

# **Algebris Investments S.à r.l.**

## **Conflicts of Interest Policy**

### **Document history**

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## **1 Introduction**

The AIFM is an alternative investment fund manager authorised by the CSSF in Luxembourg under Chapter 2 of the AIFM Law. In addition to the activity of collective portfolio management, its scope of authorisation also includes the provision of discretionary portfolio management services.

Appropriate to its size and organisation and the nature, scale and complexity of its business, the AIFM has identified a number of circumstances that may give rise to conflicts of interest.

The AIFM shall identify any situation in which activities carried out could constitute or may give rise to conflicts of interest entailing risks of damage to the Clients or the interests of an AIF managed by the AIFM, also taking into account the relationships with other members of the Group. The purpose of this policy is to describe the processes established by the AIFM in relation to the identification, management and disclosure of such situations.

## 2 Definition

Abbreviation	Definition
<b>AIF</b>	Alternative Investment Fund or a sub-fund thereof managed by the AIFM
<b>AIFM</b>	Algebris Investments S.à.r.l.
<b>AIFMD</b>	Directive 2011/61/EU
<b>AIFM Law</b>	Luxembourg law of 12 July 2013 on alternative investment fund managers as amended
<b>AIFM Regulation</b>	Commission Delegated Regulation (EU) No 231/2013
<b>Board of Managers</b>	The board of Managers of the AIFM
<b>Compliance Officer</b>	The compliance officer of the AIFM
<b>Conducting Officer</b>	A conducting officer of the AIFM
<b>Conflict of Interest Policy</b>	The conflict of interest policy of the AIFM
<b>CSSF</b>	The Luxembourg regulator of the financial sector ( <i>Commission de Surveillance du Secteur Financier</i> )
<b>Depository</b>	Any depository the AIFM is working with
<b>Manager</b>	A Member of the Board of Managers
<b>Employee</b>	Algebris Investments S.à r.l. employees, employees of Algebris group companies insourced by Algebris Investments S.à r.l. and any temporary employees
<b>Collaborator</b>	Any Manager, a Conducting Officer or an Employee
<b>Client</b>	Any AIF or portfolio managed by the AIFM, including portfolios of investments owned by pension funds and institutions for occupational retirement provision in accordance with Article 19(1) of Directive 2003/41/EC, in accordance with mandates given by investors on a discretionary, client-by-client basis
<b>Group</b>	One or more entities of the Algebris group
<b>MiFID II</b>	Directive 2014/65/EU

### **3 Identification and management of conflicts**

#### **3.1 Criteria for the identification of conflicts of interests**

The circumstances which could result in a conflict of interest are described below (non-exhaustive list):

- The AIFM, a Collaborator or one or more entities of the Group, is likely to make a financial gain, or avoid a financial loss, at the expense of a Client;
- The AIFM, a Collaborator or one or more entities of the Group has an interest in the outcome of a service provided to, or transaction carried out on behalf of an AIF managed by the AIFM, which is distinct from the Client's interest;
- The Collaborator is involved in a business that is the same as the Client's business (other than, of course, where the AIFM is dealing with another financial institution on the basis of transactions between two market participants);
- The AIFM or a Collaborator has financial or other incentive to favor the interests of one Client or group of Clients over the interest of another Client or group of Clients;
- The AIFM or a Collaborator receives or will receive from a person other than the Client(s) or its investors an inducement in relation to collective portfolio management activities provided to Clients or discretionary portfolio management activities in the form of monies, goods or services, other than the standard commission or fee for that service.

#### **3.2 General principles**

Conflicts of interest are generally prevented by ensuring that actions taken by the AIFM are in best interest of the Client or Clients, and are taken independently of the interests of a Collaborator, of the AIFM and/or the Group, of other Clients where relevant.

The Conducting Officers and whenever necessary the Board of Managers will identify and manage an actual or potential conflict of interest which could materially affect the interest of the Client(s) and / or the AIFM.

