

**APPENDIX NO 17
TO MANUAL OF INTERNAL RULES**

**NORTHERN HORIZON CAPITAL AS
LIQUIDITY AND LEVERAGE POLICY**

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1. SCOPE AND OBJECTIVES

- 1.1. The liquidity and leverage management process of AIFs which Northern Horizon Capital AS (“Management Company”) manages is described in this policy (“Policy”).
- 1.2. This Policy consists of two parts. First part (sections 4, 5) sets out the principles, requirements, roles and responsibilities for managing the liquidity and leverage process within the Northern Horizon Capital AS. Second part of the Policy (section 6) lists all the necessary actions of planning and directing cash to ensure proper utilization and availability of the cash. It provides guidelines as well as detailed instructions for the proper use of cash resources, planning to prevent cash shortfalls, and balancing risk, liquidity, tax efficiency, and cost.
- 1.3. The Policy is additional to the liquidity and leverage principles and rules stipulated in the Manual. Therefore provisions of this Policy should be read together with the Manual.
- 1.4. This Policy has been adopted by the Board of the Management Company on [●] 2016. The Board shall be responsible for the proper implementation and annual revision of this Policy.

2. GUIDING DOCUMENTS

- 2.1. This Policy is subject to the following external regulation:
 - the AIFMD (as defined below);
 - Commission Delegated Regulation (EU) No 231/2013 as of 19 December 2012 supplementing the AIFMD;
 - the Estonian legislation implementing AIFMD - the Investment Funds Act of the Republic of Estonia (as amended from time to time) and the Regulation issued by the Estonian Minister of Finance No 15 on “Requirements to alternative fund manager and depository of investment fund managed by it”, on May 20, 2014 (as amended from time to time);
 - the advisory guidelines of the FSA;
and any other applicable laws and regulations.

3. DEFINITIONS

- 3.1. The definitions set forth herein (written with capital first letters) shall have following meaning:
 - (a) **Alternative Investment Fund (or AIF or the Fund)** means each such Alternative Investment Fund that is currently or in the future administrated and managed by the Management Company.
 - (b) **AIFMD** means Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.
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- (c) **Board** means the management board (in Estonian: juhatus) of the Management Company.
- (d) **CDR** means Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.
- (e) **FSA** means Estonian Financial Supervision Authority (in Estonian: Finantsinspektsioon).
- (f) **Fund Manager** means a person appointed by the Board to manage the Fund.
- (g) **Fund Treasurer** means a person appointed by the Board (who can also be outsourced).
- (h) **Investor** means unit-holder or shareholder of the Alternative Investment Fund.
- (i) **Manual** means Manual of Internal Rules of the Management Company to which the present Policy is attached to as an Appendix.
- (j) **Risk Management Function** is defined in Section 18 of the “Manual of Internal Rules” of the Management Company.
- (k) **Supervisory Board** means the supervisory board (in Estonian: nõukogu) of the Management Company.

4. GENERAL PRINCIPLES OF LIQUIDITY MANAGEMENT

- 4.1. The purpose of the liquidity management is to ensure that an appropriate level of liquidity in the AIF is maintained to meet its underlying obligations. One of the key factors forming the basis of the liquidity management is the fact of the relative low liquidity of the AIF’s real estate assets in general and especially in case the market sentiment is pessimistic.
- 4.2. Financial liquidity risks of AIF are mainly managed by proactive management of the covenants and overall financial situation and daily cash management (see detail in section 6).
- 4.3. The liquidity management shall be aligned with:
 - (a) the investment strategy of the AIF,
 - (b) leverage and risk profile of the AIF and
 - (c) redemption policy of the AIF, if any.
- 4.4. Each AIF has a maximum level of financial leverage defined in AIF documentation and it shall be consist with the general risk profile of the AIF. Usually the financial leverage ratio is expressed as the ratio of financial obligations to banks or other lenders to the value of real estate according to the latest valuation. In addition to the LTV ratio, Investors also receive information on leverage ratios which are calculated using gross and commitments methods as per AIFMD requirements (methodology of calculations is presented in Appendix 1 of this policy).

