# Conflicts of Interest Policy

## Static Data

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## Ownership

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<td>Author</td>
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## Process

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## Approval and review

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<td>Approved by</td>
<td>KBC FM Board of Directors</td>
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## Short Description

All employees of KBC FM have an obligation to comply with this Policy, so as to avoid all potential conflicts of interest that may arise in their day to day responsibilities and to ensure that they act in the best interests of its clients at all times.

*Performance – Empowerment – Accountability – Responsiveness – Local embeddedness*
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2 APPLICABLE REGULATIONS

- Regulation 33 (1) b
- Regulation 74
- Regulation 75
  of S.I. NO. 60 of 2007 Regulations entitled European Communities (Markets in
  Financial Instruments) Regulations 2007 (MiFID)
- Directive 2010/43/EU (UCITS IV) (art. 17 et sec.)
- Directive 2011/61/EU (AIFMD – Level 1)
- AIFMD – Level 2
- UCITS Notices
- AIF Rulebook Central Bank of Ireland

3 SCOPE

3.1 Introduction

As detailed under Regulation 33 1 (b) KBC FM is required to “maintain and operate effective
organisational and administrative arrangements in its business with a view to taking all
reasonable steps designed to prevent conflicts of interest, as identified under Regulations 74
and 75, from adversely affecting the interests of clients.”

In addition it is also obliged to ensure that it has effective systems, controls and procedures
in place to manage such conflicts of interest and where such conflicts cannot be mitigated
that the relevant disclosures are made.

3.2 General Policy

All employees of KBC FM, have an obligation to comply with this Policy, so as to avoid all
potential conflicts of interest that may arise in their day to day responsibilities and to ensure
that they act in the best interests of its clients at all times.

4 DEFINITIONS

4.1 Relevant persons

In KBC FM, relevant persons are Directors and internal and external Employees.

4.2 Clients

The Clients of KBC FM include existing Clients, potential Clients and previous Clients in
respect of whom certain obligations apply. The term Clients comprises all UCITS and non-
UCITS funds to which KBC FM provides collective portfolio management services and the
investors therein, and any natural or legal person to whom KBC FM provides investment or
ancillary services.
4.3 Collective Portfolio Management services and investment and ancillary services

Services included in the activity of Collective Portfolio Management are:

- investment management (also referred to as “fund management”)
- administration (accounting services, customer inquiries, valuation and pricing, regulatory compliance monitoring, maintenance of unit holder register, distribution of income, unit issues and redemptions, contract settlements, including certificate dispatch, registration of transactions and record keeping)
- marketing

Investment services are:

- individual portfolio management

Ancillary services are:

- research and financial analysis or other forms of general recommendations relating to transactions in financial instruments

4.4 Conflicts of Interest (“COI”)

COIs arise when a relevant person, KBC FM, KBC Affiliates or any entity to which KBC FM has delegated (part of) the collective portfolio management find themselves in one of the following situations when providing collective portfolio management, investment and ancillary services and this situation could damage the interests of one or more Clients:

- may have a financial gain, or avoid a financial loss, at the expense of the Client, and/or
- may have an interest in the outcome of a service provided to the Client or in a transaction carried out on behalf of the Client, which differs from the Client’s interest in that outcome, and/or
- has a financial or other incentive to favour the interest of another Client or group of Clients to the detriment of the Client, and/or
- is involved in the same business / carries out the same activities 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.

5 CONFLICTS OF INTEREST REQUIREMENTS IN CASE OF DELEGATION

In case KBC FM delegates (part of) risk or portfolio management of funds, the criteria to assess whether a delegation conflicts with the interests of KBC FM or the investor into the funds, should – on top of those described under point 4.4 – include:

- if KBC FM and the delegate are members of the same group or have any other contractual relationship, the extent to which the delegate controls KBC FM or has the ability to influence its actions;
if the delegate and an investor into the funds managed by KBC FM are members of
the same group or have any contractual relationship, the extent to which this
investor controls the delegate or has the ability to influence its actions.

KBC FM will not delegate (parts of) the risk or portfolio management of funds to any other
entity whose interests may conflict with those of KBC FM or the investors into the funds,
unless such entity has functionally and hierarchically separated the performance of its
portfolio management or risk management tasks from its other potentially conflicting tasks
and the potential conflicts of interest are properly managed, monitored and disclosed to the
investors in the funds.

KBC FM will consider the portfolio or risk management functions to be functionally and
hierarchically separated from other potentially conflicting tasks only where the following
conditions are satisfied:

- persons engaged in portfolio management tasks are not engaged in the
  performance of potentially conflicting tasks such as controlling tasks;
- persons engaged in risk management tasks are not engaged in the performance of
  potentially conflicting tasks such as operating tasks (portfolio management);
- persons engaged in risk management functions are not supervised by those
  responsible for the performance of operating tasks (portfolio management);
- the separation is ensured throughout the whole hierarchical structure of the
delegate up to its governing body and is reviewed by the governing body and,
where it exists, the supervisory function of the delegate.

