

Cordiant Capital Inc. ("Cordiant")	Conflict of Interest Policy Disclosure Statement
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1.0 Introduction

Cordiant is registered in the following categories:

<u>Category</u>	<u>Provinces/Location</u>
Exempt Market Dealer (EMD)	Quebec, Ontario, Alberta and British Columbia
Portfolio Manager (PM)	Quebec, Ontario and Alberta
Investment Fund Manager (IFM)	Quebec and Ontario
Registered Investment Adviser (RIA)	United States

1.1 Conflict of Interest Policy

Under applicable laws including National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* Part 13.4 *Identifying and responding to conflicts of interest*, Cordiant is required to identify material conflicts of interest which would be expected to arise between Cordiant (including its employees and consultants) and its clients and prospective clients. Further, if a reasonable investor would expect to be informed of the nature and extent of an identified conflict of interest, Cordiant must do so.

Amendments to National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (Rule) and its Companion Policy, known as the Client Focused Reforms (CFR), are required to be implemented by registrants starting June 30, 2021.

The Canadian Securities Administrators (CSA) developed the CFRs based on the concept that the interests of the client should come first in the client-registrant relationship. The enhanced compliance requirements that arise as the CFRs take effect apply to all registered dealers and advisers (and registered investment fund managers under certain circumstances). Amendments came into force on December 31, 2019 with a phased implementation plan beginning on December 31, 2020.

CSA Staff Notice 31-326 – *Outside Business Activities* reminds registrants of their obligation to ensure outside business activities or affiliations do not impair or impede the performance of their regulatory obligations. Under FINRA Rule 3270 – *Outside Business Activities of Registered Persons*, Cordiant’s registered employees must validate if their outside business activity interferes with or otherwise compromises the employee’s responsibilities to the firm and/or the firm’s clients, therefore Cordiant and its employees must take reasonable steps to identify existing material conflicts of interest and material conflicts that it reasonably expects to arise between the firm and a client.

As a Registered Investment Adviser (RIA) in the US, Cordiant must also pay close attention to Rule 206(4) and Rules 206(4)-3 and 206(4)-7. Rule 206(4)-3, the “cash solicitation rule” prohibits a registered adviser from paying a third party (for example a teachers union) to solicit clients on its behalf without complying with provisions of the rule. The rule includes provisions

requiring the adviser to enter into a contract with the solicitor requiring the solicitor to deliver to the person being solicited a current copy of the adviser's brochure and a statement by the solicitor that explains the source of its compensation. Rule 206(4)-7, under the Investment Advisors Act, the "compliance rule," and Rule 38a-1 under the Investment Company Act requires that registered investment advisers have compliance policies and procedures that are reasonably designed to prevent violations of the Advisors Act. Moreover, the reference purposes that U.S. Federal Sentencing Guidelines ("Guidelines") since 2004 have provided helpful guidance on many of the key elements of an effective compliance program.

The Advisors Act does not provide a comprehensive regulatory regime for RIAs but rather imposes a broad fiduciary duty to act in the best interest of their clients.

There are five (5) types of requirements that must be fulfilled by an advisor:

1. Fiduciary duties to clients
2. Substantive prohibitions and requirements
3. Contractual requirements
4. Recordkeeping requirements, and
5. Administrative oversight by the SEC, primarily by inspection

Please refer to Appendix A for further details on the 5 above requirements

Cordiant Employees; and consultants ("referral agents" or "solicitors") must make full and fair disclosure to the CCO of all matters that could reasonably be expected to impair their independence and objectivity or interfere with their respective duties to Cordiant's clients or prospective clients.

The purpose of this **Conflicts of Interest Policy Statement** is to describe certain potential conflicts of interest Cordiant may encounter as a Canadian and US registrant:

1. Fund management fees

Cordiant receives management fees from the Funds it manages. Cordiant also receives incentive fees on some funds it manages. In both instances the fees are calculated according to well-defined formulae. This mitigates any potential conflicts of interest but, in the event of a potential conflict, the Fund documents ensure that investors can take advantage of a dispute resolution forum (the Investor Panel).

