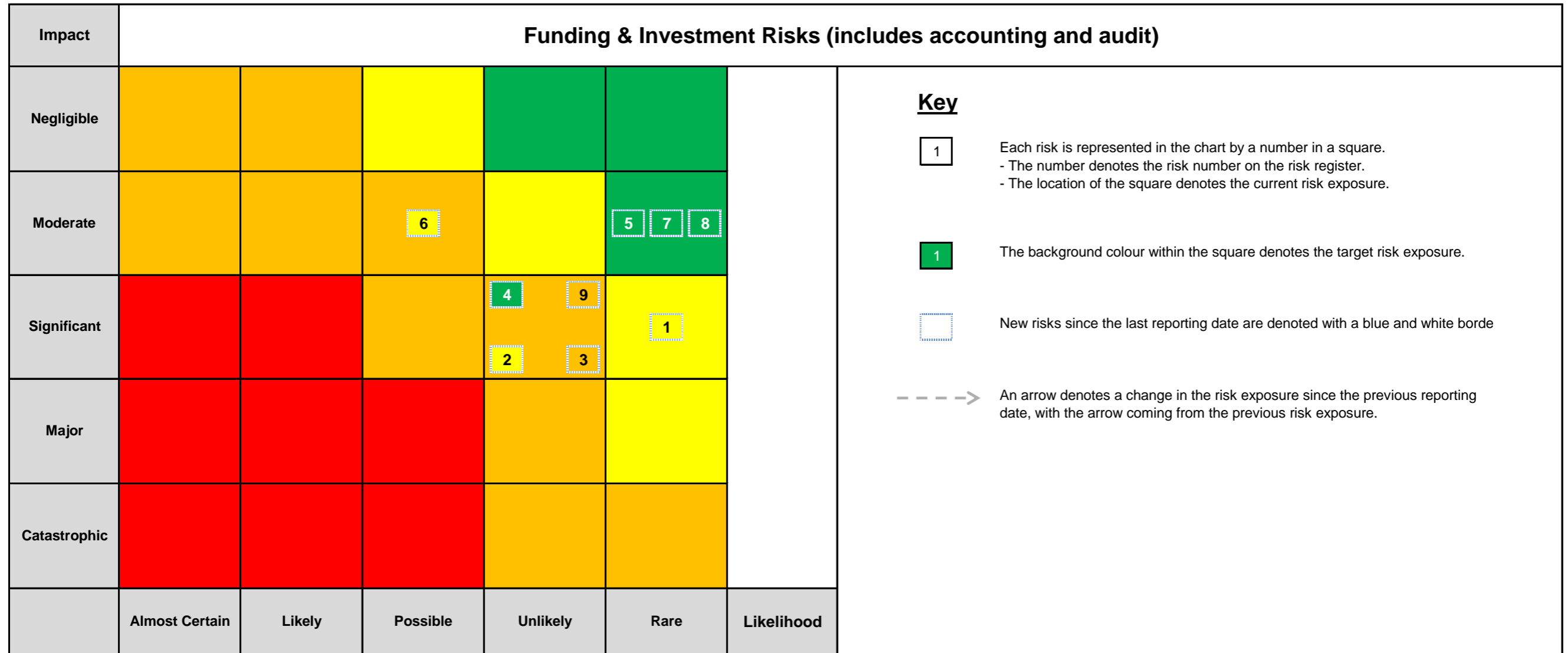


Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



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

Objectives can be found within a separate summary

Risk no:	Risk Event (this [event] could happen)	Risk cause (...due to [cause]...)	Risk Impact (...which may result in the following [impact] to our objectives)	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	- Market yields/inflation moving out of line from actuarial assumptions, - Adverse employer experience, - Change in employer circumstances	An appropriate funding strategy can not be set	F1 / F2 / F3 / F4 / F5	Significant	Rare		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	Significant	Rare		😊			1 - Will be considered again as part of the interim funding review (PL)	Phil Latham	02/10/2024	02/09/2024
2	Funding level reduces,	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.	Increasing deficit / reducing surplus increasing contribution requirements in particular	F1 / F2 / F3 / F4 / F5 / F7	Significant	Unlikely		See points within points 3,4 and 5	Moderate	Unlikely		😐 Current impact 1 too high	02/09/2024	Mar 2025	1 - Will be considered again as part of the interim funding review (PL) 2 - In conjunction with Risks 3, 4 and 5 – overall market conditions are monitored continuously (PL) 3 - See points within points 3, 4 and 5 (PL)	Phil Latham	02/10/2024	02/09/2024
3	Investment targets are not achieved	- Markets perform below actuarial - 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	Materially reducing solvency / increasing contributions	F1 / F2 / F3 / F4 / F7	Significant	Unlikely		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 factors impacting 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 10 - Officers receive regular investment training, attend external conferences to gain wider knowledge, engage with consultants on a frequent basis to maintain knowledge on current market conditions	Significant	Unlikely		😊			1 - Continue to monitor market conditions, underlying asset classes and investment managers either directly or via WPP (PL) 2 - Ongoing knowledge retention and training. (PL) 3 - Incorporate maintenance of local knowledge in the new officer structure (PL) 4 - Investment targets will be considered as part of the interim funding review and 2025 valuation (PL)	Phil Latham	02/10/2024	02/09/2024
4	Value of liabilities increase due to market yields/inflation	- Market factors impact on inflation - Market factors impact on interest rates	Increasing deficit / reducing surplus increasing contribution requirements in particular	F1 / F2 / F4 / F5 / F7	Significant	Unlikely		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 - The level of hedging continues to be monitored and reported	Moderate	Rare		😐 Current impact 1 too high Current likelihood 1 too high	02/09/2024	Mar 2025	1 - Will be considered again as part of the interim funding review (PL) 2 - In conjunction with Risks 3 and 5 – overall market conditions are monitored continuously (PL)	Phil Latham	02/10/2024	02/09/2024
5	Value of liabilities/contributions change due to demographics	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	Increasing deficit / reducing surplus increasing contribution requirements in particular	F1 / F2 / F5 / F7	Moderate	Rare		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	Moderate	Rare		😊			1 - Consider trend evidence as part of 2024 interim review (PL) 2 - Consider fully at each triennial Actuarial Valuation (PL)	Phil Latham	02/10/2024	02/09/2024
