



HARVARD HOUSE

We understand your need for FINANCIAL INTEGRITY

HARVARD HOUSE INVESTMENT MANAGEMENT (PTY) LTD

CONFLICT OF INTEREST MANAGEMENT POLICY

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Ownership

This Policy is owned by Harvard House Investment Management (Pty) Ltd (hereafter referred to as HHIM or the provider).

Instructions

1. In terms of section 3A(2)(a) of the General Code of Conduct, every provider, other than a representative, must adopt, maintain and implement a Conflict of Interest Management Policy which complies with the provisions of the Financial Advisory and Intermediary Services Act.
2. A nominated key individual must:
 - a. acknowledge HHHIM's ownership of the Policy by completing the provider's name and signing the Policy, and
 - b. complete the Annexures to the Policy.
3. The Directors of HHIM must confirm the adoption of the Policy.
4. All employees must read and confirm that they understand the contents of the Policy.
5. Retain a copy of the Policy as part of the Compliance File.
6. The Policy must be:
 - a. accessible for public inspection,
 - b. read and understood together with the General Code of Conduct, and
 - c. reviewed annually.
7. Refer back to the Policy whenever an actual or possible conflict of interest manifests itself.

Definitions

1. **"Conflict of interest"** means a situation in which a provider or representative has an actual or potential interest which may, in rendering a financial service to a client:
 - a. influence the objective performance of their obligations to that client, or
 - b. prevent a provider or representative from rendering an unbiased and fair financial service to that client, or from acting in the interests of that client, including, but not limited to, a financial interest, an ownership interest or any relationship with a third party.
2. **"Financial interest"** means any cash, cash equivalent, voucher, gift, service, advantage, benefit, discount, domestic or foreign travel, hospitality, accommodation, sponsorship, or other incentive or valuable consideration, but does not include:
 - a. an ownership interest,

- b. training, which is not exclusively available to a select group of providers or representatives, on:
 - i. products and legal matters relating to those products,
 - ii. general financial and industry information,
 - iii. specialised technological systems of a third party necessary for the rendering of a financial service,but the travel and accommodation costs associated with the training may not be included in the training.

3. **“Ownership interest”** means:

- a. an equity or proprietary interest for which fair value has been paid by the owner at the time of acquisition, but does not include an equity or proprietary interest held as an approved nominee on behalf of another person, and
- b. includes any dividend, profit share or similar benefit derived from that equity or proprietary interest.

4. **“Third party”** means:

- a. a product supplier,
- b. another provider,
- c. an associate of a product supplier or provider,
- d. a distribution channel,
- e. a person who, in terms of an agreement or arrangement with a person referred to in sub-paragraphs (a) to (d) above, provides a financial interest to a provider or its representatives.

5. **“Associate”** means:

- a. in relation to a natural person:
 - i. a person who is recognised in law, or the tenets of religion, as the spouse, life partner, or civil union partner of that person,
 - ii. a child of that person, including a stepchild, adopted child and a child born out of wedlock,
 - iii. a parent or stepparent of that person,
 - iv. a person in respect of which that person is recognised in law, or appointed by a court, as the person legally responsible for managing the affairs of or meeting the daily care needs of the first mentioned person,
 - v. a person who is the spouse, life partner or civil union partner of a person referred to in (ii) to (iv) above, or
 - vi. a person who is in a commercial partnership with that person;

- b. in relation to a juristic person:
 - i. which is a company, means a subsidiary or holding company of that company, a subsidiary of that holding company and any other company of which that holding company is a subsidiary,
 - ii. which is a close corporation, means a member thereof,
 - iii. which is not a company or close corporation, means another juristic person which would have been a subsidiary or holding company of the first mentioned juristic person had such first mentioned juristic person been a company, or in the case where that other person too is not a company had the first mentioned juristic person and that other juristic person been a company,
 - iv. means a person in accordance with whose directions or instructions the board of directors of, or in the case where such juristic person is not a company, the governing body of such juristic person is accustomed to act,
- c. in relation to a person:
 - i. means a juristic person of which the board of directors, or in the case where such juristic person is not a company, of which the governing body is accustomed to act in accordance with the directions or instructions of the person first mentioned in this sub-paragraph,
 - ii. includes a trust controlled or administered by that person.