2. Front-End Fees:

Cordiant receives a share of front-end fees ("**FEF**") on investments, which form a part of the all-in return on a specific investment. At a theoretical level, there is a trade-off between FEF and loan margin which Cordiant could influence, but FEF are typically defined in the context of widespread market practice. Moreover, the share of the FEF collected by the investment manager is defined in the relevant Fund's offering memorandum.

3. Loan Arrangement Fees:

Cordiant earns fees directly from borrowers by arranging transactions and syndicating deals out to groups of co-investors. This benefits investors in several ways: (a) it allows Cordiant to participate in larger investments with more substantial companies and (b) provides additional opinions on the quality of the investment, thereby acting as an additional input into the investment process. Cordiant's engagement with the market is therefore of benefit to investors. That being said, a conflict of interest could emerge. Cordiant addresses this by defining and capping the portion of arrangement/structuring/syndication fees charged on Investor funds

4. Management of parallel or subsequent funds:

Cordiant could face a conflict of interest in allocating investments between several funds it manages, or by concentrating its attention and efforts on the fund that is most lucrative to the investment manager. The risk is mitigated by the following: (a) Cordiant publishes a formal allocation policy in its Fund documents (generally, the older (preceding) fund is favored after taking into account its headroom and portfolio diversifications constraints), and (b) Cordiant seeks to have invested a large proportion of a fund having a certain strategy before raising another fund with the same strategy

5. Incentive Management Fee:

An incentive fee linked to fund performance is payable to Cordiant on some of its funds. No conflict of interest arises from this as the incentive fee is calculated on a net cash basis after the investors have received in cash (no accruals or other non-cash accounting entries permitted) a return above a certain threshold.

6. Other areas of Conflict of Interest:

In the event that a conflict of interest arises, the governing document requires that Cordiant convenes a meeting of the Fund's Investor Panel.

7. Pricing

Cordiant uses a proprietary fair market value model to value its fund investments. The fair market value of a fund has no impact on Cordiant's remuneration. A conflict could arise where Cordiant would propose to trade an investment between two funds (or sub-funds) managed by Cordiant. In such circumstances the offering documents for the 2 different funds or sub funds i.e. CELF III and CELF IV requires that the fund's Investor Panel be convened to advise on the proposed transaction. For IFPT '04 such role would be played by the trustees.

8. Personal Trading, Gifts and Business Entertainment

Personal Trading: Cordiant Employees involved in the investment process may become privy to material non-public information. Cordiant Employees who possess material non-public information that could affect the value of an investment are prohibited from acting or causing others to act on the information.

8a. Gifts and Business Entertainment: Cordiant's guidelines limit the acceptance of gifts, entertainment, compensation, or gratuities from external sources that would

compromise the independence or objectivity of the firm and/or its Employees. While it is recognised that conducting business involves some modest exchange of gifts and business-related entertainment, the value of such gifts and entertainment must not impair the independence or objectivity of the recipient. Gifts and entertainment associated with Cordiant related business can neither be received nor given by an Employee if they are considered to be excessive or extravagant.

9. Outside Business Activities or Outside Affiliation

Cordiant Employees owe their duties entirely to Cordiant and to no other entity, and shall not undertake, except as authorized by the Co-CEOs or, in the case of the Co-CEOs, by the Chair of the Board of Directors, any independent practice in competition with Cordiant that could result in compensation or other benefit, or which may create any appearance of impropriety or prove a source of embarrassment to Cordiant.

In the performance of their duties, Cordiant employees and consultants shall not be influenced by, accept instructions from or receive remuneration from any government, entity or person external to Cordiant except under the terms of a secondment appointment, or are otherwise specifically authorized by the Co-CEOs, or in the case of the Co-CEOs, by the Board of Directors, to undertake such activities.

The foregoing does not prevent an Employee or consultant from devoting his or her free time to a not-for-profit organization without compensation. Furthermore, the foregoing has no application: (i) where the Employee or consultant is authorized by the Co-CEOs to hold a directorship or other position in an outside entity as part of his or her official duties with Cordiant, or (ii) to Cordiant's independent directors provided they abstain from acting in situations where so acting would be in conflict with the duties they owe towards Cordiant.

