

Investment & Performance Risk

Risk Detail				Current Situation	Scoring			Management and Monitoring			
Risk & Nature of Risk	Cause of Risk	Implications of Risk	Risk Owner & Impact Period	Current Risk Controls	Severity	Probability	Score	Current Status	Action Required	Responsible Party & Review Date	Progress Report/ Comments
I.1	The WPP Sub-funds failure to achieve their targeted investment returns.	<ul style="list-style-type: none"> Underperformance of the WPP's Investment Managers. Adverse and unforeseen economic conditions and market events. Inappropriate strategic and regional asset allocations. A significant strain on the WPP's key stakeholders, the Constituent Authorities. This may result in a requirement for greater employer contributions or a fall in funding level.	JGC	<ul style="list-style-type: none"> Ongoing monitoring of investment performance, market developments and economic outlook reported by the Investment Manager and the Operator and discussed at OWG meetings The Operator/ the Investment Manager engagement with Investment Managers and ongoing reviews of their process Manager days hosted by the Operator/ the Investment Manager for OWG/Constituent Authorities Pension Fund Committees 	Current			👎	N/A	OWG	There has been a significant amount of work undertaken in this area over the past 12 months. Key activities include: <ul style="list-style-type: none"> Quarterly reports from Russell, Northern Trust and Link continue to be discussed at OWG & JGC meetings Bi-annual sub-fund benchmarking has commenced - the initial review of the global equity sub-funds will take place in Q4 2021. Fixed Income sub-funds will be reviewed in 2022 and an on-going monitoring programme will be established. RI reporting on climate risk & ESG risks has commenced on a quarterly basis Link have drafted an 'ACS responsibilities matrix' which formalises targeted & benchmark returns, along with other aspects of sub-fund management. The current score will remain until a cycle of these activities has been completed and the effectiveness of the activities as mitigations can be validated.
	Financial		Long Term		Target						
I.2	One of the WPP's Investment Managers fails/ exits the market, leading to a financial loss to WPP assets.	<ul style="list-style-type: none"> Investment Manager's business model, internal controls and/ or the external oversight of the Investment Manager fails. Financial loss to assets held within the WPP.	The Operator/ The Investment Manager	The Operator/The Investment Manager facilitate: <ul style="list-style-type: none"> Ongoing monitoring of investment managers Questioning managers on their internal controls, external regulation, succession/retention policies Engagement with Investment Managers and the Investment Manager industry Maintaining a shortlist of suitable replacement Managers 	Current			👍	The WPP needs to ensure that suitable procedures are in place for the oversight of Sub-Fund Managers. The WPP undertake the following action: <ul style="list-style-type: none"> •Bodify due diligence on non-Russell managed sub-funds. 	OWG	There has been good progress in this area over the last 12 months. Key activities include: <ul style="list-style-type: none"> - A sub-fund ACS manager rebalancing policy has been drafted and will be delivered to the JGC in December 2021 - Reporting on any manager changes (inc. rationale) in non-Russell managed sub-funds - Link have drafted an 'ACS responsibilities matrix' which formalises targeted & benchmark returns, along with other aspects of sub-fund management
	Financial		Short Term		Target						
I.3	Failure of appointed Custodian may lead to assets not being properly managed resulting in financial and/or information loss in relation to investment assets.	<ul style="list-style-type: none"> Inaccurate recording of asset valuations and transactions. Unsatisfactory safeguarding of assets. External and internal controls fail to prevent fraud or misappropriation. Custodian fails and exists the market, potentially leading to stranded assets. Financial loss to assets held within the WPP.	The Operator/ OWG	<ul style="list-style-type: none"> Robust procurement process overseen by The Operator Annual review of custodian prepared by The Operator and presented to OWG Analysis of Investment Manager Records vs Custodian Records Monitor custodian performance on annual basis Custodian regulated by FCA Receipt of annual controls reports from Custodian's External Auditors 	Current			👍	The OWG will work with the Operator and Oversight advisor to agree the procedure for formulating and the content of the WPP Annual Custodian Review.	OWG/ Oversight Advisor	High level monitoring and information on the custodian has been received. Work is still to be progressed on the annual review of the custodian, which is expected to be part of the Link Management Information template, due to be delivered in Q1 2022.
