

**Summary of Pension Fund Risks (June 2020)**

**Introduction**

The purpose of this document is to assess the risk associated with the RCT Pension Fund and to outline the control measures in place.

**Key to scoring**

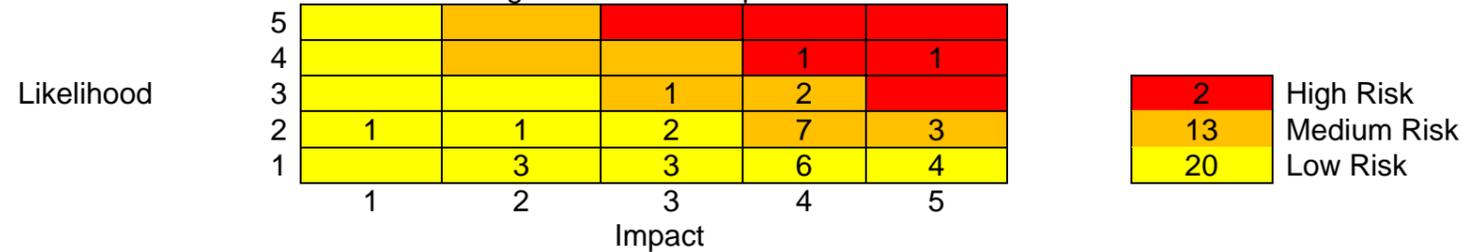
Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months
Likely	3	50% likely to happen or has happened once or twice in the last 24 months
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years

Impact Assessment Matrix:

Risk	Score
Major	5
High	4
Moderate	3
Minor	2
Trivial	1

Ascertainment Of Risk Level According To Levels Of Impact And Likelihood:



**Overarching Fund Objective – to ensure Fund assets are sufficient to meet Fund liabilities in the short, medium and long term**

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating June 2020 qtr
Funding	Long term investment strategy unable to meet the objective of funding liabilities.	5	2	10	MR	<ul style="list-style-type: none"> <li>Monitoring of deficit, reporting on the funding levels produced by the actuaries.</li> <li>Monitoring of the adopted asset / liability model.</li> <li>Monitoring the impact of progression of the McCloud case in the Supreme Court.</li> </ul>	
	Sub-optimal asset allocation throughout the portfolio.	4	2	8	MR	<ul style="list-style-type: none"> <li>The investment strategy is reviewed and adopted by the Pension Fund Committee.</li> <li>The Committee (with advice from the Advisory Panel) should regularly review the asset allocation strategy.</li> <li>The review should cover both the fund strategy and the asset allocation.</li> </ul>	
	Actuarial assumptions are not met. e.g. discount rate, life expectancy assumptions.	4	3	12	MR	<ul style="list-style-type: none"> <li>Agree and set prudent assumptions in conjunction with the appointed Fund Actuary, based on past trends, forecasts, longevity modelling.</li> <li>Adhere to triennial valuations.</li> <li>Monitor performance against assumptions, consider Interim Valuations where necessary.</li> <li>Monthly monitoring of Pension Fund valuation given the uncertainty in markets due to Covid-19.</li> <li>Receive regular Actuarial Funding updates.</li> </ul>	Pension Fund Valuations being monitored on a monthly basis due to Covid-19
	Increases in Employer contributions.	4	2	8	MR	<ul style="list-style-type: none"> <li>Participate in LGPS Scheme design consultation.</li> <li>Engage with Employers during and between Valuation cycles, particularly during times of organisational change e.g. downsizing, outsourcing.</li> <li>Ensure adequate securities / guarantees are in place where possible and that consequential risk is fully communicated to relevant parties.</li> </ul>	
	Detrimental changes to the maturity of fund membership. As the scheme matures the ratio of pensioner / deferred pensioner to active employees increases.	4	2	8	MR	<ul style="list-style-type: none"> <li>Monitor carefully through the valuation cycle. Ensure the investment strategy reflects current and forecast Fund maturity.</li> <li>Actively participate in pension consultation, giving due consideration to any proposals that may have a disproportional impact on scheme 'opt out' rates. [current considerations around 'Exit' caps]</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating June 2020 qtr
Investments	Financial Market suppressed by economic climate, national / global austerity measures and Brexit.	4	4	16	HR	<ul style="list-style-type: none"> <li>Long-term funding plan with a diverse range of asset classes and Fund Manager styles.</li> <li>Panel clearly understand the impact of market conditions on asset classes and fund manager performance.</li> <li>Panel monitor and scrutinise performance, market conditions and forecasts.</li> <li>Continue to monitor the potential implications of Brexit.</li> <li>Material economic and financial risk of infectious disease</li> </ul>	<p>Impact assessment remains 4 to reflect the high risk associated with the Covid-19</p> <p>Formal notifications received from BG that during March 20, the portfolio had depreciated by more than 20% compared to 29<sup>th</sup> February 20. Link notified us that both of the High Alpha portfolios had depreciated by more than 10%.</p>
	Custody arrangements may not be sufficient to safeguard pension fund assets.	4	2	8	MR	<ul style="list-style-type: none"> <li>An agreement is in place between the custodian and Pension Fund.</li> <li>Monthly reconciliations are carried out to check external custodian records.</li> <li>Funds held in the name of the Pension Fund, not the Fund Manager nor the Custodian.</li> </ul>	
	Investment returns fail to meet agreed targets.	4	2	8	MR	<ul style="list-style-type: none"> <li>Regular monitoring of investment returns.</li> <li>Advisory Panel review and challenge of fund manager performance against their benchmarks and targets.</li> <li>Use advisors to support the monitoring and challenge of fund managers.</li> <li>Where performance issues arise, put more targeted review and challenge arrangements in place.</li> </ul>	
	Adverse impact of the transition of the Pension Fund's assets into the Wales Pension Partnership pooling	4	2	8	MR	<ul style="list-style-type: none"> <li>Effective governance arrangement of the Joint Governance Committee and Officer Working Group.</li> <li>Key role undertaken by the Joint Governance Committee at transition process.</li> <li>Ensure operator establishes a tax efficient UK collective investment vehicle.</li> <li>The second sub fund for UK and European Equity investments was launched September 2019.</li> <li>Sub funds for fixed interest investments (tranche three) was agreed by the JGC and are now suitable and are in line with the Pension Fund's asset liability review. Transition arrangements into this sub fund have been delayed due to the market volatility. A provisional date of July 2020 has been agreed subject to market conditions.</li> <li>Transition to ARBS delayed (temporarily).</li> </ul>	Amended to reflect the transition delay and provisional date of the fixed interest investments into the WPP and the temporary delay to transition to ARBS.

