

## Report of the Section 151 Officer

Pension Fund Committee – 14 July 2016

### INTERNAL CONTROLS REPORTS OF APPOINTED FUND MANAGERS & CUSTODIAN

<b>Purpose:</b>	To inform Pension Fund Committee of reportable items contained within the internal controls reports of appointed fund managers
<b>Consultation:</b>	Legal, Finance and Access to Services.
<b>Report Author:</b>	Jeffrey Dong
<b>Finance Officer:</b>	Mike Hawes
<b>Legal Officer:</b>	S Williams
<b>Access to Services Officer:</b>	N/A
<b>FOR INFORMATION</b>	

#### **1 Background**

- 1.1 The internal control and governance framework in which a business operates comprises the systems, work processes and culture and values by which the business directs and controls its business to provide comfort to its customers, clients and shareholders.
- 1.2 Asset managers and custodians are subject to heavy regulation from a global, EU and UK context. They are required to report on their systems of internal control which are subject to external audit and comment by suitably qualified and independent audit companies.
- 1.3 The summary of exceptions for the last calendar year is attached at Appendix 1 for the City & County of Swansea's appointed fund managers and custodian.

It is noted that the exceptions have been addressed appropriately by management and are recognised as such with appropriate remedial action being undertaken. The exceptions highlighted are taken seriously but do not pose direct concern for the businesses concerned or the assets under management.

#### **2 Legal Implications**

- 2.1 There are no legal implications arising from this report.

#### **3 Financial Implications**

- 3.1 There are no financial implications arising from this report.

#### **4 Equality and Engagement Implications**

4.1 There are no equality and engagement implications arising from this report.

**Background papers:** None.

**Appendices:** Appendix 1 - Fund Manager Summary of Internal Control Reports – 2015.

**Fund Manager Summary of Internal Control Reports - 2015**

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**Blackrock – Report of Controls at Blackrock Placed in Operation and Test of Operating Effectiveness for Asset Management Services, 1<sup>st</sup> October 2014 to 30<sup>th</sup> September 2015**

<b>Control Procedure</b>	<b>Test Performed</b>	<b>Exception Noted</b>	<b>Management Response</b>
<p>Business operations releases wire instructions to custodians to make certain types of payment in response to requests received from other groups. Wire instructions require dual authorisation from individuals on Blackrock's authorised signatory list or unique bank approved-stamp approval process prior to release.</p>	<p>Inspected physical security of the bank-approved stamps to ascertain that stamps were secured in a locked drawer and access was limited to authorised personnel within Business Operations.</p>	<p>For 1 of 45 wire instructions selected for testing, performance of the dual authorisation was unable to be evidenced.</p>	<p>Due to the unique bank approved stamps, Japanese trust banks do not require dual authorisation to process wire payments, but management require dual authorisation for all manual payments globally. While dual authorisation could not be evidenced for one sample, management were able to confirm that payment was appropriate. In February 2015, Blackrock and the Japanese trust banks implemented a new payment process whereby settlement instructions form individual margin movements are no longer required.</p>
<p>Daily, DIG reviews an Aladdin-generated Unreviewed Securities Held in Positions Report and validates security data against data sources for accuracy. DID researches and resolves, as necessary.</p>	<p>On multiple occasions during the examination period, observed DIG review the Aladdin generated Unreviewed Securities Held in Positions Report, attest security data against external data sources and research and resolve exceptions, as necessary.</p>	<p>For 1 of 25 securities selected for testing from the Unreviewed Securities Held in Positions Report, DIG was unable to provide evidence of research and monitoring.</p>	<p>Management confirmed that the modification made was authorised, however, evidence of continuous monitoring prior to resolution was not able to be provided for testing. The modified security was reviewed within eighteen business days. Management noted that the exception identified had no impact to Blackrock managed client accounts.</p>

