

Risk Management Framework and Policy

Risk Management Framework and Policy for NEOMILE Asset Managers

Introduction:

With the overall objective of management of key risks involved in fund operations, SEBI on September 27, 2021, outlined a revised Risk Management Framework (RMF) to provide a set of principles or standards, which inter alia comprise the policies, procedures, risk management functions and roles & responsibilities of the management, the Board of Asset Management Company (AMC) and the Board of Trustees.

The RMF should have the following characteristics

- Be structured, efficient and timely
- Be an integral part of the fund's processes and governance framework, at both the operational and strategic level, and consider all available information i.e., both internal and external.
- Be customized to both AMC's and scheme's risk profile, focuses on potential risks and implements mitigation and control measures to explicitly address uncertainty.
- Be dynamic and flexible enough to identify new risks that emerge and make allowances for those risks that no longer exist
- Recognize that people and culture have an impact on its effectiveness, and accordingly the framework must communicate and consult with stakeholders throughout.
- Protect reputation

The objectives of RMF should assist the management and the Board of Directors of AMC in:

- Demonstrating high standards of due diligence in daily management
- Promoting proactive management and early identification of risk
- Assigning and increasing accountability and responsibility in the organization
- Managing risk within the tolerance limits defined in the RMF.

The policy on the RMF will be approved by the board of AMC.

The RMF will be reviewed in the event of material claims or litigations from customers or incidents, material findings from internal or external audits, adverse media attention impacting reputation risk, adverse observations from the regulator(s), key risk indicator breaches, new regulatory requirements, sector-relevant developments or incidents

I. Governance and Organization

NEOMILE Asset Managers has an independent risk management function. The risk management function is headed by Mr. Tatsat Mehta who is responsible for the overall risk management of the fund operation including the key risks. However, for the overall risk management of the fund, along with the management board of AMC are also responsible.

NEOMILE Asset Managers has constituted Risk Management Committees (RMC) of the AMC comprising of all Board members and any other invitees as may be identified by the Board.

The respective Committee members shall decide and elect a chairperson for the committee. The Committee would be chaired by an Independent Director.

The Quorum of the Committees shall be a simple majority of the total committee members and at least one Independent Director will be part of the meeting.

These committees shall undertake annual review of RMF at both AMC and scheme level. The RMCs report to the Board of AMCs and trustees respectively and can also recommend long term solutions regarding risk management both at the AMC level as well as the scheme level.

The RMCs will meet at least once in a quarter or at shorter frequency as may be required on case-to-case basis.

Please find below the list of the indicative risk management related Key Roles and Responsibilities assigned to committees & executives under the framework guidance prescribed by SEBI which needs to be adhered to by all the committees & executives.

Risk Management - Role of the Board of AMC

1	<p>Review and approve mandatory risk management policies and framework both at AMC and scheme level, including but not limited to:</p> <ul style="list-style-type: none"> a) Risk Management Policy b) Investment policy c) Credit risk policy, d) Liquidity risk policy, e) Operational risk management policy (including Incident reporting and escalation matrix), f) Outsourcing policy, g) Cyber security and information security policy h) Business Continuity and Disaster Recovery Plan i) Such other policies as may be prescribed by SEBI from time to time <p>Any modifications to the policies approved by the Executive Risk Management Committee (“ERMC”) shall be reviewed by the RMC of AMC and Trustee</p>
2	<p>Review and approve the risk appetite, risk metric and tolerance limits for AMC and schemes.</p>

3	Periodically review the risk appetite, risk metrics against actual risk of the AMC and scheme
4	Review breaches to risk appetite and thresholds for risk matrix and approve the action plan for remediation
5	Define mechanism for risk reporting on a quarterly basis by ERM to the RMC of the AMC and Trustees and review outcome and submission on a quarterly basis
6	Annually review and approve changes to the roles and responsibilities and Delegation of Power (“DoP”) as placed by the ERM
7	Periodically review material breaches in the code of conduct
8	Monitor and review the major findings, exceptions, deviations, resolution, strategies as recommended by the ERM or previous RMCs for the existing and emerging risks identified
9	Review of the exceptions in <ul style="list-style-type: none"> a) Results of stress testing (investment, credit and liquidity risks) b) Outliers identified during “Early Warning Signals” review c) Material alerts generated through the liquidity risks model at scheme level d) Material deviations, issues and corrective actions as a result of periodic RCSA review e) Other Dashboards and reports prepared by management highlighted to the ERM f) Material Incidents and Events reported as per the Operating Event Management Policy and escalated by ERM
10	Review reports on outsourced vendor highlighting risks emanating from them along with the remediation plans
11	Review and recommend the level and type of insurance cover against first- and third-party losses arising from errors and omissions
12	Review evaluation of the fraudulent incidents submitted by the ERM
13	Formulate and approve a methodology for annual evaluation of the RMF, either through outsourced or by way of self-assessment.
14	Review the findings and action plan on the annual RMF compliance review prior to submission to SEBI in the half yearly SEBI report.
15	Approve Terms of Reference for Executive Risk Management Committee (ERM)
16	Delegate critical matters to CEO or the Executive Risk Management Committee
17	Recommend reduction/ change in the risk level of the schemes within the Potential Risk Class (PRC).
18	Ensure and comply with such other matters specified by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 read with various amendments and clarifications issued by SEBI from time to time. and SEBI Risk Management Circular dated 27th September 2021

