



# **Abalone Asset Management Limited**

## **Conflict of Interest Policy**

**2018**

## Document History

Version	Date	Author/Editor	Changes / Modifications	Status
2.0	May 2018	Domenico Paolo Pagano	2rd Draft	Approved

This policy applies from 1<sup>st</sup> May 2018 and has been approved by the board of directors (the “Board”).

### 1. Conflicts of Interest Policy

- 1.1. Abalone Asset Management Ltd (the “Firm”) conducts its business according to the principle that it must manage conflicts of interest fairly, both between itself and its clients and between one client and another. As a financial services provider the Firm may face actual and potential conflicts of interest. This policy establishes the reasonable steps to maintain and operate effective organizational and administrative arrangements to identify and manage relevant conflicts. The board of directors are responsible for ensuring that the Firm’s systems, controls and procedures are adequate to identify and manage conflicts of interest. The Compliance Officer shall assist the Firm in the identification and monitoring of actual and potential conflicts of interest.
- 1.2. This policy applies to those conflicts of interest that may give rise to a material risk of damage to the interests of a client. Conflicts of interest may arise between:
  - the Firm including its employees or any person directly or indirectly linked to the Firm by control and a Scheme managed by the Firm or the investors in that Scheme;
  - the Scheme or the investors in the Scheme, and another Scheme or the investors in that Scheme;
  - the Scheme or the investors in that Scheme and another client of the Firm;
  - the Scheme or the investors in that Scheme, this being an AIF and a UCITS managed by the Firm or the investors in that UCITS;
  - two or more clients of the Firm in the context of the provision of services by the Firm to those clients;
- 1.3. Accordingly, this policy is designed to identify, assess, manage and if appropriate, disclose all potential and actual conflicts of interest in the Firm’s business.
- 1.4. The Firm undertakes investment management, and other services, on behalf of clients. For the purposes of identifying the types of conflict and potential conflict that arise which may entail a material risk of damage to the interests of a client, the Firm must take into account whether the Firm or a relevant person, or a person directly or indirectly linked by control to the Firm:
  - Is likely to make a financial gain, or avoid a financial loss, at the expense of a client;
  - Has an interest in the outcome of a service provided to a client or of a transaction carried out on behalf of a client, which is distinct from the client’s interest in that outcome;
  - Has a financial or other incentive to favour the interest of another client or group of clients over the interests of a client;
  - Carries on the same business as the client; or
  - Receives or will receive from a person other than a 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.
- 1.5. The Firm ensures fair treatment of investors in the Funds in line with the principle of proportionality through:
  - (a) Decision-making procedures;
  - (b) An organized structure with reporting lines, allocation of functions and responsibilities, internal control mechanisms, internal and external report and

- communication of information, maintenance of records of business and internal organization);
- (c) The safeguard of the security, integrity and confidentiality of information;
  - (d) An adequate business continuity plan for the preservation of essential data and functions and the maintenance of services and activities;
  - (e) Accounting policies, procedures and valuation rules to reflect a true and fair view of the Fund's financial position;
  - (f) Appropriate redemption policies and procedures.

Where the Firm would accord a preferential treatment to one or more investors, it shall not result in an overall material disadvantage to other investors.

1.6. The Firm has robust governance arrangements and management oversight of the business. Key business decisions are taken by the board of directors who understand the Firm's obligations to manage and mitigate conflicts of interest. Operating conditions that may involve any other material conflicts of interest are assessed and disclosed to the investors in the Funds.

1.7. The Firm's Board and its staff have adequate collective knowledge, skills and experience to understand the Firm's activities and the main risks involved. Furthermore, they act with honesty, integrity and independence of mind.

1.8. The Compliance Officer is tasked with identifying conflicts of interest and reports directly to the board of directors. Management information relevant to identifying conflicts is reviewed by the Compliance Officer (including risk reports, monitoring of account and position statements produced by the Firm's funds' third-party administrators, etc.). The Firm has a Conflicts Register in the form of Appendix M that seeks to identify and mitigate the Firm's potential and actual conflicts of interest. This policy shall be reviewed at least annually by the board of directors.