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	Investments are not carried out by the fund manager in accordance with instructions given by the Pension Fund.	3	2	6	LR	<ul style="list-style-type: none"> <li>Investment assets and transactions are monitored in-house via the Euraplan Shareholder II system.</li> <li>Investment management fees are monitored on a quarterly basis.</li> </ul>	During March Baillie Gifford dropped below its minimum weighting of 35% in UK equities. This was due to the relative weakness to overseas markets over the past few months. Approval was given by the Panel
	Pension fund investments may not be accurately valued.	4	1	4	LR	<ul style="list-style-type: none"> <li>Investments are valued using correct prices obtained by fund managers from independent third party agencies.</li> </ul>	
	Fund managers may not have the appropriate control framework in place to protect pension fund assets.	4	1	4	LR	<ul style="list-style-type: none"> <li>Agreements are in place between fund managers and the Pension Fund.</li> <li>Portfolios are managed in accordance with the investment objectives.</li> <li>Monthly reconciliations are carried out to check portfolios against administering authority records.</li> <li>Third parties provide the Pension Fund with an annual internal control report, which provides assurance.</li> <li>FCA regulated.</li> <li>Fund managers have robust arrangements in place to manage mandates at difficult and volatile times</li> </ul>	Amended to reflect the robust procedures of all Fund Managers during Covid-19
	Fund manager mandate restrictions and benchmarks constrain returns.	3	1	3	LR	<ul style="list-style-type: none"> <li>Obtain advice from advisors.</li> <li>Obtain advice from performance measurement company.</li> </ul>	
Governance	Introduction of new pooling arrangements by central government	5	4	20	HR	<ul style="list-style-type: none"> <li>Joint Governance Committee and Officer Working Group has been formally constituted.</li> <li>Wales Pension Partnership's CIV proposal approved by FCA on 24<sup>th</sup> July 2018.</li> <li>Passive manager for Wales Pension Partnership has been appointed.</li> <li>Participation on consultation papers.</li> <li>Engagement with local pension boards.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating June 2020 qtr
	Failure to comply with LGPS Governance Regulation / Pension Regulator Code of Practice.	5	1	5	LR	<ul style="list-style-type: none"> <li>Fund Governance Compliance Statement is reviewed and published annually.</li> <li>The Fund's 'Pension Board' became effective from 1st April 2015.</li> <li>The Fund has a breaches policy.</li> <li>Review the Investment Strategy Statement annually in accordance with MHCLG guidance.</li> <li>Benchmark against regulator tool kit on code of practice.</li> <li>Submit Annual Pension Scheme Regulator Return on time.</li> <li>Good governance review currently ongoing by the Scheme Advisory Board.</li> </ul>	
	Members, officers and advisors do not have the right knowledge or skills.	4	1	4	LR	<ul style="list-style-type: none"> <li>The Pension Fund has adopted the CIPFA knowledge and skills framework.</li> <li>The Pension Fund Skill and Knowledge framework is reviewed at each Investment and Administration Panel, Pension Committee and Pension Board.</li> <li>The Pension Fund subscribes to relevant professional bodies, e.g. LAPFF.</li> </ul>	
	Loss of reputation.	2	2	4	LR	<ul style="list-style-type: none"> <li>The Fund holds Annual General Meetings, Communication Forums, seminars and training.</li> <li>The Fund has a dynamic website responding to stakeholder requirements.</li> <li>Knowledgeable and professional staff.</li> <li>Meetings are held regularly with the Fund's employer authorities.</li> <li>Benefit statements are sent out annually to members by 31<sup>st</sup> August.</li> <li>Monitoring of Fund Manager voting decisions.</li> <li>Annual reports are produced by 1<sup>st</sup> December.</li> <li>The Fund's Responsible Investment Policy is contained within the Investment Strategy Statement and available on the Pension Fund website <a href="http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments">http://www.rctpensions.org.uk/En/GovernanceandInvestments/Investments</a></li> <li>The Pension Committee (22<sup>nd</sup> October 2019) has agreed to transition passive assets into a low carbon product subject to due diligence. This transition has been delayed due to market volatility and Covid-19</li> </ul>	Amended to reflect the delay of transition of passive assets into a low carbon product. The delay is due to market volatility and the requirement of some market account openings to be notarised
	Conflicts of Interest arise.	3	1	3	LR	<ul style="list-style-type: none"> <li>Declarations to be made by Advisory Panel Members, Pension Board Members and Pension Committee Members.</li> <li>Director of Legal Services maintains a Register of Interests.</li> <li>Fund Governance Policy.</li> <li>Employer / Member Engagement – Communication Policy.</li> <li>Transparency – published audited accounts, Valuation, Annual Report, etc.</li> </ul>	

