

KINGFISH LIMITED

RISK MANAGEMENT POLICY



THE OBJECTIVES OF RISK MANAGEMENT

“Risk management is the systematic process of managing an organisation's risk exposures to achieve its objectives in a manner consistent with public interest, human safety, environmental factors, and the law. It consists of the planning, organising, leading, coordinating, and controlling activities undertaken with the intent of providing an efficient pre-loss plan that minimises the adverse impact of risk on the organisation's resources, earnings, and cash flows.”

The Kingfish Risk Management Policy will be incorporated within the normal management and governance processes and will focus on the following:

- Effective and efficient continuity of operations;
- Safeguarding of shareholders' investments and the company's assets;
- Maintenance of a positive reputation;
- Reliability of internal and external reporting;
- Compliance with applicable laws and regulations.

WHOSE RESPONSIBILITY IS RISK MANAGEMENT?

The ultimate responsibility for risk management rests with the Board.

The Board in conjunction with the Corporate Manager and the Assistant Corporate Manager, implements and operates risk identification measures, risk mitigation plans and key controls. In fulfilling their responsibilities, the Managing Director of Fisher funds Management Limited (“Fisher Funds or the Manager”), the Corporate Manager and the Assistant Corporate Manager should identify and evaluate the risks faced by the company for consideration by the Board and design, operate and monitor a suitable system of risk management.

Everyone involved with the business must take personal responsibility for managing risk to the business in their area of influence and take positive action when risk is identified.

RISK MANAGEMENT TOOLS

The risk management tools used by Kingfish include:

1. Strong corporate governance;
2. Audit and Risk Committee;
3. Outsourcing of certain functions to experts;
4. Internal controls, procedures and processes;
5. Reporting systems to monitor risk;
6. Business continuity planning;
7. Insurance; and
8. Acceptance of the risk.

Some risks will be identified, assessed and accepted as risks without any active mitigation of the risk. This is the most appropriate strategy where the net cost of mitigating the risk is greater than the risk of loss. Acceptance of any risk must be a conscious, active decision rather than a passive acceptance of the risk.

1. CORPORATE GOVERNANCE

The company retains a Board of Directors to ensure best practice corporate governance and to ensure that shareholder interests are held paramount. The majority of the Board will be independent. The minimum number of directors is three and the maximum number is seven.

The Board must be kept informed of key risks to the business on a continuing basis (see Reporting Systems to Monitor Risk below).

The Board meets a minimum of six times a year and is provided with accurate timely information on all aspects of the company's operations.

2. AUDIT AND RISK COMMITTEE

An Audit and Risk Committee has been established to focus on discharging its responsibilities relative to financial reporting and regulatory conformance.

The committee may have in attendance the Corporate Manager, the Assistant Corporate Manager, a representative from the Manager, and such other persons including the external auditors, as it considers necessary to provide appropriate information and explanations.

Meetings shall be held not less than twice a year having regard to the company's reporting and audit cycle. Any member of the committee, the Managing Director – Fisher Funds, the Corporate Manager, the Assistant Corporate Manager or the external auditors may request a meeting at any time if they consider it necessary.

The responsibilities of the committee are as follows:

- liaison with external auditors;
- review of the annual audit plan with the external auditors;
- review of audit findings, the annual financial statements and the annual report;
- review of interim financial information including any findings from interim review performed by the external auditor;
- prior clearance of public releases of financial information to the media;
- review of accounting policies;
- oversight of compliance with statutory responsibilities relating to financial and tax legislation requirements;
- review of the frequency and significance of all transactions between the company and related parties and assessment of their propriety;

- review of the appointment of the external auditors and their fees;
- review of the independence of the external auditors and the appropriateness of any non-audit services they undertake for the company;
- review of the adequacy and effectiveness of the company's risk management including an annual review of the Risk Management Policy;
- undertaking a regular assessment of the internal controls operating within the company;
- review of assessment of the custodians' (Trustees Executors) internal control processes (known as 'negative assurance' work) at each half year (additional to the annual external audit process) including a review of the custodian's auditors negative assurance letters which should come direct to Kingfish Limited, which describe any weaknesses in internal controls and systems that may have come to the attention of the auditor; and
- supervision of special investigations when requested by the Board.

In addition, the committee shall examine any other matters referred to it by the Board.

The committee shall maintain direct lines of communication with the external auditors and with management generally including those responsible for non-financial risk management.

The Corporate Manager shall be responsible for drawing to the committee's immediate attention any material matter that relates to the financial condition of the company, any material breakdown in internal controls, and any material event of fraud or malpractice.

3. OUTSOURCING

Kingfish's policy is to minimise risk and to ensure independence and separation from the Manager by seeking specialist help from experts whenever best practice skills are not retained within the business:

Key areas where Kingfish engages specialist help include:

- Investment Management
- Legal advice
- Tax planning and review of tax calculations
- Custody Services and Investment Accounting services
- Registry Services (Computershare)
- Independent actuarial review of the performance returns and performance fee calculations
- PwC review of the performance fee calculations

Outsourcing offers protection to reduce the risk of either not identifying a major risk, making a significant error in key processes, not being able to provide adequate segregation of duties or making uninformed decisions where we do not retain specialist expertise in-house. Additional protection is provided through the ability to take legal action against any suppliers who provide services or advice that is inadequate.

Suppliers will be selected on the basis that they use best practice, are experienced, skilled and have substance behind them to support any claim Kingfish may make.

