Drive for performance

RISK MANAGEMENT POLICY

Law 74/2015 on managers of alternative investment funds

Art. 15. - (1) AIFMs shall functionally and hierarchically separate the functions of risk management from the operating units, including from the functions of portfolio management. The functional and hierarchical separation of the functions of risk management shall be reviewed by FSA in accordance with the principle of proportionality, on the understanding that the AIFM shall, in any event, be able to demonstrate that specific safeguards against conflicts of interest allow for the independent performance of risk management activities and that the risk management process satisfies the requirements of this law and is constantly effective.
(2) AIFMs shall implement adequate risk management systems in order to identify, measure, manage and monitor appropriately all risks relevant to each AIF investment strategy and to with each AIF is or may be exposed, in accordance with Articles30-37 or Regulation (EU) no. 231/2013. In this respect, AIFMs should not be based exclusively or mechanically on credit ratings issued by rating agencies as defined under letter b) of article 3 line (1) letter (b) Regulation (EC) no. 1.060/2009 of the European Parliament and of the Council of 16th September 2009 on credit rating agencies, to assess the creditworthiness of the assets of AIFs.
AIFM shall review the risk management systems with appropriate frequency at least once a year and adapt them whenever necessary, in accordance with **Regulation EU no. 231/2013** to complete directive 2011/61/EU of the European Parliament and Council regarding the waivers, general operating conditions, storage, leverage effect, transparency and supervision:
Article 40 Risk Management Policy
(1) AIFM must set, implement and maintain an adequate and formalized risk management policy, that identifies all relevant risks that the AIFs they manage are or could be subjected to.
(2) The risk management policy must include the procedures necessary to allow AIFM to evaluate for each AIF it manages the exposure to market risk, liquidity risk and counterparty risk, as well as the AIFs' exposure to all other relevant risks that might have a significant impact for each managed AIF, including operational risks.
(3) AIFM shall include at least the following elements in the risk management policy:
(a) techniques, instruments and measures that allow it to comply with article 45;
(b) techniques, instruments and measures that allow the evaluation and monitoring of AIFs liquidity risk under normal and exceptional liquidity situations, including through crisis simulations regularly carried out in compliance with article 48;
(c) assignment of responsibilities regarding risk management within the AIFM;
(d) limits set in compliance with article 44 of the present regulation and an explanation of the way in which it abides by AIF's risk profile as notified to investors in compliance with article 23 line (4) letter (c) Directive 2011/61/EU;
(e) conditions, content, frequency and destination of reports drafted by the permanent risk management function mentioned under article 39.
(4) The risk management policy should include a description of the protection measures mentioned under article 43, in particular, of the following aspects:
(a) the nature of potential conflicts of interest;
(b) adopted corrective measures;
(c) reasons why these measures should, according to reasonable expectations, lead to the independent exercise of the risk management function;
(d) way in which AIFM intends to make sure that the protection measures have constant efficiency.
(5) The risk management policy mentioned in line (1) is adequate for the nature, size and complexity of AIFM and the AIFs it manages.

© Evergent Investments. All rights reserved | evergent.ro |

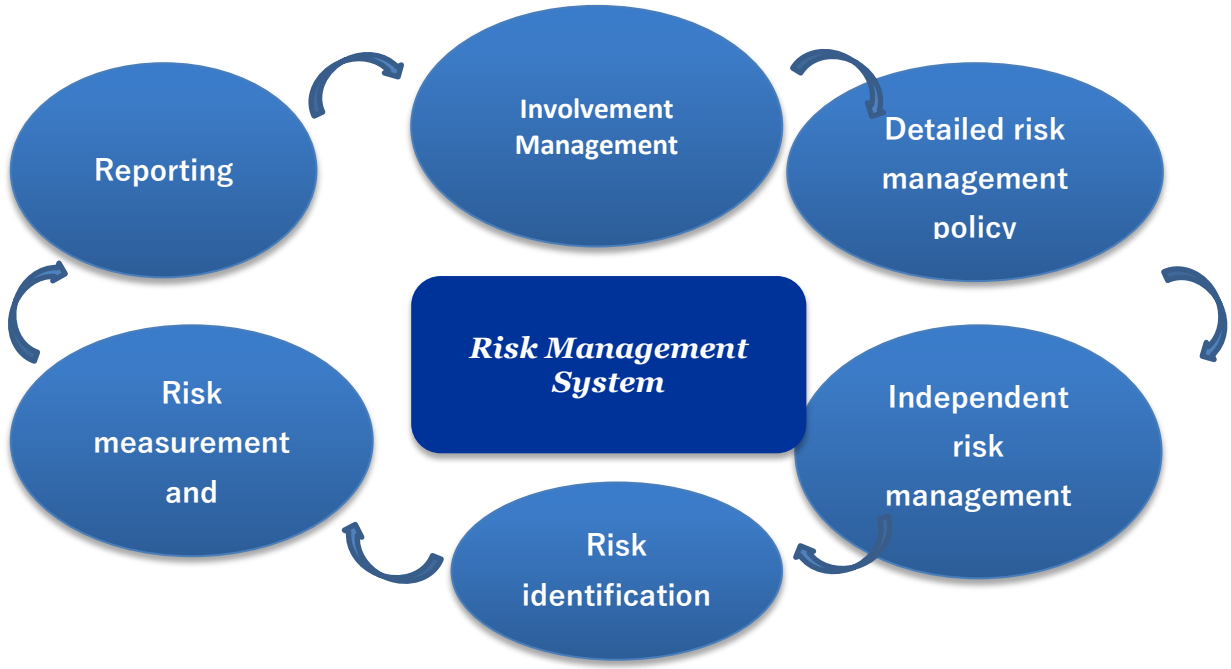
Contents

1. General risk management framework
2. Responsibilities regarding risk management
3. Protection measures against conflicts of interest in direct connection with the risk management function
4. Identification, measurement, management and monitoring of risks
   - 4.1. Identification of relevant risks
   - 4.2. Measurement of relevant risks
   - 4.3. Setting risk limits
   - 4.4. Risk profile
   - 4.5. Market risk approach
   - 4.6. Issuer risk approach
   - 4.7. Liquidity risk approach
   - 4.8. Operational risk approach
   - 4.9. Other risks
   - 4.10. Management and monitoring of relevant risks
   - 4.11. Crisis simulations, ex-post tests
5. Reports drafted by the permanent risk management function
6. Evaluation, monitoring and revision of risk management systems

© Evergent Investments. All rights reserved | evergent.ro |

1. GENERAL RISK MANAGEMENT FRAMEWORK

Risk management is an important component of EVERGENT Investments' management's strategic objectives in the process of maximizing profitability and minimizing risk exposure. The Board of Directors of EVERGENT Investments understands that risk management should be carried out in a methodologically consistent environment.