### Blackrock Alternative Advisors cont'd

Control Procedures	Test Performed	Exceptions Noted	Management Response
<p>Client reports are selected by Business Operations for quality assurance review based on account type, report type and report complexity, prior to client distribution. Discrepancies are researched and resolved.</p>	<p>On multiple occasions during the examination period, observed Business Operations select client reports for quality assurance review and observed Business Operations research and resolve discrepancies before client distribution.</p> <p>For a selection of client reports and months or quarters, inspected documentation to ascertain that Business Operations performed quality assurance activities on client reports before client distribution.</p>	<p>For 1 of 50 client reports selected for testing, performance of the quality assurance review was unable to be evidenced.</p>	<p>Management confirmed that the relevant teams were notified that the Australian fund-specific report was available for quality assurance review, however, no evidence of review was available for testing. Client Reporting Management re-emphasised the importance of maintaining the evidence of completed reviews.</p>
<p>Upon addition, transfer or termination of personnel in the HR system of record, Human Resources sends out an HR notification to formally notify corporate groups of events.</p>	<p>Obtained the termination listing during the examination period and compared it to enterprise logon access listing to identify if employees retained access subsequent to termination. For employees that retained enterprise access subsequent to terminations, obtained HR-act notification email to ascertain Human Resources formally notified corporate groups of the termination in a timely manner.</p>	<p>For 2 of the 102 individuals across new hires, transfers and terminations selected for testing to identify timely notifications by HR to corporate groups, noted that HR-act transfer notifications were not sent timely. New access was not granted until notifications were received.</p>	<p>HR Management re-emphasised the importance of the quality and timeliness of HR notifications as well as the retention of applicable documentation to the teams responsible for processing personnel updates in the HR system of record. HR is reviewing the timeliness of transfer notifications and processing through key metrics and process review.</p>

**Blackrock Alternative Advisors cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>The ability to modify system security parameters or to perform user administration functions is granted only to administrators and operations personnel whose job functions require such access.</p>	<p>For a selection of users with the ability to modify system security parameters or perform user administration functions, inspected documentation and Company departments within the Human Resources listing, and inquired with process owners to ascertain that access was authorised and consistent with job responsibilities.</p>	<p>In testing the total population of 37 privileged OMS application users, noted one user with inappropriate access. Upon investigation, noted the administrative privileges were granted during the new user administration procedures. Per inspection of the applications database activity log, noted the user did not perform any administrative actions while the access was retained. Access for this user was corrected.</p>	<p>Management confirmed that while an approved access request did not exist for this user the individual was granted additional administrative access due to human error. Management has re-emphasised the importance of verifying that only the level of approved entitlements is granted, in addition to validating a request receives adequate approval. Management confirmed that the user did not perform any inappropriate activities with the elevated administrative access and removed access immediately upon identification of the issue. In addition management has in place a compensating control in the form of a periodic user access re-certification for this system.</p>

**Aberdeen Asset Management Ltd – Internal Controls Report for the period ended 30<sup>th</sup> June 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>The Client Lifecycle team ensures that new clients or funds are accurately set up in appropriate fund management, dealing and pricing systems, as part of the take-on process. For each client or fund take-on, the Appian workflow tool (or alternative checklist) that documents each stage of the take-on process, from completion of the Take-On Form/Account Opening Form to input of the client or fund information onto Aberdeen's systems, is completed to certify that each stage has been completed. The checklist is subject to sign-off by a preparer and reviewer.</p>	<p>For a sample of new clients taken on during the reporting period, inspected the Appian milestones (or legacy checklist) for evidence of completion and management sign-off.</p>	<p>For one of 10 items tested, there was no evidence available to demonstrate the review of the client take-on process by Client Lifecycle team, recorded on the Take-On Form/Account Opening form.</p>	<p>In this instance the coding was done by a new member of the team who was being supervised by his manager during the process to explain what was required and how to proceed with the coding. The coding was entered accurately and no further amendments were required by management. Whilst the document was not signed by a peer there was no risk as the oversight was still present and nothing extra was required other than the countersignature.</p>

**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>A monthly review is performed by Front Office Compliance for a sample of trades placed during the previous month. The review is designed to assess trades' timely execution and fair allocation with respect to compliance with the Group's Trade Execution Policy &amp; with relevant regulation. Any exceptions identified are reviewed by Compliance and raised with the business where necessary. Supporting rationale and explanations from the business are documented in a formal monthly report.</p>	<p>Inspected evidence that monthly reviews of a sample of trades were performed by Front Office Compliance in a timely manner.</p>	<p>For two of 5 items tested, Front Office Compliance did not carry out the monthly review of trading activity in a timely manner.</p>	<p>The control was operational during the period, but it is accepted that for two of the months sampled we were unable to demonstrate that this was operated in a timely manner. The delay in operating the control was a result of resource pressures arising from the integration of the SWIP business to AAM, and will not be a recurring issue. There was no client implication as a result of the delay in completing the controls, as no material concerns were identified. In addition compensating controls have been in place since September 2014 through committee governance structures.</p>

