

**Stefnir – Liquidity Fund**  
Prospectus

Stefnir hf.  
December 2020

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**DECLARATION*****Declaration of the management company***

This prospectus has been designed to present information necessary to help investors form an opinion on investing in unit shares in Stefnir – Liquidity Fund.

The Fund is managed by Stefnir hf, ID-No. 700996-2479, Borgartún 19, 105 Reykjavík.

Stefnir hf. hereby declares that to the best of its knowledge this prospectus has been prepared in accordance with the facts and that no important factors are omitted which could have an effect on evaluating the Fund's unit shares. In the case of any discrepancy between the English and the Icelandic texts of this prospectus, the Icelandic versions shall prevail and questions of interpretation will be addressed solely in the Icelandic language.

Reykjavik, 22 December 2020

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Jóhann G. Möller

Managing Director of Stefnir

**KEY INFORMATION FROM THE PROSPECTUS**

<b>General</b>	The Fund is an investment fund pursuant to Act No. 45/2020 on Alternative Investment Fund Managers. Investment funds have broader investment limits than UCITS. The Fund's investment authorizations are specified in the section on investment strategy in this prospectus. The Fund's ID-No. is 520412-9640.
<b>Base currency</b>	The Fund's base currency is the Icelandic króna (ISK).
<b>Operations</b>	The purpose of the Fund is to accept financial resources from individuals and legal entities for collective investments in financial instruments and other assets on the basis of spreading risk, in accordance with the Fund's existing investment strategy.
<b>Mgmt. Company</b>	Stefnir hf, ID-No. 700996-2479, Borgartún 19, 105 Reykjavík.
<b>Depository</b>	Arion Bank hf. ID-No. 581008-0150, Borgartún 19, 105 Reykjavík.
<b>Distributor</b>	Arion Bank hf., ID-No. 581008-0150, Borgartún 19, 105 Reykjavík.
<b>Bid/offer price</b>	The price of the Fund's unit shares will change during the sale period according to changes in the price of securities and other financial instruments owned by the Fund at any given time.
<b>Redemption period</b>	The Fund's unit shares shall be redeemed at the owner's request at the bid price current at trading day if ordered before time 14:30. Settlement is on a T+1 basis.
<b>Dividends</b>	The Fund is a capital growth fund. Dividends, interest and other earnings from the Fund's securities holdings shall be added to the Fund's principal.
<b>Amount</b>	The minimum investment is ISK 10,000 at sale value and ISK 5,000 by subscription.
<b>Rights</b>	All parties owning unit shares in the Fund have the same rights to the Fund's income and assets in proportion to their holdings.

Investors are reminded that all trading with financial instruments, including unit shares in the Fund, represents a risk. Returns on the Fund's unit shares can fluctuate significantly. The value of unit shares can decrease and investors may lose part or all of their investment. Deposits of funds for collective investment are not insured under Act No. 98/1999 on Deposit Guarantees and Investor Compensation Schemes.

Investors are reminded that in order for Stefnir to be able to meet its obligations pursuant to these rules, it must collect and process personal data in accordance with the Data Protection Act No. 90/2018 and relevant regulations. Stefnir has adopted a data protection policy which can be viewed on the company's website, [www.stefnir.is](http://www.stefnir.is).

The documents referred to in this prospectus can be obtained from the offices of Stefnir hf. at Borgartún 19 in Reykjavík, on Stefnir's or at branches of Arion Bank.

## INFORMATION ABOUT THE FUND

### *Operations*

Stefnir – Liquidity Fund is an investment fund pursuant to Chapter X of the Alternative Investment Fund Managers Act No. 45/2020. The Fund has not been authorized to market itself in any other country but Iceland.

Investment funds are governed by different rules to UCITS according to Act No. 128/2011, e.g. with respect to investment authorizations and the duty to effect redemption. The investment limits of investment funds are broader according to the aforementioned act and investments in such funds may therefore involve a greater degree of risk than investments in UCITS. Investors are encouraged to read the section on risk and particularly the section on the Fund's investment authorizations.

The Fund has no sub-funds.

The Fund was founded on 3 April 2012.

This prospectus, the key investor information, the regulations of the Fund and regular reports on the Fund's operations can be obtained from the offices of Stefnir hf. at Borgartún 19, 105 Reykjavík. This information can also be obtained on Stefnir's website at [www.stefnir.com](http://www.stefnir.com).

A previous version of the prospectus was published on 30 October 2020. This prospectus was published on 22 December 2020.

