

08 August 2025

To: The Management Body,

To: The Compliance Officer/Person in charge of the Compliance Function

Thematic Review on Liquidity Risk Management and Investment Processes of Management Companies of AIFs and UCITS funds

Dear Management Body and Compliance Officer,

You are receiving this letter as the Management Body and/or Compliance Officer and/or the person responsible for the Compliance function (the “Compliance Officer”) of an Alternative Investment Fund Manager or UCITS Manager including self-managed AIFs and UCITS falling within this definition (collectively referred to as “Management Company/ies”), falling within the supervisory remit of the Malta Financial Services Authority (the “MFSA” or “Authority”).

BACKGROUND AND METHODOLOGY

As part of its supervisory mandate, the MFSA conducts supervisory interactions to assess the compliance of regulated entities with relevant laws and regulations.

This thematic review assessed the extent Management Companies comply with the requirements of the Alternative Investment Management Directive (AIFMD) and the Undertakings for Collective Investment in Transferable Securities Directive (UCITS), as transposed in the applicable investment services rules, on liquidity risk management. The thematic review also aimed to assess the level of adherence with internal processes with respect to *inter alia* investment limit monitoring, the day-to-day portfolio management process and investment decision making processes (“the Investment Management process”).

Liquidity is a critical risk area in the context of Investment Funds, it ensures that a fund has sufficient liquid assets to honour its ongoing obligations as they arise, particularly any requests received from investors to redeem their shares in accordance with the redemption policy stipulated in the fund’s offering documentation. On the other hand, investment limit monitoring, day-to-day portfolio management and investment decision-making helps ensure that portfolio risks are appropriately identified, monitored, and managed. Failure to monitor investment limits or follow adequate decision-making processes can expose the fund to excessive risk, potentially leading to financial losses that adversely impact investors. Ultimately, these areas are critical to protect investor interests and the overall stability of the investment fund industry.

To achieve these objectives, the Authority carried out this thematic review on a sample basis and covered approximately 23% of the authorised Management Companies. The reviews were held throughout 2024 in three phases that entailed a combination of desk-based assessments, supervisory meetings and inspections. Initially, a self-assessment questionnaire was issued to all selected Management Companies, followed by a review of the responses and any supporting documentation provided, such as liquidity risk management policies, stress testing frameworks, and risk reports submitted to the Board. In the final phase, the Authority carried out an on-site interaction with all the sample and included interviews with key officials, such as compliance officers, risk managers, portfolio managers and investment committee members.

During the review, the Authority aimed to focus on the following key areas:

- Liquidity Stress Testing (“LST”) procedures and Liquidity Risk Management (“LRM”) policies;
- documentation of LRM arrangements, processes and techniques;
- quality of LRM written procedures and methodology;
- application of liquidity presumption to financial instruments which are not admitted to or dealt in on a regulated market in violation of Article 2(1) of the UCITS Eligible Assets Directive (Commission Directive 2007/16/EC);
- assessments on compliance with investment restrictions, including pre-trade checking and ongoing risk limit monitoring procedures;
- assessments of the investment decision-making processes, covering the roles and responsibilities of Investment Committee members and the governance structures in place within the investment management functions of Management Companies;
- segregation of duties between the different functions and conflicts of interest management; and
- assessments of the composition and effectiveness of investment committees.

The purpose of this ‘Dear CEO’ letter is to share the main findings of the thematic review, as well as to communicate the Authority’s expectations and any recommendations related to the areas of Liquidity Risk Management and the Investment Management process. Therefore, this communication should not be construed as a complete and exhaustive review of all requirements arising from the applicable regulatory frameworks.

KEY FINDINGS

1. Liquidity Risk Management

1.1. Governance - Board Oversight of Liquidity Risk Management

Observations

Based on a review of Board Packs and Board Minutes, the MFSA Officials identified that the Board of Directors was often presented with Liquidity Risk Reports focusing on quantitative liquidity metrics without a supplementary explanation.

In some cases, the Authority noted that the Board of Directors did not take pro-active action on the liquidity concerns raised in the Liquidity Stress testing reports.

