

**Information about the risk management of  
Public open-ended umbrella fund „UBB ExpertEase” subject to disclosure,  
as required by Art. 43 of Ordinance No. 44**

Management Company KBC Asset Management NV (MC) is a company established under the laws of the Kingdom of Belgium, with seat and registered address in Brussels 1080, Havenlaan 2, registered with the Register of Legal Entities Brussels, under identification No. 0469.444.267 and authorized in Belgium which is subject to regulation by the Belgian regulator Financial Services and Markets Authority (FSMA), received an approval by the Financial Supervision Commission (FSC) to operate in the territory of the Republic of Bulgaria through its branch in Bulgaria, namely KBC Asset Management – KLON, a branch of a foreign legal entity, established under the laws of Bulgaria, with seat and registered address in Sofia 1463, Triaditza district, 89B Vitosha Blvd., Millennium Center, 6th floor, registered with the Bulgarian Commercial Register and the Register of Non-Profit Legal Entities at the Registry Agency with UIC 205422541. Public open-ended umbrella fund „UBB ExpertEase” (the Fund) is managed, through “KBC Asset Management NV - branch” – Bulgaria (Branch). The branch of MC complies with the Risk Management Rules adopted under Art. 40 of the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOUIC Act or CISOUICIA), which define basically: structure and levels of risk management responsibility; rules and procedures for identification, management and monitoring of the different types of risks in short-term and long-term; accounting and administrative procedures under the risk management; reporting rules and procedures for establishing violations of the Risk Management Rules.

The Umbrella Fund is an umbrella undertaking for collective investment in transferable securities (“UCITS”) established in accordance with CISOUICIA and consisting of sixteen investment compartments – the Sub-Funds. The Sub-Funds are feeder Sub-Funds within the meaning of article 67 of CISOUICIA and invest at least 85% of their assets in units of a certain number of investment compartments (“Master Sub-Funds”) of Horizon N.V., an open-ended investment company duly incorporated and existing under the laws of Belgium, having its seat and registered office at Havenlaan 2, B-1080, Brussels, Belgium, and managed by KBC AM (“Horizon” or the “Master Umbrella Fund”). Excluding the six “Responsible Investing” Sub-Funds of the Umbrella Fund, for each Master Sub-Fund there are two feeder Sub-Funds, with units in the one denominated in Euro (EUR), investing in the corresponding Institutional F share BG class of the respective Master Sub-Fund, denominated in Euro, and in the other denominated in Bulgarian lev (BGN), investing in the corresponding Institutional F share BG class of the respective Master Sub-Fund, denominated in Bulgarian lev.

For each Responsible Investing Master Sub-Fund there is one Responsible Investing Feeder Sub-Fund. The shares of each Responsible Investing Feeder Sub-Fund are denominated in Bulgarian lev (BGN). However, each Responsible Investing Feeder Sub-Fund invests in the euro-denominated Institutional F share BG class of the relevant Responsible Investing Master Sub-Fund. For this reason, the six Responsible Investing Feeder Sub-Funds maintain cash balances in BGN and EUR.

In relation to the management of the liquidity, the branch of MC applies Rules for the maintenance and management of liquidity, adopted according to Art. 9 , para. 1 of Ordinance No. 44 from 20.10.2011 on the requirements for the activity of the collective investment schemes, their management companies, national investment funds, alternative investment funds and managers of alternative investment funds (Ordinance N<sup>o</sup>44), defining: the bodies responsible for liquidity management, as well as accountability and control as seen to manage liquidity; the main principles and activities of liquidity management; size of the minimum liquidity of the Fund; the requirements for the asset and the liabilities structure of the Fund.

In relation to the requirement to conduct liquidity stress tests as per Art. 44, Para. 3, Pt. 3 of Ordinance No. 44, the Branch of the Management Company applies and complies with the Policy for conducting Liquidity Stress Tests of Umbrella Fund "UBB ExpertEase" adopted pursuant to Article 45b, Para. 1 of Ordinance No. 44, setting out: the organisational structure of the liquidity stress tests (LST); the documentation of the results of the LST; the review of the LST policy and the procedure for amendment; the initial validation of the LST models and their underlying assumptions; organisational requirements regarding the efficient management of conflicts of interest in the conduct of the LST; the methodology for conducting of LST.

### **1. Objectives and Policy of Umbrella Fund "UBB ExpertEase" in connection with risk management , separately for each risk :**

#### A) Policies and procedures for managing the different types of risks

The process of establishing, managing and monitoring risks has as a goal to reduce the impact of external and internal risk factors on its activities and the return on investments of UBB ExpertEase, taking into account its risk profile.

