution rates. Ensuring the Actuary and Investment Consultant understand each others assumptions and ensure they are consistent. Using stochastic modelling to show a range of outcomes and reporting and consulting on the assumption through the Funding Strategy	Pensions Committee receive report from consultant to demonstrate consistency and outcome from modelling. Additional paper produced by Hymans justifying asset outperformance assumption. No issues from Regulation 13 report, GAD. SAA review with investment consultant.	4	2	8	Mar-23	Strategic asset allocation review as part of 2022 actuarial valuation has been carried out.		Pensions Committee
		Failure of the Actuary to model the impact of the Strategic Asset Allocation in setting contribution rates	5	3	15	Use of stochastic models to understand the range of possible outcomes. Use of stabilisation policy	Pensions Committee receive report from the Actuary, to demonstrate the output from modelling and use of stabilisation policy.	4	2	8	Mar-23	SAA has been taken into account in setting contribution rates		Pensions Committee
		Failure to clearly explain the impact of the Strategic Asset Allocation in the Funding Strategy Statement (FSS) and failure to consult on the assumptions	2	3	6	Funding Strategy Statement clearly explains the impact.	Responses to consultation are taken into account. Pension Board, Pensions Committee	2	1	2	Sep-22	Pensions committee were consulted on assumptions, FSS to be updated post valuation results.		Pensions Committee
		Failure of LGPS Central to offer a suitable range of products to meet the requirements of the Fund's SAA	3	4	12	Other managers can be appointed to fulfill required SAA. PAF investment working group, project development protocol, decision tree.	Pensions Committee, LGPS central joint committee, DLUHC draft regulations, range of LGPSC products available is increasing	3	2	6	ongoing	Review after DLUHC Formal Consultation due 2022		Pensions Panel
		Failure to monitor the actual/ tactical SAA using up to date market values	4	3	12	Actual/ tactical SAA position is monitored monthly and updated to the latest values regularly	Use of benchmark indices to value positions. Valuations from custodian and managers	4	2	8	Monthly	Up to date fund valuations are produced on the last day of each month, and periodically as required. No tactical positions taken currently, new SAA to be approved March 22 with implementation to follow.		MS
2.2 The return of the 'actual / tactical' Strategic Asset Allocation (determined by the Pensions Panel) exceeds the return of the 'neutral' Strategic Asset Allocation	2.2 The actual/ tactical investment strategy (determined by the Panel) fails to exceed the return of the neutral SAA	Failure to report the actual/ tactical SAA compared to the neutral SAA to the Pension Panel quarterly	4	3	12	Actual/ tactical SAA position is reported to Pension Panel quarterly	Pensions Panel receives quarterly SAA report/ valuation. Pensions Board. Investment Consultants.	4	2	8	Quarterly	Pensions Panel reviews the SAA report and takes mitigating action where required	Panel recommends an amendment to actual/ tactical SAA	Pensions Panel
		Failure to record the tactical positions, approved by the pensions panel, compared to the neutral SAA.	4	3	12	Any tactical positions taken by the Pension Panel are properly recorded and the outcome monitored	Pension Panel minutes. Pension Board. Investment consultants.	4	2	8	Quarterly	Working documents, custody records and performance records updated	No Tactical positions taken currently.	MS
		Failure to monitor the impact of tactical positions against the neutral SAA	4	3	12	Performance measurer reports tactical returns vs neutral SAA returns benchmark	Fund performance reports to Pension Panel. Pension Board	4	2	8	Quarterly			Pensions Panel
		Failure of SPF/LGPS Central to conduct a robust due diligence process in appointing active managers including where appropriate an open competition compliant with EU regulations	4	4	16	Active managers are appointed by LGPS Central through robust competitive process	Use of appropriate procurement process compliant with EU regulations if relevant, including the use of consultant advice as appropriate (LGPS Central use private procurement process)	4	3	12	Quarterly, with a long term focus	LGPS Central agreed to involve Partner Fund representatives in oversight of appointment process (not decision)		Pensions Panel

