

# Conflicts of Interest Policy – Thesis Group

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### DOCUMENT CONTROL

#### Document Details

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## Distribution & Approval

This document has been distributed to the persons listed below. Business approval may be required where specified:

Name	Position	Purpose	Date
David Tyerman	Chief Executive Officer	Review, Comment & Approval	18 September 2014
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Where this policy has been printed or saved to a local drive location, users should ensure by reference to the Thesis intranet that no amendments have been made to the document.

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# 1. Purpose

## 1.1 Introduction

1.1.1 FCA Principle 8 requires firms to manage conflicts of interest fairly. It is our policy to identify the conflicts of interest that may exist between:

- (a) ourselves or anyone linked to the firm and our clients or
- (b) one client and another. We must ensure that clients are not adversely affected by potential risks.

1.1.2 We manage conflicts of interest:

- To reduce the risk of Market Abuse;
- To ensure that all clients are treated fairly;
- To ensure that Thesis does not take any inappropriate benefit from its clients, and the information available to Thesis.

1.1.3 Therefore we document the arrangements we have put in place to manage the conflicts identified entailing a material potential risk of damage to the interests of one or more clients. We take all reasonable steps to prevent conflicts of interest from constituting or giving rise to a material risk of damage to the interests of our clients. Where the potential risk cannot be effectively managed with reasonable confidence to prevent the risk, we disclose this to our client before providing services. We make disclosure in a durable medium; providing sufficient detail to enable that client to take an informed decision with respect to the service in the context of which the conflict of interest arises.

## 1.2 Objectives

1.2.1 The key objectives of this policy are to:

- Provide information regarding Conflicts of Interest
- To ensure that Conflicts are managed in line with good integrity and governance principles, and in line with regulatory requirements and expectations.

## 2. Principal Regulatory Considerations

Relevant Rule: [\*\*PRIN 2.1.1 R\*\*](#)

### 8. Conflicts of interest:

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

### Identifying Conflicts

Relevant Rule: [\*\*SYSC 10.1.3 R\*\*](#)

A firm must take all reasonable steps to identify conflicts of interest between:

- (1) the firm, including its managers, employees and appointed representatives (or where applicable, tied agents), or any person directly or indirectly linked to them by control, and a client of the firm; or
- (2) 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 10.1.1 R.

[Note: article 18(1) of MiFID]

### Managing Conflicts

Relevant Rule: [\*\*SYSC 10.1.7 R\*\*](#)

A firm must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest as defined in SYSC 10.1.3 R from constituting or giving rise to a material risk of damage to the interests of its clients.

## 3. Regulatory Position & Action

3.1 The FCA has stepped up their work in relation to conflicts and conflicts management in recent years:

- Requirement for attestations from asset managers
- [Conflicts of Interest section of the FCA website](#)
- [Conflicts of interest between asset managers and their customers: Identifying and mitigating the risks](#) (November 2012).
- [Finalised Guidance – Supervising retail investment advice: inducements and conflicts of interest](#) (January 2014).
- [Fair, transparent and competitive: the FCA’s vision for the asset management sector](#) (Speech – 30 October 2013).
- [FCA publishes a Decision Notice against Angela Burns deciding to ban and fine the former non-executive director £154,800 for failing to disclose her conflicts of interest.](#) (May 2013).
- [FCA fines Aviva Investors £17.6m for systems and control failings that led to its failure to manage conflicts of interest fairly \(24 February 2015\)](#)

## 4. What are Conflicts of Interest?

4.1 The FCA has set out the types of conflict which must be considered:

### Types of Conflicts

Relevant Rule: [SYSC 10.1.4 R](#)

For the purposes of identifying the types of conflict of interest that arise, or may arise, in the course of providing a service and whose existence may entail a material risk of damage to the interests of a client, a common platform firm and a management company must take into account, as a minimum, whether the firm or a relevant person, or a person directly or indirectly linked by control to the firm:

- (1) is likely to make a financial gain, or avoid a financial loss, at the expense of the client;
- (2) 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;
- (2A) in the case of a management company providing collective portfolio management services for a UCITS scheme, (2) also applies where the service is provided to, or the transaction is carried out on behalf of, a client other than the UCITS scheme;
- (3) has a financial or other incentive to favour the interest of another client or group of clients over the interests of the client;
- (4) carries on the same business as the client; or in the case of a management company, carries on the same activities for the UCITS scheme and for another client or clients which are not UCITS schemes; or
- (5) 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.

The conflict of interest may result from the firm or person providing a service referred to in SYSC 10.1.1 R or engaging in any other activity or, in the case of a management company, whether as a result of providing collective portfolio management services or otherwise.

[Note: article 21 of MiFID implementing Directive and article 17(1) of the UCITS implementing Directive].

## 5. How do we manage Conflicts of Interest?

5.1 The Group operates and maintains effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest identified from constituting or giving rise to a material risk of damage to the interests of its clients.

