

# **AZ Fund Management S.A**

## **Procedure concerning the identification, the management and the recording of Conflicts of Interest**

July 2017



**Procedure effective as of: July 2017**

**Persons responsible: Conducting Persons**

**Last approved by the Management Committee: July 2017**

**Last approved by the Board of Directors: July 2017**

## **1. PURPOSE AND SCOPE**

AZ Fund Management S.A. (the "**Company**") is a management company authorised under Chapter 15 of the amended Law of 17 December 2010 on undertakings for collective investment (the "**2010 Law**") and Chapter 2 of the amended Law of 12 July 2013 on alternative investment fund managers (the "**2013 Law**"). It acts as the designated management company of AZ FUND 1 and AZ MULTI ASSET, two Luxembourg undertaking for collective investment in transferable securities ("**UCITS**") within the meaning of Directive 2009/65/EC of the European Parliament and of the Council on the coordination of laws, regulations and administrative provisions relating to UCITS (the "**UCITS Directive**") and as alternative investment fund manager of AZ PURE CHINA and ESKATOS, two Luxembourg specialised investment funds qualifying as alternative investment funds ("**AIF**") within the meaning of Directive 2011/61/EU of the European Parliament and of the Council on alternative investment fund managers (the "**AIFM Directive**"). The Company further acts as management company of AZ FUND K, a Luxembourg specialised investment fund not qualifying as an AIF.

The present procedure (the "**Procedure**"), which has been issued and approved by the board of the Company (the "**Board of Directors**") on the date hereof) purports to fulfil the requirements of (i) the 2010 Law, (ii) the CSSF Regulation 10-04 transposing Commission Directive 2010/43/EU of 1 July 2010 implementing the UCITS Directive as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company ("**CSSF Regulation 10-04**"), (iii) CSSF Circular 12/546 on authorisation and organisation of Luxembourg management companies subject to Chapter 15 of the 2010 Law and investment companies which have not designated a management

company within the meaning of Article 27 of the 2010 Law ("**CSSF Circular 12/546**"), (iv) the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing the AIFM Directive with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision (the "**AIFM Regulation**"), (v) the 2013 Law, (vi) the amended Luxembourg Law of 13 February 2007 on specialised investment funds (the "**2007 Law**") and (vii) the CSSF Regulation 15-07 laying down detailed rules for the application of Article 42a of the 2007 Law as regards the requirements in relation to risk management and conflicts of interest for specialised investment funds which are not referred to in the specific provisions of Part II of that Law, all as amended from time to time.

The purpose of the Procedure is:

- to identify by reference to the specific services and activities carried out by (or on behalf of) the Company, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of a Fund or its shareholders; and
- to define procedures to be followed and measures to be adopted in order to manage such conflicts in an independent manner, and
- to communicate this information to all employees in the Company (the "**Employees**")

The Company intends to manage conflicts of interest fairly, both between the relevant persons or relevant entities and the Funds managed by the Company (the "**AZ Funds**") or investors and between an investor and another investor.

It is the responsibility of all Employees to familiarise themselves with the Procedure and report conflicts of interest through the appropriate channels.

The Procedure is subject to updates upon the arising of new actual or contingent conflicts of interest, upon the occurrence of organisational or operational changes justifying its review, each time the Board of Directors deems it necessary based on its experience and/or due to changes affecting the Company or the AZ Funds.

## **2. RELEVANT PERSONS AND RESPONSIBLE PERSONS**

The Company has identified the following figures as relevant persons, who from time to time may be affected by individual conflicts in view of the activity carried out by them and of the specific type of conflict:

- the members of the Board of Directors and board members of the parent company
- the members of the board of directors of the AZ Funds
- the members of any investment committee of any of the AZ Funds
- the Conducting Persons of the Company (the “**CPs**”)
- the Fund managers, i.e. the directors/Employees implementing the management strategies and the investment choices concerning the UCITS, AIFs and other specialised investment funds under management
- any other individual who is directly involved in the provision of services to the Company on the basis of an outsourcing agreement.

Relevant entities:

- Azimut Holding
- Any company of the Azimut Group
- The sub fund’s managers
- The sub fund’s advisors
- The AZ Fund’s depositaries
- The AZ Fund’s central administrators
- Any external valuer for any of the AZ Funds
- Any structuring or placement agent acting for the AZ Funds
- Any other entities that participates in the provision of investment services and activities on behalf of the Company.

### **3. INDEPENDENCE IN MANAGEMENT OF CONFLICTS OF INTEREST**

The CPs, are responsible for active management of conflict of interest. They assist in the process of management but it is each Employee duty to manage conflicts.

In making investment decisions, or buying products and services, the Company acts in the best interests of investors and put their interests ahead of those of the relevant persons or relevant entities.