### *The Management Company*

Stefnir hf, ID-No. 700996-2479, Borgartún 19, 105 Reykjavík, (also referred to as “the Management Company”) manages the Fund in accordance with Act No. 45/2020. The Management Company was founded on 26 September 1996 and issued share capital is ISK 43.5 million and is fully paid. The company is wholly owned by Arion Bank hf. (also referred to as "Arion Bank" or “the Bank”) and related parties. The Management Company operates numerous UCITS. Appendix II contains an overview of the main UCITS.

The Management Company is the manager of several funds on the basis of the UCITS Act No. 128/2011 and the Alternative Investment Fund Managers Act No. 45/2020. Stefnir is licensed to operate asset management services, investment advisory and custody services and to manage financial instruments for collective investments, cf. Article 27 (1.1-3) of the Financial Undertakings Act No. 161/2002.

The company's activities are mainly focused on the management of funds for collective investments and it employs staff who are specialized in managing investment portfolios for collective investment and specialized securities portfolios for institutional investors.

The board of directors of Stefnir comprises Sigrún Ragna Ólafsdóttir, chairman, ID-No. 180863-3629, self-employed, Jón Óttar Birgisson, vice chairman, ID No. 090474-4059, managing director of Stöplar Advisory ehf., and Guðfinna Helgadóttir, ID No. 270176-4989, specialist at Arion Bank hf.

Alternate members in the board of directors of Stefnir hf. are Ásgerður Hrönn Sveinsdóttir, head of service and customer experience at Arion Bank hf. and Þórhallur Örn Guðlaugsson, associate professor in business administration at the University of Iceland.

The managing director of Stefnir is Jóhann G. Möller, ID-No. 220379-3029.

The Management Company shall operate the investment fund in accordance with sound business practices and guided by the principle of upholding the credibility of the market and the interests of unit holders cf. Article 19 of Act No. 128/2011.

If an investment fund invests in unit shares of other investment fund and other funds for collective investment, which are managed directly by or with a mandate from the same management company, or by another company which is linked to the management company by common operations or management, or by substantial direct or indirect holdings, a management company may not take a commission for subscriptions or redemption of investment in the funds, cf. Art 54 (2) of Act No. 128/2011.

### ***Depository***

The Fund's depository is Arion Bank hf., ID-No. 581008-0150, Borgartún 19, 105 Reykjavík. Arion Bank provides universal banking services and provides investment services pursuant to the Securities Transactions Act No. 108/2007.

The board of directors of Arion Bank hf. comprises Brynjólfur Bjarnason, Herdís Dröfn Fjeldsted, Gunnar Sturluson, Liv Fiksdahl, Paul Richard Horner, Renier Lemmens and Steinunn Kristín Þórðardóttir. Herdís Dröfn Fjeldsted has temporarily stepped aside, and alternate director Sigurbjörg Ásta Jónsdóttir has taken a seat on the board of directors. The Chief Executive Officer of Arion Bank is Benedikt Gíslason.

The Management Company has outsourced the safekeeping of financial instruments, the settlement of transactions and other tasks to Arion Bank hf. on the basis of Article 29 of Act No. 45/2020. Article 31 of Act No. 45/2002 states that the outsourcing of tasks has no effect on the Management Company's responsibility towards unit holders. Stefnir can unilaterally decide whether to change the Fund's depository and any such decision is subject to the approval of the Financial Supervisory Authority of the Central Bank of Iceland (hereafter "the FSA").

Article 42 of the Act states that a depository shall be liable towards a Management Company and unit share owners for any losses they may incur which may be traced to the intentional or negligent actions of the depository's employees in carrying out its tasks.

The Management Company and depository should operate independently and be guided at all times by the interests of the unit share owners.

### ***Distributor***

The Management Company has partly outsourced marketing and customer service to Arion Bank on the basis of Article 29 (1) of the Act. The Bank provides services to people wishing to invest in the Fund or requesting information concerning potential investments in the Fund and acts as intermediary in the issuing and redemption of unit shares.

### ***Auditor***

The auditor of the Fund and the Management Company is Deloitte ehf., ID-No. 521098-2449, Smáratorg 3, 201 Kópavogur. Pétur Hansson, ID-No. 130382-4609, chartered accountant, is responsible for auditing the Fund for Deloitte ehf.

### ***Investment policy***

Stefnir – Liquidity Fund will invest in deposits, bills, bonds and other short financial instruments. The fund's asset portfolio will not have an average duration of more than 180 days. Individual investments will not have longer maturities than 397 days when the investment is made. There are no restrictions on the duration of financial instruments issued or guaranteed by the Icelandic government.

