

**LANCASHIRE COUNTY PENSION FUND**

**RISK REGISTER**

**SEPTEMBER 2015**

**1. Objectives of the Risk Register**

These are to:

- Identify key risks to the achievement of the Fund's objectives and to the Fund's day to day operations;
- Consider the risks identified;
- Assess the significance of the risks.

**2. Risk assessment**

Identified risks are assessed separately and for each risk the following is determined:

- The likelihood and impact of the risk materialising without any mitigating controls being applied – 'the gross risk'.
- The likelihood and impact of the risk materialising with mitigating controls being applied – 'the residual risk'.
- Risks are evaluated on a sliding scale of 1 – 4 with the highest value being the most likely to occur/ most severe impact.
- The product of the likelihood and impact scores is the risk score:

|            |   |                 |                  |                  |                  |
|------------|---|-----------------|------------------|------------------|------------------|
| Likelihood | 4 | 4 – medium/ low | 8- medium/ high  | 12 - high        | 16 – high        |
|            | 3 | 3 – medium/ low | 6 – medium/ high | 9 – medium/ high | 12 – high        |
|            | 2 | 2 – low         | 4 – medium/ low  | 6 – medium/ high | 8 – medium/ high |
|            | 1 | 1 – low         | 2 - low          | 3 – medium/ low  | 4 – medium/ low  |
|            |   | 1               | 2                | 3                | 4                |
| Impact     |   |                 |                  |                  |                  |

- The register below seeks to assess specific risks and introduce a measure of consistency into the risk assessment process. The risk scores relating to residual risks can then be prioritised.
- Planned actions, timescales, review dates, and change in risk since the last review are noted for each risk, alongside the 'risk owner' responsible for managing it.
- Change in risk is denoted by arrows to represent increased risk, decreased risk or risk level remains the same.
- The thick black line indicates a proposed 'risk appetite' or tolerable level, to indicate an aspiration for acceptable risks to be less than 'medium/ high'.

### 3. Objectives of the Pension Fund




These are to:





- enable employer contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, whilst achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the administering authority and employers alike;
- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due; and
- seek returns on investment within reasonable risk parameters.

### 4. Investment objectives of the Pension Fund




The Fund has two objectives in terms of its investment activities:





- To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
- To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.

| Ref  | Area                        | Risk  | Cause  | Impact   | Gross Risk |            |       |            | Mitigation in place   | Residual Risk |            |       |            | Planned Action  | Date for completion | Review Date | Change in risk score since last report  | Owner                    |
|------|-----------------------------|---|--|--|------------|------------|-------|------------|---|---------------|------------|-------|------------|---|---------------------|-------------|---|--------------------------|
|      |                             |   |  |  | Impact     | Likelihood | Score | Risk Level |   | Impact        | Likelihood | Score | Risk Level |   |                     |             |   |                          |
| 1004 | Investment and funding risk | Falling share prices and therefore asset value    | Stock market rerating or reactions to world events impacts on value of shares  | Falling share prices and therefore a decrease in the assets held by the fund                                   | 4          | 4          | 16    | H          | Investment portfolio is diverse in order to minimise such risks. Member of LAPFF and PIRC to promote engagement | 4             | 4          | 16    | H          | Equity strategy combining defensive and growth holdings. Apply synthetic allocation strategy  | On-going            | Mar-16      |    | Chief Investment Officer |
| 1007 | Investment and funding risk | Liability risk:<br><br>Inflation / Deflation rate | <u>Inflation</u><br>Assumed inflation rate within liability valuation applied to future pension increases and salary rises is lower than actual rate. <u>Deflation</u> A period of deflation would not impact on pension payments but would reduce asset value | The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them | 4          | 4          | 16    | H          | Increasing focus on liability management, new investment strategy, diversified portfolio                        | 4             | 4          | 16    | H          | Some risks have materialised, forward rates declining and liabilities increasing but Investment Panel have authorised further work to analyse the risk strategy and address this risk | On-going            | Mar-16      |    | Chief Investment Officer |
| 1009 | Investment and funding risk | Liability risk:<br><br>Longevity                  | The assumptions of future life expectancy and improvements in life expectancy may be lower than actual. Members may live longer and benefits may be paid for longer  | The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them | 4          | 4          | 16    | H          |   | 4             | 4          | 16    | H          | Some risks have materialised, forward rates declining and liabilities increasing but Investment Panel have authorised further work to analyse the risk strategy and address this risk | On-going            | Mar-16      |  | Chief Investment Officer |




