STATEMENT

OF

RISK

POLICY

& STRATEGY

STRATHCLYDE PENSION FUND

Revised: March 2019

STRATHCLYDE PENSION FUND

Statement of Risk Policy & Strategy

1. Introduction

Glasgow City Council is the administering authority for the Strathclyde Pension Fund SPF). The council delegates this responsibility to the Strathclyde Pension Fund Committee. The council and the committee recognise that they have fiduciary duties and responsibilities towards pension scheme members and participating employers that are analogous to those holding the office of trustee in the private sector. This statement describes the approach to risk which the committee adopts in light of those duties.

2. Background

No organisation can completely eliminate risk. This is particularly so for a pension fund. The Fund exists to pay future pension benefits. The future is inherently uncertain. There is therefore a risk that the investment assets of the Fund will be less or more than the pension liabilities. That risk is managed through the Funding Strategy. Other risks are managed through the investment, administration, governance and communications strategies. This Statement of Risk Policy & Strategy sets out a common basis for risk management across those strategies.

3. Risk Policy

Risk should be eliminated, transferred or controlled as far as possible. To achieve this the committee will ensure that risk management is integral to the governance and management of the Fund at a strategic and operational level. The aim is to embed risk awareness and management into the processes and culture of SPF to help ensure that the Fund's objectives are met.

4. SPF Objectives

SPF's principal objectives are set out in its funding, investment, administration and communications strategies. Appendix A provides a summary of these objectives as set out in those strategies.

5. Risk Management Objectives

SPF's principal risk management objectives are to:

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk;
- ensure consistent application of the risk management methodology across all SPF activities; and
- minimise the cost of risk.

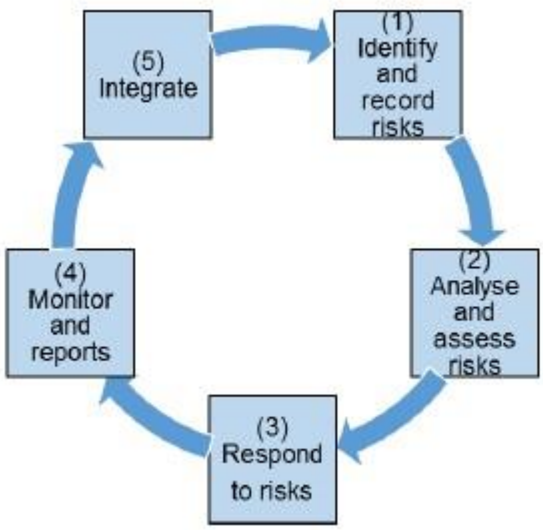
How this is achieved will vary depending on the type of risk and the activity involved:

- within scheme administration the objective is to eliminate risk as far as possible.
- within investment activity the objective is to balance risk and return.

6. Risk Management Strategy

The risk management process should be a continuous cycle of risk identification and recording, analysis and assessment, response, monitoring and reporting. This is illustrated below.

Risk Management Process



The SPF risk management strategy sets out how each of these elements of the process will be addressed.

6.1 Risk Identification and Recording

This is the process of recognising risks and opportunities that may impact upon SPF objectives. The process is both proactive and reactive. It involves horizon scanning for new or emerging risks and hazards; and learning from review of how past and current risks have manifested.

Principal sources for identification of risks are:

- the existing SPF risk register
- internal audit reports
- external audit reports
- performance monitoring and review
- publications from authoritative sources including the Pensions Regulator, the Local Government Pensions Committee, the CIPFA Pensions Panel, and the Scheme Advisory Board
- participation in industry networks including the Scottish Pensions Liaison Group, Investment & Governance Group, and Pensions & Lifetime Savings Association
- advice from actuarial, investment and legal consultants

An integral part of the development of any new strategy, business priority or investment proposal is the specific consideration and identification of risks.

Once identified, risks will be recorded, usually on the risk register which is the primary control document for the subsequent analysis, control and monitoring of risks. Risks will also be recorded on individual project initiation documents. A customised risk template has been developed and is used for each Direct Investment Portfolio investment.

The risk register records:

- risk ID
- risk description
- related objective
- risk category
- inherent (pre-control) risk scoring
- controls and mitigating actions
- residual (post-control) risk scoring
- previous risk scoring
- ownership

The register provides a simple, systematic and consistent basis for analysis, understanding, communication, management, monitoring and reporting of risks.