	Financial		Short Term		Target						

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I.4	The WPP does not receive or seek expert investment advice when required.	Inappropriate decisions are implemented which may harm investment performance.	OWG/ JGC	<ul style="list-style-type: none"> Robust procurement processes Ongoing training for JGC and OWG members Oversight Advisor in place to oversee Investment Advise & decision-making process Engagement with other LGPS Pools and Funds to cross verify suitability of advice 	Current			<p>The WPP believe that the objectivity and range of investment solutions recommendations is a significant area of concern. In particular, the WPP needs to ensure that it is fully aware of the limitations, of the proposals put forward by the Investment Management Solutions Provider.</p> <p>The WPP will ask its Oversight Advisor to codify and formalise the process the WPP should follow when considering investment solutions.</p>	<p>The Oversight advisor will identify which aspects of an investment solution it will advise the OWG on and which will continue to be carried by local level advisors, who have an important role to play when considering the suitability of WPP investment solution for their Constituent Authority .</p>	OWG/ Oversight Advisor	<p>Work on private markets sub-funds demonstrated the robustness of WPP's collective challenge in the sub fund design stage.</p> <p>The action to codify the process by which the WPP should go about considering investment solutions has been discussed. This is expected to be a matrix, including items such as the process by which sub-funds are developed from the 'ideas' stage to launch and roles and responsibilities of various parties (including Link, Russell, Hymans and local/independent advisors). This is expected by Q1 2022.</p>
	Financial		Long Term		4	2	8				
I.5	The WPP fails to challenge Manager fees, value for money and mandated objectives.	Inability to deliver value for money to the WPP's stakeholders.	OWG	<ul style="list-style-type: none"> Ongoing monitoring of investment managers fees Question The Operator, the Investment Manager and Investment Managers on their fees Demand Transparency from Investment Managers, the Investment Manager and The Operator on fees 	Current			<p>The WPP has identified two new means of controlling this risk. As noted in risk I.1, the WPP will undertake bi-annual benchmarking exercises, this will allow the WPP to assess the value for money that they are obtaining relative to market comparators. Furthermore, the WPP recognises that cost transparency exercises are invaluable in identifying value for money, this will be the second means by which the WPP will assess value for money.</p> <p>The WPP will consider the findings of the SAB Cost Transparency exercise, following this the OWG will consider what additional action are required and whether there is a need for further cost transparency exercises.</p>	<p>OWG to consider Cost transparency actions and requirements following receipt of SAB information.</p>	OWG/ Oversight Advisor	<p>Link have provided a value for money document to the WPP, focussing on the cost & value of their services and that of their third parties</p> <p>- Bi-annual sub-fund benchmarking has commenced - the initial review of the global equity sub-funds is due to take place in Q4 2021. Fixed Income sub-funds will be reviewed in 2022 and an on-going monitoring programme will be established.</p>
	Financial		Medium Term		2	2	4				
I.6	The WPP is subjected to counterparty risk	Financial loss to assets held within the WPP, potential legal costs, reputation risk.	OWG/ The Operator/ The Investment Manager/ The Custodian	<ul style="list-style-type: none"> Ongoing monitoring of counterparty exposure Question The Operator, The Investment Manager, Investment Managers and Custodian on the WPP's level of counterparty exposure 	Current			<p>The OWG will ask the Operator to formulate an initial counterparty risk report by Q1 2022.</p>	<p>The report on counterparty risk is expected to form part of the Link Management Information template. Link have appointed a provider to deliver this report and it is due to be delivered in Q1 2022.</p>	OWG	
	Financial		Short Term		4	2	8				

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1.7	The WPP puts in place sub-optimal sub-funds.	<ul style="list-style-type: none"> insufficient time and resources are allocated to the design and development of sub-funds. Constituent Authorities do not effectively articulate their requirements and/or the WPP fails to account for Constituent Authority requirements. Value for money and/or cost savings are not given adequate consideration. Sub-funds with insufficient scale to achieve cost saving are launched. Manager fee negotiations are ineffective 	The WPP provides sub-funds that do not deliver value for money/cost saving and or the investment requirements of the Constituent Authorities	<ul style="list-style-type: none"> Numerous advisors used in the formulation of sub-funds Oversight advisor in place to oversee investment strategy and sub-fund design Numerous checks and balances on the decision-making process and approval of invest strategy and sub-funds Cost benefit analysis is carried out prior to each sub-fund launch Use of the