With this aim, the Board of Directors issued this procedure, through the following steps by virtue of which:

- Identification of actual and potential conflicts of interest
- Mitigating conflicts of interest
- Resolution of conflicts of interest
- Maintenance of a conflicts of interest register (the “Register”)
- Initiating the disclosure of unresolved conflicts of interest
- Monitoring of conflicts of interests for outsourced activities
- Regular reporting to the Board of Directors
- Disclosure to investors (with reference to the situations for which there is a high risk that the measures are not adequate to manage)
- Set up of specific policies regarding particular matters which may generate dangerous conflicts of interest such as:
  - gift
  - remuneration
  - inducement
  - strategy for the exercise of voting rights

## **4. REQUIREMENTS**

### **4.1. CONFLICTS OF INTEREST DEFINITION**

Article 19 (1) of the CSSF Regulation 10-04 and Articles 30 and following of AIFM Regulation, for the purposes of defining and identifying the types of

conflicts of interest that arise in the course of providing services and activities by a Company and whose existence may damage the interests of the AZ Funds managed, either UCITS or AIFs, (hereinafter defined, for the sake of clarity, as the “client”) provides a non-exhaustive list of minimum criteria used to identify potential conflicts of interest arising in the course of the management of the AZ Funds in the following situations:

- when the Company, or relevant persons and entities, including those belonging to its group, can make a financial gain or avoid a financial loss to the detriment of the client;
- when the Company, or relevant persons and entities, including those belonging to its group have an interest in the outcome of a service provided to the client, distinct from that of the client;
- when the Company, or relevant persons and entities, including those belonging to its group, have an incentive to favor the interests of a client other than that to which the service is provided;
- when the Company, or relevant persons and entities, including those belonging to its group, carries out the same activity as the client;
- when the Company, or relevant persons and entities, including those belonging to its group, receives or may receive from a person other than the client, in connection with the service to these borrowed, an incentive in the form of money, goods or services, other than committees or received for that service.

#### **4.2. SCENARIO OF POTENTIAL CONFLICTS OF INTEREST**

Considering the above criteria, as first step of analysis, in order to define and identify the potential situation of conflicts of interest, the Board of Directors

has identified at least the following main scenarios of raising of potential situation of conflict of interest taking into account that the list is not exhaustive, but may be considered as a guiding principles list:

<b>Situation</b>	<b>Example</b>
<p><b>FINANCIAL/PERSONAL INTEREST</b></p> <p>Where a relevant person and/or entity has a financial/personal interest in an company/security in which the Company invests significantly and could be perceived to be in a position to influence relevant investment decisions.</p>	<p>Holding a relevant equity interest in a company in which the Company invests significantly or a personal relationship of a relevant person and/or entity with another board member in the company selected.</p>
<p><b>HOLDING MULTIPLE POSITIONS</b></p> <p>Where a relevant person and/or entity holds multiple positions in companies or other collective investment schemes, in which the Company invests significantly while simultaneously the relevant person and/or entity holding relevant positions</p>	<p>Assuming responsibilities in paid or unpaid positions, for an outside organisation that diverts its attention from the investment Company duties, or creates other conflicts of loyalty.</p>

<p><b>INDUCEMENTS</b></p> <p>Where the Company, directly or through relevant persons and/or entities, receives an inducement in relation to portfolio management activities provided to a client, or they receive the</p>	<p>The Company will seek out the products that pay the greatest commission for themselves, instead of focusing on what investment is</p>
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<p>commissions from another company or introducing broker, for purchasing a particular security in which the Company, directly or through relevant persons and/or entities, invests.</p>	<p>going to be best for the client.</p>
<p><b>SERVICES</b></p> <p>Where a relevant person and/or entity has an interest in the outcome of a service provided to the Company, which is distinct from the Company’s interest in that outcome.</p>	<p>The relevant person and/or entity enjoys of some services which are not relevant for Company in relation to its clients.</p>
<p><b>CLIENT INTERESTS</b></p> <p>Where the Company is likely to make a financial gain, or avoid a financial loss, at the expenses of the client.</p>	<p>The Company or its delegated takes the decision to make some investments not aligned to the client interests.</p>

## 5. MANAGING AND MONITORING CONFLICTS OF INTEREST

### 5.1. GOVERNANCE

The Company has robust governance arrangements:

- The Procedure has been approved by the Board of Directors. The Board of Directors is informed on an ad hoc basis on the occurrence of (potential) conflicts of interest. Key business decisions are taken by the Board of Directors and are recorded
- The CPs report directly to the Board of Directors
- The Company maintains the Register

**5.2. REPORTING LINES**

The CPs and the Board of Directors ensure the ongoing activity to identify specific situations of conflict of interest and endeavor to make sure that all parties involved in the Company are aware of this matter.

