

| Governance Risks  |                                   |  |   |   |    |  |   |   |    |
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| There is a current risk that academies are not abiding by their statutory responsibilities as Scheme employers. This involves not transmitting information about staff, which means that pension benefits cannot be accurately calculated.  | Governance and Compliance Manager | Employers contributions are monitored on a monthly basis. This has proved to be an effective strategy.   | 3 | 3 | 9  | Consistent monitoring and a robust approach should ensure that relationships and therefore also the effectiveness of communications will improve.  | 3 | 3 | 9  |
| If other scheme employers cease trading or operating for any reason the Scheme Actuary will calculate a cessation valuation of their liabilities. If that employer cannot meet that liability the Council has to make good the shortfall.   | Governance and Compliance Manager | Employers contributions are monitored on a monthly basis. Council officers rely on good communications to identify any problems at the earliest stage. The range of remedies includes reporting to the Pensions Regulator, involving other statutory bodies, such as the Education Funding Agency, up to court enforcement action.                     | 3 | 5 | 15 | The team are currently putting in place an employer risk strategy, which will lead to the early identification of employers at risk.   | 3 | 4 | 12 |
| Pending a comprehensive review of the governance arrangements for the Scheme and Fund there is a risk that the authority will not be compliant with the current regulatory framework. This could result in sanctions or reputational damage.  | Governance and Compliance Manager | A review of the current governance arrangements has been commissioned which should highlight any areas of concern.   | 3 | 3 | 9  | Implement the findings of the governance review.   | 3 | 2 | 6  |
| Funding - Assets and Liabilities  |                                   |  |   |   |    |  |   |   |    |
| The Fund's invested assets are not sufficient to meet its current or future liabilities.  | Nigel Cook                        | A formal actuarial valuation is carried out every three years. This results in a Funding Strategy Statement which is regularly reviewed to ensure contribution rates and the investment strategy are set to meet the long term solvency of the Fund. The Scheme Actuary's view is that there is a 75% chance that the funding target will be achieved. | 4 | 3 | 12 | Officers are looking at ways of monitoring the funding level on a more frequent basis rather than waiting for a full valuation every three years. Although this needs to be done efficiently and in a cost effective manner.   | 4 | 2 | 8  |
| Between a quarter and a third of the Fund is held in illiquid investments. This means there is a risk that the authority might find itself with insufficient cash to meet short term and medium term liabilities without having to disinvest and thus damage the prospects of generating adequate investment returns. | Matthew Hallett                   | The Fund's contribution income is currently enough to cover the short term liabilities. This is kept under constant review and Officers monitor the cashflow carefully on a monthly basis. The Council is currently forward funding the Pension Fund which provides a buffer. This cash will be invested in liquid assets to mitigate this risk.       | 3 | 4 | 12 | Officers have identified a potential cash shortfall due to the changing investment strategy towards alternatives and are in the process of amending the current policy of reinvesting dividend income to make up the shortfall. Investments have been identified that are dividend yielding. | 3 | 2 | 6  |