5. RESPONSIBILITIES

- 5.1. Fund Treasurer (FT) is responsible for managing of financial leverage including the following actions:
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- Analysis of financing terms in respect to a proposed project including the feasibility of the financing alternatives.
 - Arrangement of financing extension or refinancing.
 - Arrangement of tender for new financing, if needed.
 - Calculation of LTV and gross & commitment leverage ratios.
 - Implementation of the Board's decisions related to the financing.
 - Issue of recommendation on financing to the Board.
 - Monitoring interest rate risk and issue of recommendation on hedging.
 - Monitoring of covenants continuously.
 - Negotiations on the covenants, pledges and other aspects of the financing.
 - Proactive cooperation with the banks in case of potential breach of the covenants is expected or any similar issues arise.
 - Regular reporting to the Risk Management Function on financial leverage.
 - Regular reporting to the banks.
 - Sensitivity analysis of covenants at least once per year for annual budget or when situation in the Fund or financed property considerably deteriorates triggering potential breach of covenants.
- 5.2. Fund Treasurer provides the following information on the AIF's financial risks to the Risk Management Function and Board:
- Current level of financial leverage of each property and the AIF.
 - Gross & commitment leverage ratios.
 - Historical and current level of covenants, threshold and estimate of the risk of a potential breach of a covenant (with stress test scenarios, if needed) and in case any of the scenarios evidences that a breach of covenants is likely, FT shall prepare an action plan for mitigating the risk.
 - Projected level of covenants (to be updated at least quarterly).
 - Hedging of interest rate risk and open exposures.
 - Recent communication and issues with the banks, if any.
 - Counterparty analysis related to banking relationship including a proposal of the counterparty limits.
- 5.3. In case of a threaten or actual breach of a covenant or other obligations to the bank, the Fund Treasurer shall be report it without delay to the Risk Management Function and Board together with a proposed action plan.
- 5.4. When arranging the financing following limitations shall be taken into account:
- Maximum financial leverage level set on the AIF level and on the property level.
 - Limitations of the use of securities, pledges and other collaterals set in the AIF documentation.
 - Set default financial ratios have sufficient buffer for adverse events.
 - Financing term shall be consisted with the strategy of the investment
 - Reasonable alternatives for remedy of default events or prevention of such.
 - The possibility to use excess cash of a SPV for the general needs of the AIF.
 - No recourse to other assets of the AIF or cross-collateral or similar guarantees unless it is allowed by AIF documentation and reasonable for the commercial point of view.
- 5.5. The banks that are invited to provide proposal on financing shall meet counterparty risk requirements based on the Internal Control and Risk Management Framework

6. MAIN PRINCIPLES OF CASH MANAGEMENT

- 6.1. Management of AIFs' cash shall adhere to the following principles:
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6.1.1. *General*

- (a) Regular cash planning on the subsidiary level and AIF level shall be implemented to prevent liquidity risk.
- (b) Each AIF is a separate unit and cash (or any assets and liabilities) among the AIFs cannot be shared.
- (c) Cash Management transactions including, but not limited to transfers of the funds, exchange of currency or placement of deposits shall be arranged negotiating the most favourable terms possible at a given moment in time.

6.1.2. *Bank accounts*

- (a) Number of bank accounts in each company shall be maintained at minimal level; accounts that are not used shall be closed without delay.
- (b) All banking relationships are subject to the counterparty analysis: if choice of a bank is not restricted by any agreement with the third party, only international, sound and credible banks with S&P long-term rating valuation not less than "A" (or equivalent rating valuation of another reputable agency) have to be chosen for cash management.
- (c) Overnight deposit agreements have to be concluded with banks where accounts are kept.

6.1.3. *Excess cash*

- (a) Excess cash is defined to be the cash not required by a company for its daily operations within a month.
- (b) The amount of excess cash shall be monitored continuously.
- (c) Excess cash should be kept in the AIF unless transfer of excess cash to the AIF decreases tax efficiency of the Fund, excess cash is of short-term nature, or transfer to the AIF is restricted by agreements with third parties (banks).
- (d) For all excess cash shall be deposited unless additional interest received is minimal compared to a decreased flexibility in liquidity.
- (e) Excess cash can only be deposited for short term with the banks unless other alternatives are allowed by the AIF investment strategy.

