RISK MANAGEMENT FRAMEWORK

National Investment and Infrastructure Fund Limited

1. INTRODUCTION

1.1. The National Investment and Infrastructure Fund Limited ("**Company**" or "**NIIF Limited**"), has been incorporated as a company under Companies Act 2013 and is acting as the investment manager to Alternative Investment Funds (as defined under the Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012 ("**AIF Regulations**")) set up under the NIIF (defined hereinafter) umbrella.

The National Investment and Infrastructure Fund platform ("**NIIF**") was created by the Government of India ("**GoI**") to catalyze capital from international and domestic investors into infrastructure and allied sectors in India. GoI agreed to commit INR 20,000 crores to NIIF with the remaining amount of INR 20,000 crore to be contributed by domestic investors and international investors (together with GoI referred to as "**Investors**"). The Investors have each entered into a contribution agreement with the Company (as the investment manager) and with the trustee to the NIIF Funds (defined hereinafter), wherein the respective terms of investment applicable to the Investors are recorded. Such funding from the Investors will be used by the Company for the purpose of making investment in the infrastructure sector in accordance with the investment strategy of the concerned NIIF Fund.

The investment strategy of NIIF consists of the following funds:

(i) The National Investment and Infrastructure Fund ("**Master Fund**") has been set up as a private trust by way of the Indenture of Trust dated October 09, 2015 (as amended from time to time) under the Indian Trusts Act, 1882 and is registered with the Securities and Exchange Board of India ("**SEBI**") as a Category II Alternative Investment Fund ("**AIF**") under the AIF Regulations. Master Fund will undertake direct investments in sector specific platform companies or projects within India;

(ii) NIIF Fund of Funds – I ("**FoF**") has been set up as a private trust by way of the Indenture of Trust dated March 01, 2018 (as amended from time to time) under the Indian Trust Act, 1882 and is registered with SEBI as a Category II AIF under the AIF Regulations. FoF will undertake investments in India-focused portfolio funds across sectoral strategies and across product strategies; and

(iii) National Investment and Infrastructure Fund II ("**Strategic Opportunities Fund**" or "**SOF**") has been set up as a private trust by way of the Indenture of Trust dated March 01, 2018 (as amended from time to time) under the Indian Trusts Act, 1882 and is registered with SEBI as a Category II AIF under the AIF Regulations. SOF will undertake direct investments in sector specific platform companies or projects within India.

The Master Fund, the FoF, the SOF and any other AIF/pooling vehicle managed by the Company shall hereinafter collectively be referred to as the "**NIIF Funds**" and individually as "**NIIF Fund**".

The Company has its registered office at Hindustan Times House, 3rd Floor, 18 – 20, Kasturba Gandhi Marg, New Delhi, Central Delhi - 11001.

2. PURPOSE

2.1. The Company places utmost importance on the sound management of risks. Good risk management underpins a successful organisation and forms an integral part of the management processes and culture.

2.2. The Company recognizes that risks are an integral part of doing business and that proactive identification, assessment, measurement and managing risk effectively is critical to the immediate and future success of the Company.

2.3. The Company also recognizes that it is incumbent on every member of the Company to understand the risk environment in which the Company and the NIIF Funds operate and be cognizant of the risks in the day to day functioning of the Company.

2.4. Through this risk management framework the Company, presents an enterprise-wide approach to ensure that key aspects of risks that have an enterprise-wide impact are considered in its conduct of business.

2.5. The Company has made a sincere attempt to identify, assess, measure and then manage threats that could adversely impact the Company and the NIIF Funds, including likelihood of re-occurrence of risks, and taking appropriate actions to address the most likely threats.

2.6. The framework provides entity level risk guidelines encompassing key risk areas across the group such as reputational risk, operational risk, investment risk, technology risk and strategic risk in line with the risk matrix adopted by the Company and the NIIF Funds. It also involves monitoring the risks undertaken by the Company and the NIIF Funds, including each investment being made by such NIIF Fund and continuously monitoring such risk.

