



# **PAYDEN GLOBAL SIM S.p.A.**

## **Risk Management Policy**

Version	Amendment	Effective date
1.0	First Board approval	24 March 2021
2.0	Second Board approval	16 May 2022



## 1. Introduction

This Risk Management Policy (the “**Policy**”) has been adopted by Payden Global SIM S.p.A. (the “**Company**”, “**Firm**” or “**SIM**”) to the purpose of setting out and illustrating the principles and processes governing the organization and activities of the Risk Management function

## 2. Main regulatory references

The set of laws and regulations governing the activities described in this Policy consists primarily of:

- Directive 2014/65 (“**MiFID II**”);
- Delegated Regulation (EU) 565/2017 (the “**MiFID II Regulation**”);
- Consolidated Law on Finance, Legislative Decree no. 58/1998 (the “**CLF**”);
- Bank of Italy Regulation implementing Articles 4-*undecies* and 6, para. 1, let. b) and *c-bis*), of the CLF, of 5 December 2019 (the “**Bank of Italy Regulation**”).

(the “**Applicable Laws**”).

## 3. General principles

The Risk Management function is regulated pursuant to Article 16 of the Bank of Italy Regulation , which, for the operating procedures, refers to Article 23 of the MiFID II Regulation. Pursuant to the Applicable Laws, the Risk Management Function shall:

- (a) implement adequate risk management policies and procedures identifying the risks relating to the Company's activities, processes and systems, and where appropriate, setting the level of risk tolerated by the Company;
- (b) adopt effective arrangements, processes and mechanisms to manage the above risks, in light of the identified level of risk tolerance;
- (c) monitor:
  - the adequacy and effectiveness of the Company’s risk management policies and procedures;
  - the level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted;
  - the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons to comply with such arrangements, processes and mechanisms or follow such policies and procedures; and
- (d) report in writing to and advise senior management, on an at least annual basis, on risk management matters and on any deficiencies occurred and the appropriate remediation measures.

## 4. Risk Management Function arrangements and responsibilities

The Firm has outsourced certain aspects of the Risk Management Function to Payden & Rygel (the “**Parent Company**”).

In particular, the SIM has attributed to the Parent Company all the functions relating to the management of the operational and investment risks faced by the SIM. The person within the Parent Company responsible for the risk management functions is Mr Reza Pishva (the “**Head of Risk Management**”). The Internal Reference Person for the outsourced tasks is Ms Diane Claire Wilkinson (the “**Internal Reference Person**” or “**IRP**”).



Conversely, the SIM has not outsourced the production, updating and review of the risk register (the “**Risk Register**”). The Risk Register, in which the different type of risks and sub-risks are set out together with the relevant mitigant/controls and persons responsible for the performance of the latter, shall be deemed as complementary to this Policy.

The Compliance and Operations Manager (“**COM**”), in pursuance with this Policy and with the Risk Register, carries out a process aimed at:

- identifying and mapping the Company's risk events, through the analysis of internal documentation and the involvement of the personnel in a Risk Assessment process;
- assessing the actual exposure of the Company to the risks identified during the mapping, through an assessment based on the estimate of the probability of occurrence and the economic or other impact of the same;
- periodically monitoring the evolution of the Company's exposure to identified risk events and the correct implementation of the checks and controls provided for in the Risk Assessment Process.

As regards the risks inherent in the investment services provided:

- the Parent Company monitors compliance with legal and regulatory limits on the subject of risk containment and fractioning
- the SIM, internally, periodically updates and checks the Risk Register and defines any proposals for improvement of operational processes together with recording such measures in the Risk Register.

The board of directors of the Firm (the “**Board of Directors**” or the “**Board**”) of the Firm has overall responsibility for the oversight of risk management for the Company. The Board should be satisfied that risk is appropriately addressed and shall keep itself apprised of the activities of the Firm as related to those risks.

The Head of Risk Management has responsibility for ensuring the Firm has an effective framework for risk management, and for ensuring that risks (both actual and potential) remain within the tolerance level acceptable to the Firm. The Chief Executive Officer is responsible for the correct implementation of the risk management system and processes adopted by the SIM, while the IRP oversees the quality and correct performance of the outsourced Risk Management Functions.

