

## CONFLICT OF INTEREST

### 1 Introduction

As an alternative investment fund manager, Pareto Alternative Investments AS<sup>1</sup> ("PAI") is subject to regulatory requirements as to the handling of conflicts of interest. The structure and activities of PAI shall at all times be organised in such a way that the risk of conflicts of interest between PAI and/or its directors and employees and its clients, as well as between the clients of PAI, are minimised. If conflicts of interest cannot be avoided, PAI shall ensure that the interests of the client take precedence over the interests of PAI, and that no individual client is unfairly favoured to the detriment of other clients. PAI shall maintain and operate effective organisational and administrative arrangements to identify and prevent or manage conflicts of interest. This document provides an overview of PAI's policy with regard to potential conflict of interest.

### 2 Identification of conflicts of interest

PAI is, like other asset managers, engaged in activities based on a business model with an inherent potential for conflicts of interest. The potential for conflicts of interest inherent in the business model is reduced to the extent possible through internal organisation and regulation. Management and each individual employee of PAI shall be conscious of whose interests they are required to serve.

The Chief Executive Officer and Compliance are responsible for identifying potential conflicts of interest on an ongoing basis.

When identifying conflicts of interest that may arise between PAI or any person linked to PAI and a client or between clients, it shall as a minimum be considered whether PAI, its directors or employees

- Is likely to make a financial gain or avoid a financial loss at the expense of an AIF, its investors or other clients
- Has an interest in the outcome of the service to be provided to the AIF, its investors or other clients or the transaction that is carried out on the AIF's or the client's behalf that is distinct from the AIF's or other clients' interest
- Has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client.

It is not possible to list all actual and potential conflicts of interest, and this document does not serve as an exhaustive list of all conflicts of interest that may be encountered in PAI's conduct of business. Below are some examples of situations identified in PAI's business that may give rise to conflict of interest between PAI, its directors or employees and clients or between clients.

#### 2.1 Conflicts of interest between AIF's, other funds and discretionary portfolio mandates

Conflicts of interest may occur in case of overlapping investment mandates and cross-ownership in the same investment objects when;

- An investment opportunity is relevant for several funds/mandates
- Several funds are interested in divesting their shares in the same investment object

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<sup>1</sup> Pareto Alternative Investments AS (Norway) is regulated by the Norwegian Financial Supervisory Authority, and has a Swedish branch.

- An investment object requires further capital funding to maintain values and secure going concern, and funds with a different mandate and liquidity situation may have diverging interests
- It is in one fund's interest to divest of an investment object and in another fund's interest to invest in the same investment object or finance the purchaser of such investment object
- PAI may have an interest in adjusting its advice and fund management to optimise its fees in the short or long term.

## 2.2 Conflicts of interest between PAI/PAI employees/related persons and funds/investors

Conflicts of interest may arise due to the fee structure for the funds and mandates. PAI normally charge a management fee, investment fee and success fee. PAI and its related persons may have interest in managing the fund for as long as possible where there are annual management fees. They may also have an interest in carrying out more acquisitions or divestments than are in the funds/investors interest or in other periods than designated for such transactions.

Prolongation of the fund management period will always be the decision of the fund/investors. The management agreement will normally define the investment period, the management period and the divestment period. The fund manager's interest will be aligned with the investors with respect to the total performance of the fund through the success fee

## 2.3 Conflicts of interest between an employee and a fund/discretionary portfolio management mandate/investor

Own-account trading by our employees may conflict with the interests of funds or other clients. However, due to the investment objects of the funds and discretionary portfolio management mandates, such conflict of interest is seldom an issue.

Business activities, private appointments and positions held by employees outside the scope of their position with PAI may conflict with the interests of specific clients. Private business interests may also create private financial ties for individual employees that may, depending on the circumstances, be potentially detrimental and entail a risk that individual employees may act contrary to the interests of funds and other clients.

PAI has an internal regulation of personal transactions, and monitor employee transactions. All employees shall provide Compliance with details of any company in which they hold ownership stakes or other interests. Compliance shall determine, in consultation with the relevant department head and the Chief Executive Officer, whether any circumstances on the part of individual employees indicate that there is a risk of conflicts of interest in relation to individual funds or other clients or with regard to specific projects. Participation in business activities etc. for our employees shall require specific prior approval. The relevant person shall, to the extent that such conflicts of interest are identified, avoid participation, to the extent possible, in relation to the relevant client or in the relevant project.

