

volatility of the Fund's deficit (i.e. the difference between the Fund's liabilities and the Fund's assets).

- (c) The split between growth assets and protection assets is such that the overall longer-term expected investment return (net of costs) is sufficient to reasonably anticipate all beneficiaries to be paid in full. However, this is subject to the Fund's overall investment risk and deficit volatility continuing to be supported by the strength of the Employer's covenant.
- (d) Overall, the Fund's assets should be sufficiently liquid to enable all beneficiaries to be paid as and when their benefits fall due. To support this, and to help to avoid the Trustee needing to disinvest from the more volatile assets when financial markets are stressed, two lower volatility unconstrained short-dated credit funds have been chosen for immediate cash flow requirements in conjunction with any Employer contributions.

#### **4. RISK MEASUREMENT AND MANAGEMENT**

The Trustee regularly reviews a wide range of risks to which the Fund is exposed and mitigates these risks where possible and practical to do so. The Trustee believes that the investment strategy adopted is consistent with the agreed risk management policy.

The Trustee's policies on the key investment-related risks are as follows:

- **Employer covenant:** the investment risk taken by the Fund is underwritten by the Employer because, should investment returns not be achieved as expected over the longer-term, the Employer will ultimately be required to increase its contributions to enable all beneficiaries to be paid in full. The Trustee regularly monitors the Employer's covenant and considers the level of the Fund's investment risk in light of the strength of the Employer's covenant.
- **Mismatch risk:** Although the Trustee has taken action to reduce the level of mismatch risk within the Fund, the inherent nature of the assets and the liabilities, and the need for the Fund to take some investment risk to reduce the deficit over time, means that the assets and liabilities are not expected to move in tandem under all financial market conditions and the deficit may rise or fall as a result. The Trustee explicitly takes the Fund's liabilities into account when setting the investment strategy (including their nature and duration) and aims to diversify across and within the different risk factors where appropriate.
- **Active manager risk:** the Trustee recognises that actively managed funds can under- or out-perform their benchmark indices. Actively managed funds are therefore used for asset classes where the Trustee believes that the chosen investment manager is likely to consistently and sustainably either out-perform the benchmark index, reduce the volatility of investment returns, or both.
- **Diversification:** in addition to diversifying across different risk factors (see above), where appropriate, the Trustee also diversifies across asset classes, counter-parties, and geographically. This helps to avoid excessive concentrations of risk. To achieve cost-effective diversification, the Fund's assets are all invested in pooled funds.
- **Liquidity:** to pay beneficiaries, the Trustee are increasingly expected to need to regularly liquidate some of the invested assets to supplement any cash held in the Trustee's bank account and Employer contributions. Some asset classes can be relatively illiquid and/or volatile, creating disinvestment delays or crystallising potentially short-term investment losses. The Trustee regularly reviews the Fund's income and outgo in the context of the