

# Royal Borough of Kensington and Chelsea Pension Fund

## Investment Strategy Statement 2017/18

### 1. Introduction

- 1.1 This is the first Investment Strategy Statement (ISS) adopted by the Royal Borough of Kensington and Chelsea Pension Fund (“the Fund”).

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Royal Borough of Kensington and Chelsea Pension Fund is required to publish this ISS. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

- 1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

- A requirement to invest fund money in a wide range of instruments;
- The authority’s assessment of the suitability of particular investments and types of investment;
- The authority’s approach to risk, including the ways in which risks are to be measured and managed;
- The authority’s approach to pooling investments, including the use of collective investment vehicles;
- The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

We deal with each of these in turn below.

- 1.3 The Investment Committee of the Royal Borough of Kensington and Chelsea Pension Fund oversees the management of the Fund’s assets. Although not trustees, the Members of the Investment Committee owe a fiduciary duty similar to that of trustees to the council-tax payers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.
- 1.4 The relevant terms of reference for the Investment Committee within the Council’s Constitution are:

- To make all decisions under Regulations made pursuant to Sections 7, 12 or 24 of the Superannuation Act not otherwise falling to the Director of Finance to determine as set out in the officers' scheme of delegation.
- To determine the overall investment strategy and strategic asset allocation of the Pension Fund with regard to diversification and the suitability of asset classes;
- To appoint the investment managers, custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund;
- To monitor the performance of the custodians, actuary and external advisors to ensure that they remain suitable;
- To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls;
- To prepare, publish and maintain the Investment Strategy Statement, and monitor compliance with the statement and review its contents;
- To prepare, publish and maintain the Funding Strategy Statement (FSS), the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy;
- To approve the final accounts and balance sheet of the Pension Fund and approve this Annual Report in accordance with the relevant Accounts & Audit Regulations made from time to time;
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund;
- To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately;
- To receive and consider the external auditors' report on the governance of the Pension Fund;
- And to review policy on social, environmental and ethical considerations, and on the exercise of voting rights.

The Town Clerk and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

- 1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or make significant changes to the FSS.
- 1.6 Under the previous Regulations, the Statement of Investment Principles required administering authorities to state how they complied with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles.
- 1.7 Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharges its stewardship responsibilities.

## **2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments**

- 2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.
- 2.2 In order to control risk the Investment Committee recognises that the Fund should have an investment strategy that has:
  - Exposure to a diverse range of sources of return, such as differing markets, manager skill and through the use of less liquid holdings;
  - Diversity in the asset classes used;
  - Diversity in the approaches to the management of the underlying assets.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

- 2.3 This approach to diversification has seen the Fund divide its assets across 4 broad categories; global equities, absolute return funds, private equity, and property. The size of assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.
- 2.4 The main risk the Investment Committee are concerned with is to ensure that the long-term ability of the fund to meet pension and other benefit obligations as they fall due is met. As a result, the Investment Committee places a high degree of importance on ensuring the expected return on the assets is sufficient to meet these

obligations and does not have to rely on a level of risk which the Investment Committee considers excessive.

Whilst the Fund currently has a surplus of income over expenditure the Investment Committee is mindful that this position may change in future and keeps the liquidity of the Fund monitored.

At all times the Investment Committee takes the view that its investment decisions, including those involving diversification, should be in the best long-term interest of Fund beneficiaries and minimise calls on the Council's resources.

2.5 To mitigate these risks the Investment Committee regularly reviews both the performance and expected returns of the Fund's investments to measure whether it has met and is likely to meet in future its return objectives. In addition to keeping its investment strategy and policy under regular review, the Investment Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

### **3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment**

3.1 When assessing the suitability of investments, The Royal Borough of Kensington and Chelsea Pension Fund takes into account a number of factors:

- The prospective return;
- Risk;
- Concentration in a particular asset-type;
- Risk management qualities of the asset type and relative to the portfolio as a whole;
- Geographic and currency exposures;

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark against which reported performance is measured.

3.3 The Investment Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end it monitors the investment returns and the volatility of the individual investments, together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available, the Investment Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Investment Committee relies on external advice in relation to the collation of the statistics for review.

#### **4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed**

4.1 The Investment Committee has recognised that there are risks involved in the investment of the assets of the Fund and set these out in a Risk Register (See Appendix C). The key risks are:

4.2 Geopolitical and currency risks:

- Are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- Are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

- Is measured by the expected deviation of the prospective risk and return as set out in the managers' investment objectives, relative to the investment policy; and
- Is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the managers' investment process.

