

# BARRAMUNDI LTD

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## **RISK MANAGEMENT POLICY**

2011

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## THE OBJECTIVES OF RISK MANAGEMENT

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“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 Barramundi 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.

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## WHO'S RESPONSIBILITY IS RISK MANAGEMENT?

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The ultimate responsibility for risk management rests with the Board.

The Board in conjunction with the Chief Financial Officer implements and operates risk identification measures, risk mitigation plans and key controls. In fulfilling its responsibilities, management 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. These responsibilities lie with the Managing Director – Fisher Funds and the Chief Financial Officer - Barramundi

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.

***The risk management tools used by Barramundi include:***

1. Strong corporate governance;
2. Audit 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.

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**1. CORPORATE GOVERNANCE**

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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 3 and the maximum number is 7.

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 6 times a year and is provided with accurate timely information on all aspects of the Company's operations.

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**2. AUDIT COMMITTEE**

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

The committee may have in attendance such members of management including the Barramundi Chief Financial Officer, a representative from the Manager, Fisher Funds Management Ltd and such other persons including the external auditors, as it considers necessary to provide appropriate information and explanations.

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## 2. AUDIT COMMITTEE (CONT)

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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 Barramundi Chief Financial Officer 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;
- 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 other 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;
- Monitoring of corporate risk assessment and the internal controls instituted;
- review of annual 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 Barramundi 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 Chief Financial Officer 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.

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### 3. OUTSOURCING

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Barramundi'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 that Barramundi engages specialist help include:**

- Investment Management
- Legal advice
- Tax planning and review of tax calculations
- Custody Services and Investment Accounting services
- Registry Services (Computershare).

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 Barramundi may make.

A Service Level Agreement between Barramundi 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.

Barramundi 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 Barramundi Limited, which describe any weaknesses in internal controls and system 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 Chief Financial Officer is responsible for monitoring supplier relationships and updating the Board on any issues.

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#### 4. KEY INTERNAL CONTROLS

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**Key controls are:**

- The definition of responsibilities and delegated authorities. These are contained in the Chief Financial Officer's position description, The Management Agreement with Fisher Funds Management Ltd, The Services Agreement and Service Level Agreement with the Custodian. The Board ensures that the management team is 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, we receive 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 independent board member of all expenses.

The Chief Financial Officer is responsible for monitoring and developing adequate control systems.

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## 5. RISK REPORTING SYSTEMS

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***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 Barramundi Limited (monthly);
- Monthly Board Papers incorporating: Chief Financial Officers Report, which includes a section on current business risks, mitigation plans and likely impact on the business. Financial Statements, budgets/forecasts and 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 Committee report and Auditor's/Accountants' report from the external auditor bi-annually.

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## 6. BUSINESS CONTINUITY PLANNING

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The Manager - 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.

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

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## 6. BUSINESS CONTINUITY PLANNING (CONT)

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Custody and Investment accounting is outsourced to our custodian, based in Wellington. As a result, loss of Barramundi's technology would not create settlement default risk or operational risk. The manager could still be able to effect transactions provided access to a phone is possible, settlements could occur and processing of registry transactions could be delayed (for up to 7 days) if systems were unavailable.

Barramundi 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, Deloitte, as part of their audit of Systems of Internal Control.

The primary applications and technology that Barramundi requires are:

1. Telephones and faxes
2. Access to the NZX MAP System
3. Access to portfolio spreadsheets and Barramundi 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
- Barramundi 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.

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## 7. INSURANCE

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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 at the time of writing include:***

- Directors and officers and company reimbursement insurance;
- Prospectus Liability

It is policy to review Barramundi insurance requirements each year.

<b>Key Risk Area</b>	<b>How can it Occur?</b>	<b>Consequence</b>	<b>Risk Ass'ment</b>	<b>Management Strategy</b>
<b>1. Financial/Operational Risk</b>	Lack of Internal Control/ Corporate Governance	<ul style="list-style-type: none"> <li>Exposure to avoidable financial risk</li> <li>Impact on Shareholder returns</li> <li>Inaccurate, unreliable Information for decision making</li> <li>Non compliance with appropriate accounting principles</li> <li>Exposure to loss, fraud and litigation</li> </ul>	Low	<ul style="list-style-type: none"> <li>Strong Corp Governance</li> <li>Outsourcing of key functions to experts</li> <li>Internal controls and reporting systems in place</li> <li>Key agreements with Manager and Custodian</li> <li>Insurance to mitigate loss</li> </ul>
<b>2. Tax Risk</b>	Variations in taxation law	<ul style="list-style-type: none"> <li>Material effect on operation results and impact on shareholder returns</li> </ul>	Med	<ul style="list-style-type: none"> <li>Audit committee</li> <li>Engaging Tax expertise</li> </ul>
<b>3. Liquidity Risk</b>	Lack of internal control	<ul style="list-style-type: none"> <li>Insolvency/Going concern issues</li> </ul>	Low	<ul style="list-style-type: none"> <li>Daily cash monitoring, weekly, monthly review to ensure that operating within prescribed guidelines</li> </ul>
<b>4. Borrowing / Interest Rate Risk</b>	Increased Interest rates	<ul style="list-style-type: none"> <li>Increased borrowing costs</li> <li>Impact on Barramundi value and value of companies that Barramundi invests in</li> </ul>	Med	<ul style="list-style-type: none"> <li>Borrowing constraints up to a maximum value of 20% of the GAV</li> <li>Managers Investment Strategy</li> </ul>
<b>5. Human Resources Risk</b>	Loss of Key personnel	<ul style="list-style-type: none"> <li>Loss of specialised knowledge base</li> </ul>	Low	<ul style="list-style-type: none"> <li>Manager's ownership structure</li> <li>Good working environment</li> </ul>
<b>6. Market/Investment Risk</b>	Market conditions, regulatory restrictions	<ul style="list-style-type: none"> <li>Impact on Shareholder returns</li> </ul>	Med	<ul style="list-style-type: none"> <li>Management Agreement</li> <li>Manager's Investment strategy and parameters</li> </ul>
<b>7. Legal / Compliance Risk</b>	Lack of Internal controls/policies and procedures. Claims by employees, shareholders and others	<ul style="list-style-type: none"> <li>Legal Costs</li> <li>Reputation issues</li> <li>Breach/fines from regulatory authorities</li> </ul>	Low	<ul style="list-style-type: none"> <li>Strong Corp Governance,</li> <li>Outsourcing of key functions to experts</li> <li>Internal controls and reporting systems in place</li> <li>Insurance coverage to mitigate financial impact</li> </ul>
<b>8. Business continuity Risk (includes IT Risk)</b>	Failure of key utilities, natural disaster, fire, flood etc	<ul style="list-style-type: none"> <li>Inability to continue basic business operations</li> </ul>	Low	<ul style="list-style-type: none"> <li>Refer detailed Plan in Risk Assessment Document – Policy covered under Managers Risk Management Policy</li> </ul>
<b>9. Health and Safety Risk</b>	Unsafe work environment	<ul style="list-style-type: none"> <li>Legal Claims</li> </ul>	Low	<ul style="list-style-type: none"> <li>To be incorporated into Manager's Health and Safety policy</li> </ul>
<b>10. Physical Security</b>	Unsafe work environment	<ul style="list-style-type: none"> <li>Loss &amp; damage to property</li> <li>Non compliance with legislation</li> </ul>	Low	<ul style="list-style-type: none"> <li>Covered under Manager's Physical security policy</li> </ul>