


Conflicts of Interest and Inducements Policy

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	Policy Document		
	Owner	Reviewer	Adopted by
	The Chief Executive Officer	Chief Compliance Officer	The Board of Directors
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Introduction

A conflict of interest occurs where competing obligations or motivations result in, or are likely to result in, material risk of damage to the interests of a client or a group of clients. IKC periodically faces actual and potential conflicts of interest. As a regulated investment manager licensed under the Swedish Securities Market Act (2007:528) to provide discretionary portfolio management, the Company is obligated to take all reasonable steps to maintain and operate effective arrangements to identify, manage and prevent relevant conflicts that may entail a material risk for damage to the interest of a client, a client account, a fund managed by IKC or a fund’s shareholders (hereinafter referred to as “Clients”).

IKC has therefore adopted the following policies and procedures (“the Policy”) for identifying, reporting, managing, and preventing conflicts of interest, including those conflicts that relate to inducements and remunerations. The Policy has been developed bearing in mind in particular the provisions on conflicts of interest management in Articles 33 and 34 of Commission Delegated Regulation (EU)/2017/565 and Chapter 9 Article 9 of the Swedish Securities Market Act. The below section on inducements has been developed bearing in mind relevant provisions set out in Chapter 9 Articles 21 and 22 of the Swedish Securities Market Act, and Chapter 7 of the Swedish Financial Supervisory Authority’s Regulations regarding investment services and activities (FFFS 2018:2).

Scope and Application

For the purposes of this document this Policy applies to those conflicts of interest that may give rise to a material risk of damage to the interests of Clients. Conflicts of interest may arise between:

- IKC and a Client.
- a Relevant person (as defined below) and a client.
- two or more Clients of IKC in the context of the provision of portfolio management services by IKC to those Client, and
- Related legal and natural persons (as defined below) and Clients.

The Policy applies globally to all types of business activities that IKC may undertake. It applies to employees, and, to the applicable extent, outsourced staff, and board members (all hereinafter “Relevant persons”).

For the purpose of this Policy, related legal person means a legal entity in which a Relevant person has a material interest or exercises control. A Related natural person may be a spouse, a minor child under the care of the Relevant person, or other closely Related persons with whom the Relevant person share mutual interests that may conflict with the interests of Clients.

Identifying, preventing, and managing conflicts

Senior Management, i.e., the CEO and the deputy CEO, are responsible for ensuring that IKC conducts its business fairly and with its clients’ best interest in mind. IKC’s CCO is responsible for ensuring that IKC’s measures to prevent and manage conflicts are effective. The CCO shall keep the Board informed on the outcome of compliance checks in relation to conflicts management, as well as on any remedial actions taken.

IKC must immediately inform Coeli Asset Management AB of any new conflict of interest that IKC identifies relating to the management of portfolios delegated by Coeli Asset Management AB, to IKC.

IKC’s Relevant persons are expected to pay attention to circumstances and situations that may constitute or give rise to conflicts of interest in specific business activities carried out by IKC. Relevant persons shall immediately communicate and report actual and potential conflicts of interest or changed circumstances regarding actual and potential conflicts of interest to the CCO. IKC acknowledges that conflicts of interest may arise at least in the following situations:

- providing discretionary portfolio management services and independently allocating assets to a client’s account.
- providing portfolio management services and placing orders with preferred broker companies.
- trading on a personal account and trading a client account at the same time and/or trading the same security.
- conducting outside business, and
- accepting, or giving, gifts and benefits, e.g., soft commissions.

Relevant persons shall assess the risk of conflicts of interests in at least the following situations:

- before entering new portfolio managing agreements or materially amending existing agreements.
- before considering taking up a new outside business activity.
- before making any material changes to the business.
- before deciding to trade on a personal account, and
- before accepting or giving a gift or benefit to a client.

When seeking to identify conflicts of interest, IKC will consider all the factual circumstances and IKC will consider, *inter alia*, whether IKC, a Relevant person or a Related person

- is likely to make a financial gain, or avoid a financial loss, at the expense of the Client.
- has an interest in the outcome of a service provided to the Client or of a transaction carried out on behalf of the Client, which is distinct from the Client's interest in that outcome.
- has a financial or other incentive to favor the interest of a client or group of Clients over the interests of another Client.
- carries out the same business as the Client; and/or
- receives or will receive from a person other than the Client an inducement in relation to a service provided to the Client, in the form of monies, goods or services, other than the standard commission or fee for that service.

Several ethical principles have been laid down in IKC's *Code of Ethics* and *Regulatory Compliance Manual*. These policy documents require IKC to run its business according to high standards of integrity and fair business, to handle its clients in a proper manner and to ensure that Relevant persons uphold a high standard of ethical behavior when performing their duties. Should a conflict of interest still arise, it must be managed promptly and fairly. As a minimum standard IKC has in place arrangements designed to ensure that:

- Supervisory arrangements provide for separate supervision of staff where necessary for the fair management of conflicts of interest.
- there are appropriate controls in place to identify and manage outside business interests of Relevant persons.
- relevant information is recorded promptly in a secure manner to enable identification and management of conflicts of interest.
- appropriate disclosure should be made to Clients in a clear, fair, and not misleading manner to enable Clients to make informed decisions.
- adequate records are maintained of the services and activities of IKC where a conflict of interest has been identified (see further below)
- where necessary, Relevant persons may be asked to step aside from working on a specific transaction or participating in the management of a potential conflict of interest.
- Relevant persons are subject to personal transaction rules; and
- there is a periodic review of the adequacy of the IKC's activities and internal controls.

