Office of the Secretary to the Trustees

University of Reading

UNIVERSITY OF READING EMPLOYEES’ PENSION FUND

Integrated Risk Management Plan

This document outlines the Trustees’ Integrated Risk Management Plan in accordance with the Regulator’s Regulatory Guidance on Integrated Risk Management and Code of Practice No.3 Funding Defined Benefits. Following completion of the triennial valuation dated 31 July 2020, this plan is intended to cover the three years (2021/2022, 2022/2023 and 2023/2024) until the next full valuation as at 31 July 2023 has been completed. However, the Trustees are intending to discuss long-term funding targets with the University and hence this document may be reviewed before the 2023 actuarial valuation (in particular to incorporate any specific triggers for action that are agreed).

Introduction

This Integrated Risk Management Plan (“the Plan”) has been agreed by the Trustees of the University of Reading Employees’ Pension Fund (“the Fund”) on 13 July 2022. The Trustees have agreed that the University (‘the employer’) be offered the opportunity to be consulted on the Plan.

The Trustees and the employer have agreed an objective of ensuring the Fund remains fully funded on the Technical Provisions basis. In addition, the Trustees have a supplementary objective of being 100% funded on a “self-sufficiency” basis.

At the current time, “self-sufficiency” is taken to mean that the liabilities are calculated using a discount rate of 0.5% p.a. above gilt yields, with other actuarial assumptions unchanged from the prevailing technical provisions. This will be reviewed as part of the discussions around long-term funding targets noted above.

This Plan documents the steps that have been taken to identify and manage the risks to achieving those objectives. Focussing on funding, investment and covenant, the Plan:

- Captures and records the discussions and decisions made in each area;
- Facilitates discussion and understanding of the inter-relationships between risks;
- Encourages better working relationships with, and between, all advisers;
- Seeks to quantify and identify risk capacity, risk appetite and contingencies; and
- Informs a proportionate monitoring, contingency planning and review cycle.

The Trustees’ approach is intended to be sensitive and proportionate to the Fund’s and the employer’s objectives, needs and circumstances.

The Trustees have taken actions to ensure that the Plan is taken into consideration throughout the Fund documentation and governance work. Where issues are identified, work is planned to rectify this. The Integrated Risk Management Plan and actions will be fully examined, monitored and refreshed annually by the Governance Sub-Committee.

The Plan should be read in conjunction with the formal Valuation documents prepared as part of the 31 July 2020 actuarial Valuation (namely the scheme funding report, the statement of funding principles, and the schedule of contributions) along with the Statement of Investment Principles, the employer Covenant Assessment and the Risk Register.

As noted earlier, the Trustees' agreed funding target is to ensure the Fund remains fully funded on the Technical Provisions basis, with a supplementary objective around achieving full funding on the "self-sufficiency" basis. The adoption of an appropriate risk/return investment strategy is a key consideration in achieving these objectives. The Trustees are also aware of the University's contribution commitments to both the UREPF (in respect of on-going benefit accrual) and to the USS. These are taken into account when assessing the University's Covenant and setting the Investment Strategy.

The Trustees have also assessed who is responsible for the risk and its mitigations. Where these are delegated, the delegated person is marked in the responsibility.

As noted, the Plan focuses on funding, investment and covenant risks. Oher operational risks are covered by the Fund's risk register which is kept under review. The Plan is not intended to fully satisfy the Trustees' obligations under the requirements for an "Own Risk Assessment".

The supplementary funding objective of achieving full funding on the "self-sufficiency" basis has not been formally agreed between the University and the Trustees as the Fund's "Long Term funding Target" for the purpose of the regulatory regime for pension scheme funding expected to be introduced in 2023.

Assessing and managing risk

The Pensions Regulator has devised a framework to assist Trustees in identifying and managing scheme fundind risks:

In terms of the covenant, funding and investment risks in isolation, the Trustees have considered:-

- What are the material risks faced by the Fund;
- Scenarios when such a risk arises;
- How these scenarios arise;
- How likely the scenario is to occur;
- The impact of the risk occurring; and
- Any risk mitigation options that are available (and what impact would they have).

In terms of the combined risks, the Trustees have then considered:-

- Are there any causal links, interdependencies or concentrations of risk;
- How likely these are to arise; and
- The extent of the impact of one risk on the other(s).

Assessing and managing the covenant risk

The Trustees' objectives in relation to the employer covenant are:-

- To monitor the financial strength of the University's covenant; and
- To continue to develop relationships with the University to ensure there is a high level of mutual understanding.

The Trustees conducted an internal assessment of the employer's covenant alongside the 2020 actuarial Valuation. This review suggested that there had not been any notable change from the previous review and so assessed the covenant as 'strong' (based on a 7 point scale where only 'very strong' scored more highly). An external assessment was also commissioned which concluded that the covenant was 'tending to strong' (based on a 6 point scale where only 'strong' scored more highly). This was a comparable result to the internal assessment and thereby provided the Trustees with reassurance as to the strength of the covenant.