The risk management system represents the system comprised of:

- relevant elements of the organizational structure of EVERGENT Investments with a central role for the permanent risk management function
- policies and procedures regarding the management of relevant risks for the company's investment policy
- measures, processes and techniques connected to risk measurement and management that EVERGENT Investments uses

The risk management systems ensure the consistency of the control functions with the risks generated from the activities and processes that are object of the control.

The internal control system of EVERGENT Investments ensures the verification of the adequacy of risk identification, evaluation, monitoring and reporting processes and their compliance with the specific applicable law, as well as with the company's internal decisions.

In compliance with the applicable legal framework:

- Directive 2011/61/EU on alternative investment funds managers ;
- Commission Delegated Regulation (EU) no. 231/2013 of 19th December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision;
- Law no.74/2015 on alternative investment funds managers ;
- FSA regulation no. 10/2015 of the management of alternative investment funds;
- FSA regulation no. 2/2016 on the application of the principles of corporate governance by the entities authorized, regulated and supervised by FSA;

© Evergent Investments. All rights reserved | evergent.ro |

- Regulation 4/28.02.2018 on the management of operational risks generated by IT systems;
- EU regulation no. 575/2013 on the prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012;

EVERGENT Investments sets, implements and maintains an adequate and standardized risk management policy that:

- identifies all relevant risks that it is or could be exposed to;
- includes the necessary procedures to allow the company to evaluate the company's exposure to market risk, issuer risk and liquidity risk, as well as the exposure to all other relevant risks that might have a significant impact, including operational risks.

The risk management policy includes:

- adequate and efficient techniques, processes, instruments and measures for:
  - the identification, measurement, administration and monitoring at all times of the risks that the company is, or could be exposed to
  - ensure the abidance by the quantitative, qualitative risk limits, or both, set to cover all relevant risks
- the techniques, instruments and measures that allow the evaluation and monitoring of the company's liquidity risk under normal and exceptional liquidity conditions, including through risk simulations made regularly
- assignment of responsibilities regarding risk management within the company
- quantitative, qualitative risk limits or both set for the coverage of all relevant risks and their abidance by the company's risk profile as notified to investors
- conditions, content, frequency and recipients of the reports drafted by the permanent risk management function
- protection measures against conflicts of interest of the risk management function.

The risk management policy:

- covers all business, control and support functions, being adequate for the size and complexity of the company's activities;
- is adequate for the nature of the company's activities, taking into consideration that EVERGENT Investments:
  - is a closed investment fund that has no exercisable buy-back rights whose shares are allowed for trading on the stock market;
  - does not resort to loans while carrying out its activity and does not invest in derived financial instruments to increase the profitability of equity, and is therefore not exposed to the leverage effect.
- is linked to the investment policy, following the coverage of the risks specific for each asset category that EVERGENT Investments invests in, as well as to its support obligations, following the coverage of the default risk.

EVERGENT Investments is classified as closed-type AIF with retail investors that do not actively use the leverage effect.

For the purpose of meeting the institutional reporting obligation, EVERGENT Investments calculates and follows exposure through the gross method and engagement method and determines the (residual) leverage effect.

© Evergent Investments. All rights reserved | evergent.ro |

2. RESPONSIBILITIES REGARDING RISK MANAGEMENT

One of the main components of the risk management system is the risk management function. This function holds a main role in defining policies regarding the administration and monitoring of risks in the company, to ensure the permanent compliance of the risk level with the company's risk profile.

The responsibility of risk managers is not limited to the level of risk specialists or control functions.

The operational structures, under the supervision of management functions are first of all responsible for daily risk management, given the risk appetite and in compliance with the policies, procedures and controls of EVERGENT Investments.

The management of EVERGENT Investments aims to dedicate sufficient time to examine risk-related issues through active involvement and by providing the adequate resources for the management of all relevant risks the company is subjected to.

The general corporate governance model in the field of risk management in EVERGENT Investments is the "3 lines of defense" model:

1. **The first line of "defense" –** is ensured by the business and support areas, have the main responsibility and importance for the actual control of risks in the daily activities carried out. The first line of defense takes on and manages operational and compliance risks corresponding to the activities carried out on a daily basis. The individual in the functional departments of the business and support areas pro-actively manage risks by developing procedures to keep specific risks of the activities carried out, under control. The first line of risk delimitation is responsible for the execution of risk policies, minimum standards and the framework set by the second line of risk delimitation.
2. **The second line of "defense"** – is ensured by the compliance function and the risk management function that supply adequate mechanisms for the first line of "defense". The compliance function ensures the compliance of the company's activity by the regulation framework in force and verifies the carrying out of control by the first line. The risk management function is independent from the activities that generate risk exposures, develops risk management policies and procedures on the level of the entire company and ensures risk management over the entire process.
3. **The third line of "defense"** – is ensured by the internal audit function. The mission of this defense function is to offer a specialized independent evaluation regarding the efficiency of the risk management process and internal control system.

The Board of Directors is responsible for:

- the approval and revision of the company's Policy regarding risk management, procedures and methodologies for the identification, evaluation, monitoring, management and reporting of the significant risks that the company is or could be exposed to, at least once a year
- the approval of the risk profile, the risk appetite and tolerance limits of EVERGENT Investments
- the approval of the results of the regular self-evaluation of operational risks and internal control system, and of the risk response plan that presents measures to prevent and lower operational risks

© Evergent Investments. All rights reserved | evergent.ro |

- the approval of the quarterly risk reports of the risk management department
- the approval of the results of the crisis simulations and recommendation submitted by the risk management function
- the half-yearly evaluation and examination of the efficiency of the policy, measures and procedures setup for the management of risks and ordering proper measure to remedy possible deficiencies.
- the setting a governance system that contributes to the efficient supervision of EVERGENT Investments's subsidiaries and that also takes into consideration the nature, size and complexity of the risks that the group and subsidiaries are subjected to, while at the same time abiding by the legal and governance responsibilities of the subsidiaries
- the analysis of the adequacy, efficiency and update of the risk management system for the efficient management of assets held, as well as of the way the risks the company is exposed to are managed
- the ensuring the drafting and half-yearly evaluation of the activity continuity plan and the plan for emergency situations for the purpose of eliminating risks or lowering them.