| Ref  | Area                        | Risk   | Cause   | Impact  | Gross Risk |            |       |            | Mitigation in place  | Residual Risk |            |       |            | Planned Action  | Date for completion | Review Date | Change in risk score since last report  | Owner                    |
|------|-----------------------------|--|---|---|------------|------------|-------|------------|--|---------------|------------|-------|------------|---|---------------------|-------------|---|--------------------------|
|      |                             |  |   |   | Impact     | Likelihood | Score | Risk Level |  | Impact        | Likelihood | Score | Risk Level |   |                     |             |   |                          |
| I012 | Investment and funding risk | Liability risk:<br><br>LGPS regulations                                | Pension benefits are governed by statute, and any changes will impact on the fund's liabilities causing them to either increase or decrease<br><br>Results of 2016 valuation could lead to a reassessment of benefit structures | Liabilities are affected by statutory changes to LGPS   | 4          | 4          | 16    | H          | Increasing focus on liability management, new investment strategy, diversified portfolio. Lobbying of Government | 4             | 4          | 16    | H          | New LGPS regulations expected from Government   | On-going            | Mar-16      |    | Chief Investment Officer |
| I001 | Investment and funding risk | Asset / liability mismatch   | Assets insufficient to fund liabilities   | Inability to make benefit payments, meaning cash injections required from employers   | 4          | 4          | 16    | H          | Increasing focus on liability management, new investment strategy, diversified portfolio                         | 4             | 3          | 12    | H          | Change of actuarial basis for 2016 valuation. Investment Panel have authorised work to analyse risk strategy and progress this area | On-going            | Mar-16      |    | Chief Investment Officer |
| I016 | Investment and funding risk | Mismatch of funding plan and investment strategy                       | Incorrect assumptions made regarding assets and liabilities   | Incorrect contribution rates could be set   | 3          | 4          | 12    | H          | Funding strategy and investment strategy to be linked to triennial reviews                                       | 3             | 3          | 9     | M/H        | Contribution rates reviewed following the results of recent triennial review  | On-going            | Dec-15      |    | Chief Investment Officer |
| S002 | Skill and Resource risk     | Lack of expertise / resources of officers involved in the Pension Fund | Insufficient training or continuous development   | Either inappropriate staffing or insufficient resources in a particular area meaning that the fund cannot be managed or administered properly and mistakes are made | 3          | 3          | 9     | M/H        | Regular performance appraisals and training plans in place. On the job training.                                 | 3             | 3          | 9     | M/H        | Attendance at regular conferences and courses. On the job training.   | On-going            | Dec-15      |  | Chief Investment Officer |




