

Stefnir – Fixed income opportunities fund
Prospectus

Stefnir hf.
March 2018

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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 – Fixed income opportunities 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, 19 March 2018



Flóki Halldórsson,

Managing Director of Stefnir

KEY INFORMATION FROM THE PROSPECTUS

General	The Fund is an investment fund as defined in Act No. 128/2011 on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Institutional Investor Funds. 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 531213-9980.
Base currency	The Fund's base currency is the Icelandic króna (ISK).
Operations	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.
Mgmt. Company	Stefnir hf, ID-No. 700996-2479, Borgartún 19, 105 Reykjavík.
Depository	Arion Bank hf. ID-No. 581008-0150, Borgartún 19, 105 Reykjavík.
Distributor	Arion Bank hf., ID-No. 581008-0150, Borgartún 19, 105 Reykjavík.
Bid/offer price	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.
Redemption period	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 2:30 p.m. Settlement is on a T+2 basis.
Dividends	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.
Amount	The minimum investment is ISK 10,000 at sale value and ISK 5,000 by subscription.
Rights	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.

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

INFORMATION ABOUT THE FUND

Operations

Stefnir – Fixed income opportunities fund is an investment fund as defined in Act No. 128/2011 on Undertakings for Collective Investment in Transferable Securities (UCITS), Investment Funds and Institutional Investor Funds. 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 November 19th 2014.

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/english.

A previous version of the Icelandic prospectus was published on 20 November 2017. This prospectus was published on 19 March 2018.

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. 128/2011. 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 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 Act No. 161/2002 on Financial Undertakings.

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 Hrund Rudolfsdóttir, chairman, ID-No. 250369-2989, CEO of Veritas, Jökull H. Úlfsson, ID-No. 200763-2119, head of HR at Arion Bank hf., Ragnhildur Sophusdóttir, ID-No. 260876-6009, attorney at law at Arion Bank hf., Thórdur Sverrisson, ID-No. 240452-3169, self-employed and Kristján Jóhannsson, ID-No. 040151-7619, chairman of Icepharma. Vice members in the board of directors of Stefnir hf. are Ásgerður Hrönn Sveinsdóttir, regional manager and head of branches at Arion bank hf. and Thórhallur Örn Guðlaugsson, Associate professor in business administration at the University of Iceland. The Managing Director of Stefnir is Flóki Halldórsson, ID-No. 291273-4329.

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.

Depositary

The Fund's depositary 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 Eva Cederbalk, Brynjólfur Bjarnason, Jakob Már Ásmundsson, Måns Höglund, Steinunn Kristín Thórdardóttir, Herdís Dröfn Fjeldsted and John P. Madden. The Chief Executive Officer of Arion Bank is Höskuldur H. Ólafsson.

Stefnir has outsourced the safekeeping of financial instruments, the settlement of transactions and other tasks pursuant to Article 17 of Act No. 128/2011 to Arion Bank on the basis of the authorization provided by Article 18 (1) of the Act. Under Article 18 (2) of the Act, the outsourcing of tasks pursuant to Article 17 does not affect Stefnir's responsibility towards unit holders. Only Stefnir can decide whether to change the Fund's depositary and any such decision is subject to the approval of the Financial Supervisory Authority.

The statutory tasks of the depositary are contained in Article 20 of Act No. 128/2011. Article 22 (1) of the Act also states that a depositary 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 depositary's employees in carrying out tasks as provided for in Article 20.

The Management Company and the depositary shall operate independently of each other, always having the interests of the unit share owners as their prime concern, pursuant to Article 15 (2) of Act No. 128/2011.

Distributor

Stefnir has outsourced marketing and services to clients pursuant to Article 17 of Act No. 128/2011 to Arion Bank on the basis of the authorization provided by Article 18 (1) of the Act. The Bank will provide services to those who wish to 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.

Auditor

The auditor of the Fund and the Management Company is Deloitte ehf., ID-No. 521098-2449, Smáratorg 3, 201 Kópavogur. Páll Grétar Steingrímsson, ID-No. 250165-4209 and Pétur Hansson, ID-No. 130382-4609, chartered accountants, are responsible for auditing the Fund for Deloitte ehf.

Investment policy

The fund seeks to generate returns on a diverse portfolio of bonds issued by public authorities, companies and financial institutions and asset-backed bonds. The fund is authorized to invest in deposits of financial institutions. The structure of the fund at any given time will reflect the fund managers' assessment of the market conditions at the time.