6.2 Risk Analysis and Assessment

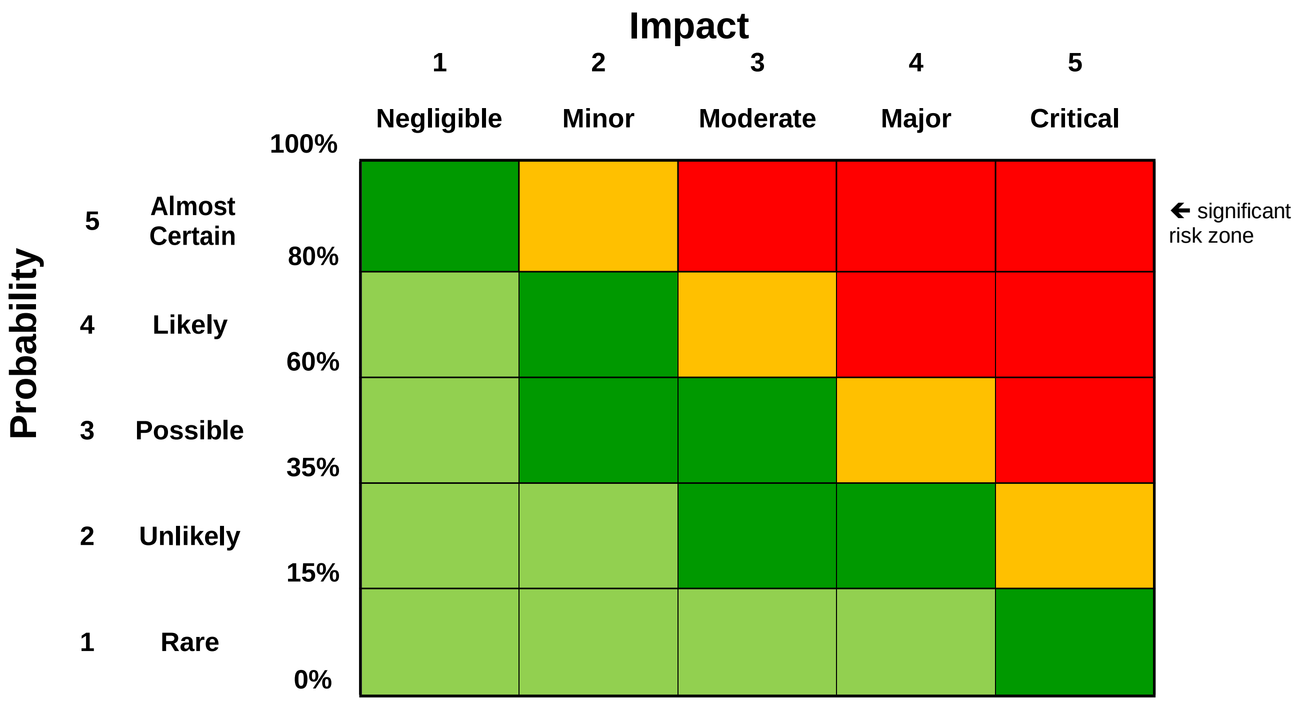
Having identified potential risks, the next stage of the process is to analyse and profile each of them.

For this SPF uses a standard methodology and template:

- each risk is scored from 1 to 5 for probability
- each risk is scored from 1 to 5 for impact

The product of these scores provides a risk ranking.
This is illustrated in the matrix below.

Risk Tolerance Matrix



6.3 Risk Response

Risks may be tolerated, treated, transferred or terminated. In practice, most will be treated. This means that controls will be introduced and and mitigating actions taken to reduce the likelihood and adverse consequences of a risk event occurring. Control mechanisms will vary depending on the type of risk and the activity involved. Key mechanisms include:

- governance and decision making structures
- systemic procedures and controls
- resource allocation and management (internal and external)
- separation of duties
- diversification of investments
- authorisation and checking procedures
- actuarial review
- internal audit review and assurance
- external audit review
- regulatory framework and review.

Controls for each risk are described in the risk register and reviewed regularly.

6.4 Risk Monitoring and Reporting

Regular review of the risk register is central to risk monitoring. The register is reviewed by:

- the SPFO Leadership Team at least quarterly and
- the SPF Committee and Board at least annually (a summary is reviewed more regularly).