| Ref  | Area                        | Risk  | Cause   | Impact   | Gross Risk |            |       |            | Mitigation in place  | Residual Risk |            |       |            | Planned Action   | Date for completion | Review Date | Change in risk score since last report | Owner                        |
|------|-----------------------------|---|---|--|------------|------------|-------|------------|--|---------------|------------|-------|------------|--|---------------------|-------------|--|------------------------------|
|      |                             |   |   |  | Impact     | Likelihood | Score | Risk Level |  | Impact        | Likelihood | Score | Risk Level |  |                     |             |  |                              |
| I011 | Investment and funding risk | Liability risk: Diversification                         | Diversification of asset portfolio less than expected   | Assets move in unpredictable directions, potentially increasing the funding gap between assets and liabilities | 4          | 2          | 8     | M/H        | Increasing focus on liability management, new investment strategy, diversified portfolio | 4             | 2          | 8     | M/H        | On-going, liability paper presented to Investment Panel and further work has been authorised               | On-going            | Mar-16      | ↓                                      | Chief Investment Officer     |
| I019 | Investment and funding risk | Changes to LGPS Investment Regulations                  | Government may enforce a one size fits all solution regarding the investment of funds which may be sub-optimal                        | Unintended change to LCPF investment strategy which could affect performance and deficit reduction             | 4          | 2          | 8     | M/H        | Changes are now likely, Treasury seems supportive of Lancs / London joint venture        | 4             | 2          | 8     | M/H        | Changes are now likely, Treasury seems supportive of Lancs / London joint venture                          | On-going            | Mar-16      | ↓                                      | Chief investment Officer     |
| S001 | Skill and Resource risk     | Key person risk   | Someone leaving the organisation and only a limited market from which to seek their replacement                                       | Knowledge gap which it may be difficult to fill  | 4          | 2          | 8     | M/H        | Failure of Lancs / London collaboration will increase likelihood of staff departures     | 4             | 2          | 8     | M/H        | Much internal focus on ensuring success of collaboration   | On-going            | Mar-16      | ↓                                      | Chief Investment Officer     |
| A005 | Administration risk         | Failure to hold personal data securely                  | Poor procedures for data transfer, data retention and back up   | Data is lost or compromised  | 4          | 2          | 8     | M/H        | Internal ICT controls. Information governance awareness.                                 | 4             | 2          | 8     | M/H        | Further work to improve the security of data interchange with employers through improvements in technology | On-going            | Mar-16      | ↑                                      | Head of Your Pension Service |
| I010 | Investment and funding risk | Liability risk: Early retirement/ ill-health retirement | Members retiring earlier than normal retirement age with no reduction in benefit will require employers to make greater contributions | The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them | 4          | 2          | 8     | M/ H       | Provision for employers to top-up contributions to offset the increasing liabilities.    | 3             | 2          | 6     | M/ H       | Provision for employers to top-up contributions to offset the increasing liabilities.                      | On-going            | Dec-15      | ↕                                      | Head of Your Pension Service |




| Ref  | Area                           | Risk   | Cause   | Impact  | Gross Risk |            |       |            | Mitigation in place   | Residual Risk |            |       |            | Planned Action  | Date for completion | Review Date     | Change in risk score since last report  | Owner                         |
|------|--------------------------------|--|---|---|------------|------------|-------|------------|---|---------------|------------|-------|------------|---|---------------------|-----------------|---|-------------------------------|
|      |                                |  |   |   | Impact     | Likelihood | Score | Risk Level |   | Impact        | Likelihood | Score | Risk Level |   |                     |                 |   |                               |
| E001 | Employer Risk                  | Inability of an employer to meet its contribution requirements due to legislative or actuarial changes | Increased level of contributions required from employer                   | Overall fund faces increasing liabilities   | 2          | 3          | 6     | M/H        | Monitor risk picture of the employers, particularly with reference to the size of their liability   | 2             | 3          | 6     | M/H        | Review financial standing of the employers in the scheme with reference to the size of their liabilities. Differential asset allocations                                    | On-going            | On-going review |    | Director of Pension Fund      |
| S003 | Skill and Resource risk        | Insufficient knowledge of pension fund committee members and Pension Board                             | Insufficient training or continuous development                           | Inappropriate decisions taken at committee meetings or inability to make decisions through lack of understanding. Pension Board unable to fulfil their statutory requirements | 4          | 2          | 8     | M/H        | Implement training for new members. Have an on-going training requirement for members and officers to ensure knowledge remains up to date. Mixture of in-house and external sessions. Officer expert advice | 3             | 2          | 6     | M/H        | A training policy has been drafted which should fulfil knowledge and skills requirement. The training plan is in development which will include the Committee and the Board | On-going            | Dec-15          |    | Financial Policy Officer      |
| G001 | Governance and compliance risk | Non compliance with LGPS regulations   | Lack of technical expertise / staffing to research any regulation changes | Non compliance with legislation change could result in penalties or sanctions leading to financial loss   | 3          | 3          | 9     | M/H        | Monitor legislative changes, engage in consultations, attend pension update briefings / courses. Use of consultants for specific projects where appropriate.  | 3             | 2          | 6     | M/H        | Attendance at conference and regular review of work practices. Establishment of specific consultant 'lot' relating to governance.   | On-going            | Mar-16          |  | Head of Policy and Compliance |