6. **“Distribution channel”** means:

- a. an arrangement between a product supplier, or any of its associates, and one or more providers, or any of its associates, in terms of which arrangement any support or service is provided to the provider or providers in rendering a financial service to a client,
- b. an arrangement between two or more providers, or any of their associates, which arrangement facilitates, supports or enhances the relationship between the provider or providers and a product supplier,
- c. an arrangement between two or more product suppliers, or any of their associates, which arrangement facilitates, supports or enhances a relationship between a provider or providers and a product supplier.

Foreword

In terms of the General Code of Conduct, a provider and a representative must avoid and, where that is not possible, mitigate any conflict of interest between the provider and a client, or a representative and a client.

In order to adhere to that requirement, the provider must ensure that adequate arrangements are in place for the management of conflicts of interests which may arise, wholly or partly, in relation to the provision of financial services to clients by the provider or a representative of the provider.

The Conflict of Interest Management Policy contains the following provisions:

1. mechanisms for the identification of conflicts of interest,
2. mechanisms for the avoidance of conflicts of interest and, where avoidance is not possible, the reasons therefore and the measures for the mitigation of such conflicts,
3. measures for the disclosure of conflicts of interest,
4. the processes, procedures and internal controls to facilitate compliance with the Policy,
5. consequences for non-compliance with the Policy by the provider's employees and representatives,
6. the basis on which a representative will qualify for a financial interest,
7. a list of all the provider's representatives.
8. a list of all parties in which the provider holds an ownership interest, and
9. a list of all third parties which hold ownership interests in the provider.

The Management Process

1. Identification of Conflicts of Interest

In terms of section 3A(2)(b)(i)(aa) of the General Code of Conduct, a Conflicts of Interest Management Policy must provide mechanisms for the identification of conflicts of interest. Due to the intangible nature of an actual or potential conflict of interest, any such manifestation will only be identified once the subjective realisation of its presence has been acknowledged by a person. The legal duty to avoid, whenever possible, a conflict of interest is therefore, to a large extent, dependent on whether a particular person believes or perceives a conflict of interest to begin with. It is for this reason that key individuals must apply honest and sage judgement whenever confronted with a situation which may give rise to an actual or potential conflict of interest.

2. Representatives

Throughout the process of rendering a financial service to a client, a representative must apply his/her mind to answering the following questions:

Is there any situation that exists which:

- a. influences the objective performance of my obligations to my client?
- b. prevents me from rendering an unbiased and fair financial service to my client?
- c. prevents me from acting in the interests of my client?

If the answer to any one of those questions is “no”, then no further action is required. However, if the answer is “yes”, then the following questions must also be answered:

- a. is the situation caused by an actual or potential relationship with a third party?
- b. is the situation caused by an actual or potential financial or ownership interest?

If the answer to any one of those questions is “yes”, then an actual or potential conflict of interest has been identified.

(Note: A conflict of interest is not limited to a financial or ownership interest.)

3. Key Individuals

Throughout the process of rendering a financial service to a client, a key individual must apply his/her mind to answering the following questions:

Is there any situation that exists:

- a. which influences the objective performance of a representative’s obligations to his/her client?
- b. which prevents a representative from rendering an unbiased and fair financial service to his/her client?
- c. which prevents a representative from acting in the interests of his/her client?

If the answer to any one of those questions is “no”, then no further action is required. However, if the answer to any one of those questions is “yes”, then the following questions must also be answered:

- a. is the situation caused by an actual or potential relationship of the provider with a third party?
- b. is the situation caused by an actual or potential financial, or ownership, interest of the provider?

If the answer to any one of those two questions is “yes”, then an actual or potential conflict of interest has been identified.

(Note: A conflict of interest is not limited to a financial or ownership interest.)