The Board has constituted a Risk Management Group (the “**RMG**”) consisting of the Chief Executive Officer, the Head of Operations, the COM, the CIO and the IPR for the purposes of ensuring that the Firm has in place effective processes to identify, assess, manage and, where appropriate, mitigate actual and/or potential risks to the Firm and its business, as well as for the conduct of any of the Risk Management tasks relating to the keeping, maintenance, update and review of the Risk Register, which have not been outsourced to the Parent Company .

## **5. Risk Management Group**

The Risk Management Group is entrusted with the tasks of ensuring that the Firm has in place effective processes to identify, assess, manage and, where appropriate, mitigate actual and/or potential risks to the Firm and its business, as well as of keeping, maintaining, updating and reviewing the Risk Register.

The RMG circulates the Risk Register quarterly to the Head of Risk Management and the Compliance Officer to review the same, analysing new and identified risk events, controls and mitigants.

The RMG periodically, and at least on a quarterly basis, reports to the Board with respect to the outcomes of any meeting with the Head of Risk Management and the Compliance Officer and on any other matters that are necessary or appropriate for the Board’s oversight function.

Such meetings shall be convened by the Head of Risk Management or the Chief Executive Officer and can be chaired by either the former or the latter.



## 6. Duties

The agenda of the quarterly Risk Management Group meeting is to: (i) identify and assess risks affecting the Firm; (ii) understand the mechanisms that are in place to control risks (both actual and potential) relating to the Firm's activities, processes and systems; and (iii) mitigate the Firm's risks where possible.

Where the RMG or the Head of Risk Management determines that a risk is outside of the Firm's risk tolerance, they will escalate the issues relating to that risk to the Board for their evaluation.

The Risk Management Group reviews the Firm's Risk Register that is maintained by the COM. The Risk Register is tabled for consideration at the Risk Management Group's standing quarterly meeting and itemises potential and actual risks arising from the following areas, among others:

- (a) Market risk;
- (b) Credit risk, including credit-ratings and credit quality;
- (c) Operational risk (including Human Resources, Information Technology, Environmental, Regulatory, Financial Crime and cyber security related risks);
- (d) Strategic risk;
- (e) Liquidity risk;
- (f) Country risk;
- (g) Business risk (including investment management, client relations, and political and regulatory related risks); and
- (h) Reputational risk.

The Risk Management Group shall assess whether the Firm is effectively monitoring and responding to the aforementioned risks with respect to:

- (a) Effective and efficient operation of all significant business processes;
- (b) Identification and classification of current and emerging risks;
- (c) Effective management of risks; and
- (d) Sufficient insurance arrangements.

The RMG may, among other things, as it may deem appropriate;

- (a) Request information from the Firm's employees or any relevant external or related party;
- (b) Require the Firm's employees to attend an RMG meeting; and
- (c) Request reports or independent advice from external professional advisers.

The RMG will ensure that the risks to which the Firm is exposed are adequately considered as part of the Firm's ICARA and reflected in the Firm's ICARA document. The Risk Register will be appended to the Firm's ICARA document for internal use only.

The RMG shall meet on at least a quarterly basis to discuss and review the Risk Register and more frequently if called upon to do so by either the Chief Executive Officer or the Head of Risk Management.

Meetings may be held by the members of the RMG communicating with each other in person or by any technological means (i.e., video conference, conference call, *etc.*) by which they are able to participate in the business of the meeting.

The COM, or her appointee, will act as secretary to the meeting, recording the RMG's review and revisions to the Risk Register and highlighting any significant matters arising to the Head of Risk Management and the Compliance Officer.



The COM carries out the control activities by proceeding to:

- manage a continuous flow of information (meetings, e-mails, *etc.*) with the managers of the operating units whose activities are subject to control;
- check the functioning of the Risk Management system;
- verify the adequacy and effectiveness of the measures taken to remedy the problems found;
- assess the actual exposure of the SIM to the risks identified during the mapping, through an assessment based on the estimate of the probability of occurrence and the economic impact of the same;
- periodically monitor the evolution of the SIM's exposure to identified risk events;
- analyze any anomalies found with the department heads concerned, proposing and evaluating any corrective actions;
- periodically monitor compliance with the investment limits of the SIM;
- verify the consistency between the model portfolio and the Asset Allocation established by the Investment Committee;
- evaluate the methodologies for classifying financial instruments in portfolios and monitor them periodically;
- collaborate with the Functions involved in the ICAAP Process.