4.4 Solvency and mismatching risk:

- Are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- Are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- Is measured by the level of cash flow required over a specified period; and
- Is managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the cash investment policy

4.6 Custodial risk:

- Is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

- 4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within sections 13 to 16 of the Funding Strategy Statement. The risks to the Fund are controlled in the following ways:
- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting flexibility for managers to enhance returns;
  - The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk.
- 4.8 The investment management agreements constrain the managers' actions in areas of particular risk and set out the respective responsibilities of both the managers and the Royal Borough of Kensington and Chelsea Pension Fund.
- 4.9 The Royal Borough of Kensington and Chelsea Pension Fund and the Investment Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of The Royal Borough of Kensington and Chelsea Pension Fund to meet the future contributions, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely volatility in the actuarial funding position and the impact this has on contributions.
- 4.10 The Royal Borough of Kensington and Chelsea Pension Fund and the Investment Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy, the Investment Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The Investment Committee is also mindful that correlations change over time and at times of stress can be significantly different from those in more benign market conditions.

To help manage, risk the Investment Committee uses an external investment adviser for monitoring purposes. In addition, when undertaking investment strategy reviews the Investment Committee has used different investment advisers to assess the level of risk involved.

4.11 The Fund targets a long-term return of 4.9 per cent per annum and the Fund's investment strategy is considered to have a low degree of volatility.

4.12 When reviewing the investment strategy, the Investment Committee considers advice from its advisers and the need to take additional steps to protect the value of the assets or to realise capital gains should the opportunity arise.

4.13 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

## **5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles**

5.1 The Royal Borough of Kensington and Chelsea Pension Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures the maximum benefit for the Fund, in terms of return, management costs and the appropriateness of governance arrangements.

5.2 The Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.3 The Fund is looking to transition assets into the London CIV when it is satisfied that the criteria in 5.1 have been met. It does not currently have any assets with the CIV.

5.4 At each review of the investment strategy, which will happen at least every three years, the investment of the Fund's assets will be actively considered by the Royal Borough of Kensington and Chelsea Pension Fund, and in particular whether a collective investment option is available or appropriate.

## **6 Objective 7.2(e): How social, environmental or corporate governance (ESG) considerations are taken into account in the selection, non-selection, retention and realisation of investments**

6.1 The Investment Committee has considered socially responsible investment (SRI) in the context of its legal and fiduciary duties and

obligations. The Committee takes the view that non-financial factors should not drive the investment process at the cost of financial return on the Fund.

- 6.2 The Fund does not actively disinvest in companies for ethical, social or environmental reasons as this may impact on fund returns and would not accord with its principal objectives. The Committee does not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, the Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.
- 6.3 As a responsible investor, The Royal Borough of Kensington and Chelsea Pension Fund wishes to promote corporate social responsibility, good practice and improved performance in the managers through which it invests. It is clear that adverse publicity relating to low corporate, environmental or social standards can have an adverse impact on shareholder value, the Fund, its beneficiaries and local taxpayers.
- 6.4 All of the managers through which the Fund invests comply with the United Nations Principles for Responsible Investment (UNPRI). The Investment Committee is reassured by this that its assets are being invested responsibly.
- 6.5 Committee members are also keen to engage with managers on their active voting records, particularly where, with policies such as remuneration, this could have an impact on shareholder value.

## **7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments**

- 7.1 The Fund is committed to making full use of its shareholder rights, and this is covered in 6.4 and 6.5. The Investment Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund.
- 7.2 The Fund expects its Fund Managers to vote in an appropriate and informed manner and report their voting actions in their quarterly investment reports. The exercise of shareholder's rights is delegated to the Fund Managers as part of their mandate. Fund Managers will vote in accordance with their Corporate Governance Policy Statements. These policy statements have been developed with the recommendations of Institutional Shareholder Service (ISS), National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI).

## **8 Feedback on this statement**

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues, then please contact:

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## **Investment Strategy Statement: Appendix A**

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

### **Decision Making**

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012",

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

### **Principle 1 - Effective decision-making**

#### **Administering authorities should ensure that:**

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

## **Full Compliance**

The council has delegated the management and administration of the Fund to the Investment Committee, which meets at least quarterly. The responsibilities of the Investment Committee are described in paragraph 1.4 of the ISS.

The Investment Committee is made up of elected members of the Council who each have voting rights and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers.

The Investment Committee obtains and considers advice from and is supported by the Director of Finance, Corporate Finance and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Investment Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Investment Committee annually and progress is monitored on a quarterly basis.

Several of the Investment Committee members have extensive experience of dealing with Investment matters and training is made available to new Investment Committee members as required.

## **Principle 2 - Clear objectives**

**An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.**

## **Full Compliance**

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

### **Principle 3 – Risk and liabilities**

**In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.**

#### **Full Compliance**

The Investment Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 4.3 of the SIP.

