

A large, ornate fountain with multiple tiers and statues, set against a blue sky with clouds. The fountain is the central background element of the cover page.

# VALUATION OF FINANCIAL INSTRUMENTS & CONTRACTS POLICY

Updated: June 2024

## Table of contents

I. Regulatory framework and scope .....	3
II. Governance .....	3
1. Role of the Risk Control Department .....	3
2. Role of the Research, Middle Office, Repositories and Management teams.....	4
3. Role of managers .....	6
III. Valuation principles .....	6
IV. Valuation of simple instruments .....	7
1. Pricing policy.....	7
2. Control based on execution prices.....	8
V. Valuation of complex products.....	8
VI. Price review .....	8
3. Valuation differences between external prices and internal price verifications .....	9
4. Principles of price review .....	9
5. Review of prices by instrument category:.....	10
VII. Validation of models .....	11
VIII. Review of the evaluation policy .....	11

## **I. Regulatory framework and scope**

This policy applies by virtue of:

- Article R 214-15 (3) of the French Monetary and Financial Code
- Articles 67 to 71 of AIFM Delegated Regulation 231/2013
- Article 29 of the MMF Regulation 2017/1131

This policy applies to all portfolios (UCITS, AIFs and mandates) managed by Covéa Finance.

## **II. Governance**

### **1. Role of the Risk Control Department**

The Risk Control department has been appointed in our organisation as an independent valuer in charge of validating the valuation of assets under management.

The team is functionally and hierarchically independent from the management and research teams.

The risk team acts as a decision-maker in the context of valuation committees, anomalies and/or doubts when applying internal models and reviewing external prices.

For instruments that have no external price sources, Risk Control takes place upstream in the validation phase of the valuation model used, ensuring the consistency of the model and the parameters proposed by the research or management teams.

It also occurs in the event of a valuation discrepancy, i.e. if there is any difference between the value produced using the internal model or the valuations provided by our external service providers (particularly for complex products and OTC financial contracts) and those produced by the counterparties; the instrument is revalued and the source of the discrepancy is established.

It also intervenes occasionally when a market price has not been deemed reliable, or when market conditions undermine the reliability of valuations. In this case, an exceptional valuation committee may then be convened to decide on the valuations to be adopted.

It is also involved in periodically checking the proper implementation and use of the models used for valuation purposes by the Middle Office.

It also intervenes in the event of a variation greater than the thresholds set in the Pricing Policy, based on the justifications Management and Research must provide (rate volatility, company results, deterioration in the credit quality of the issuer, etc.). In the event of a disagreement on the justification or in the event of an unjustified deviation, risk control will take place in order to define the price to be applied (price override, change of source or revaluation). In this case, an exceptional valuation committee may be convened.

## **2. Role of the Research, Middle Office, Repositories and Management teams**

### **a. Quantitative research**

The Quantitative Research team has expertise in modelling the valuation of financial instruments. In the case of complex financial instruments, models are developed and intended for price review. These models are reviewed annually by group (structured bonds with equity underlying, structured bonds with interest rate underlying, perpetual bonds, callable bonds, convertible bonds, securitization instruments, SPV instruments) and by characteristics on an instrument representative of its category. Risk Control validates these models and conducts their annual review.

In the case of non-complex financial instruments, models may be developed exceptionally. For example, a model has been developed for the valuation of negotiable debt securities.

### **b. Middle Office and Repositories**

#### Special valuation case

The middle office team is involved in the valuation of the following types of instruments:

- 1) Transmission of prices from audited balance sheets of unlisted companies to valuation agents as part of the valuation of unlisted shares.
- 2) Valuation of negotiable debt securities excluding treasury bills based on a model developed by Quantitative Research and validated by the Risk Control team.

The prices of all other instruments are provided by external parties in accordance with the valuation source table (point 4 of the policy).

### Valuation controls:

First-level valuation controls are carried out by the Reference Base team with regard to the presence of a price for each asset and the consistency of prices by a D-1/D-2 business day variation control based on internal alert thresholds validated by Risk Control aimed at reporting potentially abnormal variations. If thresholds are breached, a communication is sent by the Repository to the Management team concerned as well as to Risk Control, Internal Control and Middle Office.

The Middle Office team checks the accuracy of prices on a daily basis via the contributors identified in the price policy. In the event of unexplained discrepancies, the Middle Office team alerts Risk Control and copies the Repository, Internal Control and the Management team concerned.

