

# Covéa Finance

## Permanent Internal Control and Compliance Policy

## **1. AMF Definition of Internal Control**

Internal control is a system defined and implemented by companies' managers and personnel in order to:

- Comply with the laws and regulations that apply to the company;
- Implement the instructions and directions established by senior management and communicated to employees;
- Ensure the effective functioning of the company's internal processes, notably those relating to the protection of its assets (tangible or intangible, such as know-how and reputation);
- Ensure the reliability of information issued, notably financial, via mechanisms such as the segregation of duties, by identifying the source of the information and complying with accounting and financial management principles.

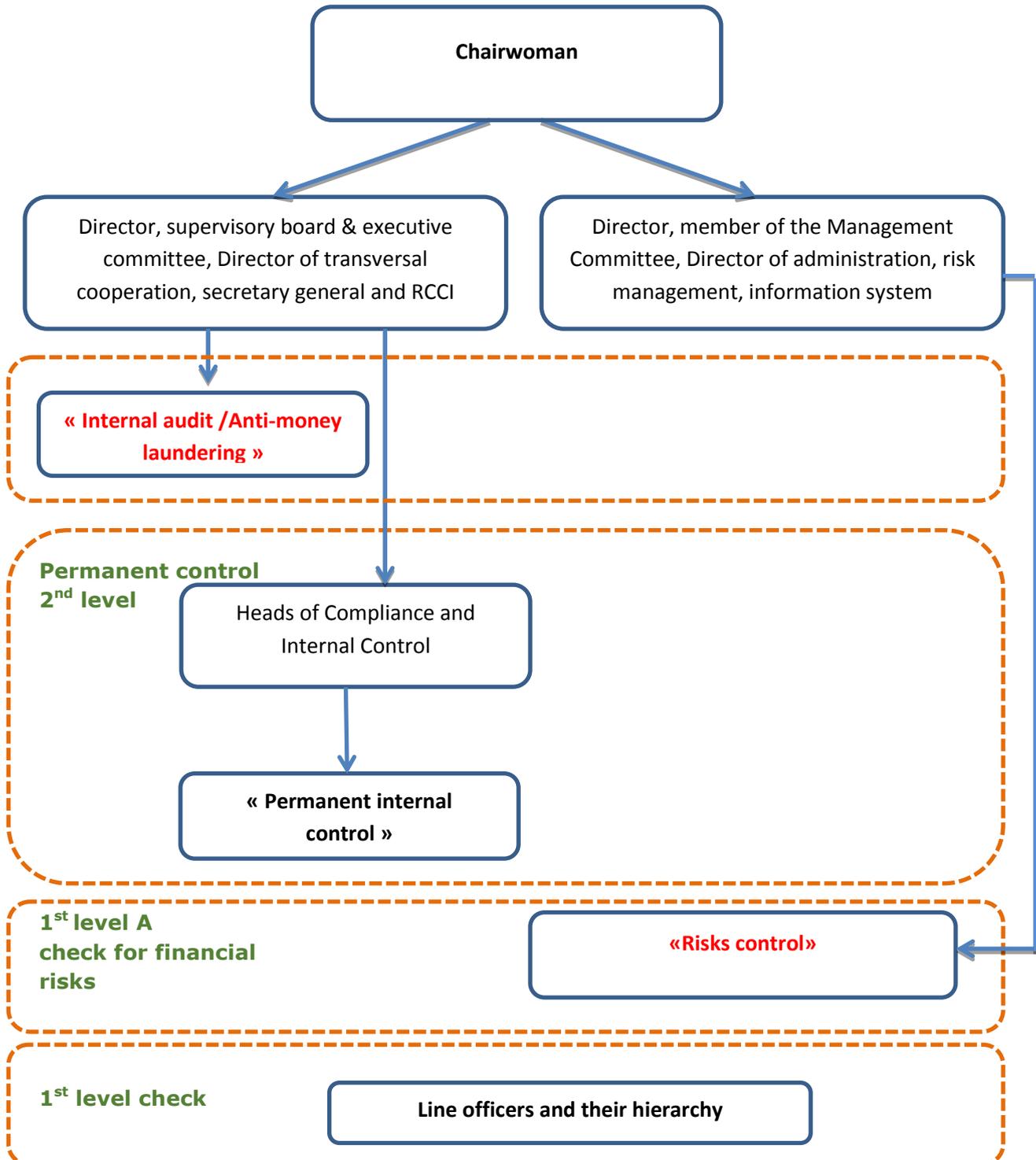
And, in general, which contributes towards the control of its activities, the effectiveness of its operations and efficient use of its resources.

