

Covéa Finance Internal Audit Policy

1. Background

Under regulatory requirements concerning the periodic internal audit system, Article 62 of Delegated Regulation (EU) no. 231/2013 and Articles 321-83 of the French Financial Markets Authority (AMF) General Regulations, Covéa Finance, as an asset management company approved by the AMF, is required to establish a periodic control function that is separate and independent from its other functions.

Covéa Finance is a simplified joint stock company with a collaborative management team and a Supervisory Committee. It is a wholly-owned subsidiary of the Covéa insurance group, subject to the regulatory requirements of the insurance sector and regulated by the French Prudential Supervisory Authority (ACPR).

In 2016, Covéa Finance decided to create a team dedicated to periodic control in order to secure the entire system and maintain a certain autonomy in the assignments and work entrusted to this unit. Such work had previously been carried out by external service providers or with the help of members of the team responsible for internal control.

This policy sets out the framework for the internal audit function and how it operates, covering all aspects of its work, from the preparation of its assignments to the follow-up of its recommendations.

2. General Principles

In accordance with the Decree of 9 March 2006, the company's internal control system includes an "internal audit" periodic control function.

Internal audit is a component of Covéa Finance's control system. It intervenes at a third level of risk control, designed to assess the effectiveness of the compliance and internal control system.

The first two control levels constitute permanent control. The first level of control is conducted at the operational level by employees and line management, while the second level of control is exercised by internal control.

The control system, shown in pyramid form, shows that each control level covers a wider scope with a finer degree of detail than the one above it. The information reported from the different levels of the control system provides a comprehensive and measured view of the risks inherent to the company.



Covéa Finance's internal audit department prepares and conducts its audits based on three main areas of concern:

- respond to the needs and concerns of the company's governance, notably those of the Chairwoman;
- ensure the audited activities comply with the regulator's requirements;
- assess the entire level 1 and 2 permanent control system.

3. Scope and organisation of internal audit

The Internal Audit function reports to an accountable manager. Internal Audit is under the responsibility of the ICCO in charge of the Legal, Compliance and Internal Audit Unit.

Internal audit has a duty to intervene in all areas and sectors of activity of the company and to assess its internal control system. To comply with our professional obligations defined by the AMF, Internal Audit is separated from the ICCO in charge of Permanent Internal Control



Internal Audit contributes to improving the organisation's risk control. Periodic audits provide assurance of the compliance and proficiency of the operations carried out by employees, and that the resulting recommendations remedy any inadequacies detected.

The function is carried out by the dedicated team, although it may use external service providers under its responsibility and direction for technical expertise, additional resources, to obtain a market view, etc.

A multi-year audit plan is prepared by Internal Audit, shared and validated during meetings of the Audit and Compliance Committee. It is prepared to cover Covéa Finance's main activities by including the orientations and priorities of Corporate Governance and in particular those of the Chairwoman. The internal audit plan is defined over a five-year cycle and is reviewed each year to be adjusted according to the work to be carried out and/or the emergence of new risks.

4. Preparation of the internal audit plan

The audit plan's construction is based on the following:

- Analysis of Covéa Finance's main risk levels. To this end, sensitive 'core business' activities are reviewed annually under one of their components (Equity Management / Fixed-Income Management / Multi-management / Research / Risk Control / Trading)
- Taking into account changes affecting the company's processes, activities or legal scope, and examining the work of the UCITS' statutory auditors, the principals or the management company,
- The orientations and possible requests of the members of the Covéa Finance Executive Committee and the Supervisory Committee;
- Comments on the summaries of the work of internal audit and of the Risk Committee (led by Risk Control),
- Examination of the conclusions of controls or investigations carried out by the supervisory authorities that regulate Covéa Finance,
- Examination of the work of Covéa Group's Audit and Internal Control Department,
- The expertise of the Internal Control and Internal Audit teams.

5. Conduct of internal audit assignments

The assignments carried out are based on the audit plan approved by the representatives of the Audit and Compliance Committee. However, the plan must be flexible enough to include during the year additional audits decided on by Covéa Finance's General Management or requested by the AMF.

Within the predefined assignments, the internal auditor has free and unrestricted access to documents, files and tools, as well as to Covéa Finance employees and managers.

An audit assignment is divided into three periods comprising the following five steps:

PREPARATION PHASE

- After the scope of the assignment has been specified by the Head of Internal Audit, the assignment letter is emailed to the manager of the area to be audited. The objective is to satisfy the requirements and concerns of the Chairwoman by incorporating regulatory expectations. The letter specifies, in particular, the audit's scope and objectives, the main points to be audited, the initial phase and the resources (internal and/or external) used to conduct the audit.
- A preparatory phase enables information to be collected about the audited area, the scope of the audit to be understood and its various stages to be planned.

