



LGPS Central Joint Committee Meeting

Friday 21st June 2019

LGPS Central Investment Pool Risk Register

Report of the Practitioners Advisory Forum

1. Purpose of the report

This report asks the Committee to review the LGPS Central Investment Pool risk register, developed in collaboration with LGPSC Ltd and Officers of the Practitioners Advisory Forum, to assist with monitoring the risks associated with the Investment Pool and its implementation.

2. Background

The Joint Committee at its meeting on 27 June 2018, considered an initial draft risk register provided by the Practitioners Advisory Forum. It was agreed at that meeting, that further work was required to incorporate wider input from LGPS Central Ltd., and that a working group comprising the Chair and Vice Chair of this Committee (or their nominated substitutes), along with the Board of LGPSC Ltd, and fund officers be set up to progress a collaborative approach to the Investment Pool Risk Register, before bringing an updated version to the Joint Committee. The Risk Register being presented to this Committee is the outcome of that collaboration to agree key risks, controls and an assessment of risks.

3. Content

Pension Funds will typically maintain a risk register to identify the key risks faced by the Funds themselves, and how these might feed into the overarching Administering Authority risk management process. For each Fund, it is likely that the individual risk registers will include risks surrounding investment pooling as it applies to the operation of their Fund. LGPS Central Ltd similarly has its own risk register which reflects the assessment, controls and status of risks to the company.

The risk register being presented reflects the risks as assessed by the working group, to the Investment Pool in its widest definition, and should not be seen as a reflection of the risk assessment of either the company, or individual partner funds, although there are inevitably some areas of common ground.



As members of this Committee will recognise, the management of risks is key to delivery of wider strategic objectives, but also the identification of opportunities. Risk management is the process of identifying risks which impact on the achievement of objectives, the evaluation of their probability/likelihood and potential consequences/ impact, and the determination of appropriate management action across 5 broad categories:

- Control;
- Minimise;
- Eliminate;
- Transfer the risk exposure;
- Accept

The Pool Risk Register under consideration by the Joint Committee has been developed to capture key risks surrounding pooling that could impact across all parties involved in LGPS Central Pool. Reflecting on their governance role as both shareholders and clients for LGPS Central, it is important for members of this Committee to consider the high-level strategic risks that could impact on the successful delivery of investment pooling and how these risks can be managed or mitigated.

The risks covered in the risk register have been divided into 8 categories to identify the types of risk that the investment pool might face as it moves forward. The risks have therefore been categorised (in no particular order), as:

- Resources – This includes recruitment and retention at LGPSC Ltd but also Partner Funds, as well as budgetary constraints.
- Regulatory Environment – This section recognises the regulatory arena in which both the pension funds and the company operate and the risks.
- Political – This encompasses both changing attitudes to investment pooling, but also the wider political environment.
- Reputational – This includes risks around negative press coverage around what is a major change management project, but also challenges around ESG risks.
- External and Third Party – Recognises reliance placed on external providers and concentration of suppliers in some areas.
- Strategic – Recognition of risks of divergence from strategic objectives, and implementation risks including delays to product development and transition of assets.
- Investment – It is recognised that all investments come with risks and that returns do not always meet targets, changing asset allocation requirements may mean products no longer meet strategic requirements



- Operational and Financial – These risks encompass cyber security and budget management, as well as the cost sharing agreement

The magnitude of risks within the register are assessed along two dimensions:

- Likelihood – the probability that a risk will materialise
- Impact – the consequences if the risk were to materialise

These are scored on a matrix, which indicates overall levels of risk as follows:

- High risk (red) – need for early action / intervention where feasible, although recognising that there are some high risks that may have to be just accepted, as they arise as a result of external forces which cannot be controlled
- Medium risk (amber) – action is required in the near future.
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

Whilst the majority of the risks before controls are applied are assessed as high risks at this stage, this does in part, reflect the early stage development of investment pooling. However, after applying controls, the number of risks with a red rating drops to one, namely political risk; where a lot of the factors are, and are likely to continue to be, outside the control of the investment pool as a whole. The remainder at this stage, have been assessed as medium risk, but it is anticipated that as LGPS Central investment pool continues with implementation, these risks will be further reduced as a result of effective management action and collaborative, partnership working between Funds and the company.

The risk register attempts to identify a series of risks that apply across LGPS Central Investment Pool. The Joint Committee will receive a presentation on the risk register that has been developed and discussed in detail with working group.

The risk register is very much seen as a live document, and will be considered as part of the ongoing work of PAF in conjunction with the company. The risk register will form part of the regular reporting to the Joint Committee; any new or emerging risk will be captured and reported along with changes in risk ratings.

4. Recommendation

The Joint Committee is recommended to:-

- Note the contents of this report and the presentation.