



# **INFORMATION MEMORANDUM**

**L Y N X**

# LYNX DYNAMIC IN BRIEF

Strategy:	Model-based fund that invests in equity indices, fixed income securities, currencies and commodities.
Inception day:	11 May 2009.
Portfolio managers:	Jonas Bengtsson, Svante Bergström, Daniel Chapuis, Henrik Johansson, Jesper Sandin and David Jansson.

## MANAGEMENT TARGETS

Type of return:	High risk-adjusted return.
Risk (standard deviation):	Annual standard deviation of 18 per cent.
Correlation:	Low or negative correlation with stock market.

## FEES AND SUBSCRIPTIONS

Fixed management fee:	1.5 per cent per annum.
Performance fee:	20 per cent of the return that exceeds the hurdle. <sup>1</sup>
Subscription fee:	No subscription fee is charged.
Subscription for/redemption of units:	Daily.

## SUPERVISION

Licensing authority:	Finansinspektionen (the Swedish Financial Supervisory Authority). The company received a license to engage in business on 19 April 2000. The company is registered as an AIF Manager.
Depository:	Skandinaviska Enskilda Banken AB (publ).
Auditors:	KPMG AB, Märten Asplund.

## FUND MANAGEMENT COMPANY

### LYNX ASSET MANAGEMENT AB

Company registration number:	556573-1782
Date of inception:	10 June 1999.
Funds under management:	Lynx, Lynx Dynamic and a number of individual accounts.
Owners:	The company is owned by the founders, key employees and Brummer & Partners AB.
Share capital:	SEK 1,500,000.
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Email:	info@lynxhedge.se
Website:	www.lynxhedge.se
Board of Directors:	Marcus Andersson (COO Lynx Asset Management AB), Jonas Bengtsson (Portfolio Manager Lynx Asset Management AB), Svante Bergström (CEO and Portfolio Manager Lynx Asset Management AB), Svante Elfving (Chairman, Partner Brummer & Partners AB) and Ola Paulsson (CEO and Partner, Brummer & Partners AB).
Chief Compliance Officer:	Kim Dixner
Independent Risk Control:	Alexander Argiriou, B & P Fund Services AB

<sup>1</sup> The hurdle is defined as the rate of interest used by the average of 3-month Swedish treasury bills on the final three banking days of the previous calendar quarter after the highwatermark. High watermark means that the fund pays performance fee only after any shortfall in the return in earlier periods has been recouped. The Board of the company has decided to currently apply a hurdle rate of 0 per cent instead of a negative interest rate.

# CONTENTS

## **The Fund Lynx Dynamic**

Comparison to the Lynx Fund.....	4
Investment policy.....	4
Fund manager.....	4
Depositary.....	5
Investment process.....	5
Ethical rules and personal account trading policy.....	8
Responsible investments.....	8

## **Investing in Lynx Dynamic**

The Fund's target group.....	10
The risks associated with an investment in the Fund.....	10
Liquidity management.....	10
Management fees.....	10
Subscription and redemption of units.....	10
Closing the Fund due to capacity limitations.....	11
Act on measures against money laundering.....	11

## **Other information**

Annual reports and half-yearly reports.....	12
Lynx Dynamic on the Internet.....	12
Register of unit-holders etc.....	12
Legal position of the Fund.....	12
Eligible investors.....	12
Use of benchmark indices.....	12
The principle of equal treatment.....	12
Professional indemnity insurance.....	12
The Fund's prime brokers and counterparties.....	12
Discontinuation and transfer of the Fund business.....	12

## **Tax rules**

Tax rules for unit-holders who are natural persons.....	13
Tax rules for the Fund.....	13
Appendix 1: Fund rules.....	14
Appendix 2: Historical performance.....	19
Appendix 3: Calculation of performance fee.....	20
Glossary.....	21

## **IMPORTANT INFORMATION**

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Lynx Dynamic is a special fund as defined in Chapter 1, Section 11 of the Alternative Investment Fund Managers Act (2013:561 - LAIF). This material shall not be regarded as investment advice. An investor considering investing in the fund should carefully read the fund's simplified prospectus, subscription document and the information memorandum containing the fund rules. These documents are available for download at [www.lynxhedge.se](http://www.lynxhedge.se).

Investing in funds is associated with risk. Past performance is no guarantee of future return. The value of the capital invested in the fund may increase or decrease and investors cannot be certain of recovering all of their invested capital. The fund is classified by the fund manager as a fund with a higher risk level. Any data regarding returns in this document are not adjusted for inflation. The fund has no investments in hard-to-value assets for which no market pricing information is available, e.g. some unlisted/private equity, or model priced instruments for which no industry standard software models are available, e.g. complex, structured, one-off contracts.

# THE FUND LYNX DYNAMIC

Lynx Dynamic is a Special Fund pursuant to the Act (2013:561) on managers of alternative investment funds (AIFMA).

The object of the Fund's activities is to generate a high risk-adjusted return. A further goal of the portfolio managers is for the return generated by the Fund to have a low correlation with the stock and bond markets. This means that the unit value can increase or decline, regardless of the performance of stock and bond markets.

The Fund is managed by Lynx Asset Management AB, herein under referred to as "the company". The company has a licence from Finansinspektionen (the Swedish Financial Supervisory Authority) to manage the Fund and is subject to its supervision.

Special funds can have more flexible investment rules than what is applicable for mutual funds. The Fund has been granted exemption by Finansinspektionen from some of the restrictions that apply to mutual funds.

This exemption enables the Fund, for instance, to:

- trade with derivative instruments without having the capacity to deliver the underlying asset,
- create higher leverage than 100 per cent by using futures markets, and
- make large investments in some individual financial instruments by spot trade and gain a larger exposure to the underlying assets (or equivalent) by using derivative instruments.

Unlike what is applicable for mutual funds, Lynx Dynamic may in addition trade with derivative instruments where commodities are the underlying asset.

Even if the Fund has greater operational freedom, there are also restrictions on the investments it is allowed to make. The Fund may not, for example, pledge its assets. The Fund rules also limit the markets in which the Fund may invest. These restrictions are explained in full in the Fund rules (Appendix 1).

The Fund's assets are held in safekeeping by Skandinaviska Enskilda Banken AB (publ) in its capacity as depository.

## COMPARISON TO THE LYNX FUND

Lynx Dynamic is managed with the same principles as the Lynx Fund. Differences in return can occur due to e.g. the following reasons:

- Lynx Dynamic is open to subscriptions and redemptions daily whereas the Lynx Fund is open monthly. This means that investments in the two funds are not entirely identical.
- The fee for Lynx Dynamic is somewhat higher. The fixed

fee is 1.5 per cent per annum compared to 1 per cent for the Lynx Fund.

- Lynx Dynamic pays a performance fee on a daily basis compared to a monthly basis for the Lynx Fund.
- Lynx Dynamic is valued at the current market prices at 12 noon CET on each trading day, whereas the Lynx Fund is valued at each markets closing price. Over time the difference in time of valuation will not create any material differences in performance.
- Lynx Dynamic trades the same instruments as the Lynx Fund except energies. In total the Fund trades around 90 futures contracts across four asset classes.

## INVESTMENT POLICY

The Fund invests much of its capital in futures listed on financial futures markets and in FX forwards via the appointed prime broker. Trading in futures and forwards is an integrated part of the Fund's investment concept, and greatly improves the efficiency of its investment activities.

The Fund is entitled to trade in derivatives for which the underlying assets are equity indices, currencies, fixed-income related instruments and commodities.

By distributing the Fund's investments over a large number of markets, the portfolio managers increase the probability that a poor result in one market will be offset by a good result in another. In so doing, they are able to reduce the fluctuations, or the risk, in the portfolio without lowering the return.

The Fund's return is mainly generated by changes in general price levels on the markets ("market risk").

An investment in Lynx has historically generated a good return at times when many of the markets on which the Fund invests have risen and fallen sharply over a long period of time (i.e. when there is a clear trend). The Fund has historically generated a negative return during periods of widely fluctuating prices with no clear trends. The historical monthly returns for the Fund can be found in Appendix 2.

## FUND MANAGER

Lynx Asset Management AB, which is under the supervision of Finansinspektionen, has been managing the Lynx Fund since 1 May 2000. The company has permission to provide management of individual accounts besides the Lynx Fund. The company is owned by the founders, key employees and Brummer & Partners AB. Apart from Lynx Dynamic, the company is responsible for the investments in the Lynx Fund, and several client portfolios.

## DEPOSITARY

The Fund's assets are kept in safe keeping by Skandinaviska Enskilda Banken AB (publ), the depositary.

The depositary shall receive and place in safe keeping the property of the Fund in accordance with Chapter 9 Sections 9-12 of AIFMA as well as execute decisions made by and monitor the company in some respects.

The depositary must compensate unit-holders for any loss caused by the depositary violating the AIFMA or the fund rules.

## INVESTMENT PROCESS

### A PRESENTATION OF THE PORTFOLIO MANAGERS

The Fund is managed by Jonas Bengtsson, Svante Bergström, Daniel Chapuis, Henrik Johansson, Jesper Sandin and David Jansson.

