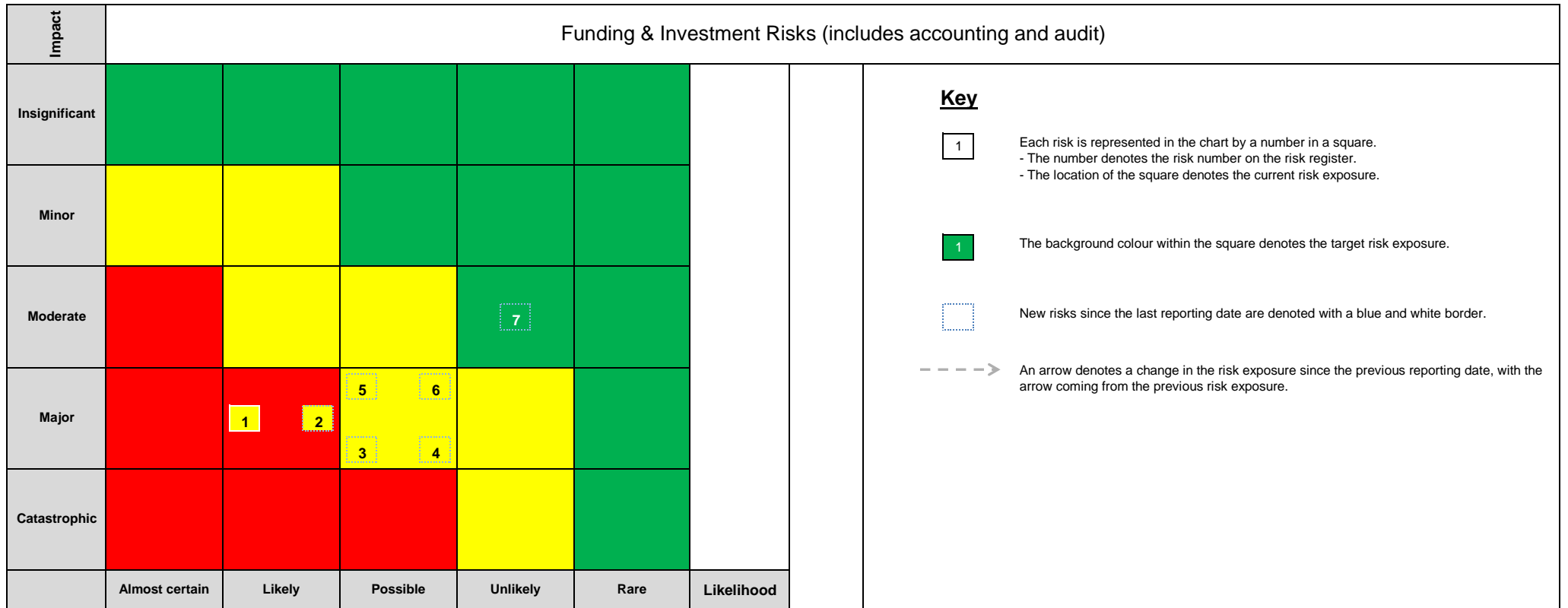


Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



Hackney Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement and Investment Strategy Statement:

- F1 To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members/dependants' benefits as they fall due for payment.
- F2 To ensure that employer contribution rates are reasonably stable where appropriate
- F3 To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers)
- F4 To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years
- F5 To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations
- F6 Have a strategic asset allocation benchmark for the Fund that has the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

