360 Capital Group

Risk Management Program

Document Number	401.0
Document Owner	Compliance Manager (**CM**)
Related Documents	Business Continuity Plan Procedure 411.0 Company Insurance Maintenance Procedure 458.0 Compliance Policy 501.0 Events Breach Reporting and Ongoing Disclosure Procedure 511.0

Policy

Requirement

The Boards of 360 Capital Group Limited, its subsidiaries and associates (**360 Capital**) are committed to embedding risk management in all the Group's practices and processes so as to protect investors and the business.

Towards this end, the Boards require a comprehensive risk management program to ensure appropriate controls and procedures are put in place to mitigate risks and minimise the potential loss or damage to investors and 360 Capital. In the case of 360 Capital loss or damage could be both financial and to its reputation.

Program and Outcomes

360 Capital will maintain an appropriate risk management program in accordance with AS/NZS ISO 31000:2009 Risk management – Principles and guidelines.

The outcome of the risk management program is the development of a risk management philosophy and awareness of risk at all levels of the organisation especially at the management level. This awareness is to be facilitated through training in identification of risk related matters.

The 360 Capital Risk Management Program will include a detailed inventory of readily identified risks and how these are analysed, evaluated and monitored and how the risks are treated.

Identified Risks

Risks relevant to this program can be identified in the Protecht ERM application.

Legal and Industry Standards

Relevant Legal Requirements and/or Industry Standards

a. Corporations Act section 912A(1)(h) – adequate risk management systems.

b. ASIC Regulatory Guide 104 – Licensing: Meeting the general obligations.

c. ASIC Regulatory Guide 259 – Risk management systems of responsible entities.

d. AFS Licence Condition 3 – Compliance Measures to ensure Compliance with Law and Licence.

e. ISO 31000:2009 Risk management – Principles and guidelines.

Process

Initiation Point

This Risk Management Program is implemented and subject to both ongoing review and specific reviews triggered by an event that warrants examination of the adequacy of risk controls.

Closure

Ongoing.

Overview

The risk management program below provides the framework for establishing the:

1. Identification and assessment of risks;
2. Analysis and evaluation of risks;
3. Treatment of risks; and
4. Review of the program.

The process for managing risks is integrated with all the business management, operational and planning activities.

Identification and assessment of risks

In the context of this risk management program, risk is defined as any event, circumstance or factor which may adversely affect the ability to achieve business objectives. These events include both unrealized opportunities and adverse incidents.

Approaches to identifying and assessing risks include management meetings, investment committee meetings, checklists, judgements based on experience and audit results, complaints history, brainstorming, interviews with management, systems and scenario analysis.

360 Capital uses the sources of risk and areas of impact to provide the starting point for risk identification and analysis. Because of the potentially large number of impacts, a generic list of risk sources has been identified.

Each generic source has numerous components, any of which may give rise to a risk type. Some components will be under the control of 360 Capital, while others are outside of its control, such as changes in government policy. Both need to be considered when identifying risks.

The table below details generic sources of risk along with key aspects.

Generic sources of risk	Key aspects
AML / CTF	Identifying and verifying the bona fides of customers, reporting irregularities, ongoing monitoring of customers
Australian Fund Operations	Transaction processing and analytical modelling for Australian funds
Business Continuity	Consequences of climatic conditions (flood, heat wave, drought etc.) Consequences of technical and technology failure (electricity supply disruption, computer failures, communications failures etc.) Consequences of political or social disruption, vandalism, sabotage etc.
Commercial and Legal	Relationships between 360 Capital and other companies / organizations. Includes legislative changes and factors which may influence other sources of risk.
Economic Circumstances	Of 360 Capital, related parties, country, internationally, as well as factors contributing to those circumstances e.g. movements in interest rates.
Governance	Organization behaviour. Consistency with community values and investors, staff and shareholders wishes.
Human Behaviour	Consequences of actions of persons, both involved and not involved in the 360 Capital business.
Investment	Consequences of investment strategies, decisions and actions
Security	Over premises, access, moveable assets and information.
Technology	Technology and technical issues within and external to the organization.

Identified Risk Types

Upon recognition of the generic sources of risks, risk types have been identified. Each generic source of risk may have one or more risk types associated with it.

The identified risk types are detailed in the following table.

