

# City of Westminster Pension Fund

## Investment Strategy Statement 2020/21

### 1. Introduction

**1.1** This is the Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund (“the Fund”), which is administered by Westminster City Council (“the Administering Authority”).

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

**1.2** This Statement addresses each of the objectives included in the 2016 Regulations:

- a) A requirement to invest fund money in a wide range of instruments;
- b) The authority’s assessment of the suitability of particular investments and types of investment;
- c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority’s approach to pooling investments, including the use of collective investment vehicles;
- e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

We deal with each of these in turn below.

**1.3** The Pension Fund Committee (the “Committee”) of the City of Westminster Pension Fund oversees the management of the Fund’s assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

**1.4** The relevant terms of reference for the Committee within the Council’s Constitution are:

The Pension Fund Committee’s responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council’s Pension Fund, including, but not limited to, the following matters:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
- To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report.
- To receive actuarial valuations of the Superannuation Fund regarding the level of employers’ contributions necessary to balance the Superannuation Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.

- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

The Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Executive Director of Finance and Resources, the Tri-Borough Director of Treasury and Pensions and the appointed consultants and actuaries support the Pension Fund Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

**1.5** This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

**1.6** Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

**1.7** Governing all investment decisions are the Committee's core investment beliefs they have been established based on the views of the members and are listed below:

### **1 Investment Governance**

- a. The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
- b. Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
- c. The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
- d. The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

### **2 Long Term Approach**

- a. The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
- b. The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.
- c. Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
- d. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

### **3 Environmental, Social and Governance (ESG) factors**

- a. Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
- b. Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
- c. In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
- d. Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
- e. If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

### **4 Asset allocation**

- a. Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
- b. Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- c. In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

### **5 Management Strategies**

- a. A well-balanced portfolio has an appropriate mix of passive and active investments.
- b. Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- c. Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
- d. Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
- e. Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

## 2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

**2.1** Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

**2.2** In order to control risk the Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used.
- Diversity in the approaches to the management of the underlying assets.
- Adaptability to be able to maintain liquidity for the Fund.

**2.3** This approach to diversification has seen the fund dividing its assets into four broad categories global equities, Fixed Income, Property and Alternatives. The size of the assets invested in each category will vary depending on investment conditions, the strategic asset allocation can be found within appendix E. However, it is important to note that each category is itself diversified. A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

**2.4** The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result, the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Committee considers excessive. The Fund currently has a negative cash flow position. The Committee is mindful that this position may change in future and keeps the liquidity within the Fund monitored. At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are the best long-term interest of Fund beneficiaries and seeks appropriate advice from investment advisors.

**2.5** To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

## 3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

**3.1** Suitability is a critical test for whether or not a particular investment should be made. When assessing the suitability of investments, the Committee takes into account the following from its due diligence:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

**3.2** Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

**3.3** The policy on asset allocation is compatible with achieving the locally determined solvency target.

**3.4** The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

**3.5** The Committee relies on external advice in relation to the collation of the statistics for review.

#### 4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

**4.1** The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

**4.2** Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

**4.3** Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

**4.4** Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

**4.5** Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

**4.6** Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

**4.7** Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns
- The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

**4.8** The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

**4.9** The Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

**4.10** The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate. Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on

historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult. The Committee is also mindful that correlations change over time and at times of stress can be significantly different from when they are in more benign market conditions.

**4.11** To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition, when carrying out their investment strategy review the Committee also had different investment advisers' assess the level of risk involved.

**4.12** The Fund targets a long-term return 4.8% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

**4.13** When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this the risk registers are updated on a quarterly basis, appendix F.

**4.14** At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

#### **5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles**

**5.1** The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

**5.2** The Funds approach to pooling arrangements meet the criteria set out in the Local government pension scheme: investment reform criteria and guidance.

**5.3** The Fund joined the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has circa £18bn of assets under management, including £8bn under direct management, with 14 funds launched as of 2019/20.

**5.4** The Fund has transitioned c. 27% of assets into the London CIV as of 31 March 2020. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

**5.5** The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning assets across to the London CIV as soon as there are appropriate sub-funds to meet the Fund's investment strategy requirements.