The responsibility to assess the compliance of the Company's relevant persons and relevant entities with the conflict of interest procedure has been assigned to the CPs, under the supervision of the Board of Directors.

The CPs, must control that the procedure is respected and must notify the Board of Directors for any breach or violation he should be aware of, in the normal course of his assessment procedures.

Whoever, within the AZ Funds, has a potential conflict of interest, is required to disclose it to the CPs, including those in which may have been inadvertently incurred due to either business or personal relationships with clients, suppliers, business associates or competitors of the AZ Funds.

In case a CP detects a new circumstance that aggravates a pre-existing conflict of interest, or that generates a new one, without delay, must inform the other CPs.

The CPs, taking into account the principle of proportionality, the organization and the nature of business of the Company, identifying situations that could suit potentially lead to conflicts of interest, must effectively manage only those specific circumstances that are appropriate to effectively generate "significant" conflict, that could seriously harm the interests of the Company or its investors.

To properly manage these concrete situations of conflict of interest, the CPs show the measures already in place (if any), suggest any appropriate measures to mitigate the extent and jointly assess the severity.

**5.3. CRITERIA FOR THE MANAGEMENT OF CONFLICTS OF INTEREST**

The main methods used by the Company to manage conflict of interest, either real or potential, include the following tools or measures:

<b>1.</b>	<p><b><u>Arm's length transaction:</u></b> payments related to services performed by/to relevant persons and/or entities which may be in situations of potential conflict of interest may only be performed to the extent that are based on market standard and fair rates and prices, determined at arm's length basis and duly documented in written by the Board of Directors. As example, one or multiple alternative of independent third parties may be analyzed and/or compared (in term of price quotation, or service level) , in relation to a service fee in potential conflict of interest, to ascertain its adherence to market standard.</p>
<b>2.</b>	<p><b><u>Independent Due Diligence on delegates and service providers in conflict of interest:</u></b> a periodical Due Diligence program has been established by the Company, performed by the CPs not involved in the operational conduct of the relevant functions/by independent CPs/Compliance Officer, as the case may be, through initial and on-going due diligence and visits on site, in order to identify and mitigate the rising of potential conflicts of interest of relevant persons and entities to which the Company may have delegated certain of its core functions or which provide sensitive services to the Company. The Due Diligence program shall in particular aims at ascertaining either the existence of potential situation of conflicts of interest or the existence within the service provider of adequate procedures to identify and manage conflicts of interest.</p>

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3.	<p><b><u>Investment Guidelines:</u></b> internal guidelines have been issued by the Board of Directors to limit the investments by the AZ Funds into securities which may have relevant conflicting interests with those of the Company and the AZ Funds, which may be detrimental to the best interests of the investors</p>
4.	<p><b><u>Remuneration:</u></b> The removal of any direct link between the remuneration of Relevant Persons where a conflict of interest detrimental to the best interests of the clients may arise in relation to the activities they are engaged in.</p>
5.	<p><b><u>Gifts, Entertainment and Inducements:</u></b> The giving and receiving of gifts, entertainment or inducements has the potential to create conflicts of interest. Employees must not solicit or provide anything of value directly or indirectly to or from anyone, which would impair a firm's duty to act in the best interest of the client. For Employees, there is a policy with regard to giving and receiving of gifts and entertainment.</p>
6.	<p><b><u>Personal Account Dealing and Outside Business Interests:</u></b> To prevent conflicts arising from the use of information obtained from clients, and market abuse generally, all Employees and relevant persons, as required by the law, are subject to personal account dealing rules. Such rules may, by way of example and as the case may be, require the Employees and relevant persons to disclose their outside personal and/or business interests and the relevant entities to disclose their policies on personal transactions treatment, where applicable, or to declare their compliance with the relevant applicable regulation.</p> <p>There is a prohibition on 'front-running' client orders and the Company has established dealing policy on the management of client orders.</p>
7.	<p><b><u>Declining to Act:</u></b> Where the Company considers that the conflict of interest cannot be managed in any other way, the Company may decline to act for a</p>

	client.
8.	<b><u>Disclosure:</u></b> Where the Company considers that there are no other means of managing the conflict, or where the measures in place do not sufficiently mitigate the conflict, the conflict must be disclosed to enable those affected to make an informed decision.
9.	<b><u>Information Barriers:</u></b> Physical and electronic Information Barriers which are designed to prevent, on a case by case basis and subject to proportionality principles, the exchange or misuse of material, non-public information obtained in the Company. The Employees are prohibited from inappropriately passing on sensitive information to those in a business unit who cannot access the information. An Information Barrier could be, for example, where Employees sit in separate premises or use separated systems with distinct access and security control.
10.	<b><u>Segregation of functions:</u></b> the separate supervision of Relevant Persons whose principal functions involve carrying out activities on behalf of customers whose interests may conflict, or where these clients represent different interests that may conflict with the interests of the Company.