*Jonas Bengtsson* is a Founding Partner, Portfolio Manager and Director of the Board at Lynx. Bengtsson founded Lynx in 1999 together with Svante Bergström and Martin Sandquist and has been a portfolio manager since the company's inception. Prior to founding Lynx, Bengtsson worked as quantitative researcher at Nordea, a leading Nordic bank, which he joined in 1994. From 1996, he worked for Nordea's Proprietary Trading department, where the foundations of what would later become the Lynx Program were developed, with responsibility for portfolio construction and risk management. He began his career as a quantitative analyst at Göta Bank in 1993. Bengtsson holds a Licentiate degree in Engineering Physics from the Lund Institute of Technology.

*Svante Bergström* is a Founding Partner and the Chief Executive Officer of Lynx. He is also a Director of the Board and Portfolio Manager. Bergström founded Lynx in 1999 together with Jonas Bengtsson and Martin Sandquist and has been the company's CEO since its inception. Prior to founding Lynx, Bergström worked at Nordea, a leading Nordic bank, where he was hired in 1993 as a quantitative analyst and bond trader. In 1996 he was tasked with establishing Nordea's Proprietary Trading department, where the foundations of what would later become the Lynx Program were developed. In his early career, Bergström worked for Hagströmer & Qviberg Fondkommission between 1984 and 1991, initially as a stock broker and later as head of the firm's bond trading department. Bergström holds a BSc in Economics and Business Administration from the Stockholm School of Economics.

*Daniel Chapuis* is a Partner and Portfolio Manager at Lynx. He chairs the working group for validating new model proposals from the research team and leads the company's efforts in developing short-term models. Chapuis has also developed numerous models used in the Lynx Program. Chapuis was hired by Lynx in 2008 and made Partner and Portfolio Manager in 2017. Previously, Chapuis spent two years at Brummer & Partners in a tactical asset allocation research venture that was later incorporated into the Lynx Program. He began his career at the First National

Swedish Pension Fund as a quantitative analyst in 2000, where he developed and managed trading models in fixed income. Chapuis studied Engineering Physics at the Royal Institute of Technology in Stockholm.

*David Jansson* is a Partner, Portfolio Manager, Head of Execution Research and Risk Manager at Lynx. Jansson was hired by Lynx in 2005 initially as a trader. In 2007 he initiated the company's efforts in Execution Research and in 2011 he became Partner and Head of Execution Research, where he is responsible for the development of the company's execution algorithms. In 2019 he was promoted to Portfolio Manager. Jansson has earlier worked at B & P Fund Services ("BFS"). David Jansson holds an MSc in Economics from Stockholm University, where he also studied mathematics.

*Henrik Johansson* is a Partner, Portfolio Manager, the Head of Research and Deputy Risk Manager at Lynx. As Head of Research, he has the overall responsibility for the research efforts to further develop Lynx's investment process. Henrik Johansson was hired by Lynx in 2011 as Partner and Head of Research, and promoted to portfolio manager in 2014. Johansson has extensive managerial experience from the financial industry. From 2008 to 2011, he was the Global Head of Risk Management at SEB Merchant Bank. From 2006 to 2008, he was the Head of Risk, Valuation, System Development and IT at BFS. From 1997 to 2006, he was the Head of Quantitative Strategies at Nektar Asset Management, a fixed income and global macro hedge fund. Between 2005 and 2008, he was a Director of the Board of Lynx. His early career was spent at Skandia Asset Management and the Treasury department at ABB. Johansson holds an MSc in Engineering Physics from the Royal Institute of Technology in Stockholm.

*Jesper Sandin* is a Partner and Portfolio Manager at Lynx. He has developed a significant part of the Lynx Program's current model portfolio and he leads the research efforts within portfolio construction. Sandin was hired by Lynx in 2008 and made Partner and Portfolio Manager in 2011. Previously, Sandin spent two years at Brummer & Partners in a tactical asset allocation research venture that was later incorporated into the Lynx Program. Between 1998 and 2006, Sandin was the Head of Quantitative Research at the First National Swedish Pension Fund. Initially an acoustic engineer, Sandin moved into finance when he was hired by Skandia Asset Management as a quantitative analyst in 1997. Jesper Sandin holds an MSc degree in Engineering Physics with specialization in applied mathematics from the Royal Institute of Technology in Stockholm and is a Certified Financial Analyst from IFL Stockholm School of Economics.

### QUANTITATIVE MODELS AS A MANAGEMENT TOOL

The portfolio managers make extensive use of quantitative models for determining which assets the Fund should invest in. The portfolio managers have used the model-based management concept since 1996, and the models used are

therefore the result of extensive development work.

The models are used to make quantitative analyses of data, primarily price fluctuations on markets traded. They identify market situations in which there is an enhanced probability that future price changes will be in a certain direction. Risk management and limiting investment losses are integral components of the models, e.g. by using systematic risk-reducing mechanisms. The portfolio managers apply several different models in conjunction with each other on each market, the idea being that the models complement each other to generate a stable total return.

This quantitative and systematic approach enables the portfolio managers to make extensive analyses in areas such as risk measurement, risk control and the limitation of market risk.

The portfolio managers hold the view that the way markets function will change with time. Consequently, it is important to carry out continuous research to improve the models used in the management. The company has a large team of analysts, whose task it is to develop new strategies and models to be used in the management.

#### **THE FUND'S LEVEL OF RISK**

Since the portfolio managers are able to apply leverage via the futures and forward markets, the Fund's level of risk can theoretically be very high, and the value of the Fund can show large fluctuations due to its composition. However, the portfolio managers will limit the actual level of risk, defined as the standard deviation in the NAV of the units, to ensure that over a 12-month period the standard deviation amounts to around 18 per cent before fees. The Fund's leverage, where the exposure for fixed income markets is calculated as 10 year equivalents, has historically been between approximately 100 and 500 per cent. The leverage can vary over time and can exceed the historical levels.

#### **RISK CONTROL AND RISK ANALYSIS**

The company's Board draws up guidelines for the Fund's management and lays down limits for the risks that the portfolio managers may take, based on the Fund rules. For example, using so called Value at Risk models, the Board decides on the maximum aggregate risk to which the Fund's investments may be exposed.

The analysis and control of market risks is a central aspect of the portfolio managers' day-to-day activities. Besides the restrictions laid down by the company's Board, the portfolio managers also use complementary risk calculation models, simulations and limits.

The control of the risks that exist within the management is supported by continuous measurement of the risks of the Fund. This risk measurement is carried out in two independent stages. On one hand, it is carried out by the company by means of risk models and methods developed in-house, and on the other hand by the group Risk Control and Development within B & P Fund Services AB in

accordance with the service agreement between the company and B & P Fund Services AB.

#### **INVESTMENT RESTRICTIONS**

The Fund invests largely in futures listed on a number of financial futures markets and in currencies also through a prime broker. The underlying assets of the futures are equity indices, currencies, fixed-income related instruments and commodities. The Fund trades primarily on futures markets with good liquidity that are subject to supervision by an authority or other authorised official body. The countries in which the Fund may invest are listed in the Fund rules (Appendix 1).

On account of its trading in futures and forwards, the Fund is exposed at any time to a collateral requirement that may not exceed:

- 20 per cent of the value of the Fund in respect to equity index futures
- 20 per cent of the value of the Fund in respect to fixed-income related futures
- 20 per cent of the value of the Fund in respect to currency futures and forwards
- 20 per cent of the value of the Fund in respect to commodity futures.

The total collateral requirement to which the Fund is exposed at any time may not exceed 40 per cent of the value of the Fund.

#### **LIMITS BASED ON VALUE AT RISK**

The Fund's level of risk is also controlled by limits calculated in accordance with the Value at Risk method (VaR). VaR is a type of risk measurement model that is frequently used by banks and asset management organizations to measure the risk to which a portfolio is exposed.

VaR models use historical prices in order to try to forecast what the risk of loss for a portfolio looks like for a certain time horizon and confidence level (probability). For example, the standard deviation of prices (how the price usually varies) and how the various assets are developing in relation to each other (how prices are correlated) can be used to make this forecast. The VaR model forecasts an interval within which the value of a portfolio is expected to change over a given time frame, such as one day or one month. The size of the interval is determined by the degree of confidence to which one wishes the actual result to be within the interval, for example, 95 per cent or 99 per cent. The higher the degree of confidence the greater the interval.

The models used to measure the Fund's risk are based on a one-day time frame with 95 per cent confidence. The Fund's risk may at any time be no more than 5 per cent, calculated in accordance with this method. It should be noted that the maximum risk according to this limitation is an absolute limit and that the Fund's average

risk is expected to be around 2 per cent.

It is possible to interpret the VaR model's forecast risk of loss as follows: Based on historic prices, the actual portfolio will on 5 days out of 100 provide a loss which is greater than X percent of the Fund's value. On 95 days out of 100, the result will thus be better than a loss of X percent.

The VaR model is a very widely used method for measuring portfolio risk in modern portfolio management, even though the method has certain shortcomings. The VaR model is, for example, based on the assumption that the price movements on markets will repeat past patterns in terms of volatility and correlation. The model therefore fails to take into account extreme events that lack any equivalent in the price history of the previous few years. Nor can the VaR model forecast the maximum loss that a fund can be expected to incur. Despite their shortcomings, VaR models provide an effective means of control for limiting the market risks to which a fund is exposed.

