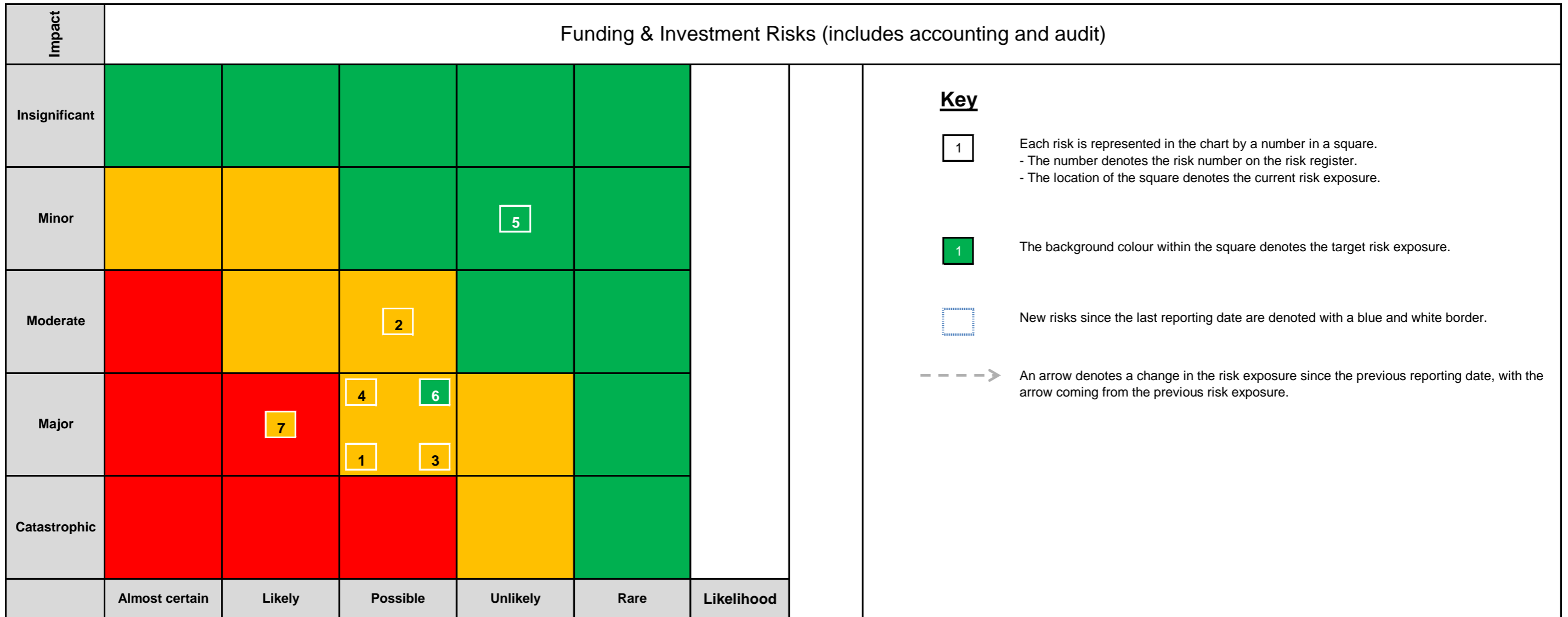


# Risk Register

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



**Risk Register - Funding & Investment Risks (includes accounting and audit)**

**Objectives extracted from the Business Plan 2023-26**

- F1 Take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- F2 Use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- F3 Where appropriate, ensure stable employer contribution rates
- F4 Reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- F5 Use reasonable measures to reduce the risk of an employer defaulting on its pension obligations
- I1 Set an appropriate investment strategy so as to: achieve an expected return in excess of the return required by the Fund's triennial valuation and funding strategy statement; achieve a VaR 95 of <13.5%; and ensure expected liability outflows are broadly covered by asset income. See business plan for more details on these points
- I2 Aim to achieve net zero emissions by 2040 and set appropriate interim targets to assist in achieving this
- I3 Increase local or 'levelling-up' investments to 5% over time
- I4 Aim to implement asset allocation decisions via the London CIV (the Fund's asset pool) where appropriate and will monitor the proportion of Fund assets invested via the pool accordingly
- I5 Monitor the funding level through the triennial valuation and ongoing monitoring processes
- I6 Ensure that the Fund continues to invest responsibly taking account of environmental, social and governance issues, whilst adhering to its overarching fiduciary duties. Specifically to ensure that the beliefs set out in the Business Plan are incorporated into the Committee's decision-making.