Potential conflicts of interest in case of delegation will be considered as properly identified,
managed, monitored and disclosed to the investors in the funds, only if:

- the delegate takes all reasonable steps to identify, manage and monitor potential
  conflicts of interest that may arise between itself and KBC FM, the funds or the
  investors therein. KBC FM will ensure that the delegate has the necessary conflicts
  of interest procedures in place;
- the delegate discloses potential conflicts of interest as well as the procedures and
  measures to be adopted by it in order to manage such conflicts of interest to KBC
  FM, who will disclose unresolved conflicts of interest to the funds and the investors
  therein in accordance with point 7.

6  PROCEDURE WHEN A COI OCCURS

KBC FM takes all reasonable steps to prevent COIs from damaging Client’s interests and to
enhance Client confidence. Situations may nevertheless arise where the measures and
procedures described below do not sufficiently guarantee the Client’s best interests.

If a relevant person encounters such a situation in practice, he/she will (if practically possible)
not carry out the collective portfolio management, investment services or ancillary services
concerned. He/She will immediately inform his/her team head, a member of the Management
Committee and the Compliance Department of KBC FM. The member of the Management
Committee and the Compliance Department will, in mutual consent, decide on the necessary
measures.

If the COI is sufficiently mitigated by these measures, Compliance will inform the relevant
person concerned and his/her team head of this in writing. This will be done within two
working days as from the notification. The collective portfolio management, investment
service or ancillary service may be provided without any further action.
If, despite these measures taken, the COI is insufficiently mitigated and thus remains unresolved:

- Compliance will document the conflict by describing the nature and/or sources;
- Compliance will inform the relevant person concerned and his/her team head in writing within two working days as from the notification;
- the unresolved COI will be disclosed to the Client. The manner in which KBC FM will disclose the unresolved conflict to the Client, is described in point 7.

All COIs that occurred will be listed in a **Conflicts of Interest Register** (see Annex I), which will be kept by the KBC FM Compliance department.

For each situation, the exact circumstances, the persons and Clients involved and the mitigating measures that were taken will be described in detail in the **Conflicts of Interest Inventory**. Compliance will keep a copy of all communications exchanged and of all letters sent. All records and documents are kept for a period of six years as from the notification to Compliance.

The information in the Inventory will be taken into account by Compliance when reviewing and updating the Conflicts of Interest Policy and the Conflicts of Interests Register. This will especially be the case when conflicts are not unique. In this case a specific measure to mitigate the conflict will be implemented.

KBC FM Compliance will report to the KBC FM Management Committee on the number of (potential) conflicts of interest notified and kept in the Inventory, at least on a quarterly basis.

7 **DISCLOSURE OF COIs**

7.1 **UCITS Funds**

Under the Regulations KBC FM is required to disclose\(^1\) the nature and/or sources of the ‘unresolved’ COI to the Client.

This disclosure will meet the following conditions:

- it will take place before providing the service to the Client (if practically possible);
- it will be in writing;
- it will be clear, fair and not misleading;
- it will contain sufficient detail, taking into account the nature of the Client;
- it will enable the client to make an informed decision.

Compliance will compile a letter containing an extensive description of the nature and/or the sources of the conflict. In some cases, depending on the seriousness of the situation and the risk involved, Compliance may decide to request additional measures. These additional measures include, for example, the obligation to have the letter signed ‘for agreement’ by the Client, the prohibition to carry out the service concerned or the order to reverse transactions if the service has already been provided.

\(^1\) As KBC FM is the sub-manager of most of the funds it manages, it has to inform the manager (mainly KBC AM NV) of the funds about the COI. The manager will inform the Clients. If KBC FM is the manager of the fund (e.g. Archipel Plc), it has to inform the Client itself.
Compliance will provide the letter to the team head of the relevant person concerned. The team head will sign the letter, provide it to the Client, file a copy in the Clients file and forward a copy to Compliance.

If the service had already been provided and the Client receives a letter describing the COI afterwards, the Client may submit a complaint. This complaint will be further handled by Compliance.

When the Client to who KBC FM discloses an unresolved COI is a fund, KBC FM will also inform the end-investor into the fund concerned of the conflict. KBC FM maintains appropriate internal procedures on how to disclose the unresolved COI to the end-investors (see Annex II).

