

## **Information about the risk management of UBB Global Child Fund, subject to disclosure, as required by Art. 43 of Ordinance No. 44**

UBB Asset Management (MC) is a management company with a license for conduct business № 9 - MC 26.01.2006, issued by the Financial Supervision Commission, which organizes and manages the UBB Global Child Fund Fund (the Fund). The MC complies with the Risk Management Rules adopted under Art. 40 of the Collective Investment Schemes and Other Undertakings for Collective Investments Act (CISOUCI Act), 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.

In connection with the management of the liquidity, the 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, the closed-end investment companies and the management companies (Ordinance №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.

### **1. Objectives and Policy of Mutual Fund "UBB Global Child Fund" 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 Global Child Fund, taking into account its risk profile.

The Fund invests and/or can invest in the following types of assets: equity, debt securities (government securities, corporate, municipal and mortgage bonds), units of mutual funds and bank deposits.

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

- Maintain a moderate 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 to high risk);
- Protection of the rights and interests of the unit-holders of UBB Global Child Fund Fund;
- 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 UBB Global Child Fund.

The main risks arising from the financial instruments in which UBB Global Child 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**

**Price risk** - The Management Company measures the price risk - the risk of reducing the value of the relevant financial instrument due to unfavorable changes the market prices through one of the applicable for the respective market quantitative methods: standard deviation of the return of the respective share,  $\beta$ -ratio to the indices of the relevant markets or the standard deviation of the selected index of the regulated market.

**Interest rate risk** - The asset management company measures the interest rate risk by calculating the duration. Duration is the main measure of the sensitivity of the change in the level of interest rates. The MC uses the method of modified duration to measure the interest rate risk associated with each interest-based security such as bonds, interest rate swaps, interest rate based futures, and bond-based futures.

**Liquidity risk** - MC's managed positions in equity, government securities, corporate, mortgage and municipal bonds bear the liquidity risk determined by the market demand for investment instruments and manifested as a loss, due to the inability to sell at a value close to the fair, in case of necessity of liquidity to cover short-term liabilities.

Liquidity management of the Fund is carried out by tracking and analyzing the structure of assets and liabilities by type and maturity; monitoring of incoming and outgoing cash flows; maintenance of optimal amount of cash and other liquid assets to meet the obligations of the company; developing strategies to prevent crisis situations.

In the management of liquidity risk, the main objective that MC follows is to ensure a permanent opportunity for the Fund to meet its obligations and prevention of a liquidity crisis.

Limiting the negative impact of these factors is achieved with active management of the funds by optimizing the term structure of the bond portfolio and diversification of the investment portfolio as a whole.

**Currency risk** - The positions of UBB Global Child Fund in financial instruments or deposits, denominated in a currency other than BGN and EUR, are exposed to currency risk, due to a change in the foreign exchange rate between that currency and the BGN or EUR.

The asset management company measures currency risk for each currency other than BGN and EUR. Currency risk is measured using the historical volatility of the respective currency to BGN or EUR against the net foreign currency exposure.

## **1.2. Credit risk**

Exposures of the Fund in government securities, corporate, mortgage and municipal bonds and bank deposits are exposed to credit risk.

**Counterparty risk** - The risk of non-fulfillment of OTC counterparty obligations transactions are valued through a counterparty creditworthiness analysis on these deals.

**Settlement risk** - The risk arising from the possibility that the Fund will not receive counter cash or financial instruments from a counterparty on the settlement date after it has fulfilled the obligations of certain transactions to a given counterparty. The MC measures this risk through the value of all the outstanding transactions of the Fund with one counterparty, as a percentage of the value of the managed portfolio. There are not included transactions concluded under DVP settlement (Delivery versus payment) and in markets with a functioning clearing mechanism.

**Investment Credit Risk** - The risk of decreasing the value of an investment in a given debt security due to a credit event with the issuer of the debt instrument, the Fund estimates manages it by qualitative and quantitative credit analysis based on the financial statements of the issuer, the

capital structure of the issuer, the collateral of the issue and issuer's credit rating (reputation), as well as diversification of the bond portfolio.

In the management of credit risk, the MC aims to achieve high quality of the portfolio of bonds by performing the above-mentioned analysis, and minimizes the risk of non-performance of transactions concluded.

### **1.3. Operational risk**

The main purpose of the MC in the management of the operational risk is avoiding the likelihood of losses both for the management company as well as for the mutual 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 Internal Organization Rules of "UBB Asset Management" as well as other measures described in details in the Portfolio Valuation and Determination of Net Asset Value Rules and Risk Management Rules. 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 of decreasing the value of managed portfolios by MC due to inappropriate diversification of issuers exposures, groups of related clients, issuers from the same economic sector, geographic area, etc.

For the purpose of managing the concentration risk, the MC adopts limits for transactions, monitoring daily compliance with limits and legal investment restrictions according to the requirements of Art. 45-49 of the CISOU CI Act) .

### **B) Structure and Organization of the "Risk Management" Department**

MC "UBB Asset Management" has its own separate department of risk management, functioning independently from the department for execution of transactions.

The main functions of "Risk Management" Department are:

1. develops and implement the risk management system of the Fund;
2. implements the rules and procedures for risk management;
3. Ensures compliance with the approved internal risk mitigation system of the MF, including the regulatory limits for the value of the total risk exposure and the counterparty risk.

4. Advises the management body of the management company on the determination of the risk profile of the MF;
5. Reports regularly to the Senior Management, where applicable, on:
  - (a) the compliance between the current level of risk to which the MF is exposed and the risk profiles approved by the Fund;
  - (b) the compliance of the MF with its internal risk mitigation system;
  - (c) the adequacy and effectiveness of the risk management process and, in particular, showing whether appropriate corrective action has been taken in cases where deficiencies have been identified;
6. reports regularly to the Senior Management, presenting the current level of risk to which the MF is exposed and on the current or foreseen breaches of the restrictions, thereby ensuring that timely and appropriate action is taken;
7. Reviews and supports the organization and procedures for the assessment of OTC derivatives.

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

To assessment and management of major types risks, relevant departments the following methods: the duration method (interest rate risk); historical volatility of foreign exchange rate (currency risk); the standard deviation of the return of the corresponding share, the  $\beta$ -ratio to the indices of the relevant markets, the standard deviation of the selected regulated market index (price risk); analysis of the structure of the assets and liabilities by type and maturity, analysis of incoming and outgoing cash flows, maintaining an optimal amount of cash and other liquid assets in order to meet its liabilities (liquidity risk); qualitative and quantitative credit analysis based on financial statements, capital structure, reputation of the issuer and collateral of the issue, diversification of the portfolio of equity and bonds (credit risk), daily monitoring and control of the size of the individual exposures in accordance with the requirements of Art. 45-49 of the CISOUIC Act concentration risk).

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

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 Fund invests 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 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 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 sectoral indices; value of bond indices, incl. indices on government bonds; amount of assets owned by the respective type; maturity date, net price and size and frequency of coupon payments of the debt financial instruments; exchange rates; amount of the assets and liabilities of the Fund maturities and types; financial statements of the issuers of the respective financial instruments and more.

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