1.9. In case of delegation, the Firm takes into consideration the following criteria to assess whether a delegation conflicts with the interests of the Firm or with those of the investors:

- (g) The Firm and the delegate are members of the same group or have any other contractual relationship, the extent to which the delegate controls the Firm or has the ability to influence the Firm's actions;
- (h) The Delegate and an investor are members of the same group or have any other contractual relationship, the extent to which this investor controls the delegate or has the ability to influence its actions;
- (i) The likelihood that the delegate makes a financial gain, or avoids a financial loss, at the expense of the AIF or the investors in the AIF;
- (j) The likelihood that the delegate has an interest in the outcome of a service or an activity provided to the Firm or the AIF;
- (k) The likelihood that the delegate has a financial or other incentive to favour the interest of another client over the interests of the AIF or the investors in the AIF;
- (l) The likelihood that the delegate receives or will receive from a person other than the Firm an inducement in relation to the discretionary portfolio management activities provided to the Firms and the AIFs it manages in the form of monies, goods or services other than the standard commission or fee for that service.

Potential & Actual Conflicts	Mitigating Controls
<p><u>Valuation</u> - Where the Firm may exercise a significant amount of influence over valuations of hard-to-value securities in its favour, which may increase fees and/or assets under management.</p> <p>The ability of the Firm to influence the reported valuation of its fund could be to the detriment of clients entering or exiting the fund.</p>	<p>Documented Valuation Policy.</p> <p>As a general rule, the valuation function is carried out through an internal valuation committee and is functionally independent from the portfolio management. Alternatively, there are instances where the Firm appoints external valuers.</p> <p>The Firm will conduct initial and ongoing due diligence on any external valuers.</p> <p>Independent Administrator, on behalf of the Fund with respect to the Funds that the Firm manages.</p> <p>The appointment of the depositary appointed for an AIF as an external valuer of that AIF is subject to the condition that it has functionally and hierarchically separated the performance of its depositary function from its tasks as external valuer and the potential conflicts of interest are properly identified, managed, monitored and disclosed to the investors of the AIF.</p>
<p><u>Different strategies and mandates</u> - Where different objectives and mandates might lead to a conflict between the Firm and its clients.</p>	<p>Each Fund and client always managed in the best interests of each client.</p>
<p><u>Exit phase</u> - delaying wind down of a fund in order to prolong receipt of fees.</p>	<p>Fund always managed in the best interests of client.</p>

<p><u>Independent performance of risk management function</u> - the risk management function should operate independently from other business functions, in particular, portfolio management.</p>	<p>The Firm has an independent Risk Manager, which is functionally and hierarchically independent from the operating units and from the functions of portfolio management.</p> <p>The functional and hierarchical separation of the functions of risk management is reviewed by the MFSA in accordance with the provisions of the UCITS Directive and the AIFMD thus allowing for the independent performance of risk management activities.</p> <p>The remuneration of the risk manager is not based upon any other business function.</p> <p>The risk manager reports directly to the Board of the Firm.</p> <p>Furthermore, the arrangement is monitored by the Firm 's senior management.</p>
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<p><u>Delegation</u> - Where the Firm delegates key functions to third parties that have other clients and/or competing obligations.</p>	<p>The delegation of portfolio management is not conferred on an entity whose interests may conflict with those of the Firm or the investors of the Fund, unless such entity has functionally and hierarchically separated the performance of the portfolio management from its other conflicting tasks and the conflicts of interest are properly identified, managed, monitored and disclosed to the investors in the Fund.</p> <p>Delegates to approve this policy, or confirm similarity to own policy/-ies.</p> <p>Monitoring of delegation.</p> <p>Written agreements with third parties.</p> <p>Potential conflicts of interest shall be deemed properly identified, managed, monitored and disclosed to the investors of the Scheme only when;</p> <p>The Firm ensure that the delegate takes all reasonable steps to identify, manage and monitor potential conflicts of interest that may arise between itself and the firm, the Fund or the investors in the Fund and has procedures in place;</p> <p>The Firm ensures that 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 the Firm which shall disclose them to the Fund and the investors in the Fund.</p>
<p><u>Liquidity profile</u> - Redemption requests where the Fund invests in illiquid assets.</p>	<p>Documented liquidity policy.</p> <p>There is alignment of liquidity profile, liquidity limits and stated investment objective/strategy.</p> <p>Liquidity stress testing.</p>
<p><u>Preferential access given to certain clients for co-investment</u></p>	<p>Preferential access not typically granted.</p> <p>Any side-letters to be disclosed to other clients.</p>

