

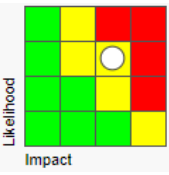
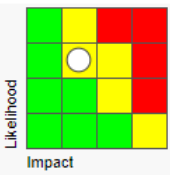

# Investment Committee – Overarching Investment Portfolio Risk Register (for City Fund and City’s Estate)



## TOP LEVEL

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
<b>IC 01</b> <b>Investment performance: Strategy risk</b>  <b>3-May-2024</b> <b>C Al-Beyerty</b>	<p><b>Cause:</b> Inappropriate split of assets between property and financial assets and/or inappropriate asset allocation within the underlying property and financial portfolios</p> <p><b>Event:</b> Poor assessment of market conditions and outlook for returns – failure to react to changes in market conditions leading to lower than expected returns/income, decline in capital or insufficient liquidity</p> <p><b>Effect:</b> Failure to meet return targets and spending commitments – significant decline in capital – shortfall in income – inadequate liquidity – forced sales of assets at an inopportune moment in order to fund distribution requirements</p>		6	<p>Top level and underlying portfolio Strategic Asset Allocation (SAA) reviewed formally every three years by the IC with annual updates with specialist advice provided by investment consultants</p> <p>Performance monitored on a regular basis against targets to highlight any shortfall and potential action needed</p> <p>Positions monitored on a regular basis to ensure that they remain appropriate in light of changing market conditions with specialist advice provided by investment consultants</p> <p><b>11 November 2024</b></p>		4	31-Mar-2025	 Constant

Action no	Action description	Latest Note	Action owner	Latest Note Date	Due Date
IC 01a	<p>Combined asset allocation risk</p> <p>This action seeks to ensure an appropriate balance between property and financial assets in the combined portfolio in order to achieve the portfolio's real return objective over the long term with no more risk than necessary.</p>	<p>The appropriate split between the property and financial portfolios was reviewed by the Investment Committee on advice from the OCIO team in December 2023 and formal long-term ranges have been proposed for property assets of 50-60% and financial assets 40-50%. The ranges reflect the diversification benefits which would accrue from an increase in the financial portfolio's share of the combined portfolio while taking into account the illiquid nature of the property portfolio. The intention is to bring the combined portfolio into line with the formal ranges gradually to avoid forced sale of properties in the current weak market conditions.</p>	Caroline Al-Beyerty	11-November-2024	31-Mar-2025
IC 01b	<p>Property Investment Strategy Risk</p> <p>This action seeks to balance the organisation's ability to maximise its property returns for an acceptable level of risk. This is covered in further detail in the City Surveyor's Departmental Risk SUR SMT 003.</p>	<p>The overall composition of the portfolio is shaped to take advantage of emerging segments of growth, whilst managing exposure to property types which are showing reduced demand. This, in turn, is an additional driver to ensure that City assets meet the climate aspirations of our occupiers.</p> <p><del>The City Surveyor's Department presented the Real Estate Investment Strategy to Investment Committee in July 2024.</del> <u>The Real Estate Investment Strategy was approved by Investment Committee in July, and by Corporate Services Committee in September.</u> This strategy seeks to further manage this risk and take advantage of emerging opportunities. Further, the strategy sought to ensure that the department has sufficient skills and capacity to deliver against this approach (departmental risk SUR SMT 016) <u>and recruitment is now in process to progress this item.</u></p>	Robert Murphy	11-November-2024	31-Mar-2025
IC 01c	<p>Financial Investment Strategy risk</p> <p>This action seeks to ensure that the financial portfolio has the appropriate strategy and management structure to generate a sufficient return to meet the portfolio's objective without taking excessive risk</p>	<p>The appropriate long-term strategy for the financial portfolio was reviewed by Mercer, the financial portfolio's investment adviser in July with a number of changes proposed to improve the balance of risk and return in the portfolio including the recommendation of a specific allocation to private credit and infrastructure funds. These were presented to the Investment Committee at its July meeting.</p>	Caroline Al-Beyerty	11-November-2024	31-Mar-2025

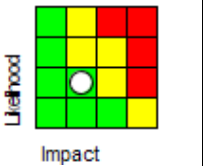
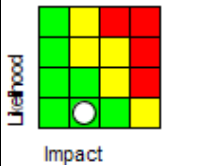

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<b>IC 02</b> <b>External Economic risk</b>  <b>3-May-2024</b> <b>C Al-Beyerty</b>	<p><b>Cause:</b> Adverse global economic developments or unexpected geopolitical crisis (e.g. Covid, Russian invasion of Ukraine, etc.)</p> <p><b>Event:</b> Sharp rise in energy prices and inflation, collapse in sterling and/or downturn in property and financial markets leading to a reduction in purchasing power, decline in investment values and/or erosion of reserves</p> <p><b>Effect:</b> Failure to meet real return objectives and maintain the purchasing power of distributions – failure to match rising demands from the operational activities supported by the portfolio – reputational and organisational risk if budgets need to be cut as a result – balance sheet problems potentially created if the downturn in asset prices is sustained (e.g. inability to set up sinking fund for debt repayment)</p>		12	Continuous monitoring of external developments across markets  Appointment of external managers for the financial portfolio with discretion to take appropriate action in the event adverse economic developments or a geopolitical crisis – advice also provided by external investment consultants  <b>11 November 2024</b>		6	31-Mar-2025	  Constant