The fund's investment policy

The rules of the fund contain the following breakdown of the fund's investment policy:

1. Covered bonds issued under Act No. 11/2008	0 - 80%
2. Asset-backed bonds, cf. Article 4 (3)	0 - 50%
3. Bonds guaranteed by companies	0 - 50%
4. Bonds and bills issued or guaranteed by the Icelandic government.	0 - 50%
5. Bonds issued by municipalities or Municipality Credit Iceland (MCI)	0 - 35%
6. Deposits or bills issued by financial institutions	0 - 60%
7. Corporate bonds	0 - 25%
8. Other bonds and bills	0 - 15%

Investments made pursuant to the above in unlisted financial instruments may represent a total of up to 20% of the fund's total assets, cf. Article 4 (6).

Further information on the fund's investment policy

The fund's investment authorizations are limited by the rules of the fund and in other respects by Act No. 128/2011.

According to Article 3 (1.1) the fund is authorized to invest in covered bonds issued by financial institutions which have rights of priority in the cover pool of the issuer on the basis of Act No. 11/2008 on Covered Bonds and also contractual covered bonds which have no legal basis.

According to Article 3 (1.2) the fund is authorized to invest in asset-backed bonds. The issuer may either be an institutional investor fund or a company (e.g. private limited company, limited liability company or a partnership limited by shares), which stores the collateral or assets designed to guarantee the repayment of the bonds. Asset-backed bonds can be used to fund investments in residential property, commercial property, debt instruments etc. and may be listed on a stock exchange.

According to Article 3 (1.3) is authorized to invest in bonds issued by companies which are secured by collateral, i.e. bonds where there is collateral in real estate, ships, vehicles, aircraft or other collateral.

Bonds and bills under Article 3 (1.7 and 1.8) refer to debt instruments where no special collateral is provided.

Investments in unlisted securities and money market instruments

The fund is authorized under Article 59 (3) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds, to invest up to 20% of its assets in unlisted securities and money market instruments. Investments in the securities of a single issuer may not exceed 10% of the assets of the investment fund.

Restrictions on the fund's investment authorizations in a single issuer are as follows:

1. The fund is authorized to invest up to 30% of its assets in deposits of the same financial institution according to Article 59 (4.1.b) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds.
2. The fund is permitted to exercise the authorization provided by Article 59 (4.1.a) of Act No. 128/2011 to invest up to 20% of its assets in securities and money market instruments issued by the same issuer. It is, however, permitted to invest up to 35% of the fund's assets in listed securities and money market instruments issued by the same issuer, if the investment representing more than 20% of the fund's assets is only in one issuer.
3. The fund is permitted to exercise the authorization provided by Article 59 (4.1.d) of Act No. 128/2011 to invest up to 35% of its assets in securities and money market instruments issued by the same issuer. An investment fund may invest up to 30% of its assets in deposits of the same financial institution. The combined investments of the investment fund in securities, money market instruments, derivatives and deposits from the same issuer may never be more than 40%.
4. The Financial Supervisory Authority has authorized the fund, under Article 38, cf. Article 57.1, of Act No. 128/2011, to invest up to 50% of the fund's assets in securities and money market instruments issued or guaranteed by the Icelandic government. If the fund exercises this authorization, investments must be distributed among at least three different securities issues, with an investment in a single securities issue never exceeding an amount representing 30% of the fund's assets.

Derivatives

The fund is authorized to use derivatives to reduce risk and costs.

The fund is permitted to trade with listed and unlisted derivatives provided it is possible to calculate the value of such contracts on a daily basis and it must also be possible to trade with such contracts for the duration of such contracts.

The fund must always hold suitable and sufficiently valuable assets to absorb the assessed maximum loss from a derivative. Such assessment shall be based on the value of the underlying assets, counterparty risk, external circumstances on financial markets and the time it takes to settle or sell the derivative in question.

Under Article 59 (4.1.c) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds the fund is authorized to invest up to 10% of its total assets in derivatives transactions with the same party outside a regulated exchange if the counterparty is a financial institution within the European Economic Area or a financial institution located outside the

EEA which is subject to supervision assessed as valid by the Icelandic Financial Supervisory Authority.

In addition to permitted financial instruments, the underlying of a derivative which the fund is authorized to invest in can be securities indices, interest rates and indexation.

The fund's investments in derivatives shall be in compliance with the fund's policy and authorization to invest in individual types of financial instruments, and restrictions on investing in a single issuer or a specific issuer.

The fund is also authorized to invest in call and put options, swaps and forward contracts.

Borrowing

The fund is authorized under Article 59 (6) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds, to take out short-term loans for up to 25% of the value of the fund's assets.

