Division(s): N/A

PENSION FUND COMMITTEE – 8 MARCH 2019

RISK REGISTER

Report by the Director of Finance

Introduction

1. At its meeting on 11 March 2016, the Committee agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report also goes to each meeting of the Pension Board for their review. Any comments from the Pension Board are included in their report to this meeting.

2. The risk register presented to the March 2016 Committee meeting was the first produced in the new format, which introduced the concept of a target level of risk and the need to identify mitigation action plans to address those risks that were currently not at their target score. This report sets out any progress on the mitigation actions agreed for those risks not yet at target, and identifies any changes to the risks which have arisen since the register was last reviewed.

3. A number of the mitigation plans are directly linked to the key service priorities identified in the Annual Business Plan for 2018/19. This report should therefore be considered in conjunction with the business plan report elsewhere on this agenda.

Comments from the Pension Board

4. At their meeting in January 2019, the Pension Board identified that the risk to investment returns from more management of environmental, social and governance issues, in particular climate change was not fully reflected in the current risk register. They wished to see a new risk added to the register.

5. The proposal from the Board was to add a risk relating to reductions in investment performance, with the cause specifically related to the failure to properly account for climate change in making investment decisions. The impact of the risk was seen as a fall in funding levels requiring an increase in employer contributions. The Board felt that the risk could be managing by switching assets between the current allocation to passive equities to the passive low carbon portfolio.

Officer Comment

6. It is the view of Officers that there is a real risk to investment returns caused by a lack of consideration of the wider environmental, social and governance (ESG) factors which can direct impact future financial performance of the

companies invested in. We would though not choose to limit the risk to a single focus on climate change, as whilst a key issue at present, there are other ESG factors which could have a similar financial impact. Similarly, a mitigation based on an allocation to the passive low carbon portfolio would be seen as too narrow to mitigate the wider risk. Indeed the risks associated with climate change itself are much wider than those that could be mitigated by an allocation to a low carbon fund. For example, research papers have identified a number of companies where the climate change risk is to their current properties through flooding as a result of rising sea-levels. A failure by these company boards to address this risk could significant impact future financial performance.

7. It is for this reason, that the Pension Fund Committee has also determined that the best way to mitigate ESG risks is on an investment by investment basis, with full engagement with company management to ensure they understand the risks they are facing and have proper mitigation plans in place, which they are monitoring to ensure they are effective. This is currently reflected in the ESG Policy section within the Investment Strategy. The main improvements to the mitigation is seen to be through the improved ESG reporting being developed by Brunel in conjunction with officers from the client funds.

Latest Position on Existing Risks

8. There have been limited changes to the risk register in the last quarter, with mitigation work continuing as set out in the Business Plan Review elsewhere on this Committee's agenda.

9. No new risks have been identified and added to the register during this quarter.

RECOMMENDATION

10. The Committee is RECOMMENDED to note the comments of the Pension Board and determine any changes it wishes to see made to the risk register.

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