Executive management is responsible for:

- implementing the Risk management policies and procedures and methodologies for the identification, evaluation, monitoring, management and reporting of the significant risks that the company is or could be exposed to, approved by the Board of Directors
- adopting adequate and efficient measures, processes and techniques for the monitoring and control of all relevant risks in compliance with the risk management policy
- ensuring the resources necessary for the implementation of the risk management system and setting the competencies and responsibilities for risk management on the level of each activity line
- the application and proper and adequate abidance by the risk limits taken on, including in crisis situations, as well as the abidance by the risk profile approved by the Board of Directors
- ensuring the carrying out of crisis simulations and implementation of the recommendations approved by the Board of Directors
- setting and maintaining a proper risk exposure reporting system
- the implementation of the measure plans included in the risk reports, approved by the Board of Directors
- the development of an integrated risk culture on the level of EVERGENT Investments, based on a full understanding of the risks that the company is faced with and how these are managed, taking into consideration its risk tolerance and appetite
- the half-yearly evaluation of the activity continuity plan for emergency situations in order to eliminate or minimalize risks.

The Audit Committee half-yearly manages the efficiency of the risk management system in EVERGENT Investments, it approves the policy, procedures and methodologies for risk management, analyses and endorses the quarterly risk reports.
Risk Management Department is independent, from hierarchic and functional point of view from the activities that generate risk exposures and has the authority needed and access to all relevant information in order to fulfill its attributions and responsibilities.

Each individual employed by the risk management department must hold the professional

© Evergent Investments. All rights reserved | evergent.ro |

competence and experience required, as well as a good reputation and integrity. At the same time, each individual is subjected to FSA certification and must meet the eligibility and registration requirements for the FSA Public Register. -

The Risk Management Department has the following attributions:

- drafts and implements efficient policies, procedures and methodologies for risk management, as well as any modification of these;
- identifies, measures, manages and monitors all relevant risks for the investment policy and risks to which EVERGENT Investments is or could be exposed to, on a permanent basis;
- identifies the risks of EVERGENT Investments's engagement in the investment/disinvestment operations suggested by the departments with portfolio management functions and suggests measures to prevent or lower these, if the case be;
- identifies the risks of EVERGENT Investments's engagement in new activities and suggests new measures to prevent and lower these, if the case be;
- substantiates and suggests risk limits, monitors their abidance and notifies the Board of Directors and executive management in due time about any existent or predictable exceeding of the set risk limits, to make sure that quick and adequate measures can be taken;
- assists the Board of Directors and executive management regarding the identification of EVERGENT Investments's risk profile;
- evaluates the company's risk profile depending on the risk appetite and tolerance set by the Board of Directors and informs the Board of Directors and Executive Management in due time, in case it thinks that the risk profile is not compliant with the approved risk limits or that there is a significant risk that the risk profile will become non-compliant with these limits;
- makes sure that the risk profile of EVERGENT Investments as notified to investors abides by the set risk limits to cover at least the market risk, issuer risk, liquidity and operational risks;
- calculates exposure, on a half-yearly basis, through the gross method and through the engagement method and ascertains the (residual) leverage effect, for the purpose of meeting institutional reporting obligations;
- follows-up the abidance of EVERGENT Investments's assets by the legal and internal prudential limits in force, including the classification of the assets' value in the relevant threshold and abidance by the own funds requirements and additional own funds requirements and notifies the Board of Directors and Executive Management in due time, to make sure that quick and adequate measures can be taken;
- classifies EVERGENT Investments assets categories on risk classes, from the point of view of the assets' liquidity degree;
- analyses the plans to insure activity continuity and those for the company's emergency situations;
- carries out, at least once a year, or whenever it thinks necessary, crisis simulations under the conditions foreseen by the risk procedures and FSA regulations in force;
- drafts quarterly risk reports on the managed risks and submits them to the Board of Directors;
- reports to the Board of Directors and Executive Management the risks identified as potentially significant, in compliance with the procedures applied.

© Evergent Investments. All rights reserved | evergent.ro |

3. PROTECTION MEASURES AGAINST CONFLICTS OF INTEREST IN DIRECT RELATIONSHIP WITH THE RISK MANAGEMENT FUNCTION

EVERGENT Investments maintains an adequate policy to prevent, manage and monitor conflicts of interest in the risk management process.
Conflicts of interest may occur, without being limited to, under the following situations:

- the staff with management function carry out business or support activities, especially portfolio management activities.
- the remuneration of the staff responsible for risk management is based on the performance of the business units, especially the portfolio management function.
- subordination of risk management staff to operational structures, especially the portfolio management function.

Specific measures for protection against conflicts of interest in the risk management area, consist in:

- insuring through the organizational chart and internal regulation, the functional and hierarchic separation of the risk management function from the business and support functions, especially those in charge of portfolio management. The risk management activity is organized in a distinct department, subordinated to the Board of Directors
- The risk management function is represented in the Board of Directors by the CEO, whose authority is on the level of portfolio management function authority that is represented by the deputy CEO, thus ensuring the authority necessary in the relationship with the portfolio management function. The individuals involved in the exercise of the risk management function are not engages in activities within the business or support departments, especially those in the portfolio management department, thus making sure they are independent.
- The remuneration of the individuals involved in the exercise of the risk management function is set depending on objectives connected to this position, independent of the performances obtained by the business function, thus making sure the evaluation of the risks corresponding to investments is objective.
- Potential conflicts of interest must be declared and are managed in the company in compliance with the Procedure regarding the prevention and avoidance of conflict of interest.

In order for EVERGENT Investments to make sure that *protection measures* have ***constant efficiency:***

- The risk management function is subjected to the examination of internal audit and Audit Committee, that makes sure that:
  - the risk management function has the authority necessary and access to all relevant information necessary to fulfill its specific tasks, in compliance with internal procedures;
  - the decisions taken by the risk management function are based on viable data that are subjected to a proper degree of control, in compliance with risk management procedures;
  - operational structures implement specific measures to prevent and lower risks as proposed by risk management responsible.