4. Guidance Notes on “Objective Performance”, “Unbiased and Fair” and “Financial Interest”

The definitions of the terms “influences the objective performance” and “unbiased and fair financial services” are not defined in legislation and their meanings must therefore be sourced from elsewhere.

The word “objective” refers to a situation where an individual’s personal feelings or opinions are removed from the equation. The “objective performance” of a provider’s obligations therefore implies a situation where financial services are rendered without the influence of unrelated feelings or opinions. Similarly, “unrelated feelings and opinions” denote separate, external persuasions or motivations where no link can be found between the particular feeling or opinion and the financial service which is rendered in the best interests of the client. Put differently, if an individual’s unrelated feeling or opinion influences the performance of the individual’s obligations, it cannot be said to be an objective performance of that individual’s obligations.

The word “bias” indicates an inclination or prejudice in favour of a particular person or viewpoint. Similarly, the word “fair” indicates a situation of just circumstances or treating people equally.

Unbiased financial services therefore imply financial services that do not lend themselves to a particular preference towards a person or viewpoint. Therefore, all unbiased financial services must necessarily comprise services which are capable of being motivated by discernible, logical reasons and explanations.

“Fair” financial services imply a situation where the same conclusion or outcome is consistently reached given the same set of circumstances. In other words, financial services cannot be said to be fair if a pattern of favouritism begins to present itself towards a particular person or service. Any unexpected inconsistencies towards a group of clients, or a particular client, must therefore be motivated by logical reasons and explanations.

5. The Basis on which a Representative will Qualify for a Financial Interest

A provider or representative may only receive from, or offer to, a third party:

- a. **commissions** as authorised under the Long-Term Insurance Act, Short-Term Insurance Act and the Medical Schemes Act,
- b. **fees** as authorised under the Long-Term Insurance Act, the Short-Term Insurance Act and the Medical Schemes Act if those fees are reasonably commensurate with the service being rendered,

- c. **fees** for the rendering of financial services in respect of which the abovementioned fees and commissions are not paid, provided that the client agreed to such fees in writing and may be stopped at the client's discretion,
- d. **fees or remuneration** for the rendering of a service to a third party, which fees or remuneration are reasonably commensurate to the service being rendered,
- e. **an immaterial financial interest**, i.e. a financial interest with a determinable monetary value the aggregate of which does not exceed R1000 in a calendar year from the same third party in that calendar year received by:
 - i. a provider who is a sole proprietor,
 - ii. a representative for that representative's direct benefit, or
 - iii. a provider which for its benefit, or that of some or all of its representatives, aggregates the immaterial financial interest paid to its representatives,
- f. **a financial interest not referred to above**, for which a consideration, fair value or remuneration which is reasonably commensurate to the value of the financial interest, is paid by the provider or representative at the time of receipt thereof.

A provider **may not** offer a financial interest to a representative of that provider for:

- a. giving preference to the **quantity of business** secured for the provider to the exclusion of the quality of the service rendered to clients,
- b. giving preference to a **specific product supplier** where a representative may recommend more than one product supplier to a client,
- c. giving preference to a **specific product of a product supplier** where a representative may recommend more than one product of that product supplier to a client.

6. Mechanisms for Identification of Conflicts of Interest

The mechanisms implemented to identify actual or potential conflicts of interests for HHIM are:

- a. The Management of HHIM conduct annual reviews of all contracts held with third parties and re-examine whether that relationship influences HHIM's objective performance towards its clients, or its ability to render fair and unbiased financial services towards its clients, or its ability to act in the interests of the clients.
- b. The Management of HHIM conduct annual reviews on all relationships held with third parties, where an ownership interest is present, and re-examine whether that relationship influences HHIM's objective performance towards its clients, or its ability to render fair and unbiased financial services to its clients.
- c. Declarations are signed by all key individuals and representatives confirming the presence or absence of any actual or potential conflicts of interest on an annual basis.