The fund is authorized to enter repurchase agreements with financial instruments guaranteed by the Icelandic government. These are short-term investments in which the counterparty sells the fund a financial instrument and agrees to buy it back at a predetermined price. The predetermined price is made up of the original purchase price of the financial price plus interest. The fund's counterparty has to be a financial institution. The counterparty may have up to 270 days to buy back the financial instrument. There are no restrictions to the duration of the underlying financial instrument in repurchase agreements entered into by the fund.

The fund is authorized under Article 93 of Act No. 45/2020 to invest more than 35% and up to 60% of its assets in bonds, debt instruments and bills issued or guaranteed by the Icelandic government.

The fund is authorized to invest in derivatives in order to engage in transactions with repurchase agreements in accordance with the fund's investment policy.

The fund exercises the authorization provided for by Article 93 of Act No. 45/2020. The fund can invest up to 35% in securities and money market instruments issued by the same issuer, in addition to 30% of the fund's assets in deposits of the same financial institution. The fund's total investment according to the above may never be higher than 40% in the same issuer.

Stefnir – Liquidity Fund is an investment fund and its investment authorizations are limited to the information provided here, the investments set out in the table below and the investment authorizations of investment funds under Act No. 45/2020.

<b>Breakdown of investments of Stefnir – Liquidity Fund</b>	<b>%</b>
Deposits of financial institutions	40-100%
Bills, bonds and other debt instruments issued by financial institutions	0-50%
Bills, bonds and other debt instruments issued by or guaranteed by the Icelandic government.	0-60%
Repo transactions	0-50%

### ***Risk***

#### *General*

The Fund is designed for both the general public and institutional investors, such as pension funds and companies, who wish to choose an investment option involving funds for collective investments operated and managed by professionals and in accordance with current legislation and supervision of such funds. Investments in unit shares of funds for collective investments are generally safer than buying individual securities because the funds distribute investors' risk exposure by buying more than one class of security.

All trading with financial instruments, including unit shares in the Fund, represents a risk. Returns on the Fund's unit shares can fluctuate significantly. The value of unit shares can decrease and investors may lose part or all of their investment.

#### *Volatility of returns*

Stefnir hf. has divided its funds into seven different categories depending on the standard deviation in weekly returns over the past 5 years. Category 1 is the least volatile, while category 7 is the most volatile. A fund can be moved into a different category if the volatility of the underlying financial instruments changes. The categorization is based on guidelines issued by the European Securities and Markets Authority, ESMA.

The indicator, which is published in the Key Investor Information Document for the Fund, is based entirely on historical fluctuations in returns. Past returns are not a reliable indicator of future returns and do not take into account the various risks which UCITS and investment funds may have to deal with in their operations.

#### *Risk associated with financial instruments*

Many factors can cause a decrease in the price of financial instruments in which the Fund has invested, including the price of unit shares in the Fund, factors including unforeseen events and the general economic conditions. New or amended legislation could also affect the price of unit shares. There is also liquidity risk, i.e. the risk of not being able to sell the securities when wanted. This risk can materialize in two ways, either by the market not being able to cope with the volume intended for sale due to a lack of buyers, or a significant bid/offer spread may form which means the desired results are not achieved when the securities are sold.

#### *Other risks related to investments in the Fund*

1. *Market risk* refers to the impact that possible changes in the performance of financial instruments can have on the performance of the Fund. Financial instruments fluctuate in price and their value may both rise and fall, resulting in a market risk for Fund members.
2. *Counterparty credit risk*. Because the Fund will own, buy from and sell financial instruments to third parties there is a risk that the buyer will not pay for the sold instruments or that the seller fails to hand over the instruments which the Fund has purchased.
3. *Depositary and accounting risks*. The Management Company of the Fund entrusts a depositary company with the financial instruments of the Fund. The risk in this case is that these instruments can be lost through the bankruptcy of the depositary, malpractice, misuse or fraud on the part of the depositary. There is also a risk of errors in the Fund's accounts.
4. *Principal risk*. The price of financial instruments may fluctuate and therefore the principal may decrease in the short or long term, due to fluctuations in the financial instruments in which the Fund is investing at any given time. There is also always the risk when investing in any kind of debt instrument that the borrower will not be able to repay the debt in question at any given time. Even if the Fund invests according to Article 2 (1.1-3) of the Fund's rules in bonds which are secured by collateral to increase the likelihood that the borrower in question can repay the debt, there is always a possibility that this will not happen when put



to the test. Collateral may decrease in value or may not be available when attempts are made to satisfy a debt in the event of a default. As a result the principal of the debt in question may not be repaid in part or in full. The same applies to accrued interest or inflation compensation on the debt in question. The same may apply to the Fund's investment according to Article 2 (1.4-8) of the Fund's rules.