There are additional VaR limitations besides the VaR limit for the total risk level of the Fund described above. These limitations as well as other investment restrictions are described in detail in the Fund rules (Appendix 1).

#### **MODERN PORTFOLIO THEORY**

Modern portfolio theory is a useful tool for analyzing an investment portfolio. The key to raising a portfolio's risk-adjusted return is diversification. The distribution of investments over different markets increases the probability that a poor result in one market will be offset by a good result in another. This makes it possible to reduce the fluctuations, or the risk, in the portfolio. The lower the correlation between the different markets the better.

The portfolio managers apply modern portfolio theory in their management of the Fund by spreading their investments over a large number of markets.

The performance of the Fund has a low correlation with the stock and bond markets. For investors with a large proportion of their assets in the stock and bond markets, therefore, an investment in the Fund is a means of diversifying their portfolio, which will enable them to reduce the risk and/or raise the total return of their portfolio.

#### **TRADING IN DERIVATIVES**

A derivative instrument is a type of contract in which the contract itself is the object of trade on the securities market. The derivative instrument is linked to an underlying asset, such as a equity, a currency, a bond, a commodity or a stock index.

A future/forward is a contract in which one party undertakes to buy the underlying asset (e.g. a bond) from the other party at a later date and at a predetermined price. On the future's/forward's maturity date, payment is made

on delivery or by cash settlement.

Futures/forwards may be used to provide cover (hedge) against an unfavorable change in the price of the underlying asset. They can also be used to generate a profit with a smaller amount of invested capital than would be needed to make the corresponding investment directly in the underlying asset.

The parties to a futures/forward contract provide collateral for their future commitment when they enter into the contract. Additional collateral may be needed at a later stage if the price of the underlying asset changes unfavorably.

Trading in derivatives is an integral part of the Fund's business concept and will therefore take place extensively. The objectives of this trading are to improve the efficiency of the management of the Fund's capital and to raise the return earned on the Fund's assets.

#### **LEVERAGE**

A future/forward is structured so that changes in the price of the underlying asset are reflected in its value. The effect of such price changes is greater in relation to the amount of collateral than it is in relation to the value of the underlying asset. This effect is known as "leverage" and it can generate a higher profit on the invested capital than if the investment had been made directly in the underlying asset. Conversely, leverage can equally lead to a bigger loss on the future/forward if the change in the price of the underlying asset differs from what was expected.

The leverage is calculated using a commitment method and a gross method which are described in the Commission delegated regulation (EU) no 231/2013 of 19 December 2012. The gross method calculated the absolute value of all positions, which for each futures/forward position is the value of the underlying asset. The commitment method uses the same means of calculating exposure for each position, but aims to give a notion of the additional exposure that positions in derivatives implies compared to a direct investment in the underlying asset. The leverage in accordance with the commitment method is therefore shown as the sum of the absolute values of remaining exposures after the exposures have been reduced with netting and hedging arrangements.

The leverage – expressed as the ratio between the exposure of the Fund and its net asset value – may not exceed 10,000 per cent according to the gross method or 10,000 per cent according to the commitment method.

#### **MARKETS**

The Fund's capital is invested in about 90 different instruments which are traded on a number of futures markets around the world. For example, the Fund invests in the following markets: Australian Securities Exchange (ASX), Borsa Italiana (BI), Chicago Mercantile Exchange (CME), Eurex Exchange (EUREX), Hong Kong Futures

Exchange (HKFE), ICE Futures Europe (ICE), Intercontinental Exchange (ICE), Korea Exchange (KRX), London Metal Exchange (LME), Montreal Exchange (ME), Nasdaq OMX Nordic (OM), New York Mercantile Exchange (NYMEX), Osaka Securities Exchange (OSE) and Singapore Exchange (SGX).

#### **ADMINISTRATION AND OUTSOURCING**

Lynx Asset Management AB has transferred a number of administrative tasks relating to the Fund to HSBC Securities Services (Ireland) DAC (“HSBC”).

The administrative services provided by HSBC include valuation of the Fund, transaction reconciliation and administration of the register of unit-holders.

Some tasks have also been transferred to B & P Fund Services AB (“BFS”). BFS is a wholly owned subsidiary of Brummer & Partners AB and is subject to supervision by Finansinspektionen. Examples of these tasks are independent risk control and IT support.

#### **ETHICAL RULES AND PERSONAL ACCOUNT TRADING POLICY**

All employees are obliged to follow the ethical rules as well as guidelines and personal account trading policy routines which are adopted annually by the company. The ethical rules have been adopted in compliance with Finansinspektionen’s Regulations regarding alternative investment fund managers (FFFS 2013:10) and Finansinspektionen’s Regulations governing investment services and activities (FFFS 2017:2). The company’s personal account trading policy has been adopted in compliance with Article 63 of the Commission delegated regulation (EU) no 231/2013 of 19 December 2012 and with the Rules governing transactions in financial instruments and currencies, etc., undertaken by securities institutions’ employees and service providers on their own account or on behalf of closely related persons as adopted by the Board of the Swedish Investment Fund Association.

#### **RESPONSIBLE INVESTMENTS**

##### **THE COMPANY’S APPROACH**

The company has adopted a sustainability policy. A responsible investor supports the development of sustainable financial markets and the long-term market stability as a whole. A responsible investor understands the importance of continuous learning and development when it comes to sustainability and responsible investments.

Lynx Dynamic is a model-based CTA that invests in futures on equity indices, fixed income, currencies and commodities and in currency forwards. The investment process is based on statistical models that identify trends in the financial markets. The derivatives traded in the form of futures and forwards, do not involve discretionary fundamental analysis or security selection of single stocks or corporate bonds. Further, the instruments traded do not

entail any legal ownership of the underlying assets and as such no voting rights can be exercised that would enable Lynx to be an active owner with influence on any company or other entity.

In order to contribute to sustainable financial markets, the Fund must not affect the pricing. Lynx Dynamic trades the most liquid markets where the Fund’s positions and trade volumes are small in relation to the daily volumes in the respective markets. The Fund doesn’t trade in markets with insufficient liquidity where there is risk to affect the prices in the respective assets.

The company’s Execution Research team is responsible for the algorithms used to execute the trade signals generated by the models. One of the main functions of the algorithms is to avoid affecting market prices when we trade. Execution Research has access to data relating to e.g. market liquidity, trade volumes and order placement, and reports to the Lynx Program’s Investment Committee that is ultimately responsible for monitoring the Fund’s influence on the markets.

In light of the company’s commitment to responsible investing the Lynx Program’s Investment Committee, that is responsible for portfolio construction and risk allocation in the Fund, has decided to exclude energy contracts from trading as of December 2019. The decision is based on thorough analysis, where opportunities and risks have been evaluated after dialogues with a number of Swedish distributors that have moved towards fossil-free fund offerings. The following futures contracts have since December 2019 been excluded from continued trading:

- Crude oil (brent oil, crude oil)
- Heating oil
- Natural gas
- Gasoline
- Gas oil

Lynx Dynamic has from early on refrained from trading coal.

Overall, Lynx Dynamic trades some 90 markets across four asset classes: equities, fixed income, currencies and commodities. Trading takes place in the form of futures contracts. After the exclusion of energies around 20 commodities across precious and industrial metals as well as agriculture will continue to be traded. The exclusion of energies will not affect the Fund’s investment process, return profile or risk level.

The company is also currently reviewing the option of implementing trading in so called ESG futures contracts and we look forward to presenting more on this initiative in 2021.

#### **SUSTAINABILITY RISK POLICY**

Lynx has a policy which outlines how sustainability risks are integrated into its investment decision-making process and how environmental, social or governance (“ESG”) events, if they occur, can cause an actual or potential ma-



terial negative impact on the value of an investment in a fund. The strategies employed in respect of each fund do not have sustainable investment as a primary objective, however, Lynx's approach to ESG integration is guided by a set of overarching principles and beliefs. Over the past years, the company has increased its focus on sustainability and ESG risks. We consider a sustainable global financial system as being necessary for long-term value creation.

Sustainability risk factors are considered as part of the broader investment process, meaning that any ESG related risk in traded instruments is assessed vis-à-vis other risks and investment considerations. This approach ensures that the portfolio management teams at Lynx are aware of and take informed investment decisions with knowledge of key ESG related risks that ultimately might have an impact on an investment's risk and/or return.

Sustainability risks (including those identified below) are also implicitly integrated into the proprietary models and portfolio construction as volatility in prices are captured by Lynx's short, medium, and long-term systematic models. Furthermore, the quantitative models employed in our strategies are neutral to being long or short in an instrument (where shorting is allowed as per each fund's investment strategy), over time thus contributing to liquidity in the market and diminishing extreme price swings from supply/demand imbalances. ESG factors are also carefully assessed in the investment process when selecting new instruments to trade.

#### **Risk Disclosures**

Lynx has primarily identified three key sustainability risks that may have a material negative impact on the value of an investment / underlying assets to which a fund may be exposed:

- a) *Physical risk:* Changes brought about by climate change could include heatwaves, severe flooding or droughts, as well as long-term shifts in growing seasons or precipitation patterns. These present direct, real-world risks which subsequently could impact financial markets and derivatives. This is particularly true for agricultural commodities that have long been exposed to weather-related risks, and for energy market infrastructure or the transportation of any commodity that is vulnerable to disruption from hurricanes and other extreme weather.
- b) *Transition risk:* The global transition away from reliance on fossil fuels or legacy commodities that are produced unsustainably presents a host of challenges. Specifically, migrating futures market liquidity from one contract to another cannot be done overnight. Market participants need time to unwind their existing positions and bring new contracts into their trading and clearing systems. Transition periods managed ineffectively may result in a lack of real price discovery and increased price volatility for end-users and throughout

the real economy.

