

Risk Management Policy

Approved by	HM1 Board
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INTRODUCTION

This policy outlines Hearts and Minds Investments Limited's ("HM1" or "the Company") approach to risk and its risk management framework which is consistent with AS/NZS ISO 31000:2009 Standard and complies with ASX Corporate Governance Principles and Recommendations except where noted below.

THE BOARD'S VIEW ON RISK

The Board of HM1 ("the Board") believes that the management of risk is a continual process and an integral part of good business management and corporate governance.

Risk management is defined by the Board to mean the identification and management of those risks that could harm the Company and lead to poor outcomes for shareholders. In general, risks for the Company are classified as market risk, compliance and regulatory risk, operational risk and financial risk.

The Board is aware that risk is inherent in all investment activities undertaken by the Company and cannot and should not be entirely eliminated.

RISK APPETITE STATEMENT

The Board has a moderate tolerance for market risk and a low tolerance for operational and other risks. HM1 invests in Australian and global equities which are inherently risky asset classes. HM1 seeks to partly mitigate market risk through diversification of its selected active fund managers, a medium term holding period for its Core portfolio and minimum liquidity requirements for its investments. Operational risk is mitigated through the outsourcing of key business functions to well respected counterparties and the operation of the risk framework.

RESPONSIBILITIES

The Board is responsible for ensuring that effective systems are in place to identify, assess, monitor and manage the risks to the Company, and inform the Company's shareholders of material changes to the Company's risk profile. In addition, the Board has responsibility to ensure internal controls and arrangements are adequate for monitoring compliance with laws and regulations applicable to the Company.

The role of the Board as it relates to risk management is to:

- Monitor management's performance against the Company's risk management framework, including whether it is operating within its risk appetite;
- Receive reports from management on new and emerging sources of risk and the risk controls and/or mitigants management has put in place to deal with those risks;
- Oversee the Company's insurance program; and
- Review any material incident involving fraud or a breakdown of the Company's risk controls and the lessons learned.

To assist them, the Board has established:

- an Investment Committee to establish and review investment guidelines and oversee the management of the Company's investment portfolio, market risk and exposure to material environmental, social and governance risks. The Investment Committee is

governed by a charter which sets out the structure and responsibilities of the committee;

- reporting mechanisms from HM1's management who are responsible for the financial, investment and administrative operations of the Company; and
- a certification process for the preparation and release of the Company's half yearly and annual financial reports.

Given the size and relatively simple business model of the Company, the Board has not established a separate Risk Committee, nor does the Company have an internal audit function. Risks, other than market risk, are reported to and monitored by the full Board.

RISK MANAGEMENT FRAMEWORK

Risks are managed in the context of the Company's strategic objectives, the size and complexity of its operations, and the Board's expectations and attitude to risk. The Company has implemented a risk management framework ("Framework") based on the AS/NZS ISO Standard 31000:2009 Risk management - Principles and guidelines.

The Framework incorporates the following elements:

- A Risk Appetite Statement and this Risk Management Policy;
- A Risk Register;
- A systematic process for the identification, assessment, treatment and monitoring of risks;
 - **Identification.** The business risks to which the Company is exposed are identified and the business environment is regularly reviewed for new risks. Risks identified as material are captured in the Company's Risk Register and comprise market risks, operational risks, compliance risks, financial risks and reputational risks.
 - **Analyse, measure & evaluate risks.** An understanding of each risk is developed, including its likelihood of occurrence after taking into account the effectiveness of existing controls and its potential consequences after taking into account mitigating actions. The level of each risk is rated using a risk matrix and a residual risk rating applied – this is the level of risk that remains after the application of existing controls.
 - **Treat risks.** The Board assesses residual risk in light of its risk tolerance for a particular category and its overall risk appetite. It may determine a risk to be acceptable or may require further mitigation measures to be added.
 - **Monitor and review.** The Company's Risk Register is a dynamic document that is adapted and modified as changes occur in the business environment. Management actively monitors and reviews the Framework throughout the year including ensuring that controls are in place and remain effective.
- Regular reporting and oversight to the Investment Committee and Board on the performance, operations and risks of the Company; and
- The Risk Register and the residual risk ratings which are actively reviewed by HM1's management and at least annually by the Board.

The Company also has the following processes in place to ensure a strong control environment:

- the employment of capable, experienced and trusted employees;
- clearly defined management responsibilities and authorities;
- detailed investment strategy guidelines governing all aspects of portfolio construction and investment management;
- appropriate policies and procedures governing non-investment business operations;

- key business functions outsourced to well respected service providers with strong internal controls and assurance; and
- assurance reviews provided on the internal control environment and financial reporting by an external Auditor.

CERTIFICATION PROCESS FOR THE ANNUAL FINANCIAL REPORTS

Prior to the Board approving the Company's annual and half year financial reports, the Company's Chief Executive Officer is required to make the following certifications to the Board:

- the Company's financial records for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001 (Cth) (the "Act");
- the financial statements, and notes thereto comply, in all material respects, with applicable Accounting Standards;
- the financial statements and notes thereto give a true and fair view, in all material respects, of the Company's financial position and performance;
- any other matters that are prescribed by the Act and the Corporations Regulations 2001 (Cth) in relation to the financial statements and the notes are satisfied;
- the statements regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control that, in all material respects, implements the policies adopted by the Board;
- the Company's risk management and internal compliance and control system relating to financial reporting objectives is operating efficiently and effectively in all material respects;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- statements made to the Auditor in the management representation are true and accurate.