5. *Inflation risk.* Since the Fund invests in deposits, bills, bonds and other short-term financial instruments which may not be indexed bonds, there is considerable inflation risk in the Fund. Such risk is created if short-term or long-term inflation is higher than the Fund's returns. The value of the Fund's assets will decrease in value, resulting in a decrease in the real value of the Fund's units.
6. *Extraneous circumstances* such as war, terrorism and political instability or related factors can affect the performance of financial instruments and are therefore considered a risk factor for Fund members.
7. *Counterparty risk and risk connected to deposits and other lending by the Fund.* Since a certain proportion of the Fund's assets are always invested in deposits of financial companies, the payment of deposits depends on the ability of the relevant financial company/companies to pay. There is a risk that the financial company at which the Fund has invested in deposits is unable to repay them in full, which would cause damage to the Fund and unit holders through the decrease in value of the unit shares. The Fund can invest in both demand and term deposits (sometimes called wholesale deposits or money market deposits). Generally there is a higher risk associated with investing in term deposits. The Fund is also authorized to invest in bills, bonds and other debt instruments guaranteed by the Icelandic government. In such cases the issuers may not be the Icelandic government and in the event of default by these issuers, the Fund and unit holders may suffer damage, e.g. in the form of lost interest until the government guarantee comes into effect. Furthermore, if the Icelandic government does not honour its obligations this will cause damage to the Fund and unit holders.
8. *Risk connected to repurchase transactions* The Fund is authorized to enter repurchase agreements with financial companies. There is a risk that the Fund's counterparty in repurchase agreements cannot honour their obligations and therefore the Fund will need to take possession of the underlying financial instrument (collateral) and sell it on the market. If the sale of the underlying assets does not completely satisfy the counterparty's obligation, this could result in damage to the Fund and the unit holders and reduce the value of the unit shares.

### ***Rights of unit holders***

Investors putting financial resources into the Fund will receive a receipt for buying unit shares which will state the date of purchase, the number of units and the price paid. Investors will be provided with unit share certificates if requested, cf. Article 74 (1) of Act No. 45/2020. The unit share certificate will state the name of the Fund, its management company, the name and ID-No. of the original owner of the certificate and its number. It will also contain information on how to redeem unit shares, the rules on dividends, the name and ID-No. of the transferee if the unit share certificates have been bought and sold without being redeemed. Unit share certificates shall be dated and signed by the board of the Fund's management company or by parties authorized to do so by the board. The signature may be printed or presented in another comparable way.

All parties with a holding in the Fund have the same right to assets and income in proportion to their holding and unit shares are proof of holdings in the Fund's assets in securities. No voting rights are attached to unit shares.

Stefnir hf. wields the supreme authority in the affairs of the Fund and the board of Stefnir can amend its regulations. Amendments to the Fund's regulations do not take effect until confirmed by the FME. Unit holders must be informed of any changes to the regulations of the Fund in accordance with the provisions of the Alternative Investment Fund Managers Act No. 45/2020. Any proposal on the dissolution of the Fund or merger with other funds shall be made in accordance with the Fund's regulations.

### ***Buying and selling unit shares***

The Fund's unit shares will only be sold against cash payment of the bid price. The Fund issues unit shares in the form of units. The minimum investment is ISK 10,000 at sales value and ISK 5,000 by subscription.

Applications for redemption received by the distributor before the closing time of the Fund on a business day of Arion Bank hf., must be dealt with on the same day. Applications received after that deadline must be dealt with on the following business day of the bank.

The Fund's unit shares shall be redeemed at the owner's request at the bid price current at the end of trading on the day they are redeemed. The closing time of the Fund is 2:30 p.m. on a week day when Arion Bank hf. is also open for business. Purchases and sales of unit shares in the Fund are settled on a T+1 basis, i.e. settlement takes place on the next working day after the order to buy or sell unit shares is made.

The redemption price of unit shares is governed by the rules on the calculation of the redemption value of unit shares in UCITS and investment funds.

The Fund is a capital growth fund. No dividends will be paid on the company's unit shares. Dividends and other profits from the Fund's securities holdings shall be added to the Fund's principal.

### ***Offer price and redemption value***

Arion Bank is responsible for registering the value of securities and other assets of the Fund. A special valuation committee, in cooperation with Arion Bank, is responsible for evaluating illiquid assets, both listed and unlisted.