Risk Management - Role and KRAs of Fund Managers

1	The FM shall be responsible for daily management of investment risk of managed scheme(s) such as market Risk, liquidity Risk, credit risk and other scheme specific risks within approved limits and appropriate risk reporting of any risk related event to respective CXO
2	In respect of schemes managed by them, FMs should ensure adherence to risk appetite framework to maintain appropriate risk level for schemes
3	Recommend reduction/ change in the risk level of the schemes within the Potential Risk Class (PRC) to the CIO
4	The FM shall take corrective action, if required, as per the approved DoP and escalate major risk related event to respective CXO.
5	Ensure adherence of applicable provisions of Mutual Funds Regulations including Code of Conduct per Schedule V B.
6	Suggest / provide inputs on changes required to risk appetite to the Head Investments
7	Report identified risk, risk related events, other operating events and corrective actions plans to the CIO
8	Measure risks in accordance with the approved internal policy and risk metric.
9	Periodic analysis of bulk trades and block deals of large values.
10	Analysis and evaluation of ratings received from multiple credit rating agencies for securities across portfolios and take necessary actions
11	Review adequacy of disclosures made to the investors regarding significant risks such as liquidity, counterparty and credit (quality of investments made mainly debt based on the credit rating), investment, and other risk areas across all schemes
12	Manage and monitor investments in schemes by reviewing published – <ul style="list-style-type: none"> o Quantitative risk analysis using metrics such as VaR, Sharpe Ratio, Treynor Ratio, Information Ratio, etc. o analysis of concentration limits (counterparty wise, group wise, industry or sector wise, geography wise)
13	Perform due diligence at the time of buying securities through inter-scheme transfers
14	Ensure maintenance of all relevant documents and disclosures with regard to debt and money market instruments before finalizing the deal

II. Identification of Risks

These key risks are divided in to two broad categories.

- **Scheme specific risks:** The scheme specific risks are the risks majorly associated with the core activities of investment and portfolio management
- **AMC specific risks:** The AMC specific risks are the risks associated with the functioning of the mutual fund business by the AMC

The **Scheme specific risks** are divided into the following categories

- **Investment risk:** Investment risk can be defined as the probability or likelihood of occurrence of losses relative to the expected return on any particular investment
- **Credit risk:** The credit risk relevant to mutual funds is the issuer credit risk attributable to individual securities and the negative outlook on specific sectors or industries and its consequent impact on the credit exposures
- **Liquidity risk:** Thinly traded securities carry the danger of not being easily saleable at or near their real values. Further, all securities run the risk of not being saleable in tight market conditions at or near their real values. Measuring and monitoring liquidity risk is an important aspect of risk management
- **Governance risk:** Governance risk is a risk that the persons who are in position of power or fiduciary responsibility towards the holders of security (equity/debt), do not act in the best interest of such stakeholders, rather compromise the interest of such stake holders for their personal gain
 - **Compliance Risk:** Failure by the AMC to meet its regulatory obligations or manage changes in legal statutory and regulatory requirements for its investment management activity at a scheme level which may result in investigations, fines, financial forfeiture, or regulatory sanctions and material loss to investors and the organization.

