

## WPP Risk Policy (the “Policy”)

### Introduction

- 1 The Wales Pension Partnership (“WPP”) is the pooling arrangement for the assets of the eight Welsh Local Government Pension Scheme funds (“Constituent Authorities”).
- 2 The Wales Pension Partnership (“WPP”) recognises that it faces numerous risks which if left unmanaged can limit the WPP’s and Constituent Authorities ability to meet their objectives and to act in the best interest of its stakeholders and beneficiaries.
- 3 WPP’s objective in preparing this policy is to outline:
  - 3.1 How the WPP views risks, its attitude to risk and the extent to which risk is accounted for in its governance and decision-making processes;
  - 3.2 The means by which the WPP identifies, classifies and measures the potential impact of risks;
  - 3.3 How risks are managed and mitigated;
  - 3.4 The mechanisms and procedures in place to monitor risks; and
  - 3.5 The process by which the effectiveness and development of risk mitigation strategies are reviewed.
- 4 This policy applies to the Joint Governance Committee (“JGC”), Officer Working Group (“OWG”), Host Authority, collectively referred to as “WPP Personnel”, alongside advisors and suppliers (“Providers”). The WPP recognises that all WPP Personnel and Providers have a role to play in identifying, understanding, managing and monitoring potential and actual risks facing the WPP.
- 5 This policy is reflective of the WPP’s belief that good governance and greater transparency will improve the decision-making process and deliver superior outcomes for WPP stakeholders. The WPP must endeavour to be aware of all risks facing the WPP and have procedures in place to manage them.
- 6 The WPP recognises that training and education is critical to achieving good outcomes and will allocate resources to ensure that it undertakes regular training and education on identifying, managing and monitoring risk.
- 7 This policy is focused solely on the risks that may arise from the work that WPP Personnel or Providers carry out on behalf of the WPP. The WPP’s Constituent Authorities remain responsible for managing risks at a Constituent Authority level. Alongside meeting the requirements and expectations of this policy, WPP Personnel and Providers should continue to adhere to any other risk policies that they are subject to, this may include Constituent Authority or company policies and other relevant codes of conducts. This policy has been developed by WPP in consultation with the Constituent Authorities.
- 8 In maintaining and acting on this policy, the WPP will have an ongoing dialogue with any relevant suppliers. The WPP will also seek input from third parties where appropriate.
- 9 The Policy will be formally reviewed by the WPP’s Risk Sub-Group and OWG, and updated if required, on a triennial basis. However, the Policy may be reviewed or amended more frequently to take account of relevant guidance or regulations. The Policy will be a triennial JGC agenda item, while the WPP’s Risk Register (covered from Point 25 onwards) will be a quarterly JGC agenda item.

**Beliefs**

- 10 The WPP is aware that some risks cannot be fully mitigated, it recognises the need to embrace risk and ensure that it is actively and effectively managed.
- 11 The WPP recognises that risk management is a critical element of its commitment to good governance as such the WPP will develop and adhere to a structured, extensive and robust risk strategy. This strategy will be imbedded into the WPP's governance framework to ensure better decision-making, improved outcomes for stakeholders and greater efficiency.
- 12 Effective identification, understanding, management and monitoring of risks will allow the WPP to:
  - 12.1 Minimise the probability of failing to meet its objectives;
  - 12.2 Demonstrate its commitment to good governance;
  - 12.3 Limit the extent to which it is impacted by unpredictable or adverse developments;
  - 12.4 Correctly balance opportunities and risk;
  - 12.5 Be better informed in its decision-making; and
  - 12.6 Achieve better outcomes for its stakeholders.
- 13 To deliver on its objectives, the WPP needs to carry out activities or seize opportunities that subject it to significant levels of risk. The success of WPP will to an extent, depend on its ability to effectively balance risk and return.
- 14 The WPP believes that risks are fluid in nature and that the severity and probability of risks can change rapidly and without fair warning. This highlights the need for the Policy to anticipate and deal with changes in a swift and effective manner to minimise potential loss or harm to the WPP and its stakeholders.
- 15 It's critical that prior to making decisions, the WPP understands the associated risks and considers the means by which these risks could be managed.

**Objectives**

- 16 The primary objectives for WPP are:
  - 16.1 To provide pooling arrangements which allow individual funds to implement their own investment strategies (where practical);
  - 16.2 To achieve material cost savings for participating funds while improving or maintaining investment performance after fees;
  - 16.3 To put in place robust governance arrangements to oversee the Pool's activities;
  - 16.4 To work closely with other pools in order to explore the benefits that all stakeholders in Wales might obtain from wider pooling solutions or potential direct investments; and