The sale fee is included in the offer price. Buyers also pay a handling fee and a fee for issuing a unit share certificate if this is requested. Both make up a "certificate fee."

The fee for issuing unit share certificates is ISK 5,000.

The offer price changes according to market conditions since the price of unit shares is based on the value of the securities in which the Fund invests. Such changes will be published by Stefnir hf. on its website and Arion Bank will also publish them at the Bank's service outlets.

The redemption value of the Fund's unit shares is the market value of the combined assets of the relevant Fund, minus any debts of the Fund at the time of redemption, such as debts owed to credit institutions, unpaid administrative and management costs, collection costs and

payable or imputed public levies, divided by the total number of issued and unredeemed unit shares. The calculation of the redemption value and the assessment of the market value of assets are otherwise determined by the regulations in force each time.

The bid and offer price of the Fund's unit shares shall be calculated at least once every business day.

In addition to administrative charges and service fees, a sales fee is paid to Arion Bank hf. for the sale and redemption of the unit shares in the Fund. The maximum total sales and redemption fee is 2.00%. The sales fee reflects the bid/offer spread in each case and is currently 0.00%. No redemption fee is collected for redeeming units in the Fund.

### ***Annual accounts and six-month financial statements***

The audited annual accounts of Stefnir hf. and the annual report shall be available to unit holders no later than four months after the end of the accounting year, which is from 1 January to 31 December. The Fund's six-month financial statement shall also be available on the website of Stefnir to unit holders free of charge at the offices of the management company no later than two months after the publication of each financial statement. The annual report and interim financial statements shall contain separate information on the Fund.

### ***Taxation***

Profit from the redemption of unit shares in the Fund is liable for tax in Iceland in accordance with Act No. 90/2003 on Income Tax and withholding tax in accordance with Act No. 94/1996 on Withholding Tax on Capital Gains. Arion Bank, the Fund's depositary, pays the capital gains tax which is calculated when unit shares are sold at a profit or when income is paid from the unit shares. Further taxes may also be levied.

With respect to residence outside Iceland, it should be determined whether additional taxation to that which applies in Iceland is relevant.

### ***Operating costs and fees***

Stefnir is entitled to charge a fee for the day-to-day operation of the Fund, as is Arion Bank for managing the accounting and the safekeeping of financial instruments. A handling fee is also charged in accordance with Arion Bank's rate list.

All expenses and fees are deducted from income and then from the returns on assets and finally from the Fund's assets.

Fees due to Stefnir hf. for operating the Fund shall be a maximum of 2.50% p.a. of the average net asset value of the Fund whilst in operation. The fee is currently 1.71%. Fees due to Arion Bank for the supervision and safekeeping of the Fund's financial instruments are included in the fees to Stefnir.

Expenses related to the operation of the Fund are not included in the management company's fees, nor are expenses related to the FME. The Management Company reserves the right to demand repayment of costs relating to financial systems other than the asset management system and costs relating to subscriptions to share indices, software, auditing, legal services (including the preparation of documents), postage and paper etc. The cost of the above may not exceed 0.10% of the average net asset value of the Fund on an annual basis.

If special circumstances dictate that it is necessary to protect the interests of the Fund with measures which will significantly exceed the aforementioned ratio, it shall be permitted to charge the Fund for related expenses, provided that Stefnir has concluded that it is in the Fund members' best interests to pursue this course of action. The FME must be notified of the charging of any such expense.

### ***Dissolution of the Fund***

If the combined market value of the Fund's securities and other financial instruments falls beneath ISK 100,000,000 the board of directors of the Fund's Management Company shall investigate whether it is better for the unit holders to dissolve the Fund. Any decision on the dissolution of the Fund shall be taken by Stefnir hf. Any decision on the merger between the Fund and other funds shall be taken by Stefnir hf. and should be made in the best interests of the unit holders, in accordance with the rules of the Fund and the law. Any such arrangement shall be announced to each unit holder by letter or a durable medium which shall also include information on the relevant party's assets in the Fund. Such a decision shall also be announced in the press.

An announcement to unit holders shall stipulate the terms of the dissolution and/or merger and the date it will take effect.

During the period between the announcement by the Management Company and the merger of the Fund taking effect, unit holders who do not approve of the merger have the opportunity to request redemption of all their unit shares in accordance with the provisions on redemption.

