APPENDIX 2

RISK

Risk	Description	Mitigation
Active	The risk that an active manager may underperform its benchmark and therefore that the return from the assets being managed will be less than could be achieved more cheaply using passive tracking management.	The Trustee takes advice on manager appointments, has expertise of its own and ensures that monitoring of managers is carried out continuously. The Trustee ensures that appropriate benchmarks are chosen for active managers.
Concentration	The risk that a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers, and that individual fund managers may from time to time hold the same stock.	To the extent that is cost effective, the Trustee ensures that the Scheme's investments are diversified across asset classes and managers.
Credit	The risk that the payments due under a credit instrument might not be made by the issuer. There is also the possibility that a company or investment fund in which the scheme is invested might fail.	The Scheme's investments are diversified, thereby limiting the effect of a credit failure. The Trustee selects credit managers that have a strong focus on borrowers' ability to repay debt. The Scheme's active equity managers are appointed for their expertise in selecting individual company investments.
Currency	The risk that changes in exchange rates will have an impact on the relative value of the assets and liabilities, through investment in non-sterling assets, given that the Scheme's liabilities are denominated in sterling.	The Trustee has put a passively managed currency hedging programme in place that covers approximately half the currency risk of the scheme.
Inflation	The risk that the projected cash flows from the assets have different linkages to inflation from those of the projected liabilities.	The Trustee monitors the Scheme's inflation risk closely, advised by the Actuary and the Investment Consultant. The Scheme invests in index-linked bonds, derivatives and other instruments.

Interest rate	The risk that interest rates can fall, causing estimated scheme liabilities to rise and that the assets do not rise in value commensurately.	The Trustee monitors the Scheme's interest risk closely, advised by the Actuary and the Investment Consultant. The Scheme invests in index-linked bonds, derivatives and other instruments.
Liquidity	The risk the assets held are not readily marketable and realisable.	The Trustee takes advice on the extent to which each scheme it administers can hold illiquid assets, particularly bearing in mind the balance of contributions and benefit payments for each scheme.
Longevity	The risk that longevity experience may differ from expectations, and that expectations may change over time. The chief risk that concerns the Trustee is that an increase in life expectancy will increase the Scheme's liabilities.	The Trustee takes advice from the Actuary on mortality, the assumptions for which are made prudently. The Trustee has considered and will continue to consider appropriate strategies for hedging longevity risks.
Regulatory	The risk that the regulatory regime in a market environment may change. This may be compounded by political risk in those environments, especially those subject to unstable regimes.	Global fund managers are appointed partly for their expertise in avoiding such risks.
Tracking error	The risk that a passive manager may not be able to track the benchmark index with an appropriate degree of accuracy.	The Trustee ensures that investment indices to be tracked passively are suitable for that purpose, particularly with regard to the liquidity of the stocks or instruments contained in them and the independence of their pricing.
Volatility	The risk that the value of assets, such as equities, whose prices are set with reference to highly liquid public markets may be particularly affected by short term sentiment.	The Trustee considers volatility of pricing in its assessment of future returns.