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	Failure to comply with the Myners Statement of Investment Principles.	2	1	2	LR	<ul style="list-style-type: none"> <li>The Statement is reviewed annually by the Advisory Panel and approved by the Pension Committee.</li> </ul>	
Operational	Loss of key staff / expertise.	4	3	12	MR	<ul style="list-style-type: none"> <li>Job descriptions and person specifications.</li> <li>Dynamic training programme.</li> <li>Workforce planning arrangements in place.</li> <li>All staff are currently working from home during Covid-19</li> </ul>	Amended to reflect that staff are currently agile working from home
	Compliance with data quality regulation and best practice.	5	2	10	MR	<ul style="list-style-type: none"> <li>Data Improvement Plan in place.</li> <li>Good relationships / communication with Employers.</li> <li>Ensure timely notification by Fund Employers of new starters, changes and leavers.</li> <li>Issue annual benefit statements to scheme members for review.</li> <li>Breaches policy in place.</li> <li>Mandatory rollout of I-connect, monthly data submissions.</li> <li>Monthly Data Screening.</li> <li>Common and Scheme Specific Data reviews / scoring.</li> <li>Scheme Member Self Serve validation available.</li> <li>Fund participation in the National 'Tell us Once Service'.</li> <li>TPR Annual Scheme Return and data score.</li> <li>Membership data is hosted in the UK.</li> </ul>	
	Cyber security breach of the Fund's pension system and personal data contained.	5	2	10	MR	<ul style="list-style-type: none"> <li>Third Party supplier – cyber reliance controls.</li> <li>Controls and environment maintained and regularly reviewed in line with Council's standards. Internal controls include, appropriate password and access conventions, firewalls, virus and malware protection, data encryption requirements.</li> <li>Annual control review or more frequent depending on environment / service changes.</li> <li>Designated Information Management Officer, with Security Incident reporting protocol.</li> <li>Cyber Essential Accreditation.</li> <li>Public Service Network (PSN) Accreditation.</li> <li>Information &amp; Security Board.</li> <li>All Wales Security Forum (WARP).</li> <li>Cyber Security Principles for Pension Schemes' (Self Assessment).</li> <li>Cyber Security Risk Assessment undertaken during Covid-19.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating June 2020 qtr
	Failure to meet Service Standards.	3	3	9	MR	<ul style="list-style-type: none"> <li>Pension Fund Administration Strategy.</li> <li>Workforce planning, realign to meet one off demands, skills and training review.</li> <li>Appropriate systems and technology.</li> <li>Regular monitoring by Fund governance groups.</li> </ul>	
	Failure to implement scheme changes.	4	2	8	MR	<ul style="list-style-type: none"> <li>Regular updates are received, reviewed and acted upon in a timely manner.</li> <li>Ensure software is adapted appropriately.</li> <li>Membership of relevant pensions professional bodies.</li> </ul>	
	Employer ceases to participate in Fund / Admitted bodies go into administration.	3	2	6	LR	<ul style="list-style-type: none"> <li>Employer covenants or bonds.</li> <li>Regular review of covenants.</li> </ul>	
	Failure to hold and share personal data in accordance with the General Data Protection Regulation (effective 28 <sup>th</sup> May 2018).	5	1	5	LR	<ul style="list-style-type: none"> <li>Administering Authority Information Management Security policies.</li> <li>All Scheme Member correspondence securely imaged.</li> <li>Appropriate Data Protection Registration.</li> <li>Third Party Data Sharing agreements in place.</li> <li>Fund Privacy Notice published.</li> <li>Employer Memorandum of Understanding implemented.</li> <li>Mandatory training undertaken by all staff.</li> <li>Awareness sessions held with the Fund's Governance groups.</li> </ul>	
	Failure to pay pensioners on time.	5	1	5	LR	<ul style="list-style-type: none"> <li>Payroll Timetables maintained.</li> <li>Business Continuity Plan.</li> </ul>	
	Delivery of Triennial Valuation	5	1	5	LR	<ul style="list-style-type: none"> <li>Employer Engagement : Year End Data Schedules Issued / Timetable / Support.</li> <li>Project Terms of Reference / Timetable agreed with Actuary April'19.</li> <li>Draft Employer Results issued March 2020.</li> <li>Full Report and Contribution Certificate published prior to 31/3/2020.</li> <li>Formal review of Funding Strategy.</li> <li>Employers fail to operate the correct 2019 valuation rate.</li> </ul>	Amended to reflect issue date of employers results. The triennial valuation is now completed Amended to include the monitoring of new employer contributions
	Qualification of accounts.	4	1	4	LR	<ul style="list-style-type: none"> <li>Financial Information reconciled on a timely basis.</li> <li>Accounts are prepared in accordance with the relevant regulations, guidance and Codes of Practice.</li> <li>Regular dialogue with external auditors.</li> </ul>	