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. *Depository and accounting risks*. The Management Company of the Fund entrusts a depository 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 depository, malpractice, misuse or fraud on the part of the depository. 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 23 (3) of Act No. 128/2011. 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 can amend its rules. Amendments to the Fund's regulations do not take effect until confirmed by the Financial Supervisory Authority (FME). Unit holders must be informed of any changes to the regulations of the Fund in accordance with the provisions of Act No. 128/2011. 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 is also open for business. Purchases and sales of unit shares in the Fund are settled on a T+2 basis, i.e. settlement takes place second 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 distributor's 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 2.00% p.a. of the average net asset value of the Fund whilst in operation. The fee is currently 1.00%. 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, 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 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 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.

Tasks which may be outsourced to third parties

Stefnir hf. has outsourced the following tasks to Arion Bank hf, with the approval of the FME, in accordance with Article 18, cf. Article 17, of Act No. 128/2011 on UCITS and Investment Funds.

- Risk management, with the exception of portfolio risk management. This includes the monitoring and management of the IT system, monitoring and management of the calculation of returns, the monitoring and supervision of factors relating to operational risk, internal valuation of economic capital and assistance and advice on creating an ICAAP report.
- Internal audit
- Accounting and settlement services
- Marketing
- Compliance
- Human resources
- Information technology services

The outsourcing of the following tasks has also been approved by the FME:

- Internal audit, cf. article 16 of the Financial Undertakings Act No. 161/2002 and FME guidelines No. 4/2003
- Information technology services, cf. article 15 of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds and FME guidelines No. 5/2003.
- Outsourcing of risk management

Additional documents

Appendix I: The rules of Stefnir – Fixed Income Opportunities Fund

Article 1

The name of the Fund

The name of the Fund is Stefnir – Fixed Income opportunities fund. The Fund's ID-No. is 531213-9980.

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

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

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

Article 2

The Fund's investment strategy

The fund seeks to generate returns on a diverse portfolio of bonds issued by public authorities, companies and financial institutions and asset-backed bonds. The fund is authorized to invest in deposits of financial institutions. The structure of the fund at any given time will reflect the fund managers' assessment of the market conditions at the time.

Article 3

The fund's investment policy

The rules of the fund contain the following breakdown of the fund's investment policy:

9. Covered bonds issued under Act No. 11/2008	0 - 80%
10. Asset-backed bonds, cf. Article 4 (3)	0 - 50%
11. Bonds guaranteed by companies	0 - 50%
12. Bonds and bills issued or guaranteed by the Icelandic government.	0 - 50%
13. Bonds issued by municipalities or Municipality Credit Iceland (MCI)	0 - 35%
14. Deposits or bills issued by financial institutions	0 - 60%
15. Corporate bonds	0 - 25%
16. Other bonds and bills	0 - 15%

Investments made pursuant to the above in unlisted financial instruments may represent a total of up to 20% of the fund's total assets, cf. Article 4 (6).

Article 4

Further information on the fund's investment policy

The fund's investment authorizations are limited by the rules of the fund and in other respects by Act No. 128/2011.

According to Article 3 (1.1) the fund is authorized to invest in covered bonds issued by financial institutions which have rights of priority in the cover pool of the issuer on the basis of Act No. 11/2008 on Covered Bonds and also contractual covered bonds which have no legal basis.

According to Article 3 (1.2) the fund is authorized to invest in asset-backed bonds. The issuer may either be an institutional investor fund or a company (e.g. private limited company, limited liability company or a partnership limited by shares), which stores the collateral or assets designed to guarantee the repayment of the bonds. Asset-backed bonds can be used to fund investments in residential property, commercial property, debt instruments etc. and may be listed on a stock exchange.

According to Article 3 (1.3) is authorized to invest in bonds issued by companies which are secured by collateral, i.e. bonds where there is collateral in real estate, ships, vehicles, aircraft or other collateral.

Bonds and bills under Article 3 (1.7 and 1.8) refer to debt instruments where no special collateral is provided.

Investments in unlisted securities and money market instruments

The fund is authorized under Article 59 (3) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds, to invest up to 20% of its assets in unlisted securities and money market instruments. Investments in the securities of a single issuer may not exceed 10% of the assets of the investment fund.