As part of the review, consideration will be given to whether:

- the nature of the risk has changed
- the control environment has changed
- the probability of the risk occurring has changed
- the impact of the risk occurring has changed
- any new or emerging risks need to be considered.

The objective is to ensure that risk control remains effective and that risk management evolves and improves over time as far as possible.

6.5 Risk Integration

Risk should not just be considered as a stand-alone issue. It should be an integral part of strategic and operational planning and management.

Consideration of risk forms part of established routines for monitoring and development within SPFO's administration, communications, investment and funding functions.

7 Risk Categories

The principal categories and specific types of risk facing SPFO can be summarised as follows.

Primary Risk Category	SPFO Risk Type
▪ Legislative/Regulatory	Compliance risk
▪ Financial	Funding/liability and investment risks
▪ HR/People	Resource and skill risks
▪ Operational	Administrative risk, employer risk
▪ Technological	IT and data security risk
▪ Reputational	Reputational risk

A brief description of some of the specific types of risk is included at Appendix B.

Appendix A **Summary of SPF Objectives**
Appendix B **Summary of SPF Risk Types**

Appendix A

Summary of Strathclyde Pension Fund Objectives

Purpose of the Fund
To:
- receive monies in respect of contributions, transfer values and investment income;
- invest monies in accordance with policy formulated by the administering authority; and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

Aims of the Fund
To:
- ensure that sufficient resources are available to meet all liabilities as they fall due;
- manage employers' liabilities effectively;
- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and employers; and
- maximise the returns from investments within reasonable risk parameters;

as defined in the Local Government Pension Scheme (Scotland) Regulations.

Funding Objectives
The principal objectives of a funded scheme are to:

- allocate and safeguard assets to ensure that pensions can be paid as promised;
- reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The funding mechanism should also minimise any intergenerational transfer of liabilities.

Investment Objective
The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return.

The current combined objectives of the funding and investment strategies are to achieve:
- a greater than 2/3 probability of being 100% funded over the average future working lifetime of the active membership (the target funding period – 14 years at the 2017 actuarial valuation); and
- a less than 10% probability of falling below 70% funded over the next three years.

Administration Objectives
The administration strategy aims to ensure that:
- a high quality pension service is delivered to all scheme members;

- pension benefits are paid accurately and on time;

- successful partnership working develops between SPFO and its
- employers;
- performance standards are understood, achieved and reported; and
- performance and service delivery comply with the Local Government Pension Scheme (LGPS) regulations, other related legislation and The Pensions Regulator's Codes of Practice.

Communications Objectives

To:

- improve understanding of the scheme and the Fund;
- promote the benefits of the scheme; and
- allow members to make informed decisions.

Governance Compliance Objectives

To maintain an appropriate governance structure with appropriate arrangements for:

- Membership and representation
- Selection and roles
- Voting
- Training and support
- Meetings and access
- Scope of governance
- Publicity

Appendix B

Summary of Strathclyde Pension Fund Risk Types

As administering authority the council has a statutory and fiduciary responsibility to other participating councils, employers and scheme members.

Funding/Liability Risk
Ultimately SPF exists to pay pensions. The obligation to scheme members represents the Fund’s principal liability. The amount of this liability is uncertain. Current estimates and eventual payments are dependent on factors including:

- interest rates
- inflation rates
- discount rates
- and life expectancy and other demographic factors.

Each of these represents a risk that liabilities will be greater or less than anticipated.

Investment Risk
Future investment returns are uncertain and may be more or less than anticipated. Specific risk areas include:

- appropriateness of strategy
- manager and asset performance
- individual and systemic market risk
- security of assets
- counterparty failure
- concentration, credit, contract, currency, duration, macroeconomic.

Administrative Risk
This comprises particular exposure to risks in areas including

- IT system and facility dependency
- business continuity
- service provision
- communications
- process management
- financial management.

Employer Risk
The administering authority is dependent on its employers fulfilling their statutory duties, in particular:

- deduction and submission of contributions
- data management
- process management
- member engagement

There is also a risk of orphaned liabilities through employer default.

Resource and Skill Risk
The pension fund is a relatively specialist function operating on a very large scale in terms of process and asset values and volumes. This requires significant resources and specialist skills and expertise.

Regulatory and Compliance Risk
Occupational pension are heavily regulated and governed by thousands of pages of

general and scheme-specific legislation.

Reputational Risk

Public service pensions attract intense scrutiny and some negative commentary. There is also an opportunity to enhance organisational reputation through demonstrable good practice.