

Ranking of extreme risks

as of June 30, 2009

Rank	Risk	Description	Possible hedge
1	Depression	Debt-deflation trap; falling growth and incomes	Globally-diversified long-dated Sovereign nominal bonds
2	Hyperinflation	Extremely high inflation	Real assets, for example gold, globally-diversified inflation-linked bonds
3	Excessive leverage	Debt burden cannot be serviced from income	Gold, reserve-status currency
4	Currency crisis	Extreme movement between floating rates	Gold, foreign assets
5	Banking crisis	Balance sheets cannot absorb another shock	Nominal sovereign bonds (medium duration)
6	Sovereign default	Default by a developed country on its debt	Country insurance (for example CDS)
7	Climate change	Diversion of capital to mitigation uses	No general hedge
8	Political crisis	Rise in power of extremist groups	No obvious hedge
9	Insurance crisis	Insolvency within insurance sector	Nominal sovereign bonds (medium duration); short insurance equity
10	Protectionism	Reversal of movement towards free trade	No general hedge
11	Disunity in Europe	Break-up of the euro	Long Germany (hedged)
12	End of capitalism	Move to socialism and closing of markets	Gold
13	End of fiat money	Return to a gold standard	Gold
14	War	A major global conflict	Long neutral countries
15	Killer pandemic	Contagious disease with very high mortality	Long pharmaceutical equities, short airline equities