

# Conflicts of Interest (Sept 2022)

## Glossary

### **Tutman Company Purpose**

We come to work to provide a high quality service for our fund investors. We seek to set the standards by which Independent ACDs are bench marked. We want to retain our reputation as the leading, expert, professional and investor focused ACD. By consistently applying our values, both internally and within our wider network, the business will continue to grow.

### **Client**

This is a term used in general terms by the FCA and in their rule references to retail clients. Tutman use the term "fund investor" in the same context throughout this policy.

### **Investor**

Term used by Tutman to describe "individual" clients or fund investors.

### **Sponsor**

Term used to describe the Fund proposer or sponsor.

### **Investment Manager**

Often the 'brand name' recognised by investors. Responsible for marketing the fund and making decisions on investments. The ACD delegates these functions to the Investment Manager via a Distribution Agreement.

### **Distributor**

(In relation to PROD 1.3 and PROD 3) a firm which offers, recommends or sells investments or provides investment services to clients / investors.

### **Authorised Corporate Director (ACD)**

The ACD is legally responsible for the day-to-day management of a fund and must ensure that it is managed within the detailed regulations applying to it and within the scheme documents e.g Prospectus.

## 1. Purpose and background

In the normal course of business, as in any large financial institution, situations resulting in potential or actual conflicts of interest may arise. There is nothing inherently unethical if and when such situations arise, subject to compliance with regulatory and legal requirements. However, the abuse of such situations is clearly improper and Tutman is committed to managing these conflicts of interest to prevent abuse and protect our fund investors, employees and other delegated parties.

The nature of Tutman independent ACD business means that conflicts will naturally arise. The key consideration is that where a situation arises employees ensure that appropriate actions are taken and that those actions are consistent with the policies and procedures established. From an investor perspective this represent a positive outcome. This model allows for an independent layer of challenge which is absent within a vertically integrated provider.

Tutman is required to take all reasonable steps to identify, manage, record and, where relevant, disclose actual or potential conflicts of interest between itself (including our managers and employees and any person directly or indirectly linked) and our fund investors and delegated parties, and to have in place a policy relating to conflicts of interest. This includes conflicts that may arise where Tutman undertakes to operate, establish or wind up collective investment schemes and to manage both AIFs and UCITS.

This Policy also takes into account any conflicts between the interests of other companies within the wider Thesis Group of companies.

Tutman recognises that personal connections of employees may give rise to conflicts of interest. Tutman will promptly address these issues if and when they arise.

This Policy is designed to address the conflicts of interest management for Tutman, appropriate to the nature, scale and complexity of its business.

We manage conflicts of interest:

- To reduce the risk of Market Abuse;
- To ensure that our fund investors and Sponsors are treated fairly;
- To ensure that we act in the best interest of our fund investors
- To ensure that Tutman does not take any inappropriate benefit from its fund investors.

To ensure that our delegated third party investment managers do not take any inappropriate benefit from the fund

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 fund investors.

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 fund investors. For potential new appointments, Tutman would not proceed if the conflict identified could not be managed.

For existing appointments, Tutman would take the necessary steps to review the arrangements and options available. Depending on the circumstances this may result for example in terminating the fund, merging the fund or appointing a replacement manager when in the best interests of fund investors.

We make disclosures in a durable medium; providing sufficient detail to enable our fund investors to take an informed decision with respect to the service in the context of which the conflict of interest arises.

## Objectives

The key objectives of this policy are to:

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

## Tutman fund investor and Sponsors can be categorised as follows

### ▪ **Wealth Management**

This group dominated Tutman business from inception until 2009. The business is referred largely by word of mouth from a network of accountants, lawyers and trustees. The underlying fund investors are generally small investment groups or family offices looking for an investment vehicle. Each group will have bespoke requirements and the fund will reflect that but typically, they will find the structure appealing because it offers CGT deferral, allows centralised oversight of the investment strategy and does not require the termination of any existing relationships they might have.

### ▪ **Institutional**

Sponsors include investment advisors who want to focus on asset selection and distribution. This group has contributed strongly to Tutman growth since 2009. The structures that Tutman creates are frequently UCITS which are available to investors via a wide range of platforms and fund supermarkets.