#### 5.4. CONFLICTS OF INTEREST REGISTER

The Company maintains and updates regularly the Register in order to record all the activities which produce or can produce a conflict of interest.

The Register is archived in the Company's registered office.

The conflict Register contains information on:

- The sequence number of the conflict

- Designation of the type of conflict
- Description of the conflict
- Persons involved
- Measures taken to mitigate the conflict
- Conflict rating (low, medium, high) considering the mitigating measures
- Date of acknowledgement of conflict

Such Register is updated by the CPs and is submitted to the Board of Directors on a yearly basis.

#### **5.5. MONITORING**

For the concrete situations of conflict that have been duly identified, the CPs check the existence of measures and safeguards to minimize the risk of serious damage to the interests of the Clients or of the AZ Funds' investors.

Where appropriate, the CPs adopt further relevant measures to better manage the potential conflict of interest, leading to the attention of the parties such measures and then making sure that they are adhered to.

The Register and any subsequent updates shall be approved by the Board of Directors who thus expresses his opinion on the effectiveness of the modality of management of each conflict.

In particular, the Board of Directors, even taking into account the specific circumstances that reduce or amplify the severity of the conflict, checks whether the mechanisms adopted are sufficient and adequate to ensure reasonable assurance that the risk of damage to the interests of the Clients or the AZ Funds' investors is significantly mitigated.

The CPs suggest to the Board of Directors the update of the Register whenever arise a new conflict of interest which would seriously harm the interests of the Clients or the AZ Funds' investors, and at least once a year.

**5.6. MEASURES TO MITIGATE THE RISK OF CONFLICTS OF INTEREST**

<b>Mitigation Measures' Intention</b>	<b>Remedial Measures</b>
<p><b>FINANCIAL/PERSONAL INTERESTS</b></p> <p>Measures should prevent any person from exercising inappropriate influence over the way in which a person carries out portfolio management activities.</p>	<p>Requesting the members of boards and committees to absent themselves from debate or decision on specific matters which create the conflict.</p>
<p><b>HOLDING MULTIPLE POSITIONS</b></p> <p>Measures should prevent the simultaneous or sequential involvement of one person in separate portfolio management activities, where such involvement can lead to a conflict of interest.</p>	<p>Removing the person from the responsibilities or duties to which the conflict relates.</p>
<p><b>INDUCEMENTS</b></p> <p>If the remuneration of a Relevant Person performing different activities for the client are linked to factors which may give rise to a conflict of interest, these links should be removed.</p>	<p>Checking if the fees, commissions or non-monetary benefits are being paid on behalf of the clients or if they are proper fees relating to the provision or enhancement of investment services and by their nature cannot give rise to conflict with the board's duties to act</p>

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<b>Mitigation Measures' Intention</b>	<b>Remedial Measures</b>
	honestly in accordance with the best interests of its clients.
<p><b>TYPE OF CLIENTS</b></p> <p>Procedure and measures should avoid exchange of information between Relevant Persons engaged in portfolio management and other external clients, if this exchange could harm the client Company's interests.</p>	<p>Restricting the access of the person to relevant information that are sensitive or confidential; making arrangements for members of boards and committees to absent themselves from debate or decision on specific matters.</p>
<p><b>SERVICES</b></p> <p>Relevant Persons providing services to clients whose interest may conflict should be separately supervised.</p>	<p>Appointing an independent third party to oversee the integrity of the process, where there may be a reasonably perceived conflict of interest or whereby processes are already underway when the perception is raised.</p>
<p><b>CLIENT INTERESTS</b></p> <p>Procedures should verify if the decision taken could produce a potential advantage for the clients or not, in respect to the investment policy of the Company.</p>	<p>Appointing extra persons to the committee to minimise the influence of the individual about whom the perception is held; removing the person from the responsibilities or duties to which the conflict relates.</p>

<b>Mitigation Measures' Intention</b>	<b>Remedial Measures</b>

**5.7. DISCLOSURE OF POSSIBLE CONFLICTS OF INTEREST**

Whoever, within the Company, has potential conflicts of interest is required to disclose it to the CPs, including those which may have been inadvertently placed due to either business or personal relationships with clients, suppliers, business associates or competitors of the Company.

After information of the existence of a certain conflict of interest which cannot be avoided, the Board of Directors will adopt a disclosure strategy in order to properly inform clients and/or investors on a durable manner about the conflict.

**CONFLICT INTEREST REGISTER**