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	Strategy 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-I4, I6	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 - Ongoing monitoring (MH)	Michael Honeysett	01/06/2024	14/03/2024	
2	Funding experience - current 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 actuary 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	01/06/2024	14/03/2024	
3	Implementation - external providers or asset pool prevent Fund achieving objectives	Other provider risks include: Transition risk - unexpected/excessive costs in relation to the transition of assets Custody risk - losing economic rights to Fund assets Credit default - default of a counterparty 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-I4, I6	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 - Pensions Committee has the power to replace a provider should serious concerns exist 5 - 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. 6 - 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. 7 - Planning for transition considered as part of Investment Strategy development to ensure assets are transitioned efficiently and within the required timeframes. 8 - Pensions Committee Chair and S151 officer members of Shareholder Committee 9 - Oversight and engagement of existing investment managers 10 - active engagement with managers to understand sources of RI risk	Major	Unlikely	Yellow	😐	Current likelihood 1 too high	01/12/2018	Mar 2024	1 - Transition planning for upcoming transitions (MH) 2 - Management of relationship with Northern Trust as transition phase moves to Business As Usual (MH) 3 - Maintain relationships with senior LCIV staff (JM/MH) 4 - Ensure LCIV aware of Hackney investment priorities and objectives to understand timing requirements (JM/MH)	Michael Honeysett	01/06/2024	14/03/2024
4	External Factor/Regulatory Risk	The risk that external (e.g. geopolitical) factors or the introduction of new regulations requires major changes to the operation of the Fund (e.g. McCloud, cost cap).	F1, I1, I6	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	Major	Unlikely	Yellow	😐	Current likelihood 1 too high	01/12/2018	Mar 2024	1 - Ensure business plan kept up to date	Michael Honeysett	01/06/2024	14/03/2024
5	Employer Covenant/Affordability risks	Employer Covenant and Affordability risks include: Employer default Rapidly increasing employer contribution rates Ability of employer to pay Substantial deficit or credit on termination	F4, F5	Minor	Unlikely	Green	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	😊			1 - Implement default pass through policy for small employers 2 - Robust review process to be developed	Michael Honeysett	01/06/2024	14/03/2024	
6	Cashflow	Employer contributions are insufficient to meet the cost of benefits in the short term	F1, F3	Major	Possible	Yellow	1 - Ensure sufficient liquid assets are available if needed 2 - Contribution rates assessed by actuary as having a low likelihood of not meeting objectives 3 - Actuary sets evidence-based assumptions using analysis of experience	Moderate	Unlikely	Green	😐	Current impact 1 too high Current likelihood 1 too high	01/09/2022	Mar 2024	1 - Ongoing monitoring (MH)	Michael Honeysett	01/06/2024	14/03/2024
7	Increase in inflation	Prolonged high inflation erodes asset value causing cashflow issues and affects employer affordability.	F1, I1, I5	Major	Likely	Red	1 - planning within funding assumptions 2 - ensuring high level of inflation-sensitive assets held 3 - inflation hedging 4 - robust treasury management policy	Moderate	Possible	Yellow	😐	Current impact 1 too high Current likelihood 1 too high	01/09/2022	Mar 2024	1. Implementation of 5% allocation Multi Asset Credit (MH) 2. Reduce equity overweight in favour of income producing assets (MH)	Michael Honeysett	01/06/2024	14/03/2024