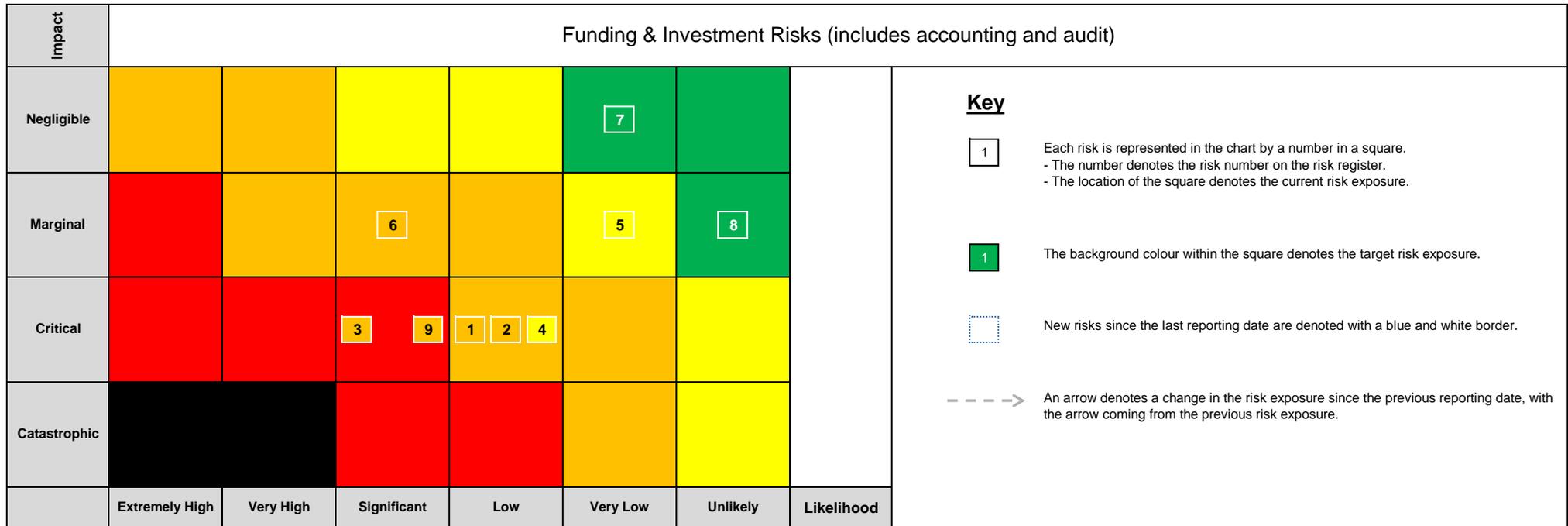


Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary

Appendix 2



03 February 2023

Clwyd Pension Fund - Control Risk Register
Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement (06/2021) and Investment Strategy Statement (03/2022):

- F1 Achieve and maintain assets equal to 100% of liabilities within the 13 year average timeframe whilst remaining within reasonable risk parameters
- F2 Determine employer contribution requirements, whilst 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
- I1 Promote acceptance of sustainability principles and work together with others to enhance the Fund's effectiveness in implementing these
- I2 Aim to use the Wales Pensions Partnership as the first choice for investing the Fund's assets subject to it being able to meet the requirements of the Fund's investment strategy and objectives (including sustainability requirements), within acceptable longterm costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.

