SCARABAEUS
Wealth Management AG

# Conflicts of Interest – Types and Handling

## I. Introduction

A potential Conflict of Interest between Scarabaeus Wealth Management AG (hereafter referred to as „SWM“) and its investors and customers occurs always when certain action or forbearance of SWM is in conflict with the interests of the fund investors and customers. The Conflicts of Interest require consistently balanced regulation between the goals of the involved parties, while the legal requirements demand that the goal of the impartial and uninfluenced financial service for the protection and safeguard of the interests of the fund investor is granted highest priority.

## II. Suppression of Conflicts of Interest

The suppression of Conflicts of Interest takes place in different ways. SWM has developed economic mechanisms (open and transparent fees in the booklet) as well as voluntary commitments (internal guidelines and operating instructions) in order to prevent with priority any Conflicts of Interest from formation.

This includes that SWM waives any retrocessions in their favor. This way, the portfolio turnover ratio is set independently of the retrocession payments. Whether an additional transaction is effected depends only on the expected excess return and the transaction costs. The selection of the financial products occurs independently of any possible retrocession payments. The waiver of retrocessions expands also the scope towards banks when it is about negotiation of minimal possible bank charges for the collective capital investment/ the customer.

SWM will abstain consistently from the so called All-in-Fees for the collective capital investment/the customers. These fees would have advantage that in particular retrocessions from the commercial transaction are restricted. All-in-Fees include all fees like courtages, custody costs, commissions for certificates of deposit and fiduciary investments, etc. With the application of All-in-Fees profit neither the bank directly nor SWM through retrocessions of additional transactions. This way can be prevented any pecuniary incentive for the execution of transactions that do not generate any added value to the collective capital investment/the customer.

SWM will apply for the administration a performance independent fee model. With regards to the asset management for the collective capital investment/the customer can be raised an additional performance fee. It will exert a disciplining impact on the transaction pattern within the asset management. In the case of performance dependent fees occurs generally the threat that the investment risk is raised in order to achieve better yields.

## III. Treatment of activities that entail some harmful Conflict of Interest

SWM will keep records of the types of the mutual portfolio management, rendered by them, with occurrences of Conflicts of Interest, respectively chance of occurrence during the ongoing portfolio management, with significant risk of detriments to the interests of one or more fund investors/customers, and she will consistently update these records.

The compliance of the organizational or administrative precautions of SWM for the treatment of Conflicts of Interest will be examined continuously in terms of sufficiency on order to ensure that the risk of any impairment of the interests of the fund investor/the customer can be reasonably excluded.

## IV. TYPES OF CONFLICTS OF INTEREST

The interest of investors and customers is a highest value. It forms the orientation point of view for potential conflicts and the basis for the measures to be taken. Some conflict with the interests of investors and customers is thinkable in the following regard:

- own interests of SWM, her related companies, boards of directors, chief executives or employees are in conflict with the interests of the fund investors/customers;
- the interests of some fund investor/customer are contrary to the interests of other fund investors/customers;

Possible constellations of Conflicts of Interest can result particularly:

- from personal relationships of the employees, the chief executives, the board of directors or persons, related to them;
- from the involvement of these persons in boards of directors, executive boards, management boards, supervisory boards or advisory boards;
- in the asset management;
- from information of certain employees that are not publicly known at the moment of the deal;
- at receipt or warranty of incentives, particularly payments from or to third parties;
- at warranty of incentives for employees;

## V. FORMS OF CONFLICTS OF INTEREST

Focal points for Conflicts of Interest represent naturally the SWM itself as well as their employees. Conflicts which possibly detrimental to the fund investor/customer are for example the following situations:

- financial benefits or lack of financial drawbacks on the part of SWM and to the account of the investor;
- deviating interests;
- incentive to put the interests of some fund investor/customer over the interests of another fund investor/customer;
- incentives from third parties: if SWM obtains some incentive (apart from the usual provisions and remunerations) with respect to a service, executed for a fund investor/customer (money, other services, etc.);
- gifts and/or money that are not due contractually, that go beyond the regulations in the guiding principles for the employees;

## VI. MEASURES AGAINST CONFLICTS OF INTEREST

The measures against Conflicts of Interest must be adequate, effective and where necessary, dissuasive. The persons concerned must know and be in command of the procedures that have to be adhered to towards the proper execution of their obligations. For this purpose guidelines and operating instructions are developed and employees are trained.

In the role of general measures against Conflicts of Interest come into consideration:

- consistently control of the proper acting;



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- disclosure of the conflict towards the investor under continued protection of his interests;
- the compliance officer must compile a list of control points for prevention of Conflicts of Interest and they have to perform the respective controls;
- each conflict must be met with appropriate measures;

Hereafter are outlined the organizational and quality assurance measures that have to be adopted.