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|------|-----------------------------|---|--|--|------------|------------|-------|------------|--|---------------|------------|-------|------------|---|---------------------|-------------|---|---|
|      |                             |   |  |  | Impact     | Likelihood | Score | Risk Level |  | Impact        | Likelihood | Score | Risk Level |   |                     |             |   |   |
| R001 | Reputational risk           | Actions damage the perception of the fund | Reputation of the fund will be damaged which may impact on participation rates and investment strategies | Unable to complete the desired investment strategy and therefore achieve the desired returns                   | 3          | 2          | 6     | M/H        | Good governance, open communication . Use of PIRC/ LAPFF to engage with shareholder companies to encourage good governance. UNPRI asset owner signatory.         | 3             | 2          | 6     | M/H        | Employ good corporate governance systems within the organisation. Enhanced asset verification.<br><br>Stronger and formalised RI policy in development. | On-going            | Mar-16      |    | Chief Investment Officer/Financial Policy Officer |
| I002 | Investment and funding risk | Inflation risk                            | Increases in commodity prices push up the level of inflation   | Inflation increases pension payments but assets do not grow at required level                                  | 4          | 1          | 4     | M/L        | Hold some index linked assets  | 4             | 1          | 4     | M/L        | Inclusion of assets which counter inflation. Monitor inflation position.  | On-going            | Mar-16      |    | Chief Investment Officer                          |
| I005 | Investment and funding risk | Under performance by fund managers        | Fund managers not meeting required returns   | Returns achieved lower than those anticipated in funding strategy leading to a greater funding gap             | 2          | 3          | 6     | M/H        | Mixture of active and passive managers, monitoring of investment manager performance, new investment strategy moving to a greater reliance on the internal team. | 2             | 2          | 4     | M/L        | Implementation of new investment strategy. Panel considering hedging strategy.  | On-going            | Dec-15      |    | Chief Investment Officer                          |
| I006 | Investment and funding risk | Liability risk:<br><br>Discount rate      | Market conditions between valuation dates produces a lower discount rate than expected by the actuary    | The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them | 2          | 2          | 4     | M/L        | Increasing focus on liability management. Actuary to implement a new model, it is thought this will negate discount rate risk                                    | 2             | 2          | 4     | M/L        | Increasing focus on liability management. Actuary to implement a new model, it is thought this will negate discount rate risk                           | On-going            | Mar-15      |  | Chief Investment Officer                          |







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|------|-----------------------------|--|--|--|------------|------------|-------|------------|---|---------------|------------|-------|------------|---|---------------------|-----------------|---|---------------------------|
|      |                             |  |  |  | Impact     | Likelihood | Score | Risk Level |   | Impact        | Likelihood | Score | Risk Level |   |                     |                 |   |                           |
| I017 | Investment and funding risk | Insufficient cash available to meet requirements | Poor management of liquidity   | If liquidity is not managed, assets may need to be sold quickly meaning the best price is not achieved   | 2          | 3          | 6     | M/H        | Implement effective cash management strategies  | 2             | 2          | 4     | M/L        | Cash position is monitored on a regular basis by the accounting team. Weekly meetings are held with Investment management Team so cash requirements are known   | On-going            | Dec-15          |    | Head of Corporate Finance |
| E002 | Employer Risk               | Employer ceasing to exist                        | Employer closes  | If there is insufficient funding, bond of guarantee in place any shortfall will be attributed to the whole fund, thereby increasing the level of liabilities | 2          | 3          | 6     | M/H        | Monitor employers risk profiles and ensure bonds are sufficient   | 2             | 2          | 4     | M/L        | Review financial standing of the employers in the scheme with reference to the size of their liabilities, anticipate employers with potential financial difficulties and discuss with them potential future options | On-going            | On-going review |    | Director of Pension Fund  |
| S005 | Skill and Resource risk     | Inappropriate decision making                    | Production of poor or inappropriate performance management information | Incorrect decisions being taken due to the reliance on this information  | 4          | 1          | 4     | M/L        | Use of independent Custodian. Implement regular monitoring in an agreed format. Regular monitoring of performance information and on-line access to NT Passport system. | 4             | 1          | 4     | M/L        | Decision making protocols documented are in place to ensure each decision is adequately considered and approved. Increased monitoring undertaken by analyst team.   | On-going            | Mar-16          |  | Chief Investment Officer  |