IMPLEMENTATION PHASE

- The analysis phase involves conducting interviews and examining the information gathered. The auditors produce their diagnosis based on the strengths and weaknesses identified in the audited area.
- Partly conducted using computer data, a test phase is then carried out to substantiate the findings.
During the assignment, as and when required, the auditors notify the auditees of their findings in order to provide explanations for any anomalies found and seek their acceptance of the diagnosis and recommendations.

COMMUNICATION PHASE

- Internal Audit produces a provisional audit report of the work carried out. The findings are accompanied by recommendations for the audited area. This report is presented to the relevant managers, enabling them to formulate their observations or confirm their agreement with the audit recommendations. In the event of any disagreement, they must explain their position.
The final audit report is then sent to the Directors responsible for the audited scope. Any corrective actions decided and their implementation time are then added to the report. A summary is then shared during a meeting of the Audit and Compliance Committee.

Once the report has been validated, it is then distributed to the relevant managers. It is made available to the internal control teams, the members of the Supervisory Committee and Group Internal Audit.

6. Follow-up of Internal Audit's recommendations and activities

Once the report has been circulated, Internal Audit monitors the implementation of its recommendations at the formalised quarterly deadlines. This report is intended for distribution to the members of the Audit and Compliance Committee.

Internal Audit ensures the effective implementation of the recommendations through interviews, document collection and tests. Recommendations remain open until Internal Audit deems that their implementation provides reasonable assurance.

Conclusions regarding the progress of implementing the recommendations are recorded in a quarterly summary sent to the managers of the audited area and the members of the Audit and Compliance Committee.

Internal Audit issues a quarterly activity report informing the members of the Audit and Compliance Committee of the progress of the audit plan and the status of follow-up on the audit recommendations. It also monitors the implementation of recommendations issued following audits carried out by external entities (the AMF, Group Internal Audit, etc.), during which the internal auditor plays a coordinating and supervisory role.

7. Appendices – regulatory framework

- Delegated Regulation (EU) no. 231/2013)

Article 62

Permanent internal audit function

1. Where appropriate and proportionate to the nature, scale and complexity of its business and the nature and range of its collective portfolio management activities undertaken in the course of that business, the management company establishes and maintains an internal audit function that is separate and independent from its other functions and operations.
2. The internal audit function referred to in paragraph 1:
 - a) establishes, implements and maintains in operation an audit programme to review and assess the adequacy and effectiveness of the systems, internal control mechanisms and other arrangements put in place by the management company; 83/40 Official Journal of the European Union 22.3.2013 EN
 - b) makes recommendations based on the results of the work carried out in accordance with point (a);
 - c) verifies compliance with the recommendations referred to in point b);
 - d) reports on internal audit matters

– **AMF General Regulations** (in force on 01/01/2020)

Title 1b - UCITS portfolio management company

Chap III - Organisational rules

Section 13 - Periodic control

Article 321-83

Where appropriate and proportionate in light of the nature, size, complexity and diversity of the activities carried out by the management company, the portfolio management company establishes and maintains operational a periodic control function that is separate and independent from its other functions and activities. The responsibilities are as follows:

1. establish and maintain in operation a periodic control plan to examine and assess the adequacy and effectiveness of the portfolio management company's systems, internal control mechanisms and arrangements;
2. issue recommendations based on the results of work carried out in accordance with no. 1;
3. verify compliance with these recommendations;
4. provide reports on periodic control issues in accordance with Article 321-36.

Section 14 - Organisation of the compliance and internal control functions

Sub-section 1 - Elements of the compliance and internal control system

Article 321-84

The compliance and internal control system includes a permanent control described in Article 321-85 and a periodic control described in Article 321-83.

Article 321-86

First-level controls are carried out by persons performing operational functions.

In the form of second-level controls, permanent control ensures that first-level controls are properly carried out.

Subject to the provisions of Article 321-90, permanent control shall be carried out exclusively by persons assigned to it.

Subsection 2 - Compliance and internal control officers Article 321-88

If the portfolio management company establishes a separate and independent periodic control function pursuant to Article 321-83, this function is assigned to a periodic control officer other than the officer responsible for the compliance and internal audit function.

Title 1b - UCITS portfolio management company

Chapter III - Organisational rules

Section 3 - Responsibilities of managers and supervisory bodies

Article 321-36

The portfolio management company ensures that its managers frequently receive, at least once a year, reports on compliance, risk control and periodic control that notably specify whether appropriate measures have been taken in the event of any deficiencies.

The portfolio management company also ensures that its supervisory body, if it exists, regularly receives written reports covering the same matters.

These reports include the **implementation of the investment strategies** and the internal procedures on the adoption of investment decisions specified in b) to e) of Article 321-35.

Title 1a - AIF portfolio management company

Chap III - Organisational rules

Section 14 - Periodic control

Article 318-48

[Disregarding all provisions]