- d. The lists of any of HHIM's associates, of any parties in which HHIM holds an ownership interest, or of any third parties which hold an ownership interest in HHIM, which lists are attached as annexures hereto, are updated annually.
- e. All gifts received from third parties are recorded in HHIM's gifts register which is kept in HHIM's compliance file.
- f. All employees must disclose in writing to the Management of HHIM on an on-going basis, any conflicts of interest which they may become aware of.
- g. All records associated with the identification of actual or potential conflicts of interest are kept in the compliance file which is available for inspection purposes.

The following mechanisms are implemented to identify actual or potential conflicts of interest of the representatives:

- a. declarations are signed by all representatives confirming the presence or absence of any actual or potential conflicts of interest on an annual basis, and
- b. all representatives must disclose in writing to the Management of HHIM, on an on-going basis, any conflicts of interests which they may become aware of.

7. Avoidance and Mitigation

In terms of section 3A(2)(b)(i)(bb) of the General Code of Conduct, a Conflict of Interest Management Policy must provide measures for the avoidance of conflicts of interest and, where avoidance is not possible, the reasons therefore and the measures for the mitigation of such conflicts of interest.

Once an actual or potential conflict of interest has been identified the following measures will be followed in order to determine if the conflict can be avoided:

- a. the Management of HHIM will meet and review the actual or potential conflict of interest.
- b. all information surrounding the actual or potential conflict must be disclosed to all interested parties.
- c. all information surrounding the actual or potential conflict of interest must be disclosed to the Compliance Officer.
- d. the following consequences must be considered during the review process: the consequences of both avoidance and unavailability and the subsequent negative impact it will have on clients, on the integrity to the financial services industry and on HHIM.
- e. the Management of HHIM must consider whether HHIM can obtain a more advantageous transaction, contract or arrangement with a person or entity which would not give rise to a conflict of interest.

- f. if a more advantageous transaction, contract or other arrangement is only attainable if it gives rise to a conflict of interest, then the Management of HHIM will determine whether the transaction, contract or arrangement is in the best interests of HHIM and any affected clients and accordingly make a decision on whether to enter into such transaction, contract or arrangement.

If the Management of HHIM have determined that the actual or potential conflict of interest can be avoided, the following process will be adhered to:

- a. management must approve the removal of the cause of the actual or potential conflict of interest,
- b. the cause of the actual or potential conflict of interest must be removed as soon as reasonably possible,
- c. any negative impact on clients due to the removal of the actual or potential conflict of interest must be kept to a minimum,
- d. the reason why the actual or potential conflict of interest was determined to be avoidable must be determined,
- e. all determinations or interventions as they pertain to the avoidance of the conflict of interest must be documented and kept in the compliance file,
- f. similar situations which give rise to actual or potential conflicts of interests must be avoided in the future.

If the Management of HHIM have determined that the actual or potential conflict of interest cannot be avoided, the following mitigation processes must be implemented:

- a. management must meet and decide on an appropriate mitigation process given the unavailability of the particular set of circumstances,
- b. the reason why the actual or potential conflict of interest is considered to be unavoidable must be recorded and kept on the compliance file,
- c. the Compliance Officer must be made aware of the conflict's unavailability and the reasons therefor,
- d. the mitigation process will include the adoption of the following measures:
 - i. the actual or potential conflict of interest must remain for only as long as it is absolutely necessary given the unavailability of the conflict,
 - ii. alternative arrangements to a proposed transaction, contract or arrangement, which is the subject of the conflict of interest, must be investigated,
 - iii. the rendering of financial services must always be conducted in the best interests of the client in so far as that is possible given that the actual or potential conflict cannot be avoided,

- iv. all representatives must be made aware of the actual or possible conflict of interest, and the reasons why it cannot be avoided,
- v. full disclosure of the conflict of interest must be made to the:
 - a) client at the earliest possible opportunity,
 - b) Financial Sector Conduct Authority in HHIM's compliance reports.