The Trustees believe that the following are likely to have significant material impact on the employer's covenant:-

- The Covid-19 pandemic;
- The USS valuation and potential changes to contribution rates; and
- A change in the Higher Education Sector of the UK that materially damages the financial position of the University such as a material change to the number of students, changes to student immigration policies, or research funding grants. This could be caused by Brexit or changes in educational policies.

These risks of these are discussed in more detail in both the internal and the external covenant assessments.

The Trustees agreed that the employer covenant can currently withstand the potential variability in the financial position of the Fund and, in particular, the "downside risk" that Fund could move into a deficit once again.

Actions:	Responsibility
1. The Trustees will maintain the existing close relationship with the employer, obtaining updated information from the employer on a regular basis.	Trustees in general, and specifically the Chair.
2. The Trustees request that the Chief Financial Officer of the University, a member of the University Executive Board, attends an annual meeting, primarily in order to present on the University's finances but also to engage in discussion of any matters of mutual interest or concern.	The Secretariat.
3. The Trustees will refresh their assessment of the employer's covenant on an annual basis and consider taking action if the financial situation of the Employer deteriorates.	Trustees and the Secretariat
4. The Trustees will consider an independent review of the employer Covenant triennially as part of the Valuation process.	Trustees in general, and specifically the Chair.

Assessing and managing the funding risk

The Trustees' objectives in relation to funding are:-

- To agree an appropriate level of University contributions to the Fund and monitor funding progress;
- To review the circumstances of the Fund annually to ensure that the ongoing basis for funding remains valid;
- To meet the Statutory Funding Objective and to minimise the likelihood of raising contribution rates or raising the long term cost of benefit provision;
- To take steps to protect any technical provisions surplus; and
- To reduce the amount of any deficit on the self-sufficiency basis and (once achieved) to take steps to protect any surplus.

The Trustees also monitor the funding level on the Actuary's Wind-Up basis (i.e. an estimate of the amount of money needed to secure all members' benefits with an insurance company) on an annual basis. At the current time, the Trustees have not set any specific objective in this regard.

The development of the funding positions since the 31 July 2020 actuarial valuation is summarised in the table below:

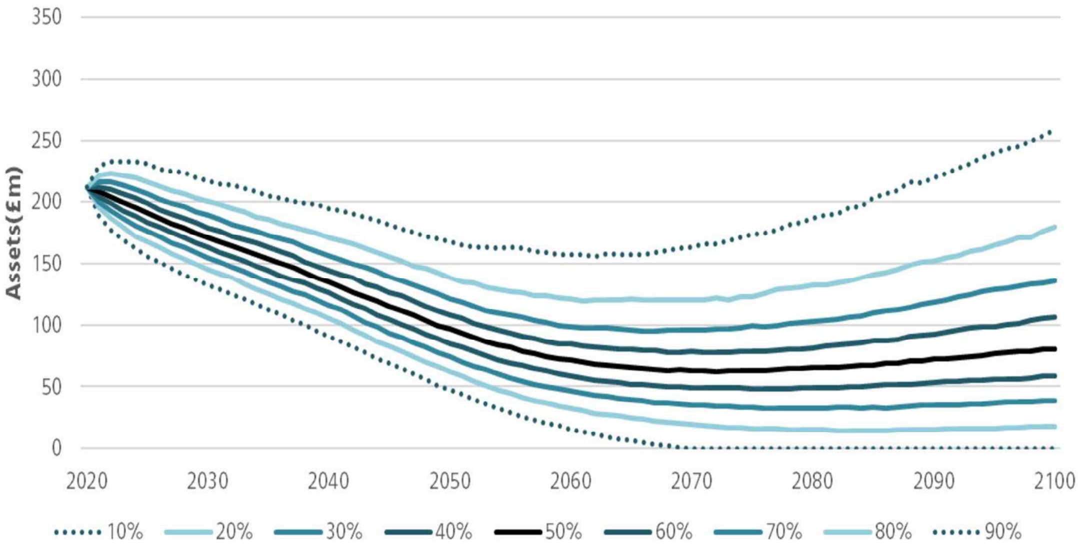
	31 July 2020	31 January 2021	31 July 2021
Assets	£211.8m	£208.7m	£215.1m
Technical Provisions			
Liabilities	£206.5m	£201m	£201m
Surplus/Deficit	£5.3m	£7.7m	£14.1m
Funding level	103%	104%	107%
Self-Sufficiency			
Surplus / (Deficit)	(£11.8m)	(£6.7m)	(£1.7m)
Funding level	95%	99%	99%
Wind-up			
Surplus / (Deficit)	(£61.4m)	Not available	(£50m)
Funding level	78%	Not available	81%

Both the Technical Provisions and Self-Sufficiency bases were re-assessed as part of the 31 July 2020 actuarial valuation, and the Trustees and the University will look to agree a "Long Term Funding Target", in line with the Pensions Regulator's expectations.