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| <p>There is a current risk that academies are not paying over contributions, which involves the administering authority in incurring unnecessary costs.</p>  | <p>Governance and Compliance Manager</p> | <p>The authority has retained legal advisors to mitigate this risk, possibly through legal channels. The most significant case, in terms of contributions due, is currently being considered by the Pensions Ombudsman.</p>  | <p>3      5      15</p> | <p>This is likely to be an issue requiring attention for some time.</p>   | <p>3      5      15</p> |
| <p>Under the S.13 reporting regime, the Government Actuary Department, (GAD), form a view of the viability of LGPS funds. Using GAD assumptions, rather than the Scheme Actuary's, this fund is in the bottom decile for funding. There is a risk that the Government may intervene in the investment of the fund.</p>   | <p>Nigel Cook</p>                        | <p>The current Scheme Actuary has indicated that there is a 75% likelihood that the Scheme will be fully funded in 22 years.</p>   | <p>4      3      12</p> | <p>The authority will revisit the funding position at the next triennial valuation and can adjust contribution levels.</p>  | <p>4      2      8</p>  |
| <p><b>Investment Risks</b></p>   |  |  |                         |   |                         |
| <p>There is a risk that, under any set of circumstances, an asset class will underperform. The Fund has a significant allocation to several single asset categories - for example, equities, fixed interest, property or alternates - which potentially leaves the Fund exposed to the possibility that class of assets will underperform relative to expectation.</p> | <p>Matthew Hallett</p>                   | <p>The investment allocation mix is in a variety of uncorrelated investments designed to give a diverse portfolio, meaning any one investment class should not unduly impact on the performance of the overall portfolio, if it underperforms relative to expectation. It is recognised that the portfolio is currently overweight equities.</p> | <p>4      4      16</p> | <p>A new asset allocation was agreed in September 2015 and Officers are working on moving towards that allocation to remove the current overweight position towards equities.</p> | <p>5      2      10</p> |
| <p>In response to the requirement to pool LGPS assets Croydon has opted to join the London group and invest in certain assets through the London CIV. As this is an untried investment route there are inevitably risks and areas of uncertainty.</p>  | <p>Nigel Cook</p>                        | <p>Extensive due diligence has been undertaken by the consultants involved in establishing the CIV. Moreover, the CIV is undertaking an extensive overhaul of its governance arrangements.</p>   | <p>4      3      12</p> | <p>As a second wave investor the Pension Fund will have the opportunity to learn from others' experiences. Progress towards funding the CIV will be carefully monitored.</p>      | <p>3      2      6</p>  |

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| <p>Specific macro-economic risks are addressed below but there is a more general, underlying risk of a global collapse in investment markets. The markets have experienced a continuous sequence of such events: Latin American sovereign debt; Black Friday crash; the Dot.com bubble; sub-prime and credit crunch. Other crises are inevitable.</p>   | <p>Matthew Hallett</p> | <p>The discount rate assumption is reviewed at every valuation to ensure it gives appropriate views on future return expectations. The Fund is also well-diversified which provides a degree of protection.</p>   | <p>4            3            12</p> | <p>Existing controls deemed adequate. Reviewed 31/12/2015. Next review 31/12/18</p>   | <p>4            3            12</p> |
| <p>There are a number of current specific geopolitical risks. The administration of US President Trump can be considered an unknown factor in so far as its impact on the US economy. To date this has been largely benign and the US markets have reacted positively. Other ongoing concerns include the impact of Brexit, the Euro crisis, the growth of the Chinese economy and the impact of populist movements.</p>  | <p>Matthew Hallett</p> | <p>Equities have performed well to the extent that the Fund is currently over-weight in the asset class. This is being addressed by moving cash into alternate asset classes. Currency hedging is an option to address potential volatility as is some form of synthetic hedging.</p> | <p>4            3            12</p> | <p>By 2019 the overweight position in equities should have been invested in alternate asset classes thus reducing this risk.</p>            | <p>3            2            6</p>  |
| <p><b>Operational Risks</b></p>   |                        |   |                                     |   |                                     |
| <p>The introduction of the second Markets in Financial Instruments Directive (MiFID II) this year presents a grave challenge to local authorities. As things stand all Local authorities including Croydon will be reclassified as retail clients from January 2018 under the terms of this Directive. Croydon will have to opt up to professional status otherwise there will be a fundamental impact on the team's ability to manage the Fund. The final criteria for opting up will be set by the FCA and each investment manager will need to assess Croydon against criteria before allowing Croydon to invest. As yet it is unclear whether or not Croydon will initially meet the criteria and what needs to be in place to meet it on an ongoing basis.</p> | <p>Nigel Cook</p>      | <p>All counter-parties (including fund managers, banks, and advisors) have been contacted and all have agreed to opt up the authority to elective professional investor status.</p>   | <p>4            2            8</p>  | <p>In the long-run the process that has been developed in-house should allow the Pension Fund to be treated as a professional investor.</p> | <p>3            2            6</p>  |