5.2 There are a number of ways in which the Group seeks to manage conflicts of interest:

- All employees of the Group are subject to a Personal Account Dealing Policy. This is designed to avoid conflicts of interest arising from the acquisition by employees of shares or securities relating to a client, prospective client, target or acquirer of a client. There are limits to the extent to which employees are permitted to deal in such securities. A register is maintained of all personal account dealing undertaken by employees;
- A remuneration policy which means that there is no direct link between the remuneration of employees engaged in one part of the Group with the remuneration of/or revenues generated by those employees in another part of the Group, where a conflict of interest may apply;

- Systems and controls, such as clear job descriptions and reporting lines and independent oversight and monitoring by compliance and the Group Compliance & Risk Committee, are designed to prevent or limit any employee from exercising undue influence over the way in which staff carry out services or activities;
- Where part of the Group provides investment management services for other Group entities, it must ensure that all of its clients are treated fairly and that a consistent service is provided to all clients without giving any undue preference to a Group entity;
- It is the policy of the Group that the highest standards of conduct will be observed for all categorisations of client, regardless of whether they are eligible counterparties, professional clients or retail clients.
- Chinese Walls, such as network controls and different systems (e.g. TAM and PIL) and introductions between the two firms (Intra-Company Client Introductions & Communications Policy).

5.3 In most instances, it is envisaged that the provision of investment management services may be undertaken without conflicts materialising.

## 6. Where do we log Conflicts of Interest?

Conflicts of interest are logged on the Group and entity specific Conflicts of Interest Registers which are maintained on the Group intranet.

## 7. If we cannot manage a Conflict of Interest?

7.1 If a particular situation arises whereby we cannot manage a conflict of interest, then a full disclosure must be made to the parties involved (which may or may not be clients of the firm). If this is the case, then the Chief Executive Officer and Compliance must be consulted and approve any written document.

## 8. Publishing Research

8.1 The issue of Thesis Research can also lead to conflicts of interest, particularly if such documentation is only made available to certain clients (or Investment Managers), or Personal Account Dealing is undertaken on the basis of such research.

8.2 The Personal Account Dealing Policy and the Issue of Investment Research Policy sets out the factors which are in place to manage such conflicts, and our Corporate requirements.

## 9. Inducements, Gifts and Hospitality

9.1 The issue of inducements, gifts and hospitality can also introduce an element of Conflict into the business, and these are managed in part through the requirements of the Inducements, Gifts and Hospitality Policy.

9.2 The FCA has issued [industry guidance](#) in relation to this area (which the above policy takes into account).

## 10. Examples of Conflicts of Interest

- 10.1 The following scenarios have been identified as potentially giving rise to a conflict of interest:
- Where the Group is discretionary portfolio manager for more than one client or fund, in particular in respect of issues relating to allocation;
  - We are acting as investment manager for a client where another Group entity is acting either as investment manager or scheme operator;
  - An investment in TUTMAN funds by TAM staff where an activity is known to be occurring/proposed in a TUTMAN fund.
  - Where an employee of the Group engages in personal account dealing in respect of securities and the firm has a client with an interest that potentially conflicts with such dealing;
  - Where one part of a multi-service financial institution is used by another part of the same institution which owes fiduciary obligations, e.g. an investment manager placing orders with affiliated broker dealers; and
  - Where substantial gifts and entertainment (including non-monetary gifts) are received that may influence behaviour in a way that conflicts with the interests of the clients of the firm.
  - The Group may combine orders received from one client with those received for the accounts of other clients {and exceptionally may combine with its own orders). Such aggregation may operate on some occasions to a client's advantage and on some occasions to their disadvantage. Where orders have been aggregated, they will be allocated out to clients on a pro-rata basis.
- Staff and Structure
    - Excessive gifts and entertainment
    - Exploiting confidential information for personal gain
    - Inappropriate flow of information
    - Performing conflicting tasks
    - External interests and appointments
  - Investment Process and Portfolio Risk Management
    - Favouring brokers for execution
    - Preferential treatment for some clients when allocating trades
    - Potentially a conflict can arise when deciding how to allocate trades between clients particularly where favouring one client over another when crossing trades
  - Client Relationship
    - Inappropriate handling of client complaints
    - Unequal access to investment opportunities
    - Error Management
- 10.2 Note that this list is not intended to be exhaustive; other situations may occur which give rise to an actual or potential conflict of interest arising.
- 10.3 The key consideration at all times is that where a situation contains either an inherent conflict, or the potential for a conflict to arise, employees of the Group will ensure that appropriate actions are taken and that those actions are consistent with the policies and procedures established.



## 11. TUTMAN Specific Rule Considerations

- 11.1 TUTMAN, as an Authorised Fund Manager (management company) and Alternative Investment Fund Manager is subject to additional regulatory requirements with regards to conflicts management (and hence the introduction of a separate register ([section 6 refers](#))).
- 11.2 All of the requirements above also apply to TUTMAN, as well as the matters below.