Risk Type	Definition	Key Aspects
Adviser Relationship Risk	The risk resulting from a decision to do business with a financial adviser or financial adviser's practice or due to the manner in which the relationship with an existing financial adviser is handled.	Suitability of products, investment strategies and appropriate reporting. Adviser's financial knowledge and expertise.
Business Continuity Risk	The risk that 360 Capital is unable to operate at its Sydney premises or at designated back-up premises due to inadequate disaster recovery plans.	Failure of premises, systems, moveable assets integrity and security. Natural or man-made disasters, terrorism or strikes.
Business Financial Risk	The risk that 360 Capital is unable to operate due to an inability to meet its financial obligations.	Inability to pay creditors or become insolvent. Inability to collect monies owing to the business as and when due.
Counterparty Risk	The risk resulting from a counterparty's inability to meet its obligation to deliver funds, securities or commodities.	Lack of due diligence on financial capacity of parties, lack of monitoring of party.
Credit Risk	The risk that the security issuer in respect of fixed income products, notes and certain hybrid securities will default on payment of interest or principal.	
Customer Relationship Risk	The risk resulting from a decision to do business with a customer, or due to the manner in which the relationship with an existing customer is handled.	Suitability of products, investment strategies and appropriate reporting.
Derivative Risk	The risk that the use of derivatives may impact upon the portfolio.	The derivative performance does not meet investment objective, potential liquidity of the derivative, events of default, adjustment events or termination events.
External Service Provider / Supplier Relationship Risk	The risk resulting from a decision to do business with an External Service Provider (ESP) or supplier or due to the manner in which the relationship with an existing ESP or supplier is handled.	ESP's reputation and comprehensive due diligence. Supplier's reputation and due diligence.

Risk Type	Definition	Key Aspects
Forced Sale of Investments Risk	The risk of the impact on performance resulting from forced sale of investments to pay redemptions.	Impacted upon by concentrated portfolios, low level of liquidity and low applications.
Forward Contracts Risk	The risk that a counterparty with whom forward contracts are entered into refuses to quote prices or quotes prices with an unusually wide spread or the contract is unable to be novated.	Lack of due diligence on financial counterparties.
Fund Liquidity Risk	The risk of being unable to sell assets or fund liabilities.	Lack of budget and cash management. Poor investments, investments in illiquid assets, market conditions, poor advice, contractual terms and conditions.
Governance Risk	The risk resulting from 360 Capital not adopting corporate values that are consistent with the broader community, clients, investors, fund members and the industry.	Commitment to the community, environment and good corporate governance. Industry reputation, competing fairly and advancing frontiers of knowledge.
Individual Investment Risk	The risk resulting from: • change in a sector's attractiveness relative to broader markets • change in profitability of a particular investment strategy or • change in the business environment leading to a loss in investment value.	Level of portfolio concentration.
Information Risk	The risk resulting from an inability to access, provides security over, or properly utilise information that resides within the firm.	Company business objective, values, services offered, corporate relationships are clearly defined and enunciated throughout 360 Capital. Company and investor information is readily backed-up.
Interest Rate Risk	The risk that changes in interest rates will have a negative impact, directly or indirectly upon investment value or returns.	Interest rate sensitive exposure and borrowing.

Risk Type	Definition	Key Aspects
Investment Style / Strategy Risk	The risk that the investment style/strategy will be unsuccessful.	Style/strategy diversification within the business.
Key Person Risk	The risk resulting from not having the appropriate key person(s) to meet business requirements and manage core aspects of the business	Key person(s) leaves, dies or becomes incapacitated, placing the continued operations of the business at risk.
Legal Risk	The risk that an External Service Provider (ESP) or consultant agreement may not be legally enforceable or may be ineffective for whatever reason.	Service provider did not have the power to enter into the agreement. One or more of the contractual terms are unenforceable due to public policy, or cross claims or because the provisions are overridden for example in an insolvency.
Leverage Risk	The risk that the level of leverage from using derivatives or borrowing will impact upon investment value or returns.	Level of leverage in product design.
Margin Risk	The risk that the change in value of a security could lead to a margin call that cannot be covered.	Investment selection process and level of monitoring.
Market Risk	The risk that assets are adversely affected by movement in markets or external factors.	Lack of planning, poor advice on assets class, poor advice on techniques for risk mitigation (e.g. use of derivatives, hedging etc).
Model Risk	The risk that the analytics in models being used in decision making are inaccurate.	Inappropriate data is used in the model, misinterpretation of data, incorrect coding, model is not properly documented.
People Risk	The risk resulting from not having the appropriate core competencies to meet business requirements and manage operational and environmental compliance aspects of the business	Number of people, depth of competency, adequacy of supervision, core values of the people, the work environment, and the sensitivity of the people to operational aspects of the business.
Physical Security Risk	The risk resulting from improper access to movable assets (documentation, fixed assets) or from terrorism, strikes etc.	Lapses in building security and protocols for managing safety and evacuation of staff and transfer of assets.