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), and other funding and investment related requirements	Increasing deficit / reducing surplus increasing contribution requirements in particular	F1 / F2 / F3 / F4 / F5 / F6 / F7/I1	Moderate	Possible		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 Waystone via the Host Authority in terms of performance 7 - Fund policies updated to reflect latest flexibility Regulations on contribution rate reviews and deferred debt arrangements	Moderate	Unlikely		😐 Current likelihood 1 too high	02/09/2024	Mar 2025	1 - Consider at the next Investment Strategy Review (PL) 2 - Objectives will be also considered as part of 2024 interim funding review (PL)	Phil Latham	02/10/2024	02/09/2024
7	Insufficient cash or liquid assets to pay benefits	- Insufficient cash (due to failure in managing cash) or only illiquid assets available - 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.	Longer term this will likely become a problem and would result in unanticipated investment costs	F1 / F6	Moderate	Rare		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 - Employers have been informed to notify Fund of any significant restructuring exercises 5 - Monitor cashflow requirements (including Private Market commitments) to ensure that they have enough liquid assets to pay the benefits when needed 6 - Employers have been informed to notify Fund of potential contract end dates (incl. changes) in sufficient time to reduce risk of large payments (i.e. through a contribution rate review in advance of the contract end date) 7 - Cash management policy has been implemented to monitor and manage cashflow issues	Negligible	Rare		😐 Current impact 1 too high	02/09/2024	Mar 2025	1 - Possible future employer contributions and benefit payments will be considered in the 2024 interim funding review (PL)	Phil Latham	02/10/2024	02/09/2024
8	Loss of employer income	Employer ceasing to exist with insufficient funding (bond or guarantee)	Employer and/or other employers become liable for their deficits	F5 / F7	Moderate	Rare		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	Moderate	Rare		😊			1 - Ongoing monitoring and consideration as part of covenant review in the run up to the 2025 valuation (PL)	Phil Latham	02/10/2024	02/09/2024
9	The Fund's Long term Investment Strategy fails to deliver on its ambition and objectives as a Responsible Investor	- Responsible Investment (including Climate Change) is not properly considered within the Fund's long-term Investment Strategy - WPP does not provide CPF with the tools to enable implementation of RI policies	The Investment Strategy is not sustainable and does not address all areas of being a Responsible Investor	F1, F4, F8, I1, I2, I3	Significant	Unlikely		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 Net Zero ambition by 2045 for its Investment Strategy 5 - RI Framework in place to assess RI risks and impacts holistically 6 - Fund has in place an Exclusion Policy	Significant	Unlikely		😊			1 - Implement the responsible investment plan as outlined in the business plan including a review of the current carbon reduction targets, and initial training on nature related financial disclosures (PL) 2 - Work with WPP to ensure the Fund is able to implement the Fund's RI Policy and ambitions effectively via WPP (PL) 3 - Incorporate TNFD requirements into strategy and review ISS as per business plan (PL)	Phil Latham	02/10/2024	02/09/2024

Clwyd Pension Fund - Control Risk Register

Objectives for Funding & Investment Risks (includes accounting and audit) risks

Policy/Strategy	Reference	Objective
Funding Strategy Statement	F1	Achieve and maintain assets equal to 100% of liabilities within the 12 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
Investment Strategy Statement	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 long-term costs to deliver the expected benefits and subject to ongoing confidence in the governance of the Partnership.
	I3	Ensure that the Fund's investments are aligned with the transition to a low carbon economy through a commitment to achieving a net zero carbon dioxide emission's target by 2045