- c) *Operational risk:* Sustainability risks can result in operational risks in derivatives markets. As the global pandemic of 2020 illustrates, disruptions to how our markets function can come in unexpected ways. As an example, our strategies had to deal with temporary short-selling bans on some European equity markets that were imposed as a result of the dramatic downshift in the global economy that the Covid-19 pandemic caused.

Lynx ultimately believes that ESG factors can potentially have a material impact on long-term financial performance. Poorly managed ESG risks can lead to inefficiencies, operational disruption and reputational risk, which may ultimately impact our ability to manage the strategies. The impacts following the occurrence of a sustainability risk may be numerous and vary depending on the specific risk. To the extent that a sustainability event occurs, there may be a sudden, material negative impact on the value of an investment, and hence the Net Asset Value of a fund.

#### **PRINCIPAL ADVERSE IMPACT STATEMENT, "PAIS"**

Lynx does not currently consider the principal adverse impacts of investment decisions on sustainability factors. Lynx deems the guidance on how the new regulatory framework (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector) applies to our type of strategies to be insufficient and it is our assessment that the instruments traded do not have any material adverse impacts.

Within each strategy, Lynx invests mainly in equity indices, bonds, currencies and commodities through exchange traded futures across global markets and in over-the-counter foreign exchange forwards. Trading in derivatives poses significant challenges in assessing and measuring adverse impacts as we are not the legal owners of the underlying assets. Neither can we engage with companies on sustainability-related matters as we never receive voting rights through our investments. Furthermore, participating in certain macro markets (e.g. commodities, currencies) does not necessarily lead to a position which conflicts with underlying ESG factors, especially if a manager has the ability to take both long and short positions. As a company we have the ambition to report impacts when guidance on the handling of derivatives and long vs short positions becomes available.

# INVESTING IN LYNX DYNAMIC

## THE FUND'S TARGET GROUP

The Fund differs from traditional mutual funds with regard to investment policy and risk management. The Fund is intended for investors who have a basic knowledge about the financial markets and a long-term investment horizon. It is important that a potential investor reads the information contained in this Information Memorandum.

An investment in the Fund shall not be seen as an independent alternative to traditional equities and bond funds. The Fund should be used instead as an instrument for diversifying the risks in a portfolio. An investment in the Fund should only constitute a small part of an investor's total portfolio of financial investments.

## THE RISKS ASSOCIATED WITH AN INVESTMENT IN THE FUND

The objective that the Fund should demonstrate a low correlation with the stock and bond markets means that it could earn a poorer return than normal securities funds at times when stock markets are rising sharply or interest rates are falling. The low correlation does not automatically mean that the Fund will generate a positive return at times when traditional funds are earning negative returns.

The Fund's long term level of risk, defined as yearly standard deviation, shall amount to around 18 per cent before fees. In the shorter term, however, the NAV can display much wider variations than indicated by the long-term risk level.

The models used by the portfolio managers to support their investment decisions have been tested on historical price data. The models utilise the fact that price movements on most markets have displayed very similar patterns. There is, of course, a chance that market behavior will change and that the patterns upon which the forecasts in the models are based weaken or disappear, which would reduce the ability of the models to generate an excess return. The portfolio managers' aim, however, is that further research will enable them to modify the models in response to changing market conditions.

The objective of the portfolio managers is to invest solely on highly liquid markets. However, at times when markets are particularly unsettled liquidity may be poorer than normal, which could make it difficult to liquidate one or more of the Fund's positions. Some commodity-based markets have limit rules that temporarily close the market if prices move outside a preset price interval. Since this could prevent the Fund from winding down investments that it would otherwise have exited losses could therefore be higher than would otherwise have been the case.

The portfolio managers' goal is that the Fund will show a high risk-adjusted return. Naturally, there is no guarantee that the portfolio managers will succeed in achieving the return goal in the future. It cannot be ruled out that the return in the future will be negative.

The portfolio managers' goal is that an investment in the Fund will generate solid performance over a long period of time. However, it is impossible to forecast performance over a short time frame. It is quite possible that the Fund could over a period of time lose as much as 20 to 25 per cent of its value. It is also quite possible that the Fund will go through long periods with zero return. An investor should therefore see an investment in the Fund as a long-term investment.

## LIQUIDITY MANAGEMENT

The company has appropriate systems and instructions for monitoring liquidity risks to ensure that the Funds' liquidity profile is in line with their underlying obligations. The company performs stress tests on a regular basis, during both normal and exceptional liquidity conditions, which enables an assessment of each fund's liquidity risk.

## MANAGEMENT FEES

The fact that Lynx Dynamic is open to subscriptions and redemptions on a daily basis means that the management is more resource-intensive and complicated than the management of the Lynx Fund, which leads to a higher management fee.

The management fee consists of a fixed fee and a performance fee. The management fee is 1.5 per cent per annum and is paid daily.

The performance-based fee is 20 per cent of the Fund's return in excess of the hurdle rate.

An example of how the performance-based fee is calculated is provided in Appendix 3.

Brokers' commissions, clearing charges and other transaction costs attributable to the Fund's investments are paid by the Fund as they are incurred.

## SUBSCRIPTION AND REDEMPTION OF UNITS

Fund units are subscribed and redeemed on every banking day (the trade date).

New unit-holders shall inform the company, or the person nominated on the special form, in writing of their wish to subscribe, no later than 11 a.m. CET on the relevant transaction day. This shall be done using the special form that is made available by the company. The subscription amount shall reach the Fund's bank account no later than 11 a.m. CET on the relevant transaction day. Applications to redeem units are to be made using the special form that is

made available by the company and shall reach the company, or the person nominated on the special form, no later than 11 a.m. CET on the relevant banking day. Redemption applications may only be withdrawn with the company's consent.

The subscription and redemption price is the net asset value per unit in the Fund on the trade date.

Subscriptions/redemptions are made at a fixed price that is unknown at the time the application is submitted. No limits may be placed on a request for subscription/redemption.

No subscription or redemption fee is charged in connection with subscription or redemption of units.

### **CLOSING THE FUND DUE TO CAPACITY LIMITATIONS**

In addition to its funds, the company also manages a number of managed accounts, together called the Lynx program as all products and services follow the same investment process. It is the company's view that there is an optimal volume of assets for the Lynx program, and that exceeding the optimal volume may have negative effects for existing unit-holders. Possible consequences in such a scenario would be increased transaction costs and that it would not be possible to achieve the same level of diversification in the Fund's holdings. This might in turn lead to a need to make compromises in the investment models.

To avoid that the optimal volume of assets, which currently lies at USD 10-12 billion, is exceeded, the company has the right to close the Fund for subscriptions. Such a close can be partial, meaning that the Fund is closed for subscriptions from new investors, but allows existing unit-holders to make additional subscriptions (soft close). It can also be total, meaning that the Fund is closed for all subscriptions (hard close). A decision to soft close can be made prior to the assets under management in the program reaching the specified interval.

Any decision on closing and opening of the Fund is published in connection with the decision on the company's website [www.lynxhedge.se](http://www.lynxhedge.se).

### **ACT ON MEASURES AGAINST MONEY LAUNDERING**

In consequence of the third EU directive on money laundering of 2005 Sweden has enacted a new act (2009:62) on measures against money laundering and terrorist financing. In addition, Finansinspektionen has issued a set of regulations for companies under its supervision. Under these regulations, companies are required to report suspected money laundering to the Financial Intelligence Unit of the Swedish Police. Similar rules exist in about 30 other countries, including the EU member states. The regulations also specify which measures companies should take to verify the identities of parties with whom they engage in or on behalf of whom they perform transactions (under the 'know your customer' principle).

### **DOCUMENTATION REQUIREMENTS**

To ensure compliance by the company with the rules, the following documents must be submitted to the company in connection with subscription and redemption of units:

#### *Subscription*

- Natural persons: The application form in the original and a certified copy of a valid identity document. For individuals not registered in the Swedish national registry a passport constitutes a valid identity document. Such persons are also required to submit copies of two utility bills.
- Legal persons: The application form, current certificate of incorporation/registration or equivalent and a certified copy of a valid identity document for persons authorised to sign on behalf of the company. For company signatories who are not Swedish citizens the requirements for identity documents are the same as for non-Swedish natural persons (see above).

#### *Redemption*

- All parties: The redemption form.

In case of incomplete documentation in accordance with the above, the company will not execute the requested subscription or redemption. In the case of subscription, the subscription payment will be returned to the account from which it was made. No compensation for interest is made.

# OTHER INFORMATION

## **ANNUAL REPORTS AND HALF-YEARLY REPORTS**

The company publishes an annual report and a half-yearly report, which are provided electronically free of cost to each unit-holder who have requested them. The reports contain, among other things, information about the Fund's risks and liquidity management as well as leverage. The reports may also be ordered from the company.

