

DIFFERENTIAL
CAPITAL



Differential Capital (PTY) LTD

CONFLICT OF INTEREST MANAGEMENT POLICY
August 2019

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Policy owner	Managing Director, COO		
Approved by	Vincent Anthonyrajah, Naeem Badat, Musa Malwandla	7 August 2019	

1. Introduction:

This policy outlines Differential Capital's approach to the identification and management of conflicts of interest ("COI").

The policy aims to comply with the best practice and statutory requirements as per the General Code of Conduct for Financial Services Providers and Representatives published in Board Notice 80 of 2003 as amended by Board Notice 58 of 2010 as well as other applicable requirements as set out in the Financial Advisory and Intermediary Services Act, 37 of 2002 ("FAIS").

2. Purpose:

This document embodies the Conflict of Interest Management Policy for Differential Capital.

The purpose of this policy is:

- i. to provide guidance on the behaviours expected in accordance with Differential Capital standards;*
- ii. to promote transparency and to avoid or mitigate any business-related COI that may arise between Differential Capital, its clients, vendors and/or employees respectively;*
- iii. to ensure fairness in the interests of employees and Differential Capital;*
- iv. to document the process for the disclosure, approval and review of activities that may amount to actual, potential or perceived COI;*
- v. to provide a mechanism for the objective review of personal outside interests.*

Differential Capital is committed to ensuring that all business is conducted in accordance with good business practice. To this end Differential Capital conducts business in an ethical and equitable manner and in a way, that safeguards the interests of all stakeholders to minimize and manage all real or potential conflict of interest ("COI"). Differential Capital and its representatives must therefore avoid (or mitigate where avoidance is not possible) any COI between Differential Capital and a client or its representative and a client.

3. Definitions:

For purposes of this policy, the following words and/or phrases are defined herein:

"Conflict of interest" means any situation in which Differential Capital or its representatives has an actual or potential interest that may, in rendering a financial service to a client influence the objective performance of his, her or its obligations to that client; or prevent Differential Capital or its representatives 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

- i. a financial interest;*
- ii. an ownership interest;*
- iii. any relationship with a third party ("third party") means*
 - a. a product supplier,*
 - b. another provider,*
 - c. an associate of a product supplier or a provider;*
 - d. a distribution channel;*
 - e. any person who in terms of an agreement or arrangement with a person referred to in paragraphs (a) to (d) above provides a financial interest to a provider or its representatives.)*

"FAIS" means the Financial Advisory and Intermediary Services Act, 37 of 2002.

“Financial interest” means any cash, cash equivalent, voucher, gift, service, advantage, benefit, discount, domestic and foreign travel, hospitality, accommodation, sponsorship, other incentive or valuable consideration, other than –

- i. an ownership interest*
- ii. training, that is not exclusively available to a selected group of providers or representatives on products and legal matters relating to those products; general financial and industry information; specialized technological systems of a third party necessary for the rendering of a financial service; but excluding travel and accommodation associated with that training.*

“Immaterial financial interest” means any financial interest with a determinable monetary value, the aggregate of which does not exceed R1 000 in any calendar year from the same third party in that calendar year received by –

- a) a provider who is a sole proprietor; or*
- b) a representative for that representative’s direct benefit;*
- c) a provider, who for its benefit or that of some or all of its representatives, aggregates the immaterial financial interest paid to its representatives.*

“Representative” means duly appointed representative and/or representative under supervision of Differential Capital.

“Ownership interest” means

- a) any equity or proprietary interest, for which at fair value was paid by the owner at the time of acquisition, other than equity or an 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 ownership interest.*

“Provider” means Differential Capital

4. Procedures:

Differential Capital or its representatives may only receive or offer financial interest from or to a third party as determined by the Commissioner of Financial Services Providers from time to time, and as set out in Annexure A hereto.

Differential Capital may not offer any financial interest to its representatives for giving preference to the quantity of business secured for the provider to the exclusion of the quality of the service rendered to clients; or giving preference to a specific product supplier, where a representative may recommend more than one product supplier to a client; or giving preference to a specific product of a product supplier, where a representative may recommend more than one product supplier to a client.

4.1. How to identify COI:

In order to identify whether you have a conflict of interest, a representative should ask the following questions:

- 1. Do I have my client’s best interest at heart, or am I acting in my own best interest?*
- 2. Do I have Differential Capital’s best interest at heart, or am I acting in my own best interest?*
- 3. Am I acting professionally?*
- 4. Am I acting independently?*
- 5. Am I acting objectively?*
- 6. Are my interests aligned with that of Differential Capital*

7. *Could it be seen that I have been induced or influenced into taking a decision on behalf of Differential Capital or my client, and that such actions may not necessarily be in Differential Capital or my client's best interest?*
8. *Could I make financial gain, to the disadvantage of my client due to my choices on suppliers, client investments or other counterparty dealings?*

4.2. *Resolving COI or potential COI:*

Key individuals and representatives of Differential Capital are expected to avoid all COI or potential COI. Where not possible, mitigate and disclose. Mitigation and disclosure procedures are covered in sections 4.5 and 4.6.