© Evergent Investments. All rights reserved | evergent.ro |

  - relevant risks are identified and evaluated;
  - adequate risk responses are selected, in compliance with the risk appetite;
  - relevant information regarding risks are communicated in due time within the company, so that the staff, management and Board of Directors fulfill their responsibilities.
- The remuneration of individuals exercising risk management functions is directly supervised by the Appointing – Remuneration Committee that is independent from the management of EVERGENT Investments and operational structures.
- Responsible individuals with risk management function are bound to:
  - inform the Board of Directors, Audit Committee and executive management if their objectiveness and independence is affected in fact or apparently, through actions such as: the limitation of the scope of their activity, change of the work schedule, limitation of access to financial or informational resources, etc.;
  - report to the Board of Directors or executive management, as well as to the Audit Committee, any situation when their objectivity may be actually or potentially influenced, or if they have any concerns regarding a situation that might be considered as prejudicing their objectivity or independence;
  - avoid any action or relationship with or from an employee, shareholder, representative of the issuers in the investment program, if these might give the impression that their personal objectivity might be affected (ex. acceptance of money, gifts or entertainment, etc. of significant value).

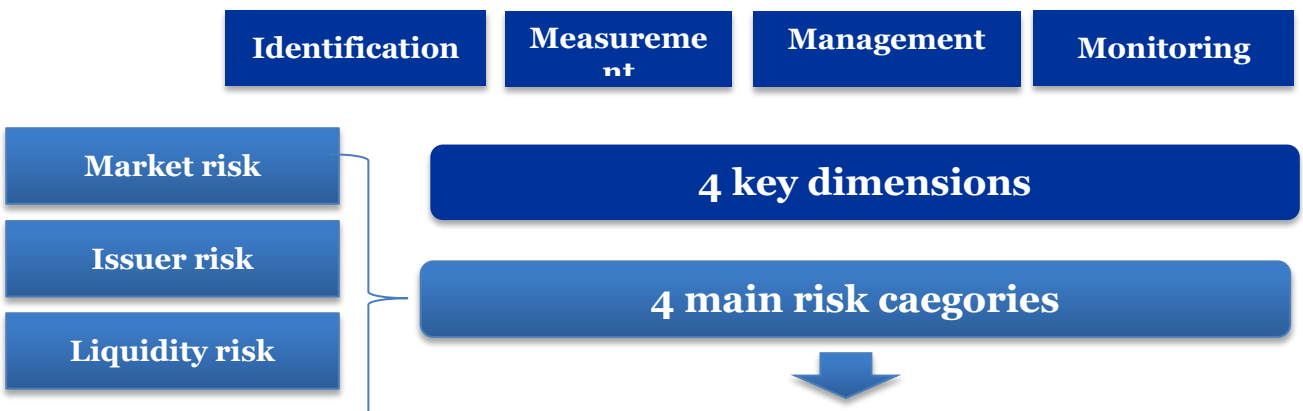
The Board of Directors half-yearly examines the efficiency of the protection measures against conflicts of interests concerning the risk management function and takes corrective measure in due time to remedy possible deficiencies.

4. IDENTIFICATION, MEASUREMENT, ADMINISTRATION AND MONITORING OF THE RISKS THAT EVERGENT INVESTMENTS IS OR COULD BE EXPOSED TO

EVERGENT Investments has developed detailed work procedures regarding the identification, measurement, management and monitoring the risks that it is or could be exposed to (management of the market risk, issuer risk, liquidity risk, credit/counterparty risk, management and self-evaluation of operational risks and internal control system, calculation and monitoring of prudential limits, calculation of exposure and leverage effect, prior verification when investments are made, crisis simulations and scenario analysis).

4.1. IDENTIFICATION OF RISKS

Given the nature of the activity carried out, its financial investments, EVERGENT Investments is or could be exposed to the following risks:



© Evergent Investments. All rights reserved | evergent.ro |

Other risks:

- credit/counterparty risk
- regulatory risk
- strategic risk
- reputational risk
- risk of a conflict of interest occurring
- risk associated to the activities carried out by the company's subsidiaries

4.2. RISK MEASUREMENT

When risks are identified and measured, EVERGENT Investments uses anticipative and retrospective-type instruments. The instruments allow the aggregation of risk exposures between activity lines and facilitate the identification of risk concentration.

The final responsibility for risk evaluation belongs exclusively to EVERGENT Investments who evaluates risks in a critical manner and does not exclusively count on external evaluations.

For each relevant risk, EVERGENT Investments has set a ***set of specific indicators***, calculated periodically and on pre-set time intervals, that **measure risk.** The selected indicators and their method of calculation are presented in detail in the specific risk management procedures of EVERGENT Investments. The risk indicators lay at the base of setting the risk profile for each individual relevant risk and on the global level.

For the evaluation and monitoring of the relevant risks that the company is subjected to EVERGENT Investments has internally developed IT applications in an integrated IT system, that calculate specific risk indicators by using **internal models** based on:

- ***market databases*** (series of trading prices and **series of net asset statement prices)** for the calculation of yield/risk indicators of issuers/assets portfolio **exposed to market risk** (quantitative analysis). The quantitative analysis works with **statistic indicators** that offer measurements regarding market risk exposure;
- ***issuers' financial databases*** (information from half-yearly/annual financial statements) for fundamental analysis. The fundamental analysis works with **financial indicators** that evaluate the financial balance, indebtedness. degree, assets use efficiency, financial performance status and efficiency of the issuer's management;
- ***data from EVERGENT Investments's accounting records and EVERGENT Investments's Net Asset Statement***, for the calculation and verification of risk limits;
- ***databases regarding operational risk events.*** The purpose of the database is to facilitate the understanding of the nature, cause and value of operational loss and collect data to quantify operational risk.

4.3. SETTING RISK LIMITS

For each relevant risk indicators through risk management procedures we set value/ tolerance ranges corresponding to low, average and high risk levels as well as the maximum risk tolerance

© Evergent Investments. All rights reserved | evergent.ro |

limit up to which EVERGENT Investments is willing to take on the risk in order to maintain an adequate yield of portfolio for its support activities (risk appetite).

The risk management function submits the tolerance limits for relevant risks for the approval of the Board of Directors, which allows EVERGENT Investments to carry out its activities under proper conditions.

4.4. RISK PROFILE

The Board of Directors sets the risk profile of EVERGENT Investments and makes sure proper measures are taken to keep actual risks within the risk profile notified to investors.

