

# Investment Risk Register August 2023

DATE :

## Summary of Risks Ratings

Almost Certain	0	0	0	0	0
Likely	0	0	0	0	0
Possible	0	0	0	0	0
Unlikely	2	5	3	0	0
Rare	0	0	0	0	0
Unassigned 0	Insignificant	Minor	Moderate	Major	Severe

Red Risks		Total:		
Risk Register	Risk Title	Net Risk Level	Risk Owner	

New Risks		Total:		
Risk Register	Risk Title	Net Risk Level	Risk Owner	Created Date

Changing Risks		Total:		
Risk Register	Risk Title	Net Risk Level	Change	Risk Owner

Detail							
Investment Risk							
Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews	
Date Identified			Owner				
INVEST0001	Pension Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Increased employer contribution rates.	Cllr David Thomas Chris Hurst	9	4	13/07/2023  11/07/2022	Review Summary: Reviewed at Committee meetings and performance challenges made to advisers where required.  Review Summary: Regularly monitored by consultant and committee at meetings
Controls and Actions				Latest Control		Reviews	Review Date
<ul style="list-style-type: none"> <li>anticipate long-term returns on a relatively prudent basis to reduce the risk of under-performance. Only anticipate long-term returns on a relatively prudent basis to reduce the risk of under-performance. Also monitors and analyses progress every three years for each employer. In addition, the Fund receives quarterly funding updates to help monitor the position. At the 2022 Valuation, prudence was increased further by a reduction to the deficit recovery period and an increase in the probability of funding success.</li> </ul>				Control In Place			
Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews	
Date Identified			Owner				
INVEST0002	Inappropriate long-term investment strategy.	Failure to meet funding objectives.	Cllr David Thomas Chris Hurst	8	4	04/05/2023  11/10/2022	Review Summary: Local and regular monitoring of strategy to ensure it remains appropriate. Review conducted as a result of the 2022 Valuation outcome and adjustments made as required.  Review Summary: Strategy monitored at each Committee meeting and updated periodically as and when required
Controls and Actions				Latest Control		Reviews	Review Date
<ul style="list-style-type: none"> <li>Use of a Fund specific benchmark, as recommended by the Fund's investment consultant. Use of a Fund specific benchmark, as recommended by the Fund's investment consultant. Strategy regularly reviewed and adjusted following the outcome of valuations.</li> </ul>				Control In Place			
Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews	
Date Identified			Owner				
INVEST0003	Active investment manager under-performance relative to the benchmark. This includes active management within the Wales Pension Partnership.	Failure to meet funding objectives.	Cllr David Thomas Chris Hurst	4	2	03/07/2023  11/07/2022	Review Summary: Quarterly review carried out by Fund and WPP performance reported to each JGC.  Review Summary: Discussed as required with consultants and Committee. Quarterly monitoring report provided by consultant
Controls and Actions				Latest Control		Reviews	Review Date
<ul style="list-style-type: none"> <li>Regular investment monitoring analyses market performance and active managers relative to their index benchmark. Regular investment monitoring analyses performance of active managers relative to their index benchmark at the Pool level and locally with the Pensions and Investment Committee.</li> </ul> <p>Regular Performance Updates presented by the WPP to officers where Managers present and detail latest performance. Regular reports to the WPP Joint Governance Committee and also local Pensions and Investment Committee.</p>				Control In Place			