## **LYNX DYNAMIC ON THE INTERNET**

The Fund's website, [www.lynxdynamic.se](http://www.lynxdynamic.se), is regularly updated with the latest information on the Fund in the form of the Information Memorandum, performance, simplified prospectus, annual reports etc. All documents published on the website are exclusively in Swedish.

## **REGISTER OF UNIT-HOLDERS ETC.**

The company has engaged HSBC to maintain the register of unit-holders and for other administrative tasks.

## **LEGAL POSITION OF THE FUND**

The Fund itself is not a juridical person and therefore has no obligations or rights. Instead, it is the company that represents the unit-holders in all legal and financial matters pertaining to the Fund. However, the Fund is an independent taxable entity. The company, in its management of the Fund, shall trade exclusively in the common interest of the unit-holders. The Fund's assets may not be seized, and the unit-holders are not liable for the Fund's commitments.

## **ELIGIBLE INVESTORS**

The company is entitled to refuse to sell units to investors whose investment in the Fund would contravene the provisions of foreign laws or ordinances, or whose subscription to or holding of units in the Fund would require the Fund or the company to carry out registration or other measures. Each investor's investment in the Fund is based on identical terms.

## **USE OF BENCHMARK INDICES**

Lynx Dynamic is an actively managed fund. The Fund is a hedge fund and differs significantly from traditional equity and bond funds. The Fund's goal is to give its unit-holders a low correlation to global stock and bond markets over time. Since the Fund is not aiming to perform better than a specific benchmark index, it is not appropriate to compare the Fund's development in relation to the development of a specific benchmark index in order to assess the level of active management of the Fund.

## **THE PRINCIPLE OF EQUAL TREATMENT**

The company applies the principle of equal treatment, meaning that no unit-holder may be discriminated in favour of another unit-holder.

## **PROFESSIONAL INDEMNITY INSURANCE**

The company has additional own funds to cover risks for liability in accordance with Chapter 7 Section 5 of AIF-MA.

## **THE FUND'S PRIME BROKERS AND COUNTERPARTIES**

The company has appointed J.P. Morgan Securities plc as prime broker for the Fund's currency spot transactions and currency derivatives. The service provided by J.P. Morgan does not include keeping, or being responsible for keeping, any assets in safe custody. The prime broker shall ensure that all relevant transfers in relation to the Fund's currency spot transactions and currency derivatives are made to the Fund's depository.

The Fund has further appointed a number of other counterparties for trading in futures and for cash management purposes. Before the company chooses and contractually appoints counterparties the company performs a thorough review of the services of the counterparty and thereafter continuously assesses the offering and quality of these services.

## **DISCONTINUATION AND TRANSFER OF THE FUND BUSINESS**

The management of a company's alternative investment funds shall be immediately taken over by the depository if:

- Finansinspektionen recalls the company's licence,
- the company has been legally placed in liquidation, or
- the company is declared bankrupt.

Should the company wish to cease its management of the Fund, management will be taken over by the depository as of the time when the company ceases its management.

As soon as the depository has taken over the management of a fund, the Fund shall be transferred to another company as soon as possible provided Finansinspektionen gives its consent. Otherwise, the Fund shall be dissolved by selling its assets and the net balance distributed amongst the unit-holders.

Any decision on the above changes shall be announced in the Official Gazette (Post- och Inrikes Tidningar) and be made available at the offices of the depository and the company.

# TAX RULES

This section provides a summary and a general description of the tax rules that apply to the Fund and its Swedish unit-holders. Since the tax rules are often subject to amendment, investors should consult their tax advisor on the possible tax consequences of an investment in the Fund.

count (*investeringssparkonto*) are excluded from the calculation. The income is taxed as capital for natural persons and as business income for legal entities.

## TAX RULES FOR UNIT-HOLDERS WHO ARE NATURAL PERSONS

Unit-holders in special funds, both Swedish and foreign, who are residents in Sweden for tax purposes are required to report an estimated income for their holding. The basis for calculation is the value of the unit-holder's fund units at the beginning of the calendar year. The estimated income is 0.4 per cent of the basis for calculation and is reported on an income statement submitted by the Fund to the Swedish Tax Agency. Fund units held in an investment savings account (*investeringssparkonto*) are excluded from the calculation. A natural person who is resident in Sweden for tax purposes should report the estimated income as a capital gain. Based on a tax rate of 30 per cent, this means that the actual tax on the basis for calculation for a natural person is 0.12 per cent. Any gain or loss on the sale (redemption) of units is taxed as capital for natural persons, i.e. as a capital gain or loss. The gain is defined as the difference between the value of the units upon sale and the total amount of capital invested. If only a portion of the holding is redeemed, the average cost method is used to calculate the cost. Capital gains are taxed at a rate of 30 per cent.

A loss from the sale of units is 70 per cent deductible in the year in which it was incurred.

If an individual's capital income is negative, his or her income tax (income from employment and business activities) and property tax are reduced. The tax deduction is 30 per cent of any deficit up to SEK 100,000 and 21 per cent of any deficit exceeding SEK 100,000.

The Fund does not pay any dividends.

## TAX RULES FOR THE FUND

The Fund is a tax subject but does not pay tax on income from assets included in the Fund. The tax is instead charged to unit-holders, both natural persons and legal entities, who are residents in Sweden for tax purposes. An estimated income is reported to the Swedish Tax Agency on an income statement submitted to the Tax Agency by the Fund and also on the unit-holder's tax return. The basis for calculating the estimated income is the value of the unit-holder's fund units at the beginning of the calendar year. The estimated income is 0.4 per cent of the basis for calculation. Fund units held in an investment savings ac-

# APPENDIX 1: FUND RULES<sup>1</sup>

## SECTION 1 LEGAL STATUS OF THE FUND

The name of the Fund is Lynx Dynamic, herein under called the Fund. The Fund is a special fund under the terms of the Act (2013:561) on managers of alternative investment funds, herein under called AIFMA.

The Fund is open to the limited group of investors as defined in Section 17 below.

The assets of the Fund are owned collectively by its unit-holders, and each unit carries an equal right to the assets owned by the Fund. The unit-holders are not liable for obligations that are incumbent on the Fund.

The Fund cannot acquire rights or take upon itself any obligations. Nor can the Fund take legal action in a court or before any other authority. Property owned by the Fund may not be subject to a distraint order. The fund manager represent unit-holders in all matters pertaining to the Fund, makes decisions regarding the assets of the Fund, and exercises any rights that are acquired by virtue of ownership of such assets.

These fund rules are established in accordance with Chapter 10 §§ 3 and 4 of AIFMA, which in turn refers to some provisions in the Swedish Mutual Funds Act (2004:46), herein under called MFA. Therefore these fund rules specifically indicate in what respects the Fund deviates from what applies to mutual funds.

## SECTION 2 FUND MANAGER

The Fund is managed by Lynx Asset Management AB, co. reg. no 556573-1782, herein under called the company.

## SECTION 3 DEPOSITARY AND ITS DUTIES

The Fund's assets are kept in safe custody by Skandinaviska Enskilda Banken AB (publ), co. reg. no. 502032-9081, in its capacity as fiduciary custodian, herein under called the Depositary.

The Depositary shall receive and keep in safe custody the assets included in the Fund. The Depositary shall, in accordance with Chapter 9 §§ 9-12 of AIFMA, monitor the Fund's cash flows, receive and keep in safe custody the assets included in the Fund and execute decisions made by the company as well as monitor the company in some respects.

## SECTION 4 CHARACTER OF THE FUND

The Fund is a hedge fund and consequently differs considerably from a traditional mutual fund owning equities or fixed income securities. An investment in the Fund should therefore not be regarded as a separate and alternative investment vehicle to a traditional mutual fund. The Fund should instead be used as a means of diversifying the risk in a portfolio. An investment in the Fund should only represent a small proportion of an investor's total portfolio of financial investments.

The object of the Fund's investments is to earn a high risk-adjusted return. A further goal of the company is for the Fund's return to demonstrate a low correlation with global stock and bond markets. This means that the value of the Fund can rise or fall, regardless of the performance of stock and bond markets.

The investments are distributed among a large number of markets in order to obtain a well-diversified portfolio.

Trading in derivatives is an inherent aspect of the Fund's business idea, and the Fund will therefore trade extensively in such instruments.

## SECTION 5 INVESTMENT POLICY

### SECTION 5.1 GENERAL

The Fund's capital may be invested in transferable securities, fixed income securities, and derivatives, or be placed on account with credit institutions. Credit institutions shall have their registered offices in the EU or EFTA, Australia, the United Kingdom (even if the country should leave the EU), Hong Kong, Japan, Canada, Singapore or the USA. The fund may not invest in other funds or fund companies.

The Fund's assets shall always be invested in at least ten different financial instruments, except if management ceases. The Fund applies the principle of risk diversification.

### SECTION 5.2 EXEMPTIONS FROM MFA

The Fund has been granted the following exemptions from the provisions of MFA relating to its investment policy.

The restrictions in Chapter 5 § 6 MFA (direct or by analogy) do not apply to transferable fixed income securities and fixed income instruments, issued by a government in any country within the EU and EFTA as well as by Australia, Japan, Canada, the United Kingdom (even if the country should leave the EU), South Korea or USA, or to commodities. However, the Fund's exposure to an individual issuer or an individual commodity may not exceed a risk of 3 per cent, calculated as Value at Risk as described in more detail in this Section 5.2 below.