- 16.5 To deliver an investment framework that achieves the best outcomes for its key stakeholders; the Constituent Authorities. The Constituent Authorities will be able to use this framework to deliver the best outcomes for their Scheme Members & Employers.
- 17 The greatest risk to the WPP's continued operation is its ability to deliver on its primary objectives, if the WPP is unable to deliver investment performance, opportunities and cost savings for its Constituent Authorities, within a robust governance framework the WPP risks:
- 17.1 Constituent Authorities declining to participate in the WPP and invest their assets with the WPP
- 17.2 A cultural drift or misalignment occurring between the WPP and its Constituent Authorities which may result in the Constituent Authorities opting to withdraw from the WPP
- 17.3 Government intervention which may force the WPP to cease operations
- 18 In recognition of the unique and critical nature of the risks outlined in points 16 and 17 the WPP has taken additional steps to manage these risks. Alongside this policy, the WPP Business Plan is the means by which the WPP gives special recognition to these risks and the actions required to manage them. The WPP's Business Plan is reflective of the WPP's need to:
- 18.1 Provide a diverse and attractive set of investment opportunities to the Constituent Authorities
- 18.2 Manage and monitor investment risk, including Climate Risk
- 18.3 Deliver improved investment performance after fees
- 18.4 Facilitate broader cost savings to the Constituent Authorities
- 18.5 Provide effective and robust governance arrangements
- 19 During the course of the WPP Business Plan the follow actions will be prioritised to mitigate the risk of the WPP failing to meet these needs:
- 19.1 Further sub-funds will be launched
- 19.2 Providing regular Climate Risk reporting and embracing investment solutions which enable the WPP to effectively mitigate climate risk exposure
- 19.3 Best in class investment manager performance and risk reporting will be developed
- 19.4 The continued investigation of cost saving opportunities
- 19.5 Further development of the WPP's governance arrangements
- 20 The WPP also recognises the significant risk posed by its reliance on its Operator. The WPP Business Plan's commitment to formulating an Operator Oversight Framework is recognition of the need to take additional steps to manage this risk.

### **Risk Strategy**

- 21 The WPP's risk strategy is focussed on putting in place mechanisms and process that allow it to identify, understand, manage and monitor risk. The strategy is not only concerned with risks relating to the WPP's current activities but also those carried out in the past or to be carried out in the future.
- 22 As part of its risk strategy the WPP will carry out following:

- 22.1 Risk Identification
- 22.2 Risk Understanding
- 22.3 Risk Management
- 22.4 Risk Monitoring
- 23 The WPP recognises the need to ensure that its risk strategy is:
  - 23.1 Effectively communicated and fully understood by WPP Personnel and Providers
  - 23.2 Integrated into all WPP processes, procedures and activities
  - 23.3 Adaptable, innovative and effective
- 24 The JGC will be responsible for ensuring that the WPP's risk strategy is carried out and adhered too. However, all WPP Personnel and Providers have an individual duty to identify, understand, manage and monitor any potential risks to the WPP. The WPP has established a dedicated Risk Sub-Group to ensure that WPP has sufficient time to manage and review its approach to risk.
- 25 The WPP Risk Sub-Group meets quarterly and is responsible for maintaining the WPP Risk Register and reporting back any changes or developments to the OWG and JGC on a quarterly basis.
- 26 The Risk Sub-Group has a vital role in proactively identifying new risks and assessing the effectiveness of existing or requirements for additional risk mitigation measures. The Sub-Group puts forward recommendations, to the OWG, on what actions should be taken to further mitigate or manage risks, the group is not responsible for enacting the recommended actions.

### **Identification and Understanding**

- 27 The WPP's risk identification is focussed on identifying existing risks and risks which may materialise in the future. A proactive approach to identifying future risk will allow the WPP to be proactive as opposed to reactive, this should ensure more efficient risk management.
- 28 The WPP uses the following to identify risks:
  - 28.1 A detailed risk assessment exercise carried out by the Risk Sub-Group and OWG
  - 28.2 Feedback and communication with WPP's stakeholders
  - 28.3 Internal or external audit exercises
  - 28.4 Regular meetings, conversations and consultations with other LGPS Pools, the Scheme Advisor Board and the Department for Levelling up, Housing and Communities
  - 28.5 An annual review of the WPP's performance towards its long-term objectives
  - 28.6 Formulation of the WPP's Annual Business Plan

The WPP recognises that methods other than those outlined above can be an effective means of identifying risks and the WPP will look to employ these alternative methods if required.
- 29 Once a risk has been identified the WPP will seek to understand the risk and its potential impacts. As part of this process the WPP will:

- 29.1 Classify the nature of the risk
- 29.2 Identify the cause of the risk
- 29.3 Outline the potential impacts of the risk
- 29.4 Consider the time period over which the impact will be felt
- 29.5 State the Owner(s) of the Risk
- 29.6 Attribute a probability and severity score to the risk
- 29.7 Give the risk an overall risk score

30 In understanding a risk, the WPP will consider whether the risk is Financial, Operational or Reputational in nature. In addition, the WPP will use the following criteria to classify the timeframe over which the impact of the risk will be felt:

Short Term	The majority of the impact is expected to materialise within a 12-month period
Medium Term	The majority of the impact is expected to materialise within a 1 to 3-year period
Long Term	The majority of the impact is expected to take longer than 3 years to materialise