**5.6** The Fund holds c. 43% of its assets within a passive equity fund and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. However, the Fund benefits from reduced management fees, with Legal & General Investment Management having reduced their fees to match those available through the London CIV. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

**5.7** The remaining c. 30% of Fund is held within investment assets including property, bonds and infrastructure, and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

**5.8** The table below details the investment funds held by the Pension Fund and indicates whether this mandate is available on the LCIV platform and if the funds have been transferred.

<b>City of Westminster Fund</b>	<b>Available on the LCIV</b>	<b>Transferred to LCIV</b>
<b>Listed Equities</b>		
<b>Passive Equities: LGIM</b>	Yes	Yes
<b>Global: Baillie Gifford</b>	Yes	Yes
<b>Global: Longview</b>	Yes	No
<b>Cash</b>		
<b>In-house</b>	No	
<b>Fixed Income</b>		
<b>Multi Asset Credit: CQS</b>	Yes	Yes
<b>Global Bonds: Insight</b>	No	
<b>Infrastructure</b>		
<b>Infrastructure: Pantheon</b>	No	
<b>Property</b>		
<b>Property: Hermes</b>	No	
<b>Property: Aberdeen Standard</b>	No	

**5.9** The Pension Fund Committee is aware that certain assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

**5.10** At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the City of Westminster Pension Fund, and in particular whether a collective investment option is appropriate.

**5.11** The London CIV is an FCA authorised company established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting. It was agreed to review the framework after one year of operation which provides an opportunity to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively.

**5.12** The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for:

- Strategy and Oversight
- Budget & forward plan
- Reviews performance
- Major contracts and significant decisions including in relation to funds
- Financial reporting & controls
- Compliance, risk and internal controls
- Key policies
- Governance

**5.13** The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- determine, maintain and monitor the Company's investment strategy, investment performance and performance risks of the portfolios in accordance with the Company strategy and business plan.

The responsibilities of the Compliance, Audit & Risk Committee include:

- oversee compliance obligations;
- risk management framework; and
- integrity of financial statements and reporting

The responsibilities of the Remuneration & Nomination Committee include:

- remuneration policy;
- remuneration of key staff; and
- nominations and succession planning of key staff and Board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss, and formulate effective solutions to address issues and opportunities facing the Company;
- ensure the day-to-day operations meet relevant legal requirements and compliance obligations of the Company; and
- ensure the Board & Board Committee members receive timely, accurate and transparent management information & reporting to fulfil their duties & responsibilities.

**5.14** The London CIV Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Committee meets on a quarterly basis and comprises of 12 members including Councillors and Treasurers from the LLAs.

**5.15** The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

**5.16** External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the MHCLG.

**5.17** More information on the London CIV and its operation is included in Appendix C of this statement.

**6 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

**6.1** A review of the Fund's carbon exposure was undertaken by TruCost and reported to Committee in September 2019, whereby the Fund's equity and property portfolio carbon footprints were mapped. This exercise will be undertaken on an annual basis going forward. Following this, a responsible investment (RI) policy and ESG policy was drafted for the Fund to be adopted by the Committee for 2020/21 onwards. The RI Policy outlines the approach to the management of Environmental, Social and Governance (ESG) issues within the investment portfolio and can be found within appendix D.

## **The Present ESG Policy**

### **Introduction**

**6.2** The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests



of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

**6.3** The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

**6.4** The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

**6.5** There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

**6.6** The Pension Fund Committee hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

**6.7** The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below

#### **6.8 Investment Principles**

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.
- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice amongst its investment managers and challenging their investment outcomes where appropriate.
- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.
- The Pension Fund wants to **gain the confidence of members** in the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

#### **6.9 Policy Implementation: investing to build a better future**

The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 5% allocation to global infrastructure, where the asset manager has the freedom to invest within renewables if a suitable venture presents itself.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

#### **6.10 Policy Implementation: engaging with investment community**

Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.
- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

#### **6.11 Policy Implementation: collaboration with other stakeholders**

The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

#### **6.12 Policy Implementation: gaining our members confidence**

WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

The Pension Fund will aim to provide members with a variety of information which allows them to easily understand the types of investments within the portfolio.

The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.