Identified Conflicts of Interest

Performance fees

In addition to its standard fixed fee arrangement, IKC offers its clients the possibility to enter into performance fee agreements. Performance fees are usually charged annually if the value of the account outperforms its benchmark index. The purpose of a performance fee is to align the interests of IKC's portfolio managers with Clients' interest. Although a performance fee may create incentives to generate positive returns, it can trigger the portfolio managers into excessive risk-taking at the expense of Clients. It can also lead the portfolio managers to

favor one account over the other when, for instance, allocating trades to Clients' accounts. IKC has implemented the following procedures to mitigate these conflicts:

- Pre- and post-trade compliance controls ensure that accounts are managed within the limits defined by applicable law, investment management agreements as well as any internal limits defined by IKC. The pre-trade compliance control, performed by the portfolio managers, serves to mitigate the risk that the portfolio managers actively breach investment restrictions to generate returns that form basis for variable remuneration. The post-trade compliance reviews ensure that any active or passive breaches are picked up and rectified swiftly.
- Variable remuneration is paid only to the extent warranted by the portfolio managers' fulfillment of non-financial criteria relating to overall contribution to IKC's development and compliance with internal policies, procedures, and applicable external regulations.
- IKC's policy is that all Clients should be treated fairly and that, to the extent possible, all Clients should receive equitable treatment over time. No Clients will receive more favorable treatment or be disadvantaged over other Clients due to their fee arrangements with IKC. Please refer to the below section on *Aggregation and allocation of trades* for further information.

Performance fee is calculated and accrued with a frequency agreed with each Client. The fee is usually paid out at the end of each year. The performance fee is payable only if the account's performance exceeds the benchmark index (the relevant index is defined in the investment management agreement). A performance fee could therefore be paid even if the value of the account has decreased. If during a given period, an account has a performance which is lower than the performance of the benchmark index (i.e., a relative underperformance), such underperformance will be considered in the following periods as long as the performance of the account has not recovered from the underperformance and exceed the relevant benchmark index. Clients are hereby informed that this information does not entail a full disclosure of performance fee conditions. Clients are encouraged to refer to their investment management agreement or Fund prospectuses for details on their actual fee arrangements with IKC.

Valuation of assets under management

Valuation of securities could present a potential conflict of interest. IKC may have the incentive and ability to inflate the valuation of financial instrument in clients' accounts to generate profits and incorrect performance. IKC will not, however, be involved in the valuation of assets. Valuation of assets in funds under management by IKC will be the responsibility of the fund management company, Coeli Asset Management AB. If IKC takes on other portfolio management assignments than managing funds on behalf of Coeli Asset Management AB, valuation will be the responsibility of each client.

Remunerations

Variable remuneration, or the prospects of being granted variable remuneration, may constitute a conflict of interest that can lead to excessive risk-taking by employees at the expense of Clients. High variable remuneration, based on quantitative criteria only, can increase an employee's focus on short-term gains rather than the Client's best interest. IKC has therefore adopted and implemented a *Remuneration Policy* which regulates IKC's remuneration, variable as well as fixed, and ensures that remuneration is not designed to conflict with IKC's obligation to act in the best interest of its clients.

Personal Securities Transactions

A potential conflict of interest could arise when an Employee of IKC trades in the same securities on their personal accounts as those purchased and sold for the accounts of Clients. To mitigate this potential conflict of interest, Employees must seek pre-approval for every personal transaction in reportable securities (as defined in IKC's *Personal Securities Transaction Policy*) or their own or, if applicable, a Related person's behalf. The pre-approval procedure serves to ensure that personal trading does not occur in securities in circumstances where such dealings should be restricted, e.g., if there is a potential conflict of interest. Personal trades may under no circumstances be aggregated with Clients' trades.

Disqualification of directors and outside business activities

IKC acknowledges that IKC Employees and owners of IKC are entitled to take on other board assignments or have a significant influence in another company, provided they are not competitors of IKC. Such board assignments could nonetheless be conflicting with IKC's interests. The potential conflicts of interest that this situation may give rise to, are managed in either of the following ways:

- Employees and other Relevant persons are prohibited from handling matters on behalf of IKC in which the Employee or a Related person of the employee has a material interest that conflicts with IKC's interests.
- Prior to every board meeting, the CCO scrutinizes the agenda to identify conflicts of interest associated with any decision points. If the CCO identifies a conflict, he/she will issue a recommendation that the director in question disqualify him-/herself. Should the Board then not be in quorum, the matter may be referred to IKC's General Assembly as far as this is permissible with respect to principles of Swedish corporate law.
- Employees are not allowed to take on outside business assignments (voluntary or paid) for his/her own account or on behalf of a third party without pre-approval from IKC's CCO. No outside business activity which potentially conflicts with the employee's duties and loyalty to IKC, and its clients will be approved.

