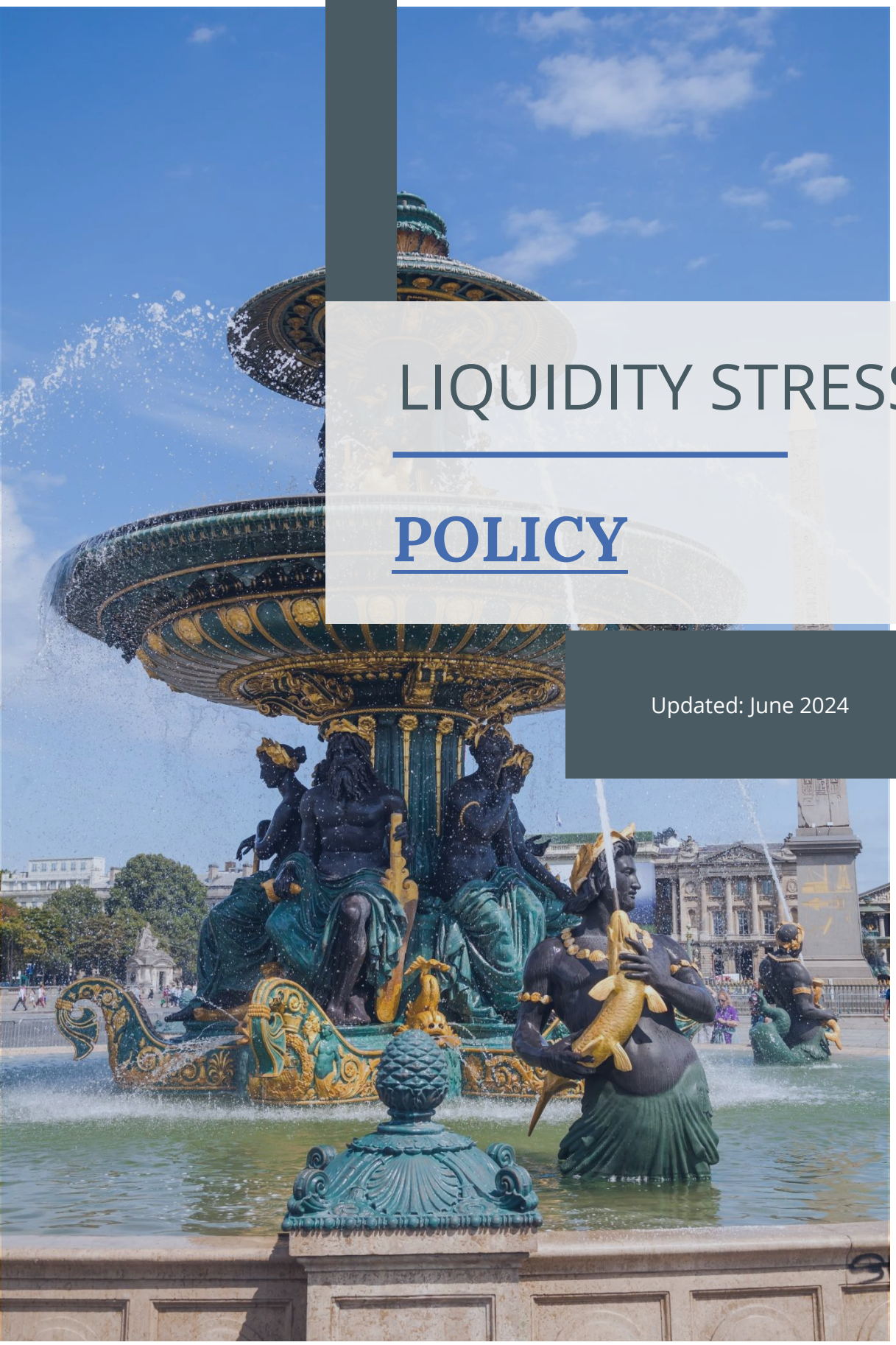

LIQUIDITY STRESS TESTS

POLICY

Updated: June 2024

0. Foreword

This liquidity stress tests policy applies to all UCITS and AIFs managed by Covéa Finance and aims to:

- Define the various liquidity risks
- Define the methodologies (scenarios and assumptions) used to perform liquidity stress tests
- Specify the risk control function and describe its governance and the framework of these stress tests in the context of the whistle-blower system

This policy will be reviewed annually by Risk Control. However, it may be revised during the year in line with regulatory, organisational or operational developments (investment in a new asset class etc.). Liquidity stress tests are subject to a procedure that is formalised in the MEGA internal procedure tool.