8. Disclosure

In terms of section 3A(2)(b)(i)(cc) of the General Code of Conduct, a conflict of interest management policy must provide measures for the disclosure of conflicts of interest. HHIM must make appropriate disclosures to third parties including clients as part of its arrangement to manage conflicts of interest. Whilst disclosure alone will often not be enough, disclosure must be treated as an integral part of managing conflicts of interest. HHIM is therefore committed to ensure that clients are adequately informed about any conflict of interest which may affect the provision of financial services to them.

Whilst a clearly identified conflict of interest will not necessarily cause the provision of financial services to a client to be significantly comprised, it should nevertheless be disclosed to the client. The client must be afforded the opportunity to decide for him/herself whether the conflict of interest is significant and to what extent the client can rely on the advice or intermediary service.

On the discovery and identification of a conflict of interest and the subsequent determination that it cannot be avoided, the following disclosure processes will be implemented by HHIM: Full disclosure of the actual or potential conflict of interest will be made to:

- a. all the key individuals of HHIM and where such information has been provided orally, HHIM will confirm the information in writing within 30 days,
- b. all the representatives of HHIM,
- c. HHIM's compliance officer.

On the discovery and identification of a conflict of interest and the subsequent determination that it cannot be avoided, the following disclosure processes will be implemented in respect of the client:

- a. full disclosure of the actual or potential conflict must be made to the client at the earliest reasonable opportunity,
- b. the disclosure must be made before or when the financial service is provided, but in any case at a time that allows the client a reasonable time to assess its effect,

- c. the disclosure must be formulated in such a way as to be considered prominent, specific and meaningful to the client,
- d. the disclosure must be made in such a way so as to enable the client to make an informed decision on whether to continue with the financial service,
- e. the disclosure must indicate the nature of the relationship or arrangement with a third party which gives rise to the conflict of interest,
- f. the disclosure must indicate whether the conflict of interest is based on a financial and/or ownership interest,
- g. the disclosure must indicate any ownership interest held with a product supplier,
- h. where the disclosure is made orally, it must be confirmed in writing within 30 days of such disclosure,
- i. the following must be made available to the client on request:
 - i. the reasons why the conflict of interest cannot be avoided,
 - ii. the Conflict of Interest Management Policy,
 - iii. the Gifts Register.

9. Facilitation of Compliance with the Policy

In terms of section 3A(2)(b)(i)(dd) of the General Code, a Conflict of Interest Management Policy must provide processes, procedures and internal controls to facilitate compliance with the Policy.

The processes associated with the implementation and continued compliance with the Policy must be performed by the Management of HHIM and by the Compliance Officer.

Internal controls and processes include the following: The Management of HHIM will ensure that:

- a. the Policy is kept on the Compliance file,
- b. all staff are aware of the Policy,
- c. the Annexures to the Policy are completed,
- d. all contracts with third parties are reviewed annually,
- e. all declarations confirming the presence or absence of any actual or potential conflicts of interest are signed annually,
- f. the list of any of HHIM's Associates is annexed as an Annexure to the Policy and is updated annually,
- g. a list of all the parties in which HHIM holds an ownership interest and a list of all parties which hold an ownership interest in HHIM is annexed as an Annexure to the Policy and is updated annually,
- h. all gifts received from third parties are recorded in HHIM's Gifts Register,

- i. all records associated with the identification of actual or potential conflicts of interest are kept in the Compliance file,
- j. the proper disclosure requirements are communicated to clients.

The Policy will:

- a. be overseen by the Management of HHIM, who carry the responsibility for the implementation, reviewing and updating of the Policy's processes.
- b. be reviewed annually and, where necessary, updated to ensure that the arrangements remain adequate to identify, assess, evaluate and successfully control any conflicts of interest.
- c. regularly be reviewed by the Compliance Officer and, where necessary, updated to ensure that the arrangements remain adequate to identify, assess, evaluate and control conflicts of interest.
- d. with regard to the Annexures to the Policy, be reviewed, updated and signed by the nominated key individual annually.