Expectations

The Management Company is reminded of its obligation to ensure that robust liquidity management processes are established to ensure effective management of the liquidity risks associated with every fund under management. As part of the oversight undertaken on liquidity risk, the Board of Directors of the Management Company is expected to formally approve and regularly review liquidity management policies to ensure their continued alignment with regulatory expectations and market developments.

Risk reports covering liquidity risk should be submitted with sufficient frequency and clarity to the Board of Directors. Such risk reports should specifically set out the conclusions and any recommendations made by the Risk Management function. The Board of Directors shall assess these reports and provide overall directions on liquidity management, as may be necessary.

To this end, adequate documented processes for the escalation of liquidity issues to the Board of Directors should be established. In particular, attention should be paid to circumstances that, due to their seriousness, merit immediate reporting to the Board, such as material breaches of liquidity risk limits, mismatches between the liquidity profile of the fund and the redemption requirements on specific dealing days, as well as any other issues that could materially affect the fund's liquidity.

Furthermore, the Management Company shall ensure that, where necessary, liquidity contingency plans are implemented and shall closely monitor the liquidity situation to be in a position to take timely action and, in extreme scenarios, implement the appropriate liquidity

management tools, such as gating, deferral of redemptions, side-pocketing, anti-dilution levy, etc. Progress updates on the implementation of corrective measures should be regularly provided to the Board of Directors until the issue has been fully addressed.

1.2. Pre-trade liquidity checks

Observations

As part of a broad review of industry practices on liquidity risk management, the MFSA assessed how Management Companies commonly implement liquidity assessments designed to mitigate potential risks before trade execution. In general, pre-trade controls involve assessments of the intrinsic liquidity characteristics of prospective investments. Such assessments are typically based on quantifiable indicators, including average daily trading volumes, credit ratings, market capitalisation and bid/ask spreads.

The Authority noted that Management Companies also consider the wider implications of new investments on the overall liquidity profile of a fund. This involves the use of internal liquidity thresholds, which are often embedded in automated systems, that aim to assess whether the addition of a new asset may compromise the fund's ability to meet redemption requests. Additionally, these assessments frequently include comparative analyses of redemption activity against the liquidity profile of the fund's holdings, for instance, through the use of redemption coverage ratios.

87% of Management Companies stated that they carry out pre-trade liquidity checks on prospective investments. Additionally, while many Management Companies have implemented clear and structured procedures, 53% relied on general or high-level statements that do not define specific liquidity methodologies or parameters for assessing liquidity risk.

16% of Management Companies had no formal pre-trade liquidity checks in place, mostly in view of the long-term and illiquid nature of the assets within their fund portfolios and lack of data to enable an accurate liquidity assessment particularly for OTC instruments and complex or non-transferable assets.