## 2. Employee reporting requirement

Tutman employees must act in the best interest of investors if conflicts arise associated with the independent ACD model.

It is therefore, the responsibility of all employees to familiarise themselves with the contents of this Policy and report any conflicts of interest to their line manager, who in turn should raise with a Chair of a sub-committee or member of TMC.

The reporting detail must include;

- Name of person identifying the conflict;
- Date conflict identified;
- Details of the conflict;
- Date conflict occurred;
- How will the conflict be managed or mitigated?
- Does conflict of interest require disclosure to investors / Sponsors?

TMC will consider the report and update the register accordingly.

This Policy must be followed by Employees and breaches of this Policy can amount to or result in:

- Criminal offences;
- Financial sanctions and/or penalties being levied against Tutman and/or individuals;
- Reputational damage to Tutman;
- Serious breaches of contractual relationship which may result in disciplinary action being taken.

### 3. Principal Regulatory Considerations

**Principle 8** of the FCA's Principles for Business states:

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

Under **SYSC 10** the Firm is required to take all reasonable steps to identify and avoid or, where avoidance is not possible, to manage a, monitor and (where applicable) disclose conflicts of interest between:

- (a) The Firm (or its Employees or any Group member); or
- (b) Two or more clients of the Firm.

With respect to Tutman regulation 13 of the European Union (Alternative Investment Fund Managers) Regulations 2013 (the "**AIFM Regulations**") states that:

*"An AIFM shall take all reasonable steps to identify conflicts of interest that arise in the course of managing alternative investment funds between*

- (a) the AIFM, including its managers, employees or any person directly or indirectly linked to the AIFM by control, and the AIF managed by the AIFM or the investors in that AIF;*
- (b) the AIF or the investors in that AIF, and another AIF or the investors in that AIF;*
- (c) the AIF or the investors in that AIF, and another client of the AIFM;*
- (d) the AIF or the investors in that AIF, and a UCITS managed by the AIFM or the investors in that UCITS;*
- (e) two clients of the AIFM;"*

### 4. What are Conflicts of Interest?

The FCA has set out the types of conflict which must be **considered by Tutman** as a management company.

#### 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 damage the interests of a client, 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 r 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 client's 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 client's 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 17(1) of the UCITS implementing Directive].

A conflict of interest is a situation where there is a material risk of damage to the interests of a fund investor because the interests of:

- Tutman (including its employees and the parent entities) or
- A Sponsor (including UCITS schemes and AIFs and those of another Sponsor investor differ.
- Our delegates.

A conflict is the source of any advantage, direct or indirect, of whatever nature, tangible or intangible, professional, commercial, financial, non-financial or personal.

In addition to this policy, please refer to the following policies which together comprise Tutman overall framework for managing potential conflicts of interest (see also section 5 below):

- Personal account dealing
- Inducement, hospitality, gifts and entertainment

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

Tutman 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 fund investors.

For Tutman and their delegated parties this represents a series of straightforward and professional conversations and requires mutual respect for each other's expertise and motivation. Our staff have the experience, professionalism and confidence to deal any issues as they emerge in a pragmatic manner. Escalation is transparent and Executive Directors and Compliance will engage to resolve matters. From our experience of operating a wide range of funds with third party Investment Managers, who also fulfil the role of sponsor and distributor, we have first-hand experience of managing the key challenges which can emerge from those relationships.

There are a number of ways in which Tutman seeks to manage conflicts of interest internally:

- 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 new fund launch, prospective fund launch, target or acquirer of a Sponsor. A register is maintained by Compliance 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;
- Systems and controls, such as clear job descriptions and reporting lines and independent oversight and monitoring by compliance are designed to prevent or limit any employee from exercising undue influence over the way in which staff carry out services or activities;
- Documented policies and procedures covering key business areas and processes;
- Segregation of key duties to provide control and oversight of processes;
- Senior management emphasis on effective conflicts management;
- Whistleblowing arrangements for anyone concerned that a conflict has arisen, that is not being properly addressed;
- Annual certification by all employees that all conflict circumstances, actual and potential, that they are aware of have been elevated and addressed;
- Conflicts of interest training to employees on joining the company and periodically thereafter;
- The use of physical means to protect against the inappropriate exchange of sensitive information between various parts of the business where applicable;
- Active consideration of potential conflicts of interest and their effective management in relation to outsourcing arrangements with third parties;

- Active consideration of potential conflicts of interest and their effective management before launching a new fund/product or taking on a new Sponsor.

