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APPENDIX D: CONFLICTS OF INTEREST POLICY

Conflicts of Interest Policy

Purpose

The purpose of this conflicts of interest policy under [SYSC 10.1.11 R](#) is:

- To identify by reference to the specific services and activities carried out by (or on behalf of) the Firm the circumstances which constitute or may give rise to a conflict of interest, entailing a material risk of damage to the interests of one or more clients.
- To specify procedures to be followed and measures to be adopted to manage such conflicts.
- To communicate this information to those who are in the Firm.

It is the responsibility of all staff to familiarise themselves with the policy and report conflicts of interest, through the appropriate channels, to the Compliance Officer.

Regulatory Background

FCA Principle 8 (Conflicts of Interest) states:

‘A firm must manage conflicts of interest fairly, both between itself and its customer and between a customer and another client.’

These requirements have been amplified in the FCA sourcebook SYSC (Senior Management Arrangements, Systems and Controls).

The FCA’s ‘common platform’ of organisational requirements, principally for firms affected by MiFID and CRD, is designed to make it clear what is expected of firms and of their senior management. It does this by having management oversight and systems and controls requirements in several areas including conflicts of interest.

Summary of Requirements

Identifying Conflicts

[SYSC 10.1.3 R](#) requires the Firm to take all appropriate steps to identify and prevent or manage conflicts of interest between:

- The Firm (including its managers, staff members, ARs, or any other person directly or indirectly linked to them by control), and a client of the Firm, or
- One client of the Firm and another client

that arise or may arise in the course of the Firm providing any service referred to in [SYSC 10.1.1R](#) including those caused by the receipt of inducements from third parties or by the Firm’s own remuneration and other incentive structures.

Types of Conflict

[SYSC 10.1.4 R](#) sets out that, for the purpose of identifying the types of conflict that arise while providing a service, and where there may be a material risk of damage to the interests of a client, the Firm must consider, as a minimum, whether the Firm or a relevant person, or a person directly or indirectly linked by control to the Firm:

- Is likely to make a financial gain, or avoid a financial loss, at the expense of the client.

- Has an interest in the outcome of a service provided to the client or of a transaction carried out on behalf of the client, which is distinct from the client's interest in that outcome.
- Has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client.
- Carries on the same business as the client.
- Receives or will receive from a person other than the client an inducement in relation to a service provided to the client, in the form of monies, goods or services other than the standard commission or fee for that service.

Segregation of Functions

[SYSC 5.1.6 R](#) to 5.1.11 G require the senior management of a firm to segregate duties to avoid conflicts of interest.

Disclosure of Conflicts to Clients

[SYSC 10.1.8 R](#) requires that where the arrangements made by the Firm are not sufficient to ensure with reasonable confidence that the risk of damage to the client will be prevented, the Firm:

- Must clearly disclose, in a durable medium, the general nature and/or sources of the conflicts of interest to the client before undertaking business for the client.
- Must provide sufficient detail to enable that client to take an informed decision in relation to the service offered.

Under [SYSC 10.1.8R](#), the disclosure must:

- Clearly state that the organisational and administrative arrangements established by the Firm to prevent or manage that conflict are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of the client will be prevented.
- Include specific description of the conflicts of interest that arise in the provision of the relevant services.
- Explain the risks to the client that arise as a result of the conflicts of interest.
- Include sufficient detail, taking into account the nature of the client, to enable that client to take an informed decision with respect to the service in the context of which the conflict of interest arises.

Whilst disclosure of specific conflicts of interest is required, **disclosure should be used as a measure of last resort and an over-reliance on disclosure without adequate consideration as to how conflicts may be appropriately managed is not permitted by the rules.**

Responsibilities of Staff

It is the responsibility of all members of the Firm and AR staff to familiarise themselves with this policy and to report conflicts of interest to their line manager/nominated senior manager, who will in turn report them to the Compliance Officer. Failure to adhere to this policy can be taken to be a breach of contract.

Overall responsibility for the Firm's conflicts of interest arrangements lies with the partners. The Compliance Officer is responsible for the day-to-day administration of the policy.

The Compliance Officer will work with line management to eliminate conflicts of interest (where feasible), record actual and potential conflicts and any mitigating actions in the conflicts register. The situation should also be reported to the partners for consideration.

The partners, via the Compliance Officer, have responsibility for ensuring that Firm staff are aware of the aspects of the policy relevant to them.

All staff have a responsibility for carrying out aspects of the policy that are relevant to them.

AR Nominated Senior Managers are responsible for reporting (to the Firm), logging and managing all conflicts of interest at AR level. They are also responsible for ensuring AR staff are aware of and understand the relevant requirements.