## **7. Information flows from the RMG**

The Board of Directors, with regard to the Risk Management activities:

- analyze, on the occasion of the presentation of the ordinary reports of the RMG, the results of the analysis conducted in the reference period;
- evaluate and resolve on the corrective actions proposed by the RMG, the resolution of any anomalies found;
- when submitting the Annual Report of the Head of the Risk Management function, each for their own competences, express an assessment of the work of the function, explaining their observations and decisions.

The Head of Risk Management reports to the Board of Directors and the Board of Statutory Auditors on an annual basis, through the presentation of the annual report on risk management activities, which is then submitted to Supervisory Authority accompanied by the relevant comments and decisions taken by the competent corporate bodies in relation to any deficiency detected

On a continuous basis, the Internal Reference Person oversees the activities and the quality of the services carried out by the Head of Risk Management.

The RMG reports to the Corporate Bodies in an extraordinary way, through immediate communication to the Board of Statutory Auditors, of any serious irregularities emerging from the verification activities carried out.

## **8. Review**

This Policy is reviewed annually by the Firm's Board of Directors, and more frequently should the need arise. The Chief Executive Officer is responsible for the correct implementation of this Procedure. The Board of Directors authorises him to give any disclosure required under this Policy and the Applicable Laws as well as to organise training courses and events in relation to the content of this Policy.



The Compliance Officer and the Head of Risk Management review this Policy at least once a year or more frequently should the need arise, and monitor and ensure its compliance and compliance of any amendments thereto with the Applicable Laws.

Where necessary, the Compliance Officer and the Head of Risk Management propose to the Board of Directors the adoption of organizational measures and amendments to this Policy and any internal documents of the SIM relevant in connection with the content of this Policy.



## Annex 1

### Risk analysis and mapping methodology

#### 1. Phases of the Risk Mapping process

The Company's risk detection and analysis is divided into the following phases:

- analysis of business processes with particular regard to the processes of providing investment services;
- identification of the types of risk associated with each of the macro-activities making up the individual processes;
- evaluation of the probability and impact of each type of risk;
- estimate of the so-called "inherent risks";
- detection of the controls and safeguards in place for risk mitigation and assessment of their degree of effectiveness ("quality of controls");
- estimate of the so-called "residual risks".

##### 1.1. Survey and analysis of business processes

This phase is carried out by identifying the Firm's processes on the basis of the available documentation (reports on the methods of carrying out the services and on the organizational structure, internal procedures and policies, etc.) and interviews with the Firm's representatives involved in the main processes.

##### 1.2. Identification of the types of risk associated with each macro-activity

As part of this phase, the types of risk attributable to each macro-activity are identified and described, taking into account the activity carried out by the SIM.

Each type of risk is in turn combined with a specific risk class (type and category - level I and II).

The following types of risk are considered (level I), with a further articulation (level II) for operational risks:

- Market Risks;
- Credit Risks;
- Operational Risks;
- Strategic Risks;
- Liquidity Risks;
- Country Risks;
- Business Risks;
- Reputational Risks;

#### Market Risk

Market risk is the risk of adverse changes in the market prices of assets and liabilities. Primary sources of market risk include but are



not limited to changes in macroeconomic policies, interest rates, changes in equity security prices, and volatility in foreign exchange rates.

#### **Credit Risk**

*"Credit risk is the risk of incurring losses due to default or insolvency of the counterparty. In a broader sense, it is the risk that a negative change in the creditworthiness of a counterparty to which the Company is exposed generates a decrease in the value of the credit position". In other words, Credit risk is the uncertainty and possibility of incurring losses as a result of borrowers' and counterparties' failure to comply with their contractual obligations. The counterparty risk is included in the SIM's definition of credit risk.*

#### **Operational Risk**

*"Expresses the risk of losses deriving from the inadequacy or malfunction of procedures, human resources and internal systems, or from external events. This definition includes legal risk; strategic and reputational risks are not included"*

#### **Strategic Risk**

*Strategic Risk is the umbrella term employed for risks that encompass investment activity at the macro level and affect the overall trajectory of the business of the Firm;*

#### **Liquidity Risk**

Liquidity risk is the risk that the SIM is unable to fulfill stated financial obligations to lenders, counterparties, tax authorities, and suppliers.