10. Consequences of Non-Compliance

In terms of section 3A(2)(b)(i)(ee) of the General Code of Conduct, a Conflicts of Interest Management Policy must provide for the consequences of non-compliance with the Policy by the provider's employees and representatives.

If there is reason to believe that an employee or a representative has failed to disclose any actual or potential conflicts of interest, the Management of HHIM will afford that person an opportunity to explain the alleged failure to disclose.

If after hearing the employee's or representative's response and making such further enquiries as may be necessary, and where Management determine that the employee or representative has in fact failed to disclose an actual or potential conflict of interest, it will take appropriate disciplinary and corrective action.

ANNEXURE A**BASIS OF REPRESENTATIVES' FINANCIAL INTEREST**

In terms of section 3A(2)(b)(ii) of the General Code of Conduct, a Conflict of Interest Management Policy must specify the type of, and the basis on which, a representative will qualify for a financial interest which the provider will offer a representative and motivate how that financial interest complies with section 3A(1)(b).

HHIM's representatives qualify for the following type of financial interests:

The Representatives are remunerated on the basis of a fixed salary. Salary increments are obtained by increasing skills, technical ability, experience and the quality of their financial proposals to clients. They receive no sales or product incentives on business placed.

ANNEXURE B**LIST OF ASSOCIATES**

In terms of section 3A(2)(b)(iii) of the General Code of Conduct, a Conflict of Interest Management Policy must include a list of all of the provider's associates, as defined.

The following is a list of HHIM's Associates:

<u>Associate's Name</u>	<u>Type of Relationship</u>
Harvard House Insurance Brokers (Pty) Ltd.	Common Shareholder.
Harvard House Financial Services Trust.	Related Party.
Harvard House Chartered Accountants	Related Party

ANNEXURE C**OWNERSHIP INTEREST IN THIRD PARTIES**

In terms of section 3A(2)(b)(v) of the General Code of Conduct, a Conflict of Interest Management Policy must include the names of any third parties in which a provider holds an ownership interest.

<u>Name of Third Party in which HHIM holds an Ownership Interest</u>	<u>Nature and Extent of Ownership Interest</u>
Nil.	

ANNEXURE D**OWNERSHIP INTEREST WHICH THIRD PARTIES HOLD IN HHIM**

In terms of section 3A(2)(b)(vi) of the General Code of Conduct, a Conflict of Interest Management Policy must include the names of any third parties which hold ownership interests in HHIM.

<u>Name of Third Party which Holds an Ownership Interest in HHIM</u>	<u>Nature and Extent of Ownership Interest</u>
Nil.	

ANNEXURE E**HHIM'S IDENTIFIED POSSIBLE MATERIAL CONFLICTS OF INTEREST**

The material and relevant possible conflicts of interest identified by HHIM are the following:

Identified Possible Material Conflicts of Interest	Procedures and Measures
HHIM may be the asset manager of collective investment schemes, unit trusts or shares in which it may buy and sell on clients' behalf. That may increase revenues for HHIM.	Units and shares are only purchased on their investment merits and in accordance with clients' investment management agreements. No double charging takes place where such funds are purchased.
HHIM may receive commission from the managers of collective investment schemes in which it invests on clients' behalf.	Investments in third party funds are made strictly on their investment merits and independently of any consequential revenue benefits.
HHIM's employees may purchase or sell, for their personal accounts, similar shares which HHIM may buy or sell on clients' behalf.	Personal account share trading policies and procedures apply to all HHIM directors and employees and are detailed in HHIM's Personal Account Trading Policy.
Directors, partners and trustees of the Harvard House Group's entities may refer their clients to one another for the different services offered for which they may indirectly benefit due to the Group's structure.	Referrals are only made where it is believed that value can be added to clients and where the service offered is appropriate and in the clients' best interests.
HHIM may receive brokerage commission on share transactions from selected stockbrokers. This may prove to be an incentive to trade a portfolio aggressively.	HHIM has an unusually low turnover of trades per portfolio. The firm actively positioned that investing and not trading is the optimum approach for long term goal achievement on discretionary portfolios.