The **AMC specific risks** are divided into the following categories:

- **Operational Risk:** Operational risk refers to the risk of loss resulting from inadequate or failed processes, people and systems or from external events, e.g., internal fraud, external fraud, physical damage caused by nature or man-made, etc
- **Compliance Risk:** Failure by the AMC to meet its regulatory obligations or manage changes in legal statutory and regulatory requirements may result in investigations, fines, financial forfeiture, or regulatory sanctions and material loss to investors and the organization
- **Technology, Information Security and Cyber Risk:** Given the huge dependence on technology, any system failure could trigger a variety of risks, e.g., operational risk, compliance risk. etc. Technology Operations should support processing and storage of information, such that the required information is available in a timely, reliable, secure and resilient manner
- **Reputation and Conduct Risks:** The risk of damage to the firm's reputation that could lead to negative publicity, costly litigation, a decline in the customer base or the exit of key employees and therefore, directly or indirectly, financial loss or revenue shrinkage
- **Outsourcing Risk:** Inadequate management of outsourced processes lead to errors, frauds, Inefficiencies, poor quality investor services, breach of fiduciary duties data pilferages and long-term impact on reputation and contractual obligations

- **Financial Reporting Risk:** Absence of internal control over financial reporting with regard to the mutual fund schemes, may pose the risks
 - Improper maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets
 - Absence of reasonable assurance that transactions are recorded as necessary to permit calculation of NAV and preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the management and the Board
 - Failure to prevent or timely detect unauthorized acquisition, use, or disposition of assets that could have a material effect on the NAV and/or financial statements

- **Legal & Tax Risks:** Legal & Tax risk is the risk of loss to an institution which is primarily caused by:
 - A defective transaction
 - A claim (including a defense to a claim or a counterclaim) being made or some other event occurring which results in a liability for the institution or other loss (for example, as a result of the termination of a contract).
 - Failing to take appropriate measures to protect assets (for example, intellectual property) owned by the institution.
 - Change in law
 - Misinterpretation of statutes and regulations.
 - Failure to collect or pay appropriate taxes, or submit required returns or information

- **Talent Risk:** Talent risk is the risk of not having the right people in place at the right time to drive current and future business growth

Risk Appetite Framework

NEOMILE Asset Managers has developed a 4-point risk rating scale to quantify impact that an occurrence of each of the risks would have on NEOMILE's ability to achieve its strategic priorities after considering existing controls / risk management activities.

The impact assessment considers financial, reputational, operational, legal and investor impact of the occurrence of the risk.

The probability of the happening of each of the above risks considers the control environment and automation, external factors or dependencies such as market infrastructure, outsourced activities, etc. and available historical risk data.

Based on the impact assessment of the risk and considering the control environment, a formalized risk appetite statement with a rationale for the same is documented for each of the key functions/risk types, incorporating key risk scenarios that might create, enhance, prevent, degrade, accelerate or delay the achievement of objectives, sources of risks and areas impacted due to the event. The risk appetite statement aims to provide an objective articulation of the aggregate level and types of risk

that NEOMILE is willing to accept, or to avoid achieving its business objectives within the regulatory requirements. It includes qualitative statements as well as quantitative measures.

The definitions for the risk rating scale are given below:

Scale	Risk Appetite	Definition
1	Very low	<p>NEOMILE has Very limited appetite for the risk and so takes every reasonable action to avoid unfavourable outcomes</p> <p>No trade-off between business returns vs. cost considerations, and design business processes and controls with an emphasis on avoiding risk</p>
2	Low	<p>NEOMILE has Limited appetite for the risk, but accepts that there may be some (very limited) unfavourable outcomes</p> <p>Some deliberate trade-offs between business returns / cost to take on some risk</p> <p>We may differentiate between the types of unfavourable outcomes, e.g., we risk accept some activities but focus our efforts and the design of controls to avoid or mitigate the more material</p>
3	Medium	<p>NEOMILE has Greater appetite for the risk and either accepts and/or expects some more frequent, or more severe, unfavourable outcomes</p> <p>Deliberate trade-offs between business returns vs. cost considerations to assume some risk</p> <p>Accept activities not because we want to but because we have to, since the risk is intrinsic to asset management or to the environment in which we operate, so we can influence but ultimately not completely control the risk</p>
4	High	<p>Significant appetite for the risk and routinely expects and accept potentially severe unfavourable outcomes</p> <p>Trade-offs between business strategy / cost considerations to take on riskier activities</p> <p>Accept many activities, including those with higher residual risk for reasons such as expedited execution</p> <p>Embark on activities before introducing risk mitigants, substantive or tested controls, and introduce risk mitigants or controls at a later date</p> <p>May wait to see the impact of unfavourable outcomes and remediation costs before introducing risk mitigants or substantive controls</p>

For each risk type, in addition to the key risk scenarios, NEOMILE has also documented the emerging or new risks due to new business lines, new products, statutory changes, changes in external environment or market infrastructure, etc

III. Measurement and Management of Risks

NEOMILE has defined risk metrics for measurement of various scheme specific risks, including investment risk, credit risk, liquidity risk).