Liquidity risk is monitored first by the management teams during the pre-investment phase (due diligence, analyses of investments and potential impacts on overall liquidity), but also during the life of a fund:
When a fund is created, with the determination of the frequency of NAV and the integration of liquidity management tools (gates etc.)
During the life of a fund (merger, liquidation, change of strategy, etc.)

Note that the following type of fund is excluded from this liquidity stress testing policy:
Private equity funds (FPCI): Article 16 of the AIFM Directive stipulates that AIFs of a closed and non-leveraged type are exempt from stress tests.

Liquidity risk is defined as “the risk that a position in the portfolio may not be sold, liquidated or closed at a limited cost and within a sufficiently short period of time”.

The liquidity risk of a fund may arise from the lack of liquidity of the assets, major redemptions on liabilities or a combination of the two.

Liquidity stress tests aim to simulate the impact on a portfolio of a decrease in the liquidity of assets during stressed periods, as well as the impact of significant redemptions, and thus identify potential vulnerabilities. They are carried out quarterly.

I. Liquidity stress tests

1. Prerequisites

Liquidity stress tests must:

- take into account the interests of investors (remaining and outgoing unitholders)
- take into account the distortion of the portfolio following a redemption
- take into account the settlement deadline in liquidity management

2. Liquidity risk on the asset side

The objective of measuring liquidity on the asset side is to have elements to determine a fund's ability to generate liquidity through the sale of assets within limited timeframes while safeguarding the interests of holders.

To determine the liquidity of a fund's assets, the indicator used corresponds to the percentage of the position that can be liquidated in one day, seven days and 30 days under the assumption that there is no significant impact on the price of the position.

The methodologies and assumptions used to calculate this indicator vary depending on the type of asset. These assumptions and methodologies may be reviewed during the year. They are also shared by the Risk Committee with the members of the Management Committee, as a preamble to the results.

a. Equities

The number of days required to liquidate a security's position is estimated on the assumption that we can trade:

- a daily percentage of the average volume traded over the last three months (source: Bloomberg), which depends on the share's market capitalisation (source: Bloomberg) under normal conditions
- half of the daily volume calculated under normal conditions in stressed conditions, i.e. crisis conditions.

b. Rate

The number of days to liquidate a security's position is estimated by assigning a liquidity score for each position.

This liquidity score is defined according to the characteristics of the security (geographical zone, type of debt, rating, maturity, etc.). These characteristics come from Bloomberg or our internal central repository for static data.

Each liquidity score is combined with an amount that can be liquidated daily under normal conditions and stressed conditions

c. Other assets

UCITs: the number of days needed to liquidate the position is estimated on the assumption that we can trade

- 5% per day of the fund's net assets under normal conditions
- 2.5% per day of the fund's net assets under stressed conditions, i.e. crisis conditions.

ETF: the number of days needed to liquidate the position is estimated on the assumption that we can trade

- 2.5% per day of the ETF's net assets under normal conditions
- 1.25% per day of the ETF's net assets under stressed conditions, i.e. crisis conditions

Futures: we consider that these products can be liquidated in one day under normal conditions.
Under stressed conditions, an increased amount of liquidity is simulated due to significant changes in the underlying asset (margin call of €500,000).

OTC derivatives: we consider that these products can be liquidated in one day under normal conditions. Under stressed conditions, an increased amount of liquidity is simulated due to significant changes in the underlying asset (margin call of €500,000).

Unlisted instruments of solidarity-based structures*:* these securities may be sold within 30 days with notice.

d. Overall liquidity of a fund

Estimating the liquidity of the securities in position makes it possible to obtain the liquidity profiles of each fund over each time horizon.

The analysis of the results obtained is based on:

- The percentage of a fund's liquidity in x days and its change over time
- Identification of the least liquid positions
- Comparison of funds with the same investment strategies

We can also estimate the asset liquidity of a set of funds with the same strategies and/or asset types. The calculation of consolidated liquidity risk is used to determine the impact of a crisis on a given asset class and/or geographic area on all funds.

3. Liquidity risk on the liabilities side

a. Scenarios

The objective of measuring liquidity on the liabilities side is to collect information to estimate the risk of redemptions that the fund could incur.
This simulation is calibrated based on an analysis of the structure of the liabilities (investor type and investor concentration), as well as an analysis of the fund's history of subscriptions/redemptions.

Different scenarios have been defined to simulate liability liquidity based on qualitative and quantitative approaches:

Hypothetical: redemption of the units of the largest investor(s)
This scenario consists of defining a redemption threshold calibrated according to the concentration of the fund's liabilities. For each fund, two thresholds based on the percentage of ownership of the first unitholder and the first five unitholders have been defined.

Historical: redemptions equivalent to the worst historical redemption observed over five years
This scenario consists of defining a redemption threshold calibrated according to the worst historical weekly redemption observed over a period of five years.