Aggregation and allocation of trades

A potential conflict of interest could arise when IKC aggregates and allocates trades among Clients, as IKC could have an incentive to favor accounts with more profitable fee structures. To mitigate this potential conflict of interest, IKC will aggregate orders for accounts purchasing or selling the same security at the same time.

Generally, each eligible client that participates in an aggregated trade will participate at the average price for all IKC client transactions in that security on a given business day and transaction costs will be generally shared *pro rata* based on each client's participation in the transactions. Aggregation and allocation of trades will only take place if it is unlikely that the aggregation and allocation will be detrimental to any Client participating in the trade.

Cross-trading (trading between accounts managed by IKC)

IKC generally does not engage in cross-trading. In the rare event that IKC makes an exception from this principle, IKC shall first seek written approval from the clients owning the portfolios involved in the planned trade. Further information on the procedures for cross-trading is available in IKC's Best Execution Policy.

Inducements to and from third parties

Soft commissions

Soft commissions refer to transaction-based payments made by investment firms to broker-dealers that are not paid in actual money. Soft commissions allow investment firms to cover e.g., research expenses through trading commissions as opposed to direct monetary payments via transaction fees. Conflicts of interest could arise when IKC indirectly uses Client brokerage commissions to obtain benefits it would otherwise produce internally or purchase. IKC has adopted the following mitigation procedures:

- All costs for research are borne by IKC, and
- IKC will only accept other benefits from broker-dealers if the benefits are reasonable and proportionate and if it is beyond doubt that the benefit will not have a negative effect on the quality of IKC's services to its clients or impair IKC from fulfilling its duty to safeguard Clients' interests. Such benefits include occasional participation in conferences, seminars and other events partly or entirely sponsored by broker-dealers, access to general information material regarding a financial instrument or a financial service provided by broker-dealers, as well as entertainment up to a reasonable value (for more information on IKC's policies on gifts and benefits, see below).
- IKC will always seek best execution of Client trades under the circumstances of the particular transaction. (Best Execution is normally measured in terms of the price a client pays or receives; please refer to IKC's *Best Execution Policy* for further details.) IKC shall not allocate trades to a broker based on the prospects of receiving soft commissions. Furthermore, the selection of brokers is subject to a formal counterparty due diligence procedure managed by IKC on behalf of the Company. The due diligence shall always comprise an assessment of potential conflicts of interest in relation to a portfolio manager's choice of broker. Criteria such as execution and settlement capabilities, costs and market/liquidity access and general service quality shall be attributed significant importance when evaluating brokers.

Gifts and benefits

IKC or IKC employee may be offered gifts and benefits that can give rise to conflicts of interest, in that the gift or benefit can improperly influence the recipient. Conversely, gifts and benefits offered by IKC, an employee or another Relevant person to individuals outside IKC may serve to exert improper influence on the individual or entity that is being offered the gift or benefit. Employees are prohibited from giving gifts or entertainment that may appear lavish or excessive and must obtain approval to give gifts or entertainment more than SEK 500 to any Client, prospect (individual or entity) that IKC does, or is seeking to do, business with. Employees who wish to give gifts or entertainment exceeding said amount must obtain approval from the CCO by submitting the *Gifts and Entertainment Log and Reporting Sheet*, maintained by the CCO. It is absolutely prohibited to offer or accept gifts from state and government officials.

Information about inducements

IKC shall ensure that Clients are provided with information on any inducements before IKC starts acting on behalf of a Client. The information shall be presented in a manner that is comprehensive, accurate and understandable.

Record of potential and actual conflicts of interests

The CEO is responsible for maintaining a record of all identified potential and actual conflicts of interests that may arise or that have arisen in connection with the provision of services to a client (or services provided by a third party on behalf of IKC), and the measures taken to mitigate and/or eliminate them.

Training

Relevant persons shall undergo regular trainings on this Policy and related policies (primarily the Code of Ethics) to the extent deemed necessary.

Publication of the Policy

IKC's clients and counterparties are entitled to obtain a copy of this policy on request. The CEO is responsible for maintaining and distributing the policy to all Relevant persons, as deemed necessary.

Disclosure

If the organizational and administrative arrangements within IKC are not sufficient to ensure, with reasonable confidence, that a potential conflict of interest will be prevented, the general nature and/or source of the conflict of interest must be clearly disclosed to the Client before the service in question is performed. In case a situation arises where disclosure is required, the employee must immediately report this to his/her manager and seek direction as to the handling of the disclosure.

Updates and amendments

IKC's Board will regularly and at least once a year, evaluate and revise the policy. Amendments will take effect from the date specified above. Any material amendments will be communicated to clients and counterparties.