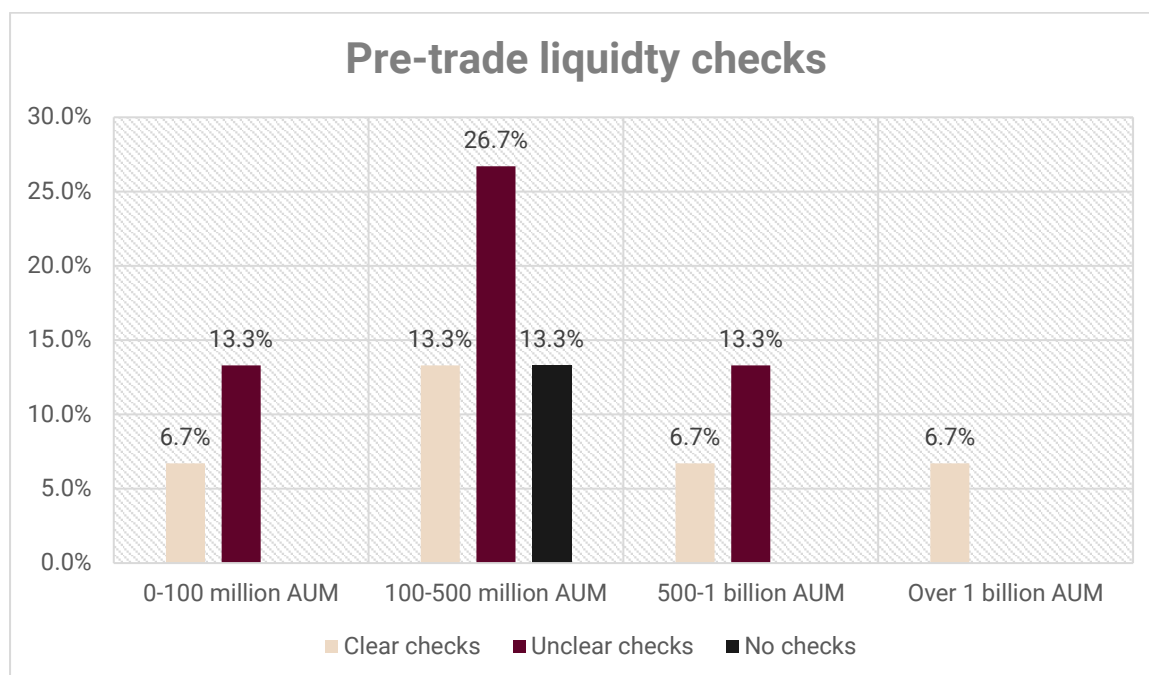


Chart 1: Percentage of the total sample of Management Companies that have formalised liquidity checks by AUM size

Recommendations

SLC 3.24 of part BII of the Rules of the Investment Services Rules applicable to UCITS Management Companies provides that a UCITS Manager shall *“when implementing its risk management policy and where it is appropriate after taking into account the nature of a foreseen investment, the Licence Holder shall formulate forecasts and perform analyses concerning the investment’s contribution to the UCITS portfolio composition, liquidity and risk and reward profile before carrying out the investment.”*

Portfolio liquidity should not be assessed in isolation. Both Managers of Alternative Investment Funds and UCITS (comprising also of self-managed AIFs and UCITS) shall ensure that for each fund managed, the liquidity profile of the investments of the fund is appropriate to the redemption policy laid down in the fund rules or the instruments of incorporation or the prospectus.

To this end the Management Company should ensure that it has sufficient information for the purpose of structuring the portfolio and anticipating cash flows with the aim to match anticipated cash flows with the sale of appropriately liquid instruments to meet ongoing financial obligations and redemption requests.

Management Companies should also aim to document liquidity assessments and establish adequate policies and procedures that set out how liquidity prior to investing is assessed.

1.3. Liquidity Stress Testing (“LST”)

The frequency of Liquidity Stress Testing (LST) was generally documented, however, it was occasionally unclear whether Management Companies conducted LST more frequently in exceptional market conditions.

Additionally, while all Management Companies have conducted LST, in some cases, fund level liquidity stress testing was not sufficiently robust, mainly in view of assessments not being tailored to the fund and its investment strategy, for example by adopting a simplified redemption shock assumption that is not backed by redemption trends of the fund (in the case of frequent dealing funds).

Expectations

LST is an important risk management tool allowing Management Companies to assess the impact of different scenarios on portfolio liquidity. From a conceptual point of view, LST aims to assess the possibility that over a specific timeframe a fund will become unable to settle its financial obligations, taking into account the liquidity terms and conditions stipulated in the offering documents of the fund.

The LST frequency is expected to be adjusted in response to exceptional market conditions to ensure that the liquidity profile of all the funds remains robust and aligned with their respective redemption obligations. Liquidity Stress Testing and back-testing methodologies should also be defined based on prudent/conservative criteria.

The informed judgement of the Management Company also plays a critical role given its understanding of the liquidity of the assets, investment strategy and the liabilities of the fund. That said, any judgements and assumptions should be adequately documented including appropriate justifications for using such assumptions. The Investment Manager shall also adopt its expertise to determine an adequate liquidation strategy (i.e. waterfall or slicing approach) in the best interest of the investors in the fund.

Moreover, while Management Companies can adopt estimates in their LST, where market/historical data is limited, such estimates should not be used as a substitute for a more detailed and tailored fund-specific LST.

Management Companies are also reminded that Liquidity Stress Testing assumptions, scenarios and models should be reviewed and updated accordingly at pre-determined frequencies to verify their adequacy in the context of any change in the fund’s offering document and/ or market dynamics.

