

Investment											APPENDIX 1				
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 Asset Liability modelling. Additional paper producedby Hymans justifying asset outperformance assumption. No issues from Regulation 13 report, GAD. SAA review with investment consultant.	4	2	8	Mar-24	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 asset liability modeling 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. Pensions Board	4	2	8	Mar-24	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, Appendix D in FSS	2	1	2	Mar-24	Pensions committee were consulted on asumptions, FSS to be updated post valuation results.		Pensions Committee	
		Failure of LGPS Cental 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 cental joint committee, DLUHC draft regulations, range of LGPSC products available is increasing	3	2	6	ongoing	Review after DLUHC Formal Consultation due 2023		Pensions Panel	
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 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 was approved March 22 with implementation to follow.		MS	
		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 repot/ 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	
2.3 To achieve performance above the return of the 'neutral / tactical' strategic benchmark return, through the appointment of active managers, where appropriate.	2.3 Failure of active managers to deliver outperformance (net of fees)	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 SPF/LGPS Central through robust competitive process, where required	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 Cental agreed to involve Partner Fund representatives in oversight of appointment process (not decision)		Pensions Panel	

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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 prduce a suitability report prior to investment. Performance measurer report. LGPSC 3 yearly reviews.	3	4	12	Quarterly, with a 5 year focus	LGPS Cental agreed to involve Partner Fund representatives in oversight of appointment process (not decision). 3 year review of LGPSC Active ACS funds completed 2022, additional manager to be appointed to GEAMMF.		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. LGPSC 3 yearly reviews.	3	4	12	Quarterly, with a 5 year focus	LGPS Cental agreed to involve Partner Fund representatives in oversight of appointment process (not decision). 3 year review of LGPSC Active ACS funds completed 2022, additional manager to be appointed to GEAMMF.		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	4	16	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.	3	4	12	Quarterly	Procurement process underway to appoint new performance measurer following PEL's decision to close.		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. Central have demonstrated ability to take action.		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 updtdae 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	

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2.5 To ensure the Fund takes account of Responsible Investment (RI) factors in its investment decisions.	2.5 Failure to take account of RI factors in investment decisions	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 in is understood on appointment, Manager monitoring, Consultant comments, Performance measurement, Joint Committee, PAF-IWG, Investment advisors, 3 year review of LGPS	3	4	12	Quarterly		likelihood increased due to upcoming implementaion of new SAA following review.	Pensions 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 mangers, Consultant comments, LGPS Central/Manager presentations to Pension Panel, Pension Board. PAF IWG.	3	4	12	Quarterly		Likelihood inceased 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 / June 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, mangers contracts contain clause.	2	5	10	Annual / April 2	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 produed, Pensions Panel takes into account impact of cliamte 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-24			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-24			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/mangers to report engagement actions quarterly	3	3	9	All fund managers/LGPS Central report quarterly on Voting and Engagement. Quarterly report to Pensions Panel.	Manger reports, LGPS Central Investment Director for RI, LGPS Central Joint Committee (Hermes)	2	3	6	Quarterly	All public fund managers report quarterly, increasingly private market managers are too		Pensions Panel