**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Security prices which are stale, unquoted, fair valued, in liquidation, suspended or written down are sent to Fund Managers for review and sign-off on a monthly basis.</p>	<p>For a sample of months, inspected the evidence to confirm the review and sign-off of stale and unquoted prices by the Fund Manager.</p>	<p>For the full sample of 5 items, it was noted that the monthly sign-off of security prices which are stale, unquoted, fair valued, in liquidation, suspended or written down, were not completed in all instances by the Fund Managers.</p>	<p>The completeness of sign off of the monthly price reports has been an issue discussed at the Group Pricing Committee and raised during a recent Compliance Monitoring review of pricing. Issues with sign off have occurred since Stale prices were combined with Fair Value, Delisted, In Liquidation and Written down prices on a monthly basis to provide the front office with a single point of sign off in addition to combining with the SWIP universe of assets. It has subsequently been agreed to split the report and send all stale prices to the Dealers who will have better access to market colour whilst sending the other securities to the front office desk for confirmation of the price. This process along with a monthly fund valuation review currently forms part of a live project to optimise the sign off process by automating as much as possible and placing</p>

			less reliance on the Data Management team.
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**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
All client reports (Investment and Accounting) are reviewed and formally approved by appropriate personnel via electronic signature in the Institutional Client Reporting database (Philadelphia – hard copy signature on Client Report Cover Sheet) prior to being distributed to clients.	For a sample of client reports issued in the reporting period, inspected evidence that the reports were reviewed and approved prior to being distributed to clients.	For 1 of 25 items tested, the formal approval of the client report was not performed prior to distribution of the client report.	On this occasion a verbal approval was given to ensure client requirements were met. We have retrospectively confirmed that all internal requirements were met and no issues were noted. Staff have been reminded to retain appropriate evidence in line with internal process.
On a daily basis, late or unexpected cash receipts that require action by SWIP are reported by State Street to the Trade Support team. Where there are no items to report, State Street advises SWIP by email. The Trade Support team investigates any cash reconciling items and evidence this through team member sign-off on the cash	For a sample of days, inspected the cash management daily checklists to confirm that the late or unexpected cash receipts report provided by State Street was reviewed and any reconciling items were investigated by the Trade Support team.	For two of 30 items tested, there was no evidence available to demonstrate the review of the cash reconciliations by a member of the Trade Support team, recorded on the daily checklist.	In this instance the daily reviews were conducted completely and accurately, and no issues were noted. It is recognised that as a result of human error the secondary review was not evidenced. All team members have been reminded of their responsibilities.

management daily checklist.			
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**Aberdeen Asset Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Outstanding stock reconciling items that require action by SWIP are reported by State Street to the Collective Investments team each day. Where there are no items to report, State Street advises SWIP by email. The Collective Investments team investigates any stock reconciling items and evidence this on a daily checklist that is reviewed by a second team member.	For a sample of days, inspected the daily checklist to confirm that the outstanding stock report provided by State Street is reviewed, any reconciling items are investigated by the Collective Investments team and that the checklist is reviewed by a second team member.	For one of 30 items tested, there was no evidence available to demonstrate the review of the stock reconciliation by a second member of the Collective Investments team, recorded on the daily checklist.	In this instance the daily reviews were conducted completely and accurately, and no issues were noted. It is recognised that as a result of human error the secondary review was not evidenced. All team members have been reminded of their responsibilities.
New investors' applications are reviewed for compliance with the account opening procedures. All investors' names, signatories, beneficial owners and proxies of the application	For a sample of new investor account setups, inspected that the applications are in line with the account opening procedures and that the blacklist performed in WorldCheck is evidenced in	For 1 out of 25 items tested, one signature in the application form does not appear on the authorised signature list.	We have reviewed the document in question and confirmed that the signatory was authorised to complete the process and that all actions were taken correctly, although it is recognised that the