6.1.4. *Currency*

- (a) Currency risk shall be hedged according to the AIF's strategy and currency risk hedging strategy defined in the key corporate documents of the AIF assuming that it is commercially feasible.
 - (b) Each company shall keep excess cash and other short and long term deposits in the currency of the AIF.
 - (c) Special attention to currency risk should be paid in AIFs where the local currency of the investments is floating against the currency of the AIF:
 - Excess cash has to be converted into the currency of the AIF at least once a week. This does not apply if excess cash is of temporary nature and the cost of the required foreign exchange trades outweighs the risk of losses from currency fluctuation.
 - If there are regular payments under obligations in other currencies than the income of the AIF, net income (i.e. income after allocation of cash for planned expenses in the same currency) has to be converted into the currency of the obligations until the amount equal to these payments pro rata for the period is accumulated.
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6.1.5. *Inter-company transfers*

- (a) The following considerations must be made before executing a transfer:
 - potential tax impact shall be analysed;
 - need for a bank approval beforehand; if required, it has to be obtained in writing and filed properly;
 - effect of the transfer on financial covenants.
- (b) Withholding taxes (if applicable) have to be estimated; once paid, retrieval thereof has to be arranged at the earliest possible terms. Only in exceptional cases, transfers within a Fund may be executed on behalf of a third party; direct transfers have to be used in all other cases.
- (c) If a payment is below EUR 1m and is not urgent, it has to be arranged as an ordinary transfer; if a payment is above EUR 1m, Fund Treasurer has to choose the most cost-efficient way of transfer.
- (d) Information covenants in relation to inter-company transfers have to be adhered to.

6.1.6. *Collection of receivables*

- a) Invoices for services to tenants shall be prepared and sent without delay according to agreed terms in lease agreements.
 - b) Charges for late payments in the form of interest, penalties, and administrative costs shall be levied on delinquent receivables to offset the cost of AIFs and administrative costs incurred in collecting delinquent debts.
 - c) Collection systems shall include procedures which provide for prompt and continuing action to collect outstanding receivables, with particular attention to delinquent receivables.
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6.1.7. *Settlement of payables*

- (a) Payment systems shall be designed so that payments are made in time.
- (b) Payments and receivables from the same company shall be netted when possible.
- (c) Payments to meet financial obligations shall have priority over other payments.
- (d) To avoid conflicts of interest, payments to NHC and its group companies for their services have to be made according to the same principles as to other independent service providers.

6.2. Responsibilities

6.2.1. The Fund Treasurer (FT) is responsible for supervision of cash, cash management and planning of the whole AIF structure, while chief accountants of SPVs (CA) are responsible for cash management and planning for their accounted companies. Responsibilities are described in more detail below.

6.2.2. In companies where CA function is outsourced, FT is responsible for cash management and planning of real estate companies ((s)he can be supported by an outsourcing company or/and analyst of property management company).

6.2.3. *Responsibilities of Fund Treasurer:*

- (a) Ensuring sufficient cash level in all companies required for daily operations as well as for approved investments.
- (b) Supervision of cash management in all subsidiaries according to this Policy.
- (c) Cash management according to the Policy of the whole AIF structure.
- (d) Supervision of currency exchange transactions to be in line with the Policy in order to minimize currency exchange risk.
- (e) Regular cash planning on an AIF level. At least once per year sensitivity analysis and stress tests under normal and exceptional liquidity conditions which enable the assessment of the liquidity risk of the AIF.
- (f) Arrangement of internal transfers:
 - Analysis of tax efficiency of internal transfers and internal financing structures.
 - Ensuring that all required permissions for internal transfers are received from banks or preconditions are met before the transfer is arranged; cash sweep provisions, if any, have to be considered.
 - Issuing instructions on internal cash transfers for accountants. In case there are requests for large transfers or sum of regular payments considerably exceed the budgets, FT has to verify whether such expenditures are approved by the Fund Manager.
 - Documentation and filing of documents and approvals related to inter-company payments.
 - Informing financing banks about inter-company transfers, if and as required by the bank loan agreements.
- (g) Recommendation to the Head of Fund Administration (HFA) regarding opening of new bank accounts as well as closure of existing bank accounts; payment authorisation rights and supervision of implementation of decisions made. Cash management, especially payments, have to be well planned and performed in a timely manner.

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6.2.4. *Responsibilities of CA:*

- (a) Cash management according to the Policy in CA's accounted companies.
- (b) Planning of company's cash flows on a regular basis.
- (c) Informing of FT of unplanned large payments as well as expected temporary shortage in liquidity at company level as soon as CA becomes aware of such issue.
- (d) Implementation of FT's instructions on internal cash transfers.
- (e) Performing currency conversion transactions on regular basis if necessary for proper implementation of the Policy.
- (f) Settlement of payments and collection of receivables according to the cash management policy.
- (g) Provision of all required documents and information to banks, collection of relevant signatures in relation to bank account opening, maintenance and closing (following instructions from FT) documentation.