Key individuals and representatives are to make full disclosure to the Compliance Officer (Outsourced Compliance Services) as well as the executive management of Differential Capital. In certain cases, it may be necessary to make such disclosure to the Board and Clients.

4.3. *Potential COI that could affect Differential Capital*

The following are potential COI that could affect Differential Capital:

1. *Directorships or other employment;*
2. *interests in business enterprises or professional practices;*
3. *share ownership;*
4. *beneficial interests in trusts;*
5. *personal Account Trading;*
6. *professional associations or relationships with other organizations;*
7. *personal associations with other groups or organizations, or family relationships;*
8. *Front running;*
9. *Rebates;*
10. *Kickbacks; and*
11. *Commission*

Examples of potential COI scenarios include, but are not limited to the following:

1. *Using influence to secure a contract for a service provider in which you hold an interest;*
2. *Soliciting financial interest to influence or unfairly advance the interests of a third party;*
3. *Accepting benefits from service providers or contractors;*
4. *Setting up business in direct competition with Differential Capital; and*
5. *Giving preference to the quantity of business which you undertake rather than the quality thereof.*

4.4. *Insider trading:*

The term "insider trading" describes circumstances where an individual, who has price sensitive information, deals in a related security or financial instrument before the information is made available to the rest of the market.

Insider trading creates conflicts of interest.

The individual is abusing their knowledge and so placing themselves in a better position than the rest of the market, which conflicts with the concept of market fairness. A representative that commits insider trading is additionally placing themselves in a better position than Differential Capital and/or its clients, so creating a conflict of interests between themselves and Differential Capital and/or its clients.

4.5. Measures to avoid COI:

Conflicts of interest must be avoided where possible. The following areas are critical areas where Differential has put in place specific protocol to avoid and mitigate conflicts of interest.

4.5.1. Execution of Client orders

Differential Capital has a policy on the execution of orders which stipulates that when executing orders, the best possible result must always be achieved for clients. This also includes the stipulation that whenever the orders of different clients are merged, we ensure fair and equitable trade allocation among client accounts. There can be no mutual conflict of interest between clients' orders.

4.5.2. Personal Account trading

When conducting personal transactions, employees of Differential Capital must comply with the Personal Account Trading Policy, which stipulates inter alia that no Personal Account trading is allowed. All current positions and accounts must be disclosed, furthermore permission must also be requested to close these accounts, or positions in the accounts. Employees may only purchase index vehicles with a minimum holding period of six months, unless permission is granted by management. Transactions on the basis of insider knowledge and/or confidential information is cause for immediate dismissal and will be reported to relevant authorities. All employees of Differential must comply with the restricted list and the obligation to report personal transactions to the compliance officer before any orders on index vehicles can be executed.

4.5.3. Inducements

As investment management company, Differential Capital is dedicated to providing honest, fair and professional investment services and/or ancillary services to clients. For this reason Differential Capital operates on the basic premise that no inducements (monetary and non-monetary benefits) are received in relation to the investment service and/or ancillary service, unless these qualify as a minor non-monetary benefit. In the unlikely event that Differential Capital will receive an inducement, Differential Capital will return this to the client.

Differential Capital will not provide any inducements (monetary and non-monetary) in relation to an investment and/or ancillary service to any third party, unless the provision of commissions enhances the quality of the service to the client and it does not impair compliance with the duty to act in the best interests of the clients. Evidence of this will be documented.

Further, Differential Capital receives research for managing discretionary portfolios, including specific investment software from third parties/brokers. Differential Capital pays for this research out of its own funds (through P&L). In specific cases and as long as Differential Capital complies with relevant regulations, Differential Capital can decide to pay for research through clients' money.

4.5.4. Soft dollar and Commission Sharing Arrangements

To prevent conflicts of interest, Differential Capital does not engage in soft dollar or commission sharing arrangements. While Differential may receive research from brokers from time to time, this is not the basis on which Differential will trade with brokers. Trades are executed with brokers who are best able to execute transactions.

4.5.5. Remuneration

To mitigate conflicts of interest, Differential Capital has a Remuneration Policy in place that ensures that relevant persons are not only remunerated based on quantitative commercial criteria, but also takes into account compliance with regulations, the fair treatment of clients and the quality of services provided to clients.

The remuneration policy has also ensured that where relevant persons are engaged in different activities where a conflict of interest may arise in relation to those activities, there is no direct link to their remuneration. For more information on remuneration see the Differential Capital Remuneration Policy for further details.