Where a Collaborator becomes aware of circumstances which he/she believes could constitute a conflict of interest, and is likely to have a material impact on the interests of a Client managed by the AIFM, he/she shall report the matter to his/her immediate superior who will escalate the issue to the Conducting Officers and/or the Board of Managers of the AIFM and the Compliance Officer who will in turn inform the Group compliance team where conflicts will be managed collectively in addition to the AIFM.

#### **3.3 Control of the exchange of information**

If an Employee is employed by another legal entity within the group or another entity in addition to the employment within the AIFM or in the case that the AIFM has outsourced part of its functions to a legal entity within the Group, this Employee should be aware of the obligation to preserve secrecy and may not exchange information with a division, business area or business unit within the Group where the exchange of that information could harm the interest(s) of one or more Client.

#### **3.4 Late trading / market timing**

Trading of an AIF's units or shares (i.e. subscription and/or redemption of AIF interests) must occur at an unknown price to ensure that all investors are treated equally and to eliminate the risk of late trading.

To ensure that all trading are made at unknown prices, subscription and redemption of the AIFs' units or shares shall strictly respect the cut-off time described in the AIF's prospectus.

Whilst the above activities are the responsibility of the appointed administrator of the AIF the AIFM takes all necessary actions to ensure that the controls of the administrator are designed to ensure that the AIFs are not exposed to a particular risk of market timing (exploitation of time zone differences) and reviews the flow of such subscriptions and redemptions of the relevant AIF to identify and prevent, to the extent possible by the AIFM, the exploitation of "market timing".

### **3.5 Rules in relation to remuneration principles**

The AIFM has adopted a remuneration policy to ensure that conflicts of interest are mitigated.

In particular, it is noted that the AIFM has no long term incentive plan.

The AIFM has also adopted a Personal Transactions Policy to ensure that Collaborators trading in securities for themselves and closely related persons' account do not give rise to any conflicts of interest.

### **3.6 Rules in relation to the delegation of functions and relation with third parties**

The AIFM has a number of counterparties, service providers and commercial partners. These can be both legal entities within the Group (internally) as well as parties outside the Group (externally) supplying among other things, depository services, different administrative services and act as broker / trading partner under market conditions.

If the AIFM delegates/ outsources parts of its functions to another legal entity within the Group or an external party, an agreement or/and a service level agreement should regulate the delegated/ outsourced function, taking into account the provisions of the local regulator regarding the delegation/ outsourcing. The agreement and the service level agreement shall specify the services that will be carried out by different entities.

To avoid any rise of potential or actual conflicts of interest, the AIFM shall ensure that all functions which are delegated/ outsourced to any legal entity within the Group are on an arm's length basis.

Employees within one function in the AIFM or in another legal entity in the Group cannot exercise inappropriate influence over the way in which Employees in another function carry out their activities.

### **3.7 Independence in relation to inducements**

The purpose of this section is to define the criteria to be used by the Compliance Officer in order to ensure that each relevant fee and commission paid or received by the AIFM is properly reviewed and processed.

### **3.8 Independence in relation to inducements under the AIFMD**

In accordance with Article 24 of the AIFM Regulation, the AIFM is not regarded as acting honestly, fairly and professionally in accordance with the best interests of the AIFs it manages or the investors in these funds if, in relation to the activities performed when carrying out its functions, it pays or is paid any fee or commission, or provides or is provided with any non-monetary benefit, other than the following:

- a) a fee, commission or non-monetary benefit paid or provided to or by the AIF or a person on behalf of the AIF;
- b) a fee, commission or non-monetary benefit paid or provided to or by a third party or a person acting on behalf of a third party, where the following conditions are satisfied:
  - i) the existence, nature and amount of the fee, commission or benefit, or, where the amount cannot be ascertained, the method of calculating that amount is clearly disclosed to the AIF in a manner that is comprehensive, accurate and understandable, prior to the provision of the relevant service;

- ii) the payment of the fee or commission, or the provision of the non-monetary benefit is designed to enhance the quality of the relevant service and not impair compliance with the AIFM's duty to act in the best interests of the AIF it manages or the investors in the AIF;
- c) proper fees which enable or are necessary for the provision of the relevant service, including custody costs, settlement and exchange fees, regulatory levies or legal fees, and which, by their nature, cannot give rise to conflicts with the AIFM's duties to act honestly, fairly and professionally in accordance with the best interests of the fund it manages or the investors in the fund.