Restrictions on the fund's investment authorizations in a single issuer are as follows:

5. The fund is authorized to invest up to 30% of its assets in deposits of the same financial institution according to Article 59 (4.1.b) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds.
6. The fund is permitted to exercise the authorization provided by Article 59 (4.1.a) of Act No. 128/2011 to invest up to 20% of its assets in securities and money market instruments issued by the same issuer. It is, however, permitted to invest up to 35% of the fund's assets in listed securities and money market instruments issued by the same issuer, if the investment representing more than 20% of the fund's assets is only in one issuer.
7. The fund is permitted to exercise the authorization provided by Article 59 (4.1.d) of Act No. 128/2011 to invest up to 35% of its assets in securities and money market instruments issued by the same issuer. An investment fund may invest up to 30% of its assets in deposits of the same financial institution. The combined investments of the investment fund in securities, money market instruments, derivatives and deposits from the same issuer may never be more than 40%.
8. The Financial Supervisory Authority has authorized the fund, under Article 38, cf. Article 57.1, of Act No. 128/2011, to invest up to 50% of the fund's assets in

securities and money market instruments issued or guaranteed by the Icelandic government. If the fund exercises this authorization, investments must be distributed among at least three different securities issues, with an investment in a single securities issue never exceeding an amount representing 30% of the fund's assets.

Article 5 Derivatives

The fund is authorized to use derivatives to reduce risk and costs.

The fund is permitted to trade with listed and unlisted derivatives provided it is possible to calculate the value of such contracts on a daily basis and it must also be possible to trade with such contracts for the duration of such contracts.

The fund must always hold suitable and sufficiently valuable assets to absorb the assessed maximum loss from a derivative. Such assessment shall be based on the value of the underlying assets, counterparty risk, external circumstances on financial markets and the time it takes to settle or sell the derivative in question.

Under Article 59 (4.1.c) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds the fund is authorized to invest up to 10% of its total assets in derivatives transactions with the same party outside a regulated exchange if the counterparty is a financial institution within the European Economic Area or a financial institution located outside the EEA which is subject to supervision assessed as valid by the Icelandic Financial Supervisory Authority.

In addition to permitted financial instruments, the underlying of a derivative which the fund is authorized to invest in can be securities indices, interest rates and indexation.

The fund's investments in derivatives shall be in compliance with the fund's policy and authorization to invest in individual types of financial instruments, and restrictions on investing in a single issuer or a specific issuer.

The fund is also authorized to invest in call and put options, swaps and forward contracts.

Article 6 Borrowing

The fund is authorized under Article 59 (6) of Act No. 128/2011 on UCITS, Investment Funds and Institutional Investor Funds, to take out short-term loans for up to 25% of the value of the fund's assets.

Article 7 Tasks of the Fund

Stefnir hf, ID-No. 700996-2479, manages the Fund in accordance with Act No. 128/2011.

The depositary of the Fund is Arion Bank hf, ID-No. 581008-0150, Borgartúni 19, 105 Reykjavík. Stefnir hf. 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. Pursuant to Art. 18 of Act No. 128/2011, the management company of the Fund has been permitted by the FME to outsource to Arion Bank hf. various statutory tasks of the management company, e.g. the assessment of the value of securities and other assets of the Fund. 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 18 (2) of Act No. 128/2011 the outsourcing of the aforementioned statutory tasks of the management company does not alter the company's responsibility towards unit holders.

Arion Bank hf. tends to and is responsible for the book-keeping and accounts of the Fund, in accordance with the articles of association of the Fund and legislation on UCITS, Investment Funds and book-keeping. 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 8

Fees

Fees due to Stefnir hf. for operating the Fund shall be a maximum of 2% p.a. of the average net asset value of the Fund whilst in operation. The fee is currently 1%.

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 1%. 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 9

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+2 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 10

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 11

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 12

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.

Reykjavík, August 31st 2016

Appendix II: Overview of funds

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

Name/asset class	ID-No.	Type
<i>Icelandic bonds</i>		
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
<i>Mixed funds</i>		
Stefnir – Asset Management Fund	650398-9049	Investment Fund
Stefnir – Balanced Fund	561204-9180	Investment Fund
Asset allocation fund A	511005-8920	Investment Fund
Asset allocation fund B	511005-8840	Investment Fund
Asset allocation fund C	511005-9060	Investment Fund
Asset allocation Equities Fund	591112-9880	Investment Fund
<i>Icelandic equities</i>		
Stefnir – Icelandic Growth Fund	470206-8450	Investment Fund
<i>International equities</i>		
Stefnir - Scandinavian Fund	430407-9880	UCITS
Asset allocation International Equities Fund	591110-9930	Investment Fund
<i>Institutional Investor Funds</i>		
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
ABMIIF	570106-9610	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
SRE Fjármögnun 1	701012-9920	Institutional Investor Fund
SRE Fjármögnun 2	701012-9840	Institutional Investor Fund
Ármúli lánasafn	660614-9900	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
<i>Closed funds</i>		
Stefnir - Kjarabréf	4210099960	UCITS