A Service Level Agreement between Kingfish and its custody services provider has been established and agreed covering the detailed level of service and internal controls that exist in relation to custody services and investment accounting.

Kingfish requires its custodian to conduct an annual assessment of their internal control processes (known as 'negative assurance' work) at each half year in addition to the annual, year end external audit process. The custodian's auditor provides negative assurance letters direct to Kingfish Limited, which describe any weaknesses in internal controls and systems that may have come to the attention of the auditor in the conduct of their review of accounting records and systems of internal control.

The Corporate Manager is responsible for monitoring supplier relationships and updating the Board on any issues.

4. KEY INTERNAL CONTROLS

Key controls are:

- The definition of responsibilities and delegated authorities. These are contained in the Management Agreement and Administration Services Agreement with the Manager and the Services Agreement and Service Level Agreement with the Custodian. The Board ensures that the Corporate Manager and the Assistant Corporate Manager are properly qualified and experienced to enable them to effectively discharge their duties.
- An internal controls document exists and is reviewed, developed and updated at least annually and when changes to process and procedures occur.
- In relation to the custodial and investment accounting function outsourced, Kingfish receives a bi-annual report from the Custodian's auditors highlighting the following key areas:
 - Control policies and procedures (including segregation of duties)
 - Accuracy and completeness of records
 - Physical security of assets
 - Standards for Independence
 - Registration and segregation of clients' investments
 - Valuation and accounting of assets
 - Accuracy of tax information
 - Security and Integrity of computer information systems.
- Review and approval by the Board of all significant business issues including authorisation by at least one board member of all expenses.

The Corporate Manager and the Assistant Corporate Manager are responsible for monitoring and developing adequate control systems.

5. RISK REPORTING SYSTEMS

Reporting systems will remain in place at all times to:

- Encourage focus on the identification of risks;
- Ensure a programme for managing compliance obligations is in place and monitored;
- Highlight mitigation plans required to manage risk on a regular basis;
- Ensure the Board is kept informed of business, operational and compliance risks.

The following reports shall be provided to the Board to meet these objectives:

- Compliance Plan; a list of all legal and regulatory compliance requirements for Kingfish Limited (quarterly);
- Monthly reporting to the Board by the Corporate Manager or Assistant Corporate Manager on current business risks, mitigation plans and likely impact on the business. Financial Statements, budgets/forecasts and the Performance Fee calculation.
- Monthly Manager's Report including Investment Mandate compliance and Directors Certificate in accordance with the Management Agreement.
- A review of internal controls and their effectiveness (bi-annually);
- Audit and Risk Committee report and Auditor's/Accountants' report from the external auditor bi-annually.

6. BUSINESS CONTINUITY PLANNING

Fisher Funds will maintain adequate disaster recovery and continuity processes to ensure that their business is not severely adversely impacted by loss of computer systems or other technology.

Significant events that could cause such a loss have been categorised into four areas:

1. Man-made threats;
2. Loss of applications or technology;
3. Short-term loss of access to the premises (up to 3 days);
4. Long-term loss of access to the premises (more than 3 days).

Fisher Funds would remain operational and not under serious threat if the technology was unavailable for a number of hours, or even days.

Kingfish has relatively low technology and premises needs so could continue to operate for days if unavailable.

Custody and investment accounting is outsourced to our Custodian, based in Wellington. As a result, loss of Kingfish's technology would not create settlement default risk or operational risk. The manager would still be able to effect transactions provided access to a phone was possible, settlements could occur and processing of registry transactions could be delayed (for up to seven days) if systems were unavailable.

Kingfish has reviewed the custodian's disaster recovery and business continuity plans and is comfortable that they provide adequate protection for their own recovery from a disaster. This has been confirmed by their external auditors, PwC, as part of their audit of Systems of Internal Control.

The primary applications and technology that Kingfish requires are:

1. Telephones and faxes
2. Access to the NZX MAP System
3. Access to portfolio spreadsheets and Kingfish work papers
4. Access to Companies Office website (to update records on-line).

Protections against man-made threats (such as sabotage and cyber-terrorism) include:

- All computers are password protected, with authentication controlled by the file server.
- Nightly data backups are rotated off-site, so if equipment is stolen or vandalised we are able to re-establish the business with minimal loss of information.
- Physical security is in place to limit unauthorised access to the office.
- Anti-virus software is installed and regularly updated on all computers.
- Remote LAN access is password protected and restricted to senior personnel.
- If our website was compromised and/or altered, we could simply turn it off with no impact to the business.
- Certain key documents are also located with advisers off-site, including:
 - Legal records (Solicitor, Auckland)
 - Current portfolio data and all historic accounting records (Custodian, Wellington)
 - Audited annual accounts (Auditor, Auckland)
 - Audited annual accounts (Companies Office, Auckland)
- Kingfish would rely on Fisher Funds to ensure alternative premises and technology was available in the event of extended business interruption. Fisher Funds has its own business continuity plan.

7. INSURANCE

Where a significant risk has been identified and other risk management tools prove to be too expensive or not as effective, we shall seek to mitigate that risk through insurance.

Insurance is not our key risk protection mechanism as we will firstly seek to avoid adverse events occurring, but it does play a part in our overall risk management strategy.

It is our policy to take advice from professional insurance brokers as to the type and level of cover that is considered best practice for organisations of our size and nature.

Insurances held include:

- Directors and officers; and
- Statutory Liability

It is policy to review Kingfish insurance requirements at least every 18 months.