The AIFM, for the purposes of point b) i) above, may disclose the essential terms of the arrangements relating to the fee, commission or non-monetary benefit in summary form, provided that the AIFM undertakes to disclose further details at the request of the investor of the AIF it manages.

### **3.9 Independence in relation to inducements under MiFID II**

*For the purpose of this section, the term "Client" refers to a client who has entered into a discretionary portfolio management agreement with the AIFM.*

In order to ensure compliance with MiFID II inducement rules, the AIFM shall also adhere to Article 11 and 12 of the Commission Delegated Directive 2017/593 ("Level 2 Directive"), titled "Inducements", which sets out requirements for the receipt by an investment firm of a fee, commission or non-monetary benefit.

Annex 3 to this policy includes a decision tree which reflects classification established by the Compliance Officer when assessing the compliance of the fees paid and received by the AIFM when providing services. In this context, the Compliance Officer shall distinguish between the following types of fees:

1. payments received from the Client;
2. proper fees (this category will typically include custody costs, settlement and exchange fees, regulatory levies or legal fees which enable or are necessary for the provision of the AIFM's services, and which, by their nature, cannot give rise to conflicts with the AIFM's duties to act honestly, fairly and professionally in accordance with the best interests of its Clients).

In the case of point 2 above, no further review is required to be performed by the Compliance Officer in this regard. However, payments not qualifying as "proper fees" will be considered as inducements, and will be repaid to the Client.

### **3.10 Independence in relation to the depositary functions for AIFs**

No person may at the same time be both:

- a member of the Board of Managers and a member of the board of directors of the Depositary;
- a member of the Board of Managers and an employee of the Depositary;
- a member of the board of director of the Depositary and an Employee;
- the AIFM shall put in place a decision-making process for selection and appointing the Depositary which shall be based on objective pre-defined criteria and meet the interest of the AIF (and the unit/shareholders of the AIF).
- where the AIFM or the AIF appoints a Depositary to which it has any link or group link, it shall:
- keep documentary evidence of an assessment comparing the merits of appointing a depositary with the link or group link with the merits of appointing a depositary which has no link or no group link with the AIFM or the AIF, taking into account at least the costs, the expertise, financial standing and the quality of services provided by all depositaries assessed;
- justify to the unit/shareholders of the AIF, upon request, the choice of the depositary.

Where a link or a group link exists between the depositary function and the AIFM, the AIFM shall put in place policies and procedures to ensure that the AIFM can:

- (a) identify all conflicts of interest arising from that link;
- (b) take all reasonable steps to avoid these conflicts of interest.

Where a conflict of interest referred to in the first subparagraph cannot be avoided, the AIFM and the Depositary shall manage, monitor and disclose that conflict of interest in order to prevent adverse effects on the interests of the AIF and of the unit/ shareholders of the AIF.

To satisfy independence requirements, where a group link exists, at least one-third of the members or two persons, whichever is less, on the Board of Managers and on the board of directors of the Depositary shall be independent.

### 3.11 Independence of control functions

In order to prevent conflicts of interest in the split of internal functions, the AIFM shall utilise the below as a guide in organizing its internal functions:

	Member of the board of managers	Conducting Officer	Portfolio Manager	Risk Manager	Compliance Officer	Internal Auditor	Internal Valuer	Accounting Function
Member of the board of managers								
Conducting Officer								
Portfolio Manager								
Risk Manager								
Compliance Officer								
Internal Auditor								
Internal Valuer								
Accounting Function								

	N/A		Compatibility		Incompatibility
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## **4 Escalation / Reporting**

Any person uncertain of how to act in a particular circumstance and whether or not a situation gives rise to a conflict of interest shall consult the Compliance Officer, who will then assist with the assessment of a possible conflict of interest. If the Compliance Officer classifies the case as a new conflict of interest, he/she will immediately inform the Conducting Officers.