Maintaining 100% (or higher) funding on the Technical Provisions and attaining 100% on the Self-Sufficiency bases allows the Trustees to consider de-risking the Fund's investment strategy as appropriate and consistent with the Long Term Funding Target yet to be agreed. Any such de-risking would in turn be expected to reduce the future risks to the Fund and reduce the risk that additional employer deficit recovery contributions are needed in the future.

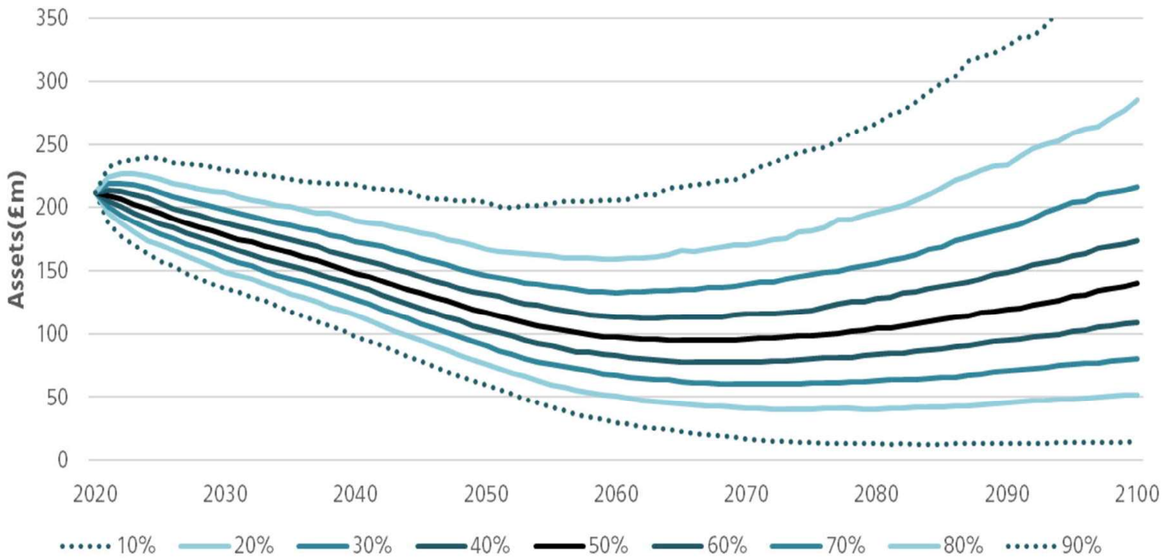
An investment strategy review was conducted in 2021 and included a Chance of Meeting Benefit (COMB) analysis. The Trustees noted that the funding levels were broadly in line with targets, although the investment review and COMB analysis highlighted risks in sustaining the funding levels and required cash flows.

Long term asset projection – previous strategy:



Whilst the strength of the covenant means that additional financial support could be possible, the Trustees felt that a modest change in investments was required (moving 10% of the assets into secured finance and extending the duration of the index-linked gilt holdings):

Long term asset projection – current strategy:

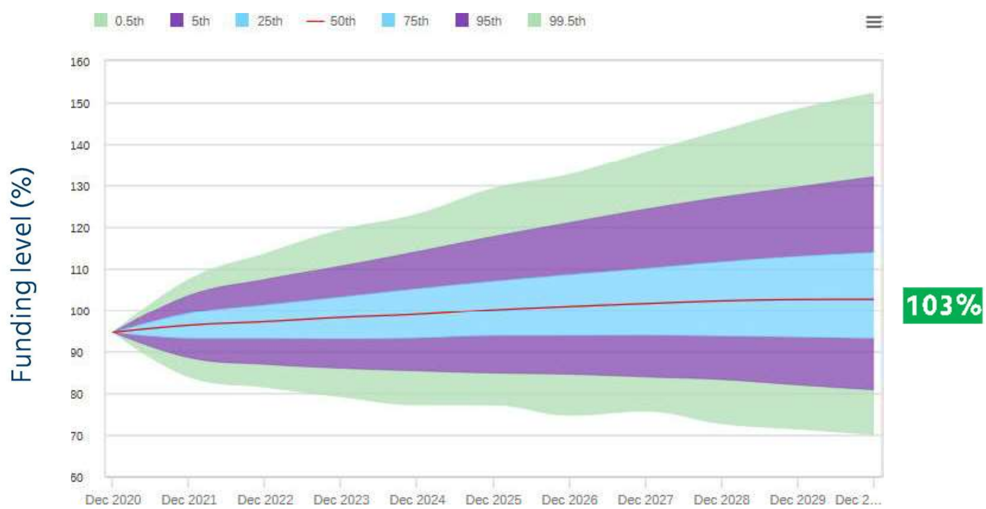


	Previous strategy	Current strategy (implemented in 2021)
Median expected return	Gilts + 1.7% p.a.	Gilts + 2.0% p.a.
1 year 95% Value at Risk	£15m	£18m
Expected year of full funding (self-sufficiency)	c2025	c2023
Estimated funding level in 2030 (self-sufficiency)	101%	106%
“Chance of Meeting Benefits”	87%	93%