1.2 **Fairness Policy**

From time-to-time, Cordiant manages separate funds with similar investment objectives and which, in certain instances, may tap from a single discreet stream of loans. In such instances, Cordiant is required to allocate sufficient time and resources to ensure that it allocates potential investments among the two funds in a manner that is fair, transparent, devoid of conflict of interest and consistent with Cordiant's fiduciary duties to each respective fund and the security holders thereof.

In each specific instance, Cordiant will typically establish written guidelines to guide itself and the relevant Employees on how Cordiant will allocate investments between the funds and manage them in an even-handed fashion. See 4.1.3.

The CSA have indicated that a registered Portfolio Manager's policy for allocating investment opportunities fairly among its clients, should address the following at a minimum to the extent applicable:

- (a) the method used to allocate price and commission among client orders when trades are bunched or blocked;
- (b) the method used to allocate block trades and initial public offerings among client accounts;

- (c) the method used to allocate block trades and initial public offerings among client orders that are partially filled, such as on a pro-rata basis; and
- (d) any other situation where investment opportunities must be allocated

At the time of opening an account for a client, a Portfolio Manager is required to deliver to the client a summary of the firm's policies and procedures for allocating investment opportunities fairly among its clients. If there is a significant change to the summary delivered to the client, the Portfolio Manager is required to deliver the new summary in a timely manner and, if possible, before the firm next purchases or sells a security for the client, or advises the client to purchase, sell or hold a security.

1.3 Soft Dollar Arrangements

As an investor in private securities, Cordiant does not typically use brokers to execute any investments. Were this to change, the following would apply:

National Instrument 23-102 *Use of Client Brokerage Commissions* governs the use of client brokerage commissions. Brokerage commissions are defined as commission paid for out of, or charged to, a client account or investment fund managed by Cordiant. Registrants are generally prohibited from directing any brokerage transactions involving client brokerage commissions to a dealer in return for the provision of goods or services by the dealer or third party other than order execution and services and research goods and services.

Cordiant may direct brokerage transactions for client accounts to broker-dealers who provide Cordiant with research and brokerage products and services. The brokerage commissions used to acquire research in these arrangements are known as "**soft dollar arrangements**" or "**commission sharing arrangements.**"

Consistent with obtaining best execution, brokerage commissions on portfolio transactions may be directed to broker-dealers in recognition of research services furnished by them, as well as for services rendered in the execution of orders by such broker-dealers.

Cordiant does not usually attempt to allocate the relative costs or benefits of research among its client accounts, unless required by law or client direction, because it believes that, in the aggregate, the research received benefits clients and assists Cordiant in fulfilling its overall duty to its respective clients.

Cordiant will not enter into any agreement or understanding with any broker-dealer who would obligate it to direct a specific amount of brokerage transactions or commissions in return for research services.

1.4 Referral Arrangements

A "referral arrangement" is an agreement whereby Cordiant earns or pays a fee for the referral of a client from another party ("referral agent") or vice versa.

Cordiant, its Employees and consultants may not refer a client to another person or company unless senior management, has confirmed that reasonable steps have been taken by Cordiant to satisfy itself that the person or company has the appropriate qualifications to provide the services, and if applicable, is registered to provide those services.

Referral arrangements will only be permitted subject to the following conditions:

- 1.4.1 before a client is referred by or to Cordiant, the terms of the referral arrangement are set out in a written agreement between Cordiant and the person or company;
- 1.4.2 Cordiant must record all referral fees; and
- 1.4.3 Cordiant, under Canadian regulation must ensure that the information prescribed by subsection 13.10(1) of NI 31-103 is provided to the client in writing before the party receiving the referral either opens an account for the client or provides services to the client.
- 1.4.4 Any referral arrangements done abroad will conform to that region's appropriate regulatory practice.