The Conducting Officers shall then submit to the Board of Managers an adequate proposal on the management of any potential conflicts of interest, which includes:

- informing the Client where this is necessary,
- choosing a solution that is in the Client or the unit/shareholders of the AIF's interest, and
- refraining from any action if the previous solution cannot be implemented.

Based on the proposed action, the Board of Managers will decide on the measure(s) to be taken and its/their implementation.

## **5 Recordkeeping and self-certification from Employees and Managers**

In accordance with Article 35 of the Delegated Regulation 231/2013, the AIFM keeps and regularly updates a record of the types of activities undertaken by or on behalf of the AIFM in which a conflict of interest has arisen or, in the case of an ongoing activity, may arise, entailing a material risk of damage to the interests of one or more AIFs or investors of such AIFs. The record shall cover at least the following elements (in the form of a Conflict of Interest Register):

- the description of the conflict of interest (including potential conflicts of interest),
- the identification of the person or unit involved in the conflict of interest,
- the date of occurrence or discovery of the conflict of interest,
- the potential or ascertained impacts of the conflict of interest,
- the description of the envisaged solutions and of the chosen measures,
- where appropriate, the arrangements for informing the investors.

The record of conflicts of interest is attached as Annex 2 to this policy.

In addition, all Collaborators will be required to complete on a yearly basis an affidavit report regarding their adherence to the policies and procedures of the AIFM, and if applicable, any conflict of interests, as stated in Annex 1.

The AIFM shall, upon request by the CSSF, submit a copy of this record to the latter.

## 6 Disclosure to clients

Where, in case of a specific conflict of interest, the AIFM is not reasonably confident that the measures adopted under this instruction will prevent the risk of material damage to its Client(s), the general nature or source of the conflict of interest shall be disclosed, in a durable medium, to the Client(s) concerned. Such disclosure is a last resort and should only be adopted in specific cases where the measures otherwise put in place are judged to be inadequate to prevent the risk of material damage to the Client(s) and unit/shareholders affected.

The disclosure must:

- Be made in a durable medium (such as the prospectus or subsequent written notification in the form of an email to existing investors); and
- Include sufficient details, taking into account the nature of the Client, enabling to take an informed decision with respect to the service in the context of which the conflict of interest arises.
- Indicate the reasons of the decisions taken by the AIFM in relation to the measures put in place.

In such cases, the AIFM shall disclose the relevant conflict of interest to the Client and unit/shareholders of the AIF before undertaking business with or for it, giving sufficient information to enable the Client or unit holders to take an informed decision on whether or not to proceed with the proposed business.

The conflict of interest register is available to investors at the registered office of the AIFM and attached in the Annex 2 of this Conflict of Interest Policy.

## **7 Update and annual review**

The present policy and the conflict of interest register is updated on a regular basis by the AIFM by the Compliance Officer taking into consideration both the evolution of the AIFM's and Group's structure and services rendered by entities that are part of it, and any regulatory changes.

Any material change to this policy will be reviewed by the Conducting Officers and then validated and adopted by the Board of Managers.

Further, any material change to this policy will be made available to the AIFM Employees and retained at the registered office of the AIFM.

**ANNEX 1 – EMPLOYEE ACKNOWLEDGEMENT**

Have you any financial or other interest which may be considered as constituting an actual or potential conflict of interest?

No. I currently have no such conflicts. I undertake to inform you of any change in these circumstances, including if an issue arises during the course of the reporting period.

Yes. Please give details in the box below.