Historical: redemptions determined on the basis of modelling
This scenario consists of defining a redemption threshold calibrated on the basis of modelling of the history of subscriptions/redemptions. It is used to estimate x% of redemptions by calculating a VaR over a given horizon (there is a 99% chance that net redemptions represent less than x% of the fund's net assets over one week).

b. Redemption Cap Mechanism

A redemption cap mechanism may be included in prospectuses of funds that pose a liquidity risk in order to honour potentially significant redemptions. In exceptional circumstances, this mechanism may allow redemptions to be spread over several net asset values if they exceed a threshold corresponding to 5% of the fund's assets. The maximum duration of the redemption cap mechanism is set at 20 net asset values over three months.

These funds are determined based on an analysis of their assets (holding of less liquid assets), their liabilities (concentration of unitholders) and the analysis of the stress tests carried out.
A periodic review of the funds is carried out to take into account any changes in the fund's investment strategy or the concentration of fund holders in order to provide for the addition of the redemption cap mechanism in the prospectuses. When a fund is created, a liquidity analysis is carried out to measure the risk.

When the threshold is exceeded, the management company may decide to honour redemption requests beyond the specified cap and execute partially or fully blocked orders according to market conditions.

4. Combined liquidity risk (assets and liabilities)

The combined liquidity risk for assets and liabilities is estimated by comparing the analyses conducted with the fund's assets and liabilities. The method used is to calculate a ratio for each fund based on two components:

- an assessment of the liquidity of the assets
- an assessment of the liquidity of the liabilities

This ratio makes it possible to determine the balance between assets and liabilities by measuring on a daily basis the ratio between redemption requests and the amount of liquidable assets under stressed conditions.

A positive ratio means that the fund has sufficient liquid assets to honour redemptions, while a negative ratio means that the fund is not sufficiently liquid to honour redemptions.

This ratio is monitored in two ways:

- it is used to compare funds with the same investment strategies and identify funds with the greatest liquidity risk
- it is used to monitor the change in the asset/liability liquidity risk of a fund over time, and thus create an alert to determine whether it is necessary to take measures to ensure the liquidity of a fund

5. Reverse stress test

This stress test consists of estimating the scenarios or circumstances (redemption transfers, market assumptions, etc.) that would make the fund vulnerable and unable to honour its redemptions. It can be used to determine whether measures need to be taken to ensure sufficient liquidity within the fund.

II. Frequency

The stress test scenarios and frequency are defined according to:

- the nature and size of the fund
- the frequency of the fund's net asset value
- the nature and liquidity of assets in positions
- knowledge of liabilities (concentration, diversification and category of investors) and the fund's redemption policy (liability liquidity risk management tools etc.)

The definition of the scenarios and the frequency are present in the document *Fund mapping – Liquidity risk*.

Liquidity stress tests may also be provided when the fund is created or liquidated or on request.

III. Governance and alert processes

1. Governance

The Risk Control team is responsible for implementing liquidity crisis simulation models as well as producing and analysing results independently of the management teams.

Liquidity stress tests are more generally part of the Risk Policy.

The results and analyses of liquidity stress tests are presented at least quarterly to the Executive Committee within the framework of the Risk Committee, where the heads of the management divisions are present.

2. Alert process

The liquidity risk monitoring system relies on internal alert thresholds. These thresholds may trigger alerts and/or actions depending on the analysis of the results. This monitoring therefore makes it possible to report breaches of thresholds so that the management body is informed and can take the measures it deems necessary.

The alert may potentially lead to corrective measures if a vulnerability is detected. These measures may concern the fund's assets (for example, an increase in liquidity) as well as its liabilities with the implementation of specific mechanisms (for example, the establishment of redemption caps).

The results are communicated to the management body with an action plan in case a vulnerability is detected.

References

- AIFMD (Alternative Investment Fund Managers Directive 2011/61/EU)
Article 16(1) of the Directive, Articles 47 and 48 of the Delegated Regulation (EU) No 231/2013 supplementing the AIFM Directive.

- UCITS Directive (Directive 2009/65/EC), Article 51 of the Level 1 Directive, Article 40(3)

- Regulation (EU) 2017/1131 of the European Parliament and of the Council of 14 June 2017 on money market funds - known as "MMFR," Article 28 of the regulation - AMF Guide

- The AMF's instructional guide for portfolio management companies published in February 2017 on the use of stress tests in the context of risk management, Section 2.2 Liquidity risk

- ESMA guidelines: ESMA Guidelines published on 2 September 2019 - Liquidity Stress Tests for UCITS and AIFs (ESMA34-39-882)

- AFG factsheet on liquidity risk management tools in open-ended funds published in March 2020

- AFG practical guide for compliance with the liquidity risk management system published in September 2020

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