The “Chance of Meeting Benefits” figures were based on a roll-forward from the 2017 actuarial valuation allowing for the assets and liabilities as at 31 December 2020. Allowing for the 2020 actuarial valuation results would improve the probability of meeting benefits.

The potential development of the self-sufficiency funding level over the next ten years from 31 December 2020 is summarised in the chart below. The projections assume that the current investment strategy, employer contributions and underlying actuarial assumptions remain unchanged throughout the period. Allowance for the 2020 valuation results would increase the funding levels by 3% (i.e. resulting in a 2030 median funding level of 106% consistent with the above table). See the 2021 Investment Strategy Review document dated February 2021 for more information on the projections.

Self-Sufficiency funding projection:



The key funding risks (represented by the most adverse outcomes) include:-

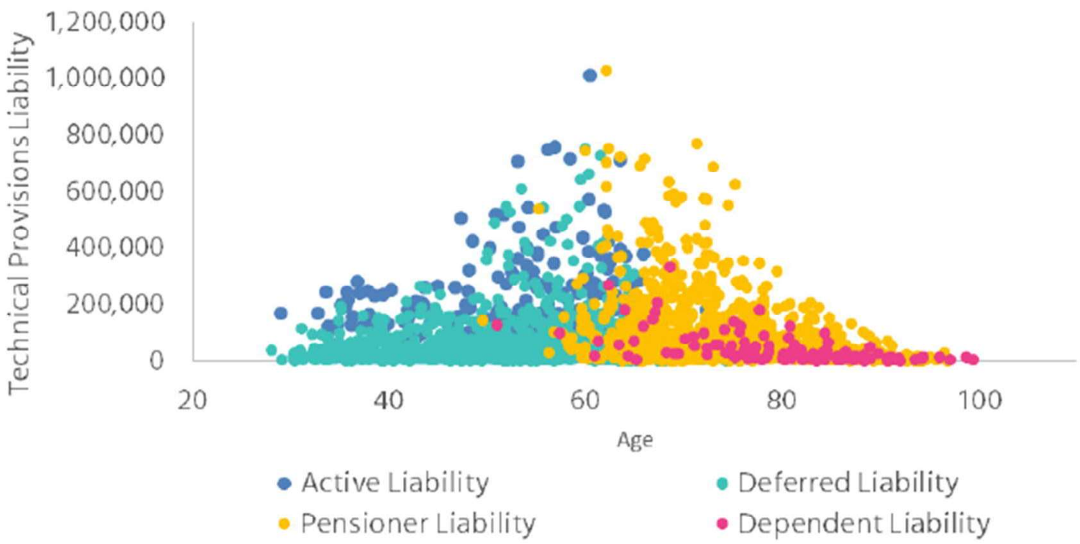
- Falls in long-term interest rates (gilt yields);
- Higher expectations for long-term price inflation;
- Increases in (general) life expectancy;
- The actuarial assumptions not being borne out in practice; and
- Decrease in asset values.