## 2.4 Conflicts of interest with other group companies

Conflicts of interest may arise in relation to other Pareto Group companies. Such conflicts of interest may arise in relation to the parent company and the owner of the parent company or in relation to sister companies. An example of a conflict of interest may be that an affiliate company represent the counterparty or has other economic interest in a possible transaction. PAI will pay special attention to such situations and will normally refer the matter to an advisory board or similar institute designated in the management agreement to address such conflicts of interest.

### 3 *Prevention and management of potential conflicts of interest*

Potential conflicts of interest shall be handled in an ethical manner and in compliance with applicable legislation. If relevant potential conflicts of interest are identified in connection with PAI's business, Compliance shall approve of the measures to be taken and assess whether such measures are sufficient to mitigate the potential conflict of interest, or whether the matter shall be referred to an independent authority such as the relevant fund's board of directors or advisory board. Compliance shall also approve any information to the client regarding the conflict of interest.

For each identified conflict of interest, PAI will ensure that there is a compliant procedure in place to manage that conflict, with a view to taking all reasonable steps to prevent the risk of any conflict constituting the base for or potentially causing damage to the interests of clients. Relevant arrangements in place are inter alia:

- All employees are at all times bound to act loyally to PAI and be in full compliance with its procedures
- All employees receive instructions and guidance regarding the management of conflicts of interest
- Information barriers to segregate confidential information (where relevant)
- Relevant persons are prohibited from having outside business interest that may conflict with the interests of the clients or PAI
- Existing potential conflicts and the management of them are documented
- One-time potential conflicts of interest are managed on an ongoing basis via PAI's conflict register and are normally also escalated to senior management
- Personal account dealing is subject to internal regulation
- Remuneration is subject to PAIs Remuneration Policy, which shall ensure that the remuneration does not compromise the integrity of the individual
- Anti-corruption policy which ensures that neither PAI nor any of its employees offer or gives, solicits or accepts, either in the course of regulated business or otherwise, any inducement which is likely to conflict with any duty the recipient (or the recipient's employer) owes to clients
- Any inducements in the form of money, goods or services received in connection with discretionary portfolio management or AIF-management will be transferred to the client
- Valuation of the AIFs is independent of the fund management. Values for the underlying real estate are gathered from two reputable external valuers bi-annually, whereas the calculation of net asset value of the fund is outsourced to our affiliate Pareto Business Management AS.
- Management agreements for funds and discretionary portfolios will normally stipulate that certain conflicts of interests shall be referred to advisory boards or similar bodies comprised by the representatives of the major investors.

In certain circumstances, the following measures are necessary to ensure adequate management of a conflict of interest:

- Implementation of additional segregation methods or other ad-hoc arrangements
- Rendering investment advice in lieu of discretionary portfolio management
- Certain staff may be asked to step aside from working on a specific transaction or participating in the management of a potential conflict of interest
- Referring the matter to the relevant fund's/mandate's advisory board.

### 4 *Record-keeping*

Record is kept for a period of at least five years of potential conflict of interest and mitigating measures.

## *5 Disclosure to clients*

If the abovementioned measures are not sufficient to safeguard the interests of the client in an adequate manner, PAI shall inform the client of the potential conflict of interest. Such disclosure shall be a measure of last resort and shall only be used where the effective organisational and administrative arrangements established by PAI are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the client will be prevented. PAI shall not conduct any business for the account of the client before the client has received such details. The description shall explain the general nature and sources of conflicts of interest, as well as the risks to the client that arise as a result of the conflicts of interest and the steps undertaken to mitigate these risks, in sufficient detail to enable the client to take an informed decision with respect to the service in the context of which the conflicts of interest arise.

## *6 Review and reporting*

The conflict of interest policy shall be assessed and reviewed by PAI's board of directors at least annually. The board of directors receives on a regular basis written reports on potential conflicts of interest identified in the ongoing business.