



M E R G E N C E

**Mergence Investment Managers (Pty) Ltd**

Conflicts of Interest Policy and Conflict Management Framework

Updated: April 2011



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## Preamble

This document outlines the conflicts of interest / conflict management policy adopted by Mergence Investment Managers (Pty) Ltd (“Mergence”) and its employees, key individuals and representatives. It should be read in conjunction with the Financial Advisory and Intermediary Services (FAIS) Act and regulations made thereunder, specifically those relating to conflicts of interest. No part of this document may be reproduced without the written consent of Mergence and its external compliance officer Compli-Serve (Pty) Ltd.

## Section 1: Principles

- 1.1 In the financial services industry, conflicts of interest can be described as “circumstances where some or all of the interests of clients to whom an FSP renders financial services are inconsistent with, or diverge from, some or all of the interests of the provider or its representatives”. Mergence Investment Managers (Pty) Ltd in accordance with best practice and prevailing regulation issued by the Financial Services Board, have adopted the following policy on managing conflicts of interest. Mergence has in fact since inception followed strict internal codes of conduct which have always placed the client’s interest first and have demanded the most ethical behaviour from our employees and representatives.
- 1.2 Adequate conflict management helps to minimise the potential adverse impact of conflicts of interests on clients. Without adequate conflict management, FSPs whose interests conflict with those of the client are more likely to take advantage of that client in a way that may harm the client and may diminish confidence in that provider and in the financial services industry as a whole.
- 1.3 Adequate conflict management should also help a FSP to ensure that the quality of their financial services is not significantly compromised by conflicts of interest, and by situations that may arise in normal course of its business.
- 1.4 While it is conceded that all potential conflicts of interest do not necessarily manifest themselves into actual conflicts, Mergence believes that the very perception of bias or a conflict is a negative one, and carries a negative impression of the industry and the FSP concerned.
- 1.5 Conflict of interest management needs to be addressed in order to enhance the levels of professionalism and perceived professionalism of the financial services industry. Disclosure on its own is not always adequate. Management or avoidance of conflicts as well as transparent, effective disclosure needs to be achieved. Mergence ascribes to these principles.
- 1.6 The same disclosure and avoidance of conflict of interest requirements are applied across all our product / fund types and across our entire organisation. One cannot objectively and defensibly apply conflict of interest rules and practices on a selective basis as that would defeat the entire purpose of a conflict of interest policy.



1.7 Monitoring of compliance with this conflict management policy is an ongoing process. Conflict registers, a gifts register and declarations by Mergence employees, representatives and key individuals occur on an ongoing basis. This document also forms part of the induction of any new employee or representative at Mergence. Compliance with the conflict management policy will be continually reported at EXCO / Board level.

## Section 2: Key Definitions and Conflicts of Interest

2.1 FAIS legislation requires a financial services provider to disclose conflicts of interest to its clients and manage or avoid conflicts appropriately. The General Code currently requires an FSP to disclose to the client the existence “of any circumstance which gives rise to an actual or potential conflict of interest, and take all reasonable steps to ensure fair treatment of the client”. “Non-cash incentives offered and/or other indirect consideration payable by another provider, a product supplier or any other person to the provider could be viewed as a potential conflict of interest”.

The regulations regarding conflicts of interest published in 2010 by the FSB define “**conflicts of interest**” as meaning:

“Any situation in which a provider or representative has an actual or potential interest that may, in rendering a financial service to a client –

- (a) influence the objective exercise of his, her or its obligations to a client; or
- (b) prevent a provider or representative from rendering an unbiased and fair financial service, or from acting in the interest of that client, including but not limited to –
  - (i) A financial interest;
  - (ii) An ownership interest;
  - (iii) Any relationship with a third party;”

The following definitions are also important:

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

- (a) an ownership interest;
- (b) training, that is not exclusively available to a selected group of providers or representatives.”

“**immaterial financial interest**” means any financial interest with a determinable monetary value, the aggregate of which does not exceed R1000 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.”



**“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.”

2.2 Mergence (including its employees, key individuals and representatives) commits itself in accordance with regulation to “adopt, maintain and implement a conflict of interest management policy that complies with the provisions of the [FAIS] Act.” Any serious conflicts of interest are raised and discussed at the Mergence EXCO for resolution.