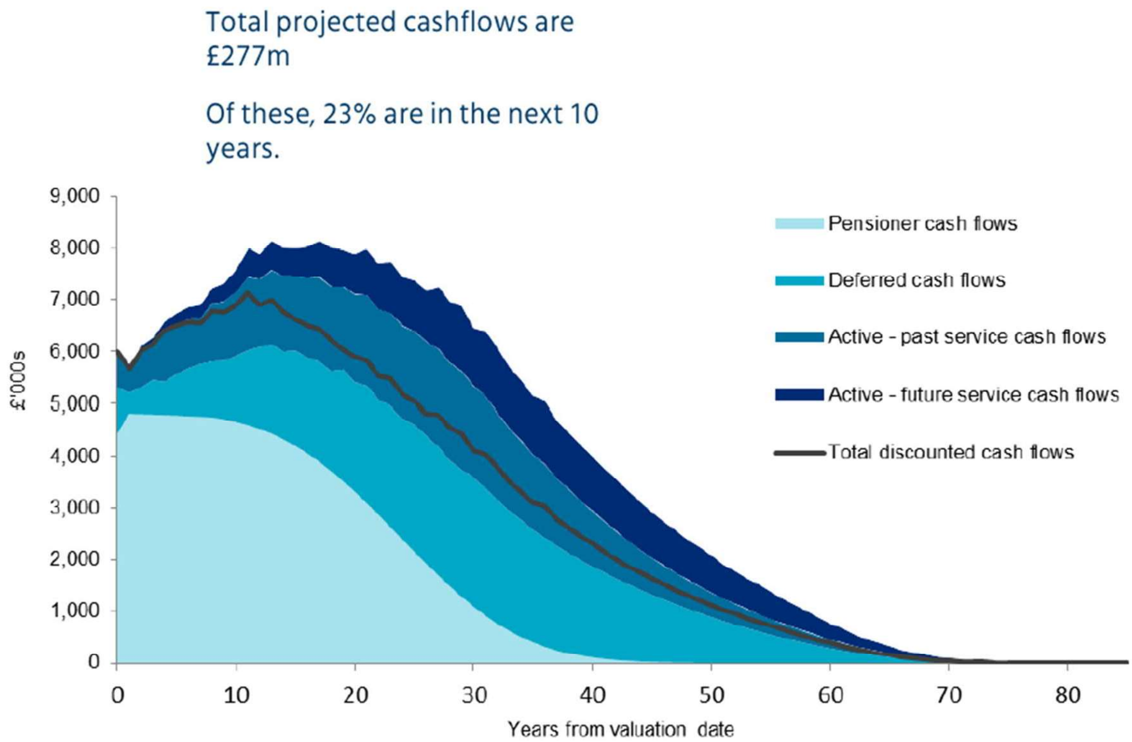
Further factors affecting the funding level include:

- Selection risk - members making decisions (e.g. whether to take tax-free cash at retirement or transfer out of the Fund) that affect the funding level;
- Concentration risk e.g. increased life expectancy amongst members who have a high proportion of the overall Fund liabilities. The Trustees have reviewed the risks of these, as well as the ability of the covenant to provide support, and will continue to monitor these on a regular basis; and
- Liquidity risk – given the maturity of the Fund, the funding level may be adversely affected if the Trustees need to disinvest assets following a period when asset values have fallen.

The following charts show provide more information about the concentration risk within the Fund and the Cashflow projections of the Fund. Both of these charts were prepared as part of the 2020 actuarial valuation and as part of this the Trustees also obtained other details about the membership profile.

In particular, it is noted that although there is some concentration risk (e.g. around 1.5% iof the Fund members account for 10% of the overall liabilities), this is fairly modest compared to other pension schemes and there are no members who are responsible for more than c£1.0m of the Fund's technical provisions liabilities i.e. 0.5% of the total liabilities. Note the liability figures are based on the preliminary valuation assumptions and the final liability values were around 2.5% lower across the Fund as a whole.





Conclusion: The Trustees believe that, taking into account the revised investment strategy and the strength of the employer's covenant, there is a sufficiently high probability of (i) maintaining a funding level of, or exceeding 100% on a technical provisions basis and (ii) ultimately paying members' benefits in full without additional contributions from the University.

Action:	**Responsibility**
1. The Trustees will review the Fund's technical provisions funding position at every Trustees' meeting. This can be fulfilled via a screenshot from the Mercer PFaroe system or contained within an investment or actuarial report.	Mr Hemsley, Scheme Actuary, and/or Mr Bacon, Investment Consultant (as appropriate).
2. Unless otherwise agreed, the Trustees will receive a formal funding update from the Scheme Actuary every 31 January showing the position on both the technical provisions and self-sufficiency funding bases.	Mr Hemsley, Scheme Actuary
3. In non-valuation years the Trustees will also receive the Annual Actuarial Update from the Scheme Actuary at the 31 July Scheme year end showing the funding position on the technical provisions, self-sufficiency funding bases and the Wind-Up bases.	Mr Hemsley, Scheme Actuary

4.	The funding objectives (including the self-sufficiency basis) will be reviewed as part of each triennial actuarial Valuation.	Mr Hemsley, Scheme Actuary and the Trustees
5.	Discuss the Long Term Funding Target and seek to agree it with the University.	Mr Hemsley, Scheme Actuary and the Trustees

Assessing and managing the investment risk

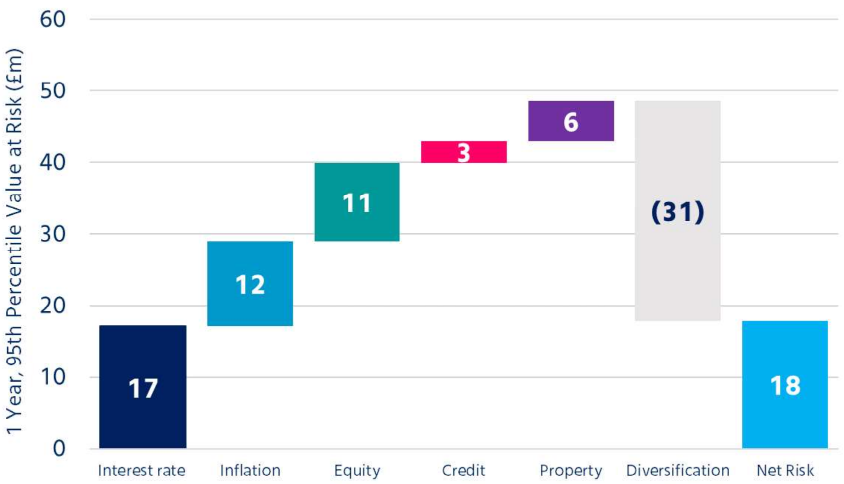
The Trustees' objectives in relation to Investments are:

- To adopt an investment strategy that can meet the Trustees' obligations to the beneficiaries, whilst maintaining a reasonable balance between risk and return;
- To set benchmarks for the fund managers and to monitor the performance of the fund managers against the benchmarks;
- To meet with the Investment Consultant regularly to review performance, tactics and strategy, and to maintain relationships; and
- Ensure adequate cashflow to meet the Fund's outgoings.

The Trustees recognise that the objectives will evolve over time. For example, the level of investment returns required may reduce to reflect the Fund being in surplus on a Technical Provisions and self-sufficiency basis, but the investment strategy also now needs to have regard to the Fund's cashflow negative status. Within the objectives set out above, there are therefore specific issues that the Trustees consider. These are:-

- The need to maintain the level of investment return that is required under the funding arrangements;
- Subject to this constraint, the need to reduce the level of investment risk where appropriate in order to reduce the volatility in the funding level and the potential reliance on the employer covenant;
- The need to ensure the investment strategy generates sufficient cashflows to meet the ongoing cashflow requirements; and
- The need to further reduce the amount of investment risk over time, so as to target maintenance of full funding on a self-sufficiency funding basis with a largely de-risked investment strategy.

The value at risk analysis illustrates the risk inherent in the current investment strategy:



The Trustees have had regard to the objectives and consideration above and have reviewed the Fund's investment strategy, taking steps over time to reduce the level of risk that was being run and introducing additional asset classes that aim to provide greater cashflow generation certainty. The key investment risks faced by the Fund under the current investment strategy involve:

- Growth asset risk (i.e. lower than expected returns from the diversified growth assets);
- Credit risk (i.e. lower than expected returns from the corporate bond assets);
- Property risk (i.e. property investments not providing the expected long term income streams);
- Interest rate and inflation risk (i.e. the Fund's assets not moving in line with the Fund's liabilities);
- Manager risk (i.e. the Fund's investment managers not performing against their benchmark);
- Market timing risk (i.e. the Fund's assets not providing sufficient income to meet its expenditure commitments, resulting in a requirement to disinvest at a time when asset values are depressed); and
- Environmental, Social and Governance (ESG) risks, including climate change.

Conclusion: The Trustees and the employer have agreed that the current level of investment risk is supported by the employer covenant and appropriate for the funding requirements.

Action:	**Responsibility**
1. The Trustees will review the Fund's investment strategy periodically.	Investment Sub-Committee
2. Investment performance will be reviewed at every Trustees' Investment Sub-Committee meeting, via a formal performance update from the Trustees' Investment Consultant. This includes the Investment Consultant's research ratings and ESG ratings for each of the Fund's investments.	Mr Bacon
3. The annual performance of the assets is also reviewed annually by the Board of Trustees.	Mr Bacon
4. The ISC investigates beneficial investments for the Fund and makes appropriate recommendations to the Board on Strategy changes.	Investment Sub-Committee
5. Regular Responsible Investment reviews (at least triennial), including ESG peer group analysis.	Mr Bacon
6. The Investment Sub-Committee will discuss the University's ethical investment policy and consider whether further action is merited.	Investment Sub-Committee

Assessing and managing the covenant, investment and funding risk in combination

The Trustees have considered the potential interaction of funding and investment risk, with the potential combined impacts as shown in the projection of financial outcomes earlier in this paper.

The Trustees have also taken into account the potential interaction of funding and covenant risk.

The Trustees have reviewed the risks of various scenarios on the funding and discussed the impact that the employer covenant this may have on these. These have been included in the Risk Register and are reviewed at least twice a year.

As noted earlier in this Plan, the Trustees review the Covenant annually and in more detail at each Triennial Valuation.

Through the use of the modelling tools, and the governance documents (such as the employer Covenant Assessment), the Trustees assess the interactions of funding, investment and covenant risk annually through the Governance Sub-Committee. A light touch review takes place at the second Governance Sub-Committee meeting in each scheme year. Due regard is paid to these issues when making decisions on the Fund.

Conclusion: The Trustees have agreed that funding, investment and covenant risks need to be reviewed collectively on a regular basis to ensure changes (or potential changes) are captured in a timely manner.