The risk profile represents all exposures of EVERGENT Investments to real and potential risks. The risk profile is evaluated at least once a year or every time it is considered necessary, according to the risk matrix, in compliance with strategic objectives and the risk appetite. Its role is to determine the size of each relevant risk and of the general risk level, based on relevant indicators.
For the accurate monitoring of relevant risks, in the context of the abidance by EVERGENT Investments's regulation framework, the following were set for each relevant risk category:

- **Risk appetite**, represents the risk level, expressed for each risk category, up to which EVERGENT Investments is willing to take on risks, or accept them, in agreement with the set investment strategy and policies, while keeping the risks under control, in the risk profile taken on for each risk category. The risk appetite expressed corresponds to the risk profile accepted by EVERGENT Investments. The risk appetite can be: high, average, low.
- **Risk tolerance** represents EVERGENT Investments's ability to accept or absorb risks. EVERGENT Investments considers that keeping risks within the tolerance range accepted represents a safety in keeping the set risk appetite on strategic level. Risk tolerance, an instrument for the adjustment of risk appetite through certain value assessment/limits/ranges, is expressed as the evolution of specific indicators for each relevant risk category identified and taken on by EVERGENT Investments. Risk tolerance levels can be: high, average, low.

The risk profile is set on global and individual level for each risk category, considering the nature, size and complexity of EVERGENT Investments's activities.
The evaluation method of the risk profile for each individual risk is detained in the risk management procedures and methodologies.
The risk management function monitors on a *quarterly* basis the actual risk profile of EVERGENT Investments and examines it in relation with its risk appetite in order to allow its analysis of Board of Directors in its supervision function.
Depending of the evolution of the risk profile in relation with the risk appetite, as well as on the temporal dimension of a certain evolution (for example: the period when the risk exceeds a certain level), the Board of Directors orders corrective or control measures for the risks factors.

The overall risk profile taken on by EVERGENT Investments is an **average** one corresponding to an **average risk appetite.**

4.5. MARKET RISK APPROACH RISCULUI DE PIATA

The financial investment activity and the profile of EVERGENT Investments are in close connection with market risk that is a relevant risk for the company.
Definition – the market risk is the loss risk for an institution stemming from the fluctuation of the market value of the positions in the financial instruments portfolio, fluctuation that might be attributed to the modification of market variables: share prices, currency exchange rates,

© Evergent Investments. All rights reserved | evergent.ro |

interest rates, that might modify the revenue of the institution of the value of financial instruments held.
The components of market risks are: price risk, currency risk and interest rate risk.

a) Price or position risk
Definition – the price risk is the risk that the value of a financial instrument fluctuate as a result of market price chance, change caused by macro-level factors that affect all instruments traded on the market (systematic component), or by factors that are specific for individual instruments or their issuer (non-systematic component).
The non-systematic risk component can be eliminated through diversification.
Identification – EVERGENT Investments is exposed to price risk for:

- shares listed on the regulated markets in Romania
- shares listed on external markets
- shares listed on non-regulated markets
- unlisted shares
- other investments such as shares and shareholdings in closed and open investment funds.

Given the structure of the portfolio, the price risk is a *relevant risk* for EVERGENT Investments.

b) Currency Risk
Definition – currency risk is the risk that the value of a financial or monetary instrument fluctuates due to the variation of currency exchange rates.
Identification – EVERGENT Investments is exposed to currency risk for the financial and monetary instruments denominated in another currency than RON.
Currency risk, as a component of market risk is a *non-relevant* risk for EVERGENT Investments, since the financial instruments traded on external markets and currency deposits have insignificant value in total assets. For this reason, no risk limits are set for this risk.

c) Interest rate risk
Definition – interest rate risk is the risk that the value of a financial or monetary instrument fluctuate due to the variation of interest market rates.
Identification - EVERGENT Investments is exposed to the interest rate risk for:

- bonds denominated in RON
- debt securities denominated in other currencies than RON

The interest rate risk, like the market risk component is an *irrelevant* risk for EVERGENT Investments, since the investments in debt securities have insignificant values as weight in total assets. For this reason, no risk limits are set for this risk.
The risk appetite taken on by EVERGENT Investments corresponding to the market risk is an **average** one, subordinated to the objective to maintain a controllable level of EVERGENT Investments's exposure to the effects of this risk, through portfolio diversification.
The risk profile undertaken by EVERGENT Investments in the field of market risk is an **average** one characterized by expected moderate losses accepted following market fluctuations.
The measures to lower market risk are taken by organizational structure with portfolio management function through specific procedures, such as, without being limited to:

- daily monitoring of issuers on the market
- asset diversification
- active management of the traded share portfolio through market purchase and marking
- optimization of the performance/market risk ratio
- follow-up of the macro-economic and sectorial context.

© Evergent Investments. All rights reserved | evergent.ro |

4.6. ISSUER RISK APPROACH

Definition – the issuer risk represents the current or future risk of losing the value of a title in the portfolio, following the deterioration of the economic-financial status, due to business conditions (malfunction or failure to coordinate its internal activities in compliance with its business plan), wither due to certain events, trends or to external chances that could not have been known or prevented through the control system.

Identification – The issuer risk results from the exposures on shares held in the entities in the portfolio.

Given the structure of the portfolio, issuer risk represents a *relevant risk* for EVERGENT Investments.

Concentration risk – risk associated to issuer risk.

Definition - concentration risk represents the risk to suffer losses from improper diversification (non-homogenous distribution) of exposures on equity instruments on terms, industrial sectors, geographic regions or companies/ issuers.

Identification – EVERGENT Investments is exposed to concentration risk on certain classes of asses, on individual issuers and issuers belonging to the same group.

The management of concentration risk is made through the *monitoring and abidance by the prudential limits set by the laws in force, regarding the company's exposures,* according to specific procedures.

The risk appetite taken on by EVERGENT Investments corresponding to issuer risk is an **average** one subordinated to the objective to invest in issuers with solid economic and financial status activating mainly in the financial – banking sector, while at the same time maintaining a controllable exposure of EVERGENT Investments to the effects of this risk, through the application of a high level of diligence in the constant selection and monitoring of investments.

The risk profile undertaken by EVERGENT Investments in the field of issuer risk is an **average** one**,** as there is the risk of losing part of assets' value through the deterioration of the economic – financial status of some issuers, without it substantially affecting the value of EVERGENT Investments assets.

Measures to lower issuer risk – are taken by applying certain specific procedures that target:

- insurance of a high *diligence* level in the selection and monitoring of issuers, materialized in specific policies and procedures for portfolio management on issuer categories that are periodically revised.

  EVERGENT Investments applies a high level of diligence in the selection and constant monitoring of investments. In order to make sure that investment decisions are made and executed in compliance with the objectives, investment policies and risk limits set, EVERGENT Investments has setup and applies written policies and procedures regarding the necessary diligence.