2.7. The Company shall brief the ARC on a quarterly basis, and the Board, as may be necessary on the risk mitigation and management steps employed by the Company, as may be required to ensure compliance with the provisions of Applicable Laws.

3. RISK FRAMEWORK OBJECTIVE

3.1. The objective of this framework is three-fold:

a) To ensure that the board of directors of the Company ("**Board**") or any committee thereof and the executive senior management of the Company collectively identify the risks impacting the operation of the Company and document their process of risk identification, assessment, measurement, management and reporting of risks. Risk minimization and risk optimization are integral parts of the risk management framework;

b) To identify the risks associated with each investment made by each NIIF Fund and to track these risks through a risk matrix to be maintained by relevant investment team; and

c) Implement effective controls and frameworks to ensure that risks are managed effectively and in compliance with governance and regulatory requirements.

4. GOVERNANCE STRUCTURE FOR RISK MANAGEMENT

4.1. The Board has constituted a board committee, viz. the Audit and Risk Committee ("**ARC**"). The Company also has an operating committee, viz. Compliance and Risk Committee ("**CRC**") at the Company level. The CRC shall be responsible for mitigating and managing risks for the Company on a day-to-day basis and the ARC shall be responsible for periodic reviews of the risk management process as employed by the CRC.

4.2. Mr. Rajiv Dhar has been nominated as the Chief Risk Officer.

4.3. The responsibilities of the CRC shall include:

(a) To monitor and oversee implementation of this framework;

(b) Ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the Company;

(c) To review the framework annually, including by considering the changing industry dynamics and evolving complexities;

(d) To keep the ARC and the Board informed about the evaluation of risk metrics and mitigation plan;

(e) To report risk incidents and the mitigation steps taken, if any; and

(f) To report on the implementation and monitoring of the action plans put into effect for risk mitigation.

4.4. The ARC may seek information from any Employee, obtain outside legal or other professional advice and secure attendance of outsiders for meetings of the ARC, if it considers necessary.

4.5. The CRC shall ensure that the Company has the necessary processes and safeguards in place to ensure compliance with Applicable Laws in relation to risk management.

4.6. All the risks associated with investments made by the NIIF Funds will be overseen by the heads of the concerned NIIF Fund and the concerned investment committee, who shall act in compliance with risk framework, including in terms of the risk mitigation and management strategies required to be adopted.

5. RISK MANAGEMENT FRAMEWORK

The objective of the risk management framework is to ensure that the Company shall operate within the agreed risk tolerance and risk limits. This is achieved by:

- Effective and efficient continuity of operations;
- Safeguarding the assets of the Company;
- Preservation of the reputation of the Company;
- Reliability of internal and external reporting; and
- Compliance with Applicable Laws.

The Company considers activities across the organization in the risk management framework. The risk management focus is on the following key elements, viz.

- Risk Assessment;
- Risk Management;
- Risk Monitoring.

Risk Assessment

Risks are analysed, considering likelihood and impact, as a basis for determining how they should be managed. Risk Assessment consists of a study of threats and vulnerability and resultant exposure to various risks. To meet the stated objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified and plans for managing the same are laid out.

Risk Management

In the management of risk, the probability of risk assumption, which may threaten to adversely affect the present state of affairs of the Company and/or of any of the NIIF Funds, is estimated with available data and information, and appropriate risk treatments are worked out in the following areas:

- Economic environment and market conditions including macro-economic conditions;
- Credit crunch;
- Fluctuations in foreign exchange;
- Political environment;
- Change in legal, regulatory and tax regime impacting the Company;
- Competition;
- Technological environment;
- Revenue concentration;
- Reliance on external consultants;
- Inflation and cost structure;
- Change in membership of the investment management team of the Company;
- Transparency and due diligence of investments;
- Reliance on external consultants while taking investment decisions in the investee company;
- Fraud, embezzlement or other financial wrongdoing in the investee company; and
- Act of God, including natural calamities, wars and terror attacks.

