

## APPENDIX 2

### Financial Risks

Risk	Description	Mitigation
Active management	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 the monitoring of managers is conducted on an ongoing basis. The Trustee ensures that appropriate benchmarks are chosen for active managers.
Counterparty	The risk that a counterparty to a financial transaction fails and the value of the transaction is not received at all or only partially by the other party.	Many of the investment transactions undertaken by the Trustee on behalf of the scheme(s) are in stocks that settle contractually on recognised exchanges and where the exchange is the counterparty. When dealing in synthetic instruments, the Trustee will use exchange traded instruments where possible. If it cannot, it will use one of a range of carefully chosen direct counterparties, the list of which is advised by the relevant fund manager and reviewed by the Board's Investment Consultant.
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.
Climate change	The risk that rising Global temperatures and severe weather events will negatively impact the value of specific investments.	The Trustee has developed policies for engaging on climate change issues with investee companies. It is a founder and leader of a key investor coalition on climate change (TPI), and it is an active member of other investor groups actively engaging on these issues (PRI, IIGCC, CDP, CIG). It also uses investment restrictions/exclusions, which include oil and gas companies. The Trustee undertakes periodic climate scenario analysis to inform investment decisions. The Trustee also views climate change as an opportunity for generating return from investment in businesses that are facilitating the transition to a low-carbon economy.
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.

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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 government 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, bearing in mind the in and out flows 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.
Operational	The risk that the Board's custodian and fund managers may not be able to operate due to the risk of cyber security attacks or other technology related issues.	The custodian and fund managers have security defences and business continuity plans in place, including backing up data on remote servers and alternative working locations.
Pooled fund	The risk that the actions of other asset owners participating in a pooled fund may affect the Board's investments.	The Trustee takes advice from the Investment Consultant and relevant investment manager, and where possible, seeks to avoid leveraged pooled funds. The Trustee recognises that pooled funds per se can assist the efficient management of the fund.
Regulatory & Political	The risk that the regulatory or political regime in a given market environment may change. Regulatory risk may be compounded by political risk in those environments, especially	Global fund managers are appointed at least in part for their expertise in avoiding or mitigating such risks.

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	those subject to unstable regimes.	
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.

## **Non-Financial Risks**

<b>Risk</b>	<b>Description</b>	<b>Mitigation</b>
Operational	The risk that the Pensions Board may not be able to operate due to the temporary or permanent loss of premises, access to premises, IT systems, telephone connections or Web access.	The Board's Business Continuity Plan makes provisions for these key services. Additionally, electronic data is backed up on remote servers; staff can work away from their offices for extended periods; the Board's advisers have premises that can be used for meetings. The Trustee's technology services provider is Cyber Essentials Plus accredited.
Regulatory	The risk that the Board fails to comply with pension regulation or regulatory guidance.	The Board has access to a broad range of expert support from its Investment Consultant, Actuary, Covenant Adviser and Legal Adviser.
Reputational	The risk that the Board's reputation is damaged through a real or perceived failure to fulfil its duties in pension administration, or investment, or in the parts of its business associated with providing housing for retired clergy.	The key mitigation is the effort made to avoid failure in the first place, noted elsewhere in this document. The Board has a professional and experienced media and communications team, and a robust plan for tackling PR and communications issues as they arise.
Staffing	The risk that key staff cannot be retained or cannot fulfil their duties due to ill-health.	Staff remuneration is set in relation to comparable roles outside the Board. HR policies focus on employee well-being and work-life balance. The executive team has a succession plan for itself and key staff. Senior staffing has also expanded, so that the importance of key individuals has been lessened.

The Church of England Pensions Board's approach to risk management is summarised in its Annual Report and Financial Statements which include disclosures on the key strategic risks.