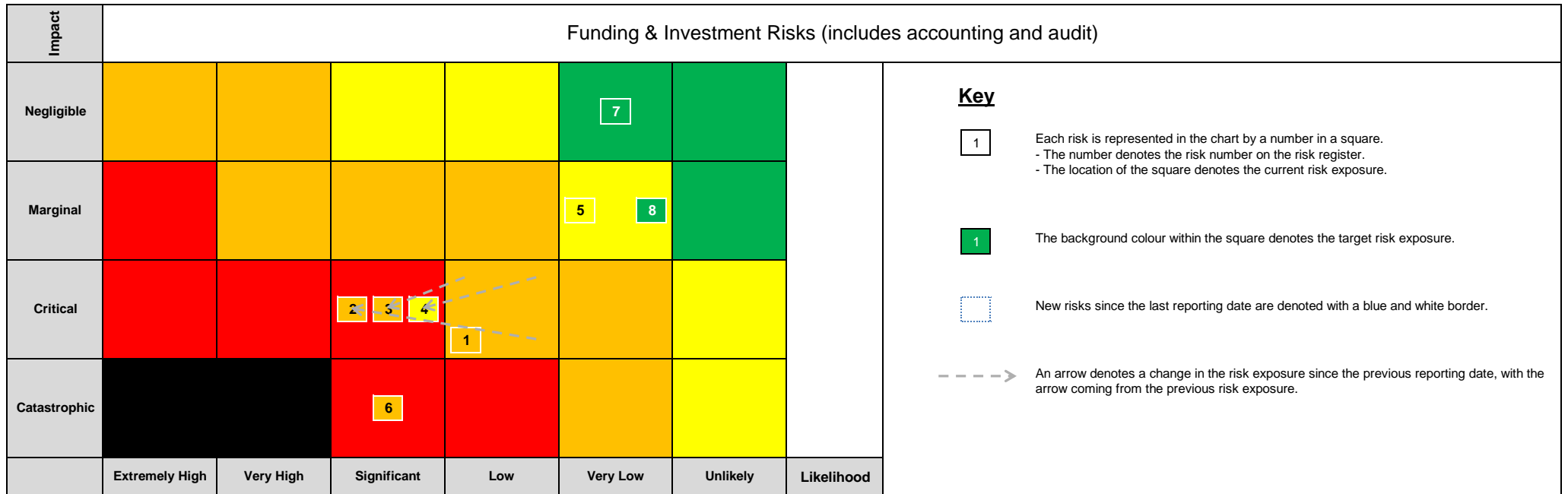


## Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



14 February 2019

**Clywd Pension Fund - Control Risk Register**

Funding & Investment Risks (includes accounting and audit)

**Objectives extracted from Funding Strategy Statement (3/2017) and Statement of Investment Principles (3/2017):**

- F1 Achieve and maintain assets equal to 100% of liabilities within the 15 year average timeframe whilst remaining within reasonable risk parameters
- F2 Determine employer contribution requirements, recognising the constraints on affordability and strength of employer covenant, with the aim being to maintain as predictable an employer contribution requirement as possible
- F3 Recognising the constraints on affordability for employers, aim for sufficient excess investment returns relative to the growth of liabilities
- F4 Strike the appropriate balance between long-term consistent investment performance and the funding objectives
- F5 Manage employers' liabilities effectively through the adoption of employer specific funding objectives
- F6 Ensure net cash outgoings can be met as/when required
- F7 Minimise unrecoverable debt on employer termination.
- F8 Ensure that its future strategy, investment management actions, governance and reporting procedures take full account of longer-term risks and sustainability
- F9 Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these.

