

# **RISK MANAGEMENT**

## **Investment Risk**

The over-riding risk to the Kent Pension Fund (the Fund) is a loss on financial investments which ultimately could mean the Fund could not pay benefits but more realistically that employer contribution rates would have to increase at the actuarial valuation.

There are a variety of ways in which the Fund seeks to address this risk:

- Diversified asset allocation – the Fund invests in a range of asset classes on a global basis to help guard against sharp falls in a particular asset class. The Fund does have a high allocation to Equities at around 70% and this is typical of local authority funds. This does mean that returns are highly correlated with equity markets.
- Diversification in manager selection – in appointing managers the Committee is looking for types of manager which combine well. No manager can succeed in all market conditions and we diversify risk by appointing a number of managers with different investment styles for each asset class. In the last 18 months the Fund has also introduced a passive equity manager in State Street where the risk of manager under-performance of a benchmark is eliminated and the index return is achieved.
- Alternative Investments – historically the majority of investments have been in equities, fixed income and property. Investment theory for institutional investors now encourages funds to follow the example of the endowment funds in the USA and make significant allocations to Alternative investments, primarily Private Equity, Hedge Funds, Infrastructure and Commodities. These asset classes can offer diversification, higher returns and in theory less risk.

Overall, with advice from Hymans Robertson the Fund sets an overall asset allocation, appoints specialist managers to manage each asset class and then monitors investment performance. The effectiveness of the asset allocations is reviewed regularly and continued under-performance by managers will lead to their dismissal.

## **Business Risk**

Officers of Kent County Council formally review and update the Pensions Risk Register (Register). The Register was last reviewed in January 2009 and the Top 10 Risks for the Fund and the controls in place are set out below.

<b>Ref:</b>	<b>Risk</b>	<b>Controls</b>
G1	Failure of governance arrangements	<ul style="list-style-type: none"> <li>- Committee meetings</li> <li>- Liaison with Chairman, Vice Chairman, spokesman</li> <li>- Advice from Legal &amp; Secretariat</li> </ul>
G2	Financial default by an employer.	<ul style="list-style-type: none"> <li>- Enforce Guarantee Bond arrangements</li> <li>- Review existing exposure</li> </ul>
G7	2010 Valuation	<ul style="list-style-type: none"> <li>- Detailed timetable for process</li> <li>- Regular briefing for major employers</li> <li>- Review of actuarial service</li> </ul>
I1	Pension Fund Cash Management	<ul style="list-style-type: none"> <li>- New investment adviser</li> <li>- Segregated cash management policy</li> <li>- Regular monitoring reports</li> </ul>
I2	Investment advice	<ul style="list-style-type: none"> <li>- Examine different options for investment advice</li> </ul>
I3, I4, I5	Investment under-performance & Investment Manager Complexity / structure	<ul style="list-style-type: none"> <li>- Quarterly monitoring of managers</li> <li>- Update of investment strategy</li> </ul>
P1	Disaster recovery for pensions data	<ul style="list-style-type: none"> <li>- Disaster recovery arrangements with Heywoods</li> <li>- Regular testing of arrangements</li> </ul>
P8	Recruitment & Retention of staff	<ul style="list-style-type: none"> <li>- Ensure that both teams are properly resourced</li> <li>- Ongoing training &amp; development of staff</li> </ul>
P11	Not meeting Pensions KPI's	<ul style="list-style-type: none"> <li>- Weekly reporting</li> <li>- Monthly reporting</li> <li>- Twice yearly reports to Committee</li> </ul>
P22	KCC data quality	<ul style="list-style-type: none"> <li>- Close liaison with KCC Personnel &amp; Development staff</li> </ul>