1.4. Liquidity Risk Management Systems, Policies and Procedures

1.4.1. Liquidity Risk Management Policy ("LRMP") including the Liquidity Stress Testing Policy ("LSTP")

Observations

The Authority reviewed Liquidity Risk Management policies and procedures, including the Liquidity Stress Testing Policy. In particular we noted that Management Companies:

- i. lacked specific procedures for managing liquidity in stressed scenarios, notably in relation to liquidity contingency plans;
- ii. did not sufficiently elaborate on the roles of the Board of Directors, Committees, and other risk management functions in the context of liquidity risk management;
- iii. did not provide clear details regarding the format and frequency of reporting to be delivered to the Board of Directors in relation to liquidity risk; and
- iv. did not provide a clear framework for the escalation of situations involving illiquid securities or liquidity mis-matches, particularly when internal liquidity limits or thresholds were not stipulated.

Expectations

Management companies are required to establish and maintain effective liquidity risk management frameworks to ensure ongoing monitoring and mitigation of liquidity risks within the funds they manage¹.

The Authority refers to Recommendation 14² of IOSCO's Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes, which highlights the importance of liquidity contingency planning as part of robust liquidity risk management practices. Management Companies are expected to maintain documented contingency plans, as deemed necessary, taking into account the investment strategy and objectives of the fund, the liquidity profile and the redemption policy. When liquidity contingency plans are established, the Management Company should carry out ongoing reviews (at least annually) ensuring that contingency plans are both practical and responsive to market conditions. Any changes to such plans should be presented to the Board of Directors for approval.

¹ SLC 2.11 of Part BIII and SLC 2.34 of Part BII of the Investment Services Rules, AIFMs and UCITS Managers are required to establish an appropriate liquidity management system and implement procedures to monitor and manage liquidity risk effectively.

² Recommendation 14 of the IOSCO Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes [<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD798.pdf>].

Additionally, the activation of any liquidity management tools should also be incorporated into the contingency plan.

Liquidity risk management should also be embedded within the broader governance of the management company, ensuring clear escalation procedures and regular reporting to the Board of Directors. The roles and responsibilities of the Board of Directors, relevant Committees (e.g. Risk or Investment Committees) and the second line of defence (risk management and compliance functions) should be outlined within the liquidity risk management policy. This includes clearly defining the respective duties in monitoring, escalating, and taking action on liquidity risks.

The Liquidity Risk Management Policy ("LRMP"), including the Liquidity Stress Testing Policy (LSTP), should also aim to outline the rationale for the choice of assessments that will be carried out by the Risk Management Function to monitor:

- the consistency of the investment strategy, the liquidity profile and the redemption policy of the funds under management. Redemption trends should also be ideally considered; and
- whether each fund managed retains sufficient levels of liquidity within the portfolio, during normal and stressed market conditions, to be in a position to exercise redemptions and is able to comply at any time with SLC 2.14 – SLC 2.15 of Part BIII and SLC 2.03 – SLC 2.04 of Appendix 11 of the Investment Services Rules for Investment Service Providers.

The LRMP/LSTP should be reviewed regularly to ensure that risk management processes are still adequate, considering any market and regulatory developments.

Further details on the contents of the LRMP and LSTP are provided in the non-exhaustive list in Annex I. The relevance and applicability of these elements may vary according to their relevance and applicability as well as to the size, internal organization, and the nature, scope, and complexity of the Investment Management activities of the Management Company.

1.4.2. Eligibility of assets in UCITS: Assessing the liquidity of financial instruments and the application of the liquidity presumption

Observations

Based on the responses received from UCITS Management Companies, the majority applied a liquidity presumption on financial instruments admitted to trading on a regulated market in terms of SLC 4.4 (ii) of Part BII of the Rules, when assessing the eligibility of the financial instrument.

In many cases regular liquidity assessments are conducted as part of the ongoing eligibility checks performed by the Management Company. However, there were a few instances where no specific liquidity checks were performed in the event that listed securities became illiquid, based on the assumption that the instrument remains liquid, 'in principle', due to its listing on a regulated exchange. Some UCITS Management Companies stated that they do not rely on a liquidity presumption, instead conducting a liquidity assessment irrespective of whether the security is traded on a regulated market.

Expectations

The Eligible Assets Directive states that, for instruments which are admitted or dealt in on a regulated market the liquidity presumption applies, unless there is information available to the UCITS that would lead to a different determination³.