The above list is illustrative only and any other information that is material to the basis for any investment by the fund should be included as a risk factor.

Risk Monitoring

Once an investment decision is made, the risks are monitored against the base case version to ensure that risks do not result in negative returns.

The Company, while undertaking any investment decisions, shall also consider the risk at the investee company level to which the investment of NIIF Fund will be subject to. This will be undertaken by maintaining a risk matrix in order to track the risks associated with the investment decisions.

6. RISK MITIGATION STRATEGY

The Company recognizes that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner. The Company believes that risks cannot be eliminated. However, it can be:

- Assigned to another party, who is willing to take risk, through procuring an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls and continuous monitoring;
- Avoided, by not entering into risky businesses;
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk; and
- Shared, by following a middle path between retaining, monitoring and assigning risk.

7. RISK MITIGATION FRAMEWORK

The Company shall take the following steps in order to effectively mitigate the risks of investment by NIIF Funds, or any of its other operations:

- Appoint an individual within the Company who will be responsible for monitoring the risk matrix;
- Determine the manner in which the individual shall report any deviations to the Company; and
- Determine the manner for taking decisions in light of the risk highlighted.

Furthermore, various factors are to be considered while undertaking risk mitigation and reporting.

8. RISK MITIGATION/ RISK CONTROL MEASURES CURRENTLY ADOPTED BY THE COMPANY

The Company has been adopting various control measures to mitigate the risks arising in the operations of the Company. Few of them are listed below:

- All the approvals as per delegation should be periodically reported to the next higher authority / Board.
- Annual expenses budgets should be prepared and approved by the Board.
- Independent internal audit team to be appointed.
- Internal audit team should submit its reports to the Board / committee constituted for the purpose.
- Procurements should be made through the processes outlined in the procurement policy of the Company and deviations, if any should be reported to the Board for the purposes of bringing in transparency.
- Structuring risks is mitigated by taking appropriate legal advice.
- Regular reviews of compliance by senior management team of the Company through a comprehensive compliance tool.
- Background verification checks to be conducted on Employees to ensure highest professional and ethical standards.
- Appointment of / designating a Chief Risk Officer.
- Independent risk management to be followed to ensure that all risks are accounted for and priced correctly;
- Closer scrutiny by the Board of risk management activities;
- Setting out the roles and responsibilities at each level of the management;
- Defining flow of information to avoid any conflict or communication gap between two or more departments or functions;
- Creating second level positions in each department to continue the work without any interruption in case of non-availability of functional heads;
- Proper financial planning with detailed annual business plan discussions at appropriate levels within the organization;
- Preparing annual and quarterly budgets and putting it up to management for detailed discussion and an analysis of the nature and quality of the assumptions, parameters etc.;
- Training of Employees at regular intervals to upgrade their skills;
- Encouragement to Employees to provide suggestions and discuss problems, if any, with their superiors;
- Insurance of properties of the Company against natural risks, like fire, flood, earthquakes, etc. with periodical review of adequacy, rates and risks covered under professional advice;
- Password protection at different levels to ensure data integrity and security by;
  a. Use of licensed software in the systems;
  b. Ensuring "Data Security" by having access control/ restrictions;
  c. Vetting of all legal and contractual documents with legal advice;
  d. Finalization of contracts as per the advice from legal professionals and advocates;
  e. Timely payment of insurance and full coverage of properties of the Company under insurance; and
  f. Internal control systems for proper control on the pooling and investment of funds and to detect any frauds.

9. DEVELOPMENT OF RISK CULTURE

Risk Management is everyone's responsibility: As risk is inherent in investments, the investment framework mandate guides the Board, the senior management and other staff to manage the risk as a part of the day to day activity of the Company. It is incumbent on every member of the organization to understand the risk environment in which the organization and themselves as individuals operate. The tasks have been defined for ARC, senior management, CRC and risk managers.