### **c. Management teams**

Management is not involved in the valuation processes but performs the following functions:

- 1) permanent monitoring of the fund's valuation and alerts the risk teams in the event of anomalies.
- 2) Opinion in the valuation committees, particularly in the event of abnormal market conditions, or the contribution of calculations to the valuation of unlisted exposures.

### **d. Qualification of teams involved in valuation:**

All teams involved in the valuation chain of an instrument or in the control of the price of said instrument have sufficient knowledge and experience to carry out their duties.

### **e. Valuation committees**

Covéa Finance has set up a quarterly Valuation Committee whose participants are the Risk Control, Quantitative Research, Reference System, Middle Office and Permanent Internal Control departments.

It is used to monitor the sources of bond contributions, the asset valuation policy, alert thresholds and valuation models. All other useful information or projects in progress in terms of valuation are also assessed during this meeting. The valuation and counter-valuation models are reviewed at least once a year by Risk Control and Quantitative Research, and this is formalised by this committee.



Covéa Finance has also set up a specific valuation committee dedicated to Private Equity on the one hand, and Private Debt on the other, bringing together the Management teams, the Middle Office, Permanent Internal Control, the Reference System and Risk Control as an independent valuer.

An exceptional or ad hoc valuation committee may also be convened at the request of the Risk Control Department in order to obtain the opinions of the Middle Office, Management and Internal Control on an assessment decision, either to follow up a crisis unit (case of extreme market conditions) or to decide on the fairest valuation to be adopted.

### 3. Role of managers

Management intervenes to validate, with the support of the documentation related to the validation of the Risk Control department, the models intended for internal valuation purposes.

Events related to valuation are reported to Management during Risk Committee meetings.

## III. Valuation principles

Frequency of portfolio valuation calculation:

Portfolios	Frequency of valuation	NAV calculation
Mandates	Monthly	Not applicable
UCITS, AIFs (excluding FPCIs), MMFs	Daily	D+1 business day (D+2 business day in the case of funds of funds)
FPCI AIF, RAIF (private equity, private debt)	Quarterly	D+8 weeks

Products for which the price is available at a frequency other than daily:

The following products may be evaluated weekly, monthly or bimonthly:

Type of instrument	Proprietary products
Structured interest rate	Mandates
Structured equities	Mandates
Callable/Putable	Mandates
Securitization & SPVs	Mandates
Unsecured private placement	Mandates
Unlisted equities	AIF

## IV. Valuation of simple instruments

### 1. Pricing policy

The valuation process for portfolio instruments is described in our Pricing Policy. This policy specifies the sources used for each product typology, in order of priority, with a system of regressions when certain sources are no longer available or have been deemed unreliable. This Pricing Policy is reviewed at each Valuation Committee meeting and adjusted/amended as necessary.

SOURCES OF VALUATION OF FINANCIAL INSTRUMENTS					
Categories	Geographical area	Source 1	Source 2	Source 3	Rules/Comments
Bonds, treasury bills	All zones	BGN Mid	BVAL Bid	<p>External counterparties</p> <p>Internal counter-valuation</p> <p>Purchase price</p>	<p>In the absence of a BGN Mid quotation (source 1) for 1 business day, an automatic copy mechanism of the previous day's price takes place. If there is no BGN price again the following day, an automatic switch to source 2 (BVAL Bid) is activated.</p> <p>The possible return to source 1 will be made if a BGN quotation is again ensured for 2 consecutive days, with the switchover taking place on the price of the 2<sup>nd</sup> availability day.</p> <p>Source 3 is applied either in the absence of BGN Mid and BVAL Bid prices, or by default in the case of private placements, structured products, CLN, etc.</p> <p>Valuation at purchase price in the context of primary issues pending availability of BGN Mid or BVAL Bid prices.</p> <p>All securities must be valued at the ex-coupon date.</p>
Equities	All zones	Reuters closing price	Bloomberg closing price		Substitution of sources in case of unavailability
Trackers	All zones	Morningstar closing price	Bloomberg closing price		Substitution of sources in case of unavailability.
UCIs	All zones	Morningstar	Bloomberg / SIX TK	Internal valuation	<p>Last known price.</p> <p>Internal valuation in exceptional cases of fund suspensions and the impossibility for the issuing AMC to provide us with an estimated NAV.</p>
FPCI/RAIF/SLP/SCS	All zones	Valuations received from management companies, reviewed at the Valuation Committee meeting.			
Unlisted equities	Europe	Valuation based on the last carrying amount on the balance sheet certified by the statutory auditor, reviewed every six months.			
Listed futures and options	All zones	Bloomberg Clearing Price	Reuters Clearing Price		Check with clearing houses in case of problem.
FOREX	All zones	ECB exchange rate (4pm)	BGN exchange rate	CMPL exchange rate	<p>Mark-to-Market on forwards.</p> <p>EUR/TWD and EUR/CLP exchange parity via the CMPN contributor by the SGSS valuer.</p>