Investment Manager's scale and the WPP's scale to negotiate the best Manager fees possible Frequent consultation with Constituent Authorities on their requirements Asset held outside of sub-fund if their inclusion in the sub-fund is cost inefficient The formulation of the WPP Annual Constituent Authority Questionnaire has significantly mitigated the risk that Constituent Authorities needs and requirements are not identified and accounted for in the formulation and alteration of WPP Sub-funds 	Current			👍	<ul style="list-style-type: none"> The formulation of the following document, as outlined in Risk 1.2, will need to be carried out to further mitigate this risk: <ul style="list-style-type: none"> Codify due diligence on non-Russell managed sub-funds Carry out an annual review of the size of investment in sub funds to ensure they are of a reasonable size These mechanisms will focus on ensuring that existing sub-funds continue to be optimal for the Constituent Authorities. 	The Operator/ Investment Manager / Oversight Advisor	<ul style="list-style-type: none"> There has been good progress in this area over the last 12 months. Key activities include: <ul style="list-style-type: none"> A sub-fund manager rebalancing policy has been drafted and will be delivered to the JGC in December 2021 The ACS responsibilities matrix has been drafted and will be delivered to the JGC in December 2021 - this will cover sub-fund objectives and other information A sub-group of Officers and Hymans Advisers has been formed to look at Private Market sub-funds, including overseeing adviser procurement Launch of the Emerging Markets Sub Fund
	Financial				Long Term	Target					
1.8	The WPP fails to adequately account for climate change, climate risk and ESG factors.	<ul style="list-style-type: none"> Lack of knowledge on the impacts of Climate Change, Risk and ESG Factors. Lack of knowledge on how the impacts of Climate Change, Risk and ESG Factors can be managed. Poor attendance at training events. 	Financial loss to assets held within the WPP and potential for stranded assets.	<ul style="list-style-type: none"> Development of suitable Climate Change, Climate Risk and ESG reporting metrics Appointment of a proxy voting and engagement provider, who engages with managers and companies on how they manage Climate Change, Climate Risk and ESG factors Publication of a Responsible Investment policy and Climate Risk Policy Constant engagement and challenging of Managers on how they account for Climate Risk/ Change and ESG Factors Development of Sub-funds that will allow Constituent Authorities to manage their Climate risk Exposure Annual Climate Change, Climate Risk or ESG related training event on the WPP Training Plan 	Current			👍	<ul style="list-style-type: none"> The WPP RI Sub-Group is working with the Oversight Advisor to develop a robust framework covering the WPP's reporting on Responsible Investment and Climate Risk. 	OWG/ Oversight Advisor	<ul style="list-style-type: none"> The WPP RI Sub-Group has established a quarterly cycle of ESG and Climate Risk reporting and will continue to meet with the Investment Managers of the WPP's Sub-funds to understand, challenge and review how they account of RI matter in the formulation of WPP sub-funds. The RIS Sub Group have prepared a Stewardship Report and are expected to submit to the FRC in Q4 2021.
	Financial				Long Term	Target					
1.9	The WPP fails to facilitate investment solutions that enable the Constituent Authorities to meet their investment strategy and objectives.	<ul style="list-style-type: none"> Insufficient time and resources are allocated to engaging with and understanding Constituent Authority needs and requirements. Constituent Authorities do not effectively articulate their requirements and/or the WPP fails to account for Constituent Authority requirements. Sub-funds are not designed to Constituent Authority requirements. Sub-funds are not flexible enough or able to change to better meet Constituent Authority requirements 	The Constituent Authorities refuse to make use of the investment solution provided by the WPP. Consequently, the WPP fails to Pool assets, which may lead to government intervention and or the collapse of the WPP.	<ul style="list-style-type: none"> The development of further sub-funds is a prioritised item within the WPP's business plan. Frequent consultation with Constituent Authorities on their requirements Consultation with the Constituent Authorities on the ongoing suitability of existing sub-funds. Numerous advisors used in the formulation of sub-funds Oversight advisor in place to oversee investment strategy and sub-fund design Numerous checks and balances on the decision-making process and approval of invest strategy and sub-funds 	Current			👍	N/A	Oversight Advisor	<ul style="list-style-type: none"> The annual consultation questionnaire that seeks to determine Constituent Authorities' individual investment requirements and longer-term aspirations continues to be issued and is used to feed into the WPP workplan. The target score for probability has been increased to a 2 as it was felt to be a more realistic target, taking into account external factors and the changing needs of Constituent Authorities.
	Operational/ Reputational				Long Term	Target					