

## Risk Appetite Statement

### *Long-Term Funding*

We are here to pay compensation to members of eligible defined benefit pension schemes, following sponsoring employer insolvency, where there are insufficient assets to cover PPF levels of compensation. To enable us to provide financial security to current and future members our approach to funding is to either hedge risks where it is practical and cost effective to do so or to hold reserves that provide a high level of protection against those risks that have not been hedged. These reserves will be built from levy income and investment return on the assets we hold.

We will therefore seek to:

- Fully hedge the inflation and interest rate risk in respect of our current members.
- Hold a reserve to protect against longevity risk for our current members (Priority 1 reserves)
- Hold a reserve to cover the potential cost of future claims (Priority 2 reserves)

When the Board has sufficient assets to cover both its current liabilities along with the Priority 1 and 2 reserves then it will have met its Financial Resilience test. Our expectation is that we will build additional reserves above the level needed to meet the Financial Resilience test as it will provide greater security to both current and future members. Our expectation is that any reserves above this level will be accumulated primarily through investment return.

The Board has a very low appetite for funding to drop below the level needed to cover our Priority 1 reserves. Also, it would expect the strategy it would adopt would ensure that there was

## Risk Monitoring & Reporting

We monitor our success in moving towards this long-term funding objective using a stochastic risk-model (Long-Term Risk Model) and other tools and publish key statistics.

Our investment strategy (published in our Statement of Investment Principles) and target level of investment risk are reviewed annually.

Monitoring metrics:

- Probability of financial resilience over different time horizons
- A downside risk metric
- Investment risk vs budget
- Hedging success
- Levy levels compared with claims

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a high chance of the Financial Resilience test being met over 3 to 6 years.

### *Short-Term Funding*

We accept that we may see short-term volatility of our funding level, which may come from, for example, our remit to protect members of pension schemes after sponsor default or from the investment risk we take in our asset portfolio.

We have no immediate external constraints on our funding level, so if it changes significantly in the short term we will ensure that our response is consistent with our long-term funding strategy rather than immediately responding to restore our funding level in the short-term.

### *Liquidity*

We need to ensure that we will always be in a position to meet our financial obligations to our members, trading counter-parties or service providers, so we have no appetite for any cash flow

## Risk Monitoring & Reporting

We monitor our funding position monthly based on an actuarial review of our liabilities and a detailed valuation of our assets. We also regularly monitor the asset mix in our asset portfolio relative to our target allocation, and the level of risk in the universe that we protect.

Monitoring metrics:

- Current funding level
- Anticipated funding level allowing for Contingent Liabilities
- Claim levels
- Risk levels in the universe
- Asset allocation
- Levy collection

We monitor our liquidity position continuously to

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impairments.

We maintain our investment strategy so that at all times there is sufficient liquidity to meet foreseeable cash outgo, when it falls due, both in normal and under stressed financial market conditions.

### *Operations*

To fulfil our purpose, we need to operate in line with best practice across the industries in which we operate which includes, but is not limited to, alignment with relevant Financial Services regulatory requirements.

We seek to ensure that our operations are resilient, both internally and within our supply chain, so that we are well positioned to achieve our mission and key objectives, with specific focus on our Important Business Services. We seek to maintain our reputation for sound judgement and stewardship.

We expect all employees, including non-executive directors, to maintain integrity and model good governance, conduct, ethical and inclusive behaviour at all times. We have no appetite for non-compliance with regulatory requirements.

### *Governance*

We are well governed, ensuring there is clarity regarding roles and responsibilities, and clear lines of accountability and authority. We expect all decisions to be made on the basis of the best

## Risk Monitoring & Reporting

ensure that liquidity remains available.

Monitoring metric:

- Liquidity ratio in normal and stressed scenarios

We set appropriate indicators to enable us to monitor and manage our exposure to operational risks and escalate key risks and areas of concern.

Monitoring metrics:

- Reporting of operational risk exposure against appetite
- Key Risk indicators (KRIs)
- Industry benchmarking

We monitor the effectiveness of Governance through a demonstration that decisions have been

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information available at the time, considering both opportunities and the risk of poor outcomes. We will not accept unauthorised decision making.

### External Environment

We must accept risk arising from the external landscape. This may be in respect of Political, Economic, Social, Technological, Legal or Environment factors. Where we are able, we endeavour to mitigate risks, and capitalise on opportunities, including through external engagement where appropriate.

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made with reference to risk appetite and within the requirements set out in appropriate governance documents. Decision making will be documented and agreed actions tracked to completion.

Monitoring metrics:

- Review of Authorisation & Appetite adherence
- Regular review of governance components
- Track Committee Schedule, Committee Attendance

For these types of risk we are unable to set a risk appetite, but set a level of comfort in respect of the potential threat to the PPF.

The external risk landscape is monitored and assessed against thresholds of comfort. These are noted as Acceptable, Heightened or Of Serious Concern