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	Orange	1 - Ensuring appropriately prudent assumptions on an ongoing basis 2 - All controls in relation to other risks apply to this risk 3 - Consider employer covenant and reasonable affordability of contributions for each employer as part of the valuation process and as part of the ongoing risk management framework.	Critical	Very Low	Orange	☹️ Current likelihood 1 too high	07/05/2020	Mar 2023	1 - Discussions with Employers to assess affordability as part of Triennial Actuarial Valuation (DF)	Head of CPF	28/04/2023	31/01/2023
2	Funding level reduces, increasing deficit / reducing surplus	Movements in assets and/or liabilities (as described in 3.4,5) in combination, which leads to a reduction in funding level and increased contribution requirements in particular	F1 / F2 / F3 / F4 / F5 / F7	Critical	Low	Orange	See points within points 3,4 and 5	Marginal	Low	Orange	☹️ Current impact 1 too high	31/03/2016	Mar 2023	1 - Equity Protection Strategy to be reviewed regularly (DF) 2 - In conjunction with Risks 3, 4 and 5 – overall return outlook will be considered as part of the investment strategy review (PL) See points within points 3, 4 and 5	Head of CPF	28/04/2023	31/01/2023
3	Investment targets are not achieved therefore materially reducing solvency / increasing contributions	-Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented. - Black swan event e.g. global pandemic such as Covid-19 - Wales Pension Partnership (WPP) does not provide CPF with portfolios to deliver the Investment Strategy - Internal team do not have sufficient knowledge in order to challenge the investment managers on the advice given or understand the implications of all investment choices issues on the fund	F1 / F2 / F3 / F4 / F7	Critical	Significant	Red	1 - Use of a diversified portfolio (regularly monitored) 2 - Flightpath in place to exploit these opportunities in appropriate market conditions 3 - Monthly monitoring at Investment Day, FRMG and TAAG meetings 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee 5 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 6 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of investment opportunities available 7 - Consideration and understanding of potential Brexit implications on inflation. 8 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions. 9 - Officers work closely with the WPP to ensure that CPF has the ability to pool its assets in an efficient and effective manner	Critical	Low	Orange	☹️ Current likelihood 1 too high	02/08/2022	Mar 2023	1 - Consider Inflation resiliency of the investment portfolio as part of the investment strategy review(DF)	Dep. Head of CPF	28/04/2023	31/01/2023
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	Low	Orange	1 - LDI strategy in place to control/limit interest and inflation risks. 2 - Use of a diversified portfolio which is regularly monitored. 3 - Monthly monitoring of funding and hedge ratio position versus targets. 4 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the Pensions Advisory Panel and Committee. 5 - Consideration and understanding of potential Brexit implications. 6 - Consideration and understanding of potential Covid-19 implications. 7 - The level of hedging was increased over September as yield triggers were hit, the level of hedging continues to be monitored and reported.	Marginal	Very Low	Yellow	☹️ Current impact 1 too high Current likelihood 1 too high	31/03/2016	Mar 2023	1 - Consider as part of Triennial Actuarial Valuation (DF)	Dep. Head of CPF	28/04/2023	31/01/2023
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	Yellow	1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.	Marginal	Very Low	Yellow	☺️			1 - Consider as part of Triennial Actuarial Valuation (DF)	Dep. Head of CPF	28/04/2023	31/01/2023
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), 2022 consultation and other funding and investment related requirements - ultimately this could increase employer costs	F1 / F2 / F3 / F4 / F5 / F6 / F7/I1	Marginal	Significant	Orange	1 - Ensuring that Fund concerns are considered by the Pensions Advisory Panel and Committee as appropriate 2 - Employers and interested parties to be kept informed and impact monitored 3 - Monitor developments over time, working with investment managers, investment advisers, Actuary and other LGPS 4 - Participation in National consultations and lobbying 5 - Potential legislative agenda for ambitious net zero is an ongoing point of focus 6 - Continue with the monitoring of Link via the Host authority in terms of performance and ability to continue to provide polling services 7 - Fund policies updated to reflect latest flexibility Regulations on contribution rate reviews and deferred debt arrangements	Marginal	Low	Orange	☹️ Current likelihood 1 too high	31/03/2016	Mar 2023	1 - Ensure that the Host Authority is monitoring the WPP operator contract (PL) 2 - Respond to Government consultations on investments when released (DF)	Dep. Head of CPF	28/04/2023	31/01/2023
7	Insufficient cash or liquid 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. - Private Markets distributions could dry up due to liquidity in markets.	F1 / F6	Negligible	Very Low	Green	1 - Cashflow monitoring (including private markets) to ensure sufficient funds 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Holding sufficient liquid assets as part of agreed cashflow management policy 4 - Monitor cashflow requirements to ensure that they have enough liquid assets to pay the benefits when needed 5 - Cash management policy is documented to help monitor and manage cashflow issues 6 - Employers have been informed to notify Fund of any significant restructuring exercises. 7 - Employers have been informed to notify Fund of potential contract end dates (incl. changes) in the contract time to reduce risk of large payments (i.e. through a contribution rate review in advance of the contract end date)	Negligible	Very Low	Green	☺️			1 - Ongoing monitoring of cashflow and collateral in the context of new valuation contributions (DF)	Dep. Head of CPF	28/04/2023	31/01/2023
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	Unlikely	Green	1 - Consider profile of Fund employers and assess the strength their covenant and/or whether there is a quality guarantee in place. 2 - When setting terms of new admissions require a guarantee or bond. 3 - Formal consideration of this at each actuarial valuation plus proportionate monitoring of employer strength. 4 - Identify any deterioration and take action as appropriate through discussion with the employer.	Marginal	Unlikely	Green	☺️			1 - Update analysis as part of the Triennial Actuarial Valuation (DF)	Dep. Head of CPF	28/04/2023	31/01/2023
9	The Fund's Long term Investment Strategy fails to deliver on its ambition and objectives as a Responsible Investor.	1. Responsible Investment (including Climate Change) is not properly considered within the Fund's long-term Investment Strategy meaning it is not sustainable and does not address all areas of being a Responsible Investor 2. WPP does not provide CPF with the tools to enable implementation of RI policies	F1, F4, F8, I1, I2	Critical	Significant	Red	1. Fund has in place Responsible Investment (RI) Strategy 2. RI Policy has 5 Strategic RI Priorities 3. WPP has RI policy in place 4. Fund has adopted a 2045 Net Zero ambition for its Investment Strategy.	Critical	Low	Orange	☹️ Current likelihood 1 too high	03/02/2020	Mar 2023	1 - Implement Strategic RI Priorities (including TCFD), including ongoing analysis of the Fund's carbon Footprint. Identify sustainable investment opportunities and improve disclosure and reporting 2 - Work with WPP to ensure the Fund is able to implement effectively via the Pool	Dep. Head of CPF	28/04/2023	31/01/2023