2.4 To ensure that asset classes and managers are understood together with their returns and correlations to each other

2.4 Failure to understand the relationships between asset classes, managers and their correlations to each other.

Failure of SPF/LGPS Central to ensure managers in the same asset class are complimentary	4	4	16	Active managers in the same asset class are complimentary. Investment advisors review managers/funds in each asset class periodically.	Consultant involved in product development and due diligence process/PAF-IWG/LGPS Central Joint Committee. Investment advisors produce a suitability report prior to investment. Performance measurer report.	3	4	12	Quarterly, with a 5 year focus	LGPS Cental agreed to involve Partner Fund representatives in oversight of appointment process (not decision)	Pensions Panel
Failure of SPF/LGPS Central to consider whether active managers can add value and whether the benchmark and target level of performance allows sufficient scope to deliver their target	4	4	16	Active managers are appointed where it is clear they can add value and their benchmark and performance target allow them scope to deliver	Consultant involved in product development and due diligence process/PAF-IWG/LGPS Central Joint Committee/Pensions Panel/Pensions Board	3	4	12	Quarterly, with a 5 year focus	LGPS Cental agreed to involve Partner Fund representatives in oversight of appointment process (not decision)	Pensions Panel
Failure to report asset manager performance to the Pension Panel or to include annual (and longer term) performance in the Annual Report	4	3	12	Asset manager performance is reported regularly to the Pension Panel and in the Annual Report	LGPS Central performance reports, Performance measurer, Pension Panel reports, Pension Board. Audit. Investment Consultants.	2	1	2	Quarterly		MS
Failure of SPF/LGPS Central to regularly review and understand the reasons for the level of performance of managers	5	4	20	Asset managers are regularly reviewed to ensure changes to key personnel or the investment process do not undermine the reasons for appointing them	Meetings with LGPS Central and mangers, Consultant comments, Manager presentations to Pension Panel, Pension Board, LGPS Central Joint Committee, PAF-IWG	5	3	15	Quarterly	Mangers appointed by LGPS Central invited to attend quarterly PAF IWG meetings where concerns about performance are raised, Manager days. LGPSC 3 yearly review.	Pensions Panel
Failure of SPF/LGPS Central to remove mangers who fail to deliver expected performance	4	3	12	Active managers are sacked or holdings reduced if they do not deliver outperformance, the fund has the right to withdraw its investment if performance is not met	Manager removal or reduction in AUM, Meetings with LGPS Central and mangers, Consultant comments, Manager presentations to Pension Panel, Pension Board, Joint Committee, PAF-IWG	3	1	3	ongoing, long term focus	Mangers appointed by LGPS Central invited to attend quarterly PAF IWG meetings where concerns about performance are raised. LGPSC 3 yearly review.	Pensions Panel
Failure of SPF/LGPS Central to understand the reasons for removing managers leading to high turnover of managers and significant transition costs	4	3	12	Manager processes are understood and clear reasoning is presented to LGPS Central/Panel to approve any removal of a manager	Meetings with LGPS Central and mangers, Consultant comments, Manager presentations to Pension Panel, Pension Board, Joint Committee, PAF-IWG	4	1	4	ongoing		Pensions Panel
Failure to maintain a 'Professional Client status' with investment managers and LGPS Central under MIFID II regulations. Limiting diversification and markets available, therefore potentially reducing returns on investments. Ongoing compliance with criteria is required.	3	2	6	Being an administering authority of a Pension fund is one of the criteria, along with investment balances of over £10m, which the fund is likely to always have.	Continuous monitoring by officers of investment balances	3	1	3	ongoing	MIFID II documents are regularly updtade as they are requested by managers	MS
Failure to consider and address the impact of asset correlation	4	4	16	Asset Liability Modelling undertaken as part of Strategic Asset Allocation review in order to determine likely investment returns for 20 years. This includes asset correlation across return seeking and defensive asset classes.	Meetings with mangers, Consultant comments, Manager presentations to Pension Panel, Pension Board. Annual SAA review.	4	2	8	Quarterly		Pensions Panel
Failure of SPF/LGPS Central to consider and address the impact of manager correlation	4	4	16	Managers strategies are understood to ensure any strategy overlap is minimised	Manager fit is understood on appointment, Manager monitoring, Consultant comments, Performance measurement, Joint Committee, PAF-IWG	3	4	12	Quarterly	likelihood increased due to upcoming implementaion of new SAA following review.	Pensions Panel

