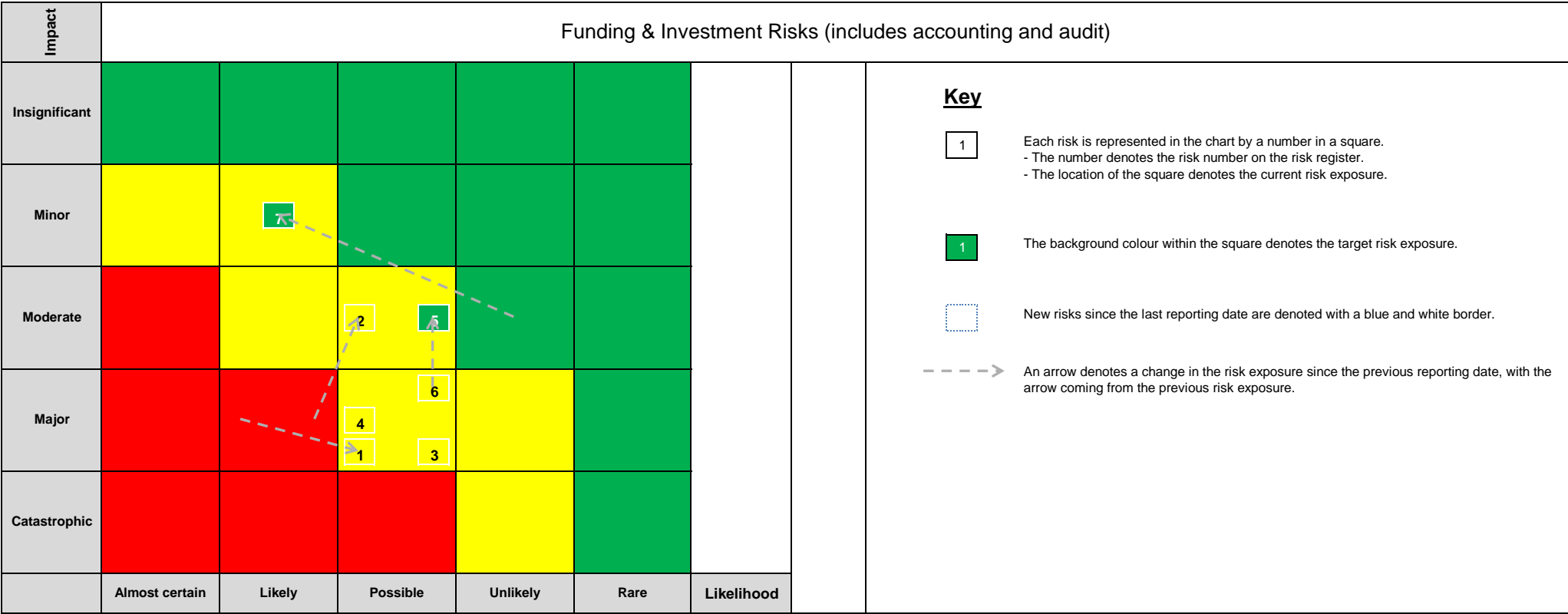


Item 07e - Appendix 4b

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
- I1 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 Manager Underperformance	I1	Major	Possible	Yellow	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	😊			1 - Complete planned investment strategy changes and associated transitions (MH) 2 - Strategy Review in 2020 (MH)	Michael Honeysett	30/04/2021	16/07/2020	
2	Employer contributions are insufficient to meet the cost of benefits	If growth rate of liabilities outstrips assets the risk is that contributions being paid will be insufficient	F1 - F5	Moderate	Possible	Yellow	1 - Asset liability modelling shows low likelihood of not meeting objectives 2 - Assessment of liabilities at the triennial valuation and the roll-forward of liabilities between valuations 3 - Contribution rates assessed by actuaries as having a low likelihood of not meeting objectives 4 - Actuary sets evidence-based assumptions using analysis of experience	Moderate	Possible	Yellow	😊			1 - Ongoing monitoring (MH)	Michael Honeysett	30/04/2021	16/07/2020	
3	Other investment 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 (MH) 2 - Ensure custodian continuity (MH)	Michael Honeysett	30/04/2021	16/07/2020
4	Asset pooling risk - pooling prevents the Fund achieving its objectives	Asset pooling risks include: Transition risks - excessive additional cost through transition to the pooled arrangement. Concentration and capacity risks - excessive concentration of assets amongst relatively few large institutions. Political risks - central Government changes Reputational risks - failure of a pooled arrangement could have significant consequences for the LGPS. Governance risks - potential lack of oversight of pool arrangements Lack of oversight of investment managers	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 5 - Oversight and engagement of existing investment managers	Major	Unlikely	Yellow	😐	Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Maintain relationships with senior LCIV staff (IW/JM/MH) 2 - Ensure LCIV aware of Hackney investment priorities and objectives to understand timing requirements (IW/JM/MH)	Michael Honeysett	30/04/2021	16/07/2020
5	Responsible Investment Risk - RI factors negatively impact Fund performance	Performance risk - failure of investment managers to achieve desired returns	I1	Moderate	Possible	Yellow	1 - Monitoring and management of the Fund's exposure to fossil fuel reserves and power generation to assess level of risk. 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 RI risk	Moderate	Unlikely	Green	😐	Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Continue to monitor fossil fuel exposure against target 2 - Liaise with managers and LCIV to develop wider RI risk reporting including voting and engagement 3 - Asset liability modelling carried out with climate scenarios	Michael Honeysett	30/04/2021	16/07/2020
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 (e.g. McCloud, cost cap, Covid-19).	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 3 - Monitoring and analysis of impact, taking advice from advisors where appropriate 4 - Adding items to business plan when appropriate	Moderate	Possible	Yellow	😐	Current impact 1 too high	01/12/2018	Dec 2020	1 - Ensure business plan kept up to date	Michael Honeysett	30/04/2021	16/07/2020
7	Employer Covenant/Affordability risks	Employer Covenant and Affordability risks include: Employer default Employer deficit on termination Rapidly increasing employer contribution rates Ability of employer to pay Substantial deficit or credit on termination	F4, F5	Minor	Likely	Yellow	1 - Valuation and inter-valuation monitoring of employers near cessation (funding position and contract situation) 2 - Monitoring of payment of contributions 3 - Employer covenant checks with use of bonds/guarantees where necessary 4 - Employer engagement	Minor	Unlikely	Green	😐	Current likelihood 2 too high	31/12/2019	Dec 2020	1 - Start communications with at-risk employers 2 - Robust review process to be developed	Michael Honeysett	30/04/2021	16/07/2020