UCITS Managers face a significant challenge when assessing the liquidity of securities not frequently traded on a regulated market, as these instruments lack readily available market prices and trading volumes. The UCITS fund shall retain sufficient liquidity to meet redemptions from unit-holders on an ongoing basis.

While the liquidity presumption based on a financial instrument's listing on a regulated market may serve as an initial indicator, it should not be relied upon in isolation. Management Companies are required to check the liquidity of all instruments, including those listed on regulated markets. Such liquidity checks should be conducted regularly, and appropriate measures should be taken if a security is eventually found to be illiquid, even if the security is listed.

At the same time, the UCITS Management Company shall ascertain whether the respective financial instrument still satisfies the eligibility criteria stipulated in Section 4 of Part BII of the

³ Article 2 (1), last paragraph [Eligible Assets Directive](#)

Rules and if these are no longer satisfied, the instrument shall be considered to fall within the limits stipulated in SLC 5.5 of Part BII of the Rules, which states that a UCITS may not invest more than 10% of its assets in Transferable Securities and Money Market Instruments other than those referred to in SLC 4.1 of Part BII of the Rules.

2. Investment Management

2.1. Governance

2.1.1. Suitability Assessments – Investment Committee

Observations

As part of the supervisory meetings held with the sample of Management Companies subject to this thematic review, the MFSA officials have also requested a sample of documented suitability assessments of investment committee members. During a review carried out on the latter, it transpired that suitability assessments were generally clearly articulated in terms of evaluating whether the proposed individual has the necessary qualifications and relevant industry knowledge.

However, Management Companies did not consistently or adequately address other critical factors, as further outlined in the MFSA's circular dated 3 July 2020. In particular, the assessments were sometimes lacking how the Management Company assessed potential conflicts of interest and the extent to which they could dedicate sufficient time to their role to ensure it is carried out effectively.

Expectations

As further communicated in the MFSA circular dated 3 July 2020, committees established by Investment Services Licence Holders and self-managed collective investment schemes, except in specific circumstances⁴, are no longer required to submit a fitness and properness assessment to the MFSA. Nevertheless, the MFSA places an important onus on Management Companies to perform and document the due diligence and suitability assessment on proposed committee members, including members of the investment committee. This assessment is a critical component of sound governance, aimed at ensuring that investment decisions are made by individuals with appropriate qualifications and integrity.

⁴ In the case of Investment Committees performing the day to day portfolio management tasks, it is to be noted that such an assessment is still subject to the MFSA's approval.

When performing their own suitability assessments, Management Companies may refer to the Guidelines on the Personal Questionnaire, with Section 3 specifically addressing expectations around suitability assessments.

2.1.2. Succession planning

Observation

The Authority observed that some Management Companies do not maintain a documented succession plan to address the long-term absence, sudden departure, or unavailability of key individuals performing critical functions. In certain instances, no succession arrangements were in place to mitigate key person risk within critical operational functions.

Expectation

Management Companies are encouraged to implement and regularly review formal succession plans. These plans should clearly identify key roles and include a plan for training and developing potential successors. Such arrangements should form part of the Management Company's broader operational risk management frameworks to ensure ongoing operational resilience.

While the Authority understands the resource limitations of smaller managers, a proportionate approach to succession planning, reflective of size, nature, and complexity, should be taken. That said, a plan to manage the absence or departure of key individuals remains applicable and alternative contingency arrangements should ideally be in place in the absence of adequate successors.

2.2. Conflicts of interest

Observations

In some cases, the Authority noted that individuals with significant economic interest in the funds managed also hold formal positions within the Board and investment committees, particularly in smaller self-managed fund structures.

Expectations

The Authority emphasizes the importance of maintaining a clear separation of duties and ensuring that investment committees are composed of individuals who can exercise independent judgment. Where overlapping roles are unavoidable, Management Companies are expected to implement robust governance measures to mitigate these risks, including a robust conflict of interest policy, independent oversight, documented decision-making processes and the appointment of non-executive or independent members to investment committees.

In the event that a conflict of interest is material and cannot be mitigated, the individual involved should refrain from taking or influencing in any way decisions where the conflict of interest exists and it cannot be satisfactorily mitigated and/or adequately addressed. If the conflict is a persistent or is inhibiting the individual from carrying out the role effectively, the individual and the Management Company should consider whether to retain that appointment.