Situations in Which Conflicts of Interest Could Arise

The purpose of this section is to set out typical situations in which conflicts of interest arise and are managed during the Firm's day-to-day business so that staff are better equipped to identify, report and assist in avoiding, eliminating or managing conflicts. ARs should create a list of situations relevant to their own businesses as part of their equivalent conflicts of interest policy and associated procedures.

Potential Misuse of Information

Potential conflict: Staff may come into possession of material non-public information. The improper use of such information by staff could cause a conflict of interest with the interests of the Firm's clients, or between the interests of the Firm's clients, and may also be unlawful.

Method of managing/avoiding conflict: The Firm manages these risks by maintaining and following various internal policies and procedures to prevent the misuse of material non-public information. These procedures have been designed to prevent and detect any insider trading, considering the nature of the Firm's business and the instruments typically involved. The Firm has also implemented procedures to manage the risks of insider dealing, including using the compliance function as a gatekeeper to clear any inside information-based conflicts, the use of restricted/insider lists and dealing monitoring.

Personal Account Dealing

Potential conflict: The Firm's staff may engage in trading of securities or other instruments for their own account. Such trading activities may put those staff members and officers, or the Firm, in conflict with the interests of the Firm's clients (e.g. by having a personal interest in a transaction with a client, or by front-running transactions with clients).

Method of managing/avoiding conflict: The Firm manages this potential conflict of interest by maintaining a personal account dealing policy which has been formulated in accordance with relevant FCA rules. All staff must seek prior permission from the Compliance Officer to deal in securities for their own account. Each partner and staff member is responsible for checking the restricted list prior to dealing. In addition, the Compliance Officer will monitor all personal account dealing at the Firm.

Inducements

Potential conflict: The giving or receiving of gifts, entertainment, or any other form of gratuity or hospitality by or to Firm's staff may create the appearance of a lack of impartiality. This may lead to a potential conflict of interest between the interests of the donor/donee and the interests of the clients.

Method of managing/avoiding conflict: Staff should refer to, and comply with, the Firm's controls in respect of gifts, benefits and hospitality, as detailed in its anti-bribery and corruption policy (appendix L).

Remuneration Policy/Performance Fees

Potential conflict: A conflict may arise in respect of the Firm's fee-based income from its assets under management (AUM). The Firm will ensure that all investment holding valuations are conducted on an arms-length basis by a fund administrator of good repute and in accordance with the valuation policy applicable to the relevant fund.

Method of managing/avoiding conflict: Potential conflicts arising and arrangements for controlling/mitigating them are identified in the conflicts of interest register. Firm and staff interests are aligned with those of the Firm's clients as the level of remuneration for the existing staff, i.e. the partners, is based on the overall profits of the Firm. In addition, the Firm is governed by the remuneration requirements of SYSC 19G and SYSC 19E.

Outside Business Interests

Potential conflict: The Firm's staff may hold outside business interests, such as directorships, or shareholdings in service providers or other firms. The Firm has identified that such outside business interests or investments could cause a potential conflict of interest between the personal interest of the relevant member of staff and the interests of the Firm's clients.

Method of managing/avoiding conflict: The Firm's staff must inform the Compliance Officer about their outside business interests in advance. The Compliance Officer must approve any such interests and will maintain a record of them.

Personal Interests in Funds

The potential conflict is staff receiving an economic or other benefit compared to third-party investors. Full disclosure of the partners' and staff members' investing terms is made to all existing investors. The Firm believes staff investing in its fund(s) aligns their interest with the third-party investors rather than creates conflicts. However, direct investment in fund portfolio companies by the Firm and AR staff is normally prohibited, as this is seen as having the potential to conflict with fund-related services.

Staff on Notice to Leave

Conflicts of interest could arise if a member of staff on notice to leave the Firm was to concentrate on higher risk short-term performance in order to achieve a larger leaving bonus. The partners monitor the risk level of investments and, where necessary, give instructions to restore the risk balance. If a staff member or partner on notice is seen to pose a particular risk, then that individual will be put on 'gardening leave' to remove the possibility of inappropriate trading.

Cross Trading Between Funds

Currently the Firm only provides investment management services for its independent ARs and as such, cross investment between funds is considered a manageable conflict. Permission of the Compliance Officer would be required before any cross investment could occur.

Disparity Between Performance Fees for Different Funds

This potential conflict is where the Firm concentrates on a particular client or fund that is paying higher fees than another client or fund. At present the Firm's income is based on licence fees and this is based on standard criteria including whether a direct authorisation will be required. If required, the basis of fund/fee arrangements will be fully disclosed to all clients and underlying investors, including the payment of any introductory fees that have been paid to third parties for introducing the business. In addition, the Firm will ensure that it is adequately resourced to be able to provide as much resources as is necessary to discharge the management obligation for each client.