## **7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments**

### **The Present Policy**

**7.1** The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

**7.2** The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

**7.3** In addition the Fund:

- Is a member of the Pension and Lifetime Savings Association (PLSA) and the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners; and
- Joins wider lobbying activities where appropriate opportunities arise.

**7.4** Ongoing voting and engagement is covered with the Funds Responsible Investment Policy (Appendix D).

**7.5** The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. See appendix B and C for further details on the Funds approach to stewardship.

## 8 Feedback on this statement

Any feedback on this Investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues, then please contact:

Tri-Borough Treasury and Pensions Team  
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**Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom****Decision Making**

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012",

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in *Roberts v. Hopwood* whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

**Principle 1 - Effective decision-making****Administering authorities should ensure that:**

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.**

**Full Compliance**

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS. The Committee is made up of elected members of the Council who each have voting rights.

The Committee obtains and considers advice from and is supported by the Executive Director of Finance and Resources, Tri-Borough Director of Treasury & Pensions, and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members.

## Principle 2 - Clear objectives

**An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.**

### Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

The Fund's strategy is regularly reviewed.

## Principle 3 – Risk and liabilities

**In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.**

### Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2019. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current asset allocation is outlined in appendix E.

## Principle 4 – Performance Assessment

**Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members**

### Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Deloitte, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover, portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition, the Committee receives quarterly reports as to how the Fund has performed against their investment objective.

In order to comply with the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019, The Fund's investment advisors are measured annually against an agreed set of criteria which was agreed by Committee at the 23 October 2019 meeting.

#### Principle 5 – Responsible Ownership

##### **Administering authorities should:**

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

##### **Full Compliance**

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's Responsible Investment (RI) Policy (Appendix D). Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's RI Policy (Appendix D).

#### Principle 6 – Transparency and reporting

##### **Administering authorities should:**

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communication to scheme members in the form they consider most appropriate.**

##### **Full Compliance**

Links to the Governance Compliance Statement, the ISS, the FSS, and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet.

### Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC) directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship code, however expects any directly appointed fund managers and the pool company (London CIV) to comply and this is monitored on an annual basis.



**Information on London CIV****Stewardship Statement is attached – Other London CIV details are included in ISS main Statement**

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited (“London CIV”) is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

**Principle 1****Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments and ensure the widest reach of these activities given the London CIV's investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers, the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the London CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the London CIV are exercise of voting rights and engagement with investee companies. The London CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns

We expect all of the London CIV's equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

## **Principle 2**

**Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The London CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the London CIV's Investors are prioritised.

The London CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year. The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the London CIV board on a regular basis. A Conflicts of Interest Register is maintained. Shareholders of the London CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

## **Principle 3**

**Institutional investors should monitor their investee companies.**

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The London CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The London CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The London CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

## **Principle 4**

**Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

The London CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the London CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The London CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;

- whether the manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
- the estimated performance impact of engagement on the strategy in question.
- Given the range of fund managers and Fund investments, the London CIV carries out its monitoring at the manager level to identify:
  - trends to ensure progress is being made in stewardship activities;
  - specific managers where progress or the rate of progress is not adequate; and
  - appropriate specific actions necessary.

#### **Principle 5**

**Institutional investors should be willing to act collectively with other investors where appropriate.**

As day-to-day management of the Fund's assets has been delegated to external investment managers, the London CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition, the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities

#### **Principle 6**

**Institutional investors should have a clear policy on voting and disclosure of voting activity.**

The London CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The London CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the London CIV will require detailed justification for non-compliance.

The London CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third-party proxy voting service provider is used and, if so, how.

#### **Principle 7**

**Institutional investors should report periodically on their stewardship and voting activities.**

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner.