The restrictions in Chapter 5 § 6 MFA do further not apply to futures whose underlying assets consist of financial instruments with no issuer, e.g. interest rates and currencies. As a result hereof the restrictions in Chapter 5 § 13 para 1 MFA are not applicable to these instruments.

The Fund may use derivative instruments as part of its investment strategy.

The Fund may at any time be subject to the following maximum margin requirements in connection with its trade in derivatives:

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<sup>1</sup> Please note that the below text, the Fund rules, has been prepared in Swedish and translated into English. In the event of any discrepancy between the two versions, the Swedish version shall have priority.

- 20 per cent of the value of the Fund in respect of equity-related derivatives
- 20 per cent of the value of the Fund in respect of fixed-income related derivatives
- 20 per cent of the value of the Fund in respect of currency-related derivatives
- 20 per cent of the value of the Fund in respect of commodity-related derivatives.

The sum of all margin requirements as stated above may not at any time exceed 40 per cent of the value of the Fund.

The Fund uses derivative instruments as part of its investment strategy to increase the return on its assets. The Fund's total exposures to derivative instruments may exceed 100 per cent of the value of the Fund. The Fund's risk is limited by the rules in this Section 5.2 above and by limits arrived at using the Value at Risk (VaR) method, which is based on historical correlations. The Fund's risk may not amount to more than 5 per cent (excluding or including derivatives), calculated using this method. In these calculations a time horizon of one day and a probability of 95 per cent are used. This restriction can be interpreted to mean that the Fund's portfolio of investments may never be exposed to a higher risk than would lead to the expectation that the Fund's result for the day would be better than a loss of 5 per cent on 95 days out of 100. The Fund's risk level is also limited by the fact that no position in any individual derivative may involve the Fund in a higher risk level than 1.5 per cent, calculated as VaR as defined above.

The Fund has thereby been granted exemption from Chapter 5 § 13 para 2 MFA and has been authorized by license by Finansinspektionen in accordance with Chapter 25 § 4 in Finansinspektionen's Ordinance (FFFS 2013:9) regarding Swedish UCITS Funds, herein under referred to as FFFS 2013:9, to use VaR to calculate the total exposures. The Fund has also been granted exception from Chapter 5 § 7 FFFS 2013:9.

The Fund may use unlisted derivative instruments (OTC-derivatives). The Fund may, following the additional restrictions outlined in Chapter 5 § 22 MFA, have an exposure up to 20 percent of the Funds assets to one counterparty. For this purpose the Fund has been granted exemption from Chapter 5 § 14 MFA.

The Fund may use derivative instruments without having the capacity to deliver the underlying asset or assets of equal value. This means that the Fund's trade in derivative instruments can mean that at times it has a negative exposure to the underlying asset. The Fund has been granted exemption from Chapter 25 § 15 FFFS 2013:9.

### **SECTION 5.3 LEVEL OF RISK AND DEFINITION OF RISK**

The company's goal is for the Fund's average risk, defined as the annual standard deviation over a moving twelve-month period, to amount to around 18 per cent. It should be particularly noted that the targeted average level of risk could be exceeded at times when market conditions are

extreme.

### **SECTION 6 EXCHANGES AND MARKET PLACES**

The purchase and sale of financial instruments that are quoted on or otherwise admitted to trading on an exchange or on another market shall take place on a regulated market or the equivalent to a regulated market outside the EEA. The Fund may therewith trade in Australia, Hong Kong, Japan, Canada, Switzerland, Singapore or the USA.

### **SECTION 7 SPECIFIC INVESTMENT STRATEGY**

The Fund may use derivative instruments, including OTC derivatives, as part of its investment strategy. The Fund may invest in such transferable securities as referred to in Chapter 5 § 5 MFA. The Fund may use derivative instruments based on assets whose underlying components consist of one or several of the following attributes:

- 1) assets as referred to in Chapter 5 § 1 para 2 MFA (excluding units in collective investment undertakings), including financial derivatives with one or more of such assets' features,
- 2) interest rates,
- 3) currency rates, or currencies,
- 4) financial indices, and
- 5) other underlying assets as referred to in Chapter 12 § 13 para 2 AIFMA.

Consequently the Fund may, as opposed to mutual funds, use derivative instruments whose underlying assets consist of commodities if the instruments are traded on a regulated financial market. However, the Fund may never deliver or take delivery of the underlying commodities. The Fund may never deliver or take delivery of any other underlying asset as a result of a derivatives trade.

The Fund may use such techniques and instruments as referred to in Chapter 25 § 21 FFFS 2013:9 to create leverage in the portfolio.

### **SECTION 8 VALUATION**

The value of the Fund is calculated by deducting the liabilities relating to the Fund (accrued compensation in accordance with Section 11, taxes and other liabilities) from its assets (financial instruments, cash and other assets including accrued income).

The assets owned by the Fund are stated at their current market at 12 noon CET on the relevant business day, by which is meant the latest traded price or, in the absence of such, the latest bid price for owned positions and the latest offer price for sold positions. If in the view of the company such prices are not representative or in the absence of such prices, the company is entitled to determine the value on other objective grounds. By objective grounds is meant the use of a generally accepted valuation model (for example Black & Scholes for regular options), valuation provided by third party or qualitative independent valuation.

The value of a unit in the Fund is the value of the Fund, calculated as above, divided by the number of units in issue.

The value of units is published on the Fund's website [www.lynxdynamic.se](http://www.lynxdynamic.se).

## **SECTION 9 SUBSCRIPTION AND REDEMPTION OF UNITS**

Fund units are sold and redeemed on every banking day, herein under called the transaction day. Applications shall be submitted on the form provided by the company, or in another manner as specified by the company from time to time. Applications to subscribe shall reach the company or the person nominated on the special form no later than 11 a.m. CET on the relevant transaction day. The unit-holder is responsible to seeing to it that the application is duly signed and that the correct bank account number has been provided.

Applications to redeem units shall reach the company or the person nominated on the special form no later than 11 a.m. CET on the relevant transaction day. Applications to redeem units shall be submitted in writing and may only be withdrawn subject to the company's consent.

In connection with subscriptions and redemptions of units, the price of a unit is the net asset value on the transaction day. No subscription or redemption fee is charged.

Subscriptions/redemptions will be executed at a unit value that is not known at the time the application is submitted. Requests to subscribe/redeem cannot be limited.

The unit-holder will be informed of the net asset value by means of the contract note that is issued no later than the first banking day following the transaction day. In connection with redemptions the sales proceeds are paid no later than two banking days after the transaction day.

The company has the right to decide to close the Fund, which means that there will be no subscriptions of new units. A decision to close the Fund can be either *partial*, i.e. the company decides to close the Fund for subscriptions from new investors, but allows existing unit-holders to make additional subscriptions (soft close). It can also be *total*, meaning that the Fund is closed for all subscriptions (hard close). The aim of closing the Fund shall be avoiding that the aggregate assets under management exceed the optimal asset volume as determined by the company. Information regarding the optimal asset value at any time shall be published in the Fund's Information Memorandum. A decision to close the Fund shall be published on the company's website ([www.lynxhedge.se](http://www.lynxhedge.se)) in connection with the decision. A decision to open the Fund shall be published in the same manner.

## **SECTION 10 EXCEPTIONAL CIRCUMSTANCES**

The Fund may be closed for subscriptions/redemptions and consequently the date for the calculation and publication of the net asset value (Section 8) and the transaction day (Section 9) may be deferred should such exceptional circumstances have occurred as make it impossible to value

the Fund's assets in such a way as to ensure that all unit-holders are treated equally.

## **SECTION 11 FEES AND COMPENSATION**

A fee shall be paid to the company out of the Fund's assets. The fee consists partly of a fixed management fee and partly of a collective performance-based compensation model.

### **SECTION 11.1 FIXED FEE**

A fee shall be paid out of the Fund's capital to the company for its management and administration of the Fund, for the costs charged by the Depositary, for the cost of Finansinspektionen's supervision, and for the fee paid to the auditors for their audit of the Fund. This fixed fee is charged at a rate of 1.5 per cent of the value of the Fund each year. It is payable monthly in arrears and is arrived at on the basis of the value of the Fund on each banking day.

### **SECTION 11.2 PERFORMANCE FEE**

The performance fee is accrued on each banking day. This fee amounts to 20 per cent of the increase in value that is in excess of the return of Swedish government treasury bills (the hurdle rate), after deduction of the fixed management fee. The return on Swedish government treasury bills is defined as the average of three-month Swedish treasury bills on the last three banking days of the previous quarter, rounded down to the nearest two decimals. The performance fee is to be calculated over a period of time that extends from the last date when the Fund was entitled to a performance fee until the current date.

If the Fund's performance during any period is below the hurdle rate and a positive return is achieved during a subsequent period, no performance fees shall be paid by the Fund until the previous period's underperformance (the difference between the received return and the hurdle rate) has been recovered. In case of redemption of units by a unit-holder whose holding in the Fund has underperformed the Fund's hurdle rate in accordance with the applicable fee model, the right to credit underperformance is forfeited upon redemption of the units.