## 6.1. CONFLICTS OF INTEREST IN CONNECTION WITH THE MANAGEMENT ACTIVITY OF FUNDS

| No | Potential Conflicts of Interest | Measures | Residual Conflicts of Interest |
|---|---|---|---|
| 1 | Errors in the calculation of the Net asset value (NAV) | The assessment of the assets is subject to transparent and comprehensible principles in accordance with the statutory enactments and regulations. Possible calculation errors are respectively amended and do not go at the expense of the fund assets, but have to be refunded by SWM. Furthermore, the calculation of the net asset value and the cost differentiation are described in the sales booklet and analogically calculated. | None |
| 2 | In the process of exercising of the voting right for shares from the fund assets SWM could cast its vote to its own benefit or to the benefit of third parties | SWM exercises the rights from shares and debts, related to the properties from the managed fund assets, independently from the rights of third parties and exclusively to the interest of the investor and the market integrity. If the interests of different funds stray apart from each other, the different interests reflect in the voting behavior. The exercising of the voting right and the regulations for the selection, instruction and monitoring of the activity of the voting right representatives are clearly regulated by means of contracts, internal guidelines and legal standards. All employees must act according to them. In addition, the exercising of the voting right is respectively documented by SWM.<br>Contraventions need to be revoked immediately under indemnification of the affected persons. | None |
| 3 | Proprietary trading transaction in stake of the own funds | No proprietary fund shares are sold to customers/AIF/UCITS.<br>Otherwise, it needs to be revoked immediately under indemnification of the affected persons. | None |



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| 4 | Key date related improvement of the fund performance („window dressing“) | As to the end of the respective financial year of the AIF/UCITS is established monitoring. The respective auditors of the AIF/UCITS are asked to keep special attention to possible actions. | None |
| 5 | Deals between SWM and the fund assets managed by him | These deals are not allowed. | None |
| 6 | Consolidation of several orders (for example in case of Block Trades and IPO - allocations) can lead to Conflicts of Interest in the execution of deals for fund assets and for the investment of the own capital of SWM | SWM sets in advance the allocation principles of assets for different fund assets, acquired fully or partially in the course of consolidation of several orders, respectively for SWM, for the cases of full or partial execution. According to them, the consolidation of several orders is acceptable only when this is necessary for the warranty of the equal treatment of the fund assets, or when this presumably will not have any effect to the detriment of any fund asset. When setting the allocation principles, the external Investment Manager must keep attention that the allocation of partially executed orders, respectively orders that are executed under different conditions/prices, generally in proportion to the order procurement. In case of consolidation of orders of SWM for own capital investment in financial instruments together with orders from investors and funds the investor and the funds have to be regarded with priority when the orders are executed partially, unless specific reasons argue for proportional allocation. Additionally takes place verification on the risk management of SWM. | Few Conflicts of Interest can remain occasionally. |
| 7 | Procurement on strongly related companies and persons as custody body, respectively broker/contractor | If there are strongly related companies or persons and they are engaged, in the annual reports are revealed details about the scope of the transactions, processed through related companies. In the concluded condition negotiations must be paid attention to the market fairness. The turnover frequency is measured consistently. | Remaining, yet minimized |
| 8 | Transactions in securities of related companies | No transactions in securities and funds with related companies take place. | None |



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## 6.2. CONFLICTS OF INTEREST IN CONNECTION WITH THE DISTRIBUTION AND CUSTODY OF FUND SHARES

| No | Potential Conflicts of Interest | Measures | Residual Conflicts of Interest |
|---|---|---|---|
| 1 | Waiver from collection of transaction fees/costs, set in the price schedule, respectively the full cost surcharge or part of it in certain cases | SWM is not engaged in the active distribution of own funds, and they have outsourced the distribution activity to third companies. Only in exceptional cases are adopted actions, procured by the respective distribution center, for example for the purpose of facilitated access to fund platforms. In these cases the fees and the passing on of cost surcharges are preset by the distribution center. | None |
| 2 | Support of the timezone - arbitrage of certain investors | A possible timezone arbitrage is handled by means of determination of Cut-off-times. Through the closing times for order acceptance as well as through the introduction of Forward-Pricing is guaranteed that no investor can execute purchase or sale of shares to already known share values. The observance of the Cut-Off is contractually negotiated with the separate custody sites. | None |
| 3 | Preterm provision of information to certain investors | Significant information is made available to all investors at the same time online or over print media. | None |
| 4 | Frequent swap of the shares in | Charging the investors with a swap fee, that is set also in the sales booklet of the respective funds. Monitoring and analysis of the transactions for the purpose of identification of unusual transactions (Compliance). | None |
| 5 | Commissions, paid by SWM to the broker | SWM has no Conflict of Interest through payment of commissions to brokers. However, the payment of commissions to brokers establishes Conflict of Interest for them, that need to be revealed to the investors by SWM from civil law considerations. Nevertheless, it is guaranteed contractually that the distribution centers, respectively their subdistributors, will communicate these numbers proactively to the investors. | Yes |



