Acuity Knowledge Partners

Risk Management Policy

13-SEPTEMBER-24

Change History

Version	Date	Author (s)	Revision Notes	Approved By
1.0	13 September 2024	Risk Management		Head of Risk Management

Table of Contents

Introduction

The Risk Management Policy includes:

- A framework for identification of internal and external risks specifically faced by the Company, including financial, operational, sectoral, sustainability (particularly, Environment, Social and Governance related risks), information, cyber security risks, legal and regulatory risks or any other risk as may be determined by the Risk Management Committee
- Measures for risk mitigation including systems and processes for internal control of identified risks
- Business continuity plan

Applicability

This policy applies to all functions and units of Acuity Knowledge Partners.

Objectives and Scope

This Policy details the Risk Management principles and framework along with the associated procedures for Acuity Knowledge Partners. This policy has been established by the management, to identify, assess, mitigate, monitor, and report the key risk categories (such as Strategic, Financial, Operational, Regulatory, Reputational, Third-party, Sustainability, Technological Risks) on a periodic basis. It also prescribes the risk management governance structure along with the roles and responsibilities of various stakeholders within the organization. This policy does not cover operational risk pertaining to individual departments/ functions. Operational risk will be responsibility of individual department heads within Acuity.

This policy has been specifically designed, to achieve the following objectives:

- Ensure achievement of the Company’s vision and strategic priorities in line with its core values
- Integrate risk management in the culture and strategic decision-making in the organization
- Enable compliance with appropriate regulations and adoption of leading practices
- Anticipate and respond to changing economic, social, political, technological environmental
- and legal conditions in the external environment

Definitions

- **Action Owner:** A person that the Group Executive assigns as the person responsible for completing a particular action item
- **Executive Committee:** Executive Committee of Acuity is the governing body composed of key leaders and executives (CEO, CFO, CMO, CHRO, CDO & COO)
- **Internal Control:** A process effected by an entity’s board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws & regulations
- **Risk:** Anything that can affect the ability of an enterprise to meet its objectives
- **Risk Management:** A process effected by an entity’s board, management, and other personnel, applied strategically and across the enterprise, designed to identify potential events that may affect the entity and to manage risk so that it remains within its risk appetite, to provide reasonable assurance regarding the achievement of its objectives
- **Risk Owner:** An individual who is ultimately accountable for ensuring the risk is managed appropriately

Philosophy and approach to Risk Management

The risk management philosophy of the Company is built based on its vision and strategic goals. Since, risk is an integral part of every business activity, the Company aims to embed risk management in its regular course of business. This ensures that risk management is not seen as a traditional silo-based activity but is practiced by individual functions/business as a part of their day-to-day operations.

The Company has adopted an integrated approach for risk management wherein it ensures all material risks are identified, assessed, and mitigated for the long-term sustainability of the organization. In addition, the mitigation plans for all the key risks are aligned with the Company's strategic business plans and performance management system which are reviewed by the senior leadership on a periodic basis.

The Company also has well defined polices, standard operating procedures and controls in place to minimize and mitigate the financial and operational risks. The Company's internal audit carries out reviews and the internal control advisory activities aligned to the key risks and their mitigation plans. This provides an independent assurance to the Audit and Risk Committee (ARC) on the adequacy and effectiveness of the risk management for operational and financial risks. Compliance with the Company's Code of Conduct also ensures ethical culture and responsible decision making within the organization.

The RACI model brings structure and clarity to describing the roles that stakeholders play within risk management. The RACI matrix clarifies responsibilities and ensures that every aspect of the risk management process is assigned to someone to address it. An illustrative RACI matrix has been provided for reference.

Task Title	Responsible	Accountable	Consulted	Informed
Identify Risk	Risk Owner (Department)	Department Head	Risk & Compliance	RMC
Assess risk impact and likelihood	Risk Owner (Department)	Department Head	Risk & Compliance	RMC
Develop risk mitigation strategies	Risk Owner (Department)	Department Head	Risk & Compliance	RMC
Implement controls	Risk Owner (Department)	Department Head	Risk & Compliance	RMC
Monitor and review risks	Risk Owner (Department)	Department Head	Risk & Compliance	RMC

Note: RMC refers to Risk Management Committee

Constitution of Risk Management Committee

The purpose of the Risk Management Policy is to institutionalize a formal risk management function and framework in the company. This policy is drafted in accordance with the guidelines provided under the Risk Management Committee. This Policy and the Terms of Reference of Risk Management Committee are integral to the functioning of the Risk Management Committee.