form are run against official black lists.	the AWD history.		authorised signatory list was not up to date at the point of review. There was no risk to clients at any point in time. This appears to have been a one-off error; staff are fully aware of the requirement to check signatures and request updated authorised signatory lists in the event of discrepancies.
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**Goldman Sachs – Report on Goldman Sachs Asset Management’s Description of its Investment Management System and on the Suitability of the Design and Operating Effectiveness of Controls – 1<sup>st</sup> October 2014 through 30<sup>th</sup> September 2015.**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
GSAM and client initiated changes to investment guidelines or portfolio benchmarks require written authorisation from the client. Changes are reviewed and approved by the legal, coding, operations and portfolio management team as required. The Client Relationship Team monitors all required approvals to ensure	For a sample of changes, inspected evidence to determine whether written authorisation was received from the client for changes in investment strategy, investment guidelines or portfolio benchmarks.	For 1 of 45 sampled account changes, approval from the Coding team was not documented timely.	The account change identified as a timeliness exception was related to a GSAM initialled request to increase risk limits in a Clients portfolio. Investment guideline coding for this change was completed 8 business days after the effective date. There was no risk of being in breach of the new guidelines during this period as the existing

<p>completion on a timely basis.</p>			<p>guidelines were more conservative than the new guidelines. In addition, there were no missed investment opportunities during the period as the portfolio management team was aware the amendment was in the process of being coded. Following the incident, GSAM enhanced weekly management reports to highlight imminent guidance, changes for which coding is pending. GSAM also reinforced internal processes and procedures with Client Relationship Management and Coding teams.</p>
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**HarbourVest Partners LLC – Private Equity Fund Administration Report on Controls Placed in Operation and Tests of Operating Effectiveness – October 1, 2014 to September 30, 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>After Accounting approval, the information is sent to the Marketing group, which then prepares a distribution notice to send to limited partners. The distribution notice and</p>	<p>Inspected a sample of Final Distribution Notices for evidence of approval by an accounting manager or fund controller and the Chief Financial Officer.</p>	<p>For one (1) of 40 Final Distribution Notices selected for testing, evidence of Chief Financial Officer approval was not provided.</p>	<p>Management acknowledges that evidence of review by the CFO for one distribution notice was not documented. However, there was evidence the distribution was reviewed by the Vice President,</p>

<p>attachments are reviewed by an accounting manager or fund controller and then approved by the Chief Financial Officer. Once approved, marketing staff sends the distribution notice and attachments via email, fax, or mail to each of the limited partners, usually at least two days prior to the actual cash distribution.</p>			Fund Controller.
<p>Privileged access is limited to appropriate personnel within IT based on the assigned job role and responsibilities. For Equitrak, where access administration and access re-certifications are performed by an employee outside of IT, an independent review of such actions is performed by a Senior Business Analyst.</p>	<p>Inspected privileged access at the application, database and operating system levels to determine whether access was restricted to appropriate personnel within IT based on job role and responsibilities. For Equitrak, inspected a sample of Equitrak access requests and access re-certifications to determine that an independent review was performed by a Senior Business Analyst.</p>	<p>For one out of nine samples inspected for Equitrak to determine that an independent review was performed, the evidence of such review could not be retrieved.</p>	<p>Although the review was performed, the file evidencing the review could not be retrieved. Several attempts were made by the Director of Global Infrastructure, IT to recover the file. On a go forward basis, multiples copies of these files will be maintained.</p>

**Invesco – Report on Invesco Asset Management Ltd, Description of their Investment Management Services and on the Suitability of the Design and Operating Effectiveness of Controls for the Period 1 October 2014 to 30 September 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>When the Legal team has reviewed the changes to the IMA, Compliance is notified of the changes required for post-</p>	<p>Confirmed that when the Legal team has reviewed the changes to the IMA, Compliance is notified of the</p>	<p>For one out of one IMA changes the GDS Team Leader did not review and approve the checklist to ensure</p>	<p>In August 2015, a client instruction detailing changes to the Discretionary Investment Management Agreement</p>