4.6. Disclosure of COI:

At the earliest reasonable opportunity, Differential Capital and its representative must, in writing, disclose to a client any COI or potential COI in respect of that client including –

- a. Measures taken to avoid or mitigate the conflict;*
- b. Any ownership interest or financial interest that the provider or representative may be or become eligible for;*
- c. The nature of the relationship or arrangements with a third party that gives rise to a COI in sufficient detail to enable the client to understand the exact nature of the COI.*

At the earliest reasonable opportunity, Differential Capital and its representative must, in writing, inform a client of the Conflict of Interest Management Policy and how it may be accessed.

Notification of an actual or potential COI should be made to a person with responsibility for the issue or area, such as the relevant management team, supervisor, head of the department or key individual.

In accordance with an employee's obligation to act in the best interest of his or her employer, it is not permissible for employees to engage in conduct that would amount to a COI with Differential Capital.

Staff that fail to disclose a potential or actual COI in accordance with this policy may be liable to disciplinary procedures as governed by relevant South African legislation

If such a disclosure must be made, it clearly states that the organisational and administrative arrangements established by Differential Capital 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. The disclosure shall include specific description of the conflicts of interest that arise in the provision of investment and/or ancillary services, taking into account the nature of the client to whom the disclosure is being made. The description shall explain the general nature and sources of conflicts of interest, as well as the risks to the client that arise as a result of the conflicts of interest and the steps undertaken to mitigate

these risks, in sufficient detail to enable that client to take an informed decision with respect to the investment or ancillary service in the context of which the conflicts of interest arise. If Differential Capital cannot prevent certain conflicts of interest which could potentially harm the clients' interest, Differential Capital shall clearly disclose to the client such conflicts of interest.

This disclosure to clients of conflicts of interest is a measure of last resort that is used only where the effective organisational and administrative arrangements established to prevent or manage its conflicts of interest are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of the client will be prevented.

5. Housekeeping of this document:

- i. Ownership and ultimate responsibility:
 - a. This document is owned and maintained by Differential Capital. The ultimate responsibility for this document, the contents thereof and compliance remains with the Key individuals, of Differential Capital who is responsible for creating an ethical environment.**
- ii. Updates, review and approval:
 - a. Differential Capital COI policy shall be reviewed on an [insert] basis and updated if necessary. This policy is approved by Vincent Anthonyrajah, Naeem Badat and Musa Malwandla.**
- iii. Adoption and implementation:
 - a. Every staff member must have a copy of the Conflicts of interest Management Policy. If a potential COI arises, the transaction must first be discussed with management before entering the transaction.**
- iv. Non-compliance with this document:
 - a. Non-compliance with this policy and the procedures described in it may be misconduct and employees may be subject to disciplinary action that may lead to dismissal.**

6. Names of any third parties that holds an ownership interest in Differential Capital:

The Standard Bank of South Africa Ltd owns 24.99% of Differential Capital.

7. List nature and extent of ownership insert referred to in point 7 and 8.

The Standard Bank of South Africa Ltd is a minority investor in the business and has the right to elect two directors on the board of Differential.

8. Conclusion:

All representatives of Differential Capital including key individuals and management are required to be dedicated to upholding the highest level of integrity and ethical conduct in all of their activities and relationships with all stakeholders.

Annexure A- Accepted financial interest as amended

The Commissioner of Financial Services Providers issued Board Notice 58 of 2010 (BN 58) under section 15 of the Financial Advisory and Intermediary Services Act, 2002 (FAIS). BN 58 amends the General Code of Conduct for Authorised Financial Services Providers and Representatives under FAIS and determines that a financial services provider or its representatives may only receive or offer financial interest from or to a third party as follows:

- i. Commission authorised under the Long-term Insurance Act or Short-term Insurance Act;*
- ii. Commission authorised under the Medical Schemes Act;*
- iii. Fees authorised under the Long-term Insurance Act, the Short-term Insurance Act or the Medical Schemes Act, if those fees are reasonably commensurate to a service being rendered;*
- iv. Fees for the rendering of a financial service in respect of which commission or fees referred to in sub-paragraph (i), (ii) or (iii) is not paid, if those fees –
 - aa. are specifically agreed to by a client in writing; and*
 - ab. may be stopped at the discretion of that client.**
- v. 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;*
- vi. subject to any other law, an immaterial financial interest*;* and
- vii. a financial interest, not referred to under sub-paragraph (i) to (vi), for which a consideration, fair value or remuneration that is reasonably commensurate to the value of the financial interest, is paid by that provider or representative at the time of receipt thereof.*

Annexure B – Gift register

Name of Key Individual / Representative	Date on which gift was received	Source of gift	Type of gift	Value of gift