| Ref  | Area                           | Risk   | Cause   | Impact   | Gross Risk |            |       |            | Mitigation in place   | Residual Risk |            |       |            | Planned Action   | Date for completion  | Review Date | Change in risk score since last report   | Owner                        |
|------|--------------------------------|--|---|--|------------|------------|-------|------------|---|---------------|------------|-------|------------|--|--|-------------|--|------------------------------|
|      |                                |  |   |  | Impact     | Likelihood | Score | Risk Level |   | Impact        | Likelihood | Score | Risk Level |  |  |             |  |                              |
| G009 | Governance and compliance risk | Non-existent assets  | The risk that assets purchased by the pension fund do not exist, or fund managers are not bona fide.    | Misrepresentation of assets held. Reputational damage. | 4          | 2          | 8     | M/H        | Due diligence undertaken as part of investment review process either by Fund officers or investment consultants.                                      | 4             | 1          | 4     | M/L        | Robust policy of meeting managers in situ in advance of commitment. Physical inspection of assets by Fund. Policy to be developed    | On-going, paper going to Panel suggesting tighter on-going due diligence | Mar-16      |   | Chief Investment Officer     |
| A001 | Administration risk            | Failure to process and pay pension payments and lump sums on time                        | Unavailability of IT / staff, or errors; employers' data not supplied in accordance with admin strategy | Incorrect or late payment, demand on chasing resource. | 4          | 2          | 8     | M/H        | Testing of system including audit. Business continuity arrangements. Published Pensions Admin Strategy  | 2             | 2          | 4     | M/L        | Ensure disaster recovery plan in place; increased focus on employer performance monitoring and introduction of sanctions if required | On-going   | Mar-16      |   | Head of Your Pension Service |
| A004 | Administration risk            | Failure to keep abreast of regulatory changes or comply with Pensions Regulator Code 14. | Lack of 'horizon scanning' or technical capacity; inability to comply with Code 14.                     | Non compliance with regulations or best practice.      | 4          | 2          | 8     | M/H        | Dedicated technical resource; regulatory changes fed through organisations / systems and QA in place. Systems in place to measure Code 14 compliance. | 2             | 2          | 4     | M/L        | Development of performance measures and compliance with nationally set KPI's   | On-going   | Mar-16      |  | Head of Your Pension Service |

| Ref  | Area                        | Risk                                   | Cause   | Impact  | Gross Risk |            |       |            | Mitigation in place  | Residual Risk |            |       |            | Planned Action  | Date for completion | Review Date | Change in risk score since last report  | Owner                        |
|------|-----------------------------|--|---|---|------------|------------|-------|------------|--|---------------|------------|-------|------------|---|---------------------|-------------|---|------------------------------|
|      |                             |  |   |   | Impact     | Likelihood | Score | Risk Level |  | Impact        | Likelihood | Score | Risk Level |   |                     |             |   |                              |
| A006 | Administration risk         | Failure to keep records up to date     | Poor, late or non-existent notification of monthly date from employers.<br><br>Failure of employers to understand Scheme regulatory requirements. Lack of YPS resource. | Incorrect records held and therefore incorrect pensions paid  | 4          | 2          | 8     | M/H        | Documented internal controls. Robust training. Regular monitoring.<br><br>Employer training and support. Conferences and on-line employer guide. Data cleansing routines in place.   | 2             | 2          | 4     | M/L        | Tightening up of employer performance monitoring and application of sanctions specified in PASS.  | On-going            | Mar-16      |    | Head of Your Pension Service |
| I003 | Investment and funding risk | Concentration of assets                | Over reliance of assets in one particular area  | A significant allocation in a particular type asset will lead to an over exposure in that area and therefore vulnerability to significant changes | 3          | 2          | 6     | M/H        | New investment strategy is moving away from a large investment in equities. Amount of the fund in particular assets in governed by the pension fund regulations. Monthly monitoring of asset allocations by Investment Panel | 3             | 1          | 3     | M/L        | Implementation of new investment strategy but 50% of fund still in equities   | On-going            | Dec-15      |    | Chief Investment Officer     |
| I008 | Investment and funding risk | Liability risk:<br><br>Salary increase | Salary increases higher than expected (and maybe linked to inflation expectations)  | The estimated value of liabilities will be higher than expected and therefore assets insufficient to fund them                                    | 4          | 1          | 4     | M/L        | Provision for employers to top-up contributions to offset the increasing liabilities.  | 3             | 1          | 3     | M/L        | On-going, liabilities management is increasing in focus. Large increases in public sector salaries are not expected in the current austerity climate. | On-going            | Mar-16      |  | Chief Investment Officer     |

