



Conflicts of Interest Policy

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01 Introduction

1.1 Background

The Lonsec Group provides financial services via its AFSL holders and authorised representative and therefore is required to have adequate arrangements in place for the management of conflicts of interest. This assists the Lonsec Group to ensure that its customers are treated fairly and that it provides financial services with integrity and honestly.

The Lonsec Group provides two broad lines of financial services. The first line of business is **research services**. SuperRatings provides research services and ratings in relation to superannuation products. Lonsec Research provides research services and ratings in relation to other financial products that include managed funds and listed equities. These research services include the preparation and publication of 'research reports', which are covered by ASIC Regulatory Guide 79.

The second line of business is **investment solutions and consulting services**. SuperRatings provides consultancy services to and in relation to superannuation products. LIS manages in-house managed portfolios and SMAs and manages managed portfolios on behalf of external wholesale clients. In addition to this LIS provides investment consulting services to wholesale clients including approved product list advice, model portfolio construction, product capability reviews, investment committee participation and asset allocation advice.

The existence of these two broad business lines and third party distribution arrangements can sometimes create conflicts of interest. The integrity of the services that the Lonsec Group provides is the key to our success and the management of conflicts of interest is therefore imperative. The appropriate management of conflicts of interest also mitigates the risk of legal and/or regulatory action and reputational damage to the Lonsec Group or a group entity.

1.2 Purpose

The purpose of this Policy is to:

- Establish a framework to be followed in managing conflicts of interest
- Set out the Lonsec Group's business practices and minimum requirements for managing conflicts of interest

This Policy has been developed to assist the licensed Lonsec Group entities and authorised representatives to comply with the requirements of s.912A(1)(aa) of the *Corporations Act 2001*.¹ It is also designed to assist them to provide their financial services honestly and fairly under s.912A(a) of that legislation. It has been prepared taking into account the requirements of:

- ASIC Regulatory Guide 181 *Licensing: Managing Conflicts of Interest*
- ASIC Regulatory Guide 246 *Conflicted and other banned remuneration*

¹ AFS Licensees have an obligation to have in place adequate arrangements for the management of conflicts of interest that arise wholly, or partially, in relation to activities undertaken by them or their representatives in the provision of financial services.

- ASIC Regulatory Guide 79 *Research report providers: Improving the quality of investment research*

1.3 Scope

This Conflicts of Interest Policy applies to Lonsec Group's Directors, Officers and Employees.

1.4 Definitions

Audit Risk and Compliance Committee (ARCC) Lonsec Holdings Pty Ltd Board Committee responsible for oversight of the Risk and Compliance function for the Lonsec Group

Compliance Committee: Lonsec Group Committee of senior management and responsible managers which includes but is not limited to the Chief Executive Officer, Chief Financial Officer, Executive Directors, Responsible Managers, Legal Counsel and Risk and Compliance Manager.

Employees includes all Lonsec Group employees, contractors and consultants

Executive Director means the management heads of Lonsec Investment Solutions, Lonsec Research or SuperRatings

Lonsec Group means Lonsec Holdings Pty Ltd and all its subsidiaries.

02 Responsibilities

2.1 Employees

All Representatives of the Lonsec Group are required to understand and comply with the requirements of this Policy and related Procedures

2.2 Executive Directors

- Ensure that staff understand conflicts of interest and comply with the obligations of this Policy
- Manage and mitigate potential, actual or perceived conflicts of interest in accordance with this Policy
- Assisting in the identification of conflicts of interest

2.3 Risk and Compliance Manager

- Ownership, facilitation and monitoring of compliance with the Policy and associated Procedures.
- Reporting annually to the ARCC on the effectiveness of the Conflicts Management Framework and compliance with this Policy
- Escalation of incidents relating to conflicts of interest

- Ensuring that conflicts of interest are included in the Lonsec Group Risk Management Framework
- Training on Lonsec Group's Conflicts Management Framework

2.4 Compliance Committee

- Receive reports from the Risk and Compliance Manager on the identification, management and monitoring of conflicts.
- Review, consider and approve the Policy for referral to the ARCC.
- Approve procedures under the Policy.
- Review and assess Conflicts of Interest Registers to ensure all conflicts are identified, assessed, and agreed controls are implemented.

2.5 Audit Risk and Compliance Committee (ARCC)

- Recommends the policy to the Board for approval.
- Receives reports from the Risk and Compliance Manager, on behalf of the Compliance Committee, on the implementation and management of the policy and monitoring programs.
- Reports any findings to the Lonsec Holdings Board.