Detail							
Investment Risk							
Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews	
Date Identified			Owner				
INVEST0004 29/01/2018	To permit deficits to be eliminated over a recovery period rather than immediately, introduces the risk that action to restore solvency is insufficient between successive measurements.	Increased employer deficit recovery payments.	Cllr David Thomas Chris Hurst	4	2	13/07/2023  11/07/2022	Review Summary: Recovery period reduced due to improved funding levels  Review Summary: Will be included in discussions with Actuary as part of Valuation process during 2022
Controls and Actions				Latest Control		Reviews	Review Date
<ul style="list-style-type: none"> <li>Consider every such situation with the Pension Fund actuary, for each individual employer. It is the practice to discuss every such situation with the Pension Fund actuary, for each individual employer. Moreover deficit recovery periods are generally restricted to no more than 25 years, or 40 years in very exceptional circumstances.</li> </ul> <p>At the 2022 Valuation the recovery period was reduced at the whole of Fund level to increase prudence and reduce the risk.</p>				Control In Place			
Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews	
Date Identified			Owner				
INVEST0005 25/01/2016	Permitting contribution rate changes to be introduced by annual steps (down as well as up) rather than immediately, introduces a risk that action to restore solvency is insufficient between successive measurements.	Instability in employer contribution rates.	Cllr David Thomas Chris Hurst	6	4	11/10/2022 10/01/2022	Review Summary: Work with actuary as required Review Summary: Statement Approved and Published in August 2021
Controls and Actions				Latest Control		Reviews	Review Date
<ul style="list-style-type: none"> <li>Each individual employer situation is discussed with the Pension Fund actuary, with stepping restricted as appropriate</li> <li>Each individual employer situation is discussed with the Pension Fund actuary, with stepping restricted to three years, or 6 years, in very exceptional circumstances.</li> </ul>				Control In Place			
Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews	
Date Identified			Owner				
INVEST0006 30/01/2017	Pay and price inflation significantly more than anticipated.	Increased employer contribution rates and deficit recovery payments.	Cllr David Thomas Chris Hurst	9	4	13/07/2023  11/07/2022	Review Summary: Considered during valuation and shorter term allowances for high inflation included (inflation expected to come down in the short to mid-term)  Review Summary: Valuation work to commenced April 2022. Discussions with Actuary and Investment Consultant to consider options
Controls and Actions				Latest Control		Reviews	Review Date
<ul style="list-style-type: none"> <li>Employers responsible for salary awards and are reminded of effect on salary-linked pension liabilities</li> <li>Employers 'pay' for their own salary awards and are reminded of the geared effect on salary-linked pension liabilities. Particularly where bias towards longer serving employees may be considered.</li> </ul> <p>Actuary is able to consider inflation within their methodology when in a high inflation environment (such as during the 2022 valuation)</p>				Action Completed			

**Detail**

**Investment Risk**

Risk Ref Date Identified	Risk Identified	Potential Consequence	Portfolio Owner	Inherent	Residual	Latest Risk Reviews	
INVEST007 03/03/2016	Insolvency of an investment manager investing Pension Fund assets.	A reduction in the capital value of the Fund; a loss of liquidity as creditors agree on distribution of assets; the costs of legal representation; and, reputational damage.	<i>Cllr David Thomas</i> Chris Hurst	9	6	09/01/2023	Review Summary: Considered by Investment Consultant and at each Committee meeting
						08/07/2022	Review Summary: Investment Consultants monitor and review

Controls and Actions				Latest Control	Reviews	Review Date
<ul style="list-style-type: none"> <li>diversification of investment managers, limits for individual investments mandates</li> <li>Diversification of investment managers; adherence to the limits for individual investment mandates as set out in the LGPS investment regulations; regular meetings with investment managers undertaken by the Fund's investment consultant; Statement on Standards for Attestation Engagements No. 16 internal controls are monitored on an annual basis; due diligence by investment consultants to ensure that custodians are used by each investment manager; equity investment mandates are invested in pooled funds; and, only well respected and researched investment managers are selected in the first place.</li> </ul> <p>Managers closely monitored at the Pool Level. Any issues would be fast tracked in line with the process in place at the WPP.</p>				Control In Place		
<ul style="list-style-type: none"> <li>Increased investment manager diversification facilitated via the Wales Pension Partnership</li> <li>Increased investment manager diversification facilitated via the Wales Pension Partnership .</li> </ul>				Control In Place		