### **What is meant by a conflict of interest?**

2.3 A conflict of interest is a situation in which the interests of Mergence or of its associates, in the exercise of its activities, and the interests of its clients, are directly or indirectly in competition, and which could significantly prejudice the client’s interests. This notion concerns Mergence in its capacity as an investment management company, all individuals working for Mergence (employees, associates, service providers, etc.), and the Mergence Africa Holdings Group. A conflict of interest may occur in the provision of an investment service (management under mandate, fund management and advisory services). A conflict of interest may be recognised (actually identified) or potential (conceivable).

### **What is a conflict of interest situation?**

2.4 Conflict of interest situations that could prejudice a client may take a variety of forms, whether or not Mergence suffers any financial loss and independently of whether the actions or the motivations of the employees involved are intentional. At least five types of situation are defined by Mergence to help determine whether a potential conflict of interest situation might occur:

- / Mergence or an employee will realise a financial gain or avoid a potential loss at the client’s expense,
- / The interest of Mergence or an employee may be different from the client’s interest;
- / Mergence or an employee exercises the same professional activity as the client;
- / Mergence or an employee is induced to favour one client over another (whether for financial reasons or otherwise);
- / Mergence, or an employee will gain an advantage (financial or in kind) from a third party in the execution of the service conducted on behalf of the client.

2.5 Mergence has identified specific potential conflicts of interest in relation to its activities. These may be encountered by Mergence or its associates when they deliver their services to clients. For each situation, Mergence has analysed whether the risk is actual or potential for one or more of its clients. To handle potential or actual conflict of interest situations, Mergence may:



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- / Conduct the transaction while, given the conflict of interest generated by it, implementing procedures that enable appropriate management of the situation in order to avoid damaging the interests of the client in question;
  - / Avoid conducting the transaction that would potentially generate a conflict of interest;
  - / Inform the client in the event that certain conflicts of interest cannot be properly handled and communicate the necessary information about the type and origin of the conflict of interest to the client, so that the client can make a fully informed decision regarding the proposed transaction.

2.6 Brandon Furstenburg, the Chief Operating Officer, is responsible for the operation and condition of the conflicts of interest register and gifts register. If a new potential or actual conflict of interest should arise, The employee will inform the senior management of Mergence (including the COO) so that the transaction that could potentially generate a conflict of interest may be accepted or declined, and managed in the client's interest. If a conflict of interest cannot be properly managed, the necessary information on the type and origin of the conflict of interest will be communicated to the client, to enable the client to make a fully informed decision.

### **Section 3: Conflict Management Policy**

3.1 All employees, key individuals and representatives of Mergence (hereinafter referred to as the "affected persons") commit to disclosing, avoiding and managing actual or potential conflicts of interest. Any actual or potential conflict must be raised with the internal "conflicts manager" – the internal compliance officer and Chief Operating Officer, Brandon Furstenburg. An employee or representative may also consult our external compliance officer, Compli-Serve (Pty) Ltd for guidance on how to identify, manage, avoid or disclose any actual or potential conflict of interest. When in doubt as to whether a conflict of interest situation exists, the employee or representative should disclose the conflict or potential conflict, so that it can be properly assessed. Please refer to Annexure A for a flow diagram summarizing the process.

3.2 All actual or potential conflicts of interest in respect of a client must be disclosed to that client in writing prior to entering into the transaction and must include: the disclosure of all ownership or financial interests (excluding immaterial financial interests) that the FSP or representative has or is eligible for, and the nature of any relationship or arrangement with a third party that gives rise to the conflict of interest.

3.3 Conflict of interest can take many forms, but for the sake of implementation, can be categorised in the following four categories:

- a) Receiving non-cash incentives and benefits that are viewed as **inconsequential benefits** i.e. small promotional items (for example: caps, scarves, pens, notepads etc), reasonable entertainment (eg. lunches) in the course of business relationships and gifts (eg. a bottle of wine) to a maximum of the prescribed maximum (R1000 annually) and subject to disclosure in



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the gifts register. This register is maintained by the Chief Operating Officer. All items accepted by employees and representatives, and key individuals must be reported to the Chief Operating Officer so that they can be captured on the gifts registry.

- b) Receiving non-cash incentives, cash and benefits that are viewed as **undesirable inducements**. Such incentives may not be accepted or offered by affected person/s under any circumstances.
- c) Receiving non-cash incentives and the benefits that are viewed as **educational** in nature. Subject to proper disclosure, these may be accepted by the affected person concerned if permitted by regulation and after discussion with the Chief Operating Officer.
- d) All affected persons are expected to disclose, avoid or manage any direct (as described for example above) **or indirect conflict of interest situations and structures**. This includes but is not limited to the following:
  - (i) where the affected person is part of a financial institution which can lead to the institution having a financial interest in investments endorsed by the advisor. (Mergence does not have any of these structures).
  - (ii) Conflicts that may arise where entities in the same group of companies act in an independent advisory capacity as well as in the capacity of product supplier.