In addition, the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers. The London CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The London CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

*This statement will be reviewed regularly and updated as necessary.*

## Responsible Investment Policy:

## Appendix D

### Introduction

- 1.1. Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.
- 1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.
- 1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.
- 1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.
- 1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.
- 1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.
- 1.7. With these noble objectives at the forefront, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

### Policy Implementation: Selection Process

- 1.8. The Pension Fund Committee delegates the individual investment selection decisions to its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.
- 1.9. This includes, but is not limited to:
  - a. evidence of the existence of a Responsible Investment policy;
  - b. evidence of ESG integration in the investment process;

- c. evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
  - d. evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
  - e. a track record of actively engaging with global companies and stakeholders to influence best practice;
  - f. an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.
- 1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:
- a. for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
  - b. for passive managers, the investment advisor is aware of the nature of the index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy as the passive manager actively engages with global companies and stakeholders where appropriate;
  - c. consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
  - d. how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
  - e. how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.
- 1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the companies/projects in which they invest. Investee companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

#### **Policy Implementation: Ongoing Engagement and Voting**

- 1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.
- 1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.
- 1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

- a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
  - b. reviewing reports issued by investment managers and challenging performance where appropriate;
  - c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
  - d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
  - e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).
- 1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.
- 1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.
- 1.17. The Pension Fund's officers will work closely with the London CIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the London CIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.
- 1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:
  - a. Pension Fund employers;
  - b. Local Pension Board;
  - c. advisors/consultants to the fund;
  - d. investment managers.

#### **Policy Implementation: Training**

- 1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG integration into the pension fund's investment process.





**Strategic Asset Allocation:****Appendix E**

The below table sets out the Fund's strategic asset allocation along with review range which would trigger a rebalancing exercise.

Strategic Asset Allocation	Target (%)	Review Range
<b>Listed Equities</b>	<b>65.0%</b>	<b>+/-3.0%</b>
Passive Equities	22.5%	
Global - Active	42.5%	
<b>Cash</b>	<b>0.0%</b>	<b>+/-0.0%</b>
Cash	0.0%	
<b>Fixed Income</b>	<b>20.0%</b>	<b>+/-2.0%</b>
Global Bonds	13.5%	
Multi Asset Credit	6.5%	
<b>Alternatives</b>	<b>10.0%</b>	<b>+/-1.0%</b>
Infrastructure	5.0%	
Renewable Infrastructure	5.0%	
<b>Property</b>	<b>5.0%</b>	<b>+/-0.5%</b>
Property	5.0%	
<b>Total</b>	<b>100.0%</b>	





## Investment &amp; Administration Risk Register







## Appendix F

Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Investment	1		The global outbreak of COVID-19 impacting stock markets worldwide, as well uncertainty surrounding illiquid asset values including property and infrastructure.	5	4	2	11	4	44	TREAT - 1) The officers will continue to monitor the impact on an ongoing basis. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation will be reviewed in Q1 of 2020/21. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	3	33	05/05/2020
Governance	2		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	4	3	11	3	33	TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups. 2) Jason Fletcher was appointed as the permeant CIO during April and is due to begin the role in July 2020. Jason has over 25 years worth of experience in the financial services industry and held the position of CIO at the LGPS Central pool. The LCIV have also appointed Jacquelin Jackson as the Head of Responsible Investment to lead the pool in their commitment to responsible investment and better understanding LCIV clients ESG requirements. Following Kevin Cullen's retirement, Cameron McMullen will be joining the LCIV as the new Client Relations Director.	3	33	05/05/2020
Investment	3		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty caused by the ongoing trade war between the US and China.	5	4	1	10	4	40	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will take place in Q1 of 2020/21.	3	30	05/05/2020
Investment	4		Volatility caused by uncertainty with regard to the UK's exit from the European Union, lack of trade deal and the economic after effects. There will be a transition period until the end of 2020, during which time the UK and EU will negotiate new arrangements from 2021.	4	4	1	9	3	27	1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements. 4) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply.	3	27	05/05/2020



Funding	5	↔	Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	TOLERATE: The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	05/05/2020
Funding	6	↔	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%.	5	3	2	10	3	30	TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	20	05/05/2020
Funding	7	↔	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes.	2	20	05/05/2020
Funding	8	↓	Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 4) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	20	05/05/2020
Funding	9	↔	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	05/05/2020
Investment	10	↔	Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.5m.	5	3	1	9	3	27	TREAT- 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	18	05/05/2020