  These policies and procedures are drafted and managed by the departments that ensure the portfolio management function and describe the minimum stages that should be covered in the selection, initiation, analysis, monitoring and liquidation of investments of any nature. These policies and procedures are regularly revised and updated.

  According to these procedures, when EVERGENT Investments invests in less liquid assets, such as holdings in unlisted shares, the requirements regarding the necessary diligence are also applied in the negotiation phase.

  The activities carried out by EVERGENT Investments before the conclusion of any agreement or contract are adequately formalized through internal procedures that make sure that these are in agreement with the economic and financial plan of the company.
- the monitoring and periodical revision of the issuers in connection to their exposure level, and defined risk profit;
- constant specialization of the staff involved in portfolio management, on distinct activity fields specific for each portfolio.

© Evergent Investments. All rights reserved | evergent.ro |

4.7. LIQUIDITY RISK APPROACH

Definition – liquidity risk is the current or future risk of negative impact on profit and capital, caused by the company's inability to meet its obligations on their maturity. The liquidity risk has two forms:

- **Cash-flow risk**: risk of registering losses or failure to reach estimated profits as a result of the impossibility of fulfilling at any time short-term payment obligations, without this involving excessive costs or losses
- **Asset liquidity risk:** losses that might occur in case a position in the company's portfolio cannot be sold, liquidated or closed with limited costs, at a close or its fair value, within a reasonable amount of time (due to the impossibility of finding a counterparty in financial transactions).

Identification – EVERGENT Investments is exposed to liquidity risks for all assets held in the portfolio.

Given the importance of ensuring the liquidities necessary for investment project, liquidity risk is a *relevant risk* for EVERGENT Investments.

The risk appetite undertaken by EVERGENT Investments corresponding to liquidity risk is a **low** one, subordinated to the objective of keeping sufficient resources to satisfy current and anticipated liquidity needs. On setting the appetite risk, we have also considered the fact that EVERGENT Investments, as closed investment fund, does not any redemption obligations towards its investors.

The risk profile undertaken by EVERGENT Investments in the field of liquidity risk is **low**, characterized by proper liquidity levels and developed liquidity management practices.

The measures to lower liquidity risk– are taken by the departments with portfolio management function through the use of specific liquidities management procedures, in close connection with the liquidity policy and investment policy, such as, without being limited to:

- monitoring the cash flow, by setting expected liquidities entries and exits within certain periods of time;
- analysis of the ability of assets to be traded on the market and ensure the actual liquidities necessary to cover support obligations and investment objectives of the company, through disinvestment;
- monitoring the liabilities and significant engagements that EVERGENT Investments has in relation to its support obligations;
- evaluation of expected cash-flows, of inconsistencies between them and the ability to balance them in crisis conditions, according to certain crisis scenarios on different time horizons;
- prevention and management of crisis situations, through the purchase of financial instruments with high liquidity degree, diversification of the fixed revenue instruments duration, etc.;
- proper diligence in making monetary placements.

4.8. OPERATIONAL RISK APPROACH

Definition – Operational risk is the risk of loss caused by the use of certain processes, systems and human resources that are inadequate or have failed to meet their function properly, or by external events and actions.

Identification – operational risk sources are: human factor, external factor, processes and systems corresponding to activities carried out on the level of all EVERGENT Investments's departments.

The main operational risk categories are:

© Evergent Investments. All rights reserved | evergent.ro |

- Internal fraud
- Employment practices and work safety
- Service suppliers, outsourced activities and commercial practices
- External fraud
- Damages on corporate assets
- Interruption of the activity and improper functioning of systems
- Execution, delivery and management of processes

Given the complexity degree of EVERGENT Investments's activity, operational risk is a *relevant risk* for EVERGENT Investments.

The risk appetite undertaken by EVERGENT Investments corresponding to operational risk is an **average** one, subordinated to the objective to maintain a controllable level with acceptable losses from the operational risks that the company is or could be exposed to on the level of all activities carried out.

The risk profile undertaken by EVERGENT Investments in the field of operational risk is **average**, corresponding to the complexity degree of EVERGENT Investments's activity, staff structure, IT level, complexity of the monitor and control procedures and all other intrinsic aspects connected to the company's risk procedure.

4.8.1. Subcategories of operational risks

Risk corresponding to IT technology (IT) – sub-component of operational risk that refers to current or future risk of affecting on one hand the profits and capital of the entities and investors, participants or ensured, on the other, caused by the inadequacy of the IT strategy and polity, information technology and its processing from the point of view of the ability to manage it, its controllability, integrity and continuity, or improper IT use.

Risk corresponding to professional responsibility - sub-category of operational risk that refers to the risk of loss or damage caused by a relevant individual within the company through neglectful actions, errors or omissions in fulfilling the activities for which the company bears legal responsibility.

The risks connected to professional responsibility include, without being limited to, the following risks:

- loss of documents that certify the ownership rights on the company's assets
- false or deceiving statements before EVERGENT Investments or its investors
- actions, errors or omissions that lead to the infringement:
  - of legal and regulatory obligations
  - the obligation to act with competence and care towards the company and its investors
  - fiduciary obligations
  - confidentiality obligations
  - rules or memorandum of association of the company
  - company's self-management obligations
- failure to fulfill the obligation to set, apply and maintain adequate procedures for the prevention of illegal, fraudulent or malicious acts
- improper evaluation of assets of NAV
- losses stemming from the interruption of the activity, or malfunctions of the system, the processing of transactions or process management

EVERGENT Investments covers the risks connected to professional responsibility from its own additional funds. In order to cover these risks, EVERGENT Investments ensures additional own funds of at least 0,01% of the managed portfolio value.

The Risk Management Department follows the coverage of potential professional responsibility risks as follows:

© Evergent Investments. All rights reserved | evergent.ro |

- it recalculates at the end of each financial year, the need for own additional funds to cover the professional responsibility risks (0,01% applied to the value of the managed portfolio – art. 14 line (2) EU Reg. no.231/2013)
- it verifies if the company's own funds cover the own funds need and the additional funds needs to cover vocational responsibility, as foreseen by legal regulations, and adjusts them accordingly, if the case be.

Compliance risk – the risks that the company suffer the sanctions foreseen by the legislative or regulatory framework, register significant financial loss or reputation damage, following its failure to comply with the provisions of the legislative of regulatory framework, its own standards and norms, as well as the conduct codes applicable to its activity. The lowering of compliance risks will be made through the internal control system, on all EVERGENT Investments' structure levels.