7.2 QIAIFs

Under AIFMD KBC FM is required to include in the prospectus of the QIAIF (Qualified Investor Alternative Investment Fund) a description of the potential COIs which could arise between the AIFM and the QIAIF, with details of how these are going to be resolved.

QIAIF shall only enter into a transaction with, as appropriate, management company/AIFM, depositary, investment manager and/or its delegate or associated or group companies, where there has been full disclosure in the QIAIF’s prospectus.

8 WHAT COI MIGHT OCCUR?

Annex I, the COI Register, (i) lists the potential COIs identified by KBC FM between itself (including Directors and Employees) and Clients, or between one Client and another that may arise in the course of providing services to Clients and that entail a material risk of damage to the interests of one or more Clients, and (ii) specifies the procedures to be followed and measures to be adopted to manage those potential conflicts. All COIs are classified according to the level of risk they entail. For each COI, it is determined whether it entails a high, medium or low risk for KBC FM. The criteria used to divide the COIs into these three risk categories are (i) the probability that the COI will actually arise within KBC FM and (ii) the potential material damage to the Client(s), should the COI arise.

The potential COIs to which KBC FM is subject fall into three broad categories:
  o those personal to KBC FM Employees and Directors;
  o those inherent to the structure of the KBC Group;
  o those arising from the fact that KBC FM provides services to more than one Client.

KBC FM has adopted several general organisational arrangements with a view to managing potential COIs and ensuring an adequate level of independence of KBC FM Employees and KBC FM Directors. The effectiveness of these procedures and measures is being checked regularly and amended in line with changes in the law, the regulatory framework and any changes in the business activities of KBC FM. Those procedures and measures include:
  o technical information barriers within KBC FM teams with a view to preventing the unnecessary exchange of information;
o separate supervision and reporting lines within KBC FM teams with a view to maintaining a separation between the persons and departments which may represent different interests;
o general application of the four-eye principle, which means that at least one other person has to be informed or give his/her permission. This prevents any individual or a limited group of individuals from exerting improper influence on a particular service or activity domain;
o remuneration principles according to which remuneration of an Employee of KBC FM is not directly linked to the revenues generated by other KBC FM teams or to the sale of specific products (those principles do not prevent the payment of a variable remuneration to KBC FM Employees based on the general performance of KBC FM, KBC AM NV and the KBC Group);
o policies and measures to prevent inappropriate and external influence over the way KBC FM Employees carry out their activities;
o measures to control and monitor situations where KBC FM Employees act for different Clients in a simultaneous or sequential manner, for example the Best Execution and Client Order Handling Policy;
o implementation of ethical codes which all KBC FM Employees and Directors have to abide by, for example the KBC Labour Regulation and the KBC FM Code of Conduct;
o the Compliance department being represented at the launch of new products, services and processes in the New and Active Product Process: checking for general conflicts of interest and conflicts of interest due to the structure of KBC Group is a mandatory party of the review of a new product, service or process;
o monitoring of the Conflicts of Interest Policy by Compliance.

The above arrangements are, however, not sufficient to address all potential conflicts situations identified by KBC FM. The additional organisational and administrative arrangements described in the COI Register have, therefore, been made by KBC FM to limit the risks of damage to Client interests.

9 MONITORING, REVIEW AND UPDATE OF THIS POLICY

KBC FM has effective organisational and administrative arrangements in place which it regularly reviews to identify and prevent COIs. KBC FM will also review and amend as appropriate its organisational and/or administrative arrangements if necessary to manage such a COI.

Compliance will monitor the application of the Conflicts of Interest Policy, the Conflicts of Interest Register and the mitigating measures contained therein. Compliance will regularly, and at least once a year, review the Conflicts of Interest Policy and the Conflicts of Interest Register. But Compliance will also update the Conflicts of Interest Policy and the Conflicts of Interest Register when necessary.

Updates will occur in case of:
o changes in legislation;
o changes in business activities of KBC FM or services provided by KBC FM;
o organizational changes within KBC FM;
o new internal rules, procedures of policies within KBC FM;
- recurring (potential) conflicts of interest, as notified by employees or directors of KBC FM, and as kept in the Conflicts of Interest Inventory. The previous list is not exhaustive.

Updates of the Conflicts of Interest Policy and the Conflicts of Interest Register will be submitted to the KBC FM Management Committee and the KBC FM Board of Directors for approval.

The Compliance department will keep records of the previous versions of the Conflicts of Interest Policy and the Conflicts of Interest Register for at least six years.

10 PENALTIES

A relevant person who does not comply with this Policy, will be subjected to appropriate penalties commensurate with the gravity of facts.

This version of the Conflicts of Interest Policy has been:
- approved by the Management Committee of KBC FM on 23 October 2014
- ratified by the Board of Directors of KBC FM on 01 December 2014