The following instruments are not covered by the pricing policy and valued internally:

Instrument	Valuation method	Products concerned
Negotiable debt securities maturity > 1 year	Internal model	MMF

## 2. Control based on execution prices

Covéa Finance has set up monitoring of execution prices (market sales) in relation to the valuation prices used, in order to ensure that these prices are in line with actual market prices, and thus highlight potential problems with the reliability of our sources.

## V. Valuation of complex products

Type of instrument	Source	Price verification
Structured interest rate	Counterparty	Counter-valuation Refinitiv / Finalyse or Internal model
Structured equities		
Callable/Putable		
Securitization & SPVs		
Unsecured private placement		

## VI. Price review

Covéa Finance reviews the prices of instruments whose prices obtained by external data sources are not reliable, in particular for one of the following reasons (non-exhaustive list):

- Data reporting errors
- Absence of contributors
- Scenario of extreme markets (decision by risk control or a crisis unit)
- Distant price or illiquid security

A review by the Risk Control department will be carried out when one of the listed cases is observed.



### **3. Valuation differences between external prices and internal price verifications**

Paragraph 2 of Article 71 of the AIFM Delegated Regulation specifies that there is a risk of incorrect valuation in the following cases:

- Where the valuation is based on prices that can only be obtained from a single counterparty or broker;
- When the valuation is based on illiquid market prices;
- When the valuation is influenced by parties related to the manager;
- When the assessment is influenced by other entities that could have a financial interest in the performance of the product;
- The valuation is based on prices provided by the counterparty that is the originator of the instrument, in particular when it also finances the product's position in that instrument;
- The assessment is influenced by one or more persons belonging to the manager.

A review by the Risk Control department will be carried out when one of the listed cases is observed.

### **4. Principles of price review**

The price review is carried out either by the risk team or by a valuation committee, and may include the following methods:

- Verification of values by comparing prices obtained from counterparties and comparing prices over time;
- Validation of values by comparing actual prices with recent book values;
- Review of the reputation, consistency and quality of the source of the assessment;
- A comparison with values generated by a third party;
- Searching for and highlighting any differences that appear unusual or vary depending on the assessment criterion established for the type of asset in question;
- A search for lapsed prices and implicit parameters;
- A comparison with the prices of all related assets or their hedges;
- A review of the data used for model-based pricing, in particular those to which the price obtained with the model shows significant sensitivity.

## 5. Review of prices by instrument category:

Category of instrument	Model
Illiquid instruments	Valuation based on counterparty prices  Price verification against executions  In the absence of a reliable counterparty price – valuation committee
Unlisted funds (debt, private equity, etc.)	Mandatory valuation committee
Complex instruments by nature  Structured  SPVs, private placements  Bonds with financial contract	Valuation based on prices obtained from counterparties  In the absence of an internal valuation, counterparty price with the help of a model  Valuation Committee
Futures contracts, contracts of exchange	Valuation based on a market price or use of external valuers
Over-the-counter instruments with no market price	Valuation by external valuer  Verification of price against counterparty price
Instruments where the market price is unreliable	Investigation - display of the latest reliable price  Valuation committee in a maximum of 5 days, unless the price becomes reliable within 5 days

## **VII. Validation of models**

Any valuation model developed by the Quantitative Research teams must first be submitted for validation by Risk Control, which ensures the consistency of the model and the parameters used.

The latter ensures the accuracy and completeness of the inputs used in the valuation model. A periodic review of the models is also performed.

## **VIII. Review of the evaluation policy**

The Policy shall be reviewed at least annually by the risk control team. The risk control team may change the pricing policy (IV. 1.) at any time to ensure the relevance of the valuation sources.