<p><u>Remuneration</u> - Where portfolio manager remuneration is performance based, there is an incentive to manage funds in a more speculative and risky manner.</p> <p>Care needs to be exercised to ensure that managers do not seek to improve performance by taking on overly risky positions close to a valuation date in the hope of reaching the performance target.</p>	<p>Remuneration is on a fixed basis.</p> <p>Trading strategy complies with the investment mandate set out in the offering documents or investment management agreement.</p> <p>Compliance with restrictions is monitored on a regular basis, by risk management function.</p>
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Potential & Actual Conflicts	M Mitigating Controls
<p><u>Personal Account Dealing</u> - Where staff undertake personal securities transactions while potentially in receipt of material non-public information or front run client accounts.</p>	<p>Personal Trading Policy.</p> <p>Account Disclosure.</p> <p>Excluded Products.</p> <p>Prohibition on use of inside information.</p>
<p><u>Gifts &amp; Inducements</u> - Where gift and inducement given to or received by brokers/service providers influence the business relationship between the Firm and its service providers to the detriment of the client.</p>	<p>Disclosure of all material gifts, whether monetary or non-monetary.</p>
<p><u>Outside Business Activities &amp; Directorships</u> - Where staff undertake outside business activities which may conflict with the interests of the accounts and funds managed by the Firm.</p>	<p>Disclosure of all outside business activities.</p>

- 1.10. The Firm has defined and clear reporting lines. An organizational chart is maintained by the Compliance Officer. The Firm has structured its senior management to appropriately segregate duties to avoid conflicts of interest wherever possible.
- 1.11. The board of directors has determined, in light of its current organizational chart and the seniority and experience of its Compliance Officer, that it is not necessary to engage external compliance consultants to advise on the Firm's compliance program or to undertake independent monitoring of the Firm's regulatory obligations (including management of conflicts of interest).



- 1.12. The Firm has a documented Remuneration Policy detailing the Firm's approach to remuneration and compensation arrangements. The Firm's interests and the staff's interests are aligned with those of the Firm's clients. The fixed level of remuneration, and the portfolio risk management arrangements, minimize and manage potential conflict where too much risk is being taken with a client's portfolio in order to increase potential fees.
- 1.13. Staff and directors are required to disclose in writing any conflicts of interest upon commencement of employment with the Firm and on a periodic basis. Staff and directors will disclose any conflicts of interest directly to the Compliance Officer and to the board of directors.
- 1.14. The Firm discloses to its clients, in its offering memoranda and other documents, all material conflicts in sufficient detail so as to allow the client to take an informed decision in relation to the service offered.
- 1.15. If the Firm's arrangements to manage a potential conflict of interest are not sufficient to ensure with reasonable confidence that the risk of damage to that client's interests is prevented, the Firm will inform the client in writing or on the Firm's website.
- 1.16. The Firm has comprehensive policies and procedures, which are designed to establish consistent controls to manage and mitigate conflicts. These are reviewed regularly by the Firm and furthermore when the Firm's business changes, to ensure the policies and procedures are current and effective.
- 1.17. Any significant breach of this policy or proposed changes to the policy that could have a significant impact on the Firm's risk profile or resources will be promptly notified to the MFSA in accordance with its rules.
- 1.18. The board of directors will review this policy at least on an annual basis. As part of this process the board of directors will seek the input from the Risk Manager and the Compliance Officer and other control functions and independent third parties as required.