Components of a Sound Risk Management System

The risk management system in the Company should have the following key features:

- Active Executive Committee, Risk Management Committee, and Senior Management oversight
- Appropriate policies, procedures, and limits
- Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks Appropriate management information systems at the business level
- Comprehensive internal controls in accordance with current regulations and business size and scale
- A risk culture and communication framework

Risk Management Process

Conscious that no entrepreneurial activity can be undertaken without assumption of risks and associated reward opportunities, the company operates on a risk management process aimed at minimization of identifiable risks after evaluation to enable management to take informed decisions.

Broad outline of the process is as follows:

- **Risk Identification:** Management identifies potential events that may positively or negatively affect the Company's ability to implement its strategy and achieve its objectives and performance goals
  - Risks can be identified under the following broad categories. This list is not intended to be exhaustive

- **Strategic Risk:** Competition, inadequate capacity, high dependence on a single customer/vendor
- **Business Risk:** Project viability, process risk, technology obsolescence/ changes, development of alternative products
- **Finance Risk:** Liquidity, credit, currency fluctuation
- **Environment Risk:** Non-compliances to environmental regulations, risk of health to people at large
- **Personnel Risk:** Health & safety, high attrition rate, incompetence
- **Operational Risk:** Process bottlenecks, non-adherence to process parameters/ pre-defined rules, fraud risk
- **Reputational Risk:** Brand impairment, product liabilities
- **Regulatory Risk:** Non-compliance to statutes, change of regulations
- **Technology Risk:** Innovation and obsolescence
- **Information and Cyber Security Risk:** Cyber security related threats and attacks, Data privacy and data availability
- **Sectoral Risk:** Unfavorable consumer behavior in relation to the relevant sector.
- **Sustainability Risk:** Environmental, social and governance related risks
- **Political Risk:** Changes in the political environment, regulation/ deregulation due to changes in political environment

- **Root Cause Analysis:** Undertaken on a consultative basis, root cause analysis enables tracing the reasons / drivers for existence of a risk element and helps in developing appropriate mitigation action
- **Enterprise Risk Assessment:** Management considers qualitative and quantitative methods to evaluate the likelihood and impact of identified risk elements. Likelihood of occurrence of a risk element within a finite time is scored based on polled opinion or from analysis of event logs drawn from the past. Impact is measured based on a risk element's potential impact on revenue, profit, balance sheet, reputation, business, and system availability etc. should the risk element materialize
- **Risk Categorization:** The identified risks are further grouped in to (a) preventable; (b) strategic; and (c) external categories to homogenize risks
  - Preventable risks are internal to the Company and are operational in nature. The endeavor is to reduce /eliminate the events in this category as they are controllable. Standard operating procedures and audit plans are relied upon to monitor and control such internal operational risks that are preventable
  - Strategy risks are voluntarily assumed risks by the senior management to generate superior returns / market share from its strategy. Approaches to strategy risk is 'accept'/ 'share', backed by a risk-management system designed to reduce the probability that the assumed risks materialize and to improve the Company's ability to manage or contain the risk events should they occur
  - External risks arise from events beyond organization's influence or control. They generally arise from natural and political disasters and major macroeconomic shifts. Management regularly endeavors to focus on their identification and impact mitigation through 'avoid'/'reduce' approach that includes measures like business continuity plan / disaster recovery management plan / specific loss insurance / policy advocacy etc
- **Risk Prioritization:** Based on the composite scores, risks are prioritized for mitigation actions and reporting. Acuity has assigned quantifiable values to each risk element based on the "impact" and "likelihood" of the occurrence of the risk on a scale of 1 to 3 as follows:

Impact	Likelihood	Score
Minor	Low	1
Moderate	Medium	2
Critical	High	3

- **Risk Mitigation Plan:** Management develops appropriate responsive action on review of various alternatives, costs, and benefits, with a view to managing identified risks and limiting the impact to tolerance level. Risk mitigation plan drives policy development as regards risk ownership, control environment timelines, standard operating procedure, etc.
- The mitigation plan may also cover (i) preventive controls - responses to stop undesirable transactions, events, errors, or incidents occurring; (ii) detective controls - responses to promptly reveal undesirable transactions, events, errors or incidents so that appropriate action can be taken; (iii) corrective controls - responses to reduce the consequences or damage arising from crystallization of a significant incident
- **Risk Monitoring:** It is designed to assess on an ongoing basis, the functioning of risk management components and the quality of performance over time. Staff members are encouraged to carry out assessments throughout the year
- **Risk Management Measures adopted by the Company:** Acuity should adopt various measures to mitigate the risk arising out of areas described above, including but not limited to the following:
  - A well-defined organization structure
  - Defined flow of information to avoid any conflict or communication gap
  - Hierarchical support personnel to avoid work interruption in absence/ non-availability of functional heads
  - Discussion and implementation on financial planning with detailed business plans
  - Detailed discussion and analysis of periodic budgets
  - Employees training and development programs
  - Internal control systems to detect, resolve and avoid any frauds
  - Systems for assessment of creditworthiness of existing and potential contractors/subcontractors/ dealers/vendors/ end-users
  - Redressal of grievances by negotiations, conciliation, and arbitration; and
  - Defined recruitment policy