If the Fund's performance during any period is below the hurdle rate and a positive return is achieved during a subsequent period, no performance fees shall be paid by the Fund until the previous period's underperformance (the difference between the received return and the hurdle rate) has been recovered. In case of redemption of units by a unit-holder whose holding in the Fund has underperformed the Fund's hurdle rate in accordance with the applicable fee model, the right to credit underperformance is forfeited upon redemption of the units.

## **SECTION 12 DIVIDEND**

The Fund does not pay any dividends.

## **SECTION 13 FINANCIAL YEAR OF THE FUND**

The Fund's financial year is the calendar year.



## **SECTION 14 ANNUAL REPORT, HALF-YEARLY REPORT AND AMENDMENTS TO FUND RULES**

The company shall make up annual reports and half-yearly reports. The annual reports shall be made available at the company no later than four months after the end of the financial year and the half-yearly reports no later than two months after the end of June. They shall also be sent free of cost to those unit-holders who have requested them.

The company shall decide on amendments to the Fund rules. Once Finansinspektionen has given its consent to the amendments, all unit-holders shall be informed of them. The amended Fund rules shall also be made available at the offices of the company and the Depositary.

## **SECTION 15 PLEDGING AND TRANSFER OF UNITS**

Units in the Fund may be transferred and pledged as collateral.

The company will keep or have kept a register of the unit-holders' holdings of units. In the event of a transfer, notice of the transfer, signed by both the buyer and the vendor, shall be sent to the company.

Should any units be pledged the owner of the units shall inform the company thereof in a written report that shall be signed by the owner of the units (pledger). This notice shall state: a) the pledgee, b) the number of units that have been pledged, c) the owner of the units, and d) any restrictions in the scope of the pledge.

The company will register the pledge in the register of unit-holders. The unit-holder will be informed in writing that the pledge has been registered. When the pledge has expired/been cancelled, the pledgee shall inform the company thereof in writing.

## **SECTION 16 LIMITATION OF LIABILITY**

### **SECTION 16.1 THE COMPANY**

The company is not liable for any loss that is due to Swedish or foreign legal enactments, measures taken by Swedish or foreign government authorities, acts of war, strikes, blockades, boycotts, lockouts or other such circumstances. The reservation regarding strikes, blockades, boycotts and lockouts applies even if the company is itself the object or instigator of such industrial action.

The company is not liable for loss caused by Swedish or foreign exchange or other market place, central fiduciary or clearing organisation. Nor is the company liable for loss incurred by the company, the unit-holders or any other parties as a result of restrictions in the right of disposal of financial instruments that may be imposed on the company.

Should the company be prevented entirely or in part from taking any measure by any of the circumstances listed above, the measure may be deferred until the hindrance has been removed. If, owing to such circumstances, the company is prevented from executing or accepting payment, neither the company nor the unit-holder shall be liable to pay interest on late payment. A corre-

sponding exemption from the obligation of paying interest on late payment also applies even if the company temporarily defers the time of valuation and subscription and redemption of units in accordance with Section 10.

### **SECTION 16.2 THE DEPOSITARY**

In the event that the Depositary or a custodian has lost financial instruments which are held in custody by the Depositary or by a custodian bank, the Depositary shall, without needless delay, return corresponding financial instruments or an amount of equivalent value to the AIF manager for the account of the fund. However, the Depositary is not liable in case the loss of the financial instruments or other loss is caused by an external event beyond the reasonable control of the Depositary, and whose consequences were impossible to avoid even though all reasonable efforts were made e.g. any loss that is due to Swedish or foreign legal enactments, measures taken by Swedish or foreign government authorities, acts of war, strikes, blockades, boycotts, lockouts or other such circumstances. The reservation regarding strikes, blockades, boycotts and lockouts applies even if the Depositary is itself the object or instigator of such action.

The Depositary is not liable for any other loss than such loss referred to in the first paragraph, unless the Depositary intentionally or negligently caused such other loss. The Depositary is not liable for such other loss if the circumstances described in first paragraph exists.

The Depositary is not liable for loss caused by a Swedish or foreign exchange or other market place, registrar, clearing organisation or other entity that provide corresponding services, and – in respect to losses other than those mentioned in the first paragraph – nor losses caused by a custodian or other contractor appointed by the Depositary, taking into account the requirements of AIFMA and applicable conditions for depositaries according to outsourcing agreements, or designated by the AIF manager. The Depositary is not liable for any loss caused by the aforementioned organisations or contractors become insolvent. An outsourcing agreement regarding custody of assets and control of ownership does not however deprive the responsibility of the Depositary for losses under the first paragraph nor for any other losses caused to the unit-holders according to AIFMA.

The Depositary is not liable for losses incurred by the AIF manager, investors of the fund, the fund or other party as a result of restriction of disposal that may be applied against the Depositary regarding securities unless the restriction of disposal is not the result of the Depositary acting in breach of regulations. With the exception of the Depositary's liability for losses inflicted to the unit-holders, the Depositary is not liable for any indirect loss unless the indirect loss is a result of intentions or gross negligence by the Depositary.

In the event that the Depositary is wholly or partially prevented from taking action according to the custody

agreement as a result of a circumstance referred to in the first paragraph, such action may be postponed until the obstacle has ceased to exist. In the event of postponement of payment the Depositary shall not pay interest on arrears. If interest has been agreed, the Depositary shall pay interest at the rate which applied on the due date.

If the Depositary is prevented from receiving payment for the Fund due to a circumstance referred to in the first paragraph, the Depositary shall have the right, during the period in which the obstacle has existed, to interest only on those terms which applied on the due date.

Pursuant to Chapter 9, Section 22 of AIFMA, unit-holders may in certain cases still be entitled to compensation regardless of the aforesaid.

#### **SECTION 17 ELIGIBLE INVESTORS ETC**

The Fund is open to investors categorized as eligible counterparties (as defined in Chapter 8 § 19 para 1 of the Swedish Securities Markets Act (2007:528) and other investors who make an initial subscription on a minimum of ten million (10,000,000) SEK. This however does not mean the Fund is making an offer to investors whose subscription or ownership in the Fund would conflict with the provisions laid down in foreign laws or ordinances. Nor is the Fund intended for investors whose subscrip-

tion to or ownership of units in the Fund would make the Fund or the company obliged to carry out registration procedures or any other action that would not otherwise be incumbent on the Fund or the company. The company is entitled to refuse to accept subscriptions from such investors as are referred to in this paragraph.

The company may redeem a unit-holder's units in the Fund – against the unit-holder's wishes – should it turn out that the unit-holder has subscribed to units in the Fund in contravention of the provisions laid down in foreign laws or ordinances or that the company, on account of the unit-holder's subscription to or ownership of units in the Fund, has become liable to carry out registration procedures or other measures on behalf of the Fund or the company that would otherwise not have been incumbent on the fund management company or the Fund if the unit-holder had not owned units in the Fund.

The rules regulating the disbursement of sales proceeds in Section 9 above shall also apply to redemptions executed in accordance with this Section 17.

*The Fund rules were adopted by the Board of the company in February 2020.*

# APPENDIX 2: HISTORICAL PERFORMANCE

## MONTHLY RETURN (SINCE INCEPTION NET OF FEES)<sup>1</sup>. %

Year	Total Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	<b>11.66</b>					2.13	-2.30	0.85	-4.33	-1.38	3.05	5.64	8.02
2001	<b>14.74</b>	1.30	3.24	6.57	-4.70	-0.53	-2.72	0.73	7.98	6.94	0.20	-6.39	2.32
2002	<b>21.51</b>	0.35	-7.34	2.67	1.56	5.60	11.03	4.50	1.72	3.80	-4.72	-2.89	4.69
2003	<b>34.18</b>	2.95	4.21	-5.50	4.13	11.07	2.75	-5.36	0.36	6.54	4.80	1.26	3.69
2004	<b>12.89</b>	0.08	5.72	-2.39	-2.09	0.78	-2.27	-3.45	2.10	-0.65	7.41	6.70	0.96
2005	<b>5.76</b>	-4.14	1.58	-2.16	-1.23	5.54	4.00	-1.65	-1.72	1.48	1.91	4.58	-2.05
2006	<b>4.01</b>	0.13	-0.17	4.13	3.18	0.94	-2.64	-4.64	3.93	-3.19	-1.09	2.66	1.15
2007	<b>12.50</b>	4.23	-4.72	-3.93	3.33	6.21	5.99	-2.65	-5.85	4.31	7.23	2.05	-3.12
2008	<b>43.93</b>	7.54	6.63	0.36	-3.87	3.41	6.01	-7.44	1.96	2.67	14.62	3.99	2.76
2009	<b>-9.55</b>	-2.01	0.20	-2.51	-2.40	1.46	-3.79	0.31	0.78	1.97	-2.54	5.17	-6.13
2010	<b>16.65</b>	-4.20	3.65	2.29	0.64	1.75	1.82	-3.77	10.15	0.42	0.83	-4.17	7.09
2011	<b>-1.83</b>	-2.93	3.39	-6.10	6.31	-5.81	-2.70	3.80	4.09	2.90	-7.70	3.68	0.51
2012	<b>-5.19</b>	0.82	2.37	-6.08	1.89	5.98	-4.35	6.14	-3.28	-1.15	-7.48	1.35	-0.48
2013	<b>10.78</b>	2.19	-0.57	2.11	2.76	-2.46	-5.08	0.34	-2.04	-0.45	5.32	5.16	3.57
2014	<b>28.23</b>	-5.99	3.64	-2.71	0.22	3.53	1.03	2.17	7.73	2.68	2.38	8.90	2.41
2015	<b>-9.63</b>	5.98	-0.58	3.63	-5.90	-2.14	-6.53	3.31	-3.91	-0.45	-0.95	2.78	-4.43
2016	<b>-3.84</b>	2.56	3.32	-1.48	0.66	-5.30	9.07	2.48	-2.87	-2.30	-6.19	-3.16	0.28
2017	<b>-6.23</b>	-2.40	4.51	-3.52	-3.90	-2.71	-5.02	0.30	3.99	-3.28	5.32	1.11	-0.10
2018	<b>-3.82</b>	7.81	-12.30	-3.32	0.89	0.30	3.24	-1.08	5.04	-0.49	-4.06	-0.23	1.75
2019	<b>14.97</b>	-1.15	2.88	6.69	6.41	-6.22	4.51	5.13	8.17	-4.04	-6.69	1.80	-1.99
2020	<b>1.08</b>	2.12	-3.65	-6.62	-0.05	-2.23	0.39	8.25	-0.61	-4.93	-2.18	5.53	6.20