2.5 To ensure the Fund takes account of Responsible Investment (RI) factors in its investment decisions.

Failure description	Severity	Frequency	Score	Impact	Control	Frequency	Score	Frequency	Notes	Panel	
Failure to consider and address any systemic risk factors across the fund	4	5	20	Macroeconomic factors are understood, Manager awareness of global trends and potential risk areas, The fund has a long term investment strategy, diversification of investments	Quarterly strategic review, meetings with managers, Consultant comments, LGPS Central/Manager presentations to Pension Panel, Pension Board. PAF IWG.	3	4	12	Quarterly	Likelihood increased due to combination of current macroeconomic factors, eg inflation, energy prices, covid, geopolitical events.	Pensions Panel
Failure to consider and address currency risk	3	3	9	Impact of Currency risk on fund value is understood (As a long term investor with no immediate need to sell assets short term fluctuations have a limited impact). Awareness of Currency market fluctuations. Appropriate currency hedging policy is in place if required.	Quarterly strategic review, Consultant comments, Pension Panel, Pension Board	3	3	9	Quarterly	No current requirement for Currency Hedging but need to consider process for implementing Currency Hedging if required in future (LGPS Central?), will be reviewed as part of SAA	Pensions Panel
Failure to consider and address risk from leveraged investment funds	4	3	12	Impact of leverage on the Fund is understood. Amount of leverage within investment funds is understood and limited.	Consultants, Manager due diligence, LGPS Central, PAF-IWG, information in fund prospectus	3	2	6	Ad hoc		Pensions Panel
Failure for the SPF/ LGPS Central to have a policies on RI&E	3	3	9	Fund Policies in place and complied with. All fund managers signed up to UNPRI. All fund managers report quarterly on Voting and Engagement. Quarterly report to Pensions Panel. Investment beliefs include RI&E considerations.	Policy in ISS, Pension Board, LGPS Central Investment Director for RI, PAF-RI, Joint Committee, Climate Change Strategy and TCFD reports.	2	3	6	Annual / March 2	Consideration to be given to actions arising from review of FRC UK Stewardship Code plus SAB guidance.	TB
Failure to comply with the FRC UK Stewardship Code	2	5	10	FRC UK Stewardship Code (Tier 1 signatory to 2016 code), as are all fund managers, working towards becoming signatory of 2020 revised code	2016 Investment regulations, ISS, LGPS Central, managers contracts contain clause.	2	5	10	Annual / October	To become signatories of the 2020 FRC UK Stewardship Code, plus SAB guidance	TB
Failure to have a Climate Policy and take into account the impact of climate change on the SAA and subsequent investment returns	4	3	12	Climate policy produced, Pensions Panel takes into account impact of climate change in its investment decisions and setting of SAA, through scenario analysis, RI factors are incorporated in investment beliefs.	Climate risk report, Climate Policy produced, TCFD reporting, Hymans, LGPSC, Scenario analysis, SAA review incorporates climate change roadmap, Climate Stewardship Plan.	4	2	8	Apr-23		TB
Failure to meet TCFD reporting requirements and understand the associated climate metrics	3	3	9	TCFD report is produced annually and metrics are monitored	Pensions Committee, Pensions Panel, Pensions Board, Hymans, LGPSC, SAB, DLUHC	3	2	6	Apr-23		TB
Failure to have all fund managers signed up the UNPRI Code of Practice	3	3	9	All fund managers signed up to UNPRI.	LGPS Central, manager contracts contain clause	2	3	6	Annual		TB
Failure of LGPS Central/managers to report engagement actions quarterly	3	3	9	All fund managers/LGPS Central report quarterly on Voting and Engagement. Quarterly report to Pensions Panel.	Manager reports, LGPS Central Investment Director for RI, LGPS Central Joint Committee (Hermes)	2	3	6	Quarterly		Pensions Panel
Failure to report RI&E issues to the Pension Panel regularly	3	3	9	All fund managers/LGPS Central report quarterly on Voting and Engagement. Quarterly report to Pensions Panel.	Pension Panel reports, Pension Board	2	3	6	Quarterly		Pensions Panel
Failure to collaborate on RI&E issues	4	3	12	Member of LAPFF, cross pool RI&E working group and LGPS Central.	Member of LAPFF, LGPS Central	2	3	6	Ongoing		TB/ Pensions Panel

Risk that the forecast savings from pooling do not materialise, impacting the performance of the fund.

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Transition plans are in place, senior management team of LGPS central will monitor fees and have processes in place. SPF input via shareholders forum, LGPS central joint committee and practitioners advisory forum. Cost savings model is used for monitoring.

Shareholders forum, LGPS central joint committee and practitioners advisory forum. Savings are reported. CEM are in place for Benchmarking, use of transition advisor and transition manager.

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Ongoing

reflect on use of pool and the cost savings model

Shareholders Forum