Apart from the scheme risk metrics, risk metrics have also been defined for each of the key AMC specific risks.

Risk metrics are measurable with defined risk thresholds. The risk thresholds are based on the risk appetite and consider control environment as well as other aspects such as historical experience, peer benchmarking, regulatory requirements/ guidelines etc. Each metric has a determined frequency of monitoring and an escalation process in the event of a breach of the threshold. Appropriate remedial or mitigating actions will be taken in the event a risk metric exceeds the defined threshold.

Delegation of Power and Escalation Process

NEOMILE has defined a Delegation of Power framework covering daily risk management, daily risk reporting and corrective actions at various levels of management, with the following roles:

Responsible: Always the first step and indicates the beginning (initiation) of activity

Accountable: Provides authority for taking appropriate action or decision on the outcome of the activities

Approval / Corrective action in case of breach beyond the threshold approved under RMF: Provides inputs to authority relating to identified risks and deviations and approves Corrective action or breaches beyond the threshold approved under RMF

Informed: Presentation of Information to the authority for their attention and action.

Risk and Control Self-Assessment (RCSA)

A Risk and Control Self-Assessment (RCSA) is the process for identifying and assessing risk within a business and evaluating the effectiveness of the controls that such business has in place to mitigate/manage these risks

RCSA Objectives: RCSA is a tool to enable Neomile Asset Managers to:

- Proactively identify key risks (existing and emerging)
- Assess associated controls to determine level of mitigation and preparedness
- Strengthen controls and lower the risk of operating events
- Document actions for any control weaknesses and prioritise and manage those risks
- Facilitate management of risks effectively and efficiently by senior management within the businesses
- Prioritize and allocate resources to focus on higher risk areas
- Raise awareness of the risks across the organization
- Identify and assess the operational and compliance risks, including conduct risks
- Identify and assess the controls in place to mitigate those risk
- Document actions for any control weaknesses and prioritise those actions according to the risk they pose to AMC

The RCSAs will be reviewed in the event of material claims or litigations from customers or incidents, material findings from internal or external audits, adverse media attention impacting reputation risk, adverse observations from the regulator(s), key risk indicator breaches, new regulatory requirements, sector-relevant developments or incidents

Policy reviews: Periodic review of policy frameworks will be done to ensure that all policies are up to date responding to new strategic priorities and risks and the monitoring mechanisms are working to ensure compliance with the updated policies

IV. Reporting of Risks and Related Information

Compliance officer will be responsible for reporting the risk metrics for their function on a timely basis to the risk management team. This bottom-up reporting process ensures that the risk management function can perform timely, meaningful, and independent analysis of such information.

The risk metrics will be reported based on the pre-defined frequency. Further all the employees have to ensure adherence to the Operating Event Management Policy which has been adopted by NEOMILE with the following objective. The Operating Event Management Policy sets out roles, responsibilities, and requirements to facilitate timely identification, reporting and management of operational risk events. This is critical to minimize any financial, operational, legal, or reputational impact to NEOMILE Asset Managers Pvt. Ltd. (NEOMILE) and its clients.

The process of capturing and assessment of information regarding the circumstances of an operating event provides NEOMILE with the opportunity to reflect upon end-to-end processes, systems and controls and enhance them as required. NEOMILE can learn from operating events to improve and fortify the processes and controls.

The outcomes of the risk management function will be mandatorily reported to the board of directors and senior management personnel on a monthly basis and to the RMC on a quarterly basis. Trustees may forward the results and steps taken to mitigate the risk along with their comments to SEBI in the half-yearly trustee reports.

The risk reports will incorporate the risk metrics for all schemes for AMC specific risks and will be consolidated across the departments and the AMC level. They will also incorporate the rectification index as calculated in the internal audit report for both the AMC and the scheme level. Risk reports will contain information on impact assessment of the risk as well as measures and corrective actions taken by the management to control and mitigate the relevant risks. The risk reports will capture trends in evolution of the risk metrics to flag off early warnings and adverse trends.

In addition, the risk management function may also report any significant emerging risk issues that are not covered in the scheme and AMC risk metrics in the risk reports.