In respect of (c) above, the prescribed information is as follows:

- (i) the name of each party to the referral agreement;
- (ii) the purpose and material terms of the referral agreement, including the nature of the services to be provided by each party;
- (iii) any conflicts of interest resulting from the relationship between the parties to the referral agreement and from any other element of the referral arrangement;
- (iv) the method of calculating the referral fee and, to the extent possible, the amount of the fee;
- (v) the category of registration of each registrant (including Cordiant) that is a party to the agreement with a description of the activities that the registrant is authorized to engage in under that category and, giving consideration to the nature of the referral, the activities that the registrant is not permitted to engage in;
- (vi) if a referral is made to a registrant (including Cordiant), a statement that all activity requiring registration resulting from the referral arrangement will be provided by the registrant receiving the referral;
- (vii) any other information that a reasonable client would consider important in evaluating the referral arrangement.

If there is a change to any of the above information, Cordiant must provide written disclosure of the change to each client affected by the change as soon as possible and, in event, no later than the 30th day before the date on which a referral fee is next paid or received.

1.5 Prohibition on tied settling and tied selling

Cordiant is subject to restrictions relating to tied settling. In this respect, it must not require a person or company to settle their transaction with the firm through the firm's account at a Canadian financial institution as a condition, or on terms that would appear to be a condition of, supplying a product or service, unless the method of settlement would be necessary to provide the specific product or service.

Cordiant is also prohibited from requiring another person or company to buy, sell or hold a security as a condition or on terms that would appear to be a condition of supplying or continuing to supply a product or services. Cordiant is similarly prohibited from requiring

another person or company to buy, sell, or use a product or service as a condition or on terms that would appear to be a condition of buying or selling a security.

Appendix A

1. Fiduciary Duties to Clients

Fundamental to the Act is the notion that an adviser is a fiduciary. As a fiduciary, an adviser must avoid conflicts of interest with clients and is prohibited from overreaching or taking unfair advantage of a client's trust. A fiduciary owes its clients more than mere honesty and good faith alone. A fiduciary must be sensitive to the conscious and unconscious possibility of providing less than disinterested advice, and it may be faulted even when it does not intend to injure a client and even if the client does not suffer a monetary loss.

Several obligations flow from an advisor's fiduciary duties and include:

- a) *Full disclosure of Material facts*
- b) *Conflicts of interest*
- c) *Disciplinary Events and Precarious Financial Condition*
- d) *Suitable Advice*
- e) *Reasonable basis for Recommendations*
- f) *Best Execution*
- g) *Proxy Voting*

2. Substantive Requirements

The Act contains other, more specific prohibitions designed to prevent fraud. In addition, the SEC has adopted several anti-fraud rules, which apply to advisers registered with the SEC.

- a) Client Transactions
- b) Agency cross transactions
- c) Cross trades
- d) Aggregation of client orders

3. Contractual Requirements

Section 205 of the Act, however, requires all advisory contracts to include certain provisions and prohibits the contracts from including other provisions entered into by advisers registered with, or required to be registered with, the SEC.

- a) Advisory Fees
- b) Performance Fees
- c) Assets under Management
- d) Fulcrum Fee
- e) Non-US Clients – the Act also excerpts contracts with persons who are not residents of the United States.
- f) Qualified Clients i.e. Rule 205-3 permits an advisor to enter into a performance fee contract with certain “qualified clients”.

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4. Recordkeeping Requirements

The SEC generally requires a registered adviser to maintain two types of books and records: (i) typical accounting and other records that any business would normally keep; and (ii) certain additional records the SEC believes necessary in light of the adviser's fiduciary duties

5. Administrative Oversight

All records of a registered adviser (and not only those required to be created or maintained pursuant to SEC rule) are subject to examination by SEC staff.²⁹¹ Personnel in the SEC's Office of Compliance Inspections and Examinations located at SEC headquarters and various regional offices usually conduct inspections. All examinations are confidential.

There are generally three (3) types of inspections:

- a) Examinations of High-Risk Investment Advisors
- b) Special Purpose Reviews
- c) Cause examinations