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2.6 To minimise fee levels and total expense ratios consistent with performance targets i.e. active / passive	2.6 Failure to minimise manager fees and expenses commensurate with performance target	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	
		Failure to integrate Climate change and the transition to low carbon economy into the investment portfolio.	4	3	12	LAPFF, LGPS Central and fund managers liaise directly with companies on climate change issues	Member of LAPFF, Managers reports, officers member of PAF RI working group, LGPS Central Investment Director for RI (Hermes). Carbon Risk Metrics (MSCI) and Climate Scenario Analysis (Mercers) offered by LGPS Central. Climate Change Roadmap. SAA review takes account of Climate Change factors.	3	2	6	Ongoing	Review climate risk reporting output from LGPS central, Consider wider implications of Climate risk on the fund, eg funding, employers etc. Investment consultant climate roadmap.		TB/ Pensions Panel	
	2.6 Failure to minimise manager fees and expenses commensurate with performance target	Failure of SPF/LGPS Central to include fees as part of a competitive procurement process	3	3	9	Competitive tender process, use of framework, joint procurement	Procurement using EU rules and/or expert external advisor, consideration of performance net of fees	2	2	4	Ad hoc			Pensions Panel	
		Failure to benchmark fees and expenses annually at fund level with appropriate benchmark	3	3	9	Benchmark fees/expenses at fund level	CEM benchmarking, including value add, Total expense ratio, Peer Benchmarking, CIPFA annual report guidance, consideration of performance net of fees	2	2	4	Annual			Pensions Committee	
		Failure to account for fees or to report fees to the Pension Committee and in the Annual Report	2	3	6	Account for fees transparently, Report fees to Pension Committee and in Annual Report (open to scrutiny)	Accounts in accordance with CIPFA annual report guidance, Audit, Pension Committee, Pension Board	2	3	6	Annual			Pensions Committee	
		Failure of SPF/LGPS Central to consider whether performance related fees may be appropriate	3	3	9	Performance related fees considered as part of competitive manager appointment	Fee basis based on individual or sub-fund level reported to Pension Panel, Advisors views taken, consideration of performance net of fees, legal due diligence	2	2	4	Ad hoc			Pensions Panel	
		2.7 Failure to understand the changes in the liability benchmark of the Fund and adjust the 'neutral' SAA accordingly	Impact of changes in interest rates and its effect on liabilities is not taken into account when setting the 'neutral' SAA	4	3	12	Cash flows of the fund are monitored quarterly and understood. The fund operates on a liability aware basis.	Actuarial Valuation, annual change in the Funds liability benchmark are reported to the Pensions Panel. Considered as part of the SAA. Asset Liability Modelling.	3	3	9	Annual	Investment adviser reviewing impact of rise in interest rates on SAA		Pensions Committee / Pensions Panel
	Impact of changes in inflation and its effect on liabilities is not taken into account when setting 'neutral' SAA		4	3	12	Cash flows of the fund are monitored quarterly and understood. The fund operates on a liability aware basis.	Actuarial Valuation, annual change in the Funds liability benchmark are reported to the Pensions Panel. Considered as part of the SAA. Asset Liability Modelling.	3	3	9	Annual	Investment adviser reviewing impact of rise in inflation rates on SAA, increase was included in ALM		Pensions Committee / Pensions Panel	
	2.8 Ensure the efficient transfer of assets to and the running costs of LGPS Central	2.8 Operating costs of the pool exceed budget, staff impacted and anticipated savings do not materialise, impacting Fund performance	Risk that the operating costs of the pool are too high and impact on the return of the Fund	4	4	16	Budgets for operating costs are in place, monitored and there is a cost sharing mechanism in place.	Shareholders approve annual budget (based on inflationary uplift), with additional products requiring additional approval. Quarterly budget monitoring reported to PAF	4	4	16	Mar-24			Shareholders Forum & PAF

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		Risk of SPF/LGPS Central losing key personnel and knowledge.				Ensure other members of staff know how to do all roles and are aware of work on going, including within LGPS Central	Regular strategy and planning meetings to schedule work and priorities, generic job descriptions, succession planning, PAF-IWG					LGPSC turnover close to 20% Likelihood increased.		MS/Team	
		Failure of LGPS Central to deliver the services set out in their Buisness Plan and within agreed timescales to provide SPF with expected level of service for BAU and development.	4	4	16	There is a business plan and budget approved by shareholders, FCA oversight, Senior manager regime, LGPSC board.	Pensions Panel monitoring, LGPSC joint committee, PAF, budget monitoring, shareholders forum	3	4	12	Mar-24				
			4	4	16	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.	4	3	12	ongoing	LGPSC trunover close to 20% could impact service delivery.		Pensions Committee /MS	
		Risk that the forecast savings from pooling do not materialise, impacting the performance of the fund.										reflect on use of pool and the cost savings model		Sharehold ers Forum	
			4	4				4	4	16	Ongoing				
		Failure to have appropriate transition arrangements in place to ensure the continued security of assets and efficient and cost effective transfer of assets into LGPS Central.				Transition manager is appointed by LGPS central/SPF	Procurement through LGPS transition framework. Assistance of Transition Advisor if appointed. Custody records and investment team reconciliations and LGPS Central Custodian. PDLG. External and internal audit working group assurance of transitions.							Joint committee, PAF, TB team	
			5	4	20			4	3	12	Ongoing				
		Regulatory Changes in relation to asset pooling impacting LGPS Central or SPF				Regulatory change is monitored and consulatations are responded to.	DLUHC, Pensions Committee, Hymans, cross pool working groups.	4	3	12	Ongoing	Review as a result of DLUHC formal consultation and statutory guidance		Pensions Committee	
			5	2	10			5	2	10	ongoing				
		Potential for concentration of asset management services at LGPS Central				Northern trust depository, segregation of assets, diversified SAA, Regulatory business plan.	Shareholders forum, FCA, Northern Trust as Custodian, Internal/External Audit, AAF/0106							Pensions Committee	
			5	2	10			5	2	10	ongoing				
		Divergence of another Partner Fund from the LGPS Central pool's shared objectives which may result in e.g. increased costs, lack of assets classes in which to invest, viability of pool.				PAF various working groups, product development protocol, decision tree, Inter authority agreement, shared objectives,	Shareholders agreement, IAA, regulation, regulatory business plan, LGPSC budgets, 5 year pool plan							Pensions Committee	
			3	4	12			3	3	9	ongoing				

NB, risks associated with pooling will change as LGPS Central is formed and transition is progressed.