<p>trade investment restriction monitoring. A GDS Team Leader then reviews and approves the checklist to ensure all appropriate actions have been taken and passes to the GDS Reporting Team Manager for final review and sign-off.</p>	<p>changes required for post-trade investment restriction monitoring.</p>	<p>that all actions had been taken and did not pass to the GDS Reporting Team Manager for final review and sign-off.</p>	<p>between IAML and an Institutional client managed by the Invesco Fixed Income Team was not passed to the correct team, who are responsible for the maintenance and updating of documentation for discretionary managed clients contracted with IAML, to action. Subsequently, the review and approval by this team was missed. There was no impact to the client as the change requested was actioned in a timely manner.</p> <p>The teams involved have recorded the incident on the Risk tool and the appropriate preventative measures have been taken. These measures include a refresher of the procedures, roles and responsibilities.</p>
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**JP Morgan Asset Management – Report on JP Morgan Asset Management’s Description of its Investment Management Services System and on the Suitability of the Design and Operating Effectiveness of its Controls. 1 January 2015 – 31 December 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Trade Order Entry and Allocation Controls provide reasonable assurance that trade orders are authorised and executed with JP Morgan Asset Management approved brokers or counterparties and allocated in a complete and accurate manner.</p>	<p>Trade orders can only be entered into the order entry system by the Portfolio Manager or their delegate.</p>	<p>One user, who was not a Portfolio Manager, of a population of 205 users had inappropriate order entry access to the Osiris (Equity) application for the period 20 August 2015 through 31 December 2015.</p>	<p>Management had independently identified the inappropriate access and arranged for it to be removed. Management confirmed this was a one-off error and performed a detailed review which confirmed the user had not raised any orders on Osiris.</p>
<p>For Fixed Income, a quarterly review of raised orders is performed to confirm orders raised by on e portfolio manager are executed by a different portfolio manager or trader.</p>	<p>Any orders identified as raised and executed by the same person are logged and monitored to resolution.</p>	<p>For three of four quarters, the review to determine if orders were raised and executed by the same Portfolio Manager or Trader was not performed on a timely basis.</p>	<p>The Fixed Income Teams in London were split between dedicated Portfolio Managers and Traders. However, there were as small number of individuals, approved by Management, who were able to act as both Portfolio Manager and Trader for contingency purposes, hence the report was put in place to identify any inappropriate trading activity. Following identification of the exception, a subsequent review of all orders that might have been executed by the</p>

			same individual was performed. In the two instances where it was identified the trades were raised and executed by the same individual, the trades have been found appropriate.
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**JP Morgan Asset Management cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
On a daily basis, OTC derivative prices received are compared to internally generated prices and differences greater than the threshold are reviewed. A checklist is completed by the individual who completes the review of differences and the approver who reviews the changes made.	To review the checklist	For two of a sample of 40 days, Fixed Income OTC derivative price variances were not reviewed completely.	The prices for the seven derivatives that were not reviewed on the two days where exceptions were identified were subsequently reviewed. It was confirmed that they were appropriately priced.

**Legal & General – AAF 01/06/ISAE 3402 Assurance Report on Internal Controls for the Period 1 January 2015 to 31 December 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Investment limits and restrictions are established.	Amendments to a FOG must be initiated by an approved source. Amendments are reviewed and circulated to the Fund Manager.	For one sample, there is no evidence of complete review (checklist incomplete). This was due to a member of the team leaving mid process.	All amendments to FOGs have to be initiated by an approved source, independently reviewed and then the amended document distributed to the Fund Manager and interest parties. On the 3rd March 2015 for one amendment, whilst being initiated by an approved source and independently reviewed there was no evidence of the changed FOG being distributed. There was no failure in his control process and the change was distributed, however there was a lack of evidence of the distribution. It has already been re-iterated to the team that they must ensure that they maintain evidence of all of their reviews and related communications.

**Legal & General cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Client new monies and withdrawals are processed and recorded completely and accurately; withdrawals are appropriately authorised.</p>	<p>For new monies, all funds received are paid into the PMC management account for which bank reconciliations are prepared and reviewed daily.</p>	<p>For one out of 25 days sampled there was no evidence that the reconciliation had been reviewed.</p>	<p>The PMC dealing accounts undergo a daily reconciliation to determine the expected end of day cash positions, which allows for balances to be placed on deposit with counterparties and manage PMC daily cash exposure. The reconciliation for the Daily Sterling Dealing account on 22 April 15 was completed and reviewed as expected, but the signature box at the bottom of the reconciliation was not signed.. There was no process failure other than the missing signatures. Daily placing of monies / exposure management on this day was complete with no reported errors. The message of greater diligence around sign off of files has been fully communicated with the responsible Team.</p>