<sup>1</sup> Since inception of the Lynx Fund 1 May, 2000. Lynx Dynamic was launched 11 May, 2009. For the period 1 May, 2000 up until 30 April 2009 pro forma numbers have been derived from the Lynx Fund. Calculated on monthly data.

# APPENDIX 3: CALCULATION OF PERFORMANCE FEE

## CALCULATION OF PERFORMANCE-BASED FEE

The example below illustrates how the performance-based fee to Lynx Asset Management AB is calculated. The performance-based fee is accrued on a daily basis and is 20 per cent of the Fund's return in excess of the high watermark<sup>1</sup>. The Fund's return after fixed and performance-based fee is always stated in the Fund's external reporting.

The example below shows how the high watermark (the value that the Fund must be in excess of in order

for the performance-based fee to be paid) is continuously increased by the hurdle rate and thereby how the high watermark affects the company's performance-based compensation. In the example it is assumed that the fixed fee and costs for the management of the Fund, such as costs for buying and selling securities already have been deducted. The amounts have been rounded to even SEK. The example assumes that investor A subscribes to units in Lynx Dynamic for the amount of SEK 10 million on 31 December.

### TRANSACTION DAY 1

On the first transaction day the Fund's value increases by 1 per cent. The hurdle rate for the first quarter is 2.5 per cent (per annum). The table below shows the calculation of the performance-based fee and the unit-holder's fund value after payment of the performance-based fee.

A's value before payment of performance-based fee	$10,000,000 * (1 + 1\%)$	SEK 10,100,000
A's high watermark	$10,000,000 * (1 + (2.5\%/365^2))$	SEK 10,000,685
Basis for debiting performance-based fee	$10,100,000 - 10,000,685$	SEK 99,315
Performance-based fee	$20\% * 99,315$	SEK 19,863
A's value after deduction for performance-based fee	$10,100,000 - 19,863$	SEK 10,080,137

### TRANSACTION DAY 2

Transaction day 2. On the second transaction day the Fund's value declines by 0.75 per cent. As the Fund applies the principle of high watermark, this is calculated on the fund value on the latest occasion when a performance-based fee was paid. No performance-based fee is paid on transaction day 2.

A's value before payment of performance-based fee	$10,080,137 * (1 - 0.75\%)$	SEK 10,004,536
A's high watermark	$10,080,137 * (1 + (2.5\%/365^2))$	SEK 10,080,827
Basis for debiting performance-based fee	$10,004,536 - 10,080,827$	SEK -76,291
Performance-based fee	$20\% * 0$	SEK 0
A's value after deduction for performance-based fee	$10,004,536 - 0$	SEK 10,004,536

### TRANSACTION DAY 3

On the third transaction day the Fund's value increases by 0.5 per cent. At the end of the transaction day the high watermark is still higher than the unit-holders fund value.

A's value before payment of performance-based fee	$10,004,536 * (1 + 0.5\%)$	SEK 10,054,559
A's high watermark	$10,080,827 * (1 + (2.5\%/365^2))$	SEK 10,081,518
Basis for debiting performance-based fee	$10,054,559 - 10,081,518$	SEK -26,959
Performance-based fee	$20\% * 0$	SEK 0
A's value after deduction for performance-based fee	$10,054,559 - 0$	SEK 10,054,559

### TRANSACTION DAY 4

On the fourth transaction day the Fund's value increases by 0.3 per cent, which means that a performance-based fee is paid.

A's value before payment of performance-based fee	$10,054,559 * (1 + 0.3\%)$	SEK 10,084,723
A's high watermark	$10,081,518 * (1 + (2.5\%/365^2))$	SEK 10,082,209
Basis for debiting performance-based fee	$10,084,723 - 10,082,209$	SEK 2,514
Performance-based fee	$20\% * 2,514$	SEK 503
A's value after deduction for performance-based fee	$10,084,723 - 503$	SEK 10,084,220

<sup>1</sup> The Fund's high watermark is the three-month Swedish treasury bills (cf. the Fund rules Section 11.2).

<sup>2</sup> In this example it is assumed that the previous calendar day also is the previous transaction day for the Fund.

As can be seen in the example above the high watermark is continuously increased by the hurdle rate in accordance with the Fund's fee model. In case of redemption of units by a unit-holder when the value of units is less than the high watermark, the right to credit underperformance is forfeited.

# GLOSSARY

## **AIF MANAGER**

*A company that manages alternative investment funds.*

## **CORRELATION**

*A statistical concept which describes the extent of a linear relationship between two time series. By definition, a correlation has a value between +1 (perfect positive correlation) and -1 (perfect negative correlation). A value of 0 means that there is no correlation between the time series. Traditional funds have a correlation with their benchmark that is close to +1.*

## **DERIVATIVE**

*A financial instrument that is derived from an underlying asset and which gives the holder the right or obligation to buy or sell the asset in question (see Futures/Forwards).*

## **FUTURES/FORWARDS**

*A future/forward is an obligation to buy or sell a given asset at a given time at a given price.*

## **HIGH WATERMARK**

*Means that the Fund only pays performance fees when any shortfalls from previous periods have been compensated for.*

## **HURDLE RATE**

*Defined as the average of three-month Swedish treasury bills on the last three banking days of the previous quarter.*

## **HSBC SECURITIES SERVICES (IRELAND) DAC**

*The appointed Administrator and External Valuer of the Fund. These appointments are regulated in separate agreements between HSBC and Lynx Asset Management AB. HSBC acts as External Valuer of solely those assets of the Fund as are agreed as Designated Investments, which currently comprise all of the Fund's assets. The investors of the Fund will promptly be informed of any future change in this respect. Lynx Asset Management AB is ultimately responsible towards the Fund and its investors for the administration and proper valuation of the Fund's assets and for establishing, maintaining and reviewing the Valuation Policy and for ensuring that appropriate and transparent valuation methodologies are applied.*

## **LONGEST PERIOD OF TIME TO NEW HIGH**

*The longest period of time it has taken to afresh reach above the previous high. Stated in number of months.*

## **NET ASSET VALUE**

*The market value of all the Fund's assets less the market value of all the Fund's liabilities.*

## **PRIME BROKER**

*An entity that provides a number of services to participants on financial markets. The Fund uses J.P. Morgan Securities plc as prime broker for currency spot and forward transactions. In this case, the prime broker ensures that all relevant transfers in relation to these transactions are made to the Fund's depository.*

## **RISK**

*Traditionally measured in terms of the standard deviation, which indicates by how much the change in the Fund's value has fluctuated. The standard deviation is normally used to reflect the investment's level of risk. A fund's risk level is often classified on the basis of the extent of the variations or expected variation in the value of the Fund's units over time. A high standard deviation means wide variations and thus high risk, a low standard deviation means narrow variations and thus a low risk.*

## **RISK-ADJUSTED RETURN**

*The return over and above the risk-free return in relation to the investment's risk defined as the standard deviation (see Risk and Sharpe ratio).*

## **SHARPE RATIO**

*A measure of a portfolio's risk-adjusted return. It is defined as the return over and above the risk-free return in relation to the risk (standard deviation) to which the portfolio is exposed. A high Sharpe ratio is an indication of a sound balance between return and risk.*

## **SPECIAL FUND**

*A fund that is licensed by Finansinspektionen to invest on the basis of a strategy that deviates from what is normally permitted by the Investment Funds Act. Lynx is a special fund within the meaning of Chapter 1, Section 11 of the Act (2013:561) on managers of alternative investment funds.*

## **STANDARD DEVIATION**

*A statistical concept that indicates the distribution of a quantity of data. Stated as a percentage.*

## **VALUE AT RISK (VAR)**

*A probability-based statistical measure of the risks to which a portfolio is exposed. It is defined as the maximum loss the portfolio can be expected to incur over a given period (normally one day or one week) to a given level of statistical certainty (normally a 95 or 99 per cent confidence interval). VaR is expressed as a percentage of net asset value.*

## **VOLATILITY**

*A measure of variations in the return over time. Normally the volatility of an asset is expressed as the standard deviation of the return on the asset. Often, volatility is used as a measure of the risk to which a portfolio is exposed.*



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