6.3. Procedure of cash planning and cash monitoring

6.3.1. *Annual cash flow projections*

In order to ensure efficient cash flow management of each company as well as on the AIF level, cash flow projections have to be prepared. Cash flow projections on a AIF and company level shall be revised quarterly, or more often if the liquidity situation in the AIF so requires. In case there are several investment projects simultaneously, cash flows have to be projected per project.

During the annual budgeting process, detailed annual cash flow projections are made for the next year and for each company as well as on consolidated level on monthly basis. Cash flow projections shall also include estimations of annual cash flow for the years after the budgeting year, until planned exit of the AIF.

Annual cash flow projections prepared during the budgeting process shall include sensitivity analyses under normal and exceptional liquidity conditions enabling the assessment of liquidity risk of the AIF (stress testing). Based on the results of such tests the FT shall draw the attention of the Risk Management Function and Board to the key factors that might undermine liquidity of the AIF and propose actions to mitigate the risks.

6.3.2. *Quarterly cash flow projections*

As a basis for quarterly cash flow projections, budgeted cash flows are used.

CA is responsible for cash flow projections per company/project. If requested by the FT, projections of cash flows from operations and investments of companies/projects for the current quarter as well as adjustments for remaining quarters in the year have to be prepared.

FT is responsible for quarterly revisions of cash flow projections for the current year. FT reviews the projections and budgets cash flows from financing (internal as well as external). Various restrictions based on the bank loan agreements have to be take into account as a part of cash flow planning.

FT prepares cash flow projections of holding companies as well as consolidated cash flow projections. Updated cash flow projections (including comments) have to be forwarded to the HFA and the respective Fund Manager.

CA and FT review actual cash flows for the previous quarter and compare them with the budgeted cash flows. In case of material deviations, CA has to forward an explanation to FT and FT has to forward an explanation to the Fund Manager.

FT and Treasury Analyst (TA) monitor the actual liquidity situation and issue inter-company payment orders according to actual liquidity needs.

6.3.3. *Monthly cash balance reports*

The target of regular revisions of cash balance and cash flow projections is to eliminate unexpected cash shortfalls.

CA is responsible for monthly cash flow projections. FT uses cash balance reports to monitor whether CA manages cash according to this Policy.

The monthly cash balance reporting shall be carried out in the following order:

CA or OAC →	TA →	FT or TA →	FT or TA
<p>Monthly cash balance reports have to be provided by CA or outsourced accounting companies (OAC) to TA the first working day after the end of a month.</p>	<p>Upon the received information, TA prepares and sends the following information to the HFA, Fund Managers and FTs until 5th of the next month at latest:</p> <ul style="list-style-type: none"> o Consolidated cash balances report for each AIF; o Overview on changes of interbank interest rates and currency exchanges. 	<p>FT or TA, if instructed by FT, reviews monthly cash balance reports and clarifies with CA or outsourced accounting companies if there might be excess cash in the companies, or liquidity issues.</p>	<p>FT or TA, if instructed by FT, initiates intercompany payments where necessary on the basis of received information.</p>

Monthly cash balance reports cover the cash positions of the whole AIF structure on the reporting date. The report might also include upcoming payments and expected cash receipts for the next three weeks. Such reports with additional information on upcoming and outgoing payments shall be prepared by CA based on FT’s instruction if liquidity situation in the AIF is tense and needs additional supervision. Frequency of such reports can be also increased in order to better manage liquidity of the AIF.

Notwithstanding the information given in monthly cash balances reports, CA or outsourced accounting company shall inform TA and FT if there are unexpected payments and the company needs cash injection as soon as the need becomes known to CA.

6.4. Procedure of payment arrangement

6.4.1. Bank payment systems

Subject to FT approval, CA or OAC organises installation of bank payment systems and prepares all related documentation. The authorisation rights for bank accounts are regulated by the Financial Control Policy and the Payment Authorisation Guidelines.

6.4.2. External payments

CA and OAC are responsible for arranging all payments and issuing invoices in a timely manner according to the Policy and Financial Control Policy.