Risk Type	Definition	Key Aspects
Political Risk	The risk that legislative changes will affect the outcomes of legal agreements entered into by 360 Capital.	Changes or retrospectivity of legislation and government policy engendering uncertainty.
Processing Risk	The risk resulting from the inability to properly process a transaction for technology or non-technology related reasons.	Transactions are not processed or recorded in a timely manner or transactions are incorrectly processed or recorded. Lapses in supervision and training of staff.
Product Liability Risk	The risk of a flaw in product design and development exposing the company to a product liability claim.	Scheme design error, substandard quality control, substandard advice, inadequate testing or demand, inadequate resourcing of project, use of incompetent staff, failure to obtain appropriate advice and external expertise.
Public Liability Risk	The risk to members of the general public or visitors because of dangerous access, egress and on-site safety.	Inadequate insurance, poor supervision of visitors and lack of awareness by staff of health, occupational and safety standards.
Regulatory Risk	The risk resulting from a lack of compliance with regulations mandated by Federal, State or Local authorities.	Poor resourcing of compliance function and lack of leadership by Board and senior management.
Sector Risk	The risk resulting from exposure to a particular sector that may be subject to problems or demand / supply imbalances	Failure to put in place or observe limits as to how much of a fund's assets can be invested in an individual sector
Settlement Risk	The risk of paying out cash or securities prior to receiving the counter-value.	Settlement risk differs from credit risk in that it occurs as a result of the settlement mechanics in a particular market, or because of time zone differences, rather than the counterparty's financial ability to perform under the agreement. The risk is limited to trading markets, but not all trading markets bear this risk.

Risk Type	Definition	Key Aspects
Shareholder Relationship Risk	The risk resulting from the conduct of a particular shareholder or due to the manner in which the relationship with an existing shareholder is handled	
Technology Risk	The risk resulting from inadequacies in 360 Capital's technology infrastructure including hardware and software.	Inadequacies in the business' technology strategy and plan. Outdated software and hardware leading to inadequate transaction processing, security controls over system assets, or prolonged system outages.

Analysis and evaluation of Risks

Analysis

The purpose of analysing risks is to separate the minor acceptable risks from the major risks. While risk identification involves the consideration of the sources/root causes of risk, analysis looks at their consequences and the likelihood that these consequences may occur. Risk is analysed by combining the estimates of consequences and likelihood in the context of the adequacy of existing controls included in operational procedures.

The Disaster Recovery Plan provides the operational response to an identified natural, technical or human threat to be used in the event of a major disruption to 360 Capital's operations. The Disaster Recovery Plan covers the required action in the case of specific functions affected and in the extreme case where the total organisation is adversely affected by an event.

The identified consequences or areas of impact by the occurrence of a risk type are detailed in the table below. Risk analysis may concentrate on impacts in one area only or on several possible areas of impact.

Evaluation

Risks will be evaluated to determine the organisation's risk tolerance or risk appetite, and which risks need treatment and priority.

Areas of impact	Key aspects
Operational Consequences	Damage to equipment and/or facilities, interruption to 360 Capital's or fund operations.
Reputational Consequences	Good corporate citizen, community involvement and obligation to fund members, minimisation of environmental impact, recycling etc.
Compliance	Breach of compliance obligations.
Monetary Consequences	Revenue and costs of 360 Capital and activities, both direct and indirect such as compensation.

Likelihood of a potential risk occurring given controls in place

Although the exact nature of potential risks or their resulting consequences are difficult to determine, it is beneficial to perform a comprehensive risk assessment of all threats that can realistically occur to the organization to minimise any loss or damage to 360 Capital, fund members and mandate clients. The table below details the likelihood rating associated with a particular risk occurring given the level of controls in place and corresponding scale.