2.6 The Board of Lonsec Holdings Pty Ltd

- Approves the policy on the recommendation of the ARCC, and receives reports on any findings.

03 Requirements

3.1 Policy Principles

The management of conflicts of interest is an essential tool to minimise the risks of reputational damage, breach of confidentiality, misuse of customer information, market misconduct, bribery and corruption.

This Policy requires the Lonsec Group to:

- Identify potential, actual and perceived conflicts of interest, both business and personal, and act to manage or avoid them
- Control confidential information
- Adhere to regulatory requirements
- Treat its customers fairly
- Ensure the interest of customers are given priority to the extent possible when conflicts of interest arise

It is central to Lonsec's approach to conflicts management that:

- Conflicts must be identified in a timely manner
- Conflicts must be managed and mitigated through reasonable actions
- Conflicts must be managed so that the interests of customers are given priority over the interests of Lonsec Group, its directors and employees
- Conflicts that cannot be managed or mitigated are avoided

3.1.1 Conflicts Management Framework

The Lonsec Group's Conflicts Management Framework includes all the components that collectively define, identify, assess, mitigate, manage and monitor actual, potential and perceived conflicts of interest. These include:

- This Policy
- Lonsec Group Management of Conflicts Procedures
- Lonsec Group Directors Conflict Procedures
- Registers for recording Information Barriers, Gifts and Entertainment and Conflicts of Interest
- Lonsec Group Incident and Breach Policy and register
- Lonsec Group Whistleblower Policy
- Relevant policies and procedures for specific Lonsec Group entities and business units

3.2 Management of Conflicts of Interest

3.2.1 What is a Conflict of Interest?

For the purposes of this Policy, conflicts of interest are any circumstance where a person or organisation has, in relation to a transaction or dealing, more than one interest, concern, duty or aim (“**interest**”) where such interests may be divergent.

Conflicts of interest can be potential, actual or perceived:

- A **potential conflict** is one where existing circumstances could give rise to conflicts of interest in the future, although there is no current incentive to act other than in the best interests of customers
- An **actual conflict** is one that is present and demonstrable which if no management measures are taken, could result in the Lonsec Group or its Representatives having an incentive to act other than in the interests of customers
- A **perceived conflict** is one that may not be actual or potential, but may be considered in the mind(s) of one party or parties to an arrangement or to an external party to represent a conflict

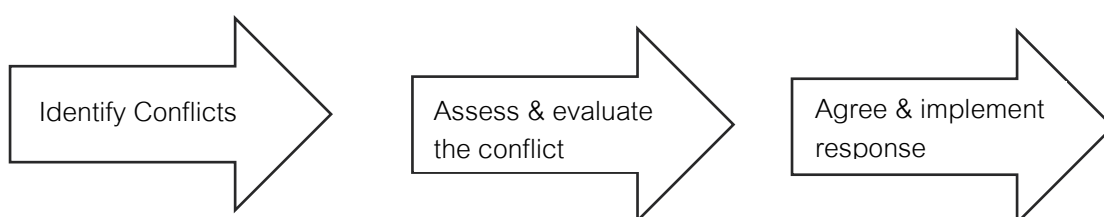
Conflicts of interest may be business-related or personal:

- **Business-related or commercial conflicts** arise when the interests of the Lonsec Group are inconsistent with or diverge from some or all its customers’ interests. This includes circumstances where the interests of one business unit conflict with another related business unit within the Lonsec Group. Equally, such conflicts can arise between different business units and customers and between customers
- **Personal conflicts** can arise when the interests of a Lonsec Employee are inconsistent with, or diverge from, some or all of the interest of the Lonsec Group or its customers

In other words, a conflict of interest may arise between:

- A customer and the interests of the Lonsec Group
- Two or more subsidiaries or business units of the Lonsec Group
- Two or more customers (or prospective customers) of the Lonsec Group
- A customer and the personal interests of a Lonsec Employee
- The Lonsec Group and the personal interests of a Lonsec Employee

3.2.2 Key Steps in Management of Conflicts



Each step is summarised below and supported by Procedures.

3.2.3 Identification of Conflicts

In addition to established real Lonsec Group conflicts that are identified in the Conflicts Register², the procedures in place in Lonsec³ include real-time reporting of conflicts and the inclusion of specific conflicts that may arise on an ongoing basis in a Conflicts Register.