2.3. Due diligence of investments

2.3.1. Due diligence - Adequacy of the risk management processes vis a vis portfolio exposures within UCITS funds

Observation

UCITS Management Companies implemented various risk management practices including, the use of Absolute VaR and ongoing monitoring of ETF and derivative exposures, and regular reporting of risk dashboards to the Board. However, in some cases it is unclear how UCITS management companies ongoingly monitor how certain exposures contribute to overall portfolio risk.

Expectations

Article 2(1)(g) of Commission Directive 2007/16/EC requires that the risks associated with underlying exposures, particularly in relation to financial derivatives, are adequately captured by the risk management process. In addition, the CESR/ESMA Guidelines concerning eligible assets for investment by UCITS, explicitly requires continuous monitoring of how risks arising from certain exposures contribute to overall portfolio risk.

It is also recommended that adequate records of reviews of material risks are kept along with an adequate audit trail of the respective updates to the risk management policies and procedures resulting from these reviews.

2.3.2. Due Diligence - Integration of Sustainability risks in the investment management process

Observations

Although the integration of sustainability risks was not among the core objectives of the thematic review, the MFSA also carried out a separate assessment on Management Companies as part of the ESMA Common Supervisory Action (CSA) on the integration of sustainability risks and disclosures.

As a general observation, in certain instances, Management Companies failed to consider sustainability risks within their risk management frameworks, particularly for funds disclosing under Article 6 of the Sustainable Finance Disclosure Regulation (SFDR). Moreover, in such cases, the Management Companies did not provide adequate justification for not integrating sustainability risks into their investment processes, as required under Article 3 of the SFDR.

In cases where sustainability risks were considered, the risk assessment was, at times, insufficiently documented, lacking a clear and structured explanation of how the Management Company identifies, manages, and mitigates such risks throughout the investment management process. This includes, for example, measures such as portfolio diversification to reduce exposure to sustainability risks or actions aimed at enhancing the ESG profile of the funds over the long term.

With respect to risk assessments, sustainability risks are being measured through various methodologies. In some cases, Management Companies use external data service providers or adopt an internal risk scoring system that aims to score sustainability risks of individual investments.

Expectations

Under the UCITS Directive and AIFMD, management companies should have in place policies and procedures to take into account sustainability risks when evaluating an investment.

For funds classified as Article 6 SFDR funds, Management Companies should provide a clear and up-to-date explanation as to why sustainability risks are not deemed relevant in terms of the fund's investment strategy or asset classes. The assessment shall be supported with relevant data.

Management Companies that consider sustainability risks as relevant, are expected to establish a formal procedure, laying down how sustainability risks are assessed, managed and mitigated throughout the investment lifecycle (e.g., through exclusion policies, ESG integration techniques, portfolio adjustments) along with the frequency at which portfolios are ongoingly reviewed in terms of sustainability risks.

Management Companies are also encouraged to build internal expertise in ESG and sustainability risk management, through adequate training.

2.4. Trade Authorisation

Observations

In general, the Authority noted that in cases where a trade may lead to a breach of internal, statutory or regulatory investment limits, the Portfolio management team was able to proceed with the trade.

Where manual pre-trade systems were used, documentation of pre-trade compliance checks, including verification of investment restrictions and, where applicable, asset eligibility checks, was frequently insufficiently demonstrating compliance with the applicable requirements. In the case of UCITS managers, the Authority noted instances where investments in specific securities were approved with inadequate justification concerning their eligibility under Article 2(1) of the Eligible Assets Directive.

Expectations

To mitigate the risk of prospectus breaches arising from investment restrictions/ internal limit breaches, the Fund Manager is expected to implement a "four-eyes principle" during the trade approval process in line with the "dual control" principle stipulated in SLCs 1.16 of Part BII and Part BIII of the Rules. In this regard, the Fund Manager shall implement a dual authorisation of the respective trade before the trade is sent to the market for execution. It is also pertinent to assess that the fund is being managed in line with its general policy and strategy.

