



LGPS Central Joint Committee

Friday 14 February 2020

Item 8: LGPS Central investment Pool Risk Register

Report of the Practitioner's Advisory Forum

1. Purpose of the report

- 1.1 This report provides an update to the Committee on the LGPS Central Investment Pool risk register, developed in collaboration with LGPSC Ltd (LGPSC) and Officers of the Practitioners Advisory Forum to assist with monitoring the risks associated with the Investment Pool and its implementation.

2. Background

- 2.1 The Joint Committee at its meeting on 21 June 2019 considered the Investment Pool Risk Register developed in collaboration with the then Chair and Vice Chair of this Committee along with the Board of LGPSC and fund officers. The Risk Register presented to this Committee is an updated Risk Register which has been developed in conjunction with LGPSC to agree key risks, controls and an assessment of risks.

3. Risk Register Update

- 3.1 Pension Funds typically maintain a risk register to identify the key risks faced 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. LGPSC similarly has its own risk register which reflects the assessment, controls and status of risks to the company.
- 3.2 The risk register presented reflects the risks as assessed by the Client Oversight and Governance Group, in conjunction with LGPSC, to the Investment Pool in its widest definition. It 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.
- 3.3 As members of this Committee will recognise, the management of risks is key to delivery of wider strategic objectives, but also recognising that risks also bring 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 determine the most effective actions to take and how risks can be managed falling into 5 broad categories:



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

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

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

- Resources –includes recruitment and retention at both 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
- Political –encompasses both changing attitudes to investment pooling but also the wider political environment
- Reputational –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 of delivering investment pooling including delays to product development and transition of assets
- Investment – recognising that investments have inherent risks and returns can fluctuate, liability valuations change over time impacting partner fund asset allocation which in turn may change products required from LGPSC.
- Operational and Financial – These risks encompass cyber security, budget management and day to day operational management.

3.6 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

3.7 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 recognise that some high risks cannot be fully mitigated 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) – risk is mitigated as far as possible in the short term but may require action to improve over the longer term.



- 3.8 Whilst the majority of the risks before controls are applied are assessed as high risks at this stage, this does in part reflect the relatively early stage development of investment pooling. However, after applying controls the number of risks which flag a red status drops to two, namely political risk and strategic risk.
- Political - the rating from the last assessment has not changed and reflects the fact that there many of the factors are, and likely to continue to be, outside the control of the investment pool as a whole.
 - Strategic—previously assessed as amber post controls, but has been reassessed and increased to red. The change reflects a number of factors encompassing the lower number of sub-fund launches than anticipated in last year’s strategic business plan; changing priorities and review of investment requirements by Partner Funds as they complete their triennial valuations and resulting changes to their investment strategies. This caused some delays in transferring assets to minimise costs of additional transition; some delays to fund launches due to volatility in markets. The sub-fund launch pipeline for the coming financial year and delivery thereof and the Partner Funds approval of updated investment strategies should enable the strategic risk to be reviewed and it is anticipated moving back to amber status in due course.
- 3.9 The remainder at this stage are assessed as medium risk. It is anticipated that as LGPS Central investment pool continues with implementation, these risks will be further reduced by effective management working collaboratively and in partnership with the company.
- 3.10 The risk register is a live document with risks assessed on a regular basis. Any new risks are captured during the period between Joint Committee meetings and updated on the register.
- 3.11 Since the last Joint Committee, the regulatory risk level increased due to concerns about the potential for the Competition and Markets Review to impact on the need for Pool companies to require formal procurement. However following representations from the Local Government Association and investment pools, this requirement was removed and therefore the risk was removed/reduced from the register.
- 3.12 The risk register forms part of the regular reporting to the Joint Committee and any new or emerging risk captured and reporting along with changes in risk ratings.
- 4. Recommendation**
- 4.1 The Joint Committee is asked to note the report and that the Risk Register will continue to be assessed and updated and will be reported to Joint Committee.