If the Fund is dissolved, Stefnir hf. shall sell the Fund's assets with the interests of the unit holders as a priority and shall divide the net proceeds from dissolution, minus all related costs, and allocate them to unit holders in proportion to the number of unit shares owned. Stefnir hf. is authorized to divide the Fund's assets in whole or in part by assigning securities in kind to unit holders in a fair manner. When this has been completed, an auditor shall confirm the division of assets. All proceeds from the Fund which remains unpaid after assets have been divided shall be allocated to Stefnir hf. for safekeeping.

Stefnir hf. has outsourced the following tasks to Arion Bank hf, with the approval of the FSA, in accordance with Article 29 of the Alternative Investment Fund Managers Act No. 45/2020.

- Internal audit
- Accounting and settlement services
- Marketing
- Compliance (including data protection)
- Human resources
- Information technology services
- Various tasks to Retail Banking division
- Various tasks to Back Office division

The outsourcing of the following tasks has also been approved by the FSA in accordance with the relevant legislation and regulatory acts:

- Internal audit
- Information technology services

**Additional documents*****Appendix I The rules of Stefnir – Liquidity Fund*****The rules of Stefnir - Liquidity Fund****Article 1****The name of the Fund**

The name of the Fund is Stefnir – Liquidity Fund. The Fund's ID-No. is 520412-9640. The Fund is an investment fund pursuant to Chapter X of the Alternative Investment Fund Managers Act No. 45/2020.

Fund has no sub-funds and is not authorized to be marketed in countries outside Iceland.

The base currency of the Fund is the Icelandic króna (ISK).

**Article 2****The Fund's investment strategy**

Stefnir – Liquidity Fund will invest in deposits, bills, bonds and other short financial instruments. The fund's asset portfolio will not have an average duration of more than 180 days. Individual investments will not have longer maturities than 397 days when the investment is made. There are no restrictions on the duration of financial instruments issued or guaranteed by the Icelandic government.

The fund is authorized to enter repurchase agreements with financial instruments guaranteed by the Icelandic government. These are short-term investments in which the counterparty sells the fund a financial instrument and agrees to buy it back at a predetermined price. The predetermined price is made up of the original purchase price of the financial price plus interest. The fund's counterparty has to be a financial institution. The counterparty may have up to 270 days to buy back the financial instrument. There are no restrictions to the duration of the underlying financial instrument in repurchase agreements entered into by the fund.

The fund is authorized under Article 93 of Act No. 45/2020 to invest more than 35% and up to 60% of its assets in bonds, debt instruments and bills issued or guaranteed by the Icelandic government.

The fund is authorized to invest in derivatives in order to engage in transactions with repurchase agreements in accordance with the fund's investment policy.

The fund exercises the authorization provided for by Article 93 of Act No. 45/2020. The fund can invest up to 35% in securities and money market instruments issued by the same issuer and 30% of the fund's assets in deposits of the same financial institution. The fund's total investment according to the above may never be higher than 40% in the same issuer.

Stefnir – Liquidity Fund is an investment fund and its investment authorizations are limited to the information provided here, the investments set out in the table below and the investment authorizations of investment funds under Act No. 45/2020.

Breakdown of investments of Stefnir – Liquidity Fund	%
Deposits of financial institutions	40-100%
Bills, bonds and other debt instruments issued by financial institutions	0-50%
Bills, bonds and other debt instruments issued by or guaranteed by the Icelandic government.	0-60%
Repo transactions	0-50%

### Article 3

#### Tasks of the Fund

Stefnir hf, ID-No. 700996-2479, Borgartún 19, 105 Reykjavík, manages the Fund in accordance with Act No. 45/2020 on Alternative Investment Fund Managers.

The depositary of the Fund is Arion Bank hf, ID-No. 581008-0150, Borgartún 19, 105 Reykjavík. The management company of the Fund may not change depositary without the permission of the FME.

Apart from the safekeeping of securities, Arion Bank hf. is responsible for several other tasks related to the Fund's operation. The management company has notified the FME, see Article 29 of Act No. 45/2020 on Alternative Investment Fund Managers, that it has outsourced to Arion Bank hf. various statutory tasks. A special valuation committee at Stefnir, in cooperation with Arion Bank hf, is responsible for evaluating illiquid assets, both listed and unlisted.

In accordance with the same legal provision, Arion Bank hf. maintains a register of unit holders, calculates the Fund's redemption value and is responsible for the safekeeping of unit shares and other trading data. Under Article 28 of Act No. 45/2020 the outsourcing of the aforementioned statutory tasks of the management company does not alter the company's responsibility towards unit holders.