31 The WPP will use the following system to attribute a probability score to a given risk:

Probability Score:	Probability	% Probability
1	Improbable	0-25%
2	Unlikely	25-40%
3	Possible	40-60%
4	Likely	60-75%
5	Highly Likely	75%+

32 The WPP will use the following system to attribute a severity score to a given risk:

Severity Score:	Impact	% Impact
1	Insignificant	0-25%
2	Minor	25-40%
3	Moderate	40-60%
4	Significant	60-75%
5	Critical	75%+

33 The Overall Risk Score is calculated by multiplying the severity score by the probability score. The Overall Risk Score is used to classify the risk based on the following matrix:

Probability Score	Severity Score				
	1	2	3	4	5
1	Low	Low	Low	Low	Low
2	Low	Low	Medium	Medium	High
3	Low	Medium	Medium	High	High
4	Low	Medium	High	Very High	Very High
5	Low	High	High	Very High	Very High

34 Once the WPP has identified and understood a risk it will be documented in the WPP’s Risk Register.

**Management and Monitoring**

35 The WPP has formulated a Risk Register which is the means by which risks are documented, managed and monitored. The purpose of the WPP Risk Register is to:

- 35.1 Outline the WPP's key risks and factors that may limit its ability to meet its objectives
- 35.2 Quantify the severity and probability of the risk facing the WPP
- 35.3 Summarise the WPP's risk management strategies
- 35.4 Monitor the ongoing significance of these risks, the effectiveness of existing risk mitigation strategies and the requirement for further risk mitigation strategies

36 The Overall Risk score indicates the level of management that is required when the risk is initially added to the WPP’s Risk Register:

<b>Green</b>	Low Priority	1 to 5	No Action Required - Ongoing Monitoring Required
<b>Yellow</b>	Medium Priority	6 to 9	Review Suitability of Existing Risk Mitigation Strategies
<b>Orange</b>	High Priority	10 to 15	Action Required
<b>Red</b>	Very High Priority	16 to 25	Urgent Action Required

37 The WPP’s risk management strategy considers what existing risk controls are in place, identifying existing controls is important in guaranteeing that any further risk management strategies are not

inefficiently duplicating existing measures. Any existing risk controls will be clearly outlined in the WPP's Risk Register.

- 38 The next step of the WPP's risk management strategy is to attribute a target risk score to each risk. The target risk score represents the risk that would remain if the WPP were to employ all possible risk management strategies with maximum efficiency, in this regard the score can be considered a 'best-case scenario'. The WPP's use of a target risk score is reflective of its belief that not all risks can be fully mitigated.
- 39 Once a target risk score has been devised the WPP will consider if this score has been met, if it has not action will be taken to reduce the risk's probability, severity or both. The Risk Register will state which party is responsible for the completion of this action.
- 40 The Risk Register will provide a status update on the progression of the WPP's risk management actions and activities. The WPP has adopted the following classification system:

Status	Meaning	Description
	Satisfied	The WPP has met its target risk score, its focus will revert to monitoring this risk and maintaining the current risk score.
	Comfortable	The WPP is comfortable that the risk score is progressing toward its target score. The WPP will continue to adhere to and implement the 'required actions' until it becomes satisfied.
	Unsatisfied	The WPP remains concerned about this risk due to its significance or the progress made toward fulfilling the 'required actions' or the effectiveness of these actions.

- 41 The final stage of the WPP's risk strategy is risk monitoring, this is the process by which the WPP considers and reviews if:
  - 41.1 Risk management actions have been completed or progressed since the last review date
  - 41.2 The risk management strategies have been effective
  - 41.3 Further action is required
  - 41.4 A risk's characteristics have changed materially
  - 41.5 Lessons can be learnt which may improve future risk management
- 42 During its quarterly meeting the Risk Sub-Group will identify any required actions that have been identified during its detailed review of the Risk Register and will document these in its rolling 'Risk Sub-Group Action Points Log' - this document is a standing OWG agenda item.
- 43 The Risk Sub-Group and OWG will be responsible for maintaining the WPP Risk Register and reporting back any changes or developments to the JGC on a quarterly basis via the WPP's Abbreviated Risk Register.

**Further Information**

44 The WPP has identified the following as potential risks which may limit its ability to enact this policy:

44.1 A lack of knowledge means that the WPP cannot effectively identify and understand risks

44.2 A lack of resources means that the WPP cannot effectively identify and understand risks

44.3 A lack of knowledge or resources limits the effectiveness of the WPP's risk management strategies

44.4 The WPP's Risk Strategy is not fully understood by WPP Personnel and Provider and fails to become embedded into the WPP's decision making process

44.5 Other factors, such as conflicts or interest, interferes with the implementation of this policy

The WPP will continually monitor these risks and were possible will take steps to mitigate these risks.

45 If you require any further details on the WPP's Risk Policy, please contact:  
walespensionpartnership@carmarthenshire.gov.uk.

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