**Legal & General cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Logical access to computer systems programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.</p>	<p>User access to IT network, infrastructure and applications is disabled on staff departure date and deleted after three months.</p>	<p>For 6 out of 155 leavers, access was not appropriately disabled after they left LGIM.</p>	<p>HR Operations in Cardiff have responsibility for sending the Leavers List email to various recipients, IT being one of them. IT access is then removed as per the date on the email. In these instances, a process handover failure resulted in the email not being distributed or actioned. LGIM HR and IT have already re-enforced what the process should be to their teams and training has taken place.</p>
<p>The physical IT equipment is maintained in a controlled environment.</p>	<p>Regular maintenance of environmental controls is scheduled using a diary application by GRE team. A log is maintained containing sign-offs that maintenance has occurred.</p>	<p>The maintenance of the fire suppression system of the LGIM server and media room has not been performed in the period under review.</p>	<p>The scheduled Fire suppression maintenance did not proceed as planned in June 2015 due to an access issue on the day, it has since been rescheduled and confirmed to take place on 24<sup>th</sup> February 2016.</p>

**Permal – Report on HSBC Security Services in Ireland’s Description of its Fund, Custody and Transfer Agency Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 January 2015 – 30 November 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>Notifications from third parties are captured in the XSP application. Automatic matching occurs for each event, where differences are identified the record is manually validated to other external sources and a “Golden Record” is created. Each Golden Record is subject to second-level review.</p>	<p>Validation of corporate actions</p>	<p>For one of 25 corporate action events sampled, there was no evidence of a secondary review of the details uploaded into Icon.</p>	<p>The Head of Asset Servicing reviewed the incomplete checklist and can confirm that a second level review was undertaken at the time. The approval is recorded within the XSP system and the audit trail clearly shows that this event was approved in a timely manner. Controls had been completed and the non-completion of the checklist is a documentation oversight. To avoid a recurrence, team management has strongly reiterated the requirement to complete all checklists as required. We can confirm that the corporate action event on the date where the checklist exception was noted was not applicable to any clients of HSS in Ireland.</p>

**Partners Group – Report on the Internal Controls, Holdings AG as of 31 December 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
		There were no exceptions noted.	

**Schroders Investment Management Ltd – Internal Controls Report 2015 ISAE 3402/AAF 01/16**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
As part of the client take-on process, Schroders conducts anti-money laundering checks, codes investment restrictions and ensures other key support functions are operationally ready for investment activity to commence. The Schroders Client Service Team, completes and reviews a checklist (signed by both Client Executive/Manager & Client Director) to ensure that all of the required functions have confirmed completion of their activities.	For a sample of new clients in the period, inspected the new client checklist and supporting documentation to confirm that: - it included the confirmation that anti-money laundering checks had been conducted, investment restrictions had been coded and key support functions were operationally ready for investment activity to commence; and - it had been completed prior to investment activity commencing.	For the test sample of 64 which represents the total population, there were 2 exceptions identified.	Client take-on processes are in place and require check lists and sign off to verify completion of all required activities; however, for one UK client, the due diligence and sign off control were not fully completed prior to inception of investment activity. This was due to human error in ensuring the requirements for this particular client were completed. During the on-boarding of a different UK client, the take-on processes were undertaken correctly but the check-list was not signed due to human error. In both cases, the control processes were completed immediately upon identification of the errors. We have put in place additional controls in the UK including automatically generated

			exception reports and enhanced review of client take-on documentation by managers. Relevant staff members have also been re-trained on the control requirements.
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**Schroders Investment Management Ltd cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
A client agreement (e.g. investment management agreement or life policy) specifying investment strategy guidelines is: signed by both the client and authorised Schroders personnel and obtained prior to investment activity commencing, unless authorisation to proceed is received from the client and approved by authorised personnel. The account "active" flag is not updated in the order management system until authorisation has been received, and the system automatically prevents trading on the account until the account is flagged as active in the system.	<p>For a sample of new clients during the period, inspected the client agreement and confirmed that:</p> <ul style="list-style-type: none"> <li>- it had been signed by an authorised client signatory and an authorised Schroders' signatory prior to the first investment transaction; or that authorisation to proceed had been received from the client and approved by authorised personnel.</li> <li>- any contractual changes to the client agreements are authorised by the client and approved by authorised Schroders personnel.</li> </ul> <p>For a sample of contractual changes to client agreements during the period, inspected the client agreement and confirmed that it had been signed by an authorised client signatory and an</p>	For 1 out of 38 contractual changes tested, the authoriser was not included within the approved Schroders personnel listing.	A human error occurred in judging the nature of the client document received by Client Services and resulted in the document not being signed by an appropriately authorised Schroders member of staff. Mitigation of this risk will be achieved through formalising referral routes to Legal and Company Secretariat in the event that there is any doubt as to who is authorised to sign documentation on behalf of Schroders.