Model risk – the model risk represents a possible loss that EVERGENT Investments may register following certain decisions that might be based mainly on internal model results, due to errors in the development, implementation or use of these models.
For example, for risk indicators calculation formulas are pre-defined in a dedicated IT application that uses primary data and information in the integrated IT System. An indicator calculated like this is VaR (to measure market risk), which uses as primary information the trading prices taken through electronic transfer in the integrated IT system and the prices from EVERGENT Investments' net asset.

Risk connected to outsourced activities – the financial, reputational and operational impact on the company of the service provider's improper fulfillment of the outsourced activity, including the risk of the company's impossibility to continue running its financial activity and/or abide by the law in force following the failure or difficulties met by the legal entity employed by the company based on a contract to carry out the activities normally carried out by the company.

4.8.2. Evaluation and control mechanisms for operational risks- EVERGENT Investments has adequate quality internal control mechanisms to avoid or lower operational deficiencies, including the risks connected to professional responsibility. These mechanisms are properly formalized in the self-evaluation of operational risks process, including risks connected to professional responsibilities that the company is or could reasonably be subjected to.

EVERGENT Investments integrates all operational risks identified in the company in an *Operational Risks Register*.

The events generating operational risks are classified and reported on their identification date by all departments within the company through reporting forms. The responsibilities regarding operational risk reporting are included the operational risk management procedure and employees' job descriptions.

The collection of operational risk events is made in a historic database in which every operational deficiency, loss or damage incurred, including losses from risks connected to professional liability that have materialized, are entered.
The process of analyzing the risks, operational losses and operational risk indicators ends with preventive measures that aim to reduce or even eliminate future losses.

4.8.3. Measures to lower operational risks – important objective of the level of the entire company, taken through:

© Evergent Investments. All rights reserved | evergent.ro |

- improvement and abidance by the operational risk management policies, as well as efficient measures to approach the cases when these policies were not respected, by adopting adequate corrective measures;
- continuous adaptation of the internal regulation framework and internal processes so as to ensure their compliance with both FSA requirements and good practices in the field;
- setting procedures for all relevant operational processes in the company and the employees' abidance by work procedures;
- implementation of internal control mechanisms and their improvement in current activities on the level of each department of the company;
- improvement of the evaluation process for internal and external factors that might negatively affect the company's performance, information flows and its compliance objectives;
- development of theoretical and professional skills of the human resource through training courses;
- development of an efficient communication for the dissemination of information to the relevant staff and in order for the entire staff to fully understand and adhere to the policies and procedures regarding their specific attributions and responsibilities.

4.9. OTHER RISKS

Credit/counterparty risk

Definition - **the** counterparty risk is a risk associated to credit risk. Credit risk is the risk stemming from the uncertainty of the capacity, ability or will of the business partners to fulfill their contract obligations.

The counterparty risks represent the risk that a counterparty in a transaction infringe its contract obligations before the final settlement of the cash flows of the transaction.

Identification – EVERGENT Investments can be exposed to counterparty risk for the following categories of financial instruments:

- bank deposits, current accounts,
- bonds and other credit instruments,
- payment instruments and commercial papers like checks, promissory notes, ,
- equity securities held with UCITS / other collective investment undertakings that invest at least 50% of assets in the previously mentioned instruments c
- shares held in closed companies for which sale contracts have been entered with payment deadline over 60 calendar days from the contract conclusion date
- shares held with issuers for which their buyout was decided by withdrawing from those issuers, with a payment date over 60 calendar days from the registration of the withdrawal option.

Regulatory risk – the actual or future risk of native effects on the profit or the capital following the significant impact of a change in the regulation framework regarding EVERGENT Investments's functioning or on some traded financial instruments. The impact may regard: reduction of the activity for a certain investment type, abrupt reduction of the exposure on strategic issuers, significant increase of activity costs, etc.

From the quality point of view, the lowering of regulatory risk will be made by adapting the policies, norms and procedures to the modifications occurred and by reducing or increasing the value of certain activities if the case be.

Regulatory risk is not controllable (that means the triggering event or the size of the impact cannot be anticipated) and non-quantifiable.

© Evergent Investments. All rights reserved | evergent.ro |

Strategic risk – current or future risk of negative effects on the profit or capital caused by changes in the business environment or unfavorable business decisions, improper implementation of decisions or lack of reaction to business environment changes. The objective of EVERGENT Investments is to ensure a proper framework for the management of strategic risks by correlating strategic objectives with the means and methods used to reach those objectives, necessary resources and quality of the decision-making process.

Reputational risk - the current or future risk of negative effects on the rpofit or capital caused by the shareholders', investors' or supervision authority's unfavorable perception of the company's image. The prevention and lowering of reputational risk are made, without being limited to, through the proper application of own ethics, confidentiality norms as well as regulations in force regarding the prevention and fight against money laundering, the drafting of a proper presentation/communication form for informative materials and materials to promote the company's activities and setting work procedures and decision-making competencies in case of a crisis situation.

Risk of a conflict of interest occurring– risk of loss due to any situation when the interests of the company differ from the personal interests of employees, directors, manager or their close relatives.
EVERGENT Investments ensures an efficient and unitary framework for the processes to prevent and avoid conflicts of interest and adopts measures and rules to avoid conflicts of interest.

Risk associated to activities carried out by the company's subsidiaries – current or future risk of negative effect on the profits and capital or reputation of the company due to certain negative events on the level of the companies in the Group.
To manage this risk, the companies in the Group include in their quarterly activity reports information regarding the relevant risks they are exposed to, the way these are managed and possible prevention and lowering measures for these risks. The risks are analyzed by both the departments with portfolio management function and by the risk management department, which suggest possible corrective measures if the case be.

4.10. RISK MONITORING AND MANAGEMENT

The monitoring and management of relevant risks are made through:

- regular measurement of the risk indicators and verification of their abidance by the tolerance range set for the undertaken risk appetite
- analyses of any approach or exceeding the value of the risk indicators in comparison with the limits set and taking proper measures to maintain or keep these indicators within the limits of the undertaken risk appetite/risk profile
- analysis of the marginal contribution of each asset that has a significant impact on the analyzed risk
- making crisis simulations and periodical analysis of the scenarios to respond to the risk coming from potential modifications of the market and liquidity conditions that might have a negative impact on the company
- before any investment, making forecast calculations to estimate the impact of the future investment on the company's risk profile taking into consideration the individual risk of the asset the company intends to invest in. The calculations take into consideration the

© Evergent Investments. All rights reserved | evergent.ro |

nature of the investment, market conditions and price sensitivity for the asset that is to be purchased, under normal and exceptional market conditions.