3.2.3.1 Business or Commercial Conflicts

- All Lonsec Employees must consider conflicts of interest in their daily business activities. Should an actual, potential or perceived conflict of interest arise, it must be reported, managed or avoided promptly in line with the Procedures under this Policy⁴
- The Standing Conflicts also set out established defined conflicts that have been identified in relation to Lonsec's business and the adopted management strategy and controls identified in them must be adhered to in all circumstances

Examples of Business or Commercial Conflicts

- Advising more than one customer in the same transaction, or in related matters
- Advising a customer where we have exclusivity with another
- Advising a customer where the Lonsec Group has a conflicting commercial interest or already advises another customer with a conflicting commercial interest
- Favouring one customer (or group of customers) over another
- Sharing confidential information where it creates a conflict preventing another business unit of Lonsec conducting business or a breach of customer confidentiality. This could occur when:
 - Lonsec investment solutions and consulting staff having access to Lonsec non-public research information or communicating with Lonsec research staff or business units
 - Lonsec research staff having access to confidential information obtained by Lonsec investment solutions and consulting staff advising customers on transactions and business activities
- Conflicted Remuneration (giving and receiving)
- Political/Charitable donations
- Bribes/Facilitation payments
- Excessive tokens of appreciation or corporate hospitality
- Outsourcing/selection of Contractors or service providers other than in the interests of customers or Lonsec Group

The Risk and Compliance Manager will assist in the identification of Business and Commercial Conflicts

² See Section 3.5.2 of this Policy. Standing Conflicts are included in the *Lonsec Group Management of Conflicts Procedures*

³ See the *Lonsec Group Management of Conflicts Procedures*

⁴ See the *Lonsec Group Management of Conflicts Procedures*

3.2.3.2 Personal Conflicts

All Lonsec Employees must consider potential conflicts of interest that may arise in their personal capacity. Should an actual, potential or perceived conflict of interest arise, it must be reported, managed or avoided promptly in line with the Procedures⁵ under this Policy. This includes real-time reporting and inclusion on an ongoing basis in a Conflicts Register.

Examples of Personal Conflicts

- Roles, responsibilities and relationships external to Lonsec that might conflict with your professional responsibilities
- Outside business interests/Personal interests
- External directorships
- Close personal relationships
- Personal Trading that is insider trading, Front Running, inappropriate dealing in customer stock or funds or dealing that could otherwise harm the Lonsec Group's reputation (Front Running means personal trading that takes place before the release of a Lonsec research report or ahead of a change made to a Lonsec managed account portfolio or SMA). These can also be criminal offences.
- Research analysts dealing in funds or securities linked to research reports
- A research analyst rating a security or financial product in which they have an interest.
- Lonsec Group Representative directing the Lonsec Group's business to an entity from which he or she can derive a direct or indirect benefit (i.e. an associate may have an interest in the entity or partnership)
- Misusing customer information for personal gain
- Gifts and Entertainment
- Political/Charitable donations

The Risk and Compliance Manager will assist in the identification of Personal Conflicts

3.2.4 Assessment of Conflicts

All identified actual, potential or perceived conflicts of interest must be assessed and evaluated in accordance with the Procedures developed under this Policy.

The Procedure for assessment and evaluation will be dependent on the type of conflict of interest, but at a minimum must consider:

- The nature and type of conflict
- The circumstances which have given rise to the conflict
- The relevant parties to the conflict
- The effect of the conflict

Each conflict of interest must be considered on its own merits.

⁵ See the *Lonsec Group Conflict Management Procedures*

3.2.5 Management of Conflicts

All conflicts (potential, actual and perceived) that are identified must be managed effectively, efficiently and transparently, giving priority to the interests of customers and in line with Procedures developed under this Policy.

Conflicts will be managed by:

- Controlling the conflict of interest. This refers to developing an appropriate and reasonable control or response to the conflict
- Disclosing the conflict of interest
- Avoiding the conflict of interest. Where a conflict of interest may have such a serious impact on the Lonsec Group or customers that it cannot be adequately managed by internal controls or disclosure, it must be avoided. Conflicts must also be avoided where the law requires

There may be some cases where the conflict is managed by a combination of internal controls and disclosure to customers.