Risk Likelihood	Scale	Descriptor
Rare	**1**	Less than 1 time in 10 years
Unlikely	**2**	Between 1 and 10 times in 10 years
Might occur	**3**	Between 1 and 12 times per year
Likely to occur	**4**	Between 12 and 52 times per year
Almost certain to occur	**5**	More than 52 times per year

Risk Consequence

Any risk can be scaled according to the potential severity in operational, reputational, compliance and monetary terms of the consequences of it occurring. The table below details the risk consequence of impact and corresponding scale.

Risk Consequence	**Scale**	**Operational Consequences of Impact**	**Reputational Consequences of Impact**	**Compliance Impact**	**Monetary Consequences of Impact**
Insignificant	**1**	No interruption to 360 Capital's operations or fund operations	No impact on reputation	No breach of compliance obligations	Less than $100k or less than 1% of operating revenue whichever is greater
Minor	**2**	Interruption to 360 Capital's or fund operations for up to 48 hours.	Staff aware of event	Minor breach of compliance obligations	Greater than $100k or less than 2% of operating revenue whichever is greater
Moderate	**3**	Damage to equipment and/or facilities, interruption to 360 Capital's or fund operations for 49 to 120 hours.	Regulator aware of event	Breach of compliance obligations	Greater than $500k or less than 5% of operating revenue whichever is greater
Major	**4**	Damage to equipment and/or facilities, interruption to 360 Capital's or fund operations for 121 to 240 hours.	Regulator and fund members aware of event , local media coverage	Major breach of compliance obligations	Greater than $1m or less than 10% of operating revenue whichever is greater

Risk Consequence	Scale	Operational Consequences of Impact	Reputational Consequences of Impact	Compliance Impact	Monetary Consequences of Impact
Catastrophic	5	Damage to equipment and/or facilities, interruption to 360 Capital's or fund operations for greater than 240 hours.	Regulator and fund members aware of event, national media coverage	Systemic breach of compliance obligations	Greater of $2.5m or greater of 25% of operating revenue

Risk Scoring Methodology

The risk score provides an indication of the level of gross risk if the risk activity identified occurred. As well as the typical low likelihood (probability), minor impact events (low risk score) and high likelihood, major impact events (high risk score), the risk score must be able to accommodate low likelihood, major impact events (moderate risk score).

Accordingly, the scoring methodology calculates the risk score by multiplying the likelihood of a risk occurring by the risk consequence.

Score Matrix

The table below details the matrix of the likelihood and consequence scales. For example if the risk has a likelihood scale of 2, that is, it is unlikely to occur and the consequence of that risk occurring is minor, a scale of 2, i.e. a cost of greater than $10k or less than 1% of operating revenue, whichever is greater, the overall score for the risk would be $2 \times 2 = 4$, Low.

Risk Likelihood	Risk Consequence				
	Insignificant - 1	Minor - 2	Moderate - 3	Major - 4	Catastrophic - 5
Rare – 1	1	2	3	4	5
Unlikely – 2	2	4	6	8	10
Might occur – 3	3	6	9	12	15
Likely to occur – 4	4	8	12	16	20
Almost certain to occur - 5	5	10	15	20	25

Three Levels of Risk Rating

The table below details three levels of overall risk scores and corresponding ratings – High, Moderate and Low – together with their minimum requirements for attention and monitoring to ensure the controls are adequate.

Overall Risk Score	Risk Rating	Risk Rating Description	Attention and monitoring
> 15	High	Means an inadequate process or lack of processes that expose the company to a breach of its AFSL, the Corporations Act or other laws.	Immediate action required and senior management attention and monitoring required as needed.
5 – 15	Moderate	Means risk activities have been identified and controls and monitoring are in place to ensure the impact from the risk occurring remains within an acceptable level.	Management responsibility specified in operational procedures and at least quarterly monitoring.
<5	Low	Means risk activities have been identified and given the level of controls and monitoring the potential consequence for the business is not expected to be significant.	Management by routine procedures and at least annual monitoring.

Risk register

The Risk Register details the current identified risks to the business and the corresponding gross risk scores.

Risk Treatment

Risk treatment involves identifying the range of options for treating risk, assessing these options, preparing risk treatment or mitigations plans and implementing them.