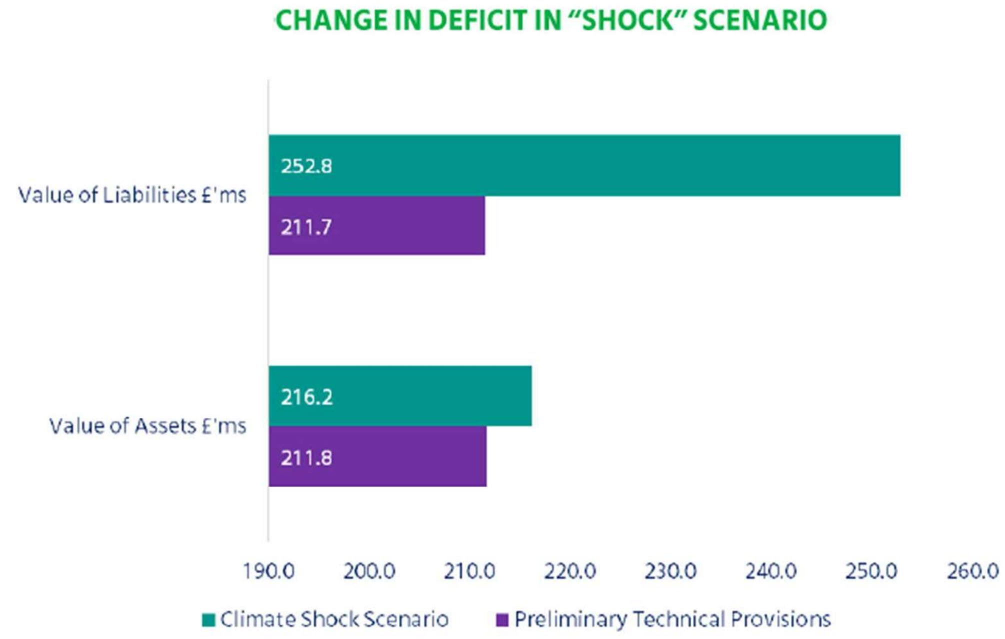
Action:	Responsibility
1. The Trustees will review the Fund's Investment, Covenant and Funding risks annually through their Governance Sub-Committee.	Governance Sub-Committee
2. Hypothetical scenarios will be reviewed as well as the risks highlighted in the governance documentation which the Fund will face over the coming year.	Scheme Actuary, Investment Consultant, and the Governance Sub-Committee

Climate change risks

The pension risks associated with climate change impact on all three of the topics covered by the Plan (i.e. covenant, funding and investments), and this is one of the key risk scenarios that is considered periodically by the Trustees.

Due to the potential impact on all of these areas, climate change risks are potentially relevant to the Trustees' considerations of their Long Term Funding Target and how to get there. In practice the impact could materialise in a number of different ways and over different time horizons.

The following scenario analysis in respect of the funding and investment risks was carried out as part of the preliminary results of the 2020 actuarial valuation (so the technical provisions liability values are around 2.5% higher than the final agreed figure).



Climate change risks can impact on the strength of the University's covenant. The Trustees will seek to incorporate consideration of climate risks into their annual review of covenant strength.

Climate change can affect the key funding risks set out earlier in this Plan (i.e. changes in gilt and bond yields, expectations of price inflation, and changes in life expectancy). The funding aspects of climate change risks were incorporated into the discussions around the Fund's 2020 actuarial valuation, in particular with the preliminary results illustrating the potential impact of a one-off "climate change shock". These funding risks will be kept under review.

As noted above, ESG risks including climate change are considered as part of the Trustees' regular review and monitoring of the Fund's investments. The Trustees will also pay close attention to the University's policy on climate change: http://www.reading.ac.uk/web/files/office-of-the-university-secretary/UoR-Investment-Policy-15.pdf.

Monitoring risks and contingency plans

The rest of this Plan sets out a number of regular actions in relation to the covenant, funding and investment risks, and the Trustees also review the Fund's risk register on a regular basis. . Given the strength of the employer's covenant and their conclusion that materially adverse covenant events are unlikely, the Trustees do not require that any defined contingency plans are agreed at the current time but will monitor regularly.

Action:	**Responsibility**
1. If the employer covenant has changed materially (or is deemed to be at risk of changing) then the Trustees will seek urgent professional advice on the appropriate form of mitigation.	Chair of Trustees

2. The Trustees and the employer periodically review the investment allocation and the funding volatility, taking into account developments in the funding position and in the view of the employer Covenant.	Chair of Trustees and employer representative.

The Trustees will also work with the employer to seek to agree any other specific actions that can be taken or reviewed as appropriate. For example, if the funding level improves materially so that it exceeds a pre-agreed agreed threshold on the self-sufficiency basis, the Trustees and the employer (with the support of the Scheme Actuary and the Trustees' Investment Consultant) will review the Fund's investment allocation and look for solutions that meet their objectives.