| Risk no: | Risk Overview (this will happen) | Risk Description (if this happens) | Strategic objectives at risk (see key) | Current impact (see key) | Current likelihood (see key) | Current Risk Status | Internal controls in place | Target Impact (see key) | Target Likelihood (see key) | Target Risk Status | Meets target? | Date Not Met Target From | Expected Back on Target | Further Action and Owner | Risk Manager | Next review date | Last Updated |
|----------|---|---|--|--------------------------|------------------------------|---------------------|---|-------------------------|-----------------------------|--------------------|----------------------------------|--------------------------|-------------------------|--|----------------|------------------|--------------|
| 1 | Asset risk - failure to meet objectives through poor asset performance | Asset risks include the following: Concentration - over allocation to a single asset class Illiquidity - insufficient liquid assets Currency risk - underperformance of asset currency ESG Risk - ESG related factors reduce the Fund's ability to generate long-term returns. Manager Underperformance | I1 | Major | Likely | Red | 1 - Investment in a diversified range of asset classes 2 - Regular cash flow monitoring 3 - Currency hedging policy 4 - ESG and climate risk policy in place 5 - Multiple managers & performance monitoring | Major | Possible | Yellow | ☹️ Current likelihood 1 too high | 01/12/2018 | Dec 2020 | 1 - Complete planned investment strategy changes and associated transitions (RC) 2 - Align cash flow monitoring to business objectives (RC) | Rachel Cowburn | 30/09/2019 | 31/03/2019 |
| 2 | Funding risk - growth rate of liabilities outstrips that of assets | Funding Risks include: Inflation risk - Price and pay inflation more than anticipated Changing demographics -longevity improvements . Systemic risk - interlinked and simultaneous failure of several asset classes | F1 | Major | Likely | Red | 1 -Monitoring of asset allocation and investment returns 2 - Some investment in bonds assists in liability matching 3 - Stabilisation modelling at whole Fund level allows for the probability that risk free returns on govt bonds will fall 4 - Assessment of liabilities at the triennial valuation and the roll-forward of liabilities between valuations | Moderate | Likely | Yellow | ☹️ Current impact 1 too high | 01/12/2018 | Dec 2020 | 1 - Reassess liabilities and requirement for matching assets at triennial valuation (RC) | Rachel Cowburn | 30/06/2019 | 31/03/2019 |
| 3 | Other provider risk - loss of value resulting from external providers | Other provider risks include: Transition risk - unexpected costs in relation to the transition of assets Custody risk - losing economic rights to Fund assets Credit default - default of a counterparty | I1 | Major | Possible | Yellow | 1 - Regular scrutiny of providers 2 - Monitoring and management (may be delegated to investment managers in certain situations e.g. custody risk in relation to pooled funds). 3 - Seek appropriate advice where necessary (e.g. during a significant transition) 4 - The Pensions Committee has the power to replace a provider should serious concerns exist. | Major | Unlikely | Yellow | ☹️ Current likelihood 1 too high | 01/12/2018 | Dec 2020 | 1 - Transition planning for upcoming transitions (increased risk as increased movement of assets/appointment of new providers) (RC) | Rachel Cowburn | 30/09/2019 | 31/03/2019 |
| 4 | Asset pooling risk - pooling prevents the Fund achieving its objectives | Asset pooling risks include: Transition risk - excessive additional cost through transition to the pooled arrangement. Concentration and capacity risks - excessive concentration of assets amongst relatively few large institutions. Political risk - central Government's infrastructure aspirations present conflict of interest for the Fund in setting its asset allocation strategy. Reputational risks - failure of a pooled arrangement could have significant consequences for the LGPS. Strategy risk - the Fund's chosen asset pool does not deliver suitable investment strategies to allow the fund to meet its objectives | I1 | Major | Possible | Yellow | 1 - Monitor development/respond to consultations - Monitor proposed changes, consultations and guidance from Government on the pooling agenda, responding where appropriate to influence outcomes. Amend process where required to ensure compliance. 2 - Relationship Management - Maintain good working relationship to ensure that the Fund is fully aware of developments at the pool level and the pool is aware of and responds to the Fund's strategic requirements. 3 - Transition Planning - Planning for transition considered as part of Investment Strategy development to ensure assets are transitioned efficiently and within the required timeframes. 4 - Pensions Committee Chair and S151 officer members of Shareholder Committee | Major | Unlikely | Yellow | ☹️ Current likelihood 1 too high | 01/12/2018 | Dec 2020 | 1 - Transition planning for upcoming transitions (increased risk as increased movement of assets/appointment of new providers) (RC) 2 - Ensure more frequent formal catch up with senior LCIV staff (IW/MH/RC) 3 - Ensure LCIV aware of Hackney business plan to understand timing requirements (IW/MH/RC) | Rachel Cowburn | 30/09/2019 | 31/03/2019 |
| 5 | ESG Risk - ESG factors negatively impact Fund performance | ESG risk is the risk that financially material ESG factors have a negative impact on the Fund's performance. ESG factors include (but are not limited to) carbon risk, which is the risk that the implementation of COP21 political commitments dramatically reduces the proportion of fossil fuel reserves that can be used, with a subsequent impact on the business models and valuations of fossil fuel companies. | I1 | Major | Possible | Yellow | 1 - Monitoring and management of the Fund's exposure to fossil fuel reserves and power generation to assess level of risk. Initial assessment carried out in July 2016. 2 - Inclusion of a policy statement setting out the Fund's approach to climate risk within the Investment Strategy Statement 3 - Active engagement with managers to understand sources of ESG risk | Major | Unlikely | Yellow | ☹️ Current likelihood 1 too high | 01/12/2018 | Dec 2020 | 1 - Ongoing development of monitoring of fossil fuel risk (formal review of target summer 2019) 2 - Liaise with managers to improve wider ESG risk reporting | Rachel Cowburn | 30/06/2019 | 31/03/2019 |
| 6 | External Factor/Regulatory Risk | The risk that external (e.g. geopolitical) factors or the introduction of new regulation requires major changes to the operation of the Fund | I1, F1 | Major | Possible | Yellow | 1 - Asset liability modelling to ensure the Fund's Investment Strategy helps the Fund meet its objectives under a range of economic conditions 2 - Horizon scanning to ensure awareness of potential future risks and prepare | Moderate | Possible | Yellow | ☹️ Current impact 1 too high | 01/12/2018 | Dec 2020 | 1 - Complete investment strategy updates to improve fund resilience - re-review at triennial valuation | Rachel Cowburn | 30/06/2019 | 31/03/2019 |
| 7 | Employer Covenant/Affordability risks | Employer Covenant and Affordability risks include: Employer default Employer deficit on termination Highly variable/rapidly increasing employer contribution rates | F4 | Moderate | Unlikely | Green | 1 - Valuation and inter-valuation monitoring 2 - Monitoring of contributions 3 - Employer covenant checks with use of bonds/guarantees where necessary 4 - Contribution rate stabilisation where appropriate | Moderate | Unlikely | Green | 😊 | | | | Rachel Cowburn | 30/09/2019 | 31/03/2019 |