### **Principle 4 – Performance Assessment**

**Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members**

#### **Full Compliance**

The Investment Committee has appointed investment managers with clear index strategic benchmarks (see paragraph 4.3) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Hymans, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover, portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Investment Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition, the Investment Committee receives quarterly reports as to how the Fund has performed against their investment objective. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

## **Principle 5 – Responsible Ownership**

### **Administering authorities should:**

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

### **Full Compliance**

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's SRI Policy.

## **Principle 6 – Transparency and reporting**

### **Administering authorities should:**

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

### **Full Compliance**

Links to the Governance Compliance Statement, the ISS, the FSS, the SRI Policy and the Communications Statement are all included in the Pensions

Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, internal intranet and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet. The Fund's Annual Report includes an assessment of the Fund's performance and an extract from the accounts is sent to stakeholders annually.

## **Investment Strategy Statement: Appendix B**

### Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

The seven principles, together with the council's position on compliance, are set out below:

The Stewardship responsibilities are outlined in section 1.4 of the ISS, which outlines the terms of reference of the Investment Committee.

Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The Investment Committee actively monitors the Fund Managers through quarterly performance analysis, periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- Fund manager performance;
- Investment Process compliance and changes;
- Changes in personnel (joiners and leavers);
- Significant portfolio developments;
- Breaches of the IMA;
- Business wins and losses; and
- Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA), which is reported on a quarterly basis to Investment Committee members via the Council's intranet site.

All the Fund's managers, listed below, have signed up to the United Nations Principles for Responsible investment.

The investment managers used by the Fund are: Adams Street (private equity), Baillie Gifford (active global equity), CBRE (property), Kames (property), Legal and General (passive global equity and cash), Longview (active global equity) and Pырford (absolute return).

**2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

The Investment Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.

Investment Committee members are also required to make declarations of interest prior to all Investment Committee meetings.

**3. Monitor their investee companies.**

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

Reports from fund managers on voting and engagement activity are received and will be reported to the Investment Committee members on a quarterly basis. Concerns are raised directly with the fund managers and issues raised are reported back to the Investment Committee at the subsequent Investment Committee meeting.

Fund manager Internal Control reports are monitored, with breaches reported back to the Investment Committee.

**4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.**

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

**5. Willing to act collectively with other investors where appropriate.**

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

Where possible, the Fund seeks to exercise its voting rights attached to its non- UK equity holdings by delegation through Power of Attorneys.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues

**6. Have a clear policy on voting and disclosure of voting activity.**

The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the ISS and SRI Policy,

**7. Report periodically on their stewardship and voting activities.**

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.

The Fund's annual report includes information about the Fund's voting and engagement work

**Investment Strategy Statement: Appendix C – Risk Register**

Please note that the risk register is due to be updated following the publication of the final Triennial Valuation Report.