6.4.3. Inter-company payments

Inter-company (IC) payments work as a tool for AIF's internal cash allocation. IC payments include:

- Inter-company loans and interest.
- Dividends.
- Other inter-company (recharged) payables.
- IC payments are initiated by FT as described in this policy. Particular timing of IC transfer is coordinated by TA with CA when making monthly cash balances reports and has to be approved by FT.
- After the exact amount and timing of the payment is approved by FT, TA issues a payment request to CA by email, stating:
 - Amount.
 - Currency.
 - Purpose.
 - Type of payment/ Value date.
 - Remitter name.
 - Remitter's bank name and account number (optional if such clarification is not needed).
 - Beneficiary name.
 - Beneficiary's bank name and account number (optional if such clarification is not needed).
 - Beneficiary's bank SWIFT code (optional if such clarification is not needed).

CA or OAC is responsible for making the transfer within the terms set in the payment request and sending a confirmation to TA and FT on the date of execution of the requested payment. In case FT's authorization is needed in order to execute the payment, FT is responsible for providing such confirmation as soon as possible, however, not later than within one working day.

The FT also monitors whether requested payments are in line with budgets and that there are no large payments that need additional clarification. FT has to verify whether such unbudgeted high expenditures are approved by the Fund Manager.

In case financing is arranged at SPV level of such AIFs, FT is responsible for arranging intercompany payments required for SPVs to meet their financial obligations.

7. APPENDIX 1. METHODOLOGY OF LEVERAGE CALCULATION

Leverage of an AIF shall be expressed as the ratio between the exposure of an AIF and its net asset value. The exposure of an AIF shall be calculated using either gross or commitment method.

Exposure contained in any financial or legal structures involving third parties controlled by the relevant AIF shall be included in the calculation of the exposure, however any exposure that exists at the level of SPVs or sub-holding companies shall not be included in the calculation of the leverage unless guarantees or other securities are provided by the AIF which might result potential losses beyond its investment in the respective company.

Calculation of the exposure shall also not include borrowing arrangements entered into if these are temporary in nature and are fully covered by contractual capital commitments from Investors in the AIF.

7.1. Gross method

The exposure of an AIF calculated in accordance with the gross method shall be the sum of the absolute values of all its positions valued as per the AIFMD requirements.

For the calculation of the exposure of an AIF in accordance with the gross method Fund Treasurer shall:

- (a) Exclude the value of any cash and cash equivalents which are highly liquid investments held in the base currency of the AIF, that are readily convertible to a known amount of cash, are subject to an insignificant risk of change in value and provide a return no greater than the rate of a three-month high quality government bond.
- (b) Convert derivatives using one of the following methods:
 - Plain vanilla fixed/floating rate interest rate and inflation swaps: notional contract value.
 - Currency swaps: Notional value of currency leg(s).
 - Cross currency interest rate swaps: Notional value of currency leg(s).
- (c) Exclude cash borrowings that remain in cash or cash equivalent as referred to in point (a) and where the amounts of that payable are known.
- (d) Include exposure resulting from the reinvestment of cash borrowings, expressed as the higher of the market value of the investment realised or the total amount of the cash borrowed.
- (e) Include positions within repurchase or reverse repurchase agreements and securities lending or borrowing or other arrangements.

7.2. Commitment method

The exposure of an AIF calculated in accordance with the commitment method shall be the sum of the absolute values of all positions valued as per the AIFMD requirements.

For the calculation of the exposure of an AIF in accordance with the commitment method FT shall:

- (a) Convert derivatives using following method:
 - Plain vanilla fixed/floating rate interest rate and inflation swaps: notional contract value.
 - Currency swaps: Notional value of currency leg(s).
 - Cross currency interest rate swaps: Notional value of currency leg(s).
- (b) Apply netting and hedging arrangements.
- (c) Calculate the exposure created through the reinvestment of borrowings where such reinvestment increases the exposure of the AIF (same as for gross method).
- (d) Include other arrangements in the calculation (such as convertible borrowing, repurchase agreements, securities borrowing arrangements).

For the purposes of calculating the exposure of an AIF according to the commitment method:

a) Netting arrangements shall include combinations of trades on derivative instruments or security positions which refer to the same underlying asset, irrespective — in the case of derivative instruments — of the maturity date of the derivative instruments and where those trades on derivative instruments or security positions are concluded with the sole aim of eliminating the risks linked to positions taken through the other derivative instruments or security positions.

b) Hedging arrangements shall include combinations of trades on derivative instruments or security positions which do not necessarily refer to the same underlying asset and where those trades on derivative instruments or security positions are concluded with the sole aim of offsetting risks linked to positions taken through the other derivative instruments or security positions.

For more detailed explanation of leverage calculation in relation to estimate of derivatives please refer to CDR.