However, internal control cannot provide an absolute guarantee that the company's objectives will be achieved.

*Source: Reference framework for risk management and internal control systems, July 2010*

## 2. Organisation of the Permanent Internal Control system at Covéa Finance

Organisation of the Permanent Internal Control system at Covéa Finance in accordance with AMF 2014-06.



The main objectives of the compliance system are to:

- Detect any risk of non-compliance with the professional obligations applicable to investment services providers;
- Establish all necessary measures to minimise the consequences of the service provider failing to comply with its professional obligations.

The Rules of Good Conduct issued by the Association Française de la Gestion (AFG) in December 2009, the Governance Guide for Asset Management Companies published by the AFG in January 2017 and the General Regulations of the Autorité des Marchés Financiers (AMF), Articles 318-4 to 318-5 and Articles 318-49 to 318-57, 321-30 to 321-36 and articles 321-83 to 321-92 require Covéa Finance as an asset management company approved by the AMF to have a compliance function responsible for the internal control system, notably consisting of:

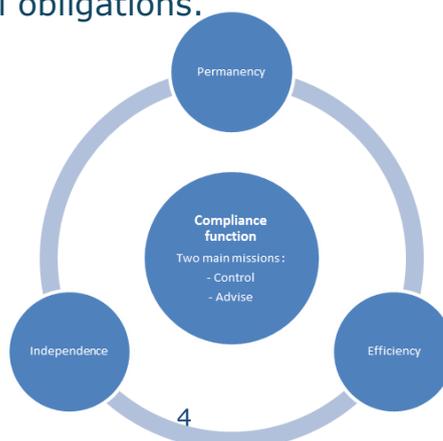
- Level 2 permanent control that covers all of the management company's operations and personnel, incorporating functions of regulatory watch, advice, training and control of the compliance of all operations performed (compliance with regulatory constraints, internal procedures and ethical constraints).

This permanent control system relies on control systems incorporated within operational and functional processes.

As an asset management company, Covéa Finance is required to assign the compliance function to one or more accredited Internal Control and Compliance Officers.

The compliance function covers two main missions:

- To control and assess the adequacy and effectiveness of the asset management company's compliance and internal control system;
- To advise and assist the persons concerned during the performance of their responsibilities within the asset management company such that they are able to accomplish the tasks assigned to them in accordance with their professional obligations.



### 3. Participants in Internal Control

Internal Control is everyone's responsibility, from governance bodies to all of the company's employees.

To this end, every employee concerned must have the knowledge and information required to establish, operate and supervise the internal control system vis-à-vis the objectives assigned to them.

This also applies to operational managers and internal controllers who must play an important role in coordinating, informing and controlling.

Such persons participate at 3 different levels:

- Two levels of permanent internal control;
- One level of periodic internal control (known as "Level 3", or Internal Audit).



## **4. Participants in Permanent Internal Control**

Two levels of permanent internal control must be identified:

- At Level 1, the controls consist of permanent and operational supervision carried out within the framework of transaction processing. They focus on the processing and management of transactions during the day in question and on completion of the transactions, including correct incorporation each day within the systems that record positions, accounts and reports.
- Such Level 1 controls are performed by each employee within the natural context of their day- to-day activities, whether in front office, middle office, back office, other support functions or by Covéa Finance subcontractors. These controls must be documented. Unless they have been documented, they may not be considered to have been carried out.
- At Level 2, the controls are carried out retrospectively, at a pre-defined or random frequency and by entities not operationally involved, namely by the various operational managers within the natural context of their functions and by the dedicated team of Permanent Internal Controllers of Covéa Finance.
- These Level 2 controls are verifications of substance and form in order to validate the effectiveness of the Level 1 controls, the compliance of the process and of the processing methods relating to a transaction or client file, and for specifically monitoring the various related operational risk.

The Level 2 permanent controls more specifically concern:

- The compliance of the transactions carried out by the company, of its organizational structure and of its internal procedures with regard to:
  - Professional obligations and regulations (AFG, AMF, French Monetary and Financial Code, etc.);
  - Contractual commitments relating to asset management activities on behalf of third parties;
  - Decisions made by the Directors of the company.
- Security and validation of the transactions carried out;
- Implementation of other verifications related to the monitoring of the risks associated with the transactions.

## **5. Audit process and follow-up of recommendations**

First of all, the Internal Control and Compliance Officer and all participants in Permanent Internal Control must have adequate resources and enjoy access to all necessary information (tools and documents) for the exercise of their functions, as set out in Principle no. 8 from the Governance Guide for Asset Management Companies published by the AFG in January 2017. The content of this Governance Guide for Asset Management Companies applies to all French asset management companies.