Furthermore, where pre-trade investment restriction checks are carried out on spreadsheets, the Authority recommends that a checklist reflecting the relevant investment restrictions and, where applicable, asset eligibility criteria carried out prior investing is documented, confirming that the applicable checks have been carried out. Such a checklist should be signed off accordingly by the inputter and reviewer. Management Companies are also strongly advised to implement features like alert settings, password protection, and cell locking to prevent accidental formula changes and data alterations to effectively mitigate the risk of improper

checks and the potential loss or alteration of data without an audit trail. In addition, the functionality and underlying workings of the spreadsheet should be reviewed at pre-defined intervals to ensure their continued accuracy and integrity.

CONCLUSION

The findings arising from this Thematic Review are being highlighted in this letter with the aim of sharing best practices within the asset management industry and drawing attention to potential weaknesses identified in relation to the Risk and Investment management processes.

In this regard, the Authority wishes to highlight that amongst the key areas of improvements identified during this Thematic Review, Management Companies should focus on assessing the level of Board of Directors oversight in the area of Liquidity Risk Management and the Investment Management processes as well as proper documentation of stress testing methodologies and establishing clear escalation processes for liquidity concerns. The Authority would like to stress the importance of the updates given by the Risk Management Function to the Board of Directors on liquidity risks, which should be duly discussed and recorded, together with any applicable follow-up action points. Although the Board of Directors of Management Companies rely on the duties carried out by the respective functions or delegates, it remains responsible for the general administration of the Management Company, also taking into consideration their fiduciary obligations towards investors of the funds under management.

All Management Companies are expected to conduct a gap analysis based on the findings and recommendations of this Thematic Review. This analysis should be documented and made available to the Authority upon request and may be subject to verification during future supervisory engagements. Management Companies should take necessary steps to align their processes, policies, and procedures with the MFSA's expectations using a proportionate approach based on their nature, size, and complexity.

For any clarifications or further guidance on the contents of this Dear CEO letter, Management Companies are encouraged to contact the Authority.

Yours sincerely,

Dr Christopher P. Buttigieg
Chief Officer Supervision

Ian Meli
Head – Investment Services Supervision

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Annex I – Non-exhaustive Sample contents of Liquidity Risk Management Policy (LRMP) and Liquidity Stress Testing Policy (LRSTP)

Section	Contents
Liquidity Risk Management Policy (LRMP)	
1. Introduction & Scope	<ul style="list-style-type: none"> i. Purpose and objectives of the Liquidity Risk Management Policy. ii. Applicability to different fund types (UCITS, AIFs) and investment strategies. iii. Reference to applicable regulatory frameworks (UCITS Directive, AIFMD, ESMA, IOSCO). iv. Explanation of how liquidity risk management aligns with investor protection.
2. Governance & Oversight	<ul style="list-style-type: none"> i. Roles and responsibilities of key functions (e.g.) <ul style="list-style-type: none"> • Board of Directors: Oversight and approval of the policy. • Portfolio Management Function: First line of defence responsible for pre-trade checks • Risk Management Function: Post-trade monitoring and reporting. • Compliance Function: monitoring compliance of internal procedures and regulatory requirements. ii. Internal committee structures and reporting lines. iii. Process for escalation and review of liquidity risks.
3. Liquidity Risk Identification & Measurement	<ul style="list-style-type: none"> i. Identification of key liquidity risk factors, such as: <ul style="list-style-type: none"> • Market liquidity indicators (Quantitative indicators - bid-ask spreads, trading volumes, average transaction size; Qualitative indicators – overall counterparty availability, settlement terms). • Portfolio concentration risks. • Investor concentration and redemption trends. ii. Definition of key liquidity risk metrics, such as: <ul style="list-style-type: none"> • Liquidity Profile of all assets: Portfolio Liquidity Bucketing • High-Quality Liquid Assets (HQLA) ratio. • Redemption Coverage Ratio (RCR).