Operational	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	27	1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following a carbon review of the Pension Fund investments, the Fund may consider investing in low carbon assets. 5) An ESG and RI Policy has been drafted for the Pension Fund.	2	18	05/05/2020
Governance	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales.	3	2	1	6	3	18	1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	18	05/05/2020
Investment	13		Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	24	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will take place in Q1 of 2020/21.	2	16	05/05/2020
Governance	14		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	1) Pension Fund Committee Chair is a member of the shareholder Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) Jason Fletcher was appointed as the permanent CIO during April and is join to begin the role in July 2020. Jason has over 25 years worth of experience in the financial services industry and held the position of CIO at the LGPS Central pool. The LCIV have also appointed Jacquelin Jackson as the Head of Responsible Investment and lead the pool in their commitment to responsible investment and better understanding LCIV clients ESG requirements. Following Kevin Cullen's retirement, Cameron McMullen will be joining the LCIV as the new Client Relations Director.	2	16	05/05/2020









Funding	15		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	05/05/2020
Funding	16		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	TOLERATE: Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	05/05/2020
Funding	17		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	05/05/2020
Funding	18		There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	3	12	2	24	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	1	12	05/05/2020
Governance	19		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	12	05/05/2020
Governance	20		Changes to LGPS Regulations	3	2	1	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will be considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	05/05/2020













Funding	21	↔	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	5	3	3	11	2	22	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	11	05/05/2020
Financial	22	↔	Financial loss of cash investments from fraudulent activity.	3	3	5	11	2	22	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	05/05/2020
Operational	23	↔	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	11	05/05/2020
Governance	24	↔	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	11	05/05/2020
Funding	25	↔	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	22	TREAT: 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	11	05/05/2020
Regulation	26	↔	A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	22	TREAT: 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	11	05/05/2020
Governance	27	↔	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10	05/05/2020
Governance	28	↔	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	20	TREAT: 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	10	05/05/2020

Operational	29	↔	Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	20	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10	05/05/2020
Investment	30	↔	Failure of global custodian or counterparty.	5	3	2	10	2	20	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	10	05/05/2020
Operational	31	↔	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	20	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	10	05/05/2020
Investment	32	↔	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	20	TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10	05/05/2020
Governance	33	↔	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	20	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10	05/05/2020
Governance	34	↔	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	3	3	4	10	2	20	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	05/05/2020
Operational	35	↔	Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	15	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	10	05/05/2020



Funding	36		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	TREAT: 1) Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 2) Cashflow position monitored monthly.	1	9	05/05/2020
Governance	37		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	9	05/05/2020
Governance	38		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	18	TREAT - 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	05/05/2020
Regulation	39		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	14	TREAT: 1) More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	7	05/05/2020
Operational	40		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	14	TREAT - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	7	05/05/2020
Funding	41		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	14	TREAT: 1) Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7	05/05/2020

Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Admin	1	NEW	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	4	36	TREAT 1) The Pensions Administration team have shifted to working from home. 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 4) Maintain regular contact with the Surrey administration team.	3	27	05/05/2020
Admin	2		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	1	4	3	8	4	32	TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs. 4) Nick Weaver was appointed as Head of Pensions Administration in Q4 of 2019/20.	3	24	05/05/2020
Admin	3		Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	27	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	05/05/2020
Admin	4		Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	21	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14	05/05/2020
Admin	5		Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	22	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TREAT 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy.	1	11	05/05/2020
Admin	6		Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	20	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	10	05/05/2020
Admin	7		Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	18	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers.	1	9	05/05/2020
Admin	8		Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	16	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR.	1	8	05/05/2020
Admin	9		Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	16	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	8	05/05/2020

Admin	10		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	16	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	8	05/05/2020
Admin	11		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	12	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team.	2	8	05/05/2020
Admin	12		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	14	TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	7	05/05/2020
Admin	13		Failure to detect material errors in the bank reconciliation process.	2	2	2	6	3	18	TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team.	1	6	05/05/2020
Admin	14		Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	12	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	1	6	05/05/2020
Admin	15		Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	12	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members.	1	6	05/05/2020
Admin	16		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	9	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	6	05/05/2020
Admin	17		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	10	TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams.	1	5	05/05/2020
Admin	18		Lack of productivity leads to impaired performance.	2	2	1	5	2	10	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	5	05/05/2020
Admin	19		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	10	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	5	05/05/2020
Admin	20		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5	05/05/2020
Admin	21		Failure to identify GMP liability leads to ongoing costs for the pension fund.	1	2	1	4	1	4	TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund.	1	4	05/05/2020