Appendix 1: Pension Fund risk register, January 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	<b>STRATEGIC: INVESTMENT</b> That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> <li>Investment strategy in place and reviewed periodically.</li> <li>Performance is measured against a liability based benchmark.</li> <li>Fund performance is reviewed quarterly.</li> </ul>	2	3	Low 6 	Tri-borough Director of Treasury and Pensions	February 2015
2	<b>STRATEGIC: INVESTMENT</b> Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> <li>Independent monitoring of fund manager performance by custodian against targets.</li> <li>Investment adviser retained to keep watching brief.</li> <li>Fund manager performance is reviewed quarterly.</li> </ul>	3	3	Low 9 	Tri-borough Director of Treasury and Pensions	February 2015
3	<b>STRATEGIC: INVESTMENT</b> Failure of custodian or counterparty.	<ul style="list-style-type: none"> <li>At time of appointment, ensure assets are separately registered and segregated by owner.</li> <li>Review of internal control reports on an annual basis.</li> <li>Credit rating kept under review.</li> </ul>	2	5	Low 10 	Tri-borough Director of Treasury and Pensions	February 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	<b>STRATEGIC: FUNDING</b> The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> <li>Review at each triennial valuation and challenge actuary as required.</li> <li>Growth assets and inflation linked assets in the portfolio should rise as inflation rises.</li> </ul>	4	3	Medium 12 	Tri-borough Director of Treasury and Pensions	February 2015
5	<b>STRATEGIC: FUNDING</b> There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	<ul style="list-style-type: none"> <li>Cashflow forecast maintained and monitored.</li> <li>Cashflow requirement is a factor in current investment strategy review.</li> </ul>	2	1	Very Low 2 	Tri-borough Director of Treasury and Pensions	February 2015
6	<b>STRATEGIC: FUNDING</b> Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> <li>Review at each triennial valuation and challenge actuary as required.</li> </ul>	4	2	Low 8 	Tri-borough Director of Treasury and Pensions	February 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
7	<b>STRATEGIC: FUNDING</b> Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> <li>Review maturity of scheme at each triennial valuation.</li> <li>Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions.</li> <li>Cashflow position monitored monthly.</li> </ul>	2	3	Low 6 	Tri-borough Director of Treasury and Pensions	February 2015
8	<b>STRATEGIC: REGULATION</b> Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> <li>Maintain links with central government and national bodies to keep abreast of national issues.</li> <li>Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.</li> </ul>	3	4	Medium 12 	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
9	<b>OPERATIONAL: GOVERNANCE</b> Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> <li>Officers maintain knowledge of legal framework for routine decisions.</li> <li>Eversheds retained for consultation on non-routine matters.</li> </ul>	2	2	Very Low 4 	Tri-borough Director of Treasury and Pensions	February 2015
10	<b>OPERATIONAL: GOVERNANCE</b> Investment Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> <li>External professional advice is sought where required</li> </ul> <p><u>FUTURE ACTION</u> to reduce score: Develop a knowledge and skills framework to evidence members' existing knowledge and skills and provide training to enhance these if required.</p>	3	3	Low 9 	Tri-borough Director of Treasury and Pensions	February 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
11	<p><b>OPERATIONAL: GOVERNANCE</b> Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements.</p>	<ul style="list-style-type: none"> <li>Person specifications are used at recruitment to appoint officers with relevant skills and experience.</li> <li>Training plans are in place for all officers as part of the performance appraisal arrangements.</li> <li>Tri- and bi- borough nature of the pensions teams provides resilience and sharing of knowledge.</li> </ul> <p><u>FUTURE ACTION</u> to reduce score: All officers involved with the Fund have relevant experience and through training courses are enhancing their knowledge, which should result in a lowering of the likelihood risk score.</p>	3	2	<p>Low</p> <p>6</p> 	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2015
12	<p><b>OPERATIONAL: GOVERNANCE</b> Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.</p>	<ul style="list-style-type: none"> <li>At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place.</li> <li>Investment Committee and officers scrutinise and challenge advice provided.</li> </ul>	2	2	<p>Very Low</p> <p>4</p> 	Tri-borough Director of Treasury and Pensions	February 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
13	<b>OPERATIONAL: FUNDING</b> Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> <li>Transferee admission bodies required to have bonds in place at time of signing the admission agreement.</li> <li>Regular monitoring of employers and follow up of expiring bonds.</li> </ul>	3	2	Low 6 	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2015
14	<b>OPERATIONAL: FUNDING</b> Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	<ul style="list-style-type: none"> <li>Review "budgets" at each triennial valuation and challenge actuary as required.</li> <li>Charge capital cost of ill health retirements to admitted bodies at the time of occurring.</li> <li>Occupational health services provided by the Council and other large employers to address potential ill health issues early.</li> </ul>	3	2	Low 6 	Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR	February 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
15	<p><b>OPERATIONAL: ADMINISTRATION</b> Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.</p>	<ul style="list-style-type: none"> <li>• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place.</li> <li>• Review of third party internal control reports.</li> <li>• Regular reconciliations of pension payments undertaken by Pensions Finance Team.</li> <li>• Periodic internal audits of Pensions Finance and HR teams.</li> </ul>	3	2	<p>Low 6</p> 	<p>Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR</p>	February 2015
	<p><b>OPERATIONAL: ADMINISTRATION</b> Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.</p>	<ul style="list-style-type: none"> <li>• Contract monitoring in place with all providers.</li> <li>• Procurement team send alerts whenever credit scoring for any provider changes for follow up action.</li> </ul>	3	1	<p>Very Low 3</p> 	<p>Tri-borough Director of Treasury and Pensions and Bi-borough Director of HR</p>	February 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
17	<b>OPERATIONAL: ADMINISTRATION</b> Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	TBC			TBC	Bi-borough Director of HR	
18	<b>OPERATIONAL: ADMINISTRATION</b> Failure to pay pension benefits accurately leading to under or over payments.	TBC			TBC	Bi-borough Director of HR	
19	<b>OPERATIONAL: ADMINISTRATION</b> Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	TBC			TBC	Bi-borough Director of HR	

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
20	<b>OPERATIONAL: ADMINISTRATION</b> Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	TBC			TBC	Bi-borough Director of HR	
21	<b>OPERATIONAL: ADMINISTRATION</b> The switch from Capita to Surrey County Council results in a disruption to the service or a loss of data leading to poor performance and complaints.	TBC			TBC	Bi-borough Director of HR	