| Ref  | Area                           | Risk   | Cause  | Impact   | Gross Risk |            |       |            | Mitigation in place  | Residual Risk |            |       |            | Planned Action  | Date for completion | Review Date | Change in risk score since last report | Owner                         |
|------|--------------------------------|--|--|--|------------|------------|-------|------------|--|---------------|------------|-------|------------|---|---------------------|-------------|--|-------------------------------|
|      |                                |  |  |  | Impact     | Likelihood | Score | Risk Level |  | Impact        | Likelihood | Score | Risk Level |   |                     |             |  |                               |
| S004 | Skill and Resource risk        | Insufficient external expertise                  | Failure to employ specialist advisers when their skills are required | Under performance of fund  | 3          | 1          | 3     | M/L        | New consultancy bench in place   | 3             | 1          | 3     | M/L        | New consultancy bench in place  | On-going            | Mar-16      | ↓                                      | Chief Investment Officer      |
| G002 | Governance and compliance risk | Non compliance with investment policies          | Lack of understanding of investment policies                         | Non compliance with investment policies could increase the risk profile of the fund. | 3          | 3          | 9     | M/H        | Periodic monitoring of investment types against regulations. Individual investments checked in advance of commitment as part of internal due diligence   | 3             | 1          | 3     | M/L        | Compliance monitoring programme, incorporating monthly, quarterly, and annual tests to commenced and results reported accordingly | On-going            | Mar-16      | ↓                                      | Compliance Officer            |
| G006 | Governance and compliance risk | Failure to implement an proper monitoring system | Performance of the fund cannot be monitored over time                | Incorrect decisions are taken  | 3          | 2          | 6     | M/H        | Performance reports provided on monthly and quarterly basis by independent custodian. Use of web-based Passport and Fundamentals modules. Performance of the fund is monitored on a monthly basis and reported to Investment Panel and to the Pension Fund Committee at its meetings. New Analyst team drilling down and reconciling custodian and manager/ fund performance | 3             | 1          | 3     | M/L        | Enhancement of performance information to include policy attribution, geographical and sector contributions                       | On-going            | Dec-15      | ↕                                      | Head of Policy and Compliance |

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|------|--------------------------------|---|--|---|------------|------------|-------|------------|--|---------------|------------|-------|------------|--|---------------------|-------------|---|---|
|      |                                |   |  |   | Impact     | Likelihood | Score | Risk Level |  | Impact        | Likelihood | Score | Risk Level |  |                     |             |   |   |
| G007 | Governance and compliance risk | Information loss (intellectual property and confidential information) | Sensitive information could be lost damaging the reputation of the fund and putting the fund members at risk | Damaged reputation / litigation risk                                      | 3          | 2          | 6     | M/H        | Ensure confidential information is secure  | 3             | 1          | 3     | M/L        | Information asset audit undertaken and any resulting actions carried out. Confidential information is held in secure filing cabinets or Deed Room. Clear desk policy | On-going            | Mar-16      |    | Head of Policy and Compliance/ Chief Investment Officer |
| G008 | Governance and compliance risk | Information governance  | Loss of information which means that the fund is unable to operate   | Unable to undertake day to day functions                                  | 3          | 2          | 6     | M/H        | Back up of ICT network. Use of Northern Trust web-based Passport system.   | 3             | 1          | 3     | M/L        | Back up of ICT network and continued use of NT Passport.   | On-going            | Mar-16      |    | Head of Investment Compliance                           |
| I013 | Investment and funding risk    | Custody risk  | Custodian does not adequately meet the requirements of their contract  | Problems with custodian leading to missed dividends or corporate actions. | 2          | 2          | 4     | M/L        | Subscribe to services of Thomas Murray as custodian monitor, producing reports on operational review, fee analysis, FX review. Quarterly meetings with custodian and TM. | 2             | 1          | 2     | L          | Continued monitoring of custodian services and formal quarterly meetings. Exploration of NT user group.  | On-going            | Dec-15      |    | Head of Policy and Compliance                           |
| I014 | Investment and funding risk    | Investment returns below peer groups                                  | Investment managers do not meet the required returns   | Reputational risk, increasing gap between assets and liabilities          | 2          | 2          | 4     | M/L        | Regular monitoring and review  | 2             | 1          | 2     | L          | Increasing emphasis on internal management of funds  | On-going            | Dec-15      |  | Chief Investment Officer                                |