The investment objective of the Sub-Funds of the Umbrella Fund is to invest all or substantially all, but in any event at least 85%, of their assets in corresponding Master Sub-Funds of Horizon, to hold ancillary liquid assets (cash) up to an amount necessary for meeting their ongoing expenses and to have limited derivative positions for risk-hedging purposes.

The main objectives of the Fund in relation to risk management are:

- Maintain a level of risk consistent with the investment objectives for risk and return of the Fund;
- Reaching efficiency in hedging;
- Optimization of investment results (achievement of maximum return on moderate risk);
- Protection of the rights and interests of the unit-holders of the Sub-Funds;
- Implementation and compliance with the liquidity requirements under the laws and internal regulations; Prevent liquidity crises as a result of redemption orders of units of the Sub-Funds.

The main risks arising from the financial instruments in which UBB Balanced Fund invests are: market risk, credit risk and concentration risk.

The main risk associated with the management company's activities, procedures and systems company that could affect the Fund is the operational risk.

### **1.1. Market risk**

Due to the same dealing deadline being applied to both the Sub-Funds and the corresponding Master Sub-Funds, there can be a delay between when subscription or redemption orders are placed in the Sub-Funds and when the corresponding orders are processed in the Master Sub-Funds. This results in an element of market risk in the Sub-Funds which can be mitigated through the use of futures by the respective Sub-Funds.

**Interest rate risk** - Interest rate risk is related to changes in interest rates in the market on which financial assets are traded. Interest rate risk relates mainly to debt securities (bonds), the value of which changes as a result of changes in interest rates. With an increase in interest rates, it is possible that the market value of the investments made will decrease and that a potentially better return on investments with a fixed higher return will not be realized. If interest rates fall, this can be expected to be offset by an increase in the value of the assets themselves. The Fund is indirectly exposed to interest rate risk due to the investment of a significant part of its assets in shares of the Main Sub-Fund, which in turn is exposed to interest rate risk.

**Liquidity risk** - The risk that a position cannot be liquidated in a timely manner at a reasonable price. This means that a Sub-Fund can only liquidate its assets at a less favourable price or after a certain period. This risk exists, e.g. if a Sub-Fund invests its assets exclusively in instruments of its corresponding Master Sub-Fund and redemption orders from a large number of investors are placed simultaneously.

**Currency risk** - The risk that the value of an investment will be affected by changes in exchange rates. This risk exists only to the extent that a Master Sub-Fund invests in assets that are denominated in a currency that develops differently from the reference currency of the respective Master Sub-Fund. For instance, a Master Sub-Fund denominated in EUR will not be exposed to any exchange risk when investing in bonds or equities denominated in EUR, but it will be exposed to an exchange risk when investing in bonds or equities denominated in USD.

### **1.2. Credit risk**

The risk that an issuer or a counterparty will default and fail to meet its obligations towards a Master Sub-Fund. This risk exists to the extent that a Master Sub-Fund invests in debt instruments. Debtor quality also affects the credit risk (e.g., an investment in a debtor with a rating, such as 'investment grade', will pose a lower credit risk than an investment in a debtor with a low rating, such as 'speculative grade'). Changes in the quality of the debtor can have an impact on the credit risk.

**Settlement risk** - The risk that settlement via a payment or settlement system will not take place as expected because payment or delivery by a counterparty fails to take place or is not in accordance with the initial conditions. This risk exists to the extent that a Master Sub-Fund invests in regions where the financial markets are not yet well developed. This risk is limited in regions where the financial markets are well developed.

### **1.3. Operational risk**

The main purpose of the branch of MC in the management of the operational risk is avoiding the likelihood of losses both for the management company as well as for the fund as a result of inappropriate or incorrect internal procedures, mistakes of officials or internal events. The process of management of this risk includes a clear definition of the rights and obligations of the employees in the job descriptions, internal rules and procedures and in Risk Management Rules. The branch of MC monitors the level of its operational risk daily by maintaining a database of operational events and analyzes the risk by two indicators - frequency of occurrence and degree of impact.

### **1.4. Risk of concentration**

The risk relating to the concentration of substantially all of the assets of the Sub-Funds in shares of the Master-Sub Funds and, accordingly, will not be diversified. This means that the performance of individual Master Sub-Funds will have a substantial impact on the value of their corresponding Sub-Funds' portfolios. However, the Master Sub-Funds will have diversified portfolios of assets in

accordance with their investment policy, thus limiting the concentration risk.

### 1.5 Sustainability risk

These are the risks associated with events or conditions of an environmental, social or governance nature that, should they occur, could cause an actual or potentially material adverse impact on the value of the investments in the portfolios of the Sub-Funds.