Arion Bank hf. handles and is responsible for the accounting and settlement of the Fund, in accordance with the rules of the Fund, Act No. 45/2020 and the Accounting Act. Arion Bank hf. is responsible for preparing and sending the balance sheet and profit and loss account for auditing. Furthermore, Arion Bank hf. shall send regular reports to the Central Bank of Iceland and the FME as required of such funds. Other reporting concerning the Fund to public bodies is also the responsibility of Arion Bank hf. if the subject of the report concerns aspects of operations which Arion Bank hf. is responsible for pursuant to the agreement.

At the end of each month Arion Bank hf. is responsible for paying asset management and custody fees for the Fund. The Fund's monthly financial statement, the financial statement to the auditors and a report to external regulators and customers shall be sent to the managing director of Stefnir for review.

Arion Bank hf. is the distributor of the Fund and provides services to those who invest in the Fund or request information in connection with proposed investments in the Fund and will act as intermediary in the issuing and redemption of unit shares. Arion Bank hf. will be responsible for the sale and marketing of unit shares in other respects.

Stefnir hf. manages numerous UCITS, investment funds and institutional investor funds. In the interests of unit holders the company has entered into agreements on the acquisition of

services. Such agreements may grant discounts on acquired goods or services. Agreements of this nature benefit funds and their unit holders alike. Discounts vary between companies and often depend on the size of each investment. Further information on the above can be obtained from Stefnir hf.

The tasks of the Fund are described in greater detail in agreements between Stefnir and the relevant parties.

#### **Article 4**

##### **Fees**

Fees due to Stefnir hf. for operating the Fund shall be a maximum of 2.0% p.a. of the average net asset value of the Fund whilst in operation. The fee is currently 0.35%.

Fees due to Arion Bank hf. for the supervision and safekeeping of the Fund's financial instruments are included in the fees to Stefnir.

In addition to administrative fees, a sales fee is paid to Arion Bank hf. for the sale of the unit shares in the Fund. The sales fee is a maximum of 2% of the net asset value of each unit. The sales fee reflects the bid/offer spread in each case and is currently 0%. No redemption fee is collected for redeeming units in the Fund.

Expenses related to the operation of the Fund are not included in the Management Company's fees, nor are expenses related to the FME. The Management Company reserves the right to demand repayment of costs relating to financial systems other than the asset management system and costs relating to subscriptions to share indices, software, auditing, legal services, postage and paper etc. The cost of the above may not exceed 0.1% of the average net asset value of the Fund on an annual basis.

If special circumstances dictate that it is necessary to protect the interests of the Fund with measures which will significantly exceed the aforementioned ratio, it shall be permitted to charge the Fund for related expenses, provided that Stefnir has concluded that it is in the Fund members' best interests to pursue this course of action. The FME must be notified of the charging of any such expense.

#### **Article 5**

##### **Issue and redemption of unit shares**

All parties with a holding in the Fund have the same right to assets and income in proportion to their holding.

The unit share certificates shall be issued by Stefnir hf. to parties who entrust assets to the Fund for investment and request them. Unit share certificates will be sent to people who request them by registered post no later than 30 days after the purchase has taken place and the distributor has issued a receipt. The Fund's unit shares will only be sold against cash payment of the bid price.

The Fund's unit shares shall be redeemed at the owner's request at the bid price current at the end of trading on the day that trading orders are received by the distributor, provided that such orders are received before the closing time of the Fund. Otherwise it shall be considered that the trading order arrived on the following business day. The Fund is open from 9:00 a.m. to 2:30 p.m. on days when Arion Bank is open for business. Settlement is made on a T+1 basis. It is possible to suspend the redemption of unit shares under certain circumstances and if it is in the interest of the unit holders to do so, provided this does not contravene the conditions of Act No. 128/2011.

## **Article 6**

### **Disposal of dividends and other earnings**

Dividends and other profits from the Fund's securities holdings shall be added to the Fund's principal.

## **Article 7**

### **Calculation of the redemption value of unit shares**

The redemption value of the Fund's unit shares is the market value of the combined assets of the relevant Fund, minus any debts of the Fund at the time of redemption, such as debts owed to credit institutions, unpaid administrative and management costs, collection costs and payable or imputed public levies, divided by the total number of issued and unredeemed unit shares. The calculation of the redemption value and the assessment of the market value of assets are otherwise determined by the regulations in force each time.

