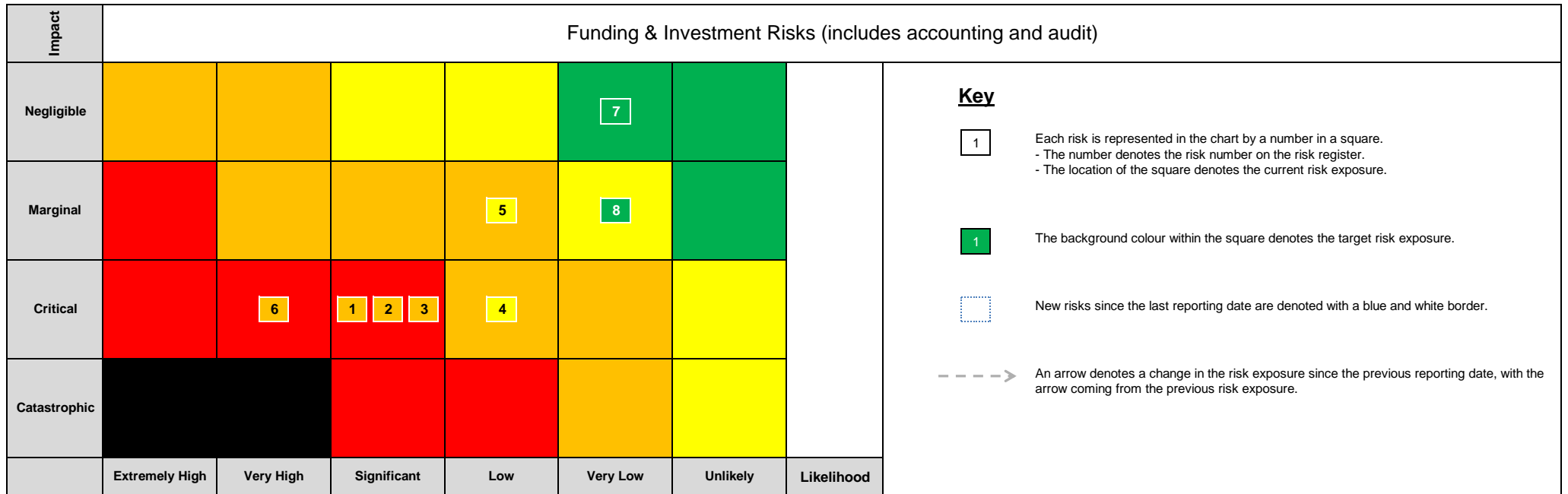


## Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



19 September 2016

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

Objectives extracted from Funding Strategy Statement (5/2015) and Statement of Investment Principles (6/2015):

- F1 Achieve and maintain assets equal to 100% of liabilities 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.

| 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?   | Further Action?   | Risk Manager             | Next review date | Last Updated | Previous Impact | Previous Likelihood | Previous Risk Status | Risk removed (date) |
|----------|--|---|--|--------------------------|------------------------------|---------------------|---|-------------------------|-----------------------------|--------------------|---|---|--------------------------|------------------|--------------|-----------------|---------------------|----------------------|---------------------|
| 1        | Employer contributions are unaffordable and/or unstable  | An appropriate funding strategy can not be set  | F1 / F2 / F3 / F4 / F5                 | Critical                 | Significant                  | Red                 | 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                    | Orange             | ☹️ Current likelihood 2 too high                              | 1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation including building a framework to monitor employer risk  | CPFM                     | 30/09/2016       | 14/04/2016   | Critical        | Significant         | Red                  |                     |
| 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                  | Red                 | See points within points 3,4 and 5  | Marginal                | Low                         | Orange             | ☹️ Current impact 1 too high<br>Current likelihood 1 too high | See points within points 3,4 and 5  | CPFM                     | 30/09/2016       | 14/04/2016   | Critical        | Significant         | Red                  |                     |
| 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                  | Red                 | 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. | Critical                | Low                         | Orange             | ☹️ Current likelihood 1 too high                              | 1 - The impact of the assumptions will be considered and quantified in more detail as part of the 2016 Actuarial Valuation<br>2 - Review of flight path strategy following valuation<br>3 - Review of investment strategy following valuation | Pension Finance Managers | 30/09/2016       | 14/04/2016   | Critical        | Significant         | Red                  |                     |
| 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.<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.   | Marginal                | Very Low                    | Yellow             | ☹️ Current impact 1 too high<br>Current likelihood 1 too high | 1 - This risk will be considered and quantified in more detail as part of the 2016 Actuarial Valuation<br>2 - Review of flight path strategy following valuation  | Pension Finance Managers | 30/09/2016       | 14/04/2016   | Critical        | Low                 | Orange               |                     |
| 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                 | Low                          | Orange              | 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                    | Yellow             | ☹️ Current likelihood 1 too high                              | 1 - Assumptions and experience will be considered as part of the 2016 valuation.  | Pension Finance Managers | 30/09/2016       | 14/04/2016   | Marginal        | Low                 | Orange               |                     |
| 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), tax treatments, results of the EU referendum, MIFIDII and other funding and investment related requirements - ultimately this could increase employer costs | F1 / F2 / F3 / F4 / F5 / F6 / F7       | Critical                 | Very High                    | Red                 | 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  | Marginal                | Low                         | Orange             | ☹️ Current impact 1 too high<br>Current likelihood 2 too high | 1 - Fund has no control over this except through responses to consultations etc. There are tax changes proposed by Government which could adversely affect membership.  | CPFM                     | 30/09/2016       | 14/04/2016   | Critical        | Very High           | Red                  |                     |
| 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                                      | F1 / F6                                | Negligible               | Very Low                     | Green               | 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                    | Green              | ☺️  | 1 - Inform major employers of the requirement to notify Fund of any significant restructuring exercises. (Need to consider controls currently in place).  | Pension Finance Managers | 30/09/2016       | 14/04/2016   | Negligible      | Very Low            | Green                |                     |
| 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                     | Yellow              | 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                    | Green              | ☹️ Current likelihood 1 too high                              | 1 - Employer risk management framework to be developed  | Pension Finance Managers | 31/12/2016       | 14/04/2016   | Marginal        | Very Low            | Yellow               |                     |