Examples of Management of Conflicts of Interest	
Example	Potential Management Responses
Controlling	<ul style="list-style-type: none">• Development of Group procedures• Internal controls such as business unit procedures and business rules• Non-disclosure agreements with relevant staff or teams• Permanent and temporary information barriers. These can include organisational and physical separation, discrete reporting lines and team segregation within an information barrier. The purpose of an information barrier is to insulate one group of employees from another group who may have information that could cause a conflict of interest if known to the first group
Avoiding	<ul style="list-style-type: none">• Where the law requires the avoidance of a conflict rather than its management or disclosure, it must be avoided. For example, ASIC RG 246 <i>Conflicted and other banned remuneration</i> prohibits product issuers from paying Conflicted Remuneration• A business unit may decide to not participate in a transaction or provide a service to a customer, or group of customers, on a temporary or permanent basis to avoid a conflict• An employee, or group of employees, may remove themselves from a transaction or from providing a service to a customer where they have a business or personal interest that could give rise to a conflict
Disclosing	<ul style="list-style-type: none">• All employees must disclose personal conflicts of interest as identified in the Conflict Management Procedures.• Where a conflict relates to a customer, sometimes it can be managed by disclosure of certain information to the customer during or before providing the service. Disclosure alone will not usually be adequate to manage a conflict of interest

The Standing Conflicts also set out established real conflicts that have been identified in relation to Lonsec's business and the adopted management strategy and controls identified in them for their management must be adhered to in all circumstances.

3.3 Conflicts of Interest Procedures

The Risk and Compliance Manager has developed Procedures to implement this Policy including:

- *Lonsec Group Management of Conflicts Procedures*
- *Lonsec Group Board Conflicts Procedures*

3.4 Training

The Risk and Compliance Manager must ensure that training is provided on this Policy and supporting procedures. This training must include:

- The legal and licence obligations of the licenced entities and the importance of the management of conflicts to Lonsec's business
- The identification of conflicts and the circumstances that might give rise to a conflict for each Lonsec Group entity and relevant business units

3.5 Record Keeping

The Lonsec Group must keep the following records of the identification, assessment and management of conflicts of interest:

- Details of the identified conflict of interest, including the relevant Lonsec Group Person, entity or business unit involved and customer details
- A summary of the conflict of interest and the rationale behind the decision to control, avoid or disclose the conflict of interest
- Where a decision is made to manage a conflict, details of any action plans put into place or other temporary arrangements
- Where a decision is made that the Lonsec Group is not prepared or able to manage a conflict, records must include the reasons for the decision
- Any incidents or breaches in relation to conflicts of interest

These records must be retained for a minimum of 7 years after the later of the cessation of the conflict or the relationship with the customer.

The record-keeping systems in use for conflicts of interest in the Lonsec Group are set out below.

3.5.1 Conflicts Register

The Risk and Compliance Manager must keep a conflicts of interest register, except in relation to conflicts involving a Director of a Lonsec Group company (which will be kept by the Company Secretary). Details on the use of this register are contained in the *Lonsec Group Management of Conflicts Procedures*.

3.5.2 Standing Conflicts

Standing Conflicts describe business scenarios that have been identified to arise in the course of Lonsec Group's business activities that give rise to conflicts. These scenarios identify:

- The business activity giving rise to the conflict of interest
- Key duties
- Interests and areas of conflict
- Business and Customer impacts
- How the Conflict is managed and any key controls

3.5.3 Permanent Information Barriers

The *Lonsec Group Management of Conflicts Procedures* include a description of the permanent information barriers that are in place in the Lonsec Group to deal with conflicts of interest.

3.5.4 Information Barriers Register

This is a register maintained on the online compliance management system to record temporary information barriers. Details on the use of this register are contained in the *Lonsec Group Management of Conflicts Procedures*.

3.5.5 Gift and Entertainment Register

Details on the use of this register are contained in the *Lonsec Group Management of Conflicts Procedures*.

3.5.6 Incidents and Breach Register

This is a register maintained by the Risk and Compliance Manager. It is used to record all incidents and breaches in relation to Lonsec Group entities and will include any incidents and breaches in relation to conflicts of interest. Details on the use of this register are contained in the *Lonsec Group Incident and Breach Policy*.

04 Monitoring

The Risk and Compliance Manager must implement a monitoring program to monitor:

- Compliance with this Policy and related Procedures
- The ongoing adequacy and effectiveness of the controls in place for identifying, reporting, and managing conflicts of interest

05 Reporting

Management must manage the reporting of conflicts of interest in their business units.

Conflicts of interest must be included as an agenda item in each ARCC meeting and the Risk and Compliance Manager must report on conflicts of interest to the Lonsec Holdings Board via the ARCC on at least an annual basis.