Risk Category	Risk Description	IMPACT	LIKELIHOOD	RATING		Control Measure	Comments on changes in risk rating June 2020 qtr
	Operational disaster (fire / flood, etc)	4	1	4	LR	<ul style="list-style-type: none"> <li>Business continuity procedures are in place.</li> </ul>	
	Compliance with Fund 'Dispute' Regulation.	3	1	3	LR	<ul style="list-style-type: none"> <li>Internal Dispute Procedure in place.</li> </ul>	
	Failure by employers to pay contributions into the Fund on time and in accordance with the 2019 'Rates and Adjustments Certificate'.	2	1	2	LR	<ul style="list-style-type: none"> <li>Monitoring of monthly receipts to remittances, with reference to the 2019 'Rates and Adjustment Certificate'.</li> <li>Report any breaches to Regulator in accordance with the Fund's 'Breach Policy'</li> </ul>	No delays reported to date.
	Fraud.	2	1	2	LR	<ul style="list-style-type: none"> <li>Strict internal control mechanisms, segregation of duties, etc.</li> <li>Internal and External Audit Review.</li> <li>National Fraud Inspectorate participation.</li> <li>Whistleblowing policy in place.</li> </ul>	Internal Audit review in Q1/Q2
Regulatory	Failure to comply with LGPS regulations and any other new regulations.	4	1	4	LR	<ul style="list-style-type: none"> <li>There are sufficient fully trained staff.</li> <li>Regular updates are received and acted upon.</li> <li>Membership of relevant pensions professional bodies.</li> <li>Welsh Pension Officer Group participation.</li> <li>Welsh Pension Fund Treasurers Group participation.</li> <li>Compliance with MiFID II.</li> <li>Submit Annual Pension Scheme Regulator Return on time.</li> </ul>	
	Excessive charges by suppliers	1	2	2	LR	<ul style="list-style-type: none"> <li>Regular budget monitoring.</li> <li>Periodic review of suppliers.</li> </ul>	