Public Statements

Potential conflict and market abuse issues arise if the portfolio managers make public statements to talk up or down a particular security where the portfolios managed by the Firm have a position. The Firm and its staff do not currently undertake public statements for the Firm or its investments. However, the Firm has procedures in place whereby staff are not allowed to talk to the press regarding the Firm, its activities or its investments unless prior approvals from the Compliance Officer and the Governing Body of the Firm have been received.

Trade and Initial Public Offering Allocations

Generic conflicts may arise where the Firm only receives scaled back allocation for oversubscribed IPOs. Such a conflict is managed in accordance with its general allocation policy. Other conflicts could include overtrading with a particular broker to generate additional commissions for the broker to ensure that the Firm is considered a 'good' client for any IPO. This conflict is predominately a risk for equity-based managers and as such is not as directly relevant to the Firm's circumstances.

Arrangements for Managing Conflicts

Governance

The Firm has robust governance arrangements. Key business decisions are taken by the partners and are recorded.

The Compliance Officer reports directly to the Board.

The Firm has in place rules governing staff conduct, including PAD rules, which control and mitigate conflicts of interest. It also maintains a conflicts of interest register.

Reporting Lines

The Firm has defined and clear reporting lines. An organisational chart is maintained by the Compliance Officer but it is the ultimate responsibility of the partners.

Segregation of Functions

The rules in [SYSC 5.1](#) requiring segregation of functions are met by segregating duties as appropriate to avoid conflicts of interest wherever possible. These duties are set out via job descriptions, procedure manuals and organisation charts. Ensuring these duties remain segregated is the responsibility of line managers as advised by the Compliance Officer.

Disclosure of Personal Conflicts

Staff members and partners are required to disclose conflicts of interest to the Compliance Officer. The Compliance Officer will disclose any conflicts of their own to a partner and, for recording purposes, the Deputy Compliance Officer. The Compliance Officer will record in the appropriate register and inform the partners of any action taken.

Disclosure to Clients

If the Firm's arrangements to manage a conflict of interest are not sufficient to ensure, with reasonable confidence, that the risk of damage to that client's interests is prevented, it will inform the client. This will be done in a durable medium, informing the client of the general nature and/or source of the conflict in such a way that an informed decision can be made by that client before business is undertaken.

Restricted List and Insider List

To facilitate the monitoring of conflicts, the Firm maintains a Firm-based restricted list and an insider list.

Inducements

Staff are prohibited from giving to and accepting from clients, potential clients or other third parties, gifts and entertainment outside of the Firm's relevant controls and its anti-bribery and corruption policy.

Recruitment

When recruiting individuals, their fitness and propriety is considered by the Compliance Officer as well as technical and, where relevant, managerial ability as part of initial due diligence/onboarding. Suitable background checks are made, and references are taken up.

Training

Compliance training relevant to conflicts of interest forms part of the annual training programme. The Compliance Officer ensures that appropriate training is devised and delivered.

Compliance and Procedures Manuals

Systems and controls are documented in the compliance and procedures manuals which are reviewed at least once a year to ensure they are fit for purpose. The review process is approved by the partners.

Periodic Audit

The Compliance Officer oversees and executes a suitable monitoring programme at least annually to verify that the systems and controls are being applied.

Management Information

Management information relevant to identifying conflicts is reviewed by the Compliance Officer. Conflicts checks are undertaken when taking on new clients or accepting new business from existing clients.

Verifying Compliance

The principal means of verifying that these policies have been complied with will be an annual compliance review undertaken by the Compliance Officer/Deputy Compliance Officer. The Compliance Officer will have the responsibility of considering the review findings on an annual basis and reporting them formally to the partners.

Remuneration

The Firm's remuneration policy is designed to avoid rewarding behaviour that could lead to the disadvantage of the Firm's clients. The Firm maintains a remuneration policy statement which complies with SYSC 19G, 19F, and good risk management principles.

Conflicts Monitoring

Conflicts of interest are considered prior to taking on a new client as well as on an ongoing basis. In cases, where a conflict is identified, a decision is made on whether to proceed with the new client/business and if so, what additional measures to take. All such decisions are documented and are based on the nature of the conflict and the potential for the conflict of interest entailing a material risk of damage to the interest of one or more clients. The Compliance Officer keeps records of business approval and related correspondence. This is reviewed at each Firm management meeting and at least quarterly by the partners.

Confidentiality

No portion of this internal policy may be copied reproduced or shown to any individual who is not a staff member of the Firm or a staff member of one the Firm's ARs without prior permission from the Compliance Officer.

Chinese Walls

Due to the nature of the organisation, the Firm does not currently operate any Chinese Walls. However, should this change in the future, including the addition of different investment teams and/or new clients, this position will be reviewed.