3.4 In any such situation, the client or potential client must be provided with full disclosure of the nature of either the direct or indirect conflict of interest. Mergence will not permit a transaction where the conflict situation (whether direct or indirect) has such a material impact on the transaction or the professional public image of Mergence that it would be deemed to be in conflict with regulation or best practice in managing conflict situations.

3.5 The Chief Operating Officer and the Mergence EXCO may at any time consult our external compliance officer, Compli-Serve (Pty) Ltd for any guidance needed in terms of managing, avoiding or disclosing any perceived or actual conflict of interest.

### **Role of Compli-Serve (Pty) Ltd**

3.6 Compli-Serve, as the (external) compliance officer of Mergence, is in a position to assist in facilitating the handling of any identified conflict relating to the FSP. This may involve assessing and evaluating the conflict with the FSP, and decide upon, and implement, an appropriate response to the conflict.

3.7 Compli-Serve ensures conflict-monitoring procedures are in place and that any non-compliance with the FSP's conflicts management arrangements are identified and appropriately acted on. Compli-Serve liaises on a continual basis with the Chief Operating Officer.



3.8 As part of the conflict arrangements, Compli-Serve will include measures such as meeting with affected staff as appropriate, conducting periodic reviews of the business operation and periodic reviews of client files and other appropriate documentation. Compli-Serve will monitor all conflicts documentation as part of its wider scale monitoring programme with the FSP.

## Section 4: Specific Guidance

4.1 Though no list of actual or potential conflicts of interest could be complete, the below attempts to describe situations which employees, key individuals or representatives could face in the ordinary course of business. The list serves as a guide to affected persons on possible conflicts and how to deal with them. Please note that possible conflicts relate not only to what Mergence employees, key individuals and representatives could receive, but also give. Both instances need to be managed and disclosed accordingly.

- (a) **Seminars and conferences:** the affected person may take part in the seminar / course organised by a third party if the participation is for genuine business purpose, and is open to participation by other firms. Full disclosure in the gifts register is required.
- (b) **Travel and accommodation expenses:** the affected person may only take part in attending national events, or participate in training, or visit a product supplier's office to receive information on their administration systems. In other words, the benefit received should be of an educational nature only and for genuine business benefit / purpose. Full disclosure in the gifts register is required.
- (c) **Gifts:** the affected person may accept gifts, eg. a bottle of wine, a meal, stationary, clothing items, tickets to an event etc that **are less than R1000** per year in aggregate from a provider. Full disclosure must be made to the Chief Operating Officer so that it can be recorded in the gift registry. An affected person is **not permitted to give or receive any gift worth more than R1000** in aggregate from another provider or third party as defined. Any gift given by Mergence to a client or potential client or third party as defined must be recorded in the gifts register.
- (d) **International or domestic incentive trips:** no affected person may accept any international incentive trip or trip for any business relationship or service provided to a client, potential client or third party. Domestic trips may only be accepted where the value is less than R1000. This must be recorded in the gifts register.
- (e) **Conference exhibitions:** Payment for conference exhibitions, floor space etc is permitted and part of the normal course of doing business. Promotional items given away to attendees at conferences must be of a small nature and may not exceed R1000 in value under any circumstances.



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- (f) **Commissions or finder's fees:** No affected person is permitted to accept a commission or finder's fee of any nature unless permitted by law.
  - (g) **Fees:** normal fees for asset management services provided by Mergence, including performance fees, must be codified in the mandate with the client. Mergence ascribes to the "no hidden cost" model of disclosure. No other fee, rebate or commission is payable to Mergence, other than that codified in the mandate (or application form as the case may be) with the client.
  - (h) **Front running & softing:** No front running or softing is permitted by any affected person. Any personal trading must be captured in the PA register and all affected persons must abide by Mergence's policy on Personal Account trading.
  - (i) **Rebates / kick-backs from brokers:** for the placing of business are not permitted under any circumstances.
  - (j) **Payments for business:** No affected person may accept or offer payments from / to providers or trustees of pension funds for business.

4.2 Where Rand values are required to be recorded (in for instance the gift register), the Rand value must be a realistic reflection of the value of the benefit provided. Guidance in this regard can be sought either from the provider of the benefit / gift or the Chief Operating Officer.