#### **Country Risk**

*Country Risk is the risk that extrinsic factors such as political, regulatory or economic factors in a particular country may affect the Firm's ability to conduct business there, with resulting loss of business.*

#### **Business Risk**

*is "the current or future risk of a decline in profits or capital deriving from changes in the operating environment or from incorrect corporate decisions, inadequate implementation of decisions, poor responsiveness to changes in the competitive environment". In other words, business risk is the adverse and unknown future developments stemming an evolving competitive landscape, from the fiduciary responsibilities vis-à-vis the SIM's clients, the emergence of new competitors, the attractiveness of our solutions, the quality of our solutions, and the fees charged for the SIM's services."*

#### **Reputational Risk**

*is "the current or prospective risk of a decline in profits or capital resulting from a negative perception of the image of the SIM by customers, counterparties, shareholders, investors or supervisory authorities"*

### **1.3. Evaluation of the probability and impact of each type of risk**

The approach followed is of the inherent risk / residual risk type.

**Inherent risk** is the risk to which the Firm is exposed assuming that it has not activated any controls and / or monitoring aimed at modifying the probability and impact.

The inherent risk determined for each type of risk surveyed is the result, expressed in qualitative terms, of the combination of a probability score and an impact score to which qualitative values have been associated.

Probability:

Score 1 – "Low"

Score 2, 3, 4 – grades of "Low-Medium", "Medium", "Medium-High"





Score 5 – “High”

Impact:

Score 1 – “Low”

Score 2, 3, 4 – grades of “Low-Medium”, “Medium”, “Medium-High”

Score 5 – “High”

#### **1.4. Estimate of the so-called "inherent risks"**

Once the relative probability and impact scores have been assigned to each type of risk, their combination determines the relevance of its inherent risk based on a factor of the probability multiplied by the impact.

#### **1.5. Identification of mitigation and controls and evaluation of their effectiveness**

Inherent risk is mitigated by a series of controls carried out as envisaged in the procedures and policies adopted by the SIM.

These controls and mitigants are framed on the basis that they should aid the reduction of inherent risk to a level of acceptable residual risk through identification, analysis, escalation, mitigation, systematic enhancements and control environment improvements.

#### **1.6. Estimate of the so-called "residual risks"**

Residual risk is the risk that remains after implementation of the mitigants, controls and safeguards in place for the management and mitigation of risks. The residual risk, expressed in qualitative terms, is obtained by combining the previously determined inherent risk level and the assessment of the quality of the controls in place.

Residual risk is then scored on the same basis as inherent risk as described above.

## **2. Risk Management approach**

The aim of the tools and methods adopted by Payden Global SIM S.p.A. (the “**SIM**” or the “**Firm**”) is mitigating and controlling risk faced by the latter. It is of utmost importance that a central focus on limiting downside risk for the SIM’s organization and clients is inculcated in the Firm’s employees and in our culture.

The tasks attributed to the Risk Management Function in managing risks faced by the SIM are partly performed internally at the organization through use of the Risk Register that is completed by the COM and partly outsourced to the Parent Company, Payden & Rygel, in the person of Mr Reza Pishva. The Internal Reference Person for the outsourced tasks is Mrs Diane Claire Wilkinson.

The role of the Risk Management Group is to work on (a) identification, (b) analysis, (c) mitigation, (d) implementation, and (e) monitoring of all risks apparent to the business of the Firm and to report on the same to the Board of Directors. All such risks should be recorded in the Risk Register promptly and in sufficient detail to keep the Board of Directors adequately informed.

The description of the main risks and sub-risks faced by the Firm, as well as the related mitigants and controls and the persons responsible for the performance of the latter are set out in the Risk Register, which shall be deemed as complementary to this Policy.