## **Article 8**

### **Dissolution of the Fund and merger with other funds**

If the combined market value of the Fund's securities and other financial instruments falls beneath ISK 100,000,000 the board of directors of the Fund's Management Company shall investigate whether it is better for the unit holders to dissolve the Fund. Any decision on the dissolution of the Fund shall be taken by Stefnir hf. Any decision on the merger between the Fund and other funds shall be taken by Stefnir hf. and should be made with the interests of the unit holders as the prime consideration. Any such arrangement shall be announced to each unit holder by letter which shall also include information on the relevant party's assets in the Fund. Such a decision shall also be announced in the press.

An announcement to unit holders shall include provisions on the terms of the dissolution and/or merger and shall specify the date when dissolution and/or merger takes effect and this date shall be at least three weeks after the announcement has been made.

During the period between the announcement by the Management Company and the merger of the Fund taking effect, unit holders who do not approve of the merger have the opportunity to request redemption of all their unit shares in accordance with the provisions on redemption. If the Fund is dissolved, Stefnir hf. shall sell the Fund's assets with the interests of the unit holders as a priority and shall divide the net proceeds from dissolution, minus all related costs, and allocate them to unit holders in proportion to the number of unit shares owned. Stefnir hf. is authorized to divide the Fund's assets in whole or in part by assigning securities in kind to unit holders in a fair manner. When this has been completed, an auditor shall confirm the division of assets. All proceeds from the Fund which remains unpaid after assets have been divided shall be allocated to Stefnir hf. for safekeeping for six months. At the end of this period, assets on which no claim has been made shall be assigned to Arion Bank hf. for safekeeping, for the use of entitled parties.

Stefnir is the management company of the Fund. The management company may not be changed unless decided by the board of directors of Stefnir hf. and with the approval of the Financial Supervisory Authority. In the event of such a decision the unit holders must be informed of the change and of their redemption rights pursuant to Article 84 and 85 of Act No. 45/2020.

Reykjavík, 30 April 2012

With amendments made on 22 October 2015 and 2 October 2020.



**Appendix II: Overview of funds**

Overview of the main funds managed by Stefnir hf. at the time this prospectus is published:

<b>Name/asset class</b>	<b>ID-No.</b>	<b>Type</b>
<b><i>Icelandic bonds</i></b>		
Stefnir – Inflation Linked Fund	671009-9910	UCITS
Stefnir – Treasury Note Fund	630109-9810	UCITS
Stefnir – Government Bonds Medium	650398-9129	UCITS
Stefnir – Government Bonds Long	490499-9039	UCITS
Stefnir – Liquidity Fund	520412-9640	Investment Fund
Stefnir – Fixed Income Opportunities Fund	531213-9980	Investment Fund
Stefnir – Savings Fund	520617-9810	Investment Fund
Stefnir – Yield Fund	531020-8390	Investment Fund
<b><i>Mixed funds</i></b>		
Stefnir – Asset Management Fund	650398-9049	Investment Fund
Stefnir – Balanced Fund	561204-9180	Investment Fund
Asset Allocation Fund A	511005-8840	Investment Fund
Asset Allocation Fund B	511005-8920	Investment Fund
Asset Allocation Fund C	511005-9060	Investment Fund
Asset Allocation Equities Fund	591112-9880	Investment Fund
<b><i>Icelandic equities</i></b>		
Stefnir – Icelandic Growth Fund	470206-8450	Investment Fund
<b><i>International equities</i></b>		
Stefnir - Scandinavian Fund	430407-9880	UCITS
Asset Allocation International Equities Fund	591110-9930	Investment Fund
<b><i>Institutional Investor Funds</i></b>		
Stefnir ÍS-5	4304079610	Institutional Investor Fund
Stefnir Íslenski athafnasjóðurinn 1	640210-9900	Institutional Investor Fund
Alþjóða fasteignasjóðurinn	621104-9260	Institutional Investor Fund
Stefnir Multi Strategy Fund	621104-9340	Institutional Investor Fund
SITSF	510111-9740	Institutional Investor Fund
KLS	700113-9810	Institutional Investor Fund
REG 1	680912-9390	Institutional Investor Fund
REG 2 - Smáralind	621112-9960	Institutional Investor Fund
AL2	600618-9970	Institutional Investor Fund
SÍA II slhf.	550512-2620	Institutional Investor Fund
SÍA III slhf.	420216-0920	Institutional Investor Fund
ST1	470916-9900	Institutional Investor Fund
SRL slhf.	670318-0520	Institutional Investor Fund
<b><i>Closed funds</i></b>		
Stefnir - Kjarabréf	4210099960	UCITS

## Undirritunarsíða

Ensk útb.lýsing - Lausafjársl.  
Jóhann Georg Möller