Type of interest (shares, employment, payment, work)	Name of commercial entity	Belongs to:

Name (print) : \_\_\_\_\_

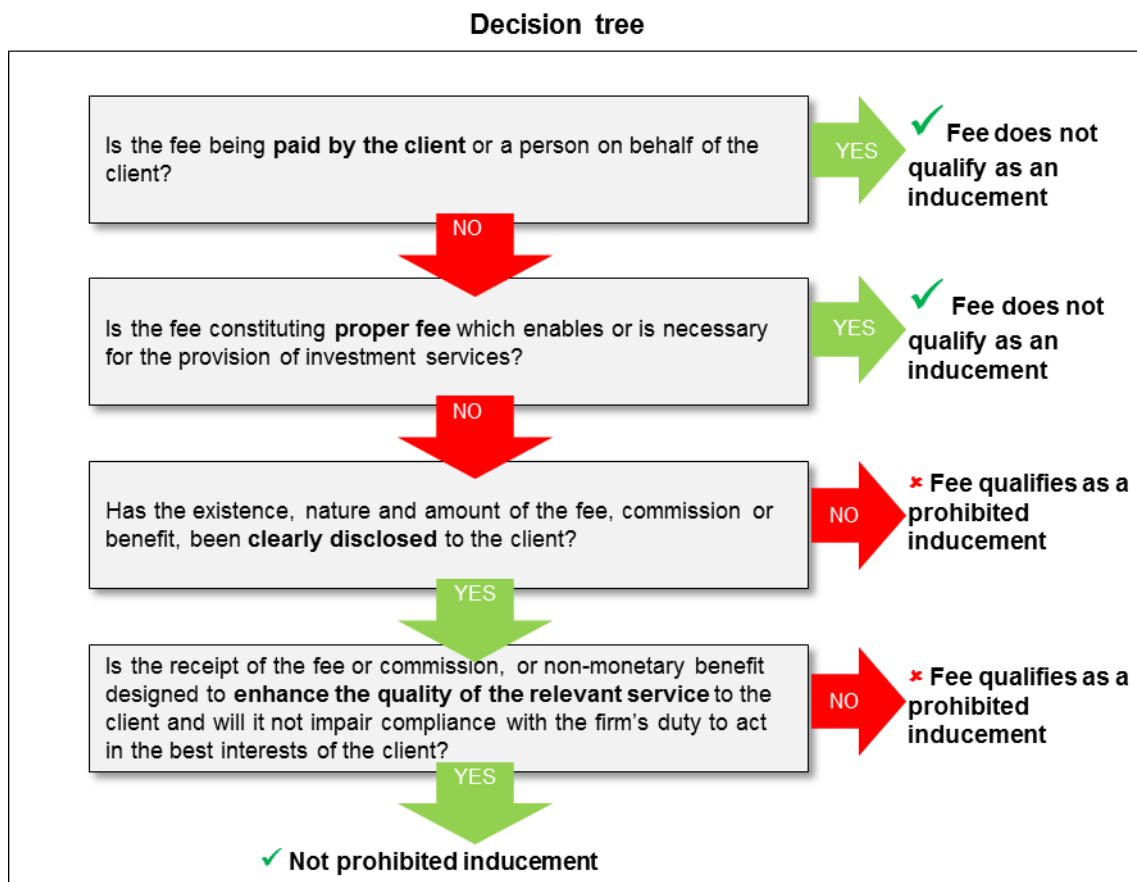
Date : \_\_\_\_\_

\_\_\_\_\_  
Signature

**ANNEX 2 – REGISTER OF CONFLICTS OF INTEREST**

<b>Date of occurrence</b>	<b>Concerned party</b>	<b>Description of the conflicts of interest situation</b>	<b>Potential or ascertained impacts of the conflicts of interest situation</b>	<b>Description of process for conflict management</b>	<b>Disclosure of the conflict required (Yes/No) if “Yes”, mean of disclosure</b>
<b>The conflicts of interest register includes the above information and is available at the Registered Office of the AIFM.</b>					

### ANNEX 3 – INDUCEMENT DECISION TREE



Source CESR: Second Consultation paper on inducements (CESR 07-228)