

<b>Committee:</b> Financial Investment Board	<b>Dated:</b> 9 February 2022
<b>Subject:</b> Amendment to Risk Register for Financial Investment Board	<b>Public</b>
<b>Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?</b>	<b>All</b>
<b>Does this proposal require extra revenue and/or capital spending?</b>	<b>No</b>
<b>If so, how much?</b>	<b>£N/A</b>
<b>What is the source of Funding?</b>	<b>N/A</b>
<b>Has this Funding Source been agreed with the Chamberlain's Department?</b>	<b>N/A</b>
<b>Report of:</b> The Chamberlain	<b>For Decision</b>
<b>Report author:</b> James Graham – Chamberlain's Department	

### Summary

This report introduces a proposed amendment from officers to the Risk Register for the Financial Investment Board to adequately capture risks surrounding asset allocation decision making following feedback from Members at the last meeting on 30 November 2021.

### Recommendations

Members are asked to:

- Agree the proposed amendments to risk CHB FIB 02 (Targeted returns) as presented at the Appendix.

### Main Report

#### Background

1. The Financial Investment Board (the Board) instituted a Risk Register on 22 March 2018 to help identify and manage the strategic risks facing the Board in discharging its responsibilities to oversee the City's non-property investments. The Risk Register is presented to the Board semi-annually while officers review the register more frequently and report any material changes between reviews on an exceptions basis to the Board. The current Risk Register was agreed by the Board on 30 November 2021.
2. At that meeting the Board discussed the suitability of Risk CHB FIB 02 (Targeted returns), which focuses on individual and collective fund manager performance but fails to address underperformance as a result of strategic and tactical asset allocation decisions. It was agreed that officers would bring back an amendment to this risk to the February meeting.

#### Amendment to the Risk Register

3. Risk CHB FIB 02 is set out in the Appendix. Officers have reviewed the wording around the Risk Description and added a new Risk Action which describes how the Board currently manages this risk. The proposed amendments are underlined. At this stage it is not proposed to amend the risk score.

### **Future Changes to the Risk Register**

4. The Board also commented that consideration should be given to amending the Risk Register to separate out the three funds and discussed whether the Risk Register should include a longer-term risk relating to sustainability of strategy, which would separate environmental and governance issues. Officers are considering this feedback and will bring back proposed changes in the new municipal year.

### **Appendix: Excerpt from Risk Register**

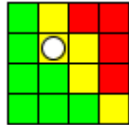
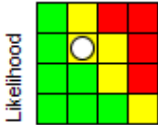

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## APPENDIX

Risk no, title, creation date, owner	Risk Description (Cause, Event, Impact)	Current Risk Rating & Score		Risk Update and date of update	Target Risk Rating & Score		Target Date/Risk Approach	Current Risk score change indicator
CHB FIB 02 Targeted returns - Pension Fund, City's Cash and Bridge House Estates	<p><b>Cause:</b> <del>Fund managers</del> <u>The three Funds</u> fail to achieve the targeted investment returns because</p> <ul style="list-style-type: none"> <li>the Board appoints unsuitable fund managers,</li> <li>individual fund managers underperform against the benchmarks agreed by the Board,</li> <li>aggregate fund manager performance fails to achieve the Board's long-term targets</li> </ul> <p><u>• The asset allocation strategy is not consistent with the Funds' return targets</u></p> <p><u>• Current asset allocation deviates from target asset allocation without adequate oversight</u></p> <p><b>Event:</b> Failure to be seen to manage the funds responsibly. <b>Effect:</b> Supervisory intervention over management of the Funds.</p>	Likelihood  Impact	6	The performance of fund managers and their aggregate performance is reported against target to each Financial Investment Board. The Board sets a diversified investment strategy to mitigate volatility and as such it expects different parts of the strategy to outperform at different times. Most appointed managers are currently outperforming their assigned targets over longer term time horizons, although several are not. Where relative returns are negative, Members and officers seek to understand why in order to determine whether there is continued conviction in the manager's strategy to recover performance.	Likelihood  Impact	6	31-Mar-2022	
08-Mar-2018 Caroline Al-Beyerty				19 Nov 2021				Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
CHB FIB 02a	Investment managers' performance and their aggregate performance is measured against appropriate benchmarks and monitored by the Financial Investment Board throughout the year. It is supplemented by market insight from the Corporation's investment consultants which provides peer group comparisons; checks on	The latest performance reports to the Board from officers and the investment consultant Mercer detail appointed manager and fund level performance up to 30 September 2021. Since the Risk Register was last review in May 2021, investment performance has been positive overall across the three main funds. Member-level meetings have been arranged with the London CIV and Pyrford for December 2021.	James Graham; Kate Limna	19-Nov-2021	31-Mar-2022

## APPENDIX

	movement of key officers; and reviews on the incorporation of ESG considerations in implementing their investment strategies. Fund managers are invited to meet with Officers and Members to account for their performance as and when the Board deem this necessary/as required.				
CHB FIB 02b	<u>Asset allocation strategy is set with reference to the Funds' investment objective and funding requirements on a periodic basis. Current asset allocation is monitored against strategy at each Board meeting.</u>	<u>As at 31 December 2021, the three Funds are each overweight towards equities versus their asset allocation strategies. The Pension Fund's current asset allocation is within control ranges established in the Fund's Investment Strategy Statement. For BHE, any material portfolio rebalancing or revision of the asset allocation strategy has been on hold pending the conclusion of the Bridge House Estates governance review. The Bridge House Estates Board is expected to review the Charity's overall investment arrangements in 2022. This would serve as an appropriate opportunity to review the asset allocation strategy against the Charity's updated financial outlook. For City's Cash, any decisions around the rebalancing of the portfolio will be dependent on the decisions taken by the Corporation around its funding strategy for the capital programme as part of the MTFP process and work on the Fund's overall asset allocation.</u>	<u>James Graham; Kate Limna</u>	<u>31-Jan-2022</u>	<u>31-Mar-2022</u>