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## 6.3. CONFLICTS OF INTEREST BETWEEN THE INVESTORS AND ENTITIES/EMPLOYEES OF SWM

| No | Potential Conflicts of Interest | Measures | Residual Conflicts of Interest |
|---|---|---|---|
| 1 | Conflicts of Interest in the person of the board of directors members | Each member of the board of directors shall immediately reveal to the board of directors Conflicts of Interest, occurring through his person. | Minimized |
| 2 | Conflicts of Interest in a person of the executive board of SWM | SWM has rules of operation for the executive management. The members of the executive board of SWM are subject to no-competition clause during their operation for SWM. They shall immediately reveal to the board of directors Conflicts of Interest, occurring through their persons and inform about this the other members of the executive board. The board of directors can respectively revoke the no-competition clause. | None |
| 3 | If members of the board of directors of SWM are working in the executive board of a company, or they have in custody or trade securities/funds of this company, or are interested in another way in the company, whose securities/funds are acquired for the fund assets | The activity of the board of directors` members in another company outside of SWM is generally acceptable. A list of the other mandates – outside – of SWM is available and is updated consistently. | Yes |
| 4 | If members of the executive board of SWM are working in the executive board of a company, or they have in custody or trade securities/funds of this company, or are interested in another way in the company, whose securities/funds are acquired for the fund assets | The activity of the executive board members in another company outside of SWM is generally unacceptable. In exceptional cases this requires the approval of the board of directors. | None |
| 5 | Payment of performance based salaries to the employees can possibly represent an incentive for disadvantage for the investors | For the remuneration system was enacted remuneration policy that was submitted to FMA. | None |



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| 6 | Employees could pursue Insider trade, „Front Running“ or other types of insider offenses under violation of the regulations | In order to act contrary to such offenses have been enacted Guiding principles for the employees. Consistently is applied control and monitoring through the Compliance of SWM. | None |
| 7 | Utilization of information advantage (fund price) | The evaluation of all assets of AIF/UCITS occurs generally through the department Fund administration.<br>For employees of SWM is valid a prohibition that prevents from use for own purchases/sales by the employees on the base of information that they have earlier than the investors about imminent share price changes.<br>Moreover, employees who could have consistently potential access to insider information are ranked employees with special functions. Consistently is applied control and monitoring through the Compliance. | None |
| 8 | Utilization of fee advantages by employees (no cost surcharge) in case of frequent purchase/sale of fund shares | According to the Guiding principles for the employees, the minimal holding period for the fund shares amounts is 30 days. Consistently is applied control and monitoring through the person in charge with Compliance. | None |
| 9 | Contribution to employees | The employees of SMW may not accept promises for or accept contributions form third parties with regard to the execution of their activity. | None |

## 6.4. CONFLICTS OF INTEREST BETWEEN THE INVESTORS OF DIFFERENT FUNDS

| No | Potential Conflicts of Interest | Measures | Residual Conflicts of Interest |
|---|---|---|---|
| 1 | Deals between two funds, managed by SWM | These deals are allowed only when they are to the best interest of both parties to the contract. SWM applies the „Code of Conduct“. It is set that SWM shall abstain from actions that could impair the transparent and market conform price formation on the security markets, for example, actions that serve rate manipulations or transactions with fund shares of proprietary assets or portfolios of another investor for the purpose of rate impact. Compensation deals are allowed only with the approval of the executive board and under observance of the above | None |



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| | | listed criteria – especially the application of reliable assessment rates. | |

## VII. SPECIAL CASES

If in certain cases occurs particular Conflicts of Interest towards some fund investor that cannot be avoided with organizational and contractual measures they need to be revealed to the fund investor in general type and origin. The disclosure should take place unsolicited in written form before the deal is concluded, in order to make it possible for the fund investor to decide whether he is willing to accept the service in spite of the conflict existence.

This Information for the fund investor must include sufficient details about the Conflicts of Interest, in order to provide the investor with enough details to make a decision.

However, the detail depth may not reach disclosure of insider information. Conflicts of Interest with other investors and the resulting preservation of the investor protection (bank secret) must also be considered.



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