#### B) Functions and responsibilities of the "Risk Officer"

The Risk Officer of the Branch operates independently of the other departments and units in the Management Company and the Branch, reports directly to the Senior Management of the Branch and has the following functions:

1. develop and implement the risk management system of the Fund;
2. implement the rules and procedures for risk management;
3. ensure compliance with the approved internal risk mitigation system of the Fund, including the statutory limits for the value of the total risk exposure and the risk of the counterparty.
4. advise the Senior Management of the Branch (including its responsible committees) on determining the risk profile of the Fund;
5. report regularly to the Branch's senior management, where applicable, on:
  - (a) the correspondence between the current level of risk to which the Fund is exposed and its approved risk profiles;
  - (b) the Fund's compliance with its internal risk mitigation system;
  - (c) the adequacy and effectiveness of the risk management process, in particular showing whether appropriate corrective action has been taken in cases where deficiencies have been identified;
6. report regularly to the Branch's senior management, presenting the current level of risk to which the Fund is exposed and on current or anticipated breaches of restrictions, thus ensuring that timely and appropriate action is taken;
7. review and support the organization and procedures for valuation of derivatives.
8. conduct, document and publish the results of liquidity stress tests in accordance with the Umbrella Fund's Policy for Conducting of Liquidity Stress Tests.

- Financial risk management is carried out in particular by:

1. Implements risk management policies and processes (as defined by the Management Company) in order to identify, measure, manage and monitor in an appropriate manner all risks related to the Fund's investment strategy to which it is or may be exposed.
2. Ensure that the risk profile disclosed to investors complies with the risk limits set in accordance with the regulations and provide relevant reports on them.
3. Ensure that updated information is regularly provided to the Branch's senior management on the adequacy and effectiveness of risk management processes, in particular by indicating whether adequate corrective action has been taken or will be taken to address actual or foreseeable deficiencies.
4. Regularly report to the Top Management of the Branch on the current risk levels of the Fund and on the actual or impending violation of the risk limits in order to take prompt and adequate remedial action;
5. Carries out regular and unannounced inspections of the Fund's risks, prepares reports on them, provides data to the Management Company for calculation of the results of the main portfolios.

- Operational risk management includes in particular:

1. Forecasting, identification, collection of information and reporting in the database of the Management Company of operating losses;
2. Monitoring of the key risk indicators and preparation of the respective regular reports on them;
3. Implementation of the relevant group risk policies;
4. Management of the risks arising from the daily work of the Branch: ensuring the updating and management of the DRP (Disaster Recovery Plan) and the BCP (Business Continuity Plan);
5. Analysis, control, coordination of the recovery, initiation of measures regarding the incurred losses;
6. Preparation of reports to the management bodies and the regulator regarding the operational risks;
7. Reduction of operational risks,
8. Management and maintenance of updated reports and documents on operational risk.

- Sustainability risk management:

The extent to which the feeder Sub-Funds are exposed to sustainability risks that may be material to them is assessed and managed at the level of the relevant Master Sub-Fund in accordance with the management company's internal risk management rules.

### C) Scope and nature of risk reporting and measurement systems

To assessment and management of major types risks, relevant departments the following methods: historical volatility of foreign exchange rate (currency risk); the  $\beta$ -ratio to the indices of the relevant markets, the standard deviation of the selected regulated market index (price risk); maintaining an optimal amount of cash and other liquid assets in order to meet its liabilities (liquidity risk); daily monitoring and control of the size of the individual exposures concentration risk).

Risk is assessed and managed at both individual exposure and the portfolio as a whole level.

Pursuant to Article 67, Para. 3 of CISOUICIA, the asset management company applies the commitment method approach consistently to all positions in derivative financial instruments, including embedded derivative instruments, whether used as part of the Fund's overall investment policy for risk mitigation purposes or for the purpose of effective portfolio management.

The Management Company assesses the frequency of occurrence and degree of impact of past operational events and deploys adequate control procedures in respect of each activity of the management company and assesses their effectiveness (operational risk).

### D) Risk hedging through derivative instruments and its reduction policies, as well as the policies and procedures for monitoring the constant efficiency of hedging and risk reduction processes

The range of positions in derivative financial instruments in which the Funds invest aiming management of the risk depends on the effectiveness of the hedge. Hedging is considered to be highly effective if at the beginning or in its lifetime the changes in fair value or cash flows of the hedged asset are expected to be almost fully offset by changes in the fair value and cash flows of the hedging instrument. Currently, the branch of MC does not perform hedging operations.

## **2. Methods used to assess each type of risk as well as a description of the relevant internal and external indicators to be taken into account when applying the method of measurement:**

The methods used by the of the branch of MC for the assessment of the different types of risks are disclosed in point 1 of this document.

When applying the risk measurement methods, the following internal and external indicators are taken into account: market prices of financial instruments; market value of indices; exchange

rates; amount of the assets and liabilities of the Fund maturities and types; the historical dynamics in the number of outstanding shares of each investment Sub-Fund and more.

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