Imperatives

All Executive committee members and departmental heads must implement Acuity's Principles of Risk Management as follows:

- **Accountability:** Identify and manage the risks that relate to their role
- **Risk Appetite:** Determine the level of risk, after the implementation of controls, that they are prepared to accept such that there is no significant threat to achieving their objectives
- **Risk Mitigation:** Put adequate controls in place, and ensure that they are operational, to deliver their objectives
- **Residual Risk:** Residual Risk is the remaining risk associated with an event after inherent risk has been reduced by risk controls. Proper planning and action plans should be made in order to address such residual risks

All Business & Functional Heads must ensure that the risk management activities, as outlined in Company's Risk and Control Frameworks, are being undertaken in their areas of responsibility

All departmental heads and chief officers must complete an annual holistic risk discussion with the Chief Risk Officer during which the below mentioned aspects should be discussed:

- Key business risks for which they are responsible are identified
- How those risks are being managed is reviewed
- Any gaps in their desired risk appetite are identified

For those risks where significant gaps have been identified, departmental heads must perform regular reviews and ensure risks are mitigated as desired. All project leaders of transformational projects must, together with their teams, identify the key risks associated with their project achieving its objectives. Risk mitigation plans must be prepared, and progress reviewed with the project steering group.

Risk Oversight

- **Executive Committee:** The Executive Committee shall be responsible for defining the risk management strategy and objectives, overseeing the implementation of the risk management process, and setting the tone and culture towards effective risk management. It shall define the risk management policy and critically review the risk governance and monitoring mechanism. The Executive Committee shall meet at least once in a year to review the top risks faced by the Company and the status of their mitigation plan
- **Audit and Risk Committee:** Audit and Risk Committee shall be entrusted with the responsibility of periodic evaluation of risk management program and provide insight and direction to the risk management committee. The audit committee would have an oversight of the management of Operational and Financial Risks faced by the Company. For this, the audit committee would rely on the Internal Financial Controls and Internal Audit mechanism put in place by the Company
- **Risk Management Committee:** Risk Management Committee shall assist the Executive Committee in framing policy, guiding implementation, monitoring, and reviewing the effectiveness of Risk Management Policy and practices. The Committee shall function as a forum to discuss and manage key strategic and business risks

Risk Culture and Adoption

- The risk management committee formed by the Executive Committee shall periodically review the risk assessment and management policy of the Company and evaluate the risk management systems so that management controls the risk through a properly defined network
- Heads of departments shall be responsible for implementation of the risk management system as may be applicable to their respective areas of functioning

Governance

The Risk Management Framework shall provide for comprehensive governance detailing the structure, participants, charter, roles and responsibilities, periodicity of meetings and broad contours of the topics that can be discussed in these meetings. The governance structures shall enable oversight on various risks and allow for bubbling up of risks to the right level of leadership including to the Risk Management Committee.

Business Continuity Plan

Business Continuity Plan (BCP) is a step-by-step guide to follow response to a natural or man-made crisis or any other incident that negatively affects the firm’s key processes or service delivery. The objective of the Business Continuity Plan is to support the business process recovery in the event of a disruption or crisis. This can include short or long-term crisis or other disruptions, such as fire, flood, earthquake, explosion, terrorism, tornadoes, extended power interruptions, hazardous chemical spills, Epidemic, Pandemic, and other natural or man-made disasters.

Policy Review

- Periodic assessment of the Risk Management framework, function, mapping against any available risk maturity models and identifying the areas of improvement shall be done to ensure continued relevance of program and framework to the organization. Such review and assessment shall be carried out in at least once every year by the Risk Management Committee
- The Chief Risk Officer shall propose this policy or any changes to this policy to the Risk Management Committee of the Executive Committee. This policy shall become effective upon their approval. This policy shall be reviewed as deemed necessary by the Risk Management Committee and at least once a year

About Acuity Knowledge Partners

Acuity Knowledge Partners (Acuity) is a leading provider of bespoke research, analytics and technology solutions to the financial services sector, including asset managers, corporate and investment banks, private equity and venture capital firms, hedge funds and consulting firms. Its global network of over 6,000 analysts and industry experts, combined with proprietary technology, supports more than 600 financial institutions and consulting companies to operate more efficiently and unlock their human capital, driving revenue higher and transforming operations. Acuity is headquartered in London and operates from 10 locations worldwide.

Acuity was established as a separate business from Moody’s Corporation in 2019, following its acquisition by Equistone Partners Europe (Equistone). In January 2023, funds advised by global private equity firm Permira acquired a majority stake in the business from Equistone, which remains invested as a minority shareholder.

For more information, visit www.acuitykp.com