### **Additional requirements for a management company**

Relevant Rule: [SYSC 10.1.17 R](#)

A management company, when identifying the types of conflict of interests for the purposes of SYSC 10.1.4 R, must take into account:

- (1) the interests of the firm, including those deriving from its belonging to a group or from the performance of services and activities, the interests of the clients and the duty of the firm towards the UCITS scheme or EEA UCITS scheme it manages; and
- (2) where it manages two or more UCITS schemes or EEA UCITS schemes, the interests of all of them.

[Note: article 17(2) of the UCITS implementing Directive]

### **Structure and organisation of a management company**

Relevant Rule: [SYSC 10.1.19 R](#)

A management company must be structured and organised in such a way as to minimise the risk of a UCITS scheme's, EEA UCITS scheme's or client's interests being prejudiced by conflicts of interest between the management company and its clients, between two of its clients, between one of its clients and a UCITS scheme or an EEA UCITS scheme, or between two such schemes.

[Note: articles 12(1)(b) and 14(1)(d) of the UCITS Directive]

### **Avoidance of conflicts of interest for a management company**

Relevant Rule: [SYSC 10.1.20 R](#)

A management company must try to avoid conflicts of interest and, when they cannot be avoided, ensure that the UCITS schemes and EEA UCITS schemes it manages are fairly treated.

### **Disclosure of conflicts of interest for a management company**

Relevant Rule: [SYSC 10.1.21 R](#)

- (1) Where the organisational or administrative arrangements made by a management company for the management of conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the UCITS scheme or EEA UCITS scheme it manages or of its unitholders will be prevented, the senior personnel or other competent internal body of the firm must be promptly informed in order for them to take any necessary decision to ensure that in all cases the firm acts in the best interests of the scheme and of its unitholders.
- (2) A management company must report situations referred to in (1) to the unitholders of the UCITS scheme or EEA UCITS scheme it manages by any appropriate durable medium and give reasons for its decision.

[Note: articles 20(2) and 20(3) of the UCITS implementing Directive]

### **Collective portfolio management investment firms**

Relevant Rule: [SYSC 10.1.22 R](#)

A collective portfolio management investment firm which manages investments other than for an AIF or UCITS for which it has been appointed as manager, must obtain approval from its client before it invests all or part of the client's portfolio in units or shares of an AIF or UCITS it manages.

[Note: article 12(2)(a) of the UCITS Directive and article 12(2)(a) of AIFMD]

### **Additional requirements for an AIFM**

Relevant Rule: [SYSC 10.1.23 R](#)

An AIFM must take all reasonable steps to identify conflicts of interest that arise, in the course of managing AIFs, between:

- (1) the AIFM, including its managers, employees or any person directly or indirectly linked to the AIFM by control, and an AIF managed by the AIFM or the investors in that AIF; or
- (2) an AIF or the investors in that AIF, and another AIF or the investors in that AIF; or
- (3) an AIF or the investors in that AIF, and another client of the AIFM; or
- (4) an AIF or the investors in that AIF, and a UCITS managed by the AIFM or the investors in that UCITS; or
- (5) two clients of the AIFM.

[Note: article 14(1) first paragraph of AIFMD]

#### **Additional requirements for an AIFM**

Relevant Rule: [\*\*SYSC 10.1.24 R\*\*](#)

An AIFM must take all reasonable steps to avoid conflicts of interest and, when they cannot be avoided, manage, monitor and (where applicable) disclose those conflicts of interest in order to prevent them from adversely affecting the interests of the AIFs and their investors, and to ensure that the AIFs it manages are fairly treated.

#### **Additional requirements for an AIFM**

Relevant Rule: [\*\*SYSC 10.1.25 R\*\*](#)

An AIFM must:

- (1) maintain and operate effective organisational and administrative arrangements, with a view to taking all reasonable steps designed to identify, prevent, manage and monitor conflicts of interest in order to prevent them from adversely affecting the interests of the AIFs and their investors;
- (2) segregate, within its own operating environment, tasks and responsibilities which may be regarded as incompatible with each other or which may potentially generate systematic conflicts of interest; and
- (3) assess whether its operating conditions may involve any other material conflicts of interest and disclose them to the AIF's investors.

[Note: article 14(1) second and third paragraphs of AIFMD]

#### **Additional requirements for an AIFM**

Relevant Rule: [\*\*SYSC 10.1.26 R\*\*](#)

If the organisational arrangements made by the AIFM to identify, prevent, manage and monitor conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to investors' interests will be prevented, the AIFM must:

- (1) clearly disclose the general nature or sources of conflicts of interest to the investors before undertaking business on their behalf; and
- (2) develop appropriate policies and procedures.

[Note: article 14(2) of AIFMD]