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|------|--------------------------------|--|--|---|------------|------------|-------|------------|---|---------------|------------|-------|------------|---|---------------------|-------------|--|---------------------------------|
|      |                                |  |  |   | Impact     | Likelihood | Score | Risk Level |   | Impact        | Likelihood | Score | Risk Level |   |                     |             |  |                                 |
| I015 | Investment and funding risk    | Missed investment opportunities                          | Lack of awareness or slow decision making  | Missed investment opportunities could result in reduced returns for the fund        | 2          | 3          | 6     | M/H        | Maintain a good relationship with investment managers. Internal team has been strengthened with analyst team. Awareness of timetables and protocols | 2             | 1          | 2     | L          | Monitoring of investment deadlines in relation to internal deadlines and workloads. Current arrangements working well                   | On-going            | Apr-16      |  | Investment Management Team      |
| I018 | Investment and funding risk    | Transition risk of the new investment strategy           | Unforeseen events  | Incurring unexpected costs while moving the assets and investment drag              | 2          | 1          | 2     | L          | Transition is essentially complete now.   | 2             | 1          | 2     | L          | Transition bench is in place and can be drawn on for further transition work.   | On-going            | Mar-16      |  | Deputy Chief Investment Officer |
| G003 | Governance and compliance risk | Production of incorrect financial statements             | Production of misleading information and misleading stakeholders   | Misunderstanding or wrong decisions   | 2          | 2          | 4     | M/L        | Review and sign off process in place.   | 2             | 1          | 2     | L          | Implementation of closure timetable, which includes regular management reviews of progress and figures                                  | On-going            | Dec-15      |  | Head of Corporate Finance       |
| G004 | Governance and compliance risk | Failure to adhere to Officer and Member Codes of Conduct | Officers or members fail to declare a personal or pecuniary interest and/or the receipt of gifts and hospitality | Inappropriate decisions being taken which are not in the best interests of the fund | 2          | 2          | 4     | M/L        | Training on what constitutes a conflict and ensuring register of interests/ gift and hospitality entries are made where appropriate.                | 2             | 1          | 2     | L          | Officers and Pension Fund Committee members encouraged to make all appropriate declarations on the respective registers and at meetings | On-going            | Dec-15      |  | Democratic Services Manager     |

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|------|--------------------------------|---|---|--|------------|------------|-------|------------|---|---------------|------------|-------|------------|---|---------------------|-------------|---|------------------------------|
|      |                                |   |   |  | Impact     | Likelihood | Score | Risk Level |   | Impact        | Likelihood | Score | Risk Level |   |                     |             |   |                              |
| G005 | Governance and compliance risk | Failure to minute meetings correctly                          | Important decisions are not documented and then there is no record of them when evidence of the decision is required. | Unable to prove that a decision has been taken | 2          | 2          | 4     | M/L        | All meetings to be minuted and agreed by members  | 2             | 1          | 2     | L          | All meetings containing key investment decisions are minuted by Democratic Services     | On-going            | Dec-15      |  | Democratic Services Manager  |
| A002 | Administration risk            | Failure to collect contributions from employers and employees | Unavailability of IT / staff, or errors or poor communication   | Maintenance of IT, staff cover and training    | 3          | 2          | 6     | M/H        | Robust back-up systems in place   | 2             | 1          | 2     | L          | Robust back-up systems in place   | On-going            | Dec-15      |  | Head of Your Pension Service |
| A003 | Administration risk            | Inadequate Financial Controls / loss of funds through fraud   | Key Financial Processes not documented; absence of formal reconciliation regime; absence of adequate controls         | Payment errors or losses to Fund               | 4          | 3          | 12    | H          | Existing financial control regime inc. separation of duties and internal/external audit | 3             | 1          | 3     | L          | Gap analysis / review of efficiency. Increased focus on internal compliance monitoring. | On-going            | Mar-16      |  | Head of Your Pension Service |