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IC 02a	Combined asset allocation risk  This action seeks to ensure that the overall asset allocation in the portfolio takes account of major economic and political risks.	The proposed ranges for property and financial assets reflect the portfolio's long term time horizon and return objective but shorter term economic and political developments are monitored by the Chamberlain's office and OCIO team to ensure appropriate action may be taken via the liquid financial portfolio before a major correction in markets.	Caroline Al-Beyerty	11-November-2024	31-Mar-2025
IC 2b	Financial Investment Strategy Risk  This action seeks to ensure that positions in the financial portfolio take account of major economic and political risks.	The financial portfolio is invested in a range of funds whose managers will take account of major economic and political developments in their stock and sector selection. The financial portfolio is also monitored on a regular basis by the investment consultant, Mercer, whose role is to report on performance and highlight key risks within the portfolio.	Caroline Al-Beyerty; Kate Limna	11-November-2024	31-Mar-2025

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<b>IC 05 Sustainability and impact</b>  <b>3-May-2024</b> <b>C Al-Beyerty</b>	<p><b>Cause:</b> Insufficient attention is paid to the City's sustainability goals and Climate Action Strategy in managing the investment portfolio</p> <p><b>Event:</b> Negative news stories create an adverse public perception of the City' approach to sustainable investment, reputational damage and potential loss of trust in the City's financial stewardship</p> <p><b>Effect:</b> The investment portfolio does not meet its sustainability goals and the targets set in the Climate Action Strategy – investment decisions based on financial factors without due consideration of their impact on sustainability could also create reputational risk and public relations efforts to repair the City's reputation would incur unnecessary costs – the lack of a clear impact measurement framework does not allow for an accurate assessment of performance and could delay achieving the sustainability goals</p>		4	<p>Regular monitoring and reporting of the portfolio against sustainability and climate change targets enabling the Investment Committee to challenge officers and staff on progress</p> <p>Selection of external managers who are able to manage their portfolios in line with the City's sustainable and climate action objectives – changing external managers when necessary</p> <p>Setting clear sustainability objectives for the internal property team and assessing their recommendations in light of those objectives</p> <p><b>11 November 2024</b></p>		4	31-Mar-2025	  Constant

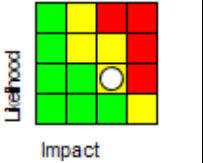
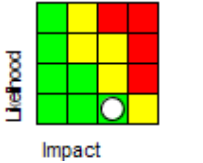

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IC 05a	The Committee (along with other relevant Committees/Boards) has been assigned several key actions which will enable the Corporation to deliver its Climate Action Strategy. Key to this is achieving a clear plan on how to achieve Paris-alignment by 2040.	With the support of a specialist external consultancy firm, an in-depth review of the climate risk exposure involving the use of scenario analysis, the development of a transition pathway consistent with a net zero by 2040 commitment, and the establishment of expectations for existing and potential mandates was undertaken. The transition pathway itself involves a series of specific actions with various deadlines which the Committee (along with other relevant Boards and Committees) will target over the coming years. A second scenario analysis will be carried out during 2024/25.	Caroline Al-Beyerty	11-November-2024	31-Mar-2025

IC 05b	The Committee receives update reports on climate (both financial and property) on a quarterly basis.	For the financial assets, climate data is collected quarterly from managers and reported to Members. Annually data (as at 31 March) covering all the workstreams of the City's Climate Action Strategy are published on the Climate Action Dashboard.	Caroline Al-Beyerty	11-November-2024	31-Mar-2025
IC 05c	The Climate Action Team within I&G have reorganised with a new Investment Board to oversee the delivery of the actions to meet the targets of the Climate Action Strategy. Included within the Board are financial, investment property and goods and purchasing.	The Board meets quarterly and held its first meeting in September 2024.	Robert Murphy; Kate Limna	11-November-2024	31-Mar-2025
IC 05d	<p>Climate Action Strategy Delivery – Investment Property Portfolio</p> <p>The alignment of the organisation's property portfolio with the future strategic needs of occupiers, particularly supporting their ESG (Environmental-Social-Governance) needs. Climate Action is principally managed through the Climate Action Strategy.</p>	<p>For the property assets, Climate Action is an area of focus for the entire real estate industry and commercial property occupiers including the City of London. It is imperative that the organisation progresses its property estates to support this growing area of demand.</p> <p>This is supported by the City's Climate Action Strategy, which seeks to achieve net zero carbon emissions across our investments and supply chain by 2040.</p> <p>The delivery of Climate Action across the City's investment portfolio is regularly reported through to Investment Committee through the Climate Action Dashboard and business planning.</p> <p>Asset Managers are receiving additional training to enhance their understanding of the subject and the application of appropriate management measures. Two specialist advisors will be embedded in IPG to support the AMs and ensure coherent plans will be evolved.</p>	Robert Murphy, Graeme Low	11-November-2024	31-Mar-2025