| 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        | Employer contributions are unaffordable and/or unstable  | An appropriate funding strategy can not be set   | F1 / F2 / F3 / F4 / F5                 | Critical                 | Low                          |                     | 1 - Ensuring appropriately prudent assumptions on an ongoing basis<br>2 - All controls in relation to other risks apply to this risk<br>3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process   | Critical                | Very Low                    |                    | ☺ Current likelihood 1 too high                              | 31/03/2016               | Dec 2019                | 1 - Finalise employer covenant monitoring and ill health captive (DF)   | CPFM             | 31/03/2019       | 13/11/2017   |
| 2        | Funding level reduces, increasing deficit  | Movements in assets and/or liabilities (as described in 3,4,5) in combination  | F1 / F2 / F3 / F4 / F5 / F7            | Critical                 | Significant                  |                     | See points within points 3,4 and 5  | Marginal                | Low                         |                    | ☹ Current impact 1 too high<br>Current likelihood 1 too high | 31/03/2016               | Sep 2019                | 1 - Revised Equity Protection Strategy to be put in place (PL)<br>- See points within points 3,4 and 5  | CPFM             | 31/03/2019       | 08/02/2019   |
| 3        | Investment targets are not achieved therefore reducing solvency / increasing contributions                 | -Markets perform below actuarial assumptions<br>- Fund managers and/or in-house investments don't meet their targets<br>- Market opportunities are not identified and/or implemented.  | F1 / F2 / F3 / F4 / F7                 | Critical                 | Significant                  |                     | 1 - Use of a diversified portfolio (regularly monitored)<br>2 - Flightpath in place to exploit these opportunities in appropriate market conditions<br>3 - Monthly monitoring of funding position versus flightpath targets<br>4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee<br>5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel<br>6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of investment opportunities available<br>7 - Consideration and understanding of potential Brexit implications. | Critical                | Low                         |                    | ☺ Current likelihood 1 too high                              | 14/02/2019               | Sep 2019                | 1 - The impact on performance relative to assumptions will be monitored regularly (FRMG & TAAAG) (DF)   | Dep. Head of CPF | 31/03/2019       | 14/02/2019   |
| 4        | Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions | Market factors impact on inflation and interest rates  | F1 / F2 / F4 / F5 / F7                 | Critical                 | Significant                  |                     | 1 - LDI strategy in place to control/limit interest and inflation risks.<br>2 - Use of a diversified portfolio which is regularly monitored.<br>3 - Monthly monitoring of funding and hedge ratio position versus targets.<br>4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee.<br>5 - Consideration and understanding of potential Brexit implications.  | Marginal                | Very Low                    |                    | ☹ Current impact 1 too high<br>Current likelihood 2 too high | 31/03/2016               | Sep 2019                | 1 - The level of hedging will be monitored and reported regularly via FRMG (DF)   | Dep. Head of CPF | 31/03/2019       | 08/02/2019   |
| 5        | Value of liabilities/contributions change due to demographics being out of line with assumptions           | This may occur if employer matters (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions   | F1 / F2 / F5 / F7                      | Marginal                 | Very Low                     |                     | 1 - Regular monitoring of actual membership experience carried out by the Fund.<br>2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund employers.<br>3 - Ensure employers made aware of the financial consequences of their decisions<br>4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.  | Marginal                | Very Low                    |                    | ☺  |                          |                         | 1 - Assumptions and experience will be reviewed at the 2019 valuation (DF)  | Dep. Head of CPF | 31/03/2019       | 13/11/2017   |
| 6        | Investment and/or funding objectives and/or strategies are no longer fit for purpose                       | Legislation changes such as LGPS regulations (e.g. asset pooling), progression of Brexit and other funding and investment related requirements - ultimately this could increase employer costs   | F1 / F2 / F3 / F4 / F5 / F6 / F7       | Catastrophic             | Significant                  |                     | 1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate<br>2 - Employers and interested parties to be kept informed and impact monitored<br>3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS<br>4 - Participation in National consultations and lobbying  | Marginal                | Low                         |                    | ☹ Current impact 2 too high<br>Current likelihood 1 too high | 31/03/2016               | Mar 2020                | 1 - Ensure proactive responses to consultations etc. (PL)   | Dep. Head of CPF | 31/03/2019       | 20/11/2018   |
| 7        | Insufficient assets to pay benefits  | Insufficient cash (due to failure in managing cash) or only illiquid assets available - longer term this will likely become a problem and would result in unanticipated investment costs. Further risk presented with the introduction of Exit Credits for exiting employers in the 2018 Regulations update. | F1 / F6                                | Negligible               | Very Low                     |                     | 1 - Cashflow monitoring to ensure sufficient funds<br>2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations)<br>3 - Holding liquid assets<br>4 - Monitor cashflow requirements<br>5 - Treasury management policy is documented  | Negligible              | Very Low                    |                    | ☺  |                          |                         | 1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place). (DF)<br>2 - Contact major employers to highlight the change and ensure any potential contract end dates are notified to the Fund in sufficient time so that the risk of large payments can be reduced (i.e. through a contribution rate review in advance of the contract end date) (DF) | Dep. Head of CPF | 31/03/2019       | 04/06/2018   |
| 8        | Loss of employer income and/or other employers become liable for their deficits                            | Employer ceasing to exist with insufficient funding (bond or guarantee)  | F5 / F7                                | Marginal                 | Very Low                     |                     | 1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place.<br>2 - When setting terms of new admissions require a guarantee or bond.<br>3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength.<br>4 - Identify any deterioration and take action as appropriate through discussion with the employer.   | Marginal                | Unlikely                    |                    | ☹ Current likelihood 1 too high                              | 31/03/2016               | Dec 2019                | 1 - Employer risk management framework to be finalised (DF)   | Dep. Head of CPF | 31/03/2019       | 13/11/2017   |