## Section 5: Sanction

5.1 Acceptance by an FSP of non-cash incentives that are prohibited in terms of regulation could result in severe penalties and/or the loss of the FSP licence. It is of paramount business importance that affected persons therefore abide by this policy. Those who do not will be disciplined by Mergence and in severe cases face dismissal as well as reporting to the FSB for further action.

## Section 6: Transparency and Disclosure

6.1 In order to ensure proper governance, and the accountability and transparency within Mergence, relevant persons are required to declare any private interests that might affect the carrying out of their duties. The key persons will also be required to take steps to resolve any conflicts that arise in a way that protects the clients of the FSP. To fulfil these duties, any relevant interests must be declared.

The defining purpose of this disclosure is to be able to provide information to clients about the relevant interests of the FSP and the key individuals. These are personal or business interests



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that might influence their judgement, deliberation or action, or which might be perceived by a client as doing so.

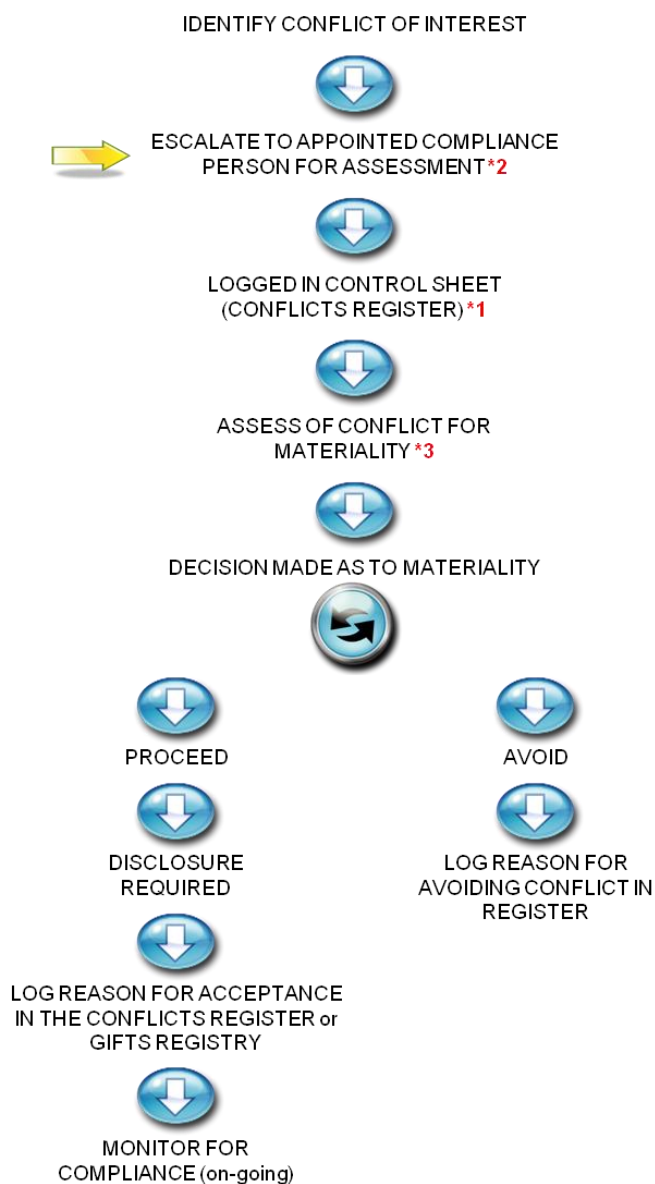
6.2 Affected persons are required on an annual basis to sign declarations in terms of FAIS, regarding such issues as, shareholdings or directorships in other companies, adherence to the Mergence PA trading policy, any potential conflicts that have arisen etc.

6.3 Mergence's gift register and information on any potential or actual conflicts is available for clients, the FSB and other permitted parties, to view upon request. Mergence continues to commit itself to transparency, treating customers fairly, and best practice asset management. For a full description of our offering as well as the key personnel in the Mergence business and their brief CVs, please refer to our website.



## ANNEXURE A

## FLOW DIAGRAM: CONFLICTS OF INTEREST MANAGEMENT POLICY FRAMEWORK

**Guide**

- \*1. Log the date and contents of the conflict of interest (real, existing or potential).
- \*2. Can be communicated via email but must be in writing to the Chief Operating Officer. All correspondence relating to conflict to be placed in a company conflicts file and / or recorded in the relevant register.
- \*3. An evaluation of the conflict and decision how to manage conflict (control, avoid and / or disclose).