Risk Ref Date Identified	Risk Identified	Potential Consequence	Portfolio Owner	Inherent	Residual	Latest Risk Reviews	
INVEST0008 30/03/2017	Pooling of Pension Fund assets with other LGPS Pension Funds.	Investment of Fund Officer and Committee time. Front loaded costs before potential savings are realised on a per-sub fund basis; Transition Risk and costs.	<i>Cllr David Thomas</i> Chris Hurst	9	6	04/05/2023	Review Summary: Risk updated following Pension Board meeting on the 3rd of May 2022
						11/10/2022	Review Summary: No change to process

Controls and Actions				Latest Control	Reviews	Review Date
<ul style="list-style-type: none"> <li>Due diligence on all pooling proposals; full transparency of all pool proposals and costs; full participation of Pension Fund</li> <li>Due diligence on all pooling proposals by Pool oversight Adviser , Investment Consultants and Legal Advisers; full transparency of all pool proposals and costs with local input from each of the investing funds advisers; full participation of the Pension Fund in all pooling development.</li> </ul> <p>Regular Officer meetings via working groups ; Quarterly Joint Governance Committee meetings; 6 monthly meetings with the Board Chairs to ensure good governance.</p> <p>Regular Training provided to Committee and Board Members by the Pool .</p>				Control In Place		
<ul style="list-style-type: none"> <li>Pooling vehicle to be structured so that each participating Fund has full representation the pool</li> <li>Each participating Fund has full representation in the pool at officer and Committee level ; the pool structure enables full strategic decisions to be retained by each individual Fund;</li> </ul>				Control In Place		

Risk Ref Date Identified	Risk Identified	Potential Consequence	Portfolio Owner	Inherent	Residual	Latest Risk Reviews	
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**Detail**

**Investment Risk**

INVEST0009 01/10/2019	MIFID II ongoing compliance to ensure retention of Institutional Investor Status	Financial implications of not being treated as an institutional investor. Restricted Investment opportunities and diversification. Reputational Risk	<i>Cllr David Thomas</i> Chris Hurst	12	6	11/07/2022 10/01/2022	Review Summary: Current process continues, but updated as required when new manager appointed or training needs identified. Review Summary: Current process continuing, but updated as required when new manager appointed or training needs identified.
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Controls and Actions			Latest Control	Reviews	Review Date
<ul style="list-style-type: none"> <li>Regular Review of MIFID Status</li> <li>Regular Review of MIFID Status by Investment Managers.</li> <li>Training provided (and logged) to decision makers (Pensions and Investment Committee).</li> <li>Good Governance project expected to increase governance around this risk.</li> </ul>			Control In Place		

Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews
Date Identified			Owner			

INVEST0010 01/01/2015	Fall in the returns on Government bonds.	Increase to the value placed on Fund liabilities.	<i>Cllr David Thomas</i> Chris Hurst	9	4	13/07/2023 11/07/2022	Review Summary: Regularly monitored by Consultant for each meeting Review Summary: Regularly monitored by Consultant for each meeting
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Controls and Actions			Latest Control	Reviews	Review Date
<ul style="list-style-type: none"> <li>Allowing for a risk-based approach should limit the impact of short-term changes in returns on Government bonds</li> <li>Allowing for a risk-based approach should limit the impact of short-term changes in returns on Government bonds. Some investment in bonds also helps to mitigate this risk. Monitoring (quarterly) helps to give an early warning of significant changes.</li> </ul>			Control In Place		

Risk Ref	Risk Identified	Potential Consequence	Portfolio	Inherent	Residual	Latest Risk Reviews
Date Identified			Owner			

INVEST0011	Increased risk on Fund Employers.	Potential Failure of Participating Employer or unsustainable Employer Contributions	<i>Unassigned</i> Jane Thomas	4	4	04/05/2022	Review Summary: Employer Risk Assessment to be conducting as part of valuation work in 2022-23
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