Furthermore, pursuant to the provisions of Article 321-32 of the General Regulations of the AMF and 61.3 of Commission Delegated Regulation (EU) 231/2013 of 19 December 2012, the asset management company must ensure that the persons responsible for the compliance function have the necessary authority, expertise and resources for the exercise of their functions.

### **5.1 Performance of Level 2 audits on Permanent Internal Control**

Permanent Internal Control carries out its control responsibilities in complete autonomy and in accordance with the frequencies set out in its annual action plan and audit schedule.

Each of its controls is formally documented in a report. All such documentation is held available for the AMF and the statutory auditors.

All documents used during the audits are archived in the Permanent Internal Control system. Findings shall be issued on:

- Verification that transactions are executed in compliance with the company's accreditation;
- Verification that existing procedures (modelled with the Méga software) are made available to personnel, are kept up-to-date and describe for each transaction executed:
  - The process for recording, processing and returning information;
  - The areas of responsibility of each participant;
  - The Level 1 control procedures and tasks;

- Verification in their day-to-day activities that employees apply the procedures implemented by the asset management company in order to comply with applicable financial market regulations;
- Verification that internal control systems have been implemented and are operational;
- Verification that the system for prior approval and assistance vis-à-vis the introduction of new products or services has been implemented.

Should an anomaly be found during any audit, Internal Control shall notify the operational staff concerned without delay by e-mail, recommending corrective action for immediate implementation. Internal Control shall not issue any further requests once the anomaly has been resolved.

Each quarter, a summary of the anomalies detected and of the action taken is forwarded to the members of the Covéa Finance Management Committee. This activity report shall contain information on the monitoring of the recommendations and quantitative and qualitative information on the findings issued during the quarter. This summary shall be held available for Group General Audit, the AMF and the statutory auditors.

Internal Control personnel also ensure that the internal control system is kept up to date by carrying out field tests on operational staff covering processes and existing control points. Such activities do not give rise to an audit report but to recommendations for changes to be made to the Level 1 or 2 controls, as discussed directly with operational staff. Having performed their responsibilities, the Internal Control and Compliance Officer will adapt their tools and Level 2 permanent control programme and update the annual action plan.

## **5.2 Responsibilities of the Internal Control and Compliance Officer**

In accordance with regulations, Internal Control (both permanent and periodic) also has a mission of advice, training and regulatory watch in favour of managers and employees vis-à-vis compliance with applicable regulations and internal procedures.

Within this context, any modification of existing procedures or request for exemption from a procedure must be covered by formal prior approval (generally by e-mail) from Internal Control, under the responsibility of one of the Internal Control and Compliance Officers.

Similarly, when modifying existing products or services or introducing new products or services, a request vis-à-vis the compliance of such products or services must be issued to the Internal Control and Compliance

Officer for a written opinion (generally by e-mail).

The Internal Control policy emanates from the main principles of the Covéa Group's Compliance Policy.

## **6. The Permanent Internal Control Plan**

Details of permanent internal control audits are documented in the Annual Internal Control Action Plan, validated by the Management Committee.

The Internal Control and Compliance Officer defines an annual internal control plan in accordance with the strategic directions established within Covéa Finance and the Covéa Group. This plan also includes any specific requests issued by the AMF.

This plan is then discussed and validated by the Management Committee. It may be supplemented during the year and is reviewed at least annually.

This plan is forwarded to each Director of Covéa Finance, to Covéa Finance Audit and to Group Internal Audit. It is held available for members of the Covéa Finance Supervisory Board, for the statutory auditors and for the AMF.

### **The construction of the internal control plan is based on:**

- Incorporation of all Level 1 and 2 control points concerning the asset management company, the UCITS and the mandates, establishing a control frequency in line with potential risks;
- Any changes affecting the company's processes, activities or legal scope which impact the Level 1 or 2 control points;
- Analysis of any regulatory changes affecting the internal control system;
- Any observations issued by the auditors of the UCITS, of the clients or of the management company;
- Requests by members of the Covéa Finance Management Committee;
- Comments on the summaries of activities performed by Covéa Finance Internal Audit and the Risk Committee (coordinated by Covéa Finance Risk Control);
- Examination of the conclusions of controls or investigations carried out by the supervisory authorities of Covéa Finance;

- Examination of the work performed by Group Internal Audit or Group Internal Control;
- The expertise of Internal Control and Internal Audit personnel;
- Regulatory changes;
- The company's organisational and IT system changes.

The internal control plan must ensure that each listed Level 2 control is conducted at least once a year and that department operations and supervision of the main risks are correctly translated into relevant Level 1 controls.

Paris, 8 february 2019