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<b>IC 03 Governance/ Compliance risk (Previously CHB FIB 06)</b>  08-Mar-2018 Kate Limna; Jenny Wong	<b>Cause:</b> Inadequate understanding of regulations and investment practices among Members, officers and other staff involved in the investment portfolio etc.  <b>Event:</b> Committee Members and officers do not have appropriate skills or knowledge to discharge their responsibilities. Regulatory breach.  <b>Effect:</b> Inappropriate decisions are made leading to a financial impact, or a breach of legislation or service not provided in line with best practice and legal requirements. Potential regulatory fines.	 Likelihood Impact	<b>4</b>	Regular training of Members, officers and staff involved in the investment portfolio  Appointment of external consultants to provide advice on asset allocation, manager selection and regulation  <b>11 November 2024</b>	 Likelihood Impact	<b>2</b>	31-Mar-2025	  Constant

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IC 03a (previously CHB FIB 06a)	Training provided to Committee Members on a range of investment topics and asset classes on a needs basis. Continued Professional Development (CPD) records maintained and updated annually.	<p>Training delivered to Members of the Board has included treasury management in February 2019 via the treasury consultant; investment strategy training in June 2020 from the Investment Consultant in relation to the Pension Fund Investment Strategy review; sustainable investment implementation from FTSE Russell in September 2020; and climate risk training from various sessions led by Aon and Carbon Tracker in Q2 2021.</p> <p>In November 2023, two Treasury Management training sessions were held for Members of the Investment Committee and Finance Committee. The first session provided an appreciation of what Treasury management involves, how it is undertaken, the roles of Members and Officers, and the risks in Treasury Management and how they should be managed. The second session covered developing the Treasury Management Strategy, including Prudential Indicators, cashflow forecasts, investment strategy, credit worthiness, counterparty list, ESG considerations, and a review of the investment portfolio and an economic outlook.</p>	Kate Limna	11-November-2024	31-Mar-2025

IC 03b (previously CHB FIB 06b)	Job descriptions used at recruitment to attract candidates with skills and experience related to investment finance. The Corporation maintains membership of CIPFA's Pension Network, CIPFA's Treasury Management Network plus the LAPFF, LPFA and PLSA – all providing access to training opportunities via courses, seminars and conferences.	Officers continue to attend training courses, seminars and conferences where deemed appropriate to enhance understanding of markets, financial instruments, regulatory and statutory reporting issues.	Caroline Al-Beyerty; Kate Limna	11-November-2024	31-Mar-2025
IC 03c (previously CHB FIB 06c)	Training plans in place for all staff as part of the performance appraisal arrangements, which are reviewed every six months.	Performance and development appraisals continue to be carried out in line with corporate policy.	Caroline Al-Beyerty; Kate Limna	11-November-2024	31-Mar-2025
IC 03d (previously CHB FIB 06d)	External professional advice sought where required.	The investment consultant attends each meeting of the Investment Committee providing advice on investment matters.	Kate Limna	11-November-2024	31-Mar-2025

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<b>IC 04 Cash flow management (Previously CHB FIB 05)</b>  08-Mar-2018 Kate Limna; Jenny Wong	<b>Cause:</b> Inaccurate cash flow modelling for Corporation as a whole.  <b>Event:</b> There is insufficient cash available to meet day to day obligations. The organisation is forced to liquidate long term investment assets without adequate planning or fails to identify external borrowing requirements.  <b>Effect:</b> Overdrawn position incurs unnecessary expenditure and missed payments damage the Corporation's reputation. Inefficient treasury management decisions increase costs.		<b>8</b>	Officers continue to maintain a cash flow model projecting the Corporation's cash flow requirements for the forthcoming year on an on-going basis. Cash flow is regularly monitored, and short-term cash balances are invested over appropriate time horizons.  <b>11 November 2024</b>		<b>4</b>	31-Mar-2025	 Constant

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IC 04a (previously CHB FIB 05a)	Combined cashflow daily forecast maintained to project inflows and outflows over the year forward to ensure a sufficient level of on-going liquidity. Cashflow requirement is the fundamental consideration when agreeing duration of fixed term deposits or placing capital in money market funds.	Cash flow model maintained and updated on a daily basis, incorporating known flows and estimating payments and income of uncertain timing based on historic cash flow profiles and estimations for the timing and value of future payments and receipts.	Kate Limna	11-November-2024	31-Mar-2025
IC 04b (previously CHB FIB 05d)	A balance sheet review exercise enables the Corporation to further understand the likely timing of any future need to liquidate long term investment assets or external borrowing requirement.	Officers have developed a medium-term cash flow forecast based on City Fund and City's Estate projected balance sheet. This forecast will be updated in line with the evolution of the medium-term financial plan and will be <del>being</del> reviewed in tandem with the production of the draft statement of accounts for <del>2023/24</del> <u>2024/25</u> .	Kate Limna	11-November-2024	31-Mar-2025