The members of the Governance Sub-Committee will also review the Operating Plan to foresee any specific circumstances that may arise during the Scheme Year so that adequate discussion and reflection on the issue and the contingent risks may be taken.

Review of this document

The adherence to the Plan's action will be wholly reviewed annually through the Governance Sub-Committee in order to make sure that the actions happened in accordance with the plan. It is the responsibility of the Secretariat to review the actions and plan each year. The Trustees have embedded the actions into the Operating Plan and their day to day decision making but will refer to the Plan when considering actions for the Fund.

The Trustees will also review the Plan triennially to ensure that it remains compliant and fit for purpose. The Trustees will also consider the Plan triennially alongside actuarial Valuations or sooner if the Trustees determine that this is appropriate (e.g. following a material deterioration in the investments or the employer's financial position). A representative of the University is invited to attend the Governance Sub-Committee meetings for the review of the Plan and at the triennial Valuation.

Appendix

Regulatory background

The Pensions Regulator states the following in its Code of Practice no.3 dated June 2014.

"If they are not already doing so, trustees should adopt an integrated approach to risk management when developing an appropriate scheme funding solution. Schemes face many risks, but broadly they fall into three areas: employer covenant-related, investment-related, and funding-related. As part of a risk awareness culture, trustees should understand the risks across all of these strands and define acceptable parameters for each within which they will seek to manage the scheme."

Source: www.thepensionsregulator.gov.uk/codes/code-funding-defined-benefits.aspx

In December 2015, the Pensions Regulator provided guidance on Integrated Risk Management (IRM), which stated the following

"IRM is a method that brings together the identified risks the scheme and employer face to see what relationships there are between them. It helps prioritise them and to assess their materiality. It can take many forms but should involve an examination of the interaction between the risks and a consideration of "what if" scenarios to test the scheme's and employer's risk capacities. Quantification of risks may help these considerations but the rigour of quantification should be proportionate to the risk and resources available."

Source: www.thepensionsregulator.gov.uk/guidance/guidance-integrated-risk-management.aspx.

Risk Identification and Assessment

Integrated risk management is a process that enables trustees to identify risks that the scheme and the sponsor face, and bring those risks together to see what relationships there are between them. The approach trustees take will depend on the circumstances of the scheme, but they should consider the interaction between risks under various scenarios and establish the risk capacity of the scheme and the employer. Quantifying risks may be helpful, but the extent of this should be proportionate to the risk and the resources available.

Completing the risk assessment gives the Trustees a comprehensive overview of the risks that could impact on the Fund meeting its objectives, and should allow the Trustees to answer the following questions:

- What are the material risks the Fund is exposed to, taking account of their impact and probability?
- How do these material risks impact on the Fund separately and together in qualitative terms and, where proportionate, quantitatively?
- Which are the highest priority risks?
- What does this analysis reveal about the totality of the risks that the Fund is running?
- What does this analysis reveal about the Fund's and the sponsor's risk capacities (i.e. their ability to absorb or support risk)?
- What does this analysis reveal about the Fund's and the sponsor's risk appetites (i.e. their readiness to accept a given level of risk)?
- Is any individual risk or the totality of risk greater or less than the Trustees' and/or sponsor's risk appetites?
- What risk mitigation measures are available?
- What would the effect of these mitigations be on the Fund's technical provisions and any recovery plan?

Risk management and contingency plans

Risk management and contingency planning should allow the Trustees to address these questions:

- What steps, if any, can or should be taken now to manage Fund risks?
- How effective are any Fund risk controls currently in place? Are they acceptable or can they be improved?
- How effective are any proposed new Fund risk controls expected to be?
- What adjustments could the Trustees take to restore an acceptable balance of risks if they needed to? If none, would the sponsor be able to contribute more to the Fund to manage the material risks?
- If there are no adjustments that could be made within the Fund or if the sponsor would be unable to contribute enough to the Fund to manage the risks if they materialised, is it possible to put in place contingency plans to cover any material risks?
- How quickly can any adjustments to balance risks be made? If appropriate, are there other adjustments that would be quicker to implement, albeit less effective?
- Are these contingency plans sufficiently clear and substantial, enabling the Trustees to understand when they need to be implemented and how this will be done?

Monitoring

Trustees should consider:

- What risk measure will be set for each material risk?
- How often these risks need to be monitored?
- Who will be responsible for monitoring these risks?
- How will these risks be reported to the Trustees (and with what frequency)? Timeliness of information is vital but do the Trustees need daily reporting or will quarterly or even annual reporting be sufficient for some risks?
- What purpose does the reporting serve? Is it simply for information, does it indicate the need for increased Trustee watchfulness or does it require an immediate decision and action from them? Does the reporter understand the implications of the various outcomes and hence the potential for urgency?
- How will the Trustees check for new risks and/or new risk measures and how frequently will this happen?