## 6. Governance of Conflicts

### Conflicts of Interest Governance Framework

The Tutman Board are ultimately responsible for the management of conflicts, and for the framework as a whole, which will include conducting an annual review of the Policy.

#### Board Delegated Responsibility and Oversight:

The Tutman Board has delegated responsibility for ongoing conflicts identification and management to TMC. This will be a standing agenda item at the TMC.

Details of new and existing conflicts are then considered together with details of the proposed mitigating controls. An entry is then recorded on Conflicts of Interest Register.

Every **six** months,

in **May and November**, the Board review, consider and ratify details of both the new and existing conflicts recorded on its Register and the adequacy of the associated mitigating controls.

Compliance will act on a consultancy basis providing advice and guidance when/where sought in relation to actual and/or perceived conflicts identified and the proposed actions to mitigate / manage those conflicts. The SMF16 will also coordinate an annual review of the Conflicts of Interest Policy, ensuring that TMC review and contribute to that process.

Monitoring of Conflicts of Interest Management will also feature as part of the rolling programme of Compliance monitoring reviews, taking a risk-based approach. This ensures an appropriate first line / second line segregation of duties.

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

**Tutman as a management company must comply with the following rule**

#### Record of conflicts

Relevant Rule: [SYSC 10.1.6 R](#)

A *management company* must keep and regularly update a record of the kinds of service or activity carried out by or on behalf of that *firm* in which a conflict of interest entailing a material risk of damage to the interests of one or more *client's* has arisen or, in the case of an ongoing service or activity, may arise.

Conflicts of interest are logged on the Conflicts of Interest Register.

**Note that this is an internal register and must not be disclosed without Compliance authorisation.**

New conflicts are reported through the sub-committees.

TMC will retain a master version of the register, which will be a monthly standing agenda item.

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

The FCA has set out disclosure of conflicts requirements which must be followed by Tutman as a management company.

The FCA Handbook (SYSC) and the AIFM Regulations requires the senior management of a firm to segregate tasks and responsibilities that may be regarded as incompatible with each other or which may potentially generate systematic conflicts of interest.

Tutman is also required to assess whether its operating conditions may involve any other material conflicts and disclose to the funds that it manages and their investors any such conflicts that cannot be prevented.

If this is the case, then the Chief Executive Officer and Compliance must be consulted and approve any written document.

## 9. TUTMAN - examples of Conflicts of Interest

The following scenarios have been identified as potentially giving rise to a conflict of interest, actual situations of which are detailed in the Conflicts of Interest register.

- Where the Group is discretionary portfolio manager for more than one fund, in particular in respect of issues relating to allocation;
- We are acting as investment manager for a Sponsor where another Group entity is acting either as investment manager or scheme operator;
- An investment in Tutman funds by Thesis Asset Management 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 Sponsor 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;
- 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 fund investors;

The following are examples of the specific conflicts of interest that frequently arise in the independent ACD model and are taken from the conflicts of interest register. The register provides further detail relating to the nature of the conflict and the associated control.

- Requests by fund Sponsor to waive dilution levy;
- Different opinions on valuation of assets;
- Different opinions on whether a breach has occurred;
- An unwillingness to accept recommendations from our due diligence program;
- An unwillingness to waive or cap fees when a fund becomes sub scale or no longer delivers value;
- Requesting changes to a fund which benefit the manager as opposed to the investor;
- A lack of transparency;
- A different understanding of the role of an independent ACD;

- Wanting to invest in in house funds and collect a fee.
- Pressure from the sponsor to proceed with FCA applications sooner than our governance arrangements permit

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.