The options for risk treatment, which are not necessarily mutually exclusive or appropriate in all circumstances, include the following:

- avoid the risk;
- reduce the likelihood of the occurrence of the risk;
- reduce the consequences of the risk;
- transfer the risk; and
- retain the risk.

The following paragraphs describe each of these options and 360 Capital's response and use of them in treatment of risk events.

1. ***Avoid the risk*** by deciding not to proceed with the activity likely to generate risk. 360 Capital's directors and senior management are well aware that this could result in:

   a. Decisions to avoid or ignore risks regardless of the information available and costs incurred in treating those costs;

   b. Failure to treat risks;

   c. Leaving critical choices and/or decisions up to other parties;

   d. Deferring decisions which 360 Capital cannot avoid; or

   e. Selecting an option because it represents a potential lower risk regardless of the benefits.

2. 360 Capital uses the following actions to ***reduce the likelihood of occurrence*** of the risk:

   a. Company organisational structure;

   b. Supervision;

   c. Audit and compliance programs;

   d. Documented procedures;

   e. Contracted conditions with other parties;

   f. Process controls; and

   g. Structured training.

Risk Treatment (continued)

3. 360 Capital uses the following to ***reduce the consequences*** of the risk:
   a. Contractual arrangements;
   b. Contracted conditions with other parties;
   c. Disaster Recovery Plan; and
   d. Insurances.
4. ***Transfer the risk:*** this involves some other party bearing or sharing some part of the risk. 360 Capital uses mechanisms such as contracts and insurance arrangements to achieve this. While the transfer helps diminish risk, 360 Capital must be satisfied that the organization taking on this extra responsibility is capable of doing so.
5. ***Retain the risk:*** after the risks have been reduced or transferred, there may be residual risk, which is retained. Plans are required to be put in place to manage the consequences of such risks if they should occur, including the means to finance such risk.

Risks can also be retained by default i.e. where there is failure to identify and/or appropriately transfer or otherwise treat risks.

In the case of the identified risks not insured against they are to be reviewed each year in accordance with this program and Company Insurance Maintenance Procedure 458.0 to confirm that they are to remain uninsured.

Assessing Risk Treatment Options

Options should be assessed on the basis of risk reduction, and the extent of any benefits or opportunities created.

Selection of the most appropriate option involves balancing the cost of implementing each option against the benefits derived from it. In general, the cost of managing risks needs to be commensurate with the benefits obtained.

Review Mechanisms

Risks and the effectiveness of control measures need to be monitored to ensure changing circumstances do not alter risk priorities. This will ensure that the implementation and the risk management policy remain relevant, as circumstances are changing all the time and review of the previous decisions is vital. Risks are not static.

The mechanisms adopted by 360 Capital to review the program include:

- Annual review by the 360 Capital Board following discussion with management for effectiveness and efficiency; and
- All operational procedures have operating standards, control points and reporting of breaches and breakdowns in systems and procedures.

Procedure Standards and Controls

Procedure Standards

- The Board and management review risks facing the business and evaluate the effectiveness of controls at least annually.
- Risks and control measures are communicated to relevant all personnel by management.
- All operational procedures have operating standards and control measures imbedded in their processes to address identified risks.
- This program is reviewed annually by the 360 Management and the Board for effectiveness.
- All acts in contravention of the laws, regulations, codes or organisational standards and 360 Capital policy and procedures are to be reported in accordance with the Events Breach Reporting and Ongoing Disclosure Procedure 511.0.

Control Points

- All breaches of identified risks are to be reported to the 360 Capital Board.
- 360 Capital's Company Secretary will maintain a Register of Insurances 458.1 and ensure that insurances are up-to-date. The Company Secretary will check this Register and prior to any policy renewals.
- 360 Capital's Company Secretary will advise the Board of any claim that may be made against the company, its officers, contractor, authorised representatives and legal entities covered by any of the insurance policies.

Administration

Documentation	As required by procedures.
Reporting and Action Items	Dependent upon individual procedural requirements. Periodic compliance questions are assigned to staff members to attest to procedure controls.
Review Trigger	The 360 Capital Board will be required to review this procedure annually by reference to the effectiveness of the procedure over the previous year.

Associated Documents

401.1: 360 Capital’s Current List of Assessed Risks

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