4. Liquidity Risk Monitoring & Reporting	<ul style="list-style-type: none"> i. Frequency of liquidity risk assessments (daily, weekly, monthly, etc.). ii. Internal reporting processes, including reports to the Board and (where applicable) the Risk Committee.
5. Liquidity Management Tools (LMTs)	<ul style="list-style-type: none"> i. List of liquidity management tools, such as, Redemption gates, Side pockets etc. ii. Criteria for activating LMTs and Board approval processes.
6. Contingency Planning & Escalation Procedures	<ul style="list-style-type: none"> i. Predefined contingency measures for identified liquidity stress scenarios. ii. Action plans for asset liquidation and funding alternatives. iii. Triggers for escalating liquidity concerns to senior management and the Board. iv. Testing and validation of contingency plans, ensuring they are practical and up-to-date.
7. Review & Approval Process	<ul style="list-style-type: none"> i. Annual review and approval requirements by the Board of Directors. ii. Circumstances that require interim updates (e.g., market shocks, new asset classes). iii. Assignment of Responsibilities
Liquidity Stress Testing Policy (LSTP)	
1. Purpose & Scope	<ul style="list-style-type: none"> i. Objectives of liquidity stress testing ii. Applicability to different fund types and investment strategies.
2. Governance & Oversight	<ul style="list-style-type: none"> i. Roles and responsibilities of key stakeholders in stress testing: <ul style="list-style-type: none"> • Board of Directors: Approval and oversight of stress testing framework. • Risk Management Function: Conducting and interpreting stress tests. • Portfolio Management Function: Ensuring stress testing results are integrated into the investment decision making process.
3. Liquidity Stress Testing Methodology	<ul style="list-style-type: none"> i. Types of stress tests conducted, including: <ul style="list-style-type: none"> • Historical scenarios (e.g., financial crises, pandemic-related shocks).

	<ul style="list-style-type: none"> • Hypothetical scenarios (e.g., extreme redemptions). • Reverse stress testing (identifying breakpoints in liquidity). <p>ii. Selection criteria and justification for stress scenarios.</p> <p>iii. Key stress parameters, such as:</p> <ul style="list-style-type: none"> • bid-ask spreads. • Redemption stress levels (large investor withdrawals). • Correlation shocks across asset classes.
4. Stress Testing Frequency & Application	<ul style="list-style-type: none"> • Frequency of stress testing based on fund characteristics. • Criteria for conducting ad-hoc stress tests in response to (e.g.): • Market volatility spikes – which aims to assess the asset's performance under historical or hypothetical high-volatility scenarios. Evaluate bid-ask spread widening and trade delays. • Significant redemptions or liquidity events. • Counterparty Default Stress Test - For contractual assets or derivatives, simulating counterparty default scenarios <p>Frequency of review of stress test scenarios and methodology to assess the adequacy of stress tests, in particular taking into consideration market conditions.</p>
5. Reporting	<p>Reporting to key internal stakeholders, including:</p> <ul style="list-style-type: none"> • Board of Directors. • Risk Committees (where applicable).
6. Integration with Risk Management & Liquidity Planning	<p>Use of stress test results to:</p> <ul style="list-style-type: none"> • Adjust liquidity risk limits and investment strategies. • Refine contingency planning. • Ensure alignment with overall risk management framework.
7. Review	<p>i. Annual review and Board approval of stress testing policy.</p> <p>ii. Use of backtesting to confirm accuracy of stress tests assumptions.</p>

Annex 2 – Activation of Liquidity Management Tools within the Maltese AIFs, NAIFFs and UCITS funds

Liquidity management tools ("LMT")	Number of UCITS Funds that activated LMTs	Total NAV (EUR)	Number of AIFs/NAIFs/PIFs Funds that activated LMTs	Total NAV (EUR)
	31.12.2024	31.12.2024	31.12.2023	31.12.2023
Increase in the existing redemption / exit fees	-	-	-	-
Suspension of redemptions	1	0	3	2,626,979
Suspension of redemptions linked to valuation uncertainty	-	-	3	2,626,979
Upward modification of swing factor limits/caps laid down in the fund prospectus/documentation and any other relevant deviation from the terms and conditions set out in the fund prospectus/documentation	-	-	-	-
Gate / activation of deferred redemptions	-	-	-	-
Redemptions in kind	-	-	-	-
Change in the dealing frequency of the Fund	-	-	-	-
Side pockets	-	-	5	166,541,895
Other tools / measures (please explain which ones in field "Comments")	-	-	-	-
Funds liquidated or entering into liquidation due to issues linked to the current crisis (e.g. liquidity issues, valuation problems and/or significant outflows)	-	-	-	-