

## Investment Risk Register

Investment Risk			Portfolio	Inherent	Residual	Controls and Actions		
Risk Ref	Risk Identified	Potential Consequence	Owner			Control or Action	Status	Review Date
INVEST0007	<p>Insolvency of an investment manager investing Pension Fund assets.</p> <p><b>Latest Review:</b> 09/01/2023</p> <p>Considered by Investment Consultant and at each Committee meeting</p>	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.	Cllr David Thomas Chris Hurst	9	6	<ul style="list-style-type: none"> <li><b>diversification of investment managers, limits for individual investments mandates</b> 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> <ul style="list-style-type: none"> <li><b>Increased investment manager diversification facilitated via the Wales Pension Partnership</b> Increased investment manager diversification facilitated via the Wales Pension Partnership.</li> </ul>	Control In Place	
INVEST0008	<p>Pooling of Pension Fund assets with other LGPS Pension Funds.</p> <p><b>Latest Review:</b> 04/05/2023</p> <p>Risk updated following Pension Board meeting on the 3rd of May 2022</p>	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.	Cllr David Thomas Chris Hurst	9	6	<ul style="list-style-type: none"> <li><b>Due diligence on all pooling proposals; full transparency of all pool proposals and costs; full participation of Pension Fund</b> 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	

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						<ul style="list-style-type: none"> <li><b>Pooling vehicle to be structured so that each participating Fund has full representation the pool</b> 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	
INVEST0009	MIFID II ongoing compliance to ensure retention of Institutional Investor Status <b>Latest Review:</b> 11/07/2022 Current process continues, but updated as required when new manager appointed or training needs identified.	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	<ul style="list-style-type: none"> <li><b>Regular Review of MIFID Status</b> Regular Review of MIFID Status by Investment Managers. Training provided (and logged) to decision makers (Pensions and Investment Committee). Good Governance project expected to increase governance around this risk.</li> </ul>	Control In Place	
INVEST0012	The Fund fails to adequately account for climate change, climate risk and Environmental, Social and Governance (ESG) factors. <b>Latest Review:</b>	Financial loss to assets held within the Fund and potential for stranded assets. Failure to achieve desired investment returns leading to a fall in funding level and increased Employer contribution rates. Environmental and ecological impact on scheme members.	<i>Cllr David Thomas</i> Chris Hurst	8	6	<ul style="list-style-type: none"> <li><b>Mitigations</b> <ul style="list-style-type: none"> <li>Development of suitable Climate Change, Climate Risk and ESG reporting metrics via the WPP</li> <li>Appointment of a proxy voting and engagement provider, who engages with managers and companies on how they manage Climate Change, Climate Risk and ESG factors at the WPP</li> <li>Publication of a local Responsible Investment policy and Climate Risk Policy (WPP)</li> <li>Constant engagement and challenging of Managers on how they account for Climate Risk/ Change and ESG factors</li> <li>Annual Climate Change, Climate Risk or ESG related training event on the WPP Training Plan</li> <li>Quarterly climate risk reporting via the WPP</li> <li>Annual stewardship code reporting at the WPP</li> </ul> </li> </ul>	Control In Place	
INVEST0001	Pension Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term. <b>Latest Review:</b> 13/07/2023 Reviewed at Committee meetings and performance challenges made to advisers where required.	Increased employer contribution rates.	<i>Cllr David Thomas</i> Chris Hurst	9	4	<ul style="list-style-type: none"> <li><b>anticipate long-term returns on a relatively prudent basis to reduce the risk of under-performance.</b> 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	

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INVEST0006	Pay and price inflation significantly more than anticipated. <u>Latest Review:</u> 13/07/2023 Considered during valuation and shorter term allowances for high inflation included (inflation expected to come down in the short to mid-term)	Increased employer contribution rates and deficit recovery payments.	<i>Cllr David Thomas</i> Chris Hurst	9	4	<ul style="list-style-type: none"> <li>• <b>Employers responsible for salary awards and are reminded of effect on salary-linked pension liabilities</b> 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	
INVEST0010	Fall in the returns on Government bonds. <u>Latest Review:</u> 13/07/2023 Regularly monitored by Consultant for each meeting	Increase to the value placed on Fund liabilities.	<i>Cllr David Thomas</i> Chris Hurst	9	4	<ul style="list-style-type: none"> <li>• <b>Allowing for a risk-based approach should limit the impact of short-term changes in returns on Government bonds</b> 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	
INVEST0005	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. <u>Latest Review:</u> 11/10/2022 Work with actuary as required	Instability in employer contribution rates.	<i>Cllr David Thomas</i> Chris Hurst	6	4	<ul style="list-style-type: none"> <li>• <b>Each individual employer situation is discussed with the Pension Fund actuary, with stepping restricted as appropriate</b> 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	
INVEST0002	Inappropriate long-term investment strategy. <u>Latest Review:</u> 04/05/2023 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.	Failure to meet funding objectives.	<i>Cllr David Thomas</i> Chris Hurst	8	4	<ul style="list-style-type: none"> <li>• <b>Use of a Fund specific benchmark, as recommended by the Fund's investment consultant.</b> 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	
INVEST0003	Active investment manager under-performance relative to the benchmark. This includes active management within the Wales Pension Partnership. <u>Latest Review:</u> 03/07/2023 Quarterly review carried out by Fund and WPP performance reported to each JGC.	Failure to meet funding objectives.	<i>Cllr David Thomas</i> Chris Hurst	4	2	<ul style="list-style-type: none"> <li>• <b>Regular investment monitoring analyses market performance and active managers relative to their index benchmark.</b> 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	

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INVEST0004	<p>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.</p> <p><b><u>Latest Review:</u></b> 13/07/2023 Recovery period reduced due to improved funding levels</p>	Increased employer deficit recovery payments.	Cllr David Thomas Chris Hurst	4	2	<ul style="list-style-type: none"> <li>• <b>Consider every such situation with the Pension Fund actuary, for each individual employer.</b> 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	