	authorised Schroders' signatory.		
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### Schroders Investment Management Ltd cont'd

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
Key terms in respect of in-scope instruments as per European Securities and Markets Authority (ESMA) guidelines are reconciled to counterparty data for portfolios holding OTC and ETD derivatives on a daily basis. Unreconciled items are notified to the relevant counterparties and investigated and resolved.	For a sample of days, inspected reconciliation performed as per ESMA guidelines for OTC and ETD derivatives. For a sample of unreconciled items for OTC and ETD derivatives, inspected evidence that they were notified to the relevant counterparties, investigated and resolved.	For 24 out of 45 unreconciled OTC trades tested, evidence was not retained for the notification to the relevant counterparties of unreconciled items.	For 24 out of a sample of 45 unreconciled items, evidence of the notification to the counterparty could not be retrieved from the third party software used for the investigations. No items remained unreconciled and all issues were resolved in a timely manner. No regulatory breach occurred. Notifications are now being evidenced manually whilst alternative methods of retaining evidence are explored with the software vendor.
For new and existing clients who wish to start trading derivatives, a checklist detailing all tasks required for the client take-on/change process is completed and signed off prior to the commencement of investment activity. This includes checking whether clients have an active Legal Entity Identifier (LEI), obtaining the LEI and ensuring it is uploaded into the relevant	For a sample of new and existing clients who wish to start trading derivatives, inspected checklists for client take-on/change process to ensure they had been completed and signed off.  Inspected that these had been signed off prior to the commencement of investment activity, and that they had been uploaded into the relevant systems.	For 4 out of 6 clients tested, one of the procedures was not completed (the LEI was not uploaded onto the trade repository) prior to the investment activity.	The four exceptions occurred as a result of errors in the LEI set up process. These errors were identified and resolved during Q1 2015 following the introduction of a new internal exception report.  As a result, additional controls and changes in process such as regular exception reports and system enhancements to include mandatory regulatory data fields were implemented during the first

systems for reporting to the trade repository.			half of 2015 to reinforce our timely reporting to the trade repository.
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**Schroders Investment Management Ltd cont'd**

**Independent service auditor's assurance report on controls at Schroders in respect of the European Markets Infrastructure Regulations (EMIR).**

**Service auditor's assurance report on EMIR controls**

**Inherent Limitations**

Controls designed to address specific control objectives are subject to inherent limitations and accordingly, errors or irregularities may occur and not be detected. Such controls and our work related to those controls cannot guarantee protection against (amongst other things) fraudulent collusion especially on the part of those holding positions of authority or trust. Our opinion is based on historical information and the projection to future periods of any evaluation of the fairness of the presentation of the description, or the suitability of the design or operating effectiveness of the controls would be inappropriate.

**Basis for Qualified Opinion**

- 1) For the period 1 January 2015 to 31 December 2015, management were unable to provide evidence of the investigation of the majority of unreconciled OTC trades with the counterparties. As a result, controls were not operating effectively to achieve the relevant control objective "Controls provide reasonable assurance that client positions and transactions are monitored for timely confirmation matching, portfolio reconciliation, portfolio compression and dispute resolution with evidence retained (as a regulatory requirement and for audit purposes)" during this period; and
- 2) For the period 1 January 2015 to 31 December 2015, controls to ensure that clients' Legal Entity Identifier (LEI) were uploaded into the relevant systems for reporting to the Trade Repository prior to the client trading derivatives were not operating effectively to achieve the control objective "Events related to EU Client positions are reported to Trade Repository accurately, completely and timely" during the period.