4.11. CRISIS SIMULATIONS, EX-POST TESTS

EVERGENT Investments approaches the possible vulnerability of its internal risk measurement techniques and models by making crisis simulations, ex post tests and scenario analysis.

Crisis simulations – the risk management technique used to evaluate potential effects on EVERGENT Investments's risk profile of the modification of a certain event and/or a set of financial variables. These are made as scenario-based simulations that evaluate the impact on EVERGENT Investments's risk profile of the simultaneous modifications of more risk determining factors, under the conditions in which the crisis event was defined.

For the building of crisis scenarios we identify those events (stress factors) that although relatively rare, could have an important impact on the company's operations.
EVERGENT Investments carries out:

- **Crisis simulation in compliance with art. 15 line (3) letter (b) of Directive 2011/61/EU** (risks associated to each investment position of EVERGENT Investments and their global effect on EVERGENT Investments's portfolio can be permanently and adequately identified, evaluated, managed and monitored, including through the use of certain procedures adequate to the crisis simulation).
- **Crisis simulation in compliance with art. 16, line (1), second paragraph of Directive 2011/61/UE** (EVERGENT Investments regularly carries out crisis simulations under normal and exceptional liquidity conditions, that allow it to evaluate and monitor the consequence of the company's liquidity risk).

EVERGENT Investments has a detailed procedure regarding the carrying out of crisis simulations.

The crisis simulations are carried out at least once a year and whenever necessary, taking into consideration the investment policy, risk profile and dividend policy. The reference date for the running of crisis simulations is the 31st March of each year.

In case the crisis simulations and scenario analysis indicate a particular vulnerability regarding a certain ensemble of circumstances, EVERGENT Investments carries out prompt corrective actions adopting plausible measures to lower the impact of such situations.

The Board of Directors fully understands the impact of crisis events on the general risk profile of EVERGENT Investments having the final responsibility for the general program of crisis simulations.
The Board of Directors takes all results obtained during the crisis simulation into consideration when setting and revising the policies, processes and risk limits.
Regular ex post tests – are carried out in order to examine the validity of risk measurement methods, that include forecasts and model-based estimates. In case it is ascertained that the models are efficient EVERGENT Investments takes adequate measures to improve them.

5. REPORTS DRAFTED BY THE PERMANENT RISK MANAGEMENT FUNCTION

EVERGENT Investments has set regular transparent reporting mechanisms, so that the Board of Directors and all organizational structure benefit from timely, accurate, concise, intelligible reports and be able to exchange relevant information regarding the measurement, or evaluation and monitoring of risks. The reporting framework is well defined through risk management

© Evergent Investments. All rights reserved | evergent.ro |

procedures, documented and approved by the management of the company and covers all relevant risks.

The Board of Directors, in its decision function, has adequate access to the information regarding the status of the company's risks, if necessary and proper, to the risk management function and specialized external consultancy.

At the same time, the Board of Directors sets the nature, volume, format and frequency of risk-related information.

Internal reports

The risk management department drafts and communicates, depending on the case, to the Board of Directors and executive management:

- quarterly reports regarding relevant risks that the company is or could be subjected to, which include, without being limited to the following:
  - abidance of current relevant risk values to the set limits;
  - abidance of EVERGENT Investments's assets categories to the legal and internal prudential limits in force;
  - abidance of the company's risk profile communicated to investors to the risk limits set and coherence between these limits;
- half-yearly reports regarding the adequate nature and efficiency of the risk management profile, indicating in particular if adequate corrective measures have been or will be ordered in case of existent or anticipated deficiencies;
- annual reports, or whenever necessary every time requested or considered necessary regarding the results of crisis simulations;
- annual reports on the results of the self-evaluation of operational risks and internal control system, including operational IT risks;
- reports regarding the approach to or exceeding the set risk limits, every time these are ascertained.

Risk reports are previously endorsed by the Audit Committee.

Communications to investors

EVERGENT Investments communicates to investors, as part of the regular reports to them, at least at the same time with the provision or publication of the annual report, the following information:

- percentage of AIF assets that are the object of special measures due to their illiquid nature;
- any new measures for the management of EVERGENT Investments's liquidity, if the case be;
- the actual risk profile of the company and risk management systems used to manage these risks..

Any other information is communicated in compliance with applicable regulations. The information regularly communicated to investors is presented in a clear and easy to understand manner.

Reports to ASF

EVERGENT Investments supplies FSA information that is reported on a **half-yearly** basis, in compliance with the pro forma reporting model foreseen in annex IV of Regulation 231/2013.
The risk management function is responsible for:

- drafting a report regarding the risk management activity and its submission to FSA within 60 days from the end of each year;

© Evergent Investments. All rights reserved | evergent.ro |

- informing FSA within maximum 7 work days from the date of occurrence of any important modification of the risk management in comparison to that previously reported to FSA.

6. EVALUATION, MONITORING AND REVISION OF THE RISK MANAGEMENT SYSTEMS

The Board of Directors monitors the efficiency of the risk management system in EVERGENT Investments, approves the policy, procedures and methodologies for risk management, analyses and endorses the regular risk reports.

The Board of Directors evaluates monitors and re-examines the following aspect on a half-yearly basis:

- adequate nature and efficiency of the risk management policies, and measures, processes and techniques for:
  - identification, measurement, management and constant monitoring of the risks that the company is or could be exposed to;
  - ensuring the set risk limits;
  - extent to which the company abides by the risk management policy, the measures, processes and techniques mentioned above;
- the adequate nature and efficiency of the measures taken to remedy deficiencies occurred in the running of the risk management process;
- proper fulfillment of the risk management function;
- proper nature and efficiency of the measures meant to ensure the functional and hierarchical separation of the risk management function.

Moreover, the risk management systems are revised when:

- the risk management policies and procedures, and the measures, processes and techniques for the identification, measurement, management and constant monitoring of the risks the company is or could be exposed to and the set risk limits are subjected to significant change;
- internal or external events indicate that an additional re-examination is required;
- the investment policy and objectives of EVERGENT Investments are subjected to significant modifications.

This risk policy represents the firm option of the company's management to create and implement a risk management framework compliant with the objectives set and stated risk appetite, as well as to ensure compliance with applicable regulations.

CEO
Claudiu Doroș

Risk Management Coordinator

Sonia Fechet

© Evergent Investments. All rights reserved | evergent.ro |