**Opinion**

In our opinion, in all material respects, except for the matters described in the Basis for Qualified Opinion paragraph above, based on the criteria:

- a. the description on pages 60 to 64 fairly presents the EMIR control procedures that were designed and implemented throughout the period from 1 January 2015 to 31 December 2015;

b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 January 2015 to 31 December 2015; and

c. the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 January 2015 to 31 December 2015.

### **Description of tests of controls**

The specific controls tested and the nature, timing and results of those tests are detailed on pages 60 to 64.

### **Intended users and purpose**

This report and the description of tests of controls and results thereof on pages 60 to 64 are intended solely for the use of the Service Organisation and solely for the purpose of reporting on the controls of the Schrodgers' service organisation, in accordance with the terms of our engagement letter dated 24 September 2015 (the "agreement").

Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission. We permit the disclosure of this report, in full only, including the description of tests of controls and results thereof by the Schrodgers' service organisations at their discretion to customers using their investment management services conducted on behalf of institutional clients invested in direct portfolios or pooled funds and to the auditors of such customers, to enable customers and their auditors to verify that a service auditor's report has been commissioned by the Service Organisation and issued in connection with the controls of the Schrodgers' service organisation, and without assuming or accepting any responsibility or liability to customers or their auditors on our part.

We are prepared to extend our assumption of responsibility to those customers of the Service Organisation who first accept in writing the relevant terms of the agreement entered previously with the Service Organisation as if the customer had signed the agreement when originally issued, and including the provisions limiting liability contained in the agreement ("Contracted Customers"). This extension will not apply to a customer where we inform that customer, whether before or after the customer accepts the relevant terms of the agreement, that they do not meet our acceptance criteria.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Service Organisation and Contracted Customers for our work, for this report or for the opinions we have formed.

PricewaterhouseCoopers LLP  
Chartered Accountants  
17 March 2016

**HSBC Security Services in Ireland (Custodian) - Report on the Description of its Fund, Custody and Transfer Agency Services System and on the Suitability of the Design and Operating Effectiveness of Controls for the period 1 January 2015 – 30 November 2015**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>The Global Corporate Actions Processing team performs manual position/entitlement reconciliation between GCS and the agent for each corporate actions event. Discrepancies are researched and resolved by the Global Corporate Actions Processing team with the agent.</p>	<p>To test reconciliation of corporate events.</p>	<p>For 1 of the 25 dates sampled, there is no evidence of the control operation.</p>	<p>The printout of entitlement from GCS and the agent has not been saved as part of the archived corporate action event dossier. However, the entitlement reconciliation is performed under a dual control that is evidenced in GICAD, therefore if the reconciliation was not performed, the relevant action would appear in the end of the day GICAD report that is reviewed on a daily basis by the manager. The relevant screen prints from GICAD has been provided which shows that the event was checked. A compensating control to capture any stock breaks is a stock reconciliation performed on a daily basis.</p>

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**HSBC Security Services cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
<p>The Global Corporate Actions Processing team reconciles the payment notification from agents/brokers against the transaction recorded in GCS. Reconciliation breaks are researched and resolved by the Global Corporate Actions Processing team with the agent/broker.</p>	<p>To test the reconciliation of payment notifications.</p>	<p>For 3 out of 25 corporate action events sampled, there is no evidence of the control operation.</p>	<p>The Matched cash printout from Scannor has not been saved as part of the archived corporate action event dossier. However, the matching of cash is performed under a dual control that is evidenced in GICAD, therefore if the reconciliation was not performed, the relevant action would appear in the end of the day GICAD report that is reviewed on a daily basis by the manager. The relevant screen prints from GICAD have been provided which shows that the event was checked. A compensating control to capture any unmatched cash items is a cash reconciliation performed on a daily basis.</p>

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**HSBC Security Services cont'd**

<b>Control Procedures</b>	<b>Test Performed</b>	<b>Exceptions Noted</b>	<b>Management Response</b>
On a daily basis, the Front Office team reviews and signs off the Negative Availability reports which lists holdings with negative availability on Global One. Reported holdings are monitored and recalls are initiated if required by the Front Office team.	To test controls around Negative Availability reports.	For 1 of the 25 dates sampled, there is no evidence of the control operation.	HSS will add a weekly sign-off by the recalls desk assistant and Head of trading or deputy to ensure that each days recall notifications are stored securely and available for review.